



BIRCH BAY

Incorporation Feasibility Study

FINAL REPORT
March 2008

Prepared for
Whatcom County by



BERK & ASSOCIATES



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BIRCH BAY INCORPORATION FEASIBILITY STUDY

Executive Summary

BACKGROUND

In recent years, residents of the Birch Bay community have engaged in a series of planning efforts for the Birch Bay area. These efforts were focused on envisioning the future of Birch Bay and developing plans for public infrastructure and services, zoning and land use, and the scope and nature of future development.

The most prominent of these efforts resulted in three planning documents: (1) the 2004 *Birch Bay Community Plan*; (2) the 2006 *Birch Bay Comprehensive Stormwater Plan*; and (3) the 2007 *Birch Bay Design Guidelines for Commercial Development*. As described in the *Design Guidelines* report, the goal of the Design Guidelines project was to shape the "...scale, character and performance of commercial development within the Birch Bay Planning Area..." in a way that will serve the Birch Bay community in coming years.

Having engaged in this series of planning efforts for infrastructure and land use, members of the Birch Bay community turned their attention to issues of local governance.

As required by Washington State's Growth Management Act, Whatcom County has developed Countywide Planning Policies and a Comprehensive Plan that represent the County's plans for long-term growth. In these plans, the County has designated Birch Bay an urban growth area (UGA)—an area where urban levels of development are to be concentrated as the county continues to grow.

Under state law, as a designated Urban Growth Area, Birch Bay has three options for future local governance:

1. Remain an unincorporated area of Whatcom County—continuing to receive local governmental services from the County;
2. Annex to the City of Blaine—a process that would require action both by the City of Blaine and by Birch Bay residents;¹ or
3. Incorporate as a new City of Birch Bay.

This study looks at the third option, answering the basic question:

Would a City of Birch Bay be financially feasible?

¹ Birch Bay is one of three urban growth areas within Whatcom County that are not "associated" with existing cities. In this context, the term *not associated with an existing city* means that, to date, the City of Blaine has not included Birch Bay within its anticipated future boundaries.

This study has been funded by Whatcom County, at the request of Birch Bay residents, and is intended to serve as a reference document for the Birch Bay community, to provide key information to community members as they debate their governance future.

If residents decide that incorporation is something they would like to pursue, they can initiate the process by identifying a proposed area of incorporation, collecting signatures, and filing a notice of intent with the Whatcom County Boundary Review Board. Ultimately, any decision to incorporate must be made by Birch Bay residents through a public vote. (For more details on the process of incorporation, see the section entitled *Process of Incorporation* in this report.)

SUMMARY OF FEASIBILITY FINDINGS

This study answers two straightforward questions:

1. *Is it financially feasible to incorporate a new City of Birch Bay?*
2. *What are the potential implications of incorporation on local taxes and levels of service?*

To answer these questions, the analysis team modeled annual revenues and costs of a hypothetical City of Birch Bay. To give residents a meaningful point of comparison, the study seeks to answer the question in the context of the status quo: *How do the financial realities of incorporation compare with the status quo (remaining unincorporated)?*

The following summary contains three components:

1. Bottom line findings of the feasibility of the contemplated city;
2. A big-picture assessment of how Birch Bay would compare to other existing cities; and
3. A more detailed presentation of key assumptions and estimated costs and revenues.

The Bottom Line

Does the Contemplated Incorporation of Birch Bay Appear Financially Feasible?

Yes. If Birch Bay residents pay the same level of taxes they would pay as part of unincorporated Whatcom County, a City of Birch Bay would generate enough revenues to provide a slightly higher level of service than Birch Bay residents currently receive.

If a City of Birch Bay was fully operational in 2009, under a tax structure that would hold Birch Bay residents' tax burdens equal to what they would pay as residents of Whatcom County, the City would generate \$3.2 million in "core" operating revenues (in 2009), and would be able to provide slightly increased levels of service over what residents currently receive at a cost of \$ 3.0 million. The City would have roughly \$218,000 (or 7% of its revenues) left over to increase levels of service (**Exhibit ES-1**).

In subsequent years, the model envisions excess, or unprogrammed, revenues first diminishing (as the City invests time and money in developing its first Comprehensive Plan). But beginning in 2012, unprogrammed revenues would increase each year.

Exhibit ES-1 Summary of Core City Costs and Revenue

	2009	2010	2011	2012	2013	2014
<i>Resident Population</i>	<i>6,128</i>	<i>6,224</i>	<i>6,321</i>	<i>6,417</i>	<i>6,513</i>	<i>6,610</i>
Operation (Non-Constrained)*						
Revenues						
Property Tax/Regular Levy	\$1,724,000	\$1,779,000	\$1,836,000	\$1,893,000	\$1,952,000	\$2,012,000
Retail Sales Tax	471,000	504,000	539,000	575,000	614,000	654,000
Building Permits, Planning and Engineering Fees	305,000	319,000	333,000	348,000	364,000	380,000
Gas Tax Revenues	165,000	173,000	182,000	191,000	201,000	211,000
Lodging Excise Tax	116,000	128,000	142,000	156,000	171,000	187,000
Retail Sales Tax - Criminal Justice	105,000	110,000	116,000	122,000	128,000	135,000
Cable TV Franchise Fee	84,000	92,000	100,000	109,000	118,000	128,000
Liquor Board Profits and Excise Tax	77,000	81,000	85,000	90,000	94,000	99,000
Retail Sales Tax - Public Safety	74,000	77,000	81,000	86,000	90,000	94,000
Recreation Charges	31,000	33,000	34,000	36,000	38,000	39,000
Other Misc. Charges	20,000	21,000	22,000	23,000	24,000	25,000
Gambling Tax	9,000	10,000	10,000	10,000	11,000	11,000
Total Projected Core Revenues	\$3,181,000	\$3,327,000	\$3,480,000	\$3,639,000	\$3,805,000	\$3,975,000
Expenses						
Public Safety	\$934,000	\$976,000	\$1,021,000	\$1,067,000	\$1,115,000	\$1,165,000
Public Works	530,000	554,000	578,000	604,000	631,000	660,000
Planning & Community Development	317,000	544,000	564,000	534,000	556,000	578,000
City Manager	345,000	360,000	376,000	393,000	410,000	428,000
Finance	293,000	306,000	320,000	334,000	349,000	364,000
Legal	105,000	109,000	114,000	119,000	125,000	130,000
Parks and Recreation	150,000	157,000	164,000	171,000	178,000	186,000
Building	117,000	122,000	127,000	133,000	139,000	145,000
City Council	34,000	35,000	37,000	38,000	40,000	41,000
Non-Departmental	138,000	145,000	152,000	159,000	166,000	174,000
Total Projected Core Expenditures	\$2,963,000	\$3,308,000	\$3,453,000	\$3,552,000	\$3,709,000	\$3,871,000
Operating Surplus/(Deficit)	\$218,000	\$19,000	\$27,000	\$87,000	\$96,000	\$104,000
Capital (Constrained)						
Revenues						
Real Estate Excise Tax	728,000	781,000	838,000	900,000	965,000	1,035,000
State and Federal Grants**	N/A	N/A	N/A	N/A	N/A	N/A
Total Projected Capital Revenues	\$728,000	\$781,000	\$838,000	\$900,000	\$965,000	\$1,035,000

Source: Berk & Associates, 2007

Note: *Non-constrained operating revenues and expenses include day-to-day operating costs and revenues for the City's general and street fund, including revenue streams that are statutorily constrained in their use, but for which those legal constraints are not binding. In the above summary, all such functionally unconstrained revenues and costs are grouped together to give readers a bottom-line picture of operating revenue-sufficiency. REET Revenues and certain State and Federal Grants are restricted to funding capital facilities.

**Success in competing for grant revenues is hard to predict, which means that grant revenues tend to fluctuate wildly from year to year. Thus, we want to point out that this is a possible source of capital revenues, but will refrain from estimating its magnitude.

As a primarily residential city, the most important revenue source would be property taxes, while the largest single cost would be for the provision of public safety (police and jail costs). The analysis assumes that fire and library services will continue to be provided by one or more fire districts and by the library district—either through contract or by the City annexing to the districts in question.

The new City of Birch Bay would have relatively lean staffing, but compared with services the Birch Bay area currently receives, the new City would be in a position to offer moderate increases in levels of service for police and for parks and recreation.

Big-Picture Comparisons with Other Cities

For some readers, the best way to have a clear understanding of Birch Bay's financial strength is to simply compare Birch Bay's tax base with the tax bases of existing cities in the state.

Most cities in Washington State rely heavily on two major sources of revenue: (1) property taxes and (2) retail sales taxes. Cities get revenues from other sources like gas tax distributions and permit and franchise fees, and many cities levy utility taxes, but all of these revenue bases are relatively consistent from one city to the next. The two tax bases that vary from city to city are property tax and retail sales tax. If a city has relatively high property values per resident and/or high retail sales per resident, that city can be seen as having a fundamentally strong financial base.

How Does Birch Bay's Tax Base Compare with That of Existing Cities?

Exhibit ES-2 compares the property tax base and sales tax revenues of Birch Bay with those of 11 Washington cities that have incorporated in the past 15 years. As an additional point of reference, the exhibit also includes data for the median city in Washington State.

Birch Bay is an area that sees large numbers of seasonal visitors and non-resident property owners. A combination of non-resident housing and the presence of relatively high-value homes in proximity to the waterfront means that Birch Bay has a relatively high assessed value of property per resident (\$180,000). Compared with other recently-incorporated cities, Birch Bay's assessed values per resident would place it in the top tier of new cities (up with the cities of Newcastle and Sammamish). Birch Bay's assessed value per resident would also be far greater than that of the median city in the state (the median city has assessed value per resident of \$63,000).² In fact, with assessed value of \$180,000 per resident, Birch Bay would have higher per-resident property values than 91 percent of cities across the state.

With estimated sales tax revenues of \$60 to \$70 per resident, Birch Bay would rank in the lower tier of recently-incorporated cities for sales tax base. The median city in Washington State received \$130 per resident.

When one combines property values and sales tax revenues together, Birch Bay would compare favorably with most recently-incorporated cities. Birch Bay's strength stems from its property tax base, which outweighs its relative weakness in sales taxes. Putting an appropriate weight on property taxes, Birch Bay's property and sales tax base would rank above that of 8 of the 11 recently-incorporated cities (again, in per-resident terms), ranking above all but Liberty Lake (which benefits from auto dealerships), and the cities of Newcastle and Sammamish.³ Across all of Washington State, Birch

² The term *median* means that half of the cities in Washington have assessed values per resident that are less than \$55,000, while the other half has values that are greater.

³ At the 2007 unincorporated levy rate of \$1.516 per \$1,000 of assessed value (the levy that would be replaced by the City levy if Birch Bay incorporated) the Birch Bay area generated nearly \$275 per resident in property tax

Bay's property and sales tax base would rank higher than that 70 percent of the state's cities (again, using a similar weighting for property tax base).

Exhibit ES-2

Comparison of Property and Sales Tax Revenues – Birch Bay and Other Recently-Incorporated Cities (2007)

City	Year of Incorporation	Population	Assessed Value per Resident	Sales Tax per Resident	Property and Sales Taxes per Resident (Assuming a levy rate of \$1.516 per \$1,000 of Assessed Value)
Burien	1993	31,410	\$109,427	\$158	\$324
Covington	1997	17,190	96,335	136	282
Edgewood	1996	9,560	126,426	55	247
Kenmore	1998	19,940	128,056	111	306
Lakewood	1996	58,950	87,317	132	264
Liberty Lake	2001	6,580	120,315	338	520
Maple Valley	1997	20,020	100,684	93	246
Newcastle	1994	9,550	187,298	103	387
Sammamish	1999	40,260	191,326	72	362
Spokane Valley	2003	88,280	66,640	197	298
University Place	1995	31,300	102,190	66	221
<i>Median of All Washington Cities *</i>			<i>63,000</i>	<i>130</i>	<i>242</i>
Birch Bay		5,900	\$180,673	\$60 - \$70	\$334 - \$344

Source: Municipal Research & Services Center, Washington State Department of Revenue data; Whatcom County Assessor datasets; and Berk & Associates, 2007

* Values for median city reflect the median city value for each category. In other words, the city with the median assessed value per resident of \$63,000 is not also the median city for sales tax revenues.

City Size Matters

While a city's per-resident tax base is an important measure of fiscal strength, it is also true that, when it comes to small cities, size matters.

When one thinks about running a city, there are any number of costs that are to some extent fixed (i.e. costs that tend to change little with modest changes in city size). Whether the city has 5,000 or 8,000 residents, there will be only one City Manager, one Finance Director, one Planning Director, and one Comprehensive Plan. Given these built-in economies of scale, all else being equal, a larger city will find it easier to make ends meet than a smaller city.

revenues. Combined with \$60 or \$70 in sales tax revenues, Birch Bay would have generated \$335 to \$345 per resident in property and sales taxes. Among recently-incorporated cities, only Liberty Lake, Newcastle, and Sammamish would have generated more revenue (assuming the same levy rate).

Among cities of similar size (in 2007, Washington had 50 cities with between 4,000 and 10,000 residents), Birch Bay's property and sales tax base would put it in the middle of the pack. Within this group, 26 cities would rank lower than Birch Bay, and 24 would rank higher.⁴

Under the relatively lean tax structure modeled in this analysis, a City of Birch Bay would generate more General Fund revenues per resident than 15 of the 50 cities with populations between 4,000 and 10,000.⁵ If Birch Bay residents decided they were willing to increase City taxes in order to increase levels of City services, the City would rise in the ranking of revenues per resident.

Implications of Growth

In recent years, the Birch Bay community has contributed to a great deal of planning for the Birch Bay UGA. Most recently, the Birch Bay community worked with A Northwest Collaborative and Whatcom County Planning to develop *Design Guidelines* that will guide Birch Bay's growth. Through the *Design Guidelines*, the Birch Bay community envisions a mix of high-quality residential and commercial development that will serve the community's needs, foster a sense of place, and leverage and compliment Birch Bay's beautiful natural environment.

As development unfolds and Birch Bay achieves this vision of the future, a City of Birch Bay would enjoy many of the economies of scale touched on above. As Birch Bay adds residential and commercial uses, City tax revenues will certainly grow (new residents and new commercial development will add to all the existing streams of revenues). In addition, new commercial development offers the community a chance to expand its capture of retail sales tax dollars that currently leak into neighboring communities.

New development always brings new demand for City services, but because of the economies of scale discussed above, in all likelihood, a more developed City of Birch Bay will have a stronger financial footing than the City of 6,000 odd residents that is reflected in this study. This will be particularly true if Birch Bay is able to achieve the high-amenity urban structure that is envisioned in the *Design Guidelines*.

On the other side of the same coin, if a City of Birch Bay was to halt growth altogether (an unlikely outcome),⁶ then it in turn would be limiting its ability to achieve a stronger financial footing. In fact, if development were to come to a complete halt in Birch Bay, then a City of Birch Bay would see sales tax and property tax revenues that are lower than those modeled in this analysis.

⁴ Source: Municipal Research & Services Center.

⁵ Source: Washington State Auditors Office data for 2006 city revenues and expenditures, with Berk & Associates adjustments for inflation.

⁶ In reality, cities and counties are very limited in their ability to stop development in designated urban areas. Cities in particular have many tools for shaping development to achieve their vision of the future, and they can take actions that may slow the rate of development, but few mechanisms exist for stopping growth altogether. For more discussion of this topic, readers should see the discussion on Controlling Growth in Section 3.9 of the report.

CAPITAL REVENUES AND NEEDS

When contemplating incorporation, there are two ways one can think about capital needs and revenues:

1. One can add up all the identified capital needs and all the identified capital revenues, and most often one will find that the needs far outstrip the revenues available to fund them. That is the case in most cities across the country and, in fact, can be viewed as a good thing. The best way for a city to make sure it is making the *best* investments is for the city to identify a long list of *possible* investments and, in any given cycle, prioritize and fund only the most important.
2. One can think in terms of with and without incorporation. On one hand, if the community *does not* incorporate, what kinds of capital investments can residents expect the County to fund in the foreseeable future (in light of historic investments and current plans)? On the other hand, if the community *does* incorporate, how much in capital revenues can the new City expect to generate? If the community expects to generate more capital revenues than they can expect to receive in investments from the County, then one can argue that incorporation is a good deal (from a capital investment perspective). If not, then one can argue that the community would be well served to wait.

If a City of Birch Bay existed at the start of 2009, Berk & Associates estimates that the City would generate roughly \$5.25 million in Real Estate Excise Taxes in the six years spanning 2009-2014. By statute, these revenues must be used for capital investments. If the City sought to leverage these dollars by pursuing matching grants (something that all cities do), then, over time, the City might expect to generate an additional \$1.25 to \$2.5 million in matching funds from state or federal grants. Folding these grant revenues into the picture brings expected capital revenue up to \$6.5 to \$7.75 million over the six-year period.

When one looks at the list of planned capital investments for the Birch Bay area, it is difficult to know whether Whatcom County will spend \$6 or \$7 million in Birch Bay in a comparable time period.

Whatcom County's current Capital Improvement Plan (CIP) includes three transportation investments that clearly fall within the boundaries of the contemplated City of Birch Bay.⁷ In the Plan, these projects are characterized as "minor widening and reconstruction projects," and include improvements to Birch Bay Drive, Grandview Road, and the intersection of Birch Bay-Lynden Road and Blaine Road. These three projects have a total estimated cost of \$11 million, but only a bit more than \$2 million in spending is currently programmed in the County's 2007-2012 CIP. See *Section 8.0: Capital Improvements* for more detailed information.

A fourth investment project lies on the boundary of the contemplated City: major improvements and extension for Lincoln Road. Depending on how the boundaries of a proposed city are defined by incorporation proponents, this project could be included or excluded from a City of Birch Bay. In the

⁷ Because surface water management service provision is not expected to transfer to a new City of Birch Bay, and because Whatcom County has not planned any improvements to parks in the area, this study identifies only those capital needs and programmed expenditures that are limited to road investments.

current CIP, the Lincoln Road project is expected to cost \$7.5 million, but recent updates suggest that the costs could exceed \$9 million. This project is slated for completion within the next few years (which might mean it would be completed before incorporation would be likely to take place) but it is not uncommon for CIP project time-lines to slip.

In light of the above discussion, one could argue that Birch Bay would see roughly the same capital investments whether the area incorporates or not. If one assumes that the City boundaries would encompass Lincoln road and that the Lincoln Road improvements go forward but on a slightly delayed schedule, it could be argued that from, say, 2010 to 2016, Birch Bay might see the County invest \$7 to \$10 million in the Birch Bay area.

On the other hand, one could just as easily argue that Birch Bay would be better off incorporating. If one assumes that Lincoln Road would not be included within the City boundaries, or if it is assumed that the project would be substantially completed prior to incorporation, then it is possible to envision a future where, between 2010 and 2016, the County would invest less than \$5 million in Birch Bay infrastructure.

Given the plausibility of these two arguments, it is really up to each reader to judge for him- or herself whether Birch Bay would be better served if it incorporated (in terms of capital investments).

CONTEXT FOR THE ANALYSIS

When considering the findings of this study, we believe it is useful for readers to bear in mind a few key points:

- **This study is not a blueprint for how to run a City of Birch Bay** and does not bind a future City Council to the assumptions included here. This study only addresses the issue of financial feasibility. It analyzes sufficiency of revenues using hypothetical service and revenue structures and concludes that the City would earn enough revenue to meet core expenses and to offer slight increases in levels of service. If the voters choose to incorporate, they will elect a City Council that will have to make many decisions that will influence the actual revenues and expenses of the City. Nothing presented in this document should be interpreted as binding on a future Council.

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 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...if we vote to incorporate, 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.

- **Projections of revenues and expenses are estimates;** readers should not attach undue significance to individual numbers. Any particular number in this analysis, such as the amount of sales tax expected to be generated by a City of Birch Bay, will almost certainly differ from the actual number in that year should the incorporation occur. However, while any specific number will be off, we believe the overall findings reflect the best information available about the fiscal feasibility of the proposed City. The analysis builds an estimate of total revenues by making explicit estimates for each revenue and cost. Our goal is to reach an estimate of total revenues by making all of the assumptions explicit, allowing interested readers to push and prod at assumptions to judge for themselves the reasonableness of our findings.

THE REMAINDER OF THE REPORT – WHERE TO BEGIN

The remainder of this report is organized into 11 sections. There is a lot of information in this report, and many readers are likely to find it daunting (some might use the term *mind-numbing*) to try to read it all. For readers who do not want to contemplate reading the entire document in one pass, our suggestion is to look at the Table of Contents on the following pages, and skip to the sections that are of greatest interest to you.

If a reader only intends to spend 20 or 30 minutes looking through the body of this report, we suggest that he or she should look over three sections: (1) **Section 4.0**, which discusses **Key Assumptions** that shape the findings of this analysis; (2) **Section 6.0**, which offers an **Overview of Revenues and Expenses**; and (3) **Section 9.0**, which discusses **Capital Improvements**.

Incorporation Feasibility Studies tend to be reference documents with a long life. We expect that many readers will refer to the study many times over the coming months and years. We expect, too, that each time a reader revisits the report, he or she will find something new to consider.

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BIRCH BAY INCORPORATION FEASIBILITY STUDY

1.0 INTRODUCTION

As discussed in the Executive Summary, in its Comprehensive Plan and Countywide Planning Policies, Whatcom County has designated Birch Bay an Urban Growth Area (UGA)—an area where urban levels of development are to be concentrated as the County continues to grow. Under state law, as a designated Urban Growth Area, Birch Bay has three options for future local governance:

1. Remain an unincorporated area of Whatcom County—continuing to receive local governmental services from the County;
2. Annex to the City of Blaine—a process that would require action both by the City of Blaine and by Birch Bay residents;⁸ or
3. Incorporate as a new City of Birch Bay.

This study looks at the third option, answering the basic question:

Would a City of Birch Bay be financially feasible?

Put another way, this study asks and answers the question: *Would a City of Birch Bay have sufficient fiscal resources to support the requirements of a reasonably-functioning city?*

The goal of this study is to inform Birch Bay residents and other stakeholders as they consider their governance options for the future.

There are many questions about incorporation that this study does not attempt to answer. Many of these questions are subjective in nature. (E.g. *Do you believe that, as a City, Birch Bay will be in a better position to shape a community that is consistent with your vision of what Birch Bay should be? Or do you believe your vision would be better served if Birch Bay remained an unincorporated portion of Whatcom County or became part of the City of Blaine?*)

Other questions are not necessarily subjective, but they are difficult to predict. (E.g. *If a City of Birch Bay did exist, what kind of people would be elected to the City Council? And what decisions would they make regarding the trade-off between levels of taxes and levels of service?*) Each resident will have his or her own ideas regarding such questions, but ultimately, these questions can only be answered through the political processes of City elections and public debate.

Again, this study focuses on an important and answerable question: *Would a City of Birch Bay be feasible? Given our tax base, would a City of Birch Bay have enough revenue to provide the services we receive now from Whatcom County, or that we would like to receive?*

⁸ Birch Bay is one of three urban growth areas within Whatcom County that are not “associated” with existing cities. In this context, the term *not associated with an existing city* means that, to date, the City of Blaine has not included Birch Bay within its anticipated future boundaries.

1.1 Contemplated City Boundaries

If Birch Bay residents choose to pursue incorporation, one of the first steps in that process is to identify the specific boundaries of a proposed incorporation and begin to collect signatures from residents of that area. (This defined boundary and collected signatures are two necessary components for filing a Notice of Intent with the Whatcom County Boundary Review Board.)

Because the community has not yet initiated an incorporation petition process, no specific boundaries have yet been proposed. Given this, and given the previous planning efforts in Birch Bay, the boundaries used for this feasibility study conform to the designated Birch Bay Urban Growth Area.

Exhibit 1 below distinguishes the geographical boundaries of the UGA.

The Birch Bay potential incorporation area is an urban unincorporated area located north of the City of Bellingham in Whatcom County, approximately bounded on the north by Lincoln Road and the City of Blaine, on the west by Birch Bay itself, on the south by Grandview Road, and on the east by Carson Road. The study area encompasses Birch Bay and is approximately 7 square miles in size.

Exhibit 1
Birch Bay Potential Incorporation Area



Source: Whatcom County data, 2007; Berk & Associates, 2007

2.0 GOVERNANCE CONTEXT

2.1 Overview: Fiscal and Governance Issues

Birch Bay residents have three governance options available to them: (1) remain unincorporated, (2) incorporation, or (3) annexation to Blaine (an option that requires action by the City of Blaine). When residents consider incorporation, their considerations will take place in the context of those options.

This study answers two straightforward questions:

1. *Is it financially feasible to incorporate as a new City of Birch Bay?*
2. *What are the potential implications of incorporation on local taxes and levels of service?*

To give residents a meaningful point of comparison, we seek to answer the question in the context of the status quo: *How do the financial realities of incorporation compare with the status quo—remaining unincorporated?*

There are many other important questions about incorporation which this study cannot answer. Voters will want to know, “Will my taxes go up or down?”, “Will the City provide better, more responsive services than Whatcom County?” and “Will the City slow development in our area?” The answer to these questions depends on who is elected to the new City Council and whom they hire to run the City.

This study is not a blueprint for how the City will be run. If Birch Bay votes for incorporation, decisions about taxes, service levels, and capital investments will be made by seven citizens elected from the roughly 5,900 permanent residents who live in the proposed City, instead of by the County Council and County staff. This study cannot predict what a new City Council would do. We *can* describe how much revenue a new City could generate if it maintains current taxing rates and the levels of service it could provide if it does. Voters will need to weigh this information about financial feasibility with their own perceptions about what forms and structures of government can best provide public services and best represent their interests in matters of public policy.

On a broader scale, this feasibility study *does not* seek to answer the big question: **Is incorporation a good idea?** The answer to that question will be the subject of much debate over the coming months, and the ultimate answer for each participant in that debate is likely to depend on his or her individual perspective.

The goal of this report is relatively narrow: to assess the financial feasibility of the proposed City. The answer to the question of feasibility will *inform* the debate about whether incorporation is a good idea, but clearly, it will not settle that debate.

2.2 Feasibility Study Process and Analytical Framework

In our experience, the most informative feasibility studies provide a full picture of a proposed city's fiscal conditions: (1) assessing the short- and medium-term fiscal conditions that the proposed city would face, and (2) assessing potential future fiscal developments that voters might want to bear in mind as they weigh the alternative paths that are available to their community.

Given this experience, the framework the team selected for pursuing the financial feasibility study of the proposed City of Birch Bay relies on three fundamental pillars:

Pillar 1. The study should be rigorous and robust. The analysis should combine the most reliable sources of data with state-of-the-art analytic techniques to provide reliable analyses to serve as the basis for decision-making for Birch Bay residents, for the Boundary Review Board, and for other stakeholders in the process.

Pillar 2. The process should actively engage representatives of the Birch Bay community. Throughout the development of the feasibility assessment, Berk & Associates staff and members of the Whatcom County project team met with the Birch Bay Incorporation Study Committee to discuss various aspects of the study, such as preliminary findings of the analysis, cost and revenue issues the proposed city would face, and alternative tax structures that might be available to the proposed city. From our perspective, this process was beneficial because it ensured a rigorous and robust analysis, it made sure that the study addresses the issues that are important to Birch Bay residents (at least those residents who elected to attend one or more meetings) and it allowed the analysis team and residents to arrive at a shared understanding of the fiscal conditions that a City of Birch Bay would face.

In addition to meeting with the Incorporation Study Committee, the Berk & Associates team attempted to engage a broader cross-section of the Birch Bay community through two public forums and an online survey. (Survey and community meeting materials are included in the appendices to this report.)

Pillar 3. The feasibility analysis should draw clear distinctions in a way that is useful to residents. If Birch Bay initiates the process and brings incorporation to the ballot, Birch Bay residents will face a choice between incorporation and remaining unincorporated. Given this clear-cut decision, the most useful feasibility analysis draws a *clear distinction* between the two alternatives. From a fiscal perspective, one key question that residents have is:

Should we expect a City of Birch Bay to have a stronger financial basis for delivering local services than Whatcom County?

In our experience, the best way to answer this question is to hold taxes constant and ask:

If Birch Bay residents continue to pay the same taxes they would pay as an unincorporated area, would a City of Birch Bay have sufficient revenue to provide at least the same levels of service as would be provided by the County over the same period?

For Birch Bay, as it turns out, the answer to both of the questions posed above is: Yes. *If Birch Bay residents continue to pay the same taxes they would pay as an unincorporated area, the City of Birch Bay **would** have sufficient revenue to provide at least the same levels of service as would be provided by the County over the same period.*

3.0 KEY ASSUMPTIONS

The findings of this feasibility analysis depend upon a wide range of assumptions. We have identified most of these assumptions in our descriptions of specific statistical data, or in our detailed discussion of revenue and expense estimates. There are, however, a few overriding assumptions that apply to all areas of this study, and are therefore key to understanding the implications of our findings. The following sections detail these assumptions.

3.1 Legal Framework

The incorporation feasibility analysis is conducted within the statutory framework of city creation and operation (RCW 35.02), and state laws distinguishing between county and city powers and services (guided more generally by RCW Chapters 35 and 36). This analysis takes that structure and process as given. While state law sets out the framework and processes, another very useful and detailed description of how a city is created is provided by the Municipal Research and Services Center (MRSC) in a publication called *The New City Guide*.⁹ Rather than repeat the presentation of that document here, we recommend that interested readers read *The New City Guide* for a useful overview of the process of city creation. The focus of this analysis is to identify the fiscal conditions a City of Birch Bay would face if it were to attempt to operate within the existing statutory framework.

3.2 Date of Incorporation

Because Birch Bay residents have not initiated an incorporation process, no potential dates for incorporation exist. Lacking specific dates, this analysis is structured to provide an intuitive picture of the fiscal implications of incorporation.

The analysis models City costs and revenues over a six-year period (2009 through 2014). The baseline assessment looks at the first six years of full, steady-state operation. The assessment looks at revenues and costs assuming that all City taxes will be in place and services will be fully ramped up.

In reality, if Birch Bay decides to incorporate there will be a transition period in which transition costs will be incurred, City staffing will be ramped up, and the City's adopted tax structure will replace that of Whatcom County. To give readers a sense of how this transition occurs, and a sense of what a new City's cash flow is likely to be during start-up, this report includes an assessment of start-up financing on a month-by-month basis. This start-up analysis assumes an incorporation date of September 1, 2009. (Because it offers new cities some financial advantages, September is a common month for incorporations to occur.)

The actual date of incorporation will depend on when the vote is held and the logistical considerations that result from that date. If the date of incorporation were to be pushed back into 2010, then we expect that the fiscal picture for the proposed City may improve slightly (mostly stemming from an additional year of appreciation in property values prior to setting the City's initial property tax levy).

⁹ MRSC New City Guide: <http://www.mrsc.org/Publications/textnbg.aspx>

3.3 Process of Incorporation

The basic procedure to incorporate is set out in Chapter 35.02 RCW - Incorporation Proceedings. The process includes a petition requirement, review by a boundary review board, and an election. If the voters approve incorporation, a primary election to nominate candidates for city council and an election to select the city council must be held. The new city must officially incorporate, at a date set by the initial city council, within 360 days of the incorporation election.

To the best of our knowledge, it has been nearly 80 years since the last new incorporation in Whatcom County. Nonetheless, Whatcom Boundary Review Board (BRB) has had recent experience with incorporation during the previous attempt to incorporate Birch Bay, as well as with application to incorporate Sudden Valley. Some steps are required by State law (see RCW 35.02). These include:

- Definition of proposed boundaries;
- Collection of signatures for petition;
- Filing of a Notice of Intent to Incorporate;
- Verification of the validity of petitions;
- Assessment of proposed incorporation by the Boundary Review Board;
- A public hearing by the Boundary Review Board;
- Boundary Review Board decision (recommending for or against incorporation, and adjustments to incorporation boundaries for cities over 7,500 population; and approving, modifying, or disapproving incorporation for areas with less than 7,500 inhabitants); and ultimately
- Public vote for or against incorporation.

Many of these steps also have time limits associated with them.

Since Birch Bay's permanent population is less than 7,500 people, the BRB has the authority to disapprove a proposal for incorporation, which would effectively preclude the community from proceeding with election and prohibit incorporation. However, the community may apply again 12 months after the decision was issued.

Exhibit 2 below shows Berk & Associates' interpretation of incorporations steps and timeline as they are outlined in RCW 35.02. In our experience, Boundary Review Boards from different counties approach incorporation processes in different ways. If Birch Bay residents were to initiate an incorporation process, presumably, the Whatcom County BRB would seek to establish its own preferred process.

MRSC published a *Municipal Incorporation Guide* in July 2006, which contains valuable information about the incorporation process in Washington State.

Exhibit 2 Incorporation Steps

Timeline	Incorporation Step
6 months or more	Organization. A group of citizens organizes and surveys the community to determine interest in incorporation.
Open	Preliminary Boundaries and Notice. If community interest in incorporation exists, the Incorporation Committee sets the preliminary boundaries for the incorporation area. The Committee submits a preliminary Notice of Proposed Incorporation to the County Clerk who transmits it to the Boundary Review Board.
Open	Public Information Meeting. The Boundary Review Board sets up a Public Information Meeting where the Committee reports on the proposed incorporation, including service providers and representatives of surrounding cities, or citizens, in support of or opposition to boundaries; new boundaries may be suggested.
Immediately	Refine Boundaries, Initiate Petitions. Following the public meeting, if the Committee wishes to go forward with the incorporation efforts, the boundaries are selected. The County Council Clerk will assign an Identification Number to incorporation proposal petitions. The County Office of Records and Elections assists in setting requirements for the incorporation petition, and the Committee must administer petitions as set by State law.
Next 180 days	Petition Circulation. The Committee may then circulate the petitions. The petitions call for a future election to allow community members to decide if incorporation should occur. The petitions to conduct an election must be signed by ten percent of the registered voters living within the area to be incorporated.
Immediately upon completing petitions	Notice of Intention to Incorporate. Within 180 days from the date of the Public Information Meeting the Committee must collect the necessary signatures and submit the petitions to the Boundary Review Board with a Notice of Intention to Incorporate (NOI). The NOI should ideally include descriptive information, copies of petitions, maps, demographic and land use information, service analyses, consistency with current laws, and government planning information.
30 days for validation +5 for notification	Verification. The Boundary Review Board submits petitions to the County Office of Records and Elections and the Whatcom County Assessor for verification of their validity.
Maximum 120 day review period	Boundary Review Board Assessment. The Boundary Review Board circulates the NOI (and staff analysis of that document) to County offices and other affected governments and agencies for an initial review and comment period. The maximum 120-day timeline for BRB actions in response to the NOI, however, is usually requested to be waived as it is not sufficient for incorporations, which generally require several months for required studies, analysis and public review processes.

Timeline	Incorporation Step
4-6 months + 30-45 days for public review and comment	Study. A Financial Impact Statement is commissioned to determine the financial viability of the proposed new city. The Statement provides conclusions as to the potential viability of incorporation under the various scenarios. This analysis could represent such a study for the proposed City of Birch Bay.
30 days minimum (notification must be 30 days in advance of the hearing)	Boundary Review Board Public Hearing. Under RCW 35 and RCW 36, a public hearing is generally required for incorporation. In Whatcom County, all incorporations go to a public hearing conducted by the Boundary Review Board. At the public hearing, the Board takes testimony from all interested parties - the Incorporation Committee, the consultant, citizens who will be affected by the incorporation, Whatcom County staff members, and service providers.
Within 40 days following the public hearing	BRB Decision. The Board considers whether the incorporation is consistent with Boundary Review Board criteria (RCW 36.93.180); countywide planning and Growth Management Act. At the conclusion of the hearing, the Board makes a decision either in favor of the incorporation, against the incorporation or may recommend modifying the incorporation application. This decision may be appealed as outlined in RCW 36.93.160(5).
No less than 60 days following the Boundary Review Board action	Incorporation Election. Following the Board decision, an election must be held if the BRB approves or modifies and then approves the proposal. If the proposed population is greater than 7,500, the Incorporation Committee can still decide to go forward with the election. The Committee would work with County Records and Elections, to prepare the ballot language and to place the issue on a ballot for election by registered voters in the incorporation area.
60 days following incorporation election	New City Government Elections. If incorporation is approved, then elections are held to nominate city officials and select city officials. State (RCW 35/35A) sets the time frame for the elections. Primary elections must be held no less than 60 days following the election for incorporation. Final elections must be held at least 60 days following the primary election.
Within 360 days of voter approval of the initial incorporation	City Open for Business. The City begins operations - setting up departments; selecting staff members; adopting interim operating regulations; defining immediate, short term and long term policies, objectives and actions; developing and implementing preliminary budgets, etc.

Source: Berk & Associates summary of RCW 35.02

3.4 Organization of City Government

City Classification

Municipal governments in Washington are classified according to population at the time of incorporation. The proposed City of Birch Bay could choose several forms of organization upon incorporation, including incorporation (1) as a first-class city and adopt a charter; (2) as a second-class city (without a charter); and (3) most common among cities, as a code city.

- **First Class.** A first class city is a city with a population of 10,000 or more at the time of organization or reorganization that has adopted a charter. (RCW 35.01.010)
- **Second Class.** A second class city is a city with a population over 1,500 at the time of organization or reorganization that does not have a charter and does not operate as a code city under the optional municipal code. (RCW 35.01.020)
- **Optional Municipal Code.** Any unincorporated area having a population of at least 1,500 may incorporate as an optional municipal code or "code city," and any city or town may reorganize as a code city. Optional municipal code cities with populations over 10,000 may also adopt a charter. (RCW 35A)

According to Municipal Research and Services Center, Washington State has 281 cities. 181 are code cities (over 75% have a mayor-council form of government); 73 are towns with a mayor-council form of government; 16 are second class cities (the vast majority of which have a mayor-council form of government); and 10 first-class cities exist, split evenly between council-manager and mayor-council forms of government.

Forms of City Government

Mayor-Council. The mayor-council form consists of an elected mayor, who serves as the city's chief administrative officer, and a council, which serves as the municipality's legislative body. The council has the authority to formulate and adopt city policies and the mayor is responsible for carrying them out. There are further two distinctions within mayor-council form of government: (1) "weak-mayor" form, where the mayor has relatively limited authority, lacks the veto power, and must share control over administrative departments with several other elected officials, and (2) "strong-mayor" form of government, where an independently-elected mayor has a higher degree of administrative control over departments and city employees, and the power to veto council legislation.

Council-Manager. In this form, power is concentrated in the elected council, which hires a professional administrator to implement its policies. This appointee serves at the pleasure of the council and has responsibility for preparing the budget, directing day-to-day operations, hiring and firing personnel, and serving as the council's chief policy advisor. The mayor in council-manager cities is generally selected by the city council from the elected council members.

There exists a debate about forms of government and the tradeoffs each form offers between centralized decision-making and strong professional experience, which this report does not seek to resolve. Although the mayor-council form remains the most common form of government found in Washington cities and towns, for purposes of assessing feasibility, we assume that the proposed City of Birch Bay would start, as most recently incorporated cities have, with a City Council and appointed City Manager.

Washington State has exhibited a trend toward professional management since the 1940s which continues to be popular today because of the increasing number and complexity of services, and growing external demands in the form of federal and state mandates and reporting requirements.

3.5 “Same-Cost” Framework

The overarching goal of this analysis is to provide Birch Bay residents with a point of reference from which to judge incorporation. When residents think about incorporation, a question they often ask is: *Will I get more for my money if we incorporate?*

To answer this question, this analysis looks at what services a City of Birch Bay could provide if residents continued to provide existing levels of taxes. In this case, the answer is that, at existing tax rates, a City of Birch Bay *would* be feasible. It would be able to provide slightly higher levels of services to its residents in terms of police services and parks and recreation, and the City would have additional money available to provide additional services and/or to invest in capital infrastructure.

Cities have many options in terms of tax structure. This analysis models *one* possible structure—a structure that closely parallels current taxes. Under the model used here, the City would (1) enact a City property tax that would mirror the Whatcom County Unincorporated Road Levy (the one property tax that would go away upon incorporation); (2) maintain current retail sales tax rates; and (3) adopt *no* utility taxes or franchise fees with the exception of the Cable TV franchise fee that Whatcom County currently levies in unincorporated areas.

3.6 Property Taxes: I-747 and Levy Lid Lifts

In recent years, a series of statewide initiatives and subsequent legislative actions have eroded most cities’ and counties’ financial support. From a city’s perspective, the most damaging blows resulted from statewide passage of three initiatives: I-695 [ending collection of the State’s motor vehicle excise tax (MVET)]; I-747 (limiting the growth of property tax levies on a city’s existing property to 1% [less than the rate of inflation]); and I-776 (ending the collection of vehicle license fees). In some instances, these initiatives have been ruled invalid by Washington courts, but their practical effects have been maintained through legislative action. Combined, these initiatives have resulted in the immediate reduction of millions of dollars of city revenues, and have set up the long-run erosion of cities’, counties’, and special districts’ property tax bases.

If left unchecked, the 1% property tax limits cause property tax revenues for most cities to fall over time (in inflation-adjusted terms), particularly on a per-resident basis. Specifically, the 1% property tax limit says that, absent a public vote, property tax revenues can only grow by 1% per year, excluding the effect of new construction. This means that property taxes go up slightly in “nominal” terms, but when one accounts for inflation, the value of property tax revenues actually falls from one year to the next. Due to compounding effects over time, erosion of property tax revenues becomes more pronounced over a number of years.

Property taxes remain the most important source of revenue for many cities, and are critically important for areas such as Birch Bay with little commercial tax base to generate sales tax revenue. As a result of the 1% limit, cities are beginning to regularly consider actions to maintain their property tax levy, which entails voter-approved levy lid lifts that were not common in the pre-I-747 era.

Like most residential cities in Washington State, in order to remain financially sustainable over the long term, the City of Birch Bay may need to take actions to maintain its property tax levy rate. Fortunately, as a newly incorporating City, the City of Birch Bay would have a number of options for protecting itself from the eroding effects of the 1% limit. The most transparent of these options is to ask voters

to approve periodic levy lid lifts to maintain the City's property tax levy. However, to stay true to "same cost" framework, Berk & Associates did not model levy lid lifts in this analysis; instead, we assume that the Birch Bay levy rate would continue to erode throughout the analysis as a result of the 1% limit.

Another option for preserving Birch Bay property tax base would be for the City to take actions that would allow it to establish a higher initial property tax levy, and then in subsequent years, scale back the levy to a lower level. This would create so-called "banked levy capacity" for the City and, in effect, inoculate the City from the eroding effects of the 1% limit for years.

For example, if the City of Birch Bay were to take on provisions of Fire and/or Library services in its first full year of existence, the City could set its initial levy rate at as much as \$3.60 per \$1,000 of assessed value (as opposed to the 2009 levy of \$1.394 modeled in this analysis). The City could then contract for Fire and Library services with the existing districts (ensuring that the districts felt no financial impact).

In subsequent years, the City might choose to annex to the library and fire districts, reducing the City's levy, but the City would retain so-called "banked levy capacity" that would negate the eroding effects of the 1% limit for many years. For a complete discussion of "banked levy capacity" readers should see the Municipal Research & Services Center publication *A Revenue Guide for Washington Cities and Towns* (www.mrsc.org).

Utility Taxes versus Property Taxes

In some Washington cities, strong growth in retail sales taxes has offset erosion of property taxes brought about by the 1% property tax limit. In many other cities (cities where sales taxes are not as robust), property tax erosion has severely impacted the cities' ability to provide services.

To date, many of the cities in the latter category have avoided seeking voter approval for levy lid lifts and they have opted, instead, to enact (or increase) utility taxes to make up for eroding property tax revenues. (Cities have the authority to levy utility taxes [subject to certain limits] by action of a City Council.)

For a community like Birch Bay, such a choice to allow property taxes to erode and to rely on utility taxes, over time, would have significant implications. Property taxes are paid by all property owners, based on the value of the property—whether the owners are permanent residents or not. Utility taxes, by contrast, are paid by people who use utilities. Because people who live in Birch Bay full time will use more utilities than part-time residents, the more the city relies on utility taxes, the more the City's tax burden will be born by residents. On the other side of the coin, the more the City relies on property taxes, the more non-resident property owners will contribute to the operation of the City.

3.7 Overview of Municipal Services

In 1990, the Washington State Legislature's passage of the Growth Management Act (GMA, RCW 36.70.210) clarified that counties are the regional governments within their boundaries and cities are the primary providers of urban governmental services within urban growth areas. RCW 36.70.030 defines "urban services" to "include those public services and public facilities at an intensity [sic] historically and typically provided in cities, specifically including storm and sanitary sewer systems, domestic water systems, street cleaning services, fire and police protection services, public transit

services, and other public utilities associated with urban areas and normally not associated with rural areas."

The GMA requires cooperative planning between counties and cities subject to the GMA, and coordination is encouraged in RCW 36.115 to promote "voluntary transfers of functional responsibility among units of local government to allocate the financing and provision government services and facilities using the most efficient geographic units regardless of jurisdictional boundaries."

A city has powers of home rule authority that are only available when it officially becomes a city. During the interim period and until the official date of incorporation, a city's powers and governing body (council) are limited to initial functions set out in chapter 35.02 RCW.

Upon incorporation, a new city becomes the primary urban service provider to residents within its boundaries. It is common for new cities to choose not to provide, at the time of incorporation, the full slate of services that cities are *allowed* to provide. Typically, cities incorporate and take over local services that had previously been provided by the county (often contracting with the county for their provision), while leaving special districts in place, including library districts, water and sewer districts, and fire and emergency medical service districts. Although such an approach is typical, each interim council must decide what services the city will initially provide, what level of services will be provided, what services will be provided by contract, and with whom the city will contract for those services.

MRSC's *New City Guide* suggests that "in addition to the administrative and legislative 'services' provided by the mayor or manager and the executive branch and by the city council respectively, a city government commonly provides services in the general areas of public safety, public works, land use planning, and parks and recreation. Some of these services, such as police, fire, and land use planning, may have been the focus of much debate during the incorporation process, and issues relating to them will likely continue to generate controversy during the interim period and beyond. The very fact of incorporation as well as decisions by the new council concerning certain services may have significant impacts upon special purpose districts such as fire protection and water-sewer districts." The *New City Guide* further outlines an overview of service provision decisions in table format that is recreated below for reference, to explain the categories of service that a city may provide without considering timing or priority, and choices for future service delivery.

From the *New City Guide's* original table we have created **Exhibit 3**, adding a column that explains the modeled assumptions about service provision by the proposed City of Birch Bay for the purposes of this incorporation analysis. Generally, our rationale for these assumptions was to identify the least-cost, most administratively straightforward option for City operations that would add the fewest number of permanent City staff at startup. This assumption allows the City the maximum amount of flexibility, administratively and financially. The assumed mix of services and the assumed mode of delivery are consistent with how most newly-incorporated cities have approached service provision in their early years.

Exhibit 3
Overview of City Services; Options for Service Provision; and Study Assumptions

Service	Pre-Incorporation Provider	Post-Incorporation Provider	Incorporation Study Assumptions
City Administration (Executive)	County	City Council and either City Manager or Administrator, or elected Mayor	Council-Manager
Legislative (Council)	County Council	City would provide.	New city of Birch Bay Legislative Branch (There are multiple options under state law)
Land Use Permitting and Zoning	County Planning and Development Services	City would provide. City could create its own planning department or contract with the County for continued service	City of Birch Bay
Police Services	Whatcom County Sheriff's Office	City could create its own police department or contract with the WCSO (or another city) for continued service at a variety of different service levels. Contract may be for short-term during a transition period or be long-term/permanent.	Contract with Whatcom County Sheriff
Fire & Emergency Medical Services	Fire protection district	No automatic change. Options: City provides fire service, or city contracts with fire district or another city, for transition, or city annexes into fire district. Most newly-incorporated cities continue to receive Fire and EMS services from existing fire districts.	Annex to or contract with existing Fire Districts 21 & 7
Library	County library, regional library, rural county library district, intercounty rural library district, or island library district	Provide own library services, contract with public library or library district, annex into library district, or not provide library services	Annex into Whatcom County Library System
Legal Services (Criminal & Civil)	County Prosecuting Attorney's Office	City could provide or contract with County or private law firm.	Contract with private firm

Service	Pre-Incorporation Provider	Post-Incorporation Provider	Incorporation Study Assumptions
Court Services	County District Court	City creates own municipal court or through municipal department established in district court, or contract with district court, contract with another city for municipal court services, or provide no judicial services (choose to have no criminal code or traffic code). Most newly-incorporated cities and many well-established cities contract with County District Court.	Contract with Whatcom County District Court
Water & Sewer	Water-sewer district, another city, county, PUD, public corporation, private water association, community water system, other private water purveyors, or individual property owners	<p>No automatic change. Cities can provide Water & Sewer service, but most newly-incorporated cities continue to receive service from existing districts.</p> <ul style="list-style-type: none"> • If territory of new city encompasses all or part of water-sewer district, city may assume jurisdiction of that part within its boundaries and provide own water service, or water district continues providing service, or • If new city does not overlap water-sewer district, city may provide own water service or provide no water service, or it may contract with another city or with a water-sewer district • If all or part of territory of new city is served by another city, the latter could continue to provide water service, and new city could provide its own water service in the area not served by other city or new city could purchase facilities of other city and provide its own service 	No change - Birch Bay Water & Sewer District

Service	Pre-Incorporation Provider	Post-Incorporation Provider	Incorporation Study Assumptions
Garbage	Private hauler and recycler	No change initially, although the City does have the power to negotiate with a different service provider when the existing hauler's franchise contract is up (existing hauler stays in place for 7 years post-incorporation).	No change – Sanitary Service Company and Blaine Bay Refuse
Parks & Recreation	State and County, Park District	City public works department or separate department; or contract with another city for park maintenance; or provide no park & recreation services Regional and State parks would remain under County or State operation.	City of Birch Bay Parks & Recreation Department. Northwest Parks & Recreation District will remain in operation. Washington State Parks would continue service to Birch Bay State Park
Public Roads	County	City could create its own public works department or contract with county until city attains ability to provide such services at level provided by county or for longer period upon agreement (RCW 35.02.225)	Contract with Whatcom County Public Works
Surface Water Management (SWM)	County, special purpose district, or PUD	The City's public works department could provide SWM services, contract with the County, or allow the special district to operate	The City will allow BBWARM (SWM district) to continue to operate
Animal Control	County/Humane Society	City would provide. City could create its own animal control department or continue to contract	City to contract with the Whatcom County Humane Society
Schools	School Districts	No change	No change - Blaine and Ferndale School Districts
Public Transit	County	No change	No change - Whatcom Transportation Authority (WTA)

Source: RCW citations from apps.leg.wa.gov; Municipal Research & Services Center

3.8 Growth and Development Assumptions

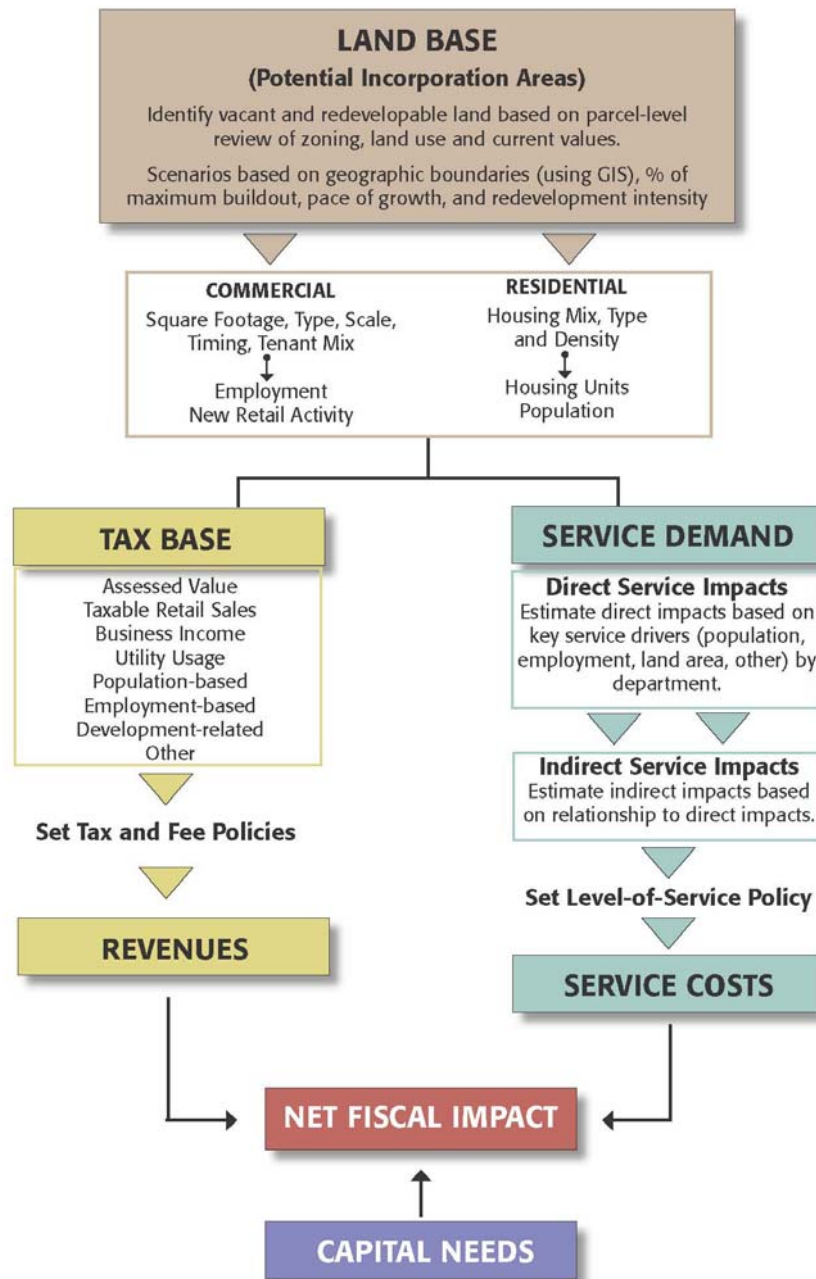
Land-Based Fiscal Model

The fiscal model that Berk & Associates developed for this project allows for the estimation of revenues and expenses for a potential City under different development and policy assumptions. In this model, factors in the land base (such as population, employment, and commercial activity) drive both demand for services and the tax base. Depending on a city's scope of services and choices regarding level of service, demand for services leads to costs, and depending on a city's choices regarding fiscal and taxing policy (limited by tax laws), its tax base will lead to tax and fee revenues. **Exhibit 4**, on the following page, outlines the logical structure behind the model.

To provide a useful picture of ongoing City costs and revenues, the operating analysis makes a simplifying assumption that a City of Birch Bay would be in steady-state operation in January 2009 and it examines costs and revenues for the potential City through 2014. Taking the analysis out six years allows the readers to see how the fiscal balance in the potential City tends to change over time.

For any given city, costs and revenues will change each year, and they will be driven by many factors. Among other things, revenues in a given year will be driven by new development (new construction generates sales taxes, real estate excise taxes, new property taxes, etc.). And once new houses or commercial development is on the ground, the City will see a variety of new revenues, and in some instances, new demands for City services.

Exhibit 4 Long-Term Fiscal Model Schematic



Source: Berk & Associates, 2007

Because many city revenues are affected by the pace of development, any model of city finances must include assumptions about the pace of growth. In general, a rapidly-developing city will be in better financial condition than a city with slow growth, so to provide a conservative analysis of feasibility, we have assumed a relatively modest pace of development in Birch Bay (compared with recent trends).

Development Assumptions

Berk & Associates' analysis of building permit data in the Birch Bay area suggests that, from 2000 through 2006, nearly 1,500 new housing units were permitted in the contemplated Birch Bay incorporation area. This translates into an average of more than 200 housing units permitted each year. Of that total, single family housing units represented the largest share (135 units per year), with an additional 45 units of multi-family (on average).

In light of the recent pace of development, but wanting to be conservative in our modeling, our feasibility analysis assumes that Birch Bay would add 60 new single family housing units each year from 2009 through 2014, and 25 new multi-family units.

Looking forward, some factors exist that would suggest that residential development might slow in the near term (tightening credit markets and a potential near-term national recession). However, other factors exist to suggest strong continuing demand (a strong Canadian dollar; new, high-profile developments; aging baby boomers; and a strong Washington State economy). Overall, we believe that our assumptions about housing development are appropriately conservative.

For commercial uses, the model assumes an average of 7,500 square feet of new commercial development each year, with two-thirds of new construction allocated to retail space (5,000 square feet per year) and one-third allocated to other commercial uses.

3.9 Controlling Growth

In many of the recent incorporations in Washington State, issues revolving around land use and growth have been key issues in the debate. Some areas considering incorporation were in the midst of rapid development, and part of the impetus behind incorporation was a desire to have more control over that growth. Other areas considering incorporation were more fully developed, but some residents wished the community could do more to create centers of activity — centers that could offer the community amenities and a sense of place.

In many ways, the Birch Bay community has already engaged in the planning efforts that these communities wanted. For example, in recent months, the Birch Bay community has worked with A Northwest Collaborative and Whatcom County Planning to develop *Design Guidelines* that will guide Birch Bay's growth. Through the *Design Guidelines*, the Birch Bay community envisions a mix of high-quality residential and commercial development that will serve the community's needs, foster a sense of place, and leverage and compliment Birch Bay's beautiful natural environment.

What do cities do to control or shape growth?

If one looks around at designated urban areas in Washington State, the areas where growth has been significantly limited have one of two conditions:

1. They lack developable land; or
2. They have some other "hard" capacity constraint that prevents development (e.g. they have a moratorium on development that is driven by lack of capacity in their water or sewer systems).

In the absence of these kinds of hard constraints in capacity, and given the statutes of the Growth Management Act, cities are not typically in a position to halt growth, but they do have tools for controlling and shaping it. We are not attorneys, and we cannot offer advice regarding the legal issues surrounding these tools. What we can say, though, is that cities use a number of tools to influence the extent and nature of development. These tools include:

- Changes in zoning or zoning codes, or creation of zoning overlays;
- Adoption of a permit moratorium;
- Development of design guidelines;
- Changes in design-review or other permitting processes;
- Changes in permit fees; and
- Adoption of impact fees.

Regarding the last of these tools, many cities develop transportation or parks impact fees to help cover the costs of building transportation or parks capacity to accommodate the city's growing population (or growing level of activity). The principle use of impact fees is as a mechanism to defray the cost of building infrastructure to accommodate new growth. However, by increasing the *cost* of development, such fees also have the potential to influence the *pace* of development.

In general, the combination of zoning ordinances and design guidelines give cities a great deal of control over the characteristics of new development. Notwithstanding the exceptional level of community-based planning that Whatcom County has committed to in regard to Birch Bay, cities generally have an advantage when it comes to shaping development. Because cities are focused on controlling land use for only *their* part of the county, and they typically have a well-developed vision of what they want their part of the county to be, cities have great ability to tailor zoning ordinances and to shape land use policies in a way that achieves the community's vision.

4.0 BIRCH BAY AREA CHARACTERISTICS: BASELINE INFORMATION

4.1 Population

Population growth is an important driver of city costs and revenues. In any city, many of the major revenue sources as well as a large number of expenses depend either directly or indirectly on the city's population. Since the potential City of Birch Bay has been growing rather rapidly, the process of growth itself can generate significant amounts of short-term revenues from taxes levied on new construction.

Birch Bay is heavily influenced by its seasonal population, with more than half of the area's housing units categorized as seasonal housing by the 2000 US Census. The estimated permanent resident population of the Birch Bay area in 2007 is 5,900.¹⁰ In 2000, we estimate that the population of Birch Bay was 4,250 permanent residents, which means that the area has increased by an average 236 permanent residents per year over the past seven years. This translates to an annual compounded growth rate of 4.8% per year.

Again, to ensure conservative estimates of feasibility, this study assumes that population growth will slow in coming years, with expected additions averaging less than 100 new residents per year through 2014.

4.2 Assessed Value of Property

Having established our estimates of population, the next important driver of revenue for a residential city like Birch Bay is the assessed value (AV) of the taxable property lying within the contemplated city boundaries. It is the assessed value of the City of Birch Bay that will provide the basis for all property taxes.

Working from Whatcom County Assessor's Office data extracts and Geographical Information Systems (GIS) digital maps of boundaries and tax parcels, Berk & Associates estimated the 2007 total assessed property of the potential City of Birch Bay is approximately \$1.07 billion. This figure includes an estimated \$1.06 billion in taxable *real* property (land and buildings) and an additional \$10 million in *personal and intercounty utility property* (which includes certain types of equipment and the value of property and equipment in the area that is owned by utilities that have assets in more than one county). Overall, in 2007, Birch Bay had roughly \$180,000 of taxable AV for each permanent resident.

¹⁰ Estimates of Birch Bay UGA population are based on Berk & Associates' analyses of census block data, Whatcom County Assessor's data regarding housing units, and Whatcom County building permit records. Because the UGA boundary does not coincide with census block boundaries, census counts of households and population in blocks that are partially in the UGA have been allocated to the UGA based on the spatial distribution of housing units in those blocks. Estimates of population growth in the UGA since the 2000 Census are based on permitted housing units from 2000 to 2006, and are based on an assumption that 50% of new housing units are occupied by full-time residents. Occupied new single family houses are assumed to have an average of 2.75 persons per household, and occupied new multi-family and mobile homes are assumed to have an average of 1.67 persons per household. Permitted multi-family housing was verified built using ortho photos of the area.

Projected Growth in Assessed Value

While the taxable assessed value described above provides a base on which to begin assessing the fiscal viability of the potential City, two factors will determine growth in the taxable property of the city: 1) the increase in the value of the property associated with existing structures, and 2) the amount of new development over the period.

For 2007 and beyond, we assume that average values of existing properties will increase at a rate of 5.5% per year, which is 2% above the assumed rate of inflation of 3.5%. We believe this rate to be appropriately conservative given recent growth in values. However, because of the 1% property tax limit, a lower rate of property appreciation would have virtually no impact on City revenues.

For increases in assessed value coming from new development, we assume that each new Birch Bay single-family home will introduce \$300,000 of new assessed value to the City's base, each unit of multi-family condo will introduce \$200,000 and each unit of multi-family rental properties will introduce \$150,000.

For commercial development, newly-constructed retail space is assumed to be valued at \$120 per square foot and new office uses at \$170 per square foot. In addition, the analysis assumes that 1% of residential and 5% of commercial development come to the area via redevelopment of existing properties, therefore, the model deducts the value of these redeveloped structures from the total assessed value. **Exhibit 5** shows the estimated taxable assessed values for the potential City of Birch Bay, 2009 through 2014.

Exhibit 5
Birch Bay Taxable Assessed Value Estimates (Millions \$)

	2009	2010	2011	2012	2013	2014
Assessed Value (AV)	\$1,330.6	\$1,431.5	\$1,539.5	\$1,655.0	\$1,778.6	\$1,910.8
AV of Existing Property	\$1,292.6	\$1,391.2	\$1,496.7	\$1,609.6	\$1,730.4	\$1,859.6
AV of New Construction	\$26.1	\$27.5	\$29.0	\$30.6	\$32.3	\$34.0
AV of Personal and Intercounty Utility Property	\$11.9	\$12.8	\$13.8	\$14.8	\$15.9	\$17.1

Source: Whatcom County Assessor, 2007; Berk & Associates, 2007

Current Rate of Taxation

The owner of every piece of non-exempt real property within the potential City of Birch Bay currently pays property taxes according to a levy rate applied to every \$1,000 of assessed value. This total levy rate is composed of a number of elements, ranging from state taxes, to county taxes, to local school and fire district taxes. Consequently, the property tax rate paid by a potential resident of the new city varies according to the property tax levy district in which the resident resides.

Exhibit 6 provides more detail about the current rates for the most common levy district (3035), one of 9 levy districts that are represented in the potential City of Birch Bay.

Exhibit 6 Sample 2007 Levy Rates for Birch Bay Property Owners

Taxing District	2007 Rate per \$1,000 AV
Whatcom County Levy	\$1.15
Port of Bellingham	\$0.34
State School Fund	\$2.70
Whatcom County Road District	\$1.52
Blaine School District	\$1.92
Fire District 21	\$1.37
Rural Library District	\$0.37
Other	\$0.19
Total	\$9.56

Source: Whatcom County Assessor, 2007

As noted, tax rates for special districts such as fire and schools vary within the incorporation area, but the remaining levy rates are consistent for all property owners within the incorporation boundaries, and are consistent with our assumptions for the service model that would continue if the Birch Bay area incorporated. Of all the levies listed in **Exhibit 6** and currently paid by Birch Bay property owners, the only property tax that will cease upon incorporation is the \$1.52 levy for the Whatcom County Road District. This tax will be replaced by a new City levy that would be levied for the first full year of the City's existence, which for the operating analysis, is assumed to be 2009.

Staying true to the "same cost" framework, this analysis assumes that upon incorporation in 2009, the City of Birch Bay would levy a similar levy rate to that of Whatcom County road levy, which would be replaced by the City levy. Considering that Whatcom County road levy rate is \$1.52 per \$1,000 of assessed value in 2007, we project this levy rate to diminish to \$1.394 in 2009, the year of incorporation. The reduction in the levy rate is a result of (1) assumed increases in the value of property and (2) the Washington State 1% property tax limit. If the average property value increases by an average 5.5% per year, but the overall levy (the total amount collected by the Road District) from existing property is only allowed to increase by 1%, then the levy *rate* must go down to comply with the 1% limit.

It is also important to note that according to the State statutes, the maximum levy rate that can be guaranteed to the City in a given year is \$1.60 per \$1,000 AV. This maximum is based on the assumption that the City will (1) continue to receive fire and emergency medical services from one or more fire districts, and (2) continue to receive library services from the Whatcom County Library System. If the City were to take on provision of fire and library services, then its maximum regular levy would increase to \$3.60 per \$1,000.

For a more in-depth discussion of statutory constraints on a City's regular levy rate, see the discussion of Property Tax – Regular Levy in the *Revenues* section of the report. For a discussion of other options that may be available to the City for securing additional levy capacity, see the Optional Revenues section.

4.3 Special Purpose Districts

Fire Districts

Fire and *basic* life support emergency medical services are currently provided to most of the Birch Bay area by Fire District 21 (**Exhibit 7**), a full service fire district that provides its own stations, apparatus, and personnel. Residents and businesses in Birch Bay are served out of Fire Station 63, located on Birch Bay Lynden Road. A small portion of the southern part of the Birch Bay study area (south of Bay Road) is within Fire District 7; however, Fire District 21 currently serves this area by contract.

Exhibit 7
Birch Bay Area Fire Districts and Stations



Source: Whatcom County GIS data, 2007; Berk & Associates, 2007

Advanced life support emergency medical services are currently provided to the Birch Bay area by Whatcom Medic One, which is a regional service. Advanced life support would continue to be provided by Medic One post-incorporation.

For purposes of assessing feasibility, this analysis assumes that the new City of Birch Bay would either (1) contract with one or both of the existing fire districts for continued provision of services or (2) annex to one of the fire districts for continued provision of services. Under a contract scenario, typically, the City would increase its property tax levy (essentially folding the fire district levy into the City levy) and then it would turn around and pay the district for provision of services. Under the annexation scenario, the district levy would remain in place and the revenue would go directly to the district without passing through the hands of the City at all.

As noted earlier, there may be strategic reasons why a new City of Birch Bay would want to *contract* for fire and basic life support services, at least initially. If the City was to do this, and then turn around and annex to a district later on, the City would establish a so-called “banked levy capacity” that would allow it to blunt the eroding effects of the 1% levy limit.

Utility Districts

This feasibility analysis assumes that, upon incorporation, residents of the newly incorporated city would continue to receive water and sewer service from Birch Bay Water and Sewer District. Formed in 1968, the District is governed by the elected three-member Board of Commissioners and has 16 full-time employees. The District's administrative office, water and sewer operations headquarters, and a wastewater treatment plant facility are located on a site abutting Birch Bay State Park near Point Whitehorn on the south end of Birch Bay, just outside of the Birch Bay potential incorporation boundary.

Surface Water Management - BBWARM

In July 2006, consulting firm CH2MHILL completed a Birch Bay Comprehensive Storm Water Plan which recommended a number of storm water improvements. Whatcom County Council voted to adopt the recommendations of the report and to approve the creation of the Birch Bay Watershed and Aquatic Resources Management District (BBWARM), as a “Flood Control Sub-Zone District.” As a sub-zone district, the County Council will govern the District and Whatcom County Public Works Department will manage its operations.

In 2007, Whatcom County Public Works Department retained a consulting firm to develop a funding plan with several rate options and various levels of service. The study is scheduled for completion in early 2008.

A new City of Birch Bay would have the option of taking on provision of Surface Water Management, but our assumption for modeling feasibility is that the City would continue to allow Surface Water services to be provided by BBWARM. Under this assumption, Surface Water fees will continue to be collected directly by BBWARM, and BBWARM will bear Surface Water Management obligations within a new City of Birch Bay, so the City's finances would not be affected on either side of the ledger.

School Districts

Residents in most of the potential City of Birch Bay would continue to be served by the Blaine School District #503. The easternmost area of the new city would continue to be served by the Ferndale School District #502 (**Exhibit 8** shows the school district boundaries). The district boundaries will be unaffected by the incorporation.

Exhibit 8 Birch Bay Area School Districts



Source: Whatcom County GIS data, 2007; Berk & Associates, 2007

Library Services

The Birch Bay area currently receives library services from the Whatcom County Library System (WCLS). The closest library branches are in Blaine and Ferndale, and the area is also served by a weekly bookmobile route. This analysis assumes that the Birch Bay community would contract with or annex to the library district upon incorporation, which means that provision of library services in the contemplated City will have no impact on the potential City budget.

Northwest Park and Recreation District #2

The Northwest Park and Recreation District #2 was created in 1979, but has been inactive since 1987. Recently, the District re-organized and in 2007 voters in the District approved a two-year levy of \$0.10 per \$1,000 AV. The District's boundaries correspond to boundaries of the Blaine School District (excluding Point Roberts). The districts' goals are to produce a Master Plan and provide funding for bike and pedestrian trails, neighborhood parks, and recreation programs.

This analysis assumes that (1) the Northwest Park and Recreation District #2 would stay in place and (2) the new City of Birch Bay will provide its own park and recreation services.

Birch Bay Public Lighting District

Birch Bay Lighting District is administered by Whatcom County. The maintenance and operations of the district are funded by service fees assessed at the time of regular property tax payments. The operations of this district are assumed to be unaffected by potential incorporation of Birch Bay.

5.0 OVERVIEW OF REVENUES AND EXPENSES

5.1 Is a City of Birch Bay Financially Feasible?

Yes. If Birch Bay residents are willing to pay the ***same level of taxes they would pay as part of unincorporated Whatcom County***, then a City of Birch Bay would generate enough revenues to provide a slightly higher level of service than Birch Bay residents currently receive. Even after providing these services, the City would have a modest amount of revenue, which it could use as it sees fit.

Exhibit 9 summarizes projected costs and revenues for a City of Birch Bay for 2009 through 2014. (See *Projected Start-Up Financing* for a month-by-month assessment of start-up cash flows from the assumed incorporation date of September 1, 2009 through the first 6 months of 2010.) The exhibit summarizes what we refer to as “core” operating revenues and “core” operating costs that the City of Birch Bay would face under the modeled revenue and cost structure. These core costs reflect a combination of general fund and street fund revenues and costs, and combined they reflect the principal day-to-day costs that a City of Birch Bay would have to cover from its principal sources of operating revenues.

Exhibit 9 Summary of Core City Costs and Revenue

	2009	2010	2011	2012	2013	2014
<i>Resident Population</i>	<i>6,128</i>	<i>6,224</i>	<i>6,321</i>	<i>6,417</i>	<i>6,513</i>	<i>6,610</i>
Operation (Non-Constrained)*						
Revenues						
Property Tax/Regular Levy	\$1,724,000	\$1,779,000	\$1,836,000	\$1,893,000	\$1,952,000	\$2,012,000
Retail Sales Tax	471,000	504,000	539,000	575,000	614,000	654,000
Building Permits, Planning and Engineering Fees	305,000	319,000	333,000	348,000	364,000	380,000
Gas Tax Revenues	165,000	173,000	182,000	191,000	201,000	211,000
Lodging Excise Tax	116,000	128,000	142,000	156,000	171,000	187,000
Retail Sales Tax - Criminal Justice	105,000	110,000	116,000	122,000	128,000	135,000
Cable TV Franchise Fee	84,000	92,000	100,000	109,000	118,000	128,000
Liquor Board Profits and Excise Tax	77,000	81,000	85,000	90,000	94,000	99,000
Retail Sales Tax - Public Safety	74,000	77,000	81,000	86,000	90,000	94,000
Recreation Charges	31,000	33,000	34,000	36,000	38,000	39,000
Other Misc. Charges	20,000	21,000	22,000	23,000	24,000	25,000
Gambling Tax	9,000	10,000	10,000	10,000	11,000	11,000
Total Projected Core Revenues	\$3,181,000	\$3,327,000	\$3,480,000	\$3,639,000	\$3,805,000	\$3,975,000
Expenses						
Public Safety	\$934,000	\$976,000	\$1,021,000	\$1,067,000	\$1,115,000	\$1,165,000
Public Works	530,000	554,000	578,000	604,000	631,000	660,000
Planning & Community Development	317,000	544,000	564,000	534,000	556,000	578,000
City Manager	345,000	360,000	376,000	393,000	410,000	428,000
Finance	293,000	306,000	320,000	334,000	349,000	364,000
Legal	105,000	109,000	114,000	119,000	125,000	130,000
Parks and Recreation	150,000	157,000	164,000	171,000	178,000	186,000
Building	117,000	122,000	127,000	133,000	139,000	145,000
City Council	34,000	35,000	37,000	38,000	40,000	41,000
Non-Departmental	138,000	145,000	152,000	159,000	166,000	174,000
Total Projected Core Expenditures	\$2,963,000	\$3,308,000	\$3,453,000	\$3,552,000	\$3,709,000	\$3,871,000
Operating Surplus/(Deficit)	\$218,000	\$19,000	\$27,000	\$87,000	\$96,000	\$104,000
Capital (Constrained)						
Revenues						
Real Estate Excise Tax	728,000	781,000	838,000	900,000	965,000	1,035,000
State and Federal Grants**	N/A	N/A	N/A	N/A	N/A	N/A
Total Projected Capital Revenues	\$728,000	\$781,000	\$838,000	\$900,000	\$965,000	\$1,035,000

Source: Berk & Associates, 2007

Note: *Non-constrained operating revenues and expenses include day-to-day operating costs and revenues for the City's general and street fund, including revenue streams that are statutorily constrained in their use, but for which those legal constraints are not binding. In the above summary, all such functionally unconstrained revenues and costs are grouped together to give readers a bottom-line picture of operating revenue-sufficiency. REET Revenues and certain State and Federal Grants are restricted to funding capital facilities.

**Success in competing for grant revenues is hard to predict, which means that grant revenues tend to fluctuate from year to year. Thus, we want to point out that this is a possible source of capital revenues, but we will refrain from estimating its magnitude.

What **Exhibit 9** shows is that a City of Birch Bay could (1) maintain tax burdens similar to what residents would see under Whatcom County; (2) provide levels of service similar to what Whatcom County would provide (but slightly higher in some instances); and (3) the City would have a modest level of “excess” revenues each year. Excess revenues are lowest in modeled years 2010 through 2011 due to significant anticipated expenditures for development of Birch Bay’s comprehensive plan.

These “excess revenues” would be available to the City Council to use as they see fit, with potential uses including augmenting dedicated capital revenues for capital investments, increasing levels of service (e.g. increasing police, parks, or City Hall staffing), or providing residents with a slight decrease in taxes.

For an in-depth discussion of what lies behind each of these identified revenues and costs, readers should see the following two major sections detailing *Operating Revenues* and *Expenses*.

In terms of capital revenues and expenses, **Exhibit 9** *does* summarize a major source of estimated revenues that the City of Birch Bay would expect to generate for capital investments, Real Estate Excise Taxes, but the exhibit *does not* include any estimate of the costs of capital investments. For a discussion of identified capital needs and a discussion of Whatcom County’s historical and planned capital investments in the area, readers should see section 8.0, entitled *Capital Improvements* in this report.

As a residential city, the City of Birch Bay would generate roughly half of its revenues from property taxes, with retail sales taxes and state revenue distributions also serving as important contributors. City expenses will be dominated by public safety, roads operation and maintenance, and the cost of general governmental functions like the City Management, Planning, Finance, Legal Services, and Parks.

As we note in the discussion to follow, this analysis assumes that, as a City that contracts for key services like police and roads maintenance, the City will be able to operate with a relatively lean City Hall staff.

5.2 Key Issues Related to Feasibility

Tax Base

Most cities in Washington State rely heavily on two major sources of revenue: (1) property taxes and (2) retail sales tax. Cities get revenues from other sources like gas tax distributions and permit and franchise fees, and many cities levy utility taxes, but these revenue bases are relatively consistent from one city to the next. The two tax bases that vary from city to city are property tax and retail sales tax. If a city has relatively high property values per resident and/or high retail sales per resident, that city can be seen as having a fundamentally strong financial base.

Discussion in the Executive Summary offered comparisons of Birch Bay’s tax base with tax bases of other recently-incorporated cities, and Washington cities as a whole. In that discussion, we noted that Birch Bay had relatively high assessed values per permanent resident (at more than \$180,000 per resident, Birch Bay’s AV per resident is higher than 91% of Washington cities). This point is also illustrated in **Exhibit 10**. These high property values are due in large part to the impact of seasonal residents that may have property in Birch Bay, but do not live there year-round.

We noted, too, that Birch Bay's retail sales tax base (as it stands now) is relatively weak compared with other cities, but when one combines property and sales tax bases, Birch Bay (1) would rank above most of the recently-incorporated cities, and (2) would rank right in the middle of the pack when compared with all 50 Washington cities with populations of 4,000 to 10,000.

Exhibit 10
Comparison of Property and Sales Tax Revenues – Birch Bay
and Other Recently-Incorporated Cities (2007)

City	Year of Incorporation	Population	Assessed Value per Resident	Sales Tax per Resident	Property and Sales Taxes per Resident (Assuming a levy rate of \$1.516 per \$1,000 of Assessed Value)	
Burien	1993	31,410	\$109,427	\$158		\$324
Covington	1997	17,190	96,335	136		282
Edgewood	1996	9,560	126,426	55		247
Kenmore	1998	19,940	128,056	111		306
Lakewood	1996	58,950	87,317	132		264
Liberty Lake	2001	6,580	120,315	338		520
Maple Valley	1997	20,020	100,684	93		246
Newcastle	1994	9,550	187,298	103		387
Sammamish	1999	40,260	191,326	72		362
Spokane Valley	2003	88,280	66,640	197		298
University Place	1995	31,300	102,190	66		221
<i>Median of All Washington Cities *</i>			<i>63,000</i>	<i>130</i>		<i>242</i>
Birch Bay		5,900	\$180,673	\$60 - \$70		\$334 - \$344

Source: Municipal Research & Services Center; Washington State Department of Revenue data; Whatcom County Assessor datasets; and Berk & Associates, 2007

* Values for median city reflect the median city value for each category. In other words, the city with the median assessed value per resident of \$63,000 is not also the median city for sales tax revenues.

To provide additional points of comparison, **Exhibit 11** and **Exhibit 12**, compare Birch Bay's property and sales tax bases with those of existing Whatcom County cities. These exhibits show that Birch Bay enjoys much higher assessed values per resident than other Whatcom County cities, but ranks at or near the bottom when it comes to retail sales taxes.

However, if one puts an appropriate weighting on assessed values (to reflect the importance of property taxes as a revenue source)¹¹ then Birch Bay ranks above 5 of the 7 Whatcom County cities (above Everson, Ferndale, Lynden, Nooksack, and Sumas, but below Bellingham and Blaine).

¹¹ At the 2007 unincorporated levy rate of \$1.516 per \$1,000 of assessed value (the levy that would be replaced by the City levy if Birch Bay incorporated) the Birch Bay area generated nearly \$275 per resident in property tax revenues. Combined with \$60 or \$70 in sales tax revenues, Birch Bay would have generated \$335 to \$345 per resident in property and sales taxes.

Exhibit 11
2006 Taxable Property Value per City Resident for Whatcom County Cities
(for 2007 taxes)

	Taxable Assessed Value (TAV)	Population	TAV per Resident
Bellingham	6,635,005,489	75,220	\$88,000
Blaine	481,746,021	4,650	\$104,000
Everson	88,566,193	2,165	\$41,000
Ferndale	598,890,731	10,540	\$57,000
Lynden	757,095,680	11,150	\$68,000
Nooksack	39,438,612	1,075	\$37,000
Sumas	145,571,732	1,191	\$122,000
<i>Birch Bay</i>	<i>1,065,970,000</i>	<i>5,900</i>	<i>\$180,673</i>

Source: Whatcom County Assessor's Report, 2007; Whatcom County Assessor's GIS data, 2007; Berk & Associates, 2007

As we will discuss in the upcoming section detailing retail sales tax estimates, Birch Bay currently has a very limited number of retail establishments. For a community like Birch Bay, most retail sales tax revenues will come from two sources: (1) new construction (most of the components of construction generate sales taxes [even the value of the labor] and the local portion of retail sales taxes on construction flow to the city in which the construction takes place); and (2) direct purchases of delivered goods and services by households and businesses.

Exhibit 12
2007 Regular Sales Tax Revenues per City Resident for Whatcom County Cities

	Sales Tax Revenues	Population	Sales Tax per Resident
Bellingham	18,605,568	75,220	\$247
Blaine	1,144,119	4,650	\$246
Everson	186,796	2,165	\$86
Ferndale	1,545,592	10,540	\$147
Lynden	1,933,209	11,150	\$173
Nooksack	71,770	1,075	\$67
Sumas	137,711	1,191	\$116
<i>Birch Bay</i>	<i>350,000 - 410,000</i>	<i>5,900</i>	<i>\$60 - \$70</i>

Source: Local Government Financial Reporting System, 2007; Berk & Associates, 2007

Economies of Scale (The Size of the City Matters)

For small cities (cities with populations of less than 10,000 residents), economies of scale are an important issue to bear in mind when thinking about fiscal strength. When one thinks about running a city, there are any number of costs that are to some extent fixed (i.e. costs that tend to change little with modest changes in city size). Whether a city has 5,000 or 8,000 residents, there will be only one City Manager, one Finance Director, one Planning Director, and one Comprehensive Plan.

Public Safety (law enforcement) is another service that is, for lack of a better word, “lumpy.” From a logistical perspective, in order to get to a basic level of 24/7 patrol coverage, a city typically needs to have 8 or 9 full-time police staff. The rule of thumb is that a city needs 5 or 6 patrol officers to get full, 24/7 coverage. In addition to patrol officers, the city also needs administrative staff, which would typically include a Commander (City Police Chief), a Sergeant, and a position to handle paperwork and other duties. Once this core package is in place, however, the city is often in a position to absorb some number of additional residents without needing to markedly expand police staffing.

If a city contracts with a larger entity like the County Sheriff for police services, such a contract can offer more flexibility. However, to the extent a city wants to have a core of police staff that is dedicated to providing public safety to the city, the general dynamic remains the same.

The recognition that small cities have a certain set of more-or-less fixed costs has significant implications for a Birch Bay community:

- 1. Reducing the size of the incorporation area has consequences.** Because no incorporation process has been initiated, no boundaries for a proposed incorporation have been set. During public meetings, however, there have been discussions about possibly excluding one or another neighborhood from an incorporating City of Birch Bay.

If one believes that a city has a certain set of fixed costs, then that means that a reduction in City boundaries would result in a relatively linear reduction in City revenues, but a more limited reduction in City costs. The net effects of the exclusion would depend on the specific characteristics of the neighborhood in question, but for every household that is excluded, the City will see reduced property taxes; reduced distributions of revenues that are shared with cities on a per-resident basis (e.g. gas taxes, liquor taxes, and criminal-justice sales taxes); and some reductions in sales taxes coming from home-based purchases. On the cost side of the ledger, however, reductions in staffing and other expenditures may be more difficult to achieve.

Clearly, there are many cities of 2,000 to 4,000 people in Washington State that would like to have a tax base like that of Birch Bay. In fact, among the 37 cities in Washington with populations between 2,000 and 4,000, the vast majority of cities would rank below a reduced City of Birch Bay in terms of tax base. All of these cities make ends meet, but these cities must live within more modest means, and are generally not in a position to provide things like police services at the level modeled in this analysis.

A city like Carnation, in King County, offers a useful point of comparison for a slimmed-down City of Birch Bay. Carnation has 1,900 residents and a core tax base that is similar to what a slimmed-down City of Birch Bay might have. As a small city, however, Carnation does not have its own police force. Rather, it contracts with the nearby City of Duvall for police services, and Duvall includes Carnation as part of one of its patrol districts. Carnation pays Duvall something in the range of \$400,000 per year to provide police services (roughly 40% of Carnation’s General Fund budget).

Other ways that smaller cities, or cities with more limited means, make ends meet is to combine functions. For example, in some cities, the City Manager may also serve as Public Works Director.

Both of the above examples suggest that what we have described as “fixed” costs of running a city are not entirely “fixed,” and cities that *need* to find creative ways of providing services do just that. Having worked with cities of all sizes across the state, however, we *do* believe that bigger cities have fiscal advantages over smaller cities (particularly when one is talking about cities of less than 10,000).

2. **Birch Bay’s growth would make it a financially stronger city.** In recent months, the Birch Bay community has worked with A Northwest Collaborative and Whatcom County Planning to develop *Design Guidelines* that will guide Birch Bay’s growth. Through the *Design Guidelines*, the Birch Bay community envisions a mix of high-quality residential and commercial development that will serve the community’s needs, foster a sense of place, and leverage and compliment Birch Bay’s beautiful natural environment.

As development unfolds and Birch Bay achieves this vision of the future, a City of Birch Bay will enjoy many of the economies of scale outlined above. As Birch Bay adds residential and commercial uses, City tax revenues will certainly grow on a linear basis (new residents and new commercial will add to all the existing streams of revenues). In addition, new commercial development offers the community a chance to expand its capture of retail sales tax dollars that currently leak into neighboring communities.

New development will also bring new demands for City services, but because of the economies of scale discussed above, new City costs will typically be less than new City revenues.

6.0 OPERATING REVENUES

If Birch Bay residents vote for incorporation, the new City of Birch Bay will have at its disposal a range of revenue options and potential tax and fee structures. The hypothetical revenues summarized in the preceding *Overview of Revenues and Expenses* presents revenues that the City could reasonably expect to generate under one available structure. As discussed previously, the modeled revenue structure was explicitly designed to maintain tax burdens on Birch Bay households that are in line with what those households would expect to pay if they remained part of unincorporated Whatcom County ("same cost" framework).

All revenues summarized in the preceding *Overview of Revenues and Expenses* are revenues that a Birch Bay City Council would have authority to tap under existing statutes.

Revenue Growth over Time

For the six-year period of the feasibility analysis, each estimated revenue source will change over time according to its own unique conditions. In some instances, revenues will grow as a result of inflation and development (e.g. sales taxes). In other instances, the manner in which revenues change from year to year is more complex. In the case of property taxes, for example, the impact of 1% property tax limits, assumptions about growth in current assessed value, and assumptions about new construction activity translate into a very specific prescription for property tax revenue growth.

Berk & Associates' assumptions that drive modeled changes in revenue over time are documented in our discussion of each revenue source.

6.1 Property Tax – Regular Levy

For a residential city like the potential City of Birch Bay, one of the largest sources of annual revenue is property tax. The property tax levy rate is set annually by a jurisdiction's legislative body (the City Council, school board, etc.) and is generally applied uniformly to all taxable property within the boundaries of the jurisdiction.

Many taxing jurisdictions, like school or fire districts, have boundaries that cut through the proposed incorporation area, and as a result, different areas of Birch Bay are, and will continue to be, subject to different levy rates. The levy for the proposed City, however, will apply to all taxable property within the city boundaries.

State law delineates what types of property are and are not subject to property taxes. Those properties subject to taxation include "real" property (land, structures, and specific equipment affixed to structures), and some forms of personal property (some types of mobile homes, business related machinery, and supplies). While all of these types of property within a city's jurisdiction are assessed, some are exempt from taxation. These exemptions generally apply to properties owned by government, schools, churches, or property with other uses that provide public benefits.

Title 84 of the Revised Code of Washington (RCW) focuses on property taxes. RCW 84.52.043 establishes the authority for cities to levy regular property taxes; special levies are authorized by RCW 84.52.052 and .056; and RCW 84.55.050 allows for jurisdictions to seek levy lid lifts from residents. According to state law, the levy a city can apply is constrained according to the services the city

provides. If a city delivers its own fire and library services, it is allowed a maximum levy of \$3.60 per \$1,000 of assessed value. If a city does not provide either of these two services, state law generally restricts the maximum levy to \$1.60 per \$1,000 assessed value (while the fire district and the library districts are allowed to levy \$1.50 and \$0.50 respectively).¹² The working assumption of this feasibility study is that the proposed City of Birch Bay will not provide either fire protection or library services, so the \$1.60 maximum levy rate will apply.

Staying true to the “same cost” framework, this analysis assumes that upon incorporation in 2009, the City of Birch Bay would levy a similar levy rate to that of Whatcom County road levy, which would be replaced by the City levy. Considering that the Whatcom County road levy rate is \$1.516 per \$1,000 of assessed value in 2007, we project this levy rate to diminish to \$1.394 in 2009, the year of incorporation, based on I-747 limits. Therefore, this analysis assumes that the City will assess \$1.394 per \$1,000 AV in 2009.

As noted in the *Overview of Revenues and Expenses*, I-747 limitations on the growth of property tax are a challenge to many cities across the state. In particular, I-747 poses the largest challenges to residential cities like Birch Bay, where property taxes are *the* big source of city revenues.

Based on estimated taxable assessed value summarized earlier, we forecast City property tax revenues of \$1.7 million in 2009, growing to \$2 million in 2014 (with most of the growth coming from new construction). If left unchecked, the City’s levy rate will deteriorate from \$1.394 per \$1,000 of assessed value in 2009 to \$1.13 in 2014 (**Exhibit 13**).

Exhibit 13 **Birch Bay Taxable Assessed Value Estimates (Millions \$)**

	2009	2010	2011	2012	2013	2014
Assessed Value (AV)	\$1,330.6	\$1,431.5	\$1,539.5	\$1,655.0	\$1,778.6	\$1,910.8
AV of Existing Property	\$1,292.6	\$1,391.2	\$1,496.7	\$1,609.6	\$1,730.4	\$1,859.6
AV of New Construction	\$26.1	\$27.5	\$29.0	\$30.6	\$32.3	\$34.0
AV of Personal and Intercounty Utility Property	\$11.9	\$12.8	\$13.8	\$14.8	\$15.9	\$17.1
Levy Rate	\$1.39	\$1.34	\$1.28	\$1.23	\$1.18	\$1.13

Source: Whatcom County Assessor, 2007; Berk & Associates, 2007

For 2007 and beyond, we assume that average values of existing properties will increase at a rate of 5.5% per year, which is 2% above the assumed rate of inflation of 3.5%. We believe this rate to be appropriately conservative given recent growth in values and slowing economy in the area and in Whatcom County as a whole.¹³

¹² Example: If no fire district serving the city levies more than \$1.40, the \$0.10 that the districts are not currently using is available to the city. However, if one fire district changes their levy in a subsequent year, the city loses its ability to levy anything more than \$1.60. Fire district property tax levies are authorized by RCW 52.16.130 and library district levies are authorized by RCW 27.12.050.

¹³ In the case of property taxes, changes in assumptions about property value appreciation have little impact on the value of property taxes collected. As discussed, property tax collections are primarily driven by the 1% property tax limit. Higher rates of property appreciation simply translate into more rapid decreases in the levy rate.

For increases in assessed value coming from new development, we assume that each new Birch Bay single-family home will bring with it \$300,000 in new assessed value, each new multi-family condo will bring \$200,000, and new multi-family rental units will bring \$150,000. New construction of retail space is assumed to be valued at \$120 per square foot and office uses at \$170 per square foot. In addition, the analysis assumes that 1% of residential and 5% of commercial development are due to redevelopment of existing properties, therefore, the model deducts the value of these redeveloped structures from the total assessed value.

6.2 Retail Sales Taxes – Regular

Retail Sales Tax Rate

Retail sales tax is added on a percentage basis to the sale price of tangible personal property (with the exception of groceries and prescription medicine), and to many services purchased by consumers. Beyond its application to tangible personal property, sales tax is also applied to things like telephone service; the installation, repair, or cleaning of tangible personal property; delivery of goods like heating oil; and to the construction or improvement of new or existing buildings (including labor and services provided throughout the process, under RCW 82.04.050).

According to state law (RCW 82.08, 82.14, 81.104.170), a city's maximum sales tax rate is set at 1%, which is the same rate that Whatcom County currently collects in the unincorporated areas. Of this 1%, Washington State's Department of Revenue (DOR) receives 1%. (That is, the DOR retains 1% of 1%, or 0.01% of the purchase price.) Beyond the small portion retained by the DOR, by state law, a county is eligible to receive 15% of the city's 1%. The City of Birch Bay, thus, would receive roughly 84% of its 1% sales tax.

The City's 1% sales tax is split into two halves: a base half and an optional second half which a city could choose not to levy if it so desired. Since Whatcom County currently levies both halves, and since, if the City of Birch Bay were to choose not to levy the second half the funds would accrue to Whatcom County anyway, we have assumed that the full one percent will be levied by the City of Birch Bay.

What Drives Birch Bay's Sales Tax Revenues?

Currently, Birch Bay has relatively few retail outlets that will generate sales taxes. As a result, most of the sales taxes the area generates come from one of two places:

- **Sales taxes on new construction:** Over the last seven years, Birch Bay has seen an average of 180 new housing unit permits issued per year, and the vast majority of these units have been single family houses. Typically, this building activity alone could generate \$250,000 to \$350,000 in sales tax revenues—revenues that would accrue to a City of Birch Bay if the community was incorporated.

For the sake of providing an appropriately conservative estimate of feasibility, this analysis assumes a much slower pace of development in the coming years (85 new units per year), which, given our assumptions about the value on new housing, translates to \$175,000 in retail sales taxes.

- **Home-based purchases:** For many primarily-residential cities, the largest source of city sales tax revenues comes from home-based purchases of goods and services. Under current law, home-based taxable activities include, among other things, construction/renovation activities, (e.g. remodel construction, carpet or floor installation, and landscaping); expenditures for telephone services; purchases of delivered heating oil; internet purchases of most computers; and automobile lease payments. As we will discuss below, sales tax rules are about to change in Washington State, allowing residential cities to receive sales taxes on many more delivered goods.

To estimate revenues from home-based purchases, Berk & Associates looked at the pattern of sales tax receipts from a range of Washington cities. We placed particular emphasis on the experience of the City of Long Beach (another community with a significant number of non-resident property owners). We also analyzed the Washington State Department of Revenue's projected impacts of sales tax sourcing rule changes on residential cities (see discussion below).

In total, we estimate that a City of Birch Bay will generate \$471,000 in retail sales tax revenues in 2009. **Exhibit 14** shows primary sources of these revenues.

Exhibit 14

Primary Sources of Birch Bay Retail Sales Taxes, 2009

Taxes collected in commercial establishments	\$118,000
Taxes from new construction	\$175,000
Taxes from home- and business-based purchases	\$175,000
Taxes from lodging	\$3,000
Total	\$471,000

Source: Department of Revenue, 2007; Berk & Associates, 2007

Birch Bay Assumptions

This analysis uses the following elements to estimate the total sales tax revenues in the Birch Bay area: (1) analyzing Department of Revenue (DOR) point-level data for existing retail outlets in Birch Bay, (2) estimating construction expenditures in the area (based on assumptions about residential and commercial development), (3) estimating charges for lodging from hotels, bed & breakfasts, and vacation rentals, and (4) sales tax revenues generated by household and business purchases in cities across Washington State.

Growth in sales tax revenues is driven by:

- **Growth in retail square footage.** Based on available recent pace of development for commercial land, the analysis assumes 7,500 square feet of commercial to be added annually with two-thirds of that development assumed to be retail and the remaining third office uses. However, this assumption is conservative, and there are policy choices a city can make to influence private investment. This new retail development is estimated to generate approximately \$200 of taxable retail sales per square foot, and the office portion approximately \$25 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.

- **Growth in sales at existing retail outlets.** Given a typical growth in retail spending, we project 3.5% annual growth in sales per square foot for retail space in Birch Bay. Given current rates of population growth in the Birch Bay area (growth that expands the market served by existing establishments), and given increases in household incomes over time, we believe that annual per-square-foot retail growth of 3.5% is a reasonable (and probably conservative) estimate of growth over the period of the analysis.
- **Growth in direct expenditures by households and businesses.** We project that households and businesses in the Birch Bay area will increase their purchases of delivered goods and services that are subject to taxable retail sales by 3.5% annually (as a contributor to total retail tax revenue)—a rate that reflects the overall rate of inflation. Under current law, home-based taxable activities include, among other things, construction/renovation activities (e.g. remodel construction, carpet or floor installation, and landscaping); expenditures for telephone services; interstate purchases of most computers; and automobile lease payments. In effect, our assumption of increases that equal the assumed rate of general inflation means that households and businesses will make no shift in their direct purchasing habits.
- **Growth in value of new construction.** Since sales taxes on new construction are based on the value of the constructed buildings, as the value of new construction increases, the taxable sales associated with the construction increase as well. Assumptions of the value of new construction mirror the assumptions about new construction used in calculating new assessed value (5.5% per year).

Sales Tax Streamlining

In recent years, representatives from Washington State have participated 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 sales originate 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 Streamlined Sales Tax Project (SSTP). 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 will take 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 potential City of Birch Bay has a relatively weak commercial tax base, and it appears to have few, if any, businesses that generate sales taxes through delivered goods. On the other hand, as a primarily residential city, households and businesses in Birch Bay certainly purchase delivered goods now. This means that Birch Bay would likely benefit from the upcoming change in sourcing rules.

In addition to the immediate benefit the City would see from currently delivered goods, a City of Birch Bay may also see opportunities to promote purchases of delivered goods to secure financial support for City goals.

It is difficult to know in advance what impacts sourcing rule changes are likely to have on residential cities. Analyses to date seem to agree on certain fundamentals: (1) residential cities are likely to see more sales tax revenue, and (2) cities whose residents have more disposable income are likely to see a bigger windfall than cities with less.

To inform negotiations in Olympia, and to inform discussions among jurisdictions, the Washington State Department of Revenue (DOR) has estimated the likely impact of the sourcing rule changes on cities and counties across the state. DOR's most recent estimates suggest that residential and relatively affluent cities will see a significant positive impact. Recent estimates for the City of Mukilteo, for example, estimate that the City will see an additional \$500,000 in revenues as a result of sourcing rule changes, which translates to \$25 per resident.

For purposes of modeling feasibility, we assume that Birch Bay will see a much more modest impact from sales tax sourcing—an addition of \$8 per resident in 2009. Added to our estimate of taxes from home- and business-based purchases under existing rules (\$21 per resident in 2009), this translates to a total estimate of \$29 per resident from home- and business-based purchases. We believe that this is a conservative estimate.

6.3 Retail Sales Tax – Criminal Justice

RCW 82.14.320 and 82.14.330 authorize a dedicated sales tax to support criminal justice expenditures. In 1999, voters in Whatcom County approved a one-tenth of one percent sales tax levy specifically for the purpose of raising revenue to support criminal justice expenditures. This 0.1% sales tax is collected by the State's Department of Revenue and is distributed, through them, to the county, which in turn passes 90% on to cities on a per capita basis. The county retains 10% for its criminal justice function.

Estimates of criminal justice sales taxes used in this analysis assume a distribution of \$16 per resident in 2007, with future distributions growing at a rate of 3.5% per year thereafter. These estimates are based on historic collections and distributions in Whatcom County.

6.4 Retail Sales Tax – Public Safety

RCW 82.14.450 authorizes an additional sales tax of up to 0.3% for counties, with at least one-third of the tax receipts to support criminal justice programs. The levying county retains 60% of the receipts and the remaining 40% are distributed to cities within the county on a per capita basis.

In 2006, the voters in Whatcom County approved a one-tenth of one percent public safety sales tax levy. The interlocal agreements between the County and the cities stipulate that the cities would return two-thirds of their share of public safety tax revenue to the County to support emergency

medical services. The remaining one-third would be spent for criminal justice purposes, including additional police protection, mitigation of congested court systems, or relief of overcrowded jails or other local correctional facilities.

Estimates of public safety sales taxes used in this analysis are based on the State Department of Revenue's reported distribution of \$11.22 per resident to Whatcom County cities in 2007, with future distributions assumed to grow at a rate of 3.5% per year. Similarly to other cities in Whatcom County, two-thirds of the total estimated tax revenue amount is projected to be returned to the County for EMS funding (please see *Miscellaneous Non-Departmental* expenses section of this report).

6.5 State-Shared Revenues

All cities and towns in Washington State are eligible to receive certain "shared" revenues on the basis of their population. These state-collected revenues derive from liquor receipts (both profits from liquor sales and liquor taxes and from the Motor Vehicle Fuel Tax (the gas tax). As a group, Washington cities and towns receive a fixed percentage of these source revenues, and that fixed percentage is then allocated to the individual cities on a per capita basis. (For shared profits from liquor sales, as an example, Washington cities and towns as a group receive 40% of the total profits. This lump of money is then distributed to the individual municipalities according to their respective populations.)

Shared revenue sources include:

- Liquor Excise Tax
- Liquor Profit
- Unrestricted Gas Tax
- Criminal Justice Revenues – General

Estimates of state-shared revenues in 2007 are based on projections published by the Municipal Research & Services Center in their publication *Budget Suggestions for 2007* (recognizing a slight dilution effect on allocations from the addition of Birch Bay to the distribution pool). Future year revenues assume that distributions will grow at the rate of inflation.

Liquor Excise Tax

According to Washington State law, a share of the state collected excise tax on liquor is distributed directly to cities on a per capita basis. In order to receive both liquor excise tax distributions as well as liquor profit distributions, a city is required to spend at least 2% of those distributions to support an approved alcoholism or drug addiction program. We have provided for this required expenditure in our projected miscellaneous expenditures. Liquor excise tax distributions are made on a quarterly basis, on the last day of January, April, July, and October. Currently the consultants at the Municipal Research and Services Center (MRSC) project the per capita distributions for liquor excise taxes to be \$4.7 in 2007. We assume these distributions to grow at a rate of 3.5% per year.

Liquor Profits

Revenues like liquor excise tax distributions and liquor profit distributions are made to cities on a quarterly basis. Liquor profits, however, are distributed in different months. Specifically, they are distributed on the last day of March, June, September, and December. The MRSC currently projects liquor profits distribution of \$7.08 in 2007. We assume these distributions to grow at a rate of 3.5% per year.

Motor Vehicle Fuel (Gas) Tax

A portion of the state-collected gas tax is shared directly with municipalities which bear a substantial portion of the overall costs of road maintenance and construction. The gasoline and diesel tax is a flat amount levied per gallon (rather than a percentage of the price at the pump), so even with increasing fuel prices, the state distributions may decrease if the number of gallons sold is decreasing by a greater percentage amount.

Prior to 2005, gas taxes were distributed in two parts: an "unrestricted" portion of these funds was disbursed to help defray the costs of street maintenance and a "restricted" portion was distributed to cities to maintain an "arterial" fund. However, with the passage of SB 5969 in 2005, all gas tax funds are now "unrestricted" for all cities, and beginning with September 2005 distributions, cities will receive only a single distribution. Cities with a population of 15,000 or more no longer have to spend a portion of their gas tax on capital expenditures and can spend any portion on maintenance (of course, all the gas tax monies must still be spent for street purposes).

With the passage of the statewide 9-cent gas tax by the State Legislature in 2005, one penny of the gas tax increase will be split between cities and counties and will be phased in with a ½ cent in 2005-2006, and the second ½ cent in 2006-2007. This means a ¼ cent to cities the first year and a ¼ cent the second year. Cities can expect new distributions beginning at the end of September 2005.

Based on these changes to the law, MRSC estimates per-capita distributions of the gas tax for cities to be \$25.09 in 2007. We assume these distributions to grow at a rate of 3.5% per year.

Summary of State Shared Revenues

Applying the above estimated distribution levels to our baseline population estimate, we have arrived at the following projections for State Shared Revenues:

Exhibit 15
Projected Per-Resident Distributions of State-Shared Revenues

	2009	2010	2011	2012	2013	2014
Unrestricted Gas Tax	\$26.88	\$27.82	\$28.79	\$29.80	\$30.84	\$31.92
Liquor Profits and Excise Taxes	\$12.62	\$13.06	\$13.52	\$13.99	\$14.48	\$14.99
Total	\$39.50	\$40.88	\$42.31	\$43.79	\$45.32	\$46.91

Source: Municipal Research & Services Center, 2007; Berk & Associates, 2007

6.6 Cable Television Franchise Fees

While Washington State counties are not allowed to impose utility taxes, they are allowed to impose franchise fees, and at the present time, Whatcom County does impose such a fee on cable television [authorized by the Cable Communications Policy Act of 1984, §622(a),(b) 47 U.S.C. §542 (a),(b)]. Currently, residents of unincorporated Whatcom County pay a 4% franchise fee as part of their charge for cable service. We have assumed that a newly incorporated City of Birch Bay would replace Whatcom County's franchise fee on cable television with a 4% fee of its own. Based on current and projected receipts in other cities, as reported by the Washington State Auditor's Office, we project that Birch Bay will generate cable franchise fee revenues of \$8.60 per resident in 2009. For 2009 through 2014, we project that per-resident revenues will grow at a rate of 3.5%, resulting in an estimated \$10.20 per resident in 2014.

Taking into account assumed population growth, cable franchise fee revenues are expected to equal \$85,000 in 2009, growing to \$130,000 in 2014.

6.7 Lodging Tax

Most cities have the authority to levy a "hotel/motel" tax of up to 4% (first 2% are a credit to the State's 6.5%, and second 2% are on top of the total sales tax). RCW 67.28.1815 stipulates that these funds may be used solely for paying for tourism promotion and for the acquisition and/or operation of tourism-related facilities. Tourism promotion is defined as: "activities and expenditures designed to increase tourism, including but not limited to advertising, publicizing, or otherwise distributing information for the purpose of attracting and welcoming tourists; developing strategies to expand tourism; operating tourism promotion agencies; and funding marketing of special events and festivals designed to attract tourists." RCW 67.28.1817 also requires that cities with a population over 5,000 should form a lodging tax advisory committee before imposing a lodging tax.

This tax is levied on hotels, motels, bed & breakfasts, and other lodging establishments that rent out rooms three or more times in any calendar year for periods of less than 30 days (including vacation rentals by property owners).

Whatcom County currently levies a 4% lodging tax, and this analysis assumes that the City of Birch Bay would continue to levy the same percentage. This analysis calculates lodging tax base by estimating (1) taxable retail sales of current lodging establishments in Birch Bay, and (2) taxable retail sales from private vacation rentals. Lodging tax can be somewhat difficult to enforce; according to the Department of Revenue's recent study, the rate of compliance is approximately 50%. This analysis applies this rate of compliance to the estimated lodging tax base.

For 2009, we project approximately \$115,000 of lodging tax revenues. For following years, the growth in lodging tax base is influenced by growth in taxable retail sales.

Across the state, how cities spend their lodging taxes varies. Some cities stake out relatively restrictive policies on how lodging taxes can be spent—focusing expenditures on direct promotion of tourism or spending on capital facilities that might have some impact on tourism. Other cities use lodging taxes to fund ongoing operating expenses; funding things like a portion of their parks operation and maintenance or their economic development/community development positions.

For a City of Birch Bay, where virtually everything a City government would do would have a direct impact on the City's position as a destination for seasonal visitors, the assumption in this analysis is that the City would use lodging tax dollars to fund some of the core operating functions summarized in **Exhibit 9**. If City decision makers were to take a more restrictive view of how those revenues should be used, determining that they could not be used for core City operations, then under the modeled structure, the City might need to scale back slightly on expenditures for parks and recreation, or planning/community development.

6.8 Building Permits, Planning and Engineering Fees

Upon incorporation, the responsibility to provide land and building regulation within the boundaries of the City of Birch Bay will transfer from the County to the new City. Coincident with this new responsibility, the City will be the recipient of all new revenues generated through the issuance of building, land use, and engineering permits.

At that time, the new City will have to establish its own fee structure for building and land regulation. Over years of working with Washington cities, Berk & Associates has talked with more than a dozen different cities about their experience regarding cost-recovery of permitting. The experience of other recently incorporated cities has been that they have been able to cover their full costs of staffing a building and land use desk through permit revenues.

For this assessment, we use an assumption that 100% of the costs of the land-use desk staffing will be recovered through permit revenues. The city engineer would likely spend only a portion of his time reviewing engineering permits; therefore this analysis assumes that only 50% of labor costs will be recovered through permit fees. This cost recovery includes labor costs for two assistant planners, one building official, and one city engineer.

Based on an assumption of modest housing and commercial development during the period, we estimate permit revenues of slightly more than \$300,000 in 2009. For future years, the permit revenue increases parallel growth in planning, building, and engineering labor costs. If permitting activity is more robust than assumed in this analysis, then the City might need to increase staffing levels for the land-use desk. In this event, however, the City would also generate additional permit revenues to defray these additional staffing costs.

6.9 Gambling Taxes

State statute provides that cities and towns that choose to allow gambling activities within their boundaries may tax the revenues generated by those activities. Based on data provided by the Washington State Gambling Commission, establishments within Birch Bay currently generate slightly less than \$9,000 in gambling taxes. Based on the "same cost" framework, the model used for assessment of feasibility assumes that the Birch Bay City Council would levy gambling tax rates that are line with what Whatcom County currently levies. As a result, the model estimates similar levels of gambling tax revenues. Based on analyses of gambling tax revenues in cities across Washington State, projections of gambling tax revenues assume 3.5% annual growth.

6.10 Recreation Charges

Although Whatcom County does not currently provide recreation services in Birch Bay area parks, as modeled in this analysis, the new City of Birch Bay *will* begin to provide some recreation services. The analysis assumes addition of a recreation coordinator position and seasonal recreation staff to aid with summer programming.

As is true in virtually all cities, a portion of the labor costs for this recreation staff are expected to be recovered through modest recreational program fees charged to City residents and non-residents. For this assessment, we assume that 40% of these costs will be recovered through recreation revenues. Based on this cost recovery factor, we project that approximately \$30,000 will be generated each year, with future increases paralleling growth in recreation labor costs.

6.11 Other Miscellaneous Charges

In addition to revenues discussed above, most cities generally receive some small revenues, such as charges for copying, pet licenses, and other fees for services. This analysis estimates “other charges” to be \$3 per capita, totaling about \$20,000 in 2009.

6.12 Optional Revenues

In the previous section, we have examined the revenues we would expect the City of Birch Bay to receive under our modeled revenue structure. This does not mean, however, that the City of Birch Bay could not choose to adopt a different tax structure. If the City decides to pursue a different revenue structure, or if it wants to raise additional revenues, a number of revenue streams would be available. Among other means, the City would have the option of pursuing utility taxes, a property tax – excess levy, business and occupation taxes, or, potentially, an expanded gambling tax. For a complete discussion of revenue mechanisms available to cities, the Municipal Research and Services Center (MRSC) has a useful revenue guide and website available to cities as a resource.

Utility Tax Revenues

Unlike counties in Washington State, cities are allowed to impose taxes on many of the utility services provided within the city boundaries. According to statute (RCW 35.21.870), cities in Washington State are allowed to tax private utilities such as telephone, natural gas, and electricity, by action of the city council, up to a rate of six percent. This rate can be exceeded upon voter approval. No such statutory maximum applies to taxes/franchise fees on garbage, water, sewer, storm water, or cable television, although cable television does enjoy certain protections against “discrimination” under current Federal statute. (Whatcom County currently imposes a 4% cable television franchise fee, and we have assumed the City will enact an equivalent fee policy.)

For many cities, utility taxes are one of the most important revenue sources, sometimes generating more revenue than retail sales tax. Across Washington State, roughly 85% of cities who reported costs and revenues to the Washington State Auditor’s Office levied such taxes. Since the passage of I-747 in 2001, and the subsequent erosion of city property taxes, the list of cities levying utility taxes has grown in recent years. Notably, however, many of the cities that have incorporated in the past 15 years have not chosen to levy utility taxes.

To stay consistent with the “same cost” framework, for our baseline analysis we have assumed that the City of Birch Bay would *not* levy any utility taxes within the study horizon.

Property Tax – Excess Levy

As a newly incorporated city, the proposed City of Birch Bay would not have any excess levy upon incorporation, and would probably not seek one within the horizon of this analysis. State law, however, does provide room for excess levies approved by the voters within the city.

A city can present a ballot measure to voters for the approval of an excess levy under two conditions: for a special purpose, or for general government purposes with the stipulation that the approved excess levy must be limited to one year. For the latter, it is not necessary for the city to specifically identify the proposed uses of the excess funds. In order for excess levies to be accepted, however, the ballot must be approved by sixty percent of the total votes cast, and there must be a voter turnout of at least forty percent of the last general election.

Property Tax – Using Full Taxing Authority or a Levy Lid Lift

For a city that is annexed to both a fire district and a library district, the city’s maximum regular property tax levy is \$1.60 per \$1,000 of assessed value. As we have discussed above, however, the combination of property appreciation and Washington State’s 1% property tax limits tends to drive a city’s levy rate down over time. Many cities that once had a \$1.60 levy now have levies that are \$1.20 or less.

Given the same-cost framework of this analysis, Berk & Associates has modeled City finances assuming the City established an initial levy of a bit more than \$1.39 per \$1,000 of assessed value. If the City so desired, the City could levy an initial property tax that would translate to a levy rate of \$1.60, thereby increasing property tax revenues in its first year by about 15%, generating more than \$250,000 in additional City revenues. For the owner of a \$300,000 house, this higher levy rate would translate to a bit more than a \$60 increase in property taxes.

After a city’s initial property tax levy, for all subsequent years, property tax levies are governed by Washington State’s 1% property tax limit *unless* the city pursues a “levy lid lift.” If a city’s property tax levy rate is below the city’s legal limit, a city can seek a public vote of its residents for a lid lift (RCW 84.55.050), a mechanism that allows city voters to reset the city’s levy at whatever level they desire, as long as that level fits within the legal limit.

Historically, levy lid lifts applied to a single year—city residents could vote to reset the levy rate, but in subsequent years the effects of the 1% limit would begin to drive the levy rate down again. During the 2003 legislative session, however, statutes were amended to allow a lid lift for multiple years.¹⁴ Cities now have the option of seeking a voted lid lift that applies for six years. Under such a multi-year lid lift, cities can design a lift that will inflate each year by a set amount, thereby counteracting the eroding effects of the 1% limit.

¹⁴ Municipal Research & Services Center has more information about multiple year levy lid lifts which can be found at their website: <http://www.mrsc.org/subjects/finance/levyliftbudsugg.pdf>.

As we have already discussed, there may be good reasons why a City of Birch Bay would want to prevent the erosion of property tax levy rates. However, for our modeling of feasibility, we assume no levy lid lifts.

Business and Occupation Taxes

While Whatcom County does not have the legal authority to impose business and occupation (B&O) taxes, the City of Birch Bay would have authority to impose a variety of such taxes. As a Washington State city, the City of Birch Bay would have the authority to impose a tax of up to 0.2% on the gross receipts of all businesses located within its boundaries (RCW 35.21.710). Most cities in Washington State choose not to impose this tax, although in Whatcom County, the cities of Bellingham and Everson do.

As an alternative to the B&O tax, cities also have the option of developing some form of business licensing program. Such a licensing program might require all businesses to register with the City, whether as a one-time event or on an annual basis. As part of this registration process, the City could then impose a licensing fee.

Interest Income

If Birch Bay residents opt for incorporation, the newly formed City would have the option of following the pattern set by recently-incorporated cities to pay off debt accumulated during transition and build a significant reserve of revenues in the first years after incorporation. If the City chose this path, the City's cash reserves could generate significant streams of interest income. While this revenue stream is one that most cities include in their annual budgets, this feasibility analysis does not assume any revenue from interest payments.

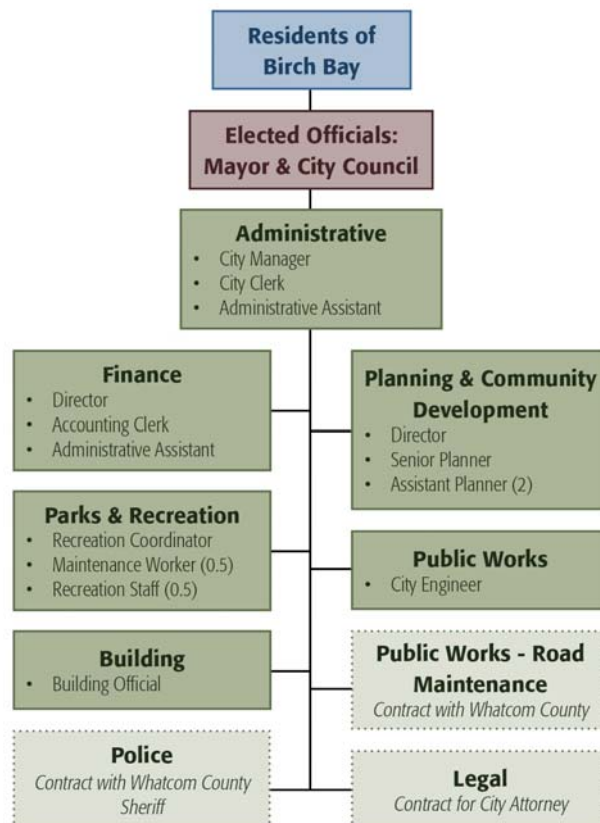
7.0 OPERATING EXPENSES

There are many ways that a City of Birch Bay could structure the services its residents receive. For this analysis, the analysis team has assumed that, like many recently incorporated cities, the City of Birch Bay would choose to contract with, or annex to, the Whatcom County Library System for library services, and one or both of the existing fire districts for fire and emergency medical services. This study also assumes that the City of Birch Bay would see no change in the provision of water and sewer services or in the provision of surface water management via the recently-formed BBWARM.

The analysis assumes that remaining city services would be provided by the City of Birch Bay, either directly or through contracts with other service providers such as Whatcom County. In particular, this analysis models feasibility under an assumption that the City would contract with Whatcom County for police and jail services, municipal courts, and roads operation and maintenance.

In some instances, estimates of costs are based directly on cost data that have been provided by the Whatcom County departments that are likely to provide the service through contract with the City. In other cases, estimates of costs are built from the ground up, based on the requirements of the task and the experiences of other cities. **Exhibit 16** below shows our projection of the City of Birch Bay organizational structure and **Exhibit 17** details annual modeled costs of city operations.

Exhibit 16
Assumed Organizational Structure for City of Birch Bay



Source: Berk & Associates, 2007

Exhibit 17
Estimated Costs of Providing Services for City of Birch Bay, 2009-2014

	2009	2010	2011	2012	2013	2014
Public Safety	\$934,000	\$976,000	\$1,021,000	\$1,067,000	\$1,115,000	\$1,165,000
<i>Sheriff Contract</i>	<i>\$784,000</i>	<i>\$820,000</i>	<i>\$857,000</i>	<i>\$895,000</i>	<i>\$935,000</i>	<i>\$977,000</i>
<i>Facility Costs</i>	<i>\$32,000</i>	<i>\$33,000</i>	<i>\$34,000</i>	<i>\$35,000</i>	<i>\$37,000</i>	<i>\$38,000</i>
<i>Police Dispatch Fees</i>	<i>\$39,000</i>	<i>\$41,000</i>	<i>\$43,000</i>	<i>\$45,000</i>	<i>\$47,000</i>	<i>\$49,000</i>
<i>Emergency Management Participation</i>	<i>\$13,000</i>	<i>\$14,000</i>	<i>\$15,000</i>	<i>\$15,000</i>	<i>\$16,000</i>	<i>\$17,000</i>
<i>Correction and Detention Services</i>	<i>\$66,000</i>	<i>\$69,000</i>	<i>\$73,000</i>	<i>\$76,000</i>	<i>\$80,000</i>	<i>\$84,000</i>
Public Works	\$541,000	\$566,000	\$591,000	\$618,000	\$645,000	\$674,000
<i>Roads Maintenance Contract</i>	<i>\$410,000</i>	<i>\$428,000</i>	<i>\$448,000</i>	<i>\$468,000</i>	<i>\$489,000</i>	<i>\$511,000</i>
<i>City Engineer</i>	<i>\$132,000</i>	<i>\$137,000</i>	<i>\$144,000</i>	<i>\$150,000</i>	<i>\$157,000</i>	<i>\$164,000</i>
Planning & Community Development	\$317,000	\$544,000	\$564,000	\$534,000	\$556,000	\$578,000
<i>Current Expenses</i>	<i>\$317,000</i>	<i>\$444,000</i>	<i>\$464,000</i>	<i>\$484,000</i>	<i>\$506,000</i>	<i>\$528,000</i>
<i>Professional Services - Comprehensive Plan</i>	<i>\$0</i>	<i>\$100,000</i>	<i>\$100,000</i>	<i>\$50,000</i>	<i>\$50,000</i>	<i>\$50,000</i>
City Manager	\$345,000	\$360,000	\$376,000	\$393,000	\$410,000	\$428,000
Finance	\$293,000	\$306,000	\$320,000	\$334,000	\$349,000	\$364,000
Legal	\$104,000	\$107,000	\$111,000	\$115,000	\$119,000	\$123,000
Parks and Recreation	\$150,000	\$157,000	\$164,000	\$171,000	\$178,000	\$186,000
Building	\$117,000	\$122,000	\$127,000	\$133,000	\$139,000	\$145,000
City Council	\$34,000	\$35,000	\$37,000	\$38,000	\$40,000	\$41,000
Non-Departmental	\$138,000	\$145,000	\$152,000	\$159,000	\$166,000	\$174,000
<i>Animal Control Contract</i>	<i>\$20,000</i>	<i>\$21,000</i>	<i>\$23,000</i>	<i>\$24,000</i>	<i>\$25,000</i>	<i>\$27,000</i>
<i>Fire Marshall</i>	<i>\$40,000</i>	<i>\$42,000</i>	<i>\$44,000</i>	<i>\$46,000</i>	<i>\$48,000</i>	<i>\$50,000</i>
<i>Election Costs</i>	<i>\$8,000</i>	<i>\$9,000</i>	<i>\$9,000</i>	<i>\$9,000</i>	<i>\$10,000</i>	<i>\$10,000</i>
<i>State Audit</i>	<i>\$10,000</i>	<i>\$11,000</i>	<i>\$11,000</i>	<i>\$11,000</i>	<i>\$12,000</i>	<i>\$12,000</i>
<i>Return of 2/3 Public Safety Sales Tax to County</i>	<i>\$49,000</i>	<i>\$52,000</i>	<i>\$54,000</i>	<i>\$57,000</i>	<i>\$60,000</i>	<i>\$63,000</i>
<i>Miscellaneous</i>	<i>\$10,000</i>	<i>\$11,000</i>	<i>\$11,000</i>	<i>\$11,000</i>	<i>\$12,000</i>	<i>\$12,000</i>
Total Projected Core Expenditures	\$2,973,000	\$3,318,000	\$3,463,000	\$3,562,000	\$3,717,000	\$3,878,000

Source: Berk & Associates, 2007

The following discussion begins with an overview of staffing levels, salaries and benefits, our general approach to non-labor costs, and assumptions about cost escalation factors. Following these broad discussions, Sections 7.2 through 7.12 address the specifics of each City service.

7.1 City Staffing

Exhibit 18 details assumed staffing levels for the City and average annual salary and benefits by position (salary and benefit figures are in 2007 dollars). Note that no positions are included for provision of contracted services (police, jail, courts, and roads operation and maintenance).

Exhibit 18 Staffing and Labor Cost Assumptions for City Hall

City Departments and Positions	In 2007\$				# of Positions					
	Monthly Salary Range Low	Monthly Salary Range High	Average Annual Salary	Average Annual Salary & Benefits	Year 1 (2009)	Year 2 (2010)	Year 3 (2011)	Year 4 (2012)	Year 5 (2013)	Year 6 (2014)
City Council										
Mayor	\$350	\$350	\$4,200	\$4,200	1.0	1.0	1.0	1.0	1.0	1.0
Council members	\$150	\$150	\$1,800	\$1,800	6.0	6.0	6.0	6.0	6.0	6.0
City Manager										
City Manager	\$6,545	\$7,927	\$95,000	\$123,500	1.0	1.0	1.0	1.0	1.0	1.0
City Clerk	\$4,052	\$5,070	\$60,000	\$78,000	1.0	1.0	1.0	1.0	1.0	1.0
Administrative Assistant	\$2,443	\$3,116	\$40,000	\$52,000	1.0	1.0	1.0	1.0	1.0	1.0
Finance										
Finance Director	\$5,392	\$6,686	\$80,000	\$104,000	1.0	1.0	1.0	1.0	1.0	1.0
Accounting Clerk	\$2,509	\$3,141	\$40,000	\$52,000	1.0	1.0	1.0	1.0	1.0	1.0
Computer Support	\$3,960	\$4,664	\$55,000	\$71,500	1.0	1.0	1.0	1.0	1.0	1.0
Planning & Community Development										
Planning Director	\$5,391	\$6,815	\$80,000	\$104,000	1.0	1.0	1.0	1.0	1.0	1.0
Senior Planner	\$4,292	\$5,514	\$65,000	\$84,500	0.0	1.0	1.0	1.0	1.0	1.0
Assistant Planner	\$3,823	\$4,652	\$55,000	\$71,500	2.0	2.0	2.0	2.0	2.0	2.0
Building										
Building Official	\$4,477	\$5,504	\$65,000	\$84,500	1.0	1.0	1.0	1.0	1.0	1.0
Parks & Recreation										
Recreation Coordinator	\$2,694	\$3,285	\$40,000	\$52,000	1.0	1.0	1.0	1.0	1.0	1.0
Park Maintenance Worker	\$2,629	\$3,251	\$40,000	\$52,000	0.5	0.5	0.5	0.5	0.5	0.5
Seasonal Recreation Staff	\$2,629	\$3,251	\$40,000	\$40,000	0.5	0.5	0.5	0.5	0.5	0.5
Public Works										
City Engineer	\$5,328	\$6,465	\$80,000	\$104,000	1.0	1.0	1.0	1.0	1.0	1.0
Total City Employees					20.0	21.0	21.0	21.0	21.0	21.0

Source: Association of Washington Cities *Salaries & Benefits Survey*, 2007; Berk & Associates, 2007

The staffing levels included in **Exhibit 18** represent a lean, core staffing level that is consistent with a small city that contracts for provision of many of its services. In addition to these positions, the City, as modeled, would generate a certain amount of “excess” revenues. Presumably, these revenues would be used to offer additional levels of services, which could involve additional staffing.

Modeled expenditures also include assumed, lump-sum costs for comprehensive planning in the years 2010 through 2014 (\$100,000 in 2010 and 2011, and \$50,000 in 2012 through 2014). These expenditures could reflect costs of hiring consultants to assist in developing the comprehensive plan and/or costs of additional staff.

As we will discuss in our analysis of *Start-Up Financing* (Section 8), we anticipate that a City of Birch Bay would be deliberate in its hiring of City staff. Such a go-slow approach (similar to that adopted by recently-incorporated cities like Edgewood and Kenmore) would allow the City to build up a reserve to serve as a financial cushion in years to come. This means that, although the baseline assessment of feasibility estimates general government costs of nearly \$3 million, the City could see costs that are significantly lower than that in its early years as it ramps up its staffing and service provision.

Salaries & Benefits

Estimates of salaries for specific positions were generated by taking the 85th percentile of the actual salary range as reported by the Association of Washington Cities' Salary Survey and then rounding the number *up* to the nearest \$5,000. We assume that the cost of benefits will be equal to 30% of salaries based on our experience of working with other cities.

Non-Labor Costs

Estimated costs for supplies, facilities, and equipment are based on Berk & Associates' analysis and experience working with cities across Washington State. **Exhibit 19** summarizes our assumptions regarding non-labor costs with more detailed discussions to follow below. In general, total non-labor costs are in the range of 16% to 18% of direct labor costs (salaries and benefits), which is consistent with many other cities in the State.

Exhibit 19 Non-Labor Cost Assumptions

Facility Costs	
Cost per square foot	\$17
Square Feet per FTE	250
Supplies, Printing, Travel, Other	
Supplies as % of Salaries	10%
IT/Computers/Furnishings	
Cost per FTE per year	\$2,000

Source: Berk & Associates, 2007

Facilities. Projections of the costs of City Hall facilities have been directly tied to our estimates of staffing levels. We have assumed that the City will need 250 square feet of office space for each full time employee it hires. We have also assumed an annual lease rate of \$17 per square foot, which is consistent with the going rate in the area. Of course, if the members of the City Council saw fit, they could choose at some point to purchase land and construct a new City Hall. If they were to take this step, then the above funds could be viewed as expenditures to cover debt service on City bonds.

Supplies. We estimate the costs for supplies, printing, travel, and other such needs to equal about 10% of salary costs.

Equipment and Furnishings. For costs associated with phones, office furniture, and computers, we have derived projected expenses on an annual per-employee basis. We estimated annual costs of \$2,000 per FTE per year.

Cost Escalations

Labor Escalations. For future-year estimates, the model assumes that direct labor costs (salaries and benefits) for a given position will increase by 4.5% per year. This is a rate that exceeds the rate of general inflation, but based on our work with other cities, we believe this rate to be consistent with the experiences of most cities.

Non-Labor and Contracts Escalations. The model assumes that non-labor costs of providing a set level of services will increase by the inflation rate – 3.5% per year. Cost of contracted services is assumed to be driven by labor costs and is projected to increase at 4.5% per year.

7.2 City Council

Assuming that the City of Birch Bay chooses to incorporate as a Council/City Manager government, the City will have a seven-member Council elected by voters living within the boundaries of the newly incorporated City. We have assumed that the members of the Council and the Mayor will serve part-time. The Mayor would be elected by the Council as directed under 35A.13.030 RCW. Upon election, the Mayor will preside over Meetings of the Council, and serve as the ceremonial leader of the City.

By statute (RCW 35A.12.070), upon incorporation the City of Birch Bay will be required to compensate the members of the Council at a rate of \$1,800 per year per person and the Mayor at a rate of \$4,200 per year. This requirement applies to cities having more than five thousand but less than fifteen thousand inhabitants. For our analysis, we have assumed these salary rates.

7.3 City Manager's Office

In the Council/City Manager form of government, it is assumed that the City Council has only one employee: the City Manager. The City Manager, then, is ultimately responsible for hiring, supervising, and the dismissal of all further staff. The City Manager is also tasked with overseeing effective delivery of City services, managing the City's administration, and ensuring that City practices are carried out in accordance with all standards, policies, and procedures. Besides City Manager, this analysis also assumes that the City of Birch Bay would staff this department with city clerk and administrative assistant.

State law dictates some mandatory duties for city clerk (RCW 35.23.121), including keeping full records of all city proceedings, recording all ordinances, and keeping the official city seal.

Labor costs for this department are estimated at approximately \$280,000, and total cost for the department at \$350,000 in 2009 (which also includes a \$20,000 annual contingency for professional services). Future-year costs assume 4.5% annual growth in labor costs and 3.5% growth in non-labor costs.

7.4 Finance

A city's Finance Department is generally tasked with providing financial management of City resources, managing City budgets, and overseeing financial reporting. This analysis estimates that the City of Birch Bay would staff Finance with a director who would run the department, accounting clerk, and a computer support specialist. In larger cities, information technology departments often represent an internal service department (a department that is budgeted separately and, in effect, bills other city departments for its services). However, many smaller cities employ one or two professionals to support information systems needs.

Labor costs for this department are estimated at approximately \$250,000, and total costs for the department are estimated to be \$290,000 in 2009. Future-year costs assume 4.5% annual growth in labor costs and 3.5% growth in non-labor costs.

7.5 Legal Services

The City of Birch Bay would likely contract with local firms for City Attorney and prosecution services. This analysis assumes an annual contract of approximately \$100,000, starting in 2009. Estimated costs of City Attorney services are based on comparisons with other smaller cities in Whatcom County and around the state.

The actual costs the City will bear will depend heavily on the level of services the City requires. If the City wishes to have an attorney present at meetings every night of the week, then the costs of these services would be greater than if the attorney's services were only required a few hours a week. Law firms indicate that the City will need to contract for City Attorney services at least four or five months prior to the official date of incorporation to help with drawing up interlocal agreements needed upon start-up.

Future-year costs assume 4.5% annual growth in the City Attorney contract.

7.6 Public Safety

Sheriff Contract

One of the largest line items listed in our projection of expenses is for Public Safety. The costs of providing this service represent almost a third of the entire costs of running the City of Birch Bay.

As a municipality, the proposed City of Birch Bay would be required to provide for the protection of people and property within the City boundaries. Currently, as part of unincorporated Whatcom County, Birch Bay receives its police services from the Whatcom County Sheriff's Office. The Sheriff's Office currently dedicates one 40-hour-per-week position to policing Birch Bay, and for the remaining 128 hours of the week, Birch Bay receives police services as one part of a patrol district that extends beyond the contemplated city boundaries.

Because of the "lumpiness" of police services, it is very difficult, logistically, for a small city to provide levels of service that would mirror what Birch Bay now receives from the Whatcom County Sheriff. Basically, in order to get a 24/7 coverage, a small city needs to have at least 8 to 10 full-time police staff at an annual cost of perhaps \$900,000 to \$1.1 million. (The rule of thumb is that you need 5 or 6 patrol officers to get full 24/7 patrol coverage.) This means that the only way a City of Birch Bay could try to mirror existing levels of service would be to contract with the Sheriff's office or with a neighboring city like Blaine.

Such arrangements do exist—particularly for very small cities. The City of Carnation, for example, has a population of less than 2,000 and it contracts with the nearby City of Duvall for police services. It spends about \$400,000 each year, and the town is policed simply as a part of a larger area that includes Duvall. Such arrangements are often a necessity for very small cities that do not have the resources to fully staff an 8- or 9-person police department, but they require some sacrifices (like not having a police chief who is directly accountable to City decision makers). And this is the reason why cities the size of Birch Bay generally choose a contract that offers core staffing of officers who would be dedicated primarily to policing the City, or they or create their own police department.

As part of the County's larger cooperative effort for this analysis, Whatcom County Sheriff's Office has provided Berk & Associates with examples of what different contracting options might look like for the City of Birch Bay, given alternative levels of service.

Exhibit 20 presents two alternative scenarios for public safety contract, provided by Whatcom County Sheriff's Office. These scenarios have been provided as points of reference to inform the incorporation feasibility analysis, but the particulars of any contract with the Sheriff's Office would need to be negotiated between a City of Birch Bay and the County. Please also see **Appendix A** for a letter from the Whatcom County Sheriff that outlines options and benefits associated with contracting for police services.

Among the two scenarios, the higher level of service (LOS) option includes one Lieutenant (a Detachment Commander who would, in effect, serve as Birch Bay's Police Chief), one Sergeant, one Records Specialist, five patrol Deputies, and one traffic Deputy. This staffing configuration would essentially ensure 24/7 patrol coverage in Birch Bay.

Scenario 2 includes the same core administrative staff, but includes four patrol Deputies rather than five, and does not include a traffic Deputy. Under Scenario 2, Birch Bay would have a dedicated patrol Deputy on duty most hours of the week, but during the quietest periods of the week, Birch Bay would continue to receive its police services from a Deputy who would be patrolling an area that extends beyond Birch Bay.

Of the two scenarios, Scenario 2 comes closer to matching the level of police services that Birch Bay currently receives, and this scenario serves as the cost basis for the feasibility analysis.

Exhibit 20 **Representative Alternative Contracts for Provision of Police Services**

	Scenario 1: Higher LOS		Scenario 2: Lower LOS	
	FTEs	2007 Cost	FTEs	2007 Cost
Proposed Staffing				
Lieutenant (Detachment Commander)	1.0	\$127,810	1.0	\$127,810
Sergeant	1.0	\$108,946	1.0	\$108,946
Records Specialist	1.0	\$46,182	1.0	\$46,182
Deputy Sheriff	5.0	\$498,695	4.0	\$398,956
Deputy Sheriff (Traffic)	1.0	\$105,139	0.0	\$0
Total	9.0	\$886,772	7.0	\$681,894
Annual Ongoing Costs		\$36,400		\$36,400
Total Costs		\$923,172		\$718,294

Source: Whatcom County Sheriff, 2007; Berk & Associates, 2007

One-time Start-up Costs. In addition to ongoing operating costs for public safety, the City of Birch Bay would face the initial start-up costs for vehicles, equipment, and supplies. **Exhibit 21** below details these cost projections, provided by the Whatcom County Sheriff's Office for the higher level of service scenario (nine FTEs). Startup costs for a Scenario 2 would be slightly lower.

The ongoing costs of operation, summarized above, include annualized costs of replacing vehicles and equipment, but upon initiation of service, the Sheriff's Office will need to make up-front purchase of vehicles and equipment.

Exhibit 21
One-time Start-up Costs

Capital/vehicles (8 cars and 1 motorcycle)	306,000
Small Tools & Equipment	51,200
Capital/computers	40,000
Supplies	12,944
Professional Services	9,000
Uniform	8,210
Install Computers	8,000
TOTAL	\$435,354

Source: Whatcom County Sheriff's Office, 2007

Jail Costs

Cost estimates for jail costs are based on a review of costs incurred by other cities in Whatcom County. This analysis assumes that jail expenses would total approximately \$10 per capita. Growth rates for these costs are expected to grow with inflation at a base rate of 3.5% per year and also growing with increases in City population. Overall, we estimate 2009 jail costs of approximately \$65,000.

Dispatch Services

This analysis assumes that dispatch services for law enforcement would be provided, through contract, by What-Comm. We estimate annual costs of dispatch services of roughly \$40,000. This represents 5% of the City's other direct costs of providing law enforcement services. Other cities, including Ferndale in Whatcom County (which also contracts with What-Comm) and cities elsewhere in the state (e.g. the City of Duvall in King County) spend a bit less than 5% of their law enforcement dollars for dispatch services.

Municipal Court

Many cities contract with county court systems for municipal court services (including public defender and probation services) and for this study, we assume that a City of Birch Bay would contract with Whatcom County Courts. Generally, it is common for courts to be self-sufficient, meaning that they cover their costs of operations through fees, fines and forfeits. This means that there is often no net cost to cities for contracting for these services. Based on our conversations with Whatcom County Courts, we assume that provision of court services through contract with the County would be revenue-neutral to a City of Birch Bay.

7.7 Parks and Recreation

Currently, the public parks and parklands in the Birch Bay area are owned, maintained, and improved by Whatcom County Division of Parks and Recreation. According to the County, upon incorporation, local parks could be transferred to the newly incorporated City. Whatcom County expects that, under the above policy, two parks, one trail, and one facility currently within the potential City of Birch Bay would transfer: Bay Horizon Park, Halverson Park, Bay Crest Trail, and Sunset Equestrian Farm:

- Bay Horizon Park: 68.5 acres on Alderson Road. This passive park is currently leased to the Lions Foundation for park and camp purposes. The park includes a playground (tire play area, swings, and a basketball court) and is a potential community park site.
- Bay Crest Trail: Multi-use trail connecting Woodridge Drive to Bay Horizon Park.
- Halverson Park: 4.7 acres on Cedar Avenue. This park is undeveloped and could be a potential neighborhood park.
- Sunset Equestrian Farm: 69.5 acres located on Blaine Road. This facility represents equestrian and park area and is a potential community park and trail.

Whatcom County Parks & Recreation will continue to operate and maintain beach access points, tidelands and waterfront areas, Terrell Creek Heron Rookery, and Birch Bay Wildlife Area. A 194-acre Birch Bay State Park would continue to be owned and maintained by the State.

It is worth noting that, while the City of Birch Bay could acquire responsibility for a relatively few acres of local parks, residents of the area will have the State park at their disposal. In addition to regional parks, there are privately owned and maintained parks that are restricted in use to residents of the Birch Bay Village and other private communities, which represent parkland that would be counted as part of the inventory of park acreage in the future City's capital facilities plan.

It is also important to note that Northwest Parks & Recreation District will remain in operation. Previously inactive, the District passed a levy in 2007 aiming to provide parks and recreation services in the Birch Bay and Blaine areas. However, cities are generally expected to provide urban levels of service within their boundaries.

Park Maintenance. Combined, Bay Horizon Park and Halverson Park encompass about 73 acres of passive parkland. Considering the undeveloped nature of these parks, estimates of park maintenance costs assume a part-time maintenance worker responsible for solid waste pick-up and mowing of the grass. Cities we have worked with in the past estimate that passive parks cost relatively little to maintain on a per-acre basis (often less than \$100 per acre per year).

Recreation. Although Whatcom County does not currently provide recreation services in Birch Bay area parks, the analysis *does* include modest recreation expenses for the City. Recreational programming could be done through a partnership with Whatcom County, with the city funding recreational programming and utilizing local and State parks. Recreation activities could include summer day camps, youth basketball and sports leagues, or instruction. We believe it is difficult to envision a City of Birch Bay that does not provide *some* level of recreation services, even though it is not a service that a city must provide. In addition to a recreation coordinator position, which is included in City Hall staffing, we assume seasonal recreation staff to aid with summer programming.

Considering this level of staffing (full-time recreation coordinator, part-time maintenance worker, and seasonal recreation staff), the labor costs in 2009 are estimated to total about \$110,000. Total costs are estimated at \$150,000 and include non-labor costs and equipment. We project that the City will want to purchase a truck at a total cost of \$30,000 and would annualize this purchase at approximately \$3,000 per year, assuming 10 years of service. The City would also need to purchase a mower for maintenance of passive park acres, estimated at \$50,000 and annualized at approximately \$5,000 per year, assuming 10 years of service. For operation and maintenance of this equipment, we estimate annual expenses of \$5,000 a piece.

Estimates of future-years expenditures assume 4.5% annual growth in labor costs and 3.5% in non-labor costs.

7.8 Planning and Community Development

Planning & Community Development Department generally deals with review and issue of planning permits, enforcement of City codes, development and implementation of long-range planning goals and policies for future City development.

This analysis estimates that the City of Birch Bay would staff Planning & Community Development with a director who would run the department, two assistant planners mostly responsible for review and issue of planning permits, and, starting in 2010, a senior planner to supervise the development of a comprehensive land use plan and a capital facilities plan (see section below for more detail). Labor costs for this department are estimated at approximately \$270,000, and total cost for the department at \$320,000 in 2009. Future-year costs assume 4.5% annual growth in labor costs and 3.5% growth in non-labor costs.

As we indicated in our analysis of projected building permit revenues, we have assumed that the City of Birch Bay will recover 100% of two associate planners' labor costs through fees.

Comprehensive Land Use and Capital Facilities Plan

According to the Washington State Growth Management Act, soon after the City of Birch Bay incorporates, it will need to begin the process of developing a comprehensive land use plan and a capital facilities plan. The manner in which the City approaches this process, of course, will be a policy decision. In theory, the City could contract with consultants who would develop a package of plans consistent with requirements of the Growth Management Act for two or three hundred thousand dollars. In practice, however, the experience of other recently incorporated cities has been that, by the time the plan is adopted, these plans cost a great deal more. Most cities spend well over \$1 million developing their comprehensive and capital facilities plan.

However, Whatcom County has recently sponsored several studies that would feed into the comprehensive land use plan and a capital facilities plan, should Birch Bay incorporate. These studies include the 2004 *Birch Bay Community Plan*, the 2006 *Birch Bay Comprehensive Stormwater Plan*, and the 2007 *Birch Bay Design Guidelines for Commercial Development*, and provide an excellent foundation for comprehensive planning upon incorporation. Given these circumstances, we have allocated \$350,000 for a period between 2010 and 2014, as well as a full-time position of Senior Planner for development of a comprehensive land use plan and a capital facilities plan. Of this total

figure, we project expenditures of \$100,000 per year for the 2010 and 2011 on the two plans, and \$50,000 for years 2012 through 2014.

Upon incorporation, the City of Birch Bay will be required to plan under the State's Growth Management Act (GMA) (RCW 36.70A), and adopt a comprehensive plan and its associated elements. A comprehensive plan is a land use document that provides the framework and policy direction for land use decisions. City comprehensive plans contain chapters regulating: land use, transportation, housing, capital facilities, and utilities. Chapters that are focused on economic development and parks and recreation are required if the city receives state funding. Optional chapters may be included such as: conservation, energy, recreation, and sub-area plans where appropriate.

GMA requirements include the adoption of county-wide planning policies and adoption of county and city comprehensive plans and development regulations to implement the plan. Each city, after adopting its comprehensive plan, also adopts associated regulations to govern: zoning; plats and subdivisions; concurrency (ensuring that public facilities are in place to meet development demands); critical areas; levying impact fees; siting public facilities; and any other regulations that will implement the plan policies.

The required capital facilities element of the comprehensive plan guides the development of public land, structures, street or utility system improvements, or other long-lasting city assets (and other public facilities in the area as well). Capital facility planning in cities is usually done for streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, domestic water systems, storm and sanitary sewer systems, parks and recreation facilities, schools, and police and fire protection facilities.

RCW 36.70A.070 states that a capital facilities plan element must consist of:

- (a) An inventory of existing capital facilities owned by public entities, showing the locations and capacities of the capital facilities;*
- (b) A forecast of the future needs of such capital facilities;*
- (c) The proposed locations and capacities of expanded or new capital facilities;*
- (d) At least a six-year plan that will finance such capital facilities within projected funding capacities and will clearly identify sources of public money for such purposes; and*
- (e) A requirement to reassess the land use element if probable funding falls short of meeting existing needs and to ensure that the land use element, capital facilities plan element, and financing plan within the capital facilities plan element are coordinated and consistent.¹⁵*

¹⁵ Information presented in this section is drawn from Washington State Department of Community, Trade and Economic Development publications, Municipal Research and Services Center, and RCW 36.70A.070.

7.9 Building Permit Desk

The building permit desk generally deals with administration and enforcement of all building development codes in the City. This analysis estimates that the City of Birch Bay would staff this department with a building official position. Labor costs for this department are estimated at approximately \$90,000, and total cost for the department at \$116,000 in 2009. Future-year costs assume 4.5% annual growth in labor costs and 3.5% growth in non-labor costs. As we indicated in our analysis of projected building permit revenues, we have assumed that the City of Birch Bay will recover 100% of building official's labor costs through fees.

The estimate for total costs also includes equipment, since an integral part of a building official position will require use of a vehicle. We project that the City will want to purchase a truck at a total cost of \$30,000 and would annualize this purchase at approximately \$3,000 per year, assuming 10 years of service. For operation and maintenance of the vehicle, we estimate annual expenses of \$5,000.

Policymakers should be aware that there is likely to be some degree of pent-up demand among residents for permitting issuance and advice from the permit office. Officials at other recently incorporated cities advise that the City may want to recruit a highly experienced building permit official early in the formation of the new City.

7.10 Public Works - Road Maintenance and Operation

RCW 35.02.220 provides for the provision of road, library, and fire district services during the transition period at pre-incorporation levels. In particular, the law states that "road maintenance shall be for a period not to exceed sixty days from the official date of the incorporation or until forty percent of the anticipated annual tax distribution from the road district tax levy is made to the newly incorporated city or town pursuant to RCW 35.02.140, whichever is the shorter time period."

After incorporation and the interim period, the new City of Birch Bay would take over responsibility for the maintenance and improvement of public rights-of-way. For our analysis, we have assumed that the City will contract with the County for provision of these services. This assumption is based on a recognition that most recently-incorporated cities chose to contract with the County for continued provision of road maintenance services. Given the challenges of purchasing equipment, building facilities, and staffing road maintenance crews, most new cities find it much easier to contract for provision of maintenance services.

Based on the County's historical expenditures, the Public Works department estimates that it would expect to spend about \$416,000 in Birch Bay in 2010 if Birch Bay does not incorporate. These costs cover all of the day-to-day maintenance costs that a Roads department incurs. Given this estimate, Whatcom County Public Works Department reports that a reasonable contract cost estimate for existing levels of service would be the same amount – \$416,000 in 2010. For 2009 through 2014, these contract costs are assumed to grow at a rate of 4.5%.

In addition to the contract cost, our modeling of the City Public Works costs includes costs for a City Engineer, who would also serve as the Public Works director.

7.11 Public Works – City Engineer

Even though the analysis assumes that road maintenance and operations services are going to be provided by Whatcom County by contract with the City, we also estimate that the City of Birch Bay would hire a city engineer. This position will be responsible for working with and overseeing the Roads maintenance contract with the County, overseeing city engineering matters, and reviewing engineering permits. Because a City Engineer is a relatively well-paid position, labor costs for this department are estimated at approximately \$110,000, and total cost for the department at \$130,000 in 2009.

Future-year costs assume 4.5% annual growth in labor costs and 3.5% growth in non-labor costs. As we indicated in our analysis of projected building permit revenues, we have assumed that the City of Birch Bay will recover 50% of city engineer's labor costs through fees.

7.12 Miscellaneous Non-Departmental Services

Animal Control

Our understanding is that Whatcom County and most Whatcom County cities contract with the Humane Society for animal control services. In theory, it might be possible for a City of Birch Bay to contract with the County while the County turns around and contracts with the Humane Society. However, we cannot see any significant advantage to such an arrangement, so we have assumed that a City of Birch Bay would contract directly with the Humane Society. Typically, for a city the size of Birch Bay, such contracts cost relatively little (across the state, a typical cost is \$3 per resident), and our current estimate is that a City of Birch Bay would spend about \$20,000 per year. This per-resident cost is also in line with what the City of Blaine reportedly pays for their contract with the Humane Society, and it is consistent with their expectations for the future.

Fire Marshall

A City of Birch Bay will need to have a Fire Marshall to inspect commercial and public buildings and ensure the safety of public spaces. Because Birch Bay has relatively few commercial or public buildings, the duties of a Fire Marshall in the City would be relatively limited.

Currently, Fire District 21 and the City of Blaine share the cost of employing a full-time Fire Marshall. The District has indicated that, were Birch Bay to incorporate, the District and Blaine would be interested in splitting the cost of this Fire Marshall three ways, with Birch Bay sharing one-third of the annual cost, or \$36,000 (in 2007 dollars).

State Audit

Washington State Auditor's Office conducts regular performance audits of local governments by reviewing financial information and ensuring compliance with state, federal and local laws. Representatives from the Auditor's Bellingham team indicated that the frequency and cost of the audit depends on the size of the City and complexity of its financial structure. Considering that a new City of Birch Bay would be a relatively small-sized city with straightforward financial operations (at least initially), we project the annual State Audit costs of approximately \$10,000.

Election Costs

We estimate that Birch Bay would incur approximately \$8,000 annually in election costs, which are designed to cover the City's portion of any general and special elections.

EMS Contribution

In 2006, the voters in Whatcom County approved a one-tenth of one percent public safety sales tax levy. The interlocal agreements between the County and the cities stipulate that the cities would return two-thirds of their share of public safety tax revenue to the County to support emergency medical services. The remaining one-third would be spent for criminal justice purposes, including additional police protection, mitigation of congested court systems, or relief of overcrowded jails or other local correctional facilities.

This analysis assumes that the City of Birch Bay would enter into a similar agreement and return two-thirds of public safety tax revenues to Whatcom County and use the rest for criminal justice purposes.

Miscellaneous

In addition to major cost categories discussed above, a City of Birch Bay would face miscellaneous costs for insurance, association dues, and contributions to a chemical dependency program. The chemical dependency expense is a requirement that cities face in order to be eligible for receipt of state-shared liquor profits and liquor taxes.

Included in miscellaneous costs is a small cost for insurance. Estimated insurance costs are based on interviews with cities and the Washington Cities Insurance Authority. All lines of liability insurance plus property and crime fidelity insurance would be needed, at an initial annual cost of \$5,000-\$7,000. Association of Washington Cities' Insurance Authority is another possible insurer.

Post-incorporation, coverage is given through a rating system based on the number of city worker hours and historic losses. If there are few staff (which would be the case with a City of Birch Bay that would contract for many of its services), and there is no loss rating, insurance is low-cost and would only increase based on City workers' compensation claims, the land use hearings process, and whether public safety functions (fire and police) are provided directly by the City. Losses are attributed and assessed to cities through premiums, based on a complex actuarial formula. Most cities will not pay very high premiums even after 5-10 years.

7.13 Operational Contingency

No matter how thoroughly a city plans, there will always be unanticipated events requiring discretionary funds. To meet these unforeseen needs, it is always a good practice for the City to set aside an operational contingency, which the City administration would be free to spend at its discretion. The MRSC has a variety of inquiry topics discussing how much constitutes an adequate range of contingency and reserve allocations for a city. We do not include this contingency in the operating assessment of feasibility, as the estimated modest annual surplus can be viewed as an added level of insurance to mitigate potential financial risks.

Upon incorporating, most recently-incorporated cities in Washington State have pursued a go-slow approach to hiring staff and committing to expenditures (see discussion of Projected Start-up Financing). As a consequence of this approach, typically, newly-incorporated cities have succeeded in building up a significant financial cushion, which in practical terms serves as the contingency fund.

8.0 CAPITAL IMPROVEMENTS

Capital improvements are investments that a city makes in its physical infrastructure that allow a city to improve its overall position for the future. These improvements could include the repair and construction of roads, acquisition and development of parklands, or development of other community assets. For a city like Birch Bay, these physical investments are just as important as day-to-day city operations. Because the returns on capital improvements are generally received over a long period, and because the costs of improvements are substantial, it is important to plan carefully for, and phase, capital investments. As a city that will prepare a comprehensive plan under the State's Growth Management Act, Birch Bay will be required to adopt and fund a six-year capital improvement plan (CIP) that conforms to the policies outlined in its comprehensive plan.

There is no way to know today what the composition of Birch Bay's comprehensive plan will be, but as the current provider of local services in Birch Bay, Whatcom County *has* developed capital investment plans that identify needs in the area and included capital investments in Birch Bay in its current CIP.

When contemplating incorporation, there are two ways to think about capital need and revenues:

- One can add up all the identified capital needs and all the identified capital revenues, and most often one will find that the needs far outstrip the revenues available to fund them. That is the case in most cities across the country, and in fact, can be viewed as a good thing. The best way for a city to make sure it is making the *best* investments is for the city to identify a long list of *possible* investments and, in any given cycle, prioritize and fund only the most important.
- One can think in terms of with and without incorporation. On one hand, if the community *does not* incorporate, what kinds of capital investments can residents expect the County to fund in the foreseeable future (in light of historic investments and current plans). On the other hand, if the community *does* incorporate, how much in capital revenues can the new City expect to generate? If the community expects to generate more capital revenues than it can expect to receive in investments from the County, then one can argue that incorporation is a good deal (from a capital investment perspective). If not, then one can argue that the community would be well served to wait.

If a City of Birch Bay existed at the start of 2009, Berk & Associates estimates that the City would generate more than \$5 million in Real Estate Excise Taxes in the six years spanning 2009-2014. By statute, these revenues must be used for capital investments.

If the City sought to leverage these dollars by pursuing matching grants, then the City might expect to receive an additional \$1.25 or \$2.5 million, bringing expected capital revenue up to \$6.5 to \$7.75 million over the six-year period.

When one looks at the list of planned capital investments for the Birch Bay area (recognizing that some may be completed before incorporation could reasonably take place) it is difficult to know whether Whatcom County will spend \$6 or \$7 million in Birch Bay in a comparable time period.

The following discussion provides details about historic, identified, and planned capital investments in the Birch Bay area.

8.1 Roads Construction

Whatcom County uses a two-step process to identify and fund transportation needs. The first of these steps is compilation of the transportation needs, which identifies a long list of potential major capital investments for the roadways in the unincorporated area of Whatcom County. In a typical year, the list of identified projects will far exceed the County's ability to fund projects over its immediate planning cycle. After the needs are identified, the County will then select a subset of projects to be funded and built over the six-year planning horizon of the Transportation Improvement Plan (TIP).

According to data provided to us by Whatcom County, investments in road design and construction projects in Birch Bay have totaled about \$600,000 over the last six years, mostly for a structural overlay for Alderson Road. The County's current investment plan, however, includes more investments in the area in the immediate future.

Exhibit 22 details nearly \$51 million in Birch Bay transportation needs that have been identified to serve the 20-year growth projections for the area. This figure represents a planning level cost estimate in 2007 dollars. It is important to note that this project list is a preliminary draft, with the final Birch Bay Subarea Transportation Plan scheduled to be completed in 2008.

Exhibit 22 also identifies which projects are on the County's current TIP, which are highlighted in blue. There are a total of four projects with estimated combined cost of approximately \$18.5 million in 2007 dollars. Of this \$18.5 million total, the current TIP programs \$8 million in investments through 2012, nearly \$6 million of which is for improvements to Lincoln Road (a road that is on the boundary of the Birch Bay and Blaine UGAs and, as a result, may or may not fall within the boundaries of an incorporated Birch Bay).

According to the TIP, approximately \$7.5 million of the improvements are programmed to occur by the end of 2009, including the Lincoln Road improvements, with one project (Grandview Road improvements) slated for 2010-2012 time period. It is not uncommon, however, for projects in a TIP to be delayed, or for a project's completion to take longer than originally programmed.

Birch Bay Shoreline Enhancement. In 2006 and 2007, Whatcom County retained consultants to study the feasibility of beach reconstruction along Birch Bay Drive. Phase I addressed concerns and questions from the property owners and the public, and Phase II provided a conceptual cost estimate for the project. The estimated 2007 cost totals \$6.6 million for the following elements: beach widening, bike and pedestrian path promenade, coastal access, flood protection, aesthetic improvements, and improving the functions of the coastal ecosystems. This project is included as *Birch Bay Drive* in the exhibit below, with one section of the road (\$5 million) included in the TIP. However, only preliminary engineering has been included in the six-year TIP, at a cost of \$100,000.

Depending on the actual date of Birch Bay incorporation (which is unlikely to happen before 2009), and depending on project timelines, it is possible that Whatcom County could complete some, or most, of the planned improvements in the current TIP prior to potential incorporation.

Exhibit 22

Birch Bay Subarea Transportation Plan Identified Project Needs, 2007

Project Name	Project Limits	Project Description	In Existing TIP?	Estimated Project Cost (\$1,000s)	Cost in TIP (\$1,000)	Relative Priority
INTERSECTIONS PROJECTS						
Birch Bay-Lynden Road / Harborview Road	Intersection	Construct intersection improvements to include turn lanes and install traffic signal when warranted.	No	\$2,000		High
Birch Bay Drive / Harborview Road	Intersection	Improve/ redesign the intersection with turn lanes, and install traffic signal when warranted.	No	\$2,000		High
Lincoln Road / Shintaffer Road	Intersection	Construct intersection improvements to include roundabout or install turn lanes and traffic signal, when warranted.	No	\$2,000		High
NEW ROADWAYS AND MAJOR WIDENING OR RECONSTRUCTION PROJECTS						
Birch Bay-Lynden Road Widening	UGA limit just east of Blaine Road to Harborview	Widen to urban principal arterial standards including turn lanes and non-motorized facilities.	No	\$1,800		High
Birch Point Connector Road	Birch Pt. Road. to Shintaffer Road.	Construct new 2-lane connection at urban standards including non-motorized facilities and new intersection with Semiahmoo Drive.	No	\$2,000		High
Lincoln Road Extension and Improvement	Shintaffer Road. to Blaine Road (SR 548)	Reconstruct existing road and construct 2-lane urban arterial to Blaine Road with non-motorized enhancement including construction of roundabouts at intersections with Blaine Road and Harborview Road.	Yes	\$7,500	\$5,950	High
Harborview Road	Birch Bay Drive to Birch Bay-Lynden Road	Improve roadway to urban principal arterial standards including non-motorized facilities.	No	\$200		High
Commercial area circulation roads	West of Blaine Road (SR 548).	Local circulation urban road(s) as part of future development.	No	\$6,000		Medium
MINOR WIDENING AND RECONSTRUCTION PROJECTS						
Birch Bay Drive	Alderson Road to Shintaffer Road	Improve roadway to urban minor arterial standards including non-motorized facilities.	Yes	\$5,000	\$100	High
Birch Bay Drive	Alderson Road to Point Whitehorn Road	Improve to urban minor arterial standards including non-motorized facilities.	No	\$1,800		Medium
Grandview Road	Point Whitehorn Road to Blaine Road	Improve to rural collector road standards with paved shoulders for non-motorized travel.	Yes	\$3,000	\$450	Low
Jackson Road	Birch Bay Drive to Grandview Road	Reconstruct to rural collector standards including paved shoulders for non-motorized travel.	No	\$1,200		Low
Shintaffer Road	Lincoln Road to Birch Point Road	Reconstruct to rural collector standards including paved shoulders for non-motorized travel.	No	\$600		Low
Alderson Road	Birch Bay Drive to Blaine Road	Reconstruct to rural collector standards including paved shoulders for non-motorized travel.	No	\$600		Medium
STATE ROUTE PROJECTS						
Blaine Road (SR 548)	Lincoln Road to Birch Bay-Lynden Road	Reconstruct and widen to add turn lanes and shoulders/non-motorized facilities at urban standards (WSDOT standards).	No	\$5,000		High
Blaine Road (SR 548)	Birch Bay-Lynden Road to Bay Road	Reconstruct and widen to add turn lanes and non-motorized facilities to meet urban standards (WSDOT standards).	No	\$7,000		Medium
Birch Bay- Lynden Road / Blaine Road (SR 548)	Intersection	Construct intersection improvements to include roundabout or install turn lanes and traffic signal, when warranted.	Yes	\$3,000	\$1,500	High
Total Projects				\$50,700	\$8,000	

Source: The Transpo Group, 2008; Whatcom County, 2008

Note: Please note that the estimated project costs are in 2007 dollars.

In addition to major construction projects, most cities in Washington State seek to maintain the quality of the existing road system via regular *overlays*. Cities commonly target a 20-year overlay cycle, in which each segment of public road in the city will be overlaid once every 20 years. In such a cycle, on average, a city will overlay 5% of its roadways.

According to Whatcom County Public Works, Birch Bay has approximately 39 miles of publicly-owned roadways. If the City were to pursue a 20-year overlay cycle, it would need to overlay an average of 2 miles of roads each year. Whatcom County Public Works estimates that, on average, current costs of roads overlay are \$80,000 per mile, which translates to an average annual cost of \$160,000 per year.

8.2 Parks Capital Improvements

To our knowledge, there are no parks capital improvement projects identified for Birch Bay at this time. However, the City will receive capital funds from Real Estate Excise Taxes, and may choose to use these funds for parks capital needs.

8.3 Surface Water Management

The assumption of this study is that newly formed Birch Bay Watershed and Aquatic Resources Management District (BBWARM) will bear the responsibility for surface water management in the Birch Bay area. Our understanding is that recent capital needs assessments have identified surface water capital needs in the Birch Bay area, but to the extent these needs are fundable, these needs will be addressed by BBWARM.

Typically, even if a city provides surface water management services, surface water services are offered in the model of a utility: fee revenues from property owners cover the operating and maintenance costs of the system, and revenues that are left over are used for capital investments. Surface water is treated as an “enterprise fund,” which means that surface water revenues are not available to fund general governmental services, nor are the city’s General Fund revenues used to defray the costs of surface water needs.

Under the assumption that BBWARM will continue to be the provider of surface water services, revenues and costs of surface water are removed from the umbrella of city operations entirely.

In addition to BBWARM, Birch Bay Watershed Characterization project has been recently jointly funded by the Environmental Protection Agency, the Washington State Department of Ecology, the Department of Fish and Wildlife, the Puget Sound Partnership, and the Department of Community, Trade and Economic Development, among others. This project builds on other recent planning efforts in Birch Bay to analyze the natural water and habitat conditions as well as development patterns, and to identify strategies for smart land use management and planning. This Study presents various land use and mitigation recommendations for local decision-makers. Draft and final reports are scheduled to be completed in 2008.

8.4 Potential Capital Revenues

Real Estate Excise Tax (REET)

The Real Estate Excise Tax (REET) is levied on all sales of real estate, applied to the full sale price of the property in question. According to state law (RCW 82.45, 82.46), a city that is required to plan under the Growth Management Act can levy a Real Estate Excise Tax totaling 0.5% of the selling price of the property. The first 0.25% of the Real Estate Excise Tax must be used to fund capital facilities expenditures that have been identified in the city's comprehensive plan. The second 0.25% REET revenues must also be used to fund capital facilities, with the added stipulation that they cannot be used for the acquisition of land for 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. REET estimates are based on (1) revenues from new housing construction, which in turn are based on development growth assumptions, and (2) an assumption that 10% of residential property and 5% of commercial property turn over in any given year.

Based on Berk & Associates' analysis of the rate of property transactions in the annexation area, we estimate that the potential City of Birch Bay could expect to receive nearly \$730,000 in REET revenues in 2009, growing to \$1 million by 2014. **Exhibit 23** details REET revenue estimates for the analysis horizon.

Exhibit 23
Estimated REET Revenues for Birch Bay

	2009	2010	2011	2012	2013	2014
Revenues						
Real Estate Excise Tax	728,000	781,000	838,000	900,000	965,000	1,035,000

Source: Berk & Associates, 2007

Bonds

Another option that cities have for raising capital revenues is through the issuing of municipal bonds. In effect, the city takes out a loan for a lump-sum of capital revenues and agrees to repay that loan over an extended period (often a period of 20 years). If Birch Bay were to issue a bond with the expectation that it would use \$1 million of REET revenues to repay that bond, then at current bond rates, the City could expect to generate more than \$11 million. (At a bond rate of 6.0%, sale of a 20-year bond with an annual service payment of \$1 million would generate about \$11.5 million.)

It is important to note that bond revenues do not represent "new money" to a city. Rather, bonds allow cities to access funds today, to cover the costs of an immediate need, at the cost of handing over a set amount of future revenues.

State and Federal Grants

Most cities in Washington State seek to leverage their existing capital dollars by pursuing grants from Washington State and from the federal government. Success in competing for grant revenues is hit-and-miss, which means that grant revenues tend to fluctuate from year to year. Typically, however, cities will hold at least some of their dedicated capital revenues in reserve until they can be used as matching funds to win grants for capital investment.

Many cities across the State assume that grant revenues will cover a significant portion of their total capital spending (often in the range of 25 to 50 percent).

Transportation Impact Fees

To mitigate the increased demand on transportation networks that accompanies development, cities can impose transportation impact fees under RCW 82.02.050. In order to do this, however, a new city must have a comprehensive plan which includes, among other things, assessments of the current transportation system, projected transportation facilities needs, and projections of the costs of addressing developmental impacts in specific areas.

When considering impact fees, the City of Birch Bay will be able to create its own impact fee system. However, given the time it takes to develop a city Comprehensive Plan, this path will take some time to implement.

This analysis does not include estimates of impact fees, but depending on how the City chooses to proceed, such fees may be available to defray costs of transportation investments.

9.0 PROJECTED START-UP FINANCING

If Birch Bay residents vote in favor of incorporation, the next step in the process is to elect members of the City Council. As the official date of incorporation draws nearer, the City will need to hire an interim City Manager (this position is often filled by a retired City Manager who can assist the new City with the transition to incorporated status). The City will also need to contract with a legal firm for provision of legal service (including helping the City negotiate interlocal agreements for contracted services).

Before the City can take any of these actions, however, representatives of the forming City of Birch Bay will need to contact a local lending institution to set up a line of credit to tide the City over until substantial revenues are generated. Flows of the various sources of revenues outlined in earlier sections will depend on both the speed with which the City is able to implement its projected taxes and fees and the ease with which the City handles its transition period. Policymakers at the City should contact the Municipal Research and Services Center as early as possible, and they should also obtain copies of "The New City Guide" and "A Revenue Guide for Washington's Cities and Towns," available on MRSC's website.

Up to this point in the report, analyses of costs and revenues have focused on measuring the steady-state viability of the contemplated City of Birch Bay. Assuming a given tax structure and a given approach to providing City services, the model assessed the sufficiency of revenues on a year-by-year basis.

The analysis presented in this section sets aside the steady-state modeling and focuses on specific monthly inflows and outflows of City revenues. The goal of this analysis and discussion is to give readers a sense of how the startup of a City of Birch Bay might play out.

9.1 The Value of a Go-Slow Approach to City Startup

In light of the experiences of other recently-incorporated cities, we suggest that a newly-forming City of Birch Bay would be well-served if it pursued a "go-slow" approach to hiring permanent, full-time staff.

Many newly incorporating cities have taken a go-slow approach in their first months (and years) of incorporation, and as a result, have quickly moved to a position of having cash reserves in the bank. Two cities with which we are familiar, Kenmore and Edgewood, made a conscious decision to draw out their hiring of full-time City Hall staff for as long as possible. As a result, both cities quickly repaid short-term debt they incurred during incorporation start-up, and in fact, both cities went on to create healthy financial reserves (totaling as much as \$3 to \$5 million) that have served the cities well in subsequent years.

While we believe a go-slow approach would be both appropriate and wise, the illustrative start-up cash flow we detail in the following section is more "conservative" (i.e. it assumes more costs up-front than a city that is taking a go-slow approach might actually take on). The accompanying discussion outlines some of these conservative assumptions.

9.2 Modeled Start-Up Cash Flows

Exhibit 24 offers an illustration of how cash flows for a new City of Birch Bay might play out under the hypothetical assumption that a City of Birch Bay was to have an official incorporation on September 1, 2009. (Since no incorporation process has been initiated, we have no basis for saying this is a reasonable or unreasonable date. It is simply a date we chose for illustrative purposes.)

As is typical of new cities, the City would expect to incur debt in the months leading up to incorporation (the City has transition costs to cover but does not yet have taxing authority to generate revenues). The analysis assumes that, immediately upon incorporation, the City Council will levy taxes and fees that will replace taxes and fees currently levied by the County and are consistent with the revenue structure modeled elsewhere in this study.

Under the modeled cash flow, the City would face significant start-up costs for leasing and improving a space for City Hall, for furniture and office equipment, and for an up-front purchase of cars and equipment, including more than \$350,000 in expenses for law enforcement (as part of a contract structure that has been proposed by the Whatcom County Sheriff). These up-front costs include expenditures for cars, equipment, training, and other supplies (see **Exhibit 25**).

On an operating basis, the model assumes that the City will hire a transitional City Manager and begin working with a law firm in the months leading up to incorporation, and upon incorporation will add certain City Hall staff, including a City Clerk, three staff for Planning & Community Development (in part, to handle the inflow of permit requests), a Finance Director, a Computer Technician, and a Building Official. Two months after incorporation, when the City would be required to take on responsibility for providing police, public works, and parks services, additional costs for those functions are folded in.

On the revenue side, the first large amount of money will come in November, when the City will receive revenues from second-half payments of property taxes. Upon incorporation, any revenues that Whatcom County collects from its Unincorporated Road Levy will flow to the City — with almost all of the second-half taxes coming to the City in the month of November.¹⁶

As modeled, in the first couple of months after incorporation the City's accumulated cash position reaches a low-water mark of negative \$760,000. Upon receipt of Road Levy revenues in November, the City's position improves markedly. This is typically the point at which a newly-incorporated city's cash flow will move into positive ground. However, under this conservative cash flow scenario, the City will not move well into the black until November of 2010.

¹⁶ By statute, newly-incorporated cities can use road tax funds to cover the costs of general government, as long as the City pays the money back to the City's Street Fund within three years. Given the modeled expenditures for roads operation and maintenance (most of which will be funded by the City General Fund) this repayment of revenues to the Street Fund will happen as a matter of course.

Exhibit 24
Modeled Start-Up Cash Flows
 (Assuming September 2009 Incorporation Date)

	2009					2010											
	Pre-Incorp	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Inflows (in thousands)																	
Road Tax (City Portion)				793													
City Property Tax								13	40	442	439	9	6			831	
State Shared Revenues																	
<i>Unrestricted Gas Tax</i>			41			43			43			43			43		
<i>Liquor Excise Taxes</i>			8			8			8			8			8		
<i>Liquor Profits</i>					12			12			12			12			12
Retail Sales Tax				39	42	42	42	42	42	42	42	42	42	42	42	42	42
Retail Sales Tax - Criminal Justice				26	9	9	9	9	9	9	9	9	9	9	9	9	9
Retail Sales Tax - Public Safety				19	6	6	6	6	6	6	6	6	6	6	6	6	6
Cable TV Franchise Fee			7	7	7	8	8	8	8	8	8	8	8	8	8	8	8
Lodging Excise Tax		11	11	11	11	12	12	12	12	12	12	12	12	12	12	12	12
Building Permits, Planning and Eng. Fees		25	25	25	25	27	27	27	27	27	27	27	27	27	27	27	27
Gambling Tax		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
TOTAL		37	93	921	112	156	104	130	196	547	555	165	110	117	156	936	117
Outflows (in thousands)																	
Public Safety (Criminal Justice)		353		78	78	81	81	81	81	81	81	81	81	81	81	81	81
General Government																	
<i>Salaries and Benefits (Permanent and Interim Staff)</i>																	
City Council			3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
City Manager's Office	22	18	18	18	18	19	19	19	19	19	19	19	19	19	19	19	19
Finance Department		16	16	16	16	17	17	17	17	17	17	17	17	17	17	17	17
<i>City Hall Lease & Improvements</i>	120					8	8	8	8	8	8	8	8	8	8	8	8
<i>Furniture & Office Equipment</i>	120																
<i>Vehicle & Equipment Purchases</i>		60		30		2	2	2	2	2	2	2	2	2	2	2	2
Public Works				44	44	46	46	46	46	46	46	46	46	46	46	46	46
Legal Services	44	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9
Parks and Recreation				5	5	2	2	2	2	7	7	7	7	7	7	7	7
Planning & Community Development		22	22	22	22	23	23	23	23	23	23	23	23	23	23	23	23
Building		8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Non-Departmental				12	12	12	12	12	12	12	12	12	12	12	12	12	12
Interest on Accumulated Debt		2	5	5	0	1	2	2	3	3	1	0	0	1	1	2	0
TOTAL		306	491	81	249	215	232	233	233	234	239	237	236	236	237	237	238
Monthly Inflows Less Outflows		-306	-454	12	672	-102	-76	-128	-104	-38	308	318	-71	-126	-120	-81	698
Accumulated Cash Position		-306	-760	-748	-76	-178	-255	-383	-486	-525	-217	101	29	-97	-217	-298	400

Source: Berk & Associates, 2007.

As noted above, the cash flow analysis presented here is heavily influenced by four major start-up expenditures: \$90,000 for purchase of three vehicles;¹⁷ \$353,000 for start-up expenditures for police services (consistent with a framework proposed by the County Sheriff – **Exhibit 25**); \$120,000 each for initial lease and improvements for a City Hall and \$120,000 for furniture and equipment (including IT equipment) for City Hall.

Exhibit 25
Potential Start-Up Costs for Birch Bay Police

Capital/vehicles (8 cars and 1 motorcycle)	252,000
Small Tools & Equipment	39,800
Capital/computers	31,100
Supplies	10,100
Professional Services	7,000
Uniform	6,400
Install Computers	6,200
Communications	
Training	
Vehicle Rental	
TOTAL	\$352,600

Source: Whatcom County Sheriff's Office, 2007; Berk & Associates, 2007

If a City of Birch Bay was to embrace the go-slow approach to early expenditures, the opportunities may exist to reduce and/or postpone some of these expenditures to future date when the City has had an opportunity to build up cash reserves. For example, the City might want to explore an agreement with the Sheriff's office to configure a contract where start-up expenditures are not charged to the City up-front, but could be paid by the City over a period of time. It may also be possible to secure City Hall facilities without spending \$240,000 up front for leases, improvements, equipment, and furniture.

At some point after incorporation, a City of Birch Bay would want to secure space for a City police station. In early months, given all of the things the new City staff would need to take care of, it seems likely that the Sheriff's provision of police services could continue to use the Sheriff's Office's existing station and reporting structure. (This, like all conditions of a contract with the Sheriff's Office, would be a subject to negotiation.) Another option would be for the City to carve out space in its new (perhaps interim) City Hall.

When the time comes for the City to make a significant investment in City Hall/Police facilities, the City would have the option of tapping Real Estate Excise Taxes (capital revenues from all sales of real estate in the city that are not included in the "core" operating revenues listed above) to fund those capital investments.

¹⁷ Two vehicles would be purchased immediately upon start-up, to provide mobility for the City's Building Official, the City Engineer, and other staff, and one in November to facilitate the job of parks maintenance when the City takes over responsibility for Parks in November.

Many newly-incorporated cities occupy what could be described as *unconventional* spaces. There are cities in Washington, today, that operate out of converted warehouses, converted storefronts in strip malls, and other types of spaces that one would not typically think of when one thinks of “public” buildings.

If policy makers at a City of Birch Bay were aggressive in pursuing a go-slow approach to City expenditures, in our judgment, it is entirely possible for the City to move into a positive cash position within a matter of few months after incorporation.

10.0 COMPARATIVE DEMOGRAPHIC AND MARKET ASSESSMENT

To inform the Incorporation Feasibility Study, and to inform readers of the study as they debate Birch Bay's future, the Birch Bay Comparative Demographic and Market assessment was designed to (1) examine the demographic profile of the Birch Bay area and (2) provide a high-level assessment of the market conditions that will drive future growth in the area over the coming years.

As previously mentioned, Birch Bay is heavily influenced by its seasonal population, with more than half of the area's housing units categorized as seasonal housing by the US Census. Among existing Pacific Northwest cities, Birch Bay's share of seasonal housing is most comparable to a collection of cities on the Oregon coast, including Rockaway Beach, Cannon Beach, and Gearhart.

Development pressures in Birch Bay are heavily skewed towards residential development. Housing stock in the area has increased by an annual rate of almost 5% per year for the past seven years. Trends like aging baby-boomers and increases in the relative affordability of Birch Bay housing to Canadian citizens are likely to maintain pressure for new housing in the Birch Bay area for some time.

In terms of its resident population (which excludes seasonal visitors), Birch Bay's population is more heavily weighted in the 35 to 65 age brackets than most other cities in Whatcom County, and is more similar to other coastal cities in Washington State like Port Townsend and Ocean Shores.

Like many cities with a population of less than 7,500, Birch Bay has only limited commercial offerings. However, commercial enterprises in the area *do* benefit from seasonal visitors. As resident and seasonal population continues to grow in coming years, one can expect to see at least some increased opportunities for retail and services.

Appendix B contains the full Birch Bay Demographic and Market Assessment and presents a collection of statistics that characterize the Birch Bay area. Many of these statistics apply to the Birch Bay Census Designated Place (CDP), which includes and extends somewhat beyond the contemplated Birch Bay incorporation area.

Most statistics are presented in relation to a selection of other communities to establish context for the measures. The communities chosen for comparison fall into three categories:

- Neighbors
 - Blaine
 - Ferndale
 - Bellingham
 - Lynden
 - Sumas
 - Whatcom County as a whole
- Peers
 - Ocean Shores
 - Port Townsend
- Others
 - Central Puget Sound

11.0 COMMUNITY OUTREACH

As part of the incorporation feasibility study, the Birch Bay Incorporation Feasibility Study Steering Committee, Whatcom County, and the consultant team conducted a public outreach process to inform the community about the Study, including process, purpose, and findings, and to address any questions members of the community had regarding incorporation feasibility.

Public outreach was conducted in two phases. In the first phase, the team convened a community meeting and conducted an online survey to hear what questions the community had about incorporation and what issues related to incorporation were important to the Birch Bay Community. Over 80 community members attended the Phase 1 public meeting and over 400 responded to the survey. Most community meeting attendees and survey respondents focused on the implications of incorporation on taxes and levels of service. Many participants also asked questions about the incorporation process and the role of part-time residents, property owners, business owners, and full-time Canadian residents in deciding a future for the community. In Phase 2, the team presented the draft findings of the Study at a second community meeting in December 2007.

To advertise outreach efforts in both phases, Whatcom County mailed postcard notices to the owners of all properties within the study area, the Birch Bay UGA, a total of about 5,600 addressees. The community meeting and survey were also advertised in local papers and through the Birch Bay Steering Committee's email listserv.

For more information on the Birch Bay Incorporation Feasibility Study public process, please see **Appendix C: Community Outreach Materials and Summary of Community Feedback**.