

17 Appendix F: Economic Study

Date: July 27, 2009

To: Douglas Connelly

From: Peter Moy, Principal

RE: East Maple Ridge Fiscal Impact Analysis

To assess the fiscal impacts of the East Maple Ridge development on the City of Blaine, a fiscal impact analysis was conducted to estimate the revenues and costs associated with the East Maple Ridge development and its future residents. The analysis covers a twenty year time period from 2010 through 2029 and is limited to the City's General fund and Street Fund. Impact fees and real estate excise taxes (REET) have also been calculated.

Because FCS GROUP had recently performed a similar fiscal impact analysis for the City in 2007 for the Grandis Pond development, the information provided by the City for that analysis was used as a starting point. Working with City staff, East Maple Ridge's consultants, and other key information sources (e.g. the Whatcom County Assessor's Office), FCS GROUP updated the information and previous assumptions to conduct the fiscal impact analysis for the East Maple Ridge development.

As part of the analysis, we developed three scenarios to accommodate different sales tax assumptions. Overall, the fiscal impact of the East Maple Ridge development on the City of Blaine is, however, anticipated to be generally positive through 2019, and less but still generally positive for 2020 and beyond. A patrol officer is initially added in 2010 to increase the City's capacity to provide services to the development, causing material deficits in 2010 and 2011, but the forecast turns positive from 2012 through 2019 as the costs for the additional police services are offset by increased sales taxes from residential construction and a growing new residential tax base. In 2020, population growth will again require an additional patrol officer, and because of the added patrol officer's costs, the fiscal impact will result in smaller net contributions as sale tax revenue from residential construction ends in 2021 when the development is completed. Material deficits also occur in 2020 and 2025, due to additional capital expenditures for police vehicles.

Methodologies and Key Assumptions

Based on input from the City staff, East Maple Ridge's planning consultant, and other key information sources, the financial data, staffing estimates, and the development characteristics and schedule were updated for 2009. As the East Maple Ridge development builds homes and adds to the City's population, the development will also add revenues as well as costs for the City. As part of the analysis and forecasts,

the previous years' new construction values. One of the City's major financial policies is that property taxes are allocated between the General Fund and the Street Fund. Based on information provided by the City, the General Fund receives 14% of the revenue, and the Street Fund receives 86% of the revenue.

Sales Taxes – The sales tax revenues consist of three components: East Maple Ridge construction, new resident spending, and new commercial activity. Sales tax revenues from construction were calculated using the 2009-2021 residential construction schedule and a City sales tax revenue estimate of \$2,429 for each unit constructed. This sales tax revenue estimate is based on the East Maple Ridge planning consultant's estimate of \$23,000 to \$25,000 per unit for the total State and local sales taxes. Because of the uncertainty surrounding the type and value of commercial construction, a sales tax revenue estimate for the construction of the commercial space in 2022 has not been included in this analysis.

As noted previously in the key assumptions, the annual sales tax revenue generated by resident spending was based on an estimate of \$89 in City sales tax revenue per household. This estimate is based on a \$44,772 estimate of median income from the Blaine Chamber of Commerce's website, and the IRS sales tax deduction calculator. Sales tax was estimated on the IRS website using an income level of \$40,000 to \$50,000 with 2 deductions. The deductions reflect the estimated average household size of 2.4 persons.

Sales tax revenues generated from the 10,000 square feet of commercial space that is planned for construction in 2022 are based on data from the 2002 Economic Census for Whatcom County and Washington State. Taxable retail sales for four types of businesses, such as a nail salon, hair salon, take-out food establishment, and a coffee shop, were estimated by calculating the average annual revenues per business for each type of business. Whatcom County data were used for the take-out food establishment and the coffee shop, while Washington State data were used for the nail and hair salons. Washington State data were used for nail and hair salons because the Whatcom County data did not include enough businesses to develop a reasonable estimate. For 2009, it is estimated that the average annual taxable revenues from all these businesses would be \$1.6 million. The annual sales tax revenues were determined by applying the City sales tax rate to the estimated sales.

To provide a range for the sales tax revenues three scenarios were used to estimate how much sales tax revenue might be generated through residential spending.

- ◆ Scenario 1 provides the most sales tax revenue to the City by assuming that all of the future residents are new to the City and new to shopping in the City. None of the sales taxes from the commercial area was included to avoid double counting of the taxable sales.
- ◆ Scenario 2 provides less sales tax revenue by assuming that only half of the future residents are new to the City and new to shopping in the City, while the other half is

Exhibit 2

Other General Fund Revenue Per Capita Estimates

	Per Capita Estimate
Liquor Excise Tax	\$ 6.92
Liquor Board Profits	\$ 20.34
Traffic Infraction Penalties	\$ 23.71
Parking Infraction Penalties	\$ 0.96
Criminal Traffic Penalties	\$ 1.27
Criminal non-Traffic Penalties	\$ 2.22

State Gas Taxes – The State gas tax revenues for the Street Fund were calculated based on per capita estimates of State gas tax revenues for 2009 as forecasted by the Municipal Research and Service Center for Washington (MRSC). The 2009 MRSC forecast is \$23.41 per capita.

The City expects that the major cost impacts from the East Maple Ridge development will be in police and street maintenance services, and as in the Grandis Pond development study, this fiscal impact analysis only addresses these two City services. The development plan also indicates that there will be 23.6 acres of active and passive open space areas and an unspecified length of trails. Currently, the East Maple Ridge Guidebook assumes that the East Maple Ridge homeowners association will fund and perform maintenance on the active and passive open space areas and trails, except for the portions of trail within the City right-of-way along Motts Hill Parkway. The City will maintain this length of trail as part of the planned regional trail system, and its maintenance costs are assumed to be included as part of the street maintenance costs described below. This analysis also assumes that the costs for building plan reviews and construction inspections will be fully recovered through the City's building fees. The following describes how the police and street maintenance costs were determined.

Police Department – The Police Department costs are primarily based on the number of reported calls for service per 1,000 residents, the current workload per officer, and the 2009 estimated costs for an officer, office specialist, detective, patrol vehicle, and the non-labor costs per call for service (e.g. dispatch, vehicle maintenance and fuel, etc.). The costs for East Maple Ridge are based on the current workloads and level of service provided by the Police Department. The analysis assumes that a police officer will be hired the year before the officer is needed to begin meeting the call workload. According to the Police Chief in the 2007 study, the City needs time to train the officer, and the construction also generates calls. Besides the salary and benefits for a new officer (\$64,500), there are also one-time costs of about \$41,800 as well as the cost of a new patrol vehicle. It is assumed that the City will use cash to pay for these one-time costs. Patrol vehicles are replaced every five years. In addition to patrol officers, additional workload also increases the need for detective and office specialist staff.

Street Operations – The City's street maintenance activities are being funded by gas taxes and the 86% of property tax allocated to the Street Fund. The street maintenance costs for East Maple Ridge are based on an estimate of the City's 2009 maintenance costs per street mile, \$16,200. East Maple

- ◆ In 2020, the growth in population results in the hiring and equipping of a second patrol officer and patrol vehicle. The first patrol officer's vehicle also needs to be replaced again in this year. These combined expenditures result in a net negative contribution ranging from \$99,000 for Scenario 1 to \$137,000 for Scenario 3.
- ◆ Beginning in 2021, estimated net contributions remain generally positive but smaller, as the City is now paying for two patrol officers and sales tax from residential construction ends in 2022. Negative net contributions occur in 2025 and 2030, when both patrol vehicles are scheduled for replacement, with the gap in 2025 ranging from \$111,000 in Scenario 1 to \$139,000 in Scenario 3. In the other years, the generally positive net contributions range from \$42,000 to \$80,000 in Scenario 1, \$19,000 to \$58,000 in Scenario 2, and -\$4,000 to \$37,000 in Scenario 3.
- ◆ The major revenue sources through 2021 for all scenarios are sales tax revenues from construction and increasingly revenues from public and private utility taxes as more and more new residents move into the development. By 2022, revenues from public and private utility taxes become the major revenue source as sales tax revenues from construction end because of build-out.
- ◆ 86% of the property taxes are allocated to the Street Fund for street improvements and repairs. These revenues offset the increased costs of street maintenance from the development.

The following Exhibits 4-6 show the revenues and expenditures for the three different General Fund sales tax scenarios.

Exhibit 5
General Fund Summary: Sales Tax Scenario 2

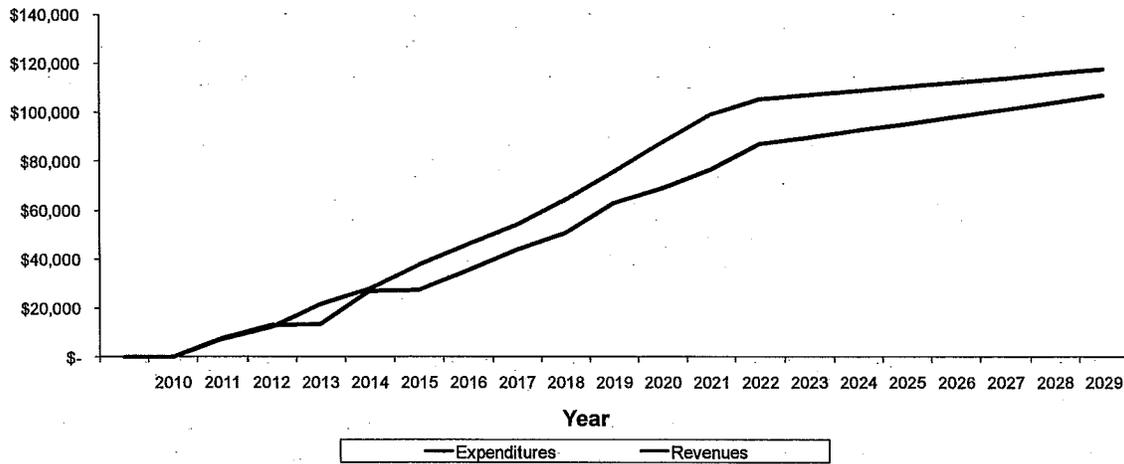
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues										
Property Tax	\$ -	\$ 967	\$ 1,557	\$ 2,560	\$ 3,376	\$ 4,419	\$ 5,441	\$ 6,440	\$ 7,692	\$ 9,064
Sales Tax	\$ 60,011	\$ 55,202	\$ 129,429	\$ 56,528	\$ 140,672	\$ 75,066	\$ 75,571	\$ 97,452	\$ 120,911	\$ 155,786
B&O Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Electricity	\$ -	\$ 1,158	\$ 2,235	\$ 4,211	\$ 5,336	\$ 7,520	\$ 9,026	\$ 10,557	\$ 12,526	\$ 14,968
Natural Gas Tax	\$ -	\$ 1,011	\$ 1,951	\$ 4,151	\$ 5,147	\$ 7,571	\$ 8,915	\$ 10,283	\$ 12,033	\$ 14,197
Cable Tax	\$ -	\$ 190	\$ 367	\$ 780	\$ 967	\$ 1,423	\$ 1,676	\$ 1,933	\$ 2,262	\$ 2,668
Telephone Tax	\$ -	\$ 1,068	\$ 2,061	\$ 4,386	\$ 5,439	\$ 8,000	\$ 9,420	\$ 10,865	\$ 12,715	\$ 15,002
Garbage Tax	\$ -	\$ 472	\$ 910	\$ 1,937	\$ 2,402	\$ 3,533	\$ 4,161	\$ 4,799	\$ 5,616	\$ 6,626
Cellular Telephone Tax	\$ -	\$ 1,483	\$ 2,863	\$ 6,093	\$ 7,555	\$ 11,112	\$ 13,086	\$ 15,093	\$ 17,662	\$ 20,838
Public Utility Tax	\$ -	\$ 2,642	\$ 5,100	\$ 10,357	\$ 12,946	\$ 18,742	\$ 22,226	\$ 25,768	\$ 30,311	\$ 35,935
Leasehold Excise Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other GF Revenues	\$ -	\$ 3,384	\$ 6,533	\$ 13,900	\$ 17,236	\$ 25,351	\$ 29,854	\$ 34,433	\$ 40,294	\$ 47,541
Total Revenues	\$ 60,011	\$ 67,575	\$ 153,006	\$ 104,904	\$ 201,077	\$ 162,737	\$ 179,375	\$ 217,623	\$ 262,022	\$ 322,624
Operating Expenditures										
Police	\$ 110,353	\$ 71,959	\$ 77,675	\$ 84,545	\$ 90,688	\$ 98,399	\$ 104,302	\$ 110,668	\$ 118,160	\$ 127,015
Total Operating Expenditures	\$ 110,353	\$ 71,959	\$ 77,675	\$ 84,545	\$ 90,688	\$ 98,399	\$ 104,302	\$ 110,668	\$ 118,160	\$ 127,015
Capital Expenditures	\$ 55,918	\$ -	\$ -	\$ -	\$ -	\$ 58,498	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 166,271	\$ 71,959	\$ 77,675	\$ 84,545	\$ 90,688	\$ 156,896	\$ 104,302	\$ 110,668	\$ 118,160	\$ 127,015
Net Contribution to Fund Balance	\$ (106,260)	\$ (4,384)	\$ 75,331	\$ 20,359	\$ 110,389	\$ 5,840	\$ 75,073	\$ 106,955	\$ 143,863	\$ 195,609
Revenues										
Property Tax	\$ 10,352	\$ 11,755	\$ 12,507	\$ 12,632	\$ 12,758	\$ 12,886	\$ 13,014	\$ 13,145	\$ 13,276	\$ 13,409
Sales Tax	\$ 116,185	\$ 69,768	\$ 23,069	\$ 34,187	\$ 35,199	\$ 36,241	\$ 37,314	\$ 38,418	\$ 39,555	\$ 40,726
B&O Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Electricity	\$ 17,663	\$ 20,058	\$ 21,583	\$ 22,222	\$ 22,879	\$ 23,557	\$ 24,254	\$ 24,972	\$ 25,711	\$ 26,472
Natural Gas Tax	\$ 16,972	\$ 19,109	\$ 20,487	\$ 21,093	\$ 21,718	\$ 22,360	\$ 23,022	\$ 23,704	\$ 24,405	\$ 25,128
Cable Tax	\$ 3,190	\$ 3,592	\$ 3,851	\$ 3,965	\$ 4,082	\$ 4,203	\$ 4,327	\$ 4,455	\$ 4,587	\$ 4,723
Telephone Tax	\$ 17,933	\$ 20,191	\$ 21,647	\$ 22,288	\$ 22,948	\$ 23,627	\$ 24,327	\$ 25,047	\$ 25,788	\$ 26,551
Garbage Tax	\$ 7,920	\$ 8,918	\$ 9,561	\$ 9,844	\$ 10,135	\$ 10,435	\$ 10,744	\$ 11,062	\$ 11,390	\$ 11,727
Cellular Telephone Tax	\$ 24,910	\$ 28,047	\$ 30,070	\$ 30,960	\$ 31,876	\$ 32,820	\$ 33,791	\$ 34,791	\$ 35,821	\$ 36,881
Public Utility Tax	\$ 42,748	\$ 48,286	\$ 51,840	\$ 53,374	\$ 54,954	\$ 56,561	\$ 58,256	\$ 59,980	\$ 61,755	\$ 63,583
Retail	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other GF Revenues	\$ 56,831	\$ 63,987	\$ 68,602	\$ 70,633	\$ 72,724	\$ 74,876	\$ 77,092	\$ 79,374	\$ 81,724	\$ 84,143
Total Revenues	\$ 314,704	\$ 293,711	\$ 263,216	\$ 281,197	\$ 289,273	\$ 297,585	\$ 306,141	\$ 314,948	\$ 324,013	\$ 333,343
Operating Expenditures										
Police	\$ 282,899	\$ 235,619	\$ 244,019	\$ 251,242	\$ 258,679	\$ 266,336	\$ 274,219	\$ 282,336	\$ 290,693	\$ 299,298
Total Operating Expenditures	\$ 282,899	\$ 235,619	\$ 244,019	\$ 251,242	\$ 258,679	\$ 266,336	\$ 274,219	\$ 282,336	\$ 290,693	\$ 299,298
Capital Expenditures	\$ 148,714	\$ -	\$ -	\$ -	\$ -	\$ 156,622	\$ -	\$ -	\$ -	\$ -
Total Expenditures	\$ 432,613	\$ 235,619	\$ 244,019	\$ 251,242	\$ 258,679	\$ 422,958	\$ 274,219	\$ 282,336	\$ 290,693	\$ 299,298
Net Contribution to Fund Balance	\$ (117,909)	\$ 58,092	\$ 19,197	\$ 29,955	\$ 30,594	\$ (125,373)	\$ 31,922	\$ 32,612	\$ 33,320	\$ 34,046

Fiscal Impacts to the Street Fund

Besides using State gas tax revenues for street maintenance costs, the Street Fund also receives 86% of the City’s general property tax revenues to support street improvements and repairs. No additional City capital project expenditures have been identified for East Maple Ridge. If the policy of allocating 86% of the City’s general property tax revenues continues through 2029, the total estimated amount of property taxes allocated to the Street Fund is about \$1,027,000. It is assumed that these property tax revenues will be used with gas tax revenues to offset any increased street maintenance expenditures caused by East Maple Ridge.

The analysis shows that after the first few years of minor deficits in 2011 and 2012, net contributions remain positive but begin to diminish by the end of the forecast period because inflationary growth in street maintenance expenditures outpaces growth in property tax revenues. The largest net deficit is \$1,000 in 2012, and the largest net contribution is \$22,000 in 2021. Exhibit 7 shows the trends, and Exhibit 8 provides the detailed revenue and expenditure amounts.

**Exhibit 7
Comparison of Street Fund Revenues and Expenditures
2010-2029**



Impact Fees and REET Tax Impacts

The City currently has impact fees for parks, transportation, and its water, sewer, and stormwater utilities. The revenues from impact fees are based only on residential development and do not include potential fees from the commercial space planned for construction in 2022. These funds can be used for capital projects related to growth when the fees were established. Exhibit 9 shows the residential impact fee and the estimated total fees that might be collected based on the anticipated development schedule. The revenues assume that the impact fees will not be adjusted annually for inflation.

**Exhibit 9
Impact Fees Generated by the East Maple Ridge Development**

Impact Fee Category	2009 Residential Fee	Total Impact Fee Revenue
Parks	\$ 1,000.00	\$ 353,000
Transportation*	\$ 770.10	\$ 258,437
Water	\$ 3,337.00	\$ 1,177,961
Sewer	\$ 6,299.00	\$ 2,223,547
Stormwater	\$ 224.11	\$ 79,111
		Total \$ 4,092,055

*Note: Different transportation impact fees were used for single family and multi-family to estimate total impact fee revenue. The impact fee for single family is \$770.10, for multi-family it is estimated to be \$407.70

Besides the impact fees, the City will also receive real estate excise taxes (REET) when the residential units are sold. These taxes can be used for a variety of types of capital projects. The estimated revenues are based only on the initial sale of the new homes and do not include any additional revenue based on turnover of the homes. The estimated REET revenues total about \$0.5 million based on the anticipated development schedule.