



September 9, 2011

Fiscal Impact Issues: Mill Planning Area Annexation

Description and Scope: This report attempts to address revenues and cost impacts of the Mill Site Planning Area Annexation.

The City has drafted a pre-annexation agreement between itself, Weyerhaeuser Real Estate Development Company (WREDCO), Snoqualmie Mill Ventures LLC (SMV) and Ultimate Rally LLC which operates under the name, "Dirt fish Rally School". Existing business activities on the site are largely attributable to Dirtfish.

This report examines only known current activity within the annexation—primarily, operation of the Rally School and uses of parts of the property by other business interests. The balance of the property is owned by Snoqualmie Mill Ventures and Weyerhaeuser Real Estate Development Corporation and is largely undeveloped open space.

The former lumber mill site on SMV property consists of an office complex, several out buildings, power substation, and large, unwallled sheds and paved gravel and dirt surfaces. The former mill pond is located on the WREDCO owned property.

There is no specific development proposed for any portion of the annexed area beyond current business operations and those of other property tenants. The entire property is within the City's Urban Growth Area.

1. **Current Business activity at the site:**
 - a. Rally school ("Ultimate Rally LLC" DBA: Dirtfish Rally School): courses ranging from two hours to three days (\$399-\$3,250)
 - b. Corporate events: team building, corporate entertainment (custom pricing)
 - c. Retail sales: competitive racing equipment (shoes, helmets, gloves, racing suits)

- d. Parking: Boeing Golf Classic: Parking up to 6,000 cars during the event (Dirtfish does not charge for vehicle parking for this event)
 - e. Other users:
 - i. Puget Sound Energy or Barnard Construction: staging/storage yard for hydro power rebuild at the Falls
 - ii. North Fork Enterprises for top soil/beauty bark production
 - f. Special events: Global Rally Cross race: 2,000-2,500 visitors paying admission; one event per year from this venue
2. **Likely revenue sources:**
- a. Property taxes: Current assessed value for parcels within the annexation area (less an adjustment for split parcels) is \$1,636,000. Tax revenues of \$4,435 at the 2010 levy rate (for taxes collected in 2011) would accrue to the City. The City would also receive taxes at its full levy rate for the value any new construction in the annexed area.
 - b. Utility fees:
 - i. Water: The Dirtfish Office has the only service connection to City utilities within the annexation area. The water connection is a 1 ½" service at about \$67/ month plus consumption at the rate of \$2.54/100 cubic feet in excess of 200 cubic feet. There is only 14 months of consumption history on the account amounting to 1300 cubic feet or about 1110 cubic feet annually. On a monthly basis, consumption would fall within the base rate. Rate revenue is about \$800 per year.
 - ii. Sewer: \$37/month plus consumption (based on water use) at \$2.78 per 100 cubic feet in excess of 600 cubic feet; about \$444 annually.
 - iii. Each City utility customer also pays a fixed, capital facilities surcharge of \$14 per year for Sewer and Water, and \$9 for Storm water.
 - iv. By ordinance, utility services outside the City limits are charged a premium over service within City limits. Were the area to be annexed, city utility rates for users would be reduced to a base rate of \$51 and \$36 per month respectively for Water and Sewer service.
 - c. Stormwater or surface water management fees: The City's stormwater rate for commercial accounts is based on an "equivalent service unit" (ESU). One (1) ESU equals 2600 square feet of impervious surface. Using County data, impervious surface for the annexed area is estimated at 3,137,000 square feet or 1207 ESU's. The equivalent storm

charge from the City would be \$167,000 per year. Revenues are used for storm system maintenance, system planning and a portion of capital improvements.

- d. Utility Taxes: Snoqualmie levies a tax of 9% on its own utility services (water, sewer and storm water). Based upon known utility consumption and the estimated storm water fees, utility taxes would generate about \$15,000 annually at current rates.
- e. Business and Occupation Taxes (B and O): The City imposes a B and O tax of .15% on gross receipts adjusted for certain allowable deductions. The bulk of taxable sales from the annexed area is likely attributable to rally school operations and could range from \$900,000 to \$1,300,000 in 2011. The range of tax revenue would be \$1,350 to \$1,950 year.
- f. Admission taxes: Two known special event activities have been conducted in the annexed area. One is parking for the Boeing Classic Golf Tournament; the other is the Global Rally Cross race held in April 2011. The golf tournament does not generate taxable admission revenue in the annexed area. Events for which Ultimate Rally would charge an admission are subject to a City tax of 5% of the ticket price. Based on a ticket price of \$20 and attendance of 2,500 (roughly approximate to the April Rally event), admission taxes would yield \$2,500 per event. The draft pre-annexation agreement allows for two comparable events and other events on a case by case basis.
- g. Sales Taxes: Sales taxes would derive from:
 - i. Retail sale of merchandise at Ultimate Rally's headquarters (estimated at between \$10,000 and \$20,000 annually yielding \$85-\$170). Note: the City's share of retail sales taxes is effectively .84% net of a Department of Revenue processing fee; not the full tax rate of 8.6%.
 - ii. Indirect taxable sales made by Dirt fish employees, within City limits (no attempt has been made to estimate indirect receipts as presumably the fiscal benefits would not change with annexation)
 - iii. Indirect taxable sales generated by visitors to special events (no estimate has been made for indirect tax receipts as presumably fiscal benefits would not change with annexation)
- h. Business Licenses: A business license will be required from the Dirtfish LLC. Revenue ranges from \$50-\$500/year and is based

on number of employees. Dirtfish employment fluctuates depending on activity.

- i. Gasoline taxes: The City receives a share of revenue from the State tax on gasoline sales which is used exclusively for street maintenance. This tax is a fixed amount per gallon and thus, does not fluctuate with the price of fuel. Further, the tax revenue is distributed on a per capita basis. Thus, there is no direct correlation between revenue generation and specific local activity---as there is, for example, with sales and B and O taxes. Any increase in gas taxes attributed to the annexation area or its business activities would be speculative and likely nominal.

3. **Costs of service:**

- a. Streets, roads, bridges, drainage:

- i. Mill Pond Road (8,300 feet in length or 1.58 miles), and Reinig Road-- from Meadowbrook Bridge to 396 Drive SE (about 1600 feet in length-- .33 mile) are included in the annexation.

The section of Reinig Road that would fall to the City shows more wear but also serves areas, outside city limits.

- ii. The City would inherit maintenance and eventual reconstruction responsibility for these two roadway sections. It is unlikely that short term maintenance of either road section would be addressed by complete reconstruction. The City typically prolongs the useful life of roadways with a variety of maintenance applications including patching, crack sealing and seal coating. The City's maintenance and capital improvement program for streets is weighted toward condition, safety, traffic volume and relationship to overall transportation planning. These aspects would play into timing of major road rebuilding investments. In 2011 dollars, the cost of reconstructing comparable roads is \$345,000 per mile (removal of existing surface and repaving with asphaltic concrete). The City could opt for less costly re-construction alternatives such as chip sealing.

Discussion thus far with County staff is that King County will be unable to share costs for maintenance. Closing Mill Pond Road or converting it to a trail is two suggested options for that segment. The preferred alternative might be influenced by the extent of flooding or by more

intense development in the area. Any decision to temporarily or permanently close Mill Pond Road or convert it to a trail would be subject to City Council approval and supported by a traffic study. Maintenance of the portion of Reinig road within the annexation area would remain with the City.

If Mill Pond Road remained open, the City expects to incur initial costs for ditch maintenance and brush clearing to bring roadway shoulders up to City standards. This would be an improvement over present condition and is expected to cost \$12,000. Thereafter, annual maintenance is expected to be about \$6,000.

- iii. 396th Drive SE (.75 miles from Reinig to the Dirtfish entrance): King County staff initially proposed that the City also take 396th Drive SE adjacent to the annexation area. A compromise currently suggested by City and County Staff, is for King County to retain ownership and maintenance until 50% of daily trips come from properties within the City of Snoqualmie. There is no forecast, current data or timing to assess this impact.
- iv. Meadowbrook Bridge: Meadowbrook Bridge was rebuilt in 2005 at a cost of \$7.7 million. 70% of the project was funded by federal and state grants---aided by the fact that the structure has historical significance and is a landmark. The steel truss span is the original 1921 structure. The City of Snoqualmie was a party to an inter-local agreement with the County for the project.

In 2009, the bridge surface received an epoxy coating to prevent pavement cracking.

Reconstruction is expected to extend the life of the bridge truss 20 to 30 years with maintenance. The abutments and approaches were designed to accommodate a future two lane road.

According to County records, periodic maintenance of the structure consists of inspection, pavement repair, painting and storm drain maintenance. Currently, the bridge is on a two year inspection cycle which costs about \$7,000 per inspection. Maintenance costs since 2006 were \$17,000 which included \$10,000 for epoxy coating the bridge pavement in 2009. Average annual

maintenance is estimated at \$8,300 per year including inspection costs and signal maintenance.

The County estimates the structure needs to be repainted every 17 years at a cost of \$100,000 (or \$124,000 by 2022). This would require an added accumulation of about \$11,000 per year.

The project solved many deficiencies identified in the bridge—especially its structural integrity, low flood clearance and seismic vulnerability. Thus, risk for major structural attention during this time horizon seems unlikely. Further, eventual replacement of the structure may be limited to the truss itself or, if the original truss is preserved, a second, parallel span. The approaches would not have to be replaced during this 20-30 year time-frame .

Assuming that 85% of the original project was related to replacing the truss, cost to replace the bridge in 20 years (25 year replacement schedule from 2005) at a 2% inflation rate would be \$9.7 million; \$11.8 million at 3%.

It is unreasonable to assume that the City would stand this investment by itself or without state and federal assistance. While this paper does not attempt to speculate about growth, it is likely that the bridge will serve intra-county transportation needs well into the future and its replacement costs borne by several government partners. If the area experiences incremental growth due to concentrated development that require capacity improvements to the structure, developer mitigation payments would also be a factor.

Storm water: There are four storm drainage facilities on Mill Pond road and on the North side of Meadowbrook Bridge on Reinig. One catch basin on Mill Pond Road appears to drain into the river. The system lines on Reinig flow to a retention pond northwest of the bridge. City staff estimates that bringing catch basins, lines and the storm pond to its service standard would initially cost between \$4,000 and \$6,000. Thereafter, system maintenance would cost \$2,500 per year. As with other city street sections prone to flooding, annual maintenance costs might be aggravated increasing the frequency of catch basin cleaning.

- b. Utilities: The City already provides maintenance for water and sewer service to the Rally School office building. Such services

are embedded in the City's existing rate structure. However, sewage disposal on the site is aided by a privately-owned lift station. The City does not maintain this unit. Should additional sewage connections be made, this facility could be designated as a public facility and may become owned by the City. The City would likely require the facility to be upgraded to a condition that equals its physical plant standards before it would accept ownership.

- c. Fire Service: There is no city fire flow to the site and the property is not within any Fire District. The site has a privately-owned water storage and fire suppression system legacy of former mill operations. Typically, city fire would attempt to use the private system for emergency response but cannot guarantee or rely on the system having the necessary suppression capabilities. Emergency responses beyond the capabilities of city fire are commonly met by neighboring jurisdictions and resources through mutual aid agreements. The cost of mutual aid responses is not passed on to citizens. Fire services are supported by general tax revenues. The city expects very little in incremental expenses to serve the Mill Site annexation---given current uses on the property. The rally school is expected to generate a minimal number of emergency medical or vehicle rescue incidents.
- d. Building and Fire Codes: The Rally School has been notified that certain building/fire code improvements will have to be made if the area is annexed. These costs will be borne by owners.

Police: The City will assume responsibility for law enforcement at the site although the City does contract with other agencies for specialized support services (e.g., arson investigation, animal control) should the need arise. There are no residences in the annexed area and only one business. Law enforcement or public safety monitoring or traffic control costs that are specific to large events (such as the Rally Cross event), requiring officers to standby or provide standby equipment, are costs borne by the owner or event sponsor and outside the realm of tax-supported services. Snoqualmie Police would add newly annexed property to its patrol area (about 2.4 miles one way in total). If Police kept to a routine of twice daily visits to all areas of the City, patrol of the Mill Site and adjacent roads would require 150-180 hours per year at a cost of \$8,000 to

\$9,700 annually. However, Police expect no incremental personnel costs as a result of annexation.

- e. Parks: There are no Park facilities that will be conveyed to the City in the annexed area. It is conceivable the City will seek to develop a river walk trail or other trail facilities. This eventuality is covered in the pre-annexation agreement (PAA) and would be further addressed as part of the additional planning and development review prior to any development within the annexation area. The PAA also requires a corridor be provided by the missing section of the Snoqualmie Valley trail. Construction and maintenance of this trail would fall to King County as a segment of the larger, regional trail system.
 - f. Planning and Building: Permits will be required if owners have to engage in any code compliance work. These costs will be borne by owners/applicants. All costs of sensitive area study and planning required by the (PAA), as well as City staff expenses and outside consultation review associated with that planning and future development review will be borne by the owners/applicants.
4. Conclusions: Based upon known current uses within the annexed area, the City of Snoqualmie can expect general tax revenue of about \$16,000 and utility revenue of about \$168,000 per year at current values, rates and charges.

Effective with annexation, the City would become obligated for Police, Fire and road maintenance services to the annexed area at a cost of about \$18,000 per year and initial, onetime costs of about \$12,000 for brush, ditch work and storm drain cleaning.

Interpolating from King County projected costs, average annual maintenance for Meadowbrook Bridge would be \$19,000—although since 2006, the County's actual maintenance costs were only \$4,250 per year. Our analysis assumes \$8,300 in direct maintenance costs and a "sinking fund" accumulation of \$11,000 for major maintenance events.

Snoqualmie would assume responsibility for reconstruction of an added 1.9 to 2.4 miles of roadway, perhaps a sewer lift station and ultimately, replacement of Meadowbrook Bridge. These are large undertakings but the timing and ultimate investment in any of them is

dependent on many factors that are years if not decades in the future. Much depends on the future economic and demographic configuration of land both inside and out of the City.

In the case of the bridge, forecasts are complicated as it will have intra-county traffic use and growth outside of the annexed area. Average daily traffic trips on the bridge have increased about 8% per year since 2008 without any appreciable development in the proposed annexation area.

Similarly, the "triggers" for reconstruction of Mill Pond and Reinig Road depend on factors that are not known today. If use of Mill Pond road were to continue at current observed levels, the road may not be rebuilt for 25 years.

While the City could benefit from future growth analysis, this type of work is generally initiated in response to a specific development proposal. In this case, one does not exist.