

TO: Katie Carleo, Principal Planner

FROM: Ian Peterson, Analyst II
Fiscal and Strategic Planning Office

DATE: October 30, 2017

SUBJECT: Sands Annexation - Fiscal Impact Analysis

A copy of the fiscal impact analysis for the Sands Annexation is attached. At the request of the Planning Department, the Fiscal and Strategic Planning Office prepared a fiscal impact analysis estimating the City General Fund, 2C Road Tax Fund and Public Safety Sales Tax (PSST) Fund revenue and expenditures attributable to Sands Annexation development for the period 2018-2027.

The fiscal review criteria of the City Code states city costs related to infrastructure and service levels shall be determined for a ten-year time horizon for only the appropriate municipal funds.

The methodology used for the fiscal impact analysis is a case study approach, where a mini-budget process is undertaken in which City units are asked to project the increased marginal cost of providing services to the development for 2018-2027. The Fiscal and Strategic Planning Office estimates the city revenue, as outlined in the Revenue Notes, stemming from the development.

Most departments indicated that there were no identifiable marginal costs of providing services to this development, as the area is currently being serviced by public safety agencies, and the surrounding infrastructure and roadways are already being maintained by the City as they fall within the service area of surrounding parcels. The Fire Department (\$1,174-\$1,403), Police Department (\$5,700-\$6,812), Traffic Engineering (\$6,360-\$7,601), Streets Division (\$44,511-\$53,195), and Parks, Recreation, and Cultural Services (\$58,500-\$69,913) identified marginal increases in operation costs annually.

The result of the fiscal impact analysis is a positive cumulative cashflow for the City during the 10-year timeframe.

The Summary of Expenditures and Revenues is attached. Also, the Expenditure and Revenue Notes are attached that provide the methodology for calculating the expenditures and revenues.

**GENERAL FUND FISCAL IMPACT ANALYSIS
SUMMARY OF EXPENDITURES AND REVENUE FOR**

Sands Annexation

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
EXPENDITURES										
<u>Total Salaries, Operating, and Capital Outlay</u>										
Police	5,700	5,814	5,930	6,049	6,170	6,293	6,419	6,548	6,678	6,812
Fire	1,174	1,197	1,221	1,246	1,271	1,296	1,322	1,348	1,375	1,403
Public Works - Streets	44,511	45,401	46,309	47,235	48,180	49,144	50,127	51,129	52,152	53,195
Public Works - Transportation Engineering	0	0	0	0	0	0	0	0	0	0
Public Works - City Engineering	0	0	0	0	0	0	0	0	0	0
Public Works - Traffic	6,360	6,487	6,617	6,749	6,884	7,022	7,162	7,306	7,452	7,601
Parks, Recreation and Cultural Services	58,500	59,670	60,863	62,081	63,322	64,589	65,881	67,198	68,542	69,913
TOTAL EXPENDITURES	116,245	118,570	120,941	123,360	125,827	128,344	130,911	133,529	136,199	138,923
REVENUES										
Property Taxes	0	0	40,360	41,571	42,818	44,102	45,425	46,788	48,192	49,637
Specific Ownership Taxes	0	0	4,694	4,835	4,980	5,129	5,283	5,441	5,605	5,773
Road & Bridge Revenue	0	0	1,534	1,580	1,627	1,676	1,726	1,778	1,831	1,886
Sales Tax Revenue (Residential Uses)	93,845	125,533	159,039	194,441	231,825	271,276	312,886	356,749	402,961	451,625
Sales and Use Tax Revenue (Building Materials)	947,946	0	0	0	0	0	0	0	0	0
Miscellaneous Revenue	96,967	99,876	102,872	105,958	109,137	112,411	115,783	119,257	122,834	126,520
General Fund Sub-Total	1,138,758	225,409	308,498	348,384	390,386	434,594	481,104	530,013	581,423	635,441
Public Safety Sales Tax Fund										
Sales Tax Revenue (Residential Uses)	18,769	25,107	31,808	38,888	46,365	54,255	62,577	71,350	80,592	90,325
Sales and Use Tax Revenue (Building Materials)	189,589	0	0	0	0	0	0	0	0	0
Public Safety Sales Tax Fund Sub-Total	208,358	25,107	31,808	38,888	46,365	54,255	62,577	71,350	80,592	90,325
2C Road Tax Fund										
Sales Tax Revenue (Residential Uses)	29,092	38,915	49,302	60,277	0	0	0	0	0	0
Sales and Use Tax Revenue (Building Materials)	293,863	0	0	0	0	0	0	0	0	0
2C Road Tax Fund Sub-Total	322,955	38,915	49,302	60,277	0	0	0	0	0	0
TOTAL REVENUE	1,670,072	289,431	389,608	447,549	436,751	488,850	543,681	601,362	662,015	725,766
REVENUE SURPLUS/DEFICIT										
(Total Rev. less Total Exp.)										
ANNUAL	1,553,827	170,862	268,667	324,189	310,924	360,506	412,771	467,834	525,816	586,843
CUMMULATIVE	1,553,827	1,724,689	1,993,355	2,317,545	2,628,468	2,988,974	3,401,745	3,869,578	4,395,395	4,982,238

FIGURE 9

EXPENDITURE NOTES:

Sands Annexation

**General Fund/Public Safety Sales Tax (PSST) Fund/2C Road Maintenance Tax Fund
Fiscal Impact Analysis, 2018-2027**

POLICE:

As development occurs, the Police Department is responsible for regular police patrol and first response services in the area. However, the proposed amendment is located within a serviced area; there are identifiable marginal increases in cost of services for the Police Department of approximately \$5,700-\$6,812 annually within the next ten years.

FIRE:

This property is located within a currently serviced area. The only additional, operational, identifiable marginal costs of providing service to the amended area are fuel, medical supplies and maintenance (\$1,174-\$1,403).

PUBLIC WORKS – STREETS, TRAFFIC ENGINEERING, CITY ENGINEERING:

There are additional public infrastructure and maintenance obligations associated with this annexation in the next ten years. The identifiable increased costs to Public Works are in Traffic Engineering (\$6,360-\$7,601) and Streets Maintenance (\$44,511-\$53,195).

PUBLIC WORKS -TRANSIT:

There are currently no transit services in this area. There are no current plans to expand transit services to this area within the next ten years, thus there are no identifiable marginal costs within the next ten years.

PARKS:

The development plans designate 5 acres to develop a neighborhood park. Parks, Recreation, and Cultural Services have indicated that a developed park requires \$11,700 per acre per year to maintain in 2018; therefore the identifiable costs for Parks are \$58,500 to \$69,913.

REVENUE NOTES

Sands Annexation

General Fund/Public Safety Sales Tax (PSST) Fund/2C Road Maintenance Tax Fund Fiscal Impact Analysis, 2018-2027

PROPERTY TAX:

It is assumed property taxes will be collected in the year 2020 based upon beginning construction in 2018 because of the time lag associated with placing assessed value onto the assessment rolls. The 2020 revenue is calculated by multiplying the City mill levy of 4.279 mills by the projected increase in City assessed valuation resulting from the proposed development. This assumes there is no change in the commercial assessment ratio of 29%. The cumulative assessed valuation includes a 3% annual increase in market values.

ROAD & BRIDGE REVENUE:

The Road & Bridge Revenue is calculated at 3.85% of the property tax revenues. This is based on the 2016 actual City road & bridge revenues as a percent of property tax revenue.

SALES AND USE TAX:

The revenue calculation assumes the existing General Fund tax rate and existing collection practices remain the same. Projections include sales tax revenue generated by the potential new businesses that move into the retail and industrial development, revenue generated by new residential development, and the sale of building materials used in the projected construction within the annexation.

The Sales Tax Revenue for Residential Uses is calculated by determining the average household income per unit and the percentage of income spent on taxable consumption. The average household income per unit is calculated based upon an "affordability" calculation, which assumes 10% down, 30-year mortgage @ 4%, and a 28% income/Principal and Interest ratio. The percentage of income spent on taxable consumption is 10.0%, which is significantly below the estimate from the U.S. Department of Commerce Consumer Expenditure Surveys, as the residential development is a retirement center. It also assumes that 75% of consumption by the new residents will be within the City and that 60% of the consumption by these residents is new to the City (in other words, 60% of residents moved from outside City limits). Also, it assumes there is a one-year construction/revenue collection lag. Projections include a 3% annual increase for inflation.

The Sales Tax Revenue for Building Materials is calculated based on sales taxable materials at 40% of the value of residential property.