

SKIA Annexation Financial Assessment  
June 2008

Part II of IV

Scenario A “Low Growth”

**Financial Impact Scenario  
Annexation ("Low Growth")**

Last Updated  
June 4, 2008

**City of Bremerton - SKIA Area Annexation  
Financial Assessment**  
Financial Impacts Scenario - Annexation ("Low Growth")

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Net Financial Impacts Carried Forward (1)</b>	\$ -	\$ (16,227)	\$ 5,931	\$ 2,517	\$ 47,579	\$ 83,556	\$ 100,839	\$ 160,330	\$ 192,420	\$ 267,104	\$ 312,856	\$ 344,200	\$ 424,692	\$ 473,640	\$ 567,241	\$ 632,486	\$ 681,268	\$ 787,272	\$ 856,957	\$ 978,665
<b>Receipts:</b>																				
GF Property Tax Revenue (2)	8,700	11,486	11,601	11,717	14,783	14,931	18,208	18,390	21,893	22,112	22,333	26,183	26,445	30,557	30,863	31,172	35,688	36,045	40,866	41,274
GF Leasehold Tax Revenue (3)	47,201	48,988	50,446	51,949	53,901	55,495	57,566	59,257	61,455	63,248	65,096	67,497	69,457	72,005	74,085	76,226	79,010	81,283	84,236	86,647
GF Admissions Tax Revenue (4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GF Parking Tax Revenue (5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GF Sales Tax Revenue (6)	62,999	67,674	63,967	71,835	77,033	76,210	81,725	80,851	90,174	85,823	92,032	98,535	97,636	108,561	103,638	110,960	118,627	117,717	130,517	124,951
GF B&O Tax Revenue (7)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GF Per Capita Revenue Distributions from State (8)	95	98	100	103	107	110	113	116	120	124	127	131	135	139	143	148	152	157	161	166
GF Real Estate Excise Tax on Property Sales (9)	-	-	-	-	6,713	-	-	-	-	7,782	-	-	-	-	9,021	-	-	-	-	10,458
GF Utility Tax Revenue - Elec/Telephone/Solid Waste (10)	17,185	18,238	18,785	19,919	20,517	21,133	22,390	23,062	24,415	25,147	25,902	27,402	28,224	29,837	30,732	31,654	33,442	34,445	36,367	37,458
UT Utility GFC Payments (Water/Wastewater/Storm) (11)	-	21,323	-	22,622	-	-	24,719	-	30,497	-	-	28,656	-	30,402	-	33,221	-	-	35,244	-
GF Developer Payment (12)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UT Developer Payment (12)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UT Utility Rate Revenues - Water (13)	34,505	35,858	36,934	38,380	39,531	40,717	42,308	43,577	45,276	46,634	48,033	49,902	51,399	53,394	54,996	56,646	58,841	60,607	62,951	64,839
UT Utility Rate Revenues - Wastewater (13)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UT Utility Rate Revenues - Stormwater (13)	55,580	58,679	60,439	63,771	65,684	67,655	71,343	73,484	77,448	79,772	82,165	86,553	89,150	93,865	96,681	99,581	104,799	107,943	113,546	116,953
GF Payment in Lieu of Tax - Water Utility (14)	2,933	3,048	3,139	3,262	3,360	3,461	3,596	3,704	3,848	3,964	4,083	4,242	4,369	4,538	4,675	4,815	5,001	5,152	5,351	5,511
GF Payment in Lieu of Tax - Wastewater Utility (14)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GF Payment in Lieu of Tax - Stormwater Utility (14)	4,724	4,988	5,137	5,421	5,583	5,751	6,064	6,246	6,583	6,781	6,984	7,357	7,578	7,979	8,218	8,464	8,908	9,175	9,651	9,941
GF Bond Proceeds - GO Bonds (15)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UT Bond Proceeds - Revenue Bonds (15)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Receipts</b>	<b>233,922</b>	<b>270,378</b>	<b>250,549</b>	<b>288,979</b>	<b>287,211</b>	<b>285,461</b>	<b>328,033</b>	<b>308,688</b>	<b>361,709</b>	<b>341,387</b>	<b>346,755</b>	<b>396,458</b>	<b>374,393</b>	<b>431,277</b>	<b>413,052</b>	<b>419,666</b>	<b>477,689</b>	<b>452,523</b>	<b>518,890</b>	<b>498,198</b>
<b>Expenditures:</b>																				
GF Payment to Kitsap County - Revenue Sharing Agmt (16)	56,806	37,870	18,935	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GF Fire/EMS Service Expense (17)	57,000	58,710	60,471	62,285	64,154	66,079	68,061	70,103	72,206	74,372	76,603	78,901	81,268	83,706	86,218	88,804	91,468	94,212	97,039	99,950
GF Police Service Expense (18)	34,629	53,501	73,475	75,679	77,949	80,288	82,697	85,177	87,733	90,365	93,076	95,868	98,744	101,706	104,758	107,900	111,137	114,471	117,906	121,443
GF Public Works & Utilities - Streets & Electronics (19)	5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334	6,524	6,720	6,921	7,129	7,343	7,563	7,790	8,024	8,264	8,512	8,768
UT Public Works & Utilities - Water Expense (20)	33,297	34,603	35,641	37,037	38,147	39,292	40,827	42,052	43,691	45,002	46,352	48,155	49,600	51,525	53,071	54,663	56,782	58,486	60,748	62,570
UT Public Works & Utilities - Wastewater Expense (20)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UT Public Works & Utilities - Stormwater Expense (20)	55,302	58,386	60,137	63,452	65,356	67,317	70,986	73,117	77,061	79,373	81,754	86,120	88,704	93,396	96,198	99,083	104,275	107,403	112,978	116,368
GF Capital Costs - General Fund (police) (21)	8,115	-	-	-	-	9,407	-	-	-	-	10,906	-	-	-	-	12,643	-	-	-	-
GF Capital Costs - Streets & Electronics (22)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UT Capital Costs - Water System (23)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UT Capital Costs - Wastewater System (23)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UT Capital Costs - Stormwater (23)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GF Debt Service on GO Debt (15)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UT Debt Service on Revenue Bonds (15)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>250,148</b>	<b>248,220</b>	<b>253,964</b>	<b>243,917</b>	<b>251,234</b>	<b>268,179</b>	<b>268,541</b>	<b>276,598</b>	<b>287,025</b>	<b>295,636</b>	<b>315,410</b>	<b>315,966</b>	<b>325,446</b>	<b>337,676</b>	<b>347,807</b>	<b>370,883</b>	<b>371,686</b>	<b>382,837</b>	<b>397,182</b>	<b>409,098</b>
<b>Annual Net Cash Flow</b>	<b>(16,227)</b>	<b>22,158</b>	<b>(3,415)</b>	<b>45,062</b>	<b>35,977</b>	<b>17,282</b>	<b>59,491</b>	<b>32,090</b>	<b>74,684</b>	<b>45,751</b>	<b>31,345</b>	<b>80,492</b>	<b>48,948</b>	<b>93,601</b>	<b>65,245</b>	<b>48,782</b>	<b>106,003</b>	<b>69,685</b>	<b>121,708</b>	<b>89,100</b>
<b>Ending Cumulative Financial Impact (24)</b>	<b>\$ (16,227)</b>	<b>\$ 5,931</b>	<b>\$ 2,517</b>	<b>\$ 47,579</b>	<b>\$ 83,556</b>	<b>\$ 100,839</b>	<b>\$ 160,330</b>	<b>\$ 192,420</b>	<b>\$ 267,104</b>	<b>\$ 312,856</b>	<b>\$ 344,200</b>	<b>\$ 424,692</b>	<b>\$ 473,640</b>	<b>\$ 567,241</b>	<b>\$ 632,486</b>	<b>\$ 681,268</b>	<b>\$ 787,272</b>	<b>\$ 856,957</b>	<b>\$ 978,665</b>	<b>\$ 1,067,766</b>
General Fund Net Financial Impact	(17,712)	(713)	(5,009)	20,778	34,265	15,519	32,935	30,197	42,215	43,720	29,253	49,657	46,703	60,861	62,837	46,302	70,199	67,025	83,693	86,246
Utilities Net Financial Impact	1,486	22,871	1,595	24,284	1,712	1,763	26,556	1,893	32,469	2,031	2,092	30,835	2,245	32,740	2,408	2,481	35,804	2,661	38,015	2,854
GF = General Fund Item																				
UT = Utility System Item																				

See "Notes to the SKIA Area Annexation (annexation - low growth scenario) - Financial Impact Assessment" for key assumptions and explanations.

**BASE ANNEXATION SCENARIO - LOW GROWTH**  
**RETAIL SALES, B&O, AND PROPERTY TAX INCREASES ESTIMATION**

Year	<b>(note 1)</b>		Total	<b>(note 2)</b>		0.85% Bremerton Sales Tax	0.125% Bremerton Retail B&O Tax	<b>(note 3)</b> Development Construction Costs	0.85% Bremerton Sales Tax on Construction	0.125% Bremerton Retail B&O on Construction	Total Bremerton Sales Tax Rev	Total Bremerton B&O Tax Rev	<b>(note 4)</b> Property Tax Increase from Const	3% Escalation Factor
	# of Businesses w/ Revenues Subject To Sales Tax	# of Businesses w/ Revenues Not Subject To Sales Tax		Average Taxable Retail Sales Per Business	Estimated Taxable Retail Sales									
2009	22	18	40	\$ 322,434	\$ 7,093,539	\$ 60,295	Exempt	\$ 397,600	\$ 2,704	Exempt	\$ 62,999	Exempt		1.0000
2010	22	19	41	332,107	7,306,346	62,104	Exempt	819,056	5,570	Exempt	67,674	Exempt	\$ 2,699	1.0300
2011	22	19	41	342,070	7,525,536	63,967	Exempt		-	Exempt	63,967	Exempt		1.0609
2012	23	19	42	352,332	8,103,634	68,881	Exempt	434,468	2,954	Exempt	71,835	Exempt		1.0927
2013	23	19	42	362,902	8,346,743	70,947	Exempt	895,005	6,086	Exempt	77,033	Exempt	2,949	1.1255
2014	23	19	42	373,789	8,597,145	73,076	Exempt	460,927	3,134	Exempt	76,210	Exempt		1.1593
2015	23	20	43	385,003	8,855,060	75,268	Exempt	949,510	6,457	Exempt	81,725	Exempt	3,128	1.1941
2016	23	20	43	396,553	9,120,711	77,526	Exempt	488,998	3,325	Exempt	80,851	Exempt		1.2299
2017	24	20	44	408,449	9,802,782	83,324	Exempt	1,007,336	6,850	Exempt	90,174	Exempt	3,319	1.2668
2018	24	20	44	420,703	10,096,865	85,823	Exempt		-	Exempt	85,823	Exempt		1.3048
2019	24	20	44	433,324	10,399,771	88,398	Exempt	534,341	3,634	Exempt	92,032	Exempt		1.3439
2020	24	21	45	446,324	10,711,765	91,050	Exempt	1,100,743	7,485	Exempt	98,535	Exempt	3,627	1.3842
2021	24	21	45	459,713	11,033,118	93,781	Exempt	566,883	3,855	Exempt	97,636	Exempt		1.4258
2022	25	21	46	473,505	11,837,616	100,620	Exempt	1,167,778	7,941	Exempt	108,561	Exempt	3,848	1.4685
2023	25	21	46	487,710	12,192,744	103,638	Exempt		-	Exempt	103,638	Exempt		1.5126
2024	25	21	46	502,341	12,558,526	106,747	Exempt	619,448	4,212	Exempt	110,960	Exempt		1.5580
2025	25	22	47	517,411	12,935,282	109,950	Exempt	1,276,063	8,677	Exempt	118,627	Exempt	4,204	1.6047
2026	25	22	47	532,934	13,323,341	113,248	Exempt	657,172	4,469	Exempt	117,717	Exempt		1.6528
2027	26	22	48	548,922	14,271,963	121,312	Exempt	1,353,775	9,206	Exempt	130,517	Exempt	4,460	1.7024
2028	26	22	48	565,389	14,700,121	124,951	Exempt		-	Exempt	124,951	Exempt		1.7535

**(note 1)** there are 40 total estimated businesses currently in the proposed annexation area based on data compiled from the WA Dept of Revenue, the Port of Bremerton, and the Kitsap Economic Development Alliance. Of this total, the WA Dept of Revenue has indicated that 22 businesses in the proposed annexation area (all located in the South Petition area) had revenues subject to sales tax of \$7.1 million in 2007. The remainder represent businesses that produce products or services that are not subject to the retail sales tax.

Future business growth is assumed to maintain this same approximate relationship of sales taxable to non-sales taxable businesses - in that it is assumed that every other business added to the area is subject to sales tax.

**(note 2)** initial value of \$235,353 average retail taxable sales per business in Kitsap County per "Washington State Almanac 2006-2007" increased by a factor of 1.37 in recognition of the type of businesses anticipated to locate in this area - then escalated by 3% in each year thereafter. The WA State Dept of Revenue confirmed there were 22 businesses in the proposed annexation area which had revenues subject to sales tax of \$7.1 million in 2007. This computes to an average of \$322,727 per business which is just slightly more than the results provided by using the average retail taxable sales per business in Kitsap County per "Washington State Almanac 2006-2007" increased by a factor of 1.37.

**(note 3)** Development of two 1.5 acre industrial/retail business sites on average is assumed every five years adding two business - each having a 15,000 Sq Ft commercial building. The assessed value of these projected business site developments is assumed to be \$1,192,800 (in 2008 dollars) per site with 1/3 of the cost in the first year and 2/3 of the cost in the following year. This is based on \$79.52/Sq Ft average cost for industrial facility structures per the International Code Council Building Valuation Data - published January-February 2008. Taxable construction costs are assumed to be 80% of the assessed value for purposes of computing sales tax and B&O tax impacts.

**(note 4)** Property tax increase for construction is held to today's dollar rate per \$1,000 AV - ignoring decreases in the dollar rate per \$1,000 of AV related to property value increases while also ignoring the City's permitted 1% annual property tax amount increase.

## BASE ANNEXATION SCENARIO - LOW GROWTH

### LEASEHOLD TAX ESTIMATION

*Escalated at 3%*

Year	(note 1)	(note 2)	4.00%	Cumulative	Total Estimated	3%
	Leasehold Tax Existing Businesses	Land Development Subject to Port Lease Agreements	Bremerton Leasehold Tax Additional Leases	Leasehold Tax Additions From New Development	Bremerton Leasehold Tax Rev	Escalation Factor
2009	\$ 47,201		\$ -	\$ -	\$ 47,201	1.0000
2010	48,617	9,270	371	371	48,988	1.0300
2011	50,075		-	371	50,446	1.0609
2012	51,578		-	371	51,949	1.0927
2013	53,125	10,130	405	776	53,901	1.1255
2014	54,719		-	776	55,495	1.1593
2015	56,360	10,746	430	1,206	57,566	1.1941
2016	58,051		-	1,206	59,257	1.2299
2017	59,793	11,401	456	1,662	61,455	1.2668
2018	61,587		-	1,662	63,248	1.3048
2019	63,434		-	1,662	65,096	1.3439
2020	65,337	12,458	498	2,160	67,497	1.3842
2021	67,297		-	2,160	69,457	1.4258
2022	69,316	13,217	529	2,689	72,005	1.4685
2023	71,396		-	2,689	74,085	1.5126
2024	73,538		-	2,689	76,226	1.5580
2025	75,744	14,442	578	3,267	79,010	1.6047
2026	78,016		-	3,267	81,283	1.6528
2027	80,356	15,322	613	3,879	84,236	1.7024
2028	82,767		-	3,879	86,647	1.7535

**(note 1)** Leasehold tax revenue is a state excise tax of 12.84% on rent or lease payments to a public lessor for the right to use publicly owned tax-exempt property for private purposes. The purpose of the tax is to have private users of public tax-exempt property share with fee simple property owners who pay property taxes – the costs of providing governmental services. Of the 12.84% tax imposed by the state, the City receives an allocation of a 4% portion (or 31% of the total) for areas within the incorporated City. According to the Department of Revenue, the Port of Bremerton paid \$151,515 for leasehold excise taxes in 2007. The calculated amount that would have been apportioned to the City had this area been incorporated is \$47,201. For purposes of this analysis it is assumed that 2009 revenues from leasehold excise taxes is the same as the amount calculated for 2007 and then escalated by 3% each year thereafter.

**(note 2)** Per Port of Bremerton staff, new development on the Port property would most likely be lease arrangements for the use of Port owned land with the developer paying for the improvements directly - paying property taxes on the improvements portion and the Port withholding leasehold taxes on the land lease payments. New building construction is therefore included in the calculated estimates of future property taxes, while the leasehold tax estimates include an expectation of new land lease arrangements for each new business development in the projected period. Per Port staff the current lease payment amount for unimproved property is \$6,000 per year per acre and \$12,000 per year per acre for sites that are "pad ready" or improved to a limited extent. For purposes of this analysis it is assumed that each 1.5 acre new development in the forecast period is unimproved property and the rate of \$6,000 per year in 2008 dollars is used escalated 3% per year for future periods..

**Financial Impact Assessment – SKIA Annexation  
Low Growth Scenario Notes**

The City of Bremerton management has prepared projected financial impact assessment information for the described annexation area with an assumption of low future growth in the area. In the preparation of this financial analysis, the City has made certain assumptions with respect to conditions that may occur in the future. It is the City’s belief that the projected financial information was prepared on a reasonable basis. The City staff believe this analysis reflects the best currently available estimates and judgments, and presents, to the best of management’s knowledge and belief, the expected course of action and the expected future financial impacts of the proposed annexation with the assumption of low or modest future growth in the area. It should be understood that this analysis is dependent upon future events - actual conditions may (and are likely to) differ from those assumed herein.

The following pages represent explanatory notes for individual elements of the financial assessment analysis, as well as principal considerations and assumptions made by the City in the preparation of the financial impact information.

**The following are the base and growth assumptions for the Low Growth scenario:**

<b>Existing Businesses</b>	40 total estimated current businesses in the proposed annexation area based on data compiled from the Washington State Department of Revenue and the Port of Bremerton. Of this total, the Washington State Department of Revenue has indicated that 22 businesses in the proposed annexation area (all located in the South Petition area) had revenues subject to sales tax of \$7.1 million in 2007
<b>Existing Households</b>	+/- 1 total current residential households in the annexation area
<b>Existing Residential Population</b>	Assuming 2.5 people on average per household this equates to a population in the proposed annexation area of approximately 2.5 +/- currently
<b>Future Development Assumption: Acres &amp; Businesses Increased</b>	Assumed development of 2 parcels of 1.5 acres each of industry every five years. This results in the addition of two new businesses on average every five years.
<b>Future Development Assumption: Location</b>	Development is assumed to be located on Port of Bremerton industrial park property only in this scenario.

**Summary table of Business Growth and Acres Developed over the 20-year time horizon for the Low Growth Scenario:**

<b>Year</b>	<b><sup>3</sup> Businesses</b>	<b><sup>2</sup> Employees</b>	<b><sup>3</sup> Commercial Sq Ft</b>	<b><sup>4</sup> Acres Developed</b>
<b>2008</b>	<b>40</b>	<b>438</b>	<b>361,217</b>	<b>493.89</b>
2009	40	438	361,217	493.89
2010	41	456	376,217	495.39
2011	41	456	376,217	495.39
2012	42	474	391,217	496.89
<b>2013</b>	<b>42</b>	<b>474</b>	<b>391,217</b>	<b>496.89</b>
2014	42	474	391,217	496.89
2015	43	492	406,217	498.39
2016	43	492	406,217	498.39
2017	44	511	421,217	499.89
<b>2018</b>	<b>44</b>	<b>511</b>	<b>421,217</b>	<b>499.89</b>
2019	44	511	421,217	499.89
2020	45	529	436,217	501.39
2021	45	529	436,217	501.39
2022	46	547	451,217	502.89
<b>2023</b>	<b>46</b>	<b>547</b>	<b>451,217</b>	<b>502.89</b>
2024	46	547	451,217	502.89
2025	47	565	466,217	504.39
2026	47	565	466,217	504.39
2027	48	583	481,217	505.89
<b>2028</b>	<b>48</b>	<b>583</b>	<b>481,217</b>	<b>505.89</b>
All data compiled to include North and South petitions and requests				
2 PSRC assigns Manufacturing and Industrial employment growth to 550-1100 Sq Ft/ Employee				
3 Growth Factor on average of 2 new businesses every 5 years. With an expected 15,000 Commercial Sq Ft. per 1.5 acres per business. This data was compiled in conjunction with the Port of Bremerton and Kitsap Economic Development alliance.				
4 Acres developed were analyzed using 2006 aerial photos with City of Bremerton GIS and includes the airport runway facilities.				

**Notes to Low Growth Financial Assessment spreadsheet:**

- (1) Net financial impacts carried forward represents the prior year’s ending cumulative net financial impact.
- (2) Property tax revenue for 2009 is based upon current assessor information for parcels in the proposed annexation area (2008 valuations and tax rolls). Taxable assessed values in 1,000’s of dollars is then multiplied by \$2.2181 (City of Bremerton regular levy rate for 2008 of \$1.9032/\$1,000 AV and EMS levy rate for 2008 of \$0.3149/\$1,000 AV). The property tax revenue is then increased by 1% each year thereafter starting from the base 2009 year. The property tax amounts in the base annexation area are generally quite low for such a large land area but this is due to the public properties in existence there (Port of Bremerton) which are not subject to a property tax levy – and due to the large proportion of remaining properties being designated as open space or forest land status which substantially reduces the property taxes on those parcels.

- (3) Leasehold tax revenue is a state excise tax of 12.84% on rent or lease payments to a public lessor for the right to use publicly owned tax-exempt property for private purposes. The purpose of the tax is to have private users of public tax-exempt property share with fee simple property owners who pay property taxes – the costs of providing governmental services. Of the 12.84% tax imposed by the state, the City receives an allocation of a 4% portion (or 31% of the total) for areas within the incorporated City. According to the Department of Revenue, the Port of Bremerton paid \$151,515 for leasehold excise taxes in 2007. The calculated amount that would have been apportioned to the City had this area been incorporated is \$47,201. For purposes of this analysis it is assumed that 2009 revenues from leasehold excise taxes is the same as the amount calculated for 2007 and then escalated by 3% each year thereafter. In addition, Port of Bremerton staff indicate that new development on the Port property would most likely be lease arrangements for the use of Port owned land with the developer paying for the improvements directly - paying property taxes on the improvements portion and the Port withholding leasehold taxes on the land lease payments. New building construction is therefore included in the calculated estimates of future property taxes, while the leasehold tax estimates include an expectation of new land lease arrangements for each new business development in the projected period. Per Port staff the current lease payment amount for unimproved property is \$6,000 per year per acre and \$12,000 per year per acre for sites that are "pad ready" or improved to a limited extent. For purposes of this analysis it is assumed that each 1.5 acre new development in the forecast period is unimproved property and the rate of \$6,000 per year in 2008 dollars is used and then escalated by 3% each year thereafter.
- (4) Admissions tax revenue is assumed to be zero. The City is not aware of any current sources of admission revenues that exist or which would be anticipated to be developed - which would be subject to the City's Admission tax.
- (5) Parking tax is assumed to be zero. The City is not aware of any parking facilities existing in the area or proposed to be developed in the future - which charge for such services and would be subject to the City's Parking tax.
- (6) Sales tax revenue includes revenues from existing (22 businesses currently reporting taxable retail transactions to the DOR) and projected additional businesses. It is assumed that two businesses on average every five years will be added. There are 40 total estimated businesses currently in the proposed annexation area based on data compiled from the WA Dept of Revenue, and the Port of Bremerton. Of this total, the WA Dept of Revenue has indicated that 22 businesses in the proposed annexation area (all located in the South Petition area) had revenues subject to sales tax in 2007. The remainder represents businesses that produce products or services that are not subject to the retail sales tax. Future business growth is assumed to maintain this same approximate relationship of sales taxable to non-sales taxable businesses - in that it is assumed that every other business added to the area is subject to sales tax. 2009 tax revenues are computed using the assumption that taxable revenues would be the same as the DOR reported occurred in 2007 for the area. As growth is modeled to occur in the forecast period, the new businesses assumed to be subject to sales tax are assumed produce taxable revenues equivalent to 1.37 times the average taxable retail sales per business for Kitsap County (\$235,353) per the "Washington State Almanac 2006-2007" then escalated by 3% in each year thereafter. Actual results for the 22 businesses verified by the DOR for 2007 - validate the use of this calculated value of retail sales revenue per business as the DOR actual average computes to an average of \$322,727 per business in the area – and 1.33 times the

- Washington State Almanac information results in an average of \$313,019. The City tax rate is .00085 (1% less .15% administrative fee to the County). The sales tax on construction of future development in the proposed annexation area assumes the projected new businesses result in the addition of a 15,000 square foot Commercial structure on a 1.5 acres parcel per business with construction costs estimated to be \$1,192,800 in 2008 dollars based on an average cost of \$79.52/Sq Ft for industrial facility structures as published in the January-February 2008 International Code Council Building Valuation Data – of which the taxable construction costs is assumed to be 80% of this amount. Construction values are escalated at 3% per year.
- (7) B&O tax revenue is assumed to be zero. Recent changes to the City's B&O tax code exempt businesses from the tax if they are located on industrially zoned Port properties and all areas annexed into the City are exempt from B&O tax for a period of three years for businesses located in the area at the time of annexation. This analysis conservatively assumes that all projected growth in this modest/low growth scenario would occur on Port of Bremerton owned property and would therefore be exempt from the City B&O tax.
  - (8) Washington State distributes gas tax, liquor tax, and criminal justice funds to the City on a per capita basis. The City's share of this distribution will increase with any population added by this proposed annexation. The budgeted combined rate for 2008 is \$37.88 per the State Department of Revenue. This amount is multiplied by the population initially estimated to be included in the proposed annexation area (2.5). The dollar amount per capita is then increased by 3% each year thereafter. No further population growth is assumed as it is not expected that future development would be residential.
  - (9) Real Estate Excise Tax (REET) revenue in this low growth scenario is assumed to come from very limited sales transactions of privately owned buildings situated on land leased from the Port of Bremerton. Per Port of Bremerton staff, historical experience suggests that approximately 2 such transactions occur in every 10 year period. The 0.5% tax is applied to an assumed sale of a 15,000 square foot building every fifth year in the forecast period with the value estimated conservatively to be \$1,192,800 in 2008 dollars based on an average cost to construct of \$79.52/Sq Ft for industrial facility structures as published in the January-February 2008 International Code Council Building Valuation Data as then escalated by 3% in each year thereafter.
  - (10) Utility taxes are based on average annual power bills of \$2,760 in 2008 dollars for a typical business enterprise located on Port property (per Port of Bremerton staff) and an estimated telephone service annual cost of \$1,200 in 2008 dollars, and (per Waste Management staff) an annual solid waste disposal service cost of \$80,851 in 2008 dollars for existing businesses located in the proposed annexation area with an average annual rate of \$2,995 in 2008 dollars as then each multiplied by the number of businesses projected to be added in future periods of the forecast and escalated by 3% each year thereafter. Utility tax rates are 6% for electricity and telephone, and 9.5% for solid waste disposal services. No revenue estimate is made for utility taxes on services to residential accounts or for cable television services due to lack of residences identified in the proposed annexation area and no expectation of residential development in the area in the future.
  - (11) The Port of Bremerton owns and operates its own wastewater utility. The wastewater utility has sufficient capacity to serve the increase in demand proposed by the low growth scenario. For the purposes of this analysis it will be assumed that the wastewater utility will continue to be under the jurisdiction of the Port of Bremerton

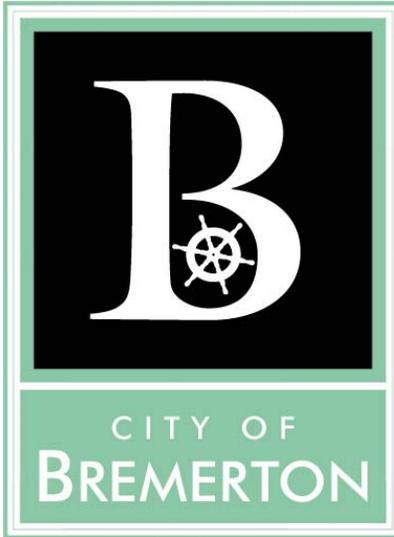
and there will be no expenses or revenues related to wastewater. In accordance with Bremerton Municipal Code (BMC) 15.06.020(a) – A general facility charge (GFC) shall be charged on all new or expanded service connections to the water and storm water utility system. The calculation of the general facility charge for water shall be based on the meter size to be installed for a new or expanded water utility service. The calculation for general facility charges for stormwater shall be based on the number of impervious surface units (ISUs) as defined in BMC 15.01.020. The number of ISUs charged shall be based on the total impervious area divided by the amount of impervious area in an ISU. The rates applied are per the current BMC.

General Facility Charges (GFC) for this analysis is based on the following assumptions for all industrial use:

- Each industrial parcel is assumed to be one and half acres
  - The water meter sizes are proportional to the existing development in the area
  - Each industrial parcel averages 35,000 square feet impervious
- (12) Based on the growth projections of this low growth scenario, no major infrastructure improvements will be needed. Mitigation costs to be paid by the Developer as determined through the development review process and the BMC. For the purposes of this analysis the water and storm water system capital improvements will be financed by the development or other sources such as CTED grants.
- (13) Utility system rate revenues are computed in accordance with Chapter 15.06 of the BMC - which establishes and sets forth the current fees, rates and other charges for connection to or utilization of the City’s utility systems. The utility rates in this analysis are based on the following assumptions:
- The water meter sizes are proportional to the existing development in the area. The rates are based on a basic commercial rates
  - Each industrial parcel averages 35,000 square feet impervious. The rate is based on the number of Impervious Surface Units (ISU)
- (14) The City General Fund imposes on its internal utility systems a payment in lieu of tax – similar to the utility tax imposed on external utilities. The current rate is 8.5% of utility system rate revenues for water, wastewater, and stormwater. This amount represents revenue to the General Fund and is added to annual expenses of the utility systems as noted in (19) below. This is an internal transfer between the City’s utility systems and the City’s General Fund and is thus shown as both a receipt and an expense in this analysis.
- (15) This analysis assumes there is no issuance of either government obligation (GO) municipal bond debt or utility system revenue bond debt to fund capital improvements.
- (16) Payment to Kitsap County for revenue sharing in accordance with the interlocal agreement concerning revenue sharing upon annexation. Revenue Sharing payments are based on three sources of revenue: 1) County’s portion of the local retail sales tax levied; 2) Ad Valorem property tax levied by the County pursuant to RCW 36.82.040 for establishment and maintenance of county transportation systems; and 3) Admission tax levied by the County pursuant to Chapter 36.38 RCW. The combined total of the County’s collections from all three sources within the annexation area during the calendar year preceding annexation net of the same for the first full calendar year following annexation = “County’s Lost Revenue”. The amount of

- payment from Bremerton to the County is based on a three-year soft landing approach with the year 1 payment equal to 75% of the County's Lost Revenue, year 2 payment equal to 50%, and the third and final year being 25%. The estimated amount of County lost revenue for these items is \$71,000 of sales tax revenue based on the DOR's reported taxable retail sales in this area of \$7,100,000 in 2007, \$4,741 in ad valorem property tax levied for County roads per the County 2008 property tax assessments for parcels in the proposed annexation area, and zero dollars for admission tax as the City is not aware of any current sources of admission revenues that exist.
- (17) Fire and Emergency Medical Service (EMS) assumed to be covered by an Interlocal Agreement between the Bremerton Fire Department and the South Kitsap Fire and Rescue ('SKFR') during the forecast period. Per information provided by South Kitsap Fire and Rescue dated April 15, 2008, the total annual estimated impacts of the proposed annexation would be a loss of revenue of \$57,000 in 2008 dollars. This analysis assumes that the City would negotiate an agreement for continued coverage of this area by SKFR setting an initial compensation level at the estimated lost revenue amount of \$57,000 and then providing for cost of living increases in years thereafter (which is assumed to be 3% each year thereafter in this analysis). Further cost increases are not assumed in this low growth scenario because service level demand is not anticipated to change dramatically with the modest level of additional development in the proposed annexation area.
- (18) Police service and coverage of the current south Bremerton area, watershed area, plus the proposed annexation area is expected in combination to require an increase in staffing of a sector patrol unit to cover the entire area – requiring 7 positions at a total annual cost (salary and benefits) of \$592,571 (2008 dollars) plus \$100,000 in annual estimated associated operational expenses. The proposed annexation area in this scenario while large geographically is expected to be very low in demand for these services due to the low growth assumptions in this analysis and the type of development in the area. A smaller geographical area but an expected higher demand will come from the anticipated large residential development in the existing South Bremerton area. Given those expectations for the purposes of this analysis, 10% of the cost of the added personnel and operational expenses are assumed to be attributed to this proposed annexation area for this low growth scenario. The computed annual expense is then increased by 3% each year thereafter. 10% of the estimated cost to purchase 2 vehicles and computer equipment for these additional personnel in the years 2009 and the replacement cost of those vehicles every five years thereafter (escalated at 3% per year) is included in the capital costs as noted in (21) below. It is expected that the additional personnel would be based out of the existing police department building. Bringing new police officers on line requires a period of time to recruit and train. It is assumed that in the first year (2009) a ramp up to 50% of this annual expense will occur, rising to 75% in the second year (2010), coming to full new operational levels by the beginning of the third year (2011).
- (19) An estimate of \$5,000 per year (2008 dollars) for electronics and street maintenance costs was provided by the City Engineer. This amount is then escalated by 3% per year for future years in this analysis.
- (20) Utility system expenses are estimated based upon the 2008 budget relationship of operating expenses to rate revenues charged. For the water, wastewater, and stormwater system this computes to 88%, 74%, and 91%, respectively. In addition to the computation of operation and maintenance expense the total utility expense was

- increased in each year by the amount of utility PILOT taxes computed to be transferred to the General Fund.
- (21) General Fund capital costs include police vehicle and equipment purchases necessary to support the additional staffing needed to provide adequate service levels in the proposed annexation area in combination with expanded service demands in the south Bremerton area - as described more fully in note (18) above. Two police vehicles and computer equipment are assumed to cost \$81,148 (2008) in total (of which 10% is allocated to this proposed annexation area) and are shown being replaced every fifth year thereafter at an escalated price of 3% per year.
  - (22) There is no capital costs assumed for transportation improvements in this scenario. All capital cost for transportation facilities would be determined by the nature of the development and would be the financial responsibility of the development and are therefore not included in this financial analysis.
  - (23) Capital costs for growth related infrastructure improvements are assumed to be zero in this low growth scenario as noted in note (12) above.
  - (24) Ending cumulative financial impact represents the beginning net financial impact for the period carried forward from prior periods plus the current period receipts less current period expenditures.



SKIA Annexation Financial Assessment  
June 2008

This is the end of  
Part II of IV

Please see city website for parts I, III, IV