

CITY OF BREMERTON FISCAL ANALYSIS OF GORST UGA ANNEXATION

REVISED FINAL REPORT MAY 19, 2014

GORST AERIAL

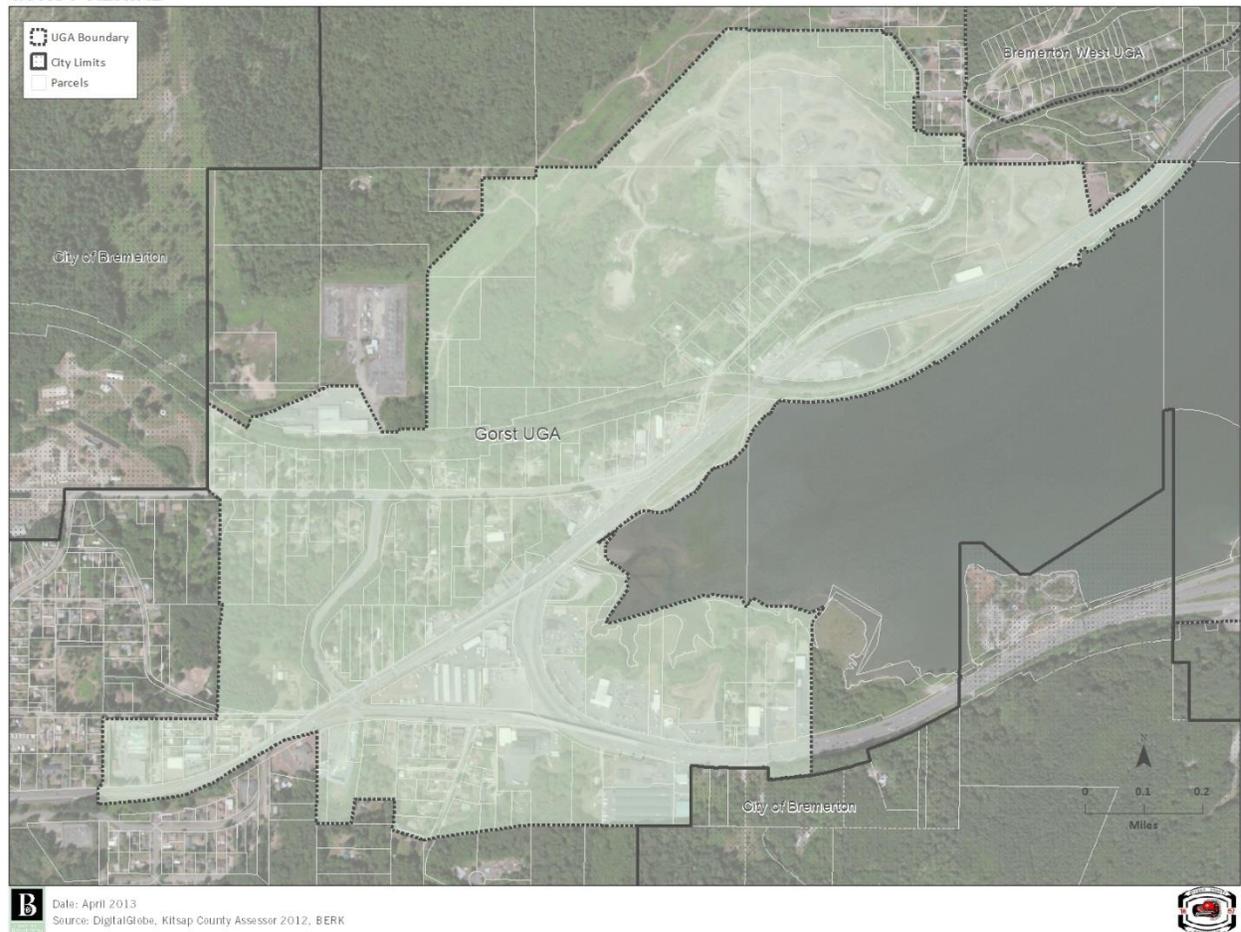


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1.0 INTRODUCTION

1.1 STUDY PURPOSE

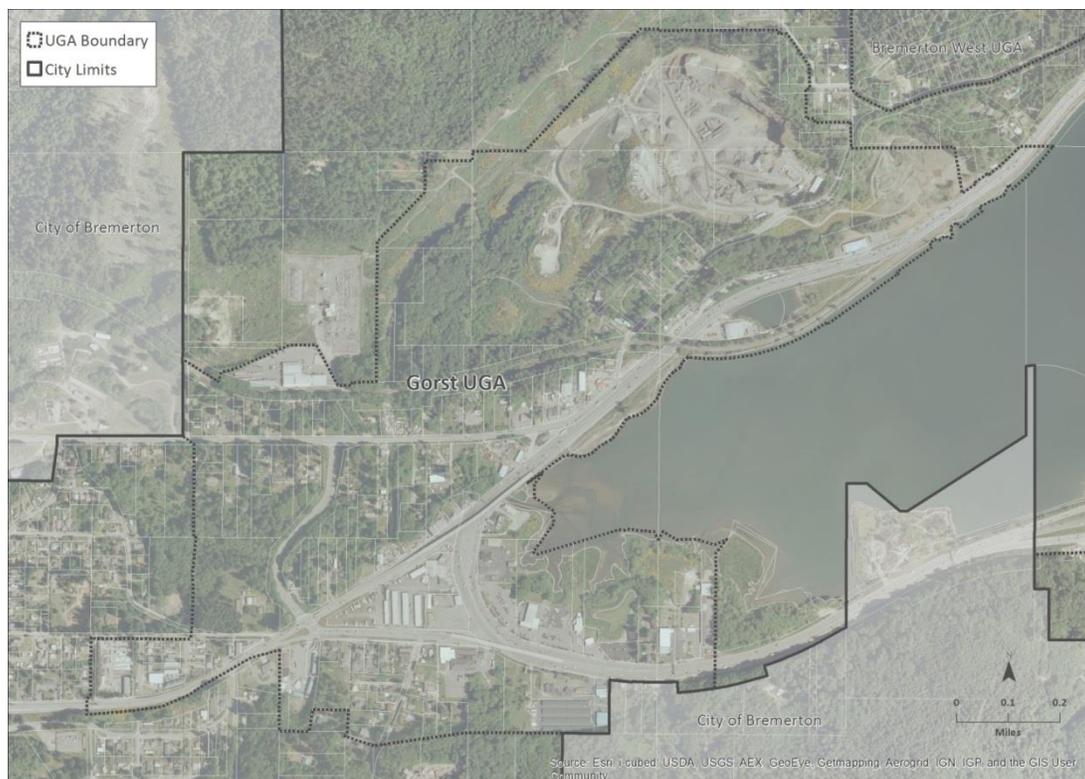
The City of Bremerton is considering annexation of the Gorst Urban Growth Area (UGA), and this analysis was conducted to assist the City in assessing the fiscal implications of such an annexation. The purpose of the analysis is to give the City an understanding of specific incremental fiscal impacts – costs and revenues – of annexation during the first five years after annexation.

In addition, the City was interested in potential long-term fiscal impacts of annexation. This analysis assesses high-level potential impacts over the next 20 years to identify long-term risks, opportunities, and uncertainties the City of Bremerton should consider.

1.2 STUDY AREA DESCRIPTION

The study area consists of the existing Gorst UGA, shown in Exhibit 1.

**Exhibit 1
Gorst UGA Map**



Source: Kitsap County, 2013; BERK, 2014.

In 2010, the Gorst UGA had a population of 222 residents and an estimated 237 jobs. Under the Preferred Alternative from the Gorst Subarea Plan developed in 2013, the UGA is planned to evolve into a complete community with places to live, play, shop, and work in a waterfront setting. Mixed uses would be allowed through much of the UGA. The waterfront area would allow lower intensity commercial uses with smaller impervious footprints interspersed by trails, parks, and reclaimed

shoreline habitat. Under this alternative the UGA is assumed to add 1,060 people and 298 additional jobs by 2035.

For a map that shows the future zoning of Gorst under the Preferred Alternative, please refer to **Appendix A**.

1.3 REPORT ORGANIZATION

This report summarizes the findings of the annexation analysis and is divided into the following sections:

2.0 Study Approach. This section introduces the approach and methodology of this study, and provides some additional background information in the purpose of the analysis.

3.0 Summary of Key Findings. This section presents the high-level findings around net fiscal impact of the annexation.

4.0 Short-Term Annexation Impact. This section presents the detailed findings for operating costs and revenues and capital costs and revenues for the first five years after annexation.

5.0 Long-Term Annexation Impacts. This section presents a high-level consideration of how the annexation may impact the City over the next 20 years.

Appendix A. Gorst UGA Preferred Alternative Future Land Use Map.

2.0 STUDY APPROACH

2.1 APPROACH AND METHODOLOGY

This report presents operating cost and revenue estimates of annexing the Gorst UGA into the City of Bremerton over the next five and twenty years. The report also addresses capital impacts of annexation including capital facility needs and capital revenue estimates.

High-Level Planning Document

It is important to note that this is a *financial planning study and not a budget development exercise*. The analysis is intended to provide a reasonable estimate of potential costs and revenues associated with annexation and to allow for the development and evaluation of alternative scenarios to test the implications of development assumptions, policy choices, and alternative service delivery options, to help the City determine how to proceed with the potential annexation of these areas.

If the City proceeds with annexation, this analysis provides a basis from which the City can begin the process of planning for the higher service demands of a slightly larger city. However, the actual implementation will be accomplished through the regular budget process wherein City management will revisit the balance of costs and revenues in light of updated information and the overall needs of the City at that time.

In addition, staffing projections used in this analysis are the best estimates given current information. The City will need to determine exact staffing levels for each department if annexation becomes a reality. There will likely be a transition phase as new staff are hired and trained, which can include substantial lead time. The number of personnel needed and the timing of hiring by position will have to be planned to a greater level of detail was necessary for this planning-level analysis.

While this analysis provides a comprehensive look at the potential incremental impacts on the City's financial picture, it does not provide a full accounting of the City's projected sources and uses of funds.

Analysis Considers City With and Without Annexation

To be an effective decision support tool, the analysis cannot consider fiscal impacts by looking just at the annexation areas alone, but instead must consider the potential impacts of annexation by comparing the fiscal outlook for the City of Bremerton under two alternative futures: (1) the future of the current City with boundaries unchanged and (2) the future of a larger version of the City that includes annexation of the Gorst UGA. Analysis of these two alternative futures provides a truly comprehensive look at the potential implications of annexation on long-term fiscal sustainability.

Land-Based Fiscal Model

BERK developed an annexation fiscal model to estimate revenues and expenses for both the existing City and a post-annexation City. Taking the analysis into the future shows how the fiscal balance in the City might change over time and how annexation might affect the long-term fiscal outlook for the new, larger City.

Ongoing Costs and Revenues

The fiscal model estimates changes in the cost of services based on relationships between direct services, such as maintenance workers or planners, and underlying demographic and community changes, such as increases in population, housing units, commercial activity, and land area.

Costs are separately estimated for labor and non-labor categories:

- Labor costs are based on current salaries and benefits and an assumed annual escalation rate.
- Non-labor costs in each department are driven by the current relationships between the number of Full Time Equivalents (FTEs) in that department and the magnitude of non-labor costs in that department.
- Non-labor costs that are unrelated to the positions in a department (such as facilities maintenance, which is related to the size of a building, or street lighting costs, which are related to lane miles) are separated from the department costs and estimated based on relevant cost drivers.
- The analysis of operating impacts focuses solely on the general and street funds, as these are the primary operating funds for the City. Enterprise funds, whose operations are generally self-supporting through user fees, are not addressed as part of the operating impact analysis.

Capital Cost and Revenue

The capital impact analysis includes capital costs from all City departments, including the enterprise funds, to capture all capital needs in the Gorst UGA. The capital revenue analysis focuses on general capital revenues, primarily Real Estate Excise Tax revenue generated by the Gorst UGA.

2.2 ASSUMPTIONS

General Assumptions

The analysis assumes that the City of Bremerton annexes the Gorst UGA into the City in 2014. The analysis assumes annexation related costs and revenues accrue on an annual basis beginning in 2014.

All analysis presented in this document is based on annual estimates. Actual impacts from annexation in any specific year will depend on the effective date of the annexation. Impacts in this document should be considered planning-level estimates for the City to understand the direction and magnitude of likely impacts.

Escalation Assumptions. The analysis assumes a general inflation rate of 3.0% annually. Staff salaries are escalated at 2.0% annually. Benefits are assumed to grow at 6.5% per year in most years, with the following exceptions: benefits are also assumed to jump by 10% in 2014 due to plan changes and 15% in 2018 due to Affordable Care Act implementation rules regarding health plans.

Development Assumptions

The analysis is built on the premise that key factors in the land base (such as population, employment, and commercial activity) drive both demand for services and changes in the City's tax base. Demand for services drives costs in the model, and depends on a jurisdiction's scope of services and choices regarding level of service. The tax base drives revenues and will vary based on a jurisdiction's choices regarding fiscal and taxing policy (limited by tax laws).

The BERK fiscal analysis framework is flexible and allows for varying assumptions about anticipated development in the City and annexation areas over time, and how these changes affect the underlying local tax base. In particular, the following elements are explicitly specified: (1) development assumptions

including type, scale, and timing of new development; (2) type and mix of tenants, associated employment, and business income levels; (3) housing mix (single-family and multi-family) and density; and (4) productivity of new retail activity.

Development assumptions within the City of Bremerton’s current boundaries assume a level of development activity similar to that seen historically. Development assumptions for the Gorst UGA are described below.

Exhibit 2 summarizes the population and employment projections that underlie the cost and revenue estimates in this study. The first column shows the current estimated housing units, population, and employment within the Gorst UGA. The subsequent columns show the estimated housing units, population, and employment in the original UGA boundaries by years.

These development assumptions are based on the adopted Preferred Alternative, which designated long-term growth targets for 2035. Interim years are interpolated based on conversations with planners and City staff, and give a *conceptual representation* of the pace at which the UGA may develop to reach its long-term targets.

Exhibit 2
Development Metrics for Gorst UGA (2013-2030)

	Current UGA	2015	2020	2025	2030
Residential					
Housing Units	106	107	141	268	520
Population	222	234	311	573	1,040
Commercial					
Employment	237	237	275	342	428

Source: BERK, 2013.

- Immediately upon annexation, the City of Bremerton will add to its boundaries the 106 housing units, 222 residents, and approximately 237 jobs that currently exist in the Gorst UGA.
- By 2020, it’s estimated that the Gorst area will have grown to include approximately 141 housing units, 311 residents, and approximately 275 jobs. All of this activity would be located within the new boundaries of the City of Bremerton.
- Based on the Gorst Subarea Plan, this fiscal analysis assumes that annexation of the Gorst UGA will add approximately 520 housing units, 1,040 residents, and approximately 428 jobs by 2030 to the City’s boundaries.

2.3 DATA SOURCES

Data used in this report came from the following sources:

- City of Bremerton
 - 2013 City of Bremerton Budget
 - 2013 staffing detail including position titles, FTEs, salary and benefit costs
 - Gorst Creek Watershed Plan, Stormwater Capital Improvement Plan, 2013
 - Gorst Planned Action Environmental Impact Statement, 2013
- Kitsap County

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- 2012 parcel data
- 2012 buildable lands data
- 2012 personal property tax revenue
- 2012 street GIS layer
- Puget Sound Regional Council
 - 2013 employment
- Washington State Department of Revenue
 - 2012 taxable retail sales
- Washington State Office of Financial Management
 - 2013 Population
 - 2013 housing units

3.0 SUMMARY OF KEY FINDINGS

This section provides a brief overview of the key findings of our analysis of how annexation of the Gorst UGA will impact the City of Bremerton, based on the conceptual development assumptions identified above. This section quantifies the impacts for both operating costs and revenues as the City transitions through the annexation.

- Short-term impacts, defined as 2014-2018, are explained in more detail in Section 4.0 beginning on page 9.
- Longer-term impacts of annexation (after 2018) are described beginning on page 17.

3.1 BASELINE BUDGET ASSUMPTIONS (NO ANNEXATION)

While all cities across the state are different in terms of tax bases, mixes of commercial and residential land uses, and fiscal policies, almost all cities face structural challenges in local government funding that have led to the cost of municipal services growing at faster rates than tax and fee revenues. This creates an ongoing budget challenge for cities to maintain adequate levels of service without changing tax and fee policies. The most significant contributors to this underlying structural challenge have been the result of two voter approved initiatives:

1. Initiative 695, which was passed by voters in 1999, reduced Motor Vehicle Excise Tax rates to a flat \$30 fee. A portion of these revenues were used to support sales tax equalization payments that were a significant funding source for many cities with lower than average sales tax collections.
2. Initiative 747 (and subsequent legislative action to restore the provisions of the Initiative after it was declared unconstitutional by the Supreme Court in November 2007) limits growth in property taxes to 1% per year, without voter approval. The effect of this change was to reduce the rate of growth in property tax revenues, which is one of the three most important sources of local government funding, to a rate that, in most cases, is lower than general inflation. The 1% limit does not apply to the value of new construction.

As a result, a projection of revenues and costs that assumes no change in current policies (tax or level-of-service) suggests the City of Bremerton can expect to face budget deficits in the coming years. This finding is consistent with the common fiscal challenge in most other cities in Washington State and is principally related to the impact of rising costs of doing business and additional staffing related to in-city growth needed to maintain existing levels of service.

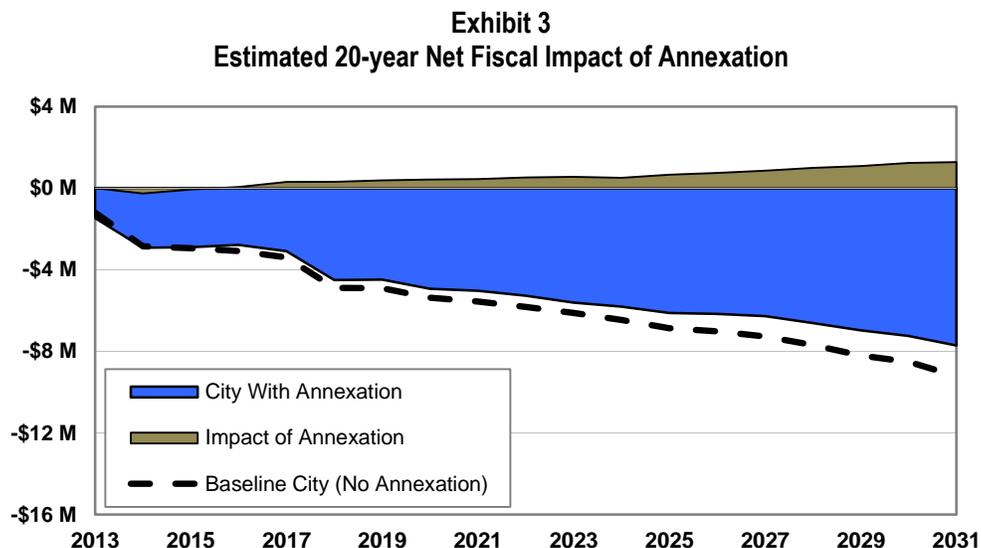
Since a city cannot operate with a budget deficit, the Bremerton City Council will make choices each budget cycle to bring cost and revenue growth into alignment and maintain a balanced budget every year. When analyzing annexation, it is important to consider that the way in which the City chooses to address any baseline operating deficits may change the potential impacts of annexation. For example, if the City were to consider raising business or residential taxes to close the gap, the different tax rates would change revenues expected from the annexation areas based on the individual land base in those areas. If the approach were to reduce costs by modifying levels of service, then these revised levels of service would reduce costs associated with annexation in different proportions, again based on the land base and the corresponding demand for services.

It is not possible to know what the City of Bremerton's future Councils may choose to do to balance future budgets, and the City does not need to make those decisions at this time. Since the goal of this

annexation study is to evaluate the incremental fiscal impacts of a potential annexation, it analyzes a scenario which assumes continuing current policies. This results in a long-term outlook that shows increasing budget deficits. These long-term deficits represent the structural imbalance between municipal cost and revenue growth rates. In reality, the City will balance its budget in any given year.

3.2 ANNEXATION IS ESTIMATED TO PROVIDE A NET FISCAL BENEFIT TO THE CITY

Exhibit 3 provides a high-level picture of the key findings of this analysis: **the annexation of the Gorst UGA is estimated to provide a moderate annual benefit to the City of Bremerton.**



Increment from Gorst UGA	2015	2018	2030
Core Expenditures	412,000	602,000	1,028,000
Core Revenues	350,000	904,000	2,235,000
<i>FTEs from Annexation</i>	1.5	2.3	2.5
Net Resources (000's)	(62,000)	302,000	1,207,000
Deficit/Surplus as % of Expenditures	-15%	50%	117%

Source: BERK, 2014.

Note: Exhibit 3 shows the City's future fiscal outlook *if no changes were made to policies that impact costs and revenues*. In reality, the City Council will balance its budget each year. This graph represents the impact that the Gorst UGA would have under the City's current cost and revenue structures.

Exhibit 3 shows that in the near term there may be a slight negative impact, as the City may need to hire some staff before the full revenue impacts of the UGA are realized. However, in the long run, revenue growth in the UGA is likely to outpace associated staffing and cost needs.

The short-term and long-term impacts on revenues and costs are described in more detail in the following sections. Specific decisions around long-term service decisions for police and fire services may change the long-term impact.

4.0 SHORT-TERM ANNEXATION IMPACTS

4.1 SHORT-TERM OPERATING IMPACTS

Operating Revenue Estimates

Exhibit 4 shows estimated revenues that would accrue to the City of Bremerton from the Gorst UGA, assuming annexation in 2014. All analysis presented in this document is based on annual estimates. Actual impacts from annexation in any specific year will depend on the effective date of the annexation.

This analysis of operating impacts only includes revenues for the General Fund and Street Fund.

Exhibit 4
Annual Annexation Revenue Impacts, 2014-2018 (Assuming 2014 Annexation Year)

Operating Revenues	2014	2015	2016	2017	2018
<i>Revenues not assuming any revenue sharing</i>					
Sales Tax	384,000	401,000	417,000	434,000	455,000
Criminal Justice Tax	3,000	3,000	3,000	3,000	4,000
Property Tax/Road Levy	0	130,000	135,000	139,000	144,000
Leasehold Excise Tax	0	0	0	0	0
Utility Taxes	16,000	18,000	20,000	22,000	26,000
Commercial Parking Tax	0	0	0	0	0
Gambling Tax	0	0	0	0	0
Solid Waste Franchise Fee	1,000	1,000	1,000	1,000	1,000
Building Permits and Fees	2,000	2,000	2,000	2,000	2,000
Business Licenses and Permits	3,000	4,000	4,000	4,000	4,000
EMS Levy	0	24,000	25,000	25,000	26,000
Liquor Board Profits and Excise Tax	2,000	2,000	2,000	2,000	2,000
Gas Tax	5,000	5,000	5,000	5,000	6,000
Planning and Plan Check Fees	1,000	1,000	1,000	1,000	1,000
Municipal Court Costs	3,000	3,000	3,000	3,000	3,000
Fines and Forfeits	7,000	7,000	8,000	8,000	9,000
Recreation Charges	(1,000)	(1,000)	0	0	0
Grants and Other Intergovernmental	4,000	4,000	5,000	5,000	5,000
Other Charges	1,000	1,000	1,000	1,000	1,000
B&O Tax	0	0	0	201,000	212,000
Police Services	2,000	3,000	3,000	3,000	3,000
Internal Charges for Service	0	0	0	0	0
Total	433,000	608,000	635,000	859,000	904,000
<i>Potential Impacts of Revenue Sharing</i>					
Loss in Sales Tax Revenue	(288,000)	(201,000)	(104,000)	0	0
Loss in Property Tax Revenue	0	(57,000)	(40,000)	(20,000)	0
Total After Revenue Sharing	145,000	350,000	491,000	839,000	904,000

Source: City of Bremerton, 2013; and BERK, 2014.

Exhibit 4 provides two different pictures of the level of revenue the City may receive from annexation of the Gorst UGA. The top portion of the table shows the full level of revenue that would be generated by the Gorst UGA. The bottom portion of the table provides a picture of how revenues may accrue to the

City if the City were to sign a revenue sharing agreement with Kitsap County to mitigate the impacts of annexation on the County's finances.

Currently, the City is not subject to a revenue sharing agreement with Kitsap County. However, for the purpose of providing a conservative fiscal analysis, the revenue estimates assume that the City may choose to participate in revenue sharing.

Entering into a revenue sharing agreement would be dependent on the annexation method used. Under such an agreement, the City would share sales and property tax revenue generated in the Gorst UGA with Kitsap County for the first few years after annexation. The net impacts discussed earlier in Exhibit 3 assume that such a revenue sharing agreement will be in place. This provides a conservative approach to understanding the impacts of annexation.

The 2018 revenue impacts shown in Exhibit 4 reflect a stable picture of the Gorst UGA going forward, given that this analysis assumes the City would be past any potential revenue sharing agreements with Kitsap County by 2018. In 2018, it's estimated that the City would receive approximately \$1.0 million in revenue from the annexation of the Gorst UGA. This amount would grow going forward based on inflation as well as increased development in the UGA over time as services are built out.

Operating Revenue Detail

This section describes the methodology used to estimate the primary revenue items described above.

Primary Revenue Sources

As with many cities in Washington State, the three largest revenue sources for the City of Bremerton are Sales Tax, Property Tax, and Utility Taxes, which make up approximately 60% of the City's 2013 general and street fund operating revenues. Additionally, the City levies a Business & Occupation (B&O) tax that is a significant revenue contributor.

Sales Tax. Taxable retail sales are assumed to increase by 0.5% per year higher than the general inflation rate of 3.0% used in this analysis. If the City entered a revenue sharing agreement with Kitsap County to offset the impact to the County of losing the Gorst UGA, this analysis assumes the City would receive 25% of sales tax revenues generated in Gorst in 2014, 50% in 2015, 75% in 2016, and 100% of revenues thereafter. Any actual revenue sharing agreement would be negotiated with the County and may vary from these assumptions.

It's important to note that a significant portion of the sales tax revenue generated within the Gorst UGA would come from the car dealership. Future revenues would vary depending on the continued success of this business.

Property Tax. If the City entered a revenue sharing agreement with Kitsap County to mitigate the impacts of annexation on the County's budget, this analysis assumes that property tax revenues would be shared with the County using the same ratios as described above for sales tax.

Utility Tax. Utility taxes for telephone, gas, cable, electricity, and garbage are assumed to grow based on the combination of population and employment in the Gorst UGA. Current rates of these utility revenues to population and employment in the City of Bremerton were applied to assumed population and employment totals in the UGA to estimate utility revenues that would be generated within the UGA.

Water and sewer utilities within the Gorst UGA are already provided by the City of Bremerton, and the City charges a 50% surcharge for these customers outside the current City limits. Therefore, annexation of Gorst would result in a slight decrease in revenues from these customers. The net impact of all utility tax gains and losses is shown in Exhibit 4.

Business & Occupation Tax. Business in the Gorst UGA would be exempt from the City's B&O tax for the first three years after annexation. Therefore, B&O tax revenues from Gorst are assumed to begin accruing to the City in 2017. The model uses two separate B&O tax rates to estimate revenues from the Gorst UGA:

- For existing Gross Business Income (GBI) in the Gorst UGA, the model assumes that the City's retail tax rate will apply, since the majority of business activity in Gorst comes from the retail sector. This tax rate is 0.125%. It's important to note that a significant portion of the B&O tax revenue generated within the Gorst UGA would come from the car dealership. Future revenues would vary depending on the continued success of this business.
- For the increase in GBI from development within the UGA, this analysis uses an effective tax rate of 0.1625% to account for exemptions and varying rates based on types of businesses. This effective rate reflects the City's current ratio of B&O tax revenues compared to total Gross Business Income (GBI) in the City.

Other Revenue Sources

The City also receives revenue from many other sources, as described below.

Criminal Justice Tax. Kitsap County levies a dedicated sales tax to support criminal justice expenditures. This 0.1% sales tax is collected by the state Department of Revenue, and is distributed to counties and cities on a per capita basis. In 2013, Bremerton estimates per capita criminal justice sales tax revenue at approximately \$11.67 per capita. Future revenues are calculated on a per capita basis, with the annual per capita revenue assumed to increase at the rate of inflation.

Solid Waste Franchise Fee. The Solid Waste provider in the City pays a franchise fee for providing this service within the City limits. These revenues are projected on a per capita basis and are estimated to be \$3.66 per resident in 2013. These fees are assumed to extend into Gorst upon annexation.

Building Permits and Fees & Planning and Plan Check Fees. These fees help cover the cost of staff that review building plans and permit applications for residents. Since the City does not set its fees on a strict cost recovery basis, these revenues are estimated on a per-capita and per-job basis, and are assumed to increase both with inflation as well as increases in population and employment.

Business Licenses and Permits. The City of Bremerton charges a fee to obtain a business license within the city limits. These revenues are projected based on the ratio of total employment in the City and the annexation areas. Annual employment estimates are generated from land use and development assumptions within the model.

EMS Levy. The City of Bremerton is currently authorized by voters to levy an Emergency Medical Services tax. The maximum allowable levy is \$0.50. In 2013, the current levy rate is \$0.50 since assessed values in the City have declined in recent years. The City is planning to ask voters to re-authorize the levy next year.

Because the EMS Levy is a form of property tax, is it subject to the same 1.0% annual increase plus new construction in years without voter-approved increases. It is therefore assumed that the levy will begin to decline going forward as assessed values begin to grow at a pace more in line with historical growth as the region recovers from the economic recession.

The timing of annexation will impact when the City begins to collect the EMS levy from the Gorst UGA. Collections would only begin in 2015 if the City annexes the UGA early in 2014.

Liquor Board Profits and Excise Tax. According to Washington State law, a share of the state profits from liquor sales and state collected excise tax on liquor is distributed directly to cities on a per capita

basis. Currently, the City's budget estimates the per capita distribution for liquor profits and excise taxes to be \$8.29 in 2013. This per capita estimate is assumed to increase with inflation.

Gas Tax. A portion of the state-collected gas tax is shared directly with municipalities, which bear a substantial portion of the overall costs of road maintenance and construction. The gasoline and diesel tax is a flat amount levied per gallon (rather than a percentage of the price at the pump).

Cities are allowed to use this funding for maintenance or capital, and Bremerton uses the full funding amount for street maintenance. The gas tax revenue estimates from the City's budget project a per capita gas tax allocation of \$21.41 in 2013. Since the tax is a per-gallon tax and not impacted by changes in prices, this per capita number is assumed to remain constant into the future.

Municipal Court Costs. These revenues are collected through fees that help cover the cost of Municipal Court services. These revenues are estimated to grow with increases in population and employment going forward, with the per-capita and per-employment amount growing with inflation into the future.

Fines and Forfeits. Currently, the City's budget projects the per capita revenues for fines and forfeits to be approximately \$29.47 in 2013. This per capita estimate is assumed to increase with inflation going forward.

Recreation Charges. This analysis assumes that current UGA residents are already using the City's parks and recreation services, and therefore new revenue will only come from population growth from development within the UGA. Users who live in the Gorst UGA and currently pay for parks and recreation services are charged a 25% surcharge for being non-residents. Therefore, there would be some loss in revenue from these uses being transitioned into the City at first. Over time, the revenue from new users will offset revenue loss from the 25% non-resident surcharge.

Grants and Other Intergovernmental Revenue. The grants and transfers from other government agencies considered in this analysis are for operational expenditures only, not those for capital projects. Future revenues from these sources are estimated on a per capita basis and applied to the annexation area population. The current per capita revenues, according to the City's 2013 budget, are \$17.54 and are assumed to increase at the rate of inflation. It is important to note that it is difficult to estimate this source of revenue, as grants tend to fluctuate widely from year to year, and that very little additional revenue will likely be seen from annexation.

Police Services. The City estimates it will receive approximately \$410,900 in 2013 from law enforcement services, such as fees for police service, fingerprint fees, and police records searches. Currently, the City's budget projects the per capita revenues for police services to be approximately \$25.93 in 2013. This per capita estimate is assumed to increase with inflation going forward.

Other Charges. This analysis models approximately \$200,000 in other miscellaneous revenues on a per capita basis. These charges include revenue streams such as investment interest, donations, miscellaneous permits and fees not related to buildings or businesses, and other minor charges for City services. Currently the revenue estimated in the City's budget projects the per capita revenues for these miscellaneous charges to be approximately \$5.31 in 2013. This per capita estimate is assumed to increase with inflation going forward.

Ambulance Transport, Leasehold Excise Tax, Commercial Parking Tax, Gambling Tax, and Internal Charges for Service. These revenues are not expected to be impacted by the annexation of the Gorst UGA. Ambulance Transport Fees will accrue to South Kitsap Fire & Rescue, as they will likely continue to provide fire and EMS services to Gorst. The other taxes are structured in such a way that they will not see an increase from adding the Gorst UGA to the City's boundaries.

Operating Cost Estimates

Exhibit 5 summarizes the estimated cost impacts of annexation in 2018. The chart shows 2018 because it presents a snapshot of the short-term impact of annexation once development in the UGA has begun and the departments have hired up to their full short-term need. Years 2014-2017 are not shown in the table, because the exact impact in any one year will depend greatly on how the City chooses to ramp up its hiring. The City will need to weigh the impacts being seen on the ground as well as the actual revenue increases from the UGA to determine when hiring decisions need to be made. The methodology behind these hiring numbers are described after the chart.

**Exhibit 5
Annexation Staffing and Cost Impacts, 2018**

Estimated Staff and Cost Impacts by Department	2018	
	FTEs	Annual Cost*
City Council	-	-
Mayor/Auditor	-	-
Finance/Human Resources	0.15	16,000
Engineering	-	-
Law Enforcement	0.50	85,000
Fire	0.25	146,000
Municipal Court	-	1,000
Community Development	0.15	20,000
Parks	0.25	54,000
Streets/Public Works	1.00	231,000
Legal	-	-
Non-departmental	-	49,000
TOTAL	2.30	602,000

* The annual cost includes staffing costs as well as non-labor costs such as contracts and equipment.

Source: BERK, 2013.

The annual costs listed to the FTE amounts reflect the total annual cost increase in each of these departments due to annexation. In some cases, these increases include equipment, supplies, utility costs, and contract charges.

Operating Cost Detail

City operating cost and staffing impacts were estimated based on our land base fiscal model and supplemented and refined based on conversations with City staff. Given the moderate size of the Gorst UGA annexation, not all City departments will be impacted by the annexation. The following departments are estimated to receive cost impacts from the annexation:

- Finance.** The finance department will likely need to add one additional Accounting Assistant II beginning in 2017 to handle the increase in licensing activity. The combination of commercial development in the City and the UGA would drive the need for this 1.0 FTE. To estimate the costs associated with annexation, the fully loaded cost of this additional FTE is apportioned between the City and the Gorst UGA based on the relative amount of commercial development in each geographic area each year.

- **Police.** The Gorst UGA will represent a new area for the police department to monitor and to respond to calls for service. In the short term, given the moderate amount of development currently in the UGA, the Bremerton Police Department estimates that the City could provide police service to Gorst with existing staff by incurring additional overtime. The amount of overtime would average approximately 0.5 FTEs per year beginning in 2014. Serving the Gorst UGA through incurring overtime would not result in the need for additional benefits payments or capital expenditures.
- **Fire.** Given the geographic constraints of the UGA, the City plans to contract with South Kitsap Fire and Rescue (SKFR) to continue providing service to Gorst. The City would pay for this service based on SKFR's current levy rate of \$2.00 per \$1,000 AV. This equates to approximately \$100,000 annually beginning in 2014, and would increase over time with development in Gorst.

Based on input from the City's Fire Chief about experience with the SKIA annexation, the City would likely need to add 0.25 FTE of staff for additional fire inspection services. This position would work with the fire marshal's office to conduct inspections of existing developments within the Gorst UGA to ensure they are compliant with the City's fire code as they come into the City's jurisdiction. This staff person would also support the need for additional inspections as development ramps up in the UGA. The cost of this staff person is reflected in Exhibit 5.

- **Municipal Court.** The City currently contracts for public defender services, budgeted at \$285,000 per year in the City's 2013 budget. This analysis assumes that this contract will increase proportionally with population growth over time. To estimate the impacts of annexation, the current per capita cost of this contract within the City was applied to the increase in population from annexation. This approach results in an estimated cost of approximately \$750 in 2014, growing with both inflation and population growth going forward.
- **Community Development.** The community development department will likely need to add one additional Building Development Specialist II (building inspector) beginning in 2017 to handle the increase in commercial development activity citywide. The combination of commercial development in the City and the UGA would drive the need for this 1.0 FTE. To estimate the costs associated with annexation, the fully loaded cost of this additional FTE is apportioned between the City and the Gorst UGA based on the relative amount of commercial development in each geographic area each year.

This additional staff member will necessitate a one-time capital investment for a vehicle when they are hired in 2017. The analysis assumes a one-time vehicle cost of \$30,000.

- **Parks Maintenance and Recreation.** The City's parks LOS requires a neighborhood park to be within ¼ mile of all residences. Given existing park facilities and the likely residential development zones in Gorst, this analysis assumes that the UGA would need to be served by at least two additional neighborhood parks. Each neighborhood park is assumed to be approximately 1.5 acres, for a total additional park acreage of 3.0 acres. Assuming a maintenance cost to the City of approximately \$4,000 per developed acre, this would generate about \$12,000 per year once the parks are developed. While the exact development timeline of these parks is unknown, this analysis assumes maintenance beginning in 2018 to provide the City with a conservative estimate of cost impacts.

Additionally, based on population growth, the City may need to hire approximately 0.25 FTEs in recreation program staff to support additional recreational users once residential development in the UGA comes online. This cost will likely be offset in part by additional recreational user fees.

- **Street Maintenance.** The new lane miles that will be added to the City through annexation, to both existing roads in Gorst as well as new roads that will be built as the UGA develops, will drive the need for additional maintenance staff. Based on the constraints of hiring for partial positions, the City would have to add a full 1.0 FTE based on the additional demand. However, the need within the Gorst UGA would likely not demand 100% of this staff person's time in the short-term. This means this position would have some time available, in the short-term, to work on street maintenance efforts within current City boundaries as well.

Additionally, there will be marginal costs related to the additional lane mileage beyond just staff time, including supplies, materials, and utility costs to support the maintenance work. This results in annual costs of significantly more than just salaries and benefits for the 1.0 FTE. These additional non-labor costs are based on the average non-labor costs per FTE that the City currently budgets in the Street Fund.

- **Non-Departmental Impacts.** In addition to department-specific impacts, the growth in population and development will result in marginal cost increases to election services, population-based contracts with other jurisdictions, and programs like animal control. These costs are based on the share of population between the baseline City and the City after annexation. This analysis of non-departmental impacts includes the following major costs:

- Election services
- Care and custody of prisoners
- Animal Control
- Kitsap County emergency management contract
- Public health district contract and alcoholism programs

Additionally, the City may incur additional costs from assuming responsibility for the proportionate share of South Kitsap Fire and Rescue's (SKFR) debt service that is paid by residents of the Gorst UGA. This share is calculated based on the percentage of total assessed value included in SKFR's service area that is located in the Gorst UGA. Since the UGA is a small portion of total SKFR assessed value, it is estimated this impact will be approximately \$1,500 per year through 2018.

In total, non-departmental impacts are estimated at about \$50,000 per year immediately after annexation, and the majority of these costs will grow with inflation and population over time.

The analysis assumes that the other departments not mentioned explicitly above – such as City Council, Legal, the Mayor's and Auditor's Offices, and Engineering – will not be impacted.

4.2 SHORT-TERM CAPITAL IMPACTS

Capital Needs

In the short-term (2014-2018), the City of Bremerton would not have any specific capital needs to address if it annexed the Gorst UGA. There is just one capital project planned for the Gorst UGA, which is scour control for the Sam Christopherson Bridge. This project is in Kitsap County's TIP and scheduled to have been completed in 2013. The Gorst Creek Watershed Capital Improvement Plan lists the need for a Flood Cause Study to evaluate flooding within the UGA. The Gorst Creek Watershed CIP estimated the cost of the study at \$600,000 and was designated the responsibility of the City of Bremerton. Listed revenue sources for this Flood Cause Study include the stormwater fund and grants.

Capital Revenues

The City of Bremerton's capital projects are primarily funded by the Capital Improvement Funds, except for capital projects undertaken by the City's enterprise funds. Those capital projects are generally funded by the enterprise funds themselves.

The City manages five capital improvement funds – general capital improvements, park facilities construction, Pacific Avenue construction, Conference Center expansion, and Lower Wheaton Way. The largest funding sources for Pacific Avenue, Lower Wheaton Way, and the Conference Center expansion are grants, which are not expected to be impacted by annexation. The remaining capital funds are primarily supported by the Real Estate Excise Tax (REET). This section describes how the annexation would generate additional REET revenues.

Real Estate Excise Tax. REET is levied on all sales of real estate, both commercial and residential, that occur within City boundaries. The City collects REET at a 0.5% tax rate based on the transaction price of the sale.

To estimate REET revenues, this analysis makes assumptions about the turnover rate of properties within the Gorst UGA. The current rate of real estate sales is still slightly lower than historical averages due to the recovery from the recession. To be conservative, this analysis assumes a turnover rate of 4.0% for residential properties and 2.5% for commercial properties through 2015, and then a return to a more typical rate of 5.0% for residential properties and 3.5% for commercial properties for 2016 and beyond.

These assumptions result in the following REET revenue impacts from the Gorst UGA:

- In the near term, 2014-2018, the City is estimated to receive a total of approximately \$100,000 in REET revenues from the Gorst UGA, or an average of about \$20,000 per year. This is based on turnover of existing property as well as sales of new development.
- This compares to current City revenues of approximately \$400,000 in REET revenue per year, which are expected to increase as the economy recovers and development returns to a more typical pace.

The City has additional revenue sources, besides REET, that can be used for capital funding. These include the Motor Vehicle Fuel Tax and the Commercial Parking Tax. However, given current pressures on operations through the general and street funds, it may be difficult for the City to reallocate significant portions of these funds to capital expenditures in the short-term.

5.0 LONG-TERM ANNEXATION IMPACTS

5.1 OPERATING IMPACTS

Over the long run, it is estimated that revenues generated by activity in the Gorst UGA will be higher than costs and staffing needs generated by the area. These general long-term fiscal impacts of annexation mirror the short-term findings, as shown in Exhibit 3. This will result in a positive annual impact to the City of Bremerton's operations budget resulting from annexation.

However, as with any long-term financial analysis, there are risks inherent in some of the revenue and cost analysis that could arise. A few issues that could substantially change the long-term outlook include:

Development Assumptions. The development assumptions included in the model drive nearly all of the cost and revenue findings presented above. Very few impacts are generated simply by the geography of the annexation, rather they are generated by the people and businesses that choose to live and operate there. Therefore, there would be risk if the UGA did not develop as quickly as planned.

The risk is primarily that the UGA would not have as large of a fiscal benefit to the City. Given the moderate current population and the low level of service need, a lower development rate would result in both lower costs and revenues, resulting in a minor and possible negligible fiscal benefit if development did not occur.

Police Service Needs. Through conversations with the Bremerton Police Department, the short-term impacts of annexation could be addressed by existing staff through incurring overtime. However, in the long-term, it may become necessary to develop a new patrol area to serve the increasing number of residents and businesses in Gorst with the same response times that other City residents receive.

If a new patrol area were added, it would require 6.0 FTEs to provide full-day patrol service to Gorst. This cost would need to be balanced with the revenue generated by development in Gorst, and its net fiscal impact would depend heavily on how Gorst ends up developing. Since the South Kitsap Industrial Area (SKIA), will also be developing over the same time period, the City could coordinate an increase in police staffing and new patrol areas to serve the two regions as efficiently and effectively as possible.

Given the uncertainty around the need for this level of service, the potential fiscal impact of a new patrol area (salaries, benefits, and equipment for 6.0 new FTEs) is not included in the net fiscal impacts shown in Exhibit 3.

Fire Service Needs. The short term impacts of annexations are to be addressed through a contract with South Kitsap Fire & Rescue. However in the long term, as the City continues to annex more area in the Gorst area and as SKIA continues developing, at some point the City would need to look at providing these services directly. In that case, the City would need a fire station (of which there is one currently in Gorst), an engine/paramedic unit, and 6-12 FTE's to provide fire service.

5.2 CAPITAL IMPACTS

Over the remainder of the study period, there are additional capital facility needs, particularly for transportation, parks, and stormwater facilities. Responsibility for these projects is divided between the City of Bremerton, Kitsap County, Washington Department of Transportation (WSDOT), and private property owners.

All Capital Facility Needs

It was not within the purview of this analysis to conduct a new examination of the Gorst UGA’s capital facility needs. Instead, this section focuses on compiling and describing the capital needs identified in recent capital facility needs analyses, including:

- City of Bremerton Gorst Planned Action Environmental Impact Statement.
- City of Bremerton Gorst Creek Watershed Stormwater Capital Improvement Plan.

Overall, there are 21 separate capital facility project needs identified in the Gorst UGA between 2018 and 2035, totaling \$18.4 million. It’s worth noting that the widening of Belfair Road accounts for more than half of the projects’ total costs and would be the responsibility of Kitsap County. Exhibit 6 lists the individual projects by type and estimated costs.

Exhibit 6
Total Long-term Capital Facility Needs for Gorst UGA

Capital Facility Type	Projects	Total Costs
Transportation ¹	1 Belfair Widening to 4 lanes - Mason County Line to Bremerton City Limits	\$9,982,000
	2 Belfair Widening to 4 lanes - Bremerton City Limits to Sam Christopherson Ave.	\$2,822,000
	3 Possible Pedestrian Overpass	NA
	4 Possible Bike improvements?	NA
	5 Possible Intersection improvements - Sherman Heights Road	NA
Fire	6 None	\$0
Police	7 None	\$0
Parks ²	8 2 additional local parks (3 Acres)	NA
Water	9 None	\$0
Sewer	10 Pump Station SB 3 Upgrade	\$100,000
	11 WSDOT Hwy 3 flooding	\$174,000
	12 Hillside seepage & stream overbank flooding	\$99,000
	13 Storm drain piping & sink hole	\$216,000
	14 Highway flooding from two creeks	\$3,224,000
	15 Stream overtopping	\$1,049,000
	16 Gorst Creek floodplain flooding	\$15,000
	17 Roadway undermining and culvert clogging	\$13,000
	18 Private storm sewer piping creating sink hole & fish passage barrier	\$456,000
	19 Upstream Culvert 12 inlet flooding and fish passage, Map ID #111010	\$292,000
	20 Water quality concerns with yard flooding	\$0
21 Water quality with private pond	\$0	
Total	21	\$18,442,000

Source: Kitsap County/City of Bremerton Gorst Planned Action Environmental Impact Statement, 2013.

¹ This table does not include costs of upgrading the UGA’s current transportation infrastructure to an urban standard.

² These parks were identified as part of the long-term annexation analysis, and are not identified in any existing City or County capital planning documents.

City of Bremerton Responsibilities

The City of Bremerton would not be responsible for all or most of these projects. Known capital facility needs that the City of Bremerton is responsible for are listed below. Specific projects and total long-term costs for the City of Bremerton are not fully established as of yet, particular for stormwater projects.

Transportation: Future transportation infrastructure capital investments will be necessary to achieve a modern urban standard. The City should consider long-term planning around upgrading the UGA's current transportation infrastructure to an urban standard, which may include adding sidewalks, curbs, gutters, and storm drain systems. These improvements could be phased over time as the City identifies specific needs and revenue sources.

Fire: None

Police: None

Parks and Recreation: Two additional local parks totaling 3 acres in size (Cost: unknown). Based on the City's new park level-of-service standards, Gorst will need at least two neighborhood parks. The standard size for a neighborhood park is at least 1.5 acres. Property acquisition costs and development costs for the park are not available since there are no development plans or sites selected for the parks. The development of the mine site may also require the developer to provide open-space, which could include a neighborhood park.

The City should plan on coordinating with developers in the UGA as residential developments come online to understand options for partnerships and potential developer responsibilities for park and recreation infrastructure.

Water: None

Sewer: New pump station (Cost: \$100,000). This cost estimate was identified in Kitsap County's *Capital Facilities Plan Update* published in August 2012. Conversations with City staff during this annexation process have identified that \$100,000 may be too low of an estimate for this project. The City should consider that this cost may warrant further study to ensure the City understands its responsibilities in this area. Funds for a new sewer pump station upgrade are programmed from the utility enterprise funds and will not come from the City's general fund.

Stormwater: Between one to seven projects (Cost: up to \$1.86 million). The *Gorst Creek Watershed Plan* adopted in 2013 by the City of Bremerton lists programmatic stormwater capital facility needs for the entire Gorst Creek Watershed. The Plan identifies 35 different sites within the watershed that need stormwater improvements. Of these identified projects, 11 are within the Gorst UGA. These projects are shown in Exhibit 7 below.

The plan provides initial cost estimates for these projects and lists the entity designated responsible for each project. Of the 11 projects in the Gorst UGA, 7 are designated the responsibility of the City of Bremerton. These seven projects total \$1.86 million. Responsibility for stormwater projects is based on the *Gorst Creek Watershed Stormwater Capital Improvement Plan Technical Memorandum* completed in September, 2013.

Exhibit 7
Long-term Stormwater Capital Facility Needs for the Gorst UGA (2018 - 2035)

Site	Projects	Costs	Designated Responsibility
	1 WSDOT Hwy 3 flooding	\$174,000	City of Bremerton
	2 Hillside seepage & stream overbank flooding	\$99,000	City of Bremerton
	3 Storm drain piping & sink hole	\$216,000	City of Bremerton
	4 Highway flooding from two creeks	\$3,224,000	WSDOT
	6 Stream overtopping	\$1,049,000	City of Bremerton
	7 Gorst Creek floodplain flooding	\$15,000	City of Bremerton
	10 Roadway undermining and culvert clogging	\$13,000	City of Bremerton
	11 Private storm sewer piping creating sink hole & fish passage barrier	\$456,000	Non city, county, state
	12 Upstream Culvert 12 inlet flooding and fish passage, Map ID #111010	\$292,000	City of Bremerton
	13 Water quality concerns with yard flooding	\$0	NA
	16 Water quality with private pond	\$0	NA
Total		\$5,538,000	

Source: Kitsap County/City of Bremerton Gorst Creek Watershed Stormwater Capital Improvement Plan, 2013.

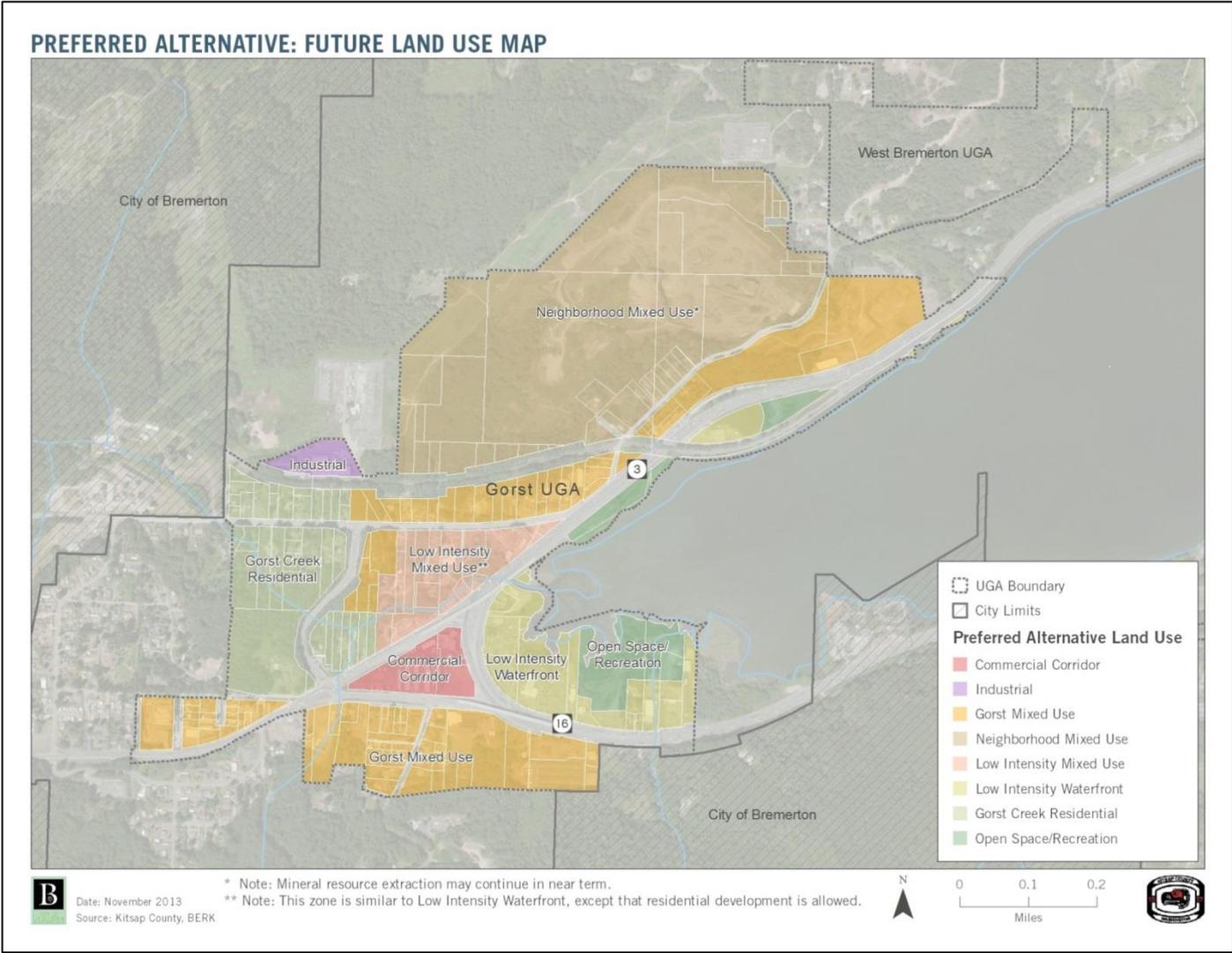
Discussions with the City of Bremerton Public Works Department indicate that they believe the City is only responsible for projects in the public right-of-way, which is just one project (Site 10) totaling \$13,000. There are also three sites where the responsibility is uncertain. These uncertain projects' costs total \$771,000. As a result, potential long-term stormwater capital costs vary widely based on how responsibility is ultimately assigned.

To be conservative, the City may want to assume the maximum of \$1.86 million when considering the full impacts of annexation. Once Gorst residents begin paying into the City's stormwater fund, the City may be expected to partner on drainage issues on both public and private party. Overall, there is risk that the City may need an additional stormwater staff member in the long-term to handle these challenges.

APPENDIX A: PREFERRED ALTERNATIVE LAND USE MAP

Exhibit A- 1 shows the future land use map for the Gorst UGA under the Preferred Alternative.

Exhibit A- 1
Gorst UGA Preferred Alternative Future Land Use Map



Source: City of Bremerton, 2014.