



CITY OF KIRKLAND REVENUE EQUITY AND SUSTAINABILITY STUDY

JULY 2022

PREPARED BY:

**ECO
NW**

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ECONorthwest would like to thank the City of Kirkland for the opportunity to work on this project. The project team gratefully acknowledges the expertise, information, and professionalism of City staff. This report was the result of a collaborative effort.






THE CITY OF KIRKLAND faces an ongoing structural budget deficit caused by both long- and short-term factors. Over the long term, the cap on the growth of property taxes—one of the City’s largest general fund revenue sources—has constrained the budget and led to regular use of one-time revenues, voter-approved special levies, and cost-savings to maintain services. Recently, the City had to absorb the expiration of a special Annexation Sales Tax Credit from the State of Washington in 2021. While the City anticipated and planned for this revenue loss, it coincided with the City’s expansion of human services in response to COVID-19 and the introduction of new policies and priorities in a commendable effort to become a more equitable, safe, and resilient community.²

As part of the 2021-2022 Budget process, City staff developed an issue paper with a diverse array of eight revenue options to sustain services and address the General Fund gap.³ These options were: Restructured or expanded business license fees, increased use of real estate excise taxes (REET) for park and street maintenance, paid parking implementation downtown, the expansion of the School Zone Safety Camera program, other sources of funding for priority projects such as a transportation benefit district, development fee cost recovery improvements, and parks and special events cost recovery improvements. The 2021-22 Budget provided funding to evaluate these options; this funding was later supplemented with federal American Rescue Plan Act (ARPA) funding for additional analysis associated with revenue sustainability and equity. The City of Kirkland engaged ECONorthwest to analyze the City’s current tax burden and tax incidence and to evaluate the revenue options for fiscal sustainability and equity.

This report summarizes the findings of ECONorthwest’s work including an assessment of existing fiscal conditions, demographic and business characteristics, and the distribution of tax burden across Kirkland’s population of residents and businesses.

The ECONorthwest team consulted with staff to identify potential opportunities to improve the sustainability and equity of existing revenue and budget structures. This baseline analysis helped to contextualize and inform the evaluation of different revenue options.

ECONorthwest evaluated the eight revenue alternatives identified by the City, focusing on their:

	ADEQUACY
	STABILITY
	EQUITY
	ADMINISTRATIVE EASE
	POTENTIAL IMPACTS ON BEHAVIOR

For several of the alternatives, the project team produced revenue estimates for multiple scenarios to help inform recommendations. This report describes the overall findings of ECONorthwest’s work and provides recommendations for the City to consider, prioritize, and refine.

1. This tax credit helped the City fill the budget deficit gap associated with providing municipal services for the newly annexed area. https://www.kirklandwa.gov/files/sharedassets/public/city-council/agenda-documents/2021/february-16-2021/8h6_other-items-of-business.pdf.
2. City of Kirkland 2020 Memorandum on Potential Revenue Options for Consideration in the 2023-2024 Budget. Also, City of Kirkland informational flyer, “Community Safety Initiative Investing in a More Equitable, Safe and Resilient Kirkland.”
3. City of Kirkland 2020 Memorandum regarding Potential Revenue Options for Consideration in the 2023-2024 Budget. <https://www.kirklandwa.gov/files/sharedassets/public/finance-and-administration/budget-documents/21-22-budget/21-22-issue-papers/21-22-issue-paper-revenue-options.pdf>
4. American Community Survey Data 2019.
5. This subregion includes Kirkland, Redmond, Medina, Yarrow Point, Hunts Point, Clyde Hill, Beaux Arts Village, and most of the City of Bellevue. American Community Survey 2019 1-Year Public Use Microdata Survey (PUMS).
6. The racial income inequality measure was used by Aravind Boddupalli, Tracy Gordon, and Lourdes Germain in “More than Fines and Fees: Incorporating Equity into City Revenue Strategies,” Urban Institute, December 2021.



Kirkland's taxes are paid predominantly by high-income households, and taxes are less burdensome than neighboring cities by a couple of measures. However, City taxes are three times more burdensome to its lowest income residents than its highest income residents, and there is racial income inequality among the population.

5,400
persons in
poverty

- Although Kirkland is one of the wealthiest cities in Washington, **the City has pockets of extreme poverty**. There are **approximately 5,400 persons or 2,800 households living in poverty in Kirkland** (6 percent of the total population).⁴ Kirkland has a slightly higher share of population living in poverty compared to several neighboring cities, including Redmond and Bothell, but a lower share than the City of Bellevue, King County, and the State of Washington.

RACIAL
income
inequality

- Kirkland is part of an economic subregion (East Lake Washington) with **significant racial income inequality**.⁵ White people make up 55 percent of the population in this subregion but earn 61 percent of aggregate income.⁶

LOWER
taxes than
neighbors

- Kirkland's revenue composition is similar to neighboring jurisdictions. However, Kirkland's **per capita general fund revenue is lower than Bellevue and Redmond, and its taxes are less burdensome than neighboring jurisdictions** (including the cities of Bellevue, Redmond, and Bothell) when measured as a share of aggregate household income.

3x MORE
burdensome
taxes for
lower-income
households

- Kirkland's tax structure is regressive. City taxes are three times more burdensome for lower-income than for higher-income households.** On average, around 2,500 households earning less than \$30,000 per year pay an estimated 2.2 percent of their income in City taxes, while the highest-income households pay 0.7 percent. The same pattern is seen across Washington due to the State's tax structure.

TOP 20%
pay 43% of
City taxes

- The City's tax base of high-income earners counteracts some of this regressivity.** Households in the top 20 percent of income (around 7,000 households earning \$208,000 or more) pay 43 percent of City taxes. **Property taxes and real estate taxes function as progressive sources of revenue**—meaning they are paid primarily by upper-income households.



The City's business tax base is expanding and diversifying, even throughout the pandemic. Most Kirkland businesses have fewer than 10 FTE.

20%
more
businesses

- Kirkland has over 20 percent more licensed businesses, more FTEs, and fee revenue in March 2022 than in December 2019.

99%
have fewer
than 50 FTEs

- Of the estimated 11,700 licensed business entities in Kirkland, 10,900 have fewer than 10 FTEs and another 700 have between 10 and 49 FTEs. **This means 99 percent of licensed entities have fewer than 50 FTEs.**

TAXES
rise with num-
ber of FTEs

- Business tax incidence grows with FTE count. **Sectors paying the largest fees are those with the largest numbers of FTEs**, including construction, professional services, and retail trade.

99%
of Kirkland businesses have
fewer than 50 FTEs



93%
of Kirkland businesses have
fewer than 10 FTEs



Kirkland is limited in its options to increase, restructure, or adjust taxes to raise revenue or improve revenue equity, but can take steps to improve fees and to redistribute revenues for the benefit of the community.

Fees
are more
flexible than
taxes

- The State of Washington's constitutional and statutory framework provides **limited opportunities for local jurisdictions to provide tax burden relief** for those most impacted (such as low-income households). Cities have **more opportunities to structure fees** in a way that minimizes burden for lower-income houses, or to provide relief for city-imposed fees.

Options
are limited by
state law

- **Kirkland's revenue alternatives are limited by state law, particularly with respect to new taxes.** The City's property tax levy is at the highest lawful levy and the City would need to go to a vote of the people for consideration of an additional levy. The City also charges maximum allowable rates for general City sales tax and real estate excise taxes. These constraints on tax revenues have kept general revenues from growing at the same pace as General Fund expenses.

Invest
in underfund-
ed neighbor-
hoods

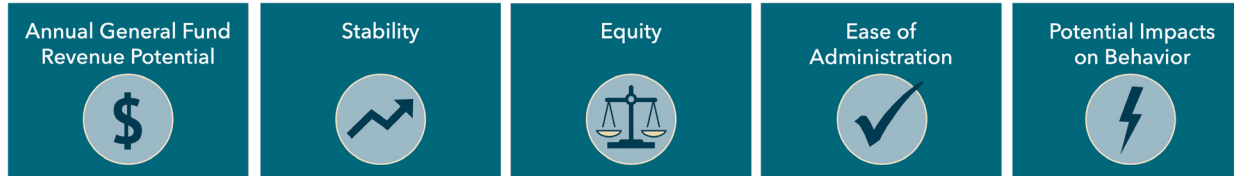
- The City should **continue to look at ways to redistribute tax dollars for community-wide benefit**, and in particular, to invest in neighborhoods that have been underfunded in the past and in programs that support lower-income households.

TAXES VS FEES

TAXES are traditionally used to pay for services and amenities that provide community-wide benefit. Taxes are also a means to redistribute wealth. In general, local governments have more flexibility to use taxes for general fund purposes. Under Washington State law, local jurisdictions are restricted in the types of taxes they can levy and in changes to rates.

FEES are traditionally used to pay for services that benefit an individual or business. Often, they more directly benefit the payor rather than the community. Fees can be adjusted with inflation and other cost increases. A downside is that they can be regressive (i.e., make up a larger share of income for lower-income people), unless structured in a way that provides measures offering relief for those with a lower ability to pay.

ECONorthwest evaluated eight revenue options for:



RECOMMEN- DATIONS

Kirkland has significant opportunities to improve business license fees, to raise revenue through on-street parking, and to maximize the uses of real estate excise taxes (a progressive source of revenue) for community-wide benefit.



- The City could generate an estimated \$760,000 annually through a **\$25 across-the-board increase to the regulatory generating revenue license (“head tax” portion of business fees)**, partially offset by an **increase in the threshold for exemption from \$12,000 in gross income to \$20,000**. This option is fair due to its across-the-board nature. Further, an increase in the exemption could protect more low-margin businesses while also allowing the exemption structure – which has not been changed since 2008—to more than catch up with inflation.



- Increasing the **maximum allowed use of real estate excise taxes (REET) for maintenance of REET-eligible capital projects** could potentially free up to **\$1.6 million** in general property taxes to be returned to the General Fund. REET is a progressive revenue stream for the City and using proceeds to improve road quality and safety conditions for community-wide benefit is an equitable use of funds.



- **Expanding the City’s paid parking program**, particularly in the busy downtown area and certain municipal lots, has the potential to increase turnover in parking availability, enhance local business activity, and generate significant revenues for the Street Fund (and potentially eliminate the General Fund subsidy of streets maintenance). This option could raise as much as **\$6.4 million in gross annual revenue**.⁷

7. Diamond Consulting Services.

Other
Options

The City is already implementing or considering ways to improve cost recovery of development fees, parks activities, and special events; to raise revenue for transportation capital projects; and to expand School Zone Safety Cameras.

- City staff have recommended a **new cost recovery model for development services** and the formation of a separate fund for development fees. **Both practices will improve transparency and fiscal sustainability.** The City should improve data regarding type of fee and type of project to better understand equity impacts of fee changes in the future.
- **Parks and Community Services has made good progress in implementing the cost recovery model adopted in 2018.** The City adequately recovers direct costs but should better analyze indirect costs for special events. Prior to making major changes to fees, the City should **engage populations that may be underrepresented in Kirkland and whose needs may differ from most Kirkland residents.**
- The City is considering the implementation of a **car tab fee to fund a transportation benefit district.** This alternative could raise revenue for needed transportation improvements. **ECONorthwest did not identify equity concerns with this option, but notes that it will not directly impact the General Fund structural deficit.**
- **School Zone Safety Cameras** have successfully reduced driver speeds in the areas they are currently operational. **Expanding this program will allow the City to continue to improve safety, pay for program costs, and raise revenue for pedestrian safety improvements.**

Even with the alternatives evaluated here, the City of Kirkland has limited options to raise revenues to fully address the City's structural deficit. The City will likely need to consider a new local option levy for substantial revenue needs. The City's thorough evaluation of the current tax base will help with future decision-making to set a course for fiscal sustainability and equity.





2

**COMMUNITY AND
CURRENT REVENUE
STRUCTURE
EXISTING CONDITIONS
FINDINGS**

ECONORTHWEST completed a baseline analysis of Kirkland’s community characteristics and current revenue structure to contextualize and inform the evaluation of different revenue options. The following section summarizes key demographic and socioeconomic characteristics for the City of Kirkland in comparison to the nearby cities of Bellevue, Redmond, and Bothell; King County; and the State of Washington. These comparative statistics show how Kirkland’s community – and its tax base – have changed over time, and how they compare to the state and a subset of peers.

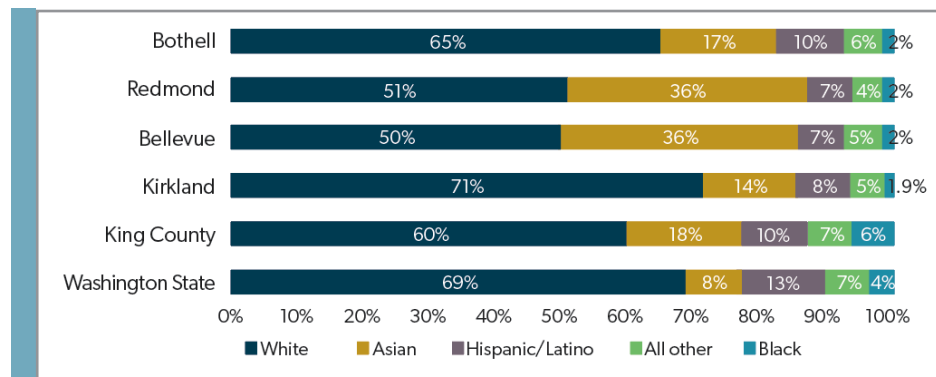
KIRKLAND TODAY: COMMUNITY DEMOGRAPHICS AND EMPLOYMENT DYNAMICS

RACE AND ETHNICITY: Kirkland is whiter, older, and has higher income than the state and its peers, though its demographics are changing.

The City of Kirkland’s community has experienced minor population changes over the past decade, from 2012–2019. The City’s population has increased by nine percent, or around 1.26 percent per year. Kirkland has also become slightly more racially and ethnically diverse and grown slightly older. Community changes often reflect changes in the broader region – such as the aging of the American population, population growth in the Puget Sound region, and growing diversity of American households.

EXHIBIT 1. RACE AND ETHNICITY, REGIONAL COMPARISON, 2019

Source: U.S. Census Bureau, American Community Survey, 5-year estimates, 2019



Though it has grown slightly more diverse, Kirkland has a higher share of White residents than neighboring jurisdictions, King County, and the State. Seventy-one percent of Kirkland’s residents are White, which is a larger share than King County, Washington State, and the cities of Bothell, Redmond, and Bellevue (see [Exhibit 1](#) to the left for shares of population by race and ethnicity).

MEDIAN INCOME: Kirkland has a high median household income of \$117,190, which is comparable to neighboring cities, but higher than that of the state and county.

Kirkland also is one of the wealthiest cities in Washington, with a median income of \$117,190, although this median income is slightly lower than the neighboring cities of Bellevue and Redmond (see [Exhibit 2](#) below for a comparison of median household income). Kirkland’s high median income disguises significant income variation across the population. Notably, incomes are higher for Kirkland’s White and Asian populations than for other groups of people, including the City’s Black and Hispanic/Latino populations. In fact, Kirkland is part of an economic subregion experiencing racial income inequality: White Kirkland residents earn a greater share of aggregate income than the share of population that they make up.⁸ See [Exhibit 3](#) for Kirkland’s median income by race/ethnicity and [Exhibit 4](#) for the East Lake Washington subregion’s racial income inequality metric.

MEDIAN INCOME

Household income trends or the combined gross income of all members in a household is a useful indicator for understanding the local economy and community characteristics. This will also be the denominator in one of several tax burden calculations.

8. As a rough approximation of a racial income inequality measure, Aravind Boddupalli, Tracy Gordon, and Lourdes Germain compare the share of aggregate household income held by a racial group with the share of the total population of that racial group. They found that on average, Black and Latinx population shares exceed their aggregate household income shares in many large cities. Kirkland’s results show much less extreme disparities than the 28 cities in this analysis, though it is not comparable in terms of fiscal or economic profile to any of the cities in the analysis. “More than Fines and Fees: Incorporating Equity into City Revenue Strategies,” Urban Institute, December 2021.

EXHIBIT 2. MEDIAN HOUSEHOLD INCOME, REGIONAL COMPARISON, 2019

Source: U.S. Census Bureau, American Community Survey, 5-year estimates, 2015-2019

The five-year median household income for Kirkland was \$117,190, which is comparable to the median household income in Bellevue, and much higher than King County (\$94,974) and Washington State (\$73,775).

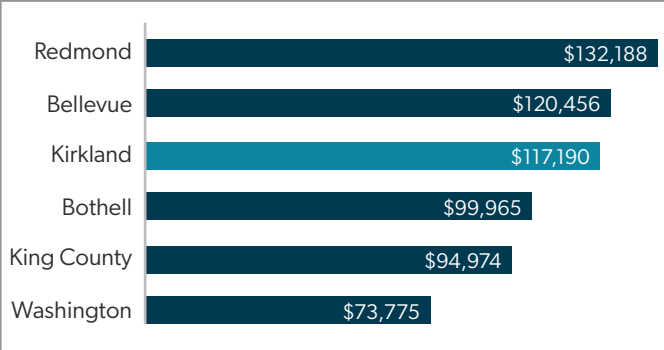
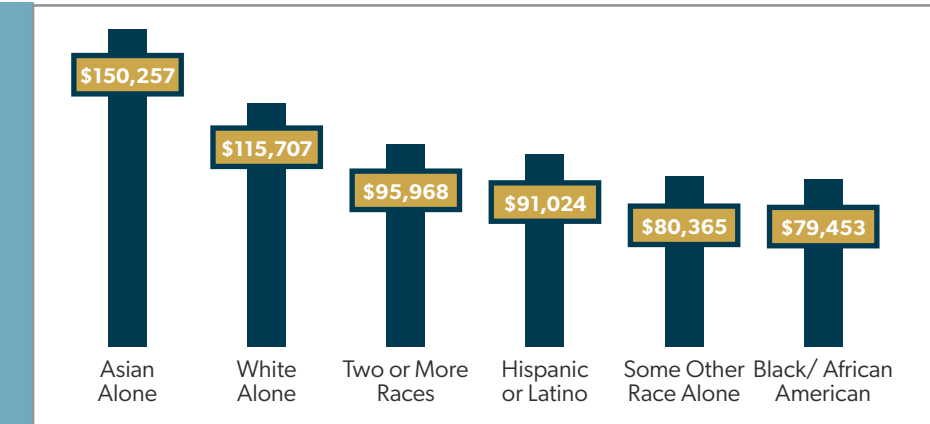


EXHIBIT 3. MEDIAN HOUSEHOLD INCOME BY RACE/ETHNICITY, KIRKLAND, 2019

Source: U.S. Census Bureau, American Community Survey, 5-year estimates, 2015-2019



Kirkland’s median income varies widely across race/ethnicity, with Asian residents having a median income almost double that of Black or Some Other Race alone residents, at \$150,257. White followed with the second highest median income at \$115,707, while all the other race/ethnicities were below \$100,000.

EXHIBIT 4. ALL HOUSEHOLDS: RACIAL INCOME INEQUALITY

Source: U.S. Census Bureau, ACS 2019 1-Year PUMS data analysis



In the East Lake Washington subregion, White people make up 55 percent of the population but earn 61 percent of the income.⁹

Persons of color are 45 percent of the population but earn only 39 percent of income. Hispanic people face the greatest racial income inequality, with 7 percent of the population but only 3.6 percent of the income.



9. As noted above, the East Lake Washington subregion includes the City of Kirkland, Redmond, Medina, Yarrow Point, Hunts Point, Clyde Hill, Beaux Arts Village, and most of the City of Bellevue.

POVERTY: Kirkland’s high median household incomes disguise pockets of extreme poverty.

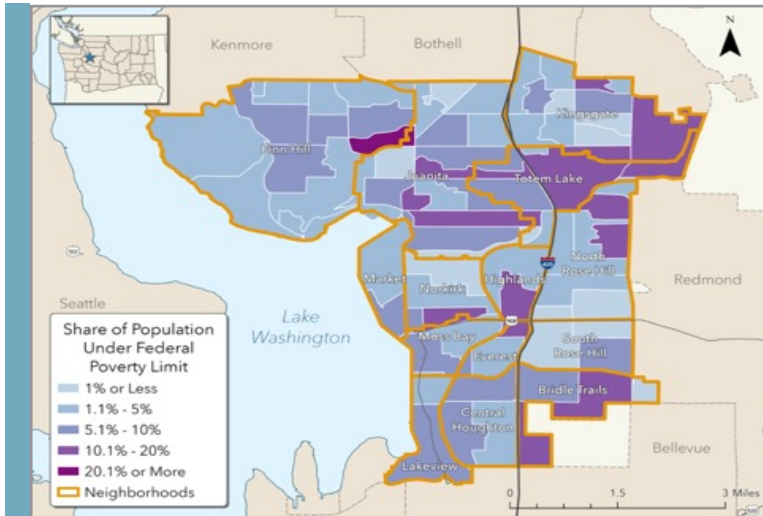
Kirkland has a lower share of population living below the federal poverty level (\$23,030 for a family of three in 2022) than King County and the state of Washington.¹⁰ But despite its position as one of Washington’s wealthiest cities, Kirkland has pockets of poverty. Parts of Finn Hill, Juanita, and Totem Lake neighborhoods have over ten percent of the population living below the federal poverty level, as do parts of Highlands, Norkirk and Bridle Trails in the central and southern parts of the city. (See **Exhibit 5** for a map of census tracts below federal poverty level).

POVERTY

The share of population living below poverty is an indicator of economic vulnerability. The full report analyzes tax burdens and considers impacts to revenue options, especially for low-income populations.

EXHIBIT 5. SHARE OF POPULATION UNDER FEDERAL POVERTY LIMIT, KIRKLAND, 2019

Source: U.S. Census Bureau, American Community Survey, 2019

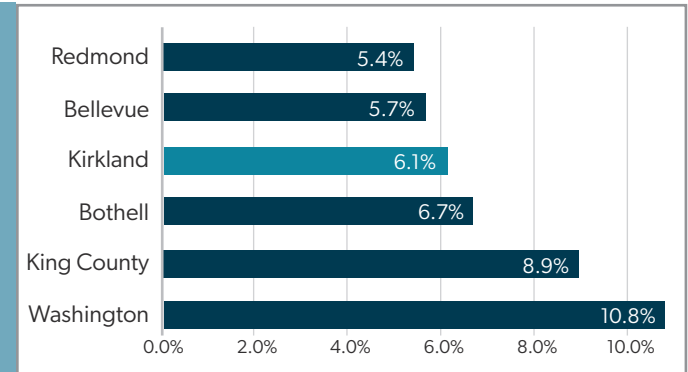


Overall 6 percent of the population, or around 5,400 people, live below the federal poverty level (\$23,030 for a family of 3 in 2022).¹¹

EXHIBIT 6. POVERTY LEVEL, 2019

Source: U.S. Census Bureau, American Community Survey, 5-year estimates, 2015-2019

Kirkland has a slightly higher share of population living in poverty compared to neighboring cities, but a lower share than both King County and the state.



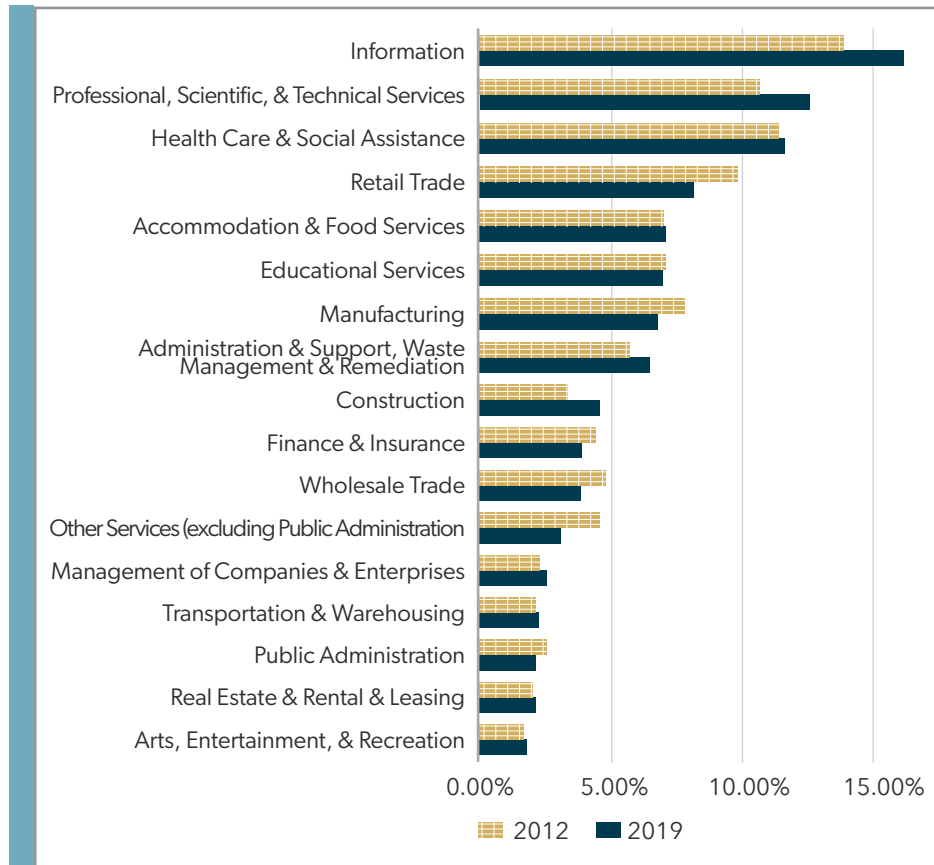
KIRKLAND EMPLOYMENT: Information, Professional Services, and Health Care employ the largest shares of Kirkland residents.

Employment of Kirkland residents varies from manufacturing to services, to information and technical industries. The total number of jobs in Kirkland has grown around 7 percent from around 42,000 in 2012 to about 45,000 in 2019. The industries with the largest shares of employment are the Information sector¹² with 16 percent; Professional, Scientific, and Technical Services with 12 percent; and Health Care and Social Assistance with 11 percent of the workforce.

10. <https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines>. Also following the Office of Management and Budget’s (OMB) Statistical Policy Directive 14, the Census Bureau uses a set of money income thresholds that vary by family size and composition to determine who is in poverty.
 11. *ibid*
 12. The Information sector includes industries such as publishing, motion picture/sound recording, internet, telecommunication, and data processing and hosting services.

EXHIBIT 7. EMPLOYMENT OF KIRKLAND RESIDENTS, 2012 AND 2019

Source: U.S. Census Bureau, OnTheMap Application, 2012 & 2019

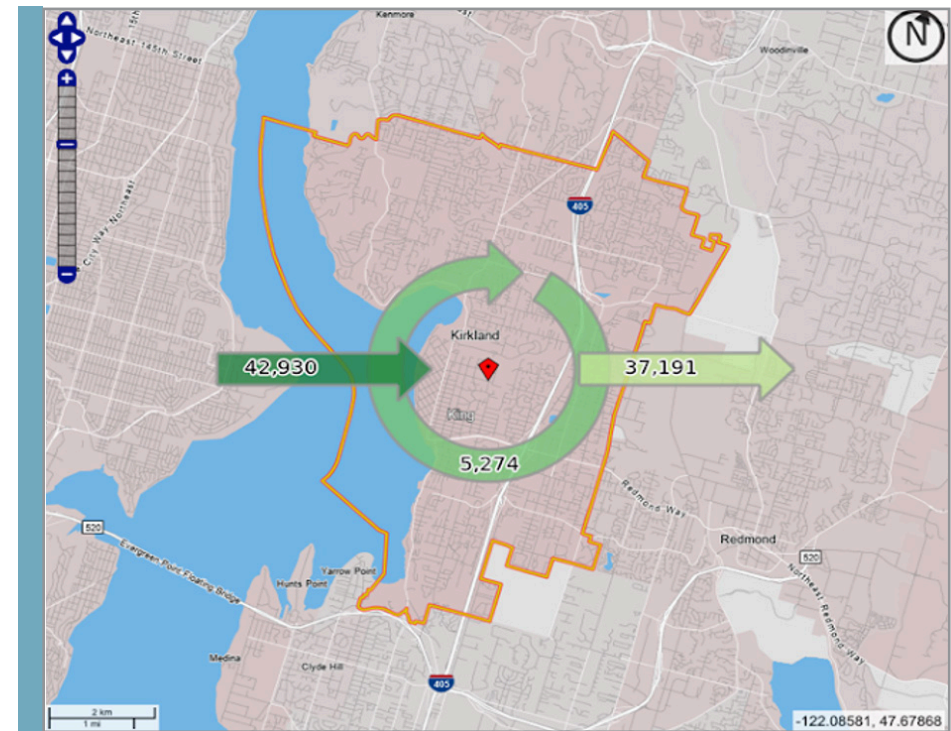


Information (16%), Professional, Scientific, and Technical Services (12%) and Health Care and Social Assistance with (11%) are the sectors employing the largest shares of Kirkland residents. Information Technology, Professional, Scientific and Technical Services, and Construction grew the most jobs between 2012 and 2019.

Like other east King County cities, Kirkland is part of an interconnected regional economy with few people both living in and working in Kirkland. Prior to the pandemic, the cities in this region had high rates of employed persons commuting into cities outside of where they reside for work. For example, Bellevue had around 132,600 people commuting into but not living in Bellevue and Redmond's daytime population essentially doubles, with around 86,000 employed persons living outside Redmond commuting into the city for work.

EXHIBIT 8. COMMUTE FLOWS, CITY OF KIRKLAND, 2019

Source: U.S. Census Bureau, Center for Economic Studies, Longitudinal Employer-Household Dynamics, 2019



As of 2019 (pre-COVID pandemic), Kirkland's weekday population grew slightly due to employment within the city. Exhibit 8 is a map of commute flows. Nearly 43,000 persons living outside of Kirkland commute into Kirkland for work while a little over 37,000 Kirkland residents (88% of total employed) commute to places outside of Kirkland for their work. Only around 5,300 people live and work in the City of Kirkland.

Those commuting into Kirkland tend to earn less (around 16,000 persons, or 36 percent, earn less than \$3,333 per month) than those commuting from Kirkland to work elsewhere (around 11,000 persons or 28 percent earn less than \$3,333 per month). People commuting into Kirkland for work tend to be younger than those commuting from Kirkland to work outside of the City. See Exhibit 9 for characteristics of Kirkland Jobs, 2019.

People commuting into Kirkland earn less and are younger than Kirkland residents commuting out.

Trends in commuting may have changed permanently due to the pandemic, especially for office workers who can work remotely. This information will be important for consideration of both paid parking and restructured business license fees, to be discussed in a later section.

EXHIBIT 9. KIRKLAND JOB CHARACTERISTICS (ALL JOBS), 2019

Job Characteristics	INFLOW (Internal Jobs Filled by Outside Workers)		OUTFLOW (External Jobs Filled by Residents)	
	Count	Share	Count	Share
Jobs Filled	45,618		39,143	
Workers Aged 29 or Younger	10,293	23%	7,639	20%
Workers Aged 30 to 55	26,286	58%	23,172	59%
Workers Aged 55 or Older	9,039	20%	8,333	21%
Workers Earning \$1,250 per Month or Less	6,409	14%	4,617	12%
Workers Earning \$1,251 to \$3,333 per Month	9,965	22%	6,368	16%
Workers Earning More than \$3,333 per Month	29,244	64%	28,157	72%

CITY OF KIRKLAND CURRENT REVENUE SYSTEM OVERVIEW

The City of Kirkland is facing a potential budget shortfall of around \$14.7 million in 2023-25 biennium, rising to \$21.8 million in the 2025-26 biennium.¹³ Budget pressures are caused largely by expenditures outpacing growth in the City's property taxes (the City's largest general fund revenue source) and in part by the FY 2021 expiration of an annexation sales tax credit. ECONorthwest evaluated the City's current revenue structure to provide a baseline understanding for revenue alternatives.

Kirkland utilizes a six-year financial forecast of both revenues and expenditures, with more granular adjustments made to the upcoming biennium which forms the basis of the City's budget. Budgets are developed in even-numbered years and adjusted in the fall of odd numbered years. The following analysis primarily incorporates the official mid-biennial forecast that was developed in November 2021 and formed the basis of City Council's mid-biennial adjustments to the budget.

GENERAL FUND REVENUES: The City's General Fund relies heavily on taxes and fees, a similar structure to neighboring cities.

Taxes and fees (charges for services) make up over 80 percent of City general fund revenues. See [Exhibit 10](#) on the next page for the composition of general fund revenues in the 2021-22 Budget. Over the past ten years, the composition of revenues has changed slightly, but is projected to return to a composition similar to FY 2016 and earlier financial years, with about two-thirds of Kirkland general fund revenues coming from taxes.

13. City of Kirkland information. This is the deficit that the City would face assuming all current one-time full-time equivalent (FTE) positions are converted to ongoing.

EXHIBIT 10. COMPOSITION OF GENERAL FUND, 2021-22 BUDGET

Source: City of Kirkland. Kirkland utilizes a six-year financial forecast of both revenues and expenditures, with more granular adjustments made to the upcoming biennium which forms the basis of the City's budget. GF: General Fund.

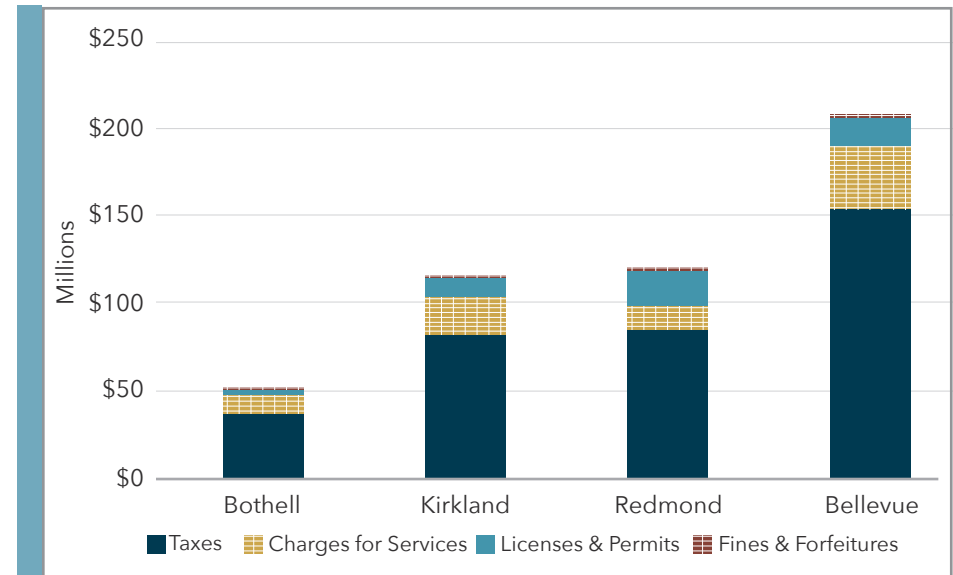
General Fund Revenue Source	21-22 BUDGET (\$ Millions)	SHARE of TOTAL GF REVENUE
Taxes	163.8	67%
Charges	36.3	15%
Licenses & Permits	20.2	8%
Intergovernmental	16.2	7%
Miscellaneous	4.9	2%
Fines & Forfeits	3.0	1%
TOTAL REVENUE	244.4	

In the 2021-22 Budget, taxes are the largest source of general fund revenues, followed by charges, licenses & permits, then intergovernmental revenues.

Kirkland's revenue composition is similar to neighboring jurisdictions. See [Exhibit 11](#) below for a comparison of general fund revenue sources for the cities of Bothell, Bellevue, and Redmond. Note that Kirkland's General Fund is similar in size to Redmond, despite Redmond's much smaller population—this will be discussed in more detail in the next section of the report, which will present different ways to look at tax burden.

EXHIBIT 11. GENERAL FUND REVENUES OF KIRKLAND, BOTHELL, REDMOND, AND BELLEVUE

Source: Bothell, Kirkland, Redmond, and Bellevue ACFRs



Kirkland's own-source general fund revenue mix is like that of neighboring jurisdictions. Revenue volume varies by size of city (Bellevue is much larger than Kirkland, and Redmond and Bothell much smaller, for example).

Kirkland receives only a small portion of the sales and property tax revenues that residents pay – most of the average resident's tax bill pays for state, county, and other local levies. The City is limited in its ability to levy general sales and property taxes and is levying the maximum allowed under state law. Cities in Washington must go to a vote of the people to utilize additional sales or property tax levies that are allowed under state law; these must be spent on certain allowable uses.

Kirkland is levying its highest lawful levy for both property and sales taxes and does not have the option to increase property or sales taxes to fund general government operations without a public vote. The City can (and has) gone to the vote of the people for an additional levy to fund roads, parks, or public safety. Because of these restrictions, some of the revenue options evaluated by the City relate to the **USE** of tax proceeds rather than a change to the **STRUCTURE** or **RATE**. The other options relate to changes to the **STRUCTURE** of fees since the City has more flexibility to adjust fees.

TAXES VS FEES

TAXES are traditionally used to pay for services and amenities that provide community-wide benefit. Taxes are also a means to redistribute wealth. In general, local governments have more flexibility to use taxes for general fund purposes. Under Washington State law, local jurisdictions are restricted in the types of taxes they can levy and in changes to rates.

FEES are traditionally used to pay for services that benefit an individual or business. Often, they more directly benefit the payor rather than the community. Fees can be adjusted with inflation and other cost increases. A downside is that they can be regressive (i.e., make up a larger share of income for lower-income people), unless structured in a way that provides options to reduce the amount or other measures to provide relief for those with a lower ability to pay.

TAX REVENUE

Taxes have historically accounted for over two-thirds of Kirkland's general fund revenue. The largest source of tax revenue is the sales tax, budgeted at \$71.2 million in the 2021-22 budget, followed by property taxes (\$56.0 million), private utility taxes (\$15.0 million), public utility taxes (\$12.0 million), revenue generating regulatory license fee revenue (\$6.5 million), and other taxes (\$3.1 million).

TAX INCIDENCE AND TAX BURDEN

Household Tax Incidence and Tax Burden

Kirkland is considering various revenue options designed to close the General Fund structural budget deficit. Answering the following questions about Kirkland's tax and fee base, helps inform the evaluation of the implications of each revenue option:

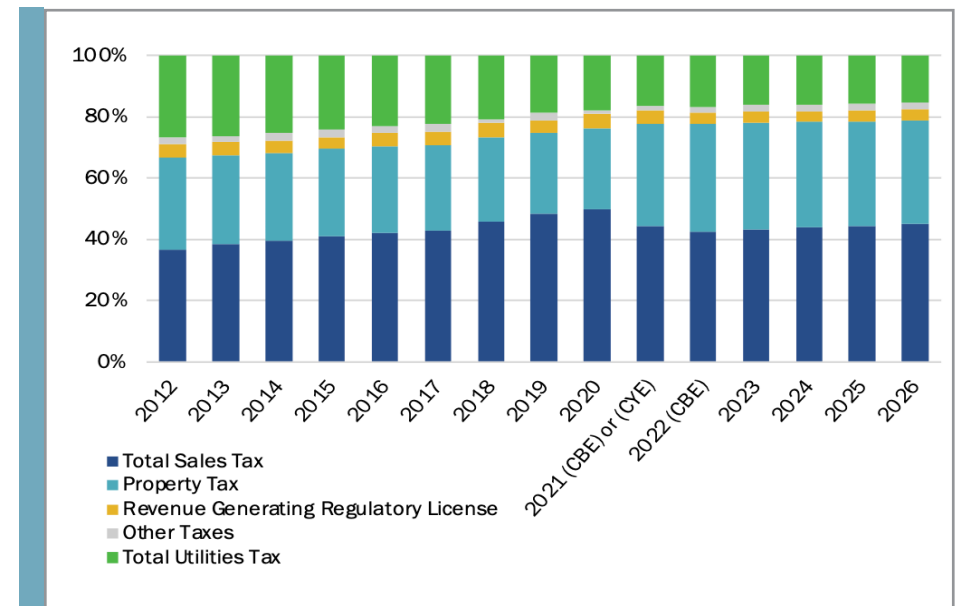
- "Who pays taxes and fees under Kirkland's current structure?"
- "How much do households and businesses pay in City taxes and fees?", and
- "How burdened are Kirkland residents and businesses by the current revenue system?"

To answer these questions, this analysis considers various measures of **tax incidence** and **tax burden**.

14. The Annexation State Sales Tax Credit was a credit made available by the Washington state Department of Revenue to assist the City in providing municipal services to new annexed areas in 2011. The credit, which averaged between \$4 and \$5 million per year, expired June 30, 2021. Retrieved from: https://www.kirklandwa.gov/files/sharedassets/public/city-council/agenda-documents/2020/feb-18-2020/8h2_otheritemsofbusiness.pdf

EXHIBIT 12. COMPOSITION OF TAX REVENUE (%), FY 2012–2026

Source: City of Kirkland. Actuals Through 2020; Budget FY 21-22; Projected FY 23-26



Property taxes and sales taxes accounted for approximately 76 percent of the City's tax revenues in FY 2020. This share is expected to increase modestly to 79 percent by FY 2026.

Sales taxes as a share of total tax revenue declined slightly in FY 2020 due to the expiration of the annexation state sales tax credit on June 30, 2021.¹⁴

TAX INCIDENCE

TAX INCIDENCE, or “who pays” taxes or fees, is measured in two ways: household versus business shares of incidence, and incidence by income decile.

TAX BURDEN

TAX BURDEN is measured across jurisdictions by comparing revenues as a share of income or on a per capita basis, and within a jurisdiction by comparing across income distributions. Tax incidence and burden considerations vary greatly among governments based on policy choices, exogenous factors, statutory authority, and service-delivery responsibility. There is no ideal mix and or best-practice benchmark.

HOUSEHOLD TAX INCIDENCE: Kirkland’s taxes come predominantly from high-income households, which counteracts some of the regressive nature of Washington’s tax structure.

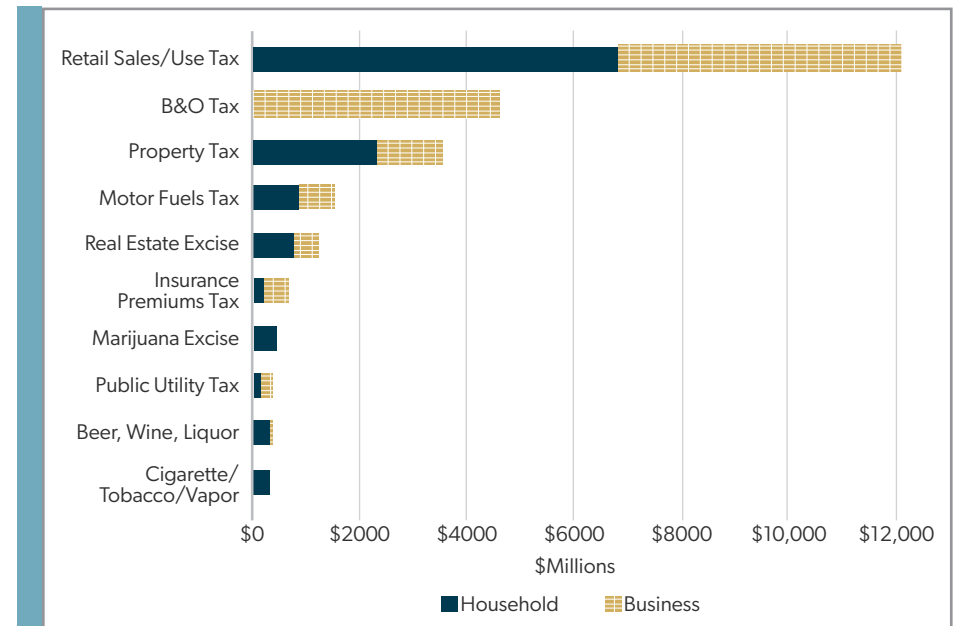
The Washington State Department of Revenue estimates that 51 percent of state taxes are paid by businesses, compared to 49 percent from households. Sales tax, the state’s largest source of revenue, is estimated to be 56 percent driven by households (including shopping at retailers) and 44 percent by business or government spending.¹⁵

15. Washington State Department of Revenue.

16. ECONorthwest adjusted a state model developed by the Department of Revenue to represent Kirkland, which is more residential than the state of Washington and has a fundamentally different tax structure. ECONorthwest adjusted taxes that are levied by the State and by Kirkland to reflect assumed differences in population and tax base. Property, utility, and real estate excise taxes were adjusted from the state for the residential share of assessed value in Kirkland. Sales taxes were adjusted for the ratio of employment-to-population to reflect that Kirkland is more likely than the state to have an employed population (or daytime population) that generates retail activity. The state business and occupation tax makes up a larger share of state taxes than does Kirkland’s business license fee (shown below as the revenue generating regulatory license fee), which is a further reason for the greater household share of taxes in Kirkland.

EXHIBIT 13. TAX SHARES OF MAJOR STATE OF WASHINGTON TAXES, FY 2020

Source: Washington Department of Revenue

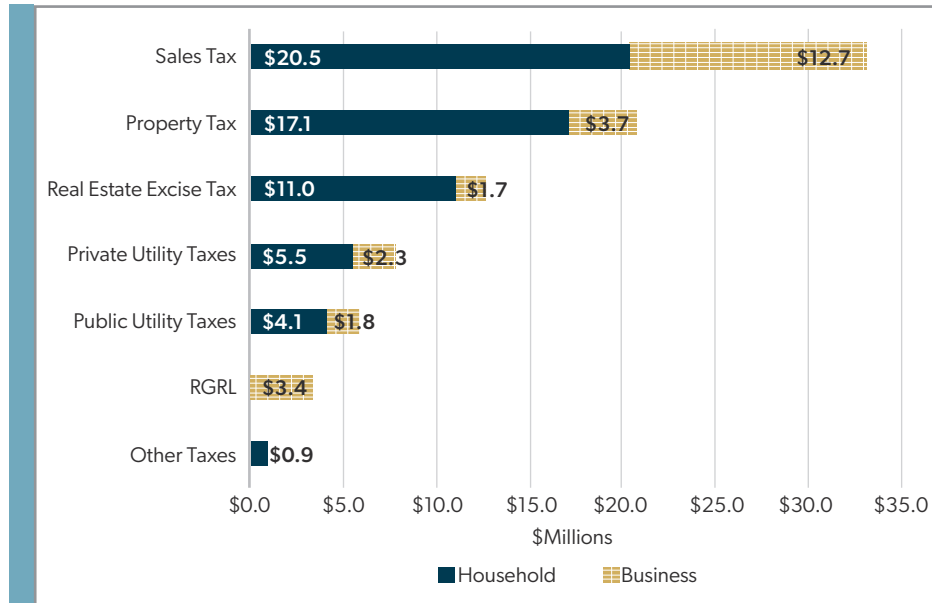


Washington’s tax revenue is fairly evenly split between households and businesses, with obvious exceptions of the business & occupation (B&O) tax (entirely business generated) and cigarette, tobacco, and vapor taxes (entirely household generated).

Kirkland’s economy is more household-driven than the state, therefore the City’s tax incidence falls more heavily on households rather than businesses. **An estimated two-thirds of Kirkland’s tax revenue comes from household-borne taxes, and 33 percent comes from businesses.** Exhibit 14 on the next page shows the breakdown between household and business-borne taxes by type of tax in the City of Kirkland.¹⁶

EXHIBIT 14. SHARES OF KIRKLAND CITY TAXES AND FEES, FY 2020

Source: Washington Department of Revenue, City of Kirkland, and US Census data. ECONorthwest analysis. RGRL is Kirkland's revenue generating regulatory license fee (business license fee).



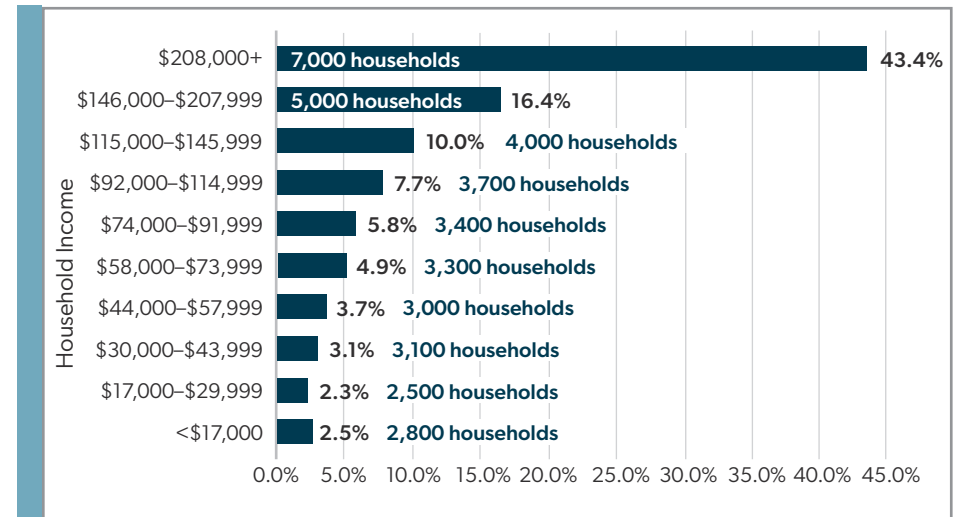
An estimated two-thirds of Kirkland's tax revenue comes from household-borne taxes, and one-third comes from businesses.

Another way of analyzing tax incidence is to estimate the share of taxes paid by populations at different income levels. Using Washington Department of Revenue modeling of the distribution of taxes across state income deciles, this analysis applies Kirkland tax revenues to estimate the incidence of Kirkland taxes across households at each income bracket. Unsurprisingly, tax incidence grows with income - in other words, higher-income earners pay greater shares of City taxes, with the highest-income earners in Kirkland contributing a disproportionate share of City taxes.

Sixty percent of City taxes are paid by 32 percent of households in Kirkland (12,000 out of 38,000 total). These households earn more than \$146,000 per year in income, which puts them in the top 20 percent of highest-income households in the State of Washington.¹⁷ This means that the City's

EXHIBIT 15. SHARE OF KIRKLAND TAXES PAID BY STATE INCOME DECILE, 2020

Source: City of Kirkland, Washington Department of Revenue. ECONorthwest analysis.



Around 12,000 households in Kirkland earn over \$146,000 per year (the top two bars in [Exhibit 15](#) at right). These households pay 60 percent of the household share of City tax revenues but make up only 32 percent of households in Kirkland.

large number of high-income households counteracts some of the regressivity of the State of Washington's tax structure, with households with greater ability to pay contributing a higher share than their share of population ([Exhibit 15](#) above).

TAX BURDEN: Taxes are three times more burdensome for the lowest income residents than for the highest income residents in the City of Kirkland.

There are various ways to measure tax burden including: 1) average tax burden, 2) ability to pay, and 3) typical taxpayer.¹⁸ These three different tax burden measurements were used for the analysis of Kirkland's conditions.

17. This analysis uses Washington Department of Revenue modeling of the distribution of the tax base for major tax categories across state income deciles and applies a King County-specific population distribution and Kirkland tax revenues to estimate the incidence of Kirkland taxes across income deciles.

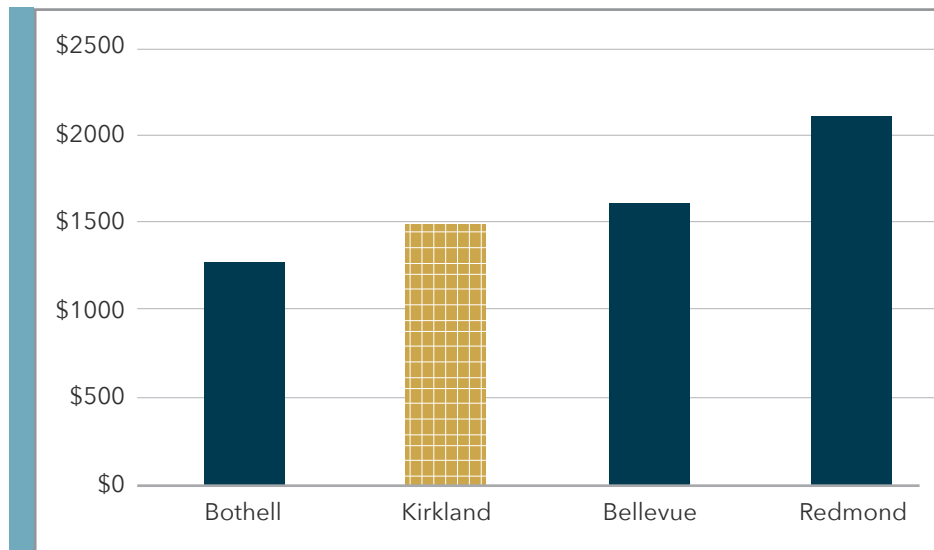
18. These three measures and their strengths and limitations are explained by the Federation of Tax Administrators in a short 1993 issue brief. https://www.taxadmin.org/assets/docs/Research/Rates/tax_burden_method.pdf

AVERAGE TAX BURDEN

This first measure is typically measured on a per capita basis (revenues divided by population). This measure is useful for a comparison of taxes by population among jurisdictions, but does not indicate anything about underlying economy, policy choices, or the service-delivery responsibilities of the taxing jurisdictions. [Exhibit 16](#) below shows general fund revenues (not just taxes) on a per capita basis for Kirkland compared to neighboring cities. **Kirkland's revenues appear less burdensome by this measure than Redmond and Bellevue, but more burdensome than Bothell's revenues.** Factors contributing to this variation are Redmond's smaller population relative to Kirkland's population (though general fund revenues are similar) and Bothell's total revenues and population being much smaller than Kirkland's.

EXHIBIT 16. GENERAL FUND REVENUES PER CAPITA FOR KIRKLAND, BOTHELL, REDMOND, AND BELLEVUE

Source: Bothell, Kirkland, Redmond, and Bellevue ACFRs



Kirkland's per capita general fund revenues were \$1,474 in fiscal year 2020, lower than Bellevue's (\$1,591) and Redmond's (\$2,080), but higher than Bothell's (\$1,240). Redmond "appears" high here given that it has a relatively small population (about 24,000 fewer people than Kirkland) but Redmond's general fund revenues are close to the same as Kirkland's.

ABILITY TO PAY BURDEN

This second burden metric is measured by showing revenues as a share of economic activity—in this instance, as a share of household aggregate income. This measure is used as a high-level indicator of the capacity for a jurisdiction to bear a particular level of taxes and is illustrative for comparison purposes but does not indicate anything about the distribution of tax burden across income groups.

This "benchmarking" reflects exogenous factors, budget idiosyncrasies, and policy choices. For example, although Bellevue has high general fund revenues on a per capita basis, the burden measure appears low here relative to Bothell and Redmond (See [Exhibit 17](#)). This is due to Bellevue's high aggregate income making the City's burden measure appear lower. Bothell has lower household income relative to Kirkland, which also make its burden measure appear higher. Redmond and Kirkland collected similar amounts of taxes, but Redmond's aggregate income is smaller, which makes its burden appear higher.

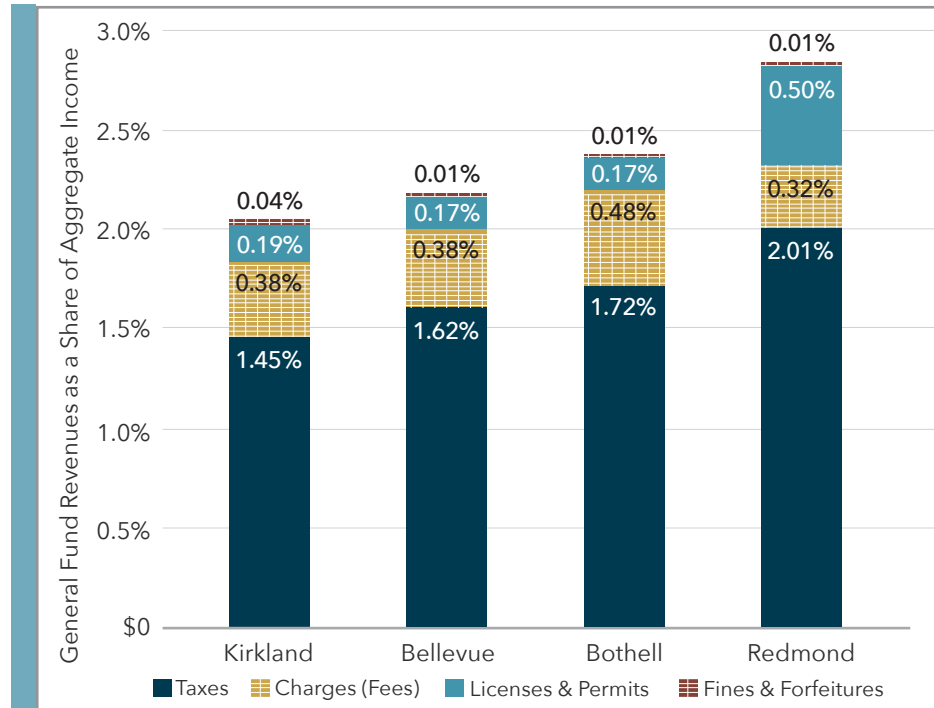
This comparison is useful for comparing across jurisdictions but is imperfect because it does not account for differences in tax base – such as the fact that the commercial share of Redmond's tax base may be larger than the City of Kirkland's. This measure also ignores income inequality within and among jurisdictions.

Aggregate income measures such as these **DISGUISE INEQUITY** among racial and ethnic groups who have disproportionately lower shares of aggregate income in the region. They also fail to illustrate impacts to individuals or households, who feel tax burden very differently.



EXHIBIT 17. GENERAL FUND REVENUES (2020) AS A SHARE OF AGGREGATE HOUSEHOLD INCOME (2019)

Source: Kirkland, Bellevue, Bothell, and Redmond Annual Comprehensive Financial Reports; US Census American Community Survey Data.



Taking total revenues as a share of aggregate household income is a way to compare tax burden across jurisdictions. Kirkland's General Fund revenues are lower as a share of income than neighboring jurisdictions, due to differences in tax base, income, and budgetary choices, among other factors.

TYPICAL TAXPAYER

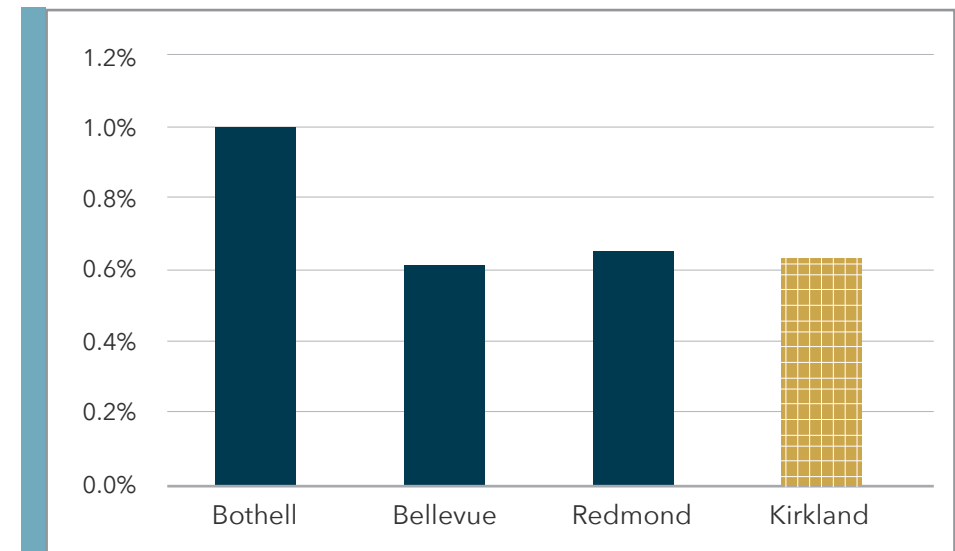
A third way of showing burden compares the typical individual tax "bill" as a share of the individual's income. This is a useful measure in that it factors in the ability to pay on an individual or household level, and thus can be more illustrative of actual burdens as opposed to the aggregated methods above. But it is also a difficult measure to calculate, in that it requires assumptions to define "typical taxpayer," such as home-ownership status, home value, income, family status, and other factors which vary greatly in most communities.

Kirkland's median home value in 2019 was \$662,300 and median household income was \$117,000. This does not mean that the "typical" household taxpayer lives in a home of median value nor that they earn an income of \$117,000. Still, an examination of city property taxes as a share of median income can provide a useful benchmark for comparison with other jurisdictions.

Kirkland's median home value is lower than Redmond's and Bellevue's but higher than Bothell's, and the median incomes for these cities follow the same pattern. The typical property tax bill as a share of income is similar in Kirkland, Redmond, and Bellevue at roughly 0.6 percent of median income, and lower than the City of Bothell.

EXHIBIT 18. ESTIMATED CITY PROPERTY TAX ON MEDIAN HOME VALUE AS A SHARE OF MEDIAN INCOME, SELECT CITIES 2020

Source: Washington Department of Revenue, U.S. Census Bureau



Kirkland's typical property tax burden is similar to Redmond's and Bellevue's but lower than Bothell's, which has both lower median household income and lower home values. This measure is driven in large part by policy choices of individual communities as much as it is by changes and variations in underlying economic and community characteristics. For example, Bothell has several levy lid lifts in effect in 2019.

A weakness of the property tax analysis is that it presents a view of the “typical” homeowner that is likely not representative of the “typical” Kirkland resident. For example, in Kirkland, similar shares of households are homeowners and are married (63 percent), but the exact correlation between homeownership and dual-income households in Kirkland is not known. Median incomes are high, but that is partly a function of the distribution of household income, which includes pockets of poverty as well as large swaths of high-income households.

A more complete way to examine tax burden and tax incidence, while still factoring in the income inequity discussed above, is to examine the distributions of taxes across households by income. A report directed by the Washington State Legislature portrayed average tax burdens across income deciles to illustrate that household tax burdens decrease as income levels increase.¹⁹ See **Exhibit 20** below for the distribution of the state tax burden across income deciles.

The same analysis for the City of Kirkland reveals that Kirkland taxes are three times more burdensome for lower-income households than higher-income households. Although high-income households pay a disproportionate share of City taxes, lower-income households are more burdened by taxes. On average, around 2,500 households earning less than \$30,000 per year pay an estimated 2.2 percent of their income in City taxes, while the highest-income households pay 0.7 percent (see **Exhibit 19.**)

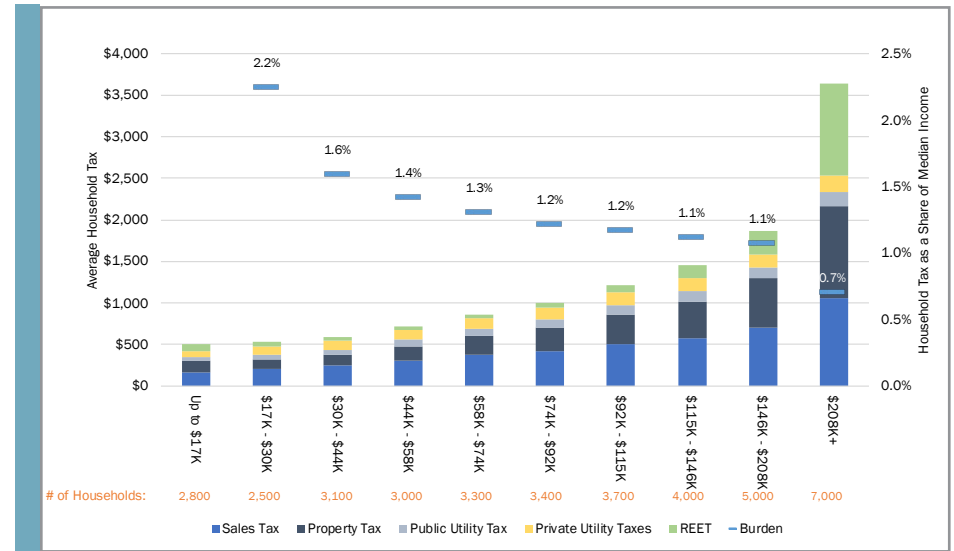
The combined City and state tax burden is four to five times greater for lower-income households than higher-income households. Around 2,500 households earning less than \$30,000 pay over 10 percent of their income in state and City taxes, compared to 2.5 percent of income paid by 7,000 households earning more than \$208,000.²⁰

19. The Tax Structure Work Group was directed by the Legislature to produce an economic analysis of Washington’s tax structure. See: <https://dor.wa.gov/sites/default/files/2022-02/TaxStructureWorkGroupPrelimReport2020.pdf>

20. This analysis does not include county or other jurisdictions that levy taxes, for which the tax burden would likely curve similarly and contribute to the compounding effect on lower-income level household tax burdens.

EXHIBIT 19. KIRKLAND HOUSEHOLD TAX BURDEN, 2020

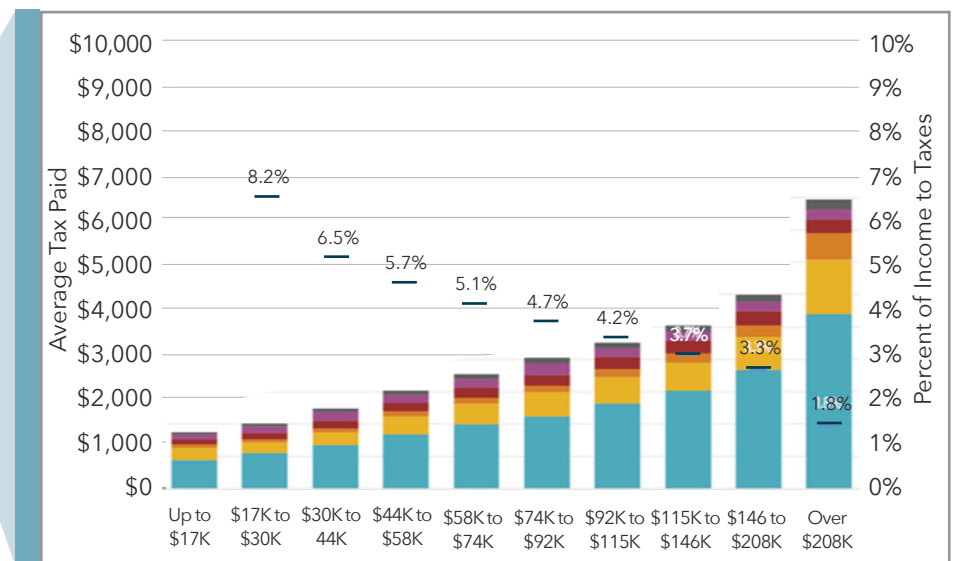
Source: City of Kirkland, Washington Department of Revenue. ECONorthwest analysis



Lower-income households have three times the City tax burden of the wealthiest households.

EXHIBIT 20. WASHINGTON STATE HOUSEHOLD TAX BURDEN, 2020.

Source: Washington Department of Revenue



The combined state and local tax burden is compounded for lower-income households. The combined state and City tax burden for households earning \$17,000 - \$30,000 is four times greater than that of the wealthiest families. City taxes are just one layer of the multiple state and local taxes facing households and businesses. Although other local taxing jurisdictions are not included in this analysis, the “curve” across income distributions would look very similar to Kirkland’s, with lower-income households contributing less to taxes but feeling a heavier burden than higher-income households.

Due to the high property and home values in Kirkland, property taxes and REET function as more progressive revenue sources. (See the green and gray bars on [Exhibit 19](#).) In other words, these taxes are largely paid by households at upper-income levels who are more likely to be homeowners and more likely to own and purchase higher-value homes. This is important context for the evaluation of budget decisions that relate to redistribution of these revenue sources (such as maximizing REET flexibility as will be discussed in Section 5).

Business License Fee Incidence and Burden

Kirkland businesses pay property, sales, utility, real estate excise taxes, and business license fees. This analysis focuses on business license fees as one of the areas that the City of Kirkland has some control over in terms of policy choices, as other taxes that businesses are subject to are largely authorized at the state level.

Kirkland’s two-part business license fee includes a basic fee of \$100 per business plus the revenue generating regulatory license fee (RGRL, sometimes referred to as a “head tax”) of \$105 per full-time equivalent (FTE).²¹ This structure contrasts with other Washington cities such as Bellevue which impose a business and occupation (B&O) tax on gross receipts. Kirkland’s business fees help pay for business-related services through the City’s Economic Development Program and are an increasingly important source of general fund revenue.²²

ECONorthwest analyzed the business fee base for the City of Kirkland to provide a baseline for modeling hypothetical changes to the fee structure.

KIRKLAND BUSINESSES: Kirkland has more businesses and more FTEs now than before the pandemic.

Roughly 11,700 entities employing over 66,000 FTEs are licensed to do business in the City of Kirkland, as of March 2022.²³ Around 4,300 (37 percent) are exempt from fees because they are non-profits or public entities, or because they earn less than \$12,000 in gross income (or total income earned, without any deductions).²⁴ See [Exhibit 21](#) for characteristics of Kirkland businesses in December 2019 and March 2022.

EXHIBIT 21. KIRKLAND BUSINESSES, DECEMBER 2019 AND MARCH 2022
Source: City of Kirkland, Washington Department of Revenue

	December 2019	March 2022	% Change
Number of business entities	9,500	11,700	23%
Number of FTEs	38,700	47,000	21%
Total GBI	\$13.1 billion	\$16 billion	22%
Estimated Fees	\$3.8 million	\$4.7 million	24%
Percent exempt from RGRL fees	36%	37%	3%
Percent home-based	30%	23%	-24%
Percent Kirkland-based	61%	57%	-7%

Kirkland has more licensed businesses, more FTEs, and is generating more fee revenue in March 2022 than in December 2019.

21. The business license (head tax) RGRL base fee per employee was increased from \$100 to \$105 (current fee) in 2017, with Ordinance O-4554. <https://dor.wa.gov/manage-business/city-license-endorsements/kirkland>.

22. <https://www.kirklandwa.gov/files/sharedassets/public/finance-and-administration/business-licenses/city-of-kirkland-business-license-fee.pdf>. A small portion of the RGLR is transferred into the City’s Street Fund to support maintenance activities.

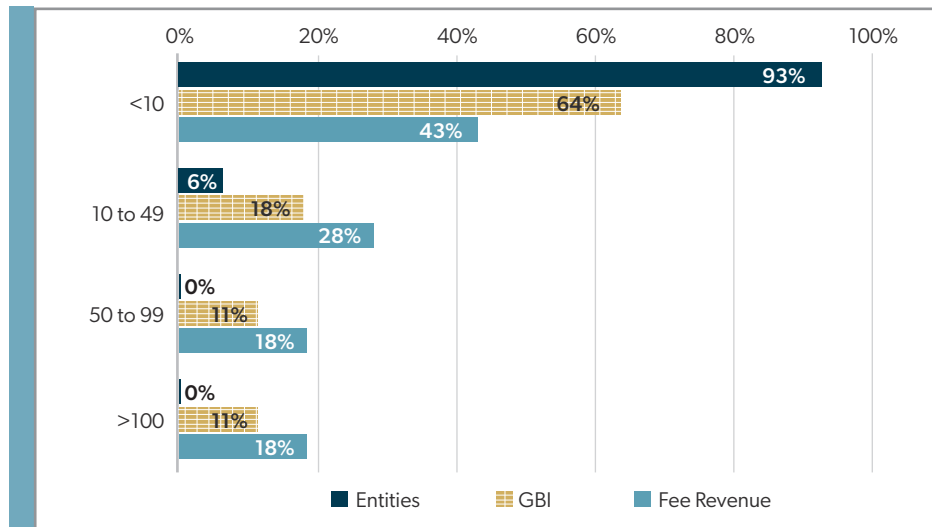
23. Business license data from the Washington Department of Revenue for various points in time were anonymized by City staff and shared with ECONorthwest for analysis of FTE, gross business income, concentration by sector, and fee scenario modeling.

BUSINESS TAX INCIDENCE: Most Kirkland businesses have fewer than 10 FTEs. Tax incidence is closely tied to FTE count.

Most entities licensed to do business in Kirkland are small. Ninety-three percent of entities have fewer than 10 full time equivalent employees (FTEs), and 99 percent have fewer than 50. These entities earn together 82 percent of gross income generated in Kirkland and pay 71 percent of fees. See [Exhibit 22](#) for shares of businesses by FTE size, gross income, and fee revenue. (Only around 120 business entities have more than 50 employees.

EXHIBIT 22. SHARES OF BUSINESS ENTITIES, GROSS BUSINESS INCOME, AND BUSINESS LICENSE FEE REVENUE BY FTE SIZE

Source: City of Kirkland, Washington Department of Revenue, ECONorthwest Analysis.

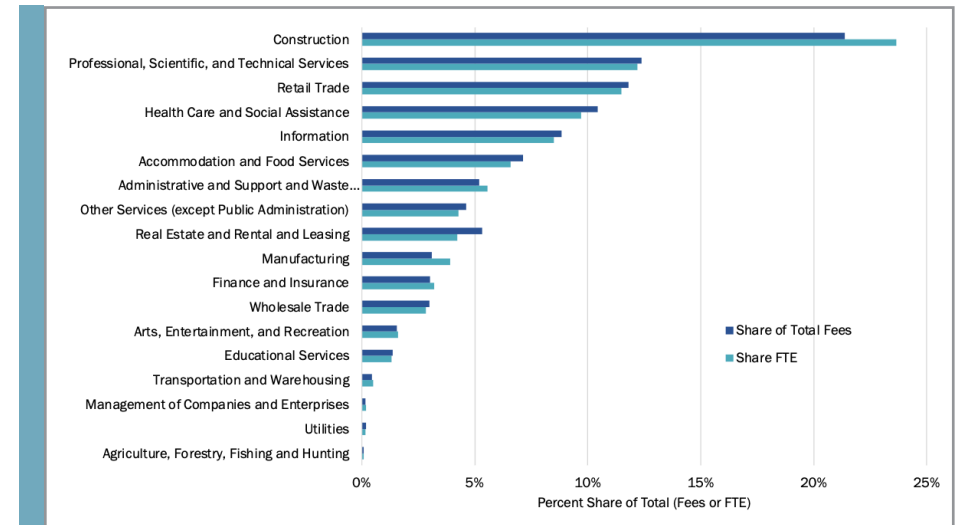


Of the estimated 11,700 licensed business entities in Kirkland: 10,900 have fewer than 10 FTEs; 700 have between 10 and 49 FTEs; 80 have between 50 and 99 FTEs; and fewer than 50 have more than 100 FTEs. Businesses with fewer than 10 FTEs earn 64 percent of gross income and pay 43 percent of fees.

Construction, Retail Trade, and Professional, Scientific and Technical Services are the sectors with the largest number of employees in Kirkland, and also the sectors paying the greatest share of fees. Tax incidence (measured as shares of all business fees) and shares of FTEs are closely correlated, due to the structure of the head tax.²⁵ Exhibit 23 shows tax incidence and shares of FTEs for all industry sectors in the City of Kirkland.

EXHIBIT 23. SECTOR SHARES OF ESTIMATED FEES AND FTES, MARCH 2022

Source: City of Kirkland, Washington Department of Revenue, ECONorthwest.



Due to the structure of the RGRL, the largest fee payors are the largest private industry employment sectors: Construction, Professional, Scientific, and Technical Services, and Retail Trade.

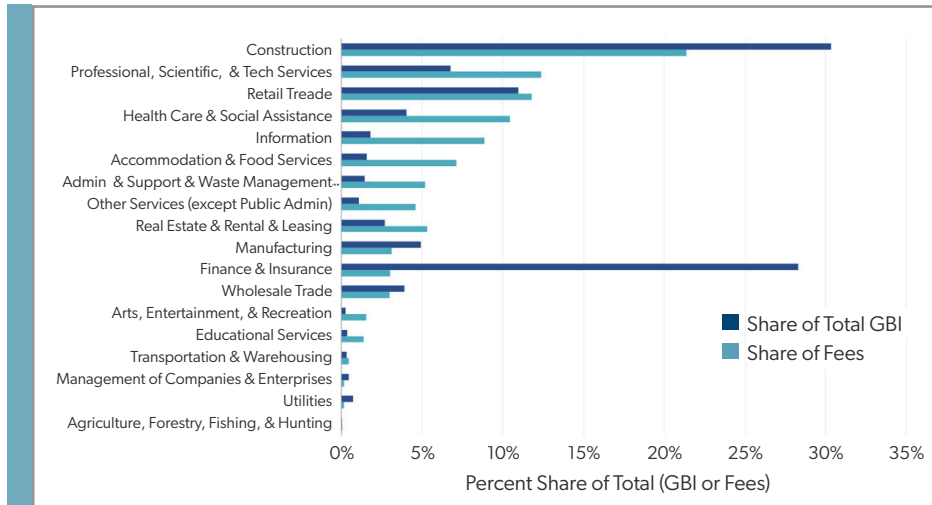
24. Washington state's primary business tax, the business and occupation tax, is an excise tax levied on the gross receipts of a business, defined as gross proceeds of sales or gross income of the business under RCW 82.46.035. For simplicity, this analysis refers to "gross income" to mean gross proceeds of sales or gross receipts. "Reported gross annual income" is the term used by the Washington Department of Revenue in administering Kirkland's business license program. <https://dor.wa.gov/manage-business/city-license-endorsements/kirkland>. It is assumed that there are no deductions allowed, and that the only exemptions are as provided under Kirkland Municipal Code Chapter 7.02. Gross income is self-reported to the Department of Revenue for the purposes of participating in Kirkland's business license program.

25. Professional, Scientific, and Technical Services includes legal services; accounting, tax-keeping, bookkeeping, and payroll services; architectural, engineering, and specialized design services; computer services; consulting services; research services; advertising services; photographic services; translation and interpretation services; veterinary services; and other professional, scientific, and technical services. <https://www.bls.gov/iag/tgs/iag54.htm>

Business tax incidence is less closely correlated with gross income. The Finance and Insurance sector has the second largest share of gross income in Kirkland, but very few FTEs, which means that fee revenue is disproportionately low from this sector. (See [Exhibit 24](#) for a comparison of shares of gross income and shares of fees, by sector.)

EXHIBIT 24. SECTOR SHARES OF GROSS INCOME AND FEES, MARCH 2022

Source: City of Kirkland, Washington Department of Revenue, ECONorthwest

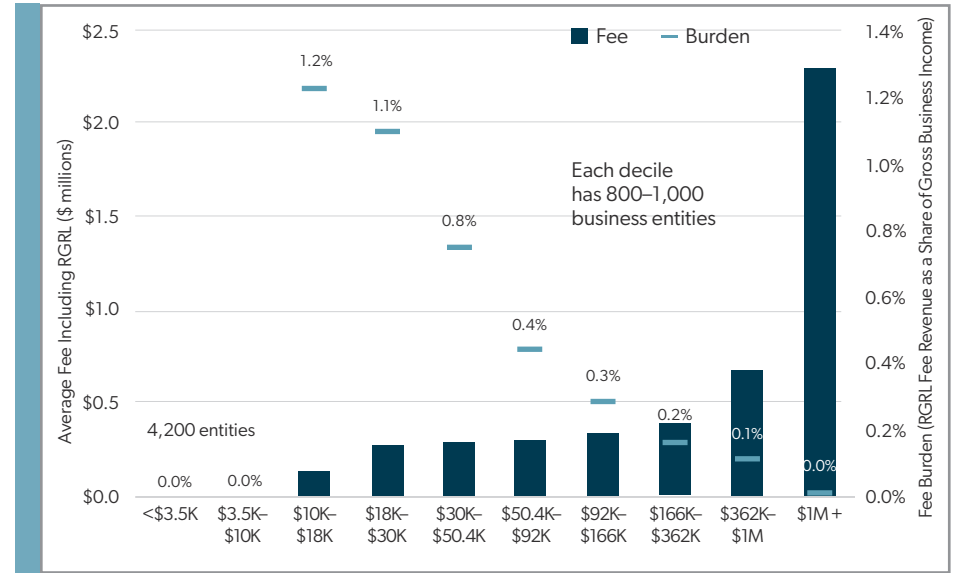


Two of the top three employers also have the highest gross income (Construction and Retail Trade). Finance and Insurance has a much larger share of gross income than the share of fees. This is due to the low number of FTEs in this sector.

Business tax burden increases as gross income declines but increases slightly as FTE count rises. Businesses earning between \$12,000 and \$362,000 pay very similar average fees (between \$165 and \$405) but the fees are obviously much more burdensome for entities with lower gross income (see [Exhibit 25](#)).

EXHIBIT 25. KIRKLAND CITY BUSINESS LICENSE FEE BURDEN BY GROSS INCOME DECILE

Source: City of Kirkland, Washington Department of Revenue, ECONorthwest analysis



Business license fee burden decreases as gross income rises. Around 4,200 entities are exempt from RGRL fees because their gross income is less than \$12,000. Around 1,800 entities earning between \$10,00 and \$30,000 pay more than one percent of gross income in business fees, compared to 1,000 entities earning more than \$1 million that pay 0.01 percent of income in license fees.

It is unclear if large employers have a greater ability to pay business fees than small employers. ECONorthwest did not find a statistical relationship between FTE count and gross income, which means that it is inconclusive as to whether Kirkland's business fee structure is progressive. The curve showing burden falling as income rises would likely be flatter under an alternate structure such as a B&O tax; however, a B&O tax does not allow for deductions (including payroll related expenses), thus low margin businesses would still be more heavily burdened than those with greater margins at any income level.

An aerial photograph of a coastal city and harbor. The foreground shows a residential neighborhood with houses and trees. The middle ground features a large body of water with a marina and a small island. In the background, a city skyline is visible across the water, and mountains are in the distance under a blue sky with wispy clouds.

3

**REVENUE
OPTION
EVALUATION
AND
RECOMMENDATIONS**

DESCRIPTION OF REVENUE OPTIONS AND METHOD

The following revenue alternatives were included in a 2020 memo to City Council as potential options to address the City's structural deficit.²⁶ The City of Kirkland contracted ECONorthwest to evaluate these specific revenue options for fiscal sustainability and equity considerations, among other factors described below.

EXHIBIT 26. REVENUE OPTIONS AND GOALS

Source: City of Kirkland

	OPTION	GOAL
1.	Increased or Staggered Revenue Generating Regulatory License (RGRL) or Business Fee	Make the fee more progressive and provide ongoing revenue to support level of service added in recent budget cycles.
2.	Maximize REET for Street Fund ²⁷	Address Street Fund deficit, improve maintenance of REET funded assets.
3.	Implement Paid Parking Downtown	Provide revenue to support street and median maintenance, economic development activity, and Parks maintenance.
4.	School Zone Safety Cameras	Expand to two additional neighborhoods to increase safety and support Safe Routes to School.
5.	Implement Transportation Benefit District	Raise revenues to pay for Safe Routes to School projects and transportation master plan priority projects.
6.	Development Fee Cost Recovery	Increase cost recovery to support higher level of development services staffing and free up general fund resources for other functions.
7.	Parks Cost Recovery Improvements	Improve cost recovery for specific recreation activities and free up general fund resources for wider Parks projects.
8.	Special Events Cost Recovery	Improve cost recovery and equity of special events fees and fund staff supporting special events.

26. City of Kirkland. (2020). Memorandum: Potential Revenue Options for Consideration in the 2023-2024 Budget. <https://www.kirklandwa.gov/files/sharedassets/public/finance-and-administration/budget-documents/21-22-budget/21-22-issue-papers/21-22-issue-paper-revenue-options.pdf>

27. A REET tax is a real estate excise tax on most sales of real property.

REVENUE OPTION EVALUATION AND RECOMMENDATIONS





















The evaluation methodology included internal interviews with various City of Kirkland staff, completed reports and relevant analysis focused on the identified revenue options, and extensive data analysis, primarily relying on current City of Kirkland data associated with each revenue option.

- 1 Interviews with City departments and staff were held to gather information and the best available data to help estimate general fund revenue potential under different scenarios.
- 2 City staff provided ECONorthwest with baseline revenue data, including detailed information behind the mid-biennial forecast (November 2021) and the spring 2022 update. ECONorthwest developed and refined revenue projections for each option.
- 3 Revenue options were evaluated for considerations related to revenue potential, stability, equity, ease of administration, and potential impacts on behavior.

As shown in Exhibit 27 (right), each revenue option was evaluated for whether the option would have a high (better), medium (mixed/neutral), or lower (worse) rating associated with a set of five parameters. The parameters evaluated were general fund revenue potential (measured annually), stability, equity, ease of administration, and potential impacts on behavior.²⁸

EXHIBIT 27. KEY TO REVENUE OPTIONS EVALUATION

Source: ECONorthwest in partnership with the City of Kirkland staff

	Annual General Fund Revenue Potential 	Stability 	Equity 	Ease of Administration 	Potential Impacts on Behavior 
HIGH RATING <i>Better</i>	\$1 million + 	Stable: Year over year rate of change of <5% or projected to grow 	Likely improve equity; relatively easy to implement equitably 	Easy to implement (progress underway), resources, info, and public buy-in feasible 	Positive impacts on behavior, or neutral 
MEDIUM RATING <i>Mixed/Neutral</i>	\$500,000 - \$1 million 	Moderately unstable: Year over year rate of change of 5-10% or projected to decline 	Potential for equity concerns but City can mitigate inequitable outcome 	Requires effort to implement but City has needed info or resources 	Potential to impact behavior, but City can take steps to alleviate concerns 
LOWER RATING <i>Worse</i>	< \$500,000 	Highly unstable: Year over year rate of change of 10%+ 	Significant concerns result in less equity than baseline; concerns difficult to overcome 	Requires significant effort, analysis, or cost to implement & possibly a public campaign 	Likely to lead to unwanted behavior changes 

28. Horizontal and vertical equity are considerations traditionally used in the discussion of an “ideal” tax system. Under a horizontally equitable tax, taxpayers of similar ability to pay face similar rates. Under a vertically equitable system, a greater share of tax burden is shifted to those with a greater ability to pay.











ECONorthwest evaluated eight options, with multiple scenarios within each option. Of all revenue options and scenarios considered, ECONorthwest and City staff have identified three recommended options for further consideration. **The recommended options are an increase to the business license fee structure, REET maximization for street maintenance, and the implementation of paid parking in the downtown area.** These options, taken together, could raise up to \$8.7 million annually for the City of Kirkland—of which \$7.1 million would be net new revenue to the City—though not all of these revenues would be realized by the City’s General Fund.²⁹

These options were selected for their potential to generate significant amounts of revenue for the General Fund, because the City can likely implement them in a fair and equitable manner, and because the City has invested substantial resources to understand the administrative and other implications of the alternatives. Other options, such as
















park cost recovery improvements, development fee cost recovery, and School Zone Safety Camera expansion are already underway. Similarly, the City has authorized a transportation benefit district but has not yet implemented it. ECONorthwest also evaluated these options to help identify equity impacts and other considerations as the City makes decisions and improvements.






























Below is a table with a summary of high level analysis results for all revenue options (see **Exhibit 28**) and additional detail regarding the findings are provided in the following section. As shown in **Exhibit 27**, each revenue option was evaluated for whether the option would have a high (better), medium (mixed/neutral), or lower (worse) rating associated with a set of five parameters including general fund revenue potential (measured annually), stability, equity, ease of administration, and potential impacts on behavior.²⁸

EXHIBIT 28. REVENUE OPTIONS EVALUATION RESULTS MATRIX

OPTION	ANNUAL GENERAL FUND REVENUE POTENTIAL	STABILITY	EQUITY	EASE OF ADMINISTRATION	BEHAVIOR IMPACT
<p>1.</p> <p>INCREASED OR STAGGERED RGRL</p> <p><i>(Recommended)</i></p>	 <p>Changes could generate \$750,000 to \$1.3 million per year.</p>	 <p>RGRL historical rate of change is 7% from 2013 - 2021.</p>	 <p>Increasing the gross income exemption will help businesses with small margins but there will be winners & losers under each scenario.</p>	 <p>Councilmanic but may require comprehensive public process.</p>	 <p>May lead to behavior changes regarding operations or growth decisions.</p>
<p>2.</p> <p>MAXIMIZE REET FOR STREET FUND</p> <p><i>(Recommended)</i></p>	 <p>\$205,000 (REET 1 only) - \$1.6 million (REET 1 & 2)</p>	 <p>REET maintenance use is capped at \$1M per REET stream for uses other than affordable housing.</p>	 <p>REET is a progressive revenue source. Maintenance flexibility competes with affordable housing use.</p>	 <p>This is a budget maneuver / decision. The public will not “feel” this.</p>	 <p>Improved condition of sidewalks/medians may encourage walking. Would reduce funding available for new capital projects.</p>

29. REET revenues are limited in their allowable uses and may not be deposited into the General Fund. Parking revenues are estimated annual gross revenues and do not consider one-time or ongoing costs related to this alternative. Parking revenues under the City’s current program are currently budgeted in the City’s Street Fund.

OPTION	ANNUAL GENERAL FUND REVENUE POTENTIAL	STABILITY	EQUITY	EASE OF ADMINISTRATION	BEHAVIOR IMPACT
<p>3. IMPLEMENT PAID PARKING DOWNTOWN <i>(Recommended)</i></p>	 ~\$5 million + in gross revenue	 Revenues sensitive to seasonality; costs might increase due to need for more enforcement.	 Equity declines with revenue potential, as higher fees could burden or exclude persons earning lower levels of income.	 City should continue to understand cost implications.	 Could improve parking turnover, but also may cause parking leakage to nearby residential areas.
<p>4. SCHOOL ZONE SAFETY CAMERAS</p>	 Expansion could generate as much as \$1.5 million per year.	 Revenues are expected to decline as driver behavior adjusts.	 Fines are fees are regressive, but the City can help mitigate this.	 City has successfully implemented already. Ongoing costs are minimal.	 Evidence program has slowed drivers in school zones. Small potential to increase traffic on streets without cameras.
<p>5. IMPLEMENT TRANSPORTATION BENEFIT DISTRICT</p>	 \$1.3 million for 1-2 years, \$2.6 million for 3-4th year, \$3.4 million thereafter.	 Dedicated funding source for transportation related projects.	 Funding for priority transportation projects help improve safety and benefit populations that rely on walking, biking, and public transport.	 Priority projects and estimated costs are already identified but this requires new business function (collecting car tabs).	 Unlikely to impact behavior in terms of car ownership. However, safety improvements may incentivize more non-car transportation.

OPTION	ANNUAL GENERAL FUND REVENUE POTENTIAL	STABILITY	EQUITY	EASE OF ADMINISTRATION	BEHAVIOR IMPACT
<p>6. DEVELOPMENT FEE COST RECOVERY</p>	<p> \$380,000 ++</p>	<p> Highly sensitive to development trends/ economic environment. Full cost recovery limiting.</p>	<p>  Proposed schedule accommodates homeowner participation in development services. Fees can be passed along to households in developer-driven projects. City should prioritize improved data collection regarding “typical” fees and projects.</p>	<p>  Easier to track/understand costs with separate fund. City should prioritize building an operating reserve.</p>	<p>   Increased fees could reduce permit compliance but not likely given the nature of the recommended adjustments.</p>
<p>7. PARKS COST RECOVERY IMPROVEMENTS</p>	<p>  Unknown, but preliminary estimates showed wide range depending on option.</p>	<p>  Revenues highly sensitive to participation (and unclear if costs are equally nimble).</p>	<p>  Equity deteriorates with revenue potential. City should prioritize communication of scholarship opportunities.</p>	<p>  Solid cost allocation and tracking systems. City should prioritize indirect cost allocation.</p>	<p> Likely to impact participation, which may decline with increased fees.</p>
<p>8. SPECIAL EVENTS COST RECOVERY</p>	<p> Fees do not generate substantial revenue.</p>	<p>  Revenues are uncertain.</p>	<p>   City should prioritize increasing fees for events that benefit individuals rather than the community.</p>	<p>   Implementation would be minimal since the proposal is minor.</p>	<p>  Participation by vendors may decline with increased fees.</p>

RECOMMENDED OPTIONS



INCREASE THE REVENUE GENERATING REVENUE LICENSE (RGRL) FEE AND INCREASE INCOME-BASED EXEMPTION THRESHOLD:

ECONorthwest considered several options to change or increase RGRL (business fees) before identifying a recommended option to **increase the per-FTE RGRL by \$25 across-the-board and increase the threshold for exemption from \$12,000 in gross income to \$20,000**. This option would generate \$760,000 annually. This option is fair due to its across-the-board nature, and an increase in the exemption could protect more low-margin businesses while also allowing the exemption structure—which has not been changed since 2008—to more than catch up with inflation.



MAXIMIZE REET FLEXIBILITY FOR MAINTENANCE USES:

The City can increase the maximum allowed use of real estate excise taxes (REET) for maintenance of REET-eligible capital projects. Utilizing the maximum allowed use of \$1 million per REET 1 and REET 2 can potentially free **up to \$1.6 million** in general property taxes to be returned to the General Fund. REET is a progressive revenue stream for the City and using proceeds to improve road quality and safety conditions for community-wide benefit is an equitable use of funds.



IMPLEMENT PAID ON-STREET PARKING:

The City currently charges for parking only in municipal lots by the waterfront. On-street parking in the downtown area is free, as are several other municipal lots and the garage below the library. Expanding paid parking, particularly in the busy downtown area, has the potential to **increase turnover in parking availability, enhance local business activity, and generate significant revenues for the Street Fund** (and potentially eliminate the General Fund subsidy of streets maintenance). This option could raise as much as \$6.4 million in gross annual revenue based on early analysis from Diamond Parking, which will be refined through further study.³⁰

30. Municipal Parking Management Solutions: Findings Report https://www.kirklandwa.gov/files/sharedassets/public/city-council/agenda-documents/2022/may-26-2022/5_business.pdf pp 77-107

OTHER OPTIONS

EXPAND SCHOOL ZONE SAFETY CAMERAS:

The City's current School Zone Safety Cameras have been **successful at reducing driver speeds and have generated significant revenues for safety improvements**. The City is considering expanding the cameras from two or four locations, which could generate up to **up to \$1.5 million** in additional revenues. Revenues may decline as drivers continue to adjust behavior, thus the City is appropriately cautious in allocating resources toward uses that meet statutory requirements and in using excess revenue for one-time purposes.

IMPLEMENT TRANSPORTATION BENEFIT DISTRICT:

The City is considering implementing a transportation benefit district funded by a car tab fee of \$20, which would **generate as much as \$1.5 million** in the first year (and up to \$3.4 million in later years if the fee is increased). The revenues would allow Kirkland to accelerate **investment in transportation projects in its Capital Improvement Plan** though it would not impact the General Fund deficit.

IMPROVE DEVELOPMENT FEE COST RECOVERY:

City staff have recommended the adoption of a new cost recovery model for development services. Full adoption of the model would **reduce the General Fund subsidy of development services by roughly \$380,000**, with the potential for greater reduction in future years. **Moving development fees to a separate management fund**, as staff have recommended, is an important transparency improvement that will allow the City to better evaluate cost recovery and aligns with practices in other cities. The City should **improve data collection** related to type and size of project, size of fee, and type of fee-payor, which will help to identify impacts to applicants. **Because development fees are highly volatile, the City should prioritize building clear reserve policies** in the new development services management fund that will allow for reasonable continuation of operations in the event of an economic downturn.

IMPROVE PARKS AND SPECIAL EVENTS COST RECOVERY:

The City has made significant progress in implementing the Parks cost recovery philosophy and model adopted in 2018, despite the pandemic's disruption of programming. Evaluation of City of Kirkland Parks and Community Services data shows the City is more than recovering direct costs, and that **direct cost recovery roughly aligns with the philosophy adopted by the City**. The City continues to evaluate program demand and participation prior to setting fees. The City may also wish to **enhance awareness of scholarship funds and conduct targeted outreach to populations that may be underrepresented in Kirkland and whose needs may differ from most Kirkland residents** as it further evaluates fees. For Special Events, the City needs to analyze direct and indirect costs associated with Special Events, and to balance goals related to tourism promotion and community benefits with the desire to recover true costs.

RECOMMENDED OPTIONS

OPTION 1 (RECOMMENDED)

INCREASE THE RGRL TO \$130 AND INCREASE THE EXEMPTION THRESHOLD TO \$20,000 IN GROSS INCOME.



GOAL: Make the fee more progressive and provide ongoing revenue to support level of service added in recent budget cycles.

Background

The current business license fee structure was adopted in 2008. The fee is two-part: it includes a basic annual fee of \$100 per business for businesses exceeding \$12,000 in average annual gross receipts, plus a \$105 revenue generating regulatory license (RGRL) fee (or business license fee) for each additional full-time equivalent employee (FTE). The City allows business license fee exemptions for new Kirkland businesses with ten or fewer employees within their first year of business. City code also allows exemptions for certain circumstances including farmers and nonprofit organizations.³¹ In 2017, the City adopted an ordinance requiring short-term rental property owners to obtain a business license and pay the applicable fees.³² The City partners with the Washington State Department of Revenue (DOR), Business License Service to administer the licensing program.³³

ECONorthwest evaluated eight business license fee scenarios in two stages to identify the recommended option. The results of the evaluation are presented here.

Evaluation

Initial evaluation: ECONorthwest initially evaluated five scenarios that were identified through conversation with City staff. The goals of the scenarios were to raise additional revenue for the City, make the fee more progressive and/or equitable, and to work within the state DOR Licensing environ-

OVERALL FINDINGS FOR REVENUE OPTION 1, BUSINESS FEE

- **HIGH Rating for General Fund Revenue Potential:** Could generate \$750,000 to \$1.3 million per year.
- **MEDIUM Stability Rating:** Somewhat stable since the RGRL historical rate of change is 7% from 2013-2021.
- **MEDIUM Equity Rating:** Increasing the gross income exemption will help businesses with small margins. Impacts of the fee increase vary across sectors.
- **MEDIUM Ease of Administration Rating:** Councilmanic approval possible but may require comprehensive public process.
- **MEDIUM Behavior Impact Rating:** May lead to behavior changes with regard to operations or growth decisions but the City can take steps to alleviate concerns.

ment. ECONorthwest presented preliminary results to City Council at the May 2022 Council Retreat.

The initial scenarios considered were an across-the-board increase of \$20 to the business fee (Scenario 1), a business license fee increase of \$35 for businesses with more than 10 FTEs (Scenario 2), doubling the business fee to \$105 for businesses with more than 100 FTEs (Scenario 3), a staggered

31. Kirkland Municipal Code 7.02.060.

32. <https://www.kirklandwa.gov/Government/Departments/Finance-and-Administration/Customer-Accounts/Apply-for-a-Business-License/Short-Term-Rentals-in-Kirkland>

33. The City provided ECONorthwest with anonymized data from the Washington Department of Revenue from March 2022. The data represent a point-in-time snapshot of business entities' gross income and number of employees; ECONorthwest modeled baseline fees and changes to fees under the scenarios included here.

approach based on FTE size (Scenario 4), and an increase of \$40 for all businesses with an increase in the gross business income (GBI)-based exemption from \$12,000 to \$25,000 (Scenario 5). These options would raise an estimated **\$748,000 to \$1.3 million** based on March 2022 data, on top of an estimated \$4.7 million baseline. These findings are provided in [Exhibit 30](#).

Final Evaluation: Following the May 2022 Council retreat, ECONorthwest evaluated scenarios that included an inflationary adjustment to the gross income exemption threshold, which would be around \$17,300 in 2023 dollars, plus an across-the-board increase to RGRL fees. The across-the-board increase to RGRL fees was determined to be horizontally equitable and would have the lowest risk of unintended impacts for certain sectors. Three additional options were considered: 1) an increase in the exemption threshold to \$17,500, which is roughly what the \$12,000 threshold would be had it been subject to an inflationary increase each year since it was implemented in 2008,³⁴ plus an across-the-board increase of \$25 to the RGRL; 2) an increase of \$25 to the RGRL plus an increase in the exemption threshold to \$20,000, which would allow for more time before an inflationary adjustment needs to be made; and 3) an increase of \$30 to the RGRL plus an exemption threshold increase to \$20,000, which would generate more revenue. These findings are provided in [Exhibit 31](#).

A table summarizing each revenue impact evaluated for the initial and final evaluation is provided below in [Exhibit 29](#).

Initial Evaluation Findings

Each of the scenarios would have varying impacts depending on the sector and size of the entity. In general, scenarios would more heavily impact the entities with more FTEs, even under Scenarios 1, 5, and 6, which are across-the-board and do not vary by FTE size. This is due to the nature of the head tax. Scenarios 2, 3, and 4 least impact sectors with large concentrations of small employers (in terms of FTE count). For each scenario, the percent increase in fees is listed below by sector.

EXHIBIT 29. BUSINESS LICENSE FEE SCENARIOS EVALUATED

Source: ECONorthwest analysis

	SCENARIO	REVENUE
#1	Increase RGRL to \$125, regardless of FTE	\$746,000
#2	Increase RGRL to \$140 for 10+ FTE businesses only	\$856,000
#3	Increase RGRL to \$210 for 100+ FTE businesses only	\$859,000
#4	Staggered RGRL increase; \$150 for 50-99 FTEs, and \$210 for 100+ FTEs	\$858,000
#5	Raise exemption to \$25K in gross income; increase RGRL to \$145 for all businesses	\$1,247,000
#6a	Increase RGRL to \$125, raise exemption to \$17,500	\$612,000
#6b	Increase RGRL to \$125, raise exemption to \$20,000	\$577,000
#6c	Increase RGRL to \$130, raise exemption to \$20,000	\$760,000

34. The threshold of \$12,000 would be \$17,266 in 2023 dollars based on the US Consumer Price Index, All Urban Consumers, Seasonally Adjusted.

EXHIBIT 30. PERCENT INCREASE IN FEES BY SECTOR, INITIAL EVALUATION

Source: ECONorthwest analysis of City of Kirkland and Washington Department of Revenue data

Chart continues on next page

NAICS SECTOR NAME	Baseline Fee Revenue	Scenario 1 (\$20 increase)	Scenario 2 (10+ FTE increase)	Scenario 3 (100+ FTE increase)	Scenario 4 (Staggered)	Scenario 5 (Exemption to \$25k & \$40 increase)
Construction	\$992,000	15%	11%	3%	4%	20%
Finance and Insurance	\$140,000	16%	16%	0%	9%	25%
Retail Trade	\$547,000	17%	24%	34%	33%	33%
Professional, Scientific, & Technical Services	\$575,000	16%	19%	19%	19%	28%
Health Care and Social Assistance	\$484,000	17%	20%	15%	17%	30%
Manufacturing	\$144,000	18%	24%	43%	37%	34%
Wholesale Trade	\$139,000	16%	18%	0%	7%	25%
Real Estate and Rental and Leasing	\$247,000	13%	9%	10%	10%	16%
Utilities	\$8,000	21%	27%	3%	34%	39%
Information	\$411,000	18%	31%	80%	64%	36%
Accommodation and Food Services	\$331,000	17%	24%	8%	9%	34%
Admin, Support, Waste Management	\$241,000	15%	15%	0%	4%	25%
Other Services (except Public Administration)	\$241,000	15%	12%	0%	5%	24%
Educational Services	\$64,000	15%	18%	19%	15%	19%
Management of Companies & Enterprises	\$8,000	15%	20%	-1%	-1%	30%
Transportation and Warehousing	\$21,000	14%	8%	0%	0%	12%
Arts, Entertainment, and Recreation	\$72,000	16%	20%	19%	20%	24%
Agriculture, Forestry, Fishing, & Hunting	\$4,000	7%	2%	-7%	-7%	20%

EXHIBIT 31. PERCENT INCREASE IN FEES BY SECTOR, FINAL EVALUATION

Source: ECONorthwest analysis of City of Kirkland and Washington Department of Revenue data

Continued from previous page

NAICS SECTOR NAME	Baseline Fee Revenue	Scenario 6a (RGRL to \$125, exemption to \$17,500)	Scenario 6b (RGRL to \$125, exemption to \$20,000)	Scenario 6c (RGRL to \$130, exemption to \$20,000)
Construction	\$992,000	10%	9%	12%
Finance and Insurance	\$140,000	11%	11%	14%
Retail Trade	\$547,000	16%	16%	20%
Professional, Scientific, & Technical Services	\$575,000	14%	13%	17%
Health Care and Social Assistance	\$484,000	15%	15%	19%
Manufacturing	\$144,000	17%	16%	21%
Wholesale Trade	\$139,000	11%	11%	14%
Real Estate and Rental and Leasing	\$247,000	8%	5%	8%
Utilities	\$8,000	21%	21%	26%
Information	\$411,000	18%	17%	22%
Accommodation and Food Services	\$331,000	17%	17%	21%
Admin, Support, Waste Management	\$241,000	11%	10%	14%
Other Services (except Public Administration)	\$241,000	12%	10%	14%
Educational Services	\$64,000	7%	6%	9%
Management of Companies & Enterprises	\$8,000	15%	15%	19%
Transportation and Warehousing	\$21,000	7%	3%	6%
Arts, Entertainment, and Recreation	\$72,000	12%	9%	13%
Agriculture, Forestry, Fishing, & Hunting	\$4,000	7%	7%	10%

Within sectors, the impacts vary greatly by size of FTE. Further, burden was found to vary based on businesses' marginal ability to pay, which is difficult to measure in Washington where there are no allowable deductions for business taxes. Restaurants, daycares, nail salons and retailers are fre-

quently discussed as relatively low-margin businesses that are sensitive to business fees and tax changes, particularly following the impacts of social distancing measures during the COVID-19 pandemic.

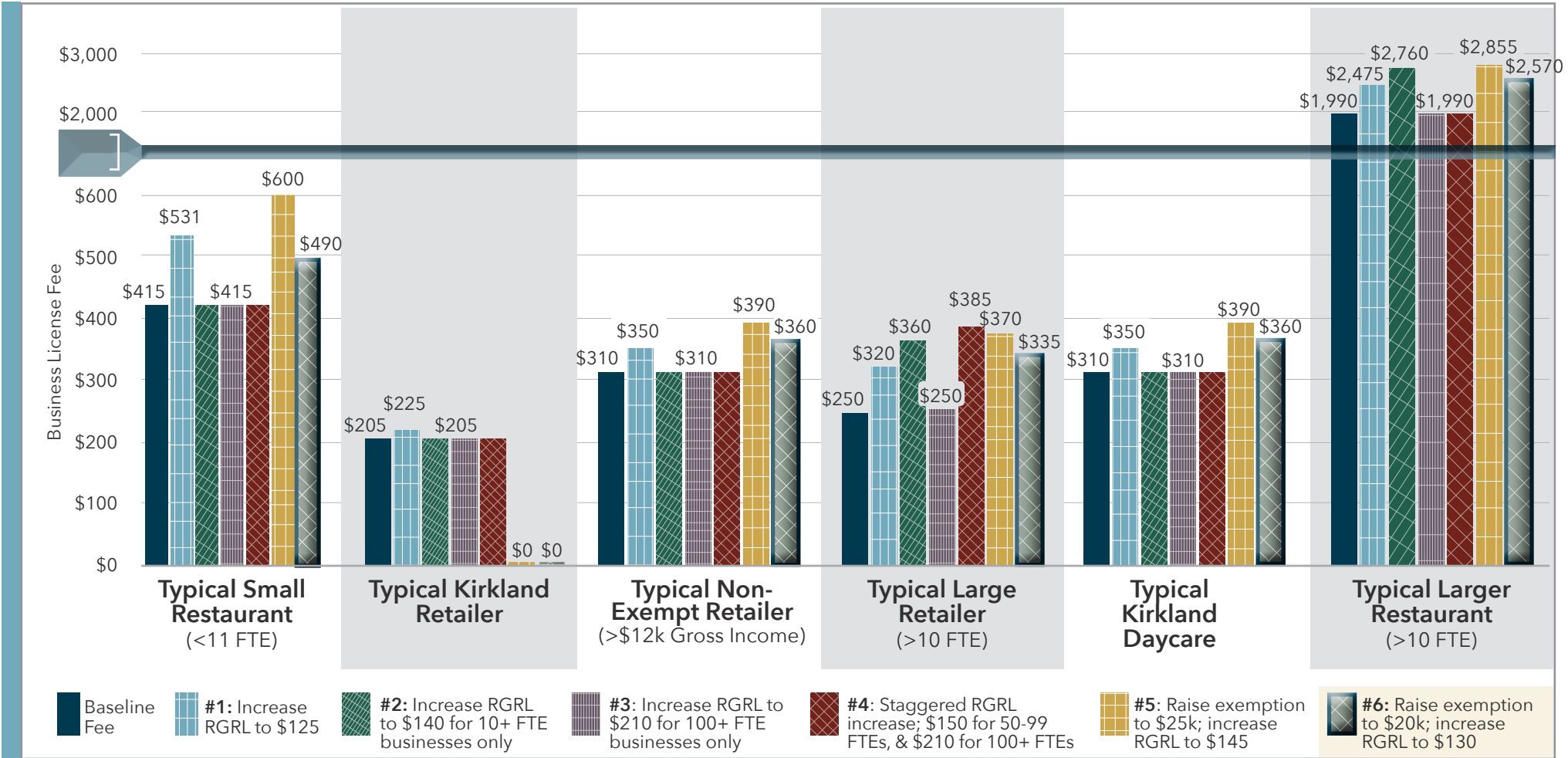
Examples are presented below to illustrate varying impacts to a small restaurant with 10 or fewer FTEs, a restaurant with more than 10 FTEs, a typical retail entity, a retail entity with more than 10 FTEs, and a typical daycare.³⁵ For simplicity's sake, Scenarios 6a and 6b are omitted and only Scenario 6c is shown.

The typical small Kirkland restaurant has 3 FTEs and gross income of

\$150,000, so would only be impacted under scenarios 1, 5 and 6c. The typical retailer has one FTE and gross income of \$16,500; thus they would be impacted only under Scenario 2, 5, and 6c (under which this retailer would now be exempt from fees). Half of retailers in Kirkland with 10 or fewer FTEs are exempt from business license fees due to having gross income of less than \$12,000. There are fewer than 40 entities with over 100 FTE who would be impacted under Scenario 4.

EXHIBIT 32. SCENARIO IMPACTS TO KIRKLAND RESTAURANTS, RETAILERS, AND DAYCARES

Source: ECONorthwest analysis



35. "Typical" is defined as median gross income and median FTE count, either overall (as for retailers) or among a subset above a certain FTE-based breakpoint (as for small restaurants with fewer than 10 FTE).

The typical small restaurant has 3 FTE, and earns median gross income of \$150,000, and has a fee of \$415. This small restaurant would pay \$490 under the recommended option. Overall, 157 small restaurants (out of 159 total) would see a fee increase.

The typical larger restaurant (with more than 10 FTE) has 19 FTE, median GBI of \$1.4 million, and pays a median fee of \$1,990. This type of restaurant would see a fee increase of around \$600 under Scenario 6c. All 86 larger restaurants in Kirkland would see a fee increase under this option.

The typical Kirkland retailer has one FTE, pays a median fee of \$205, and has median gross income of \$16,500. This entity would be exempt under Scenario 6c. Under Scenario 6c, an additional 190 entities would become exempt.

There are around 950 retailers in Kirkland; about 550 are exempt because they earn less than \$12,000 in gross income. The typical non-exempt retailer has gross income of \$250,000 and 2 FTEs and pays a fee of \$310. There are about 505 such entities in Kirkland and 467 would see a fee increase of \$50 under Scenario 6c.

The typical larger (more than 10 FTE) retailer in Kirkland has 25 FTE and median gross income of \$5.8 million. There are roughly 70 such entities in Kirkland as of March 2022; all would be subject to a fee increase under Scenario 6c.

The typical Kirkland daycare has two FTE and median gross income of \$97,700. Under Scenario 6c, this daycare's RGRL would increase by \$50. There are roughly 60 non-exempt daycare in Kirkland; five additional would become exempt under Scenario 6c.

FINAL EVALUATION FINDINGS

After evaluating all scenarios based on the considerations of adequacy, stability, equity, ease of administration, and impacts to behavior, the recommended scenario is Scenario 6c, an across-the-board increase of \$25 (to \$130) and an increase in the income threshold for exemptions from \$12,000 to \$20,000. Findings related to all eight scenarios are described below.

Business Fee Scenario Findings

SCENARIO 6C:

Increase income threshold to \$20,000; across-the-board fee increase of \$25
Recommended scenario

The recommended scenario would be **simple to administer** and horizontally equitable in that all business taxpayers will face the same increase. While it does not consider ability to pay, and may impact some sectors more than others, in general the distribution should roughly follow the current fee distribution, which is **less likely to result in behavior changes** than the FTE-based increases described below.

Further, this scenario **increases protection for businesses with relatively low income and low margins** because of the increase in gross income exemption. Increasing the income threshold to \$20,000 means that the threshold will be larger than an inflationary adjustment until 2028, providing a five-year window from 2023 during which the threshold would not need to be subject to an inflationary increase.

Continued from previous page

Business Fee Scenario Findings

SCENARIO 1:

Across-the-board increase

This option would also be simple to administer and **horizontally equitable** in that all business taxpayers will face the same increase. It is vertically inequitable in that those with greater ability to pay or larger shares of FTEs will be impacted less than those with lower ability to pay or lower shares of FTEs, and it **does not change anything for low-margin businesses**.

SCENARIO 2:

Increase head tax for businesses with 10+ FTEs

Scenario 2 was useful if the policy goal is to increase revenues from businesses with larger headcounts based on the premise that employees either impose some sort of cost to the City or that businesses gain some competitiveness advantage from their location in the City. However, 93 percent of businesses have fewer than 10 FTEs, so **this fee increase would only impact 7 percent of businesses**. Further, some small businesses may have large gross income; since ECONorthwest could not identify a statistical relationship between FTE count and income, it is not known if larger businesses have a greater ability to pay.

SCENARIO 3:

Increase head tax for businesses with 100+ FTEs

The same considerations apply to Scenario 3 as apply to Scenario 2 above, except that **this scenario will impact less than 1 percent of entities—fewer than 40**. Additionally, if the goal is to capture more revenue from economic activity occurring within the City, this Scenario falls short because **the City will not be capturing additional fee revenue from 99 percent of entities making 82 percent of gross income** in the City.

SCENARIO 4:

Staggered increase based on FTE count

This Scenario is useful if the policy goal is to make the fee structure **more progressive by using FTE count as a proxy for ability to pay**. This exercise is complicated by the lack of clear relationship between FTE count and gross income. This structure is slightly more complicated than the other FTE-count based options and may be more difficult to administer for the City, the Department of Revenue, and employers.

SCENARIO 5:

Raise exemption to \$25,000 of gross income; increase fees across the board by \$40

If the goal is to protect businesses with relatively low income and low margins, then the City may wish to **consider increasing the gross income exemption from \$12,000**, which was the level set in 2008. This increase in exemption could be offset by an increase to fees, as shown in Scenario 5.

SECTOR-BASED INCREASE

With the understanding that sectors are affected differently under the scenarios listed above, the City may wish to consider **exempting employers in certain sectors from a fee increase**, with an exemption that is staggered based on FTE count. This scenario is not pictured above but considered in the hypothetical. Excluding restaurants from the fee increases under Scenario 5 would reduce revenues by no more than \$100,000, and substantially less under other scenarios. This hypothetical scenario raises horizontal equity considerations among businesses of similar size and income profiles. This option would also require close partnership with the Department of Revenue to implement and could prove to be administratively complicated.

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Business Fee Scenario Findings

INCOME-BASED FEE STRUCTURE

Graduated based on gross income

If the goal is to make the fee structure more progressive, the City may wish to **increase fees based on gross income**. This would likely be difficult to administer due to more complex compliance requirements (gross income is reported on an honor system) and would need to be evaluated for legal considerations related to Washington’s constitutional prohibition against income taxes. However, this hypothetical scenario would have the advantage of being vertically equitable.

SCENARIO 6A:

Inflationary increase to income threshold to \$17,500; across-the-board fee increase of \$20

This scenario allows for the exemption threshold to increase based on inflation, to \$17,500. Revenue loss due to the increased exemption would be more than offset by an across-the-board fee increase of \$20. An across-the-board increase has a fairness and simplicity advantage, given the variation in impacts by sector and size of business inherent in any increase. Additionally, **this threshold would need to be adjusted again in 2024 based on forecasted inflation**.

SCENARIO 6B:

Increase income threshold to \$20,000; across-the-board fee increase of \$20

This scenario would allow for the income threshold to lag inflation until 2027, giving a five-year window before the threshold would need to be adjusted again. However, this scenario **does not generate very much revenue**, which diminishes the impact since it would require a significant communication effort without raising commensurate revenue.

**OPTION 2 (RECOMMENDED)
MAXIMIZE REET FOR STREET FUND**



GOAL: Address Street Fund deficit, improve maintenance of REET funded assets.

Background

Cities have the authority to impose certain local real estate excise taxes (REET). Specifically, cities can impose REET 1 and REET 2 taxes, each tax is a 0.25 percent tax levied on the full selling price of a property. In general, a limited amount of these revenues can be used for the maintenance, operation, and service support of existing capital projects, and temporarily for homeless housing and affordable housing projects.³⁶

36. A REET tax is calculated based on the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. REET 2 can be used for affordable housing through 2026, under RCW 82.46.035. Kirkland is the only city in the State of Washington which does not face a limit of \$1 million on affordable housing use of REET 2, due to the City’s investments in affordable housing and homeless housing prior to 2019, which make it eligible for the exception to the limit per RCW 82.46.035(6).

OVERALL FINDINGS FOR REVENUE OPTION 2, REET FOR STREET FUND

- **HIGH Rating for General Fund Revenue Potential:** \$205,000 (REET 1 only) - \$1.6 million (REET 1 & 2).
- **HIGH Stability Rating:** Year over year rate of change is less than 5%.
- **MEDIUM Equity Rating:** REET is a progressive revenue source; however, this option could compete with affordable housing use.
- **HIGH Ease of Administration Rating:** This is a budget maneuver/decision.
- **HIGH Behavior Impact Rating:** Improved condition of sidewalks and medians may encourage walking.

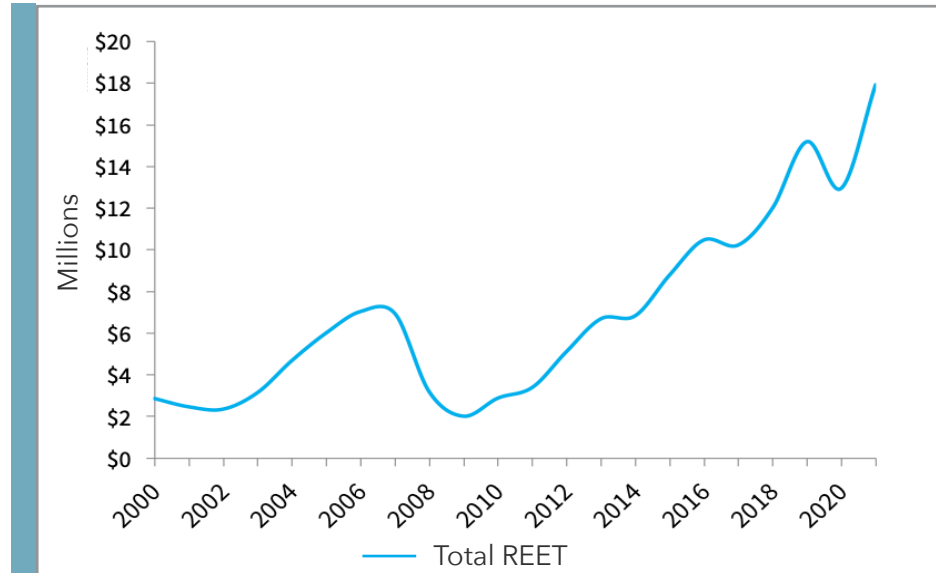
The state limits how much REET 1 and REET 2 revenues can be used to fund operations and maintenance of capital projects and requires reporting. Cities can use up to \$1 million per REET revenues per year for maintenance of capital projects.³⁷ Additionally, REET 2 can also be used for affordable housing and homeless housing projects, up to the same limit until 2026.

The City estimates that in 2021, REET 1 and REET 2 will generate approximately \$8.8 million in revenues per REET. Both REET sources have grown significantly since 2012. (See Exhibit 38).

REET revenues are used to fund several transportation capital improvement projects including operation and maintenance uses as well as for property acquisition and funding for affordable housing. As of 2021, the City of Kirkland uses \$216,000 per year of REET 1 revenues to fund maintenance. REET 1 maintenance spending on the Cross Kirkland Corridor (CKC) and park maintenance totaled \$216,400 and \$219,068 for 2019 and 2020.³⁸ The City does not use any REET 2 revenues for maintenance.

EXHIBIT 33. COMBINED REET TOTAL REVENUES, 2000–2021

Source: City of Kirkland



Over a 20-year period, from 2002 to 2021, REET revenues have grown at an average of 14 percent annually. This growth masks some revenue volatility, as evidenced in the graph above.

Street Fund. Kirkland’s Street Fund is responsible for street, sidewalk, and median repair and maintenance, street sweeping, and groundskeeping.³⁹ The fund contains a variety of state and local revenue sources, including about \$3 million from a special road levy (property tax), and more than \$3 million in general property taxes, a revenue source that could be returned to the General Fund if supplanted by other revenues.

In recent years, Street Fund expenditures have exceeded revenues and the City had to transfer additional General Fund dollars to cover expenses, including some business license fee revenues. Street fund expenditures have exceeded revenues in 2019, 2020, and 2021 (see Exhibit 34 below) and the 2019-2021 average deficit is approximately \$485,500.

EXHIBIT 34. STREET FUND REVENUES, EXPENDITURES, AND DEFICIT, 2019-2021

Source: City of Kirkland

	2019	2020	2021	2019–2021 Avg
Revenues	\$10,233,318	\$9,560,645	\$11,088,346	\$10,294,103
Expenditures	\$10,380,682	\$10,757,275	\$11,200,845	\$10,779,601
Deficit	-\$147,363	-\$1,196,629	-\$112,499	-\$485,497

37. Cities can use up to \$100,000 or 25 percent of available REET 1 and 2 revenues—whichever is greater, but to not exceed \$1 million per year for each revenue stream. RCW 82.46.015 and RCW 82.46.037 state that “maintenance” means the use of funds for labor and materials that will preserve, prevent the decline of, or extend the useful life of capital projects. REET maintenance funds cannot be used for labor or material costs of routine operations of a capital project.

38. City of Kirkland data and interview.

39. Interview with City staff.

The years shown above include the COVID-19 pandemic which affected three primary several sources of Street Fund revenues in FY 2020. Washington's motor vehicle fuel tax, which provided the Street Fund with \$1.9 million in FY 2019, was reduced to \$1.6 million in FY 2020 as social distancing led to declines in gas consumption. Parking revenues in Kirkland's paid downtown lots fell from \$400,800 in FY 2019 to \$179,000 in FY 2020, when the City waived fees in an effort to encourage business activity following reopening measures. The City also did not transfer the business license fee revenue (\$270,000) from the General Fund. These factors contribute to the size of the deficit growing from \$147,363 in 2019 to \$1.2 million in FY 2020.

Scenarios

This revenue option considers utilizing REET 1 and REET 2 revenues up to the \$1 million maximum amount allowed per REET to fund maintenance of REET eligible capital improvement projects funded through REET 1 and REET 2. Exhibit 40 below shows the three scenario alternatives evaluated by ECONorthwest using data provided by the City.

- **Scenario 1:** Assumes that only REET 1 is maximized up to the \$1 million per year. Under this scenario the City could address the average annual deficit of \$485,497 in the Street Fund and return roughly **\$251,000** to the General Fund.
- **Scenario 2:** Assumes that REET 1 and REET 2 are maximized up to the \$1 million per year per REET, using the three-year average Street Fund deficit (including FY 2020). This scenario could address the Street Fund deficit and free up **\$1.2 million** for the General Fund.
- **Scenario 3:** Assumes Street Fund revenues will resemble FY 2019, a pre-COVID year. Under this scenario, with the deficit reduced to \$147,363, the City could free up approximately **\$1.6 million** for the General Fund.

Findings

- **Maximizing REET 1 & 2 flexibility for street maintenance funding would correct the Street Fund deficit and make a dent in the General Fund deficit.** Even factoring in high inflation or other large expenditure increases, Scenarios 2 and 3 would more than correct the structural deficit that the Street Fund has experienced. This option could also free up between \$1.3 mil-

EXHIBIT 35. MAINTENANCE FLEXIBILITY EXPENDITURES AND BALANCE SCENARIOS

Source: City of Kirkland and ECONorthwest analysis

	Scenario 1	Scenario 2	Scenario 3
Maximum REET 1 Flexibility	\$1,000,000	\$1,000,000	\$1,000,000
Ongoing Maintenance	-\$263,500	-\$263,500	-\$263,500
Average Street Fund Deficit	-\$485,497	-\$485,497	-\$147,363
REET 1 Flexibility Balance	\$251,003	\$251,003	\$589,137
Maximum REET 2 Flexibility	\$0	\$1,000,000	\$1,000,000
Other Allowable Expenditures	-\$1,000,000	\$0	\$0
REET 2 Flexibility Balance	\$0	\$1,000,000	\$0
Combined Balance (for General Fund Supplant)	\$251,003	\$1,251,003	\$1,589,137

lion and \$1.6 million in general property tax revenues and business license fees, which can be returned to the General Fund.

- Increasing use of REET 2 for capital maintenance means there will be **less available for affordable housing and homeless housing**, which presents an opportunity cost and triggers equity considerations. Since housing affordability is a policy priority, the City should develop a strategy for using REET 2 for affordable housing within the 2026 timeframe under state law.⁴⁰ Under Scenario 1, maximizing REET 1 revenues only will cover the Street Fund deficit but will not return as much funding to the General Fund. REET 2 revenues are assumed to be used for other policy purposes, such as affordable housing, or other capital investments.

40. City of Kirkland: www.kirklandwa.gov/files/sharedassets/public/city-managers-office/pdfs/2021-2022_kirkland_city_council_work-plan.pdf

- REET is one of two street maintenance funding options that the City can make policy decisions on (unlike state-shared revenues such as motor vehicle excise taxes or gas taxes). The other is paid parking fees.
- Though REET revenues do experience some fluctuations, this option will provide a **stable source of revenues for maintenance purposes** given the relatively low threshold for flexibility (\$1 million of an \$8.8 million revenue stream). The City's conservative REET projections suggest revenues are substantial enough to support continuous funding of \$2 million for maintenance across REET 1 and REET 2. Conservative REET

projections have allowed the City to build balances which have enabled opportunistic investments of City funds, such as Fire Station 27 and public improvements at Totem Lake.

- Increasing REET funding for the Street Fund will also allow the City to **convert partial FTE positions to full time FTE**, which the City of Kirkland Public Works staff identified as a priority.
- Increasing the number of assets being maintained through REET would **create additional reporting requirements for the City**, as RCW 82.46.037 requires that any REET spent on maintenance be accounted for.

OPTION 3 (RECOMMENDED) IMPLEMENT PAID PARKING IN DOWNTOWN KIRKLAND



GOAL: Provide revenue to support street and median maintenance, economic development activity, and Parks maintenance.

Background

As mentioned under Option 2, the Street Fund is partially funded through roughly \$400,000 annually (pre-pandemic) in parking revenue. The primary source of parking revenue generated in downtown Kirkland is the paid waterfront parking lots near Moss Bay. Lot parking costs visitors \$1 per hour for a maximum stay of up to four hours.⁴¹ All other paid parking areas in Downtown Kirkland are private pay lots. Free parking options include the City's on-street parking, as well as the Peter Kirk Municipal parking garage, the Kirkland Library surface lot, and the Wester Lot.

Parking revenues in Kirkland's paid downtown lots fell from \$400,800 in FY 2019 to \$179,000 in FY 2020, when the City waived fees in an effort to encourage business activity following reopening measures. Following the pandemic, parking revenues recovered somewhat in 2021, collecting approximately \$294,000. Current projections for 2022 are that revenues will return roughly to pre-pandemic levels of \$405,000.

41. Hourly fees apply between the hours of 9 AM to 9 PM, Monday through Saturday, with Sundays and holidays being free.

OVERALL FINDINGS FOR REVENUE OPTION 3, IMPLEMENT PAID PARKING DOWNTOWN

- **HIGH Rating for General Fund Revenue Potential:** Around \$5 million or more in gross revenue.
- **HIGH Stability Rating:** Revenues sensitive to seasonality; costs might increase due to need for more enforcement.
- **MEDIUM Equity Rating:** Equity declines with revenue potential, as higher fees could burden or exclude persons earning lower levels of income.
- **MEDIUM Ease of Administration Rating:** City should continue to understand costs associated with implementation of on-street parking.
- **MEDIUM Behavior Impact Rating:** Could improve parking turnover, but also may cause parking leakage to nearby residential areas.

Scenarios

Consulting services provided by Diamond Parking Services recommended an increase in City of Kirkland parking fees, citing benefits such as increased turnover in parking availability, increased local business activity, and promotion of alternative forms of transportation. Parking fees would range from \$1.50 to \$3.00 per hour across paid lots, except for residents eligible for a Downtown Employees Program (\$75 per month). With this increase, Diamond Parking Services projected a total gross annual revenue of nearly \$6.4 million.⁴² The associated technology program capital costs would amount to \$1.2 million.

ECONorthwest staff analyzed City revenue potential for Diamond Parking Services' proposal using City parking stall data. Staff analyzed two scenarios⁴³:

- Diamond Parking Services' recommended increase in effect on weekdays only; and
- Diamond Parking Services' recommended increase in effect on Mondays through Saturdays.

The results of this analysis generally corroborated Diamond Parking Services' revenue estimates showing a total gross annual revenue of roughly \$5.7 million to \$7.3 million. ECONorthwest did not evaluate cost.

Findings

A comparison to other nearby cities was not possible due to the lack of similar parking programs in existence. This presented barriers with developing benchmarks for revenues or program designs. ECONorthwest recommends the City continue to work with Diamond Parking Services to **refine revenue projections and predict impact on residents**. The City should also continue to work with Diamond Parking Services to **refine projected initial and ongoing costs, as well as the impact of additional costs such as enforcement**.

While some [evidence](#) suggests increasing parking fees may increase equity in transportation costs through shifting Street Fund costs to motorists,

this may depend on who is subject to the fees. Depending on the types of activities surrounding paid parking zones (for example, dining, retail, or public parks), certain uses may make it more or less likely that motorists using paid parking would be cost-burdened by a parking fee increase. To address these considerations, the City could consider **expanding or reserving space for pick-up and drop-off zones, bike parking, or other public transit to increase transportation alternatives available to residents**. While it would be difficult administratively to assess parking fees to reflect income disparities, the City of Kirkland could also **consider a rebate or forgiveness program for parking costs for low-income residents burdened by parking fees**.

In addition, motorists commuting into Kirkland tend to be younger and have lower incomes than Kirkland residents commuting to other cities (see [page 10](#) regarding commuting patterns). The City should take this into consideration as it restructures its downtown employee parking program. This program currently provides free parking to employees of businesses located in the central business district in city-owned lots. Diamond Parking Services recommended Kirkland charge \$75 per month to participate in this program as part of their proposal package.

Finally, the City should consider that parking revenues may fluctuate by season; motorists may be more likely to park near downtown and waterfront amenities during warmer seasons. The City should consider potential parking vacancy fluctuations in its final revenue projections.

42. Diamond Parking presentation to City Council, May 26, 2022.

43. Staff initially analyzed a more modest scenario of doubling parking fees in city-owned lots; this scenario was discarded as it was decided to use ECONorthwest resources to review the parking proposal for other considerations while Diamond produced the revenue estimate.

IN-PROGRESS REVENUE OPTIONS

OPTION 4 SCHOOL ZONE SAFETY CAMERAS

GOAL: Expand to two additional neighborhoods to increase safety and support Safe Routes to School.

Background

The City of Kirkland began the School Safety Zone Camera Program in October 2019 with the installation of two traffic safety cameras at Rose Hill Elementary (NE 80th) and John Muir Elementary (132nd Ave NE). The program was temporarily suspended on March 12, 2020, due to the COVID-19 pandemic, and resumed on February 18, 2021.⁴⁴

Revenues associated with automatic traffic cameras must be used in accordance with RCW 46.63.170. According to state law, the dollars must be used for traffic safety improvements. State law also requires that the City conduct analyses on each potential location prior to adding new automatic traffic cameras.

Automatic speed cameras operate on school days for a half hour before school starts and ends. In accordance with state law, signage is present to notify drivers when the cameras are in operation. Drivers who exceed the posted 20 MPH limit in school zones by 6 MPH or above are fined automatically. The fines are graduated with those traveling 26 to 30 MPH receiving a \$136 fine and those traveling 31 MPH or above receiving a \$250 fine. Fines can be contested through the City's court system. Individuals can request that their fines be mitigated (reduced), contest the fine, or submit an online affidavit stating that they were not the driver of the car. Payment plans are also available upon request.

Revenue from the School Safety Zone Camera Program has substantially exceeded budgeted amounts for the 2019 through 2021 fiscal years. In 2021, the first full, in-person school year that the cameras were operation-

OVERALL FINDINGS FOR REVENUE OPTION 4, SCHOOL ZONE SAFETY CAMERAS

- **HIGH Rating for General Fund Revenue Potential:** Expansion could generate as much as \$1.5 million per year.
- **LOW Stability Rating:** Revenues are expected to decline as driver behavior adjusts. Year over year rate of change is more than 10%.
- **MEDIUM Equity Rating:** Fines and fees are regressive but the City can help mitigate this.
- **HIGH Ease of Administration Rating:** City has successfully implemented already. Ongoing costs are minimal.
- **HIGH Behavior Impact Rating:** There is evidence that the program has slowed down drivers in school zones. Small potential to increase traffic on streets without cameras.

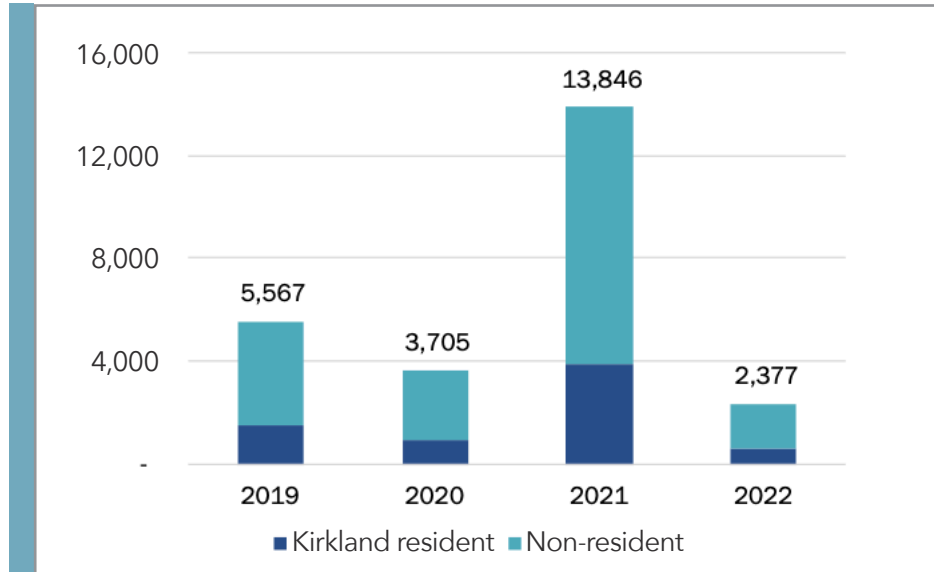
al, the program generated \$1.6 million in fines – about twice the budgeted amount for that year. The revenues from the School Safety Zone Camera Program go toward funding the program and public safety enhancements. In 2021, because revenues exceeded budgeted expectations by such a large margin, \$335,000 (32.7 percent) of Safety Zone Camera Program dollars were allocated to Safe Routes to Schools.

44. City of Kirkland. "Safety Camera Program Update – Q2 2021." August 26, 2021.

ECONorthwest analyzed data on the zip code of origin for ticketed drivers (see Exhibit 36 and Exhibit 37 below). Almost three-quarters of citations in 2021—the only full year of program operations—were issued to non-residents.

EXHIBIT 36. NUMBER OF SCHOOL SAFETY ZONE CAMERA PROGRAM CITATIONS ISSUED BY YEAR, 2019–2022 YTD

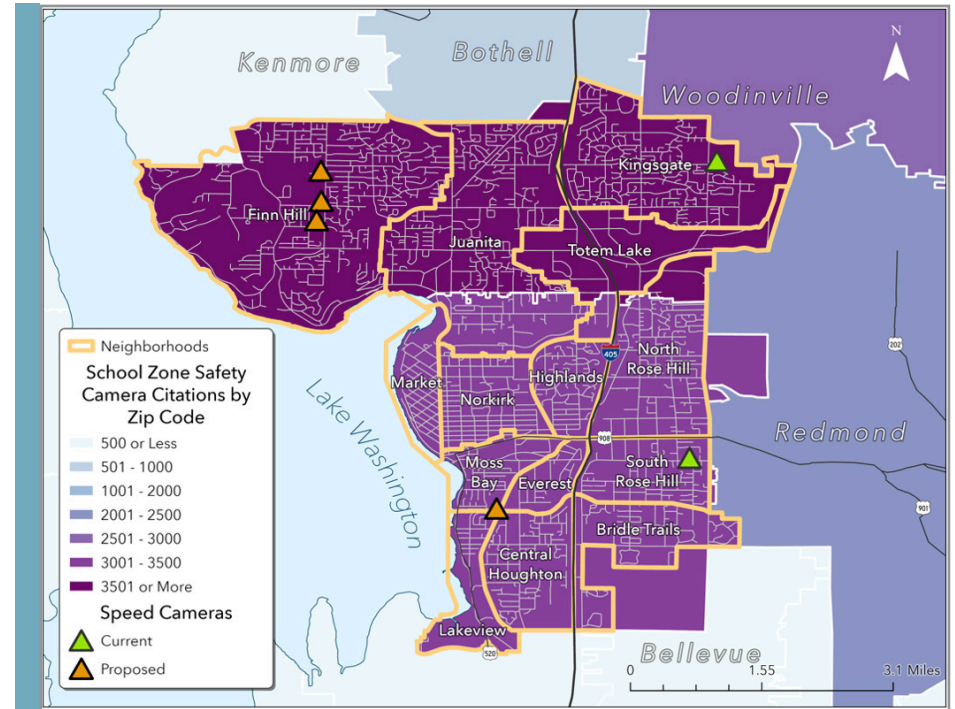
Source: City of Kirkland



2021 is the only year in which the School Safety Zone Program was active for almost a full year. In 2021, the cameras issued 13,846 citations, 72 percent of which were issued to non-residents of Kirkland.

EXHIBIT 37. MAP OF SCHOOL SAFETY ZONE CAMERA PROGRAM CITATIONS BY ZIP CODE, 2019–2022 YTD

Source: City of Kirkland



Most citations were issued to non-residents of Kirkland in 2021; however, north Kirkland (98034) is the zip code with the highest number of ticketed drivers, followed closely by south Kirkland (98033).

Outside of Kirkland, the largest share of ticketed drivers come from Woodinville to the northeast (98072).

Scenarios

The City has received requests from other neighborhoods to expand the School Safety Zone Camera Program. Currently, Finn Hill and Lakeview Neighborhoods are under consideration pending the completion of speed and volume studies and the approval of the City Council.⁴⁵

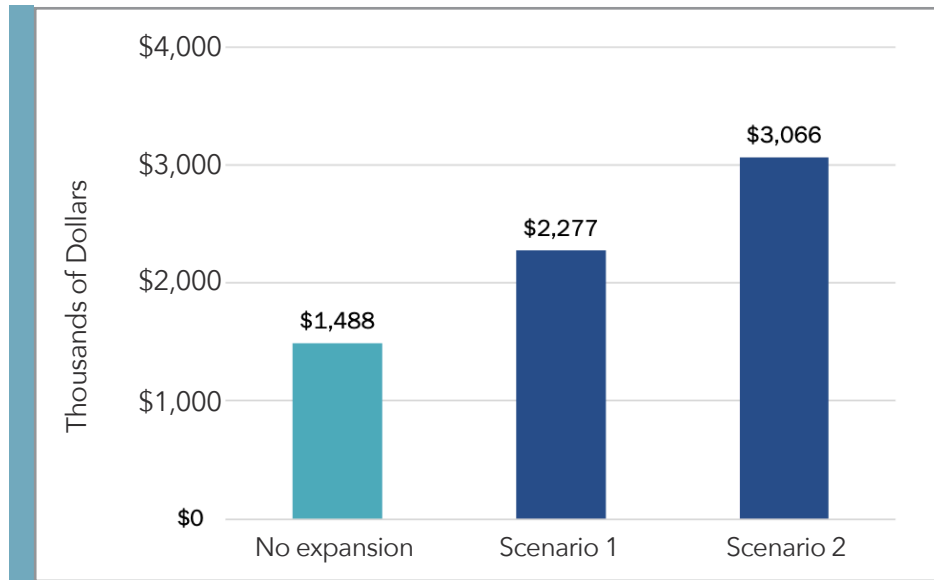
The City has proposed two scenarios for expansion. In Scenario 1, the City would add four new cameras (one in each direction on 84th Avenue NE; one camera on State Street and one on NE 68th Street). Scenario 2 would

add eight cameras (three in each direction on 84th Avenue NE; one camera on State Street and one on NE 68th Street). Revenue projections for 2022 for the current program and Scenarios 1 and 2 are shown in Exhibit 38 on the following page.

45. City of Kirkland ECONorthwest Public Safety Interview.

EXHIBIT 38. PROJECTED SCHOOL SAFETY ZONE CAMERA PROGRAM REVENUE, NO EXPANSION AND SCENARIOS 1 AND 2, 2022

Source: City of Kirkland



Findings

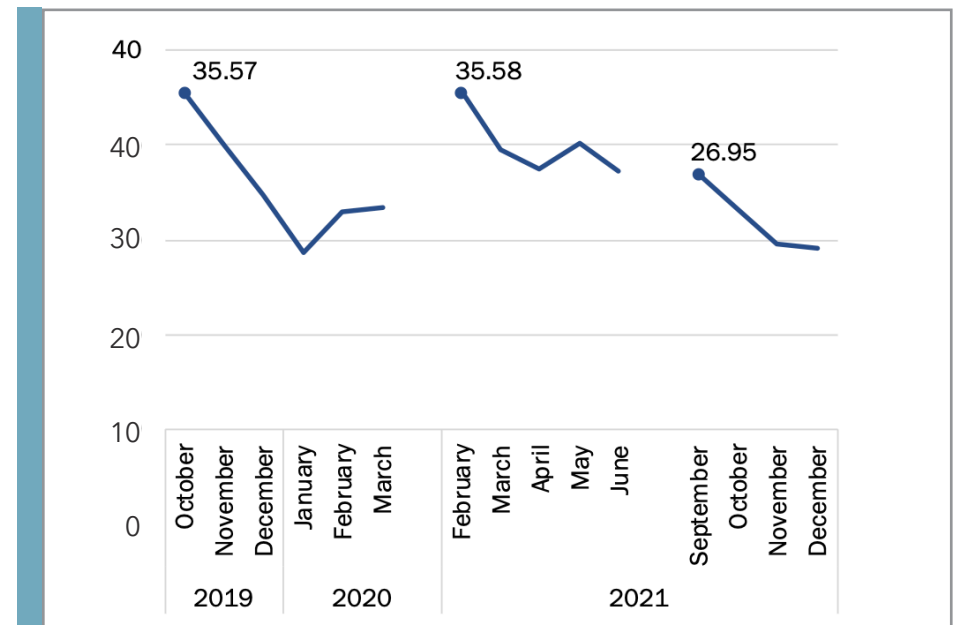
- The School Safety Zone Camera Program is localized around neighborhood school zones, and its primary goal is to improve traffic safety conditions in school zones. **Preliminary evidence has indicated that the program has been successful in reducing vehicle speeds around schools** (see Exhibit 39 at right).
- Since drivers tend to adjust behavior in response to safety cameras, revenues are likely to decline over time. (This has been the case in other jurisdictions that have had cameras, for a longer period of time than Kirkland. Exhibit 45 (below) projects School Safety Zone Camera Program revenue through 2027 and predicts that **revenues could decline by nearly 42 percent by 2027**.)
- Since the revenues are expected to decline over the long-term, the City is prudent to not use the revenue to fund FTE or expand the uses of the revenue and instead look for ways to invest in **systemic improvements not requiring substantial ongoing costs**.

46. Retrieved from https://www.americanbar.org/groups/government_public/publications/public_lawyer_articles/fees-fines/

- **Most of the revenue comes from ticketed drivers who live outside of Kirkland** and the revenue funds the program and other traffic safety improvements, which benefit Kirkland residents in the neighborhoods in which these improvements are made.
- A potential equity consideration is that **finest and fees are regressive**. Research has shown that fees and fines are borne disproportionately by Black, Indigenous, and People of Color (BIPOC) and low-income individuals, often because the initial fine and associated fees are too high to pay or because individuals cannot get time away from work or other obligations to attend mandatory hearings. Failure to pay the initial fine and fees or to attend mandatory hearings can lead to a cycle of fines, fees, or jail time.⁴⁶

EXHIBIT 39. AVERAGE DAILY CITATIONS BY MONTH AND YEAR, 2019–2021

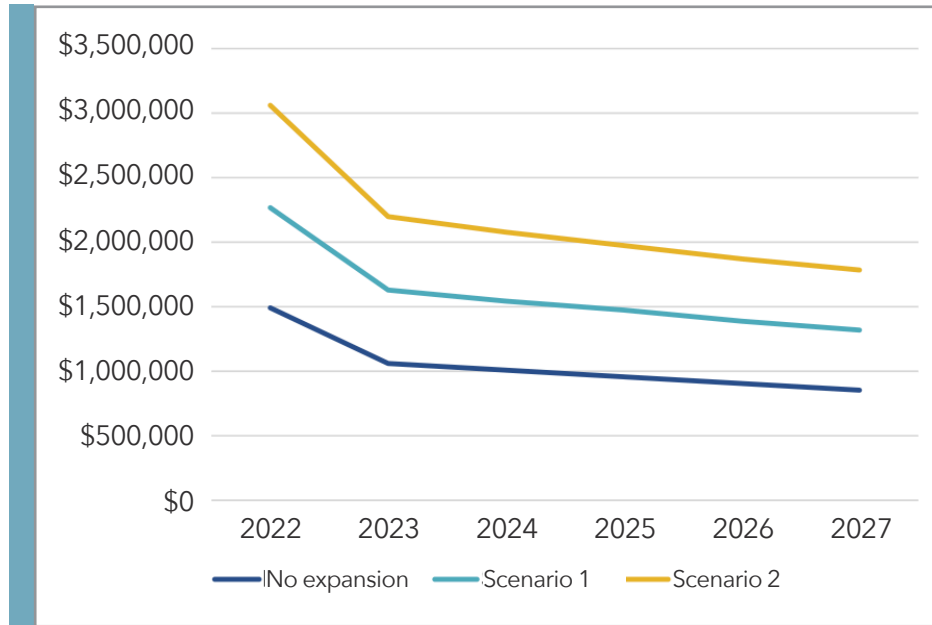
Source: City of Kirkland



Revenue collection began in October 2019. Average daily citations per month fell until December when the cameras were turned off for winter break. When cameras were turned back on, there was a small spike in January 2020. In March of 2020, the program was suspended due to the pandemic, and resumed in February of 2021, with average daily citations returning to October 2019 levels and falling through December 2021 despite cameras being off for the duration of summer vacation.

EXHIBIT 40. PROJECTED SCHOOL ZONE SAFETY CAMERA PROGRAM REVENUE, 2022-27

Source: ECONorthwest projections using City of Kirkland data. 2022 provided by City of Kirkland



Based on available data, ECONorthwest assumed a 3 percent decline in revenues per month between 2022 and 2023 (28 percent decline overall for 2023). After 2023, ECONorthwest projected revenue declines would stabilize at 5 percent per year.

ECONorthwest designed its revenue projections based on City of Kirkland reporting⁴⁷ and the experiences of other cities with similar programs. Without adjustments to the fee structure or expansion of the program, City revenue from traffic camera citations tends to fall as drivers adjust their behavior in response to the cameras.

For example, Washington DC experienced a 62 percent decline in traffic camera revenue from August 2013 to 2014 and faced budgetary challenges as a result.⁴⁸ The State of Maryland saw a 46 percent decline from the 2013 financial year to the 2016 financial year.⁴⁹ The City of Cedar Rapids saw a 22 percent decline from July of 2020 to October of 2020.⁵⁰

The City of Kirkland has experienced similar declines in its traffic camera revenue in 2021 (the only year in which cameras operated without protracted interruptions). From February of 2021 to December of 2021, the average number of daily citations declined 46 percent (see Exhibit 44).

The City can mitigate these revenue losses through program expansion, by raising fines/fees, or by lowering the threshold for when speeding drivers are ticketed. However, consideration should be given to the equity implications of potential programmatic changes. ECONorthwest's projections assume the City does not modify the fine/fee structure or expand the program after 2022.

47. Retrieved from <https://www.kirklandwa.gov/Government/Departments/Police-Department/Community-Resources/School-Zone-Speed-Enforcement>

48. Retrieved from https://www.washingtonpost.com/local/dc-politics/declining-traffic-camera-revenue-threatens-to-unbalance-dcs-budget/2014/09/29/245ce9aa-4821-11e4-b72e-d60a9229cc10_story.html

49. Retrieved from <https://www.baltimoresun.com/maryland/carroll/opinion/cc-op-editorial-20180816-story.html>

50. Retrieved from <https://www.thegazette.com/government-politics/cedar-rapids-traffic-camera-tickets-declining-but-on-pace-to-double-revenue-projection/>

OPTION 5

IMPLEMENT TRANSPORTATION BENEFIT DISTRICT

GOAL: Raise revenues to pay for Safe Routes to School projects and transportation master plan priority projects.

Background

A transportation benefit district (TBD) is a quasi-municipal corporation and independent taxing district created for the sole purpose of acquiring, constructing, improving, and funding transportation improvements within the district. TBDs are primarily funded through vehicle license fees and/or sales taxes.

TBD revenues can be used to fund planned transportation projects such as those identified in Kirkland's Active Transportation Plan (ATP) and Safer Routes to School Action Plan (SRTSAP).⁵¹ The SRTSAP identified 137 school route improvement projects and among these, 40 top projects were selected as initial projects to begin working on based on evaluation criteria that prioritized projects that serve low-income households, students with disabilities, and students of color. The top 40 list includes projects that are estimated to cost approximately \$20 million dollars to construct (including staffing costs). The City identified that in the first year it can only fund three projects with an estimated cost of \$1 million.

Kirkland's 2021-2026 Capital Improvement Program shows dedicated funding \$499,000 in 2021 and \$550,000 each year beginning in 2022 for SRTSAP projects. At this funding level, the City estimated that it will require over 40 years to completely implement the top 37 projects. By City analysis, adopting a \$20 vehicle license fee will generate enough revenue to cover debt service payments necessary to implement the top 37 projects within a six-year period.⁵²

OVERALL FINDINGS FOR REVENUE OPTION 5, TRANSPORTATION BENEFIT DISTRICT

- **HIGH Rating for General Fund Revenue Potential:** \$1.3 million for 1-2 years, \$2.6 million for 3-4th year, \$3.4 million thereafter.
- **HIGH Stability Rating:** Dedicated funding source for transportation related projects.
- **HIGH Equity Rating:** Funding for priority transportation projects help improve safety and benefit populations that rely on walking, biking, and public transport.
- **MEDIUM Ease of Administration Rating:** Priority projects and estimated costs identified already but this requires new business function (collecting car tabs).
- **HIGH Behavior Impact Rating:** Unlikely to impact behavior in terms of car ownership. However, safety improvements may incentivize more non-car transportation.

51. In September 2020, the Council approved Resolution R-5445 (memo) rebranding the CIP School Walk Route Enhancement Project and adopting the Safer Routes to School Action Plans (SRTSAPs). The SRTSAPs support the Council goals of community safety, vibrant neighborhoods, inclusive and equitable community, balanced transportation, and dependable infrastructure.

52. Three projects in the top 40 list currently are funded by other Capital Improvement projects (November 4, 2021, Staff Memo).

Scenarios

City of Kirkland staff recommend pursuing the \$20 vehicle license fee scenario with the opportunity to increase the fee up to \$50 over the course of four years. A \$20 vehicle license fee was selected because it is one of the most common revenue sources for TBDs and it is a councilmanic revenue option which allows the City to implement quickly without any voter approval. Other revenue sources for TBDs require voter approval.⁵³

Findings

The City of Kirkland is considering imposing a \$20 vehicle license fee with the opportunity to increase the fee up to \$50 over four years. City staff Managerbrought this option to Council at the November 22 Study Session, and again to a Public Hearing on February 15 2022, and recently to the July 5, 2022 Study Session⁵⁴:

- For the first two years of the vehicle license fee, approximately **\$1.3 million could be generated annually in revenues** (net of a 1 percent Department of Licensing fee.)
 - For the following two years fees can be increased to \$40 and generate an estimated **\$2.7 million per year**.
 - Thereafter, the councilmanic fee can be increased to \$50 and generate **\$3.4 million per year**. The City is also considering using TBD revenues to issue bonds for the total cost of the Top 40 priority projects. City financial advisors estimate that annual revenues from the TBD could bond \$21 million in projects with a 20-year term, or \$26 million projects within a 30-year term.
 - A vehicle license fee authorized under a TBD generally would likely be a **stable revenue source**. Revenues could decrease if car ownership decreases substantially in the city.
- This would be a **flat fee and would be regressive in nature** since the fee does not consider the ability to pay. The City could consider a financial aid program to make this program more equitable (in compliance with state law). Kirkland staff and the City's Attorney Office recognized potential risks of a vehicle license fee associated with voter-approved initiatives to limit vehicle license fees.
 - Should a bond be issued for the implementation of the Preliminary STRTSAP Phasing Plan, **additional staffing would be required**. It is currently estimated that three capital project staff would be needed to meet the preliminary timeline. Capital improvement employees charge their time to projects, and the current project cost projections shown above do include funding for anticipated new staff.
 - **This option does not impact the General Fund and, therefore, does not address the structural General Fund deficit**. However, the TBD does allow for the revenue to be used for maintenance purposes. The City could choose to fund some transportation maintenance work with the TBD and either reduce the capital expenditures or use a less flexible funding source to supplement the remaining funding.

53. Interview with City staff.

54. City of Kirkland Memorandum (November 4, 2021): https://www.kirklandwa.gov/files/sharedassets/public/city-council/agenda-documents/2021/november-16-2021/3b_study-session.pdf

OPTION 6 DEVELOPMENT FEE COST RECOVERY

GOAL: Increase cost recovery to support higher level of development services staffing and free up General Fund resources for other functions.

Background

Development Services manages the review, inspection, and permit issuance for all development projects for City of Kirkland. Development fees are largely paid by private developers at each stage during project review, though there are a wide range of applicant types - from single-family homeowners to mixed-use retail and residential developers. In 2020, Kirkland development fees amounted to about \$10.1 million, which recovered about 78 percent of the full cost of providing service. Remaining costs that are not covered by fee revenue are paid for with a General Fund subsidy of \$2.5 million and Utility Fund subsidy of \$420,000.

During the City's 2021-2022 Budget process, staff included **full cost recovery for development fees** as a potential revenue option to decrease the current General Fund subsidy Development Services receives, convert some long-term partial FTE positions to permanent, and improve the efficiency of operations and administration. Kirkland's development has shifted towards more large-scale urban projects in recent years, further warranting an evaluation the fee structure's alignment with development services.

On March 15, 2022, Council adopted [Ordinance No. 4787](#) that restructured Building and Fire Plan Review fees per staff recommendations (effective July 1, 2022). Staff has been evaluating fee structures across planning and engineering services to take effect in January 2023. Additionally, staff have recommended that development services operate out of a fund separate from the General Fund; this is the practice in neighboring Bellevue and Redmond. Staff analysis of development fees and their refinement of a new cost recovery model was nearing completion at the time of ECONorthwest's analysis.

OVERALL FINDINGS FOR REVENUE OPTION 6, DEVELOPMENT FEES COST RECOVERY

- **LOW Rating for General Fund Revenue Potential:** \$380,000+ per year.
- **LOW Stability Rating:** Highly sensitive to development trends/economic environment.
- **MEDIUM Equity Rating:** Facilitates homeowner participation in development services. However, fees can be passed along to households in developer-driven projects. City should prioritize improved data collection regarding "typical" fees and projects.
- **MEDIUM Ease of Administration Rating:** Easier to track/understand costs with separate fund. City should prioritize building an operating reserve.
- **HIGH Behavior Impact Rating:** Increased fees could reduce permit compliance but not likely given the nature of the recommended adjustments.

Scenarios

In April 2022, City staff presented the results of an internal fee study and presented the revised development fee cost recovery model. Staff estimated that net revenue of approximately \$620,000 would be generated as a result of the combined recommended fee adjustments within all four development activity centers: building, fire prevention, planning, and engineering.⁵⁵ Approximately \$381,000 in revenue would be generated for the General Fund and roughly \$239,000 will be transferred to the Utility Fund. Overall, these adjustments reduce the subsidy of development activity by both the Utility Fund and General Fund. ECONorthwest did not evaluate alternative scenarios for this revenue option.

Findings

- About \$381,000 in revenue per year would be generated for the General Fund from restructuring the fee schedule, helping to **decrease the General Fund deficit**.⁵⁶ Since some of the fee increases would be phased in, there is potential for additional revenue beyond \$381,000 in the next several years. The \$239,000 generated for the Utility Fund will not help address the General Fund deficit but will decrease the Utility Fund subsidy.
- Development fees can be a substantial revenue source for the City during times of significant growth. However, **development fee revenue is volatile in nature** due to its dependency on market conditions. Kirkland has seen tremendous revenue growth in development fees since 2012. Fees peaked in 2018 - 2020 with the completion of Kirkland Village and Totem Lake Developments. State law only allows cities to collect “reasonable” fees from applicants (generally accepted as up to full cost recovery).⁵⁷ This presents a challenge for cities to build a reserve, but the City should **prioritize building a reserve** to prevent services from being pinched during market downturns.

- Fees do not take into consideration the ability to pay, so some applicants with lower means could be impacted disproportionately by increases. The City currently does not have data regarding the proportion of permits applications by individual homeowners versus developers, but staff believe that most building activities are developer driven. (Building is the category assumed to have the most homeowner activity.) Creating a separate fund for Development Services, as staff has proposed, will allow staff to better track and sort permit related revenue. **The City should prioritize collecting and analyzing applicant and permit data to better understand the nature of fee payers.**
- Staff considered homeowner participation in Development Services when making fee increase recommendations. In an April 19th memo to the City Manager, staff did not recommend increasing fees to full cost recovery on “trade permits” (electrical, plumbing, and mechanical) to ensure smaller (likely homeowner driven) projects, like a home remodel, are not heavily impacted. Overall, in cases where adjustments could reduce compliance, disproportionately impact homeowners, or put Kirkland’s fee schedule out of step with peer cities, more modest adjustments or no change to the fees were recommended by City staff.
- Development fees may be passed on by developers to homebuyers or renters in high-competition markets like Kirkland with a small supply of available housing.^{58,59} If these costs impact homebuyers or renters, then this could spur equity considerations. The City could consider adjustments to mitigate this outcome. If costs impact developers, it could result in behavior changes such as increased preference to build higher-end homes to cover costs.
- The City aims to improve access to affordable housing and this goal may be more relevant in the context of investment and policy choices as opposed to development fees. Kirkland’s approach to addressing housing affordability has largely been through policy measures such

55. These are estimates of what the impact would have been on 2020 revenues if the recommendations in the City’s analysis had been in place at that time.

56. City of Kirkland Memorandum (November 4, 2021): https://www.kirklandwa.gov/files/sharedassets/public/city-council/agenda-documents/2021/november-16-2021/3b_study-session.pdf

57. RCW 82.02.020

58. Forrest E. Huffman, Arthur Nelson, Marc Smith, and Michael A. Stegman. 1988. “Who Bears the Burden of Development Impact Fees?” *Journal of American Planning Association*, 54(1): 49-55.

59. Shishir Mathur, Paul Waddell, and Hilda Blanco. 2004. “The Effects of Impact Fees on the Price of New Single-Family Housing.” *Urban Studies*, 41(7): 1303-1312.

as inclusionary zoning or incentives like the MFTE program, and not through lowering or waiving development fees.⁶⁰ The City has also recommended no increases to select fees associated with denser housing types to help incentivize construction. The City also offers fee waivers for bonus units or floor area being developed in exchange for constructing affordable housing units.⁶¹

- Staff recommends that **Development Services be moved out of the General Fund and into the newly created Development Services Management Fund** to be established during the 2023-2024 Budget for Development Services. This move should help the City approach full cost recovery, as costs and fees may be better tracked, and the General Fund subsidy will

be easier to identify. The City should continue to evaluate permit and application data in order to ensure that cost recovery is achieved on a more granular level.

- **Increasing fees may impact participation and compliance**, particularly regarding homeowner-initiated projects – projects smaller in scale and relatively easy for those not obtaining required permits to go unnoticed (Kirkland classifies these permits as “trade permits” and they include electrical, plumbing, and mechanical). Currently, the City has **not recommended any increases to the trade permits in an effort to ensure smaller projects (e.g., kitchen or bath remodels) are not heavily impacted.**

OPTION 7 PARKS COST RECOVERY IMPROVEMENTS

GOAL: Continue to improve cost recovery and implement cost recovery model.

OVERALL FINDINGS FOR REVENUE OPTION 7, PARKS COST RECOVER IMPROVEMENTS

- **MEDIUM Rating for General Fund Revenue Potential:** Unknown but preliminary estimates showed wide range depending on the option selected. Parks cost recovery improvements are very unlikely to generate more than \$1 million per year, which would represent a 50 percent increase from pre-COVID budgets.
- **MEDIUM Stability Rating:** Revenues highly sensitive to participation (and unclear if costs are equally nimble). Some sources of revenue can be sensitive to seasonality (such as outdoor activities, summer camps) and competition with other jurisdictions.
- **MEDIUM Equity Rating:** Equity deteriorates with revenue potential. City should prioritize communication of scholarship opportunities.
- **MEDIUM Ease of Administration Rating:** Solid cost allocation and tracking systems. City should prioritize indirect cost allocation. Anything other than marginal fee increases will likely need a public dialogue and should be implemented in a phased approach.
- **LOW Behavior Impact Rating:** Likely to impact participation which may decline with increased fees.

60. Kirkland Staff memo to the City Manager dated April 19, 2022.

61. KMC 21.74.020(5).

Background

Parks and Community Services (PCS) is the fourth largest department at the City of Kirkland. This department provides recreational and cultural programs, operates/develops the park system and community centers, and provides youth and human services.⁶²

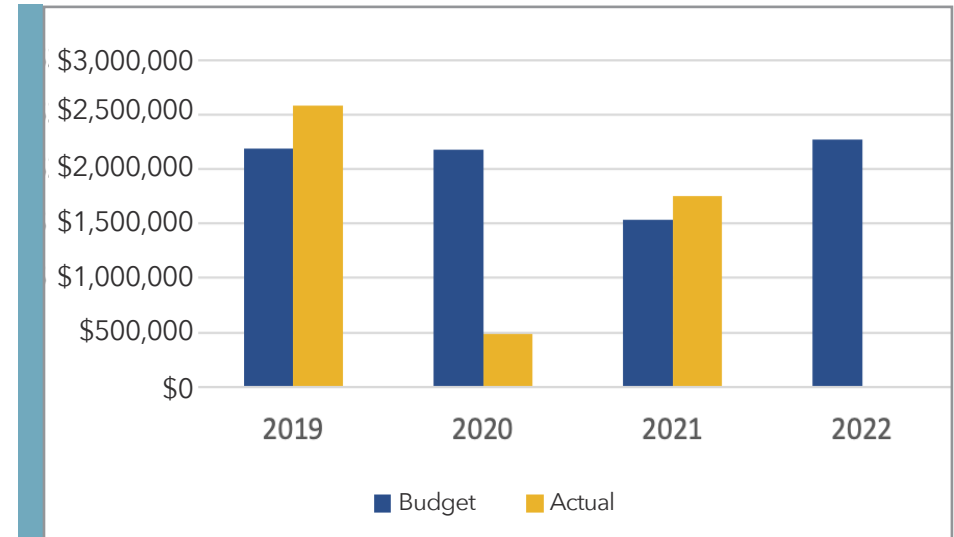
PCS operations are funded out of the General Fund with a total 2021-22 Budget of \$21 million, including roughly \$3 million in user fees. This budget covers recreation services, operations, and customer service that are aimed at providing accessible public benefits to the community.

In 2021, PCS gathered community input on the City's parks, recreation facilities and amenities to assess needs and inform parks and recreation planning.⁶³ The survey found that the user fee base is small, that scholarships are not widely known about or used, and that some residents would be willing to pay a higher fee to increase funding for them. Although most survey respondents reported that current fees are not a barrier, approximately thirty percent of the lowest-income respondents reported they would use programs more if fees/prices were lower.⁶⁴

ECONorthwest analyzed PCS data on parks user fees and facility rental revenues for 2019 to 2021 in comparison to budgeted amounts from 2019 to 2022 (see [Exhibit 41](#) at right). Pre-pandemic, user fees and facility rentals generated roughly \$2.5 million per year.⁶⁵ The pandemic halted most activities particularly in 2020 and 2021, and user fees were waived for the few offerings that were available (many of which were online).⁶⁶ In 2021, park user fees were budgeted to produce \$1.5 million, and actuals were \$1.7 million. In 2022, when the City expects to return to full program offering and participation, user fees are budgeted at \$2.3 million.

EXHIBIT 41. PARKS USER FEES AND FACILITY RENTAL REVENUES

Source: City of Kirkland



Based on City analysis of 2021 data, ECONorthwest estimated that about 9 percent of fee-paying users are non-residents, with adult general classes, aquatics programs and classes, and youth camps attracting the greatest share of non-resident users.⁶⁷ Non-residents pay a 20 percent premium on top of the base price for most programs.

62. FY 2021-22 Budget. The PCS department employs around 58 employees, maintains three swimming beaches, around 52 parks (totaling almost 700 acres), an outdoor pool and cemetery, two community centers and one heritage hall, 53 city and school athletic fields, and various human services support programs.

63. In total, 3,001 people responded and the responses were weighted by age and ethnicity to ensure representation of Kirkland residents across different demographic cohorts in the sample.

64. "Lowest income" here means respondents who reported earning < \$25,000 per year. Almost one-fifth of respondents of Hispanic, Latin, or Spanish origin would increase their usage if user fees were lower, compared to less than one-tenth of respondents overall. Lower-income and Hispanic respondents identified a need for more free events.

65. During the COVID-19 response initial response beginning in 2020, PCS supported the Emergency Operations Center by sourcing and purchasing needed resources (such as face masks) and closed many of the community centers, playgrounds, and parks facilities, and canceled recreation programs. Source: 2020 PCS Annual Report.

66. Cancelled programs in 2020, and in-person programming in 2021 except for a few virtual programs (interview).

67. Kirkland estimate, based on fee payment records. Excludes activities that do not charge fees because the City does not have a way to track this data. Non-resident premium: In 2021, an estimated 1,015 non-residents paid an estimated \$158,837 in user fees; the non-resident premium was about \$32,000. Even doubling the non-resident premium would not generate significant revenue but may represent a substantial burden for the participants.

COST RECOVERY PROGRESS: The City has made good progress in implementing the cost recovery philosophy.

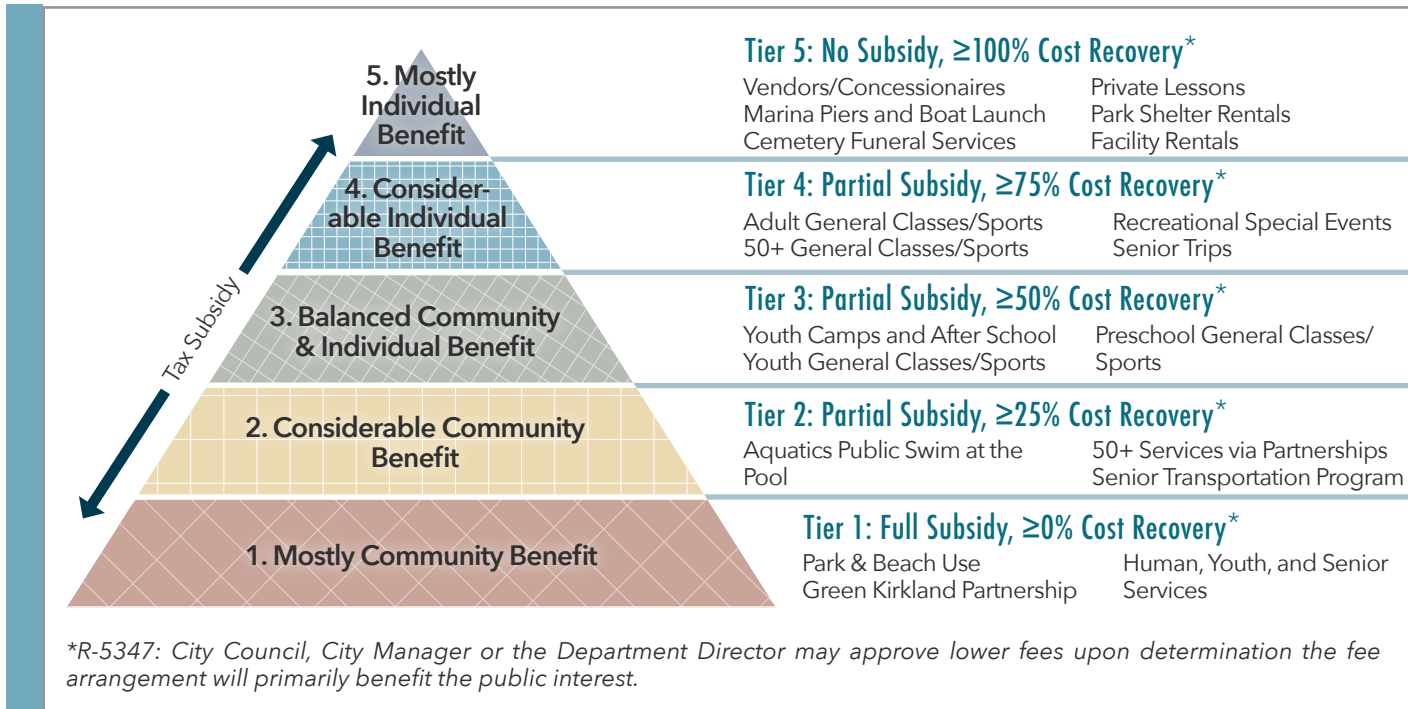
Kirkland adopted a fiscal policy in December 2018 that includes the development of a cost recovery model, which the City began to implement through 2021-22 Budget decisions.⁶⁸ The goal of cost recovery is to generate revenues (outside of taxes) by charging fees, (or other means) for some, or all programs and services, relative to the total operational costs to provide them.⁶⁹ City staff indicated that direct cost recovery for most Recreation Services activities is a more realistic goal under the City’s new policy and current practice.⁷⁰ The City’s cost recovery model divides departmental services including human services (excludes special events) activities into five categories based on a spectrum of benefit levels, ranging from Mostly Individual (Tier 5) to Mostly Community (Tier 1) benefits. The cost recovery target is generally higher for Tier 5 activities, which primarily

benefit individuals and thus could recover full direct and indirect costs, as well as a designated profit margin. Tier 1 activities, which serve the public good, are typically offered with little or no fee.

THE CITY HAS MADE GOOD PROGRESS IN IMPLEMENTING COST RECOVERY, particularly considering the pandemic-related disruption to service and participation. The City has developed a thorough system for tracking direct costs in Recreation Services, and overall, the City is successfully recovering direct costs. As of 2021, user fees and rentals were \$1.5 million, and direct expenses were \$1.3 million, for an overall cost recovery of 117 percent. The average program cost recovery is 157 percent.⁷¹ Further, the City’s direct cost recovery follows the community benefit model, with higher cost recovery for more highly individual benefit activities.

EXHIBIT 42. PARKS COMMUNITY BENEFIT METHODOLOGY

Source: City of Kirkland Parks Cost Recovery Study, 2018



68. Parks fiscal policy was adopted through R-5347, December 2018. The cost recovery model was the result of a study conducted in 2018 to help ensure a sustainable system for the future by using tax revenues and fees, supplemented by other means such as grants, donations, partnerships, and other sources of alternative revenue, in the most appropriate ways. Memo to City Manager from PCS Director, December 11, 2018

69. Greenplay Cost Recovery Study, 2018.

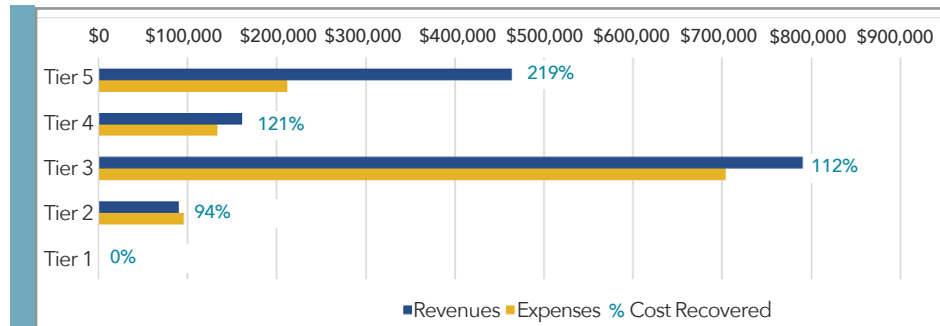
70. Interview. Direct costs are defined in the 2018 Cost Recovery Study as budgeted costs associated with providing programs including instructor or program leaders, supervision of staff and/or contractors, supplies, telephone, postage and duplicating, vehicle leases/rentals and local mileage reimbursement, and special training. Recovery targets are hard to measure because of indirect expenses.

71. ECONorthwest analysis.

Within tiers and across programs, there is considerable variation in cost recovery. This variation is not surprising given that programming has not returned to pre-pandemic levels and the City is still implementing the cost recovery philosophy. Further improvements can be made in increasing direct cost recovery targets for Tiers 4 and 5 (individual benefit) and in tracking and allocating indirect costs and total costs. With parks fees, unlike with development fees, fees can more than recover costs where appropriate as a method of supporting other parks and recreation services desired by the community. Further, the City has flexibility to broaden its definition of direct costs to include the allocation of indirect costs or to include other costs. The City does not assign indirect costs by program or category, so it is unknown what indirect costs are associated with each program and category.

EXHIBIT 43. OVERALL DIRECT COST RECOVERY AND SHARE OF BUDGET BY CATEGORY OF SERVICE TIER

Source: ECONorthwest analysis City of Kirkland PCS Data, FY 2021. Tier 5 mostly benefits individuals while tier 1 mostly benefits the community.



Findings

While COVID-19 has interrupted progress on cost recovery over the last few years, PCS has made good progress towards reaching their cost recovery goal. Other findings and recommendations are as follows:

- The City should continue to implement the cost recovery model. The data regarding necessary fee realignment will become clearer as pandemic impacts lessen. However, the City should **evaluate fees for Tier 3 activities since these are in high demand**. The City could consider a benchmarking analysis to compare fees for high-demand and/or relatively low-cost activities to the private market to see if there is room to increase fees.

- The City should **examine highly individual Tier 5 activities**, where participation may indicate ability to pay, where participation precludes use of parks space for group activities and thus represents an opportunity cost, and where fees may be below market rates—such as those related to the marina or private lessons.
- The City should **improve communication about and funding for the scholarship fund**. It is important to ensure the scholarship program funding is reliably available to residents. PCS recently expanded use of this program by expanding eligibility. The City could consider offering underserved or lower-income populations the ability to access camp offerings, potentially early (Olympia allows scholarship applicants early sign up).
- The City should **conduct targeted outreach to populations that may be under-represented in Kirkland and whose needs may differ from most Kirkland residents**. Because Kirkland’s demographics skew largely White and high-income, the needs of households of varying demographics and socioeconomic status might not be well-represented in surveys and outreach. Yet these households tend to be more impacted by decisions associated with increasing user fees. They may need more communication about the support available through the scholarship fund to access Kirkland’s programs, events, and facilities. If non-resident fees are raised, this could impact non-resident workers or underserved populations living outside of the City.



OPTION 8 SPECIAL EVENTS COST RECOVERY

GOAL: Improve cost recovery and equity of special events fees and fund staff supporting special events.

Background

The City of Kirkland requires a special event permit for any festival, concert, parade, athletic race, walk, ride, swim or other publicly attended activity to be held on City property. The permit requirement also applies to the same type of activities if they are held on private property and directly impact normal public use of parks and/or streets within the area of the event.⁷² There are several types of Kirkland PCS events permits.⁷³

Special event permits are required for major events that cause the closure or limited use of streets, sidewalks, public parking, parks or other public venues which are normally accessible by the general public. These permits are limited to two per calendar month at any one venue, or along any one street to help prevent conflicts with other events. The application requires various site plan materials to help coordinate temporary road and park closures, ensure emergency access is retained, and that first aid facilities are provided. The special event application fee is currently set to \$50.00 per event, and the event permit ranges from \$110 to \$330. The PCS department passes through other department charges for special events related to other permits (such as hanging a banner), inspection fees, identified labor fees to accommodate the event (such as labor for Parks or Public Works staff), and equipment, restroom supplies, and facility rentals. The City has some information on the direct costs of these special events but does not track indirect costs incurred by the City to support these events.

OVERALL FINDINGS FOR REVENUE OPTION 8, SPECIAL EVENTS COST RECOVERY

- **LOW Rating for General Fund Revenue Potential:** Fees do not generate substantial revenue. If the special event fees were all doubled this would only generate around \$34,000 additional funds and even less if the fees were doubled only for events charging fees for people to attend.
- **MEDIUM Stability Rating:** Revenues are uncertain due to the need for participation, competition with nearby jurisdictions offering similar facilities, and volatility associated with the underlying market that can be sensitive to changing preferences and community needs.
- **HIGH Equity Rating:** City should prioritize increasing fees for events that benefit individuals rather than the community.
- **HIGH Ease of Administration Rating:** Implementation would be minimal since the proposal is minor.
- **MEDIUM Behavior Impact Rating:** Participation by vendors may decline with increased fees.

72. Departments/Parks-and-Community-Services/Special-Event-Services/Special-Event-Permit

73. Parks Facility Rental Permits are designated for small events. This permit is required for applicants hosting a private gathering that includes a specific guest list and will not involve any advertising to the public. The City also has a Community Program Permit which is required for activities that are continuously occurring, open to the public and are provided free of an admission charge, such as a weekly farmer's market or performing arts series. The City requires other permits associated with special events such as for displaying a large banner, holding a block party, filming, etc. City of Kirkland Special Event Services: <https://www.kirklandwa.gov/Government/Departments/Parks-and-Community-Services/Special-Event-Services>. In 2021, the permits costs varied; for example, the film permit ranged from \$50 to \$330 and the banner permit ranged from \$25 to \$100. The block party permit fee was no higher than \$25 in 2021. Depending on the event, additional costs might incur for labor.

The basic fee structure for special events does not follow and is excluded from the tiered philosophy which targets full cost recovery for events benefiting individuals versus the community. Additional information on the indirect costs and full direct costs should be obtained to cover these extra costs for special events particularly those that are more profit-driven, requiring attendees to pay for tickets. The 2021 Parks and Recreation User Survey found that Kirkland residents feel that special events are highly important, though it is not known whether special events free to the community and those only available for a fee were differentiated in this response.

ECONorthwest analyzed the total estimated fees for City of Kirkland PCS events from 2018 to 2021 (this does not exclude costs) along with the estimated sum of attendees by event category and permit type. As mentioned above, there are several different types of permits associated with events. During 2021, the events generating the most fees but also likely incurring the most costs for the City to support were the events requiring a Special Event Permit (such as the races, spirits related, and other special events).

EXHIBIT 46. EVENT FEE ESTIMATES AND ATTENDEES, CITY OF KIRKLAND, 2018-2021

Source: ECONorthwest analysis of Kirkland PCS data.

City of Kirkland Events Revenue Category, Permit Type	Sum of Attendees	Revenue Per Attendee	Sum of Fees	% of Annual Total
2021 Total	48,735	\$0.47	\$23,108	100.0%
Neighborhood Block Party Permit	705	\$0.18	\$125	0.5%
Community Program Permit	13,380	\$0.14	\$1,830	7.9%
Film/Photography Permit	340	\$22.14	\$7,527	32.6%
Race, Special Event Permit	1,285	\$1.77	\$2,274	9.8%
Holiday, Special Event Permit	3,310	\$0.40	\$1,320	5.7%
Spirits Related, Special Event Permit	12,950	\$0.40	\$5,218	22.6%
Other, Special Event Permit	16,765	\$0.29	\$4,814	20.8%
2020 Total	13,760	\$0.12	\$1,652	100.0%
Community Program Permit	13,200	\$0.03	\$460	27.8%
Other, Special Event Permit	560	\$2.13	\$1,192	72.2%

EXHIBIT 46. CONTINUED

City of Kirkland Events Revenue Category, Permit Type	Sum of Attendees	Revenue Per Attendee	Sum of Fees	% of Annual Total
2019 Total	158,799	\$0.23	\$37,209	100.0%
Neighborhood Block Party Permit	610	\$0.25	\$150	0.4%
Community Program Permit	28,750	\$0.07	\$2,066	5.6%
Park Use Permit	260	\$0.62	\$160	0.4%
Film/Photography Permit	64	\$19.53	\$1,250	3.4%
Race, Special Event Permit	11,500	\$0.71	\$8,128	21.8%
Holiday, Special Event Permit	38,110	\$0.10	\$3,907	10.5%
Spirits Related, Special Event Permit	33,750	\$0.24	\$8,153	21.9%
Other, Special Event Permit	44,860	\$0.29	\$13,145	35.3%
Special Event - Expressive Permit	895	\$0.28	\$250	0.7%
2017 Total	184,538	\$0.17	\$30,759	100.0%
Neighborhood Block Party Permit	1,025	\$0.22	\$225	0.7%
Community Program Permit	52,500	\$0.01	\$375	1.2%
Park Use Permit	70	\$2.29	\$160	0.5%
Film/Photography Permit	63	\$11.90	\$750	2.4%
Race, Special Event Permit	13,405	\$0.68	\$9,179	29.8%
Holiday, Special Event Permit	49,850	\$0.12	\$6,065	19.7%
Spirits Related, Special Event Permit	29,450	\$0.25	\$7,255	23.6%
Other, Special Event Permit	37,480	\$0.18	\$6,600	21.5%
Special Event - Expressive Permit	695	\$0.22	\$150	0.5%

Notes: Estimated fees covers permitting fees (banner, special event, film, block party), inspection fees, identified labor fees, equipment, and facility rentals. Revenue per attendee is only based on the estimated fees and it does not include ticket sales or any participation fees the organization might charge an attendee. During 2020 most events were canceled due to COVID-19 precautions. Examples of events: community program: summer concerts; special event/expressive permit: Kirkland Parent March; special events permit: Park to Park Swim; holiday special event: Winterfest; spirits related special event: Kirkland Uncorked; and Other Special Event: Classic Car Show.

Findings

The City's current fee structure does not fully capture full indirect and direct costs and does not follow the tiered philosophy which targets full cost recovery for events benefiting individuals versus the community. The City could consider further fee adjustments to improve cost recovery, particularly for a profit-driven event. The City should adjust its existing framework and continue to improve indirect cost tracking and allocation if the goal is to recoup indirect expenses.

- The City should **identify indirect and full direct costs associated with large special events** required to obtain a Special Event Permit. PCS should integrate indirect costs, full direct costs, and overhead costs for large special events required to obtain a Special Event Permit (this does not include the Special Events – Expressive Permit and the other event permits).
- Potential Trade-offs with Changes: **Increases to the Special Event fees could affect tourism industry opportunities associated with events attracting visitors.** Another trade-off to consider with increasing the Special Event Fees is that many of the large special events are events promoting healthy lifestyles (such as fun runs).

- Consider a minor increase in the Special Event Permit fee for events charging attendee fees, with a goal to follow the tiered philosophy which targets full cost recovery for events benefiting individuals versus the community. Additional evaluation should occur to **identify best practices and examine the fee structures other peer jurisdictions employ for these types of Special Events**. The City should consider their competitive advantage for hosting events that help generate tourism and other community related benefits. Should there be a waiver for community building events with little to no fee for participation that do not fit within the "Community Program" permit category? Should the Special Event Permit fees not be increased beyond cost recovery for special events that are raising funds for a community-based organization, community-serving non-profit, or for events hosted or sponsored by a public entity?
- Analysis would need to be completed to determine the exact Special Event permit fee increase and the permit application would need to be updated. Should the changes become more substantial, the PCS department will need to develop effective messaging/education, produce materials, and other engagement materials to communicate changes.

