City of Palmer Analysis of Annexation Alternatives

Final

Prepared for the

City of Palmer

July 2006

Prepared by

northerneconomics inc.

880 H Street, Suite 210,
Anchorage, AK 99501
T: 907.274.5600
F: 907.274.5601

1801 Roeder Ave., Suite 124
Bellingham, WA 98225
T: 360.715.1808
F: 360.715.3588

W: www.northerneconomics.com **E:** mail@norecon.com

PROFESSIONAL CONSULTING SERVICES IN APPLIED ECONOMIC ANALYSIS

Anchorage

880 H St., Suite 210, Anchorage, AK 99501
TEL: 907.274.5600 **FAX:** 907.274.5601

President & Principal Economist: Patrick Burden, M.S. **Vice President & Senior Economist:** Marcus L. Hartley, M.S. **Senior Consultant, Planning Services:** Caren Mathis, MCP, AICP **Economists:** Leah Cuyno, Ph.D., Jonathan King, M.S. **Policy Analyst:** Nancy Mundy, Ph.D. **Socioeconomic Analyst:** Don Schug, Ph.D. **Analysts:** Michael Fisher, MBA, Cal Kerr, MBA **Office Manager:** Diane Steele **Document Production:** Terri McCoy

Bellingham

1801 Roeder Ave., Ste. 124, Bellingham, WA 98225
TEL: 360.715.1808 **FAX:** 360.715.3588

Economists: Ken Lemke, Ph.D., Kelly Baxter, M.S. **Associate Economists:** Ben Frerichs, Ph.D., Hart Hodges, Ph.D.

northerneconomics inc.

E-mail: norecon@norecon.com **Web:** www.northerneconomics.com

Contents

Figure **Page**

Abbreviations

AAC	*Alaska Administrative Code*
CAGR	Compound Annual Growth Rate
COP	City of Palmer
DCCED	Alaska Department of Commerce, Community and Economic Development
GPCFSA	Greater Palmer Consolidated Fire Service Area
ISER	University of Alaska Anchorage, Institute for Social and Economic Research
ISO	Insurance Services Office
LBC	Local Boundary Commission
MSB	Matanuska-Susitna Borough

Executive Summary

The City of Palmer (COP), in late 2005, retained Northern Economics services to assess the costs and revenues—or fiscal effects—that are associated with five phases of potential annexation. For a mid-size Alaskan city, the City of Palmer is a densely populated area. The City of Palmer's existing corporate boundaries constrain its abilities to plan for and manage future growth in the urbanizing areas surrounding the community. As part of Palmer's comprehensive planning process (2005/2006), it was recommended that Palmer adopt an active annexation strategy to help guide future development. This initial annexation analysis represents the first step in that strategy. The certificated sewer service area comprises the outer boundary of the five phases analyzed in this initial annexation analysis. The proposed phases are depicted in Figure ES-1.

The State of Alaska establishes standards for annexation to incorporated cities through 3AAC 110.090-3AAC 110.150 administered by the Local Boundary Commission (LBC). This initial annexation analysis is not intended to be an application or petition to the LBC for annexation, but rather serves to explain the financial feasibility of phased annexation and what factors are critical in determining the financial feasibility of annexation. Palmer has the potential to offer a high level of municipal services to the urbanizing areas outside its corporate limits. These services are quality local police protection, exceptional fire protection services, efficient street maintenance, and planning and zoning land use policies. A separate certificated city utility coordinates the extension of water and sewer service through an enterprise fund.

As an initial step in an annexation strategy, this study focuses on the resources that are required by statute for annexation (3 AAC 110.110). This requirement means the LBC, in considering a petition for annexation, will look for an assessment of the economy within the proposed boundaries of the city. The existing incorporated city along with the annexed areas must encompass the human and financial resources necessary to provide essential city services on an efficient, cost-effective level (3 AAC 110.110). LBC statutory standards include an assessment of the following:

- Reasonably anticipated new expenses of city resulting from annexation
- Actual income and reasonable, anticipated ability to generate and collect local revenue and income. LBC standards require an assessment of the financial feasibility of annexation given the city's existing operations budget and capital budget and forecasted increases in these budgets to support existing and projected development in the annexed areas.
- Economic base of the city after annexation, property valuations in the territory proposed for annexation
- Land use in the areas proposed for annexation
- Existing and reasonably anticipated industrial, commercial, and resource development.

This study assesses the fiscal effects of annexation by looking at the anticipated costs and revenues from five different geographic study areas. (These areas are for analysis purposes and do not represent the final boundaries that may be included in the formal annexation petition to the LBC.) Public services considered in this annexation analysis are general government, police, fire, and land use planning and permitting. (Water and sewer were not included in the analysis as these services are delivered by a separate certificated utility.) The NEI team conducted public service interviews with the community development coordinator, city manager, fire chief, police chief and staff, public works director, and finance director. The MSB was contacted for tax assessment and road service area information.

The MSB's Geographic Information System was utilized by the Northern Economics project team to integrate current Census data, tax assessor data, and service area information. The project team's GIS technician, Alaska Map Company, provided reports on population, assessed valuation, numbers of residential and commercial structures, and road miles for each annexation area and generated an overlay of the annexation phases.

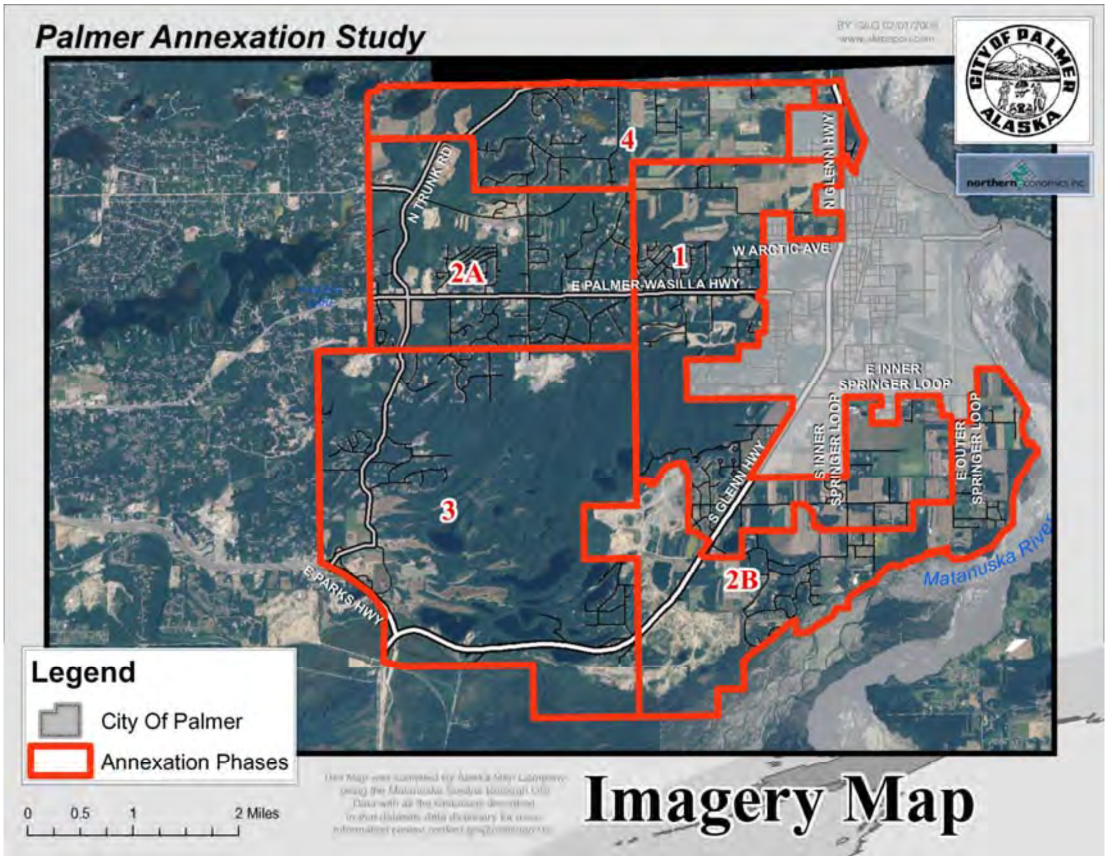
The fiscal effects analysis utilized existing land use patterns for residential and commercial development to project future land uses. The results of the fiscal effects analysis and further LBC analysis will depend on more detailed land use analysis and land use policy decisions.

Fiscal Effects Summary

Under 2005 conditions and core analysis assumptions, the annexation of all five phases (see Figure ES-1) discussed in this report would add approximately 5,529 persons to the City of Palmer's populace and $450.46 million dollars in taxable real property. This analysis of the fiscal effects of annexing land near Palmer, Alaska shows that annexation of all phases would likely result in some negative fiscal effects on the city's finances without a compensating increase in local property or sales tax rates. That said, the increase in city tax rates needed to support annexation appears to be modest. The analysis estimates that under 2005 conditions, the equivalent of a roughly one (1) mil increase in the property tax rate would cover the increased costs of providing services to the annexed areas, while in the long-run the annexation would require an increase of 0.6 mils (most likely scenario) to just over 1 mil (most conservative scenario) in the city property tax rate to cover the cost of providing services to the annexed areas.[1]

[1] Note these estimates do not include accounting for the actual cost of enacting the annexation, if any. Additionally, one reason for the reduction in long-run costs of annexation is that estimates for 2005 do not include the value of the Mat-Su Regional Medical Center which will appear on Borough tax rolls in 2006.

Figure ES-1. Analyzed Phases[2]



Source: Alaska Map Company, 2006.

While full annexation would double the city's population and triple the local real property tax base, the fact that the COP derives the majority of its revenue from sales taxes and not from property taxes means that the annexations would result in negative fiscal effects equal to -$0.81 million dollars per year under 2005 conditions and a projected -$1.28 million dollars per year in 2015. Overall, if the phases were annexed together, they would generate $0.746 for every dollar in services they demanded under 2005 conditions. In 2006, this amount rises to $0.824 in revenue for every service dollar expended because the new Mat-Su Regional Medical Center (located Phase 3) will be on the MSB tax rolls.

[2] Appendix B contains a larger, landscape copy of each map in the order in which they appear in this report.

Table ES-1. Summary of Annualized Fiscal Effects by Phase

Area	Year	Population	Real Property Tax Base ($Millions)	Revenue/Cost Differential ($Millions)	Revenue/ Cost Ratio (%)
City of Palmer	2005	5,382	286.65	N/A	N/A
	2015	8,978	766.14	N/A	N/A
All Phases	2005	5,529	$450.46	-0.81	74.4
	2015	9,142	$1,364.18	-1.28	83.7
Phase 1	2005	1,382	$150.04	-0.09	88.5
	2015	2,252	$389.39	-0.30	85.5
Phase 2A	2005	1,235	$121.27	-0.12	83.1
	2015	2,012	$314.73	-0.20	88.3
Phase 2B	2005	649	$52.22	-0.10	73.9
	2015	1,190	$135.53	-0.26	73.6
Phase 3	2005	1,446	$63.99	-0.37	55.0
	2015	2,356	$361.18	-0.25	87.2
Phase 4	2005	817	$62.94	-0.13	72.1
	2015	1,331	$163.34	-0.27	76.2

Source: Northern Economics, Inc. estimates 2006. Note: All dollars are nominal, undiscounted, figures.

The individual phases differ greatly in their projected net fiscal effects, summarized in Table ES-1:[3]

- Phase 1 would likely have negative short term fiscal effects and transition to mild to moderately negative long term fiscal effect by 2015. Slightly higher than expected increases in real property values or commercial property development would increase the likelihood of this phase providing positive fiscal effects to the city.
- Phase 2A would likely have slightly negative effects under 2005 conditions, which the analysis estimates would be neutral or remain largely slightly negative fiscal effect in the long-run. Again, higher than expected increases in real property values or commercial property development would increase the likelihood of this phase having at least a neutral (i.e. no net revenue change) fiscal effect on the city.
- Phase 2B would likely have very mild negative effects under current conditions. However, the analysis estimates this situation would deteriorate in the future. Higher than expected increases in real property values or commercial property development would increase the likelihood of this phase resulting in at least a neutral fiscal effect on the city. Additionally, Phase 2B is home to significant gravel resources. A moderate severance tax equivalent to that used by the Denali Borough ($0.05/cubic yard) would likely result in the annexation of the phase having a neutral fiscal effect until gravel reserves are depleted or no longer mined.
- Annexation of Phase 3 would likely result in large negative fiscal effects for the City of Palmer under 2005 conditions. However, the addition of the Mat-Su Regional Medical Center to the property tax rolls in 2006 improves the situation in the future and the analysis estimates that by 2015 the fiscal effects as estimated would be moderately negative. Additionally, the area around the hospital is likely to grow faster than the surrounding phases as residential and

[3] The 2015 estimates in Table ES-1

commercial structure are built to support the center. The study team believes that the model's assumptions for this phase are very conservative and that the phase's potential fiscal effects are more positive than predicted by the model. The phase is starting from a relatively low base and accelerated growth driven by the hospital is almost certain. Thus, the overall outlook for this phase is likely more positive than currently predicted.

- The results for Phase 4 are very similar to the results for Phase 2B, with the exception that Phase 4 does not have the extensive gravel resources that could be subject to a revenue generating severance tax. Phase 4 would likely have slightly negative effects under current conditions, which the analysis estimates would deteriorate in the future to moderately negative fiscal effects. Higher than expected increases in real property values or commercial property development would increase the likelihood of this phase resulting in at least a neutral fiscal effect on the city.

The City of Palmer faces a set of policy implications that are common across the United States. Residential development rarely pays for itself through property taxes and extending City services can be expensive. This fact is true for Palmer as well. The model estimates reveal the additional property tax revenues are not enough to cover increased services costs and that revenue from sales taxes on utility services, business licenses, and permits are critical in minimizing the required increase in property or sales tax revenues. The COP also faces a choice in how it raises additional revenues required to result in a fiscally neutral annexation. This study reports results in property tax mil rate equivalents, but the COP could pursue additional large sales tax payors to generate additional revenues in the future. The model currently assumes that future commercial development will result in small sales tax payors who make up the vast majority of the total number of sales tax payors within the city. Development of another larger "big box" sales tax payor could radically alter the results for any one of the phases discussed within this report. Additionally, as previously mentioned, annexation could be financed with a very modest increase in the city's property tax rates. Thus, the appropriate course of action depends on the goals of the city and the vision the city and its citizens have for the future of Palmer. For example:

- If the city desires a revenue-neutral or revenue-positive outcome without tax increases and does not foresee future "big box" development anywhere within the annexation phases, then the city should focus on only annexing those phases which are most likely to be revenue neutral or positive (e.g., Phase 1).
- If the city desires to grow larger by annexing all of the phases and believes that future "big box" development within the city will be very limited, then the city must be willing to accept that real/personal property or sales tax rates must rise to mitigate short-term negative fiscal effects currently projected under that scenario. The model currently estimates that the equivalent of a 1.0 mil or less increase in the property tax rate would be necessary to eliminate the projected negative fiscal effects holding all other items constant.
- If the city believes that certain types of large commercial development fit within the city's development plan and that the population growth in the COP, the annexation phases, and the rest of the MSB will entice this type of development within the annexation phases, then the city could expect that annexation of all areas (supported by some amount of large scale commercial growth) would not result in substantial negative fiscal effects. Theoretically, if enough large-scale commercial development took place, then sales tax revenue would supplant property tax revenue and property tax rates could be lowered.

All three scenarios described above depend on a well-developed vision for the city combined with the zoning/planning mechanism necessary to make the vision a reality. The analysis' results indicate that how annexation affects the city's fiscal outlook will depend on a wide variety of factors including how the city views future development within the annexed areas. Full annexation without negative fiscal effects is likely possible if backed by a vision and plan increasing the odds of success. The question then becomes whether that vision is what the citizens of Palmer want for their community.

Report Outline

This report contains three sections:

- Section 1 contains an introduction to the study including a summary of the study area and an outline of the study's goals.
- Section 2 discusses the local boundary commission and how the proposed phases fit with commission guidelines.
- Section 3 summarizes the expected fiscal effects of annexation and presents detailed fiscal effects analysis for each annexation area and all annexation areas as a single entity.