

**SUPPLEMENT C –
FISCAL ANALYSIS**

**Additional Information under Separate Cover “Woodinville
Comprehensive Plan Update Fiscal Analysis”.**

WOODINVILLE COMPREHENSIVE PLAN UPDATE

FISCAL ANALYSIS

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|---|----|
| 1. Introduction & Purpose | 1 |
| 2. Summary of Findings..... | 2 |
| 3. Relationship of Land Use and Fiscal Sustainability | 9 |
| 4. Current Fiscal Situation in Woodinville..... | 14 |
| 5. Woodinville future Land Use Alternatives | 15 |
| 6. Revenue Analysis | 17 |
| 7. Expenditure Analysis..... | 22 |

1. INTRODUCTION & PURPOSE

The City of Woodinville is updating its Comprehensive Plan for the planning period 2015-2035, and is considering three land use alternatives:

- **Alternative 1** – Current Comprehensive Plan (No Action) Alternative (2,840 added dwellings and 4,889 added jobs¹)
- **Alternative 2** – Comprehensive Plan Update with Mixed Use Land Use Changes (3,322 added dwellings and 5,846 new jobs¹)
- **Alternative 3** – Current Comprehensive Land Use Plan with Greater Downtown Growth and City Infill (3,307 new dwellings and 14,415 new jobs¹)

The following fiscal impact assessment evaluates the potential of each comprehensive plan scenario to both generate revenues as well as increase the costs of City operation and capital investments across, by considering the varying land use impacts of each scenario on the fiscal outlook for Woodinville. The model uses existing municipal trends, with 2013 as the base year, to estimate the costs and revenues of new development and redevelopment through 2035.

While a fiscal analysis is not a required element of a Comprehensive Plan Update, it does provide decision-makers and stakeholders with a broad understanding of the fiscal implications of the alternatives under consideration as part of the 2015 Comprehensive Plan Update. As Woodinville updates its comprehensive plan in order to meet requirements of the Washington State Growth Management Act (GMA), there is an opportunity to consider how alternative development patterns might affect the City’s public service and fiscal challenges, and identify the degree to which land use choices might influence planning for a successful and sustainable future.

Part of this update involves assessing the existing capacity for absorption of new residential units and employment opportunities, which informs decisions about land use alternatives. Through this process,

¹ Considering buildable land and pending development.

the City will update its policies, strategies, and outcomes to enable the community to achieve its best future.

The purpose of analyzing the fiscal implications of land use alternatives is to determine the potential effects that these changes could have on the City's ability to meet its service delivery goals in a fiscally-responsible manner. Ultimately, this analysis seeks to assess the likelihood that revenues generated by each of the potential growth scenarios will be sufficient to meet the resulting demands on facilities and services. An analysis of the fiscal implications of future land use scenarios for municipal revenues and expenditures can:

- Help assess the impacts of growth long-term on fiscal sustainability
- Provide an objective analysis for understanding options for growth and land use policy
- Help consider the cost-benefit of different land use scenarios

A city must be effective in managing its resources, even in difficult and changing conditions, so that it can meet community expectations in a fiscally constrained environment. This challenges cities to provide the level-of-service that the public demands without placing an unreasonable tax burden upon the community.

Based on the proposed alternatives, and the projected housing and employment growth scenarios, this assessment takes a policy-level look at how the City might meet service needs given a shifting demand for services and an expanding tax base. The following key fiscal questions provide a framework for the evaluation of alternatives:

1. Do alternative land use scenarios improve the City's ability to grow revenues without increasing tax burdens on residents, by growing faster than costs?
2. How do the alternative scenarios impact demands on service capacity and the costs of providing these services?
3. How might the character of new development affect the fiscal landscape? (Demographics, timing of new development, density, design, footprint, transportation?)

Ultimately, this analysis attempts to answer whether the alternative growth scenarios are fiscally sustainable or whether the City is "living off tomorrow's growth". The balance of the report is organized into the following sections:

- Summary of Fiscal Findings
- Relationship of Land Use and Fiscal Sustainability
- Current Fiscal Situation in Woodinville
- Future Land Use Scenarios
- Revenue Analysis
- Expenditure Analysis

2. SUMMARY OF FINDINGS

The fiscal analysis identifies Woodinville's revenue and expenditures through year 2035 using 2013 as the base year for analysis. The analysis assumes the existing adopted policies and programs remain true throughout the 20-year horizon to maintain consistency in analysis between the three alternative growth scenarios.

The analysis accounts for escalation effects in revenues and expenditures that are a result of inflation, in addition to specific influencing factors that will occur in a unique way depending on the growth scenario.

In this analysis, the net fiscal impacts for the residential and nonresidential land use types have been determined by subtracting the necessary costs to serve certain land use alternatives from the revenues generated by these land uses. Both general fund and capital expenses are included in the analysis.

The 2035 costs and revenues are determined based on the current levels of service provided in the analysis base year of 2013. Staff interviews, 5-year historical budgets reviews, and growth expectations helped add quantitative and qualitative perspective to the analysis. In estimating the potential fiscal implications of land use decisions, the housing unit and employment growth numbers from the three alternatives were used as a basis for growth scenarios. For each scenario the population estimate was based on the housing unit assumption and an assumed 2.27 average household size².

The overall results of the fiscal assessment are summarized in Exhibit 1, which presents estimated 2035 revenues, expenditures and operating surplus, in 2013 dollars, for each land use alternative and compares these to the 2013 base year. As a further indication of the relative fiscal balance of each scenario, the ratio of revenues to expenditures is also presented.

In 2013, the City of Woodinville earned a net operating surplus of \$4.0 million on revenues of \$13.3 million and expenses of \$9.3 million. This includes all revenues, except the Real Estate Excise Tax (REET, which is restricted to capital spending), and all expenditures related to operations. The surplus was then available to support the City’s capital program. The overall ratio of operating revenues to operating costs was 1.42.

Exhibit 1. 2035 Operating* Revenue and Expense Summary (in 2013 dollars)

| | Revenue | Expense | Surplus | Ratio |
|---------------------------------|----------------------|---------------------|---------------------|-------------|
| 2013 | \$ 13,298,265 | \$ 9,340,680 | \$ 3,957,585 | 1.42 |
| Alternative 1 | \$ 19,651,505 | \$ 13,893,781 | \$ 5,757,724 | 1.41 |
| Alternative 2 | \$ 20,721,050 | \$ 14,545,291 | \$ 6,175,759 | 1.42 |
| Alternative 3 | \$ 26,285,294 | \$ 16,942,897 | \$ 9,342,397 | 1.55 |
| Increment over 2013 Base | | | | |
| Alternative 1 | \$ 6,353,240 | \$ 4,553,101 | \$ 1,800,139 | 1.40 |
| Percent | 47.8% | 48.7% | 45.5% | |
| Alternative 2 | \$ 7,422,785 | \$ 5,204,611 | \$ 2,218,175 | 1.43 |
| Percent | 55.8% | 55.7% | 56.0% | |
| Alternative 3 | \$ 12,987,029 | \$ 7,602,217 | \$ 5,384,812 | 1.71 |
| Percent | 97.7% | 81.4% | 136.1% | |

*Note: Excludes REET revenues and Capital Project expenses.

*Note: Includes external funding.

Source: BERK, 2014

As Exhibit 1 shows, the estimated operating surplus in 2035 is expected to increase for all three alternatives. However, there are significant differences among them in terms of implications on overall fiscal balance. Alternatives 1 and 2 are estimated to generate more new revenues than the expected increase in costs, but costs grow more on a percentage basis. This leads to an overall reduction in the

² Uses PSRC (2013) estimates of households as percentage of housing units (~97%) for future growth and estimates of household size (~2.27) for the year 2035.

revenue to cost ratio from 1.49 to 1.41 for Alternative 1 and 1.42 for Alternative 2. In effect, the new revenues generated by these alternatives are sufficient to support increased operating costs, and will produce a similar, though marginally lower, operating surplus to support capital investments.

Alternative 3, which would result in much higher growth in commercial activity, is estimated to result in the highest increases in both revenues and operating expenditures. Most importantly, these large increases are relatively in proportion to each other, with revenues growing somewhat more than expenditures estimated (98% for revenues and 81% for expenditures). Since both revenues grow at a higher rate than expenditures, the revenue/operating cost ratio is estimated to increase to 1.55, a marginal improvement over the 1.49 base year ratio.

While the relative impacts on the revenues/operating cost ratio clearly favor Alternative 3, this does not account for the potential impacts on capital needs. As a result, if there are few significant capital investments needed for Alternatives 1 or 2 (or significant capital needs for Alternative 3) then the fiscal implications of each land use scenario on the City's fiscal balance could be similar.

The mix of revenues is estimated to change from current day under each scenario, with property taxes making up a lower percentage of total revenues over time. This is balanced by an increased importance of sales tax revenues, and the majority of the surplus growth in Alternative 3 is due to significant increases in on those revenues.

Alternative 1

In the No-Action scenario the buildable capacity under existing zoning is developed by 2035. The overall pattern and distribution of development is projected to look similar to today's condition, though the build out of the CBD will increase density in the town center. Increased revenues are driven by property and sales tax and are in balance with increased demand for services.

- Revenues are estimated to grow by 47.8%, while operating costs are estimated to grow 48.7%.
- The operating surplus would grow 45.5%, making an additional \$1.8 million available for capital investments in 2035 (in 2013\$).
- In addition to the increment of operating surplus, REET revenues are estimated to increase by approximately \$236,104, which would represent a 32% increase.

Alternative 2

In Alternative 2, buildable capacity is augmented by several zoning changes. Notable changes include the conversion of Industrial lands to Riverfront Amenity Mixed Use (AMU) and the overlay of a Regional Retail Overlay zone over a portion of the Industrial land on the north end of the city. These changes result in higher property tax revenue potential in these areas and a denser pattern of residential growth (i.e., in the new mixed use zones). Operating costs and capital spending in Alternative 2 are not anticipated to increase greatly over the No-Action alternative.

- Revenues are estimated to grow by 55.8%, while operating costs are estimated to grow 55.7%.
- Since, revenues and costs are expected to grow at the same rate, the operating surplus would also grow at essentially the same rate (56.0%), making an additional \$2.2 million for capital investments in 2035 (in 2013\$)
- In addition to the increment of operating surplus, REET revenues are estimated to increase by approximately \$262,143, which would represent a 35% increase.

Alternative 3

Alternative 3 presumes higher density development within the existing zoning plan, particularly in the Central Business District (CBD), and includes the potential for infill development in single-family zones. Population growth is for the most part aligned to the current zoning plan regarding densities and distribution. Significant increases in employment, largely centered in the CBD, will have the fiscal impacts under this alternative.

Local employment will drive increased sales tax revenues, but will also generate more demand for services. Public works and law enforcement expenditures are projected to grow more significantly than in other scenarios, due to increases in daytime traffic, industrial traffic (i.e., trucks), and daytime population. Lack of revenue diversity, with over 47% projected to come from sales tax, is potentially problematic in this scenario.

- Revenues are estimated to grow by 97.7%, while operating costs are estimated to grow 81.4%.
- The operating surplus would grow 136.1%, making an additional \$5.4 million available for capital investments in 2035 (in 2013\$)
- In addition to the increment of operating surplus, REET revenues are estimated to increase by approximately \$383,276, which would represent a 52% increase.

Overall Findings

In summary, looking at the overall implications of the Comprehensive Plan alternatives, the following are some additional noteworthy findings:

- Absent future voter-approved levy lid lifts, the property tax is going to be a less productive revenue source over time due to the 1% limit. This is true across all of the alternatives, however those options with greater development potential offer some mitigating effect on the 1% limit because of the higher rate of new construction assessed value that is added above the base levy limit.
- Sales tax will become a higher percentage of overall revenues and an even more critical element of long-term fiscal sustainability. Alternatives that offer greater sales potential, particularly Alternative 3, create the greatest “upside” in terms of sales tax growth. Ultimately, the market strength of Woodinville will still need to be sufficient for the level of growth envisioned in this alternative for the City to benefit from this upside.
- The higher growth assumptions in Alternative 3 are estimated to provide the best overall impact on the revenue-to-expense ratio for City operations. This alternative is also more heavily reliant on sales tax, which is more volatile by nature.
- Alternative 2 generates solid growth of most revenues, and avoids over-relying on sales tax revenues. However significant development in the Retail Overlay and Amenity Mixed Use zones provides still provides the opportunity for capturing non-resident sales tax revenues, while minimizing associated expenditures (i.e., there is less projected employment, so lower expenditures associated with daytime population compared to Alt 3).

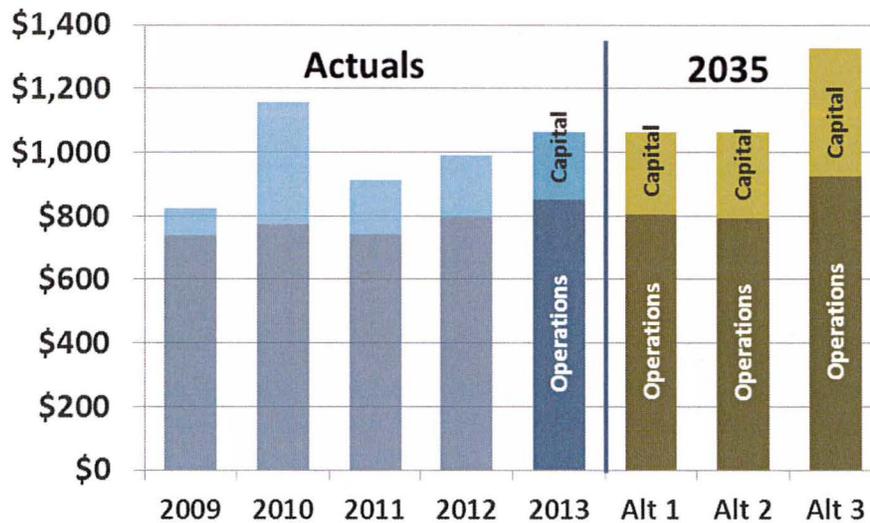
Capital

As with all jurisdictions, the City of Woodinville will likely continue to have more capital needs than capital resources. This is the nature of capital facilities programs and results in an ongoing need to prioritize and focus capital investments in a way to support City policies. As would be expected, each of the land use alternatives will generate some increment of capital facilities need. To provide a policy-

level assessment of capital needs, a capital spending estimate was developed for each land use alternative based on the most recent 5 years of actual spending and the 6-year CIP. The recent history and projected near-term spending were used to develop modified per capita spending assumptions that were then used to generate an annual capital spending estimate for each land use alternative.

Exhibit 2 presents operating and capital costs per capita by year for the period 2009 to 2013 and the estimated per capita costs for each of the Alternatives in 2035 (in 2013\$).

Exhibit 2. Expenditures per Capita Comparison (in 2013 dollars)



Source: BERK, 2014

Capital facility needs for Alternatives 1 and 2 are similar in scale on a per capita basis to the current level of capital investment, suggesting that the modest increases in operating surplus may result in a somewhat lower ability to fund capital needs in these scenarios.

In Alternative 3, the level of capital and operating spending are both higher than 2013 due to the greater pressure created by a high representation of employment-driven facility usage. High employment growth in Alternative 3 is projected to drive significant demand for roads and traffic-related improvements due to increased number of trips generated by local employment centers. However, these increases are largely offset by the much higher growth in revenues.

It is important to note that while this policy-level assessment concludes that Alternative 3 appears to produce sufficient incremental revenue to cover both higher operating costs and an increment in capital spending, the capital costs are not based on a specific capital project list. Rather, the conclusion merely states that revenue growth should allow for a commensurate increase in capital spending above the existing level of city capital investment.

Additional Considerations

The forecasts presented here may be mediated by a number of factors and policy decisions over time. The preceding analysis highlights major drivers of revenues and costs over time under current policy models. Policy decisions over the next twenty years may provide opportunities to increase revenues, efficiency, or otherwise mitigate demand to improve fiscal sustainability.

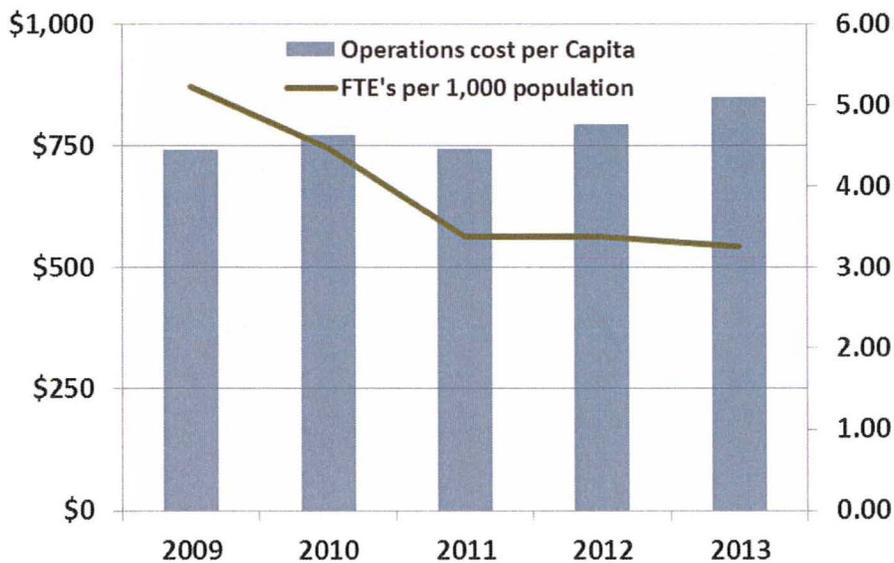
A key driver in the fiscal analysis conclusions is that property tax revenues are expected to grow at a low rate relative to other revenues due to the 1% limit on levy increases. To the extent that these revenues

do grow, it will be due to differential rates of new construction activity, which is added above the 1% limit. As a result, any substantial gains in the property tax base will largely come from the commercial development in the CBD and mixed use zones, since all of the alternatives presented project a similar build out of single-family zones.

Another important consideration is that the analysis uses the policy and service configurations in 2013 as the baseline for future revenue and expenditure analyses. On the revenue side, this means continuation of current tax and fee policies. Any increase in taxes or fees would therefore produce incremental revenues above those estimated in this analysis.

On the cost side, this means that future expenditures are based on the cost and staffing profile from 2013, which reflects the cumulative effects of many difficult decisions necessary to balance budgets during a major recession. Current staffing has been scaled back over the past five years and in some cases services have been provided through more flexible contracting arrangements to allow the City to meet service obligations while minimizing costs.

Exhibit 3. FTE and Operations Costs per Capita 2009-2013



Source: BERK, 2014

Exhibit 3 shows how dramatically the City’s operational model has shifted in the past five years. While total operational costs on a per-capita basis remained largely flat between 2009 and 2011, FTE’s per 1,000 residents dropped significantly, from more than 5 to just above 3. In the next two years, operational costs per capita increased somewhat along with the gradually improving economy, however, the level of staffing remained largely constant. It is this level of staffing and overall operational cost that is used as the base for future service delivery costs. If there is a desire to increase the current level of staffing or service delivery as a matter of policy, these level-of-service improvements would be in addition to the estimated 2035 costs for each of the land use alternatives.

Woodinville’s current model of supplementing FTE’s with contractors is helping the City fill gaps between service provision and demand for services in the short run. However, contractors are generally significantly more expensive than employees; though using this model retains flexibility to adjust to changes in demand over time and the opportunity to rebid to manage cost growth. However, the current mix of contractors and FTE’s may not be the ultimate long term solution. In this scenario then

the costs of maintaining the current contractor share of labor could be viewed as an overall allowance for labor costs which could be diverted to FTE's if that made sense in the future.

Annexation Implications

An annexation of the area to the north of Woodinville, which is largely commercial and industrial, would provide a variety of challenges and opportunities to Woodinville's fiscal outlook.

- There would be significant positive revenue impacts associated with the sales and property taxes of the big box stores and the various other commercial activities in the area.
- Unique costs associated with annexation of the area to the north of Woodinville include law enforcement contracting in a second county, as well as management of services and infrastructure such as streets maintenance, parks and recreation, and surface water management.
- The small residential capacity in the potential annexation area would allow for less service demands, however, the cost to provide services on a per unit basis would likely be higher.

Law Enforcement - Of note in the labor analysis is the use of contracted services with King County Sheriff's Office (KCSO). Law Enforcement costs in 2013 were 20% of the City's overall expenditures, with 94% of law enforcement costs going to the intergovernmental contract with King County Sheriff's Office.

The existing contract as of October 2014 is open-ended, with City determining the level of service. There are currently 12 officers staffed, and a Police Clerk who is hired as a fixed employee by the City. The current level of service provided with this staffing level is six officers during the day and two officers on the graveyard shift. These officers operate under one precinct with five patrol, or reporting, areas. Over the last seven years, staffing in the Police Department has increased by 12% while the rest of the City's departments have decreased by 27%, with future funding priorities subject to on-going decision making by the City's Council.

The Police Department currently projects, depending on crime levels and anticipated development, that an additional officer will be necessary for every 1,000 to 1,500 added residents³. Additionally, due to the City's small physical size, the department does not anticipate that additional precincts or patrol areas will be necessary in the foreseeable future.

If an annexation to the north were to occur, this could create a different set of needs for the law enforcement contract, especially considering the complexity added by annexing an area located in Snohomish County, outside of the KCSO's operating area.

Mutual benefits are provided to Woodinville and KCSO by operating under a service agreement. Benefits to Woodinville include being a part of a larger, county-wide system of safety and emergency response teams that become available during times of need. In addition, the officers under the Woodinville contract can be of assistance to those incorporated and unincorporated areas around the City as needed by KCSO. However, as the City grows, a more detailed analysis of the cost-benefit of contracting law enforcement versus running a local department could be beneficial. At this time, no considerations for establishing a Woodinville Police Department have been made; the City Manager and the City Council may wish to explore this in the future.

³ The Draft EIS applies a similar ratio of 1.09 officers per 1,000 residents.

One scenario where a local police department may be beneficial would be if future plans resulted in annexation of the Maltby UGA to the north of Woodinville. Maltby is located in Snohomish County and, in an annexation scenario, continuing with the contracting model could present complications since this would expand the overall service area for KCSO which could result in less efficient services and a higher marginal cost for public safety in this area. This would need to be more fully explored if and when the City does a more thorough due diligence analysis of annexing this area

3. RELATIONSHIP OF LAND USE AND FISCAL SUSTAINABILITY

Characteristics of a community's land use pattern will both drive the demand for services as well as influence the tax base that will need to fund these services. Population, employment, market activity, developable land, density, distribution, and type of development, for example, are factors that drive the demand for public service and investments.

How activity is laid out in a city is restricted by land use policies that establish regulations on how public and private land owners can use their property. These policies directly affect a city's potential tax base, from which they derive the funding needed to pay for public services. A forecast of public revenues is used to estimate municipal budgets and spending targets. It is guided by an anticipated cost associated with a need to maintain current levels of service and adjusted as necessary as demand for services changes. The following section describes the uses and sources of funds for providing services.

The challenge is to provide the services that the community needs at a price they can afford. The key is that the characteristics of the community drive both the demand for services and provide the tax base that funds these services. The following describes the elements of the framework and where the City of Woodinville can influence the balance.

Ultimately, the cost of providing services is derived from:

- **Demand for Services.** A community places demands on the City to provide specific services, such as: the number of police or fire calls, permit requests, recreation needs, and requests to City Hall for information.
- **Governance/Scope.** Governance/scope is the statutory framework that guides how the government is organized and structured to deliver services. State law, charters, codes, and regulations guide this. Cities and counties have only limited control to change which services are mandated or discretionary.
- **Level of Service.** The level of specific service to be provided impacts the cost of services. Examples of levels of service that may vary include: police response times, acceptable levels of traffic congestion, and number of parks. Governments may not choose whether they can provide certain direct services, but have flexibility to make choices about how services are delivered in the areas of management (overall coordination of services) and administration (planning, economic development, budgeting, information technology, human resources, and overhead).
- **Mode of Service Delivery.** The modes of delivering services vary in how direct services are delivered efficiently and productively by changing the coordination, deployment, and management of resources. Direct services include roads and streets, police, utilities, human services, and criminal justice. Mode of service delivery relates to workforce issues, front-line program implementation, and what the customer sees at the front counter.

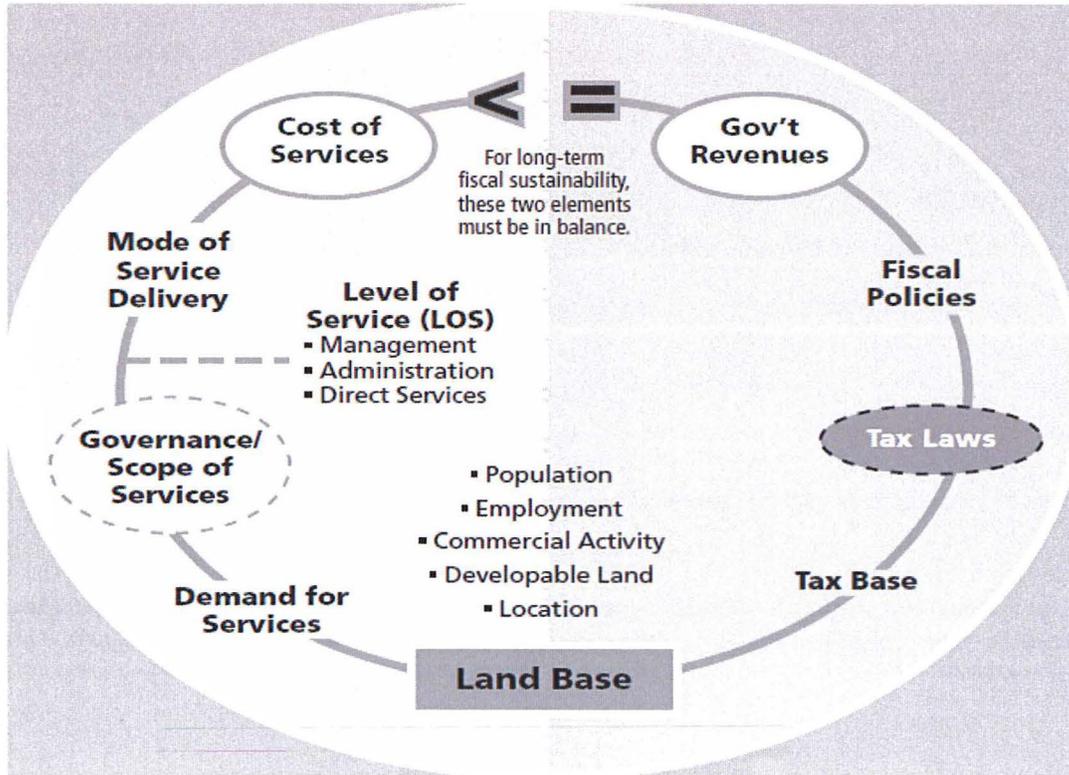
The resources needed to provide these services come from:

- **Tax Base.** A community's tax base includes property values, taxable retail sales, and commercial activity that could generate public sector revenue. Generally, there are three primary types of tax base: income, consumption, and wealth.
- **Tax Laws.** Tax laws are the boundaries within which the tax base can be turned into revenue to support services. I-747 changed one element of the fiscal balance equation by capping property tax levy growth.
- **Fiscal Policies.** A city's fiscal policies represent the government's actions to combine statutory authority and revenue capacity to generate revenues. In other words, how is a government using its revenue authority to fund services? Examples of this authority in Woodinville include utility taxes, the hotel/motel tax, and the ability to implement the 2015 business license fee.

As a city grows, overall costs of services will generally need to increase at a rate slow enough that revenues can keep pace with the growth. Population growth results in an upward demand on municipal service such as additional capacity in schools, utilities, transportation networks, law enforcement, and more. In order to maintain a sustainable balance, revenue from growth will need to be able to account for both the marginal cost to the City of new development as well as the contributing to the escalating base costs (due to inflation).

The fiscal analysis in this study was conducted using a fiscal balance framework which states that to be sustainable over the long-term, there needs to be alignment between factors that drive costs and revenues. Efficiency is a key element of a sustainable program of municipal services however it is a necessary, but not sufficient element. It is possible to be both efficient and unsustainable. Exhibit 4 depicts this cycle.

**Exhibit 4. Fiscal Framework for Municipal Services
A Model for Sustainable Municipal Services**



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Source: BERK, 2014

Fiscal Sustainability Challenges for Washington Cities

A key challenge for cities is to find an appropriate balance across major funding mechanisms that will support the community’s service needs in an affordable way.

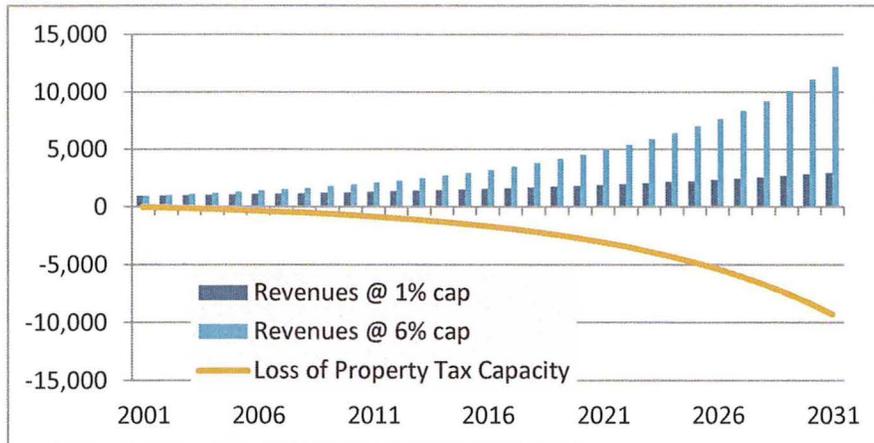
Under state law, property tax, retail sales tax, utility taxes and business taxes/fees comprise the “four legs under the table” of local government funding capacity. These four “legs,” however, all have unique limiting factors that create additional challenges for cities in Washington.

Property tax. In 2002, the state limited property tax levy growth to 1% plus new construction. This makes it very difficult for property tax revenues to keep up with inflation. Prior to the recession, the degrading impacts of this policy were masked by high levels of development, but the impacts of this policy change have become increasingly apparent to Washington cities.

Exhibit 5 illustrates how this limitation is eroding the productivity of the property tax base. The previous 6% cap allowed local jurisdictions to make choices about how much property tax was needed to keep up with growing needs and the rising costs due to inflation. With a 1% cap, it is extremely difficult for local jurisdictions to even keep up with the cost of living.

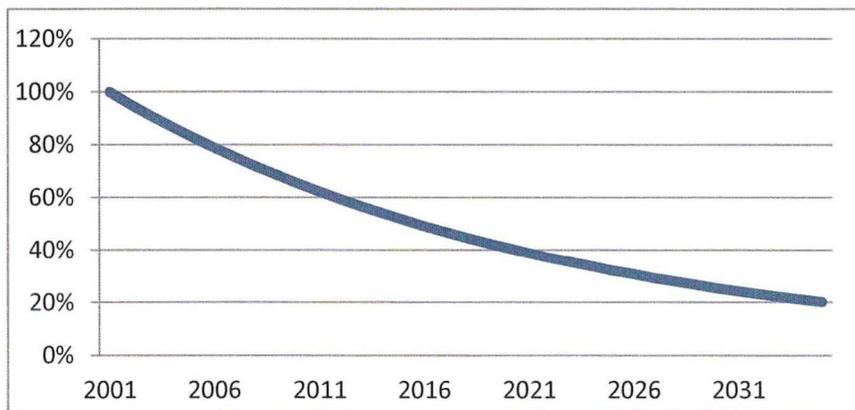
Exhibit 5 below shows how much of the new limits have eroded the productivity of the property tax base over time. Exhibit 6 describes the change in capacity to levy under the new legislation as a percentage of the capacity to levy under the historical 6% rate.

Exhibit 5. 1% Property Tax Levy Impacts on Levy Growth



Source: BERK, 2014

Exhibit 6. 1% Property Tax Levy as a Percent of Historical 6% Capacity



Source: BERK, 2014

- **Sales Tax.** After property tax, sales tax is the second most important revenue source for cities. However, sales tax is the most susceptible to swings in the economy.
- **Utility Tax.** Utility taxes are collected on public and private utilities. This tax generally provides a more reliable revenue source due to the nature of utilities and the everyday amenity that they provide to users.
- **Business Tax.** In Washington, business taxes are less widely used as a major funding source. A perception that business taxes erode local competitiveness in terms of attracting new economic activity creates aversion to implementing business tax.

While all cities have essentially the same tax and fee options available to them, the specific choices about how to use these tools generally depends on a number of local considerations such as, resident preferences, strength and diversity of the local tax base and scope of services provided. When looking at tax policy at the city-level, the focus is often on comparing tax rates and fees.

Exhibit 7 presents a summary of tax and fee policies for cities in the four county Central Puget Sound Region. The cities are divided based on population served and show both the frequency and average rates charged for each of the major tax tools available. What this summary suggests is that all cities use sales and property taxes, while utility taxes are used by most with variations in rates and which utility

services are taxed and business taxes are relied upon the least. Generally, as cities get larger they tend to use more of the tax tools available and choose to provide more services directly.

Exhibit 7. Tax and Fee Summary for Puget Sound Cities

| | Large | Medium/Large | Medium | Small | Overall | |
|------------------------------|------------------------|------------------|------------------|------------------|------------------|-----------------|
| Number of Cities | 8 | 12 | 21 | 41 | 82 | |
| Population Range | More than 80,000 | 33,000 to 80,000 | 11,175 to 33,000 | Less than 11,175 | | |
| Annexed into Fire District | 1 of 8 13% | 6 of 12 50% | 12 of 21 57% | 21 of 41 51% | 40 of 82 49% | |
| Contract for Police Services | 0 of 8 0% | 3 of 12 25% | 7 of 21 33% | 11 of 41 27% | 21 of 82 26% | |
| Annexed into Parks District | 0 of 8 0% | 0 of 12 0% | 0 of 21 0% | 0 of 41 0% | 0 of 82 0% | |
| Sales Tax | 100% @ 0.85% | 100% @ 0.85% | 100% @ 0.85% | 100% @ 0.85% | 100% @ 0.85% | |
| Property Tax | 100%, rates vary | 100%, rates vary | 100%, rates vary | 100%, rates vary | 100%, rates vary | |
| Utility Taxes: | 7 of 7 100% | 9 of 10 90% | 15 of 17 88% | 24 of 28 86% | 55 of 62 89% | |
| Natural Gas | Number vs reporting | 7 of 7 100% | 9 of 10 90% | 14 of 17 82% | 22 of 28 79% | 52 of 62 84% |
| | Rate (low/median/high) | 4.5% 6.0% 6.0% | 2.2% 6.0% 6.0% | 2.0% 6.0% 6.0% | 4.0% 6.0% 6.0% | 2.0% 6.0% 6.0% |
| Electricity | Number vs reporting | 7 of 7 100% | 9 of 10 90% | 14 of 17 82% | 22 of 28 79% | 52 of 62 84% |
| | Rate (low/median/high) | 4.5% 6.0% 6.0% | 2.2% 6.0% 6.0% | 2.0% 6.0% 6.0% | 4.0% 6.0% 6.0% | 2.0% 6.0% 6.0% |
| Telephone | Number vs reporting | 7 of 7 100% | 9 of 10 90% | 15 of 17 88% | 24 of 28 86% | 55 of 62 89% |
| | Rate (low/median/high) | 4.5% 6.0% 6.0% | 2.2% 6.0% 6.0% | 4.0% 6.0% 6.0% | 4.0% 6.0% 6.0% | 2.2% 6.0% 6.0% |
| Cable TV | Number vs reporting | 6 of 7 86% | 7 of 9 78% | 11 of 17 65% | 15 of 25 60% | 39 of 58 67% |
| | Rate (low/median/high) | 6.0% 6.0% 10.0% | 1.0% 6.0% 7.0% | 1.5% 6.0% 8.0% | 1.0% 6.0% 9.0% | 1.0% 6.0% 10.0% |
| Solid Waste | Number vs reporting | 6 of 7 86% | 9 of 10 90% | 11 of 17 65% | 22 of 28 79% | 48 of 62 77% |
| | Rate (low/median/high) | 4.5% 7.9% 11.5% | 5.0% 6.0% 15.0% | 4.0% 6.0% 9.0% | 4.0% 6.0% 10.0% | 4.0% 6.0% 15.0% |
| Water | Number vs reporting | 7 of 7 100% | 6 of 10 60% | 8 of 17 47% | 21 of 27 78% | 42 of 61 69% |
| | Rate (low/median/high) | 6.0% 10.4% 15.5% | 6.0% 8.3% 15.5% | 2.3% 6.0% 10.0% | 5.0% 6.0% 12.0% | 2.3% 7.0% 15.5% |
| Sewer | Number vs reporting | 7 of 7 100% | 6 of 10 60% | 6 of 17 35% | 18 of 27 67% | 37 of 61 61% |
| | Rate (low/median/high) | 5.0% 8.0% 13.0% | 5.0% 7.0% 20.0% | 5.0% 5.3% 10.0% | 5.0% 6.0% 10.0% | 5.0% 6.0% 20.0% |
| Stormwater | Number vs reporting | 7 of 7 100% | 6 of 9 67% | 9 of 17 53% | 12 of 25 48% | 34 of 58 59% |
| | Rate (low/median/high) | 5.0% 7.0% 13.0% | 6.0% 7.5% 20.0% | 5.0% 6.0% 10.0% | 5.3% 6.0% 18.0% | 5.0% 6.0% 20.0% |
| Business Taxes & Fees | Local B&O | 5 of 7 71% | 2 of 10 20% | 6 of 17 35% | 7 of 28 25% | 20 of 62 32% |
| | Business license fees | 6 of 7 86% | 9 of 10 90% | 17 of 17 100% | 27 of 28 96% | 59 of 62 95% |
| | Flat fee | 2 of 6 33% | 5 of 9 56% | 8 of 17 47% | 21 of 27 78% | 36 of 59 61% |
| | Per employee | 2 of 6 33% | 1 of 9 11% | 2 of 17 12% | 1 of 27 4% | 6 of 59 10% |
| | Other | 2 of 6 33% | 3 of 9 33% | 7 of 17 41% | 5 of 27 19% | 17 of 59 29% |

*The number of Cities reporting data varies for each tax/fee.

Source: AWC 2014 Tax and Fee Survey, King, Kitsap, Snohomish and Pierce County Assessor data (2014), BERK, 2014

Two of the most important, and often overlooked, factors that have significant influence on city tax policies are the scope of services provided and the type and diversity of the local tax base.

- **Scope of services.** Different cities make different choices about what services they will provide. In some cases these decisions reflect local desires, such as a community that values access to extensive recreation programs. In other cases, a city may have limited its scope of services by annexing into special districts for fire, parks or library services. The more narrow the scope of services, the lower the specific tax burden can be for city-provide services.
- **Diversity and type of tax base.** Another key factor is the strength and diversity of a community's tax base. A city with high property values will likely have a lower levy rate than a city with lower average property values. A city with a large retail base and a relatively small population can rely on the local sales tax and minimize what it needs to collect from other sources, such as utility taxes or business taxes.

4. CURRENT FISCAL SITUATION IN WOODINVILLE

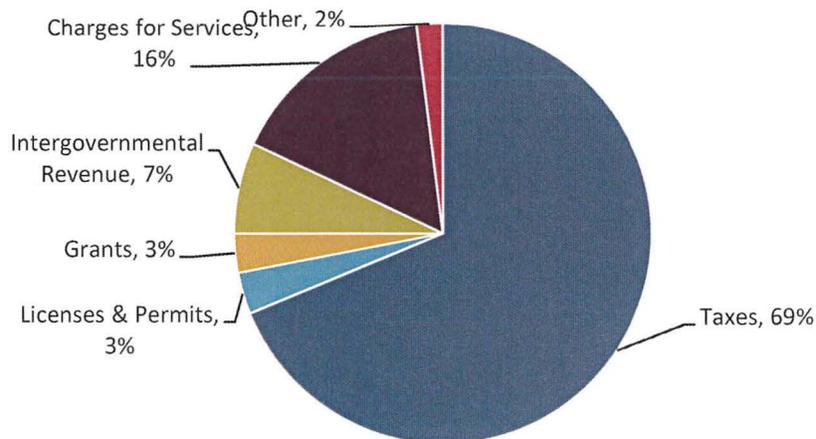
A key element to understand is the City’s revenue picture in terms of the underlying tax base and the fiscal policies that generate the funds needed to support city services. The City of Woodinville is expecting noteworthy growth in their residential population as well as their employment sectors over the 20-year Comprehensive Plan horizon.

As the City absorbs more residents and business activity, policy decisions must be made about how to best allocate its land for use in a way that generates revenues that cover expected costs. As the physical landscape of Woodinville changes, so will its fiscal situation. How Woodinville chooses to grow and where it chooses to locate this growth among the three alternative scenarios will significantly impact those costs and available resources associated with providing services, as discussed in the previous section.

Woodinville’s current land use pattern is relatively low density, with a large portion of the land characterized by suburban style residential development. Downtown consists mainly of retail activity serving both the local and broader sub-regional markets. An industrial area runs along the Sammamish River and hosts traditional industrial uses along with a relatively high concentration of wineries. A few of the anchors in this area include Chateau St. Michel and the Redhook Brewery. At the southern end of the City is the Tourist District with a concentration of tourist serving commercial uses.

Looking at the existing fiscal conditions in Woodinville, 2013 budgets indicate the following breakdown for revenue capture in the City (totaling \$13.7 million in 2013):

Exhibit 8. Woodinville Municipal Revenues, 2013

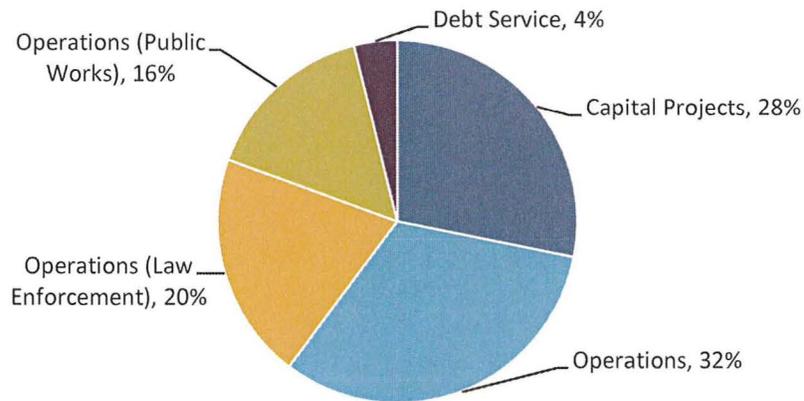


Source: City of Woodinville; BERK 2014.

Woodinville’s main revenue generators are property tax and retail sales tax. In 2013, Woodinville relied on these two main taxing components for 53% of total revenues. Other sources of revenue include fees, intergovernmental revenues, grants and assorted local taxes such as utility tax and hotel/motel tax. Woodinville does not currently leverage revenue opportunities for business taxes; however, a business license fee will be implemented in 2015.

Woodinville’s expenditures were allocated to the following (totaling \$14.0 million in 2013). Law enforcement, capital projects, and public works maintenance are the three largest categories of expenditure. General city operations (administration, City Hall, development services, etc.) comprise one-third of current expenditures.

Exhibit 9. Woodinville Municipal Expenditures, 2013



Source: City of Woodinville; BERK 2014.

Looking at the different alternative futures for Woodinville will help provide a picture of how varying land use and growth patterns could impact the City’s ability to continue to provide these services in a sustainable way. With three alternative scenarios under consideration, the implications on long-term fiscal sustainability of the alternative land use patterns should be a consideration in selecting a preferred alternative.

5. WOODINVILLE FUTURE LAND USE ALTERNATIVES

A set of three alternatives were selected by the City of Woodinville for further study. This fiscal analysis will provide insight in how these specific alternative growth scenarios may generate revenue differently. The following alternatives will be analyzed for their fiscal implications:

- **Alternative 1 – Current Comprehensive Plan (No Action) Alternative** - Alternative 1 represents the City’s current comprehensive plan policies and land use designations with no modifications to existing land use designations or zoning. This alternative would include housing and employment growth up to the City’s current development capacity (based on a buildable lands analysis). Current land use designations for residential, commercial, and industrial uses would be retained. This includes retaining the low density residential designation implemented by zoning of R-1 and R-4, with rezones of R-1 land considered as services and infrastructure are available.
- **Alternative 2 – Comprehensive Plan Update with Mixed Use Land Use Changes** - Alternative 2 represents modifications to the City’s current comprehensive plan land use designations to meet GMA growth targets, implement the City’s community vision, and streamline the City’s development regulations. The overall vision for this alternative is to allow more office and higher wage employment uses and greater mixed use and housing opportunities while maintaining the City’s northwest woodland character and residential quality. Land use and zoning changes being considered include:
 - a) A Regional Retail Overlay on top of the Industrial designation and zone in northern Woodinville;
 - b) Allowing mixed residential/commercial uses in the General Commercial (GC) designation and General Business (GB) zone;

- c) modifying the southern Industrial zone to become a mixed industrial and long-term residential/commercial Riverfront Amenity Mixed Use (AMU) designation and zone;
- d) Amending the Northwest Gateway to add retail or mixed uses,
- e) Reclassifying the Office designation and zone to be multifamily or commercial depending on current use; and,
- f) Distinguishing a 1-unit per acre residential land use designation similar in extent as the current R-1 zone.

Additional development regulation amendments would address optimal implementation of accessory dwelling unit (ADU) allowances in residential zones and fine tuning density incentives in the Downtown. The City would adopt SEPA tools such as a mixed use and residential infill exemption or a planned action where development that meets required standards and mitigation measures would have a streamlined SEPA process in the CBD.

- **Alternative 3 – Current Comprehensive Land Use Plan with Greater Downtown Growth and City Infill** - Alternative 3 represents the City’s current comprehensive plan land use designations, though with policy and code modifications that would allow for higher levels of employment in the Downtown area, and strategies for shadow platting in the Low Density Residential land use designation. This Alternative includes the housing and employment growth levels analyzed as part of the City’s 2009 Transportation Master Plan (TMP) update through increasing height limits.

Exhibit 10 shows the housing unit and employment growth projections for the three alternative scenarios.

Exhibit 10. Woodinville Alternative Scenarios

| Scenario | Citywide Growth | | | |
|--|-------------------|------------------|------------------|------------------|
| | New Housing Units | | New Employment | |
| Alternative 1: Current Comprehensive Plan (No Action) Alternative | | | | |
| Buildable Land Capacity | 2,615 | | 4,476 | |
| Pending Development | 225 | | 413 | |
| Alternative 2: Comprehensive Plan Update with Mixed Use Land Use Changes | | | | |
| | <i>Min Range</i> | <i>Max Range</i> | <i>Min Range</i> | <i>Max Range</i> |
| Buildable Land Capacity | 2,682 | 3,097 | 5,028 | 5,433 |
| Pending Development | 225 | | 413 | |
| Alternative 3: Current Comprehensive Land Use Plan with Greater Downtown Growth and City Infill | | | | |
| Buildable Land Capacity | 3,090 | | 12,944 | |
| Pending Development | 217 | | 1,471 | |

Notes: Alternative 1 is based on a buildable lands analysis prepared for the current Comprehensive Plan.

Alternative 2 assumes nearly 25% more jobs above Alternative 1 due to changes in job mix allowances in northern and southern industrial areas, the Northwest Gateway, as well as more intensive office in the GB and CBD zones.

Alternative 2 also assumes nearly 315 more dwelling units are accomplished in the CBD due to enhanced development incentives including affordable housing incentives and the SEPA Facilitation tools, either Planned Action or Mixed Use Infill. Another nearly 170 dwellings are tested in proposed mixed use areas of the GB and Riverfront AMU zones.

Alternative 3 is based on the net dwelling unit and job increase in the 2009 Transportation Plan that assumed the most optimistic redevelopment pattern occurring in the CBD.

Pending development is largely based on the TBD Development Agreement; it has been accounted in the comparison of growth targets and planning estimates in relation to capacity but is presented in this table because it represents future development that has not yet occurred.

Source: BERK Consulting, 2014

The incremental changes to the key demographic assumptions are presented below.

Exhibit 11. Housing Units and Population by Alternative (Base year 2013)

| | Alt 1 (2035) | Alt 2 (2035) | Alt 3 (2035) |
|-----------------------|--------------|--------------|--------------|
| Employment (added) | 4,889 | 5,846 | 14,415 |
| Housing Units (added) | 2,840 | 3,322 | 3,307 |
| Population (added) | 6,285 | 7,335 | 7,325 |
| Population (total) | 17,275 | 18,325 | 18,315 |

Note: The assumed persons per household is 2.275 (PSRC 2013) and assumed occupancy is 0.978 (PSRC). These numbers are used to identify a population projection based on the housing unit growth in each alternative.

Note: Alternative 2 provides a range for the housing and employment numbers. This analysis uses the maximum point of the range.

Source: BERK, 2014

6. REVENUE ANALYSIS

Total revenues in 2013 were over \$14 million including federal and state sources. Sixty percent (\$8.3 million) derived from property, sales, and utility taxes. Exhibit 12 shows the projected growth of those major revenues for each of the three alternatives. Higher population and employment in each successive scenario generates more revenue in general.

Exhibit 12. 2035 Major Revenues by Alternative (in 2013 dollars)

| | Alternative 1 | Alternative 2 | Alternative 3 |
|-------------------------|-------------------------|-------------------------|-------------------------|
| Property Tax | \$ 2,896,285.94 | \$ 2,992,739.33 | \$ 3,559,888.88 |
| Sales Tax | \$ 8,192,531.06 | \$ 8,688,629.02 | \$ 13,343,819.64 |
| Utility Taxes | \$ 1,321,090.18 | \$ 1,402,081.97 | \$ 1,747,477.42 |
| Storm Drainage | \$ 1,209,705.30 | \$ 1,239,080.39 | \$ 1,239,080.39 |
| Other Revenues | \$ 6,031,892.18 | \$ 6,398,519.49 | \$ 6,395,027.80 |
| Total (ex. REET) | \$ 19,651,504.66 | \$ 20,721,050.20 | \$ 26,285,294.13 |
| REET | \$ 979,574 | \$ 1,005,954 | \$ 1,127,087 |
| Grand Total | \$ 20,631,419.18 | \$ 21,727,004.26 | \$ 27,412,381.12 |

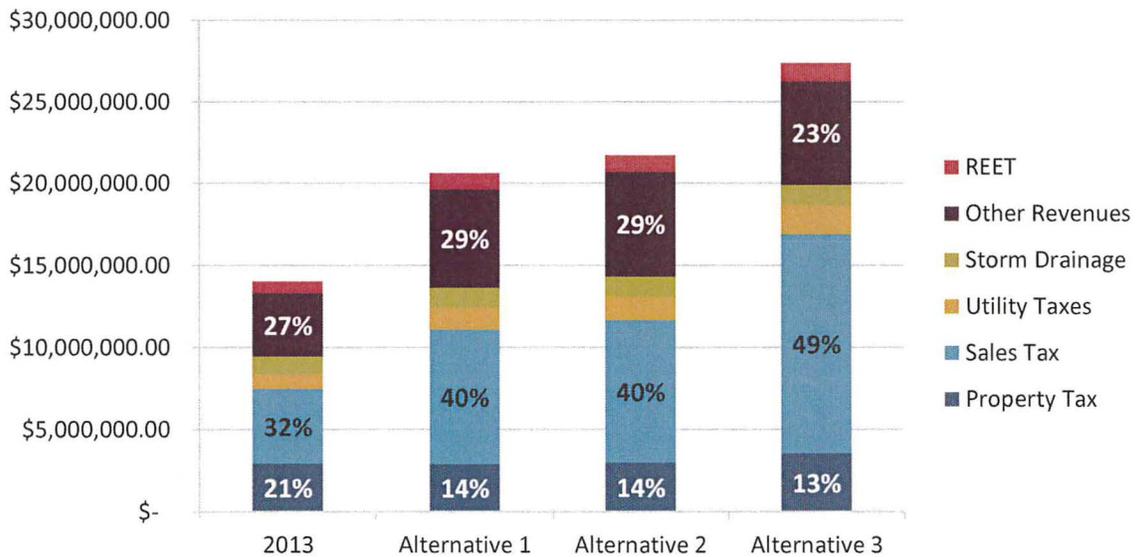
*Other Revenues includes all other revenues that are not explicitly accounted for, including fees, taxes, share revenues and grants.

Source: BERK Consulting 2014

Projected revenue diversity patterns are similar across all alternative scenarios. The 1% limitation on property tax levy growth will likely result in those revenues comprising a smaller share of total revenues, regardless of development patterns. Sales and use tax may form a larger proportion of total revenue driven by both population growth and economic development. This is particularly true for Alternative 3, in which sales tax may potentially comprise up to 47% of total revenues. Thus, while Alternative 3 projects higher revenue growth in general, more of that may come in the more volatile form of sales taxes. A few other noteworthy observations:

- These revenue analysis is based on estimating 2035 revenues and then converting to 2013 dollars (taking out the effects of future inflation) in order to allow for comparison to the current situation.
- In the case of the potential contributions from property taxes in the future, the estimated taxes collected in 2035 reflects the impact of 1% limit on levy growth, which is lower than assumed inflation. As a result:
 - In 2013 dollar terms, the property tax collections for Alternative 1 in 2035 are estimated to be lower than 2013 revenues of \$2,944,279. Actual collections would be higher because of inflation, but the purchasing power of the property tax revenues in this alternative will be somewhat less than current experience.
 - Alternative 2 results in marginally higher property tax revenues, though effectively the higher rate of growth and the different mix, are expected to allow the City to roughly maintain the current purchasing power of property tax revenues over time.
 - Alternative 3 is the only alternative that would be anticipated to provide a net increase in property tax revenues in 2013 dollars as a result of the much higher level of development activity assumed.
- Other revenue sources are assumed to track better with cost of living adjustments, since the tax bases will reflect the impact of inflation over time. For example, sales tax revenues are a percent of taxable retail sales which will increase as price levels change in response to general inflation impacts.
- The category Other Revenues treats all other regular tax and fee not explicitly estimated as a single category of revenue and includes fees, share revenues and minor taxes collected and/or received by the City.

Exhibit 13. Contribution of Major Tax Revenues (in 2013 dollars)



Source: BERK Consulting 2014

Property Tax

In 2013, property tax to the City was \$2.9 million, which consisted of more than a third of total tax revenues in that year, with a levy rate around \$1.21 per \$1,000 of assessed value. Development under each alternative will see the value of the property base more than double (including revaluation impacts and property inflation), mostly due to growth in the CBD and other commercial zones. However the 1% cap on levy growth restricts the overall increase in revenues. Levy rates are projected to shrink to \$0.72 per \$1,000 of assessed value to account for this limit.

These projections are based on total development through the year 2035 which was split into an annual average of new starts for each of the 20 years on the growth horizon. Although development is unlikely to take place evenly as this model assumes, it is not possible to predict which of the 20 years will see more development starts and which will see fewer. In addition, it is not necessary to know the particular absorption rates, since the purpose of this assessment is to compare the fiscal implications of the different land use scenarios at the end of the planning period.

The types of development that will occur in each land use zone over time will be driven by local and regional market conditions. Alternative 1 depicts the full build-out under the current zoning plan, and assumes that new development will be similar in nature to what is currently present. Alternative 2 allows for more commercial and mixed use development in current Industrial lands, and all alternatives promote growth particularly in the CBD. This may result in higher property values; however the precise value will depend on the mix of residential and commercial developments.

While there is a considerable range in the estimated total property tax revenues by alternative, as shown in Exhibit 13, all of the future land use scenarios result in the property tax accounting for a lower share of revenues as compared with 2013. This is due to the impacts of the 1% limit on increases in the property tax levy discussed earlier which, absent voter-approved levy lid lifts, will reduce the relative productivity of the property tax base over time.

Sales Tax

As authorized by RCW 82.14.030(2), sales tax in Woodinville is imposed at 1.0% on of the selling price or value of sales and use. Sales tax in Woodinville currently provides around half of all General Fund revenues, with the largest portion coming from retail sales. Although Woodinville saw a recent drop in sales tax revenue between 2006 and 2010 due to the effects of the recession on consumers and development as well as the Streamlined Sales Tax Legislation, future expectations for consumer choice and development indicate positive growth will occur. Revenues have grown since 2010, and in 2013, the City received \$4.5 million in sales tax revenues.

Sales tax revenues are driven by population and employment growth separately. Each alternative scenario projects an increasing share of employment in the retail sector resulting in more retail employees per capita citywide. This indicates that sales tax revenues will be increasingly influenced by non-resident spending, thus, employment and zoning were used as the primary driver of sales tax, instead of population growth. This is particularly true for Alternatives 2 and 3, given the inclusion of the Riverfront AMU, Regional Retail Overlay, and CBD incentives (Alternative 2), and significant employment increases in the CBD (Alternative 3).

Sales tax is also collected for goods and services that are not tied to specific commercial locations in the City such as taxes collected on goods and services delivered in the city, (i.e. sales from online purchases, major appliances and furniture delivered to local addresses) and sales tax on construction activity within the City. In 2013, these types of activities generated just over twenty-five percent of total sales tax revenues. Some of these revenues will likely scale with household growth, and may increase in general as online shopping continues to expand. The residential share of these non-Woodinville commercial activities would not vary substantially between alternatives since the residential growth is similar. However, the construction portion will likely vary based on the overall level of development activity assumed. Therefore, both Alternative 2 and Alternative 3 are estimated to provide a sales tax boost related to higher levels of construction activity.

Utilities Taxes

Utility tax revenues are driven by both population and employment increase over each alternative. Revenue growth is not projected to be significant, however is slightly higher for Alternative 3 due to the high employment growth forecasted in that scenario.

Real Estate Excise Tax

All real estate sales will be subject to a 0.5% real estate excise tax (REET) to be used in the capital improvement fund and to finance capital projects specified by the capital facilities plan. The tax is collected by the County Treasurer, who applies 1% of these proceeds to the expense associated with collection. The remaining is distributed monthly to Woodinville. In 2013, the City received around \$372,000 in REET revenues.

Real estate transactions subject to REET collections were estimated to affect a static percentage of total real estate value each year. Cumulative REET revenues over the 20-year planning period are shown in Exhibit 14.

Exhibit 14. Cumulative REET Revenues 2015-2035 (in 2013 dollars)

| | Cumulative Revenues |
|---------------|---------------------|
| Alternative 1 | \$30,160,355 |
| Alternative 2 | \$30,878,351 |
| Alternative 3 | \$34,218,385 |

Source: BERK, 2014

Stormwater Management Fees

The storm drainage fee is a predictable source of income since the impervious surfaces in Woodinville don't change drastically from year to year. This is an area that is likely to grow, and will only bring in decreasing revenues if the policy is changed to tax at a lower rate. Currently, service charges are based on the percent of impervious service on a parcel, as well as the impervious rating category (ex. residential, very light, heavy, etc.) In 2013, the City collected over \$1 million in storm drainage fees & charges. Stormwater fees have not been adjusted in nearly almost 14 years and over time, existing fees are likely insufficient to support long-term operation, expansion, and replacement of stormwater infrastructure.

In a full build out of the existing buildable capacity, over 170-250 acres of vacant or undeveloped land may be developed and become subject to these fees. An estimated \$117,000 of additional revenue may be generated from this development. Under Alternatives 2 and 3, the same assumptions apply, though some land may be developed more intensively resulting in fractionally higher fees. Exhibit 15 shows expected revenue from storm drainage fees & charges for the three alternatives.

Exhibit 15. 2035 Stormwater Management Fees (in 2013 dollars)

| | Revenues |
|---------------|-------------|
| Alternative 1 | \$1,209,705 |
| Alternative 2 | \$1,239,080 |
| Alternative 3 | \$1,239,080 |

Source: BERK, 2014

Hotel/Motel Tax

A lodging excise tax of 1% is collected on the sale of lodging in the City of Woodinville for contribution to the Hotel/Motel Fund, which is used for the promotion of tourism efforts in Woodinville. In 2013, Woodinville received about \$57,000 in revenues from the Hotel/Motel tax.

Although the current excise tax on lodging only brings in around \$50,000, this tax is highlighted because of its potential for revenues over the 20-year planning horizon. With the tourist district growing and the wine industry expanding, a greater demand for lodging is anticipated. Additionally, all three alternatives suggest a notable increase in employment, which could increase demand for business overnights. This is particularly true for Alternative 3, where over 14,000 new jobs would be expected by 2035.

Business License Tax

Woodinville adopted Ordinance 587 in 2014, which requires any person or entity engaging in any business, occupation, or home occupation or pursuit to obtain a license for the business. As of 2015, the license will cost each business \$39 to operate for a 12 month period. In 2013 DOR reported that there were over 1,300 businesses collecting sales tax operating within the City, which would generate

approximately \$50,000 in license fees. Economic growth, particularly in retail sectors, may increase the revenue potential of the license program.

Transportation Impact Fees

2012 City Ordinance 527 amended the 2004 Transportation Impact Fee ordinance to ensure that public facilities and services to support development will be adequate to serve that development at existing levels of service and to establish the standard that new development pays a proportionate share of this cost for new facilities. It is imposed on new single dwelling units, multifamily dwelling units, commercial buildings, industrial buildings, retail buildings, expansions, and changes of use. The fee is calculated on factors such as estimated cost of system improvements and anticipated traffic growth due to development.

This fee is effective in helping pay for the marginal costs of development. Although it has only been collected for one full year, development over the 20-year planning horizon will be subject to this fee. In 2013, the impact fee brought \$78,000 to the city. If this fee scales or increases over the course of future growth, particularly commercial development which brings commute and truck traffic, may generate more stable revenues over time.

Intergovernmental Revenues

In 2014, the City received over \$400,000 in state and federal grant money. Most of this money was for recreation and conservation projects, road safety, and stormwater projects.

7. EXPENDITURE ANALYSIS

There are two main types of costs to a city. The first are those cost associated with operations, i.e. salaries, benefits, supplies, equipment, etc. The second are those costs associated with capital investments, i.e., acquisition of land, road maintenance and construction, signage, etc. These costs together make up total spending by a City and where analyzed separately.

Operations

The analysis of potential operating cost implications of alternative land use scenarios was conducted using a simplified model of municipal services that divides the City's cost structure into principal categories – fixed costs and variable costs.

- Fixed operating costs were accounted for by department, by identifying which staff positions or budget line items were most likely to be unaffected by changes in direct service demand. For examples include department directors, councilmembers, and city manager.
- Variable operating costs were the remaining cost elements by department and are assumed to be affected by changes in demands for service resulting from expected growth of the City's residential population and employment. Examples of these include most positions involved in direct operations, such as maintenance workers and building inspectors. Overall expenditures will continue to rise in Woodinville through the 2035 planning horizon. Woodinville is currently developed at a fairly low density; however the infrastructure for higher density development is largely in place in central Woodinville. Although municipal services such as law enforcement and public works will require greater staffing and resources as growth occurs, these variable costs will generally scale with the growth of population. The larger question is which development pattern of the three alternatives can best support expenditure growth.

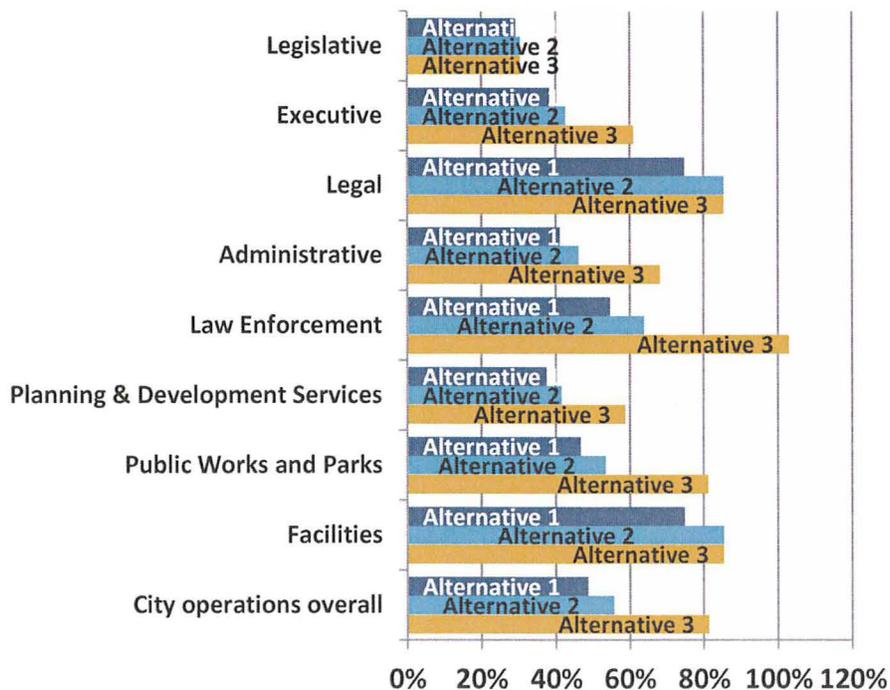
Exhibit 16. Total and Per Capita 2035 Operating Expenditures by Alternative, 2013 Dollars

| Total Annual Costs to City | Alternative 1 | Alternative 2 | Alternative 3 |
|---------------------------------|----------------------|---------------------|----------------------|
| Legislative | \$ 86,955 | \$ 87,745 | \$ 87,737 |
| Executive | \$ 1,289,433 | \$ 1,329,648 | \$ 1,501,147 |
| Legal | \$ 1,086,092 | \$ 1,152,107 | \$ 1,151,478 |
| Administrative | \$ 1,282,937 | \$ 1,329,674 | \$ 1,528,986 |
| Law Enforcement | \$ 4,294,034 | \$ 4,548,002 | \$ 5,631,068 |
| Planning & Development Services | \$ 1,697,449 | \$ 1,747,615 | \$ 1,961,553 |
| Public Works and Parks | \$ 3,873,481 | \$ 4,050,665 | \$ 4,780,459 |
| Facilities | \$ 283,400 | \$ 300,625 | \$ 300,461 |
| Total Operations | \$ 13,893,781 | \$14,546,081 | \$ 16,942,890 |
| Operations plus capital | \$ 18,401,696 | \$ 19,529,845 | \$ 24,340,919 |
| Total 2035 costs per capita | \$ 1,869 | \$ 1,860 | \$ 2,254 |

Source: BERK, 2014

Exhibit 16 indicates that overall per capita expenditures will be relatively similar across Alternatives 1 and 2, with a significantly higher per capita cost in Alternative 3. The third alternative would require additional capital spending due to notable employment growth compared to the other alternatives. This added employment growth would put added pressure on the City's road and street maintenance, repair, and construction.

**Exhibit 17:
Percent Growth in Operating Expenditures over 2013, (2013 Dollars)**



Note: Includes fixed and variable operating costs; capital spending is not included.

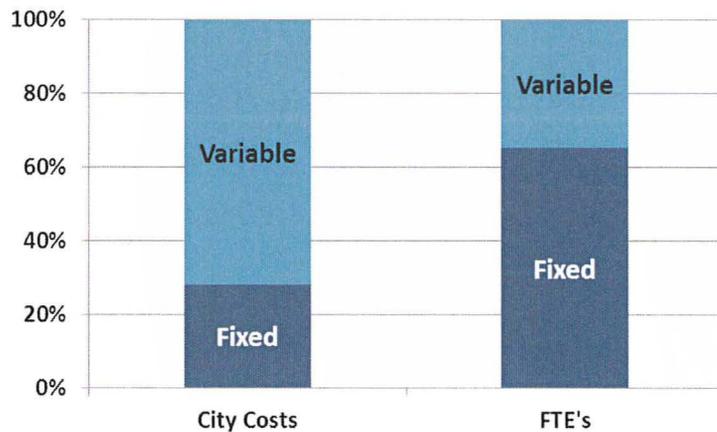
Source: BERK, 2014

Exhibit 17 shows the total growth in spending in each department for fixed and variable costs by department. The growth percentage is over the 2013 base year spending. The graph indicates those departments which will escalate more rapidly, and those which will grow more or less significantly due to the population and employment projected in the particular growth scenarios.

Fixed Costs

Woodinville’s 2013 spending on fixed labor accounted for about 17% of the City’s total expenditures, and around 37% of operating costs. The analysis of expenditures through 2035 assumes that existing 2013 levels of service are maintained. Because of the City’s recent transitions in departmental FTEs, the LOS carried through to 2035 in this model is lower than the City previously had. Between 2009 and 2014, the City went from 55.74 FTEs to 35.0 FTEs. This was a 37% reduction in employment over the 6-year period. Recommended FTEs through 2016 do not anticipate any significant hiring, with a recommended level of 35.2 FTEs.

Exhibit 18. Fixed and Variable Costs



Source: BERK, 2014

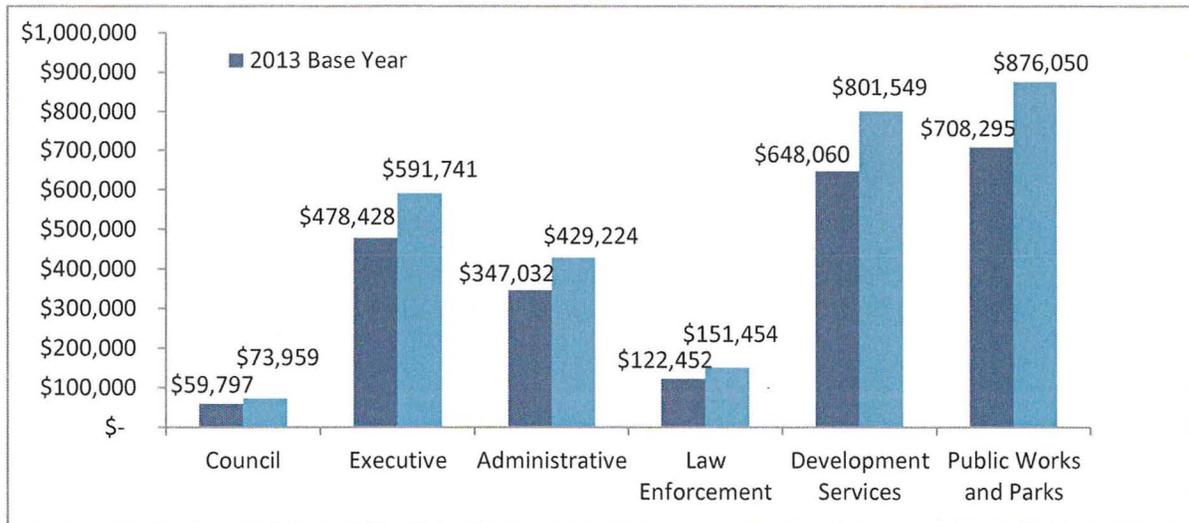
The City’s spending on FTEs has decreased significantly since 2009, and as a result, the City has filled gaps in departmental needs with contracting professional services at a higher rate than in the past. Given the existing base year scenario where service is provided by a mix of FTEs and contracted labor, the connection that would generally be observed between changes in demand for services and changes in FTEs providing that service has been broken.

Labor is split into fixed and variable categories, with proportional supplies and benefits accounted for in the fixed and variable categories based on the allocation of fixed and non-fixed labor in each department. For example, the Executive Department is 55% fixed labor and 45% non-fixed labor so benefits and supplies in the Executive Department were split into these categories proportionally.

Fixed labor FTEs remained the same through all three alternatives, accounting for 22 years of inflation from the base year of 2013 through the 2035 growth period. Inflation for the fixed labor category is calculated at annual inflation of 4%. This number is higher than general economy-wide inflation rates due to the added inflationary pressures that result from increasing salaries and cost of living adjustments. Historical average real inflation of Woodinville’s salaries and benefits over a 5-year period from 2009 – 2013 varied between 4% and 24%. Due to the inherently variable nature of salaries, a moderate rate of 4% was chosen.

In Alternatives 1, 2, and 3 fixed labor remains the same. With a base year fixed labor cost of \$2.36 million, and 7% inflation, the City will experience a \$0.5 million 20-year increase in fixed labor costs (2013 dollars). The cost to Woodinville of salaries, benefits, and supplies for fixed labor in 2035 will be around \$2.92 million (2013 dollars, accounting for inflation), regardless of the pursued growth scenario. Exhibit 19 shows the fixed labor costs by department for 2013 and 2035 (in 2013 dollars).

Exhibit 19. Total Fixed Costs by Department (Salaries, Benefits, Supplies), 2013



Note: Departments not showing operating accounts for fixed labor costs (legal, facilities, city shop) may be using contracted professional services.

Source: City of Woodinville; BERK, 2014

Variable Operating Expenses (Non-fixed labor and Non-labor Expenses)

Variable costs by department included non-fixed labor and general non-labor operating costs. Non-labor variable costs include typical departmental operating expenditures such as insurance, operating rentals, communication, advertising, and other. Variable costs will vary based on a number of factors, with the main contributor being the local population and employment. These costs are calculated by department on a per capita basis for the 2013 base year. This per capita value was then applied to the 2035 population numbers in each alternative, with 22 years of inflation at an annual rate of 3.5%.

Non-fixed labor costs include those positions that may vary in FTEs from year-to-year, depending on factors such as population, the fiscal environment, number of development permits, and other factors. Examples of these variable positions include seasonal laborers, maintenance workers, interns, and permit technicians. A proportional share of benefits and supplies by FTE is split between the non-fixed labor and the fixed labor in each department.

Other variable labor types included in this category are the professional service contracts that are based on shorter term needs. The non-fixed FTEs and the contracted professional services are captured in the same category because even though contracted professional services are temporary, they account for a gap in hired labor need at the city so overall labor needs to continue providing the existing level of service are captured in this calculation.

The non-labor operating costs are generally costs that support the provision of municipal services. As the City grows in population and employment, and more support for this service provision is needed, the costs of these supportive factors – such as insurance, office copying, communications, etc. – will grow as well.

Overall variable operating costs are calculated using a per capita 2013 base year cost, with a per capita plus per employment calculation used for Law Enforcement and Public Works, determining each scenario's 2035 cost using the population and employment unique to that alternative with 3% annual inflation.

Exhibit 20. Variable Operating Costs (non-fixed labor and non-labor), 2013 Dollars

| Total Non-Fixed Costs | 2035 Alternative 1 | 2035 Alternative 2 | 2035 Alternative 3 |
|-------------------------|----------------------|----------------------|----------------------|
| Council | \$ 12,996 | \$ 13,785 | \$ 13,778 |
| Executive* | \$ 655,962 | \$ 696,177 | \$ 867,677 |
| Legal | \$ 1,086,092 | \$ 1,152,107 | \$ 1,151,478 |
| Administrative* | \$ 762,340 | \$ 809,077 | \$ 1,008,388 |
| Law Enforcement* | \$ 4,142,580 | \$ 4,396,548 | \$ 5,479,614 |
| Development Services* | \$ 818,284 | \$ 868,450 | \$ 1,082,388 |
| Public Works and Parks* | \$ 2,791,581 | \$ 2,962,724 | \$ 3,692,575 |
| Facilities | \$ 283,400 | \$ 300,625 | \$ 300,461 |
| City Shop | \$ 99,390 | \$ 105,431 | \$ 105,374 |
| Total | \$ 10,652,624 | \$ 11,304,924 | \$ 13,701,733 |

*: Calculated on combined per capita and employee totals as opposed to the per capita-based calculation used for other departments.

Source: City of Woodinville; BERK, 2014

Capital Expenditures

Lastly, capital costs were analyzed using a 5-year average annual cost based on the 2013-2018 Woodinville CFP. The CFP information was used instead of the historical data to account for planned spending on capital investments.

Capital spending is broken down by department using an annual 5-year average based on the 2013-2018 CFP to account for the greater year-by-year variation and the adopted policy for future capital spending. Since capital spending differs more from year to year than labor expenses and other more predictable sources, an annual average over time makes more sense than taking a singular base year capital spending amount. 5-year averages were used to determine an annual per capita capital cost to apply to the three alternative scenario population numbers, accounting for inflation at 4%.

Exhibit 21. Departmental Capital Costs Summary, 2013 Dollars

| Department | 2035 Alternative 1 | 2035 Alternative 2 | 2035 Alternative 3 |
|-----------------------|----------------------|----------------------|----------------------|
| PW – Stormwater | \$ 1,454,791 | \$ 1,543,979 | \$ 1,924,330 |
| PW – Streets | \$ 11,400,166 | \$ 12,099,073 | \$ 15,079,615 |
| PW – Parks | \$ 2,044,570 | \$ 2,169,917 | \$ 2,704,464 |
| Facilities | \$ 1,437,940 | \$ 1,526,095 | \$ 1,902,041 |
| Property Acquisition | \$ 2,015,924 | \$ 2,139,514 | \$ 2,666,572 |
| Carryover (2011-2012) | \$ 48,306 | \$ 51,267 | \$ 63,897 |
| Total | \$ 18,401,696 | \$ 19,529,845 | \$ 24,340,919 |

Source: BERK, 2014

The three alternatives show the inflation adjusted increases of capital costs, assuming investment priorities and needs remain the same. Alternative 1, the No Action alternative with the lowest population and employment growth, will result in the lowest capital expenditures.

Although Alternatives 2 and 3 have similar population growth projections, employment will be much higher in Alternative 3, creating greater capital expenditure needs. High employment will drive these higher capital needs through increased demand for maintenance and construction in order to keep LOS at an appropriate level. Since the population projections are not significantly different between the two

action alternatives (the second and third alternatives), their anticipated capital costs are in line with each other.

Outside of the total capital cost changes, it is important to observe which categories of cost contribute the greatest costs per capita, such as Streets, Facilities, and acquisition of property. These are the areas of capital spending where efforts to become more efficient or to cut unneeded costs would have the greatest impact. Public Works investments in streets, for example, will account for around 62% of capital spending in 2035. In fact, the per capita estimates for Alternative 3 likely underestimate costs for roadways; given the fact that the infrastructure costs needed to address these freeway, interchange, arterial, and intersection improvements would not be financially viable (\$100 million beyond local funds and arterial improvements), this Alternative was not deemed to meet concurrency standards, and therefore, would not be a viable alternative to implement.