

City Finance 101: Expenditures

WHAT COSTS DO CITIES BEAR?

When a city incorporates, typically, many governmental services are unaffected. In almost all cases, Water, Sewer, Library, and Fire Services continue to be provided by existing special service districts. Schools are entirely unaffected by changes in municipal governance. And a long list of regional services that are now provided by the county continue to be provided by the county (e.g. regional parks; public health; public transportation; and judicial services [including superior and district courts]).

The services that do transfer to the new city include Police, Public Works (Roads), Parks and Recreation, Planning, and general governmental functions like City Manager, City Council, Finance, and Legal. Typically, police services and road services in newly incorporated cities are provided through a contract with the county, with the costs of the contract, and levels of service set through negotiations.

For a typical small city, the single biggest city expense is for the provision of police services. Typically, a city with a population of 5,000 to 8,000 might expect to spend between 30% and 40% of its General Fund budget on police services. In raw dollars, police expenditures for a city of this size, with relatively little commercial activity, might range from \$800,000 to \$1.2 million.

After police, the next biggest city expenditures are typically for operation and maintenance of the road system, for planning, and for overall management of the city.

HOW DO YOU DETERMINE IF A CITY IS FEASIBLE?



The **goal of a feasibility study** is to provide *data*, to inform the debate among community members about the attractiveness of incorporation.

Across the state, incorporating communities have found that a useful way to gauge the fiscal attractiveness of incorporation is to look at incorporation in terms of a clear, *same-cost/same-level-of-service* benchmark:

- If a new City were to maintain existing tax burdens and provide existing levels of service, would the City have enough revenues to operate?

If the answer is "Yes," then residents can have a clear understanding that they will be at least as well off as they are now (from a tax and service perspective) if they choose to incorporate.

How could taxes and services change?

Cities have many options in setting taxes, and they have many options regarding the services they provide. Some cities in Washington State levy relatively high taxes and provide high levels of service for things like police or for parks and recreation. For many other cities, keeping taxes low is among their highest priorities. These cities make conscious choices to forego offering higher levels of service in the name of keeping taxes low.

If the Birch Bay community incorporated, the new City of Birch Bay would have taxing authority that Whatcom County does not have. Among other things, the City would have authority to levy utility taxes and business taxes. Whether (or how) to use that authority would be a policy choice for the elected City Council—a choice that would ultimately be driven by the City's political processes.

So...will taxes go up with incorporation, or will they go down? The answer is: every city is different, and every city makes its own decisions. On average, most cities in Washington choose to levy higher tax burdens than Birch Bay residents currently face, and they provide higher levels of services. There are many other cities, however, where residents pay less in taxes than Birch Bay residents currently face.

For more information on what would and would not change in Birch Bay, please see page four of the *About Incorporation* Folio, available at www.birchbayinfo.org.

A Potential City of Birch Bay

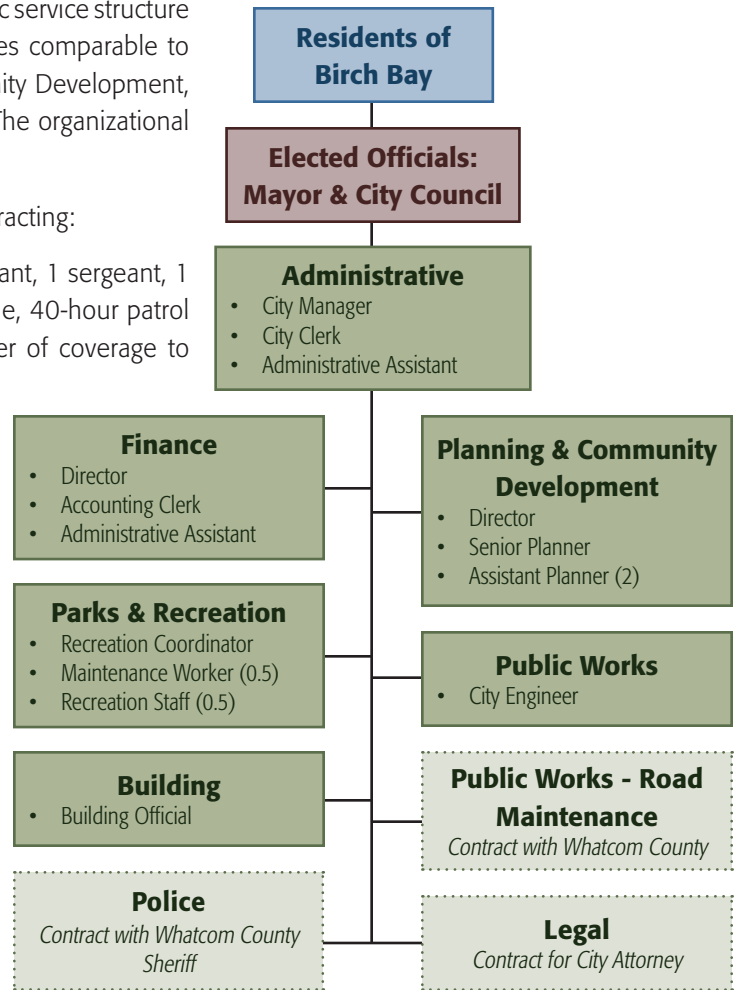
WHAT MIGHT A GOVERNMENT STRUCTURE FOR A CITY OF BIRCH BAY LOOK LIKE?

In the context of the study, **the model assumes** the following basic service structure for a potential City of Birch Bay, consistent with what small cities comparable to Birch Bay look like: Administrative, Finance, Planning & Community Development, Parks and Recreation, Building, and Public Works departments. The organizational chart to the right details the assumptions regarding City staffing.

In addition, these services are assumed to be provided by contracting:

- City Police services will include 6 full-time positions: 1 lieutenant, 1 sergeant, 1 records specialist, and 4 patrol officers. Currently, one full-time, 40-hour patrol officer is dedicated to the Birch Bay area, and the remainder of coverage to the area is provided as part of a patrol district that extends significantly beyond the Birch Bay boundaries. This modeled level of service exceeds current service levels, but is consistent with what a baseline level of service for a small city might look like.
- Fire and Emergency Medical Services (EMS) will be provided through annexation to or contract with the district. There will be no net cost of Fire and EMS to the city and costs to residents will remain the same.
- Street maintenance would be provided by contract with the Whatcom County Public Works Department.
- The new City would contract for City Attorney.

It is important to emphasize again that it will be up to the new City Council to set up the structure of the city government, decide how to change the levels of service, and negotiate with potential contract service providers. At that point, the service structure might look different from the one modeled in the feasibility study.



BIRCH BAY METRICS

- 2007 Estimated Permanent Population: 5900
- Seasonality: about 50%
- 2007 Assessed Value (AV): \$1.1 billion
- 2007 AV per Resident: \$180,000
- Miles of Public Roads: about 40
- Area in Square Miles: 6.8

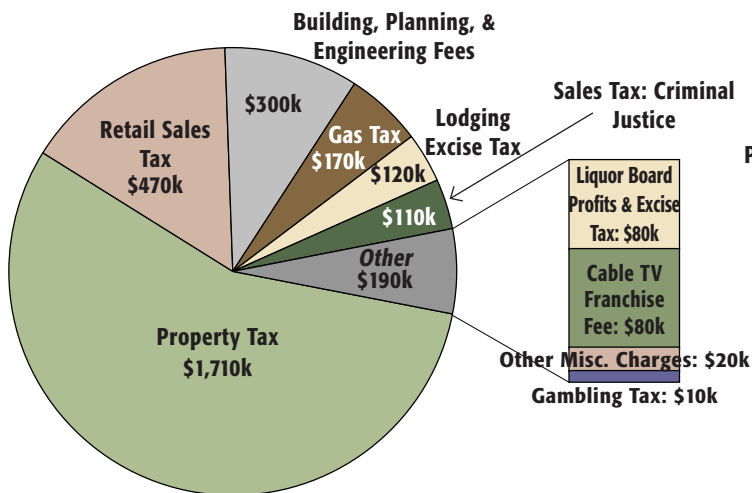
Is a City of Birch Bay Feasible?

At First Glance: Does a City of Birch Bay Look Feasible?

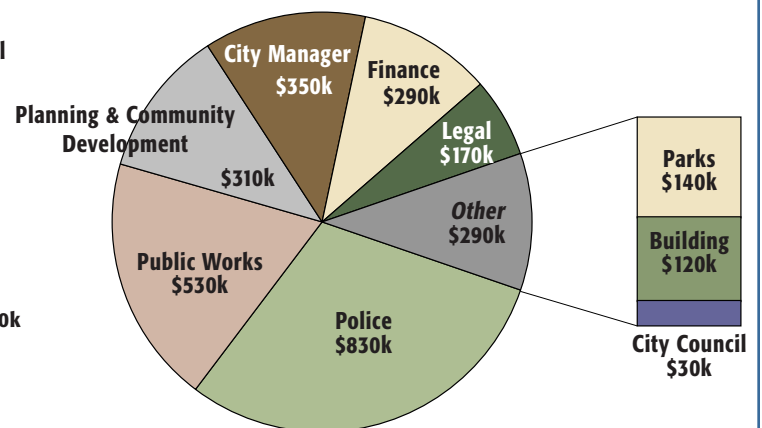
Yes. With existing tax burdens, a City of Birch Bay would generate enough revenues to fund governmental service levels that are at least equal to what the community currently receives. In fact, for services like Police and Parks & Recreation, the model assumes that a City of Birch Bay would provide levels of service that are somewhat higher than what Whatcom County currently provides. For day-to-day operations, preliminary analysis finds that a City of Birch Bay that was fully-operational in 2009 would generate slightly more than \$3 million in revenue, while facing costs of a bit less than \$2.8 million.

Estimated 2009 Core Operating Revenues & Expenses

Revenues: \$3,070k



Expenses: \$2,770k



What Key Assumptions Drive These Findings?

- City property tax levy rate of \$1.395 per \$1,000 of assessed value (AV). The legal limit for a newly-incorporated Birch Bay (as modeled) would be a levy rate of \$1.60 per \$1,000 AV; and there are good reasons why the City might choose to set its initial levy at that amount. To be true to the same-cost framework, however, the model sets the initial City property tax rate at the same level as the Whatcom County Road Levy (projected), which is the property tax that the City levy would replace.
- *No utility or business and occupations (B&O) taxes.* To maintain existing tax burdens, the model assumes no utility taxes and no business and occupations taxes. This is how many recently-incorporated cities operate.
- Sales taxes come from three sources: (1) retail establishments in Birch Bay, (2) construction activity, and (3) home-based purchases of delivered goods and services. For Birch Bay, in the near term, construction and home-based purchases will generate more sales tax revenue than sales at retail establishments.
- City Police services will include 6 full-time positions: 1 lieutenant, 1 sergeant, 1 records specialist, and 4 patrol officers. Currently, one full-time, 40-hour patrol officer is dedicated to the Birch Bay area, and the remainder of coverage to the area is provided as part of a patrol district that extends significantly beyond the Birch Bay boundaries. This modeled level of service exceeds current service levels, but is consistent with what a baseline level of service for a small city might look like.
- Fire and Emergency Medical Services (EMS) will be provided through annexation to or contract with the district. There will be no net cost of Fire and EMS to the city and costs to residents will remain the same.

What About Capital Revenues and Costs?

The model assumes that Birch Bay will levy a local Real Estate Excise Tax (REET) of 0.5% (equal to what Whatcom County currently levies). These revenues are required to be spent on capital needs in the City. Over a 10-year period, a City of Birch Bay might expect to generate close to \$10 million in REET revenues. At an average of \$1 million per year, the City would stand to get more in REET revenues than the area has seen in County investments in recent years.