SULTAN PLANNING BOARD
AGENDA ITEM COVER SHEET

ITEM NO:	D-3
DATE:	June 3, 2008
SUBJECT:	Technical Memo #5 – Financial Forecast and Strategic Funding Analysis for the City of Sultan Capital Facilities Plan
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ISSUE:

The City Council and Planning Board received copies of Technical Memo #5 at the joint meeting on May 27, 2008. This is an opportunity for the Council and Planning Board to ask questions and provide direction to staff and consultants regarding Technical Memo #5.

Please bring your copy of the Memo to the meeting on June 3, 2008.

SUMMARY:

This Technical Memorandum is an extension of Technical Memorandum Number 3; City of Sultan's Fiscal Capacity.

This memorandum expands Technical Memorandum #3's assessment of the fiscal capacity of the City of Sultan to finance the public facilities it will need to serve the planned growth contained in the comprehensive plan. Memorandum #3 examined the city's present and future tax base, tax effort and potential tax yield to assess the city's fiscal capacity to support growth.

This extension of that analysis in this memorandum forecasts future net city revenues that would be generated by the growth planned in the city's comprehensive plan. The analysis then assesses the capacity of the city to add additional revenues from developer contributions and grants. The total of these potential revenues are then compared to the capital facilities that are needed to support the comprehensive plan. This comparison and this analysis in this report provides the basis to formulate a strategy to fund the facilities needed to support the planned growth with capital facilities.

This report addresses in detail the four building blocks of developing an overall financial strategy to fund the facilities needed to support the comprehensive plan of the city:

- How much revenue will be available from revenue generating systems now in place it the city? This question is explored by forecasting available internal financial resources.
- How much financing might be generated from developers? This question is explored by examining the suitability of the needed projects for developer financing.
- What other financing strategies, including securing grants, might be applied to provide the needed facilities?
- What strategy can applied to finance facilities needed to support the Comprehensive Plan?

After public and policy review of this memorandum, the strategy described in this report will then be refined and incorporated into the Capital Facilities Plan. This final strategy will then provide the basis for a specific six-year financial plan to fund facilities.

The first report (Technical Memorandum #3) used 2006 as the base year since that is the most recent year that actual financial data for a complete year was available on a fully accounted basis. Subsequent to 2006, city management and council has taken significant steps to improve the city's fiscal condition. The most significant of these includes staff reductions and reallocations between funds, and the annexation of the library into the Sno-Isle Library system. The annexation to the library system "frees up" tax revenues for other purposes that had been used to support the library. The forecasts included in this report include the effect of these measures.

As an extension of the Memorandum #3, this report relies on that analysis and frequent references will be made to that Memorandum.

Summary

<u>Overall and Financial Strategy</u>

- There are reasonable and practicable financial strategies available to fund the identified needs at appropriate levels of service.
- A strategy sufficient to fund the facilities necessary to support the planned growth will depend in large part on developer financing (either directly by building or financing the facilities, or indirectly through impact fees).
- By applying appropriate financial planning strategies, including maximizing the potential for developer financing of facilities, the city has the fiscal capacity to support the land use plan in the <u>long-run</u>, although not all of the needs identified in the financially unconstrained needs list may be funded. In particular, the city has the capacity to set an acceptable level of services for the facilities necessary for development that can be appropriately funded.

- The major financial constraint will be difficulty to fund the unconstrained park needs list as originally proposed. The Level of Service (LOS) that generated the needs list will need to be significant lower to be funded.
- Financing the city's sewerage system as proposed will require implementation of the recommended General Facilities Charge (CFG) or sewer connection fees as proposed in the last rate study for the utility.
- The city, however, is facing significant financial challenges that will make it difficult to finance important facilities (especially expansion to the sewer treatment plant) in the sort-run.
- This financial analysis demonstrates that while the city is dependent on growth to maintain its current levels of service for on-going services, the city must also make sure that such growth finances the capital facilities needed to support it.
- The city will need to maintain a balance between securing developer contributions adequate to fund a significant portion of the anticipated capital needs while avoiding discouraging new development activity that the city will need to maintain its on-going operations at current levels.
- Since the city's fiscal capacity will grow over time, the initial construction of facilities will start out slow, intensifying as the city grows, and the new development generates revenue to support more facilities.

FISCAL IMPACT:

<u>Forecast of Internal Financial Resources</u>

- Recent fiscal measures by the city in reducing and reallocating staff, and annexation to the library district has significantly improved the fiscal operations of the city in the short term.
- In the long-term, the city will need growth related revenues in order to maintain current staffing levels.
- The development forecasted in the comprehensive plan will provide revenues that will improve the fiscal health of the city and allow the city to maintain current staffing levels:
    - The improvement in fiscal health from growth related revenues could allow the city, over the long run restore police levels of service, assuming moderate rates of inflation.
    - Higher rates of inflation or lower rates of growth could reduce the fiscal health of the city and weaken the ability of the city to restore police levels of service.
- Falling tax rates (due to limits on property tax levies) will provide the opportunity for voter approved levy lifts that require 50% approval. As much as $15 million in current dollars could be made available for capital projects through such levy lifts.

- The city has substantial debt capacity of all types (including council-manic General Obligation, excess General Obligation, Revenue Bonds, Special Assessment) that could be used to finance capital projects.
    - The city has significant inside (council-manic) debt capacity (which could exceed $49 million by 2025).
    - Total voted debt capacity could exceed $240 million in current dollars by 2025—equivalent to $100 million in current dollars. However, excessively high tax rates would be needed to access this capacity.
    - Revenue bonding capacity is limited only by the credit worthiness of the utilities
    - Special assessment bonding capacity is limited by the potential value of benefited property.
- While the Street Fund can provide a balance between revenues and costs to maintain existing service levels, this balance is highly sensitive to rates of inflation since a substantial portion of street fund revenues (notably gas tax and property taxes) do not grow as rapidly as costs at higher rates of inflation.
- Recent increases in sewer rates has placed the sewer fund on a firm fiscal base that can maintain services and, in the long term, generate revenues for capital (or other needs), if rates are regularly increased to keep pace with inflation.
- Water fund revenues are not adequate to generate revenue for capital in the short-run.
- The planned growth will generate substantial Real Estate Excise Tax (REET), Park and Transportation Impact fee, and water and sewer connection fee revenue. These revenues are restricted for capital purposes. These sources of revenue (along with revenue that could be generated by sewer rates) could generate an annual revenue stream of $3.5 million dollars per year by 2025 and cumulatively $70 million (in current dollars).

Developer Financing

- Most of the new development in the city will occur in areas that are now undeveloped and, as such, it is appropriate to have the new development finance the extension of facilities to serve this new development.
- Much of the future capital needs generated by growth lies along corridors that can be effectively financed by developer contributions.
- As much as 90% of the total transportation costs identified by the Transportation Element could be suitable for various forms of developer financing, if such financing were required from new development.
- Significant amounts of the water, sewer and storm water needs can be financed by developers by applying the same concepts to identify the streets that are appropriate for developer financing.

Grants

- Many of the capacity projects proposed in the Transportation Element should effectively compete for grant funding over the planning period. It is reasonable to assume that between 15% and 20% of the needs list could be financed by grants (this funding would reduce the amount of financing that would other wise be required to come from developers or landowners for those capacity projects).
- Grants for other services are difficult to predict and the financial strategy will need to reflect that.

RECOMMENDED ACTION:

1. Ask questions and provide direction to staff and consultants regarding Technical Memo #5.

ATTACHMENTS:

A – Technical Memo #5 (Please bring the copy provided to you at the May 27, 2008 meeting. Copies are also available on line or upon request.)
