

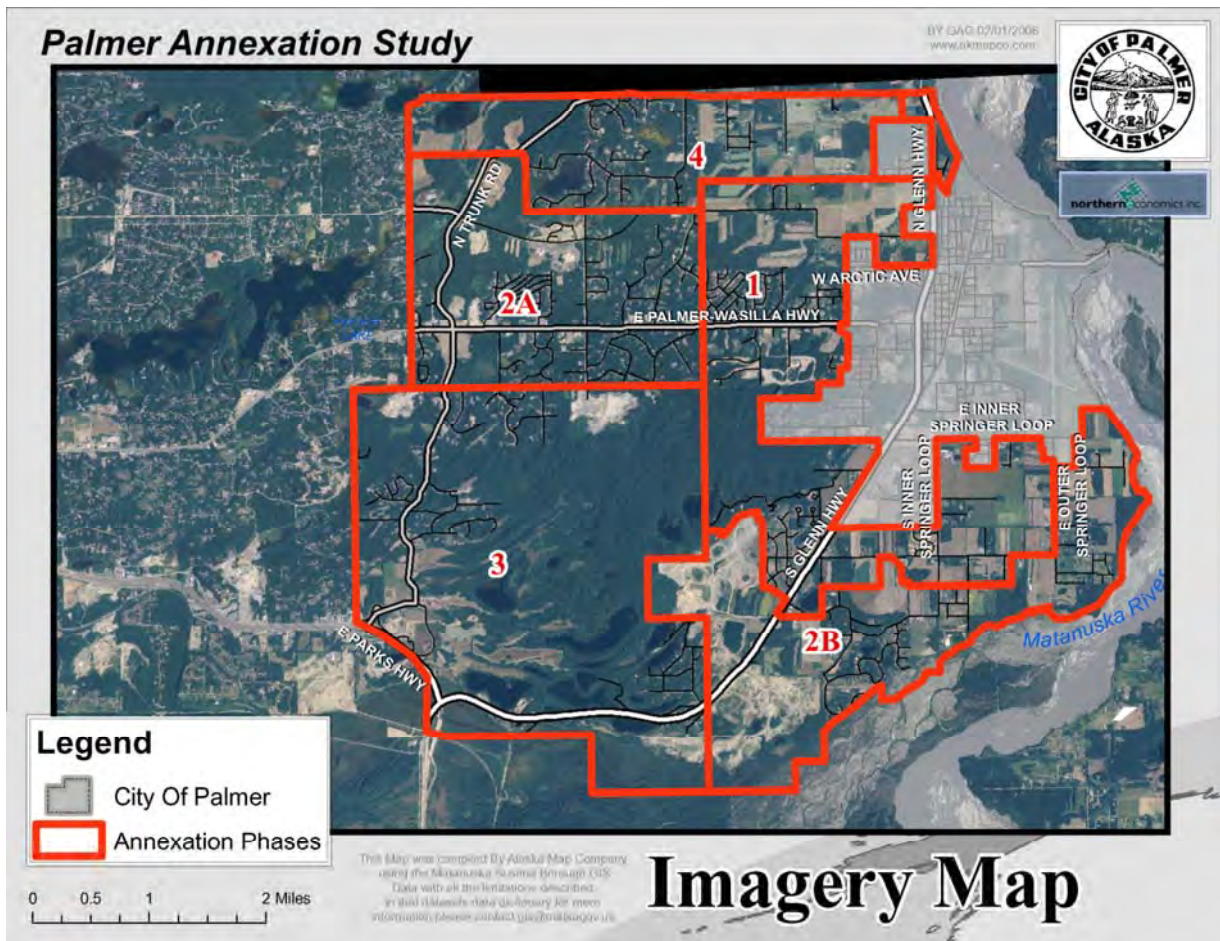
3 Analysis of Fiscal Effects and Local Boundary Commission Requirements

This section describes the fiscal analysis conducted to project revenues and costs for each phase under consideration for annexation. In addition there is a brief discussion of application of LBC annexation standards for each annexation phase.

3.1 Fiscal Effects Summary

Under 2005 conditions and current assumptions, the annexation of all five phases (Figure 4) discussed in this report would add approximately 5,500 persons to the City of Palmer’s populace and \$421 million dollars in taxable real property.

Figure 4. Analyzed Phases



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 under

2005 conditions and a projected -\$1.3 million dollars in 2015. Overall, if the phases were annexed together, they would generate \$0.744 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 in Phase 3) will be on the MSB tax rolls. By 2015, the amount rises to \$0.837. Thus, while the overall “deficit” rises overtime the study estimates that the deficit would shrink in percentage terms.

Table 1. Summary of Annualized Fiscal Effects by Phase⁸

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 1:

- 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

⁸ See Section 3.2.2 for a discussion of population and taxable value growth rates.

used by the Denali Borough (\$0.05/cubic yard) would likely result in the annexation of the phase having a neutral fiscal effect in the long run.

- 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 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.

3.1.1 Policy Implications of Results

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. This fact is true for Palmer as well. The model estimates reveal the additional property tax revenues are not enough to cover increased costs of services 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 a roughly 1 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.

3.2 Data and Analytical Methods

The analytical methods utilized for the fiscal effects analysis rely on historical revenue and cost data from the City of Palmer (COP) alongside estimates of taxable value per annexation phase provided by the Alaska Map Company. The Alaska Map Company derived estimates of taxable value by combining 2005 MSB assessor's office data with the annexation phase boundaries provided by the COP. Northern Economics then constructed a series of phase-specific models that compare the cost of providing services in each phase to the expected revenue that the phase would provide. Each phase-specific model provides three estimates:

- An estimate based on 2005 data showing a current comparison of the phase's service costs and revenue generated
- A "most likely" scenario, which assumes that population in the phase grows at the rates outlined in ISER's 2005 study for the Knik Arm Crossing Environmental Impact Statement (EIS) and that property valuation continues to grow at the long-term (10-year) MSB growth rate
- A "conservative" scenario, which assumes that population in the phases grow at the rates outlined in ISER's 2005 study for the Knik Arm Crossing EIS and that property valuation grows at the slowest year-over-year rate found in 10 years worth of MSB property valuation data

3.2.1 Individual Model Components

This section discusses the individual model components. These components include estimated cost and revenue streams driven by a population and development model. Subtracting estimated costs from estimated revenues provides the model's estimate of each phase's net fiscal effect on the City of Palmer. Table 2 provides a summary of model inputs while the section below discuss each input in detail.

Table 2. Model Cost and Revenue Factors

Category	Value	Per Capita CAGR (%)
Property Tax	3 Mills per \$1,000 in Value	N/A
Sales Tax	\$468.60 per Commercial Structure/Payor	5.2
Building Permits/Fees	\$32.74 per Capita	4.4 (Proxy)
Sales Tax from Utilities	\$49.49 per Capita	5.2 (Proxy)
Business Licenses and Fees	\$26.98 per Capita	4.9
Fines and forfeitures	\$10.61 per Capita	-0.7
Miscellaneous Revenue	\$19.87 per Capita	N/A
General Government Costs	\$103.89 per Capita	6.7
Public Safety –Police	1 New Officer at \$100,000 per 782 Calls	1.7
Public Safety–Fire	\$37.37 per Capita	-0.2
General Government Building	\$83.09 per Capita	N/A
Public Works	\$184.10 per Capita	0.9

Source: Property taxes, sales taxes, building permits/fees, sales taxes from utilities, business licenses and fees, fines and forfeitures, miscellaneous revenues, general government costs, fire protection costs, and public works not related to road maintenance are NEI estimates based on City of Palmer Annual Reports, 2000-2005. The cost of a police officer, the cost of a new government building, and the cost of road maintenance are NEI estimates based on discussions with COP or MSB staff.

3.2.1.1 Demographics

The demographics group includes items such as population, residential and commercial units, roads, and total taxable value. While the roads category is static the rest of the categories are driven by population growth as estimated by ISER’s 2005 work for the Knik Arm Crossing.

Population

Current population estimates for the City of Palmer come from the Alaska Department of Community and Economic Development (DCCED) while current estimates of the population for each phase come from U.S. Census data adjusted by DECD-provided growth rates. The model bases future population growth on ISER’s “base case” population projections conducted for the Knik Arm Crossing EIS. This analysis is the most up-to-date projection of future Borough growth rates. In this case, the model for this analysis uses the average of the “with bridge” and “without bridge” scenario growth rates as a middle-road estimate of future growth rates. These rates and the average are shown in Table 3. In most years, the rates are relatively close to one another. One key simplifying assumption within the model is that growth rates are the same across all phases. This assumption was made in the absence of phase-specific estimates of population growth.

Table 3. ISER Population Growth Estimates for the Mat-Su Borough

Year	Without Knik Arm Crossing (%)	With Knik Arm Crossing (%)	Average (%)
2006	3.1	3.1	3.1
2007	4.2	4.3	4.3
2008	5.2	5.5	5.4
2009	5.2	7.5	6.3
2010	5.3	6.6	5.9
2011	5.3	5.8	5.5
2012	6.8	4.7	5.8
2013	6.5	6.1	6.3
2014	3.9	5.0	4.5
2015	2.4	3.7	3.1

Source: Goldsmith, 2005.

The study also uses 2000-2005 population growth rates for the City of Palmer estimated CAGRs for expenses and revenues on a per capita basis. For further discussions on population within the phases, please see Section 3.2.2.3.

Residential Structures

The model estimates the number of current residential structures (i.e., single-family homes, multi-family homes, and mobile homes) using property tax appraisal data from the Mat-Su Borough. The number of future structures is based on the estimated population growth in each phase divided by the number of residents per structure from the 2000 U.S. Census (i.e., 2.84 persons per structure). The distribution of new structures between housing types is determined by 2004 building permit data from the COP. Hence, new growth in the future is assumed to reflect current building trends.

Commercial Structures

The model estimates the number of current commercial structures using property tax appraisal data from the Mat-Su Borough.⁹ The model estimates the number of future commercial structures by applying the current ratio of residential and commercial structures to future residential development. This method provides an estimate of the number of commercial structures future populations will demand.

Total Structures

The number of total structures is simply commercial structures plus residential structures.

Total Taxable Value

The model estimates the total property tax based in each phase based on 2005 appraisal data from the Mat-Su Borough. The model estimates future growth between 2000 and 2015 in the tax base of each phase using the compound annual growth rate of assessed values in the MSB between 1995 and 2005. This rate is 10.0 percent per year (see Section 3.2.2.4).

⁹ Interviews with COP officials indicate that the number of commercial structures within the MSB is increasing relative to the number of residential structures within the MSB. The estimate used in this model is static as the empirical data are unavailable to allow for a changing ratio over time.

3.2.1.2 Revenues

The revenues group reflects the primary sources of revenues received by the City of Palmer. This analysis does not account for sources of revenue that are unlikely to be affected by annexation, such as federal grants. Instead it focuses on revenue sources that form the core of the city's revenue streams and that are directly within the city's power to control. These revenue streams include sales taxes, real property taxes, investments, building fines and fees, miscellaneous revenues, and investments.

Property Taxes

The estimated amount of property tax revenues in both 2005 and 2015 is determined by multiplying the current COP mil rate of 3.0 mils per \$1,000 in valuation against the estimated assessed value of real property in each phase. The model assumes that the mil rate stays constant in the future.

Sales Taxes

The model estimates that each current and future commercial structure contains one sales tax payor and that the sales tax payor pays the city the median sales tax amount paid by all payors in 2005 (i.e., \$468.60 per payor). Over the past six years, the City of Palmer has been collecting more sales taxes per citizen each year. This estimated future amount paid by commercial business is adjusted upwards using the compound annual growth rate of payments per citizen. This amount rose 4.3 percent annually on a per capita basis between 2000 and 2005 (see Section 3.2.2).

Utilities Sales Tax Revenues

If the city annexes unincorporated areas, then the city can tax utility services in those areas as it does within the current city limits. In 2005, the city collected roughly \$49 per person in utilities sales taxes. The model assumes the same compound annual growth rate as seen for regular sales taxes (i.e. 4.3 percent) (see Section 3.2.2).

Business Licenses and Permits

The City of Palmer collected approximately \$27 per person in business licenses and permits in 2005. The model estimates current and future license and permit-related revenue by multiplying this amount by the estimated population of each phase. Between 2000 and 2005, total revenue grew at 5.6 percent per annum per capita and this growth rate is assumed to continue into the future (see Section 3.2.2).

Building Permits/Fees

In 2005, the City of Palmer collected approximately \$32 per person in building permits and fees. The model estimates current and future building permits and fees-related revenue by multiplying this amount by the estimated population of each phase. Given that the model only has 2004 and 2005 data to work with in this category, the future growth rate of these fees is assumed to be equal to the compound annual growth rate in all government revenues per capita between 2000 and 2005 (i.e., 3.6 percent per annum) (see Section 3.2.2).

Fines and forfeitures

In 2005, the City of Palmer collected approximately \$10.61 per person in fines and forfeitures. The model estimates current and future fines and forfeitures by multiplying this amount by the estimated population of each phase. The future growth rate of these revenues per capita is assumed to be equal

to the compound annual growth rate seen in the category between 2000 and 2005 (i.e., -0.7 percent per annum) (see Section 3.2.2).

Miscellaneous Revenue

In 2005, the City of Palmer collected approximately \$19.87 per person in miscellaneous revenues. The model estimates current and future miscellaneous revenues by multiplying this amount by the estimated population of each phase. This revenue category has been in decline in recent years and is highly variable from year to year, so the model assumes no future per capita growth in this category (see Section 3.2.2). Miscellaneous revenues include investments earnings, interest on special assessments, insurance dividends, property and equipment sales, other receipts, and payments in lieu of taxes as defined in COP annual reports.

Total Revenue

Total revenue is merely the sum of all revenue categories.

3.2.1.3 Costs

The costs group reflects the primary costs received by the City of Palmer. This group does not include what would normally be one important cost center for most municipalities: water/sewer services. The water/sewer services are operated as a separate enterprise fund. Thus, related water and sewer costs and revenues do not intersect with the city's revenue and cost streams.

General Government

General government services cost the City of Palmer \$103.69 per person in 2005. Since 2000, these costs have grown at 5.5 percent per year (see Section 3.2.2.2). The model estimates costs of providing these services to the phases by multiplying the estimated population in the phase by the per capita cost and adjusting for increasing costs over time. This category includes costs associated with general administration, the mayor and city council, the community center, legal fees, elections, and planning and zoning.

Public Safety (Police)

Projecting the cost of police services requires a different methodology. The model assumes that the city will continue staffing the COP police force under annexation at the same level as it currently staffs the department. The current population in Palmer is generating 1.31 calls per person per year and Palmer has one officer for each 782 calls per year. Each officer costs on average \$100,000 in equipment, pay, and benefits. Police costs are rising at roughly 1.4 percent per year adjusted on a per capita basis (see Section 3.2.2.2). The model does not add a new building, sub-stations, or support personnel except as discussed below.

Public Safety (Fire)

The COP fire department provides fire service coverage within the City of Palmer and within the Greater Palmer Fire Service District; half of the City's fire service costs are paid by the MSB's 0.7 mil Greater Palmer Fire Service Area tax. As the City annexes territory, the split of costs between the city and borough for city and fire district costs will likely change. The model assumes that any additional fire protection costs incurred by the city as a result of the city annexing areas of the Greater Palmer Fire Service Area into the city will be city expenses, with an equivalent reduction in borough payments to the city for fire service area costs. At present, it costs the COP roughly \$37 per person to

provide fire services. This amount has been relatively stable over the past six years with a CAGR of -0.2 percent. The model reflects this growth rate. The model does not include any capital costs. This assumption could be substantial given the cost of constructing new facilities.

Public Building Repayment

The study assumes that the COP will build a government building to house COP municipal functions. The cost of the building is estimated at just over \$5 million and that it would take roughly \$450,000 per year to pay the cost of the building back in 20 years at 6.5 percent. The model uses a simplifying assumption that the building is paid for through a bond and that GPFSAs residents repay that bond. Costs stay constant over the 10-year repayment period.

Public Works

The model includes public works items as collected from COP annual reports. In 2005 the COP spent approximately \$184.1 on public works. This amount includes work on road maintenance, street lighting, state highway maintenance, and motor vehicle maintenance. Between 2000 and 2005 this amount grew at a per capita adjusted, annualized rate of 0.9 per year. The model carries this growth rate forward (see Section 3.2.2.2)

Total Cost

Total costs are the sum of all other costs discussed above.

3.2.2 Historical Data

The following sections discuss the historical data and external analysis that Northern Economics used to derive model inputs.

3.2.2.1 Historical Revenues, 2000-2005

Amounts and compound annual growth rates (CAGR) for the COP's major revenue sources from 2000 to 2005 are shown in Table 4, by revenue category. The figures come from audited COP annual reports. Overall per capita revenues are increasing at an annualized rate of 4.4 percent per annum. However, revenue growth has been unequal across all categories. Overall, tax revenues increased at 6.7 percent per annum. This increase is led by real and personal property taxes which have grown the fastest at 12.3 percent per annum. The current rapid increase in existing property values and new construction are driving this increase as the tax rate has stayed the same across the entire sample period. This construction boom is also driving building permit fees as a rapidly increasing revenue source. Sales tax revenues increased at roughly 5.2 percent per annum with a large increase coming in 2004 with the opening of the new "big box" store.

Table 4. City of Palmer Revenues and Compound Annual Growth Rate, 2000-2005

Revenue	2000	2001	2002	2003	2004	2005	Per Capita CAGR (%)
Sales Tax	\$2,464,268	\$2,760,798	\$2,914,417	\$3,066,089	\$3,640,723	\$3,829,233	5.2
Real, personal property taxes	\$552,329	\$583,931	\$625,633	\$622,879	\$768,988	\$1,172,506	12.3
Business Licenses and Permits	\$104,943	\$169,077	\$160,868	\$173,561	\$137,641	\$145,368	4.9
Fines and forfeitures	\$48,918	\$53,201	\$29,687	\$35,534	\$45,234	\$57,115	-0.7
Miscellaneous Revenue	\$283,328	\$249,575	\$169,385	\$185,744	\$60,309	\$107,003	-21.7
All Taxes	\$3,016,597	\$3,344,729	\$3,540,050	\$3,688,968	\$4,409,711	\$5,001,739	6.7
Non-Tax Revenues ¹⁰	\$1,949,059	\$2,016,885	\$1,901,243	\$1,867,952	\$1,602,927	\$2,429,631	0.2
Total Revenue	\$4,965,656	\$5,361,614	\$5,441,293	\$5,556,920	\$6,012,638	\$7,431,370	4.4

Source: City of Palmer Annual Reports. Note: CAGR is compound annual growth rate.

While most revenue sources are increasing, miscellaneous revenues have fallen at an annual rate of 15 percent. However, 2005 investment revenues were up over 2004 revenues. The model assumes that the historical CAGRs for major revenue sources are representative of future cost increases.

3.2.2.2 Historical Costs, 2000-2005

Per capita costs have risen slightly faster than revenues with the COP. Between 2000 and 2005, all expenditures by city government rose at 6.7 percent per annum. The category of general government grew at the same rate. Public works expenditures increased by 0.9 percent per capita per annum, while the public safety categories grew at between -0.3 percent per annum and 1.7 percent per annum. These CAGRs are included in the model and play a major role in the model's results.

Table 5. City of Palmer Costs and Compound Annual Growth Rate, 2000-2005

Costs	2000	2001	2002	2003	2004	2005	Per Capita CAGR (%)
General Government	\$604,960	\$602,135	\$631,294	\$640,758	\$850,111	\$1,006,175	6.7
Public Safety - Police	\$1,755,879	\$1,774,433	\$1,783,184	\$1,948,392	\$2,158,773	\$2,315,656	1.7
Public Safety - Fire	\$344,575	\$294,685	\$354,186	\$371,120	\$381,424	\$413,085	-0.3
Public Works General	\$782,100	\$866,756	\$796,502	\$975,748	\$1,136,190	\$991,212	0.9
Transfers Out and Other Expenditures ¹¹	\$513,658	\$540,114	\$623,499	\$614,718	\$675,283	\$1,989,883	27.2
Total Expenditures	\$4,001,172	\$4,078,123	\$4,188,665	\$4,550,736	\$5,201,781	\$6,716,011	6.7

Source: City of Palmer Annual Reports

Note: CAGR is compound annual growth rate.

¹⁰ Non-tax revenues such as grants are not tied to population and are not included in the model.

¹¹ Transfers out represent monies transferred out of the general fund to other budget areas, normally one-time expenses. In recent years, the transfers out have largely been to the capital budget. It is difficult to tie these one-time expenditures directly to population. Thus, the model does not include them. That said, this assumption could result in the underestimation of overall costs if annexation required significant capital expenditures not covered by other sources (e.g., federal, state, etc.).

3.2.2.3 Population Growth

Population by phase plays a critical role in this analysis as the amount and cost of services provided by a municipality are very often driven by population. More citizens mean more police officers and fire safety personnel as well as more municipal employees to serve their needs. The model uses a growth rate derived from the average rates published for the base case “with bridge” and “without bridge” scenarios in ISER’s 2005 analysis for the Knik Arm Crossing EIS. These estimated growth rates ranged from 3.1 percent in 2006 and 2015 to 6.3 percent in 2009 and 2013. For more information on ISER’s model please see Goldsmith, 2005.

Table 6. Project Population Growth per Phase, 2005-2015

Year	Growth Rate (%)	Current City of Palmer	Phase 1	Phase 2A	Phase 2B	Phase 3	Phase 4
2005	Base Year	5,382	1382	1235	789	1446	817
2006	3.1	5,514	1425	1273	813	1491	842
2007	4.3	5,748	1485	1327	848	1554	878
2008	5.4	6,056	1565	1398	893	1637	925
2009	6.3	6,440	1664	1487	950	1741	984
2010	5.9	6,823	1763	1576	1007	1845	1042
2011	5.5	7,202	1861	1663	1063	1947	1100
2012	5.8	7,616	1968	1759	1124	2059	1164
2013	6.3	8,096	2092	1870	1194	2189	1237
2014	4.5	8,456	2185	1953	1248	2286	1292
2015	3.1	8,714	2252	2012	1286	2356	1331

Source: ISER, 2005.

3.2.2.4 Real Property Tax Base Growth

The real property tax base of both the MSB and the COP grew steadily between 1995 and 2005 (see Table 7).¹² While the rate of growth for both entities varies highly from year to year, the 10-year and 5-year growth rates are remarkably similar both intra- and inter-jurisdictions. For example, the all-year CAGR for the MSB is 10.0 percent per annum while the all-year CAGR for the COP is 10.3 percent. At the same time, 2000-2005 CAGR is 10.7 percent in the MSB and 10.3 percent the COP. These results indicate that the area is experiencing remarkably consistent growth over time and that between 1995 and 2005 there wasn’t much different between the COP and MSB.

¹² This number includes the increasing value of existing real property and the values of newly constructed real properties.

Table 7. Growth in the Real Property Tax Base

Year	Mat-Su Borough		Palmer	
	Total Value (\$Millions)	Annual Growth (%)	Total Value (\$Millions)	Annual Growth (%)
1995	1,822	N/A	97.2	N/A
1996	1,967	8.0	106.6	9.7
1997	2,124	8.0	115.3	8.1
1998	2,348	10.5	130.2	13.0
1999	2,597	10.6	152.8	17.4
2000	2,832	9.1	159.4	4.3
2001	3,023	6.7	168.9	6.0
2002	3,248	7.4	174.7	3.4
2003	3,575	10.1	186.5	6.7
2004	4,159	16.3	245.2	31.5
2005	5,200	25.0	286.6	16.9
CAGR (All Years)		10.0		10.3
CAGR (2000-2005)		10.7		10.3
Worst Year		6.7		3.4

Source: Van Sant, 2006.

This analysis uses the all-year CAGR for the MSB as the expected growth rate for the tax base within each phase. Given the long-term stability of the growth rate in the past, the study team believes that it is reasonable to assume that the next 10 years will be somewhat similar to the past 10 years. While the local property market is experiencing the slowing effects of a rising interest rate environment, the MSB and COP are also benefiting from high property values in Anchorage and the expectation that the Knik Arm Crossing will be built in the future. In addition, the analysis has also provided a conservative scenario based on the worst year growth rate in the MSB. This conservative scenario assumes that value of the property tax base grows only at 6.7 percent per year over the next 10 years.

3.3 Projected Fiscal Effects by Phase

This section describes the anticipated fiscal effects by phase.

The results of this analysis can be interpreted in several ways. First, the results of the analysis can show whether it is likely that annexing a given phase would result in positive or negative fiscal implication for the city. However, while the model used in this analysis is complex, it is also sensitive to the underlying assumptions used in it. The fact that the model is based upon assumptions and estimated changes over time means that the model also contains an amount of uncertainty. Thus, the study team counsels against interpreting the monetary figures listed below as exact. Additionally, when estimated revenues and costs are close to one another, the results should be interpreted as “more likely” to result in positive or negative fiscal effect. For example, say a phase was estimated to cost the COP \$5,000 more per year in 2005 than it was estimated to bring into the city in revenue. This amount would certainly be within the model’s error range. Thus, it would be more correct to say that the phase was more likely to result in higher costs than revenues than it would be to say that the phase would definitely result in \$5,000 per year in losses.

Second, the results of this model may be used to estimate how changes in public policy could affect the fiscal effect of annexing specific phases. For example, the analysis estimates that all the Phases in aggregate would have had a net fiscal effect of roughly -\$613,000 in 2005 using the current property tax mill rate. However, an increase in the property tax rate in the entire COP from 3 mills to 4 mills moves the phase from a strong likelihood of a negative fiscal effect to a strong likelihood of a positive fiscal effect. The non-property tax equivalent would be if one to three, medium to large, big box stores opened in the area and generated real, personal, and sales tax increases as seen when a new large commercial store opened. Thus, the model can help the client see what sort of fiscal policy changes might be necessary to annex the phase at no net loss to the COP. This question is both one of public policy and economics, because certain phases might be desirable enough to annex even if they wouldn't pay for themselves.

3.3.1 All Phases Combined

The analysis estimates that under 2005 conditions, annexing all of the phases included in the analysis would add roughly 5,500 citizens to the city's population base and \$450 million in taxable value. Overall, the annexation would add \$2.4 million in revenue and \$3.2 million in costs for a net fiscal effect of -\$808,000 under 2005 conditions. By 2015, the area's population would grow to roughly 9,100 persons (3,600 more than in 2005) with a real and personal property tax base of between \$1 and \$1.4 billion. Revenue would grow to between \$5.5 and \$6.6 million while costs would grow to roughly \$7.8 million for net fiscal effect of between -\$1.2 and -\$2.3 million per annum depending on the growth in real property values.

Table 8. Summary Project Fiscal Effects in All Phases

Estimation Category	2005	2015 Most Likely	2015 Conservative
Demographics			
Population	5,529	9,142	9,142
Single Family	1,998	2,911	2,911
Mobile Home	58	71	71
Multi Family Units	151	497	497
Total Residential Structures	2,207	3,479	3,479
Total Commercial Structures	257	658	658
Total Structures	2,464	4,138	4,138
Total Taxable Value	450,457,000	1,364,175,000	1,013,482,000
Revenues			
Property Tax	\$1,352,000	\$4,093,000	\$3,040,000
Sales Tax	\$245,000	\$609,000	\$609,000
Business Licenses and Fees	\$148,000	\$369,000	\$369,000
Building Permits/Fees	\$180,000	\$462,000	\$462,000
Fines and forfeitures	\$59,000	\$97,000	\$97,000
Miscellaneous Revenues	\$110,000	\$182,000	\$182,000
Utilities Sales Tax	\$272,000	\$750,000	\$750,000
Total Revenue	\$2,368,000	\$6,563,000	\$5,509,000
Costs			
General Government	\$573,000	\$1,819,000	\$1,819,000
Public Safety-Police	\$924,000	\$1,812,000	\$1,812,000
Public Safety-Fire	\$207,000	\$332,000	\$332,000
Public Safety Building Repayment	\$460,000	\$460,000	\$460,000
Public Works	\$1,016,000	\$3,420,000	\$3,420,000
Total Costs	\$3,181,000	\$7,841,000	\$7,841,000
Revenue/Cost Comparison			
Estimated Annual Benefit/Cost	-\$813,000	-\$1,278,000	-\$2,332,000

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

The combination of all of the phases creates an area with a population of roughly 5,500 persons. This number is very close to the estimated population of the current COP. At the same time, the annexation would add \$450 million dollars in taxable value which is more than the COP's 2005 tax base. However, the annexation is unlikely to pay for itself. The reason that it is unlikely to pay for itself is that the COP is highly dependent on sales tax revenue relative to other revenue sources. In 2005, sales tax revenues accounted for 51 percent of all COP revenues, while property taxes accounted for 15 percent of all revenues. Thus, the current COP generates \$3.40 in sales tax revenues for every dollar of property tax revenues. The annexed phases are unlikely to generate the same level of sales tax revenues as the current COP, which contains the core shopping assets for the area under consideration. In fact, many of the residents of the annexation phases are likely shopping in the COP already. The model estimates that the annexation phases in aggregate would capture \$0.33 in general sales tax and utility sales tax revenue for every dollar of property tax revenues.

Palmer's sales tax revenues are dominated by relatively few large payors. In 2005, the top ten percent of payors (i.e. more than 50 payors) generated 83 percent of all sales tax revenues. Thus, while the

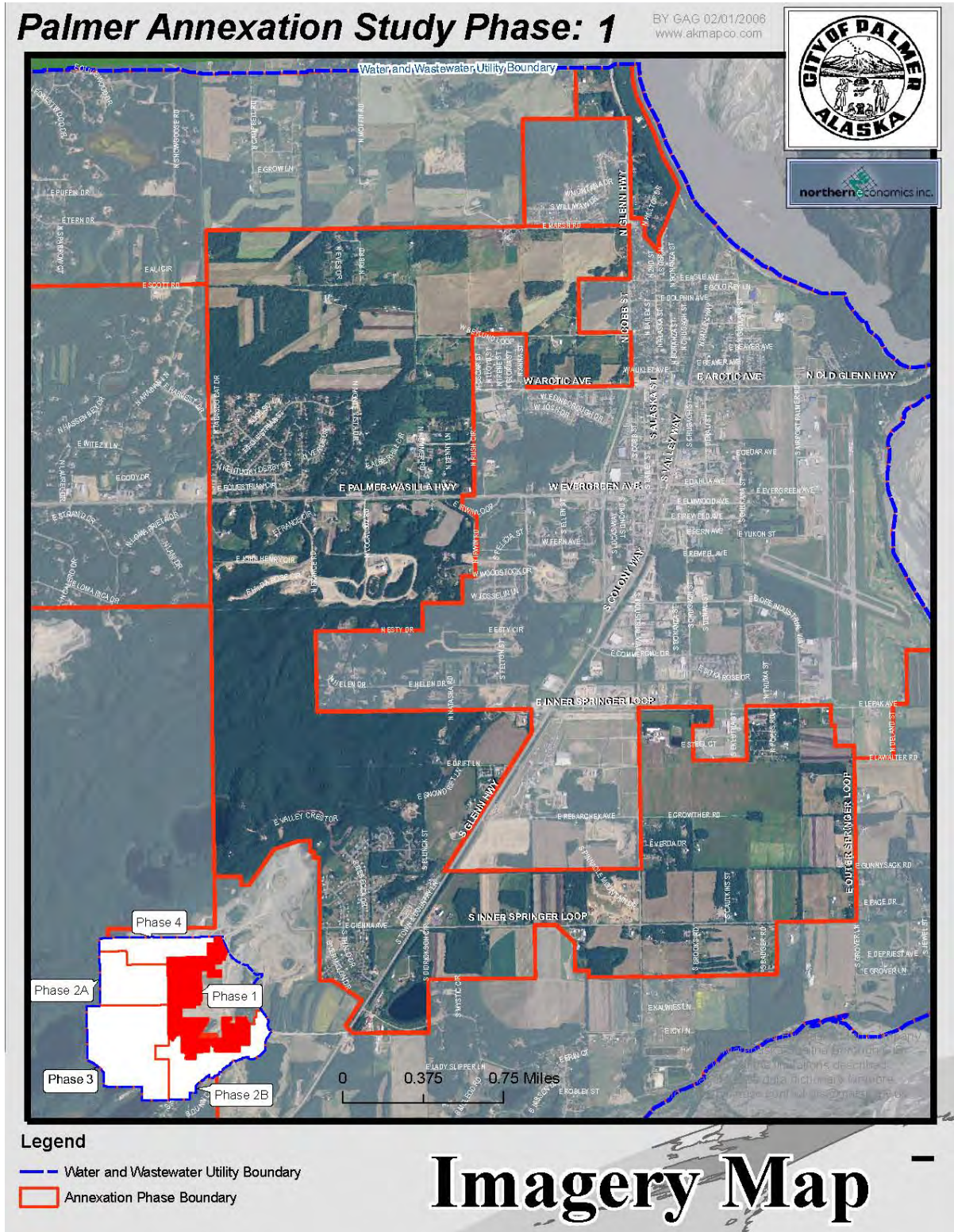
“average” payor generates more than \$7,000 in revenue for the COP each year, the median payor generates only \$468 in revenue each year. It is accepted best practice in economic modeling to use the median value when the average and median differ by a large amount. Thus, this model uses the median. If the model used the average, then the revenue generated by all of the annexation phases would outstrip costs by more than \$1.6 million per year. However, it would be unreasonable to use the average figure in this case given that development in the annexation areas is largely residential and not “big-box” commercial. The model is highly sensitive to the current assumption that development in the annexation phases will be largely residential and smaller commercial ventures. The construction of one or several “big-box” stores within the annexation areas would radically change the amount of sales tax generated and likely eliminate any negative fiscal effects associated with annexation. Thus, if no “big box” stores are built in the annexation areas, the long-term fiscal effects would likely be negative and require higher property or sales tax rates to support local services. If a big box store or two is built in the annexed areas then the fiscal effects would likely be positive for the COP.

The COP finds itself in the similar situation to that experienced by many cities before it. Residential development rarely pays for the services required to support the growing populace, while commercial and industrial development generate more revenue than they demand in direct services. Thus, development is a balancing act between the social fiber provided by a residential development and generating revenues from commercial and industrial development to support the services demanded by that populace.

3.3.2 Phase 1

Phase 1 encompasses the currently incorporated area of the COP and borders the city on its northern, western, and southern edges excepting the area of the East Outer Springer Loop. Figure 5 depicts the Phase 1 annexation study area.

Figure 5. Phase 1 Palmer Annexation Study Area



Source: Alaska Map Company, 2006

Phase 1 is also the most fiscally viable phase analyzed in this project. The analysis estimates that based on 2005 data, annexing the phase would add roughly 1,400 citizens to the city's population base and \$150 million in taxable value. Overall, the annexation would add \$0.7 million in revenue and \$0.8 million in costs for a net fiscal effect of -\$91,000 under 2005 conditions. By 2015 the area's population would grow to roughly 2,250 persons with a real and personal property tax base of between \$288 million and \$389 million. Revenue would grow to between \$1.5 and \$1.8 million while costs would grow to roughly \$2.1 million for net fiscal effect of between -\$0.6 million and \$0.3 million per annum.

Table 9. Project Fiscal Effects in Phase 1

Estimation Category	2005	2015 Most Likely	2015 Conservative
Demographics			
Population	1,382	2,252	2,252
Single Family	731	951	951
Mobile Home	36	39	39
Multi Family Units	58	141	141
Total Residential Structures	825	1,131	1,131
Total Commercial Structures	96	132	132
Total Structures	921	1,263	1,263
Total Taxable Value	150,040,000	389,392,000	288,029,000
Revenues			
Property Tax	\$450,000	\$1,168,000	\$864,000
Sales Tax	\$61,000	\$150,000	\$150,000
Business Licenses and Fees	\$37,000	\$91,000	\$91,000
Building Permits/Fees	\$45,000	\$114,000	\$114,000
Fines and forfeitures	\$15,000	\$24,000	\$24,000
Miscellaneous Revenues	\$27,000	\$45,000	\$45,000
Utilities Sales Tax	\$68,000	\$185,000	\$185,000
Total Revenue	\$704,000	\$1,777,000	\$1,472,000
Costs			
General Government	\$143,000	\$448,000	\$448,000
Public Safety-Police	\$231,000	\$446,000	\$446,000
Public Safety-Fire	\$52,000	\$82,000	\$82,000
Public Safety Building Repayment	\$115,000	\$115,000	\$115,000
Public Works	\$254,000	\$987,000	\$987,000
Total Costs	\$795,000	\$2,078,000	\$2,078,000
Revenue/Cost Comparison			
Estimated Annual Benefit/Cost	-\$91,000	-\$301,000	-\$605,000

Source: Northern Economics, Inc. estimates 2006.

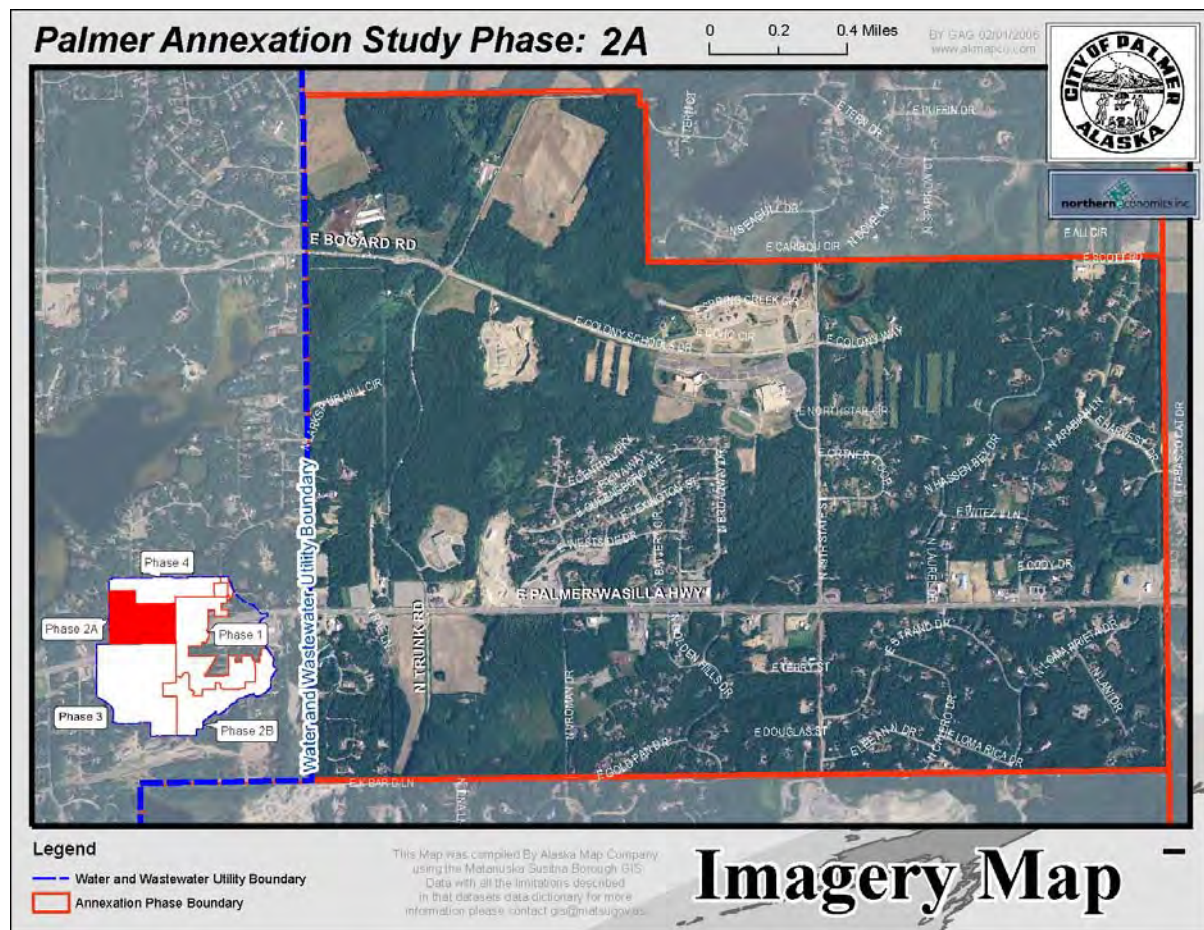
The analysis results indicate that under 2005 conditions, Phase 1 is likely to result in relatively neutral or slightly negative fiscal effects for the COP. In the long run, these effects would become moderately negative under the "most likely" growth scenario, but would be more negative under the conservative growth scenario. Better than expected growth in taxable values or better than expected growth in sales tax revenues would likely result in a neutral or positive set of fiscal effects. Even the inclusion of

slightly more commercial sales tax revenue or more industrial property tax revenue would likely make the annexation of this phase a net positive for the COP on a fiscal level. Additionally, the phase's proximity to the center of the COP makes this type of commercial development more likely. In summary, Phase 1 is the least fiscally risky of all of the phases under consideration.

3.3.3 Phase 2A

Phase 2A is bisected by the Palmer-Wasilla Highway and extends from the western edge of phase 1 to just west of North Trunk Road. Figure 6 depicts annexation analysis area Phase 2A.

Figure 6. Phase 2A Annexation Analysis Area



Source: Alaska Map Company, 2006

Annexation of the phase would likely have neutral to slightly negative effects in the near-term with the potential of larger negative effects in the longer-term. While the “most likely” scenario predicts largely neutral to slightly positive effects, the conservative scenario predicts slightly negative effects. The analysis estimates that based on 2005 data, annexing the phase would add roughly 1,200 citizens to the city’s population base and \$121 million in taxable value. Overall, the annexation would add \$0.59 million in revenue and \$0.7 million in costs for a net fiscal effect of -\$112,000 under 2005 conditions. The analysis estimate that by 2015 the area’s population would grow to roughly 2,000 persons with a real and personal property tax base of between \$233 million and \$315 million.

Revenue would grow to between \$1.24 and \$1.49 million, while costs would grow to roughly \$1.69 million for net fiscal effect of between -\$0.45 million and \$0.2 million per annum.

Table 10. Project Fiscal Effects in Phase 2A

Estimation Category	2005	2015 Most Likely	2015 Conservative
Demographics			
Population	1,235	2,012	2,012
Single Family	457	654	654
Mobile Home	2	5	5
Multi Family Units	33	107	107
Total Residential Structures	492	766	766
Total Commercial Structures	57	132	132
Total Structures	549	897	897
Total Taxable Value	121,270,000	314,728,000	232,800,000
Revenues			
Property Tax	\$364,000	\$944,000	\$698,000
Sales Tax	\$55,000	\$134,000	\$134,000
Business Licenses and Fees	\$33,000	\$81,000	\$81,000
Building Permits/Fees	\$40,000	\$102,000	\$102,000
Fines and forfeitures	\$13,000	\$21,000	\$21,000
Miscellaneous Revenues	\$25,000	\$40,000	\$40,000
Utilities Sales Tax	\$61,000	\$165,000	\$165,000
Total Revenue	\$591,000	\$1,488,000	\$1,242,000
Costs			
General Government	\$128,000	\$400,000	\$400,000
Public Safety-Police	\$206,000	\$399,000	\$399,000
Public Safety-Fire	\$46,000	\$73,000	\$73,000
Public Safety Building Repayment	\$103,000	\$103,000	\$103,000
Public Works	\$227,000	\$711,000	\$711,000
Total Costs	\$711,000	\$1,685,000	\$1,685,000
Revenue/Cost Comparison			
Estimated Annual Benefit/Cost	-\$120,000	-\$197,000	-\$443,000

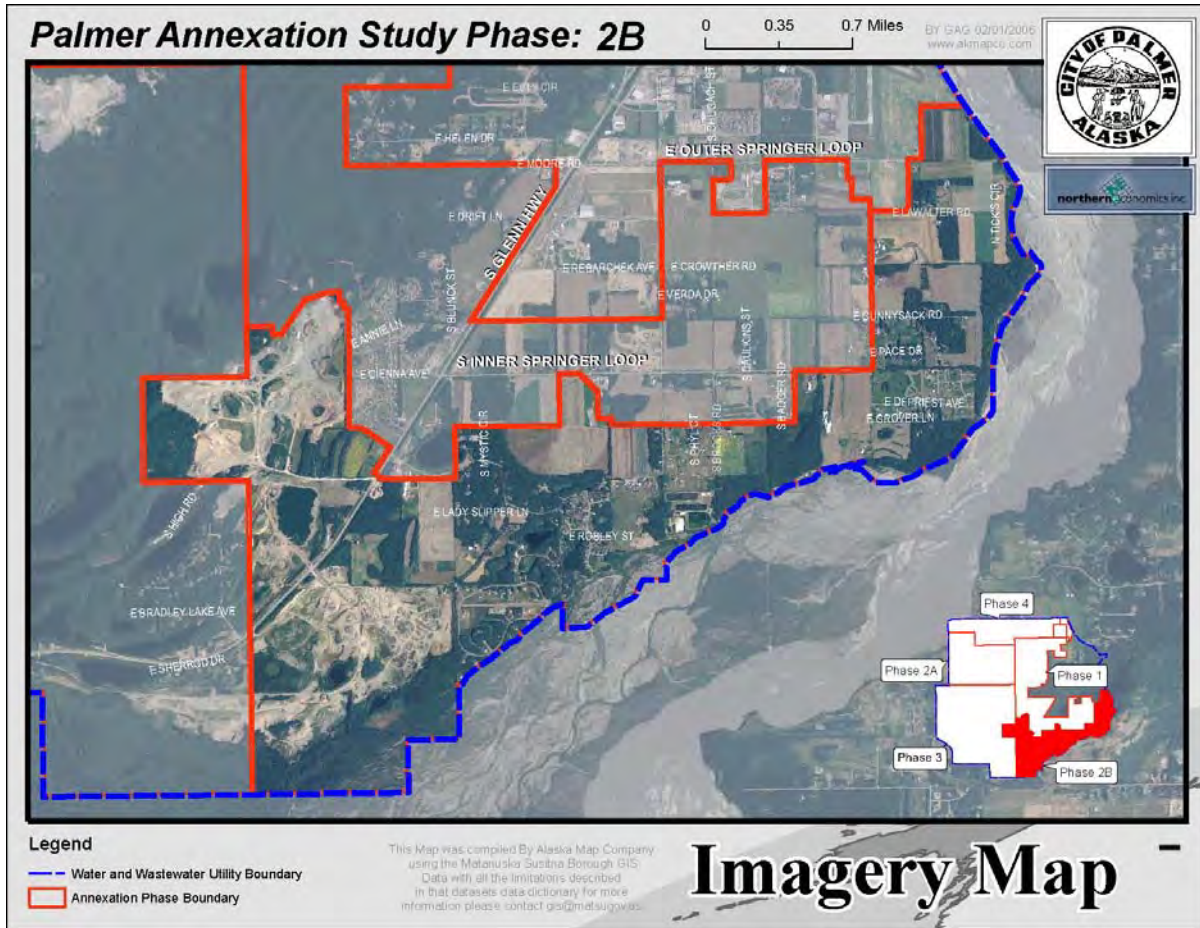
Source: Northern Economics, Inc. estimates 2006.

The analysis results indicate that under 2005 conditions, Phase 2A annexation is more likely to have slightly negative fiscal effects for the COP than Phase 1, but in the long run, the “most likely” scenario predicts slightly less negative effects than in Phase 1. The conservative scenario indicates that moderately negative fiscal effects are possible. The phase’s position on the Palmer-Wasilla highway could result in better than expected growth in taxable values or better than expected growth in sales tax revenues, which would then result in a more neutral outlook for fiscal effects. The project fiscal effect under the “most likely” scenario is roughly equivalent to the sales tax payments made by the COP’s third largest payor.

3.3.4 Phase 2B

Phase 2B sits south of Phase 1 and east of Phase 3 and includes the East Outer Springer Loop Area. Figure 7 depicts the annexation analysis area Phase 2B.

Figure 7. Phase 2B Annexation Analysis Area



Source: Alaska Map Company, 2006

Annexation of the phase would likely have slightly negative effects in the near term with an increasing likelihood of moderately larger negative effects in the longer term. The analysis estimates that based on 2005 data, annexing this phase would add roughly 650 citizens to the city's population and \$52 million in taxable property to the tax base. Overall, the annexation would add \$0.28 million in revenue and \$0.37 million in costs for a net fiscal effect of -\$9,000 under 2005 conditions. The analysis estimates that by 2015, the area's population would grow to roughly 1,200 persons with a real and personal property tax base of between \$100 million and \$136 million. Revenue would grow to between \$0.62 and \$0.73 million, while costs would grow to roughly \$0.99 million for net fiscal effect of between -\$0.27 million and -\$0.26million per annum.

Table 11. Project Fiscal Effects in Phase 2B

Estimation Category	2005	2015 Most Likely	2015 Conservative
Demographics			
Population	649	1,190	1,190
Single Family	248	385	385
Mobile Home	9	11	11
Multi Family Units	10	62	62
Total Residential Structures	267	457	457
Total Commercial Structures	31	132	132
Total Structures	298	589	589
Total Taxable Value	52,224,000	135,534,000	100,253,000
Revenues			
Property Tax	\$157,000	\$407,000	\$301,000
Sales Tax	\$29,000	\$79,000	\$79,000
Business Licenses and Fees	\$17,000	\$48,000	\$48,000
Building Permits/Fees	\$21,000	\$60,000	\$60,000
Fines and forfeitures	\$7,000	\$13,000	\$13,000
Miscellaneous Revenues	\$13,000	\$24,000	\$24,000
Utilities Sales Tax	\$32,000	\$98,000	\$98,000
Total Revenue	\$276,000	\$728,000	\$622,000
Costs			
General Government	\$67,000	\$237,000	\$237,000
Public Safety-Police	\$108,000	\$236,000	\$236,000
Public Safety-Fire	\$24,000	\$43,000	\$43,000
Public Safety Building Repayment	\$54,000	\$54,000	\$54,000
Public Works	\$119,000	\$420,000	\$420,000
Total Costs	\$373,000	\$990,000	\$990,000
Revenue/Cost Comparison			
Estimated Annual Benefit/Cost	-\$98,000	-\$262,000	-\$368,000

Source: Northern Economics, Inc. estimates 2006.

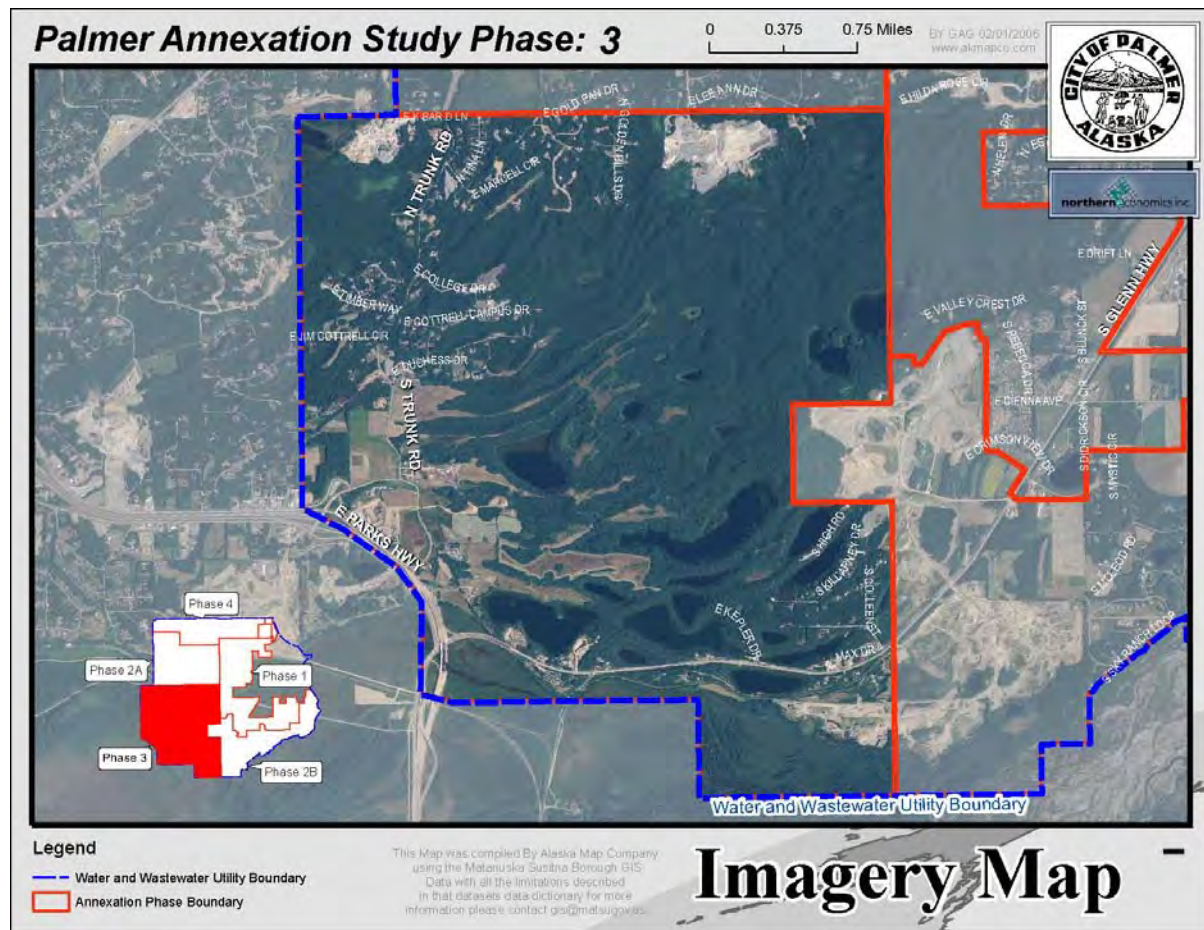
The annexation of Phase 2B, under 2005 conditions, would likely result in slightly negative fiscal effects for the COP, which would have to be balanced through cutting services or increasing revenue. These negative effects would likely strengthen in the future. While revenues could be raised through a general increase in sales or property taxes, the COP could also raise revenue by enacting a severance tax on gravel resources within the COP. Gravel pits within Phase 2B are currently the primary source of gravel for both the MSB and the Municipality of Anchorage. In October 2005, the MSB put before the voters a severance tax of \$0.25 per cubic yard of material, \$0.25 per short ton of coal, and \$2.50 per acre of timber severed from property within the borough. The proposed tax was defeated by voters by a count of 4,457 in favor and 8,590 against. In fact, the proposal did not carry a single voting precinct. The study estimates that the proposed tax would have generated \$1 million (See Appendix A) from the gravel resources in Phase 2B. A smaller tax, one of say \$0.05 to \$0.10 per cubic yard, would generate enough revenue to negate the estimated negative fiscal effects of annexing the phase.

There are risks associated with justifying the annexation of this phase with revenues from a gravel severance tax. First, a tax would generate interest in moving gravel operations away from the taxing location and into an area with less cost. There are rail loading facilities in a well-graveled area just west of Wasilla, for example. Second, the center of the local market is expected to shift away from Anchorage and west of the current gravel deposits as population growth shifts in the same direction. Thus, the COP could find itself in the position of taxing an industry with a declining comparative advantage. The amount of displacement associated with these effects is unknown and outside of current project scope. A deeper discussion of the severance tax can be found in Appendix A.

3.3.5 Phase 3

Phase 3 contains the junction of the Parks and Glenn Highways and is roughly bordered on the south by the Glenn Highway and by Trunk Road to the west. Figure 8 depicts Annexation Analysis area Phase 3.

Figure 8. Phase 3 Annexation Analysis Area



Source: Alaska Map Company, 2006

Fiscally, this phase is highly dynamic because the phase also contains the new Mat-Su Regional Medical Center and large tracts of lands owned by the University of Alaska. In addition, much of the acreage in Phase 3 has environmental constraints (wetlands and waterbodies) in the central and

eastern sections that would reduce buildable land for higher density development. The Kepler-Bradley Lakes Recreation Area is located here. While the analysis reports that annexation of the phase would likely result in negative fiscal effects in 2005, those effects would become substantially revenue neutral in 2006 with the addition of the medical center to the tax rolls. The center's \$80 million+ taxable value more than doubles the phase's 2005 tax base. Thus, the short-term effect of annexation would likely be revenue neutral. The analysis estimates that based on 2005 data, annexing the phase would add roughly 1,446 citizens to the city's population and \$64 million in taxable property to the tax base. The taxable value would jump to \$140 million in 2006. Overall, the annexation would add \$0.46 million in revenue and \$0.83 million in costs for a net fiscal effect of -\$0.37 million under 2005 conditions. This negative net fiscal effect would fall to -\$0.04 in 2006 before increasing in the long run. The analysis estimates that by 2015 the area's population would grow to roughly 2,400 persons with a real and personal property tax base of between \$272 million and \$361 million. Revenue would grow to between \$1.5 and \$1.7 million while costs would grow to roughly \$1.97 million for net fiscal effect of between -\$0.47 million and -\$0.27 million per annum. We note that the model assumes that the medical center remains a for-profit enterprise and on the tax rolls.

Table 12. Project Fiscal Effects in Phase 3

Estimation Category	2005	2015 Most Likely	2015 Conservative
Demographics			
Population	1,446	2,356	2,356
Single Family	284	514	514
Mobile Home	6	9	9
Multi Family Units	47	134	134
Total Residential Structures	337	658	658
Total Commercial Structures	39	132	132
Total Structures	376	789	789
Total Taxable Value	63,986,000	361,183,000	271,581,000
Revenues			
Property Tax	\$192,000	\$1,084,000	\$815,000
Sales Tax	\$64,000	\$157,000	\$157,000
Business Licenses and Fees	\$39,000	\$95,000	\$95,000
Building Permits/Fees	\$47,000	\$119,000	\$119,000
Fines and forfeitures	\$15,000	\$25,000	\$25,000
Miscellaneous Revenues	\$29,000	\$47,000	\$47,000
Utilities Sales Tax	\$71,000	\$193,000	\$193,000
Total Revenue	\$458,000	\$1,720,000	\$1,451,000
Costs			
General Government	\$150,000	\$469,000	\$469,000
Public Safety-Police	\$242,000	\$467,000	\$467,000
Public Safety-Fire	\$54,000	\$86,000	\$86,000
Public Safety Building Repayment	\$120,000	\$120,000	\$120,000
Public Works	\$266,000	\$832,000	\$832,000
Total Costs	\$832,000	\$1,973,000	\$1,973,000
Revenue/Cost Comparison			
Estimated Annual Benefit/Cost	-\$374,000	-\$253,000	-\$522,000

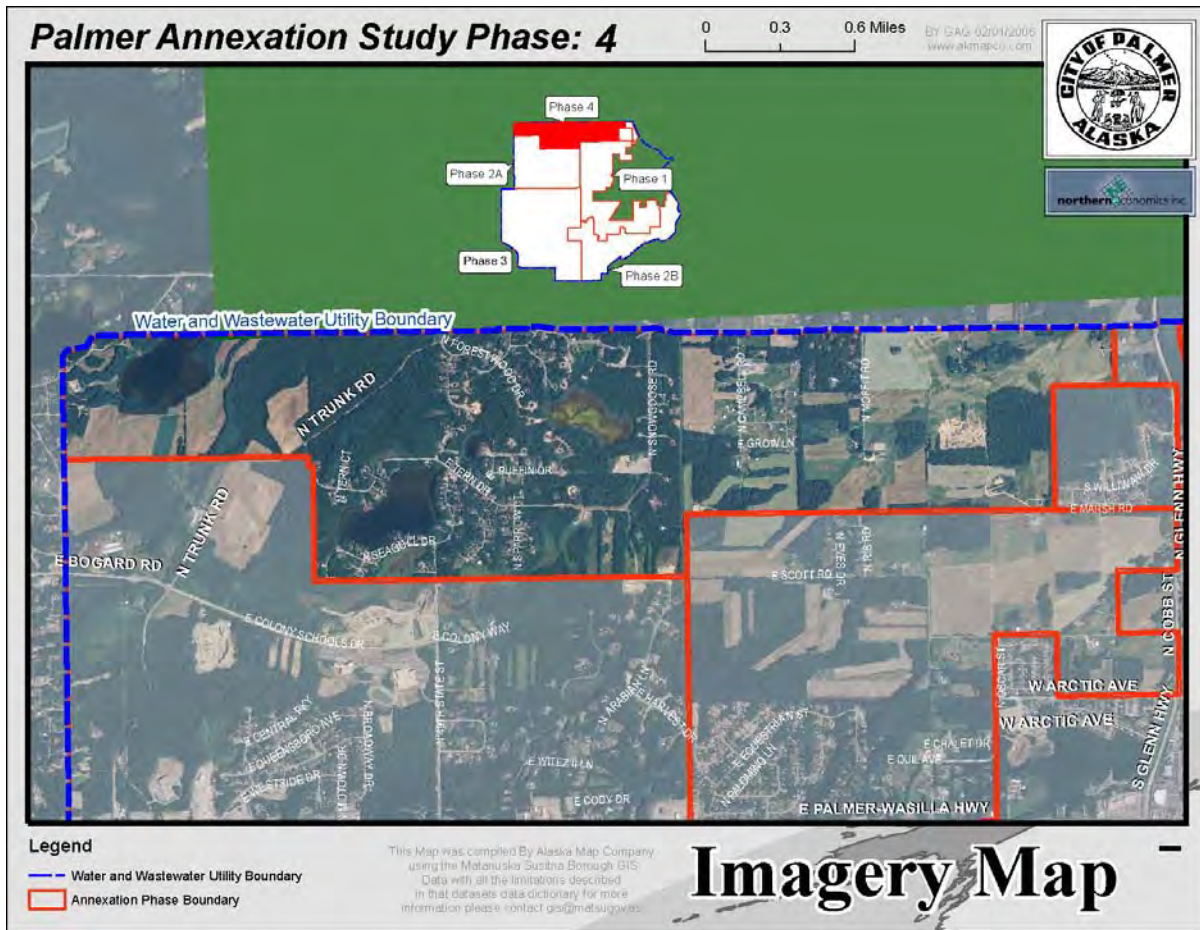
Source: Northern Economics, Inc. estimates 2006.

Annexation of Phase 3 would likely result in moderately negative fiscal effects for the City of Palmer under the 2005 assumptions. Future effects could range from slightly negative to moderately negative. The study team believes that the model's assumptions for this phase are very conservative given that the Mat-Su Regional Hospital is like to drive accelerated growth in the region 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 may be more positive than currently predicted.

3.3.6 Phase 4

Phase 4 sits north of Phase 1 and Phase 2 and includes the Palmer Fishhook Area.

Figure 9. Phase 4, Annexation Analysis Area



Source: Alaska Map Company, 2006

Annexation of the phase would likely have slightly negative effects in the near-term with an increasing likelihood of larger negative effects in the longer term. The analysis estimates that based on 2005 data, annexing the phase would add roughly 800 citizens to the city's population and \$63 million in taxable property to the tax base. Overall, the annexation would add \$0.34 million in revenue and

\$0.47 million in costs for a net fiscal effect of -\$130,000 under 2005 conditions. The analysis estimates that by 2015, the area's population would grow to roughly 1,300 persons with a real and personal property tax base of between \$121 million and \$163 million. Revenue would grow to between \$0.72 and \$0.85 million, while costs would grow to roughly \$1.12 million for net fiscal effect of between -\$0.4 million and -\$0.27 million per annum.

Table 13. Project Fiscal Effects in Phase 4

Estimation Category	2005	2015 Most Likely	2015 Conservative
Demographics			
Population	817	1,331	1,331
Single Family	278	408	408
Mobile Home	5	7	7
Multi Family Units	3	52	52
Total Residential Structures	286	467	467
Total Commercial Structures	33	132	132
Total Structures	319	599	599
Total Taxable Value	62,937,000	163,338,000	120,819,000
Revenues			
Property Tax	\$189,000	\$490,000	\$362,000
Sales Tax	\$36,000	\$89,000	\$89,000
Business Licenses and Fees	\$22,000	\$54,000	\$54,000
Building Permits/Fees	\$27,000	\$67,000	\$67,000
Fines and forfeitures	\$9,000	\$14,000	\$14,000
Miscellaneous Revenues	\$16,000	\$26,000	\$26,000
Utilities Sales Tax	\$40,000	\$109,000	\$109,000
Total Revenue	\$339,000	\$850,000	\$722,000
Costs			
General Government	\$85,000	\$265,000	\$265,000
Public Safety-Police	\$137,000	\$264,000	\$264,000
Public Safety-Fire	\$31,000	\$48,000	\$48,000
Public Safety Building Repayment	\$68,000	\$68,000	\$68,000
Public Works	\$150,000	\$470,000	\$470,000
Total Costs	\$470,000	\$1,115,000	\$1,115,000
Revenue/Cost Comparison			
Estimated Annual Benefit/Cost	-\$131,000	-\$265,000	-\$393,000

Source: Northern Economics, Inc. estimates 2006.

The results for Phase 4 are very similar to the results for Phase 2B, except that Phase 4 does not have the extensive gravel resources that could provide another revenue stream to the city. The model does not predict the fiscal effect of annexing Phase 4 would improve over time. In fact, the model shows that fiscal effects are likely to stay the same (at best) or deteriorate in the future. As with other phases that would result in a negative fiscal effect, the negative effect could be mitigated by faster than expected growth in the real property tax base or by larger than expected sales tax streams from commercial sources. However, based on the lack of information to that effect, it would seem that faster growth rates in either category would be unlikely at the moment.

