CITY COUNCIL
SPECIAL MEETING AGENDA

August 22, 2011
7:00 p.m.
400 SW 152nd Street, 1st Floor
Burien, Washington 98166

		PAGE NO.
1. CALL TO ORDER		
2. PLEDGE OF ALLEGIANCE		
3. ROLL CALL		
4. BUSINESS AGENDA	a. General Annexation Discussion Including Crime Comparison.	3.
	b. Questions and Comments from the Public.	
5. ADJOURNMENT		

COUNCILMEMBERS
Joan McGilton, Mayor **Brian Bennett, Deputy Mayor** **Jack Block, Jr.**
Rose Clark **Lucy Krakowiak** **Gerald F. Robison** **Gordon Shaw**

CITY OF BURIEN
AGENDA BILL

Agenda Subject: General Annexation Discussion Including Crime Comparison		**Meeting Date:** August 22, 2011
Department: City Manager **Contact: Mike Martin** **Telephone:** (206) 248-5503	**Attachments:** • Financial Report – revised • Crime Statistics Presentation	**Fund Source:** N/A **Activity Cost:** N/A **Amount Budgeted:** N/A **Unencumbered Budget Authority:** N/A
Adopted Initiative: **Yes No X**	**Initiative Description:**	

PURPOSE/REQUIRED ACTION:
The purpose of this agenda item is to hold a discussion on a report that describes the financial implications of annexing most of the remaining unincorporated North Highline area between Burien and Seattle.

BACKGROUND (*Include prior Council action & discussion*):
On August 1, the council received a draft study of the financial implications of annexing North Highline. Council reviewed and discussed a revised version of the report on August 15. Council requested that an additional study be scheduled for August 22, in order to hold an in-depth discussion on the report. An updated version of the report, with additional refinements and information, has been included in the packet. Staff will also present a set of crime statistics that relate to the annexation discussion.

OPTIONS (*Including fiscal impacts*):
1) No action is required at this time.

Administrative Recommendation: N/A

Committee Recommendation: N/A

Advisory Board Recommendation: N/A

Suggested Motion: N/A

Submitted by: Mike Martin
Administration _____ **City Manager** _____

Today's Date: August 18, 2011	**File Code:** \R\CC\Agenda Bill 2011\082211cm-1 Annexation Report.docx

CITY OF BURIEN

Fiscal Analysis of a North Highline Annexation

DISCUSSION DRAFT

BERK

August 17, 2011

BERK

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Founded in 1988, we are an interdisciplinary strategy and analysis firm providing integrated, creative and analytically rigorous approaches to complex policy and planning decisions. Our team of strategic planners, policy and financial analysts, economists, cartographers, information designers and facilitators work together to bring new ideas, clarity, and robust frameworks to the development of analytically-based and action-oriented plans.

Morgan Shook, Project Manager
Jay Rogers, Lead Analyst

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DISCUSSION DRAFT

CITY OF BURIEN

Fiscal Analysis of a North Highline Annexation

EXECUTIVE SUMMARY

INTRODUCTION

Policy Questions

The City of Burien engaged BERK to study the fiscal impacts associated with the potential annexation of the area within North Highline Potential Annexation Area (PAA). The goal of this analysis is to provide decision-makers at the City, current City residents, and residents of the annexation area with a more complete understanding of the fiscal implications of annexation.

The study examines impacts in terms of the costs the City would likely bear upon annexation and shows, in the longer term, what the effect of ten years with the annexation sales tax credit would have on the City's fiscal sustainability challenges. Under this framework, the fiscal impact of annexation can be thought of as the manner in which annexation changes the City's underlying fiscal position.

This fiscal analysis of annexation addresses three key questions:

- Does annexation of the area make it more or less challenging for the City to balance its budget over time?
- What is the effect of the annexation sales tax credit on both the short and long-term fiscal impact of annexation?
- What is the scale of needs for infrastructure in this area?

In addition, the report discusses its findings relative to two previous studies examining annexation in this area; one completed by the City of Burien in 2007 and one completed by the City of Seattle in 2011.

Policy Planning Document

It is important to note that this **is a financial policy 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 a larger City of Burien in order to test the fiscal implications of annexation.

City Staff Engagement

BERK used the 2011/2012 Adopted City budget as the foundation for the baseline annexation analysis and consulted with department directors and finance staff for clarifications on budget structures and data. City Department leadership also developed estimates of staffing and other cost impacts associated with serving the annexation area. City staff also met with BERK and reviewed the analysis assumptions and draft results, and provided feedback on cost and revenue projections.

STUDY OVERVIEW

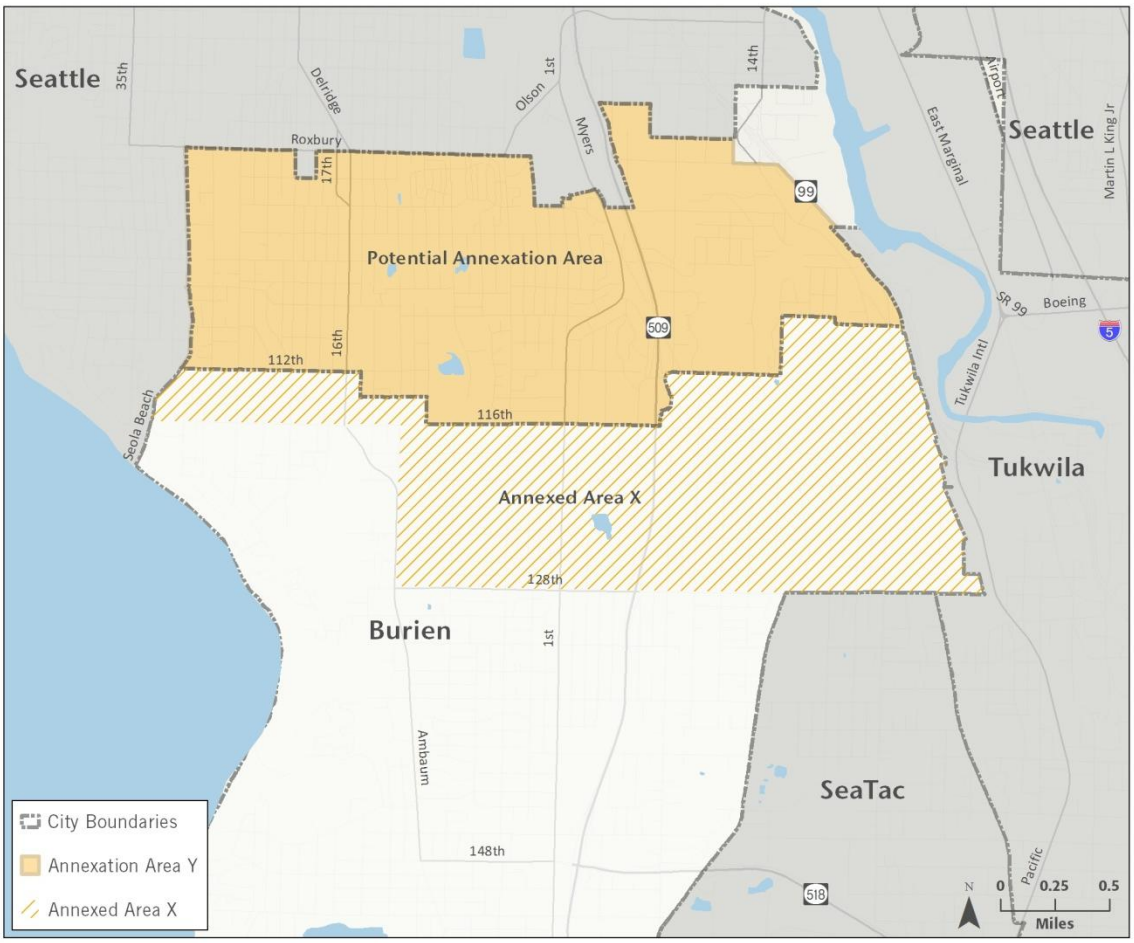
This study includes an assessment of a single geographic area being considered for possible annexation known as Area Y in the North Highline Area. The North Highline Area is bordered on the north and west by the City of Seattle, on the south by the City of Burien, and on the east by unincorporated King County and the City of Tukwila. A summary description of the area and the City is shown in Exhibit ES - 1. For purposes of this analysis, the area is assumed to be annexed in 2012. The map in Exhibit ES - 2 shows the annexation area included in the study, and its relationship to the current city boundary.

Exhibit ES - 1: City of Burien Potential Annexation Area: Summary Characteristics (2010)

	Area Y	Current City
Population	17,392	48,072
Housing Units	6,586	13,931
Land Area (sq miles)	3.2	10.1
Taxable Assessed Value	$1,351,044,362	$4,626,813,371
Taxable Retail Sales	$90,374,754	$460,924,502

Source: King County Assessor, 2011; Office of Financial Management, 2011; US Census, 2011; Department of Revenue, 2011; BERK, 2011

Exhibit ES - 2: City of Burien Potential Annexation Area: Area Y



Source: BERK, 2011

Explanation of Fiscal Analysis Methods

The analysis assumes annexation of the area in 2012, and examines the costs and revenues over 11 years, (2012-2023). Taking the analysis into the future shows how the fiscal balance in the annexation area might change over time and how annexation might affect the long-term fiscal outlook for the new, larger City.

Another objective of the analysis is to factor in the State's sales tax credit funding (RCW 82.14.415). Since this funding is designed to assist eligible cities in annexation by providing support for up to ten years, the analysis is carried out past those ten years to see the effect once the sales tax credit funding support goes away. The analysis includes estimates of the maximum potential sales tax credit and the eligible deficit from annexation to determine the amount of potential revenue from this source, and provides information on the fiscal impact of annexation once the tax support is no longer available.

General and Street Fund Only

While the analysis is not fund-based, it does isolate the components of the City's budget that are funded through general tax and fee revenues, including functions and departments within the City's General and Street funds. The analysis does not include utility enterprise funds (however, some of the capital needs are discussed). The City's only enterprise fund is the stormwater management fund, and this fund is self-supporting through user fees.

Operational Costs

The fiscal analysis estimates changes in the cost of services based on estimated need for 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 assumed to grow at annual escalation rates.
- Non-labor costs in each department are driven by staff estimates for specific needed services and supplies related to service delivery in the annexation area.

Revenue Assumptions

The fiscal analysis allows for anticipated growth in the annexation area and city over time and directly relates these changes to the underlying tax base. This study assumes a level of development activity similar to that seen historically in the area while accounting for the lasting impact of the recession.

Impact of the Economic Recession and Continued Slow Growth

The impacts of the current economic recession are incorporated into the analysis by allowing for levels of economic activity to remain below their more historic rates of growth. The impact of the recession lowers levels of development, taxable retail sales, rates of increase in assessed value, and real estate turnover rates. For this analysis, we assumed activity at 50% of historic averages in 2011-2012, increasing incrementally until "full recovery" in 2016, when activity is anticipated to return to a more historical pattern.

SUMMARY OF FINDINGS

Finding #1: The current City has a present-day and structural fiscal challenge.

Like most cities, Burien is operating in a challenging fiscal environment. The effect of the recent recession has been two-fold. Not only has it impacted tax revenues reliant on new development and consumer spending (i.e. sales tax revenues), it has also exposed a structural revenue problem put in place by the passage of I-747, which limited property tax levy growth to 1% a year. Combined, the reduction in overall tax collections and the limitation on property tax highlights the City's current fiscal challenge where the cost of municipal services is growing faster than its tax and fee revenues. The challenge for the City is to maintain adequate levels of service without changing tax and fee policies. **Regardless of annexation, the City will have to continue to take steps to bring revenues and costs in line in the form of a balanced budget.**

As summarized in Exhibit ES - 3,[1] the City's fiscal challenges worsen over time as costs continue to grow faster than revenues. Driven by current rates of increase in salary and benefit costs, general fund expenditures grow at a rate of 3.6% over the 10 years. Growth in general fund revenues, assumed under existing City tax/fee policies and calibrated to growth in the area, does not keep pace with the core costs (growing at only 1.8%).

Exhibit ES - 3: Estimated Core Revenues and Expenditures for the City of Burien; Baseline No Annexation Scenario (2013-2023)

Current City	2013	2014	2022	2023
Core Expenditures	24,909,000	25,785,000	34,250,000	35,607,000
Core Revenues	22,472,000	22,885,000	26,346,000	26,973,000
Net Revenues	**(2,437,000)**	**(2,900,000)**	**(7,904,000)**	**(8,634,000)**
Deficit/Surplus as % of Expenditures	**-10%**	**-11%**	**-23%**	**-24%**

Source: BERK, 2011

Finding #2: The annexation sales tax credit would cover the City's incremental cost of annexation.

Much like the City, the costs borne from annexation are not covered by the revenues. As shown in Exhibit ES - 4, the deficit between costs and revenues as a percent of total expenditures tracks slightly above the City's baseline position. In 2023, the deficit (as a percent of costs) is 24% for the City and 22% for the annexation area. However, upon annexation, the City would be eligible for fiscal relief from the State in order to accommodate annexation. Changes to the legislation enabling the annexation sales tax credit allow the City to recoup any financial losses due to annexation up to the maximum 0.85% of total City sales tax revenues not to exceed $5 million a year.

With this revenue in place, **the annexation sales tax credit would more than cover the City's incremental cost (new costs directly related to the annexation) of annexation** for the 10 years that the credit would be in place. This is possible since the state law allows cities to recoup a portion of their existing fixed costs – or

[1] Exhibit 3 and ES-4 illustrate the City's financial position (both with and without annexation) at specific time intervals beginning in 2013 (the first full year of annexation). Subsequent time intervals are shown for: 2014 – the first "steady-state" year after one-time costs and revenues are accounted for in 2013; 2022 – the last full year of the annexation sales tax credit; and 2023 – the first year after the annexation sales tax credit expires. These dates are selected to isolate the one-time effects in the first year of annexation, the impact of the annexation sales tax credit, and the long-term effects that annexation would bring to the City's budget discussions.

"fair share" – by apportioning some of those cost to the annexation area (such as part of the City Manager position, City Council, etc). This is done because those positions/costs will also serve the annexation area once it becomes part of the city.

Exhibit ES - 4: Estimated Core Revenues and Expenditures for the PAA (2013-2023)

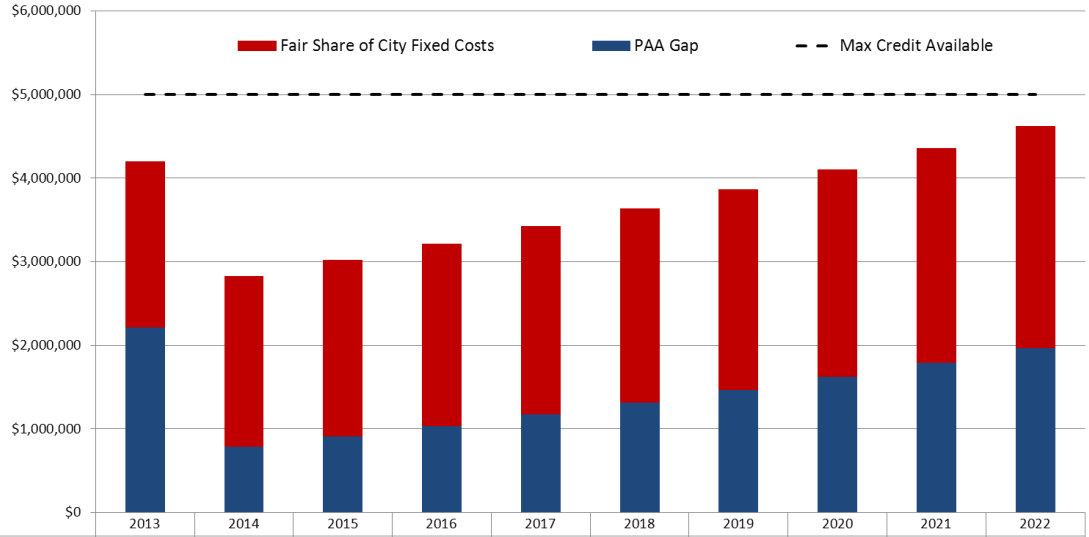
Increment from PAA	2013	2014	2022	2023
Core Expenditures	9,223,000	7,077,000	9,344,000	9,682,000
Core Revenues	7,007,000	6,294,000	7,381,000	7,532,000
State Sales Tax Credit	4,200,000	2,830,000	4,623,000	0
Subtotal Revenues	**11,207,000**	**9,124,000**	**12,004,000**	**7,532,000**
Net Revenues without Credit	**(2,216,000)**	**(783,000)**	**(1,963,000)**	**(2,150,000)**
Deficit/Surplus as % of Expenditures	**-24%**	**-11%**	**-21%**	**-22%**
Net Revenues with Credit	**1,984,000**	**2,047,000**	**2,660,000**	**(2,150,000)**
Deficit/Surplus as % of Expenditures	**22%**	**29%**	**28%**	**-22%**

Source: BERK, 2011

Finding #3: The annexation sales tax credit provides the City with greater flexibility to manage expected future fiscal challenges.

As summarized in Exhibit ES - 4, the annexation sales tax credit provides additional resources to the City above the incremental costs of annexation. Exhibit ES - 5 shows the estimated state sales tax credit available and used during the ten-year period after annexation. The bar shows the total amount of sales tax credit that the City would qualify for under a "fair share" allocation. The bar is made up of two components. The blue portion of the bar shows the amount of the annexation sales tax credit that would be used to make up the revenue gap in the annexation area in order to cover its costs. The red portion of the bar shows additional revenue flowing to the City based on the "fair share" allocation. In this sense, **annexation provides additional general fund revenue to the City during the ten years of the credit, and buffers the City against its pressing fiscal challenges**.

Exhibit ES - 5: Estimated Annual Annexation Sales Tax Credit Revenues (2013-2022)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Fair Share of City Fixed Costs	$1,984,000	$2,047,000	$2,113,000	$2,182,000	$2,254,000	$2,328,000	$2,406,000	$2,487,000	$2,572,000	$2,660,000
PAA Gap	$2,216,000	$783,000	$908,000	$1,037,000	$1,171,000	$1,313,000	$1,462,000	$1,620,000	$1,787,000	$1,963,000
Max Credit Available	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000

Source: BERK, 2011

This net revenue gain from annexation is possible due to the differences between the *marginal* and *average* cost of serving the area. The City has services with certain fixed costs already in place and is able to absorb additional constituents without incurring substantial additional costs. In this instance, the *marginal* (or incremental) cost of serving new constituents is significantly less than the *average* cost of serving existing residents. Over time, the relative amount of sales tax credit dedicated to paying the annexation gap increase due to escalation in core service costs.

Although it appears that the City would not qualify for the full tax credit in all years, in this instance it is best to think of the **potential availability of additional sales tax credit as an added level of insurance to mitigate potential financial risks associated with annexation**.

Finding #4: Over the long-term, annexation would be a fiscally NEUTRAL proposition to the City.

From a long-term fiscal perspective, annexation would be a fiscally neutral proposition to the current City. Holding the impact of annexation sales tax credit aside, evaluating the long-term impact of annexation poses a simple question:

Does annexation make it more or less challenging for the City to balance its budget over time?

Stated another way, the fiscal impact of annexing the area is defined by **the degree that annexation introduces any new service cost or tax revenue challenges not already being addressed by the City**. From this perspective, the annexation of the area does not worsen, nor does it substantially improve the City's ability to balance its budget. In a post annexation world, future City Councils will not have to make special choices between higher taxes and reduced levels of service to expressly accommodate the annexation area. In other words, **addressing the current City fiscal challenges also addresses the fiscal challenges of the annexation area**.

Exhibit ES - 6 shows that the marginal impact of annexation on the City's baseline fiscal position is negligible. Holding aside the ten years of the annexation where the credit provides additional resources to the City, annexation at year 11 does not have an appreciable impact on the City's baseline fiscal position (2%).

Exhibit ES - 6: Estimated Core Revenues and Expenditures for the City of Burien's North Highline Annexation from 2013-2023

Entire City with Annexation	2013	2014	2022	2023
Core Expenditures	34,133,000	32,861,000	43,594,000	45,290,000
Core Revenues	29,478,000	29,180,000	33,726,000	34,506,000
State Sales Tax Credit	4,200,000	2,830,000	4,623,000	0
Subtotal Revenues	**33,678,000**	**32,010,000**	**38,349,000**	**34,506,000**
Net Revenues	**(455,000)**	**(851,000)**	**(5,245,000)**	**(10,784,000)**
Deficit/Surplus as % of Expenditures	**-1%**	**-3%**	**-12%**	**-24%**
Marginal Impact of Annexation	**86%**	**77%**	**48%**	**2%**

Source: BERK, 2011

Note: Figures in Exhibit ES-6 (above) may not equal ES-3 + ES-4 due to rounding.

Finding #5: Annexation will bring additional capital facility needs and revenues.

Based on the analysis completed for this study, it is estimated that the City will need approximately 13 FTEs in all City departments, excluding Police, resulting directly from annexation in 2012. According to City staff, the current City Hall is capable to accommodating these staff members but will need some level of capital improvement to build-out underutilized space. The estimated cost of this build-out is $200,000. The capital needs with cost impacts to the City from annexation will be in street, stormwater, and park facilities. If the City of Burien annexes the North Highline annexation area, it would be advisable to conduct a full assessment of capital needs in the area with an eye to the City of Burien's overall service goals. In the absence of a full capital assessment, available data on capital needs is limited to initial estimates by the City of Burien and the King County Transportation Needs Report.

This capital assessment estimates there would be up to $46.4 million in capital improvement costs in the annexation area spread between roads, parks, and stormwater. Annexation will also bring capital restricted revenues to the City. Exhibit ES - 7 summarizes the needs by type.

Exhibit ES - 7: Identified Capital Needs

Type	Est. 5-Year Needs Total	Comments
Stormwater	$23,000,000	Needs to be funded through SWM Fund
Streets/Transportation	$23,000,000	Needs to be funded through Street Fund
Facilities	$200,000	Limited build-out of City Hall
Parks	$195,000	
Summary	**$46,395,000**	

Source: BERK, 2011

Outside of stormwater needs, which are likely to be funded through user fees, the City will need to rely on other capital funding sources. The most prominent of these sources for the City is the real estate excise tax (REET). Over the first 11 years of annexation, REET will generate approximately $260,000 in revenues.

The finding that there are more needs for infrastructure than there will be capital resources coming from the contemplated annexation area is not surprising. This situation is comparable to the existing City situation in that the needs of the annexation area will become part of the City's capital planning program where: 1) needs are identified, 2) projects are prioritized, and 3) funding is dedicated. Unless there are significant immediate capital infrastructure needs in the annexation area (and none have been identified to date), then the long-term capital funding situation is unlikely to be dramatically different than the status quo.

Finding #6: The Seattle Report's findings differ from this analysis due to differences between the scope and scale of the respective cities' costs and revenues.

The 2011 City of Seattle analysis considers ranges of absolute cost and revenues with some discussion of best/worst case scenarios. This 2011 Burien Study looks at annexation from two perspectives: 1) what is the surplus/deficit in the annexation area after accounting for costs and revenues; and, 2) how does annexation change the overall fiscal position of the City.

The City of Seattle report estimates that annexation area would require expenditure increases of about $19.2 million to $28.7 million annually compared to increases of $7.1 million to $9.8 million annually for the City of Burien. For costs, the largest differentiator between the Seattle and Burien studies is in the scope of services offered primarily for Fire/EMS Services and Police Services.

The Seattle report also estimates that annexation would generate $11.9 million to $17.4 million in additional revenues compared to $9.1 million to $12.0 million for the City of Burien. While each city levies the same four major general fund taxes (e.g. property tax, sales tax, utility taxes, and business and occupation taxes), keen differences exist in the rates applied. Applying these rates to the existing tax bases (i.e. total assessed value, business income, utility usage) in the area yields greater amounts of tax revenues for Seattle.

CITY OF BURIEN

Fiscal Analysis of a North Highline Annexation

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CITY OF BURIEN

Fiscal Analysis of a North Highline Annexation

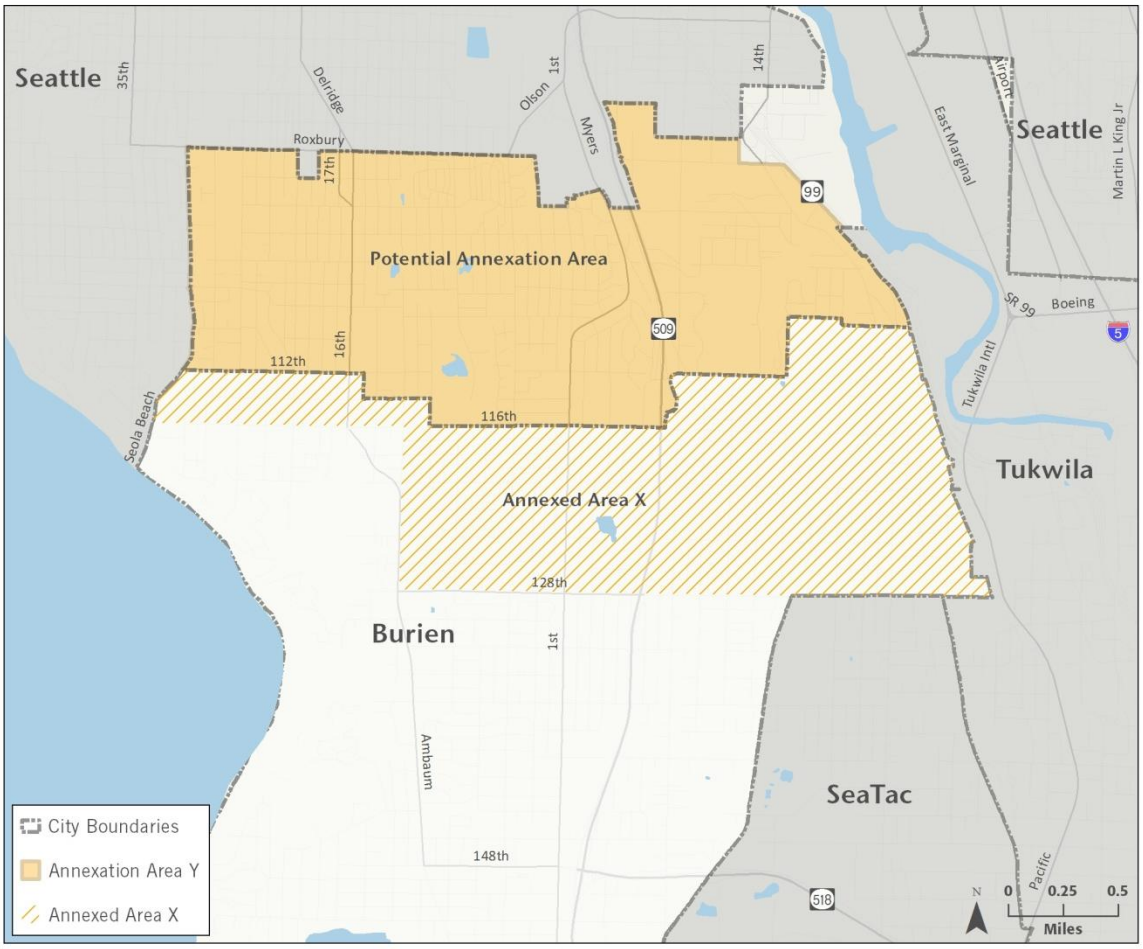
1.0 INTRODUCTION

1.1 Background and Policy Questions

In the summer of 2011, the City of Burien engaged BERK to study the fiscal impacts associated with the potential annexation of the area within North Highline Potential Annexation Area (PAA). The goal of this analysis is to provide decision-makers at the City and key stakeholders including current City residents, residents of the annexation area, and other affected jurisdictions with a more complete understanding of the fiscal implications of annexation. The study examines impacts both in terms of the costs the City would likely bear immediately upon annexation and in the longer term.

The map in Exhibit 1 shows the annexation area included in the study, and its relationship to the current city boundary.

Exhibit 1: City of Burien Potential Annexation Area: Area Y



Source: BERK, 2011

The chart in Exhibit 2 summarizes the area's characteristics.

Exhibit 2: City of Burien Potential Annexation Area: Summary Characteristics (2010)

	Area Y	Current City
Population	17,392	48,072
Housing Units	6,586	13,931
Land Area (sq miles)	3.2	10.1
Taxable Assessed Value	$1,351,044,362	$4,626,813,371
Taxable Retail Sales	$90,374,754	$460,924,502

Source: King County Assessor, 2011; Office of Financial Management, 2011; US Census, 2011; Department of Revenue, 2011; BERK, 2011

Previous Studies

This analysis also involves a review and comparison of two previous fiscal studies of annexation. The first study was completed by BERK in 2007 and resulted in the annexation of the southern portion of the North Highline Area. The second study was completed by the City of Seattle in January, 2011, and resulted in Seattle delaying the decision to annex the northern portion of the North Highline area (Area Y). More information about the respective report findings is covered later in this report. Comparison between the Burien and City of Seattle studies' staffing estimates are presented in Appendix A.

2.0 STUDY APPROACH OVERVIEW

2.1 Policy Planning

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, to allow for the development and evaluation of alternative scenarios to test the implications of development assumptions, policy choices, and alternative service delivery options, and 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 the 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, particularly in the case of public safety staff. The number of personnel needed and the timing of hiring by position will have to be planned to a greater level of detail than 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. In particular, the analysis does not include any reserve or enterprise funds.

2.2 Approach to Fiscal Analysis

The analysis for Burien assumes annexation of the North Highline Potential Annexation Area (PAA) (Area Y) in 2012, and examines costs and revenues over 12 years, (2011-2023). 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. Another objective of the model is to factor in the State's sales tax credit funding (RCW 82.14.415). Since this funding is designed to assist eligible cities in annexation by providing support for up to ten years, the analysis is carried out for 12 years, past the last year of sales tax credit funding support. The analysis includes estimates of the maximum potential sales tax credit and the eligible deficit from annexation to determine the amount of potential revenue from this source, and provides information on the fiscal impact of annexation once the tax support is no longer available.

General and Street Fund Only

While the analysis is not fund-based, it does isolate the components of the City's budget that are funded through general tax and fee revenues, including functions and departments within the City's General and Street funds. The analysis does not include the utility enterprise fund (such as stormwater management), as this fund is self-supporting through user fees.

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 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 fiscal analysis 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. **This study assumes a level of development activity similar to that seen historically. To remain conservative, it does not make assumptions regarding additional development due to downtown revitalization or other large development projects.**

Ongoing Costs

The fiscal analysis 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. However, the focus of this analysis is to analyze the current City fiscal balance (costs vs. revenues) and how annexing the North Highline Potential Annexation Area (PAA) (Area Y) impacts that fiscal balance.

Costs for both the City and North Highline PAA are separately estimated for labor and non-labor categories:

- Labor costs are based on current salaries and benefits and an assumed annual escalation rate (3% for salaries and 8% for benefits).
- Non-labor costs for existing City staff in each department are driven by the number of Full Time Equivalents (FTEs) in that department and escalated at an annual rate commensurate with historical growth in the Consumer Price Index (CPI), about 2.0%. Non-labor costs for added staff associated with the North Highline PAA were provided by City staff.
- Some of the services in the North Highline PAA will be purchased and provided through contract with King County or other service providers. All contracted services (except for Police) for the North Highline

PAA are based on departmental estimates provided by City staff. Contract costs are escalated at an annual rate commensurate with historical growth in the Consumer Price Index (CPI), about 2.0%.

- The City of Burien currently contracts with the King County Sheriff's Office (KCSO) for public safety services. The analysis assumes a continuation of the current contracting model with the KCSO. The incremental contract costs associated with extending polices services into the North Highline PAA are based on results from the 2011 Provision of Police Services Assessment, which estimated an increase of about 23.76 FTEs at a cost of about $3.1 million (2011$). Contract costs for Police are escalated at an annual rate of about 4%.

Economies of Scale

When thinking about annexation, it is likely that the City of Burien will enjoy certain economies of scale in delivering City services. These savings mean that the average cost-per-resident of providing many city services will tend to decrease as the City becomes larger. In practical terms, the analysis framework reflects economies of scale by identifying positions that will not be affected by annexation (e.g. annexation will not trigger the need to hire another City Manager, Finance Director, Council, etc.).

Economic Recession

The potential impacts of the current economic recession are incorporated into the analysis by allowing for specific and variable assumptions regarding level of economic activity and possible year of recovery (i.e. return to more historic rates of development and business activity). The recession factor impacts levels of development, taxable retail sales, rates of increase in assessed value, and real estate turnover rates. For this analysis, we assumed activity at 50% of historical for 2011, increasing incrementally until "full recovery" in 2016, when activity is anticipated to return to a more typical pattern.

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 area alone, but instead must consider the potential impacts of annexation by comparing the fiscal outlook for the City of Burien 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.

Analysis of these two alternative futures provides a truly comprehensive look at the potential implications of annexation on long-term fiscal sustainability. For example, it is possible that the City with annexation could show expected future net fiscal deficits, but still be considered a net plus for future fiscal sustainability if the base city outlook (with no policy changes) projected larger future deficits.

As is the case with almost all cities in Washington, an assumption of continuing current policies will lead to budget deficits in the coming years. This is a function of a basic structural imbalance in local government funding resulting from recent tax limiting measures and exacerbated by the current recession. Because a city cannot operate with a budget deficit, City of Burien leaders will continue to make policy choices to balance the budget each fiscal year. Since these future policy choices will have an impact on the economics of annexation, it is necessary to consider how annexation impacts might vary based on a range of potential policy choices that are available to address future fiscal imbalances.

2.3 City Staff Involvement

BERK used the 2011/2012 Adopted City budget as the foundation for the baseline annexation analysis and consulted with department directors and finance staff for clarifications on structures and data. City staff met

with BERK and reviewed the analysis assumptions and draft results and provided feedback on staffing and cost projections.

2.4 Overview of State Sales Tax Credit

In response to the fiscal challenges posed by most large annexations, the Washington State Legislature passed Substitute Senate Bill (SSB) 6686 (now codified as RCW 82.14.415) in March, 2006, which added a new funding mechanism to provide transitional funding to eligible annexing cities. This bill was amended in 2011 to include specific provisions for the North Highline PAA.

This law authorizes a sales tax credit to assist cities with negative cost impacts resulting from the provision of municipal services to annexation areas with a population of at least 10,000. The revenue is a credit against the State share of the existing sales tax and not a new tax, hence "state sales tax credit." This allows the city to receive a portion of the state's share of the sales tax with no additional increase to the actual rate. The funding assists eligible cities by providing support for up to ten years, therefore providing communities with the time to integrate the new areas and implement policies designed to address the long-term fiscal impacts of annexations.

The City of Burien would be eligible for fiscal relief from the State in order to accommodate annexation. Changes to the legislation enabling the annexation sales tax credit allow the City to recoup any financial losses due to annexation up to the maximum 0.85% of total City sales tax revenues not to exceed $5 million a year.

There are several key stipulations in the law:

- **Population**. The annexed areas must have a population of at least 10,000. The law in 2011 was amended to make special provisions for the North Highline PAA.
- **Net Deficit**. All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area. The sales tax credit revenues may not exceed the difference between that which the City deems necessary to provide services for the annexation area and the general revenue received from the annexation. If the revenues do exceed the amount needed to provide the services, the tax must be suspended for the remainder of the fiscal year.
- **Time Limit**. To be eligible, an annexation must commence prior to January 1, 2015 (reflects change made during 2009 Legislative Session; previously annexations had to have commenced prior to January 1, 2010). The tax credit is available for no more than ten years.
- **The Maximum Tax Rate**.
    - 0.1 percent for each annexation area (up to two) with a population over 10,000
    - 0.2 percent for an annexation area over 20,000
    - 0.85 percent for an annexation area over 16,000 and officially designated as a potential annexation area by more than one city, one of which has a population greater than four hundred thousand not to exceed $5 million a year
- **Threshold Amount**. Threshold amount is the estimated annual net deficit associated with the annexation area. This is the maximum amount of sales tax credit revenues that the City is eligible to receive each fiscal year. The City would provide this annual threshold amount to the Department of Revenue by March 1 each year. Actual revenues will be determined as the lower of the threshold amount or the available sales tax credit revenues at the 0.1 percent, 0.2 percent, or 0.85 percent rate. Additionally, the

City must provide certification of its true and actual costs to provide municipal services to the annexed area.

The statute is not specific about what the State sales tax credit can be used for:

> *"The revenues from the tax authorized in this section may not exceed that which the city deems necessary to generate revenue equal to the difference between the city's cost to provide, maintain, and operate municipal services for the annexation area and the general revenues that the cities would otherwise expect to receive from the annexation during a year."*

There has not been a definitive opinion by an Attorney General or any State agency as to whether the credit may be used to cover some types of capital expenditures or any portion of current city fixed costs. However, a number of cities around the region are basing their analyses of annexation impacts on the assumption that the following costs will likely be eligible for sales tax credit calculation: (1) direct operating impacts from annexation, (2) allocation of a portion of fixed costs (such as part of Police Chief's salary) where those costs can reasonably be allocated to service demands in the annexation area, (3) annexation-related equipment costs, and (4) annexation-related additional facility costs (costs to house annexation-related staffing increases). Capital infrastructure costs (road construction, surface water management facilities, etc.) are assumed not to be eligible.

The analysis contained in this report considers eligibility and the threshold for the state sales tax credit.

2.5 Data Sources

Data used in this report came from the following sources:

- City of Burien
  - 2011/2012 Adopted City Budget
  - Staffing detail including position titles, FTEs, salary and benefit costs
  - 2008, 2009, and 2010 building permits
- King County
  - 2010 parcel data
  - 2007 buildable lands data
  - 2010 personal property tax revenue
  - 2010 street GIS layer
- Puget Sound Regional Council
  - 2010 employment
- U.S. Census Bureau, American Community Survey
  - 2008 occupied housing units
  - 2008 average household size
- Washington State Department of Revenue
  - 2010 taxable retail sales
- Washington State Office of Financial Management
  - 2010 housing units

3.0 STUDY FINDINGS

3.1 Baseline Outlook for City of Burien

All cities across the state are different in terms of tax bases, mixes of commercial and residential land uses, and fiscal policies; however, almost all are experiencing the trend of municipal service costs growing at faster rates than revenues. This creates a common challenge to continue current levels of service while maintaining a balanced budget.

Assuming no annexation and no changes in City policies, the City of Burien is expected 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 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), which limits growth in property taxes, rising costs of doing business, and additional staffing related to in-city growth needed to maintain existing levels of service. In addition, the national economy is in a deep recession, causing slow growth in other revenue sources.

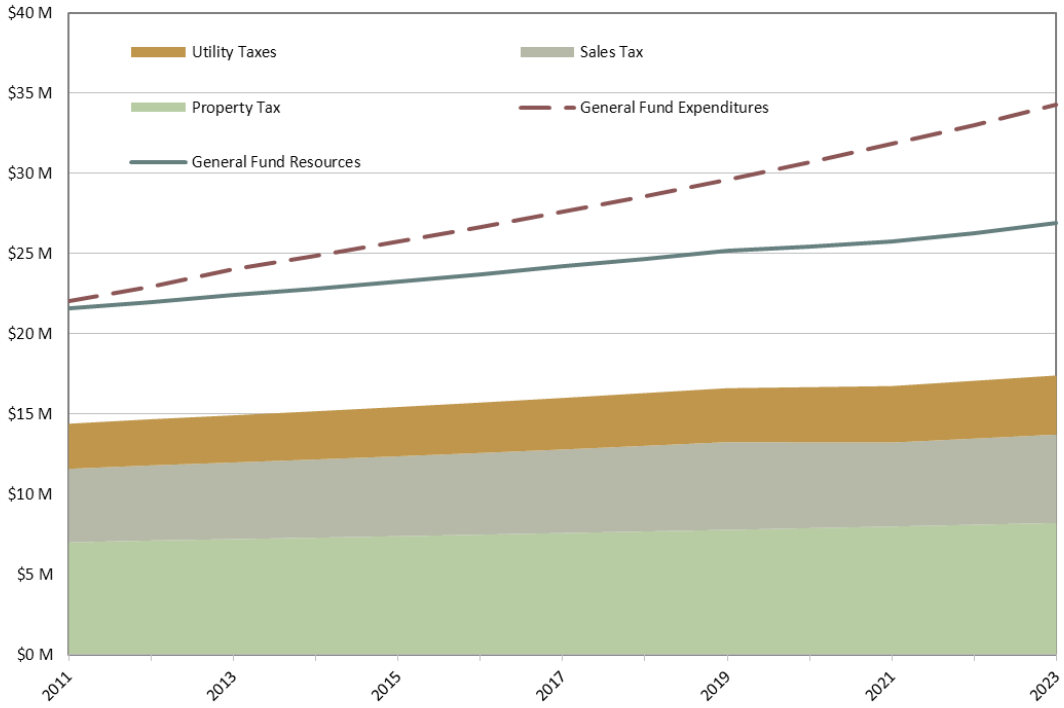
The provisions of Initiative 747 cap the allowed increases in property tax revenue at 1% per year (plus levies on new construction). To exceed the 1% allowed increase, municipalities must seek voter approval. With this major revenue source capped at 1% increase per year, and with costs that tend to escalate at levels at least equivalent to inflation (and in cases of labor, health care costs and employee benefits, more than inflation), cities across the state are facing the reality of costs that grow faster than their revenues. To address this challenge, local governments must make tough choices involving either increases in revenues, cuts in costs, or both to maintain fiscal balance.

If the current trends were to continue without intervention, the City of Burien is expected to see costs increasing at approximately 3.6% per year and revenues increasing at about 1.8% per year, leading to an increasing deficit over time.

As stated previously, a City cannot, in reality, operate with a budget deficit – cities are legally required to have balanced budgets. As with all cities, City of Burien leaders will continue to make policy choices to balance the budget each budget cycle. The result is that large projected budget deficits do not materialize. Each budget period the City Council will make incremental adjustments to the existing budget and policy structure to keep the City functioning within its means, continually holding potential larger budget deficits at bay.

Exhibit 3 shows the estimated core revenues and expenditures for the City of Burien over the next 12 years, *under the assumption that the current policies were to continue* and the budget to remain unbalanced into the future.

Exhibit 3: Estimated Core Revenues and Expenditures for City of Burien
Baseline No Annexation Scenario (2011-2023)



Source: BERK, 2011

Costs Increasing Faster than Revenues

As stated previously, the primary reason the City is expected to see an increasing budget deficit over time is that costs are increasing faster than revenues, as is the case in almost all cities in Washington State.

Based on historical averages and recent experience, this baseline outlook assumes the following annual growth rates for major cost drivers: 1) salaries at 3%; 2) benefits at 8%; 3) non-Police contract costs at 2.5%; and 4) Police contract costs at 4%, all of which does not include increases in City staff. This may be slightly pessimistic given that benefits may see lower future growth. Given these assumptions, overall cost increases for the City are estimated to be 3.6%, while revenues are estimated to increase at an average annual rate of about 1.8%.

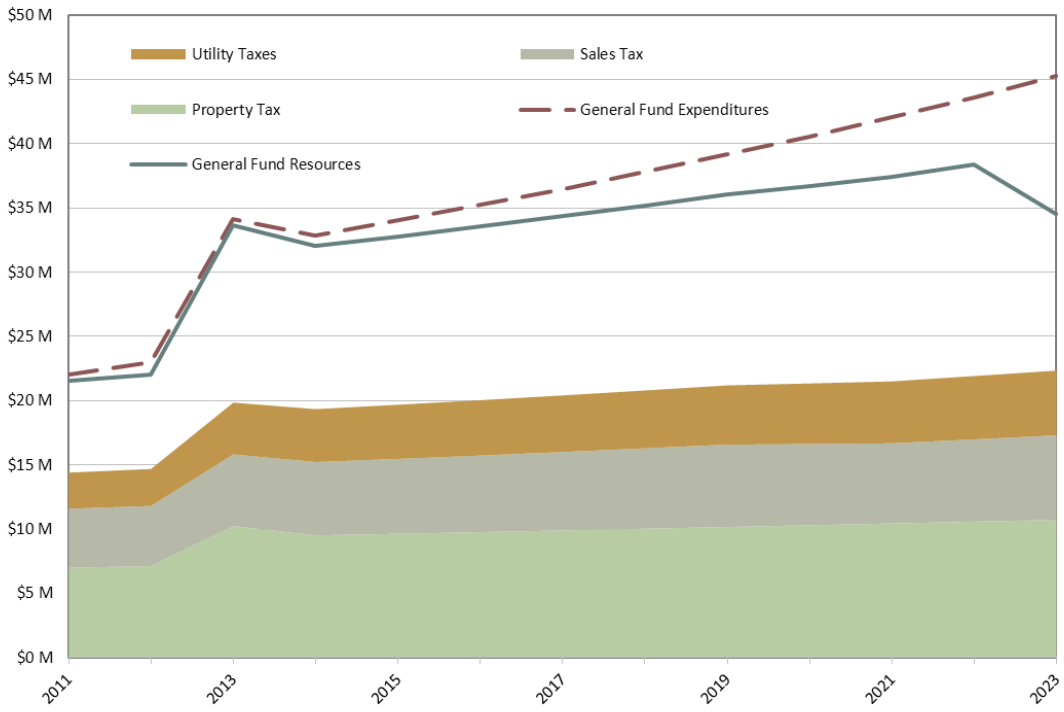
It is important to put this ongoing funding shortfall into an appropriate planning context. While this analysis provides a comprehensive look at the potential incremental impacts on the City's financial picture, it does not provide a full accounting of the City's projected sources and uses of funds. In particular, the analysis does not include any reserve funds the City may have. As a result, the deficits projected in the baseline outlook should be viewed as an indication of the structural imbalance between new and ongoing revenues and expenditures assuming continuation of existing tax policies and levels-of-service. It should not be viewed as an estimate of the near term cash flow situation for the City.

3.2 Fiscal Impact of Annexation

Annexation is estimated to be a Net Fiscal Benefit to the City

The analysis performed for this study suggests that annexation results in net-positive revenues to the City through the study period provided mainly through the revenue from the annexation sales tax credit. Exhibit 4 graphs the City's core revenues and expenses assuming annexation. The increase in costs and revenues is evident in 2013, the first full year after annexation occurs. Initially, total City revenues roughly cover projected expenses. However, the gap between costs and revenues widens as relatively more of the annexation sales tax credit must be used to cover the operating gap in the annexation area meaning less is available to fund the existing City deficit.

Exhibit 4: Estimated Core Revenues and Expenditures for the City of Burien, With Annexation in 2012 (2011-2023)



Source: BERK, 2011

Exhibit 5 shows the core revenues and expenditures for the key years following annexation:

- **2013.** This represents the first full year after annexation occurs. On a nominal basis, revenues and costs for 2013 are higher compared to future years due to certain one-time expenditures and the City receiving property tax revenues associated with the County road levy.
- **2014.** This year represents a better example of the City's "steady-state" fiscal picture after annexation. During this year, the City still qualifies for the annexation sales tax credit. Additionally, comparing this table with core city revenues assuming no annexation means that the numbers would differ. This is because annexation changes the way taxes are collected within the existing city boundaries, primarily by marginally changing the property tax levy rate throughout the entire city. Property brought into the city

through annexation is considered "new construction" in the calculation of the allowed property tax, thereby increasing the property tax limit (and the corresponding levy rate somewhat) for the City as a whole in the year of annexation, and the years following.

- **2022.** This year represents the final year in which the City would qualify for the annexation sales tax credit. As Exhibit 5 illustrates, costs within the PAA have begun to erode the previous period's surplus down slightly to 28%. This takes into account a state sales tax credit amount in 2022 of $4.6 million.
- **2023.** This year represents the first year in which there is no annexation sales tax credit.

From a long-term fiscal perspective, annexation would be a fiscally neutral proposition to the current City (as shown by the marginal impact of annexation line in Exhibit 5). From this perspective, the annexation of the area does not worsen, nor does it substantially improve the City's ability to balance its budget. In a post annexation world, future City Councils will not have to make choices between higher taxes and reduced levels of service to expressly accommodate the annexation area. In other words, addressing the current City fiscal challenges also addresses the fiscal challenges of the annexation area.

Exhibit 5: Estimated Core Revenues and Expenditures for the City of Burien, With Annexation in 2012 (2013-2023)

Current City	2013	2014	2022	2023
Core Expenditures	24,909,000	25,785,000	34,250,000	35,607,000
Core Revenues	22,472,000	22,885,000	26,346,000	26,973,000
Net Revenues	**(2,437,000)**	**(2,900,000)**	**(7,904,000)**	**(8,634,000)**
Deficit/Surplus as % of Expenditures	**-10%**	**-11%**	**-23%**	**-24%**

Increment from PAA	2013	2014	2022	2023
Core Expenditures	9,223,000	7,077,000	9,344,000	9,682,000
Core Revenues	7,007,000	6,294,000	7,381,000	7,532,000
State Sales Tax Credit	4,200,000	2,830,000	4,623,000	0
Subtotal Revenues	**11,207,000**	**9,124,000**	**12,004,000**	**7,532,000**
Net Revenues without Credit	**(2,216,000)**	**(783,000)**	**(1,963,000)**	**(2,150,000)**
Deficit/Surplus as % of Expenditures	**-24%**	**-11%**	**-21%**	**-22%**
Net Revenues with Credit	**1,984,000**	**2,047,000**	**2,660,000**	**(2,150,000)**
Deficit/Surplus as % of Expenditures	**22%**	**29%**	**28%**	**-22%**

Entire City with Annexation	2013	2014	2022	2023
Core Expenditures	34,133,000	32,861,000	43,594,000	45,290,000
Core Revenues	29,478,000	29,180,000	33,726,000	34,506,000
State Sales Tax Credit	4,200,000	2,830,000	4,623,000	0
Subtotal Revenues	**33,678,000**	**32,010,000**	**38,349,000**	**34,506,000**
Net Revenues	**(455,000)**	**(851,000)**	**(5,245,000)**	**(10,784,000)**
Deficit/Surplus as % of Expenditures	**-1%**	**-3%**	**-12%**	**-24%**
Marginal Impact of Annexation	**86%**	**77%**	**48%**	**2%**

Source: BERK, 2011

The analysis suggests that the primary impact of annexation is to provide the City with greater flexibility to manage the expected future fiscal challenges during the period of the credit. The net resources shown in Exhibit 5 represent an opportunity to change the underlying assumptions to bring

ongoing revenues and ongoing costs into alignment by either reducing the amount of potential tax changes or allowing for higher levels of service. In other words, in a post annexation world, it appears that future councils would not have to make special choices between higher taxes and reduced levels of service in order to accommodate annexation.

3.3 Operating Revenue Analysis

As discussed earlier, tax and fee revenues are estimated based on the changes in the components of the City's tax base resulting from growth. Components of growth that could influence revenues include population, employment, land use changes, or base inflation in certain components of the tax base. Each of the City's tax and fee revenue sources is separately estimated by assessing changes in the tax base and applying the assumed future tax and fee structure to generate revenue projections. Exhibit 6 shows estimated revenues for Burien assuming annexation in 2012; 2011 numbers are current City budget estimates and do not include any annexation.

Exhibit 6: Estimated Revenues for City of Burien General & Street Funds, With Annexation in 2012 (2011-2023) (Millions)

	2011	2013	2014	2022	2023
Sales Tax	4.58	5.59	5.70	6.40	6.57
Regular Property Tax	7.01	10.23	9.52	10.59	10.73
Utility Taxes	2.82	4.03	4.12	4.93	5.04
Planning and Plan Check Fees	0.15	0.19	0.20	0.29	0.30
Business & Occupation Tax	0.55	0.76	0.78	1.01	1.05
Building Permits and Fees	0.63	0.79	0.82	1.17	1.30
Gambling Tax	0.58	0.81	0.82	0.96	0.98
Gas Tax*	1.00	1.37	1.37	1.39	1.39
Criminal Justice Tax	0.85	1.21	1.23	1.47	1.50
Other Miscellaneous	0.06	0.09	0.09	0.11	0.11
Liquor Board Profits and Excise Tax	0.55	0.80	0.82	0.98	1.00
Recreation Charges	0.63	0.71	0.72	0.86	0.88
Fines and Forfeits	0.23	0.33	0.34	0.41	0.41
Comcast Franchise Fee	0.57	0.80	0.82	0.98	1.00
Business Licenses and Permits*	0.28	0.41	0.42	0.51	0.52
Seattle City Light	0.68	0.79	0.80	0.96	0.98
Grants and Other Intergovernmental	0.21	0.29	0.30	0.36	0.36
Solid Waste Franchise Fee*	0.21	0.29	0.30	0.35	0.36
Total	**$21.57**	**$29.48**	**$29.18**	**$33.73**	**$34.51**

***Street Fund Revenues**

Notes: YOE is year of expenditure dollars (i.e. estimates include the effects of future inflation).

Source: BERK, 2011

Primary Revenue Sources

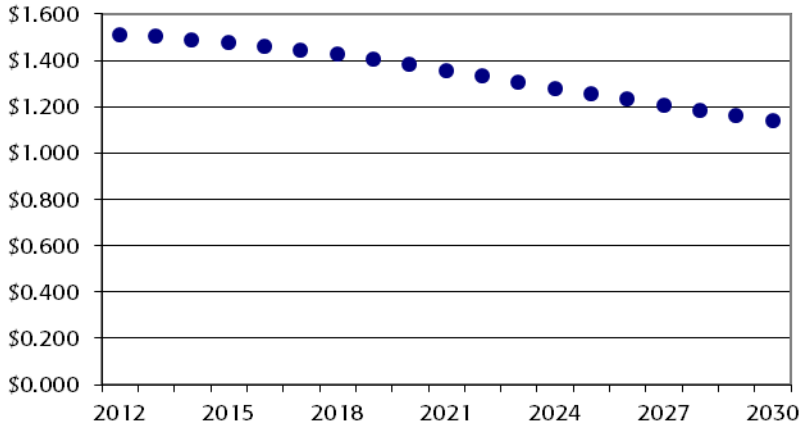
As with many cities in Washington State, the three largest revenues sources for the City of Burien are Sales Tax, Property Tax, and Utility Taxes, making up over 65% of the City's General and Street Fund revenues.

Retail Sales Taxes. One of the key revenue sources that cities rely on is Retail Sales Tax. Of the 9.5% sales tax currently collected in the City and the potential North Highline annexation area, a 1% "local option" accrues to local jurisdictions. If the transaction location is within a city, the city receives 85% of the 1% local sales tax and the County receives 15% (net of a 0.01% fee for Department of Revenue). This tax is levied not only on businesses in the area, but also on construction activity and some transactions that are related to housing, such as certain online purchases.

Property Taxes. Taking into consideration the current economic recession, assessed value on real property is assumed to increase at the rate of inflation (estimated at 2.0% annually) until 2016. From 2016 through 2020 the inflation rate increases incrementally above 2.0% until, in 2021, it is assumed to increase at 3.0% annually and remain at that rate through the remainder of the study period. Additional assessed value will be added to the area through residential and commercial development.

Since property values are expected to increase annually, the property tax levy rate will decline over time. The result of this reduction in the City's general property tax rate is shown in Exhibit 7 below. The future millage rate depends entirely on the future assessed value of existing City and annexation area property and the value of new construction activity. An initial increase in the levy rate is allowed with annexation because the full value of the assessed value in the annexation areas is treated as new construction in the year of annexation.

Exhibit 7: Burien Projected Property Tax Levy Rate With Annexation in 2012 (2012-2030)



Source: BERK, 2011

Because of the method for calculating Burien's property tax levy (equal to the previous year's levy plus new construction), the amount of new construction is important to the City's ability to limit the erosion of its millage rate over time. A typical measure of the level of new construction activity in a city is the percent of a city's total assessed value that comes from new construction in a given year. For both the current City of Burien and the North Highline annexation area, construction rates are based on development assumptions for parcels that are vacant, redevelopable, or already planned or permitted by King County.

Due to lags associated with annexation and levying, the City would not begin to receive property tax revenues from the annexation area until the year following annexation. For the first year, however, the City would receive revenues associated with the County road levy. The use of road levy revenues must be limited to transportation-related expenses. To offset these limitations, the City has the flexibility to adjust any portion of General Fund dollars currently allocated to streets back to the General Fund.

Utility Taxes. The City of Burien imposes utility taxes on telephone services, electricity, natural gas, cable, and solid waste, and collects franchise fees from Comcast, Waste Management and Seattle City Light. Because these taxes are paid by both residences and businesses, revenues are projected based upon a per capita number for population and employment. Comcast and Waste Management franchise revenues are detailed separately below.

Other Revenue Sources

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

Business and Occupation Tax. The City of Burien levies a Business and Occupation (B&O) Tax on businesses located within the City boundaries at a rate of 0.05% of gross business income (GBI). GBI data by industry is unavailable at a local level, but is available at the State level. For projections of GBI, a State ratio of GBI to Taxable Retail Sales (TRS) for major industries was applied to TRS estimates for the current City and the North Highline area. An additional scaling factor was used to discount this imputed GBI to be more in-line with current City revenue expectations for B&O taxes. The scaling factor was determined by comparing imputed B&O tax revenues generated within the current City to actual B&O collections.

Building and Planning Permits and Fees. These fees help cover the cost of staff that review building plans and permit applications for residents. Building permit and planning revenues are generally estimated on a cost recovery basis, with City costs of permitting based on those labor positions directly related to performing these services. Future revenues in these categories have been projected based on the current cost-recovery ratio of the salaries of the positions that provide this service.

Gambling Tax. The City receives special tax revenues from gambling establishments. The North Highline annexation area has one such gambling establishment. The analysis assumes modest revenues associated with this establishment of about $200,000 per year, which is consistent with current gambling tax revenues received by King County. The analysis also assumes a small amount of additional revenues associated with pull-tabs.

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 Burien uses the full funding for street maintenance. The gas tax revenue estimates from the City's budget project a per capita gas tax allocation of $20.78 in 2011. Since this 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.

Criminal Justice Sales Tax. King County levies a dedicated sales tax to support criminal justice expenditures. This 0.1% sales tax is collected by the state's Department of Revenue, and is distributed to the County and to cities within the County on a per capita basis. In 2011, Burien estimates criminal justice sales tax revenues at a per capita rate of $17.63. Total future revenues are calculated on a per capita basis, with the annual per capita revenue assumed to increase at the rate of inflation.

Other Miscellaneous. The City receives some small revenues that have been categorized as "Other Miscellaneous" for this analysis. Included in this category are, among others, interest on investments, small contributions, seized and forfeited property, and other miscellaneous revenues. These revenues are estimated on a per capita basis, averaging $1.31 for the City population in 2011, and are assumed to increase with inflation.

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 revenue estimated in the City's budget projects the per capita distributions for liquor profits and excise taxes to be $11.51 in 2011. These per capita estimates are assumed to increase with inflation.

Recreation Charges. For projections of revenue from recreation charges within the City, the analysis estimated the per capita revenue at $13.08 for 2011, based on the City's budgeted revenues, which is assumed to increase at the rate of inflation. The City's Park and Recreation Department will take over the management of three King County parks (Lakewood Park, White Center Heights Park, and North Shorewood Park). Estimated revenues generated by the parks are assumed to be consistent with current King County levels or about $50,000 per year.

Fines and Forfeits. Currently the revenue estimated in the City's budget projects the per capita revenues for fines and forfeits to be $4.78 in 2011. These per capita estimates are assumed to increase with inflation.

Comcast Franchise Fee. The City of Burien charges Comcast a franchise fee for providing service within the City boundaries. These revenues are projected on a per-resident basis and are estimated to be $11.75 per resident in 2011, according to the City budget. This rate is assumed to increase with inflation and will extend to the PAA area with annexation.

Business Licenses and Permits. The City of Burien charges a fee to obtain a business license for operation within the city limits. These revenues are projected based on the ratio of total employment in the City and the annexation areas. As a matter of City policy, revenues generated from business licenses are dedicated to the Street Fund and restricted for maintenance or capital improvements within the City. Annual employment estimates are generated from land use and development assumptions within the analysis.

Grants and Other Intergovernmental. The grants and intergovernmental revenues considered in this analysis are for operational expenditures only, not those for capital projects (Community Development Block Grants, etc.). Future grants are estimated on a per capita basis and applied to the annexation area population. The current per capita revenues, according to the 2011 City budget, are $4.27 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.

Solid Waste Franchise Fee. The City of Burien charges Waste Management a franchise fee for providing service within the City boundaries. These revenues are projected on a per-resident basis and are estimated to be $4.26 per resident in 2011, according to the City budget. This rate is assumed to increase with inflation and will extend to the PAA area with annexation.

3.4 Operating Cost Analysis

Ongoing Costs

As described before, the fiscal analysis 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 broken up into labor and non-labor categories.
- Non-labor costs that support the positions added in each department were developed with the assistance of City staff.

- 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 increased based on their own drivers.

General Assumptions

Currently, assuming that the City's policies remain unchanged, annual growth rates for major cost drivers include: 1) salaries at 3%; 2) benefits at 8%; 3) non-Police contract costs at 2.5%; and 4) Police contract costs at 4%, all of which does not include increases in City staff.

Impacts to City Staffing

As a reminder, the staffing estimates in this section reflect **only those positions funded through the General and Street Funds**. They do not include increases in positions (or portions of positions) funded by Utility Funds or other Special Revenue Funds. Many positions in the City of Burien are partially funded from the General Fund and Utility Funds, based on the functions performed. As discussed previously, this analysis does not include the Stormwater Utility Fund as it is fee-supported. However, it should be acknowledged that there will be necessary growth in those positions (or portions of positions) paid for with that fund. The numbers below do not include staffing increases that are assumed to be covered by increases in utility revenues from the annexation areas and/or changes to utility rates over time.

As Exhibit 8 illustrates, current staffing funded through the General and Street Funds total 139.9 FTEs. Annexation of the PAA is estimated to increase City staffing by approximately 37.0 FTEs for a total City staff of 176.9. The following section, Section 3.5, presents a detailed description of annexation staffing impacts by department.

Exhibit 8: City of Burien Staffing (in FTEs), With Annexation in 2012 (2011-2023)

	2011	Increment Due to Annexation
City Council	7.0	0.0
City Manager	8.2	1.0
Human Resources	1.0	1.0
Economic Development	1.0	0.0
Community Development*	13.1	2.0
Finance	8.6	1.0
Legal	3.0	1.5
Parks Cultural Services	16.4	3.5
Police	70.9	23.8
Public Works	9.9	3.3
Total	**138.9**	**37.0**

*Excludes one grant-funded position

Source: BERK, 2011

Note: Numbers do not total due to rounding

3.5 Impacts by Department/Division

The following section provides a narrative of annexation staffing and cost impacts by department. Cost impacts are presented in current day dollars (2011$) meaning that they do not take into account effects of future inflation between 2011 and 2013 (the first year of the analysis).

City Council. The City Council budget consists of those expenses incurred by the City's elected officials as they conduct the business of the Council, including the City's membership in key regional, state, and national organizations. An increase of $25,000 for population-based membership costs is anticipated.

Ongoing cost: $25,000

One-time cost: $0

City Manager. The City Manager's Office oversees the operation of all City departments. It has the following divisions: Human Resource, Economic Development, and City Clerk. Because the workload of this office is perhaps the most diverse and most difficult to predict, a general strategy intended to provide maximum flexibility was used.

City Manager's Office. One certainty that can be relied upon is an increase in front desk activity caused by the addition of 17,000 new residents. This activity includes service provided on activities ranging from pet licenses to answering phones to routing inquiries regarding land use issues. One new position would be added to handle the increased work load, a low-level office assistant at a cost of about $60,000. There would be no additional staff added in the short term (3-5 years) though it is possible a staff analyst might be added at some point in the future.

It is likely that there will be other needs that require specific expertise that are impossible to predict. For example, it is conceivable Council may wish to develop housing, economic, or minority outreach plans. To that end, $125,000 was added in professional services as an ongoing cost. $40,000 was included for newsletter costs and an additional $50,000 for miscellaneous ongoing costs. Finally, $100,000 in one-time costs was added in the miscellaneous category for use throughout the City.

Ongoing cost: $275,000

One-time cost: $100,000 + $20,000 election

Economic Development Office. The Economic Development Office would increase its contribution to the Southwest King County Chamber of Commerce by $25,000. This figure is driven by city population. Another $25,000 was added to professional services in anticipation of specific studies having to do with economic strategy and business outreach. $4,000 was added to cover printing, subscriptions, and travel. Finally, $10,000 was added for services from the Small Business Development Center, which provides assistance to small and micro-businesses.

One-time costs of $25,000 to fund an economic strategy study and $15,000 for market strategy were included.

Ongoing cost: $64,000

One-time cost: $40,000

Human Resources. The Human Resources Division provides services in the area of staffing, professional development, leadership development, performance management, benefit administration, compensation, wellness, and safety. Given the increase in staffing levels, 1 FTE Personnel Analyst ($98,000 plus $2,000 one-

time costs for equipment) was added to assist with the hiring process, new employee on-boarding, compensation studies, benefit administration, file management, and committee coordination. In addition, a one-time expenditure of $30,000 was allocated for the purchase of a Human Resources Software system to electronically manage employee information, benefit administration, and report writing.

Ongoing cost: $98,000

One-time cost: $32,000

Finance Department. The Finance Division budget includes functions such as jail, district court, animal control, and human services. Increasing the population to more than 50,000 allows the City to either be a direct recipient of federal Community Development Block Grant funding or an indirect recipient through King County ("Joint Agreement City"), rather than having to apply competitively each year. One FTE was added ($98,000 plus $2,000 one-time costs for equipment) to assume these responsibilities as well as to perform more complex analytical duties.

The projections for jail and district court were calculated based on the relationship between dispatched calls for service and the ensuing jail and court costs. The City used King County's current dispatched calls for service for Area Y, which are approximately 6,850 annually. The City currently has 1.5 days of court, with one full day of court added for $220,000. The City's Average Daily Population (ADP) for jail is roughly 10, and an additional 5 days is estimated, for $225,000 annually in jail costs.

Animal control is provided via contract and costs were projected based on current costs per capita, which are $2.50 per person, adding $40,000 annually plus an additional $4,000 for miscellaneous licensing expenditures, for a total of $44,000.

Human Services expenditures are a set percentage of General Fund expenditures per Council policy (1% of General Fund Expenditures), so an additional $100,000 is included for Area Y.

Additional costs for business, audit services, and substance abuse are $26,000. The estimate also includes a one-time cost of $100,000 to conduct a census of the area. Council policy also requires the City maintain a 10% General Fund contingency. The one-time estimate includes $1,000,000 to increase the contingency.

Ongoing costs: $713,000

One-time costs: $1,102,000

Legal Department. The Legal Department provides the City of Burien's legal representation, risk management, criminal prosecution, public defense, and code enforcement services. Legal representation and risk management services are provided by the City attorney and the paralegal with support from contract legal services. The most cost effective way to handle workload increases in legal representation and risk management duties from a more than 40% increase in the City's population is to add a half time risk manager at an ongoing cost of $50,000 (plus one-time costs of $2,000) and increase the budget for contract legal services by $50,000.

The increase in property damage and liability claims resulting from the possible annexation of North Highline will cause an increase in the City's annual liability, property, and automobile insurance premiums paid to the Washington Cities Insurance Authority (WCIA). Based on the formulas that WCIA uses for calculating the premiums, the total projected annual insurance premium increase will be $62,000.

Criminal prosecution and public defense services are provided by contract. Based on criminal caseload increases resulting from the North Burien annexation, it is projected that the possible annexation of North

Highline will result in a caseload increase of 25% (low end) to 50% (high end). Using 37.5% as the projected caseload increase, the City's current contracts will need to be increased commensurately (criminal prosecution $55,000, public defender $35,000, public defense screener $5,000, and domestic violence advocate $15,000).

The City of Seattle's annexation analysis of North Highline assumed that one code enforcement officer would be needed to enforce Seattle's land use and construction codes. Based on the increased code enforcement caseload experienced with the North Burien annexation, it is assumed that Burien will initially need at least another half-time code enforcement officer, which at some point will need to become a full time position at an ongoing cost of $92,000 (plus one-time costs of $26,000).

Ongoing costs: $364,000

One-time costs: $28,000

Police Department. The City of Burien currently contracts with the King County Sheriff's Office (KCSO) for public safety services under a Shared Supervision Model in which the level, degree, and type of direct services are determined by the City in consultation with the KCSO. Early in 2011, the City engaged BERK to conduct a cost evaluation of the current contract and determine how it might compare to a model where the City provided police services itself. The staffing impacts included in this analysis assume a continuation of the current contract with KCSO.

Precinct command and supervision duties are shared between KCSO and the City. In 2010, the contract cost the City $9.4 million (annualized) and included 70.87 FTEs. Each year the City is issued an "Exhibit B" that details the contract costs in three major categories:

- **Dedicated Police Services (41.33 FTEs in 2010).** Includes law enforcement and other related services that are provided by personnel assigned to the precinct primarily for the benefit of the City. Examples of dedicated personnel for the City include the Police Chief, captains, reactive patrol, detectives, street crime detectives, school resource officers, and community service officers.
- **Additional Police Services (22.57 FTEs in 2010).** Includes shared precinct services such as precinct command, supervision of reactive patrol, detectives, and street crimes, and precinct support staff. This category also includes the shared costs of special operation units (hostage negotiation, major crimes investigation, major accident response and reconstruction (MARR), and SWAT). These services are allocated to each of the contract cities using various workload proxies including dispatched calls for service, precinct FTEs, and caseloads/call-outs for detectives, major crimes, MARR, and SWAT. Some of the proxies are based on single-year call data, whereas others are based on a rolling three-year average of call-outs.
- **Support and Administrative Services (6.97 FTEs in 2010).** Includes shared services and costs for payroll, crime analysis, evidence, records, recruiting, computers, and personnel that are allocated to contract cities based on the Dedicated and Additional Police Service FTE levels. Additionally services and costs for criminal intelligence, training, and firing range are allocated to contract cities based on sworn FTE levels. Finally, each contract city shares in KCSO field operations administrative overhead and facility charges. Field operations administrative overhead only includes costs associated with the Field Operations Administration.
- **Fire Investigation Services.** In addition to the above categories, the City also contracts with KCSO for fire investigation services. Costs for this service are shared between most contract cities and is allocated based on a three-year average of call-outs for the Fire Investigations Unit.

Using the current structure of the Burien police contract with KCSO, the City would add 23.76 FTEs to the contract and increase the contract amount by $3.1 million.

Note: The analysis also assumes additional costs associated with increases in minimum staffing necessary to bring the level of service up to a preferred City level. The level of service increases staffing an additional 8.35 FTEs and $1.0 million. Total police staffing, including level of staffing and annexation increment impacts, would be 102.97 FTEs at a total contract cost of $13.5 million.

Public Works Department. The Public Works Department is divided into two divisions, engineering and operations. The engineering division is responsible for capital improvement projects, environmental regulation, and right of way issues, among others. The operations division is relatively new and performs maintenance on city streets, drainage, and right of way.

The Public Works Department is supported by two accounts: the General fund (which includes the Street fund) and the Storm Water Management (the SWM, pronounced "swim") fund. The two funds are displayed separately in this study, but the functions they support are intermingled (i.e. the work performed by a public works employee might be paid from one or both accounts).

The annexation area would increase workload of the department through the addition of streets, sidewalks, public right of way, etc. For example, Area Y would add 118 lane miles of streets, 18 traffic signals, 14 million square feet of public right of way, 3,000 trees, and 20 water retention ponds.

These assets are currently maintained by King County. It is likely that, at least initially, Burien would contract with King County for some transitional period. For purposes of this study, however, it is assumed that the City will perform these functions. The costs estimates for Public Works reflect this assumption.

The additional assets would require the operations division to increase its maintenance crews, including support and supervisory staff, by 11.5 FTEs at a cost of $335,000. Maintaining these assets would also have an ongoing cost for materials such as asphalt, concrete, sand, etc. These on-going costs are estimated to be $527,000. One-time costs for this work includes a significant addition of equipment including a sweeper, backhoe, dump trucks, paint-striping machine, and service trucks, at a cost of $1,110,000.

It is more difficult to estimate the number of new projects the City will undertake in the near, medium, and long-term because these projects typically rely on unpredictable sources of funding, such as state and federal grants. However, it is safe to assume that the amount of new and replacement construction will increase with the addition of Area Y. Managing these projects will require the Engineering Division to add 3 FTEs at a cost of $93,000.

Capital Improvement Program. Every city has a long-term Capital Improvement Program that looks to the future and includes all projects the city would ultimately like to build. The current CIP for Burien includes facilities, transportation, and drainage projects expected to cost $57 million. Both King County and the City of Seattle (in the City of Seattle's 2011 North Highline Annexation Report) have estimated project costs of approximately $60-$80 million for Area Y. For the City of Burien, Area Y's near-term total project needs are estimated to be $43.4 million. Total project costs are listed in Section 4.3.

General fund (including Street Fund) ongoing cost: $1,175,000

One-time cost: $712,500

Storm Water Management fund ongoing cost: $390,000

One-time cost: $397,500

One-time costs associated with long-term capital projects: $36-50 million

Community Development Department. The Community Development Department provides direct services including current and long-range planning, construction permitting and inspection, and technical support for code enforcement. In the Planning Division, a 1.0 FTE Planner was added ($102,000) to serve the increased population and land area. One-time costs of $102,000 would provide funding for a planning consultant if needed for long-range planning work in the annexation area, plus a phone and computer.

In the Building Division, 1.0 FTE was added: one half time Building Inspector/Plans Examiner FTE ($48,000) and a half time Electrical Inspector ($48,000) to handle the increased construction permit and inspection workload. In addition, $3,000 was added for annual supplies, code books, etc. One-time costs of $22,000 would provide an additional inspection vehicle, a phone, and a computer.

Ongoing costs: $201,000

One-time costs: $124,000

Parks, Recreation & Cultural Services Department. The Parks, Recreation & Cultural Services (PaRCS) Department budget includes two principal areas of operations, a Parks Maintenance & Operations division and a Recreation Program division.

Parks Maintenance & Operations. There are three parks in the PAA that would be managed by PaRCS: Lakewood Park, White Center Heights Park, and North Shorewood Park. The Hamm Creek Natural Area and White Center Pond Natural Area would be managed by Public Works until they are further developed for recreational use. Because King County has designated Steve Cox Memorial Park as a Regional Recreation & Multi-use Park, and since "… designating a site as regional establishes a presumption of county ownership and management responsibility" (2010 King County Open Space Plan, pg. 36), Steve Cox Park is not included in this analysis.

Capital project needs identified over a five-year period total $195,000. These include replacement of furnishings, new signage, tree and irrigation work, parking lot resurfacing, etc. Capital project assumptions also anticipate work to be performed by King County prior to annexation (as confirmed by King County staff), as follows:

White Center Heights Park

- Repairs to the pedestrian bridge adjacent to the White Center Heights Pond

Lakewood Park

- Caretaker House to be removed and site restored
- Park flooding issues resolved with installation of new pumps
- Technology Access Foundation to build Learning Center in upper park

North Shorewood Park

- Playground to be replaced

On-going building and grounds maintenance operational expenses, including utilities for Lakewood Park, White Center Heights Park and North Shorewood Park, would total $373,000 annually. This includes a 1.0 staff FTE (a Park & Facility Maintenance Worker) and contractual services (note: the most significant contractual category would be for landscape maintenance services totaling $146,800). One-time start-up costs are $122,600 for equipment and vehicle for park maintenance staff. The facility maintenance staff would be responsible for repairs and maintenance of buildings, park structures and furnishings, as well as

staff and contractor oversight. Contracted landscape maintenance services would include mowing of 26 acres of open lawn, as well as litter control, cleaning park restrooms, tree and shrub care, and related landscape services for an additional 17 acres.

Recreation Programs/Facility Management. The Recreation Program budget includes Adult and Senior Programs, Cultural Services Programs, and Youth and Family Programs. It also includes facility management and scheduling. PaRCS offers approximately 300 individual programs annually for preschool through senior adult-aged participants.

Population and demographics usually determine the provision of adequate public recreation services and the type of recreational programs and facilities that should be provided for an area. If the City were to annex the Area Y, PaRCS would need to provide an appropriate level of service to 17,000 new residents. This would have the effect of expanding existing County-provided recreation programming in that area, as the White Center Teen Program is currently the sole program that King County Parks retained after recent budget cuts.

Annexation of Area Y will also include management and scheduling of the following facilities:

- Park picnic shelters (White Center Heights Park and Lakewood Park);
- A disk golf course (Lakewood Park);
- Special event areas in two parks (White Center Heights Park and Lakewood Park).

Increasing the hours of part-time staff for expansion of the Parks Division's "Adopt-a-Park" program (e.g. work with "Friends of Hicks Lake," "Friends of North Shorewood Park," and other group volunteer events held annually) is also included in the budget.

These activities would necessitate 2 FTEs (Recreation Specialists), 2 part-time staff hours increased, and additional intermittent program staff.

Ongoing costs: $765,000
One-time costs: $317,600

Other Costs

Non-labor costs for added staff associated with the North Highline annexation area were provided by City staff. For this analysis, these costs include:

- **Memberships;**
- **Printing, subscriptions, and travel;**
- **Office space, facility, and operating supplies;**
- **Fuel and vehicle maintenance;**
- **Publications and code books; and**
- **Program supplies.**

Some of the services in the North Highline PAA will be purchased and provided through contract with King County or other service providers. All contracted services (except for Police) for the North Highline PAA are based on departmental estimates provided by City staff.

One-Time Costs

One-time costs are initial costs associated with hiring of additional staff or the bringing on of additional land area through annexation. For this analysis, these costs include:

- **Election;**
- **Economic Strategy Study;**
- **Market Strategy;**
- **Computers/Phone;**
- **Human Resources Software;**
- **Census;**
- **Vehicles and miscellaneous equipment;**
- **Planning consultant;**
- **Facility (City Hall) remodeling; and**
- **General Fund Contingency (~10% of Total General Fund Budget).**

3.6 Sales Tax Credit

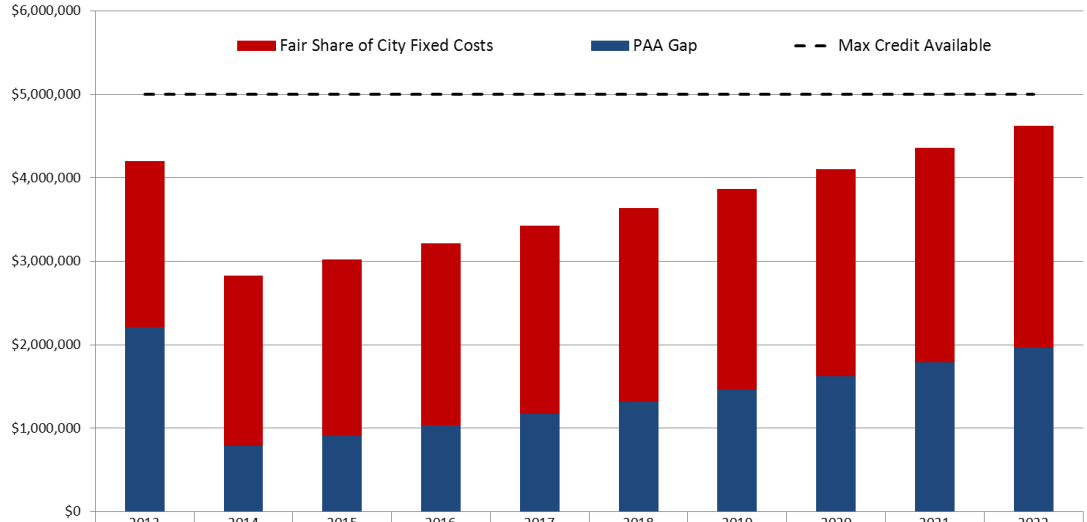
Burien would qualify for the 0.85% state sales tax credit with annexation of that area (see Section 2.4 for a more detailed description). Changes to the legislation enabling the annexation sales tax credit allow the City to recoup any financial losses due to annexation up to the maximum 0.85% of total City sales tax revenues not to exceed $5 million a year. Upon annexation, the City would be eligible for fiscal relief from the State in order to accommodate annexation.

With this revenue in place, **annexation sales tax credit would more than cover the City's incremental cost (new costs directly related to the annexation) of annexation** for the 10 years that the credit would be in place. This is possible since the state law allows cities to recoup a portion of their existing fixed costs – or "fair share" – by apportioning some of those costs to the annexation area (such as the City Manager position, City Council, etc.). This is done because those positions/costs will also serve the annexation area once it becomes part of the city.

Exhibit 9 shows the estimated state sales tax credit available and used during the ten-year period after annexation. The bar shows the total amount of sales tax credit that the City would qualify for under a "fair share" allocation. The bar is made up of two components. The blue portion of the bar shows the amount of the annexation sales tax credit that would be used to make up the revenue gap in the annexation area in order to cover its costs. The red portion of the bar shows additional revenue flowing to the City based on the "fair share" allocation. In this sense, **annexation provides additional general fund revenue to the City during the ten years of the credit, and buffers the City's against its pressing fiscal challenges**.

Although it appears that the City would not qualify for the full tax credit in all years, in this instance it is best to think of the potential availability of additional sales tax credit as an added level of insurance to mitigate potential financial risks associated with annexation.

Exhibit 9: Estimated Portion of State Sales Tax Credit Burien Could Receive With Annexation in 2012



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Fair Share of City Fixed Costs	$1,984,000	$2,047,000	$2,113,000	$2,182,000	$2,254,000	$2,328,000	$2,406,000	$2,487,000	$2,572,000	$2,660,000
PAA Gap	$2,216,000	$783,000	$908,000	$1,037,000	$1,171,000	$1,313,000	$1,462,000	$1,620,000	$1,787,000	$1,963,000
Max Credit Available	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,000

Source: BERK, 2011

3.7 Comparison of Study Findings with City of Seattle Annexation Study.

Overview

This current annexation study for the City of Burien analyzes the impacts of annexing the remaining North Highline area assuming an effective date of annexation in 2012. The analysis looks at the impact of annexation through both an absolute (e.g. what are estimated costs and revenues in the annexation area?) and relative fiscal perspective (e.g. how does annexation change the underlying fiscal position of the City?). The City of Seattle Report differs in some important ways that can be broadly separated into three different categories:

- Different Fiscal Perspective
- Different Study Area and Existing Conditions
- Different Scope of Revenues and Services

These issues are discussed in greater detail below.

Fiscal Perspective

As stated above, this 2011 Burien Study looks at annexation from two perspectives: 1) what is the surplus/deficit in the annexation area after accounting for costs and revenues; and, 2) how does annexation change the overall fiscal position of the City. Both the 2007 and 2011 Burien studies take both of these perspectives. The 2011 City of Seattle analysis only considers ranges of absolute cost and revenues with some discussion of best/worst case scenarios. The report does not consider how annexation affects Seattle's underlying fiscal challenges and whether or not annexation introduces new fiscal problems to the City.

Study Area and Existing Conditions

The 2011 Burien Study and 2011 City of Seattle Study examine roughly the same annexation area (alternatively referred to as Area Y or North Highline PAA). While it's unclear to what degree the Seattle Study accounts for current economic conditions and challenges related to the economic recession, the 2011 Burien Study expressly assumes a level of growth in revenues consistent with the slow growth experiences post-recession.

Scope of Revenues and Services

The largest differentiator between the Seattle and Burien studies is in the scope of services offered- and revenues generated by each respective city (as applied to the annexation area).

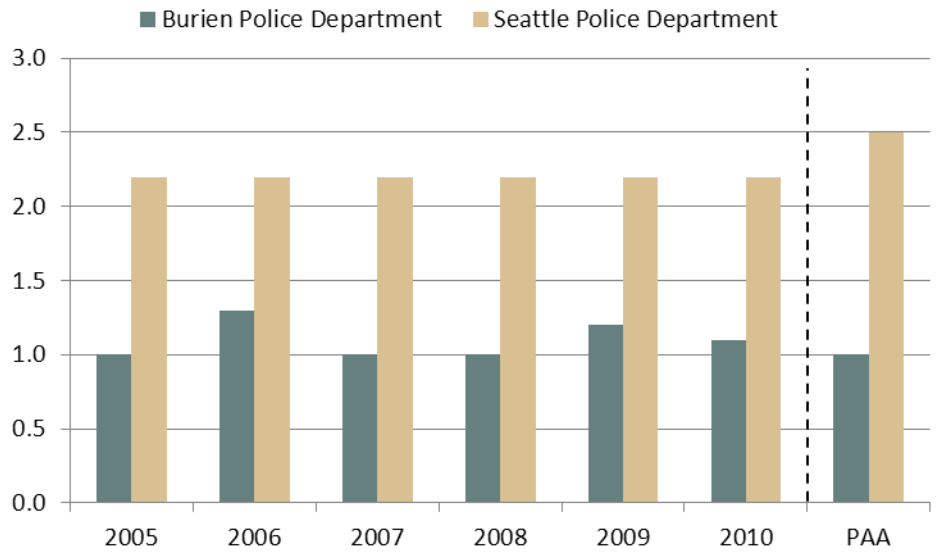
Scope of Services. When comparing the results of the two annexation studies, one would notice that the scope of services and associated costs offered by each city within the annexation area are substantially different. The City of Seattle report estimates that annexation of North Highline would require expenditure increases of about $19.2 million to $28.7 million annually compared to increases of $7.1 to $9.8 million annually for the City of Burien. While a direct department by department comparison is difficult, some of the major drivers in service provision (and associated costs) can be explained. For example:

- **Fire/EMS Services.** The City of Burien is annexed into a fire district for fire/EMS services while the City of Seattle provides its own services. The expenditures increases associated with providing fire/EMS services to the North Highline annexation area are estimated to be $2.7 to $4.2 million for the City of Seattle Fire Department (SFD).
- **Police Services.** The City of Burien would continue to provide public safety services through contract with the King County Sherriff's Office (KCSO). The City would add 23.76 FTEs to the contract and increase the contract amount by $3.1 million. The City of Seattle estimates increases in police staffing to range between 53.00 and 66.00 FTEs and expenditures to increase between $6.9 and $8.7 million annually.

  It is important to note why there is a large difference between the two staffing estimates. For the City of Burien, the contract provides economies of scale in both supervision and related indirect costs. By allowing the City to share in these costs (with other contract cities), the Sheriff's contract provides the City an option to purchase these needed services on a prorated basis with the effect of directing more of its public safety dollars towards direct services (e.g. patrol and investigation services).

  In addition to economies of scale, there are noticeable differences in each city's commissioned officer structure. A key metric to illustrate this is shown in Exhibit 10 which displays commissioned officers per thousand for each city for between 2005 and 2010. Exhibit 10 shows that the City of Seattle maintains a much higher ratio of commissioned officers per 1,000 population than the City of Burien. Note that this metric does not make any assertions as to the level of service each police department provides. The exhibit is for the sole purpose of explaining why there is a difference in expenditure estimates.

Exhibit 10
Comparison of Commissioned Officers per 1,000 Population (2005 – 2010)
& Potential Annexation Area (PAA)



Source: BERK, 2011; Washington Association of Sheriffs and Police Chiefs, 2010; City of Seattle North Highline Annexation Report, 2011

- **Library.** The City of Seattle provides its own library services while Burien is a part of the King County Library System. This represents an increase in annual expenditures of about $445,000 to $668,000 for the City of Seattle.
- **Human Services.** The City of Seattle has large Human Services programs with estimated cost increases of about $1.7 to $1.9 million where the City of Burien is much smaller about 1% of the City's General Fund Budget or an additional $100,000.

Revenues. On the revenue side, each city has its own set of tax tools they can bring to bear on annexation. While each levies the four major general fund taxes (e.g. property tax, sales tax, utility taxes, and business and occupation taxes), keen differences exist in the rates applied. For example:

- For the property tax, the 2011 regular levy rate for Seattle is $1.87 and $1.56 for Burien. This does not include any of the excess levies that would be raised from Seattle (LID Lift, G.O. Bond, etc.). Currently, Burien does not levy any special excess levies.
- Burien levies a B&O tax of 0.05% whereas Seattle has rates ranging from 0.215%-0.415%.
- City of Seattle also levies more and higher utility taxes than the City of Burien. For example, City of Seattle charges 19.9% utility tax on city-provided water services. The City of Burien does not charge a water utility tax.

Applying these city rates to the existing tax bases (i.e. total assessed value, business income, utility usage) in the area yields greater amounts of tax revenues for Seattle.

4.0 ADDITIONAL POLICY CONSIDERATIONS

4.1 Transition Period

Although this planning-level analysis makes the simplifying assumptions of full staffing and full revenues received by the City on the first day of annexation, in reality there would be a transition period. The City should develop an annexation transition plan starting several months prior to and ending several years after annexation. The plan should outline the preferred hiring schedule and estimate cash flow requirements during the phasing-in of various revenue sources and building-up of City service capabilities and facilities.

Transition Revenues. The timing of the effective date of annexation has a large effect on revenues in the first few years of annexation. Many of the revenue sources are not time sensitive and will begin immediately upon annexation. Other revenue sources such as sales taxes, property taxes, and state-shared revenues have certain lags associated with distribution.

Transition Costs. The transition costs may be significant. These costs may have a material impact on the financial outcome of the first few years of annexation. The decision to pre-hire positions or to delay non-essential positions is also a major timing factor to consider. The City will likely ramp up its hiring more slowly over time for all departments and phase in many costs and services based on available revenues and the availability of qualified staff.

State Sales Tax Credit. The specific timing of the first sales tax credit revenues will depend on the effective date of annexation and could lag by as much as one year.

4.2 City Hall Space Needs

Based on the analysis completed for this study, it is estimated that the City will need approximately 13 FTEs in all City departments, excluding Police, resulting directly from annexation in 2012. According to City staff, the current City Hall is capable to accommodating these staff members but will need some level of capital improvement to build-out underutilized space. The estimated cost of this build-out would be $200,000.

4.3 Capital Facility Assessment

The principal focus of this study is on the fiscal impacts associated with day-to-day operation. In the following sections, however, capital needs are summarized that have been identified under current plans for the annexation areas and a high-level inventory of facilities. The following discussion also provides estimates of Real Estate Excise Taxes the City might expect to receive from the annexation area—revenues that are required to be used to fund infrastructure investment.

The capital costs associated with annexation of the North Highline annexation area are limited specifically to street, stormwater, and park capital facility needs. If the City of Burien annexes the North Highline annexation area, it would be advisable to conduct a full assessment of capital needs in the area with an eye to the City of Burien's overall service goals. In the absence of a full capital assessment, available data on capital needs is limited to initial estimates by the City of Burien and the King County Transportation Needs Report.

The assessment estimates that a five year total of needs in the area could total $46.4 million in capital improvement costs. Exhibit 11 shows the breakdown by the type of improvement.

Exhibit 11
Estimated Capital Facility Improvement Cost Summary

Type	Est. 5-Year Needs Total	Comments
Stormwater	$23,000,000	Needs to be funded through SWM Fund
Streets/Transportation	$23,000,000	Needs to be funded through Street Fund
Facilities	$200,000	Limited build-out of City Hall
Parks	$195,000	
Summary	**$46,395,000**	

Source: City of Burien, King County, BERK, 2011

The finding that there are more needs for infrastructure than there will be capital resources coming from the contemplated annexation area is not surprising. This situation is comparable to the existing City situation in that the needs of the annexation will become part of the City's capital planning program where: 1) needs are identified, 2) projects are prioritized, and 3) funding is dedicated. Unless there are significant immediate capital infrastructure needs in the annexation areas (and none have been identified to date), then the long-term capital funding situation is unlikely to be dramatically different than the status quo.

Streets

Overall, there are many more street and sidewalk improvement needs in the North Highline annexation area than funds available. The City of Seattle's 2011 annexation analysis (based on a King County engineering report) identified an estimated $77 million in deferred maintenance in the North Highline Annexation Area. These street improvements include resurfacing arterials and non-arterials.

The City of Burien estimates a five-year cost of $23 million in street improvements in the annexation area. $5 million would be needed for asphalt overlays for streets in the most need. The completion of other projects would be based on the priority and whether the street is still in need of drainage improvements, in which case it would not be resurfaced until after drainage improvements have been made. The majority of funding for street improvement would likely come from the City's Street Fund and/or grants.

Stormwater

The City of Burien estimates a five-year cost of $23 million in stormwater drainage improvements in the annexation area. A prioritized $5 million in needs would go to drainage projects on streets with the most need before street resurfacing and/or reconstruction.

Future drainage projects would be assessed and prioritized based on citywide need and included in the Drainage Master Plan. The majority of funding for drainage improvement would likely come from the City's Surface Water Management (SWM) Fund.

Parks and Recreation

Overall, improvements for park and recreation facilities and programs within the annexation area could total $195,000 with annexation. Exhibit 12 below summarizes the estimated capital improvements by park.

Exhibit 12
Estimated Capital Improvements by Facility

Park	Cost
White Center Heights	$45,500
North Shorewood	$25,500
Lakewood	$124,000
Total	**$195,000**

Source: City of Burien

The City assumes that the County would operate Steve Cox Memorial Park. The park is classified as a regional facility in the 2010 King County Parks Open Space Plan. A regional designation indicates that the facility will maintain county ownership and management (King County Parks Open Space Plan, page 36), even if the facility is within an urban area. The City would likely not be responsible for improvement or maintenance of Steve Cox Memorial Park. However, the City may enter into a cost-sharing agreement with King County to increase recreational opportunities and programs at the park.

Real Estate Excise Tax (REET)

The analysis also estimated real estate excise tax (REET) revenues available for capital expenses after annexation. If Burien were to annex the contemplated study area, the City would expect to receive REET on an annual basis. REET revenues are levied in two halves: The first half (0.25% of the taxable value of a real estate transaction) may be used for a variety of capital uses, including development of parks. The second half (the second 0.25%) must be used on a more constrained list of projects—a list that includes improvements to roads and roadways, but excludes investments in parks.

Since REET is based on the total value of real estate transactions in a given year, the amount of REET revenues a city receives can vary substantially from year to year based on the normal fluctuations in the real estate market. During years when the real estate market is active, revenues are higher, and during softer real estate markets, revenues are lower. For the purposes of this analysis, it is assumed that 7.0% of residential property and 3.5% of commercial property turn over in any given year while the recession continues (assumed in this analysis through 2015). After recovery from the recession, it is assumed that 9.0% of residential property and 4.5% of commercial property turn over in any given year. REET revenues from the annexation are estimated to be over $260,000 over the next 11 years.

APPENDIX A: COMPARISON OF RECENT NORTH HIGHLINE ANNEXATION STUDIES

1.0 INTRODUCTION

The purpose of this document is to compare three recent annexation analyses conducted for the Cities of Burien and Seattle regarding the North Highline area. This document presents a comparison of the studies' analytical approach, cost, revenue, and staffing impact estimates, and conclusions or recommendations about annexing the area.

The three studies included in this comparison are:

- **City of Burien Fiscal Analysis of a North Highline Annexation** (BERK, 2011).
- **Analysis of the Potential Annexation of North Highline into the City of Seattle** (Seattle City Budget Office and the Office of Intergovernmental Relations, 2011).
- **Burien Long-Term Fiscal Analysis** (BERK, 2007).

2.0 OVERVIEW OF ANNEXATION ANALYSES

Exhibit 13 summarizes the basic characteristics of each annexation analysis included in this comparison. It shows that a direct comparison of the results of the three studies would be difficult, given that the two cities have different levels of service, the financial analyses were conducted in different years, and the annexation areas analyzed vary in size.

For these reasons, the comparison below focuses on the magnitude of the impact to the annexing city – is the financial impact of annexation negative or positive, and by how much?

Exhibit 13: Basic Study Characteristics

	2011 Burien Study	2011 Seattle Study	2007 Burien Study
Annexing City	Burien	Seattle	Burien
Year of Study	2011	2011	2007
Assumed Year of Annexation	2013	Not listed	2009
Annexation Area	North Highline	North Highline annexation area Y	North Highline Area X and North Highline annexation area

3.0 SUMMARY OF IMPACTS AND KEY FINDINGS

Exhibit 14 summarizes the basic findings of the three annexation analyses. As noted above, the results should not be compared directly between studies, given the different foundations for each analysis.

Exhibit 14: Summary of Basic Findings for Annexation Studies

	2011 Burien Study*	2011 Seattle Study		2007 Burien Study
		Best-Case	Worst-Case	
FTEs Needed due to Annexation	37.0	102.7	138.6	16
On-going Costs	$ 7.1 M	$ 19.2 M	$ 28.7 M	$ 11.2 M
On-going Revenues	$ 9.1 M**	$ 17.4 M***	$ 11.9 M	$ 8.7 M
On-going Operating Surplus/(Deficit)	$ 2.0 M	($ 1.7 M)	($ 16.7 M)	($ 2.5 M)

** Values for the City of Burien represent costs and revenues for 2014.*

*** Includes sales tax credit of $3.0 M; Max credit available to City is $5.0 M.*

**** Includes sales tax credit of $5 M per year for 10 years.*

- The 2011 Burien study estimates on ongoing operating surplus of $2.0 to $2.7 million annually due to the annexation sales tax credit until its expiration in 2023.
- The 2011 Seattle study created a set of high and low annexation impacts. However, even under the best-case scenario of high revenues and low expenditures, the annexation area would have an annual net operating deficit of about $1.7 million. This estimate includes the revenues from the annexation sales tax credit, which totals $5 million annually and expires after 10 years. The actual deficit may range up to $16.7 million per year under a worst-case scenario.

  The study recommended that the City delay the decision to annex North Highline, given the financial constraints already put on the City by the current recession. The report acknowledged that there are other benefits to annexation, and recommended that the City re-evaluate its decision at a later date when finances are more stable.
- The 2007 Burien study estimates an ongoing operating deficit of about $2.5 million in the annexation area. This would be partially offset by annexation sales tax credit revenues of about $1.3 million annually for the first 10 years after annexation.

  The study did not make a clear recommendation on whether or not to annex, but did find that the City's long-term outlook is moderately better under a No-Annexation scenario than under an Annexation-by-Burien scenario. This study was completed before legislation was adopted that increased the sales tax credit for Area Y to .85%.

The next section provides additional detail, organized by study, on the estimated impacts of annexation.

4.0 DETAILED ANNEXATION IMPACTS AND STUDY RECOMMENDATIONS

4.1 2007 Burien Study

Overview

This study, conducted by BERK for the City of Burien in 2007, analyzed the impacts of annexing the full North Highline Area (Area X of this analysis has since been annexed by Burien). This study, which assumed an annexation year of 2009, analyzed the following three scenarios:

- **No Annexation.** The No Annexation scenario lays out the baseline financial challenges facing the City of Burien if neither Burien nor Seattle annexes the North Highline area. It finds that, like most cities, Burien faces financial challenges and costs that are growing faster than revenues in the long-term. This analysis estimates Burien will experience a general fund deficit of about $1.0 million annually by 2015.
- **Annexation of North Highline by the City of Burien.** This study found that annexation would have negative fiscal impacts to the City compared to the No Annexation scenario. Even with the annexation sales tax credit, the annexation would increase the City's operating deficit. After the sales tax credit expired, the on-going net cost would be significantly higher than without annexation. By 2019, the City's outlook is worse in both absolute and percentage terms from the no annexation scenario. This study was completed before legislation was adopted to increase the sales tax credit to .85%.
- **Annexation of North Highline by the City of Seattle.** If Seattle annexed the North Highline area, it would impact Burien by requiring the City to increase its police contract by approximately $1.7 million annually in 2009, and this increase would grow with inflation.

Study Conclusions

- Under the Annexation-by-Burien scenario, Burien's fiscal outlook looks better in the short-term than in the long-term, due to the state sales tax credit.
- Under the Annexation-by-Seattle scenario, annexation of North Highline by Seattle makes Burien's fiscal picture worse in all scenarios, absent any lower cost solutions to police depth-of-service issues.
- The fiscal revenue measures required to balance Burien's budget in 2025 would be modestly larger under the Annexation-by-Burien scenario than under the No Annexation Scenario. Both of these scenarios are better than under the Annexation-by-Seattle scenario.

4.2 2011 Seattle Study

Summary of Analysis

This study was conducted by the City of Seattle's City Budget Office and Office of Intergovernmental Relations in 2011 and analyzes the impacts to Seattle annexing Area Y. Area X, included in the 2007 Burien study, was previously annexed by Burien in 2010. This study analyzed the impact of annexation by creating both a low and high estimate of cost and revenue impacts for the annexation area, based on differing assumptions about level of service.

Study Conclusions

- Annexing the North Highline annexation area into Seattle would have a net deficit of between $1.8 million and $16.8 million on an annual basis, and would also obligate the City to about $5.2 million to $91.4 million in one-time costs. This wide range of one-time costs is from the Department of Transportation's uncertainty about updating road conditions in the annexation area.
    - The annexation area would generate revenues of approximately $11.9 million annually on the low end, and up to $17.4 million including the annexation sales tax credit and gambling revenues. However, even at the maximum level, these revenues would not cover costs of serving the area regardless of the service level assumptions used.
    - Annexation would require expenditure increases of about $19.2 million to $28.7 million annually. A significant portion of these new costs is generated from the City's police and fire departments – expanding current levels of service to the annexation area results in the need to hire extensively (19 – 29 FTEs for fire and 53-66 FTEs for police). These police and fire costs add up to $9.7 million – $12.8 million in ongoing expenditures for these two departments alone.

- The City of Seattle acknowledges that are many other reasons to consider annexation besides fiscal benefit, including the Growth Management Act and the fact that cities can provide better or more efficient services to the area than a county can. Given these qualitative benefits, the City would be interested in re-evaluating this issue when the City's finances are more robust.

4.3 Comparison to Annexation Studies

Overview

This current annexation study for the City of Burien analyzes the impacts of annexing the remaining North Highline area assuming an effective date of annexation in 2012. The analysis looks at the impact of annexation through both an absolute (e.g. what are estimated costs and revenues in the annexation area?) and relative fiscal perspective (e.g. how does annexation change the underlying fiscal position of the City?). The City of Seattle Report differs in some important ways that can be broadly separated into three different categories:

- Different Fiscal Perspective
- Different Study Area and Existing Conditions
- Different Scope of Revenues and Services

These issues are discussed in greater detail below.

Fiscal Perspective

As stated above, this 2011 Burien Study looks at annexation from two perspectives: 1) what is the surplus/deficit in the annexation area after accounting for costs and revenues; and, 2) how does annexation change the overall fiscal position of the City. Both the 2007 and 2011 Burien studies take both of these perspectives. The 2011 City of Seattle analysis only considers ranges of absolute cost and revenues with some discussion of best/worst case scenarios. The report does not consider how annexation affects Seattle's underlying fiscal challenges and whether or not annexation introduces new fiscal problems to the City.

Study Area and Existing Conditions

The 2011 Burien Study and 2011 City of Seattle Study examine roughly the same annexation area (alternatively referred to as Area Y or North Highline PAA). While it's unclear to what degree the Seattle Study accounts for current economic conditions and challenges related to the economic recession, the 2011 Burien Study expressly assumes a level of growth in revenues consistent with the slow growth experiences post-recession.

Scope of Revenues and Services

The largest differentiator between the Seattle and Burien studies is in the scope of services offered- and revenues generated by each respective city (as applied to the annexation area).

Scope of Services. When comparing the results of the two annexation studies, one would notice that the scope of services and associated costs offered by each city within the annexation area are substantially different. The City of Seattle report estimates that annexation of North Highline would require expenditure increases of about $19.2 million to $28.7 million annually compared to increases of $7.1 to $9.8 million annually for the City of Burien. While a direct department by department comparison is difficult, some of the major drivers in service provision (and associated costs) can be explained. For example:

- **Fire/EMS Services.** The City of Burien is annexed into a fire district for fire/EMS services while the City of Seattle provides its own services. The expenditures increases associated with providing fire/EMS services

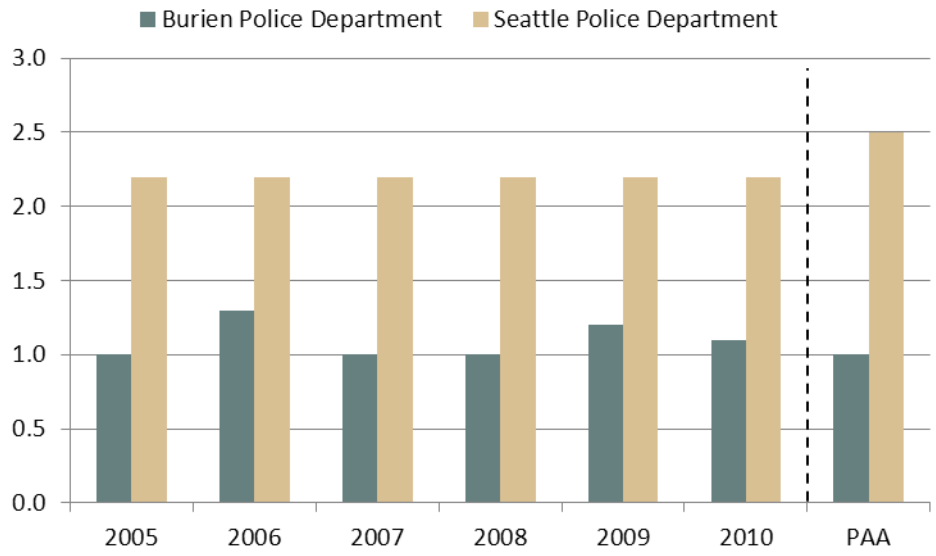
to the North Highline annexation area are estimated to be $2.7 to $4.2 million for the City of Seattle Fire Department (SFD).

- **Police Services.** The City of Burien would continue to provide public safety services through contract with the King County Sheriff's Office (KCSO). The City would add 23.76 FTEs to the contract and increase the contract amount by $3.1 million. The City of Seattle estimates increases in police staffing to range between 53.00 and 66.00 FTEs and expenditures to increase between $6.9 and $8.7 million annually.

  It is important to note why there is a large difference between the two staffing estimates. For the City of Burien, the contract provides economies of scale in both supervision and related indirect costs. By allowing the City to share in these costs (with other contract cities), the Sheriff's contract provides the City an option to purchase these needed services on a prorated basis with the effect of directing more of its public safety dollars towards direct services (e.g. patrol and investigation services).

  In addition to economies of scale, there are noticeable differences in each city's commissioned officer structure. A key metric to illustrate this is shown in Exhibit 10 which displays commissioned officers per thousand for each city for between 2005 and 2010. Exhibit 10 shows that the City of Seattle maintains a much higher ratio of commissioned officers per 1,000 population than the City of Burien. Note that this metric does not make any assertions as to the level of service each police department provides. The exhibit is for the sole purpose of explaining why there is a difference in expenditure estimates.

Exhibit 15
Comparison of Commissioned Officers per 1,000 Population (2005 – 2010)
& Potential Annexation Area (PAA)



Source: BERK, 2011; Washington Association of Sheriffs and Police Chiefs, 2010; City of Seattle North Highline Annexation Report, 2011

- **Library.** The City of Seattle provides its own library services while Burien is a part of the King County Library System. This represents an increase in annual expenditures of about $445,000 to $668,000 for the City of Seattle.

- **Human Services.** The City of Seattle has large Human Services programs with estimated cost increases of about $1.7 to $1.9 million where the City of Burien is much smaller about 1% of the City's General Fund Budget for an increase of $100,000.

Revenues. On the revenue side, each city has its own set of tax tools they can bring to bear on annexation. While each levies the four major general fund taxes (e.g. property tax, sales tax, utility taxes, and business and occupation taxes), keen differences exist in the rates applied. For example:

- For the property tax, the 2011 regular levy rate for Seattle is $1.87 and $1.56 for Burien. This does not include any of the excess levies that would be raised from Seattle (LID Lift, G.O. Bond, etc.). Currently, Burien does not levy any special excess levies.
- Burien levies a B&O tax of 0.05% whereas Seattle has rates ranging from 0.215%-0.415%.
- City of Seattle also levies more and higher utility taxes than the City of Burien. For example, City of Seattle charges 19.9% utility tax on city-provided water services. The City of Burien does not charge a water utility tax.

Applying these city rates to the existing tax bases (i.e. total assessed value, business income, utility usage) in the area yields greater amounts of tax revenues for Seattle.

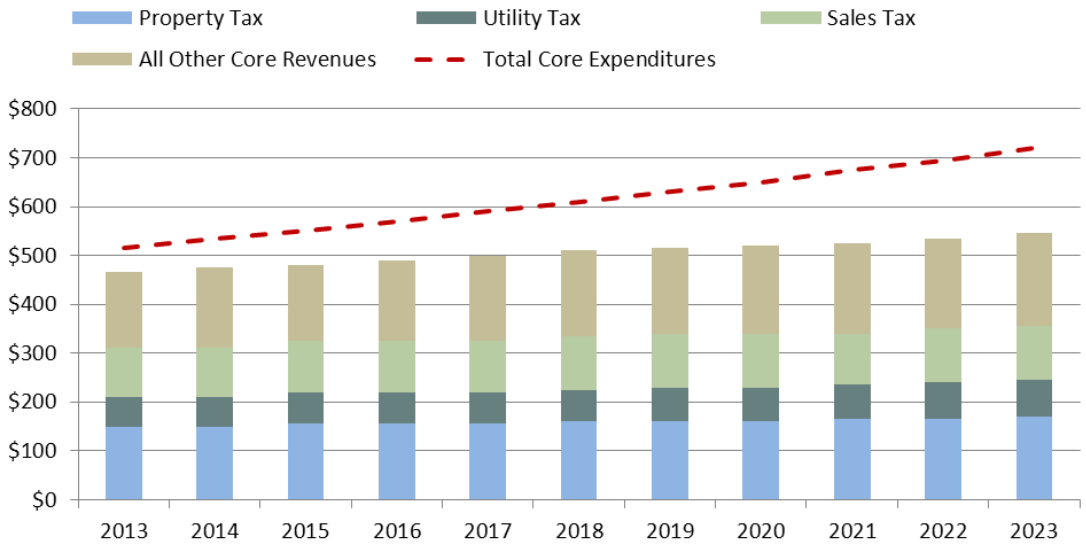
APPENDIX B: TECHNICAL CHARTS & METRICS FOR FISCAL ANALYSIS

1.0 INTRODUCTION

The purpose of this technical appendix is to provide detailed tables from the fiscal analysis as requested by the City Council at the August 15, 2011 council meeting. A detailed explanation of how revenues were derived can be found in Sections 3.3 and 3.6. A detailed explanation of how costs were derived can be found in Sections 3.4 and 3.5.

2.0 COSTS AND REVENUES PER CAPITA

Exhibit 16: Estimated Core Expenditures and Revenues per capita for City of Burien Baseline No Annexation Scenario (2011-2023)

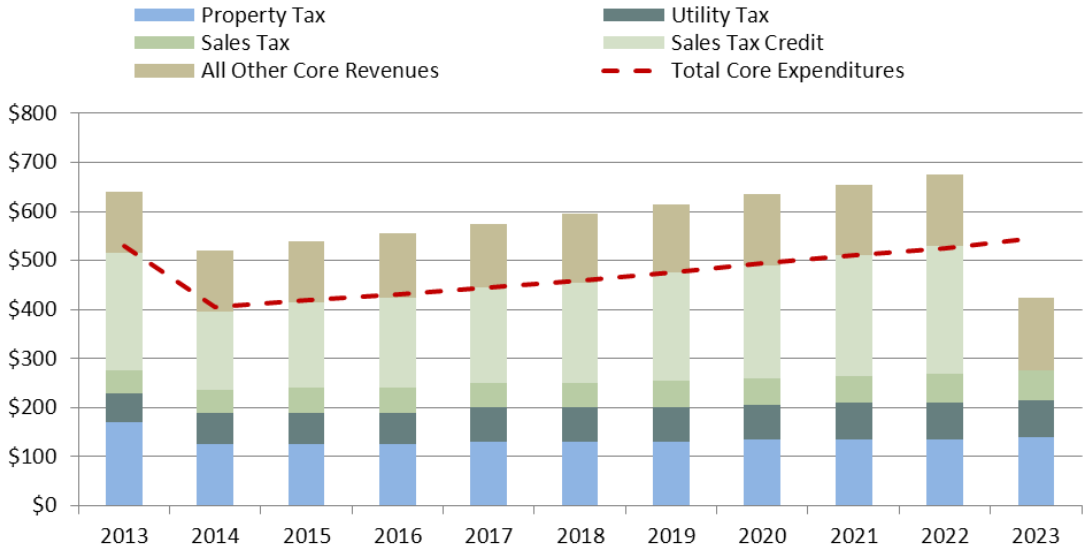


Current City	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Core Expenditures per Capita											
City Council	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
City Manager	$25	$25	$25	$30	$30	$30	$30	$35	$35	$35	$35
Human Resources	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Economic Development	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Community Development	$35	$35	$35	$40	$40	$40	$40	$45	$45	$50	$50
Finance	$45	$45	$45	$45	$50	$50	$50	$55	$55	$55	$60
Legal	$45	$45	$50	$50	$50	$50	$50	$55	$55	$55	$55
Parks Cultural Services	$65	$65	$65	$70	$70	$75	$75	$80	$80	$85	$85
Police	$240	$250	$260	$270	$280	$290	$300	$310	$325	$335	$350
Public Works	$50	$55	$55	$55	$55	$60	$60	$60	$65	$65	$65
Total Core Expenditures	**$515**	**$535**	**$550**	**$570**	**$590**	**$610**	**$630**	**$650**	**$675**	**$695**	**$720**
Core Revenues per Capita											
Property Tax	$150	$150	$155	$155	$155	$160	$160	$160	$165	$165	$170
Utility Tax	$60	$60	$65	$65	$65	$65	$70	$70	$70	$75	$75
Sales Tax	$100	$100	$105	$105	$105	$110	$110	$110	$105	$110	$110
All Other Core Revenues	$155	$165	$155	$165	$175	$175	$175	$180	$185	$185	$190
Total Core Revenues	**$465**	**$475**	**$480**	**$490**	**$500**	**$510**	**$515**	**$520**	**$525**	**$535**	**$545**
Net Revenues	**(50.0)**	**(60.0)**	**(70.0)**	**(80.0)**	**(90.0)**	**(100.0)**	**(115.0)**	**(130.0)**	**(150.0)**	**(160.0)**	**(175.0)**
Deficit/Surplus as % of Expenditures	**-10%**	**-11%**	**-13%**	**-14%**	**-15%**	**-16%**	**-18%**	**-20%**	**-22%**	**-23%**	**-24%**

Source: BERK, 2011

Note: Figures above may not equal report exhibits due to rounding.

Exhibit 17: Estimated Core Revenues and Expenditures per Capita for the PAA (2013-2023)

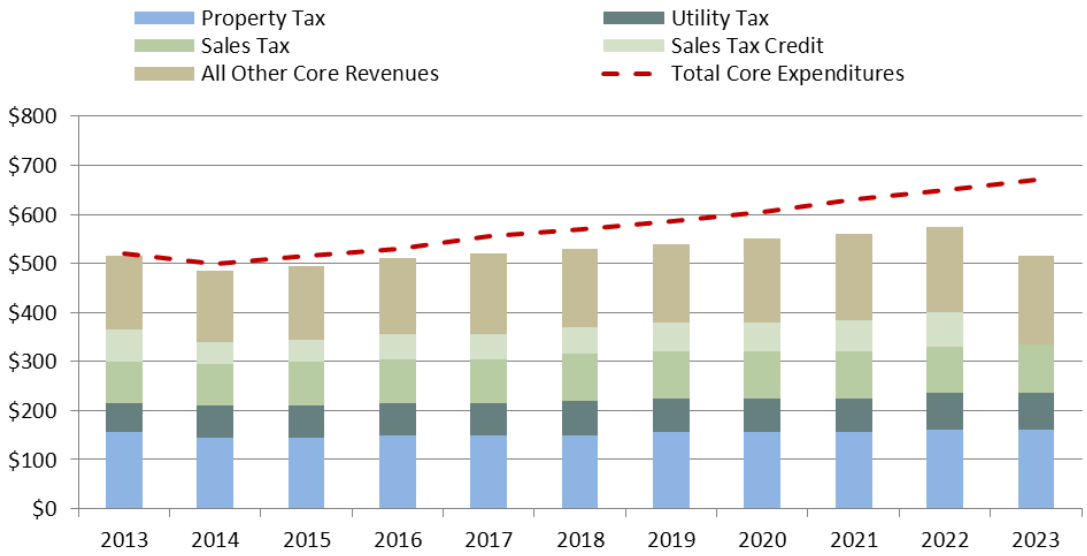


Increment from PAA	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Core Expenditures per Capita											
City Council	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
City Manager	$25	$15	$15	$20	$20	$20	$20	$20	$20	$20	$20
Human Resources	$10	$5	$5	$5	$5	$5	$10	$10	$10	$10	$10
Economic Development	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Community Development	$20	$15	$15	$15	$15	$15	$15	$15	$20	$20	$20
Finance	$110	$45	$45	$45	$50	$50	$50	$50	$50	$55	$55
Legal	$25	$25	$25	$25	$25	$25	$25	$25	$30	$30	$30
Parks Cultural Services	$55	$50	$50	$50	$50	$55	$55	$55	$60	$60	$60
Police	$195	$205	$215	$220	$230	$240	$245	$255	$265	$275	$285
Public Works	$85	$45	$45	$45	$45	$50	$50	$50	$50	$55	$55
Total Core Expenditures	**$530**	**$405**	**$420**	**$430**	**$445**	**$460**	**$475**	**$495**	**$510**	**$525**	**$545**
Core Revenues per Capita											
Property Tax	$170	$125	$125	$125	$130	$130	$130	$135	$135	$135	$140
Utility Tax	$60	$65	$65	$65	$70	$70	$70	$70	$75	$75	$75
Sales Tax	$45	$45	$50	$50	$50	$50	$55	$55	$55	$60	$60
Sales Tax Credit	$240	$160	$175	$185	$195	$205	$220	$230	$245	$260	$0
All Other Core Revenues	$125	$125	$125	$130	$130	$140	$140	$145	$145	$145	$150
Total Core Revenues	**$640**	**$520**	**$540**	**$555**	**$575**	**$595**	**$615**	**$635**	**$655**	**$675**	**$425**
Net Revenues	**110.0**	**115.0**	**120.0**	**125.0**	**130.0**	**135.0**	**140.0**	**140.0**	**145.0**	**150.0**	**(120.0)**
Deficit/Surplus as % of Expenditures	**21%**	**28%**	**29%**	**29%**	**29%**	**29%**	**29%**	**28%**	**28%**	**29%**	**-22%**

Source: BERK, 2011

Note: Figures above may not equal report exhibits due to rounding.

Exhibit 18: Estimated Core Revenues and Expenditures for the City of Burien, With Annexation in 2012 (2013-2023)



Entire City with Annexation	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Core Expenditures per Capita											
City Council	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
City Manager	$25	$25	$25	$25	$25	$25	$30	$30	$30	$30	$30
Human Resources	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Economic Development	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5
Community Development	$30	$30	$30	$30	$35	$35	$35	$35	$40	$40	$45
Finance	$60	$45	$45	$45	$50	$50	$50	$50	$55	$55	$55
Legal	$40	$40	$40	$40	$45	$45	$45	$45	$45	$50	$50
Parks Cultural Services	$60	$60	$65	$65	$65	$70	$70	$75	$75	$80	$80
Police	$230	$235	$245	$255	$265	$275	$285	$295	$310	$320	$330
Public Works	$60	$50	$50	$55	$55	$55	$55	$60	$60	$60	$65
Total Core Expenditures	**$520**	**$500**	**$515**	**$530**	**$555**	**$570**	**$585**	**$605**	**$630**	**$650**	**$670**
Core Revenues per Capita											
Property Tax	$155	$145	$145	$150	$150	$150	$155	$155	$155	$160	$160
Utility Tax	$60	$65	$65	$65	$65	$70	$70	$70	$70	$75	$75
Sales Tax	$85	$85	$90	$90	$90	$95	$95	$95	$95	$95	$100
Sales Tax Credit	$65	$45	$45	$50	$50	$55	$60	$60	$65	$70	$0
All Other Core Revenues	$150	$145	$150	$155	$165	$160	$160	$170	$175	$175	$180
Total Core Revenues	**$515**	**$485**	**$495**	**$510**	**$520**	**$530**	**$540**	**$550**	**$560**	**$575**	**$515**
Net Revenues	**(5.0)**	**(15.0)**	**(20.0)**	**(20.0)**	**(35.0)**	**(40.0)**	**(45.0)**	**(55.0)**	**(70.0)**	**(75.0)**	**(155.0)**
Deficit/Surplus as % of Expenditures	**-1%**	**-3%**	**-4%**	**-4%**	**-6%**	**-7%**	**-8%**	**-9%**	**-11%**	**-12%**	**-23%**

Source: BERK, 2011

Note: Figures above may not equal report exhibits due to rounding.

3.0 RECESSION FACTOR SCENARIOS

The fiscal analysis 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. This study assumes a level of development activity similar to that seen historically. To remain conservative, it does not make assumptions regarding additional development due to downtown revitalization or other large development projects.

The potential impacts of the current economic recession have also been incorporated into the analysis by allowing for specific and variable assumptions regarding level of economic activity and possible year of recovery (i.e. return to more historic rates of development and business activity). The recession factor impacts levels of development, taxable retail sales, rates of increase in assessed value, and real estate turnover rates. For the baseline analysis contained in the report, we assumed activity at 50% of historical for 2011, increasing incrementally until "full recovery" in 2016, when activity is anticipated to return to a more typical pattern (which is displayed in Exhibit 19, below).

Exhibit 19: Typical Pattern of Development for PAA

Typical Pattern of Development	PAA
Number of Housing Units Added per Year	16
Commercial/Industrial Sq Ft Added per Year	15,900
Number of Jobs Added per Year	30
Population Added per Year	30

Council requested alternative scenarios that both sped up and slowed down the pace of recovery. These scenarios included:

- **Scenario 1: Baseline Development Pattern.** This scenario, which was used in the report, assumes activity at 50% of historical for 2011, increasing incrementally until "full recovery" in **2016**, when activity is anticipated to return to a more typical pattern.
- **Scenario 2: Full Recovery in 2014.** Similar to the baseline scenario, this scenario assumes activity at 50% of historical for 2011, increasing incrementally until "full recovery" in **2014**, when activity is anticipated to return to a more typical pattern.
- **Scenario 3: Full Recovery in 2020.** This scenario assumes lower level of activity for 2011, at 10% of historical, increasing incrementally until "full recovery" in **2020**, when activity is anticipated to return to a more typical pattern.
- **Scenario 4: Full Recovery in 2023.** This scenario assumes lower level of activity for 2011, at 10% of historical, increasing incrementally until "full recovery" in **2023**, when activity is anticipated to return to a more typical pattern.

As Exhibit 20 illustrates, there are minor differences between the scenarios, however the findings outlined in the report still hold true in that annexation, even in a slow-growth environment, does not negatively impact the City's overall fiscal picture. There are two primary reasons for this: 1.) Any additional gap between costs and revenues within the annexation area are met by using additional sales tax credit dollars; and 2.) There is not a large amount of development occurring within the PAA even at a typical pattern.

Exhibit 20: Impact of Annexation for Alternative Development Scenarios

Scenario 1: Baseline	2013	2014	2022	2023
Core Expenditures	34,133,000	32,861,000	43,594,000	45,290,000
Core Revenues	29,478,000	29,180,000	33,726,000	34,506,000
State Sales Tax Credit	4,200,000	2,830,000	4,623,000	0
Subtotal Revenues	**33,678,000**	**32,010,000**	**38,349,000**	**34,506,000**
Net Revenues	**(455,000)**	**(851,000)**	**(5,245,000)**	**(10,784,000)**
Deficit/Surplus as % of Expenditures	**-1%**	**-3%**	**-12%**	**-24%**
Marginal Impact of Annexation	**86%**	**77%**	**48%**	**2%**

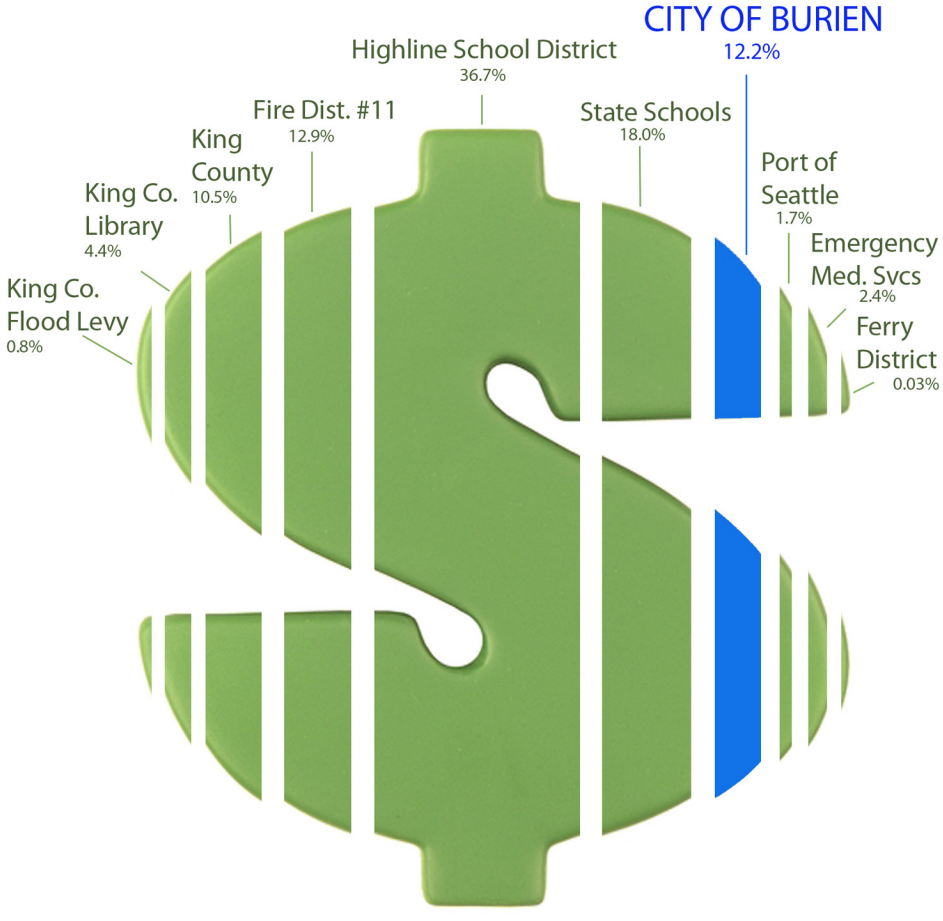
Scenario 2: Full Recovery in 2014	2013	2014	2022	2023
Core Expenditures	34,133,000	32,861,000	43,594,000	45,383,000
Core Revenues	29,488,000	29,204,000	33,803,000	34,608,000
State Sales Tax Credit	4,198,000	2,823,000	4,604,000	0
Subtotal Revenues	**33,686,000**	**32,027,000**	**38,407,000**	**34,608,000**
Net Revenues	**(447,000)**	**(834,000)**	**(5,187,000)**	**(10,775,000)**
Deficit/Surplus as % of Expenditures	**-1%**	**-3%**	**-12%**	**-24%**
Marginal Impact of Annexation	**87%**	**77%**	**48%**	**2%**

Scenario 3: Full Recovery in 2020	2013	2014	2022	2023
Core Expenditures	34,133,000	32,861,000	43,594,000	45,207,000
Core Revenues	29,408,000	29,075,000	33,341,000	34,043,000
State Sales Tax Credit	4,223,000	2,858,000	4,720,000	0
Subtotal Revenues	**33,631,000**	**31,933,000**	**38,061,000**	**34,043,000**
Net Revenues	**(502,000)**	**(928,000)**	**(5,533,000)**	**(11,164,000)**
Deficit/Surplus as % of Expenditures	**-1%**	**-3%**	**-13%**	**-25%**
Marginal Impact of Annexation	**85%**	**76%**	**47%**	**2%**

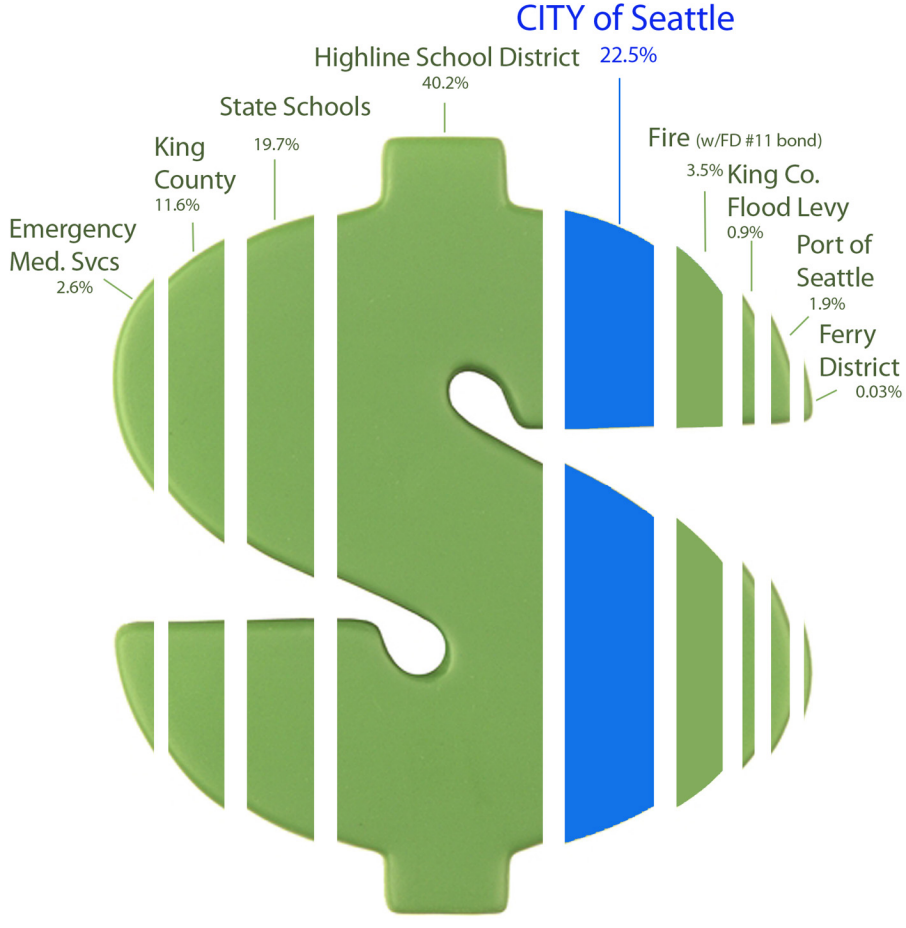
Scenario 4: Full Recovery in 2023	2013	2014	2022	2023
Core Expenditures	34,133,000	32,861,000	43,594,000	45,207,000
Core Revenues	29,405,000	29,067,000	33,167,000	33,851,000
State Sales Tax Credit	4,224,000	2,860,000	4,764,000	0
Subtotal Revenues	**33,629,000**	**31,927,000**	**37,931,000**	**33,851,000**
Net Revenues	**(504,000)**	**(934,000)**	**(5,663,000)**	**(11,356,000)**
Deficit/Surplus as % of Expenditures	**-1%**	**-3%**	**-13%**	**-25%**
Marginal Impact of Annexation	**85%**	**75%**	**47%**	**2%**

Source: BERK, 2011

2011 PROPERTY TAX LEVY
BURIEN IN FIRE DISTRICT 11
($2,531.23 property tax/yr for 200k home)



2011 PROPERTY TAX LEVY
ESTIMATE IF SEATTLE WERE TO ANNEX N.H.
($2,308.54 property tax/yr for 200k home)



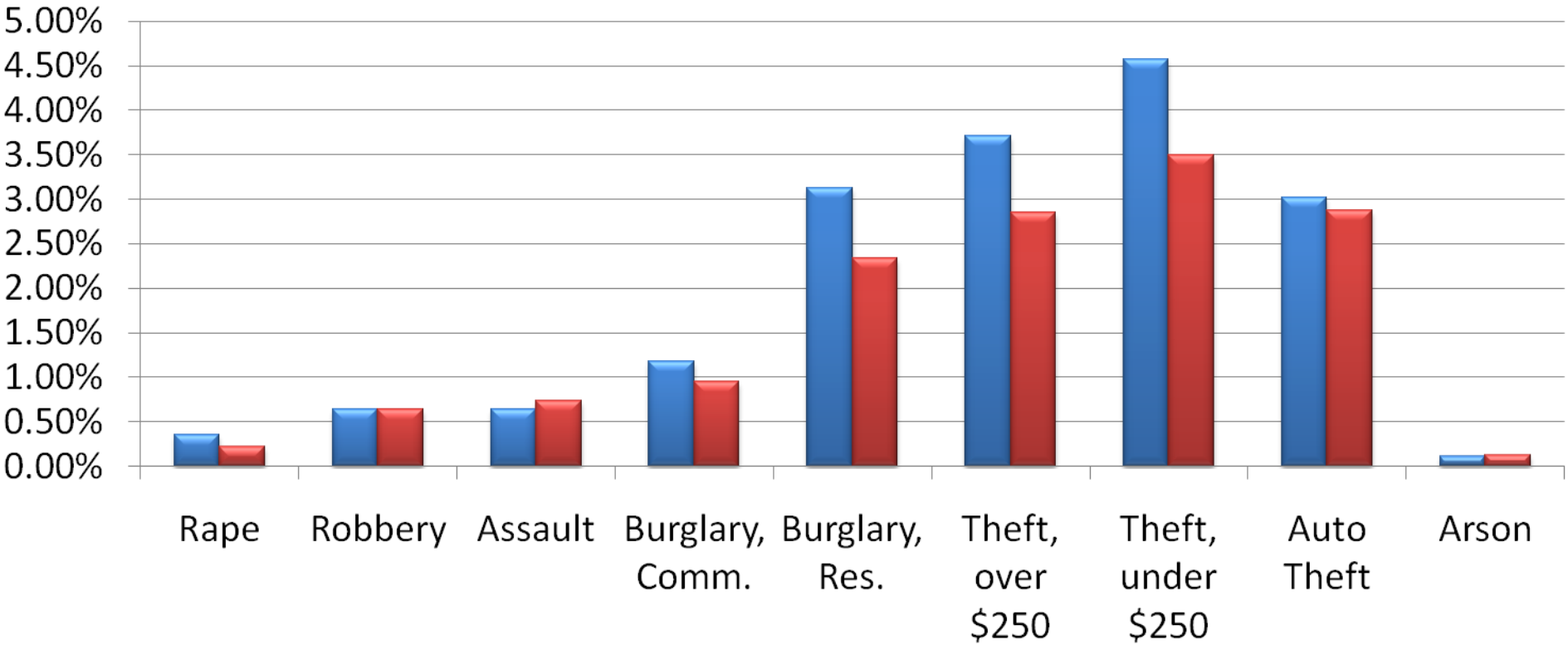
City of Burien Police Department

Crime Comparison – Burien and North Highline (White Center)

The information contained in this presentation covers the one year period following annexation of North Highline into Burien.

April 1, 2010 through March 31, 2011

Part I Crimes as % of DCFS

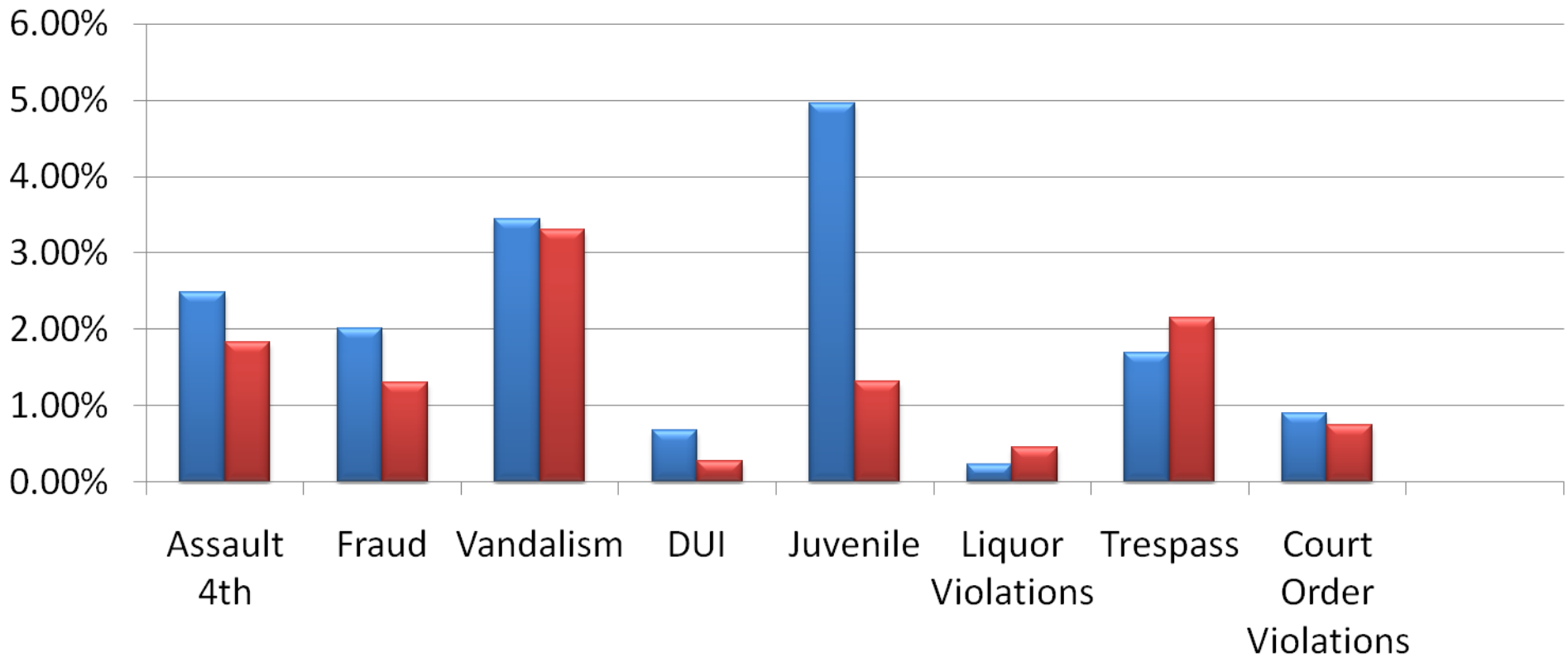


Burien

N. Highline

DCFS = Dispatched Calls For Service

Part II Crimes as % DCFS



Burien

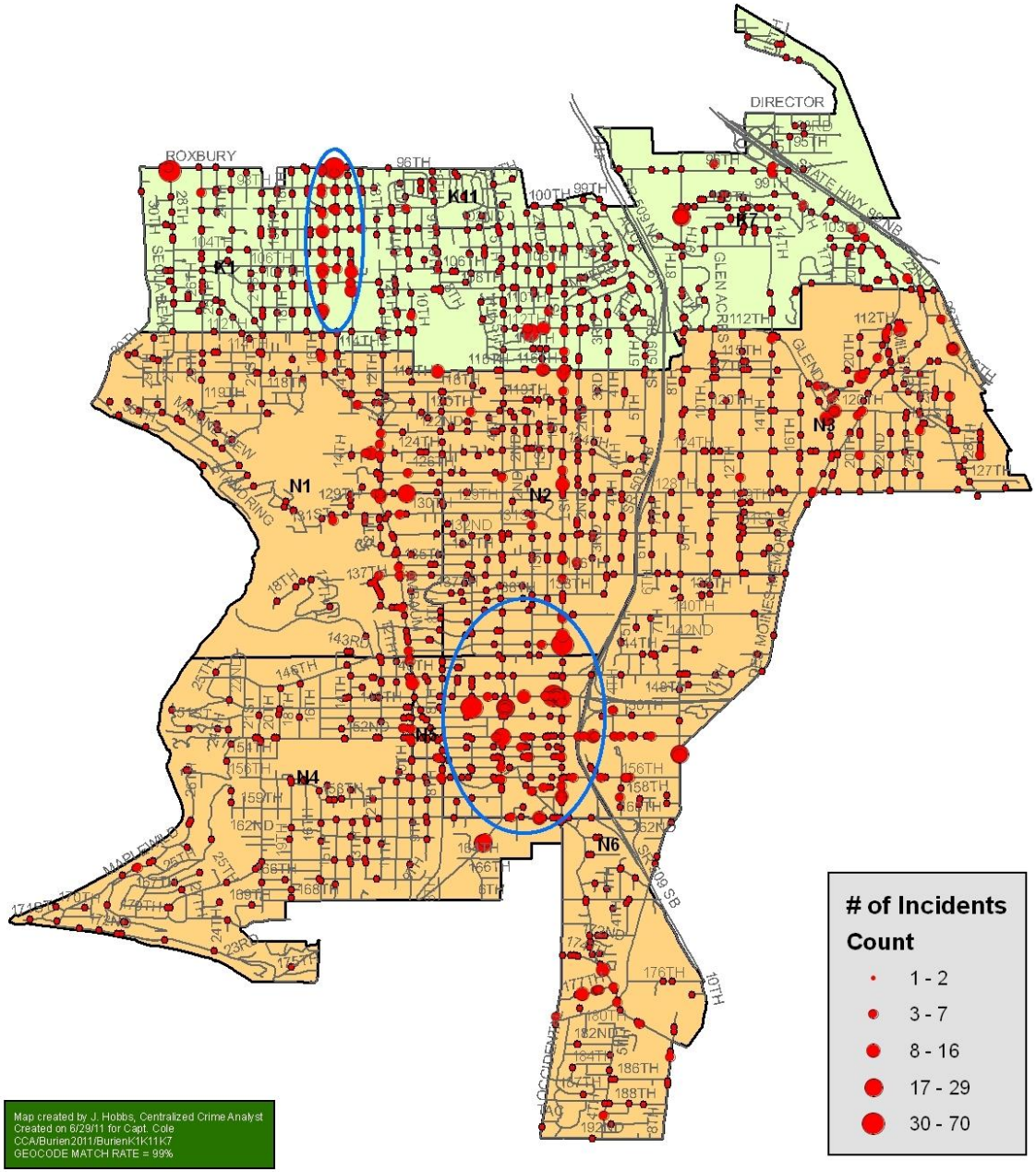
N. Highline

Crime Rate

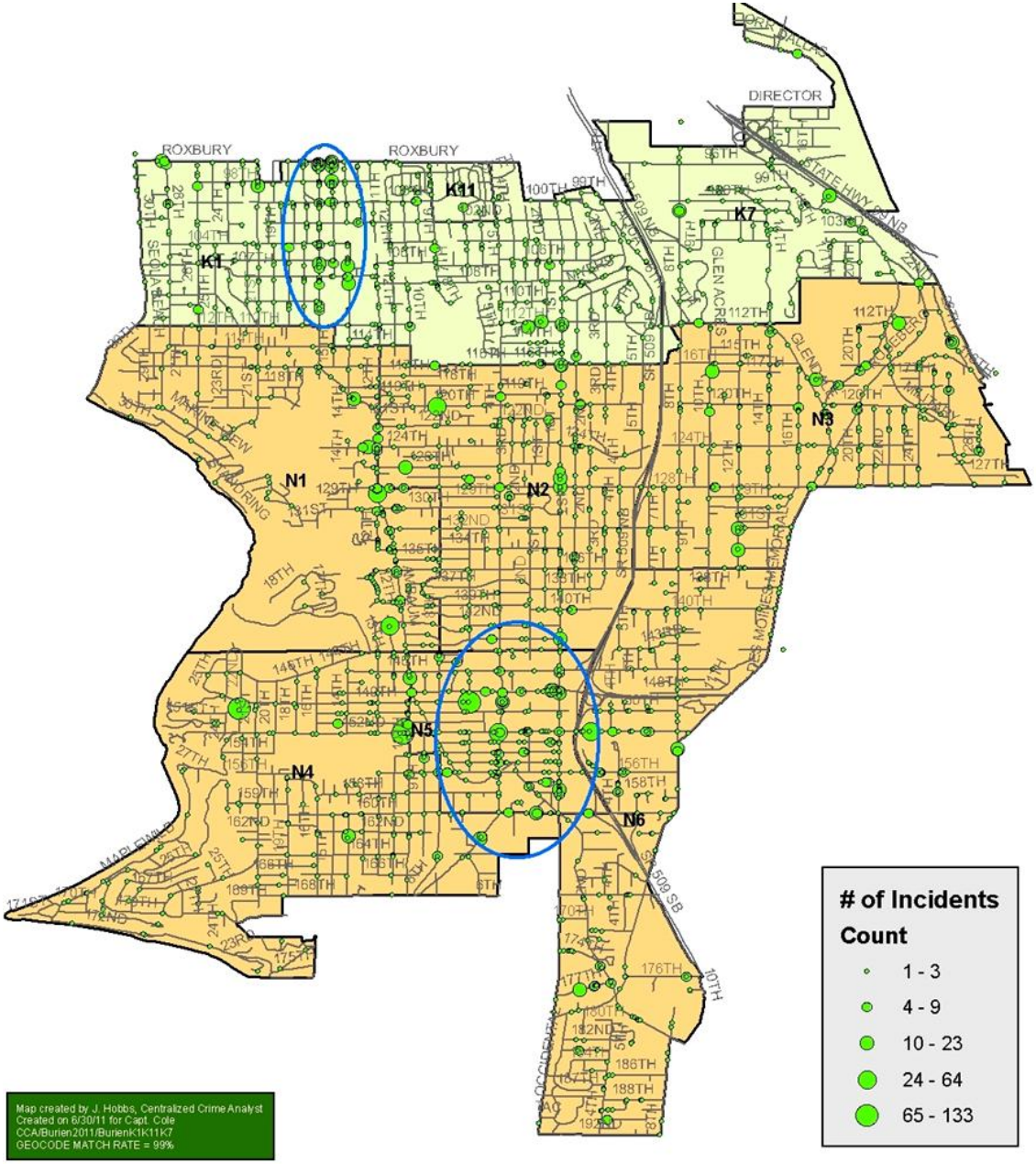
It is important to remember that crime rates are averaged over population and that there are usually crime centers in any larger area that are focused in the commercial districts.

Burien Crime Rate = 49.9
North Highline Crime Rate = 56.76

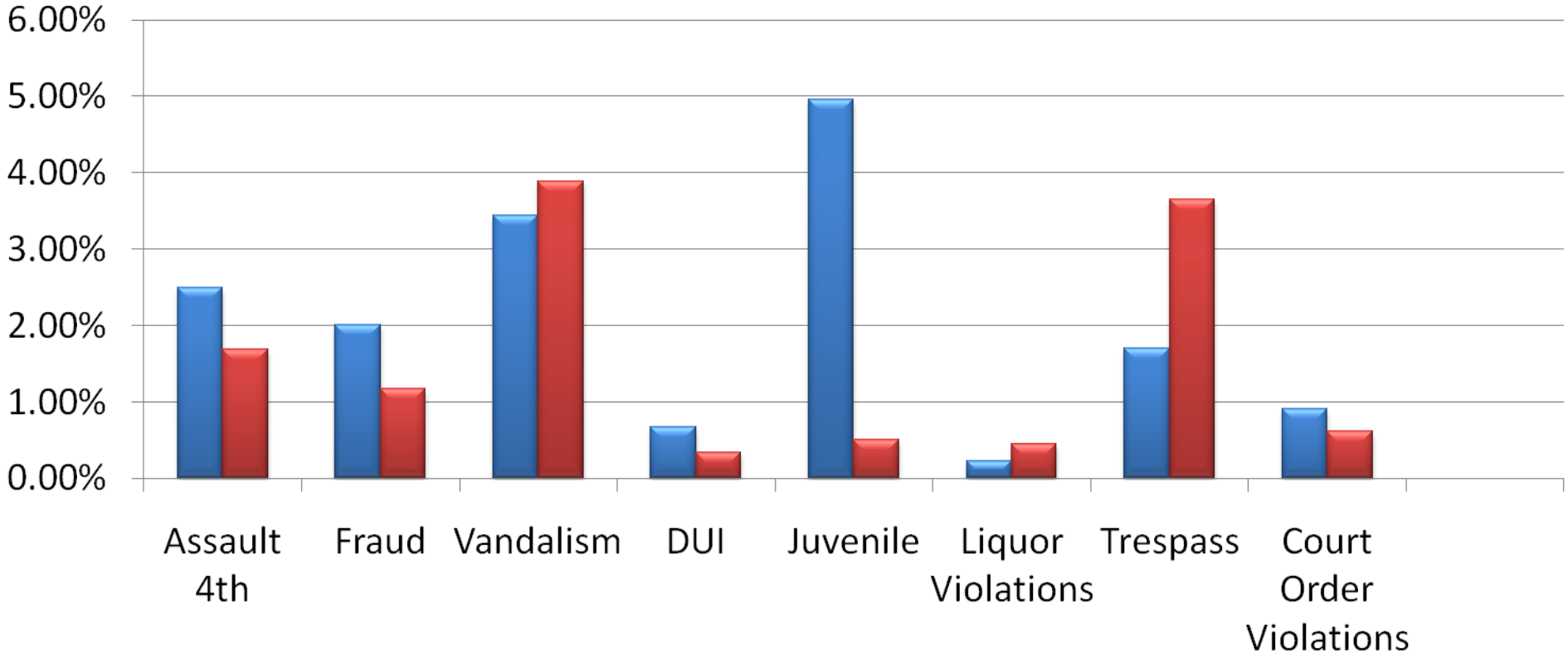
Crime Center Comparison - Part I



Crime Center Comparison - Part II



N5 compared to White Center as % DCFS Part II Crimes



Burien

N. Highline

QUESTIONS?

Thank You
For Your
TIME & ATTENTION