



INFORMATIONAL MEMORANDUM

TO: Finance and Governance Committee

FROM: David Cline, City Administrator
Vicky Carlsen, Finance Director

CC: Mayor Ekberg

DATE: March 14, 2023

SUBJECT: Financial Considerations Regarding Annexation to the Puget Sound Fire Authority

ISSUE

The Council has asked staff to provide additional information on financial considerations regarding annexation to the Puget Sound Fire Authority.

BACKGROUND

In 2022 the City made the decision to contract with the Puget Sound Fire Authority (PSRFA) for the delivery of fire and EMS services in Tukwila. This decision was made based on a community-driven process that included formal recommendations from the City's Future of Fire and EMS Services Community Advisory Committee. That group recommended annexation to the PSRFA because of the high level of service the PSRFA is able to provide – above and beyond what Tukwila was able to provide with an in-house Fire Department – and because of the long-term financial sustainability of the provision of fire, EMS and other municipal services in Tukwila. The City Council adopted the Advisory Committee's recommendations, which the Mayor also supported, and the City began contracting with the PSRFA on January 1, 2023 with the goal of a formal annexation within two years. To access the report, visit <http://records.tukwilawa.gov/WebLink/ElectronicFile.aspx?docid=355066&dbid=1>.

DISCUSSION

The City of Tukwila and the PSRFA worked diligently on the contract for services, which resulted in most of the annexation details being agreed to during the contracting process. As the Council heard at its meeting on March 20, 2023, the annexation plan has also been agreed to and satisfactorily met the Council's key issues of governance and reversion of existing fire stations. Along with the annexation plan, the Council is being asked to place the annexation on the August 1, 2023 primary election ballot. The Council must act before May 12, 2023 in order to make the August ballot, which both City Administration and the PSRFA recommend for this measure.

As a part of its deliberations on placing the measure on the ballot the Council has asked for more information on the financial implications of annexation. It is important to note that if the August 1, 2023 vote is successful, the City and PSRFA will retain the contractual arrangement until January 1, 2025 and only at that point will the PSRFA levy property taxes for fire and EMS services on Tukwila properties. The City will continue to pay for Fire and EMS services from its general fund through December 31, 2024.

The PSFRA has both a property tax levy and Fire Benefit Charge (FBC) available to levy on property owners for Fire and EMS services. The property tax available to the PSRFA is a maximum of \$1.00 per thousand and the FBC is dependent on several factors such as building's square footage, type and use of building, and fire flow and sprinkler; the higher the

square footage and these other factors, the more the property owner pays in FBC. For illustrative purposes only, here is a chart to show how the PSRFA’s tax levy would impact a few hypothetical buildings in Tukwila:

Property Type	Assessed Value	Square Footage	Tukwila Equivalent Levy Rate (\$1.90)	PSRFA			
				Fire Levy Rate at \$0.90	FBC	Total PSRFA Cost	Increase / (Decrease)
Residential	500,000	2,240	949.75	450.00	227.14	677.14	(272.61)
Residential	500,000	2,710	949.75	450.00	270.96	720.96	(228.79)
Commercial	521,700	3,556	990.97	469.53	453.73	923.26	(67.71)
Commercial	14,561,000	103,200	27,658.62	13,104.90	17,000.71	30,105.61	2,446.99
Apartment	963,200	25,240	1,829.60	868.88	7,192.49	8,061.37	6,231.77
Apartment	9,014,000	40,432	17,122.09	8,112.60	9,103.22	17,215.82	93.73

The City currently assesses a regular rate of \$1.94728 per \$1,000 of assessed value, which generates \$17.5 M in property taxes for general fund purposes, excluding voter approved bonds¹. If the annexation vote is successful, in 2024 as a part of the 2025/2026 biennial budget process the City will need to make a determination as to what to do with its property tax capacity. While the Community Advisory Committee recommended annexation to the PSRFA in part due to the long-term financial stability of funding fire, EMS and other municipal services, ultimately it will be a City budget decision in 2024 balancing the desired level of City services with taxes. While the City adopts a biennial budget that only covers two years, the six-year planning document also adopted with the biennial budget does forecast the City spending \$11.5 million annually of property taxes beginning in 2025 just to maintain existing levels of service currently provided to the Tukwila community. This would result in the overall reduction of City property taxes by \$6M annually if adopted in the 2025/2026 budget.

As a part of the 2023/2024 budget process, the Administration and City Council agreed to initiate a long-term financial sustainability effort that will kick off in the third quarter of this year. This will include bringing in an outside expert to help develop a long-term model, as well as a stakeholder and community advisory group to provide input and ideas on how the City can be financially sustainable while providing quality services. A big part of this effort will be to identify what that balance is between desired levels of City services and taxes. The Administration believes that this effort should include contemplating what the City should do with the additional property tax capacity if the August annexation vote is successful because it:

1. Allows for the City to take a comprehensive approach to financial sustainability and folds it in to an already agreed upon process to take a deep dive into the City’s finances and tools for long-term sustainability;
2. Includes a community and stakeholder advisory body to ensure that diverse voices are at the table and weighing services levels and revenues;
3. Informs the ultimate adoption of the 2025/2026 biennial budget; and
4. Ensures that the current Council does not bind the next one, as the true decision makers on this issue will be the Council seated in 2024.

¹ It is important to note that the vast majority of property taxes paid by Tukwila property owners go agencies of the City of Tukwila, including State and local schools, as well as other taxing agencies.

The City has worked for many years on multiple community-led efforts to get to the point of annexing to a Regional Fire Authority. Participants have determined that the benefits of regionalization and the high level of service that being a part of a Regional Fire Authority affords the Tukwila community cannot be matched by a municipal fire department. Moving forward to place this item on the August 1, 2023 ballot sustains this momentum, while allowing for significant time to determine – with the assistance of community members and other stakeholders – the best service-level and financial outcomes to influence the 2025/2026 budget process.

RECOMMENDATION

Information Only