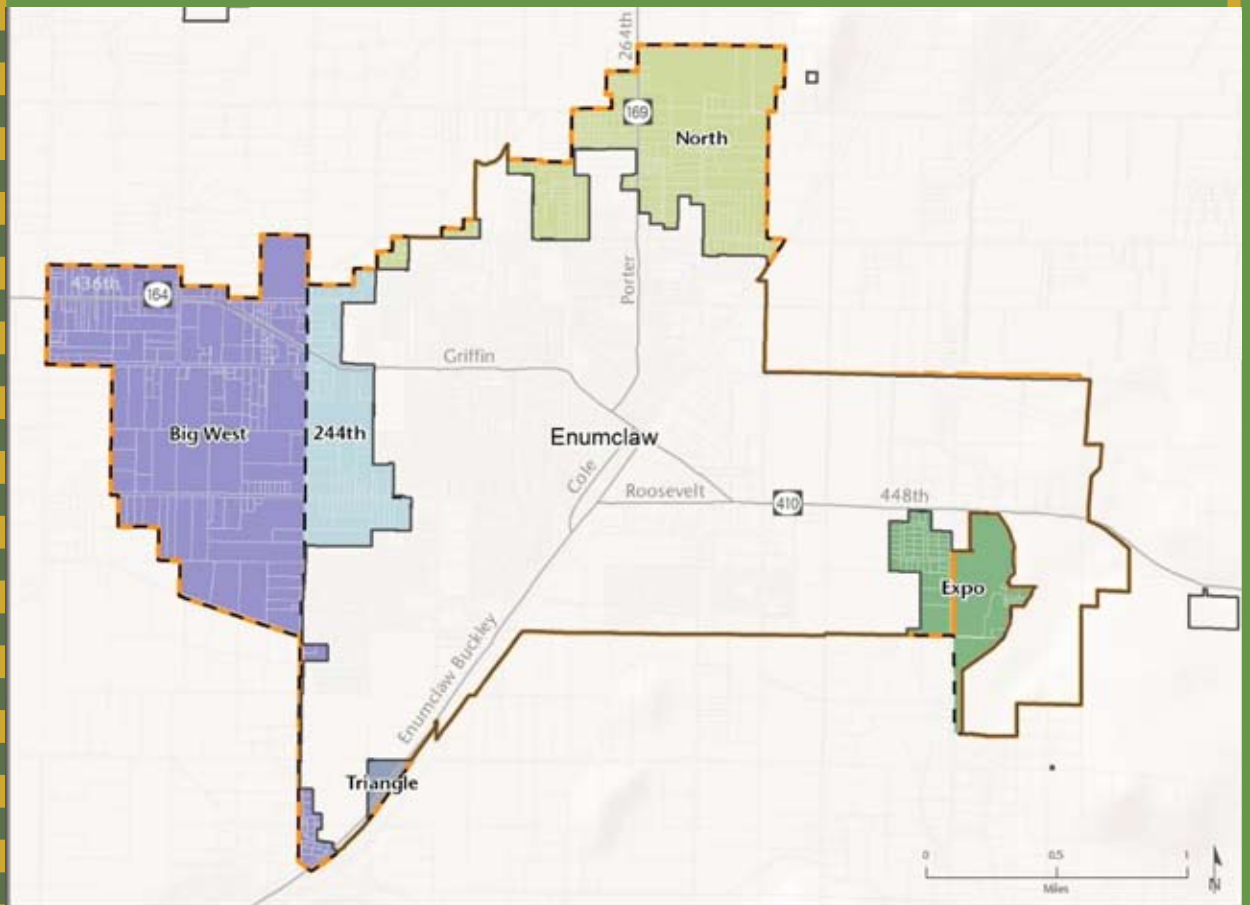




City of
ENUMCLAW

Fiscal Impacts of Annexation

DISCUSSION DRAFT: February 2009



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**CITY OF ENUMCLAW
FISCAL IMPACTS OF ANNEXATION**

DISCUSSION DRAFT

FEBRUARY 2009



| BERK & ASSOCIATES |

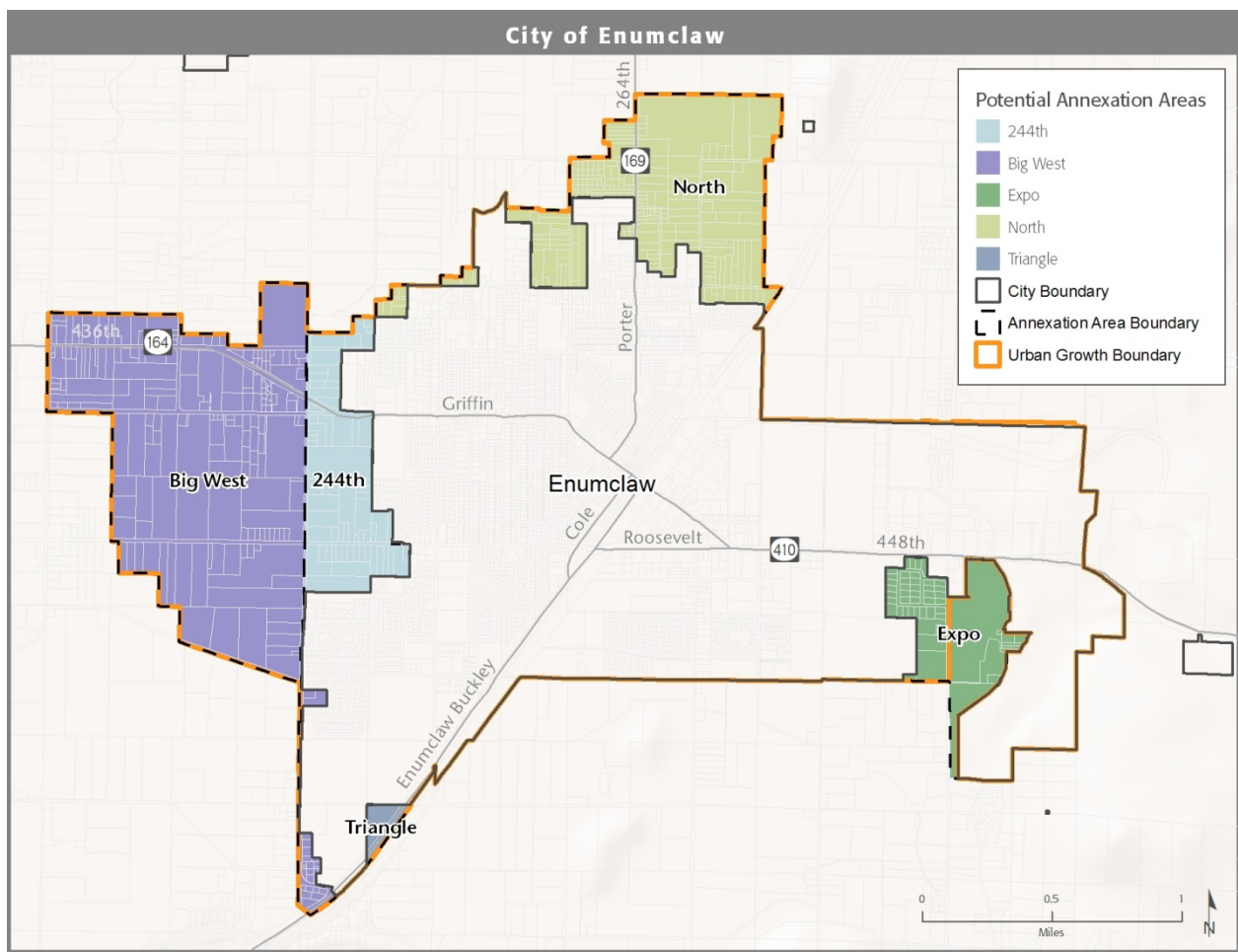
EXECUTIVE SUMMARY

PROJECT OVERVIEW

As the City of Enumclaw emerges from its long-standing moratorium on development, the City wants to assess the question of annexation and the role that annexations might play in the City's short- and long-term fiscal picture. To inform their deliberations, the City contracted with Berk & Associates to perform a fiscal assessment of annexation.

The purpose of this analysis is to provide an assessment of the potential impacts of annexing five identified annexation areas (see **ES 1**).

ES 1 City of Enumclaw Annexation Areas



Source: Berk & Associates, 2008

The annexation analysis performed by Berk & Associates contemplates taking each annexation area separately and then all together. These are referred to as annexation “scenarios.” The following are the annexation scenarios that have been analyzed:

- **Scenario 1:** 244th
- **Scenario 2:** Big West
- **Scenario 3:** Expo
- **Scenario 4:** North
- **Scenario 5:** Triangle
- **Scenario 6:** All Annexation Areas

The Washington State Office of Financial Management (OFM) estimates the population of Enumclaw at approximately 11,470 in 2008. In comparison, the total population of all contemplated annexation areas combined is approximately 1,023. **Exhibit 2** presents the 2008 estimates of housing units and other key statistics for Enumclaw and each of the potential annexation scenarios.

ES 2
Key Estimated Statistics for Contemplated Annexation Areas, 2008

	Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
Population (2008)	11,470	113	383	113	411	3	1,023
Housing Units (2008)	3,879	45	152	45	171	1	414
Land Area (square miles)	4.14	0.26	1.04	0.2	0.53	0.02	2.05
Park Area (acres)	274	0	28	65	0	0	93
Taxable Assessed Value (2008)	\$871,957,287	\$14,069,794	\$46,700,022	\$11,719,982	\$41,684,229	\$354,523	\$114,528,550
Taxable Retail Sales (2007)	\$192,846,696	\$461,241	\$1,061,087	\$376,607	\$1,772,884	\$0	\$3,671,819

Source: City of Enumclaw, 2008; King County Assessor, 2008; Office of Financial Management, 2008; Department of Revenue, 2008; Berk & Associates, 2008

The focus of the annexation analysis is to examine how each potential annexation might fit within the broader context of the City’s long-term fiscal picture. The study examines impacts both in terms of the costs the City would bear immediately upon annexation and in the longer term.

SUMMARY OF IMPACTS

To assess the fiscal and service impacts of annexation, Berk & Associates used a dynamic fiscal model to examine Enumclaw’s long-term fiscal position both with and without annexation. 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.

Economies of Scale

For a small city like Enumclaw, the benefits of economies of scale are one of the key considerations that drive the City’s fiscal picture. When a city has services with certain fixed costs already established (e.g. a fully-staffed fire station is already in place) the city has the potential to absorb additional constituents without incurring substantial additional costs. In such instances, the *incremental cost* of serving new constituents is significantly less than the *average cost* of serving existing residents.

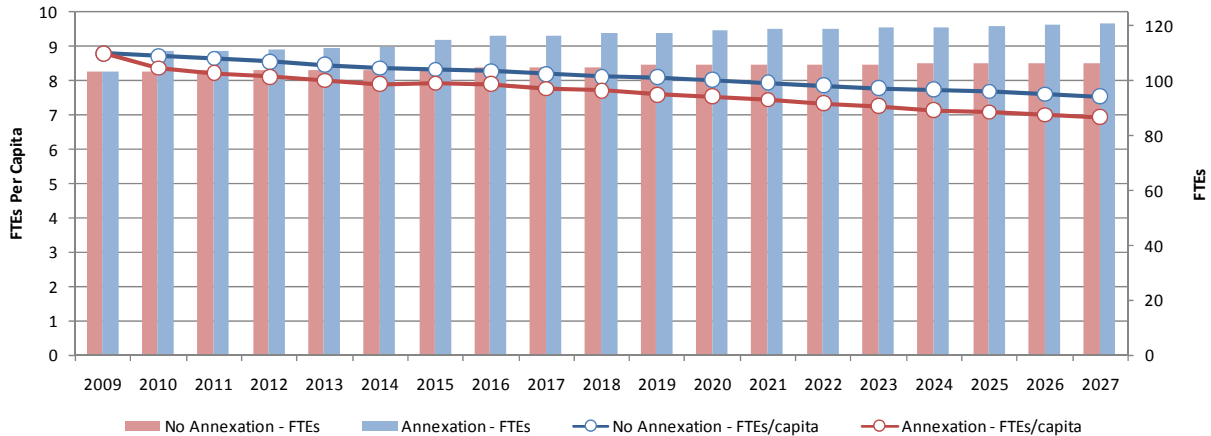
In fact, for a handful of key service areas, the City of Enumclaw *is* in a position to enjoy significant economies of scale—to absorb additional constituents (through new development or through annexation) without incurring incremental costs of service from annexation. The benefits derived from

economies of scale vary by the annexation area, but overall, annexations would be likely to generate significant net fiscal benefits for the City.

To illustrate the aggregate impact that annexation and continued City growth would have on Enumclaw, exhibit **ES 3** shows the counts of City staff positions modeled by Berk & Associates over time, with and without annexation. Staffing counts are displayed in terms of full-time-equivalent positions (FTEs). Berk’s baseline modeling suggests that the ratio of City FTEs per resident drops nearly 2 FTEs per thousand, from just under 9 (for a City of less than 12,000 people) to 7 FTEs per thousand residents in 2027 (for a city of more than 17,000 people under the annexation scenario). The biggest one-time decrease occurs immediately after annexation with the introduction of additional tax revenues but without a parallel increase in modeled staffing requirements.

ES 3 shows the City’s expected counts of FTEs and FTEs per capita for the next 20 years with and without annexation (if the City were to annex all areas).

ES 3
Comparison of FTEs per Capita



Source: Berk & Associates, 2008

Impacts of Annexation

ES 4 and **ES 5** show the estimated costs and revenues for Enumclaw without annexation and for each of the annexation scenarios in 2010 (the year of annexation) and 2025. The 2010 estimates assume that the City would be in steady-state operating mode after transition and the influx of fully-flowing revenue streams.

The impacts of the scenarios are summarized below. In the year of annexation, all scenarios show an improvement on the marginal impact on the City’s baseline situation due to the addition of tax base to the City without the concomitant increase in staffing. The incremental impact to the City’s baseline changes as the annexation areas develop and begin to trigger service demands to the City.

ES 4 Summary of Revenues and Expenditures, 2010

	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
Expenditures	11,950,834	12,003,899	12,452,336	12,003,899	12,056,965	12,056,965	12,945,297
Revenues	10,299,217	10,440,857	10,986,061	10,360,225	10,638,186	10,292,752	11,564,063
Net Resources	(1,651,617)	(1,563,042)	(1,466,275)	(1,643,675)	(1,418,779)	(1,764,213)	(1,381,235)
Deficit as % of Core Expenditures	-13.8%	-13.0%	-11.8%	-13.7%	-11.8%	-14.6%	-10.7%
Marginal Impact on City Baseline	n/a	42.2%	45.8%	39.2%	47.5%	34.8%	48.9%

Source: Berk & Associates, 2008

ES 5 Summary of Estimated Revenues and Expenditures, 2025

	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
Expenditures	22,143,632	22,410,663	23,965,527	22,242,235	23,228,417	22,239,404	25,196,557
Revenues	19,439,067	19,959,510	22,653,962	19,605,200	20,349,054	19,436,358	24,203,983
Net Resources	(2,704,565)	(2,451,153)	(1,311,565)	(2,637,035)	(2,879,363)	(2,803,045)	(992,574)
Deficit as % of Core Expenditures	-12.2%	-10.9%	-5.5%	-11.9%	-12.4%	-12.6%	-3.9%
Marginal Impact on City Baseline	n/a	9.4%	51.5%	2.5%	-6.5%	-3.6%	63.3%

Source: Berk & Associates, 2008

- With the exception of **Scenario 4** (North) and **Scenario 5** (Triangle), all the annexation scenarios improve the fiscal position of the City. As modeled, **Scenario 4** and **Scenario 5** do not increase the City's revenue base in proportion to the incremental costs.
- **Scenario 6** (All Areas) provides the largest net benefit to the City's fiscal position.
- **Scenario 2** (Big West) significantly increases the revenue base for the City and reduces the overall net deficit, producing a 50% improvement in the City's fiscal position in 2025. It is also responsible for the majority of the impact of taking all the annexation areas (Scenario 6).
- **Scenarios 1** and **3** offer more modest improvements for the City resulting in larger gains in revenues relative to the costs accrued.

APPROACH TO ANNEXATIONS

Enumclaw's choices regarding annexation paths (and to a certain extent, the question of when annexation might be desirable at all) are framed by a handful of key issues:

- Potential impacts on the rate and nature of City growth;
- Strategic considerations regarding extension of infrastructure, particularly sewer service; and
- The transactional and transitional costs related to the City of executing one or more annexation(s).

Implications on the Rate and Nature of City Growth

Some of Enumclaw's contemplated annexation areas are relatively built-out. Annexation of these areas would secure for the City some immediate economies of scale, but would have relatively modest impacts on the overall pattern or pace of City development. To make the annexation analysis manageable, the modeled annexation scenarios assume that City growth is tied to a given geography. In reality, however, demand to develop housing in Enumclaw is not tied to narrow geographical boundaries. In practical terms, this leads to two key points:

1. If the goal is to focus development in a given area of the City, then a slower approach to annexation would be desirable.
2. If the goal is to increase the overall rate of City growth, then a more aggressive annexation strategy may be called for.

Tied to this latter point, annexation of the **Big West** area may have implications for Enumclaw's patterns of commerce. As the only annexation area with significant potential to support a new commercial center, the timing of annexation of the Big West area is likely to determine when and/or if Enumclaw would see such a new center.

Strategic Decisions Regarding Infrastructure Extension

Development of the **244th** and **Big West** annexation areas at urban densities requires annexation by the City and extension of sewer services. Since the **Big West** area is at a lower elevation than the existing City sewer system, providing sewer service to the area will require creation of a trunk line and one or more pumping stations. Public Works officials at the City have begun to develop options for extending service, but our understanding is that, generally, two potential paths exist:

1. The City could extend the trunk line in a stepwise process. Each time the trunk line would be extended farther to the west, a pumping station would be added at the terminus.
2. The City could extend the trunk line all the way to the western extreme of the Big West annexation area in a single pass. This would allow the City to avoid construction of a series of pumping stations.

It stands to reason that doing the entire trunk-line extension in a single pass and doing a single installation of the pumping station at the western terminus would result in lower overall costs of system extension. Since the potential site for commercial development falls relatively near the western terminus, this strategy might also makes it more likely (or speed up) development of a new commercial center. This path would also appear to open up the greatest amount of land for residential development in the shortest time. On the downside, this "extend-it-in-one-pass" approach would probably result in the City (or a developer) seeing a longer and less certain pay-back period.

Transaction and Transition Costs Associated with Annexation

A final issue for consideration is that of transaction and transition costs. Cities often take one of two approaches when it comes to annexations:

1. Some cities expand boundaries through large numbers of piecemeal annexations. In many instances, these cities have a reactive policy towards annexation—they respond to requests by property owners and developers on a case-by-case basis.
2. Other cities pursue annexations in large chunks and in a more proactive manner.

The advantage of the first approach is that the city does not invest significant resources reaching out to residents and property owners in annexation areas and initiating annexation discussions. The downsides to this approach include:

- The procedural requirements associated with a large number of small annexations can absorb significant staff resources over a period of many years;

- While the city never sees a single, large shift in service demands, the city finds itself in constant state of flux, always reacting to modest increases in service demands. In most instances, the City never takes the chance to step back and develop a whole-cloth strategy for expanding service delivery; and
- For a city the size of Enumclaw, achieving potential economies of scale is a protracted process.

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1.0 INTRODUCTION

1.1 Purpose of This Study

In 2008, the City of Enumclaw engaged Berk & Associates to study fiscal impacts associated with the potential annexation of several areas within the City's Urban Growth Area. The goals of this analysis are to 1) provide City decision-makers, current City residents, and residents of the annexation areas with a more complete understanding of the fiscal implications of annexation; and 2) assess the broader strategic implications of annexation on governance.

The focus of the annexation analysis is to examine how each potential annexation might fit within the broader context of the City's long-term fiscal picture. The study examines impacts both in terms of the costs the City would bear immediately upon annexation and in the longer term. This report summarizes Berk & Associates' assessment and addresses the following key issues:

1. **Long-Term Fiscal Outlook:** How would the City's fiscal future look with and without annexation?
2. **Near-Term Operating Impacts:** What new operating costs and revenues would Enumclaw face if it were to annex the study area(s) and provide levels of service similar to current services in existing City neighborhoods?
3. **Policy and Strategic Implications:** What annexation area or combinations of areas would make most sense to pursue? What are the considerations that define the scope of this issue?
4. **Capital Infrastructure Assessment:** What are the major existing infrastructure deficiencies in the annexation area and what is the availability of capital funding?

Sales Tax Credit

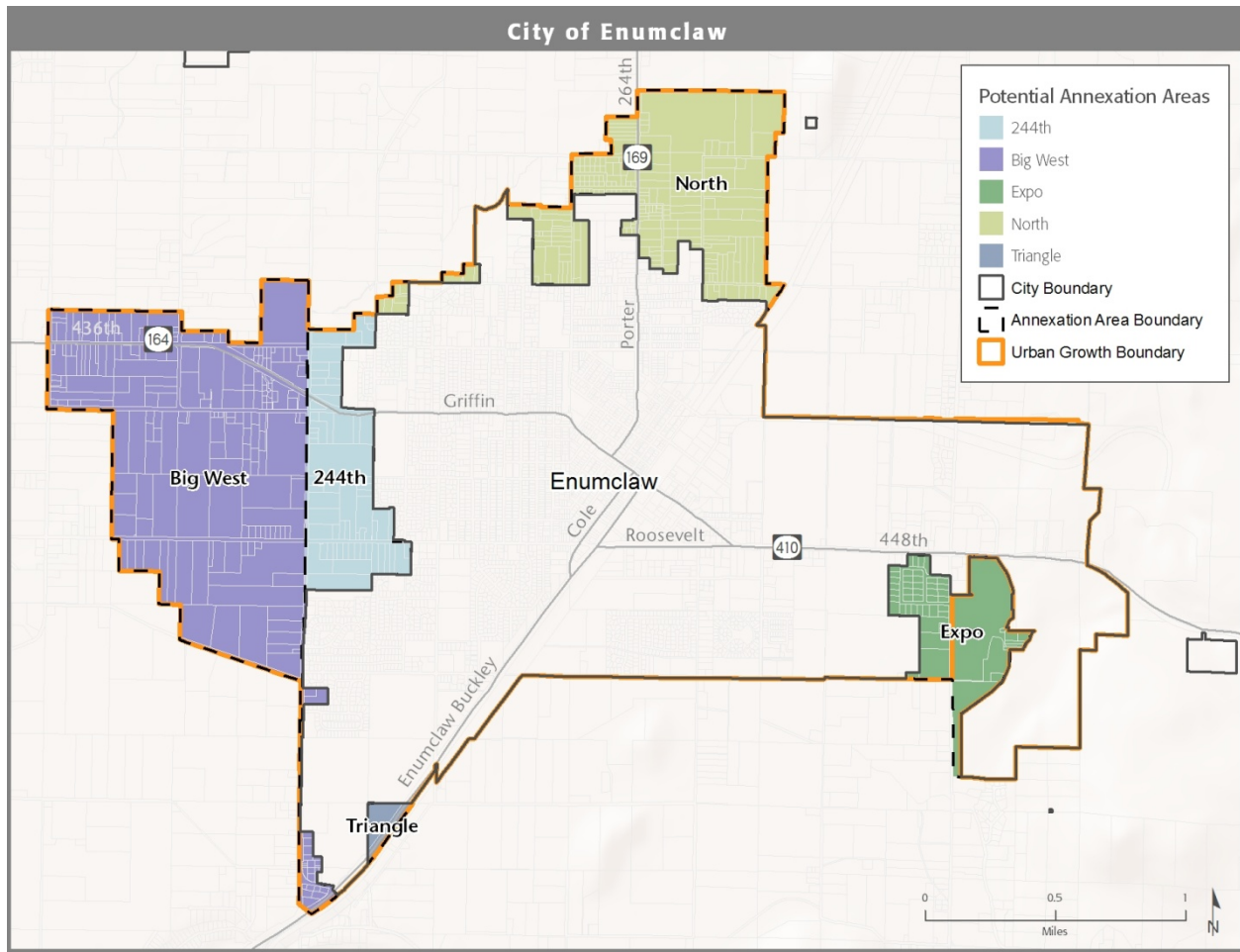
Because of the fiscal challenges posed by most large annexations, in March 2006 the Washington State Legislature added a new funding mechanism to provide transitional funding to annexing cities. The Legislature passed a bill authorizing a *local sales tax credit* to assist the cities with negative revenue impacts resulting from annexations of areas with a population of at least 10,000. The City of Enumclaw is not eligible for the sales tax credit since the cumulative total population of the all the annexation areas is less than 10,000 people.

1.2 Potential Annexation Areas

The City of Enumclaw is contemplating the annexation of five distinct areas within its Urban Growth Area (UGA). The locations of the annexation areas are shown in **Exhibit 1**. The areas represent the remaining land within the City's UGA. The boundaries of the areas represent their orientations around the City's existing boundary with the large area directly west of the City split into two separate areas. These areas are referenced as:

- 244th
- Big West
- Expo
- North
- Triangle

Exhibit 1 Location of Annexation Areas, 2008



Source: Berk & Associates, 2008

1.3 Annexation Scenarios

While it is generally not practical to evaluate each of the potential annexation areas in isolation since there is a logical order of annexing the closest areas first and then the outlying ones, the purpose of this analysis is to provide an area by area comparison of the annexation areas and their incremental impact on the City's fiscal position. The annexation analysis contemplates taking each annexation area separately and then all together. These are referred to as annexation "scenarios." The following are the annexation scenarios that have been analyzed:

- **Scenario 1:** 244th
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The Washington State Office of Financial Management (OFM) estimates the population of Enumclaw at approximately 11,470 in 2008. In comparison, the total population of all contemplated annexation

areas combined is approximately 1,023. **Exhibit 2** presents the 2008 estimates of housing units and other key statistics for Enumclaw and each of the potential annexation scenarios.

Exhibit 2

Key Estimated Statistics for Contemplated Annexation Areas, 2008

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Population (2008)	11,470	113	383	113	411	3	1,023
Housing Units (2008)	3,879	45	152	45	171	1	414
Land Area (square miles)	4.14	0.26	1.04	0.2	0.53	0.02	2.05
Park Area (acres)	274	0	28	65	0	0	93
Taxable Assessed Value (2008)	\$871,957,287	\$14,069,794	\$46,700,022	\$11,719,982	\$41,684,229	\$354,523	\$114,528,550
Taxable Retail Sales (2007)	\$192,846,696	\$461,241	\$1,061,087	\$376,607	\$1,772,884	\$0	\$3,671,819

Source: City of Enumclaw, 2008; King County Assessor, 2008; Office of Financial Management, 2008; Department of Revenue, 2008; Berk & Associates, 2008

If Enumclaw annexed all of the contemplated areas, it would add approximately 2 square miles to the City's land area, increasing the geographic size of the current City by nearly 50%. The areas contain \$114 million of taxable assessed value, \$3.6 million in taxable retail sales, and approximately 90 acres of parks. The Big West is the largest of the areas and accounts for the majority of population and revenue in the areas. The Big West is also one of the least built-out areas.

Estimates of assessed values in the annexation areas are based on Geographic Information System (GIS) analysis of King County Assessor data extracts. Current retail sales tax estimates in the annexation area are based on Berk & Associates' analysis of the Washington State Department of Revenue's spatial assessment of taxpayers in the area.

1.4 Report Organization

The organization of the report follows:

- Discussion of the study's approach and assumptions
- Summary assessment of the fiscal impacts of annexation
- Discussion of the major policy considerations facing the City
- Discussion about the possible capital facilities implications of annexing
- Technical appendices of findings for each scenario, including the development assumptions used, and a discussion of key operating revenues and operating costs

2.0 ANALYTIC APPROACH

2.1 Land-Based Fiscal Model

Berk & Associates developed a dynamic fiscal model for this project to estimate revenues and expenses for both the existing City and a post-annexation City under different development and policy assumptions for a 20 year planning horizon (2008-2027). The model can easily analyze a range of potential annexation scenarios, but for purposes of presenting findings in this report, the analysis assumes annexation in 2010 and examines costs and revenues in the annexation area through 2027. Taking the analysis out over time allows the City to see how the fiscal balance in the City might

change over time and how annexation might affect the City's overall long-term fiscal outlook. **Exhibit 3** offers a schematic representation of the model.

Future Fiscal Position: With or Without Annexation

The annexation analysis assesses the impacts of annexation by comparing the fiscal outlook for the City of Enumclaw under two alternative futures:

- **No annexation:** The future of the current City with boundaries unchanged; and,
- **Annexation:** The future of a larger version of the City that includes one or more of the annexation scenarios.

Analysis of these two alternative City futures provides a comprehensive look at the annexation impacts. In many instances, a City's baseline fiscal picture may show operating shortfalls in future years (a picture that is not unusual given municipal fiscal structures in Washington State). In such an instance it is possible that the City with annexation could improve the City's overall fiscal position, but still show a long-term shortfall.

Development Assumptions

In the model, factors in the land base (such as population, employment, and commercial activity) drive both demand for services and the tax bases that serve as the source of City's revenue streams. Depending on a jurisdiction's scope of services and choices regarding level of service, demand for services leads to costs, and depending on a jurisdiction's choices regarding fiscal and taxing policy (limited by tax laws), its tax base will lead to tax and fee revenues.

The fiscal model is flexible, capturing anticipated development in the City and annexation areas over time, and reflecting this growth in the underlying tax base. In particular the model specifies four key elements: (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.

Economies of Scale

When thinking about annexation (especially for a small city like Enumclaw) the City will enjoy certain economies of scale in delivering City services. Such economies exist when a city performs a number of services with large fixed costs and relatively small variable costs so that the incremental cost of extending the service to a new constituent is relatively modest. Areas where economies of scale are commonly found include services like fire protection and emergency medical services, library services, and general governmental functions. The City will not be required, for example, to hire a second Police or Fire Chief upon annexation.

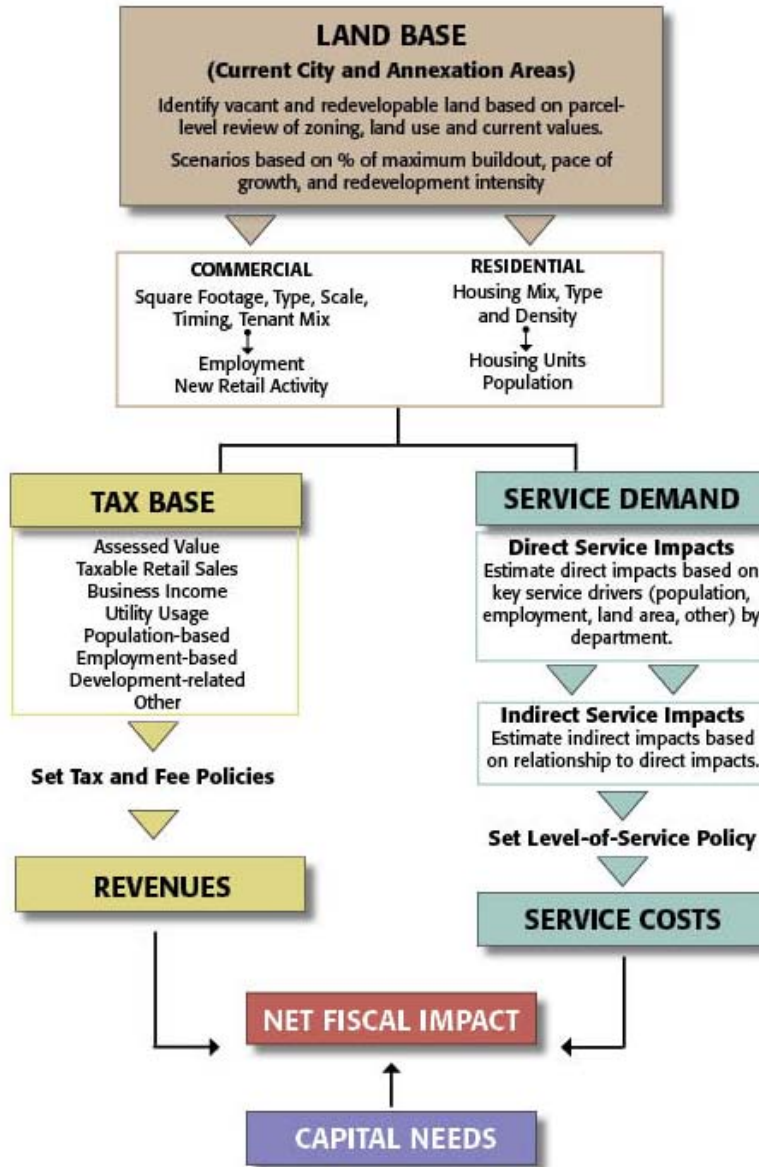
These savings mean that the average cost-per-resident of providing many city services will tend to decrease as the City of Enumclaw becomes larger. In instances where economies of scale are available, each new constituent brings with them a full share of new City revenues (property taxes, utility taxes, etc.) but the incremental cost of extending services is not as pronounced.

In practical terms, Berk & Associates' model reflects economies of scale in two ways:

- The model identifies positions that will not be affected by annexation (e.g. annexation will not trigger the need to hire a new Fire Chief).

- For certain direct positions (those positions that are directly affected by increased demand for services from annexation or growth) the "elasticity" of the position with regard to the new source of demand (demand-driver) may be less than one. In other words, a 10% increase in the characteristic that drives demand for the position will result in less than a 10% increase in position staffing.

Exhibit 3 Long-Term Fiscal Model Schematic



Source: Berk & Associates, 2008

Budget Structure

While the model is not fund-based, it does isolate the components of the City's budget that are funded through general tax and fee revenues, which in the case of Enumclaw includes functions and departments within the City's General Fund and some of its Special Revenue Funds such as Streets and Library Funds. The model does not include utility enterprise funds (such as water, sewer, or natural gas), as these funds are self-supporting through utility revenues.

In Enumclaw's actual operations, the City uses a more extensive accounting system of funds to facilitate provision of services. To the extent that these funds are used for core City operations and would be affected by annexation, the costs and revenues are included within the model framework of estimating *core* costs of service. In instances when these funds are not used for core operational expenditures and are not expected to be affected by annexation, no cost impact of annexation is estimated. (This report also summarizes capital investment needs that have been identified by King County through its capital planning processes.)

The annexation model is based on 2008 budgeted expenditures and tax and fee structures, as outlined in the City of Enumclaw 2008 Budget, which describes the most complete current estimate of the preferred state of operations for the City. Since a number of annexation impacts are based on the current level-of-service (LOS) or on funding allocations reflected in the budget, it is important that any significant deficiencies in current operations (or any temporary arrangements) be identified and addressed in the "base year" analysis.

In this case, this analysis assumes changes in the configuration and staffing in select departments (detailed below for Fire/EMS, City Attorney, and Administration). These base-year adjustments create circumstance where costs are introduced without the revenues to match. In the real world, the City will not make staffing moves, or incur costs, that cannot be supported by established revenue streams, but for purposes of modeling future staffing impacts associated with annexation and/or growth, the project team felt it was important to have the correct base-level staffing in place.

2.2 Key Assumptions

Berk & Associates uses a dynamic fiscal model to examine Enumclaw's long-term fiscal position both with and without annexation. 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. Consistent with this approach, the following discussion begins with an examination of Enumclaw's baseline fiscal outlook (i.e. what does the fiscal picture look like for the City if one assumes that annexation will not happen). We then examine the fiscal outlook for a new, larger City of Enumclaw—a picture that assumes the City will pursue annexation in some combination of the annexation areas.

When considering findings, it is important to bear in mind that:

1. Modeled differences between operating costs and operating revenues are hypothetical.
2. Staffing levels and staffing distributions should be viewed as informational but not as an absolute prediction of future circumstances.

For example, the model uses assumptions about the pace of future development to estimate how many planners or permit technicians the City of Enumclaw will need upon annexation. In fact, the City would only expect to fill those positions if and when the demand for their services has materialized. If

the pace of development does not pick up, then regardless of what the model says, the City would probably not choose to add a given position.

Key Modeling Assumptions

The analysis summarized in this report is shaped by the following *key modeling assumptions*:

- While the model is not fund-based, it does isolate the components of the City's budget that are funded through general tax and fee revenues, as discussed above. The model does not include utility enterprise funds, since these funds are not tax-supported.
- This fiscal analysis excludes local services that are assumed to be unaffected by the annexation decision including water and sewer services, public schools, and health services.
- The future changes in service demands and City revenues are a function of explicit assumptions regarding growth and development, inflation factors and the assumption of maintaining current levels of service and continuation of current tax and fee policies. These assumptions are detailed in the Technical Appendix.
- The current level of service, staffing and expenditures in Enumclaw (as defined in the 2008 budget) are the benchmarks for projecting comparable levels of service, staffing and costs in the annexation areas with the following key exceptions:¹
 - **Enumclaw Fire Department:** The City has made the decision that Fire Department will be staffed 24/7 by career personnel. Currently, the Department is staffed at least 12 hours a day by career personnel supplemented with volunteer firefighting staff. This move assumes that the Department moves from its current 8.5 Full Time Equivalent (FTE) employees to 15.0 FTEs.
 - **City Attorney:** The current City Attorney services are provided by contract. The base-year adjustments in the model reflect an assumption that the current contract will be replaced by a full-time City Attorney position supported by an Assistant City Attorney.
 - **Administration:** The model assumes addition of an Assistant City Manager/Human Resources Director.
 - **Finance:** The model assumes addition of an Assistant IT staff member.
- The annexation scenarios are assumed to take effect in January 2010. While the City may not choose to annex all areas at once, the common annexation date allows for direct comparison between scenarios.
- For most departments, this analysis assumes that all initial annexation-related FTEs are hired and are in place for the date of annexation.
- Not included in this analysis are any incremental costs of facilities for additional employees that are necessary to support the larger, post-annexation city. Also not included are transition costs, such as hiring and training expenses for new staff. Although this analysis assumes full staffing on

¹ The model does not assume any new dedicated revenues to fund these positions because at the time of the writing of this report the funding decision has yet to be made. Over the long-term, it is assumed that the funding will come from the City's general fund. In the case of the City Attorney, the cost of the existing contract is no longer included in the analysis.

the first day of annexation, as well as all revenues expected to be received by the City, in reality there may be a transition period for bringing these new positions up to full productivity.

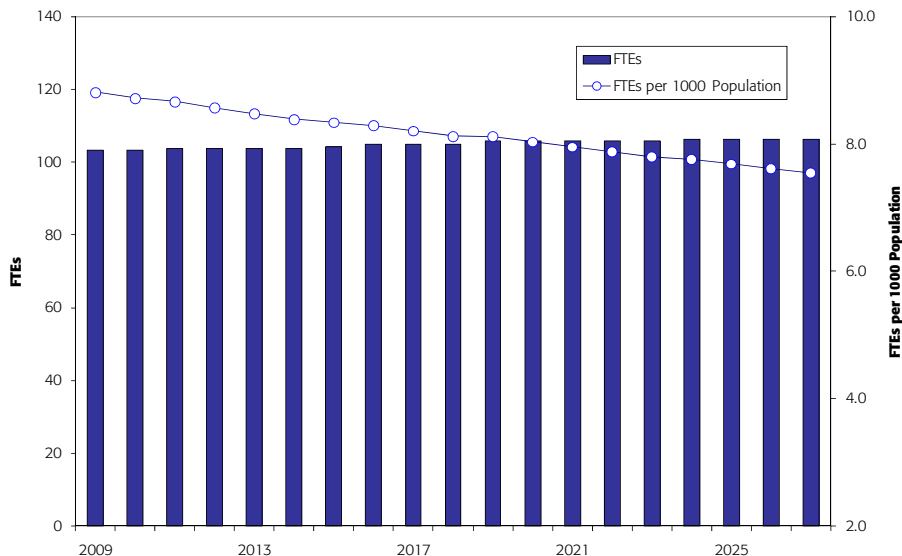
- The need to support capital investments and infrastructure development in the annexation areas is difficult to accurately estimate given the information available. Over time, the type and quality of capital facilities in these areas are expected to be aligned with those provided with the rest of the City. These needs are assessed in the Capital Assessment Section.

3.0 BASELINE FISCAL OUTLOOK

3.1 Economies of Scale

For a small city like Enumclaw, perhaps the biggest factor influencing the attractiveness of annexations is the potential for economies of scale. As the City continues to see modest growth in population and commercial activity, largely stable City staffing should translate into economies of scale as they serve a larger constituency. **Exhibit 4** shows the City's modeled staffing for the next 20 years in blue (displayed in terms of full-time-equivalent positions [FTEs]), with the FTEs per capita shown in white. As the FTEs per capita decrease, all else being equal, the City's per-resident costs will decrease as well.

Exhibit 4
FTEs per Capita for the City of Enumclaw
Assuming No Annexation



Source: Berk & Associates, 2008

3.2 Fiscal Outlook without Annexation

Given a series of statewide initiatives that have passed in the last decade (and given subsequent legislative actions), municipal finance in Washington State has become a complex matter. In particular, with passage of the 1% property tax limit, most cities' "no-action" fiscal scenarios are not encouraging. As one looks towards a future that includes compounding erosion of property tax revenues (i.e. property tax revenue growth that is reduced in purchasing power each year) for many cities, the only

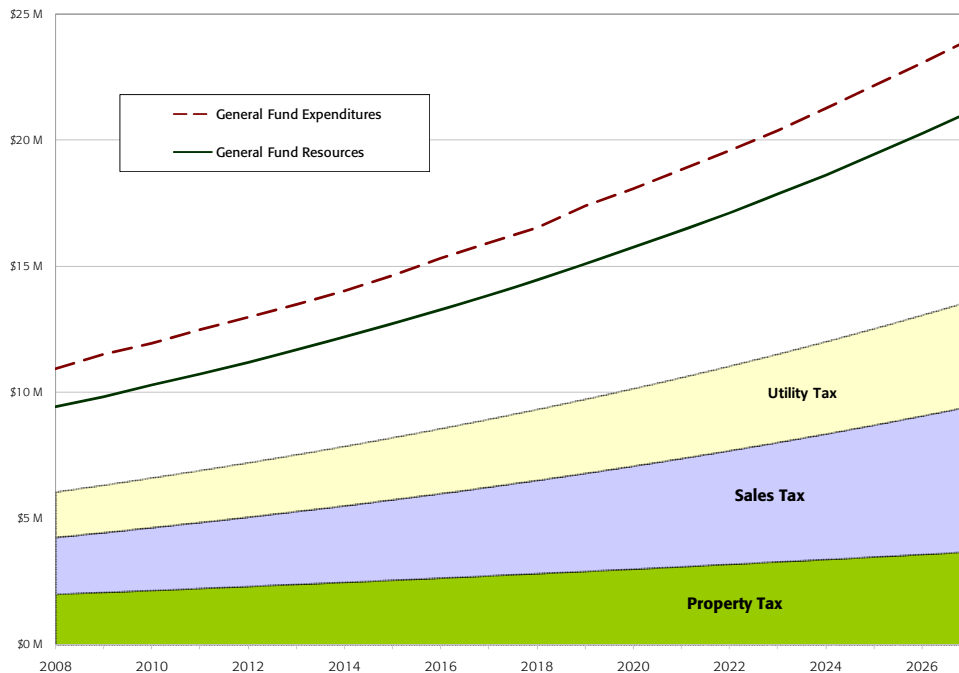
way that long-term fiscal scenarios look sustainable is if the cities (1) plan to tap into existing taxing authority; (2) assume a series of voted levy-lid-lifts to forestall property tax erosion; and/or (3) anticipate robust levels of revenue growth from sources like retail sales.

In Berk & Associates’ baseline modeling, the City of Enumclaw appears to be an exception to the rule. Because the City is well-positioned to realize economies of scale as the City grows, growth in core revenues is expected to generally keep pace with growth in costs. In Exhibit 5, the illustrated shortfall in revenues reflects the adjustment to baseline staffing (i.e. increased staffing in key areas that are assumed to accompany increased revenues). Accounting for this starting discrepancy, the baseline scenario projects revenue increases in future years that nearly keep pace with increased costs.

Compared with many cities in Washington State, the baseline picture in Exhibit 5 is relatively optimistic.

Specifically, **Exhibit 5** shows the baseline model of Enumclaw’s estimated core revenues and expenditures in the long run, along with the City’s three main tax revenue sources. The exhibit shows that although property taxes are not expected to see marked growth in coming years (due to Washington State’s 101% property tax growth limit), underlying growth in sales and utility tax revenues, and the economies of scale in service delivery, are expected to allow the City to maintain its fiscal strength. The growth in sales and use tax is the direct result of new development in the City – at the assumed rate of build-out – adding increased housing units (and population) and commercial activity to the City’s tax base.

Exhibit 5
Estimated Core Revenues and Expenditures for City of Enumclaw
No Annexation (2008-2027)



Source: Berk & Associates, 2008

Exhibit 6 shows, in tabular form, the estimated costs and revenues for the City without annexation every five years over the study period. Again, it is important to note that the City has a revenue deficit due to the structural condition imposed by modeling staffing increases for Fire, Administration, and City Attorney functions without including the corresponding revenues to fund those positions. Even with this condition, however, the City is still facing a modestly expanding deficit due to the eroding value of the property tax. Again, compared with many cities in Washington State, this long-term picture looks relatively good.

The provisions of Initiative 747 and subsequent legislative action cap the allowed increases in property tax revenue at 1% per year (plus levies on new construction). To exceed 1% municipalities must seek voter approval. With this major revenue source capped at 1% increases per year, and with costs that tend to escalate at rates at least equal to general inflation (and in cases of labor, health care costs and employee benefits, at rates that exceed general inflation), cities across the state are facing the reality that, in the absence of actions to forestall property tax erosion, costs will grow faster than revenues.

Exhibit 6
Estimated Core Revenues and Expenditures for City of Enumclaw,
No Annexation (2010-2027)

Current City	2010	2015	2020	2025
Core Expenditures	11,950,834	14,634,158	18,081,763	22,143,632
Other Expenditures	0	0	0	0
Subtotal Expenditures	11,950,834	14,634,158	18,081,763	22,143,632
Core Resources	10,299,217	12,749,691	15,752,630	19,439,067
State Sales Tax Credit	0	0	0	0
Subtotal Revenues	10,299,217	12,749,691	15,752,630	19,439,067
Net Resources (000's)	(1,651,617)	(1,884,467)	(2,329,133)	(2,704,565)
Deficit/Surplus as % of Expenditures	-14%	-13%	-13%	-12%

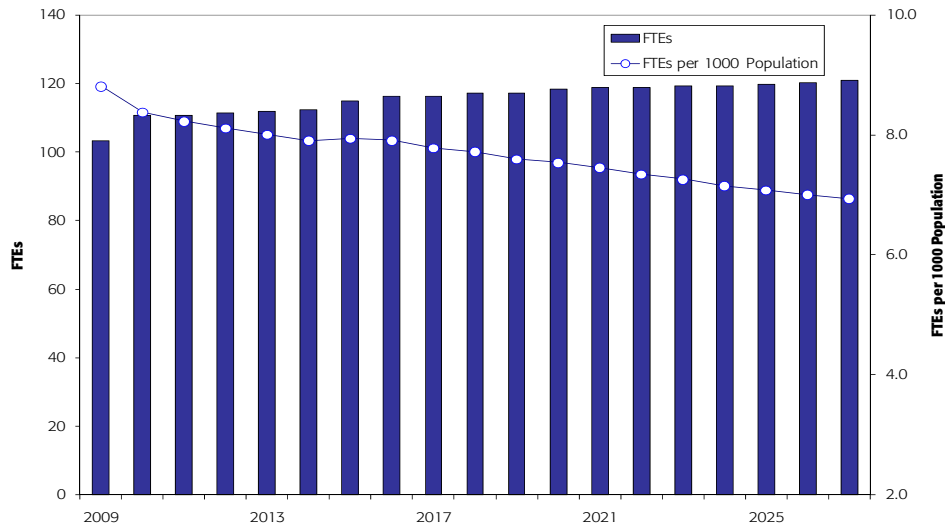
Source: Berk & Associates, 2008

4.0 IMPACT OF ANNEXATION

4.1 Economies of Scale

For a small city like Enumclaw, the benefits of economies of scale cannot be understated. A good example of this is the comparison of FTEs per capita in the annexation and no annexation scenarios. To illustrate the aggregate impact of annexation on the City, the FTEs per population ratio drops nearly 2 FTEs per thousand, from just under 9 to 7 FTEs per thousand population in 2027. The biggest drop occurs immediately after annexation with the introduction of additional tax revenues but without a parallel increase in modeled staffing requirements. **Exhibit 7** shows the City's expected counts of FTEs and FTEs per capita for the next 20 years with annexation if the City were to take all annexation areas.

Exhibit 7 FTEs per Capita for the City of Enumclaw Annexation in 2010



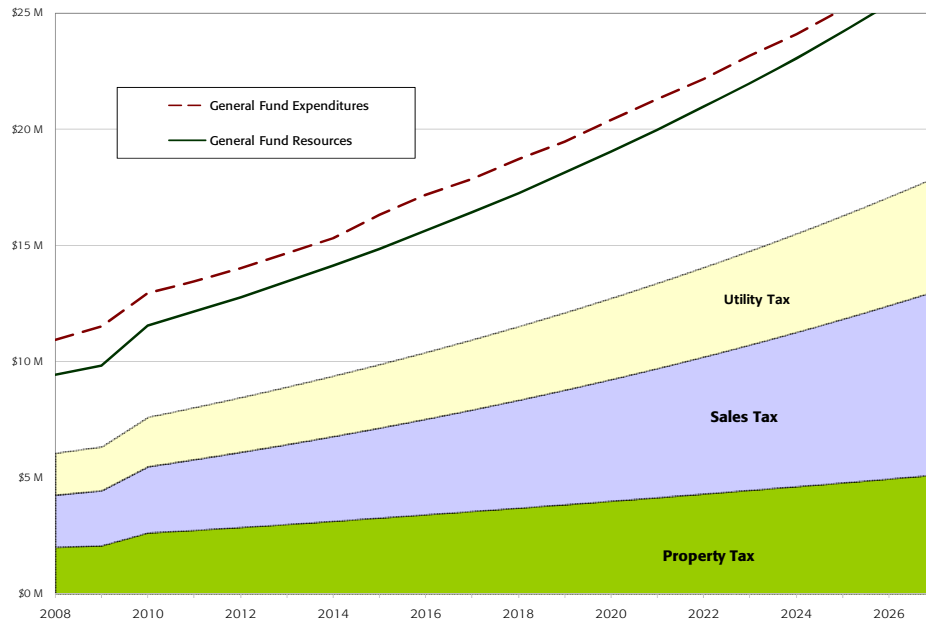
Source: Berk & Associates, 2008

4.2 Fiscal Outlook with Annexation of All Areas

As **Exhibit 8** and **Exhibit 9** shows, the analysis suggests that annexation of all areas yields a positive fiscal impact on the operations of the City of Enumclaw. The estimated surplus increases with annexation due to additional anticipated tax revenue, but there is little increase in estimated service costs to the City. The anticipated net deficit to the City generated from annexing all areas is \$1.0 million by 2025. Without annexation, the deficit is estimated to be \$2 million in 2025. Further, the model suggests that the all annexation scenario helps reduce the "gap" between revenues and expenditures relative to the no annexation scenario.

Although the City will not receive property taxes from the annexation areas for the regular property tax levy until the year after annexation, during the first year of annexation the City will receive revenues associated with the County Road Levy and the Fire District for the annexation area. Those total revenues are estimated to be approximately \$150,000 in 2010.

Exhibit 8 Estimated Core Revenues and Expenditures for City of Enumclaw, Annexation of All Areas



Source: Berk & Associates, 2008

Overall, most of the potential annexation areas are estimated to improve the City’s fiscal position because the amount of revenue generated would exceed the balance of new costs incurred (see below). The impact of annexation on an operating basis (including equipment costs but excluding facilities and infrastructure) is estimated to improve the baseline fiscal position of the City largely because of economies of scale.

Exhibit 9 Estimated Core Revenues and Expenditures for City of Enumclaw, Annexation of All Areas (2010-2027)

Entire City with Annexation	2010	2015	2020	2025
Core Expenditures	12,945,297	16,328,705	20,431,271	25,196,557
Other Expenditures	0	0	0	0
Subtotal Expenditures	12,945,297	16,328,705	20,431,271	25,196,557
Core Resources	11,564,063	14,859,803	19,042,280	24,203,983
State Sales Tax Credit	0	0	0	0
Subtotal Revenues	11,564,063	14,859,803	19,042,280	24,203,983
Net Resources (000's)	(1,381,235)	(1,468,902)	(1,388,991)	(992,574)
Deficit/Surplus as % of Core Expenditures	-11%	-9%	-7%	-4%

Source: Berk & Associates, 2008

4.3 Detailed Scenario Feasibility Analysis

The analysis suggests that impacts of annexation differ between each of the six scenarios because of differences in the characteristics of the annexation areas. The City of Enumclaw is currently estimated

to experience revenue shortfalls in the baseline scenario for reasons already mentioned. The framework used to evaluate each scenario relies on determining the extent to which a particular annexation scenario compounds this revenue shortfall or helps to lessen it.

**Exhibit 10
Estimated Population Increases**

	Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	11,602	11,602	11,602	11,602	11,602	11,602	11,602
2010	11,865	12,045	12,427	11,989	12,364	11,869	13,235
2015	12,523	12,814	13,382	12,666	13,169	12,531	14,471
2020	13,181	13,583	14,338	13,342	13,974	13,193	15,707
2025	13,839	14,352	15,294	14,018	14,779	13,854	16,944
2027	14,102	14,660	15,676	14,289	15,101	14,119	17,438
Net Growth	2,500	3,059	4,075	2,687	3,500	2,517	5,837

Source: Berk & Associates, 2008

Exhibit 10 summarizes the additions of population to the City in an annexation and no-annexation scenario. It is worth noting that the annexation of all areas is estimated to more than double the size of the projected growth of the City versus if no annexation were to occur.

**Exhibit 11
Estimated Revenues and Expenditures, 2025**

	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
Expenditures	22,143,632	22,410,663	23,965,527	22,242,235	23,228,417	22,239,404	25,196,557
Revenues	19,439,067	19,959,510	22,653,962	19,605,200	20,349,054	19,436,358	24,203,983
Net Resources	(2,704,565)	(2,451,153)	(1,311,565)	(2,637,035)	(2,879,363)	(2,803,045)	(992,574)
Deficit as % of Core Expenditures	-12.2%	-10.9%	-5.5%	-11.9%	-12.4%	-12.6%	-3.9%
Marginal Impact on City Baseline	n/a	9.4%	51.5%	2.5%	-6.5%	-3.6%	63.3%

Source: Berk & Associates, 2008

Exhibit 11 shows the estimated costs and revenues for Enumclaw without annexation and the annexation scenarios in 2027. The impacts of the scenarios are summarized below.

- With the exception of **Scenario 4** (North) and **Scenario 5** (Triangle), all the annexation scenarios improve the fiscal position of the City. As modeled, **Scenario 4** and **Scenario 5** do not increase the City’s revenue base in proportion to the incremental costs. In small part, this finding is driven by characteristics of the two areas. (Because they are more built-out, these areas do not generate as much construction sales tax as other areas or the City). In larger part, however, the finding that the North and Triangle annexations do not improve the City’s long-term fiscal picture is the result of a quirk of the model and the arbitrary choice of 2025 as the comparison year.² In our

² If one were to look at net fiscal impacts in the year 2020 or 2030, the North and Triangle annexation scenarios would both show a positive effect on the City’s fiscal picture. It just so happens that around 2025, these two scenarios push the model across a staffing *threshold* where a number of new staff are added. In the real world, staffing thresholds are not nearly so absolute. Therefore, in the real world, it is unlikely that the North or Triangle annexation scenarios would ever result in worsening the City’s fiscal picture.

judgment, City decision-makers should not view the North and Triangle annexations as having a negative impact on the City's fiscal position.

- **Scenario 2** (Big West) significantly increases the revenue base for the City and reduces the overall net deficit, producing a 50% improvement in the City's fiscal position in 2025. It is also responsible for the majority of the impact of taking all the annexation areas (Scenario 6). Big West is the largest annexation area and the assumed build-out of this area drives tax revenue to the City far in excess of the service demands imposed. The Big West is also the only annexation area that currently has any land available for commercial uses (**Exhibit 17**).
- **Scenarios 1** and **3** offer more modest improvements for the City resulting in larger gains in revenues relative to the costs accrued.
- **Scenario 6** (All Areas) provides the largest net benefit to the City's fiscal position.

For reference, and to demonstrate the incremental impact of annexation, the periodic fiscal impact of annexing all areas is shown below in **Exhibit 12**. This scenario also has the largest net impact on the City's overall fiscal position. Over the study period there is immediate revenue and cost impacts in the year of annexation as the City assumes the population and commercial activity in these areas. However, overtime, revenues will increase as a result of growth in these areas at the assumed rate of build-out, resulting in greater net positive impacts. After 2020, population and development use trigger a larger incremental staffing increase to meet service demand imposed by growth in this area.

Exhibit 12 Estimated Revenues and Expenditures for Scenario 6 (All Areas)

Current City	2010	2015	2020	2025
Core Expenditures	11,950,834	14,634,158	18,081,763	22,143,632
Other Expenditures	0	0	0	0
Subtotal Expenditures	11,950,834	14,634,158	18,081,763	22,143,632
Core Resources	10,276,358	12,790,527	15,810,203	19,517,029
State Sales Tax Credit	0	0	0	0
Subtotal Revenues	10,276,358	12,790,527	15,810,203	19,517,029
Net Resources (000's)	(1,674,475)	(1,843,630)	(2,271,560)	(2,626,603)
Deficit/Surplus as % of Expenditures	-14%	-13%	-13%	-12%

Increment from PAAs	2010	2015	2020	2025
Core Expenditures	994,464	1,694,547	2,349,509	3,052,924
Other Expenditures	0	0	0	0
Subtotal Expenditures	994,464	1,694,547	2,349,509	3,052,924
Core Resources	1,287,705	2,069,276	3,232,077	4,686,954
State Sales Tax Credit	0	0	0	0
Subtotal Revenues	1,287,705	2,069,276	3,232,077	4,686,954
Net Resources (000's)	293,241	374,729	882,569	1,634,029
Deficit/Surplus as % of Expenditures	29%	22%	38%	54%

Entire City with Annexation	2010	2015	2020	2025
Core Expenditures	12,945,297	16,328,705	20,431,271	25,196,557
Other Expenditures	0	0	0	0
Subtotal Expenditures	12,945,297	16,328,705	20,431,271	25,196,557
Core Resources	11,564,063	14,859,803	19,042,280	24,203,983
State Sales Tax Credit	0	0	0	0
Subtotal Revenues	11,564,063	14,859,803	19,042,280	24,203,983
Net Resources (000's)	(1,381,235)	(1,468,902)	(1,388,991)	(992,574)
Deficit/Surplus as % of Core Expenditures	-11%	-9%	-7%	-4%

Source: Berk and Associates, 2008

5.0 POLICY OPTIONS AND STRATEGIC CONSIDERATIONS

5.1 Potential for Long-term Revenue Shortfalls

Assuming no annexation, the City of Enumclaw is estimated to experience revenue shortfalls. To address this challenge, the City must either increase their tax base through growth or cut costs to maintain fiscal balance. Since the City cannot operate at a deficit, the Council will need to make appropriate policy adjustments to close the fiscal gap in the future ***with or without annexation***. These could include:

- Tax policy changes, including seeking voter-approval of levy lid lifts, changes in utility tax rates, or new taxes (such as Business & Occupation), which would increase revenues to meet rising service costs; and/or
- Reductions in levels of services, and/or realization of efficiency gains to bring the cost of services in line with available resources.

It is important to note that however the City might choose to address any baseline operating deficits, these policy changes would have an impact on the potential impacts of annexation. For example, if

the City were to consider raising taxes to close the gap, the higher tax rates would increase the revenues that would be expected from the annexation area. If the approach were to reduce costs by modifying levels-of-service, then these revised levels-of-service would likely reduce costs associated with annexation.

Since the City is not required to make these choices at this time, the annexation analysis assumes a continuation of existing policies, even though they are estimated to lead to future budget shortfalls. As a result, the impacts of annexation can best be understood in terms of whether annexation would be expected to make this situation better or worse.

5.2 Annexation and Benefits of Economies of Scale

The City of Enumclaw is in a position to absorb additional constituents without incurring incremental costs of service from annexation. This situation varies by the annexation area, but overall is likely to generate significant net fiscal benefits for the City. These economies of scale phenomena mean that with a number of fixed costs already established the *incremental cost* of providing services to more residents may be significantly less than the *average cost* of providing services to all residents.

In terms of the specific annexation areas, annexing the individual areas of **244th**, **Big West**, and **Expo** are likely to lead to the largest net fiscal benefit to the City because of these economies of scale. In contrast, at least as they are modeled, annexing only the **North** or only the **Triangle** annexation areas results in the most modest fiscal benefits for the City.

Taking all the annexation areas together (**Scenario 6**) ultimately provides the largest net impact to the City's fiscal position. As discussed further below, the City will need to consider the timing and/or sequencing of annexing the areas as it moves forward.

5.3 Approach to Annexations

Enumclaw's choices regarding annexation paths are framed by a handful of key issues:

- Potential impacts on the rate and nature of City growth;
- Strategic considerations regarding extension of infrastructure, particularly sewer service; and
- The transactional and transitional costs related to the City of executing one or more annexation(s).

Implications on the Rate and Nature of City Growth

Some of Enumclaw's contemplated annexation areas are relatively built-out. Annexation of these areas (which include the **North** and **Triangle** areas) would secure for the City some immediate economies of scale, but would have relatively modest impacts on the overall pattern or pace of City development. Annexation of the **244th** or **Big West** areas would also offer some immediate fiscal benefits from economies of scale, but their annexation could also affect the nature and pace of City growth.

To make the annexation analysis manageable, the modeled annexation scenarios assume that City growth is tied to a given geography. In other words, the analysis assumes that a certain amount of growth will happen in the **Big West** annexation area, and the City will receive that growth if it takes the **Big West** area. In reality, however, demand to develop housing in Enumclaw is not tied to narrow geographical boundaries.

If a builder wants to build a house in the broader Enumclaw area, then the builder will build on available, developable lots. If the capacity in the **Big West** annexation area is not available (i.e. if the

City does not annex the area, make utility services available, and plat the lots), then the existing demand for housing is likely to be more focused (and therefore more intense) in areas where developable lots *are* available.

On the other hand, the law of supply and demand suggests that a larger and more diverse pool of developable parcels (which would come with annexations) may result in higher levels of overall development (particularly when the city in question is competing in a broader market like south King County).

In practical terms, the preceding discussion leads to two key points:

1. If the goal is to focus development in a given area of the City, then a slower approach to annexation would be desirable.
2. If the goal is to increase the overall rate of City growth, then a more aggressive annexation strategy may be called for.

Tied to this latter point, annexation of the Big West area may have implications for Enumclaw's patterns of commerce. As the only annexation area with significant potential to support a new commercial center, the timing of annexation of the Big West area is likely to determine when and/or if Enumclaw would see such a new center.

Development of a new commercial center has implications for existing or potential new residents—providing more convenient access to services and amenities. A new center would also have implications for the City as a whole. First, it might allow Enumclaw to capture retail sales that would otherwise be captured by other jurisdictions. Second, development of a new center in the Big West would probably change trip patterns in the City.

Strategic Decisions Regarding Infrastructure Extension

Development of the 244th and Big West annexation areas at urban densities requires annexation by the City and extension of sewer services. Since the Big West area is at a lower elevation than the existing City sewer system, providing sewer service to the area will require creation of a trunk line and one or more pumping stations.

Public Works officials at the City have begun to develop options for extending service, but our understanding is that, generally, two potential paths exist:

1. The City could extend the trunk line in a stepwise process. Each time the trunk line would be extended farther to the west, a pumping station would be added at the terminus.
2. The City could extend the trunk line all the way to the western extreme of the Big West annexation area in a single pass. This would allow the City to avoid construction of a series of pumping stations.

To our knowledge, detailed extension scenarios for sewer service to the western annexation areas have not been developed. In general terms, though, one would expect that evaluating the two approaches outlined above would entail balancing lower overall costs against a longer payback period and, potentially, greater risk.

It stands to reason that doing the entire trunk-line extension in a single pass and doing a single installation of the pumping station at the western terminus would result in lower overall costs of system extension. Since the potential site for commercial development falls relatively near the western

terminus, this strategy might also makes it more likely (or speed up) development of a new commercial center. This path would also appear to open up the greatest amount of land for residential development in the shortest amount of time.

On the downside, this extend-it-in-one-pass approach would probably result in the City (or a developer) seeing a longer and less certain pay-back period.

Transaction and Transition Costs Associated with Annexation

A final issue for consideration is that of transaction and transition costs. Cities often take one of two approaches when it comes to annexations:

1. Some cities expand their boundaries through large numbers of piecemeal annexations. In many instances, these cities have a reactive policy towards annexation—they respond to requests by property owners and developers on a case-by-case basis.
2. Other cities pursue annexations in large chunks and in a more proactive manner.

The advantage of the first approach is that the city does not invest significant resources reaching out to residents and property owners in annexation areas and initiating annexation discussions. The downsides to this approach include:

- The procedural requirements associated with a large number of small annexations can absorb significant staff resources over a period of many years;
- While the city never sees a single, large shift in service demands, more or less, the city finds itself in constant state of flux, always reacting to modest increases in service demands. In most instances, the City never takes the chance to step back and develop a whole-cloth strategy for expanding service delivery; and
- For a city the size of Enumclaw, achieving potential economies of scale is a protracted process.

6.0 CAPITAL ASSESSMENT

The principal focus of this study is on the fiscal impacts associated with day-to-day operation. In the following sections, however, we summarize capital needs that have been identified under current plans for the annexation areas (data developed by King County) 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 each of the annexation areas—revenues that are required to be used to fund infrastructure investment.

6.1 Needs and Costs Identified in the Annexation Area

If the City of Enumclaw annexes the contemplated annexation area, the City would need to conduct an assessment of capital needs in the area. Presumably, this assessment would look at needs for roads and sidewalks, surface water, parks, and other potential investments, all with an eye to the City of Enumclaw's adopted levels-of-service, development requirements and service goals and policies.

In the absence of a full capital assessment, available data on capital needs is limited to projects that have been identified as part of King County's capital planning process. Overall, there are several transportation needs identified in the annexation areas.

Roads Capital Needs

Exhibit 13 below summarizes capital needs in the annexation area. These needs include nearly \$7 million in unfunded roads projects included in King County's 2007 Transportation Needs Report (TNR) with no CIP funded project. These projects are located in the vicinity of the annexation areas, but many may fall inside or outside the boundaries of an annexation depending on precisely how the boundaries are defined.

As part of the annexation process, the City and the Boundary Review Board must agree on the boundaries of the annexations areas. While the City's existing UGA provides some initial guidance on what public infrastructure may be included as part of the annexation. The ultimate boundaries will be decided as part of the annexation process with the Boundary Review Board. These boundary decisions are likely to have has real cost impacts as to whether the City takes over streets that lie along annexation borders, such as:

- 284th Avenue south of Warner Ave,
- Warner Ave from 276th Ave to 284th Ave,
- SR410 from the Triangle annexation area to 244th Avenue,
- Battersby Avenue from the City limits to 284th Avenue, and
- 244th Ave from SE 456th Way to SR410.

For example, the most significant project is a \$3.2 million dollar replacement of the Newaukum Creek Bridge on SE 416th Street. This project is classified as a medium priority. The project is technically just outside the City's UGA (the boundary is does not include the road right of way); however, the Boundary Review Board may have a perspective that the boundary should be extended to include the road right of way.

Exhibit 13 Transportation Needs in the Enumclaw Area, 2007

Location	CIP Funding	Type	Cost
Newaukum Creek Bridge #3068	Unfunded	Bridge	\$3,214,000
244th Ave SE (SR-164 to SE 400 St)	Unfunded	Pedestrian	\$1,283,000
244th Ave SE (SR-164 to SE 456 St)	Unfunded	Pedestrian	\$262,000
SE 448th St & 244 Ave SE	Unfunded	Operational	\$114,000
SE 448th St (244 Ave SE to Enumclaw City Limits)	Unfunded	Pedestrian	\$246,000
228th Ave SE (SE 400th St to SE 452nd St)	Unfunded	Guardrail	\$481,000
SE 432nd St (284 Ave SE to 268 Ave SE)	Unfunded	Pedestrian	\$701,000
SE 432nd St (268th Ave SE to 284th Ave SE)	Unfunded	Guardrail	\$140,000
SE 424th St (268 Ave SE to 284 Ave SE)	Unfunded	Pedestrian	\$75,000
284th Ave SE (Mud Mountain Dam Rd to SR-164)	Unfunded	Guardrail	\$363,000
			\$6,879,000

Source: County Roads Division, Department of Transportation

As development occurs in the annexation area, any need to construct new City roads to serve development is assumed to be completely mitigated by the development. Any incremental impact on the City's existing transportation infrastructure is assumed to be covered by the City's transportation impact fee.

Surface Water

Currently, King County's capital improvement plan has not identified any capital needs for surface water management facilities in any of the potential annexation areas. With the assistance of King County Stormwater Services, Berk & Associates also reviewed stormwater drainage complaints that were reported in the annexation areas from 1987 to 2008. The incidents are summarized in **Exhibit 14**. Over the time period, 42 complaints were received. The most common complaint was drainage issues, which comprised half of all complaints.

Currently, the City does not have a Surface Water utility, but is planning on developing one in 2009. It is assumed that any funding needs in the annexation area would be addressed through this source.

Exhibit 14 Stormwater Complaints

Problem Description	Location	PAA	Date Received	Date Closed
WATER QUALITY	44424 244TH AVE SE	244th	9/17/2007	NA
WATER QUALITY	44720 244TH AVE SE	244th	10/10/2000	12/28/2000
DRAINAGE	SE 24616 448TH ST	244th	2/14/1997	2/27/1997
FLOODING	SE 24530 440TH ST	244th	10/29/1987	11/18/1987
FLOODING	24530 SE 440TH ST	244th	9/22/1983	9/22/1983
WATER QUALITY	43811 244TH AVE SE	Big West	12/8/2003	NA
DRAINAGE	44219 240TH PL SE	Big West	12/17/2001	1/8/2002
DRAINAGE	SE 23229 440TH ST	Big West	3/24/2001	3/21/2005
DRAINAGE	SE 23229 440TH ST	Big West	1/26/2001	3/21/2005
DRAINAGE	SE 23112 436TH ST	Big West	1/26/2001	2/9/2001
REVIEW	SE 24015 436TH WAY	Big West	5/11/2000	10/24/2002
FLOODING	SE 24208 448TH ST	Big West	3/5/2000	7/20/2000
DRAINAGE	44709 244TH AVE SE	Big West	11/17/1999	11/29/1999
DRAINAGE	43731 236TH AVE SE	Big West	5/19/1998	5/29/1998
FLOODING	SE 24033 436TH WAY	Big West	2/8/1996	3/22/1996
FILL	43731 236TH AVE SE	Big West	10/24/1995	11/17/1995
DRAINAGE	SE 24208 288TH ST	Big West	4/12/1993	5/3/1993
DRAINAGE	SE 23322 440TH ST	Big West	4/8/1991	1/1/1900
DRAINAGE	SE 23322 440TH ST	Big West	3/1/1991	2/20/1991
DRAINAGE	SE 23322 440TH ST	Big West	2/20/1991	4/8/1991
FLOODING	43628 236TH AVE SE	Big West	5/17/1990	6/4/1990
DRAINAGE	SE 24208 448TH ST	Big West	1/2/1990	3/7/1990
FILL	SE 23109 436TH ST	Big West	4/20/1989	5/27/1989
DRAINAGE	SE 23525 436TH ST	Big West	2/10/1988	4/28/1988
FLOODING	45730 244TH AVE SE	Big West	9/28/1987	10/8/1987
WATER QUALITY	45223 284TH AVE SE	Expo	1/8/2002	NA
DITCH	SE 28105 449TH ST	Expo	12/15/2000	1/1/1900
DITCH	SE 28105 449TH ST	Expo	3/16/2000	12/15/2000
DITCH	SE 28105 449TH ST	Expo	2/3/2000	3/16/2000
DITCH	SE 28105 449TH ST	Expo	1/3/2000	1/12/2000
WATER QUALITY	45280 288TH AVE SE	Expo	3/21/1995	4/3/1995
EROSION	SE 28711 452ND ST	Expo	3/11/1991	4/6/1991
WATER QUALITY	42018 264TH AVE SE	North	10/25/2006	NA
DRAINAGE	42602 268TH AVE SE	North	12/31/2003	3/26/2004
DRAINAGE	42602 268TH AVE SE	North	12/15/2003	3/26/2004
DRAINAGE	26116 SE 426TH ST	North	5/14/2003	5/30/2003
DRAINAGE	SE 26444 427TH ST	North	7/16/2001	8/21/2001
DRAINAGE	SE 26444 427TH ST	North	6/27/2001	8/21/2001
DRAINAGE	SE 26417 427TH ST	North	4/19/2001	5/2/2001
DRAINAGE	SE 25316 432ND ST	North	9/23/1998	11/24/1998
DRAINAGE	42601 264TH AVE SE	North	6/9/1997	6/13/1997
FLOODING	42712 264TH AVE SE	North	7/21/1993	4/4/1994

Source: King County Stormwater Services; Berk & Associates, 2008

Berk mapped these complaints, and while Big West and North potential annexation areas each had several drainage complaints, these complaints were distributed over 20 years, and do not seem to indicate significant drainage issues needing to be addressed if the area was annexed to the City.

Water and Wastewater

There is currently some water service and no wastewater service outside the City limits. In order for development to proceed in this area after annexation, service will need to be extended. The City will need to contemplate the mechanism that extends service either through the construction of a new dedicated treatment facility or an extension of a trunk line to connect service. The exact mechanism to fund these improvements will have to be made, but may include any combination latecomer agreements and ULIDs.

Parks and Recreation Facilities

The City’s parks plan includes an inventory of the existing parks and facilities and existing park needs, if any, based on the City’s level-of-service (LOS) standards. The plan cites an overall standard of 12 acres of parkland per 1,000 people. There are also four sub-categories: mini parks, which has no set; neighborhood parks, with a standard of 2.29 acres per 1,000 people, community parks with a standard of 3.59 acres per 1,000 people, and open space, which has no standard. Currently, the City does not meet its overall LOS standards for parks, and requires an additional 26.59 acres. The City does meet its need for all sub-categories, however.

**Exhibit 15
Park and Recreation Needs, 2007**

	Enumclaw	PAAs				
		244th	Big West	Expo	North	Triangle
Inventory (Ac)						
Mini Park	5.19	0.00	0.00	0.00	0.00	0.00
Neighborhood Park	27.00	0.00	0.00	0.00	0.00	0.00
Community Park	42.90	0.00	0.00	0.00	0.00	0.00
Open Space	35.96	28.04	0.00	64.60	0.00	0.00
Total	111.05	28.04	0.00	64.60	0.00	0.00
Demand (Ac)						
Mini Park	0.00	0.00	0.00	0.00	0.00	0.00
Neighborhood Park	0.00	0.26	0.87	0.26	0.93	0.01
Community Park	0.00	0.41	1.37	0.41	1.48	0.01
Open Space	0.00	0.00	0.00	0.00	0.00	0.00
Overall	26.59	0.00	4.60	0.00	4.93	0.04

Source: City of Enumclaw Parks Plan, 2006; Berk & Associates, 2008

Berk & Associates analyzed how the inventory and needs increased for each of the potential annexation areas. **Exhibit 15** shows the figures for each area. Each PAA has some unmet needs, but because of their small populations the need is small. Under any of the annexation scenarios, bringing the City up to the higher level-of-service through increasing the number of park acres is a policy-level decision that has operating implications for the City, in addition to capital costs.

Note that Maher Park was subtracted from the open space figures for the City and placed in the 244th PAA.

6.2 Capital Restricted Revenues

The model estimates two major sources of capital funding - Real Estate Excise Taxes (REET) and Gas Tax revenues.

Real Estate Excise Tax (REET)

If Enumclaw were to annex the contemplated annexation areas, the City would expect to receive Real Estate Excise Taxes 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 the 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 high, and during softer real estate markets, revenues are low. For the purposes of this analysis, it is assumed that 9.0% of residential property and 4.5% of commercial property turn over in any given year. Based on Berk & Associates' analysis of the rate of property transactions in the annexation areas, we estimate that the City of Enumclaw could expect to receive \$160,000 in REET revenues in 2010 from the annexation areas.

Gas Tax Revenues

Until 2005, cities had been receiving their gas tax in two distributions: a restricted portion (32%) to be used for capital; and an unrestricted portion (68%) allowed to be used for operating or capital funding. Recently, however, the dual-distribution and restriction have been removed, but most cities (including Enumclaw) have continued to allot approximately one third of gas tax revenues to their capital program. It is assumed going forward that this will not change. Currently, the City is using the gas tax distribution to fund operations in the Street Fund.

TECHNICAL APPENDIX

DETAILED LAND-BASED INPUTS

Land-Based Analysis

In the model, factors in the land base (such as population, employment, and commercial activity) drive both demand for services and the tax bases for the City's revenue streams. Depending on a jurisdiction's scope of services and choices regarding level of service, demand for services leads to costs, and depending on a jurisdiction's choices regarding fiscal and taxing policy (limited by tax laws), its tax base will lead to tax and fee revenues.

The fiscal model is flexible and will capture 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 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.

The King County 2007 Buildable Lands Report was the main basis for determining existing development capacity in Enumclaw. The Buildable Lands Report is the basis of which the City uses as part of its comprehensive planning process (ending in the adoption of its Comprehensive Plan). As part of the Comprehensive Plan, the City must determine its 20-year supply of land that it will need to serve future growth. The Buildable Lands analysis uses the City's land use densities to determine how much land it will require over the Comprehensive Planning horizon.

The annexation model used by Berk evaluates four land uses: single-family residential, multi-family residential, commercial, and industrial, and breaks these uses into four development categories: Pending Development, Vacant, Partially Used, and Redevelopable. Partially Used and Redevelopable lands are combined in the King County Buildable Land Report, thus the total Redevelopable housing unit capacity represents both these categories. An overview of the methodology is below:

Buildable Lands Methodology

- **Pending:** Parcels with building permits for new dwelling units or commercial/industrial structures issued since the buildable lands analysis was conducted in January 2006.
- **Vacant:** Parcels deemed vacant in the buildable lands analysis, including parcels with an improvement value less than \$5,000.
- **Partially Used:** Occupied single-family use parcels where the allowed dwelling units per acre is three times or greater than the existing units per acre. These parcels were categorized as redevelopable for single-family zoning in the Buildable Lands Report.
- **Redevelopable:** Developed parcels that are "under-utilized." "Under-utilized" parcels include multi-family parcels with single-family development or commercial, industrial, and mixed-use parcels that have an improvement to land ratio of 0.5 or less, and thus have a strong likelihood of being converted to a more intensive use.

Development Assumptions

The development assumptions for the annexation model used the available buildable lands developed from the methodology above. Analysis using the above information resulted in the

expected buildout *for the full twenty-year study period* for each area as shown in **Exhibit 16** and **Exhibit 17** below. Subtracted units or square feet under the "Redevelopable" category are existing buildings expected to be torn down and replaced by new development. In some cases, these are residential units anticipated to be replaced by commercial square footage. Therefore, there may be instances where more housing units are subtracted than are being added. If an area is not listed it is not expected to have development activity under that category.

Exhibit 16 Development Assumptions for Residential Housing Units

	Enumclaw	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
		244th	Big West	Expo	North	Triangle	All Areas
Single Family Unit Capacity	1,099	266	1,041	44	368	9	1,728
Assumed Buildout Complete	90%	75%	50%	75%	75%	75%	
Units Added	989	200	521	33	276	7	1,036
Units Subtracted	83	19	37	3	37	1	96
Net Units Added	906	181	484	30	239	6	940
Units per Year	41	8	22	1	11	0	47
Multi Family Unit Capacity	362	0	0	0	0	0	0
Assumed Buildout Complete	75%	75%	75%	75%	75%	75%	
Units Added	272	0	0	0	0	0	0
Units Subtracted	14	0	0	0	0	0	0
Net Units Added	258	0	0	0	0	0	0
Units per Year	12	0	0	0	0	0	0

Source: Berk & Associates, 2008

Exhibit 17 Development Assumptions for Commercial Square Footage

	Enumclaw	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
		244th	Big West	Expo	North	Triangle	All Areas
Retail Capacity (sf)	126,823	0	846,806	0	0	0	846,806
Assumed Buildout Complete	50%	50%	50%	50%	50%	50%	
Added	63,411	0	423,403	0	0	0	423,403
Subtracted	15,468	0	0	0	0	0	0
Net (sf)	47,944	0	423,403	0	0	0	423,403
Square Feet per Year	2,179	0	19,246	0	0	0	21,170
Office Capacity (sf)	295,920	0	0	0	0	0	0
Assumed Buildout Complete	50%	50%	50%	50%	50%	50%	
Added	147,960	0	0	0	0	0	0
Subtracted	36,092	0	0	0	0	0	0
Net (sf)	111,868	0	0	0	0	0	0
Square Feet per Year	5,085	0	0	0	0	0	0
Industrial Capacity (sf)	826,705	0	0	0	0	0	0
Assumed Buildout Complete	50%	50%	50%	50%	50%	50%	
Added	413,353	0	0	0	0	0	0
Subtracted	4,499	0	0	0	0	0	0
Net (sf)	408,854	0	0	0	0	0	0
Square Feet per Year	18,584	0	0	0	0	0	0

Source: Berk & Associates, 2008

In total, the annexation areas are projected to accommodate approximately 1,000 new housing units through the analysis horizon, which will lead to an additional population of 2,000 for a total 2027

population of 3,300. In the meantime, the current City is projected to accommodate approximately 900 new housing units through 2027, which will lead to an additional population of nearly 2,200, for a grand total of 4,200. At this pace of development and assuming annexation, the total City of Enumclaw is projected to have 17,400 people in 2027.³

Exhibit 18 demonstrates the pace of population employment growth in the City of Enumclaw in all annexation scenarios. It is worth noting that the annexation of all areas is estimated to more than double the size of the projected growth of the City versus if no annexation were to occur.

Exhibit 18
Projected Population Growth for City of Enumclaw

	Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	11,602	11,602	11,602	11,602	11,602	11,602	11,602
2010	11,865	12,045	12,427	11,989	12,364	11,869	13,235
2015	12,523	12,814	13,382	12,666	13,169	12,531	14,471
2020	13,181	13,583	14,338	13,342	13,974	13,193	15,707
2025	13,839	14,352	15,294	14,018	14,779	13,854	16,944
2027	14,102	14,660	15,676	14,289	15,101	14,119	17,438
Net Growth	2,500	3,059	4,075	2,687	3,500	2,517	5,837

Source: Berk & Associates Analysis, 2008

Exhibit 19 demonstrates the pace of covered employment growth in the City of Enumclaw, assuming that no annexation occurs.

Exhibit 19
Projected Employment Growth for City of Enumclaw,

	Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	4,178	4,178	4,178	4,178	4,178	4,178	4,178
2010	4,260	4,384	4,410	4,271	4,324	4,260	4,609
2015	4,464	4,588	4,831	4,475	4,528	4,464	5,030
2020	4,668	4,792	5,252	4,679	4,732	4,668	5,451
2025	4,873	4,997	5,673	4,884	4,937	4,873	5,872
2027	4,954	5,078	5,841	4,965	5,018	4,954	6,040
Net Growth	776	900	1,663	787	840	776	1,862

Source: Berk & Associates Analysis, 2008

³ Incidentally, the 17,400 people assumed to be in the City by 2027 with annexation is the same population the Comprehensive Plan assumes for the 20 year growth (without annexation). The differences are due to different methods used to derive population and the amount of buildout assumed.

OPERATING REVENUE ANALYSIS

Tax and fee revenues are estimated based on the changes in the components of the City's tax base resulting from annexations and growth. Components of growth which could influence revenue streams over time include population, employment, base inflation in certain components of the tax base, or land use changes. Each of the City's tax and fee revenue sources is separately estimated by assessing changes in the tax base and applying current tax and fee rates to generate revenue projections. **Exhibit 20** shows estimated revenues for the City, assuming annexation of all areas in January 2010.

Exhibit 21 summarizes the difference in revenues by source in 2025 for the annexation scenarios.

Exhibit 20
Estimated Revenues for Enumclaw,
Assuming Annexation of all Areas in 2010

	2008	2010	2015	2020	2025
Sales Tax	2.25	2.84	3.87	5.23	7.03
Property Tax/Road Levy	2.02	2.64	3.28	4.00	4.79
Utility Taxes	1.80	2.12	2.73	3.50	4.45
Criminal Justice Sales Tax	0.26	0.32	0.41	0.53	0.68
Gambling Tax	0.05	0.05	0.06	0.08	0.09
Building Permits	0.54	0.59	0.72	0.89	1.09
Business Licenses and Permits	0.01	0.02	0.02	0.03	0.03
Emergency Management Services Levy	0.28	0.34	0.42	0.52	0.64
Liquor Board Profits and Excise Tax	0.13	0.16	0.21	0.27	0.34
Gas Tax	0.28	0.34	0.44	0.57	0.73
Planning and Plan Check Fees	0.18	0.22	0.27	0.39	0.48
Leasehold Excise Tax	0.01	0.01	0.01	0.01	0.02
Fines and Forfeits	0.14	0.17	0.22	0.29	0.37
Recreation Charges	0.45	0.52	0.66	0.84	1.07
Grants & Other Intergovernmental	0.58	0.71	0.92	1.18	1.52
Other Charges	0.49	0.51	0.60	0.71	0.86
Total	9.45	11.56	14.86	19.04	24.20

Source: Berk & Associates analysis, 2008

Note: Values in the millions

Exhibit 21

Estimated Incremental Revenues for Enumclaw, 2025

	Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
Sales Tax	5.22	1.4%	30.6%	0.1%	2.6%	0.1%	34.8%
Property Tax/Road Levy	3.49	4.4%	22.9%	0.9%	8.7%	0.2%	37.2%
Utility Taxes	3.82	2.6%	9.0%	0.8%	4.0%	0.1%	16.5%
Criminal Justice Sales Tax	0.56	3.7%	10.5%	1.3%	6.8%	0.1%	22.4%
Gambling Tax	0.09	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
Building Permits	1.09	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Business Licenses and Permits	0.03	2.6%	17.0%	0.2%	1.4%	0.0%	21.2%
Emergency Management Services Levy	0.60	1.0%	2.9%	0.4%	1.9%	0.0%	6.3%
Liquor Board Profits and Excise Tax	0.28	3.7%	10.5%	1.3%	6.8%	0.1%	22.4%
Gas Tax	0.60	3.7%	10.5%	1.3%	6.8%	0.1%	22.4%
Planning and Plan Check Fees	0.35	17.7%	17.7%	17.7%	17.7%	0.0%	35.4%
Leasehold Excise Tax	0.02	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fines and Forfeits	0.30	3.7%	10.5%	1.3%	6.8%	0.1%	22.4%
Recreation Charges	0.96	1.9%	5.3%	0.6%	3.4%	0.1%	11.2%
Grants & Other Intergovernmental	1.24	3.7%	10.5%	1.3%	6.8%	0.1%	22.4%
Other Charges	0.79	-0.4%	3.1%	-1.6%	1.1%	-2.2%	9.5%
Total	19.44	2.7%	16.5%	0.9%	4.7%	0.0%	24.5%

Source: Berk & Associates, 2008

Discussion of Major Revenues

Retail Sales Taxes

One of the key revenue sources that cities rely on is retail sales tax. While there is modest retail activity currently in some of the neighborhoods in the contemplated annexation areas, there is some additional development capacity that could materialize into new retail establishments, primarily in the Big West area. This retail development is estimated to generate approximately \$200 of taxable retail sales per square foot. These per square foot estimates are based on an overall average for “typical” retail activity. Actual sales tax impacts could be higher or lower depending on the actual types of tenants that might locate in these areas.

Of the sales tax currently collected in the City and the potential annexation areas, a 1% “local option” accrues to local jurisdictions. If the transaction location is within a city like Enumclaw, the city receives 85% of the 1% local sales tax and the County receives 15%. 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 telephone services or deliveries of fuel oil or propane, and with recent changes in sales tax sourcing rules, a wide variety of purchases that are delivered to homes.

Sales Tax Sourcing

An additional source of funding may come from new legislation regarding Sales Tax Sourcing. In recent years, the Washington State Department of Revenue has engaged in a cooperative effort among states and private industries to create more uniform sales tax structures, referred to as the Streamlined Sales Tax Project. The Project’s mission is to simplify the rules surrounding the levying of sales taxes, with a goal to pave the way for taxation of delivered goods (such as catalog and Internet sales) whose sale originates out-of-state.

States participating in the project have been changing their sales tax laws to be consistent with provisions of the Streamlined Sales and Use Tax Agreement (SSTA), a set of provisions developed by participants in the by the Streamlined Sales Tax Project. Washington has implemented the sourcing rule to comply with the model agreement and to become a member of the governing board, which

will decide the rules for future streamlined sales tax provisions. As a member, Washington State will receive additional sales taxes from remote sellers who have agreed to voluntarily comply with the SSTP, in part to benefit from its tax liability protections. Under the terms of the SSTP, those retailers will collect sales taxes for every member state that has implemented the model agreement. The rule change took effect in Washington State in July 2008.

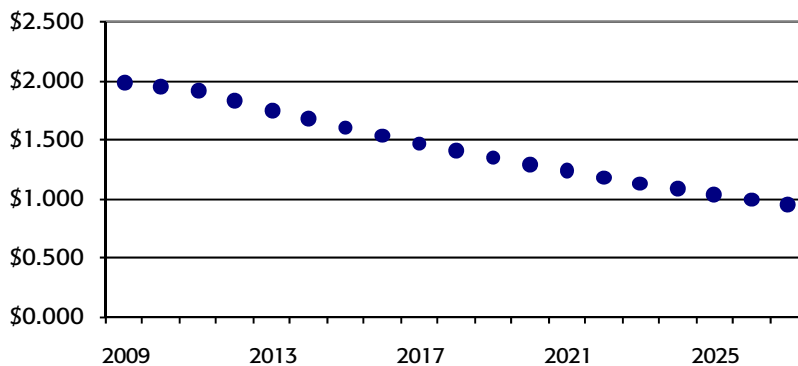
What this means for Washington cities is that under the sourcing provisions of the agreement, the “source” of most delivered goods will shift local sales taxes to the place of delivery, and the potential exists for substantial shifts in revenues from jurisdictions with businesses that involve delivery of goods to customers in other areas (such as software sales and warehouses that deliver goods like furniture to retail customers outside the jurisdiction).

The analysis done for this study did not assume any change in revenues resulting from the implementation of sales tax streamlining. However, the Washington State Department of Revenue is estimating that the City of Enumclaw will see a loss in sales tax revenues from this rule change of approximately \$90,000 for State fiscal year 2009. Considering that the annexation areas are primarily residential in character, these areas are generally going to be small net winners in streamlining and may help offset some of the City’s losses. In addition, the recent expansion of the Enumclaw Regional Hospital is likely to help offset any estimated losses since Hospitals are large consumers of delivered goods that are used in the delivery of their services.

Property Taxes

In future years, the base assessed value is expected to revalue at an annual rate of 2% above inflation. Additional assessed value will be added to the area through development. The property tax levy (the amount that the City can collect) is limited to 1% above the previous year, plus the value of new construction in the previous year multiplied by the previous year’s levy rate. Since property values are expected to increase by more than the rate of inflation, the levy is assumed to grow more slowly than the value of the property in the City. This will reduce the City’s levy rate over time. The result of this gradual reduction in the City’s general property tax rate is shown in **Exhibit 22** below. Assuming the City does not pursue a voted levy-lid-lift, the future millage rate depends entirely on the future assessed value in the current City and the value of new construction activity.

Exhibit 22
Enumclaw Projected Property Tax Levy Rate Annexation in 2010



Source: Berk & Associates analysis, 2008

Because of the method for calculating a city's property tax levy (1% of the previous year's levy plus taxes on new construction), the amount of new construction in a city is an important factor in the city's property tax growth. 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.

The current City of Enumclaw had a temporary construction moratorium in effect until mid 2008 until the City's could resolve its long-term wastewater treatment needs with the construction of a new facility. Current economic conditions notwithstanding, it is anticipated that there has been some build up of demand due to the moratorium and the lifting of the moratorium will result in slightly more rapid development in the near term, with some moderation in the pace of development over time. However, for the purpose of this exercise, it is assumed that development will occur at a constant rate for the 20-year study period.

Due to lags associated with annexation and the initial levying of the City's regular levy on annexed areas, the model assumes that the City will not begin to receive property tax revenues from assumed annexation of 2010 until 2011. For the first year of annexation however, the City will receive revenues associated with the County road levy. The road levy revenues must be limited to transportation-related expenses. To offset this bump in transportation revenues and absence of General Fund revenues, the City would have flexibility to adjust the portion of General Fund subsidy currently allocated to the Street Fund.

Utility Taxes

The City of Enumclaw imposes a franchise fee on cable services at a rate of 5.0% and utility taxes on electricity (6%), natural gas (4%), telephone (6%), and water/wastewater/solid waste services (8.0%). Because these taxes are paid by both residences and businesses, revenues are projected based upon a per capita number for population and employment.

DEPARTMENT COST ANALYSIS

Ongoing Costs

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

- Costs are broken up into labor and non-labor categories
- Non-labor costs in each department are driven by the number of FTEs in that department

Drivers for FTEs in each position within all City departments are variable in the model, and fall into one of four categories:

- **Fixed.** These positions do not change over the planning horizon (for instance, there will always be one City Administrator).
- **Direct.** These positions are driven directly by changes to the underlying land base of the city, such as population or employment. The relationship between demand for services and the underlying land base is determined based on the types of services each position provides. For example, parks maintenance staffing is directly related to the number of park acres that must be maintained.
- **Indirect (by Position).** These positions are driven by staffing levels of one or more positions in a specific department. For instance, an Administrative Assistant may be related to growth in another position within the same department.
- **Indirect (by Department).** These positions are driven by staffing levels of one or more departments. For instance, a Mechanic position is related to total new staffing levels in all departments that have vehicles.

General Assumptions

- Annual salary and wage escalation is assumed to be 4.0%, while annual benefits are assumed to grow at a rate of 5.0%. These assumptions account for the possibility of gradual increases in overall salary and benefits costs above inflation due to a number of factors, including: step increases, competition for labor resources with larger cities, and expected continuation of benefit cost increases primarily related to health care costs.
- Staff positions are added in increments of 0.5 FTEs. Positions are “hired” in the model only after the City has realized enough demand of the position, meaning that the City operates at a slightly deficient level of service until there is enough demand for a full 0.5 FTE position.
- No facility impacts or related costs estimated.

Impacts to City Staffing

Impacts to staffing vary depending on the annexation scenario. Without annexation, the City is estimated to add three staff positions. The largest increases in staffing are experienced if the City were to annex all areas. Annexation of all areas is estimated to increase City staffing by approximately 17.5 with a net growth of 14.5 FTEs by 2027, above and beyond the increase if the City did not annex.

Exhibit 23 below displays staffing levels for each scenario, with current staffing on the left and full staffing for the annexations and City growth assumed in 2010, 2015, 2020, 2025, and 2027. The

overall increase in staffing is consistent with current staff levels and reasonable expectations for changes related to an annexation of this scale; however, staffing within each department has been based on detailed discussion with City staff and reflects current staff planning for post-annexation needs.

Exhibit 24 shows the estimated costs by department, with current costs per the 2008 City Budget on the left and estimated costs in five-year increments beginning in 2010 to the right.⁴ Differentials in department costs reflect the addition of staff.

**Exhibit 23
City of Enumclaw Staffing Funded,
Annexation in 2010 (in Full Time Equivalents)**

Year	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	103.4	103.4	103.4	103.4	103.4	103.4	103.4
2010	103.4	103.9	107.4	103.9	104.4	104.4	110.9
2015	104.4	104.9	107.9	104.9	106.4	105.9	114.9
2020	105.9	105.9	110.4	105.9	106.9	106.4	118.4
2025	106.4	107.9	114.4	106.9	111.4	106.9	119.9
2027	106.4	110.9	114.4	107.9	111.4	107.4	120.9
Net Growth	3.0	7.5	11.0	4.5	8.0	4.0	17.5

Source: City of Enumclaw, Berk & Associates, 2008

**Exhibit 24
Estimated Department Staffing Costs,
Annexation of All Areas in 2010 (Numbers in Millions)**

	2008	2010	2015	2020	2025
Administration	0.70	0.72	0.73	0.75	0.77
City Council	0.06	0.06	0.07	0.07	0.08
Community Development	0.70	0.86	0.89	1.01	1.04
Court	0.71	0.73	0.91	0.92	0.94
Finance	0.78	0.83	0.86	0.93	0.96
Fire EMS	2.01	2.05	2.09	2.15	2.20
Library and Cultural Services	0.76	0.77	0.79	0.81	0.83
Parks and Recreation	1.33	1.44	1.46	1.49	1.51
Police	3.17	3.55	3.95	4.29	4.57
Public Works	0.72	1.07	1.09	1.11	1.13
Total	10.94	12.08	12.83	13.52	14.04

Source: City of Enumclaw, Berk & Associates, 2008

⁴ The model does not include utility enterprise funds (such as water, sewer, or natural gas), as these funds are self-supporting through utility revenues.

Discussion of Key Operating Costs

Administration

The department provides general management and administration of City functions. No changes to the Administration Department are expected. City Administrator, City Clerk, Administration Secretary, Media Services Manager, Mayor, and Assistant City Manager are considered fixed positions and are not expected to change with annexation or as the City grows. Currently, the City does not have an Assistant City Manager/Human Resources Director. The position is currently unfunded but is included in the analysis since the position is currently needed.

Finance

The Finance Department provides accounting, budgeting, payroll, utility billing, and financial reporting services for the City. **Exhibit 25** summarizes the impacts to the department. Additions to accounting staff driven by population and staffing increases account for the growth in the department. Annexation will likely bring relatively modest and even staff increases to this department.

Exhibit 25
Finance Staffing Changes

Year	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	10.0	10.0	10.0	10.0	10.0	10.0	10.0
2010	10.0	10.0	10.0	10.0	10.0	10.0	10.5
2015	10.0	10.0	10.0	10.0	10.0	10.0	10.5
2020	10.0	10.0	10.5	10.0	10.0	10.0	11.0
2025	10.0	10.5	10.5	10.0	10.5	10.0	11.0
2027	10.0	10.5	10.5	10.5	10.5	10.0	11.0
Net Growth	0.0	0.5	0.5	0.5	0.5	0.0	1.0

Source: Berk & Associates, 2008

Police Department

The provision of police services is frequently one of the largest expense categories of any city, and Enumclaw is no exception. The Police Department provides law enforcement service for the City with a total of 31 FTEs including commissioned and non-commissioned staff. The City also maintains a jail and dispatch service.

The Enumclaw Police Department provided estimates of increased staffing that the City would need if it were to extend services to the annexation area. These estimates are based on the Department’s analysis of historical call volumes generated in the annexation areas, compared with call volumes generated in the existing City. The Department estimates that annexation of the areas would most likely trigger the need to hire an additional patrol officer.

As another data point to inform this assessment, Berk & Associates used a proprietary forecasting model we have developed over the years to estimate police demand. Our forecasting model is based on the experiences of hundreds of Washington State cities, reflecting statistical analyses of the relationship between police staffing and the underlying characteristics of a city or study area. Among other things, the Berk model looks at characteristics like the type of housing, the tenure of households, the levels and nature of commercial activity, and the presence of major thoroughfares.

The model finds that each of these factors is a strong predictor of demand for police services, but the presence of each drives demand in a different way. For Enumclaw, the model’s findings generally support the estimates generated by the Department.

Exhibit 26 summarizes growth in the department. Staff increases are driven by population growth and the characteristics of the areas being annexed. The majority of positions are in the patrol division.

**Exhibit 26
Police Staffing Changes**

Year	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	31.0	31.0	31.0	31.0	31.0	31.0	31.0
2010	31.0	31.5	33.5	31.5	32.0	32.0	34.0
2015	32.0	32.5	34.0	32.5	33.5	33.5	37.0
2020	33.5	33.5	35.5	33.5	34.0	34.0	39.0
2025	34.0	34.5	38.5	34.0	37.0	34.5	40.5
2027	34.0	36.5	38.5	34.5	37.0	35.0	40.5
Net Growth	3.0	5.5	7.5	3.5	6.0	4.0	9.5

Source: Berk & Associates, 2008

The City’s jail has a limited daily capacity. The City contracts with the Washington State Department of Corrections to host its overflow inmates. Enumclaw would not be able to expand the jail at its current location, so there would not be new costs associated with operating the City jail facility upon annexation. However, there would likely be a decrease in revenue from the renting out of excess space as population of the City increases.

Although this analysis assumes that the employees needed for annexation would be added immediately upon annexation, in reality there would be a transition period. With annexation, the areas being annexed would see an increase in police services to the City level of service standard. This change would not occur overnight however, and the Police Department would have to grow considerably to serve the new areas at the desired level of service. This analysis does not make any assumptions about what this transition might look like, and assumes full cost of all new employees beginning upon annexation in order to remain as conservative as possible in the cost projections.

Fire/EMS Department

Fire and EMS service is provided by the City. The City also provides fire service for King County Fire District #28 under a combined operating agreement. The expenses are split 50/50 with the District. EMS services are funded by an EMS levy, payments from the District, and general fund contributions.

It is assumed the current City needs a Fire Department staffed 24/7 by career personnel. Currently, the Department is staffed at least 12 hours a day by career personnel supplemented with volunteer firefighting staff. This move assumes that the Department moves from its current 8.5 FTEs to 15.0 FTEs. The shift to this level of service is needed with or without annexation, thus, it is assumed that demand from annexation is not responsible for the new positions.

Based on discussions with the Fire Department staff and Berk & Associates’ experience with fire service in cities across Washington, it is also assumed that no new position will be needed to serve any of the annexation areas throughout the study period.

Court and Legal

Court and City Attorney provide judicial services, prosecution, and legal advice to the City. The current City Attorney services are provided by contract. It is assumed that the current contract will be replaced by a full-time City Attorney position supported by an Assistant City Attorney. The model does not assume any new dedicated revenues to fund these positions; however, the cost of the existing contract is no longer included. Staffing is added to the Court Clerk and Assistant City Attorney. The driver of the demand for these positions is tied to the amount of growth in City and annexation areas. Annexation is anticipated to bring small changes to the staffing for this department.

**Exhibit 27
Court and Legal Services Staffing Changes**

Year	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	4.0	4.0	4.0	4.0	4.0	4.0	4.0
2010	4.0	4.0	4.0	4.0	4.0	4.0	4.0
2015	4.0	4.0	4.0	4.0	4.0	4.0	5.0
2020	4.0	4.0	4.0	4.0	4.0	4.0	5.0
2025	4.0	4.0	5.0	4.0	5.0	4.0	5.0
2027	4.0	5.0	5.0	4.0	5.0	4.0	5.0
Net Growth	0.0	1.0	1.0	0.0	1.0	0.0	1.0

Source: Berk & Associates, 2008

The demands on the City's legal department may be in flux over the short term given budget difficulties at the County level that is pushing some prosecutorial cases to the municipality level. This issue is not explicitly modeled in the study; however, it could bring about a situation where the City would need to contemplate adding more staff to meet its service obligations.

Community Development

Community Development provides long range planning, land use regulation, building and construction inspection, and other development related activities. Growth in positions in the department is a direct function of the level of construction the City and annexation areas are likely to experience. While the department director is a fixed position, positions in building review and assistant planners are likely to grow to meet demand. Scenario 6, (**Exhibit 28**) the annexation of all areas, expectedly has the largest impact on staffing for the department since the demand needed to serve development will most likely be the highest.

Exhibit 28 Community Development Staffing Changes

Year	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	7.0	7.0	7.0	7.0	7.0	7.0	7.0
2010	7.0	7.0	8.0	7.0	7.0	7.0	8.5
2015	7.0	7.0	8.0	7.0	7.5	7.0	8.5
2020	7.0	7.0	8.0	7.0	7.5	7.0	9.5
2025	7.0	7.5	8.0	7.5	7.5	7.0	9.5
2027	7.0	7.5	8.0	7.5	7.5	7.0	9.5
Net Growth	0.0	0.5	1.0	0.5	0.5	0.0	2.5

Source: Berk & Associates, 2008

Parks and Recreation

Parks and Recreation administers and manages the City's parks, recreation programs, and facilities. The positions listed below (**Exhibit 29**) are general fund supported (discount the department's user fee supported programs and staffing). Staffing demand for the department is a dual function of population growth in the area and the amount of park acreage the City would inherit as part of the annexation. The reasoning for this distinction recognizes that the department's facility maintenance functions would primarily be impacted by taking on existing parks in the annexation areas. Only Scenario 6 (all areas) contains enough area to trigger an additional position over the annexation study period.

Exhibit 29 Parks and Recreation Staffing Changes

Year	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	7.7	7.7	7.7	7.7	7.7	7.7	7.7
2010	7.7	7.7	7.7	7.7	7.7	7.7	8.2
2015	7.7	7.7	7.7	7.7	7.7	7.7	8.2
2020	7.7	7.7	7.7	7.7	7.7	7.7	8.2
2025	7.7	7.7	7.7	7.7	7.7	7.7	8.2
2027	7.7	7.7	7.7	7.7	7.7	7.7	8.7
Net Growth	0.0	0.0	0.0	0.0	0.0	0.0	1.0

Source: Berk & Associates, 2008

Public Works

The department handles the planning, engineering, construction, and maintenance of City-owned streets. While the department also is responsible for the City-run utilities, these positions are not counted as part of this assessment since those positions are supported by user fee revenue. Demand for positions in this department is a function of growth in the amount of City roads and general construction. New lane miles of City roads are added in the annexation areas at levels matching the current City's per capita ratio. This assumes that as the annexation areas grow (currently much of it is green fields), they will have land use and density similar to the existing City. Scenario 6, (**Exhibit 30**) the annexation of all areas, expectedly has the largest impact on staffing for the department since the demand needed to serve development will most likely be the highest.

Exhibit 30 Public Works Staffing Changes

Year	No Annexation Enumclaw	Scenario 1 244th	Scenario 2 Big West	Scenario 3 Expo	Scenario 4 North	Scenario 5 Triangle	Scenario 6 All Areas
2008	4.6	4.6	4.6	4.6	4.6	4.6	4.6
2010	4.6	4.6	5.1	4.6	4.6	4.6	6.6
2015	4.6	4.6	5.1	4.6	4.6	4.6	6.6
2020	4.6	4.6	5.6	4.6	4.6	4.6	6.6
2025	4.6	4.6	5.6	4.6	4.6	4.6	6.6
2027	4.6	4.6	5.6	4.6	4.6	4.6	7.1
Net Growth	0.0	0.0	1.0	0.0	0.0	0.0	2.5

Source: Berk & Associates, 2008

Library and Cultural Services

The Library and Cultural Services Department provide library service, operate the Senior Center, and manage other cultural programs for the City. The department's positions are considered fixed, and are not expected to change with annexation or as the City grows. This assumption is based on the observation that the department is most likely servicing the annexation areas currently and annexation would not likely change service demand.