

MEMORANDUM

DATE: September 2, 2011
TO: Bob Larson; City Manager, City of Snoqualmie
Rob Orton; Finance Officer, City of Snoqualmie
FROM: Michael Hodgins and Jay Rogers, BERK
RE: Fiscal Impact Review of Mill Planning Area Annexation

INTRODUCTION

In March 2011, the City Council approved a resolution authorizing the Mayor to begin negotiations for an Interlocal Agreement (ILA) between the City and County to annex a portion of the City's Mill Planning Sub-Area within the City's urban growth boundary. City staff has since drafted a fiscal impact document evaluating the financial impacts of the proposed annexation area.

The City engaged BERK to provide an assessment and peer review of the fiscal impact analysis regarding annexation of the Mill Planning Area.

Mill Planning Annexation Area

The Mill Planning Area is in the City of Snoqualmie's Urban Growth Area (UGA) and is one of the largest remaining undeveloped sites in King County. The approximately 595 acre proposed annexation area (PAA) is located immediately east of downtown Snoqualmie and was the previous location of the Weyerhaeuser Mill. There are currently 21 parcels located within the PAA.

The fiscal impact analysis conducted by the City examined current activity within the PAA primarily related to the operation of a rally school and uses of parts of the property by other business interests (e.g. parking for the Boeing Classic Senior PGA golf tournament, corporate events, etc.). The balance of properties within the PAA is owned by Weyerhaeuser Real Estate Development Corporation and is largely open space. Assumptions for the fiscal impact analysis included:

- Estimated business activity from owners within the PAA (Dirtfish Rally School);
- 2011 King County Assessor's data; and
- Estimates from City staff regarding departmental revenues and costs.

REVIEW OF LIKELY REVENUE SOURCES

The revenues examined by the City reflect estimates based on current activity within the PAA. Revenue estimates include high and low ranges for both general fund tax and license revenues (i.e. property tax, sales tax, admission tax, etc.) as well as utility fund revenues (water, sewer, and stormwater rate revenues). Exhibit 1 below illustrates the low and high range of estimates for potential revenues generated within the PAA, which range from a low of \$190,760 to a high of \$195,200.

Exhibit 1: Likely PAA Revenue Sources

<i>General Revenues</i>	Low Range	High Range
Property Taxes*	\$3,650	\$4,450
Sales Taxes	\$80	\$170
Utility Taxes - Water, Sewer, Stormwater***		\$15,100
Utility Taxes - Other	<i>Requires further analysis</i>	
B&O Taxes	\$1,350	\$1,950
Admission Taxes**	\$2,500	\$5,000
Business Licenses	\$50	\$500
Subtotal	\$22,730	\$27,170
<i>Utility Revenues</i>		
Water Utility Fees***		\$600
Sewer Utility Fees***		\$430
Stormwater Fees		\$167,000
Total Likely Revenue Sources	\$190,760	\$195,200

* Low range for Property Taxes reflect County Levy rate

** Assumes one event per year for low; two events for high

*** Assumes once annexed, area will pay in-city rates

Source: City of Snoqualmie Issues: Mill Planning Area Annexation, 2011; BERK, 2011

Property Taxes. The approach used to derive estimated property tax revenues in the fiscal impact analysis seems reasonable. However, due to lags associated with annexation and levying, the City may not be able to begin levying property taxes within the annexation area until the year following annexation. RCW 84.09.030 defines that the official boundaries must be established by August 1 of the year in which the property tax levy is made. The statute is unclear as to when a boundary change resulting from annexation officially becomes “established”. According the 2009 Annexation Handbook published by the Municipal Research and Services Center of Washington (MRSC):

The annexation statutes provide, for all annexation methods, that the effective date of an annexation is that which is stated in the annexation ordinance as the effective date. Thus, it is likely that the date stated in the annexation ordinance would be considered as the date on which the new city boundaries are officially established.

If the City is not able to levy property taxes in the first year, the City would receive revenues associated with the County road levy. This is noteworthy for two reasons:

1. Estimated property tax revenues in the first year would be about \$800 less based on 2011 assessed values and 2011 County road levy rate of \$2.1973, which is lower than the 2011 City levy rate at \$2.6924.
2. The use of road levy revenues must be limited to transportation-related expenses. To offset these limitations, the City has the flexibility to adjust any portion of General Fund dollars currently allocated to streets back to the General Fund.

Sales Taxes. Sales tax estimates presented in the fiscal impact analysis were based on business owner’s assumptions of likely purchases made on-site for merchandise (roughly about \$10,000 to \$20,000 annually). This approach seems reasonable. However, since the data is based on estimated

business activity from the business owner, the City may want to check these estimates with the Department of Revenue for what has been collected thus far within the PAA.¹

Utility Taxes. Utility tax revenues were not included in the City’s fiscal impact analysis. The City imposes a 6% utility tax on telephone services, electricity, natural gas, and cable. The City also imposes a 9% tax on city-provided utilities (water, sewer, and stormwater) and contracted solid waste services. These taxes are paid by both residences and businesses.

Using City-provided estimates of water, sewer, and stormwater rate revenues, utility tax revenues for city-provided utilities would be approximately \$15,100 per year. BERK was unable to estimate utility tax revenues from other sources because there was limited information provided in the fiscal impact document. However, given the limited development and business activity within the annexation area, estimated utility taxes revenues from these sources would likely be small.

Business & Occupation (B&O) Taxes. The approach used to estimate B&O tax revenues is correct and the estimates appear reasonable.

Admission Taxes. The approach used to estimate admission tax revenues is correct and the estimates appear reasonable.

Business Licenses. The approach used to estimate revenues from business licenses is correct and the estimates appear reasonable.

Gas Taxes. A portion of the State-collected gas tax is shared directly with municipalities, which bear a substantial portion of the overall costs of road maintenance and construction. The gasoline and diesel tax is a flat amount levied per gallon (rather than a percentage of the price at the pump). Gas tax revenue projections normally follow a per capita estimate that is assumed to remain constant into the future. Since there is no current residential area within the PAA, there would be no increase in City’s gas tax revenue collections attributable to the PAA.

Transportation Benefit District Vehicle License Fees. The Snoqualmie City Council adopted an ordinance in 2010 establishing a Snoqualmie Transportation Benefit District (TBD). A \$20 vehicle license fee (VLF) for motor vehicles licensed to residents who live within Snoqualmie City limits has been in effect since early 2011. Because there are no permanent residents within the PAA, it is unlikely that the City would generate any TBD revenues. However, there may be a small amount of TBD revenue generated if Dirtfish Rally School registers its course vehicles. These vehicles are subject to TBD VLFs, according to the Department of Licensing.

REVIEW OF LIKELY OPERATIONAL COSTS

Annexation studies focus on changes in the cost of services based on relationships between direct services, such as maintenance workers or planners, and underlying demographic, and community changes, such as increases in population, housing units, commercial activity, and land area.

The City’s assessment is that the annexation area is not likely to present the City with significant increases in immediate service needs or current operating costs. This assumption seems reasonable given the limited size and business activity within the annexation area. However, the City would need

¹ The Department of Revenue maintains business specific taxable retail sales data that can be requested by the City. Requesting multiple years of data will provide insight into year-over-year growth and variation.

to revisit impacts if it contemplates alternative scenarios for development within the annexation area as these may necessitate additional service needs and operating expenditures.

The majority of costs within the PAA would be related to street maintenance and bridge inspection. Estimates of street maintenance costs were not provided in the fiscal impact document, but are presumed by the City to be minimal. Bridge inspection costs are estimated to be about \$3,000 per year. There are also estimated costs associated with storm drainage facilities and stormwater maintenance costs that total about \$6,500 to \$8,500 annually. These costs, as with any other utility costs, would be recovered through utility rates paid by City residents and businesses.

INDIRECT BENEFITS FROM BUSINESS ACTIVITY WITHIN THE PAA

In addition to the peer review, the City requested BERK to address potential financial benefits resulting from the Global Rally Cross event(s) and Dirtfish Rally School operations not identified in the fiscal impact document such as indirect taxes.

It is likely the City currently benefits from additional indirect tax revenues as a result of fan, non-fan, and employee spending off-site. Any positive local economic benefits associated with business activity within the annexation area would be the result of increases in net local spending, which in turn increases the demand for local labor, goods, or services. Given current business activity within the annexation area, local spending would likely take the form of:

- Fan spending at special events (Global Rally Cross), both local area residents and visitors to the area;
- Non-fan spending at special events (media, race teams, officials, etc.);
- Students of the Dirtfish Rally School, both local area residents and visitors to the area; and
- Corporate events held at the Dirtfish Rally School, both local area residents and, to a lesser extent, visitors to the area.

Since the City is likely already receiving these indirect financial benefits from special events and operations at the rally school, annexation of the PAA will not affect the City current businesses or tax collections in any material way.

However, the degree that City businesses and tax collection would benefit from expanded business on the site (rally school) is not easily discernable. Quantifying economic benefits for a small geographic area, such as a city, is difficult many reasons – a few are highlighted below:

- What preferences exist for attendees of special events or where they would choose to spend their money? Would they choose to eat, stay, or shop in Bellevue or Seattle rather than Snoqualmie?
- Does the City of Snoqualmie have enough accommodations to support special events that bring in 2,000 to 2,500 visitors per event?

The basic tension the City would confront in capturing increases related to more events in the PAA is the degree that businesses within Snoqualmie have the capacity to accommodate any increased demand and their ability to be competitive with other similar offerings. Stated another way, the City would have to compete with other cities in the region to capture visitor and non-fan spending once they are off-site. Using accommodations as an example, the City only has one tax producing hotel within its limits (the Salish Lodge); thus, the City would likely not capture much in the way of accommodation spending.

ADDITIONAL KEY ISSUES REGARDING ANNEXATION

The review BERK conducted was limited to review of the City's fiscal assessment and did not include a full examination of existing City finances and how annexation might change any current or future fiscal challenges. A useful framework for evaluating annexation is to examine fiscal impacts both in terms of the costs and revenues the City would likely bear immediately upon annexation and in the longer term. As the City found in its analysis, the PAA is small and largely undeveloped (assuming no change in current uses) and there are likely to be minimal fiscal impacts to the City (i.e. the revenues generated are relatively in-line with estimated operating expenditures). If the City were to move forward with annexation of this area and make no changes to the existing limited uses in place, this fiscal balance finding would likely remain true in future years.

However, because this area represents one of the largest remaining undeveloped sites in King County, there seems to be a potential opportunity for future development to occur beyond current uses. If the area were to develop differently from its current use, these alternative development situations (depending on their uses) would likely introduce new demands on City services as well as changes to the City's tax base which may or may not present a similar fiscal outcome for the City. In a situation like this, the City would want to evaluate how potential changes to the land use and future development would affect its long-term fiscal sustainability. Regardless, by annexing this area, the City would gain the benefit of having a chance to evaluate the implications of future development through its own regulatory and permitting processes.