

**TO:** Larry Larsen, Senior Planner

**FROM:** Michael Miles, Senior Analyst

**DATE:** November 19, 2014

**SUBJECT: Dusty Hills Annexation - Fiscal Impact Analysis**

A copy of the fiscal impact analysis for the Dusty Hills is attached. At the request of the Planning Department, the Budget Office prepared a fiscal impact analysis estimating the City General Fund and Public Safety Sales Tax (PSST) Fund revenue and expenditures attributable to the Dusty Hills development for the period 2015-2024.

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 2015-2024. The Budget 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, Police Department and Streets Division identified marginal increases in operation costs.

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.

## **REVENUE NOTES**

### **Dusty Hills Annexation**

### **General Fund/Public Safety Sales Tax Fund Fiscal Impact Analysis, 2015-2024**

## **General Fund**

### **PROPERTY TAX:**

It is assumed property taxes will be collected in the year 2017 based upon beginning construction in 2015 because of the time lag associated with placing assessed value onto the assessment rolls. The 2017 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 residential assessment ratio of 7.96%. The cumulative assessed valuation includes a 3% annual increase in market values.

### **SPECIFIC OWNERSHIP TAX:**

The Specific Ownership Tax revenue is calculated at 11.70% of property tax revenues. This is based on the 2012 actual City specific ownership tax revenues as a percent of property tax revenue.

### **ROAD & BRIDGE REVENUE:**

The Road & Bridge Revenue is calculated at 3.85% of the property tax revenues. This is based on the 2012 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. Projections include sales tax revenue from the personal consumption by the population projected to reside in Dusty Hills and the sale of building materials used in the projected construction of the households in the development.

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 33.2%, which is an estimate from the U.S. Department of Commerce Consumer Expenditure Surveys. 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.

**MISCELLANEOUS REVENUE:**

The Miscellaneous Revenue is based on per capita multipliers for the following categories: Admissions Tax; State Cigarette Tax; HUTF; Charges for Services; Fines and Forfeits, Utilities Surplus, as these revenues are impacted by a change in population. Revenues were calculated using direct and per capita multiplier approaches. The Miscellaneous Revenue includes a 3% annual increase. Also, it assumes there is a one-year construction/revenue collection lag.

**Public Safety Tax Fund**

**SALES AND USE TAX:**

The revenue calculation assumes the existing PSST rate and existing collection practices. Projections include sales tax revenue from the personal consumption by the population projected to reside in Dusty Hills and the sale of building materials used in the projected construction of the households and commercial space in the development.

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 33.2%, which is an estimate from the U.S. Department of Commerce Consumer Expenditure Surveys. It also assumes that 75% of consumption by the 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.

**EXPENDITURE NOTES:**

**Dusty Hills Annexation**

**General Fund/Public Safety Sales Tax (PSST) Fund Fiscal Impact Analysis, 2015-2024**

**POLICE:**

As development occurs, the Police Department is responsible for regular police patrol and first response services in the area. However, the proposed annexation area is located within a serviced area, and the addition of 27.74 acres and 23 single-family residential lots will have a small identifiable marginal increase in cost of services for the Police Department within the next ten years of approximately \$1,750 to \$2,100 annually.

**FIRE:**

As part of the Annexation Agreement, the Annexor will pay their fair and equitable share of the expenses and equipment costs for the nearest fire station but this property is located within a currently serviced area. The only additional, operational, identifiable marginal costs of providing service to the annexed area are fuel, medical supplies and maintenance (~\$16-\$19 annually).

**PUBLIC WORKS – STREETS, TRAFFIC ENGINEERING, CITY ENGINEERING:**

There are small additional public infrastructure and maintenance obligations associated with this annexation in the next ten years. The parcel is an infill parcel so infrastructure surrounding the parcel is already existing and serving other parcels but streets, lighting and signage will need to be added to reach and address all lots. The identifiable increased costs to Public Works, are in the Streets Division to account for marginal increased costs of maintenance of roadway and drainage (\$870-\$1,300) and Traffic for lanes striping, signage and street lights (\$685-\$900), each streetlight has an annual O&M cost of \$158.

**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:**

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

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

	Projected 2015	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023
<b>EXPENDITURES</b>									
<u>Total Salaries, Operating, and Capital Outlay</u>									
Police	1,750	1,785	1,821	1,857	1,894	1,932	1,971	2,010	2,050
Fire	16	16	16	17	17	17	18	18	18
Public Works - Streets	870	896	923	951	980	1,009	1,039	1,070	1,173
Public Works - Transportation Engineering	0	0	0	0	0	0	0	0	0
Public Works - City Engineering	0	0	0	0	0	0	0	0	0
Public Works - Traffic	685	706	727	749	771	794	818	843	868
Parks, Recreation and Cultural Services	0	0	0	0	0	0	0	0	0
<b>TOTAL EXPENDITURES</b>	<b>3,321</b>	<b>3,404</b>	<b>3,487</b>	<b>3,574</b>	<b>3,662</b>	<b>3,753</b>	<b>3,846</b>	<b>3,942</b>	<b>4,109</b>
<b>REVENUES</b>									
Property Taxes	0	0	1,005	4,652	4,792	4,936	5,084	5,236	5,393
Specific Ownership Taxes	0	118	544	561	577	595	613	631	650
Road & Bridge Revenue	0	179	184	190	196	202	208	214	220
Sales Tax Revenue (Residential Uses)	0	1,638	7,586	7,814	8,048	8,290	8,538	8,794	9,058
Sales and Use Tax Revenue (Building Materials)	23,600	84,960	0	0	0	0	0	0	0
Miscellaneous Revenue	0	2,458	11,644	11,994	12,354	12,724	13,106	13,499	13,904
<b>General Fund Sub-Total</b>	<b>23,600</b>	<b>89,353</b>	<b>20,964</b>	<b>25,210</b>	<b>25,967</b>	<b>26,746</b>	<b>27,548</b>	<b>28,375</b>	<b>29,226</b>
<u>Public Safety Sales Tax Fund</u>									
Sales Tax Revenue (Residential Uses)	0	328	1,517	1,563	1,610	1,658	1,708	1,759	1,812
Sales and Use Tax Revenue (Building Materials)	4,720	16,992	0	0	0	0	0	0	0
<b>Public Safety Sales Tax Fund Sub-Total</b>	<b>4,720</b>	<b>17,320</b>	<b>1,517</b>	<b>1,563</b>	<b>1,610</b>	<b>1,658</b>	<b>1,708</b>	<b>1,759</b>	<b>1,812</b>
<b>TOTAL REVENUE</b>	<b>28,320</b>	<b>106,673</b>	<b>22,481</b>	<b>26,773</b>	<b>27,576</b>	<b>28,404</b>	<b>29,256</b>	<b>30,133</b>	<b>31,037</b>
<b>REVENUE SURPLUS/DEFICIT</b>									
(Total Rev. less Total Exp.)									
<b>ANNUAL</b>	<b>24,999</b>	<b>103,269</b>	<b>18,994</b>	<b>23,199</b>	<b>23,914</b>	<b>24,651</b>	<b>25,410</b>	<b>26,192</b>	<b>26,928</b>
<b>CUMMULATIVE</b>	<b>24,999</b>	<b>128,268</b>	<b>147,262</b>	<b>170,461</b>	<b>194,376</b>	<b>219,027</b>	<b>244,437</b>	<b>270,628</b>	<b>297,556</b>