

MEMORANDUM

DATE: March 9, 2007

TO: David Ginther, City of Tumwater

CC: Bruce Knowlton, Beaver Creek Acquisition Company, LLC

FROM: Michael Hodgins and Paul Zitarelli, Berk & Associates

RE: Addendum to *Fiscal Impacts of Proposed Annexation of Properties West of Tumwater* (February 6, 2007)

PURPOSE OF MEMO

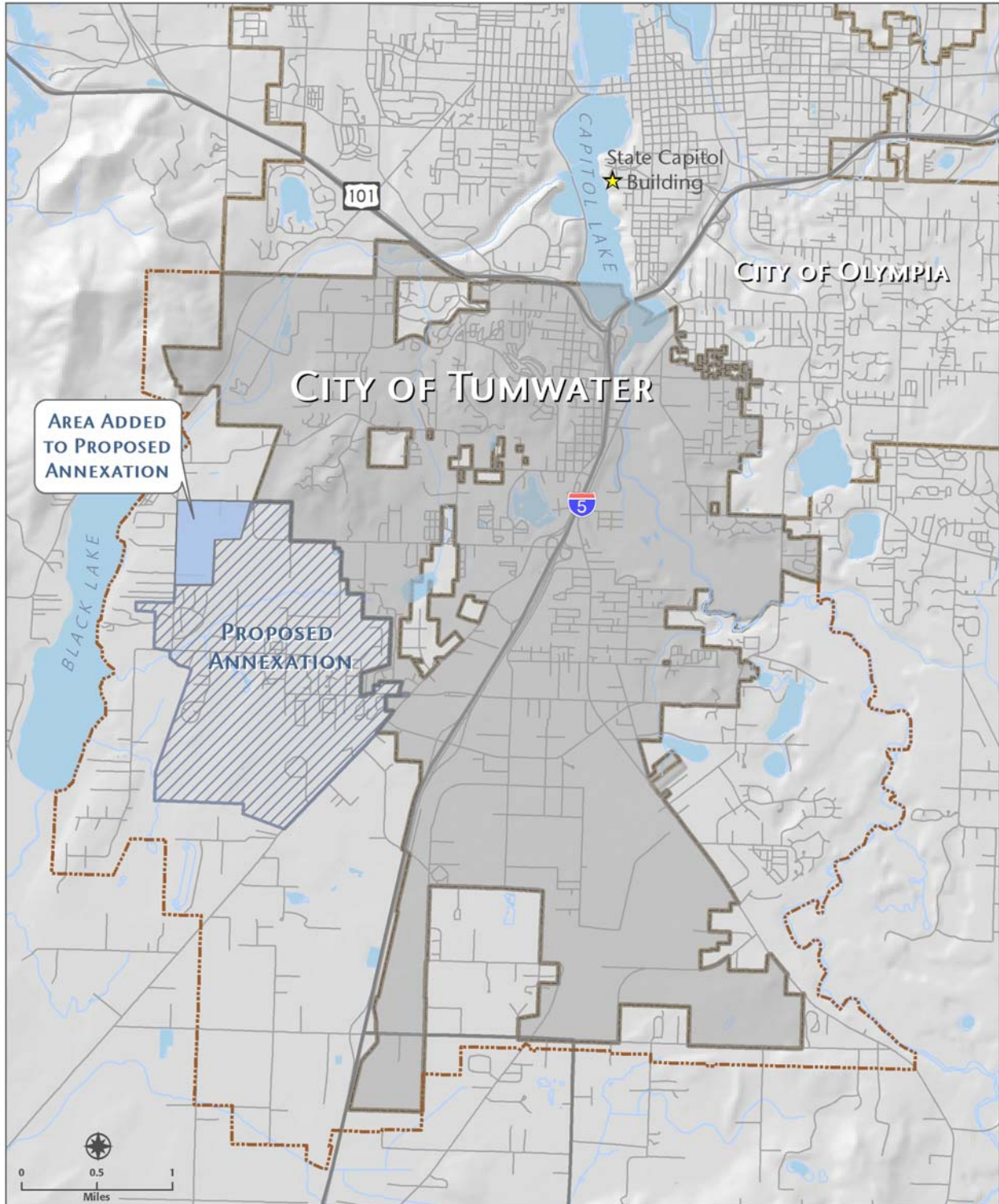
At their February 6 hearing, the Tumwater City Council agreed to add additional properties northwest of the annexation area to the annexation petition. The majority of property owners in this area had requested to be included in the annexation, and if they were not added, would file their own petition to annex. Furthermore, the inclusion of these parcels squares off the overall annexation area and uses streets for annexation area boundaries instead of property lines. City staff have asked Berk & Associates to look at the following key question: how does this boundary change affect the conclusions of the Berk & Associates cost-benefit analysis?

This memorandum serves as an addendum to the *Fiscal Impacts of Proposed Annexation of Properties West of Tumwater*, a report submitted to the Tumwater City Council on February 6.

THE NEW AREA

The new area, which can be seen in Exhibit 1 below, comprises approximately 118 acres, 40% of which is characterized as wetlands, high groundwater areas, or utility easements by the City of Tumwater. The entire area is zoned Single Family Low Density, and the assessed value of the area is approximately \$6 M, which increases the overall assessed value of the total annexation area by 2.9%.

Exhibit 1: Map of Annexation Area



Created February 2007, Updated March 2007, by Berk & Associates

Source: City of Tumwater, Berk & Associates

Exhibit 2 and Exhibit 3 below summarize the population changes associated with the inclusion of these additional parcels:

Exhibit 2: Population Estimates from Initial Analysis

Population	2006	Incr. Adds	2020
Doelman Property		2,600	
Other Permitted Development		950	
Vacant and Redevelopable Parcels		850	
Total Annexation Area	2,300	4,400	6,700

Source: Berk & Associates, City of Tumwater, Beaver Creek Acquisition Company, LLC



Exhibit 3: Population Estimates Including Additional Northwest Parcels

Population	2006	Incr. Adds	2020
Doelman Property		2,600	
Other Permitted Development		950	
Vacant and Redevelopable Parcels		1,150	
Total Annexation Area	2,350	4,700	7,050

Source: Berk & Associates, City of Tumwater, Beaver Creek Acquisition Company, LLC

Population Changes at Annexation

The original analysis estimated a population of approximately 2,300 in the annexation area at the time of annexation. The additional parcels are estimated to contain an additional existing population of 50, an increase of 2.2%. This brings the total estimated current population in the annexation area to approximately 2,350.

Population Changes During Buildout

The original analysis estimated the potential for incremental development-related population additions of approximately 4,400 in the annexation area between 2006 and 2020. The additional parcels are estimated to contain the potential for an additional, incremental development-related population of 300, an increase of 6.8%. This brings the total estimated incremental development-related population in the annexation area to 4,700.

Total Population Changes By 2020

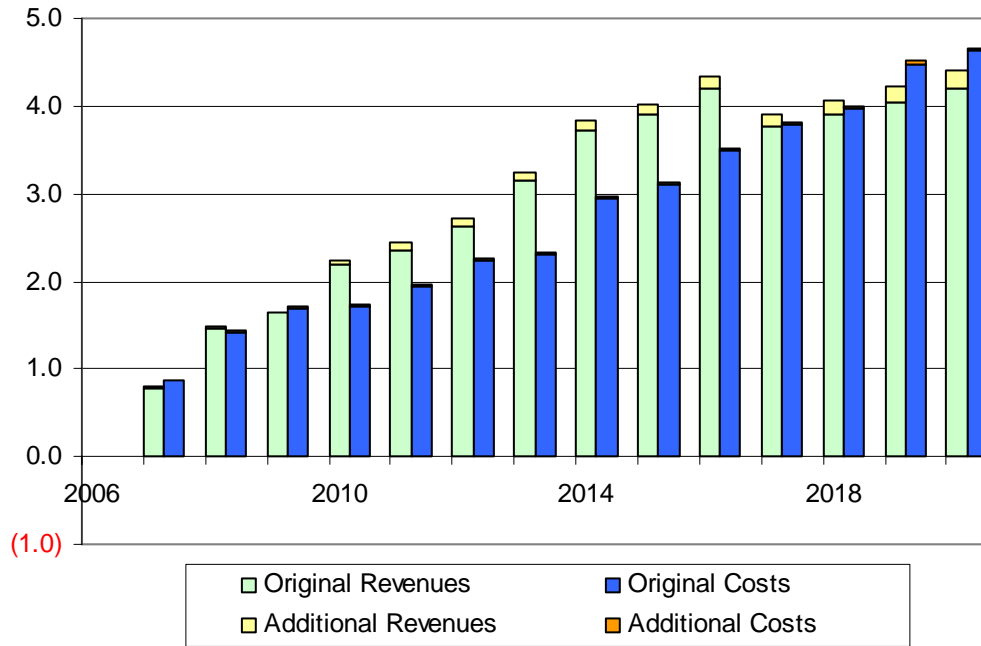
The combined effect of the population changes at annexation and during buildout increases the estimated population in the annexation area in 2020 by 350 (or 5.2%), from 6,700 to 7,050.

IMPACT TO ORIGINAL COST-BENEFIT ANALYSIS

To evaluate the fiscal impact of adding the northwest area to the proposed annexation area, demographic inputs from that area were entered into the Berk & Associates fiscal model. The following are the key findings from the analysis:

- Overall, adding the northwest area to the proposed annexation area has a small net positive impact on the overall cost-benefit results.
- The overall assessed value of the total annexation area increases by 2.9%.
- Population in the annexation area is estimated to increase by 2.2% at annexation and 6.8% during buildout.
- Given the relatively small magnitude of the additional population, it was concluded that the original FTEs estimated as necessary to serve the annexation area would also be able to serve the additional population. City staff concurred with this conclusion.
- Because no FTEs are added to the analysis, costs stay mostly flat, with the Fire Department as the only exception. Because the cost of additional Fire department staff benefits both the annexation area and current City residents, fire costs assigned to the annexation area are based on the area's "fair share" of the entire cost of the Fire Department. Since the annexation area's fair share is calculated according to its proportionate share of assessed value, and assessed value increases with the addition of the northwest area, fire costs increase as well.
 - These increases in fire costs cause overall costs to increase by approximately 1% per year.
- The northwest area will produce additional revenues in the forms of property tax, sales tax, utility tax, B&O tax, and a variety of other taxes and fees.
 - Revenues increase by approximately 1% in the year of annexation; by 2020, revenues increase by approximately 5%.
 - Revenue increases grow over the years, due to the fact that the northwest area currently has little development and a fairly small population, but the area has the potential for development. As this projected development takes place, the northwest area's share of the total population and assessed value in the annexation area would increase, which would correspondingly increase the revenues noted above.
- As Exhibit 4 below shows, costs increase by about 1% each year and revenues increase anywhere from 1% to 5% per year; the combined effect causes the net surplus to increase from 10% to 20% in most years.

Exhibit 4: Summary of Annexation Area Fiscal Impacts on Operations (\$M)



Source: Berk & Associates, City of Tumwater

- In net present value terms (assuming a discount rate of 6%), the net positive fiscal impact on operations is estimated to increase by 30%, from \$2.3 M to \$3.0 M.
- In net present value terms (assuming a discount rate of 6%), capital revenues are estimated to increase by 4%, from \$7.1 M to \$7.4 M.