

Analysis of Potential Annexation of North Highline

Report to the Seattle City Council
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Prepared by the City Budget Office and the Office of
Intergovernmental Relations

Structure of the Analysis

- Two revenue options
 - Low range does not include card room revenue or State sales tax credit
 - High range assumes Council approval for continued operation of two card rooms (up to \$492k) and no action to revise State sales tax credit (\$5 M)
- Two expenditure options
 - Generally, the low range provides a level of service comparable to that available in Seattle
 - High range options provide a greater level of service. The explanations for those vary by service.

Summary of Ongoing Financial Impact

(\$ in millions)

	Best-case Scenario		Worst-case Scenario	
	High-end Revenues / Low-end Expenditures		Low-end Revenues / High-end Expenditures	
	Ongoing	One-time	Ongoing	One-time
Anticipated revenues	17.4	1.2	11.9	1.2
Anticipated expenditures	19.2	5.9	28.7	92.5
Anticipated gap	1.8	4.7	16.8	91.3

One-time Costs and Revenues

- There are one-time costs associated with implementing annexation:
- Low-range estimate is \$5.9 million, which includes capital (\$1.8 million); start-up costs (\$3.6 million), such as vehicles, equipment, technology, and short-term labor in HSD, DPD and SDOT; and the assumption of responsibility for paying accrued benefits to North Highline firefighters (\$0.5) that will not have to be paid in 2013.
- High-range estimate is \$92.5 million, which includes more of those costs in the low-range commensurate with a higher level of service, plus a significant back-log of street maintenance work in North Highline.
- There is a one-time revenue source of approximately \$1.2 million from the King County Library System that is available exclusively for library services.

Risks

- The analysis points out reasons favoring annexation, such as improved services that would be received by those who live in Area Y, but the larger context in which this decision must be made presents risks, such as the City's financial picture.
- Under any scenario, the annexation of Area Y will cost the City more than what is supported by the associated revenues.
- The extent of this net cost is dependent, in part, on service level assumptions.
- Beyond that, there are a number of risks that potentially exacerbate the financial impact of annexation on the City of Seattle's budget
 - In a period of slower-than-typical revenue growth
 - At a minimum, we are facing additional General Fund deficits in the 2013 – 2014 timeframe
 - State and Federal budget challenges could mean sizable deficits mid-year 2011 and 2012, and even larger deficits in 2013 – 2014
 - Many existing unmet funding challenges for the City of Seattle, including asset preservation targets, capital investments, healthcare and retirement costs, etc
 - While the \$5 million sales tax credit from the State remains in place today, the reliance on this as a long-term revenue source could be risky as the State tackles its significant budget challenges
 - Programmatic cuts to public health, human services and CDBG funding at the State and Federal levels could impact our ability to provide services to Area Y and the City of Seattle as a whole
 - A change in financial circumstances for King County or Highline School District could put continued operation of Steve Cox Memorial Park or Evergreen Pool and the surrounding playfield at risk

Special Purpose Districts

- Three categories of service providers in the North Highline Area:
 - Special Purpose Districts:
 - Fire Protection District
 - Water Districts (2)
 - Sewer Districts (2)
 - Library District
 - School District
 - King County-Related Service Providers:
 - Road District
 - Sheriff's Office
 - Natural Resources and Parks
 - Government-Regulated Private Service Providers:
 - Natural Gas
 - Solid Waste

Service Delivery Recommendations

Service	Current Service Provider	After Annexation Service Provider
Fire Protection	North Highline Fire District	Seattle Fire Department
Police Services	King County Sheriff's Office	Seattle Police Department
Water Districts	Seattle Public Utilities Water District 20 & 45	Seattle Public Utilities Water District 20 (Contract)
Sewer Districts	Valley View SW Suburban	Valley View (Franchise) SW Suburban (Franchise)
Surface Water Management	King County	Seattle Public Utilities
Library	King County Library System	Seattle Public Library
K-12 Public Schools	Highline School District	Highline School District
Roads	King County Road District	Seattle Department of Transportation
Parks/Recreation	King County Department of Natural Resources & Parks	Seattle Department of Parks & Recreation