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MEMORANDUM

To: David Ramsay, City Manager

From: Tracey Dunlap, Director of Finance and Administration

Date: December 9, 2008

Subject: Park Place Redevelopment – Operating Cost and Financial Information

RECOMMENDATION:
Review financial information related to the proposed Park Place redevelopment.

BACKGROUND DISCUSSION:

Operating Costs
As part of the Environmental Impact Statement (EIS) process associated with the proposed changes to the Comprehensive Plan related to redevelopment of Park Place, the operating impacts of the planned action were evaluated. The primary operating impacts were the need for additional resources to provide Fire, EMS, and Police services. The following needs were identified:

- 8 Firefighter FTEs (2 positions, 24/7) to address the additional fire requirements associated with the building height in excess of 6 stories,
- 4 Firefighter FTEs (approximately 1 position, 24/7) to address the additional EMS calls for service (3 for Park Place and 1 for Orni and Alton), and
- 3 Police officer FTEs (less than 1 position, 24/7) to address the additional police calls for service (2.0 for Park Place and a portion of 1.00 for Orni and Alton).

Additional information regarding the Fire requirements for Park Place is provided in Exhibit 1 prepared by Chief Blake, which summarizes the basis for the identified needs and the expected deployment of the resources. Note that the ultimate addition of resources would be subject to the budget decision-making process, once the project is in place.

The question was raised whether Fire Impact Fees would have been beneficial toward meeting the needs of this development if they had been in place. Fire Impact Fees are restricted to capital purposes only and would not have been eligible to fund these needs, since no additional facilities or equipment were needed based on this proposed redevelopment. However, the City could evaluate the applicability of fire impact fees for future needs, which would involve a detailed assessment of the capital needs in the City and in the Fire District associated with new growth.

Financial Information
The financial question posed as part of the EIS process was whether the proposed project would generate sufficient operating revenues for the City to fund those additional costs. At the December 2 Study Session, the City Council requested additional information on the financial evaluation of the Park Place portion of the planned action (note that the information presented in this report does not include the Orni and Alton impacts).

In January 2008, Touchstone's consultants provided the City with the developer's perspective on the financial impacts of the proposed Park Place development summarized in Attachment A – *Fiscal Impact Analysis of Kirkland Parkplace Mall Redevelopment* prepared for Touchstone Corporation by northerneconomics,inc. The report summarized the one-time and on-going revenues and expenditures and the net benefits of the project from the developer's perspective. The information was intended to serve two purposes: to provide input to the EIS process and to define a framework under which a potential development agreement might be analyzed in the future (if applicable). As discussed at the study session, the net present value of the net benefits identified by the developer in that report totaled $29.3 million (over 30 years at a 5% discount rate).

As part of the City's evaluation to address the financial question posed by the EIS, the City engaged Berk & Associates to review Attachment A and provide feedback on the assumptions. That feedback is summarized in Attachment B (memorandum dated February 14, 2008), which evaluates the reasonableness of the estimates and provides a risk assessment. Adjustments were made to both the revenue assumptions and the expenditures, to reflect corrections and the City's more conservative approach to both sizing revenues and calculating cost impacts. The review resulted in a net present value range of net benefits from the City's perspective, depending on the assumptions used related to assessed valuation and costs of $5.5 million – $9.3 million. These figures reflected the City's tax structure at that time and indicated that there would be sufficient revenue from the proposed project to cover the additional expenditures identified in the EIS. Touchstone's response to the City's comments (dated March 5, 2008) in provided for reference in Attachment C.

Based on the City Council's questions on December 2, we have provided an alternate view of the on-going revenues and expenditures, contained in Exhibit 2. This snapshot reflects the on-going revenues and expenditures projected in 2014 (upon completion of all phases of the projects), along with the major assumptions. The City's perspective summarized below reflects the changes in tax structure that the City has incorporated into the 2009-2010 budget which impact the analysis: the change in the business license fee structure and increases in public and private utility taxes.

2014 On-going Revenues and Expenses	
	City of Kirkland Analysis
On-going Revenues	$2,348,000
On-going Expenses	1,789,000
Net Contribution	**$ 559,000**

This analysis illustrates the basis for the conclusion that there should be sufficient operating revenue from the project to offset the identified operating impacts[1]. As Chief Blake indicated in Exhibit 1, the addition of the firefighter positions would not only meet the requirements of the proposed Park Place redevelopment project, it would also provide the city with an overall increase in the level of service when not responding to Park Place incidents and should improve overall response times.

Note that, if the City and the developer enter into negotiations related to a development agreement, the entire analysis would be updated and expanded to reflect the final configuration of the project, the current economic assumptions, and the City's current tax and cost structure. Touchstone's 2014 projection is also summarized in Exhibit 2, for reference.

[1] The 2014 analysis is a 1-year snapshot of the situation and it is important to note that different revenues and costs will escalate at different rates. For example, the property tax is limited to 1% growth and the business license surcharge will not increase without further Council action. In contrast the costs will likely increase more than general inflation. These differentials will have an impact on the long-term net benefits of the project, which are more accurately captured in the net present value analysis. However, both analyses result in a net positive impact.

Indirect Benefits of Job Creation

It is important to recognize that both the developer and City perspectives focus on the direct financial impacts of the development, rather than including the indirect financial benefits to the City. There are a variety of perspectives on how to assess the indirect benefits of job creation. While it is almost certainly true that the project will have indirect benefits beyond the direct benefits cited in the analysis, what is much more difficult to do is actually estimate the size of these benefits and to further attribute them to the City of Kirkland.

For example, a recent study conducted by William B. Beyers for the Technology Alliance of Seattle (see executive summary in Attachment D) identified the following as reasons for the relatively high economic impact of technology-based industries:

- High wages – the average wage of a technology industry job was $117,691 in 2007, which was 117% above the state average of $54,097.
- Supporting jobs – technology-based industries support an average of 3.39 jobs for each direct wage and salary job, compared to 2.75 jobs for all industries.

An alternate benchmark used by planners, the ImPlan economic impact software program, estimated that each Information Technology job supports 1.6 other jobs.

As the studies cited above illustrate, the results of assessments of indirect benefit vary widely. The location of the activity in Kirkland will have some indirect benefits and costs and the question of whether these will net out to an overall positive impact is difficult to assess and is the main reason why it is not prudent to try to estimate these for the purposes of making City investment decisions. On the plus side, clearly there will be local spending associated with the new jobs in the City of Kirkland and this spending will have tax benefits. On the negative side, it is unclear to what degree the retail activity on-site (for which we are giving the project credit) will result in spending shifts within the City and thus reduce spending in other retail establishments.

Conclusion

In summary, the financial question posed in the EIS was whether sufficient revenues would be generated to offset the identified operating cost impacts. Based on the information described above, we concluded that there should be sufficient revenues available, with some level of revenue remaining in excess of those needs. A more refined estimate of that revenue would be generated based on the final project configuration, if the City chooses to enter into negotiation of a development agreement. Whether any of that revenue would be considered for investment into the public benefit aspects of the required infrastructure is a policy choice that the City Council would consider as part of a development agreement.

Exhibit 1
Basis for the Fire/EMS Needs to Serve the
Touchstone – Park Place Redevelopment Project

A question has come up about the deployment of the additional staffing that would be needed for the Park Place redevelopment project. The following outlines how resources would be deployed with the additional firefighters from this project.

In the EIS it has been identified there would be a need for 11 additional FTE's; 8 FTE's for fire suppression and 3 for EMS for Park Place. The 8 FTE's would provide one additional position on two engine companies and 3 FTE's would provide 25% of a dedicated medical aid unit. The number of FTE's needed was based on our staffing ratio at the time of the development of the EIS. Over time the staffing ratio will change and the number of FTE's or overtime funding to accomplish the staffing need will increase.

With the addition of these firefighter positions the level of service would not only meet the requirements of the proposed Park Place redevelopment project, it would also provide the city with an overall increase in the level of service when not responding to Park Place incidents. This would benefit all citizens of Kirkland, by having additional firefighters on duty to respond to emergencies. Overall response times should improve with these additional resources; thereby reducing property loss from fire and increasing patient survival rates throughout our service area.

The current staffing and apparatus configurations we have are three firefighters on duty every day, 365 days a year. We use Cross Staffing of the three firefighters to respond to fire and EMS incidents. With cross staffing, upon the receipt of a call for service, either the engine with three firefighters is dispatched to the alarm or if the alarm is Emergency Medical Service (EMS) the aid car is dispatched with three firefighters. This strips the station of all personnel and one apparatus for the requested call for service. The primary stations and personnel for Park Place Center are Station #22 Houghton and Station #21 Forbes Creek and have the following resources.

Station #22 (Houghton)

Apparatus	Present Staffing
Engine	3*
Aid Car	0*

Station #21 (Forbes Creek)

Apparatus	Present Staffing
Engine	3*
Aid Car	0*

* Crossed staff units – firefighters respond to the first type of alarm received.

The staffing model changes with the proposed redevelopment of Park Place in the following manner.

Station Staffing with the proposed Park Place Redevelopment

Station #22 (Houghton)

Apparatus	Park Place Staffing
Engine	4
Aid Car	.25**

Station #21 (Forbes Creek)

Apparatus	Park Place Staffing
Engine	4
Aid Car	0

** The Fire Department Strategic Plan identifies adding a dedicated medical aid unit based on increased in calls for service and response time standards. The Houghton Station #22 is at capacity for calls for service; therefore the calls for service that would be added by the Park Place project will require the City to add staffing to meet the service level demands. We have attributed Twenty-five percent of a dedicated EMS unit staffing to this project, based on the call volume anticipated being generated. The City would need to identify a funding source to complete the staffing of the dedicated EMS unit.

In this staffing model there will be four firefighter/EMT FTEs assigned each day at stations 22 (Houghton) and 21 (Forbes Creek). If a fire call is dispatched, all four personnel would respond with an engine company. A four person engine company has an increase in work productivity of 50% more than a three person engine company.

For example, the four person engine companies would be able to "set up" necessary command structure and positions for high-rise firefighting operations and would be able to assist more patients/evacuees more effectively than the current staffed three person engine companies. The four person Engine Company would also be able to meet the current law for the "2 in/ 2 out" before interior firefighting can begin, thus allowing them to immediately begin interior firefighting and/or rescue operations.

Within the new staffing model, if a call for medical aid came in first the Aid Car with two personnel would respond to the call, this would have two personnel remaining with the Engine to respond to a second EMS call.

Exhibit 2

Comparing Park Place Mall Development Analysis & Assumptions

(Uses Data for 2014 as Potential Steady State Values)

		Touchstone Inc. Analysis		City of Kirkland Analysis	
		Amount	**Key Assumptions**	**Amount**	**Notes**
Baseline - January 2008 Assumptions	***On-going Revenue*** [1]				
	General Fund:				
	Sales (adjusted for in-city competition)	$ 1,169,000	Estimated square footage and sales per square foot by type of building space: - Retail: 127,500 Sq Ft & $375/Sq Ft - Restaurants: 53,500 Sq Ft & $480/Sq Ft - Grocery: 54,000 Sq Ft & $468/Sq Ft - Office: 1,072,000 Sq Ft & $500/Sq Ft - Cinema: 15,000 Sq Ft & $109/Sq Ft - Fitness: 70,000 Sq Ft & $219/Sq Ft - Hotels: 222,800 Sq Ft & $88/Sq Ft	$ 1,169,000	Generally this estimate appears to be within a reasonable range of likely outcomes.
	Property	$ 816,000	Assessed Value (AV) per square foot of $380, $325, and $275 for office, hotel and retail space respectively. Growth of AV is 6.5% per year.	$ 470,000	Property tax estimates adjusted for 3 factors: (1) accounting for lag in property tax collections; (2) adjusted property value escalation; (3) more conservative AV/SF assumption (pegged to Carillon Point values)[2]
	Utility (at 2008 tax rate)	$ 167,000	6% tax rate for private utilities and 6.5% for City utilities (water, sewer, and solid waste).	$ 167,000	Utility tax revenue estimate implies $27.22 per on-site job, which is reasonable and is likely conservative.
	Business Licensing (2008 structure w/ maxm. fee at $2,600)	$ 227,000	Current business license fee schedule applies. There are several large anchor tenants, office businesses with greater than 50 employees in each of the three office buildings. The smallest office business has 10 employees.	$ 204,000	The analysis using current surcharge suggests an average tenant space of less than 6,000 SF, which seems small considering the likelihood of several large tenants. Absent more information about tenant mix, the only change assumed is a 90% occupancy rate that results in lower revenues.
	Lodging Tax Fund	$ 148,000	Estimated annual revenue of $10.5 million from 2 hotels at 67% occupancy.	$ -	We concur that the planned action will generate lodging tax revenues, but the use of these revenues are restricted to activities that promote tourism and as such are not available for general expenses.
Policy Changes in 2009	Incremental Business License Rate Changes			$ 296,000	238 net new businesses would generate $23,800 in base fee revenue. If charge per FTE is $100 and Parkplace will add 5,318 FTEs – the business license fee revenue would be about $530,000 per year. Assuming 90% occupancy generates a total of $500,000 per year. The net increase in revenues from current fee structure (above) is included here.
	Incremental Utility Rate Tax Changes			$ 42,000	Estimated additional revenue based on the proposed revision in utility tax rates -- 1.5% voted increase for private utilities and 3% increase for public utilities.
	Subtotal On-going Revenue	**$ 2,527,000**		**$ 2,348,000**	
Baseline - January 2008 Assumptions	***Annual Expenses*** [3]				
	Police:				
	Operations	$ 143,000	One additional patrol officer added in 2010. Only salary and benfits are included in the costs shown for 2014.	$ 259,000	Assumes 2 additional FTEs[4]. Ongoing annual cost listed here is 2007$ ($180,872) inflated by 5.25% annually (salaries are estimated to grow at 5% per year and benefits are estimated to grow at 6% per year). Excludes one-time costs for the 2 additional FTEs of $78,375 (2007$), assumed to be paid in a prior year.
	Fire:				
	Operations	$ 573,000	Addition of one fire inspector, two suppression firefighters, and two EMS firefighters.	$ 1,530,000	Additional FTEs: - Firefighters -- 2 positions with 24/7 coverage = 8 FTE (Ongoing) - EMS -- 3 FTE[4] (Ongoing) Ongoing annual costs listed here in 2007$ ($1,069,387) inflated by 5.25% annually (salaries are estimated to grow at 5% per year and benefits are estimated to grow at 6% per year). Excludes one-time costs for the 11 additional FTEs listed of $319,000 (2007$), assumed to be paid in a prior year. Note that as staffing ratio changes over time, total FTEs could increase.
	Subtotal Expenses	**$ 716,000**		**$ 1,789,000**	
	Net Contribution	**$ 1,811,000**		**$ 559,000**	

Notes:

1 Excludes development review revenue.

2 The final assessed valuation will be determined by the King County Assessor upon completion factoring in project cost, market conditions, etc.

3 Excludes development review expenditures.

4 Area A needs only, Areas B and C would add another 1.0 FTE to Police and Fire.

Fiscal Impact Analysis of Kirkland Parkplace Mall Redevelopment

Prepared for the

Touchstone Corporation

January 2008

Prepared by

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Abbreviations

City	City of Kirkland
NEI	Northern Economics, Inc.
NETS	National Establishment Time Series
REET	Real Estate Excise Tax
Touchstone	Touchstone Corporation
ULI	Urban Land Institute

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Executive Summary

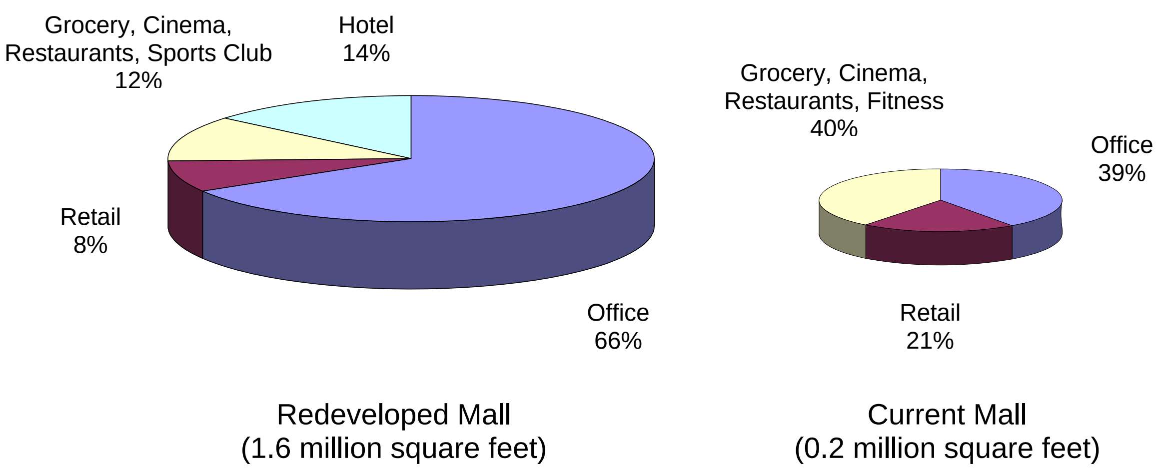
Introduction

The purpose of this executive summary is to provide a description of the proposed redevelopment of the Parkplace mall in Kirkland and summarize the fiscal impact of the redevelopment on the City's Funds.

The Redeveloped Parkplace Mall

The Touchstone Corporation (Touchstone 2007) has purchased the Parkplace mall in 2007 and has proposed to redevelop the mall. The redevelopment of the Parkplace mall by Touchstone would significantly increase the size and uses of the mall and change the emphasis of the mall from retail and entertainment towards office space. **Figure ES-1** illustrates that the redevelopment increases the size of the mall from 0.2 million square feet to 1.6 million square feet. The amount of building space available to businesses increases by 800 percent. Office space makes up 66 percent of the building space at the redeveloped mall, compared to only 39 percent at the current mall. In addition, while the current mall does not have any hotels, the redeveloped mall has 14 percent of building space (i.e., two large buildings) for hotels. Overall, the redeveloped Kirkland Parkplace Mall would be significantly larger and more diverse than the current mall. The redevelopment of the Parkplace mall would occur over five years beginning in September 2008, with construction completed in 2013.

Figure ES-1. Kirkland Parkplace Mall Redevelopment – A Change of Size and Business Orientation



Source: Touchstone.

Summary of Findings of Fiscal Impacts

The estimates of the net benefits in tax revenue and expenses to the City of Kirkland from the redevelopment are in the bullet points below. From 2008 to 2013 is the period of redevelopment of the mall, and from 2014 to 2038 is the period that the redeveloped mall operates at full occupancy.

Following the bullet points below is a description of more of the details that generate the present value estimates.

- The present value of the **on-going revenue** for the Parkplace mall, which includes all the affected City funds and assumes a 5% discount rate, from 2008-2038 is **$35.6 million**.
- The present value of **one-time revenues** during the redevelopment, which includes all the affected City funds and assumes a 5% discount rate, from 2008 to 2013 is **$6.3 million**.
- The present value of **total revenues** (both on-going and one-time), which includes all the affected City funds and assumes a 5% discount rate, from 2008-2038 is **$41.9 million.**
- The present value of the **total expenses** for the cost of service (which includes police and fire) from 2008-2038 is **$12.6 million**.
- The present value of **total revenues less total expenses** for the new Parkplace mall, which includes all the affected City funds and assumes a 5% discount rate, from 2008-2038, is **$29.3 million**.
- The present value of **total annual revenues** for the new Parkplace mall, which includes all the affected City funds and assumes a 5% discount rate, in 2014 when full occupancy occurs, is **$1.8 million.**

The estimated tax revenues of the redevelopment is the tax revenues from the operations of the new mall plus the tax revenues related to the construction for the redevelopment less the tax revenues from the current mall. The estimate of cost of service from redevelopment is the increase in operating and capital expenditures for police and fire that result from the larger and more diverse redeveloped mall. The redevelopment of the mall also influences the City's road network, utility infrastructure, and other services. To the extent that redevelopment requires improvements or expansion of these services, impact fees offset these additional costs. Since estimates of impact fees are not in this report, these additional costs receive no further discussion in this report.

The estimate of annual revenues and expenses during the redevelopment to the General Fund, Lodging Tax Fund, and Excise Tax Capital Improvement Fund is shown in **Table ES- 1**. The General Fund receives revenues from sales, property, and utility taxes, business license fees, and building permit fees while also paying the expenses for City services such as police and fire. Lodging sales at the proposed hotels generate revenues for the Lodging Tax Fund. Real estate sales, in particular the purchase of the current Parkplace mall by Touchstone, generate revenues for the Excise Tax Capital Improvement Fund.

The General Fund receives revenues from the sales taxes on the construction and operations related activities of the redevelopment. The construction-related sales tax revenue is level for 2009-2012 but rises in the last year of the redevelopment in 2013. The operations-related sales tax revenue is not positive until the first phase of the mall is complete in 2011. The estimate of operations-related sales tax revenue considers in-city competition[1], which, if significant, would entail the reduction of sales tax revenue (Berk & Associates 2005). Based on an examination of the current City business licenses and the comparison of retail sales of cities on the Eastside, the level of discount for taking into account intra-city competition is somewhere in the range of 2-3% to 7-8%, with 5% chosen as the median.

[1] The idea of discounting sales tax revenue for intra-city competition is for two potential reasons. One is that businesses that move into the new mall may already be in operation in Kirkland, in which case only the incremental change in sales tax revenues would be considered. Touchstone has reviewed existing business in Kirkland and verified that none of those businesses are being recruited for the new mall. The other reason is that some sales of the new businesses at the redeveloped mall could be sales that would otherwise be made at existing businesses located elsewhere in Kirkland. See Appendix C for details.

Table ES- 1. City Funds' revenues and expenses, including inflation, during the redevelopment

	Phase I: 2008-2011 ($Thousands)				Phase II:	Phase III:
	2008	**2009**	**2010**	**2011**	**2012 ($Thousands)**	**2013 ($Thousands)**
On-going Revenue						
General Fund						
Sales (adjusted for in-city competition)[2]	-$151	-$156	-$160	$631	$787	$811
Property	$6	$6	$7	$7	$373	$605
Utility	-$21	-$22	-$22	$53	$96	$112
Business Licensing	-$29	-$29	-$29	$73	$149	$161
Lodging Tax Fund	$0	$0	$0	$74	$76	$78
Subtotal On-going	**-$195**	**-$201**	**-$204**	**$838**	**$1,481**	**$1,767**
One-time						
General Fund Revenue						
Building Permits	$168	$491	$491	$491	$465	$741
New construction Property tax	$0	$0	$0	$363	$226	$204
Construction-related Sales tax	$213	$639	$639	$639	$610	$970
Excise Tax Capital Improvement Fund (REET)	$300	$0	$0	$0	$0	$0
Subtotal One-time	**$681**	**$1,130**	**$1,130**	**$1,493**	**$1,301**	**$1,915**
Total On-going and One-time Revenue	**$486**	**$929**	**$926**	**$2,331**	**$2,782**	**$3,682**
Annual Expenses						
Police						
Operations	$0	$0	$127	$131	$135	$139
Capital	$0	$0	$86	$0	$0	$0
Fire:						
Operations	$105	$108	$417	$430	$543	$659
Capital	$0	$0	$63	$0	$34	$35
Total Expenses	**$105**	**$108**	**$693**	**$561**	**$711**	**$833**
Net Contribution	**$381**	**$821**	**$233**	**$1,770**	**$2,071**	**$2,849**

Source: Touchstone, City of Kirkland, and Northern Economics, Inc. Analysis.

The recent purchase of the Parkplace mall increases property taxes immediately. After the completion of each of the three phases of the mall in 2011, 2012 and 2013, property tax revenue

[2] The adjustment to sales taxes for in-city competition is for the sales both at the redeveloped mall and at the current mall. See Appendix C for details on the level of inter-city competition.

increases. In 2011, business license fees and utility taxes provide revenues to the General Fund as businesses begin filling in the first phase of the redeveloped mall. Due to the construction, building permit and newt construction sales tax revenue is steady from 2009-2012 and rises in the last year of the redevelopment in 2013.

Since the redeveloped mall would have more employees, shoppers, and visitors than the current mall, the expenses for police and fire that comes from the General Fund rise. Fire and police expenses rises the most in 2010 and 2013 as new personnel and capital are purchased to service the completion of the first and third phases of the redevelopment, respectively. Although the net contribution to the General Fund is always positive during the redevelopment, the net contribution does not become significant until the first phase of the new mall is complete in 2011.

The Lodging Tax Fund receives revenue from the sale of lodging in 2011 after the construction of the first hotel is complete. The Lodging Tax Fund revenues do not rise any further during the redevelopment since the second hotel is not complete until the end of 2013. The estimated purchase price of the current mall for $60 million generates revenue from the Real Estate Excise Tax in 2008 that goes to Excise Tax Capital Improvement Fund. The net contribution to the City Funds shown in **Table ES- 1**, although always positive, is nearly the lowest in 2010 because of the expenses for police and fire.

The estimate of annual revenues and expenses at the redeveloped mall, for five years intervals starting in 2014, to the General Fund, Lodging Tax Fund, and Excise Tax Capital Improvement Fund is shown in **Table ES-2.** In 2014, full occupancy at the redeveloped mall occurs, which boosts the operations-related sales taxes, the business license fees, the utility taxes, and the lodging taxes. However, since construction is complete, there is no longer any revenue from construction-related sales taxes or building permit fees. Expenses for the fire department fall since a temporary fire inspector is unnecessary once construction is complete.

The operations-related sales taxes and the utility taxes rise at the estimate of the rate of inflation at 3%. There is a cap on the growth of property taxes at one percent per year, and there is the assumption of no growth in revenue from business license fees. The expenses for police and be fire rise at the rate of inflation. In 2014, once full occupancy occurs, the net annual contribution to the City Funds of the redeveloped mall, including inflation, is $1.8 million.

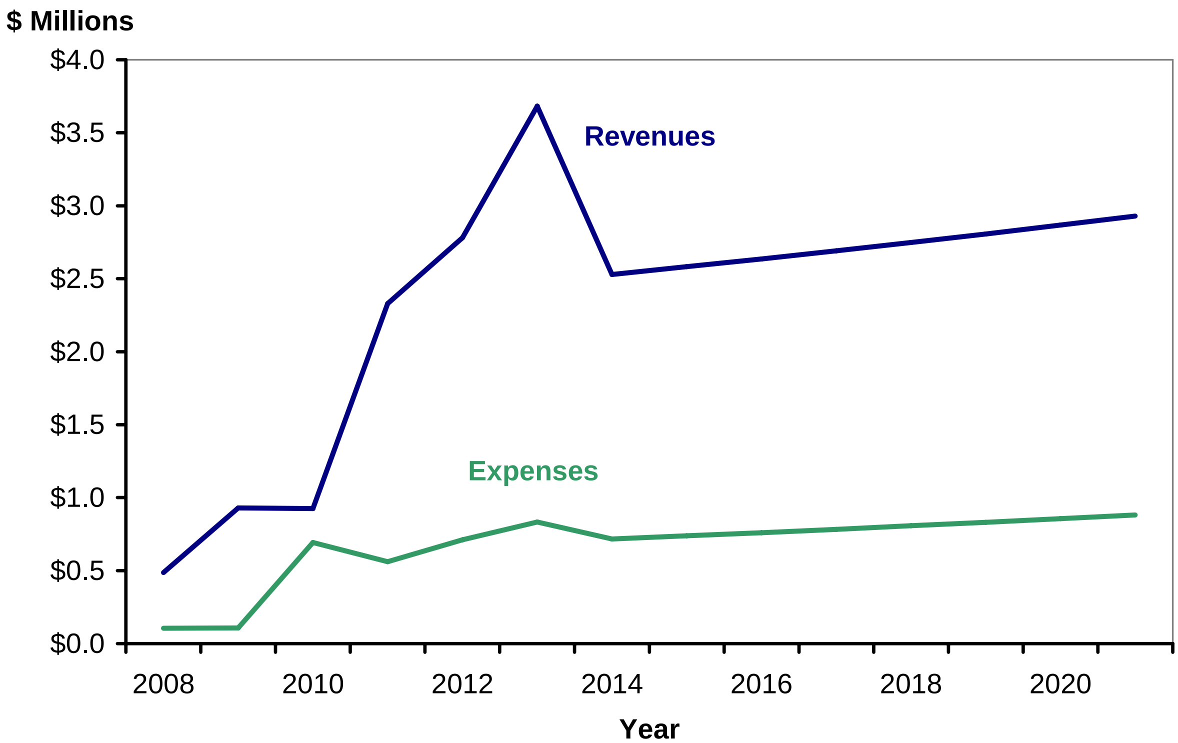
Table ES-2. City Funds' revenues and expenses, including inflation, at the redeveloped mall ($Thousands) for representative years

	2014	2019	2024	2029	2034
On-going Revenue					
General Fund					
Sales (adjusted for in-city competition)	$1,169	$1,356	$1,572	$1,823	$2,113
Property	$816	$859	$902	$948	$997
Utility	$167	$194	$225	$260	$302
Business Licensing	$227	$227	$227	$227	$227
Lodging Tax Fund	$148	$172	$199	$231	$268
Subtotal On-going	**$2,527**	**$2,808**	**$3,125**	**$3,489**	**$3,907**
One-time					
General Fund					
Building Permits	$0	$0	$0	$0	$0
New Construction Property Tax	$0	$0	$0	$0	$0
Construction-related Sales Tax	$0	$0	$0	$0	$0
Excise Tax Capital Improvement Fund (REET)	$0	$0	$0	$0	$0
Subtotal One-time	**$0**	**$0**	**$0**	**$0**	**$0**
Total On-going and One-time Revenue	**$2,574**	**$2,850**	**$3,167**	**$3,529**	**$3,942**
Annual Expenses					
Police					
Operations	$143	$166	$192	$223	$258
Capital	$0	$0	$0	$0	$0
Fire:					
Operations	$573	$665	$771	$894	$1,036
Capital	$0	$0	$0	$0	$0
Total Expenses	**$717**	**$831**	**$963**	**$1,116**	**$1,294**
Net Contribution	**$1,810**	**$1,977**	**$2,162**	**$2,373**	**$2,613**

Source: Touchstone, City of Kirkland, and Northern Economics, Inc. Analysis.

Figure ES-2 provides a graphical representation of the information in **Table ES- 1** and **Table ES-2**. The figure shows the annual estimated revenues and expenses, including inflation, to the City's funds during the redevelopment from 2008-2013 and at the redeveloped mall from 2014 to 2021.

Figure ES-2. City Funds' Revenues and Expenses, including inflation, 2008-2021



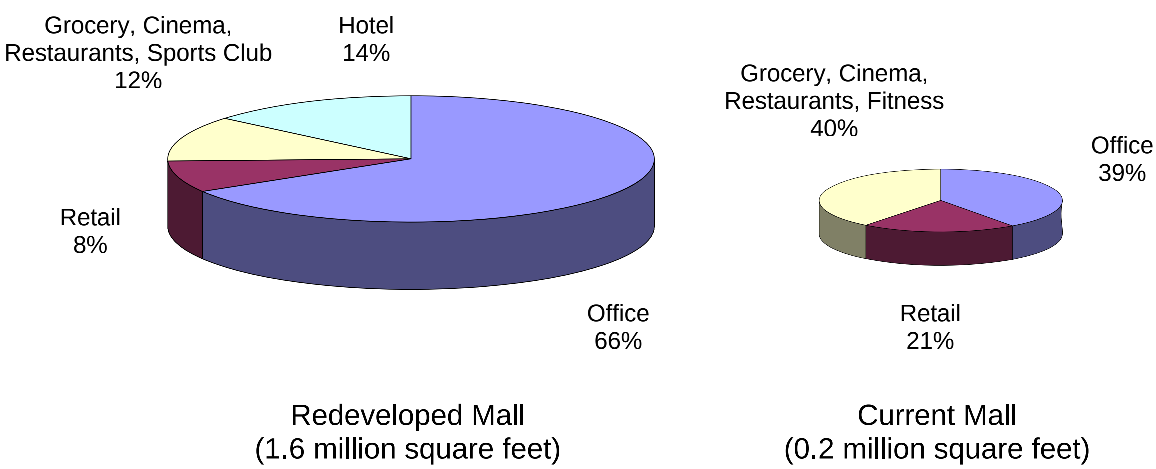
Source: Touchstone, City of Kirkland, and Northern Economics, Inc. Analysis.

1 Introduction

The purpose of this report is to provide an estimate of the fiscal impact to the City of Kirkland from redevelopment of the Parkplace mall. Fiscal impact as employed in this analysis is the revenues and expenses of the redeveloped mall less the revenues and expenses of the current mall. In other words, this analysis focuses on the incremental change. The estimated tax revenues of the redevelopment is calculated as the tax revenues from the operations of the new mall plus the tax revenues related to the construction for the redevelopment less the tax revenues from the current mall. The cost of service from redevelopment is the increase in operating and capital expenditures for police and fire that result from the larger and more diverse mall.

Although the primary focus of this report is the General Fund, there is consideration of three City funds affected by the redevelopment: the General Fund, the Lodging Tax Fund, and the Excise Tax Capital Improvement Fund. The General Fund receives revenues from sales, property, and utility taxes, business license fees, and building permit fees while also paying the expenses for City services such as police and fire. Lodging sales at hotels generate revenues for the Lodging Tax Fund, and real estate sales generate revenues for the Excise Tax Capital Improvement Fund. The redevelopment of the mall also influences the City's road network, utility infrastructure, and other services. To the extent that redevelopment requires improvements or expansion of these services, impact fees offset these additional costs. Since estimates of impact fees are not in this report, these additional costs receive no further discussion in this report. The net present value of the redevelopment for the 30-year period beginning in 2008 is $29.3 million. This estimate includes the three funds identified above and assumes a 5 percent discount rate.

Figure 1. Kirkland Parkplace Mall Redevelopment – A Change of Size and Business Orientation



Source: Touchstone.

The redevelopment would occur over five years beginning in September 2008, with construction completed in 2013. The redevelopment by Touchstone would significantly increase the building space available to businesses at the mall and change the emphasis of the mall from retail and entertainment towards office space. **Figure 1** illustrates that the redevelopment increases the amount of building space to businesses by 800 percent. Office space makes up more than half of the building space at the redeveloped mall, compared to only 40 percent at the current mall. In addition, while the current mall does not have any hotels, the redeveloped mall has 14 percent of building space (i.e., two large buildings) for hotels. Overall, the redeveloped Kirkland Parkplace Mall is significantly larger and more diverse than the current mall.

The square feet by the type of building space at the redeveloped and the current mall is in **Table 1**. Building space would nearly double for the retail and entertainment businesses, except for the cinema, although the share of building space for the retail and entertainment businesses at the redeveloped mall shrinks. Office space increases by more than ten-fold, and each of the two hotels has more than 100,000 square feet of building space.

Table 1. Square Feet by Type of Building Space at the Redeveloped and Current Mall

Building Space	Redeveloped Mall Square Feet (Thousands)	Current Mall Square Feet (Thousands)
Office	1,072.0	95.3
Retail	127.5	48.9
Grocery	54.0	25.8
Cinema	15.0	15.6
Restaurants	53.5	31.8
Sports Club	70.0	21.0
Hotel	222.8	0.0
Total	**1,614.8**	**238.4**

Source: Touchstone.

The projected phasing of the completion of the redevelopment is in **Table 2**. A third of the office space, two-thirds of the retail space, nearly all of the entertainment space, and half of the hotel space will be completed and made available to businesses by 2011. Another third of the office space is complete in 2012; the final third of the office space, the other half of the hotel space, and the last third of the retail space is complete in 2013. From the perspective of total building space projected for the redeveloped mall, half is complete by 2011, another quarter in 2012, and the last quarter in 2013.

Table 2. Phasing of the Completion of the Redevelopment

Building Space	Phase I : Year 2011 Square Feet (Thousands)	Phase II : Year 2012 Square Feet (Thousands)	Phase III : Year 2013 Square Feet (Thousands)	All Years Square Feet (Thousands)
Office	392.0	425.0	255.0	1,072.0
Retail	87.0	0.0	40.5	127.5
Grocery	54.0	0.0	0.0	54.0
Cinema	15.0	0.0	0.0	15.0
Restaurants	53.5	0.0	0.0	53.5
Sports Club	70.0	0.0	0.0	70.0
Hotel	120.0	0.0	102.8	222.8
Total	**791.5**	**425.0**	**398.3**	**1,614.8**

Source: Touchstone.

Further analysis of the information in **Table 1** and **Table 2** provided by Touchstone is described in Appendix A and Appendix B to determine estimates of the number of employees, new businesses, and the costs of construction for the redeveloped mall. In addition, Appendix A shows the estimates for the number of employees and businesses at the current mall that move from Kirkland due to the redevelopment.

The next section of this report focuses on the annual changes in tax revenue and cost of service that influence the City Funds, in particular the General Fund, although the new hotels at the redeveloped mall influence the Lodging Tax Fund. The other sections of this report describe how the components of the tax revenues and cost of service are calculated.

2 Fiscal Impact of the Parkplace Mall Redevelopment

This section summarizes in detail how the redevelopment of the Parkplace Mall influences the City funds, which include the General Fund, Lodging Tax Fund, and Excise Tax Capital Improvement Fund. The net present value of the redevelopment for the 30-year period beginning in 2008 is $29.3 million. This estimate includes the three funds identified above and assumes a 5 percent discount rate.

2.1 City Funds

Table 3 provides a detailed summary of the estimated annual changes to the General Fund, Lodging Tax Fund, and the Excise Tax Capital Improvement Fund that result from the Parkplace Mall redevelopment from 2008 through 2014. The General Fund receives revenues from sales, property, utility taxes, business license fees, and building permit fees while paying the expenses for City services such as police and fire. Annual changes to the General Fund are calculated as the annual fiscal impact, fiscal revenues less cost of service, of the mall redevelopment. The estimate of the fiscal revenues is the tax revenues from the operations of the new mall in addition to the tax revenues related to the construction for the redevelopment less the tax revenues from the current mall. The estimate of cost of service is the change in operating and capital expenditures for police and fire that result from the redeveloped mall. The Lodging Tax Fund receives revenues from the lodging excise tax, and the Excise Tax Capital Improvement Fund receives revenues from the real estate excise tax (REET).

The operations-related sales tax revenue is not positive until the first phase of the mall is complete in 2011. The estimate of operations-related sales tax revenue considers in-city competition[3], which, if significant, would entail the reduction of sales tax revenue (Berk & Associates 2005). Based on an examination of the current City business licenses and the comparison of retail sales of cities on the Eastside, the level of discount for taking into account intra-city competition is somewhere in the range of 2-3% to 7-8%, with 5% chosen as the median.

Table 3 and **Table 4** show the sales tax revenue from businesses at the mall assuming the median of in-city competition. In the initial years of the redevelopment, although tax revenues from the current mall would quickly disappear from the current mall, the total revenues would remain positive because of the revenues from the construction. The construction during the redevelopment generates more than enough revenue to cover the projected increases in operating and capital expenses to service the redeveloped mall. The sharp rise in estimated revenue in 2013 is a result of the expensive construction of a second hotel that generates significant construction sales tax and building permit revenue in addition to the revenue from property taxes on a nearly complete redeveloped mall.

[3] The idea of discounting sales tax revenue for intra-city competition is for two potential reasons. One is that businesses that move into the new mall may already be in operation in Kirkland, in which case only the incremental change in sales tax revenues would be considered. Touchstone has reviewed existing business in Kirkland and verified that none of those businesses are being recruited for the new mall. The other reason is that some sales of the new businesses at the redeveloped mall could be sales that would otherwise be made at existing businesses located elsewhere in Kirkland. See Appendix C for details.

Table 3. City Funds Summary, including inflation: 2008-2014

	Year (Thousands of Nominal $)						
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
On-Going Revenue							
General Fund							
Sales (adjusted for in-city competition)	-$151	-$156	-$160	$631	$787	$811	$1,169
Property	$6	$6	$7	$7	$373	$605	$817
Utility	-$21	-$22	-$22	$53	$96	$112	$167
Business Licensing	-$29	-$29	-$29	$73	$149	$161	$227
Lodging Tax Fund	$0	$0	$0	$74	$76	$78	$148
Subtotal On-Going	**-$195**	**-$201**	**-$204**	**$838**	**$1,481**	**$1,767**	**$2,528**
One-time							
General Fund							
Building Permits	$168	$491	$491	$491	$465	$741	$0
New Construction Property Tax	$0	$0	$0	$363	$226	$204	$0
Construction-related Sales Tax	$213	$639	$639	$639	$610	$970	$0
Excise Tax Capital Improvement Fund (REET)	$300	$0	$0	$0	$0	$0	$0
Subtotal One-Time	**$681**	**$1,130**	**$1,130**	**$1,493**	**$1,301**	**$1,915**	**$0**
Total On-Going and One-Time Revenue	**$486**	**$929**	**$926**	**$2,331**	**$2,782**	**$3,682**	**$2,528**
Expenses							
Operating							
Police	$0	$0	$127	$131	$135	$139	$143
Fire	$105	$108	$417	$430	$543	$659	$574
Total	*$105*	*$108*	*$544*	*$561*	*$678*	*$798*	*$717*
Capital	*$0*	*$0*	*$149*	*$0*	*$34*	*$35*	*$0*
Total Expenses	**$105**	**$108**	**$693**	**$561**	**$711**	**$833**	**$717**
Net Contribution	**$381**	**$821**	**$233**	**$1,770**	**$2,071**	**$2,849**	**$1,811**

Source: Touchstone, City of Kirkland, and Northern Economics, Inc. Analysis.

Touchstone's purchase of the current mall generates revenue for the Excise Tax Capital Improvement Fund in 2008. The estimated purchase price of $60 million would generate around $300 thousand in revenue from the Real Estate Excise Tax.

Table 4 provides a detailed summary of the estimated annual changes to the General Fund and Lodging Tax Fund that result from the redeveloped mall from 2015 through 2021. Once construction ends in 2013, the estimated annual revenues from the operations of the redeveloped mall would adequately cover the estimated annual expenses for the redeveloped mall. The estimated net contribution to the General Fund in 2015, after the redeveloped mall reaches full occupancy, is about

$1.8 million. The estimated net contribution to the General Fund is projected to rise moderately as time goes on due the growth of sales tax revenue at the rate of inflation even though there is the cap on the growth of property taxes at one percent per year and the assumption of no growth in business license fee revenue.

Table 4. City Funds Summary, including inflation: 2015-2021

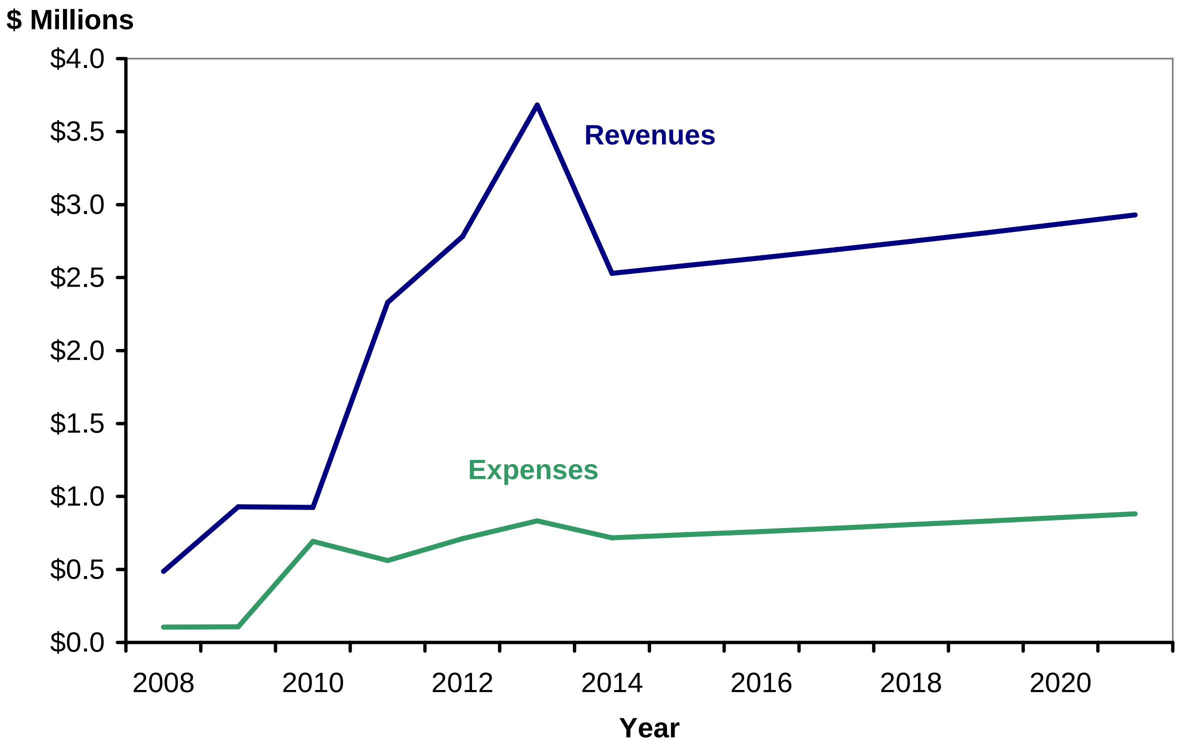
	Year (Thousands of Nominal $)						
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
On-Going Revenue							
General Fund							
Sales (adjusted for in-city competition)	$1,205	$1,241	$1,278	$1,317	$1,356	$1,397	$1,439
Property	$825	$833	$842	$850	$859	$867	$876
Utility	$172	$177	$183	$188	$194	$199	$206
Business Licensing	$227	$227	$227	$227	$227	$227	$227
Lodging Tax Fund	$153	$157	$162	$167	$172	$177	$182
Subtotal On-Going	**$2,582**	**$2,635**	**$2,692**	**$2,749**	**$2,808**	**$2,867**	**$2,930**
One-time							
General Fund							
Building Permits	$0	$0	$0	$0	$0	$0	$0
New Construction Property Tax	$0	$0	$0	$0	$0	$0	$0
Construction-related Sales Tax	$0	$0	$0	$0	$0	$0	$0
Excise Tax Capital Improvement Fund (REET)	$0	$0	$0	$0	$0	$0	$0
Subtotal One-Time	$0	$0	$0	$0	$0	$0	$0
Total On-Going and One-Time Revenue	**$2,582**	**$2,635**	**$2,692**	**$2,749**	**$2,808**	**$2,867**	**$2,930**
Expenses							
Operating							
Police	$147	$152	$156	$161	$166	$171	$176
Fire	$591	$609	$627	$646	$665	$685	$705
Total	*$738*	*$761*	*$783*	*$807*	*$831*	*$856*	*$881*
Capital	$0	$0	$0	$0	$0	$0	$0
Total Expenses	**$738**	**$761**	**$783**	**$807**	**$831**	**$856**	**$881**
Net Contribution	**$1,844**	**$1,874**	**$1,909**	**$1,942**	**$1,977**	**$2,011**	**$2,049**

Source: Touchstone, City of Kirkland, and Northern Economics, Inc. Analysis.

The lodging sales at the hotels of the redeveloped mall generate revenues for the Lodging Tax Fund. Since no hotels exist at the current mall, the estimated revenues from the lodging excise tax that come from the redeveloped mall are the first funds that the Parkplace mall contributes to the Lodging Tax Fund. The estimated net contribution to the Lodging Tax Fund in 2015, after the redeveloped mall reaches full occupancy, is about $153 thousand.

The annual estimated revenues and expenses, including inflation, of the City's Funds from the start of the redevelopment project in 2008 to thirteen years later in 2021 are in **Figure 2**. As the figure indicates, the cost of construction is significant enough that estimated revenues significantly exceed the estimated cost of service expenses while the construction is underway. The sharp rise in estimated revenue in 2013 is a result of the costly construction of a second hotel that generates significant sales tax and building permit revenue in addition to the revenue from property taxes on a nearly complete redeveloped mall. In 2014, full occupancy occurs rapidly, and the annual revenue from the operation of the redeveloped mall exceeds the annual expenses, including inflation, by about $1.8 million. The gap between estimated revenues and expenses rises moderately as time goes on due the growth of sales tax revenue at the estimate of the rate of inflation of 3% even though there is the cap on the growth of property taxes at one percent per year and the assumption of no growth in business license fee revenue.

Figure 2. City Funds' Revenues and Expenses, including inflation, 2008-2021



Source: Touchstone, City of Kirkland, and Northern Economics, Inc. Analysis.

3 Annual Tax Revenues – Current and Redeveloped Mall at Full Build Out

This section compares the annual tax revenues for the current mall to those expected from the redeveloped mall after completion. The revenues for the City of Kirkland considered here are from: 1) Sales Taxes, 2) Property Taxes, 3) Admissions Taxes, 4) Utility Taxes, 5) Lodging Excise Taxes, and 6) Business License Fees.

3.1 Sales Tax

All of the retail areas, restaurants, sports club/fitness center, the hotels, and a proportion of the office, grocery and cinema areas are subject to sales tax. **Table 5** shows the annual total sales revenue, taxable sales revenue, and the sales tax revenue for Kirkland projected for the redeveloped mall at full occupancy (2014) and for the current mall (2008).[4] In 2007 dollars, the estimate of the taxable annual sales revenue is $16.5 million for the current mall and $128.1 million for the redeveloped mall. Since 0.85 percent of the full sales tax levied on these businesses goes to the City of Kirkland, the estimate of the City's annual sales tax revenue is $134.7 thousand from the current mall, and slightly more than $1.0 million from the redeveloped and fully occupied mall.

The estimate of total sales revenue comes from estimates of sales per square foot by the type of building space at the redeveloped and current mall. For the retail building space, an estimate of $375 per square foot is made for the current mall since the $375 per square foot estimate was agreed upon for the Totem Lake Mall, anticipated to begin operations around 2008 (Mundy Associates 2005). Since the sales revenue per square foot rises at the rate of inflation, the 2011 estimate for retail space at the redeveloped mall is $410 per square foot. The estimate for sales revenue per square foot for restaurants, grocery, and office are higher ($480, $468, and $500 per square foot, respectively) than the $410 per square foot estimate while the estimates for the cinema, fitness, and hotels are lower ($109, $219, and $88 per square foot, respectively)[5] (Urban Land Institute 2004). The estimate of sales revenue per square foot rises at the rate of inflation that is 3%.

Some office businesses have revenues subject to a sales tax such as the computer maintenance business, or any other business that involves services related to repairing, replacing, installing, improving, or upgrading property (State of Washington 2007a). Only 20 percent of total sales revenue for the grocery and cinema are subject to a sales tax since sales tax only applies to non-food and prepared food purchased at grocery stores and cinema concession stands.

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[4] For the current mall, only the businesses that are projected to leave Kirkland count as a decline in sales tax revenues, just as for the redeveloped mall, only the businesses that are new or expanding in Kirkland count as an increase in sales tax revenues.

[5] The estimate of the variation in sales per square foot across the type of building space comes from the Urban Land Institute while the magnitude of the estimate of the sales per square foot comes from the Mundy Associates report for Totem Lake Mall redevelopment.

Table 5. Sales Tax Revenues

Building Space	Total Sales Revenue ($Millions)	Taxable Sales Revenue ($Millions)	Kirkland Share of Sales Tax ($Thousands)
Redeveloped Mall			
Office services (Taxable)	$29.1	$29.1	$247.5
Retail	$40.6	$40.6	$344.9
Grocery	$10.2	$2.1	$17.4
Cinema	$1.3	$0.3	$2.2
Restaurants	$19.9	$19.9	$169.4
Sports club	$11.9	$11.8	$100.9
Hotels	$15.0	$15.1	$127.9
Total	**$128.1**	**$118.9**	**$1,010.3**
Current Mall			
Retail	$7.5	$7.5	$63.3
Cinema	$0.9	$0.2	$1.5
Restaurants	$5.9	$5.9	$50.2
24hr Fitness	$2.3	$2.3	$19.7
Total	**$16.5**	**$15.9**	**$134.7**
Difference	**$111.6**	**$103.0**	**$875.6**

Source: Touchstone, Mundy Associates, Northern Economics, Inc. Analysis.
Note: 2007 dollars. Some office business revenues are subject to sales tax such as computer maintenance. The taxable sales revenue for the grocery and cinema is 20 percent of the total sales revenue. Sales tax revenue that goes to the City of Kirkland is 0.85 percent of the taxable sales revenue.

3.2 Property Tax

The City share of property taxes depends on the millage rate in the year that each phase of the new mall is completed and the assessed new construction value of the property. In 2011, 2012, and 2013, the estimate of the millage rate is 1.05, 1.02, and 0.99 respectively. The estimates of average value per square foot in 2007 of the redeveloped mall for the office, hotel, and retail are $380, $325, and $275 respectively. These estimates of average value per square foot are based on current assessed value of like properties and communication with the King County Assessors office. Appendix E provides details about the comparable properties used in developing the estimates. However, according to the commercial appraiser that determines the assessed values of the larger office buildings in King County (personal communication with Dan Margonelli, King County), with rising construction costs and higher land values, escalating office lease rates and low vacancy levels, it is estimated that the assessed values of new office buildings will continue to rise. The estimate for the hotels is based on values per square foot from Carillon Point and the Westin at Lincoln Square. The estimate of the growth of the assessed value is 6.5% per year. See appendix E for more detail.

The redeveloped Kirkland Parkplace Mall consists of four office buildings and two hotels with retail on the ground floor of the office buildings and hotels. As shown in **Table 6**, the completion of the redevelopment in 2013 creates an estimated property value in 2007 dollars of $561 million: $402 million for the office space, $93 million for the hotels, and $66 million for the retail. The City of Kirkland receives approximately $1.02 per $1000 of assessed valuation, or $575 thousand.

The purchase of the current Parkplace mall by Touchstone for $60 million increases the property tax revenue for City of Kirkland in 2007. However, to estimate the increase in property tax revenue requires an estimate of the assessed value of the mall prior to its purchase. The current mall's assessed value in 2007 dollars is $32 million based on King County Assessor's tax roll history for the Parkplace mall parcel (King County Department of Assessments 2007e). The property tax the City receives on the current mall is $40 thousand. The purchase of the mall for $60 million increases the assessed value of the current mall to $37 million, immediately increasing property taxes that Kirkland receives. In the year following the completion of each of the three phases of the redevelopment in 2011, 2012, and 2013, property taxes on the parcel rise.

Table 6. Property Tax Revenue

Building Space	Assessed Value ($Millions)	Assessed Value per Square Foot ($/Sqft)[1]	Kirkland Property Tax Share ($Thousands)
Redeveloped Mall			
Office Component	$402	$375	$411
Hotel Component	$93	$318	$96
Retail Component	$66	$264	$69
Total	**$561**	**$347**	**$575**
Current Mall			
Total	**$32**	**$134**	**$40**
Difference	**$529**	**$231**	**$535**

Source: King County Assessor and Northern Economics, Inc. Analysis.

Note: 2007 dollars. [1] The assessed value per square foot shown in the table differs slightly from the actual 2007 assessed value per square foot ($380, $325, $275 for office, hotel, and retail) since the table values are a discounted at 5% from 2014 after property taxes on the earlier phases of the project have grown at 1% for a few years.

3.3 Admissions Tax

Kirkland is able to levy an admissions tax of up to five percent on the cost of tickets to venues such as theaters, stadiums, amusement parks, and other activities where an admission is charged (City of Kirkland 2007a). The estimate of admissions revenue for the cinema is 80 percent of the revenue for the cinema. Based on an estimated $1.04 million in annual admission sales at the new cinema in 2014 (80 percent of total sales revenue of the cinema estimated in **Table 5**), the tax revenue Kirkland will receive from the new cinema is about $52 thousand, in 2007 dollars. However, since the new cinema and the cinema in the current mall are nearly the same size, the new cinema does not add any notable admissions tax revenue for Kirkland.

3.4 Utility Taxes

Kirkland collects a percentage of revenues from utility franchises that operate within its boundaries. The tax rate on electric, gas, steam, cable, TV, and telephone utilities is limited to six percent by legislation passed in the early 1980s. The tax on the remaining utilities that include water, sewer, and solid waste is at the higher rate of 6.5 percent (City of Kirkland 2007a).

The tax revenues Kirkland receives from the current and redeveloped mall from the water, sewer, electricity, and gas utilities are in **Table 7**. The estimate of average yearly commercial contribution per establishment to water and sewer utility taxes is $50, except for hotels estimated at $100 (Mundy Associates 2005). The redeveloped mall would generate about $10.7 thousand annually in water and sewer utility taxes. The 234 office tenants generate about $9.1 thousand; the 38 retail tenants generate about $1.4 thousand, and the two hotels generate about $200. The estimate of the current mall revenue is annually about $1.5 thousand in sewer and water utility taxes.

The electrical and gas utility revenue estimates come from the Puget Sound Energy current utility rates, effective June 7, 2007, for electricity and April 1, 2007, for natural gas. The consumption rates for electricity and natural gas by type of building space come from the Energy Information Administration (EIA 2007). Since the revenue estimates come from the current utility and consumption rates, the tax revenue for Kirkland from utilities is likely an underestimate; however, without information on future utility rates, these are the best estimates.

The electricity charge for large demand commercial monthly service is $48.00 plus $0.0585 per kilowatt hour (kWh). At full occupancy, in 2014, the redeveloped mall generates about $85.8 thousand annually in electrical utility taxes. The 234 office tenants generate about $63.2 thousand; the 38 retail tenants generate about $12.7 thousand, and the two hotels generate about $9.9 thousand. The natural gas charge for commercial monthly service is $17.50 plus $1.21 per therm. The redeveloped mall generates about $34.1 thousand annually in natural gas utility taxes. The 234 office tenants generate about $21.3 thousand; the 38 retail tenants generate about $7.5 thousand, and the two hotels generate about $5.3 thousand. The closure of the current mall results in an estimated loss of $11.1 thousand from taxes on electricity and an estimated loss of $5.3 thousand from taxes on natural gas.

In sum, the gain in annual tax revenue for Kirkland from these four utilities is $130.6 thousand, with $93.5 thousand from the office component, $21.6 thousand from the retail component, and $15.5 thousand from the hotel component. The loss of annual tax revenues from utilities due to the current mall closure is $17.8 thousand, with $9.1 thousand from the office component and $8.7 thousand from the retail component. There is also tax revenue for Kirkland from steam, cable, TV, and solid waste utilities, but the consumption of these utilities vary significantly across the kinds of commercial businesses making it difficult to provide a reliable estimate, and thus estimates of these potential revenues not shown in this report.

Table 7. Utility Tax Revenues

Building Space	Water and Sewer ($Thousands)	Electricity ($Thousands)	Natural Gas ($Thousands)	Total Utility Tax Revenues ($Thousands)
Redeveloped Mall				
Office Component	$9.1	$63.2	$21.3	$93.5
Hotel Component	$0.2	$9.9	$5.3	$15.5
Retail Component	$1.4	$12.7	$7.5	$21.6
Total	**$10.7**	**$85.8**	**$34.1**	**$130.6**
Current Mall				
Office Component	$1.1	$6.1	$2.0	$9.1
Retail Component	$0.4	$5.0	$3.3	$8.7
Total	**$1.5**	**$11.1**	**$5.3**	**$17.8**
Difference	**$9.2**	**$74.7**	**$28.8**	**$112.8**

Source: Northern Economics, Inc. Analysis.

Note: 2007 dollars.

3.5 Lodging Excise Tax

A lodging excise tax of one percent applies to short-term accommodations in Kirkland (City of Kirkland 2007a). This revenue goes to the Lodging Tax Fund and is limited to funding tourism promotion and the operation of tourism related facilities. The current mall has no hotels or other short-term accommodations, but the new mall is projected to have two hotels, each larger than 100 thousand square feet.[6] The room rates for the new hotels come from the current rates at the Courtyard Marriott in Kirkland (Courtyard Kirkland 2007). The estimate of the occupancy rate at the hotels is 67% (Seattle Southside 2005). The estimate of the hotel revenue subject to the lodging excise tax is 70 percent of total hotel revenue with the other 30 percent going to food, in-room movies, laundry, and other services (Hospitality Research Group 2004). Based on estimated annual revenue of $10.5 million from lodging at the hotels, the estimate of annual lodging excise tax in 2014 is $105 thousand, in 2007 dollars.

3.6 Business Licensing Fees

Kirkland charges an annual licensing fee on all businesses that operate within the city. **Table 8** shows the license fee schedule for surcharges, in excess of the $100 base fee, that depends on the number of employees and the annual gross receipts of businesses (City of Kirkland 2007a).

Table 8. Business Licensing Fee Surcharge Schedule

	Annual Gross Receipts		
Employees	**Greater than $100,000**	**$50,000-$100,000**	**Less than $50,000**
1	$125	$75	$0
2-5	$225	$150	$0
6-20	$750	$550	$0
21-100	$1,500	$1,000	$0
100+	$2,500	$2,000	$0

Source: City of Kirkland.

An office business has on average 10 employees (US Census Bureau 2005). However, after consultation with Touchstone, there are several large anchor tenants, office business with greater than 50 employees, expected in each of the three office buildings. The smallest office business has 10 employees. Since an office business with 10 employees or more typically earns above $100,000 annually in total revenue, the office businesses pay the greatest license fee for their employment size category. **Table 9** indicates that the total revenue from annual licensing fees for the new mall at full occupancy is $182.4 thousand and the total revenue lost from the current mall is $21.2 thousand. For the office component of the new mall alone, the estimate of the total revenue from licensing fees is more than $157 thousand.

[6] The already operational Courtyard Marriott in Kirkland is estimated to have a size of 70,000 square feet based on information provided in a telephone conversation with the Marriott on August 21, 2007, indicating that the hotel has 150 lodging rooms and 3 meeting rooms.

Table 9. Business Licensing Fee Revenues

Building Space	License Fee Revenues ($ Thousand)					
	2008	2011	2012	2013	2014	Total
Redeveloped Mall – Revenue Gain						
Office Component	$0.0	$54.1	$52.9	$9.1	$41.3	$157.4
Hotel Component	$0.0	$1.1	$0.0	$0.0	$0.6	$1.7
Retail Component	$0.0	$17.7	$0.9	$0.0	$4.5	$23.3
Total	**$0.0**	**$72.9**	**$53.8**	**$9.1**	**$46.4**	**$182.4**
Current Mall – Revenue Loss						
Office Component	$14.9	$0.0	$0.0	$0.0	$0.0	$14.9
Retail Component	$5.7	$0.6	$0.0	$0.0	$0.0	$6.3
Total	**$20.6**	**$0.6**	**$0.0**	**$0.0**	**$0.0**	**$21.2**
Difference	**-$20.6**	**$72.3**	**$53.8**	**$9.1**	**$46.4**	**$161.2**

Source: Northern Economics, Inc. Analysis.

Note: 2007 dollars.

The closure of the businesses at the current mall, mostly in 2008, results in the loss of license fee revenues. The loss of license fees in 2008 is $20.6 thousand; in 2011, when the first phase of the new mall is complete, the remaining retail closes, for the most part the grocery store, resulting in a loss of $0.6 thousand. See Appendix E for more detail.

4 Tax Revenues from the Redeveloped Mall Construction

The tax revenues from construction of the redeveloped Kirkland Parkplace Mall are: 1) Real estate excise taxes, 2) Building related permits, 3) New construction sales taxes, and 4) New construction property taxes.

4.1 Real Estate Excise Tax

The Real Estate Excise Tax (REET) is a levy on sales of all real estate, measured by the full selling price of the property, at a rate of 0.5 percent for the City of Kirkland. The revenues from the tax go to the Excise Tax Capital Fund for local capital improvements and transportation capital projects. Based on consultation with Touchstone, the purchase of the current mall, under option by Touchstone, would be at a price of $60 million. The sale of the current mall for redevelopment by Touchstone would generate an estimated $286 thousand (in 2007 dollars) in REET tax revenue for the City of Kirkland in 2008.

4.2 Building Related Permits

Permits required by the Building Division and the Public Works Department for all new construction and remodeling activities within Kirkland generate one-time revenues for the city. Four different permits are required for the construction of new buildings: general building, electrical, mechanical, and plumbing permits. General building permits come from the entire construction costs of the project while electrical, mechanical, and plumbing fees are based on the cost of each corresponding component. The 2002 Marshall and Swift building valuation manual indicate that the cost for electrical and mechanical is 10 and 4.8 percent of total project cost, respectively (Mundy Associates 2005). The estimate of the cost of plumbing, without a detailed schematic of the development plans, is eight percent of total project cost (Mundy Associates 2005).

The rates for the permits fees come from the 2007 City of Kirkland Development Fees Index (City of Kirkland 2007b). General building permits rates are $3,233.75 for the first $500 thousand of construction costs plus $4.75 for each additional $1,000 of costs. **Table 10** shows the estimate of the general building permit revenue for 2008 through 2010. In 2008, there is the lowest building permit revenue of $116 thousand since construction in that year is minimal. The estimate of the building permit revenue is about $300 thousand each year from 2008 through 2012 and above $400 thousand in 2013, the last year of construction. The hotel construction is the most costly component of the mall redevelopment and thus contributes the most significantly to the building permit revenues.

A portion of the building permit revenue will be used by the City of Kirkland to offset costs of processing permits. The average annual revenue that the City will receive from building permits is estimated to be approximately $425,000 (from 2008 through 2013). This amount may be in excess of what the City needs to pay the costs of processing building permits. Note that $425,000 annually would pay the salary and benefit of more than four full-time equivalent staff positions (based on $100,000 annual salary and benefits).

The electrical permit rates are $1,433 for the first $100 thousand of electrical costs plus $8.70 for each additional $1,000. The electrical permits on average contribute another $60 thousand a year from 2009 through 2013. The mechanical permit rates are $1,612 for the first $100 thousand of mechanical costs plus $14 for each additional $1,000 of costs. The mechanical permits contribute on average $30 thousand a year in revenue during the redevelopment.

The plumbing permit rates for commercial buildings come from a detailed table of rates for the number and size of plumbing components used in construction. In absence of the plumbing details, the estimate of plumbing permit rate is eight percent of the general building permit rate, which comes from the City of Kirkland methodology for single-family residence construction. The estimate of plumbing permits is on average $25 thousand a year in revenue.

The permit rates for fire protection are $500 for the first 300 sprinkler heads plus $50 for each additional one hundred heads of sprinklers. For office buildings, roughly 150 square feet per sprinkler head is the estimate; for retail buildings and hotels, the estimate is roughly 200 square feet per sprinkler head. The fire protection permits contribute about $1.5 thousand a year in revenue.

Table 10. Building Permit Fee Revenues

Building Space	Phase I: 2008-2011 ($Thousands)				Phase II: 2012 ($Thousands)	Phase III: 2013 ($Thousands)
	2008	2009	2010	2011		
Building						
Office	$31	$87	$82	$79	$268	$154
Hotel	$47	$132	$127	$121	$0	$196
Retail	$38	$107	$102	$98	$0	$57
Total	**$116**	**$326**	**$311**	**$298**	**$268**	**$407**
Electrical						
Office	$6	$16	$16	$15	$50	$29
Hotel	$9	$25	$24	$23	$0	$36
Retail	$7	$20	$19	$18	$0	$11
Total	**$22**	**$61**	**$59**	**$56**	**$50**	**$76**
Mechanical						
Office	$3	$8	$8	$7	$24	$14
Hotel	$5	$12	$12	$11	$0	$18
Retail	$4	$9	$10	$9	$0	$6
Total	**$12**	**$29**	**$30**	**$27**	**$24**	**$38**
Plumbing						
Office	$3	$7	$7	$6	$22	$12
Hotel	$4	$11	$10	$10	$0	$16
Retail	$3	$9	$8	$8	$0	$5
Total	**$10**	**$27**	**$25**	**$24**	**$22**	**$33**
Fire						
Office	$0.4	$0.6	$0.6	$0.5	$1.3	$0.8
Hotel	$0.2	$0.4	$0.4	$0.4	$0	$0.4
Retail	$0.2	$0.5	$0.5	$0.4	$0	$0.3
Total	**$0.8**	**$1.5**	**$1.5**	**$1.3**	**$1.3**	**$1.5**
Total of All Permits	**$160.1**	**$445.4**	**$424.5**	**$404.6**	**$364.4**	**$554.2**

Source: Northern Economics, Inc. Analysis.

Note: 2007 dollars.

4.3 New Construction Sales Tax

The full value of construction is taxable through the sales tax, i.e., the cost of materials, labor, and all other services (State of Washington 2007b). Of the sales tax of 8.9 percent on the full value of construction, 0.85 percent goes to the City of Kirkland. The construction expenditures, especially on the hotel, nearly every year of the redevelopment are significant. **Table 11** shows that the Kirkland share of the sales tax on construction averages at around $550 thousand for the years of the construction.

Table 11. New Construction Sales Tax Revenue

Building Space	Phase I: 2008-2011 ($Thousands)				Phase II: 2012 ($Thousands)	Phase III: 2013 ($Thousands)
	2008	2009	2010	2011		
Cost of Construction						
Office	$6,308	$18,023	$17,164	$16,347	$56,264	$32,151
Hotel	$9,718	$27,766	$26,444	$25,185	$0	$41,118
Retail	$7,849	$22,426	$21,358	$20,340	$0	$11,889
Total	**$23,875**	**$68,215**	**$64,966**	**$61,872**	**$56,264**	**$85,158**
Sales Tax: Kirkland Share						
Office	$54	$153	$146	$139	$478	$273
Hotel	$83	$236	$182	$214	$0	$350
Retail	$67	$191	$225	$173	$0	$101
Total	**$204**	**$580**	**$553**	**$526**	**$478**	**$724**

Source: Northern Economics, Inc. Analysis.

Note: 2007 dollars. Sales tax revenue that goes to the City of Kirkland is 0.85 percent of the taxable sales revenue.

4.4 New Construction Property Tax

The City share of property taxes depends on the millage rate in the year that each phase of the new mall is completed. In 2011, 2012, and 2013, the estimate of the millage rate is 1.05, 1.02, and 0.99 respectively. Since the construction of the new mall is in phases, the new construction property taxes reset in 2011 after the Phase I is complete and reset again in 2012 after Phase II is complete. **Table 12** shows that the new construction property tax revenue for Kirkland is the highest in 2011 with the completion of Phase I of the redevelopment. In 2011, 2012, and 2013 the estimate of the new construction property tax revenue for Kirkland in 2007 dollars is $265, $164, and $147 thousand, respectively. See Appendix E for more detail.

Table 12. New Construction Property Tax Revenue

Building Space	Phase I: 2011 ($Thousands)	Phase II: 2012 ($Thousands)	Phase III: 2013 ($Thousands)	Total
Assessed Value				
Office	$140	$160	$102	$402
Hotel	$54	$0	$35	$93
Retail	$58	$0	$12	$66
Total	**$253**	**$160**	**$148**	**$561**
Property Tax: Kirkland Share				
Office	$147	$164	$101	$411
Hotel	$57	$0	$35	$96
Retail	$61	$0	$12	$68
Total	**$265**	**$164**	**$147**	**$575**

Source: Northern Economics, Inc. Analysis.

Note: 2007 dollars.

5 Cost of Service

Section 5.1 examines the cost of service for police during the redevelopment construction and once the redeveloped mall is complete. Section 5.2 examines the cost of service for fire during the construction and after completion. Payment for many of the impacts to roads, parks, traffic, and building maintenance come from impact fees, which, as they are not part of the general fund, are not in this report.

5.1 Police

To accommodate the increase in calls for service at the redeveloped mall, the police department needs one additional patrol officer. See Appendix D for details on the estimates of new personnel to service the redeveloped mall. **Table 13** shows the schedule of costs to the police department during the redevelopment of the mall. The new patrol officer in 2010 is to accommodate the increased number of calls anticipated from the activity at the mall in 2011 after the completion of Phase I of the redevelopment.

The new patrol officer in 2010 increases the costs of service for police to more than $180 thousand, about three-quarters for operations and one-quarter for capital. The annual cost of service for police drops the year after since there is no purchase of new capital.

Table 13. Cost of Police Department Services

Expenditures	Phase I: 2008-2011 ($Thousands)				Phase II: 2012 ($Thousands)	Phase III: 2013 ($Thousands)
	2008	2009	2010	2011		
Operating Expenditures						
Patrol Officer	$0	$0	$110	$108	$106	$104
Capital Expenditures						
All Capital	$0	$0	$74	$0	$0	$0
Total of All Expenditures	**$0**	**$0**	**$184**	**$108**	**$106**	**$104**

Source: City of Kirkland and Northern Economics, Inc. Analysis.

Note: 2007 dollars.

5.2 Fire

The additional staffing for the fire department to service the redeveloped mall at full occupancy is one fire inspector, two fire suppression firefighters, and two emergency medical service firefighters. See Appendix D for details on the estimates of new personnel to service the redeveloped mall. **Table 14** shows the schedule of costs to the fire department during the redevelopment of the mall. A temporary fire inspector in 2008 is specifically to handle the workload related to the redeveloped mall construction.

In anticipation of increased activity at the mall after the completion of Phase I, there is the hiring of a permanent fire inspector, a fire suppression firefighter, and an emergency medical services firefighter in 2010. In 2012, there is another hiring of an emergency medical firefighter to accommodate the increased activity from the completion of Phase II. In anticipation of the completion of the final phase of the redevelopment, there is the hiring of one additional fire suppression firefighter in 2013.

The cost of service for fire is on average about $100 thousand for 2008 and 2009, but the costs rise to about $415 thousand in 2010 to accommodate the anticipated activity from mall operations in 2011. The cost of service falls some in 2011 since there is no capital purchased, but an additional firefighter and purchase of capital in 2012 returns cost to more than $450 thousand. Since there is increased activity at the mall in 2014 after the redeveloped mall is complete, the cost of service in 2013 rises to more than $500 thousand.

Table 14. Cost of Fire and Building Department Services

Expenditures	Phase I: 2008-2011 ($Thousands)				Phase II: 2012 ($Thousands)	Phase III: 2013 ($Thousands)
	2008	2009	2010	2011		
Operating Expenditures						
Fire Inspector	$100	$98	$187	$184	$180	$177
Firefighter	$0	$0	$174	$170	$245	$315
Total	**$100**	**$98**	**$361**	**$354**	**$425**	**$491**
Capital Expenditures						
Vehicle	$0	$0	$47	$0	$23	$23
Breathing Apparatus	$0	$0	$5	$0	$2	$2
Protective Suits	$0	$0	$2	$0	$1	$1
Total	**$0**	**$0**	**$54**	**$0**	**$26**	**$26**
Total of All Expenditures	**$100**	**$98**	**$415**	**$354**	**$451**	**$517**

Source: City of Kirkland and Northern Economics, Inc. Analysis.

Note: 2007 dollars.

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Appendix A: Employment and Relocation – Redeveloped and Current Parkplace Mall

Appendix A.1 describes the assumptions for the determination of total and new employment at the redeveloped mall. Appendix A.2 describes the assumptions for the determination of total and lost employment at the current mall.

A.1 Redeveloped Mall at Full Build Out

Based on consultation with Touchstone, Table A- 1 shows the square footage of office, retail, and other commercial space at the redeveloped mall at full build out. Also based on consultation with Touchstone, an assumption for square feet per employee by building space type determines the number of employees at the redeveloped mall. We reviewed three independent sources, which also have information on square feet per employee for retail, office, and the other commercial space, to confirm the accuracy of the information provided by Touchstone (Pflum 2004, Ragas 1993, Energy Information Administration 1999). Table A- 1 shows the square footage, the assumption of square feet per employee, and the number of employees by building space type at the redeveloped mall.

Table A- 1. Square Feet and Employment at the Redeveloped Mall at Full Build Out

		Assumption[1]	
Building Space	Square Feet (Sqft)	Sqft per Employee	# of Employees
Office	1,072,000	250	4,288
Retail	127,500	450	283
Grocery	54,000	700	77
Cinema	15,000	1,500	10
Restaurants	53,500	300	178
Sports club	70,000	1,000	70
Hotel	222,750	1,800	124
Total	1,614,750	--	5,030

[1] Source: Retail, grocery, cinema, restaurant, and hotel sqft per employee provided by Touchstone: DeChiara, Joseph. "Urban Planning and Design Criteria", Van Nostrand Reinhold, 3rd Edition, 1982. Office and Sports Club sqft per employee: Touchstone

Businesses anticipated to locate at the redeveloped mall, which will be new or expanding in the City of Kirkland, include office, retail, hotels, and other commercial. Based on information provided by Touchstone, the businesses that move into the office, hotels, and retail space (with the exception of the grocery store already at Kirkland Parkplace) will be new to Kirkland. **Table A- 2** summarizes the relocation of businesses to the redeveloped mall.

Table A- 2. Business Relocation to the Redeveloped Mall (Measured in Employment)

Building Space	Redeveloped Mall	New or Expanding in Kirkland	Already Operating in Kirkland
Office	4,288	4,288	0
Retail	283	283	0
Grocery	77	40	37
Cinema	10	10	0
Restaurants	178	178	0
Sports Club	70	70	0
Hotel	124	124	0
Total	**5,030**	**4,993**	**37**

Source: Touchstone

Since the redeveloped mall will be constructed over a five-year period, not all employment at the redeveloped mall will appear in a single year. **Table A- 3** shows the anticipated time frame for employment at the redeveloped mall by building space category. Based on the information, roughly half of the total employment at the redeveloped mall at full build out could begin in 2011, and the other half begins over the next three years.

Table A- 3. Time Frame for Employment at the Redeveloped Mall

Building Space	Number of employees			
	Year 2011	Year 2012	Year 2014	All years
Office	1,568	1,700	1,020	4,288
Retail	193	0	90	283
Grocery	40	0	0	40
Cinema	10	0	0	10
Restaurants	150	28	0	178
Sports Club	70	0	0	70
Hotel	67	0	57	124
Total	**2,098**	**1,728**	**1,167**	**4,993**

Source: Touchstone.

A.2 Existing Mall

Based on consultation with Touchstone, **Table A- 4** shows the square footage of office, retail, and other commercial space at the existing mall. In addition, based on consultation with Touchstone, an assumption for square feet per employee by building space type determines the number of employees at the existing mall. We reviewed two independent studies, which also use an assumption of square feet per employee for retail and office space, to confirm the accuracy of the information provided by Touchstone (Pflum 2004 and Ragas 1993). **Table A- 4** shows the square footage, the assumption of square feet per employee, and the number of employees by building space type at the existing mall.

Table A- 4. Square Feet and Employment at the Existing Mall

Building Space	Square Feet (Sqft)	Estimates[1] Sqft per Employee	Estimates[1] Number of Employees
Office	95,313	250	381
Retail	48,935	450	109
Grocery	25,824	700	37
Cinema	15,603	1500	10
Restaurants	31,781	300	106
24 Fitness	21,000	1000	21
Total	238,456	--	664

[1] Source:
Retail, grocery, cinema, restaurant sqft per employee: DeChiara, Joseph. “Urban Planning and Design Criteria”, Van Nostrand Reinhold, 3rd Edition, 1982. Office sqft per employee: Touchstone. 24 Fitness sqft per employee provided by Touchstone: Actual.

For the redevelopment of the mall, the entire grocery store will remain open at the mall; Nearly 7,000 square feet of restaurants and 13,000 square feet of retail remain for sure in Kirkland, but all other business will move out of the mall by September 2008. Based on statistics from the National Establishment Time Series (NETS), 35 percent of the businesses that move away from the mall remain in the City of Kirkland (Neumark 2005). The economic and tax revenue impact of the existing mall closure (i.e., the negative impact of the loss of businesses) only applies to the businesses that leave the City of Kirkland. **Table A- 5** summarizes the relocation of businesses due to the mall redevelopment.

Table A- 5. Relocation of Businesses because of the Mall Redevelopment (Measured in Employment)

Building Space	Existing Mall	Remain Open at Mall	Move away from Mall: Re-open in Kirkland	Move away from Mall: Move away from Kirkland
Office	381	0	133	248
Retail	109	0	38	71
Grocery	37	37	0	0
Cinema	10	0	3	7
Restaurants	106	0	37	69
24 Fitness	21	0	7	14
Total	664	37	218	409

Source: Touchstone and the National Establishment Time Series (NETS) Database.

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Appendix B: Time Frame for the Construction of the Redeveloped Mall

Based on consultation with Touchstone, **Table B- 1** shows the time frame for the cost of construction of the redeveloped mall. The construction of the redeveloped mall will take place over a five-year period from 2008 to 2013. More than half of the shell, core, and tenant improvement costs of construction will occur from September 2008 to the end of 2010. Between 2008 and 2011, roughly ten percent of construction occurs in 2008, and the remaining 90 percent of construction occurs in 30 percent blocks each year for 2009, 2010, and 2011.

Table B- 1. Time Frame for Construction Expenditures at the Redeveloped Mall

Cost of Construction	Year 2008-2011 ($000,000)	Year 2012 ($000,000)	Year 2013 ($000,000)	All Years ($000,000)
Core and Shell	$273	$78.2	$124.28	$475.48
Tenant Improvement (TI)	$27.76	$14.35	$12.56	$54.68
Total	$300.76	$92.55	$136.84	$530.16

Source: Touchstone.

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Appendix C: In-city Competition and Sales Tax Revenue

The estimate of sales tax revenue that the City of Kirkland will receive from redevelopment of the Parkplace Mall is based on two assumptions:

- a projection of which stores will locate in the redeveloped mall and
- the estimate of consumer spending that will occur at the new stores.

The estimate of sales tax revenue generated from the consumer spending at the new stores may not all be new to the City of Kirkland. For example, if a store is already operating in Kirkland and simply re-locates to the redeveloped Parkplace Mall, the sales tax revenue the store generates is not new to the City. Additionally, if a store that is not located in Kirkland moves into the redeveloped Parkplace Mall and consumers shop at the new store rather than an existing store that is located in Kirkland, the sales tax revenue is not new to the City. These two scenarios would reduce the estimate of sales tax revenue and are referred to in this document as 'in-city competition'. Summarily 'in-city competition occurs if

- stores re-locate from Kirkland to the new mall and
- consumer spending shifts from existing Kirkland stores to the new stores.

The magnitude of the in-city competition depends in large part on the type of demographic the redeveloped mall is targeting as customers, and where the competition for the mall is located. **In the case of the redeveloped Parkplace mall, the primary competition is a mall similar to the Bellevue Place mall.**

Based on an examination of the taxable retail sales revenue on the Eastside, Bellevue receives a lot of sales from consumers living outside Bellevue that could be redirected into Kirkland by the redeveloped mall (see Table C-1). Furthermore, based on a review of the Kirkland business licenses, the new stores under consideration for the redeveloped mall currently do not exist in Kirkland. These findings suggest a level of discount on sales tax revenue due to in-city competition of about 5%.

This level of in-city competition is supported by the tenant mix contemplated for the new mall. The staff from Touchstone responsible for renting space at the new mall reviewed the list of 3,920 current business licenses in Kirkland and said that they did not want any of those types of stores for the new mall. In reviewing these licenses, only two retailers were potential tenants of the redeveloped mall. The only in-city competition segment will be for an estimated 75,000 square feet of office space, such as computer repair services, which have taxable sales revenue. This 75,000 square feet of office space accounts for 23% of the total sales revenues. Discounting the sale revenue for the office space by 20% would equate to a discount rate of 3.89% for overall sales revenue.

Rather than the new mall draining sales tax revenue as a result of in-city competition, an examination of taxable retail sales revenue on the Eastside indicates that the new mall could increase sales in Kirkland (beyond the sales necessary to sustain the stores at the new mall) by attracting shoppers from outside of Kirkland that currently shop in Bellevue. The Washington State Department of Revenue (DOR) publishes information about retail sales revenue by city. Using population estimates (from WA office of Financial Management) and estimates of retail sales from city residents (from US Bureau of Labor Statistics) we estimated the retail sales from non-city residents.

DOR's taxable retail sales revenue, **Table C - 1**, does not distinguish between sales revenue that comes from shoppers that are residents of the city where shopping occurs versus shoppers that are non-city residents of the city where the shopping occurs. In order to identify how much sales revenue comes from shoppers that are non-city residents, we estimated the sales revenue from Kirkland resident shoppers and subtracted that estimate from the DOR's taxable retail sales revenue. The estimate of sales revenue that comes from shoppers that are Kirkland residents comes from the population of the city multiplied by an estimate of the expenditure of a household on goods that are taxable.[7]

The last column of **Table C - 1** shows the estimate of retail sales revenue from non-city residents for the cities of Kirkland, Bellevue, Kenmore, Redmond, and Woodinville. The city of Bellevue has the relatively largest sales revenue from non-city residents of any of the cities on the Eastside, $1,951 million. This suggests that Bellevue has a significant number of retail stores, and that people living outside Bellevue come to Bellevue to shop. With the redevelopment of the Parkplace Mall, this pool of shoppers from outside Bellevue could come to Kirkland rather than Bellevue. This relatively large estimate of retail sales from non-city residents in Bellevue supports our assumptions that drain on sales revenue from in-city competition of the redeveloped Parkplace Mall will be relatively small.

Table C - 1. Estimated Taxable Retail Sales Revenue from Non-City Residents ($ 2006)

City	Population[1]	Estimate of Retail Sales Revenue from City Residents ($ Millions)[1,2]	DOR's Retail Sales Revenue ($ Millions)[3]	Estimate of Retail Sales Revenue from Non-City Residents ($ Millions)
Kirkland	47,180	$1,301	$1,845	$544
Bellevue	117,000	$3,226	$5,177	$1,951
Kenmore	19,680	$543	$190	-$353
Redmond	49,890	$1,375	$2,067	$692
Woodinville	10,350	$285	$732	$447

Source: [1] WA Office of Financial Management, [2] US Bureau of Labor Statistics, [3] WA Department of Revenue, and Northern Economics, Inc. Analysis.

[7] Based on US Bureau of Labor Statistics, for a household with an income $67,813, we estimate that about $25,064 is spent on goods that are taxable.

Appendix D: Number of personnel for the service of the redeveloped mall

Since the redeveloped mall will have more employees and thus more activity at the mall, the redeveloped mall is anticipated to have a greater burden on the services of the police and fire departments. To estimate the increase in the number of personnel to service the redeveloped mall, information on the level of service provided to the current mall was collected from the City of Kirkland police and fire departments. In addition, the Bellevue Place mall property manager was contacted to learn the level of service from the police and fire provided to that mall (Bellevue Place 2007). The Bellevue Place mall closely resembles the future redeveloped mall in both size and the types of businesses that are there. After a review of the assumptions from the two independent sources, significantly different levels of service at the redeveloped mall are projected depending on which of the two sources is used. The assumptions from the City of Kirkland suggest a greater level of service burden than the assumptions from the Bellevue Place mall.

Police

The City of Kirkland estimates that one new patrol officer is necessary to service the redeveloped mall. The increase of one patrol officer is based on the number of employees (664) and the number of calls to the police (500) at the current mall, both at the property and immediately adjacent to property. The breakdown of the 500 total calls is 285 at the property and 215 calls immediately adjacent to site. Based on this information, the average number of calls per employee is (285/664) = 0.43. Since the number of employees projected for the redeveloped mall is about five thousand, the estimated annual calls at the redeveloped mall is 5,000 x .43 per employee = 2,150 calls. Thus, the additional calls to police, the 2,150 calls less the 285 calls, are projected at about 1,865 calls, which when divided by 1,500 calls per patrol officer, suggests that 1.24 officers are necessary to service the redeveloped mall. This number of patrol officers is higher than the estimate based on the information from Bellevue Place.

The estimate based on the information from Bellevue Place is that not even one new full time patrol officer is necessary to service the redeveloped mall. The Bellevue Place mall has 2,200 employees and the number of calls to the police at the property, based on three calls per week from the information obtained from the Bellevue Place property manager, is 165 annually. Based on this information, the average number of calls per employee is (165/2,200) = 0.08. Since the number of employees projected for the redeveloped mall is about five thousand, the estimated annual calls at the redeveloped mall is 5,000 x .08 per employee =400 calls. To make the Bellevue Place information comparable with the anticipated change at the Kirkland Parkplace, the estimated annual calls for the current Parkplace mall with 664 employees is 664 x 0.08 per employee = 53 calls. Thus, the additional calls to police, the 400 calls less the 53 calls, is projected at about 347 calls, which when divided by 1,500 calls per patrol officer, suggests that 0.23 officers are necessary to service the redeveloped mall.

The difference in the estimate of the number of new patrol officers, based on the two sources, is likely due to a number of reasons including differences in location, an on-site security force, demographics of the visitors to the mall, and the types of businesses at the mall (i.e. office and hotel as opposed to retail). Since the Bellevue Place mall more closely resembles the redeveloped mall than the current mall, the estimate based on the information from Bellevue Place would seem more appropriate.

Fire

The City of Kirkland estimates an ongoing need for one additional fire inspector, one additional fire safety engineer, eight additional fire suppression firefighters, and three additional emergency medical firefighters. There is limited explanation provided by the City for why the number of new personnel for the fire department is necessary.

The additional fire inspector and fire safety engineer is based on the square footage of redeveloped mall, but the connection between the square footage and the number of fire inspectors and engineers is not clear. Two additional positions for fire suppression firefighters, which would represent the hiring of eight additional fire suppression firefighters, is based on the number of employees at the redeveloped mall, but again the connection between the number of employees and the number of fire suppression firefighters is not clear. For the estimate of the three additional positions for emergency medical (EM) firefighters, more information is provided by the City.

The City estimates that for the redeveloped mall, based on the increase in the number of employees, a call for an EM firefighter will come every two out of three days. This would make the annual number of calls to EM firefighters, 365*(2/3) calls per day, 243 calls. Since the number of calls to EM firefighters from the current malls is annually 36 calls, the additional calls to EM firefighters, the 243 calls less the 36 calls, is projected at 207 calls. However, the connection between the additional 207 calls and the number of new EM firefighters is not clear.

Based on the November 2, 2007 discussion with the City, the estimates of the new personnel are based on the next level of capacity requirements rather than just the marginal effects that the mall may have on the demand for Fire. It does not seem appropriate to include all the costs of the next level of capacity.

After a review of the information and assumptions provided by the City, some questions arose that might suggest lower costs for the additional fire personnel necessary to service the redeveloped mall. For the fire safety engineer, the fees generated by the tenant improvement projects pay for this staff member. Since these fees are not on the revenue side, the costs of the new fire safety engineer should not be on the cost side. The number of estimated calls to firefighters is similar for the City and Bellevue Place sources, but the independent information from the City website on the number of calls per firefighter (City of Kirkland 2004) suggests that much fewer firefighters are necessary to service the redeveloped mall than the City's estimate.

Based on about 110 fire suppression calls from Bellevue Place in the past year, there are annually about 0.05 calls per employee. The additional fire suppression calls at the redeveloped Kirkland Parkplace Mall is estimated at (5000-664)*0.05 = 217 calls. Based on the 2004 fact sheet for the fire and building department, the annual number of calls per firefighter is 135 calls (City of Kirkland 2004). This suggests that two rather than eight fire suppression firefighters are necessary to service the redeveloped mall, six fewer firefighters than the City's estimate. Similar to the City's estimate of 207 calls, the Bellevue Place information suggests that the estimated additional calls for EM firefighters are about 208. Based on 135 calls per firefighter, only two additional EM firefighters are necessary to service the redeveloped mall, one less EMS firefighter than the City's estimate. An additional concern is that there is no indication that the on-site security and management at the redeveloped mall is taken into account by the City in evaluating the number of new firefighters necessary.

Appendix E: Detail on the sales, property, and business license fee tax revenues calculations

Section E.1 describes the additional detail on sales tax calculations. Section E.2 describes the additional detail on property tax calculations, and Section E.3 describes the additional detail on the calculations for business license fees.

E.1 Sales tax revenues

Table E - 1 shows the sales per square foot by type of building space for relevant years of the redevelopment. Businesses begin operations at the redeveloped mall in 2011, 2012, and 2014. Businesses at the current mall cease operations in 2008 and 2011. The sales per square foot, including inflation of 3%, shown in **Table E - 1** is in nominal dollars.

Some information on the kinds of stores intended for the redeveloped mall is available. Restaurants includes both fine and casual dining; general merchandise is anticipated to include a bookstore, neighborhood hardware, drug store, and technology store; retail includes high-end dress and men's clothing shops, urban furnishings, jewelry, and specialty foods; and, services include a retail brokerage and durable goods showroom (Touchstone 2007). The sales per square foot figures from the Urban Land Institute (ULI) for the super-regional shopping center (Urban Land Institute 2004) match up with the sales per square foot figures for the kinds of stores intended for the redeveloped mall in **Table E - 1**. The redeveloped mall is a super-regional mall based on its proximity to I-405 and downtown Kirkland, and the kinds of stores intended for the redeveloped mall, in particular the general merchandise. Since the stores are oriented towards higher-end shoppers, the sales per square foot figures from ULI for clothing, jewelry, and other retail are the most appropriate for the retail of the redeveloped mall. In addition, there is adjustment of the figures from the ULI for inflation since the ULI figures are from 2004.

Table E - 1. Sales Revenue per Square Foot, including inflation ($/Sqft)

Building Space	2008	2011	2012	2014
Redeveloped Mall				
Office services (Taxable)	--	500	515	546
Retail	--	410	422	448
Grocery	--	468	482	511
Cinema	--	109	113	119
Restaurants	--	480	494	524
Sports club	--	219	225	239
Hotels	--	88	--	94
Current Mall				
Retail	375	410	--	--
Cinema	100	109	--	--
Restaurants	439	480	--	--
24hr Fitness	200	219	--	--

Source: Touchstone, Mundy Associates, Northern Economics, Inc. Analysis.

Note: Inflation is 3%.

Table E - 2 provides detail of the sales tax revenue, in 2007 dollars, including detail about the type of business space and number of square feet per type of space. In discounting to 2007 dollars in **Table E - 2**, the sales per square foot for each type of building space (in 2007 dollars) inferred from **Table E - 2** is lower than the nominal values shown in **Table E - 1**.

Table E - 2 shows the number of square feet that will generate taxable sales in the redeveloped mall. The current mall has no office space that generates significant amounts of sales tax revenue. For example, the redeveloped mall will have over a million square feet of office service space. However, only 75,000 square feet of office service space generates taxable revenues. An office service business that generates taxable revenue is, for example, computer maintenance and repair. Other office businesses may generate small amounts of taxable sales revenue through the purchase of copiers, etc., but this type of taxable sales revenue was not calculated for either the redeveloped mall or the current mall.

Table E - 2, which is an extension of **Table 5**, does not consider the in-city competition of 5% shown in sales tax revenue figures for the executive summary tables. Since the executive summary tables are in nominal dollars, the relationship between the steady state (in 2007 dollars) sales tax revenue shown in **Table E - 2**, \$875.6 thousand, and the 2014 value for sales tax revenue in **Table ES-2**, \$1,139 thousand, may not be clear. Note that $\$1,169/(1.05)^7 = \$809.5$ thousand, and then removing the discount for in-city competition $\$830.8/0.95 = \$874.5$ thousand. Thus, the steady state value (in the 2007 dollars) and the 2014 value for sales tax revenue match-up.

Table E - 2. Taxable Sales-Generating Square Feet and Sales Tax Revenue

Building Space	Taxable Sales-Generating Square Feet	Total Sales Revenue ($Millions)	Taxable Sales Revenue ($Millions)	Kirkland Share of Sales Tax ($Thousands)
Redeveloped Mall				
Office services (Taxable)	75,000	$29.1	$29.1	$247.5
Retail	127,500	$40.6	$40.6	$344.9
Grocery	28,176	$10.2	$2.1	$17.4
Cinema	15,000	$1.3	$0.3	$2.2
Restaurants	53,500	$19.9	$19.9	$169.4
Sports club	70,000	$11.9	$11.8	$100.9
Hotels	222,750	$15.0	$15.1	$127.9
Total	**591,926**	**$128.1**	**$118.9**	**$1,010.3**
Current Mall				
Retail	23,412	$7.5	$7.5	$63.3
Cinema	10,142	$0.9	$0.2	$1.5
Restaurants	15,855	$5.9	$5.9	$50.2
24hr Fitness	13,650	$2.3	$2.3	$19.7
Total	**63,059**	**$16.5**	**$15.9**	**$134.7**
Difference	**528,867**	**$111.6**	**$103.0**	**$875.6**

Source: Touchstone, Mundy Associates, Northern Economics, Inc. Analysis.
Note: 2007 dollars. Some office business revenues are subject to sales tax such as computer maintenance. The taxable sales revenue for the grocery and cinema is 20 percent of the total sales revenue. Sales tax revenue that goes to the City of Kirkland is 0.85 percent of the taxable sales revenue.

E.2 Property tax revenues

Table E - 4 shows the square footage and assessed value for each type of building space office, retail, and hotel of the redeveloped mall beside the assessed value for those components of the redeveloped mall. The estimated assessed value per rentable square foot (AV/RSF) in 2007 of the redeveloped mall for the office, hotel, and retail is $380, $325, and $275 respectively. The estimate of the growth of the assessed value is 6.5% per year.

The estimate for assessed value of commercial property for the redeveloped Parkplace Mall is $380 AV/RSF of building space (in 2007 dollars). The estimate is based on King County assessor data for three new office properties in the Bellevue CBD. Lincoln Square Office Tower was completed in 2007 and City Center Bellevue and Tower 333 are currently under construction. This data was used in the 1/01/07 valuation (new construction is determined at the percent complete as of July 31 of the assessment year).

The 2008 valuation of these properties will not be available until July 2008. With rising construction costs and higher land values, escalating office lease rates and low vacancy levels, it is estimated that the assessed values of new office buildings by either the cost or income methods will continue to rise according to the commercial appraiser that determines the assessed values of the larger office buildings in King County.

These three properties most accurately reflect the valuation of new commercial space in King County (personal communications with Dan Margonelli, King County assessor's office). **Table E - 3** shows the summary of the assessor's data on these three properties.

Lincoln Square Office Tower is located in downtown Bellevue. Construction was completed in 2007. The current assessed AV/RSF, using the income approach, is $379.29 (personal communication with Dan Margonelli, King County Assessor's Office).

City Center Bellevue is also located in Bellevue. At the last assessment in July 2007 the building was 25 percent complete. Using the cost-basis appraisal method the AV/RSF is $289.35. Staff at the assessor's office selected to use the cost-basis appraisal method because the building was only 25 percent complete at the time of the last assessment. As the building nears completion, and more information is available about market vacancies and lease rates, the appraiser can choose to switch appraisal methodologies, likely to the income-based approach. Anticipation that this switch in appraisal methods is likely; the County appraiser has already begun estimating what the income-based valuation for the City Center Bellevue might be. Based on current market rates the income-based appraisal method for the City Center Bellevue is $387 AV/RSF (Personal communication with Dan Margonelli, King County Assessor's Office).

Tower 333 is also located in Bellevue. At the last assessment in July 2007, the building was 40 percent complete. Using the cost-basis appraisal methodology the AV/RSF is $369.72. Staff at the assessor's office selected to use the cost-basis appraisal method for much the same reasoning as the appraisal of the City Center Bellevue. In addition, in anticipation that there may be a future switch in appraisal methods as more data about lease and vacancy rates is known, the County appraiser has already begun estimating what the income-based valuation for Tower 333. That income-based appraisal is $390 AV/RSF. (Personal communication with Dan Margonelli, King County Assessor's Office).

Using the income-based appraisals for these three properties, as the basis for an estimate of the appraised value of the redeveloped Parkplace mall, are likely as accurate as is possible at this time. In summary, the income-based appraised values for the three properties are $379.29 AV/RSF, $387.00 AV/RSF and $390 AV/RSF. The average of these three values is $385 av/sqft. The County appraiser pointed out that these appraised values include land values, which might be slightly higher in Bellevue than Kirkland; therefore, we reduced the average value by $5 AV/RSF, to reflect this fact.[8]

The basis for the estimated $325 AV/RSF of hotels is based on two data points, the Woodmark Hotel located at Carillon Point and the Westin at Lincoln Square. The Woodmark 2007 appraisal is $287 AV/RSF. The Woodmark was completed in 1989 and as such is not as comparable to the redeveloped Parkplace mall as new construction however, it has waterfront that the Parkplace mall will not have. The Westin at Lincoln Square is currently being constructed. The current AV/RSF is $358.

[8] A reduction of $5 AV/sqft is roughly equivalent to reducing the assessed value of the land in Kirkland by 25 percent. For example, the assessed value of the land of the City Center Bellevue is $19 AV/sqft – of building space ($11,106,300/571,806). $5 AV/sqft approximately represents 25 percent of $19 AV/sqft.

Table E - 3. Summary of Assessor's Data for Comparable Office Property

Property Name	Net SF	AV	AV/SF	Parcel Number	Notes on current 2008 assessment values	Estimate of income-based AV/RSF
Lincoln Square	538,704	$204,324,108	$379.29	4323420000	100% complete - income basis, not available on-line as of January 22, 2007 information obtained from King County.	$379.00
City Center Bellevue	571,806	$165,450,935	$289.35	3225059058	25% complete - cost basis, total valuation is $154,344,635 for improvements plus $11,106,300 for land. On-line tax roll information of $49,692,400 is 25% of total assessed improvement value plus land assessment. (a)	$387.00
Tower 333	354,974	$131,239,466	$369.72	1544100316	40% complete - cost basis, total valuation is $123,742,066 plus $7,497,400 for land. On-line tax roll information of $56,994,200 is 40% of total assessed improvement value plus land assessment. (a)	$390.00

(a) Assessment values based on the cost methodology use building cost data available in July of 2007 and are subject to change.
(b) Source: Personal communications with Dan Margonelli, King County Assessor's Office.

The assessed values per foot also correspond to 85% of the estimated sale price per square foot for office, hotel and retail that is $440, $405, and $350 respectively. A ratio of assessed value to sale price of 85% comes from a King County Assessor executive summary report that found a ratio for 2006 of 78% and a ratio for 2007 of 92% (King County Department of Assessments 2007c). The estimated sale prices per square foot come from improvement sales in Bellevue and Kirkland (King County Department of Assessments 2007a and 2007b)[9].

The City share of property taxes depends on the millage rate in the year that each phase of the new mall is completed. In 2011, 2012, and 2013, the estimate of the millage rate is 1.05, 1.02, and 0.99 respectively (see **Table E - 5**). The declining millage rate means that the City receives less property tax from the new construction assessed as "new money" of the redeveloped mall.

Table E - 4. Square Feet and Property Tax Revenue

Building Space	Square Feet	Assessed Value ($Millions)	Assessed Value per Square Foot ($/Sqft)[1]	Kirkland Property Tax Share ($Thousands)
Redeveloped Mall				
Office Component	1,072,000	$402	$375	$411
Hotel Component	292,750	$93	$318	$96
Retail Component	250,000	$66	$264	$69
Total	**1,614,750**	**$561**	**$347**	**$575**

Source: King County Assessor and Northern Economics, Inc. Analysis.

Note: 2007 dollars. [1] The assessed value per square foot shown in the table differs slightly from the actual 2007 assessed value per square foot ($380, $325, $275 for office, hotel, and retail) since the table values are discounted at 5% from 2014 after property taxes on the earlier phases of the project have grown at 1% for a few years.

Table E - 5 indicates the square feet, assessed value, assessed value per square foot, property tax, and City property tax by the phase of redevelopment. The assessed value per square foot increases over time since the assessed value grows at 6.5%, which is greater than the rate of discount of 5%. The millage rate is anticipated to decrease over time due to the growth in assessed value of all property in the City.

[9] In Bellevue, office parcels 154410-0216, 262505-9244, 532800-0025, 638998-0170 sold for $459, $479, $420, $573 per square foot respectively. Retail parcels 066600-0035, 154410-0273, 570900-0188 sold for $375, $446, $475 per square foot respectively.

Table E - 5. Square Feet and New Construction Property Tax Revenue

Building Space	Phase I: 2011	Phase II: 2012	Phase III: 2013	Total
Square Feet				
Office	392,000	425,000	255,000	1,072,000
Hotel	190,000	0	102,750	292,750
Retail	209,500	0	40,500	250,000
Total	**791,500**	**425,000**	**398,250**	**1,614,750**
Assessed Value ($Millions)				
Office	$140	$160	$102	$402
Hotel	$54	$0	$35	$93
Retail	$58	$0	$12	$66
Total	**$253**	**$160**	**$148**	**$561**
Assessed Value per Square Foot ($/Sqft)[1]				
Office	$357	$377	$400	$375
Hotel	$284	$0	$340	$318
Retail	$277	$0	$296	$264
Total	**$320**	**$377**	**$372**	**$347**
Millage Rate	**1.05**	**1.02**	**0.99**	**1.03**
Property Tax: Kirkland Share ($ Thousands)				
Office	$147	$164	$101	$411
Hotel	$57	$0	$35	$96
Retail	$61	$0	$12	$68
Total	**$265**	**$164**	**$147**	**$575**

Source: Northern Economics, Inc. Analysis.

Note: 2007 dollars. [1] The assessed values per square foot shown in the table differ slightly from the actual 2007 assessed value per square foot ($380, $325, $275 for office, hotel, and retail) since the table values are discounted at 5% from 2014 after property taxes on the earlier phases of the project have grown at 1% for a few years.

E.3 Business Licensing Fees

Table E - 6 shows the employment and the number of businesses that are new to Kirkland at the redeveloped mall and the employment and the number of businesses lost to Kirkland from the current mall. Based on consultation with Touchstone, there are several large anchor tenants, office business with greater than 50 employees, expected in each of the three new office buildings. In 2011, 2012, and 2014, the number of anchor tenants estimated to move into the mall is 15, 12, and 6 respectively. The smallest office business that Touchstone anticipates to lease space at the new mall has 10 employees. The retail businesses have a wide range in the number of employees per business ranging from seven employees per business for the cinema to 46 employees per business for the sports club. Businesses in the generic retail category have on average 12 employees per business. There are two hotels planned for the redeveloped mall. The first hotel opens in 2011 and the second hotel opens in 2014.

Table E - 6. Employment and Businesses at the Parkplace Mall

Building Space	2008	2011	2012	2013	2014	Total
Redeveloped Mall – New Employment						
Office Component	0	1,568	1,550	150	1,020	4,288
Hotel Component	0	67	0	0	57	124
Retail Component	0	463	28	0	90	581
Total	**0**	**2,098**	**1,578**	**150**	**1,167**	**4,993**
Current Mall – Lost Employment						
Office Component	248	0	0	0	0	248
Retail Component	126	19	0	0	0	145
Total	**374**	**19**	**0**	**0**	**0**	**393**
Redeveloped Mall – New Businesses						
Office Component	0	79	77	15	63	234
Hotel Component	0	1	0	0	1	2
Retail Component	0	28	2	0	9	39
Total	**0**	**108**	**79**	**15**	**72**	**274**
Current Mall – Lost Businesses						
Office Component	25	0	0	0	0	25
Retail Component	9	2	0	0	0	11
Total	**34**	**2**	**0**	**0**	**0**	**36**

Source: Northern Economics, Inc. Analysis.

Table E - 7, Table E - 8, Table E - 9, Table E - 10 indicate the number of businesses by building space category and number of employees for 2011, 2012, 2013, and 2014. The categories for the number of employees match to the business licensing fee surcharge schedule to show how the number businesses tie to the business licensing fees the City collects.

Table E - 7. New Business by Building Space Category in 2011

Building Space	Employees				
	1	2-5	6-20	21-100	Total
Office	0	0	67	12	79
Hotel	0	0	0	1	1
Retail	0	0	25	3	28
Total	**0**	**0**	**92**	**16**	**108**

Source: Northern Economics, Inc. Analysis.

Table E - 8. New Business by Building Space Category in 2012

Building Space	Employees				
	1	2-5	6-20	21-100	Total
Office	0	0	65	12	77
Hotel	0	0	0	0	0
Retail	0	0	2	0	2
Total	**0**	**0**	**67**	**12**	**79**

Source: Northern Economics, Inc. Analysis.

Table E - 9. New Business by Building Space Category in 2013

Building Space	Employees				
	1	2-5	6-20	21-100	Total
Office	0	0	15	0	15
Hotel	0	0	0	0	0
Retail	0	0	0	0	0
Total	**0**	**0**	**15**	**0**	**15**

Source: Northern Economics, Inc. Analysis.

Table E - 10. New Business by Building Space Category in 2014

Building Space	Employees				
	1	2-5	6-20	21-100	Total
Office	0	0	57	6	63
Hotel	0	0	0	1	1
Retail	0	0	8	0	8
Total	**0**	**0**	**65**	**7**	**72**

Source: Northern Economics, Inc. Analysis.

Table E - 11 has the business licensing fee surcharge schedule. Since an office business with 10 employees or more typically earns above $100,000 annually in total revenue, the office businesses pay the greatest license fee for their employment size category. Since retail businesses all have more than 10 employees per business (except for cinema), the retail businesses also pay the greatest license fee for their employment size category.

Table E - 11. Business Licensing Fee Surcharge Schedule

Employees	Annual Gross Receipts		
	Greater than $100,000	$50,000-$100,000	Less than $50,000
1	$125	$75	$0
2-5	$225	$150	$0
6-20	$750	$550	$0
21-100	$1,500	$1,000	$0
100+	$2,500	$2,000	$0

Source: City of Kirkland.

Table E - 12 indicates the business licensing fee revenues from the new businesses at the redeveloped and the lost businesses at the current mall. The license fee revenues per business for the office businesses in 2011, 2012, and 2014 exceed the $750 annual fee for businesses with between 6-20 employees since large anchor office business tenants move into the office buildings in those years.

Table E - 12. Business Licensing Fee Revenues

Building Space	License Fee Revenues ($ Thousand)					
	2008	2011	2012	2013	2014	Total
Redeveloped Mall – Revenue Gain						
Office Component	$0.0	$54.1	$52.9	$9.1	$41.3	$157.4
Hotel Component	$0.0	$1.1	$0.0	$0.0	$0.6	$1.7
Retail Component	$0.0	$17.7	$0.9	$0.0	$4.5	$23.3
Total	**$0.0**	**$72.9**	**$53.8**	**$9.1**	**$46.4**	**$182.4**
Current Mall – Revenue Loss						
Office Component	$14.9	$0.0	$0.0	$0.0	$0.0	$14.9
Retail Component	$5.7	$0.6	$0.0	$0.0	$0.0	$6.3
Total	**$20.6**	**$0.6**	**$0.0**	**$0.0**	**$0.0**	**$21.2**

Source: Northern Economics, Inc. Analysis.

Note: 2007 dollars.

CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.ci.kirkland.wa.us

MEMORANDUM

To: Cynthia Berne, President/Broker
Long Bay Enterprises, Inc.

From: Tracey Dunlap, Director of Finance & Administration

Date: February 14, 2008

Subject: City of Kirkland Perspective on Fiscal Impacts

Attached to this memorandum, please find the City's perspective on the fiscal impacts of the redevelopment of Kirkland Parkplace Mall. The attached report by the City's consultant, Berk & Associates, was prepared in response to the "Fiscal Impact Analysis of Parkplace Mall Redevelopment" prepared by Northern Economics, Inc. and received by the City on January 25, 2008. The report is intended to summarize the City's issues and concerns, as well as provide a risk assessment that identifies different policy-based options for potential capital participation. This information has been reviewed with the City Manager, however, the City Council will make the final determination of their risk tolerance and potential participation. In addition, any participation by the City would be contingent on demonstrating the public benefit of the candidate improvements. The report is marked draft in recognition that there may be further clarifications to be added after we have met to discuss the results.

In addition, we are attaching the spreadsheet that summarizes the different staffing assumptions between the two reports.

We are scheduled to meet to discuss this information on Wednesday, February 20. If you identify questions in advance of that meeting, please feel free to send them along.

BERK & ASSOCIATES

Strategic and financial planning • Public finance
Policy development • Facilitation

MEMORANDUM

DATE: February 14, 2008

TO: Tracey Dunlap, City of Kirkland

FROM: Michael Hodgins

RE: **Review of Fiscal Impact Analysis of the Kirkland Parkplace Mall Redevelopment**

At the request of the City of Kirkland, Berk & Associates has reviewed the report "Fiscal Impact Analysis of the Kirkland Parkplace Mall Redevelopment" prepared by Northern Economics and dated January 2008. We were asked to do the following:

- Review the methodology and approach to the analysis of fiscal benefits.
- Review and/or confirm projections of new one-time and ongoing City revenues resulting from the redevelopment of Parkplace Mall, including estimated timing of new revenue receipts based on proposed phasing of the development.
- Provide an assessment of the reasonableness of the net fiscal impact estimates.

The primary purpose of this review is to provide the City with a reasonableness check on the estimated net fiscal benefits associated with the project as these are to be the basis for a negotiation regarding the potential use of new tax revenues to fund public improvements that are designed to support the project. As such, much of the review is conducted from the perspective of the City and considers the analysis and key assumptions within a risk assessment framework.

The Northern Economics report concludes that the redevelopment of Parkplace would result in net financial benefits to the City of $29.3 million over 30 years assuming a 5% discount rate. These net financial benefits are the result of the estimated increases in City tax revenues (both one-time construction impacts and ongoing activities) less the estimated increases in City staffing associated with new demands to provide services to the larger Parkplace development. The present value of the net benefits are derived from the following:

- Present value of the increase in total City revenues of $41.9 million over 30 years ($35.6 million from ongoing sources plus $6.3 million from one-time construction-related activities).
- Present value of increased police and fire staffing costs of $12.6 million over 30 years (includes allowances for one-time increase in equipment and fleet costs associated with new positions).

Summary of Findings from Berk & Associates Review

Upon review of the memorandum, we have arrived at three principal conclusions:

1. The methods used to estimate revenues and costs are consistent with generally-accepted industry norms and practices.
2. The net fiscal benefits presented in the report ($29.3 million over 30 years) appears to overstate the likely net revenues that could be available for infrastructure funding. In particular:
    - o The estimate of incremental revenues includes permit fees and lodging tax revenues, neither of which could be tapped for potential City funding of project-related infrastructure.
    - o Some revenue assumptions may be overly optimistic to be used as the basis for a City funding commitment.
    - o Property tax calculations do not account for the one-year lag between project completion and when the City's levy is increased to reflect the new project.
    - o Cost analysis may not recognize the full incremental impact to fire services.
3. The net benefits assessment does not address how much of the estimated net cash flows might be used to support capital funding or the magnitude of supportable capital investments.

The balance of this memorandum presents a brief discussion to support these conclusions and presents a revised net benefits summary and capital funding analysis for City consideration.

Reasonableness of Revenue Estimates

In general, the overall impression that one gets from the review of revenue estimates is that the analysis works to account for all revenues (even those that will not be available for any type of capital investment) and builds a case around optimistic or in some instances, "best case" assumptions. The following highlights our observations on each of the major revenue elements contained in the report:

- **Sales taxes from ongoing activity.** The direct impact from the sales tax from ongoing operations is the largest single source of new tax revenues for the City as a result of the redevelopment project, estimated by Northern Economics to contribute $18 million in present value terms over the next 30 years. Generally this estimate appears to be within a reasonable range of likely outcomes.
    - o **Sales per SF assumptions.** The sales per square foot (SF) assumptions are generally consistent with assumptions used in similar analyses. As a check against these values, Berk & Associates prepared an alternative estimate with an employment-based approach using City of Kirkland employment and taxable retail sales data at the 3-digit NAICS code level. While the results varied somewhat by type of activity, the overall net increase in taxable retail sales of approximately $103 million per year was supportable.
    - o **Incremental TRS calculation.** The detailed sales tax analysis presented in Appendix E compares sales, TRS and taxes for the redeveloped mall and the current mall (Table E-2). The square foot assumptions for the current mall are considerably lower than the description of the current mall presented earlier in the report (Table 1 or Table A-4). If one were to substitute the larger square footage values, the total incremental revenues would be cut by approximately 21%. The report does not address this

difference or provide a basis for the lower space assumptions in the sales tax analysis. While this suggests that the estimates in the report may overstate the incremental revenues, the findings of the employment-based analysis discussed above largely mitigate the concerns raised here.

- **Redistributive effects.** The analysis assumes that there will be a very small redistributive effect resulting from the project – a 5% discount is assumed to reflect potential shifts in spending within the City. The supporting analysis focuses primarily on a review of likely tenants and suggests that since the new mall is not likely to attract existing retailers in the City, the potential for redistributive effects is small. This analysis does not account for other potential shifts within the City retail sector, such as apparel, jewelery and other consumer goods sales that could shift from Costco to the mall or the potential redistribution among restaurant activities in the City. However, the analysis also does not take into account the potential for increased spending at current retail stores and restaurants from the influx of office workers and hotel guests at the redeveloped Parkplace mall. As a result, on balance the 5% discount is probably reasonable.

- **Property taxes.** The analysis suggests that the total annual property tax benefit to the City of Kirkland in present value terms will be approximately $10.2 million over the next 30 years. This is the second most important source of revenue from the project in terms of total contribution from the redevelopment proposal. Generally, the City's growth in property tax revenues are limited to a 1% increase over the previous year levy plus an additional increment equal to the value of the previous year's new construction activity multiplied by the previous year's levy rate. As a result, the only incremental revenue benefit the City will enjoy relates to the increases in the levy due to new construction. The following are four issues that we believe combine to overstate the likely value of this benefit.

  - **Lag in new construction levy bump.** The new construction increase in the City levy is assumed to occur in the same year as the project construction is completed. In fact, the levy increase due to new construction does not take place until the following year. Once the project is complete, it is identified as new construction and the increase in the City's levy is based on the previous year value multiplied by the previous year tax rate.

  - **Escalation to year of levy bump.** The analysis assumes that the assessed value of the property will increase at 6.5% per year until the year that the redeveloped properties are added to the tax rolls. This assumption seems to be taken from an analysis of future levy rates provided by Berk & Associates. The analysis assumed that overall City assessed value will grow at 6.5% per year and that new construction values will average 2.5% of total assessed value. It is important that the rate of property appreciation in the Parkplace analysis be consistent with these assumptions, since the levy rate assumptions are derived using these underlying property value assumptions.

  The problem with using the 6.5% value from the levy rate analysis is that this includes both the effects of appreciation on all property types and the annual additions for new construction. Removing the effects of new construction would reduce the rate of underlying property appreciation to 3.8% per year. Using this rate might also overstate property appreciation, since the commercial values generally grow more slowly than residential values – so an overall average of 3.8% might imply 3.0% for commercial and 4.0% for residential properties.

- **Assumptions for AV per square foot.** The values used to estimate future assessed value of the project – $380/sf for office, $325/sf for hotel and $275/sf for retail – are generally based on three office projects in Bellevue and two hotel projects. The office projects are all new and reflect the current top-of-market situation in downtown Bellevue. The hotels cited include the Westin at Lincoln Center and Carillon Point (though the value is for all activities at Carillon). There is no cited justification for the retail value. Pegging the Parkplace redevelopment to the height of the current Bellevue office market may be overly optimistic, since this area is experiencing a significant boom in valuations.
- **Incremental portion of project values that are new construction.** The analysis treats the full assessed value of the finished project as the amount of new construction. While it is sometimes unclear how the Assessor's office treats new construction values in the case of redevelopment projects, at a minimum the underlying land value should be excluded. A more conservative approach would also discount the completed project assessed value for the value of existing improvements before the redevelopment project.

- **Sales tax on construction.** The City will gain sales tax revenues on the value of construction labor and materials. The analysis estimates that this activity will generate $3.1 million in present value terms. The report provides very little in terms of the underlying assumptions used to generate this estimate. In reviewing the results, there are some unusual findings suggested, such as the hotel portion contributing almost as much in sales tax as the office portion even though there is almost four times as much office space. However, if you only consider the total revenues, the magnitude of the impact seems to be reasonable for the initial construction period. The analysis does not appear to take into account the likely increase in some ongoing sales tax collections from tenant improvement activities resulting from future turnover in tenants.
- **License fee and surcharge revenues.** The business license and surcharge revenues (estimated to be $2.6 million in present value terms) are based on an estimate of the number and size of businesses that would locate in the redeveloped mall. The analysis suggests that a total of 274 businesses will be housed when the project is completed, including several larger anchor tenants in both the office and retail areas. This suggests that the average space per tenant is estimated to be 5,893 SF. If you assume that the grocery, cinema and sports club are single businesses and there are two hotels, then the average tenant space is reduced to 4,658. If the project attracts several large office tenants, then it seems likely that the number of businesses might be lower than estimated. However, absent actual leasing expectations, there is not enough evidence to suggest an alternative to the Northern Economics' estimate of the number of businesses.

  The more critical question for the City of Kirkland is whether the City wants to assume that the surcharge will continue in its current form over the next 30 years.

- **Fees and permits.** There is a detailed analysis of estimated building permit revenues included. Since these revenues are intended to be fees for services, they are not general revenues available for other purposes, such as investing in infrastructure requirements. As such, these revenues (estimated to be $2.35 million in present value terms) should be excluded from the analysis of net benefits.
- **Lodging taxes.** The analysis estimates the City's lodging tax revenues to be $2.3 million in present value terms over the 30 year planning horizon. The City's lodging tax revenues are restricted to activities associated with promoting tourism and as such would not be available to fund infrastructure investments. Further, since the programs funded through the lodging tax are developed based on available funding, any increase in revenues will generate a concomitant increase in costs. As a result, these revenues should be excluded from the estimate of net fiscal benefits.
- **Utility taxes.** The analysis of utility taxes is based on estimates of annual consumption per tenant and current utility rates and City utility tax rates. The total estimated revenue from utility taxes is $2.5 million in present value terms over the next 30 years. Comparing this level of income with the estimated employment suggests that the project would yield incremental utility tax revenues of approximately $27.22 per job. This seems to be a reasonable, and perhaps even conservative, estimate of revenues from utility taxes.

Reasonableness of Cost Estimates

The fiscal analysis includes an assessment of potential impacts on City service costs resulting from the increased activity at the redeveloped Parkplace mall. The analysis focuses on two areas of likely cost increases: police services and fire protection.

- **Police costs.** The police cost estimates are based on a review of calls for service and employment data for Bellevue Place and current City of Kirkland calls per office. The analysis suggests a need for an additional 0.23 officers, which has been rounded up to one full time position. The total cost over 30 years is estimated to be $2.5 million and includes a one time expense for equipment costs. The City of Kirkland analysis applied the same methodology but extrapolated from current Parkplace mall call data and concluded a need for two additional officers which would result in present value of total costs of $3.9 million over 30 years. The City believes that the police department estimate appropriately captures the total staffing impact of the proposed project, which will be related to both on-site (service calls to the property) and off-site (traffic control and parking enforcement). Also, it is noteworthy that the police costs provided by the City include only the incremental salary and benefits costs associated with the additional officers and does not include any ongoing non-labor expenses, which currently amount to approximately $16,000 per FTE in the police department.
- **Fire costs.** The fire suppression costs estimated by the developer are based on a similar approach as police with an estimate of fire and EMS calls and current calls per firefighter data. The analysis suggests that the cost of supporting the redeveloped mall with fire services is approximately $10 million over the next 30 years. The City analysis was based on an operational assessment that existing crews would need to be augmented to support fire suppression response needs for the proposed eight-story office buildings. The increased staffing would amount to two full time positions, which would require eight FTE's to staff on a 24/7 basis. The result is a long-term cost estimate of almost $23 million. As with the police

department estimates, these costs only account for incremental salary and benefit costs and exclude potential non-labor costs. Current ongoing non-labor costs in the Fire Department amount to approximately $12,000 per FTE.

- **EMS staffing.** As with the fire suppression requirements, the City estimates that the project will require an additional three FTE's to augment the current depth of service at the stations which would be the first responder for calls to the site. The developer analysis assumes the need for two new FTE's. The City's estimate is based on the current policy of maintaining full redundancy between fire suppression and aid response capability, which the lower developer estimate would not. As such, the City believes that the appropriate staffing solution is to add three FTE's to address EMS response capabilities.
- **Escalation of City costs.** The analysis assumes that expenses grow at the general rate of inflation, which is assumed to be 3.0%. This rate of escalation will result in an underestimation of future cost impacts to the City. For its own long-range financial planning purposes, the City of Kirkland assumes that salary and wage escalation will 6% through 2009 and 5% thereafter, while benefits escalation is assumed to increase 10% through 2009 and 6% thereafter. As the analysis considers long term cost implications, it is recommended that the labor escalation factors be consistent with other City long-range financial planning efforts.
- **Credit for public benefit of additional staffing.** The increased staffing levels that are triggered by the proposed Parkplace Mall redevelopment would also provide the City of Kirkland with a general public benefit in addition to addressing the specific project needs. This is a function of the step-wise process of adding resouces, where a new project can trigger the need but does not require 100% of the resource. For example, while the City has determined that there is an operational requirement to add two more fully staffed fire suppression positions to address the unique response conditions for 8-story buildings, these resources will also augment overall level-of-service and depth of coverage throughout the service area. The question of how much public benefit might exist and to what degree the project receives a credit to reflect these benefits is ultimately a policy choice for the City of Kirkland.

Investment Analysis and Risk Assessment

The purpose of the fiscal impact analysis is to determine how much the City of Kirkland can reasonably expect to benefit from the Parkplace redevelopment project in terms of net revenues. This estimate is intended to be the foundation upon which the City might consider making an investment in infrastructure related to the project that has as public benefit, as was done in the case of the Totem Lake redevelopment project. Toward this end, it is important to assess the revenues, costs and estimated net benefits from the perspective of a prospective investment and consider potential risks accordingly.

Toward this end, we have developed a series of financial scenarios which describe how much revenue might be considered for capital investments under different assumptions. Exhibit 1 presents the results of this risk and investment analysis and suggests the range of City investment could be wide ($2.7 million to $9.4 million) depending on how much risk the City is prepared to absorb and how it chooses to apply its policy discretion in two critical areas:

1. **Credit for public benefit.** As discussed in the cost section, the City might choose to adjust the incremental costs by crediting the project for some or all of the public benefit associated with the increased level of staffing in police and fire services.

2. **Discount for risk and other City needs.** Policy makers at the City will need to determine how much of the net benefit they want to invest into the project. There are a number of factors that will influence this decision, not least of which, is the fact that the City has other needs and there needs to be adequate debt service coverage for any debt that might be issued.

Exhibit 1
Investment Analysis and Risk Assessment Scenarios
(Numbers in Thousands of 2007$)

	Revised Base	Scenario No. 1	Scenario No. 2
Net Benefits, developer estimate	**29,313**	**29,313**	**29,313**
Possible Revenue Adjustments:			
Remove lodging taxes	(2,290)	(2,290)	(2,290)
Remove permit fees	(2,351)	(2,351)	(2,351)
Correct property tax lag & pre-construction benefits	(1,110)	(1,110)	(1,110)
Reduce property escalation to 3% from 6.5%	-	(1,429)	(1,429)
Reduce AV/SF	-	(2,432)	(2,432)
Net Benefits, after revenue adjustments	23,562	19,700	19,700
Possible Cost Adjustments:			
City police costs	(1,368)	(1,368)	(1,368)
City fire costs	(12,850)	(12,850)	(12,850)
Credit (50%) to project for public benefits of new services	-	-	13,431
Net Benefits, after revenue & cost adjustments	9,344	5,482	18,913
Capital Funding Adjustments:			
50% discount for D/S coverage & other City needs	(4,672)	(2,741)	(9,456)
Net Benefits, available for capital	**4,672**	**2,741**	**9,456**

Note: The values presented in this table show the total present value of various changes based on the period 2008-2038 and a 5% discount rate.

The following is a brief description of the scenarios:

Revised Base. The first scenario is identified as a Revised Base scenario and reflects several adjustments to the net benefits estimated by Northern Economics:

- Remove revenues which will have offsetting costs which were not estimated in the developer analysis (permit fees and lodging taxes)
- Correct two property tax errors – adjusting for the 1-year lag for new construction and removing some small pre-construction tax revenues.
- Adjust police and fire costs to reflect the full incremental costs of these services as estimated by the Police and Fire Departments.
- Apply a 50% reduction for debt service coverage and other City needs, which was the policy established for the Totem Lake project

- **Scenario 1.** Same as the Revised Base plus:

  - Reduce property escalation to 3.0% from 6.5% to more closely match the basis for the property tax rate forecasts used in estimating the property tax revenues.
  - Reduce the assessed value per SF for the redeveloped mall to $250 per SF for all uses to ensure a more conservative estimate of property tax revenues. At this level, the project would still be significantly more valuable that most anything else in the market but it would be more in line with Kirkland conditions. This value is based on three factors:
    (1) It is marginally higher than the estimated cost of construction used in the sales tax analysis (approximately $230 per SF) which is often a reliable estimate of the value of improvements and can be the basis for the initial assessed value increment added to the tax rolls;
    (2) The new construction assessed value will most likely exclude the value of the underlying land as this is already part of the City's tax base; and
    (3) It is somewhat lower than the current assessed value per SF for Carillon Point ($275/SF), the most prestigious mixed-use development in Kirkland. If you remove the value of the underlying waterfront land, the assessed value of improvements drops to $200 per SF.
- **Scenario 2.** Same as the Scenario 1 plus:
  - Credit 50% to project for public benefits of new services. As discussed previously, the additional staffing required to serve the development could provide a level of general public benefit. For example, the additional firefighters required by the development could provide additional public benefit by increasing system-wide capacity and effectiveness. The level of public benefit to be assumed is a policy matter, with the initial assessment set at 50%.

DRAFT

City of Kirkland
Parkplace Mall Redevelopment
Comparison of City Services Assumptions & Costs

	Data Provided by City of Kirkland				Data Used by Developer in January 2008 Report			
			Costs				Costs	
Department	**Assumptions**	**FTEs**	**One-time**	**Ongoing**	**Assumptions**	**FTEs**	**One-time**	**Ongoing**
Police	Current Parkplace with 664 employees generated 500 (285 to Parkplace Mall and 215 to adjacent streets) calls for service for a ratio of 0.75 (500/664) calls/employee. The redeveloped mall will have a 5,000 employees; using the same ratio would generate approximately 3,800 calls. At 1,800 calls per officer, the additional 3,300 calls (3,800-500) will require 1.8 police, **rounded to 2.0 FTEs.**	2.00	$ 78,375	$ 180,872	Bellevue Place with 2,200 employees generates 165 calls annually for a ratio of 0.08 (165/2200) calls/employee. The current Parkplace would generate 53 calls (664x0.08). The redeveloped mall will have a 5,000 employees; using the same ratio would generate approximately 400 calls. At 1,500 calls per officer, the additional 347 calls (400-53) will require **0.23 police officers**.	1.00	$ 74,000	$ 110,000
	TOTAL	**2.00**	**$ 78,375**	**$ 180,872**	TOTAL	**1.00**	**$ 74,000**	**$ 110,000**
Fire & Building					*Fire Prevention Bureau:*			
					Fire Inspector -- 1 FTE (Ongoing)	1.00		
					Fire Protection Engineer/Fire Plan Reviewer	0.00		
	Fire Suppression Services (based on height of buildings & number of employees):				*Fire Suppression Services:*		$ 54,000	$ 559,000
	Firefighters -- 2 positions with 24/7 coverage = 8 FTE (Ongoing)	8.00	$ 232,000	$ 777,736	Firefighters -- 2 FTE (Ongoing)	2.00		
	Emergency Medical Services (based on number of employees):				*Emergency Medical Services:*			
	Firefighters -- 3 FTE (Ongoing)	3.00	$ 87,000	$ 291,651	Firefighters -- 2 FTE (Ongoing)	2.00		
					January 2008 report phases in costs through 2014. The cumulative total through 2010 is shown here.			
	TOTAL	**11.00**	**$ 319,000**	**$ 1,069,387**	TOTAL	**5.00**	**$ 54,000**	**$ 559,000**

NOTES:

- Salaries based on the salary ranges in the 2007-08 budget and therefore do not include other incentive pay such as education and longevity pay.
- Fire benefits for 2007 are calculated as follows: $13,928 in fixed benefits and 13.69% of salary in variable benefits.
- Police benefits are calculated as: $13,178 in fixed and 13.69% of salary in variable benefits.
- The following Development Services related positions are not included because they are entirely funded by development fees:
  - -- Fire Inspector -- 1 FTE (Temp)
  - -- Fire Protection Engineer/Fire Plan Reviewer -- 1 FTE (Ongoing)
  - -- Electrical/Building Inspector -- 1 FTE (Temp) & 1 FTE (Ongoing)
  - -- Building Plans Examiner -- 1 FTE (Temp) & 1 FTE (Ongoing)
  - -- Permit Technician -- 1 FTE (Ongoing)
  - -- Structural Engineer (Consultant) -- 1 FTE (Temp)
- 8 firefighter FTEs (2 positions with 24/7 coverage) are required to address the 8-story building height. If height is 6 stories or less, can be served with existing configuration and staffing.

City of Kirkland
Redevelopment of Sites B & C
Comparison of City Services Assumptions & Costs

	City of Kirkland Staff Estimates as of January 16, 2008			
			Costs	
Department	**Assumptions**	**FTEs**	**One-time**	**Ongoing**
Police	Applying the ratio of 0.75 (500/664) calls/employee to the 615 employees at the redeveloped sites B & C results in approximately 461 calls. At 1,800 calls per officer, the redevelopment of sites B & C will require **0.25 police officers.**	0.25	$ 9,797	$ 22,609
	TOTAL	**0.25**	**$ 9,797**	**$ 22,609**
Fire & Building	*Fire Suppression Services (based on height of buildings & number of employees):* Firefighters -- accomplished by staffing identified for Parkplace Mall redevelopment	0.00	$ -	$ -
	Emergency Medical Services (based on number of employees): Firefighters -- 5% of fully staffed EMS unit = 0.60 FTE (5%x12) -- rounded to 1.0 FTE	1.00	$ 29,000	$ 97,217
	TOTAL	**1.00**	**$ 29,000**	**$ 97,217**

Long Bay Enterprises, Inc.

To: City of Kirkland
Tracey Dunlap, Director of Finance and Administration

From: Cynthia Berne, Principal/Broker

Date: March 5, 2008

Re: Response to City of Kirkland's perspective on Fiscal Impacts of the redevelopment of Parkplace mall

Thank you for your response on February 14, 2008 to our Fiscal Impact report dated January 25, 2008. We have reviewed your consultant's, Berk and Associates, draft report response.

I apologize for getting this response out later than we anticipated. As you will see there is a lot of detailed analysis that has gone into the response which required an ample amount of time to complete.

Attached you will find our input and clarifications to Michael's report. The objective of our response is to address the technical analysis side of the draft report. I am purposely not addressing the direct policy questions though, where appropriate, we have commented on statements that have referenced City policy such as the reduction for debt service coverage as it relates to the Totem Lake Fiscal Impact analysis.

We appreciate all the detailed fiscal analysis that has been produced for the proposed redevelopment of the Kirkland Parkplace mall. We believed that this most recent iteration has honed in on the final numbers and truly represent the direct net benefit to the City as it relates to the General Fund. To that end Touchstone requests the City contribution to the project be $23,000,000. As you will find in the response memo there is sufficient on-going net revenue dollars generated into the City's General Fund from the Project to cover the debt service.

We look forward to our meeting on Thursday March 6th to review any questions and comments you may have on our response. Given the fact that this response is out later than expected we certainly understand if you would prefer to postpone our meeting until next week. Please let me know by mid-morning tomorrow. Thank you for your continued attention to this project.

northerneconomics inc.

Memorandum

To: Cynthia Berne, President/Broker, Long Bay Enterprises, Inc.

From: Kent Kovacs and Susan Burke, Northern Economics, Inc.

Jacqui Ooley, Long Bay Enterprises, Inc.

Date: March 05, 2008

Re: **Response to Review of Fiscal Impact Analysis of the Kirkland Parkplace Mall Redevelopment**

This memo describes Touchstone's response to the City's draft review of the January 2008 report by Northern Economics for consideration prior to the City's completion of its final review. The City's review was developed by Berk & Associates and delivered in a memo to Cynthia Berne, dated February 14, 2008. Northern Economics was asked to do the following:

- Review and/or confirm the adjustments by Berk & Associates to the projections and estimated timing of new one-time and ongoing City revenue, City staffing, and Capital Funding resulting from the redevelopment of Parkplace Mall.
- Provide an assessment of the reasonableness of the adjustments by Berk & Associates to the net fiscal impact from the redevelopment.

This response is to provide Touchstone with a reasonableness check of the City's position on the net fiscal impact of the redevelopment. The net fiscal impact is used by the City to decide on the amount of support for the redevelopment, and the level of the City's support of the project is used by Touchstone to decide if and/or how to proceed with the redevelopment.

The review by Berk & Associates concludes that reduction in the net benefits of the redevelopment available to the City for capital is in the range of $19.9 to $26.6 million over 30 years assuming a 5% discount rate. This range for the reduction of net benefits is the result of the adjustments to the projections and estimated timing of tax revenues, City staffing, and Capital Funding in the January 2008 report. The present value of the reductions is derived from the following:

- Present value of the reduction in the net benefits due to the adjustments to the projection of one-time and ongoing revenue is $9.6 million over 30 years.
- Present value of the reduction in the net benefits due to adjustments to the projections for City staffing is in the range of $0.8 to $14.2 million over 30 years.
- Present value of the reduction in the net benefits from to the capital funding adjustment is half of the net benefits remaining after the adjustments to the revenue and City staffing projections are made.

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Summary of Findings from Touchstone Response

The principal findings of this response are:

- ❖ The reduction in the net benefits of the redevelopment available for capital to the City is only $6.2 million. That is, the net fiscal benefits available for capital by the City are $23.1 million over 30 years.
- ❖ The revenue projection adjustments presented in the review by Berk & Associates ($9.6 million lower net revenues over 30 years) overstate the reduction to net revenues available for capital funding.
    - Assumptions for the property tax escalation and assessed value per square foot are overly conservative as the basis for the City's funding commitment.
- ❖ The capital funding adjustment is overly conservative and not consistent with the commitments made by the City for the Totem Lake Mall redevelopment.

The balance of this memorandum is a discussion of the benefits the City receives including lodging taxes and permit revenues separate from the revenues available for capital funding, a reexamination of the calculations for the property and utility tax revenues, and a reasonableness check of the capital funding adjustment proposed by Berk & Associates.

1.1 Lodging Tax Fees

Berk & Associates notes that since the lodging tax revenue is restricted to activities associated with promoting tourism and not accessible to fund infrastructure investment, that these revenues should be excluded from the estimate of net fiscal benefits.

This appendix acknowledges that it is important for the fiscal impact report to clearly indicate revenues that can be used to fund infrastructure in order to match ongoing general fund revenues with contemplated debt service coverage. The revenue stream used to support the contemplated bond debt service **excludes** the lodging tax revenue and the building permits revenue. This response maintains, however, that the lodging tax revenue is a fiscal benefit to the City and should be acknowledged as such by the City. This redevelopment will increase the funds available to promote tourism throughout the City by $2.3 million in present dollars. The City will directly benefit from the tourism programs that will be funded from this revenue.

1.2 Permit Fees

As part of the fiscal benefit analysis, building permit fees are calculated on the redeveloped mall. The fees calculated are narrowed to only building department fees paid by Touchstone. The fees calculated exclude required land use permit fees and the anticipated additional building permit fees which will be generated by the future tenant improvements and paid for by future tenants.

This narrowly defined calculation of fees still generates $2.8 million which equates to four FTE staff members for six years (based on $100,000 salary/benefit package). Based on our experience with other projects of this complexity, we anticipate that this revenue will outpace the City's expenses resulting in a net benefit to the City of approximately 50% of the total building permit fee dollars paid. This revenue is **not** included in the ongoing revenue stream nor shown in the revenue to service debt; however, we believe it is a real revenue benefit to the City.

1.3 Property Tax Issues

The property tax issues in this section include the acknowledgement of the lag in new construction property tax levy bump as well as the removal of the pre-construction benefits, and a closer examination of the assumptions for the escalation of property values and the assessed value per square foot of improvements in 2007.

1.3.1 Property tax lag and pre-construction benefits

Berk & Associates review of the analysis states that there are pre-construction property tax benefits and that the property tax benefits of new construction occur a year earlier than the City will receive them. Since the only incremental property tax revenue the City receives relates to the increase in the levy due to new construction, the pre-construction property tax benefits are removed from the stream of property tax benefits. In addition, since new construction property tax benefits do not accrue to the City until the year after the construction, a lag of one year is also appropriate in the calculation of the stream of property tax benefits.

1.3.2 Property Escalation and Millage Rate Calculations

Berk & Associates make two good points regarding the calculation of the property tax revenue. First is the issue of **finding an appropriate escalation factor** to use when estimating the future assessed value of the redeveloped Parkplace mall. Second is the issue of **how the escalation factor must be used in the calculation of the millage rate**, in order to be internally consistent when calculating property tax revenue. Each of these issues is addressed below.

Appropriate escalation factor

Berk & Associates recommends using a 3 percent escalation factor to calculate the accessed value of the redeveloped Parkplace. This factor would be used to escalate the estimate of accessed value, which is in 2007 dollars, into 2011, 2012 and 2013 dollars – those years being the years the various phases of the project are projected to be complete. In order to assess the appropriateness of a 3 percent escalation factor the following information was reviewed:

- The historical contribution that appreciation has made to the change in accessed value for all property in King County
- The historical appreciation of both improvements and land on selected properties in King County

Figure 1 (Figures 1, 2 and 3 are at the end of this memorandum) shows the historical contribution that appreciation has made to the change in accessed value for all property in King County. The two components to the change in accessed value from year to year are 1) appreciation and 2) new construction. The annual average in the total historical change has been just over 10 percent per year for the period 2000 thru 2007. The portion of that change due to appreciation has been just over 8 percent. The remainder of the change, 2 percent is due to new construction. The period 2000 to 2007 takes into account a recession (early 2000s) and a recovery (mid-to-late 2000s).

The city's forecast, used to estimate its millage rate, assumes a 6.5 percent total annual change, with approximately 4 percent due to appreciation and 2.5 percent due to new construction (see **Figure 2**). We believe that the City is being conservative by assuming approximately 4 percent change in assessed value due to appreciation. Touchstone suggests that using a 5.5 percent average annual percent change in appreciation plus a 2.5 percent change in assessed value is a more reasonable escalation factor given the historical King County Assessor's information. The total average annual escalation factor, 8 percent, is still below the 7-year annual average, and given the strength of the Seattle-area real estate market, despite the national trends, seems appropriate.

Another comment that Berk & Associates made about using King County Assessor data to establish a reasonable escalation factor was the fact that the Assessor data includes residential and commercial real estate. The issue being that residential real estate increases in value at a faster rate than commercial. In order to understand the rate of change in the assessed value of commercial real estate) we reviewed the historic assessed values of five office properties:

- One Bellevue Center (parcel number 154410-0254)
- Three Bellevue Center (parcel number 154410-0219)
- WaMu Tower (parcel number 197470-0120))
- Civica (parcel number 154410-0320)
- Symetra Financial Center (parcel number 154410-0233)

Figure 3 shows the annual percent change of the assessed value for each of these properties, and the total for all five buildings assessed values, over a period from 1999 (when data is available) through 2008. Also included is the annual average rate of change for each building and the total of all assessed values. While more volatile than the total assessed values of residential and commercial spaces shown in **Figure 1** and **Figure 2** the average annual percent change for the totals is in near the same value, 6 percent. The annual percent changes range between -29 percent (for Symtra Financial Center in the 2002/2003 period) to a high of over 60% (representing the sale of Civica in 2006). Given that the total assessed values in **Figure 3** include both land and improvements, it seems appropriate to apply the escalation factor to the total AV. Also, given that the annual average percent change for the total of the values is 6 percent, despite the relatively significant decrease in values in the early 2000s, this confirms that an escalation rate of 5.5 percent is appropriate.

Given the fact that the escalation rate we used in this analysis is higher than the rate used by the City in estimating the millage rate, we had to adjust the millage rate downward. The millage rate adjustments are shown in **Table 1.**

Table 1. Comparison of Millage Rates Under Varying Escalation Factors

Source	Escalation Factor	Millage Rate by Year 2010	2011	2012	2013	2014
City	3.8%	1.08	1.05	1.03	1.00	0.98
Touchstone	5.5%	1.05	1.01	0.97	0.93	0.89

Note: Northern Economics, Inc. Analysis

1.3.3 Assessed value

Touchstone estimates that the average assessed value per square foot for office, retail and hotel space at the redeveloped Parkplace mall will be \$380, \$275 and \$325. The weighted average of assessed value per square foot for the redeveloped mall using these assessed values is \$354. Berk & Associates recommends that the weighted average assessed value per square foot for the redeveloped mall should be \$250. Touchstone feels certain that the assessed values they used in their original estimate more closely approximate what the value will be. Below, additional information about how the assessed value of retail and hotels were determined is included (detail about the assessed value of office space is included in Appendix E-2). However, first is a discussion of the cost-basis for the weighted average per square foot value is described.

Cost estimates per square foot of the redeveloped Parkplace mall are $297, versus the $230 assumed by Berk & Associates. The $297 per square foot represents hard costs only, and does not include soft costs. Soft costs could easily reach $60 per square foot, making that weighted average cost of $354 per square foot a reasonable estimate. Additionally, King County appraiser, Dan Margonelli, provided the per square foot assessments that were developed on a cost basis. The cost-based assessment of Tower 333 is $299.92 per square foot. The cost-based assessment of City Center Plaza is $269.92 per square foot. These two data points from the King County Assessor's office add credibility to using a weighted average per square foot value of $354.

The estimate of the future assessed values for hotel, about $325/sf, is based on currently assessed hotel property in downtown Bellevue and Seattle shown in **Table 2**. The appropriate hotel properties, as a comparison for the assessed value of the new hotels at Parkplace, should be **new** hotels that represent the best available hotel lodging for the city. For downtown Seattle, this the W Hotel Seattle built in 1998; for downtown Bellevue, this is the Westin Hotel at Lincoln Square built in 2004. The assessed value of improvements per square foot in 2007 for the W Hotel in Seattle is $306. However, this hotel is nearly ten years old, and thus is likely to have a lower assessed value per square foot than the new hotels for Parkplace.

The assessed value per square foot of improvements at the Westin Hotel at Lincoln Square is based on the total assessed value. The total assessed value per square foot of the Westin is $358. From the W Hotel in Seattle, roughly ninety percent of the total assessed value is the assessed value of the improvements. The assessed value per square foot of improvements in 2007 for the Westin Hotel in Bellevue is thus estimated at $322/sf = (0.90*$358/sf[1]). Since the Westin Hotel is now three years old, a new hotel at a current improvement assessed value per square foot of $325/sf seems reasonable.

Table 2. Summary of Assessor's Data for Comparable Hotel Property

Property Name	Net SF	Improvement AV	Improvement AV/SF	Parcel Number	Notes on 2007 assessment value
W Hotel Seattle	272,015	$83,133,100	$306	094200-0165	100% complete- income basis; As shown on-line February 22, 2008.
Westin Hotel Bellevue	168,913	$54,388,530	$322	432341-0000	100% complete-income basis; As shown on-line February 22, 2008.

Source: King County Department of Assessments eReal property system.

Note: The Westin Hotel at Lincoln Square improvement assessed value is an estimate based on ninety percent of the total assessed value.

The estimate of the future assessed values for retail, about $275/sf, is based on currently assessed retail property in central Bellevue and the university district of Seattle shown in **Table 3**. Both the Bellevue and Seattle properties for comparison to the Kirkland Parkplace mall are close to (but not on) the waterfront of Lake Washington. The assessed value per square foot of improvements in 2007 for the mall stores of Bellevue Square (not the department stores) is $405/sf and for the mall stores of the University Village mall is $202/sf. By taking the average of the improvement assessed value per square foot for the Bellevue Square and University Village Mall properties, there is an estimate of the assessed value for retail of $303/sf. However, in acknowledgment that the Bellevue market is

[1] The total assessed value per square foot for the Westin at Lincoln Square at $358/sqft comes from assessor values collected by Berk & Associates for the review of the January 2008 report.

currently experiencing a significant boom in valuation, the estimate for the assessed value for retail is $275/sf.

Table 3. Summary of Assessor's Data for Comparable Retail Property

Property Name	Net SF	Improvement AV	Improvement AV/SF	Parcel Number	Notes on 2007 assessment value
Bellevue Square	88,739	$35,918,900	$405	154410-0112	100% complete- income basis; As shown on-line February 22, 2008.
University Village	282,555	$56,959,400	$202	092504-9346	100% complete-income basis; As shown on-line February 22, 2008.

Source: King County Department of Assessments eReal property system.

1.4 Reexamination of utility tax revenue

Berk & Associates review notes that the estimate of revenue from utility taxes "seems to be reasonable, and perhaps even conservative..." As part of the effort to obtain the most accurate estimate of revenue from utility taxes, Northern Economics reexamined the calculations and assumptions for the revenue from utility taxes. The change to the utility tax revenue from the reexamination is shown in **Table 4**.

Most of the reexamination is based on the revenue from the taxes on the water, sewer, and garbage service provided by the City. An estimate for the water use per tenant (retail, office, and hotel) comes from an estimate of the water use per bathroom for each tenant and the number of bathrooms each tenant will use[2]. The rates for the water, sewer, and garbage service are applied to the likely need of those services from the tenants to occupy the mall[3]. The reexamination finds that the estimate for per tenant revenue for office and retail is very close to the original estimate, but the estimate for per tenant hotel revenue is much too low. Since hotels consume a lot of water and produce a lot of garbage, the annual revenue from hotels for water, sewer, and garbage service is estimated at $2,300 rather than the original estimate of $200. In addition, there are small basic charges for water and sewer service per building that slightly increases the revenue from the water and sewer utilities. The utility taxes from the redeveloped mall at the steady state on water, sewer, and garbage rose by $3.5 thousand.

The other reexamination of utility revenue is the update of the Puget Sound Energy rates for electricity and gas use. The rate for per KWH use of electricity rose slightly and the rate for per therm use of natural gas fell slightly[4]. The utility taxes from the redeveloped mall at the steady state rose for electricity use by $4.6 thousand and fell for natural gas use by $4.4 thousand.

[2] Personal Environmental Impact Calculator, "Water Usage", 2008. Available http://ans.engr.wisc.edu/eic/WaterForm.html.

[3] City of Kirkland. "Utility Billing: commercial Accounts.", Department of Finance and Administration, February 2008. Available at http://www.ci.kirkland.wa.us/depart/Finance_and_Administration/Utility_Billing/Commercial_Accounts/Water.htm.

[4] Puget Sound Energy. "Rate Summaries and Brochures", Rates and Regulatory Information, Inside PSE, 2008. Available at http://www.pse.com/insidePSE/ratereginformation/Pages/RatesSummaries.aspx.

Table 4. Change in Utility Tax Revenues from Reexamination

Building Space	Water, Sewer, Garbage ($Thousands)	Electricity ($Thousands)	Natural Gas ($Thousands)	Total Utility Tax Revenues ($Thousands)
Redeveloped Mall				
Office Component	$1.1	$2.7	($2.7)	$1.2
Hotel Component	$2.1	$0.5	($0.7)	$1.9
Retail Component	$0.3	$1.3	($1.0)	$0.7
Total	**$3.5**	**$4.6**	**($4.4)**	**$3.8**
Current Mall				
Office Component	$0.1	$0.1	($0.3)	$0.2
Retail Component	$0.1	$0.6	($0.6)	$0.2
Total	**$0.2**	**$0.8**	**($0.7)**	**$0.5**
Difference	**$3.3**	**$3.8**	**($3.7)**	**$3.3**

Source: Northern Economics, Inc. Analysis.

Note: 2007 dollars.

The correction to the assumptions for the revenue from the utility taxes (water, sewer, garbage, electricity, and natural gas) moderately increases the net benefits of the redevelopment by $100 thousand.

1.5 Capital Funding Adjustment

Berk and Associates' review of the Fiscal Impact Report includes a "50% Reduction for Debt Service Coverage and other City Needs". The review states "Apply a 50% reduction for debt service coverage and other City needs which was the policy established for the Totem Lake project."

Review of the Totem Lake Report, Berk and Associates' review of same, and the ultimate decision made by the Council to approve $15 million in funding appears to conflict with this statement. In fact, Berk's review indicates the net present value of the redevelopment ranges from $13.7 million to $21.8 million as shown in the excerpt below from **Table 5** of the Berk & Associates review of the Totem Lake redevelopment. This value did not address the additional costs of fire service. Using the same per employee call basis as was used in Touchstone's estimate of costs, the NPV of the fire service based on an increase 557 employees, the estimated fire service cost is $1.3M. The net present value adjusting for this additional cost would reduce the range from $12.4 million to $20.5 million as follows:

Table 5. Potential Impact of Service Costs on Net Financial Benefits

	Mundy Baseline		No Vacancy City Avg $/SF		Modest Site Improvements		Modest Site Expansion	
	Low	High	Low	High	Low	High	Low	High
Adjusted estimate of ongoing taxes	$1.2M	$1.3M	$1.1M	$1.2M	$0.9M	$1.0M	$0.8M	$0.9M
Estimated police costs	$0.3M	$0.3M	$0.2M	$0.3M	$0.2M	$0.2M	$0.1M	$0.2M
Net adjusted estimate of ongoing taxes	$0.9M	$1.0M	$0.9M	$1.0M	$0.7M	$0.8M	$0.7M	$0.7M
Net present value of redevelopment	$23.6M	$25.6M	$22.9M	$24.7M	$19.7M	$21.1M	$17.5M	$18.6M
Adjustment for fee-based one-time revenues	-$3.8M	-$3.8M	-$3.8M	-$3.8M	-$3.8M	-$3.8M	-$3.8M	-$3.8M
Net present value of redevelopment	$19.8M	$21.8M	$19.8M	$19.1M	$16.0M	$17.4M	$13.7M	$14.8M
Revised net present value of development less estimated fire cost of $1.3M.	**$18.5M**	**$20.5M**	**$18.5M**	**$17.8M**	**$14.7**	**$16.1M**	**$12.4M**	**$13.5M**

Source: Berk & Associates review of the report on the net benefits of the Totem Lake Mall redevelopment.
Note: Items in bold represent information not originally displayed in the Berk & Associates table for the review of the Totem Lake Mall redevelopment report. Long Bay Enterprises, Inc. Analysis

The bond amount approved by the Council was, in essence, 100% of both the net present value of the increased revenue and potentially more than 100% of the amount of ongoing taxes (revenue) available to service the debt. The $15 million bond debt service was estimated at $976 thousand on annual on-going revenues of $700 thousand to $1 million.

1.5.1 Bond Capacity and Debt Service

Present value of the one-time and ongoing revenue available for the 30 year period is $40.2 million. Present value reserved for City staffing is $12.6 million and the present value of lodging and permit revenue is $4.6 million. This leaves the present value of net fiscal benefits available to the City for infrastructure funding over 30 years at $23.1 million.

The analysis below assumes a $23 million general obligation bond will be issued first quarter of 2009 with a 30 year term at a 5% interest rate. Due to the general obligation nature of the anticipated bond, debt service coverage is not a factor and the origination costs are anticipated to be less than 3% of the total bond principal. Debt service is anticipated to be $1.5 million annually.

Table 6 below shows the impact of the future bond payments in relationship to the on-going General Fund revenues. The surpluses increase with time due to the fact that while the bond payment remains constant, the revenue stream from the redeveloped mall will increase annually with inflation.

Table 6. Annual On-going Revenue vs. Bond Amount in 2015, 2025, and 2035

Annual Surplus (Year 2015)	$109,356 (year after stabilization)
Annual Surplus (Year 2025)	$407,652
Annual Surplus (Year 2035)	$790,132

Source: Long Bay Enterprises, Inc. Analysis

In nominal (i.e. inflated) dollars, revenues going to the general fund available for infrastructure funding are $52.8 million. Total debt service (principal and interest) on the $23 million bond is $44.9 million (in nominal dollars). The surplus revenue in nominal dollars is $8.0 million over the 30 year term.

1.6 Indirect fiscal benefits of the redevelopment

The redevelopment of the Parkplace mall and the operations at the proposed redeveloped mall stimulate business activity in the City of Kirkland not directly resulting from the mall activities. This indirect activity generates additional fiscal revenue for the City through sales, property, and utility taxes, fee revenues, and more. These indirect benefits are **not** appropriate to be used for funding capital improvements though the City's decision of a bond commitment would benefit from a consideration of the total net fiscal benefits of the redevelopment. The input-output model, IMPLAN, makes uses of multipliers for the calculation of secondary effects (indirect and induced) of output, employment, and labor income. Output and employment from business activities generate fiscal revenue for State and local governmental entities, and IMPLAN is able to estimate the tax impact of those activities. Since IMPLAN is able to separately calculate the tax impact of the direct and secondary activities, a rough fiscal multiplier for the Parkplace redevelopment becomes available.

A prior analysis by Northern Economics on the net benefits of the redeveloped Parkplace mall makes use of the IMPLAN tax impact tool and finds a fiscal multiplier of 1.9.[5] However, due to limitations in the construction of the zip code data file for IMPLAN, the model forecasts excessive indirect business activity in the zip code. In addition, the aggregate nature of an input-output model like IMPLAN makes the margin of error large for the calculation of tax impacts. In light of these limitations a conservative estimate for the fiscal multiplier is 1.5.

1.7 Update of Investment Analysis and Risk Assessment Scenarios

Table 7 shows an update to the Exhibit 1 from the Berk & Associates' review. The column entitled Correct Revised Base responds to the review by Berk & Associates, repeats the analysis and as noted, arrives at somewhat different numbers for some of the line items. The column entitled Scenario 4 is Touchstone's response to the City's review.

Correct Revised Base. The correct revised base adopts Berk & Associates assumptions in their Scenarios 1 and 2 but evaluates the calculations made for those Scenarios.

- Make adjustments to the property tax calculations for the lag, property escalation, and AV/SF acknowledging the interdependencies between them.
- Increase the revenue from the utility taxes based on a reexamination of the calculations for the fees from water, sewer, and garbage.

[5] The reader is able to find more details on this approach from the memorandum "Net benefits analysis of the Kirkland Parkplace Mall" dated July 11, 2007.

- Credit the public benefits of the services from the new City staff. The credit is for the full amount of the incremental cost of the services as estimated by the Police and Fire departments. This makes the net benefits consistent with the Touchstone estimates of the costs of new City staff.

Scenario No. 4. Same as the correct revised base plus:

- Increase property escalation from 3.0% to 5.5% to better match the historical trend in the real estate values in the Seattle area.
- Increase the assessed value per SF for the redeveloped mall to the values in the January 2008 report to more closely match the assessed value per SF of new and comparable office, retail, and hotel properties.

The balance of this section provides more detail on the items in the scenarios for the Correct Revised Base and the Scenario 4.

Touchstone acknowledges that the revenue from Lodging taxes and Permit fees is not available to fund capital improvements. However, Touchstone makes the point that there should be a recognition that this money will accrue to the City. The next three line items; pre-construction and lag, 3.0% assessed value escalation and AV/sqft are where we disagree with the calculations made by Berk & Associates. We took the recommendations made by Berk and Associates in each case and re-ran the model developed for the original analysis. Rather than arriving at the combined reduction of $4,971,000 – the sum of each individual line item – we arrived at reduction of $4,348,000. The estimate of the three changes is best calculated in combination with each other, as there are interdependencies between them. For example, the assumption of assessed value per square foot affects the millage rate. The millage rate change then influences the change in net benefits from the removal of the pre-construction benefits and the lag in the new construction levy bump. The appropriate analysis is to consider all the effects simultaneously to get a correct estimate for the influence of the lag on net benefits.

The column entitled Scenario 4 acknowledges the removal of pre-construction and the lag but makes different assumptions for the assessed value escalation and the AV/sqft. Section 1.3.2 indicates that a 5.5% escalation is more accurate, and Section 1.3.3 show comparison properties to further support the AV/sqft estimates from the January 2008 report by Northern Economics. The revised assumptions for the escalation and AV/sqft bring back $2,676,000 to the net benefits. The net benefits after revenue adjustments are $23.1 million.

The City's estimation for public services calculated on a step-wise process creates additional costs of $13.9 million. As stated in the Berk report, though the step-wise process is an appropriate methodology to use, the new project triggers the need but does not require 100% of the resources. Both the Correct Revised Base and Scenario 4 proposed by Northern Economics reflect the full credit back of the $13.9 million. This is consistent with Touchstone's analysis of direct costs associated with the redevelopment and properly indicates the amount necessary to upgrade the City's level of service. The net benefits after the cost adjustments are thus unchanged at $23.1 million.

Sections 1.1 and 1.2 note that the revenues generated from the lodging taxes and permit fees are available to the City, although not available for capital improvement funding. The City is able to use the lodging tax revenue for the promotion of tourism, and we estimate about fifty percent of the permit fees for other City projects. This revenue is an additional present value of $3.5 million available to the City from the redevelopment.

The present value of direct net fiscal benefits (benefits available for capital, lodging taxes, and permit fees) for the scenario of the correct revised base is $25 million and for Northern Economics scenario 4 is $27.6 million. Using the fiscal net benefits multiplier of 1.5 discussed in Section 1.6, the present value of the indirect net fiscal benefits for the scenario of the correct revised base is $12.5 million and for Scenario 4 is $13.8 million.

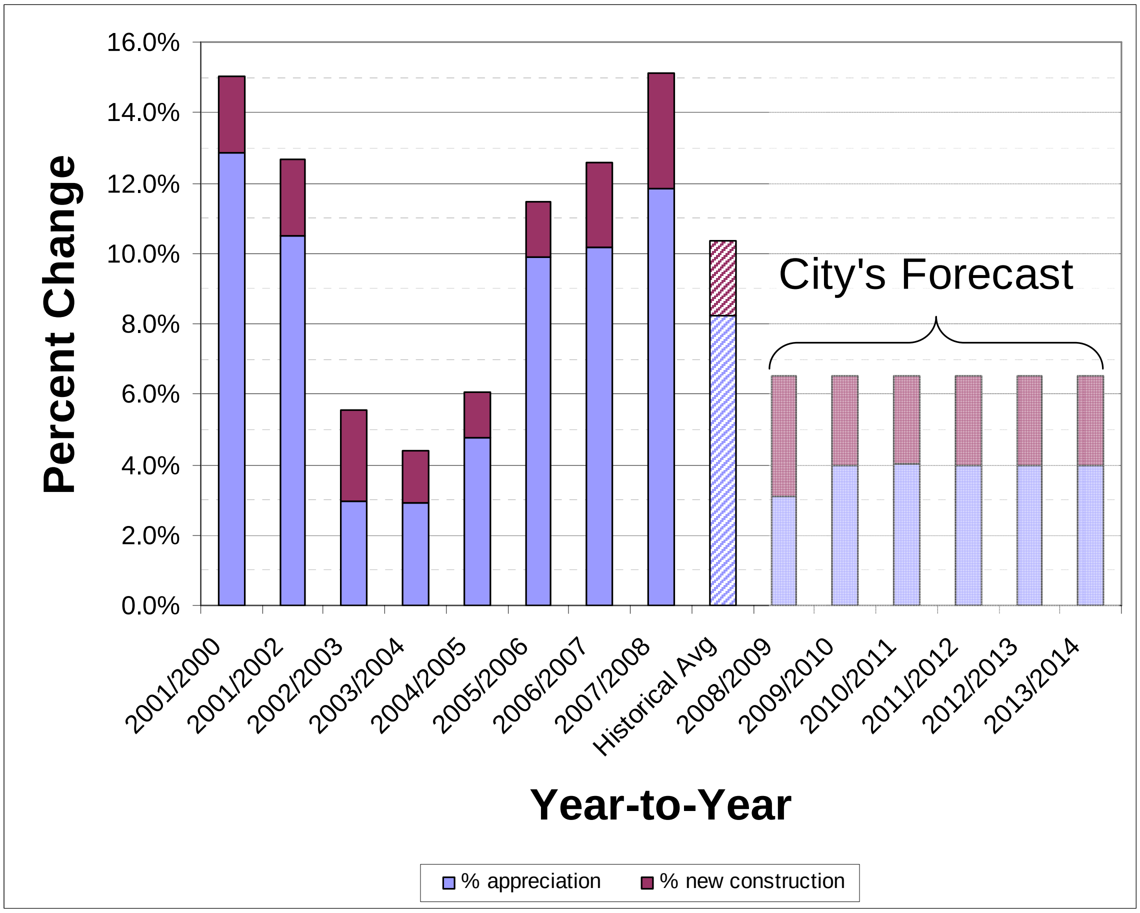
The estimate of the total net fiscal benefits to the City (includes lodging taxes, permit fees, and indirect fiscal net benefits) is $40.4 million. The City's decision of a bond commitment would benefit from a consideration of the total net fiscal benefits of the redevelopment.

Table 7. Update to Investment Analysis and Risk Assessment Scenarios (Thousands 2007$)

<table>
<tr><th rowspan="2"></th><th colspan="3">Berk & Associates Review</th><th colspan="2">Northern Economics Response</th></tr>
<tr><th>Revised Base</th><th>Scenario No. 1</th><th>Scenario No. 2</th><th>Correct Revised Base</th><th>Scenario No. 4</th></tr>
<tr><td>Gross revenue, developer estimate</td><td>41,913</td><td>41,913</td><td>41,913</td><td>41,913</td><td>41,913</td></tr>
<tr><td>Gross cost, developer estimate</td><td>12,600</td><td>12,600</td><td>12,600</td><td>12,600</td><td>12,600</td></tr>
<tr><td>Net Benefits, developer estimate</td><td>29,313</td><td>29,313</td><td>29,313</td><td>29,313</td><td>29,313</td></tr>
<tr><td colspan="6">Possible Revenue Adjustments:</td></tr>
<tr><td>Remove lodging taxes</td><td>(2,290)</td><td>(2,290)</td><td>(2,290)</td><td>(2,290)</td><td>(2,290)</td></tr>
<tr><td>Remove permit fees</td><td>(2,351)</td><td>(2,351)</td><td>(2,351)</td><td>(2,351)</td><td>(2,351)</td></tr>
<tr><td>Correct property tax lag & pre-construction benefits</td><td>(1,110)</td><td>(1,110)</td><td>(1,110)</td><td rowspan="3">(4,348)</td><td rowspan="3">(4,348)</td></tr>
<tr><td>Reduce property escalation to 3% from 6.5%</td><td>-</td><td>(1,429)</td><td>(1,429)</td></tr>
<tr><td>Reduce AV/SF</td><td>-</td><td>(2,432)</td><td>(2,432)</td></tr>
<tr><td>Increase utility taxes</td><td>-</td><td>-</td><td>-</td><td>100</td><td>100</td></tr>
<tr><td>Increase property escalation to 5.5% from 3%</td><td>-</td><td>-</td><td>-</td><td>-</td><td rowspan="2">2,672</td></tr>
<tr><td>No reduction to AV/SF</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Net benefits, after revenue adjustments</td><td>23,562</td><td>19,700</td><td>19,700</td><td>20,424</td><td>23,096</td></tr>
<tr><td colspan="6">Possible Cost Adjustments:</td></tr>
<tr><td>City police costs</td><td>(1,368)</td><td>(1,368)</td><td>(1,368)</td><td>(1,368)</td><td>(1,368)</td></tr>
<tr><td>City fire costs</td><td>(12,580)</td><td>(12,580)</td><td>(12,580)</td><td>(12,580)</td><td>(12,580)</td></tr>
<tr><td>Credit (50%) to project for public benefits of new services</td><td>-</td><td>-</td><td>13,431</td><td>13,948</td><td>13,948</td></tr>
<tr><td>Net benefits, after revenue & cost adjustments</td><td>9,344</td><td>5,482</td><td>18,931</td><td>20,424</td><td>23,096</td></tr>
<tr><td colspan="6">Capital Funding Adjustments:</td></tr>
<tr><td>50% discount for D/S coverage & other city needs</td><td>(4,672)</td><td>(2,741)</td><td>(9,456)</td><td>(0)</td><td>(0)</td></tr>
<tr><td>Net benefits, available for capital</td><td>4,672</td><td>2,741</td><td>9,456</td><td>20,424</td><td>23,096</td></tr>
<tr><td>Direct benefits from City lodging tax</td><td>-</td><td>-</td><td>-</td><td>2,290</td><td>2,290</td></tr>
<tr><td>Increased permit fees to City (@ 50% of actual NPV of permit fees calculated)</td><td>-</td><td>-</td><td>-</td><td>1,176</td><td>1,176</td></tr>
<tr><td>Indirect fiscal net benefits from redevelopment</td><td>-</td><td>-</td><td>-</td><td>12,500</td><td>13,800</td></tr>
<tr><td>Net benefits, total</td><td>-</td><td>-</td><td>-</td><td>36,390</td><td>40,362</td></tr>
</table>

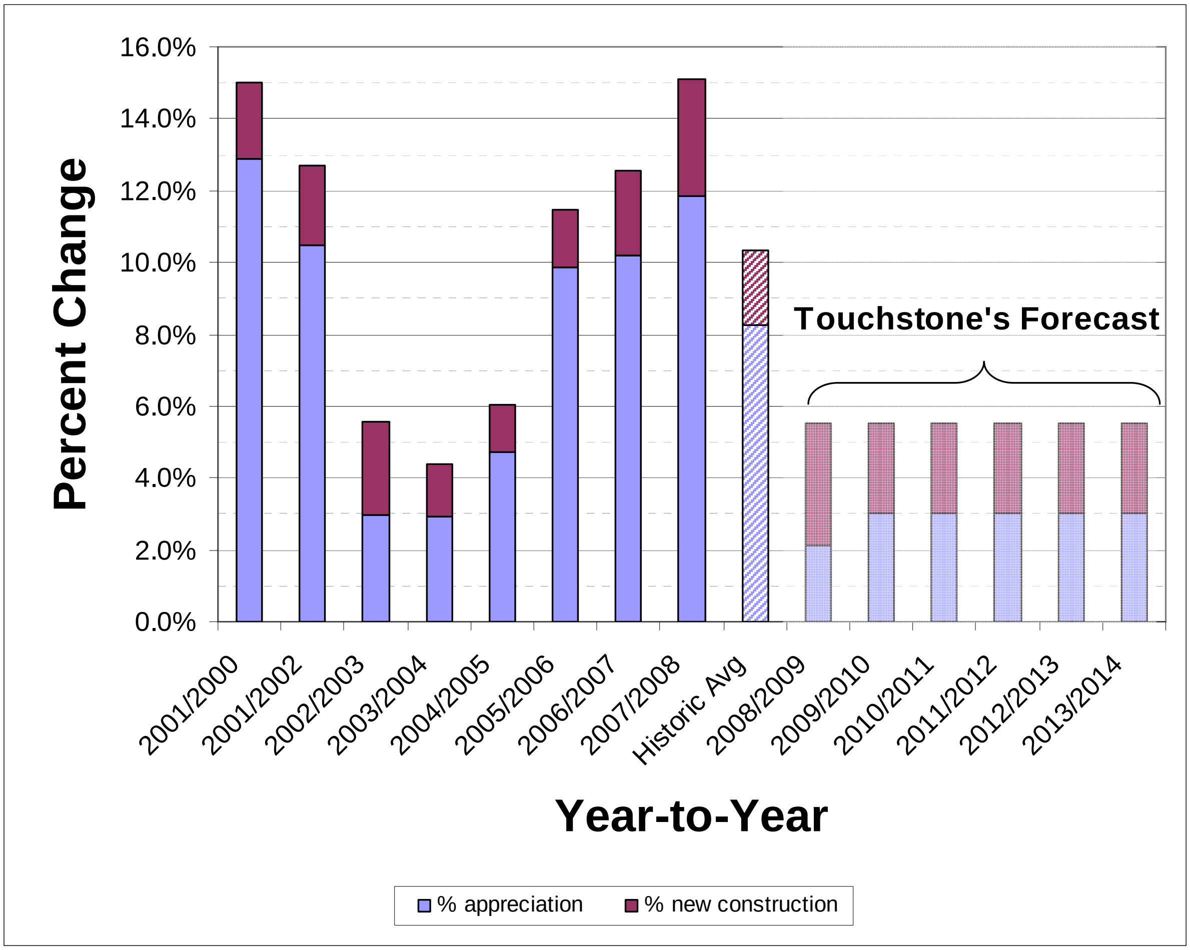
Note: The values presented in this table show the total present value of various changes based on the period 2008-2038 and a 5% discount rate.

Figure 1. Percent Change in Accessed Value by Component, 2000 to 2007 actual, and 2008 to 2014 projected



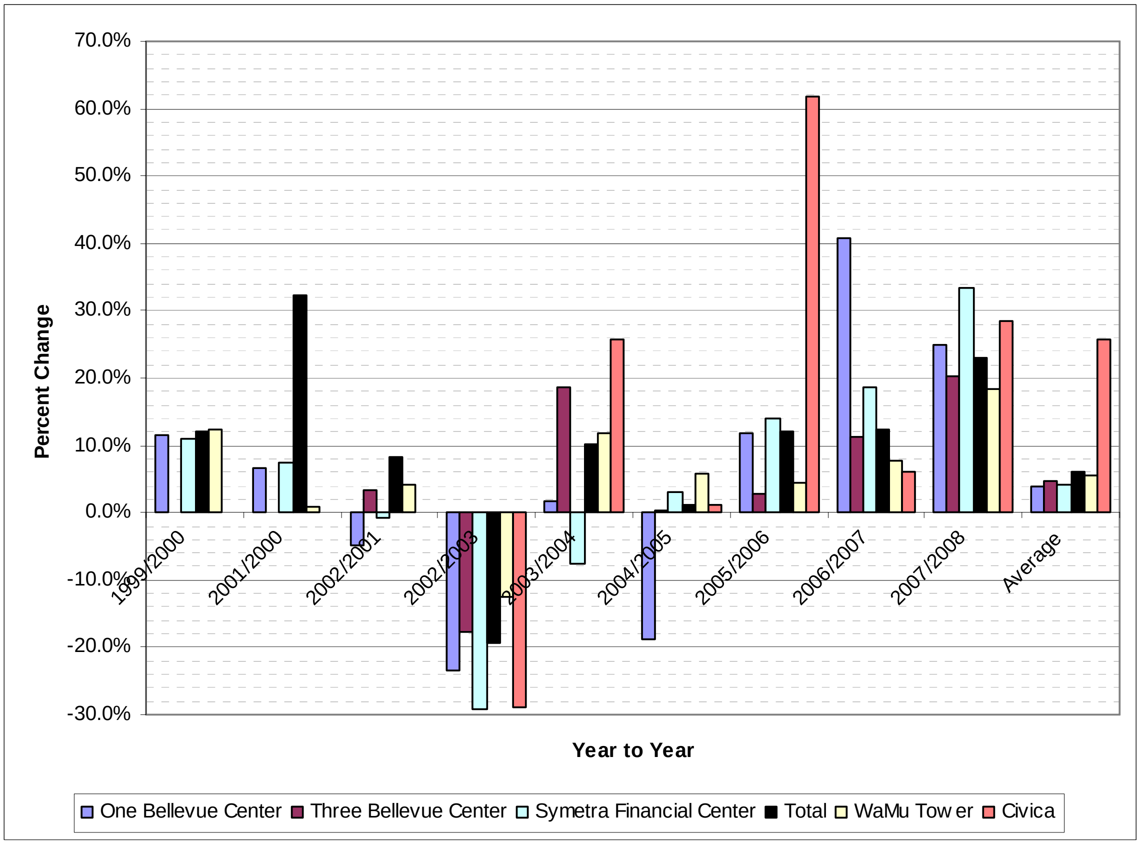
Source: King County Assessor Data received from Berk and Associates

Figure 2. Touchstone's Estimate of Percent Change in Assessed Value



Source: King County Assessor's data obtained from Berk and Associates and NEI analysis

Figure 3. Annual Percent Change in Assessed Value of Selected King County Commercial Properties



Source: King County Assessor's data.

The Economic Impact of Technology-Based Industries in Washington State

William B. Beyers
Department of Geography
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Seattle, WA 98195
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June 2008

A Report Prepared for the
Technology Alliance
Seattle, WA

Executive Summary

Technology-based industries continue to be at the forefront of the development of the Washington economy. They account for the largest share of employment, business activity, and labor income of any major sector in the state's economic base. Other key industries include natural resource-based sectors such as agriculture and food products, forest products, and services including tourism and transportation.

This study defines technology-based businesses as those with a strong proportion of their labor force in research and development (R&D) related occupations. This definition is consistent with recent analyses by the U.S. Bureau of Labor Statistics of measures of "high-tech" industries. In this study, the industries considered to be technology-based or "high-tech" have at least 14.6% of their employment in R&D related occupations. In Washington State in 2007, technology-based industries had an average of 43% of their employment in these occupations. In other industries just 3.1% of employment was in these occupations.

State of Washington Employment Security Department (ESD) data benchmarked against the year 2006 were used to define industries included in this study. Industries meeting this test employed over 343,000 people in Washington State in the year 2007 (this includes estimates of university and federal research employees; it excludes self-employed people not covered by the ESD). Through multiplier effects, a total of 1.16 million jobs were created due to technology-based industries, which is 40% of total covered (non-proprietor) employment in Washington State in 2007. Similar percentages of overall Washington State business activity (sales, labor income, and tax revenues) are associated with the industries included in this study.

Economic impacts of industries included in this study are relatively high due to the wages paid in these industries. Technology-based industries support an average of 3.39 jobs for each direct wage and salary job, compared to 2.75 jobs for all industries. Labor income in technology industries averaged $117,691 in 2007, compared to the state average of $54,097, a figure 117% above the state average. Technology-based businesses contribute strongly to the export-base of Washington State, as 80% of their sales are out-of-state, compared to an economy-wide average of 40%.

There has been rapid growth in technology-based industries, compared to overall economic activity. Employment has expanded from 96,000 private sector jobs in 1974 to 334,581 private sector jobs in 2007, an increase of 249%. This compares to statewide increase in covered employment of 211% over the same time period. In 2007 there were 8,790 public sector and Federal research related jobs in Washington State, bringing total technology based employment to 343,371. Total technology based employment has grown from 6.7% to 11.8% of total state covered employment over the 1974-2007 time period, indicating that technology-based industries have made a growing contribution to the economic base of the state.

The concentration of technology-based industries in Washington State is well above the national average. Based on 2005 data, the latest year for which data are available to make national comparisons with the definitions of technology-based industry used in this study, Washington State has employment in these industries 35% above the national average. Our aerospace and software/computer services sectors are the primary contributors to this high index.

If we exclude aerospace, our historically largest technology-based industry and still our largest employer, Washington is 17% above the national average, up from 13% in 2003. Non-aerospace technology-based industries have grown in Washington State in recent years at a faster pace than nationally. Waste-remediation activity in Washington State has a concentration over twice the national average, largely due to activities at Hanford, while research and development has a concentration 38% above the national average. The concentration of technology based industries overall in Washington State increased slightly from the last study, from 34% to 35% of the national average, even with the increased threshold for defining technology-based industry from 10% of employment in R&D – the standard applied in previous studies – to 14.6% for the current study.

Research and development expenditures in Washington State, an important indicator of technology-based industry, outpaced the United States over the time since the last Technology Alliance economic impact study. R&D activity in Washington State as a share of Gross State Product in 2004 was 4.3%, compared with the national average of 2.4%. We have especially strong receipts and expenditures by industry and non-profits, while university and college research receipts are similar to the national average. Industry R&D accounts for the largest share of R&D dollars in Washington State (81% in 2004), with very strong receipts in the information industry. Washington has a concentration of R&D receipts that places us 9th in the U.S. in terms of dollars received, and 6th when the size of R&D expenditures in Washington State is indexed by Gross State Product. Washington's concentration of industrial R&D and of federally funded research and development centers ranks 4th in the U.S., while we rank 5th in "other non-profits." For comparison, Washington is the 15th most populous state in the United States.

CITY OF KIRKLAND
Planning and Community Development Department
123 Fifth Avenue, Kirkland, WA 98033 425.587-3225
www.ci.kirkland.wa.us

MEMORANDUM

To: David Ramsay, City Manager

From: Angela Ruggeri, AICP, Senior Planner
Paul Stewart, AICP, Deputy Director
Eric Shields, AICP, Planning Director
Jeremy McMahan, AICP, Planning Supervisor

Date: December 10, 2008

Subject: Follow-up on City Council Study Session for Touchstone (Parkplace) Private Amendment Request (File No. ZON07-00016)

Recommendation

Receive follow-up information on remaining questions related to the Touchstone (Parkplace) Private Amendment Request (PAR).

Background

The Council held a study session to receive the Planning Commission's recommendation on the Touchstone (Parkplace), Orni and Altom PARs on December 2. The Council asked staff for additional information on various topics relating to the Touchstone PAR. Staff has responded to the Council request in this memo and will discuss these topics in further detail at the study session on Thursday, December 11, 2008.

<u>Additional information requested at the December 2 Council Study Session</u>

1. *Mitigations at the intersection of NE 85th Street and 114th Avenue NE.*

The following mitigations are being proposed for the intersection of NE 85th Street and 114th Avenue NE: Add a second southbound to eastbound left-turn lane and re-stripe the eastbound right-turn lane to make it a shared through-right turn HOV/queue by-pass lane. These mitigations bring intersection performance to a level that is compatible with the performance under the "no action" alternative. They are what would normally be required of an applicant based on the City's Traffic Impact Analysis (TIA) guidelines.

Council members have asked what other improvements might be made to this intersection to improve it further in the future. Another improvement that was analyzed is the construction of a second northbound to eastbound right-turn lane with dual lane into the southbound I-405 ramp (one general purpose and one HOV lane) starting at the intersection. The cost of such a project is estimated to be $650,000 plus right-of-way acquisition cost. With this additional mitigation the LOS at 85th/114th would be LOS-E with 58.1 seconds of delay. This is an improvement from the 2014 mitigated condition which is LOS-F with 110.4 seconds of delay.

There was also a question relating to the impact of the hill on the traffic analysis for this intersection. Some methods for calculating delay at signalized intersections take hills into account in their calculations. These tend to be very detailed methods that aren't usually used with projections of future traffic. The methods that were used for the EIS are less detailed and didn't consider intersection grades.

2. 2014 and 2022 traffic mitigations

The Draft EIS identifies mitigations for 15 intersections. Ten of these intersections require improvements by 2014 and the remaining five intersection improvements are necessary by 2022.

Staff recommends that the applicant should be responsible for the 2014 improvements. While the proposed action would contribute to the need for the 2022 improvements, the impacts would be only slightly greater than the impacts of the no-action alternative. Consequently, the City should be responsible for the 2022 improvements. The City may agree to offset the cost of the 2014 improvements through a development agreement at a later time, but they must be done concurrently with the development of the project based on our TIA guidelines.

Even if the applicant is not directly responsible for the 2022 improvements, those improvements will remain a requirement of the Planned Action Ordinance. This will not result in a loss of funds for the City, but will allow more flexibility in how those funds are spent. The funds will be paid for by the applicant as general impact fees rather than directed specifically toward the 2022 improvements. This gives the City a chance to further analyze the value of the 2022 improvements so that the best end result is accomplished. Staff will be analyzing appropriate improvements for 2022 when the Comprehensive Plan is updated in the next couple of years. At that time, it will be determined if all of these 2022 improvements should be made and if they will provide the best traffic results for the City. Impact fees can be used for the improvements at that time.

It is estimated that the applicant will pay a total of $9,887,200 in impact fees. This is in addition to traffic mitigation improvements required through SEPA. The estimated cost of the 2014 mitigation projects for the proposed action is $7,058,000. Two of these projects would receive an impact fee credit of approximately $730,400. The remaining impact fees that will be collected are $9,156,803. The total cost of the 2022 improvements is $6,391,100.

3. Parking

At the December 2 study session, Council members asked about spillover parking. The proposed project has a reasonable mode spilt assumption, a strong TDM program with pay parking and a set of remedies if spillover parking proves to be a problem. This is a strong combination and it is more robust than any plan that has been submitted for any other development. Still, some Council members wondered why employees might not avoid paying at the garage and park for free in the adjacent neighborhood.

There are many factors that will go into an employee's decision on how to get to the site and where to park. Each employee will have to make their own trade-offs among those factors. Employees will be offered free transit passes and monetary incentives to not drive alone to the site. Carpools and buses are sometimes inconvenient, but it is also inconvenient to look for a parking place off-site and walk to work from that spot.

It's likely that some will, at various times, choose to park off site to avoid a parking charge. Determining exactly how many will do this is difficult because such a calculation is predicated on the behavior of many individuals that will make choices which will vary from day to day and season to season. We can't predict exactly how many people will choose a given option. Instead we have required a number of disincentives for driving alone, a reasonably sized garage for those who choose to drive alone, and a series of measurements to quantify impacts with a plan for mitigating those impacts. Finally, there is a presumption that it is in the developer's best interest to have adequate parking so that the project will be successful.

4. Height and Setback Limits for Southern Portion of the Site Adjacent to the Park

There is a 55' minimum setback required from Peter Kirk Park all along the western edge of the site. The minimum setback on the eastern and southern sides of this southern portion of the site is 20'. Height limits include a maximum of 60', but no more than 4 stories for the first 100' east of Peter Kirk Park. Then there is a height limit of 100', but no more than 7 stories for the next 20' east (up to within 120 feet of Peter Kirk Park). The remainder of the southern portion of the site where the so called typewriter building is proposed has a height limit of 115', but no more 8 stories.

The adjacent neighbor to the east of the proposed project is the Emerald Building. It is setback from its western property line (the one adjoining the Parkplace property) by approximately 10' so the separation between the two buildings will be at least 30'. The height of the Emerald building is at an elevation of 130 feet above sea level to the main building roof and 144 feet to the highest portion of the roofline. The maximum allowed height of the typewriter building is proposed at an elevation of 168 feet.

The Planning Commission's recommendation is an attempt to balance both the developer's and the City's best interests. The developer has made it clear throughout the process that they have a minimum square footage requirement that must be met in order for them to build the mixed use option. The Commission felt that lower heights adjacent to Central Way and the Park as well as the central open space were key elements that should be required for the City. They agreed with the Design Review Board's recommendation that in order to protect open space in portions of the site that are most important to the public, it was appropriate to allow the additional height in the location of the typewriter building.

Planning Commission Chair, Byron Katsuyama will be at the study session to further explain the Planning Commission's rationale for their recommendation.

5. Rooftop Appurtenances

The applicant has provided information on the size requirements for the rooftop appurtenances and also on code requirements from other jurisdictions (see Attachment 1).

6. Pedestrian Path

The proposed design guidelines address the requirement for a pedestrian connection through the southern portion of the site (see Attachment 2 submitted by the applicant). This connection could either go through the lobby of the proposed typewriter building or along the southern edge of the site. The applicant will bring drawings to the study session that will show their proposal for lobby pedestrian access through the site in more detail.

7. Sidewalk widths Along Southern Access

The access street along the southern edge of the property will include a pedestrian sidewalk. The sidewalk will be a minimum of 8 ft. wide where there are pedestrian connections identified and a minimum of 5 ft wide along other portions of the street. The applicant has provided information from the proposed Design Guidelines in Attachment 2.

8. Movie theatre

The movie theatre is a permitted, but not a required use. The proposed Use Zone Chart for the Zoning Code considers a movie theater as a retail use provided that its gross floor area shall not count toward more than 10% of the required minimum gross floor area of retail and restaurant uses (which must be equal to or greater than 25% of the gross floor area of office uses in this zone). This was done as an incentive for the applicant to provide a movie theatre in the development.

9. Cost/Revenue Analysis

The City staff and the developer have agreed on an analytical framework for the final financial analysis if there is to be a development agreement. The Finance Department will provide the Council with a separate memo outlining the estimated costs and benefits of the project in more detail. Once the Planned Action is decided upon by the City Council, a final evaluation of the expected cash flows will be generated for City Council consideration based on the final project configuration.

ATTACHMENTS

1. Rooftop Appurtenances
2. Parkplace Master Plan and Design Guidelines excerpts

Cc: Douglas Howe, 2025 1st Avenue, Suite 790, Seattle, WA 98121
File ZON07-00012

ATTACHMENT 1

December 8, 2008
Kirkland City Council
Rooftop Appurtenances

Question about height of rooftop appurtenances:

There are a two primary factors that lead to rooftop appurtenances being in the 15’-16’ range.

1. The types of elevators traditionally used for high-rise [traction type] require an overrun’ area above the cab. Above the over-run area, there is an elevator machine room which is generally 8 feet in height, exclusive of the structure housing this area.
2. Conventional self-contained rooftop mechanical units for buildings of this size are in the 10 foot range. These roof top units [RTUs] sit on top of a 5 foot high curb which is the air plenum that supplies the conditioned air into the building.

The following are code excepts from several jurisdictions that relate to rooftop appurtenances:

Bellevue, WA
20.25A.020 B.

4. Height Exceptions.

a. The maximum height identified in subsection A of this section may be increased by no more than 15 percent or 15 feet, whichever is greater, and only if the applicant can demonstrate that the additional height accommodates architecturally integrated mechanical equipment, interesting roof forms, significant floor plate modulation, significant facade modulation, or other such unique architectural features, and that the resulting design exceeds the quality and design requirements of LUC 20.25A.110.

Portland, Or
33.130.210 (B)

2. Roof top access and mechanical equipment. All rooftop mechanical equipment and enclosures of stairwells that provide rooftop access must be set back at least 15 feet from all roof edges that are parallel to street lot lines. Rooftop elevator mechanical equipment may extend up to 16 feet above the height limit. Stairwell enclosures and other rooftop mechanical equipment which cumulatively covers no more than 10 percent of the roof area may extend 10 feet above the height limit.

Seattle, WA
SMC 23.49.008 (D)

2. The following rooftop features are permitted up to the heights indicated below, as long as the combined coverage of all rooftop features, whether or not listed in this subsection 2, does not exceed fifty-five (55) percent of the roof area for structures that are subject to maximum floor area limits per story pursuant to Section 3.49.058, or thirty-five (35) percent of the roof area for other structures.

a. The following rooftop features are permitted to extend up to fifteen (15) feet above the applicable height limit:

(1) Solar collectors;
(2) Stair penthouses;
(3) Play equipment and open-mesh fencing, as long as the fencing is at least fifteen (15) feet from the roof edge;
(4) Covered or enclosed common recreation area; and
(5) Mechanical equipment.

Seattle cont'd

b. Elevator penthouses as follows:
(1) In the PMM zone, up to fifteen (15) feet above the applicable height limit;
(2) Except in the PMM zone, up to twenty-three (23) feet above the applicable height limit for a penthouse designed for an elevator cab up to eight (8) feet high;
(3) Except in the PMM zone, up to twenty-five (25) feet above the applicable height limit for a penthouse designed for an elevator cab more than eight (8) feet high;
(4) Except in the PMM zone, when the elevator provides access to a rooftop designed to provide usable open space, an additional ten (10) feet above the amount permitted in subsections (2) and (3) above shall be permitted.

c. Minor communication utilities and accessory communication devices, regulated according to Section 23.57.013, shall be included within the maximum permitted rooftop coverage.

Washington DC

530.4

If housing for mechanical equipment or a stairway or elevator penthouse is provided on the roof of a building or structure, it shall be erected or enlarged as follows:
(b) It shall be set back from all exterior walls a distance at least equal to its height above the roof upon which it is located; and
(c) It shall not exceed eighteen feet, six inches (18 ft., 6 in.), in height above the roof upon which it is located. Mechanical equipment shall not extend above the permitted eighteen foot, six inch (18 ft., 6 in.), height of the housing.

530.5

Housing for mechanical equipment or a stairway or elevator penthouse may be erected to a height in excess of that authorized in the district in which it is located.

Renton: no height limit, just screening requirement

Redmond: no height limit, just screening requirement

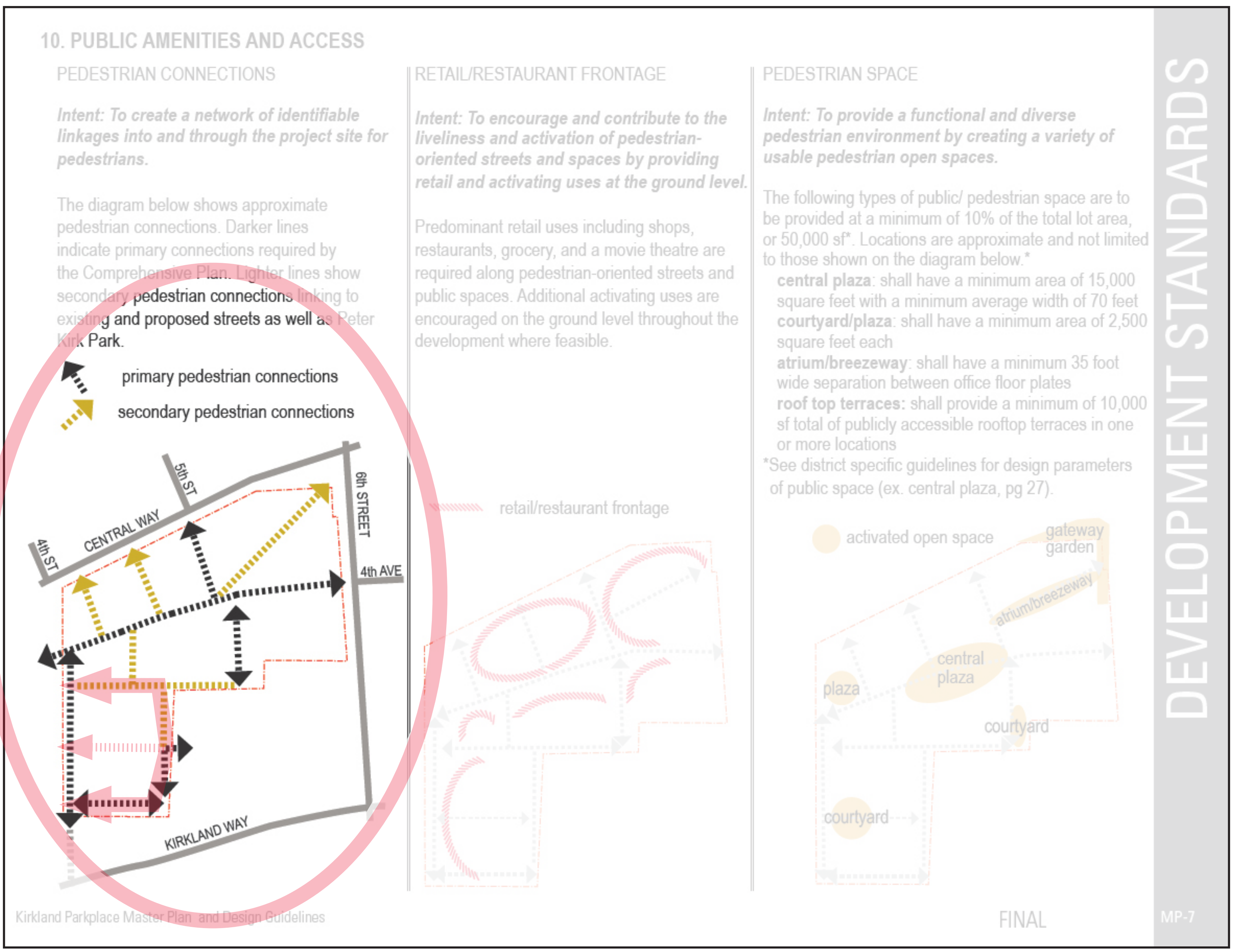
Issaquah: 18.07.060 B (4) exempts rooftop equipment out of height regulations to minimum necessary by building code

December 8, 2008
Kirkland City Council
Highlights of the Parkplace Master Plan and Design Guidelines

ATTACHMENT 2

Question about pedestrian connection on the southern portion of the site: The design guidelines ensure multiple options through Parkplace to access the Park, including the option of going through the lobby of the proposed building at the southern edge of the site (see dashed red line).
This connection will be an improved situation for pedestrians as currently there is no dedicated path or established street network leading to the park from the Parkplace property.

See below for highlighted diagram from page 7 of the Kirkland Parkplace Master Plan and Design Guidelines:


10. PUBLIC AMENITIES AND ACCESS

PEDESTRIAN CONNECTIONS

Intent: To create a network of identifiable linkages into and through the project site for pedestrians.

The diagram below shows approximate pedestrian connections. Darker lines indicate primary connections required by the Comprehensive Plan. Lighter lines show secondary pedestrian connections linking to existing and proposed streets as well as Peter Kirk Park.

RETAIL/RESTAURANT FRONTAGE

Intent: To encourage and contribute to the liveliness and activation of pedestrian-oriented streets and spaces by providing retail and activating uses at the ground level.

Predominant retail uses including shops, restaurants, grocery, and a movie theatre are required along pedestrian-oriented streets and public spaces. Additional activating uses are encouraged on the ground level throughout the development where feasible.

PEDESTRIAN SPACE

Intent: To provide a functional and diverse pedestrian environment by creating a variety of usable pedestrian open spaces.

The following types of public/ pedestrian space are to be provided at a minimum of 10% of the total lot area, or 50,000 sf*. Locations are approximate and not limited to those shown on the diagram below.*
central plaza: shall have a minimum area of 15,000 square feet with a minimum average width of 70 feet
courtyard/plaza: shall have a minimum area of 2,500 square feet each
atrium/breezeway: shall have a minimum 35 foot wide separation between office floor plates
roof top terraces: shall provide a minimum of 10,000 sf total of publicly accessible rooftop terraces in one or more locations
*See district specific guidelines for design parameters of public space (ex. central plaza, pg 27).

December 8, 2008
Kirkland City Council
Highlights of the Parkplace Master Plan and Design Guidelines

ATTACHMENT 2

Question about pedestrian access along southern street: The access street along the southern edge of the property will include a pedestrian sidewalk. The sidewalk will be a minimum of 8ft in width where pedestrian connections are identified, (discussed on previous page). In other portions of the street the sidewalk will be a minimum of 5ft in width, as required to make some of the turning radii work.

Question about the setback from southern property line: The access street will ensure at least a 25' setback from the southern property line which is significantly greater than the 0'ft setback currently required.

All proposed streets will have a strong pedestrian component as discussed in the Master Plan and Design Guideline document, see below for highlighted diagram pertaining to the southern access street from page 11 of the document: