

CITY OF HAILEY, IDAHO

ANNEXATION FEE RECOMMENDATIONS

FINAL REPORT

November 29, 2005



MANAGEMENT PARTNERS
INCORPORATED

February 13, 2006

Ms. Heather Dawson
City Clerk
City of Hailey
115 Main Street South
Hailey, ID 83333

Dear Heather,

Enclosed is our Final Report on Annexation Fees for the City of Hailey. Our report provides a discussion of a general purpose methodology and the calculation of recommended fees for the Old Cutters project.

This report includes the calculation of a basic annexation fee of \$ 1,875,920 for the Old Cutters potential annexation which amounts to \$15,499 for a single family use. The annexation is estimated to have a nominal negative impact with regards to operating costs and the City's current level of service. As discussed in the report the annexation fee methodology utilized was developed to be conservative in terms of exposing the City of Hailey to potential negative fiscal implications from annexation. Management Partner believes that the recommended fees will serve to mitigate any negative impact and result in a neutral to positive project for the City by providing needed resources for major capital projects that will have a lasting benefit to Hailey.

The Final Report contains our best estimate with information we have at this time, the estimates or final annexation fee may change if additional information becomes available. The "modeling" assignment of the contract has been ongoing and is near completion. The Final Report was reviewed and accepted by The Hailey City Council at a special meeting of the Council November 30, 2005. The Council has indicated that it will use this report as a reference for future annexation discussions and public workshops.

City staff has been provided Excel data sheets that will allow them to add items to this annexation study or to create their own calculations for future annexations. Management Partners would like to thank the Council and Staff for their support on this project and we look forward to assisting the city with future projects

Sincerely,

Andrew S. Belknap
Regional Vice President

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EXECUTIVE SUMMARY

In May 2005 Management Partners was asked by the City of Hailey to provide a comprehensive financial impact analysis for several annexation scenarios and to develop a model to calculate annexation fees and other terms for annexation. This report provides that analysis as well as both general and specific fiscal impact information as called for in the City of Hailey's Municipal Code regarding annexation and development proposals. Management Partners has worked with City staff and officials as well as the developer to obtain pertinent information and data and has used a team to develop and review the analysis. This report summarizes the results of the study.

The initial portion of the study establishes current and future service populations. This is divided into analysis of current and future annexation areas and is reviewed based upon land use type. The result is a projection of proportional shares by area and land use type. This base information will be used to assign shares of services and capital costs as well as current asset benefit.

The second task is to review the City's current fiscal condition relative to service and capital needs. This analysis includes the review of current and past budgets and capital plans, other City planning documents, and the City's most recent current General Purpose Financial Statements. This results in the summary of current assets and budgetary needs. Additionally, some benchmark analysis has been provided to assist in framing the desired or enhanced services that would be necessary to bring Hailey up to par with other benchmark cities. The three components of assets, capital needs and operating deficiencies and service levels make up the core of the annexation fee analysis and calculation.

Annexation in Idaho can only be accomplished if the owners of the property to be annexed and the incorporated city or town to which the property would be annexed agree on the terms of the annexation. The City of Hailey has adopted an ordinance which specifies that requests for annexation must be accompanied by an independent financial analysis of the impacts on the existing City which would flow from incorporation. Specifically, the ordinance states that the report will "to the extent possible, [determine] whether the proposed annexation will have a negative fiscal impact upon the existing citizens of Hailey at the time of an annexation and in the future" The intent of this policy is to insure that

annexations as approved under a subsequent annexation agreement would not reduce the quality or quantity of services the City is able to deliver to existing residents and property owners. In other words the report is needed to allow the City to mitigate any negative financial impacts via an annexation agreement.

The City code does not specify that annexations cannot have a net positive benefit for the existing City. Because City policy is driven by the concern that, financially, the City cannot absorb additional net service costs or liabilities from areas annexed. Given these two parameters the Annexation Fee Report took a conservative approach. The methodology has been developed to protect the City's interests as stated above. Because of the inherent limitations entailed by any analysis of this type, it is quite possible that the City will in-fact experience a net benefit (financially) if the recommended annexation fees are levied. However, Management Partners believes it is highly unlikely that, in the aggregate, the recommended fees would fail to fully cover the costs of service, post annexation.

The City of Hailey has a number of financing tools to support the City's operations and capital needs. These include annual taxes and fees for ongoing resources and annexation and development fees as examples of one-time payments to fund system needs. With the help of City staff, Management Partners has chosen to craft an analysis that seeks to define the roles of the financial tools to address City needs. With that in mind, this study will vary from others done in the past in a few critical ways.

The analysis of annexation fees includes a separation of the role of annexation fees from development fees and other financing tools. In past studies these lines have been blurred. We recommend some clarity be established so that those paying the fees can have a clear understanding of the differences and thus be insured of a non-duplicative fee structure.

The impacts of additional infrastructure and service costs related to growth should be part of a development impact fee as provided for under Idaho state statute. With the exception of water and waster water capital growth required by the annexation all other growth induced capital needs have been left for inclusion in a Development Impact Fees which we understand is under review. In the event that a Development fee is not adopted by the city, the annexation fee should be restructured to include all items and increased accordingly. At this time that analysis is beyond the scope of this study. The developer should anticipate additional fees beyond those recommended here to cover the complete cost of the annexation's impact on the city.

To address future capital and operational needs of the City of Hailey, Management Partners recommends an annexation fee that will maximize the City's ability to capture resources not available through the development fee process. Using the following approach the annexation fee will be calculated using three methods:

- a) Identify and apportion ongoing service deficiencies that will be accelerated or increased by new development. This approach benchmarks the current levels of services and proposes that service levels be brought up to par with benchmark communities. It furthermore identifies program deficiencies resulting from community planning projects. This benchmark analysis, as well as, the City's Comprehensive Plan and other department planning efforts were used to identify desired service levels that benefit both the City as a whole and the proposed annexation area. The cost of increased services levels are apportioned to current and future users in proportionate use.
- b) Identify and apportion existing capital and equipment assets that benefit the City as well as the increased populations from infill or annexations. This method is sometimes called a "buy-in" or a "cost recovery method." This approach calculates the current remaining value of existing facilities and infrastructure as reported in the City's General Purpose Financial Statements and by the City Public Works Department for road assets and apportions it to current and future users that benefit from it.
- c) Identify and apportion planned capital (mostly replacement) which has been identified by City planners and budget staff. Using the City's budget and capital improvement plans this approach identifies capital costs that benefit the entire City including newly annexed areas and that would have occurred notwithstanding new development. The calculation represents the annexation area's share of benefit in these projects.

In all three methods the share and apportionment is based on a two part differentiation. The first is between those areas of the City that already exist and annexation areas. The second is by land use type, since various land uses benefit differently from different services or assets.

The end product of this report is a simplified annexation fee calculation, separate and apart from any future development fee that may be created at a later date. The summary of the fee is reported on Table 14. For the annexation proposal on the Old Cutter site, the fee for 104 residential and 10 duplex would result in a one-time payment of \$1,875,920. The fees for single family residential units would be \$15,499 and the multi-family units would be \$13,167. The proposal does not include non-residential uses at this time.

LAND USE AND POPULATION ESTIMATES

Current Population and Land Use

To undertake an analysis of current population we chose to update information and compare data from previous studies provided to the City. The "Prototype Land Use Fiscal Impact Study" (2002) established populations using census data by land use type using primarily City census data and state employment models. Working with the Hailey Building Department officials and the Planning Department we updated this data using building permit data from the last five years. The approach develops a new population estimate based on actual growth in construction of housing and employment areas. The estimate was then compared for reasonableness against population projections previously done for the City (Keller) and projection models developed by staff. This allows us to estimate current populations by land use type: residential and non-residential (employees) and to assign values based on housing units and square foot of commercial or industrial type uses. The results are provided below.

Residential Service Population

The number of housing units and the size of households combine to create residential service populations. Table 1 below summarizes current housing units for both single and multi-family units. The household size- 2.7 persons for single family and 2.1 for multi-family are consistent with figures used in 2000. The combined number of family units has grown from 2,684 in 2000 to 3,273 in 2005. The growth is the result of new construction of 589 residential units as documented by the City Planning and Building departments. This translates to a current residential service population of 8,217 or a growth of 2,017 from the 6,200 estimated in 2001. This is an approximate 6% growth rate. The result is within the projection ranges studied by staff and considered by previous studies.

TABLE 1: LAND USE AND POPULATION ESTIMATES- RESIDENTIAL

Land Use	# of Dwelling Units	Growth Since 2000	Est. 2005 DU	Persons Per Unit	Estimated Service Population	Residents Working in City
						24%
Current Residential						
Single	1,825	415	2,240	2.7	6,048	
Multiple	859	174	1,033	2.1	2,169	
Total	2,684	589	3,273		8,217	1,972

Non-residential Service Population

In addition to residential growth, the City has also undergone considerable commercial and industrial expansion which creates a greater employee service base. From the estimates of 1.2 million square feet of combined non-residential uses in 2000, the current estimate is now almost 1.8 million. This growth of 571,215 square feet is a 47% increase in area which translates into a significantly larger employee service element within the City. The estimates of employees are based on standard assumptions of employees per square foot by types of business, including commercial, office, industrial and institutional (schools, churches, etc.).

TABLE 2: LAND USE AND POPULATION ESTIMATES- NON-RESIDENTIAL

Land Use	# Square Feet in 2000	Growth Since 2000	Est. 2005 Sq. Ft.	Square FT. Per Employee	Estimated Employees	Unduplicated Service Population
						(- 1,972)
Current Non-Residential						
Commercial	244,000	138,600	382,600	300/empl	1,275	678
Office	145,000	138,600	283,600	228/empl	1,244	661
Industrial	347,000	65,785	412,785	433/empl	953	507
Institutional	480,000	228,250	708,250	721/empl	665	354
Total	1,216,000	571,235	1,787,235		4137	2,200
					Total Service Population	10,417

To determine the proportional share of costs to non-residential costs it is important not to double count employees and residents. Using census information it has previously been determined that approximately 24 percent of Hailey's residents work within the City. Applying this percentage to the new residential population estimates approximately 1,972 residents would be working in non-residential land use areas. The square foot estimate of 4,137 has been reduced by 1,972 to create an

unduplicated service population for non-residential use. Table 2 provides a summary of this approach.

The combined increase in housing units and non-residential land uses results in resident and employees service population of 10,417. That portion of the total service population which is resident based is 78.9 %. The employee portion is 21.1 %.

Future Population Estimates

In addition to current population, a future population estimate is needed to determine the relative share of cost burden. Future populations consist of two types of future growth: 1) areas to be annexed, and 2) growth from “infill” development. The infill component is an important piece of the equation since the City’s Comprehensive Plan provides that the City has adopted a “Smart Growth” approach which seeks to intensify current land areas instead of encouraging sprawl through annexations and expansion into open space. Working with Planning and Building staff an estimated infill service population was determined by researching a previous study completed by City staff on projected infill projects back in 2000. Staff provided an estimate of the completed projects since the study and a remaining inventory was established. At this time no significant non-residential projects are anticipated. The estimated service population from infill development is summarized below.

TABLE 3: INFILL LAND USE AND POPULATION ESTIMATES

Land Use	Estimated Infill DU	Persons Per Unit	Est. Service Pop.	Resident Employees
				24%
Infill Residential				
Single	403	2.7	1,088	
Multiple	280	2.1	588	
Total	683		1,676	402

This population growth is not subject to an annexation fee and is not included in the apportionment of costs. The impacts of this growth will need to be determined by the development fee process and funds for mitigating its impact will need to come from other City revenue sources. It is reported here because it is a component of total population. The model assumes that this growth will become a component of the “current population” at some time in the future. In future annexations whatever infill has been accomplished will be reported as growth in the “current service population”.

The focus of this study is the future population growth that will come from annexed areas. At this time there is only one such area, but others may be identified. For the purposes of building a model of apportioning costs to current and future service elements, the “Old Cutter” property is used to build the model. In this particular annexation the development

proposal is all residential so a non-residential component is not illustrated. However, the annexation model that is under construction will include elements for non-residential service units for both the infill and newly annexed areas. Table 4 projects the service population estimates based on the “Old Cutter” proposal of 104 single family residents and 10 duplex lots.

TABLE 4: ANNEXATION LAND USE AND POPULATION ESTIMATES

Land Use	Estimated Annex. DU	Persons Per Unit	Estimated Service Pop.	Resident Employees
				24%
Annex Residential				
Single	104	2.7	281	
Multiple	20	2.1	42	
Total	124		323	77

The result of the analysis is a combined projected service population that the City’s services and capital costs can be assigned. Current and future annexation populations are each provided a relative proportional share as illustrated in Table 5.

TABLE 5: COMBINED SERVICE POPULATION

Land Use	Current Est, Service Pop.	Estimated Annexation	Total Service Units	% Total Serv. Units
Residential				
Single	6,048	281	6,329	58.9%
Multiple	2,169	42	2,211	20.6%
Total	8,217	323	8,540	79.5%
Non-residential				
Commercial	678	0	678	6.3%
Office	661	0	661	6.2%
Industrial	507	0	507	4.7%
Institutional	354	0	354	3.3%
Total	2,200	0	2,200	20.5%
Total Service Population	10,417	323	10,740	100.0%
% of Total Served	97.0%	3.0%	100.0%	

As discussed above, over time these proportions will change as infill increases the current population share. The estimated share of the Cutter proposal is approximately 3 percent of future estimated population.

FISCAL ANALYSIS

For the purpose of this report there are two goals in conducting a fiscal analysis on a particular development proposal: 1) to see if that project area generates sufficient revenues to fund the project's share of City ongoing service costs, and 2) determine the portion of an annexation fee based on service or operational deficiencies.

The fiscal analysis will also review the City's existing assets and future capital plans to determine the value and benefit these assets and projects provide the proposed area. The recommended annexation fee will be based on the requirement that the project area contributes to:

- its share of service deficiencies
- existing value of assets held by the City that will benefit the project area
- future capital that will also benefit the project area

Current Service Costs

Management Partners reviewed the current adopted budget, prior year budgets back to 1996-1997, and the current General Purpose Financial Reports in conjunction with estimating current costs and deficiencies. The current year's annual operating expenses (not including major capital) are reported and shown in Table 6.

TABLE 6: OPERATING EXPENSES

General Fund	2005-2006	% of Budget	Per Service Pop.
			10,417
G.F. Expenditures			
Legislative	\$54,147	1.2%	\$5.20
CEO	\$53,361	1.2%	\$5.12
Finance & Records	\$157,713	3.5%	\$15.14
Planning	\$263,620	5.9%	\$25.31
Building	\$145,118	3.3%	\$13.93
Fire	\$551,297	12.4%	\$52.92
Police	\$1,057,673	23.7%	\$101.53
Animal Control	\$56,273	1.3%	\$5.40
Library	\$401,729	9.0%	\$38.56
Engineering	\$126,714	2.8%	\$12.16
Public Works	\$108,421	2.4%	\$10.41

General Fund	2005-2006	% of Budget	Per Service Pop.
PW Streets	\$863,349	19.3%	\$82.88
Facilities & Parks	\$437,762	9.8%	\$42.02
Bonds (debt service)	\$241,610	5.4%	\$23.19
Operations Total	\$4,518,787	100%	\$433.79

The unit cost is arrived at by dividing the total department costs by the number of service units to get a per-unit service cost. The Land Use and Population section of this report estimated the current number of service units at 10,417. The per-unit cost citywide is \$433.79.

The current operating expenses are funded with ongoing revenues. To the extent that annual revenues are sufficient to cover annual expenses the result is a balanced budget. In the event that annual revenues do not cover annual expenses the deficit has to be funded with accumulated resources from prior years. This is referred to as a “fund balance”. Table 7 illustrates the operating revenues currently expected as they appear in the City’s 2005-2006 approved budget.

TABLE 7: OPERATING REVENUES

General Fund	2005-2006	% of Budget	Per Service Pop.
General Gov. Taxes	\$1,549,536	40.9%	\$148.75
Fines, Fees & Permits	\$642,750	16.9%	\$61.70
Franchise fees	\$208,500	5.5%	\$20.02
Interest	\$41,000	1.1%	\$3.94
State Sales and Hwy	\$773,000	20.4%	\$74.21
Leases & contracts	\$233,836	6.2%	\$22.45
Donations	\$22,000	0.6%	\$2.11
Grants	\$80,000	2.1%	\$7.68
Bond revenues	\$241,610	6.4%	\$23.19
Other Revenue Total	\$3,792,232	100.0%	\$364.04
Less Expenses	\$4,518,787		\$433.79
Surplus/Deficit	-\$726,555		-\$69.75
Fund Balance Available	\$726,555		\$66.71

The City of Hailey’s operating expenses of \$4,518,787 are not fully supported by ongoing revenues. The largest of the City’s revenue sources are general government taxes, primarily property taxes. At an estimated \$1,549,536, they are 40.9% of the projected revenues. These do not support the combined budgeted Police and Fire service costs of \$1,608,970.

The City's budget policies require that "departments should budget for revenues based on the actual revenues during the most recent past two fiscal years, less 10%". This will tend to underestimate revenues when budgeting, and therefore help generate fund balance at the end of the year to backfill a portion or all of an operating deficit. In the last three years all ending deficits have been covered by available fund balance.

Management Partners reviewed budget figures back to 1996-97 to get a better picture of revenue and expenditure patterns. Management Partners analysis revealed that over the eight year period from fiscal year 1997 to fiscal year ending 2004, operating expenditures grew from \$2,403,276 to \$4,616,572. During the same period, the same revenues grew from \$1,748,752 to \$3,280,030. The actual operating deficit in 1997 was \$654,524. In 2005-2006 the same operating deficit is \$726,555.

For the period ending September 30, 2004 operating revenues of \$4,177,322 actually exceeded operating expenses of \$3,167,196 by \$1,010,126 (see General Purpose Financial Statement, pg. 12), but the City's capital expenses were \$1.3 million. Approximately \$300,000 was funded using available fund balance. This illustrates that the City is annually short the needed revenues for annual capital and operating expenses, and that the expenditure plan is being limited to the level of current revenues.

Because local government agencies are required to maintain balanced budgets, expenses are kept at a level equal to available resources. This means that at times the levels of services may be below the community's desired levels or below benchmark standards when compared to other similar jurisdictions. Additionally, to maintain service levels capital replacement and investment are often far short of desirable levels.

Management Partners recommends that any newly annexed area should participate in contributing to mitigating this \$300,000 annual shortfall as reported in the City's Financial Statement with a one time fee equal to five years of the annexed area's share of the shortfall. Table 11 includes this amount as City-wide Operating deficit. The rate and apportionment of this fee is reported later in the Annexation Fee section of this report. The Council may reasonably consider increasing this figure to equal that deficit used for budgetary purposes, or to increase the five year formula to a greater number of years. This recommendation is a minimum share representing actual experience rather than projected needs. Five years is a time frame which allows city wide property taxes to grow in order to assume greater service costs. A greater time frame can be considered.

Benchmark Survey

Based upon the historical patterns seen above and the current increases in costs related to national or regional price increases, it is anticipated that we will find that Hailey’s service levels are below benchmark cities. This concern has also been expressed by representatives from the City.

Management Partners conducted a benchmark survey comparing Hailey’s police, planning and building service levels with those of seven comparably sized, growing communities in non-urban settings similar to Hailey. The survey serves to illustrate the need for additional funds to support the current service levels.

In instances where Hailey is below average on these services, it is appropriate for the annexation fee to incorporate an amount equal to what is necessary for Hailey to offer the average level of service. The results of this survey found Hailey to be below average for police services and planning services and at an appropriate level for building services. Parks and fire services were also investigated. The following table summarizes these findings. The detailed benchmark survey findings are presented and discussed in greater detail following this summary.

TABLE 8: BENCHMARK SURVEY SUMMARY

Municipal Service	Hailey Staffing	Benchmark Cities Per 1,000 Residents	Hailey Difference	Net Personnel Shortage
Police (Sworn Personnel)	10 sworn; 1.4 per 1,000 Residents	16 sworn; 2.3 per 1,000 Residents	(0.9) per 1,000 Residents	6.9 sworn
Building staff	2	1.6	0.4	None
Planning staff	3	3.3	(0.3)	.3

Police: An important benchmark for Hailey is an adequately sized police department. Because Hailey is a county seat and the commercial hub of Blaine County, the City provides police services for a larger population than suggested by resident population only. For planning purposes police facilities are normally sized based on the number of sworn and support staff they must provide for. Estimating the appropriate current size of a police department is customarily done by using a service standard based on personnel per 1,000 population served. In order to get a valid measurement for Hailey, the police forces in seven other rapidly growing communities that serve as regional commercial hubs were surveyed. Four of those communities are county seats and all are adjacent to resort areas.

TABLE 9: POLICE STAFFING SERVICE LEVELS

City	2004 U.S. Census Population	County Seat	Sworn Officers	Police Officers per 1,000
Glenwood Springs, CO	8,475	Yes	27	3.2
Sandpoint, ID	7,647	Yes	19	2.5
Carbondale, CO	5,706	No	13	2.3
Placerville, CA	10,151	Yes	22	2.2
Eagle, CO	3,735	Yes	8	2.1
Avon, CO	6,363	No	12	1.9
Rathdrum, ID	5,605	No	11	1.8
7 City Average (excluding Hailey)	6,812	N / A	16	2.3
HAILEY	7,326	Yes	10	1.4
Hailey Difference vs. Average	514	N / A	(6)	(0.9)
Total (7,326 persons x 0.9)				(6.6)

Based on each city’s 2004 U.S. Census population, Hailey is approximately 6.6 sworn police officers below comparable cities. Census and not service populations were used to make the comparisons.

Planning and Building: Servicing development applications and new construction is staffed by the City’s Planning and Building departments. A comparative survey of these seven cities reveals that Hailey is comparably staffed in the building function but slightly below planning operations as compared to the peer cities.

TABLE 10: PLANNING AND BUILDING STAFFING SERVICE LEVELS

City	2000 - 2004 Growth Rate	Nearby Resort	Planning Staff	Building Staff
Eagle, CO	22.9%	Vail	2	2
Rathdrum, ID	15.6%	Coeur d’Alene	1	2
Avon, CO	12.9%	Vail	5	2
Sandpoint, ID	11.2%	Coeur d’Alene	4	1
Glenwood Springs, Co	9.6%	Aspen	4.5	2
Carbondale, Co	8.4%	Aspen	2.5	1.5
Placerville, CA	5.6%	Lake Tahoe	4	1
7 City Average	11.8%	N / A	3.3	1.6
HAILEY	18.2%	Sun Valley	3	2

City	2000 - 2004 Growth Rate	Nearby Resort	Planning Staff	Building Staff
Hailey Difference	6.8%	N / A	(0.3)	0.4

This evidence indicates that the City of Hailey’s personnel levels are below those of benchmark cities. The analysis in Table 11 illustrates that the annual funding needed to bring these services up to benchmark is \$390,159.

Library and Park Services

Additionally, the City has documented its desire to increase the level of parks and library services. In the City’s Comprehensive Plan and plans presented by the library, the City has outlined the desired new service levels. In the case of the library, there is a proposed new facility with an estimated cost of \$7 million. With 17,000 square feet the facility is designed to support a population of 9,628. Since the current service population is already above that level, new development will benefit from this project but does not contribute to its necessity. It is therefore included in the future capital plan.

The current operational budget for the library is \$401,000. The City’s library report indicates that they need \$35,000 more to fund additional FTEs and \$61,630 to stay open eight more hours. This \$96,630 in additional operating funds will bring the library to a basic service level for the City’s current resident population.

Additionally, they need approximately \$408,000 for the rest of the material costs. That figure is not in the capital plan because it is for library materials and is a one-time service level increase - not capital.

Similarly, according to Hailey’s Comprehensive Plan, park services are also under funded. The National Parks and Recreation Association has set 10 acres per thousand as the national standard. The City currently has 3.2 acres per thousand. When the school’s 32.3 acres are included there are 8.74 acres per thousand. Based on a service population of 10,417 the current park acreage should be 104 acres. Consequently, the City needs 13.72 additional acres to get to the desired park standard. Current development costs being used by the City for the acquisition and development of park lands, including recreational equipment, is \$60,000 per acre. This results in a one-time need of \$823,200. The combined one-time material and capital improvement not in the future capital plans is \$1,231,200. This estimate may increase if the city cannot use existing land it owns or if land is not dedicated by the developer.

Fire: Currently fire services are provided through use of volunteer fire fighters. The four current staff in the department serve in management and support functions. This is not a-typical of smaller rural communities. However, when calls for services continuously exceed 300 annually or

more than one-per day on average, it is difficult to continue to rely on volunteers and cities generally move to a small professional force. According to Chief Chapman’s estimates the city is at that level with more than 500 calls annually. To create a minimal professional force would require 7 fire fighters to cover all shifts. This would still require supplementing the force with volunteers. The estimated cost is \$56,000 per professional staff or \$392,000 annually.

At the time of this analysis not all departments have undergone a benchmark review. Public Works and Financial Services are areas where additional resources may also be necessary. The City may choose to update and include that information at a later time.

TABLE 11: ESTIMATED SERVICE SHORTFALL

Municipal Service	2005-2006 Personnel Budget	Current Personnel	Cost per Unit	Personnel Shortfall	Required Funding	Five Year Costs
City-wide Operating Deficit					\$300,000	\$1,500,000
Police	\$551,207	10 sworn	\$55,121	6.6	\$363,797	\$1,818,983
Fire	Admin. Only	4	\$56,000	7	\$392,000	\$1,960,000
Planning	\$263,620	3	\$87,873	0.3	\$26,362	\$131,810
Library				8 hrs.	\$96,630	\$483,150
Sub- total					\$1,178,789	\$5,893,943
Library One-time					\$408,000	\$408,000
Park One -time					\$823,200	\$823,200
Total	\$814,827				\$2,409,989	\$7,125,143

Management Partners recommends that any newly annexed area contribute a one time fee equal to five years of the annexed area’s share of the shortfall. The apportionment and calculation of the fee follows in the Annexation Fee section of this report and is illustrated in Table 16. The five year multiplier is used to reflect a time frame that allows city wide property taxes to grow in order to assume greater service costs. A greater time frame can be considered.

This analysis illustrates the City’s need for additional funds for service deficiencies as well as capital replacement and future facility improvements. These will need to come from several sources including: annexation fees, development fees, local improvement districts, homeowners associations and endowments. The analysis of an annexation fee is the primary focus of this report, but other options will also be review in the last section of this report.

FISCAL ANALYSIS OF ANNEXATION AREA – “OLD CUTTER” PROPERTY

This fiscal impact study estimates the overall fiscal impact of an annexation proposal to the City. The estimates are based on the developer’s plans and are constructed using the City’s operation and capital budgets, the Hailey Comprehensive Plan, recreation plans and other available documents to establish service levels and their costs. Specifically, this study estimates whether the annexation proposal will generate sufficient resources to provide basic City services.

The current proposal is commonly referred to as the “Old Cutter” property. The developer has proposed 114 lots; 104 single family residential with 10 lots for duplexes. Based upon the analysis presented above, the proposed annexation area would have 323 residential service units. The analysis is based upon: an estimated home price of \$625,000, a duplex unit price of \$425,000 for each unit, and a tax rate of (.001207559). Current and City revenues and expenditures per service unit as reviewed above; an estimation of cost and revenues is presented below. The service costs in revenues do not include building inspection expenses or revenues, since they are not ongoing operation costs. Additionally Business License revenues are not included since it is a residential proposal. The analysis is static in that it assumes all units and all services are in place at one time.

The Old Cutter Annexation is projected to be slightly negative based on current budgetary and taxing conditions. That is, if current services costs the current property tax rate and other revenues were to remain as they currently are, the project is negative by \$1,515.87.

TABLE 12: ESTIMATE OF COST AND REVENUES – OLD CUTTER DEVELOPMENT

Residential	Property Tax	Additional Resources	Revenue Total	Services Costs	Net Cost or Benefit
Single Family	\$75,352	\$42,101	\$117,453	\$117,896.36	-\$443.27
Multi-Family	\$10,264	\$6,297	\$16,561	\$17,634.07	-\$1,072.60
Total	\$85,616	\$48,399	\$134,015	\$135,530.43	-\$1,515.87

Under Idaho property tax law the tax rate changes every year. Therefore, the tax yield from this particular annexation will change relative to the overall assessed value of the city and the approved tax rate by the State Tax Commission. If city wide assessed values continue to grow and the tax rates continues to go down the tax yield from these parcels may go down. However, the tax yield for the city may go up to the allowable limit of 3%. As service expenses increase and property tax growth is limited citywide the deficit between expenses and revenues may go up as well.

The 1995 passage of the 3% cap on property taxes allows the city to capture any initial tax benefit resulting from high value construction or annexation. The city may add the increase property taxes to that year’s

tax revenues and may exceed the 3% cap. However, since each year a new tax rate is developed based on city wide revenues and budget and it is limited by a 3% growth, there is no continuing annual benefit. The increased value from high valued construction or annexations serves to drive the next year's tax rate down across the entire city. Consequently, city expenditures can receive only a one-time benefit and they are kept below what might otherwise be standard levels due to restricted growth of property taxes. In subsequent years properties within an annexed area provide the same tax, and share the same tax burden for city services, as any other property of the same value citywide.

It is very important to recognize that property tax yield in Idaho is not a function of service growth or costs. This is also the case in California and other states where either the growth in revenue or the tax rate is fixed. The 3 percent cap is an arbitrary number.

Since the short fall is nominal and subject to future fluctuations, and a significant portion of occupancy may be seasonal this annexation is considered neutral by Management Partners and there is no recommendation to attach a fee component to this operational element.

THE ANNEXATION FISCAL IMPACT STUDY

In an effort to insure uniformity and certainty regarding the potential negative impacts and to provide for a funding method to defray at least a portion if not all of the potential financial shortfall, the City adopted "Hailey Ordinance No. 889" in 2004. With this ordinance the City has outlined the goals and process for the application and fees associated with annexations. Ordinance No. 889 specifically calls for "a detailed description of how the annexation will impact the existing municipal infrastructure and services" (e.g., water, sewer, library, police fire, and parks). Furthermore, it calls for a statement of who will maintain the streets, alleys, parks and utilities and how the maintenance will be funded. Finally, at the Council's sole discretion they may choose to impose an annexation fee and other monetary or non-monetary contributions for any annexation.

Annexation fees are a one-time payment to fund system improvements that will benefit or accommodate the new project area. The fees are proportionate to the demands created by the new development or proportional to the citywide benefits that the new area will share with existing City residents. Any fee paid at the point of annexation is not to replace development impact fees that are aimed specifically at accessing the project's capital impact. Since the City's development impact fee will capture the projected increased capital needs, Management Partners has designed the annexation fee to capture the new area's share of existing assets and capital improvements that it will benefit from. In addition, Management Partners has reviewed service deficiencies to identify the annexed area's fair- share contribution to needed improvements.

The approach used by Management Partners involves identifying areas not provided for in a development fee. Under Idaho state law (Title 67 Chapter 82) the development impact fee will provide for the collection of funds to pay for the development’s impact on infrastructure. Using the cities of Ketchum, Coeur d’Alene, Post Falls, and Rexburg as examples, residential development impact fees could range from \$948 per unit to \$1,844 per unit and between \$99 and \$1,136 per 1,000 square feet for commercial/ industrial spaces. It is expected that Hailey will have similar fees when its development impact fees are in place.

The proposed annexation fee will create both one-time capital resources as well as making a one-time contribution to support service deficiencies over a longer period of time. Additionally, new development will be required to “buy-in” to the existing infrastructure paid for by current residents that will benefit them. The total fee will result in a three part fee:

- a) Contribution to “buy-in” with a proportional share for the use of current facilities assets that will benefit the development and need to be replaced sooner than would have occurred without the development.
- b) Contribution of a proportional share for planned capital needs not provided for in a development fee.
- c) Contribution of a proportional share to ongoing services deficiencies which will be accelerated or increased by new development. Current budget and a benchmark survey reported above documented the needs for additional resources to support increased service levels. Management Partners recommends a five year one-time contribution to help offset these shortfalls.

The amount of the fee reflects the cost of the annexed area’s share of current capital asset value (\$11,082,483), future capital investments (\$23,525,474) future investment in capacity for water and waste water (\$11,307,182) and the assumption of a portion of current operating deficit and current program shortfalls (\$7,125,143). The total of these City obligations is \$53,040,282.

TABLE 13: SUMMARY OF ANNEXATION FEE

Fee Component	Total	Cutter Annex	Single Family	Multi-family
Current Asset Value	\$11,082,483	\$333,300	\$2,786	\$2,167
Future Capital Program	\$23,525,474	\$707,517	\$5,914	\$4,600
Operating and Program Deficit	\$7,125,143	\$214,285	\$1,791	\$1,393
Sub-total	\$41,733,100	\$1,255,102	\$10,492	\$8,160
Water & WWTP	\$11,307,182	\$620,818	\$5,007	\$5,007
Total	\$53,040,282	\$1,875,920	\$15,499	\$13,167

The estimated fee for single family units is \$15,499 and \$13,167 for multi-family units. The total fee for an annexation with 323 service units would be \$1,875,920.

Current Capital Assets

In addition to operational costs, capital investment has been made in the City's infrastructure that can be used by both current and future residents. These assets already exist and are not increased based on a development's incremental new impact on the city. They will be used and will benefit the new development but have been paid for by existing residents. New develop will create a greater burden on these assets and reduce their useful life. Current asset value is not an element considered in development impact fees.

Fortunately, recent changes in generally accepted accounting standards (GASB Rule 34) require that cities perform asset inventories and identify the value of current assets. The values are based on the purchase price less the depreciated portion to report the current value of the City's assets. Note "F" of the Hailey's General Purpose Financial Statement prepared for the year ending September 30, 2004 provides a summary of the asset values. The City prepares their General Purpose Financial Statements every year. They are prepared and audited by an outside third party and are therefore a fair and accurate statement of assets and value.

Current Water and Sewer capital assets are not included in this analysis. These business (water and sewer) type activities use ongoing monthly or bi-monthly fees to finance equipment and infrastructure replacement. The capital and equipment impact created by new development such as the need to oversize pipe or expand plant processing capacity is appropriate for consideration as future capital and is included in that section.

Table 14 reports the value of current assets (less depreciation) and the apportionment of those assets to current and annexation areas, and the resulting fee for the annexed area's share of existing assets. Current assets, less their depreciated value, have a current value of \$5,660,383. as reported in the City of Hailey's General Purpose and Financial Statements for the year ending September 30, 2004. To this -- depreciated road improvements of \$5,422,126 have been added. Additional detail by department can be obtained from the City. The assets include property, improvements and large equipment for all of the City's departments. The departments with the largest assets are the General Government departments in City Hall and the Parks department with its several park properties.

Using this approach, an annexation area with 323 residential units would require that the developer contribute \$333,300 in a one-time fee.

TABLE 14: APPORTIONMENT OF CURRENT CAPITAL ASSETS

Land Use	Service Unit	Number of units	Percent factor	Total	Cost per unit	Fees/ pop or 1,000 sq. ft.
Current Capital Assets				\$11,082,483		
Current Service Units		10,417	97.0%	\$10,749,183	\$1,032	
Residential		8,217	78.9%	\$8,479,028		
Single family	2.7					\$2,786
Multi_family	2.1					\$2,167
Non-Residential						
Commercial	412,785	678	6.5%	\$699,620	\$1.69	\$1,695
Office	708,250	661	6.3%	\$682,078	\$0.96	\$963
Industrial	1,787,235	507	4.9%	\$523,167	\$0.29	\$293
Institutional	708,250	354	3.4%	\$365,289	\$0.52	\$516
Non-Residential	3,616,519	2,200	21.1%	\$2,270,155		
Annexation Service Units						
Residential		323	3.0%	\$333,300	\$1,032	
Single family	2.7					\$2,786
Multi-family	2.1					\$2,167
Total		10,740	100%	\$11,082,483		

Planned Future Capital

Future capital facilities reported in Table 15 include: general government facilities, equipment replacement, and items that represent the replacement of current equipment as well as projects that will enhance the entire community. Greater detail of projects can be seen in Table 21. Management Partners recommends the use of current plans and those also found in other planning documents for inclusion in the estimate. While projects that have longer time frames may change in scope or price, our experience is that these projects almost always get more expensive. Using the current planning estimate relies on the best information available at the time of annexation.

As in the asset analysis, the approach is to apportion existing projects that will benefit the newly annexed areas as they would benefit the City as a whole. The value to the annexed areas is apportioned in the same manner as the assets values are apportioned.

TABLE 15: APPORTIONMENT OF FUTURE CAPITAL PROJECT COSTS

Land Use	Service Unit	# of Service Units	% factor	Total	Water & Waste Water	Cost per unit	Fees/pop or 1,000 Sq. ft.
Future Capital				\$23,979,614	\$11,307,182		
Less Reserves				\$454,140			
Net Future Capital				\$23,525,474			
Current Service Units		10,417	97.0%	\$22,817,957		\$2,190	
Residential		8,217	78.9%	\$17,998,959			
Single family	2.7						\$5,914
Multi-Family	2.1						\$4,600
Non-Residential							
Commercial	412,785	678	6.5%	\$1,485,128		\$3.60	\$3,598
Office	708,250	661	6.3%	\$1,447,890		\$2.04	\$2,044
Industrial	1,787,235	507	4.9%	\$1,110,560		\$0.62	\$621
Institutional	708,250	354	3.4%	\$775,421		\$1.09	\$1,095
Non-Residential	3,616,519	2,200	21.1%	\$4,818,998			
Annex. Service. Units							
Residential		323	3.0%	\$707,517	\$620,818	\$2,190	
Single family	2.7						\$5,914
Multi-family	2.1						\$4,600
Total		10,740	100%	\$23,525,474	\$11,307,182		

Management Partners has worked with City staff to review capital plans. In this draft all existing projects have been listed since none are currently designed for expanded capacity generated by new growth from the project area.

Table 15 reports the value of capital projects and equipment purchases as reported in the City’s 2005-2006 capital plan, and as outlined in the library, police and fire planning records. The total of the planned capital projects is \$23,979,614. This includes a new library, fire stations and police facility. Since these capital projects will benefit all City residents, a proportional share has been identified for current and annexed areas by land use type. The total has been reduced by the amount of available reserves set aside by the city for these projects. The current reserves are estimated by the City to be \$454,140. This reduces the amount to be apportioned to \$23,525,474.

Using this approach an annexation area with 323 residential units would require that the developer contribute \$707,517 in a one-time fee.

In addition to future capital related to the General Fund, the annexed area will require additional water and waster water capacity. The City has reviewed these impacts before. The estimated cost of a new Water and Waste Water facility is \$10,922,182. The needs of the newly annexed area assume the consumption of 500 gallons and 360 gallons of capacity respectively. The number of new hook-ups would be 124, one for each

housing unit. The cost of connection fee per unit would be \$3,275 for Water and \$1,731. for Waste Water. The annexation fee for the annexation would be \$620,818. In this case Management Partners did not redo previously completed work. Details of future water capacity and projected costs are available from the City. This fee is included in the overall annexation fee and is not apportioned as were other items since it is calculated only on new consumption and need.

When Water and Waste Water projects are added to the general capital needs the combined total is \$34,447,662 and the combined fee is \$1,328,335.

Operating Fund Deficits and Benchmark Deficiencies

In reviewing the Hailey annual budget, Management Partners identified an on-going revenue to expense deficiency. Looking back to 1997 and considering the budgets of the last three budget cycles, the deficiency remains relatively constant and serves to keep program levels low. Management Partners recommends using \$300,000 as a best estimate of the annual ongoing operating deficit. In reviewing the benchmarks for service areas, Management Partners identified an annual operating deficit for police, fire, planning and library functions of \$878,788. The combined operating deficit is \$1,178,789. Multiplied by five years creates a one time contribution to be apportioned by service areas of \$5,893,943. Management Partners recommends that any annexation area contribute its share of a five year advance on anticipated revenues to fund the annual operating deficit

In addition, there is a one time need for library materials of \$408,000 and one-time park needs of \$823,200. The park capital needs are not in the future capital plans. The total one-time materials and capital needs equal \$1,231,200. The annexed area's share of library materials and park capitalization is included as a one-time fee.

The total of \$7,125,143 to be apportioned is illustrated in Table 16 by service area. Using this approach, an annexation area with 323 residential units would require that the developer contribute \$214,285 in a one-time fee.

TABLE 16: APPORTIONMENT OF CURRENT FUND DEFICIT AND BENCHMARK SHORTFALLS

Land Use	Service Units Factors	Number of Units	Percent	Total Apportioned Costs	Cost per unit	Fees 1,000 Sq. Ft
				\$7,125,143		
Current Service Units		10,417	97.0%	\$6,910,858	\$663.42	
Residential		8,217	78.9%	\$5,451,331		
Single family	2.7				\$1,791.24	
Multi-family	2.1				\$1,393.18	
Non-Residential						
Commercial	412,785	678	6.5%	\$449,800	\$1.09	\$1,089.67
Office	708,250	661	6.3%	\$438,521	\$0.62	\$619.16
Industrial	1,787,235	507	4.9%	\$336,355	\$0.19	\$188.20
Institutional	708,250	354	3.4%	\$234,851	\$0.33	\$331.59
Non-Residential	3,616,519	2,200	21.1%	\$1,459,526		
Annexation Serv. Units						
Residential		323	3.0%	\$214,285	\$663.42	
Single family	2.7				\$1,791.24	
Multi-family	2.1				\$1,393.18	
Total		10,740	100%	\$7,125,143		

Conclusion and Recommended Fee

As reviewed above, the total fee is a composite of the annexation area’s share of current capital assets, planned future capital including new capacity for water and waste water and a contribution to current operating deficits, and program shortfall as discussed in the benchmark portion of this study. This creates a single fee apportioned by land use type arriving at a single unit cost for the current service population by land use type.

Table 17 combines these elements and illustrates what the fee recommendation would be for a development like the “Old Cutter” property that consists of 104 single family units and 10 duplexes. In this case the developer would be required to make a one-time contribution of \$1,875,920, with the fee equating to \$15,499 for single-family residential units and \$13,167 for multi-family units.

TABLE 17: COMBINED ANNEXATION FEE CALCULATION

Program or Asset and Service Areas	Service Unit	Number of Service Units	% factor	Total	Water & WW	Cost per unit	Fees/pop or 1,000 Sq. ft.	Water & WW
Current Asset Value				\$11,082,483				124 units
Future Capital				\$23,525,474				
Op. & Prog. Deficit				\$7,125,143				
Total				\$41,733,100	\$11,307,182	\$3,886		\$5,007
Current Service Units		10,417	97.0%	\$40,477,998		\$3,886		
Residential		8,217	78.90%	\$31,937,141				
Single family	2.7						\$10,492	
Multi-Family	2.1						\$8,160	
Non-Residential								
<i>Commercial</i>	412,785	678	6.50%	\$2,631,070		\$4	\$3,651	
<i>Office</i>	708,250	661	6.30%	\$2,550,114		\$2	\$2,075	
<i>Industrial</i>	1,787,235	507	4.90%	\$1,983,422		\$1	\$631	
<i>Institutional</i>	708,250	354	3.40%	\$1,376,252		\$1	\$1,111	
Non-Residential	3,616,519	2,200	21.10%	\$8,540,858				
Annex. Serv. Units								
Residential		323	3.0%	\$1,255,102	\$620,818	\$3,886		\$5,007
Single family	2.7						\$10,492	\$15,499
Multi-family	2.1						\$8,160	\$13,167
Total		10,740	100%					
Total Annex. Fee					\$1,875,920			

ALTERNATIVES

Management Partners recognizes that the City of Hailey may choose to use different financial tools to address or mitigate development impacts. These may include an annexation fee, a development impact fee, local improvement districts or private funds such as dues paid to home owner's associations (HOA) or contribution to endowment funds. Each has the potential of solving part of the development impact equation.

Management Partners has been asked to look specifically at the impacts of annexation proposals and the use of an annexation fee to mitigate impacts. The use of annexation fees should be considered in conjunction with the other possible financial tools. If the City of Hailey chooses to use all four tools, then the application of each tool is altered.

For example, if a developer is required as part of a development agreement to construct a small park or open space and landscaping within a development area which directly benefits the new landowners, then the Council may also choose to have a homeowners' association be created to collect fees and manage and maintain the improvements.

Similarly, if the City chooses to create a local improvement district to replace, build and/or expand a specific facility, the same facility could not be part of an annexation or development impact fee. However, the development agreement might specify that the new area annex to the existing district or create a district which is similar to others in the City. Finally, annexation and development impact fees can be used in some cases for similar items, but the same item cannot be in both fees resulting in a double billing to the developer. Below is a summary of some of the advantages of each tool.

TABLE 18: USE OF FINANCIAL TOOLS

Annexation Fee	Development Impact Fee	Local Improvement District	Homeowners' Association
Authorized by state law created by local Council	Authorized by state law and created by local Council	Authorized by state law and created by local Council	May be required by Council through development agreement
More flexible in application	Very specific criteria established by statute	Applies to development area only but flexible	Applies to development area; only can apply to a few items
Can help solve deficiencies	Cannot pay for deficiencies	Can pay for deficiencies within the defined area	Can pay for deficiencies within the restricted area
Can pay for a portion of existing infrastructure that will be of benefit to the development.	Cannot be charged to replace or enhance existing infrastructure	Can be used to replace or enhance existing facilities within specified area	Can be used to create and enhance facilities within development
A one-time fee	A one-time fee	An ongoing annual fee	An ongoing periodic fee

CITY OF HAILEY, IDAHO

ANNEXATION FEE RECOMMENDATIONS – ATTACHMENTS

ADDITIONAL REFERENCE TABLES

To provide additional detail for the reader the following tables have been added to the report.

- Table 19 Apportionment of Assets by Function
- Table 20 Apportionment of Assets by Department
- Table 21 Estimate & Apportionment of Future Capital
- Table 22 Public Safety and General Gov. CIP
- Table 23 Park CIP
- Table 24 CIP- Equipment Replacement
- Table 25 PW Facility CIP
- Table 26 Water & Waste Water CIP
- Table 27 Cutter Expense Estimates
- Table 28 Cutter Revenue Estimates