

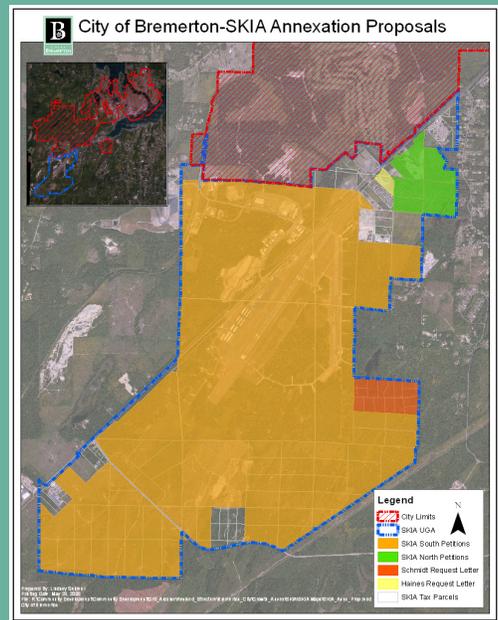


# City of Bremerton

## Financial Assessment

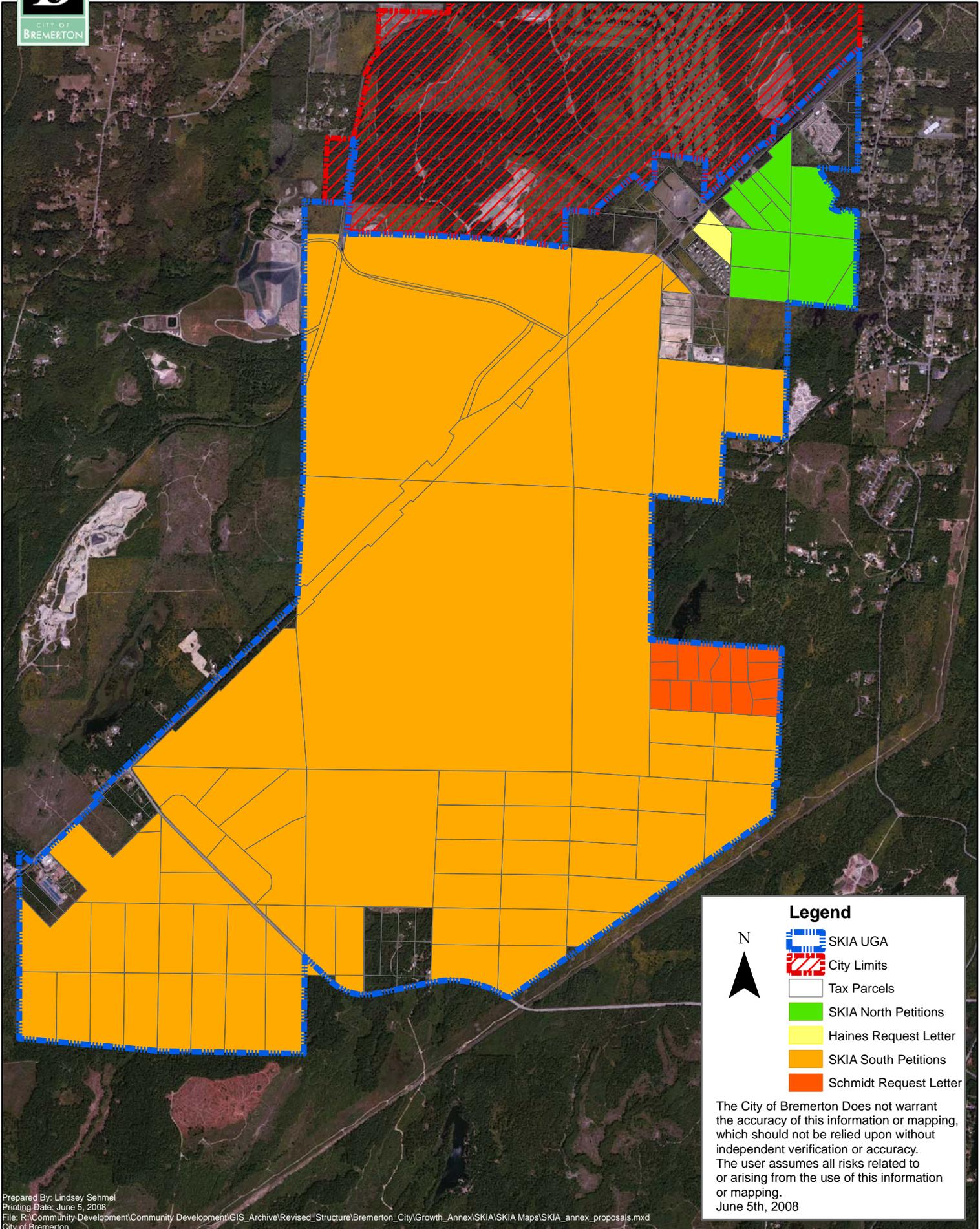
### SKIA Area Annexation

Prepared for City Council Meeting  
with Petitioners June 16th, 2008





# City of Bremerton-SKIA Annexation Proposals



## **Growth Framework and Annexation**

The Washington State Growth Management Act (GMA) sets a framework and direction for coordinated and efficient growth of communities. Under the GMA counties establish Urban Growth Areas (UGAs) wherein population and employment is expected to be concentrated over time. UGAs should eventually be provided urban levels of service and infrastructure, and should have an urban intensity of development. This intensity within UGAs allows for areas outside of them to remain rural or resource lands, and ensures protection of the State's natural environment.

The South Kitsap Industrial Area (SKIA) UGA was established by Kitsap County more than a decade ago. Generally speaking, state law allows and encourages cities to annex territories within UGAs adjacent to their boundaries. The SKIA UGA is adjacent to only one municipality, the City of Bremerton.

This report was prepared in response to the City's receipt of two annexation petitions from property owners within the SKIA UGA. The two petitions were presented to the City on April 22, 2008 and are described as the "SKIA North Petition" and the "SKIA South Petition" please see report page 1 for a map of the proposed annexation area.

The means by which annexation is being proposed is the "Seventy-Five Percent Petition Annexation Method" as allowed for by RCW 35.13.125. In summary, this annexation method is a two-step process whereby two petitions (a "10% Petition" and a "75% Petition") must be submitted to a jurisdiction. The first petition or "Initiation Petition" requires signatures from owners of 10% of the assessed property value who are interested in annexing. This petition is then submitted to the governing body to initiate the annexation proceedings. The City Council then responds by meeting with the petitioners within 60 days. Following this meeting with the petitioners, the City Council has the option to accept, reject, or geographically modify the petition, and this decision is usually made in the form of a motion or resolution. If the Council chooses to accept the petition, as presented or modified, then the annexation proceeds to the next step; gathering of the signatures of owners of 75% of the assessed property value of the territory proposed for annexation based on the boundaries set by the City Council as documented in their motion or resolution.

As indicated above, the annexation was initiated by submittal of the 10% petition on April 22, 2008. The initiating parties represent the owners of 100% of the property according to the assessed valuation for which annexation is petitioned, which is well in excess of the 10% that is required. The City Council is scheduled to meet with the petitioners on June 16, 2008, which is within the 60-day period allowed by State law that they have to respond to this request.

Due to the fact that the initiation petition contains signatures of the owners of 100% of the assessed value, it demonstrates a high degree of support from the property owners for this annexation proposal. If the City Council approves 10% petition it appears to be likely that a 75% petition would be promptly filed with the City. Due to this likelihood, staff utilized the full 60-day period in the early stages of the annexation process to put

significant effort into researching and preparing the fiscal analysis of the potential annexation. This will allow Council to make an informed decision of whether to move the annexation to the next step, the collection of signatures for the 75% Petition.

### Annexation Area Description

Below is a table that describes the acres and total assessed values of the two petition requests that have been submitted to the City. In addition to the formal petitions, the City has also received two letters of interest from property owners to join the respective petitions (they are referred to in the table as the “Schmidt Request” and the “Haines Request”). The annexation petition areas are also depicted on the map on page 1.

	Acres	Total Assessed Value.	% Assessed Value
South Petition	3,011.59	58,926,984	99.23%
Schmidt Request	76.8	\$459,860	0.77%
	<b>South Subtotal</b>	<b>3,088.39 \$59,386,844</b>	<b>100.00%</b>
North Petition	135.11	\$1,118,080	71.25%
Haines Request	5.67	\$451,120	28.75%
	<b>North Subtotal</b>	<b>140.78 \$1,569,200</b>	<b>100.00%</b>

### Future Growth Analysis & Provision of Urban Services

This report contains an analysis of assumed future growth and identifies the necessary urban services that are needed to support growth within the potential annexation area. The analysis presented illustrates how the City of Bremerton will provide the necessary “urban services.” As defined by the Kitsap County Countywide Planning Policies, these urban services are:

1. Fire Protection & EMS	6. Transportation
2. Police Protection	7. Solid Waste
3. Sewer	8. Utilities: Power, Telecom, Broadband
4. Potable Water	9. Schools
5. Storm Water	10. Parks & Recreation

The analysis contained in this report summarizes the costs associated with providing urban services 1 – 6. Items 7 and 8 are provided by third-party purveyors. The City, like the County, has franchise agreements with these purveyors to provide these services and they will continue to provide these services regardless of being located in the County or City and therefore they are not included in this report. Items 9 and 10 are also not analyzed in this report because it is assumed that all growth within SKIA is anticipated to be industrial in nature and therefore there will be no increased impact or need for schools or park and recreation opportunities.

It should be understood that the analysis presented is dependent upon future events and that actual conditions may (and are likely to) differ from those assumed herein. The report presents three growth scenarios by which to consider the annexation:

**Scenario A: Low Growth** – Growth that occurs over the next 20 years that closely matches the current growth patterns experienced within SKIA

**Scenario B: High Growth** – Aggressive growth that is primarily focused within the Port Industrial Park over the 20 year period.

**Scenario C: SKIA Sub Area Plan Growth** – Aggressive growth within the entire SKIA UGA over the 20 year planning horizon.

These scenarios provide a reasonable “bookend” approach to determine the full range of financial impacts of the annexation. We believe that the future growth patterns will likely fall somewhere between these scenarios, and as such they are a good demonstration of the full range of potential financial impacts to the City and will help to determine if it is in the City’s best interest to accept these annexation petitions.

## **SCENARIO A – LOW GROWTH**

### ***Scenario A: Low Growth Development Summary***

This growth model is considered the low end picture of what the City may face if an annexation was completed and growth occurred in this area in the same scope and scale that it has occurred in recent years (this can be viewed as the “status quo development pattern”). Under this scenario it is expected that there will be small business growth within the Port Industrial Park, increasing by two (2) new businesses every five (5) years. It is estimated that this development will occur on small parcels, approximately 1.5 acres in size, and the businesses will be accommodated in approximately 15,000 square feet.

#### **20-Year Low Growth Summary**

New Businesses:	8
New Employees:	145
Increase in Commercial Square Feet:	120,000
Increase In Acreage Developed:	12

**Scenario A: Low Growth Provision for Urban Services Summary**

The following table summarizes the assumptions made to support each of the urban services under the low growth scenario:

Fire Protection & EMS	Fire protection and EMS services will be provided by South Kitsap Fire through an interlocal agreement with the City.
Police Protection	Police service and coverage of the current south Bremerton area, watershed area, and the proposed annexation area is expected in combination to require an increase in staffing of a sector patrol unit. The annexation analysis shows a portion of these costs attributed (10%) to the growth in this scenario.
Transportation	This scenario does not anticipate any extensive roadway improvements. While there is several transportation facilities within the annexation area, most are owned and maintained by the State of Washington DOT (SR3), and Port of Bremerton (Industrial Park) and therefore the City would not have significant responsibility for roadway improvements. With the low growth expected in this scenario we estimate that there will not be any change to the transportation demands, and furthermore new road construction would not be necessary. Therefore it is assumed that we will only need to support road maintenance in a minimal capacity.
Sewer (Wastewater)	This scenario does not anticipate any additional sewer infrastructure improvements for the area. There is sufficient capacity with the Port of Bremerton wastewater collection and treatment system to support development in the planning period, and it is assumed in this scenario that the Port would continue to own and operate this system throughout the planning period and therefore the City has no financial expenditures to provide this service. Any required improvements to this system and all maintenance costs are assumed to be provided by Port of Bremerton lease revenues and would not flow through City of Bremerton budgets. As development occurs, projects will be required to construct necessary improvements as required during the development review process.
Potable Water	This scenario does not anticipate any additional water system improvements. There is sufficient existing water supply capacity in the zone serving this area to meet current and projected demands, including fire flow under through the 20-year planning horizon. As development occurs, projects will be required to construct necessary improvements as required during the development review process.
Storm Water	This scenario does not anticipate any additional stormwater capital improvements, as there are existing facilities in place that serve the needs. As development occurs, projects will be required to mitigate their on-site stormwater impacts through the use of both standard and low impact development techniques.

**Scenario A: Low Growth Financial Summary**

The full financial analysis for this scenario and the supporting notes, assumptions, and data tables are provided in the “Scenario A” section of this report.

The financial modeling for this scenario indicates a net positive impact to the City at the end of the period reviewed (2008-2028) but it should be noted that the General Fund is negatively impacted in years 2009 to 2011 due to the fact the City will need to make payment to Kitsap County for revenue sharing in accordance with the interlocal agreement for revenue sharing. Throughout the timeframe of twenty years the annual net (General Fund plus Utilities Fund) return to the City ranges from a negative amount of \$16,227 to positive amount of \$121,708.

**In summary, the base annexation picture with the Low Growth Scenario appears to be a positive financial impact for the City based on the assumptions modeled and has average net annual revenue of just over \$50,000 with an ending cumulative 20-year financial gain of \$1,067,766.**

**SCENARIO B – HIGH GROWTH**

**Scenario B: High Growth Development Summary**

This growth model was developed to provide a model of development that fell between the conservative Low Growth model and the aggressively high growth model of the Kitsap County Sub Area Plan. The High Growth model is based on the assumption that only those parcels that are in the Port Industrial Park and to a lesser extent, those parcels that are adjacent to the Highway in the “North” petition area would experience any development in the 20-year horizon, and that the City would focus infrastructure improvements in these areas alone to support this growth. Under this scenario it is expected that there will be fairly aggressive growth, increasing by fifteen (15) new businesses every five (5) years. It is estimated that this development will occur on moderately sized parcels, just under 3.5 acres in size, and the each of the businesses will be accommodated in just over 33,300 square feet.

**20-Year High Growth Summary**

New Businesses:	60
New Employees:	2,424
Increase in Commercial Square Feet:	2,000,000
Increase In Acreage Developed:	200

**Scenario B: High Growth Provision for Urban Services Summary**

The following table summarizes the assumptions made to support each of the urban services under the low growth scenario:

Fire Protection & EMS	Fire protection and EMS services will be provided by South Kitsap Fire through an interlocal agreement with the City.
Police Protection	Police service and coverage of the current south Bremerton area, watershed area, and the proposed annexation area is expected in combination to require an increase in staffing of a sector patrol unit. The annexation analysis shows a portion of these costs attributed (25%) to the growth in this scenario.
Transportation	This scenario does not anticipate any extensive roadway improvements. While there is several transportation facilities within the annexation area, most are owned and maintained by the State of Washington DOT (SR3), and Port of Bremerton (Industrial Park) and therefore the City would not have significant responsibility for roadway improvements. With the growth expected in this scenario we estimate that the transportation demands will be met by the State-owned and Port-owned facilities, and that new road construction by the City would not be necessary. In the early years of the model it is assumed that we will only need to support road maintenance in a minimal capacity, and as development increases over time the City will increase its support accordingly.
Sewer (Wastewater)	This scenario results in wastewater flows exceeding the capacity of the current Port-owned system (72,500 gpd) by 2014. This scenario assumes the City would develop, fund, design, and construct a Membrane Bio-Reactor (MBR) treatment facility located on the site of the current Port of Bremerton Wastewater Treatment Plant (WWTP) in 2014. . An expansion of this system will be required in 2021. Disposal of treated wastewater will be through methods of water reuse with accompanying capital improvements.
Potable Water	This scenario illustrates the increased need for water and requires an additional transmission main from the golf course to the Olympic View Industrial Park by 2014.
Storm Water	This scenario does not anticipate any additional stormwater capital improvements, as there are existing facilities in place that serve the needs. As development occurs, projects will be required to mitigate their on-site stormwater impacts through the use of both standard and low impact development techniques.

**Scenario B: High Growth Financial Summary**

The full financial analysis for this scenario and the supporting notes, assumptions, and data tables are provided in the “Scenario B” section of this report.

The financial modeling for this scenario indicates a net positive impact to the City at the end of the period reviewed (2008-2028). The model indicates that the General Fund only experiences one year of negative financial impact, which is caused by the fact that the City will need to make payment to Kitsap County for revenue sharing in accordance with the interlocal agreement for revenue sharing. For all other years the General Fund experiences growth over time. In most years the Utilities Fund experiences positive financial benefits and in years 2014 and 2020 the model shows investment in capital improvements to support the growth. Throughout the timeframe of twenty years the annual net (General Fund plus Utilities Fund) return to the City ranges from a negative amount of \$1,014,207 (due to investment in capital improvements utilizing prior period revenues) to a positive amount of \$843,156.

**In summary, the base annexation picture with the High Growth Scenario appears to be a positive financial impact for the City based on the assumptions modeled and has average net annual revenue of just over \$320,000 with an ending cumulative 20-year financial gain of \$6,475,552.**

**SCENARIO C – SKIA SUB AREA PLAN GROWTH**

***Scenario C: SKIA Sub Area Plan Growth Development Summary***

This growth model describes development at an extremely high growth rate based on the “South Kitsap Industrial Area Sub-Area Plan” (SKIA SAP) dated December 8, 2003, developed and researched by Kitsap County Department of Community Development. The SKIA SAP recognizes a significantly high potential growth model for the UGA, with development expected at 550 acres over twenty years (2003-2023) and employment growth of roughly 9,350 new jobs over the same period. These numbers were calculated with the expectation that infrastructure is available and the regional location of SKIA would draw large industrial and manufacturing companies similar to those found in other industrial areas of the Puget Sound.

This scenario is considered a particularly elevated assumption of what the City may face financially if aggressively high growth occurred in this area. Under this scenario it is expected that there will be an increase of twenty-five (25) new businesses every five (5) years. It is estimated that this development will occur on larger sized parcels, approximately 5.5 acres in size, and that each of the businesses will be accommodated in approximately 77,000 square feet.

**20-Year SKIA Sub Area Plan Growth Summary**

New Businesses:	100
New Employees:	9,333
Increase in Commercial Square Feet:	7,700,000
Increase In Acreage Developed:	550

**Scenario C: SKIA Sub Area Plan Growth Provision for Urban Services Summary**

The following table summarizes the assumptions made to support each of the urban services under the low growth scenario:

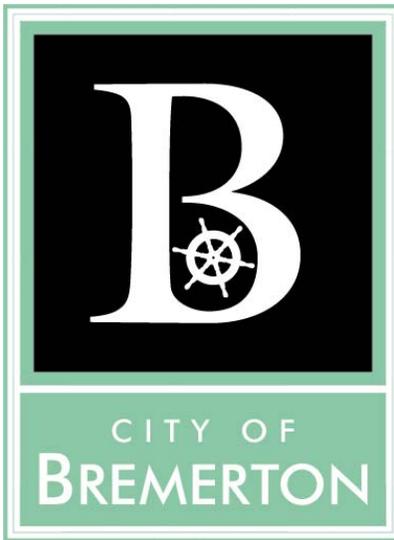
Fire Protection & EMS	In the early years of the model Fire protection and EMS services will be provided by South Kitsap Fire through an interlocal agreement with the City. Due to the increased growth demands of this model, the City of Bremerton Fire will transition to providing full service by 2015. This will require the construction of a new fire station with City staffing configuration.
Police Protection	Police service and coverage of the current south Bremerton area, watershed area, and the proposed annexation area is expected in combination to require an increase in staffing of a sector patrol unit. The annexation analysis shows a portion of these costs attributed (50%) to the growth in this scenario.
Transportation	This scenario does not anticipate any extensive roadway improvements. While there is several transportation facilities within the annexation area, most are owned and maintained by the State of Washington DOT (SR3), and Port of Bremerton (Industrial Park). With the growth expected in this scenario we estimate that the transportation demands will be met by the State-owned and Port-owned facilities, and that any new road construction would be funded by developers. Like the High growth model, the City has allocated road maintenance in a minimal capacity each year. As service needs increase over time, with development occurring outside the Port and in the Southern portion of SKIA, more City streets will be created. With this model, capital funding has been allocated to support these new City streets.
Sewer (Wastewater)	This scenario models very rapid growth through the planning period, and this growth rate requires significant expansion of wastewater facilities, as the development far exceeds the capacity of an MBR (that was presented in the High Growth Scenario). The scenario assumes construction of City of Bremerton facilities to convey the wastewater from SKIA to the Westside WWTP via pump stations and additional wastewater mains. These improvements will take place in three phases
Potable Water	This scenario illustrates the increased need for water and requires additional transmission and storage to be constructed in three phases. The City has adequate source capacity to serve the needs.
Storm Water	This scenario does not anticipate any additional stormwater capital improvements for the area, as there are existing facilities in place that serve the needs. As development occurs, projects will be required to mitigate their on-site stormwater impacts through the use of both standard and low impact development techniques.

**Scenario C: SKIA Sub Area Plan Growth Financial Summary**

The full financial analysis for this scenario and the supporting notes, assumptions, and data tables are provided in the “Scenario C” section of this report.

The financial modeling for extremely high growth scenario indicates a net positive impact to the City at the end of the period reviewed (2008-2028). The model indicates that the General Fund does not experience any negative financial impacts and in fact is quite positively impacted throughout the forecast period. However, City utilities incurs substantial capital costs at various points in the modeling time period as they do not have sufficient time to recover from those initial investments in the period of analysis. With growth of this scope and scale, and with significant investments in the latter period of the analysis, it would be useful to model the growth demands over a period in excess of 20 years in order to properly understand the impacts to the Utility system. However this was beyond the scope of this analysis and overall, the citywide financial impact is substantially positive.

**In summary, the base annexation picture with the SKIA Sub Area Plan Scenario appears to be a positive financial impact for the City based on the assumptions modeled and has average net annual revenue of just under \$370,000 with an ending cumulative 20-year financial gain of \$7,383,713.**



SKIA Annexation Financial Assessment  
June 2008

This is the end of  
Part I of IV

Please see city website for parts II, III, IV