

**CITY OF BREMERTON**

**FISCAL IMPACTS OF WEST BREMERTON  
UGA AND GORST UGA ANNEXATION**

**FINAL: AUGUST 5, 2015**

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# 1.0 INTRODUCTION

## 1.1 STUDY PURPOSE

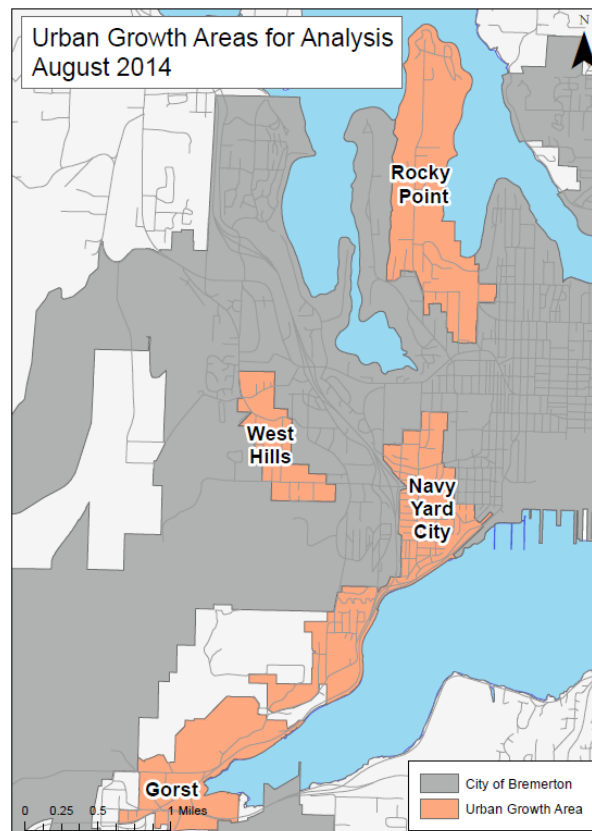
The City of Bremerton is considering annexation of the Navy Yard City, Rocky Point, West Hills, and Gorst Urban Growth Areas (UGAs), and this analysis was conducted to assist the City in assessing the fiscal implications of such an annexation. In 2014 a separate analysis was completed evaluating potential annexation of the Gorst UGA; this assessment differs from the 2014 analysis in that it combines the impact of annexing all four areas at the same time. The purpose of the analysis is to give the City an understanding of specific incremental fiscal impacts – costs and revenues – of such an annexation during the first five years after annexation.

In addition, the City is interested in potential long-term fiscal impacts of annexation. This analysis assesses high-level potential impacts over the next 20 years to identify long-term risks, opportunities, and uncertainties the City of Bremerton should consider.

## 1.2 STUDY AREA DESCRIPTION

In 2014, the Navy Yard City, Rocky Point, West Hills, and Gorst UGAs had a population of approximately 4,900 residents and an estimated 630 jobs. The four Potential Annexation Areas (PAAs) are shown in Exhibit 1.

**Exhibit 1: Potential Annexation Areas Map**



Source: Kitsap County, 2014; BERK, 2015.

**Navy Yard City UGA.** The Navy Yard City is the largest of the four areas in terms of population and employment, with approximately 2,600 residents and an estimated 370 jobs in 2014.

**Rocky Point UGA.** Rocky Point UGA is primarily residential, with a population of approximately 1,560 residents.

**West Hills UGA.** In 2014, West Hills UGA had a population of approximately 480 residents and an estimated 15 jobs.

**Gorst UGA.** In 2010, the Gorst UGA had a population of 222 residents and an estimated 237 jobs. Under the Preferred Alternative from the Gorst Subarea Plan developed in 2013, the UGA is planned to evolve into a complete community with places to live, play, shop, and work in a waterfront setting. Mixed uses would be allowed through much of the UGA. The waterfront area would allow lower intensity commercial uses with smaller impervious footprints interspersed by trails, parks, and reclaimed shoreline habitat. Under this alternative the UGA is assumed to add 1,060 people and 298 additional jobs by 2035. For a map that shows the future zoning of Gorst under the Preferred Alternative, please refer to **Appendix A**.

## 1.3 DOCUMENT ORGANIZATION

This document includes the following sections:

- **Assumptions**
- **Short-Term Impacts**
- **Long-Term Impacts**

**2.0 Study Approach.** This section introduces the approach and methodology of this study, and provides some additional background information in the purpose of the analysis.

**3.0 Summary of Key Findings.** This section presents the high-level findings around net fiscal impact of the annexation.

**4.0 Short-Term Annexation Impact.** This section presents the detailed findings for operating costs and revenues and capital costs and revenues for the first five years after annexation.

**5.0 Long-Term Annexation Impacts.** This section presents a high-level consideration of how the annexation may impact the City over the next 20 years.

**Appendix A.** Gorst UGA Preferred Alternative Future Land Use Map.

## 1.4 APPROACH AND METHODOLOGY

This report presents planning-level operating cost and revenue estimates of annexing the Navy Yard City, Rocky Point, West Hills, and Gorst UGAs into the City of Bremerton over the next five and twenty years. The report also addresses capital impacts of annexation including capital facility needs and capital revenue estimates.

### High-Level Planning Document

It is important to note that this is a *financial planning study and not a budget development exercise*. The analysis is intended to provide a reasonable estimate of potential costs and revenues associated with annexation and to allow for the development and evaluation of alternative scenarios to test the implications of development assumptions, policy choices, and alternative service delivery options, to help the City determine how to proceed with the potential annexation of these areas.

If the City proceeds with annexation, this analysis provides a basis from which the City can begin the process of planning for the higher service demands of a slightly larger city. However, the actual implementation will be accomplished through the regular budget process wherein City management will revisit the balance of costs and revenues in light of updated information and the overall needs of the City at that time.

In addition, staffing projections used in this analysis are the best estimates given current information. The City will need to determine exact staffing levels for each department if annexation becomes a reality. There will likely be a transition phase as new staff are hired and trained, which can include substantial lead time. The number of personnel needed and the timing of hiring by position will have to be planned to a greater level of detail than was necessary for this planning-level analysis.

While this analysis provides a comprehensive look at the potential incremental impacts on the City's financial picture, it does not provide a full accounting of the City's projected sources and uses of funds.

### 2014 Base Year Budget

BERK started this study in mid-2014, and due to timing, used the 2014 City of Bremerton budget as a basis for building the baseline fiscal model. The preliminary draft results were submitted to City staff in late 2014. The City has since finalized the 2015 budget; however, after reviewing both 2014 and 2015 budgets, BERK determined that there were no considerable structural changes between these budgets. For this reason, BERK would not expect significant differences in planning-level results of the study and is comfortable with continuing to use 2014 as a basis for the analysis. BERK also consulted with the City's finance staff, who confirmed the reasonableness of this assumption.

### Analysis Considers City With and Without Annexation

To be an effective decision support tool, the analysis cannot consider fiscal impacts by looking just at the annexation areas alone, but instead must consider the potential impacts of annexation by comparing the fiscal outlook for the City of Bremerton under two alternative futures: (1) the future of the current City with boundaries unchanged and (2) the future of a larger version of the City that includes annexation of the Navy Yard City, Rocky Point, West Hills, and Gorst UGAs. Analysis of these two alternative futures provides a truly comprehensive look at the potential implications of annexation on long-term fiscal sustainability.

### Land-Based Fiscal Model

BERK developed an annexation fiscal model to estimate revenues and expenses for both the existing City and a post-annexation City. Taking the analysis into the future shows how the fiscal balance in the City

might change over time and how annexation might affect the long-term fiscal outlook for the new, larger City.

### Ongoing Costs and Revenues

The fiscal model estimates changes in the cost of services based on relationships between direct services, such as maintenance workers or planners, and underlying demographic and community changes, such as increases in population, housing units, commercial activity, and land area.

Costs are separately estimated for labor and non-labor categories:

- Labor costs are based on current salaries and benefits and an assumed annual escalation rate.
- Non-labor costs in each department are driven by the current relationships between the number of Full Time Equivalents (FTEs) in that department and the magnitude of non-labor costs in that department.
- Non-labor costs that are unrelated to the positions in a department (such as facilities maintenance, which is related to the size of a building, or street lighting costs, which are related to lane miles) are separated from the department costs and estimated based on relevant cost drivers.
- The analysis of operating impacts focuses solely on the general and street funds, as these are the primary operating funds for the City. Enterprise funds, whose operations are generally self-supporting through user fees, are not addressed as part of the operating impact analysis.

### Capital Cost and Revenue

The capital impact analysis includes capital costs from all City departments, including the enterprise funds, to capture all capital needs in the potential annexation areas. The capital revenue analysis focuses on general capital revenues, primarily the Real Estate Excise Tax.

## 1.5 DATA SOURCES

Data used in this report came from the following sources:

- City of Bremerton
  - City of Bremerton Budget, 2014
  - Staffing detail, including position titles, FTEs, salary and benefit costs, 2014
  - Bremerton Annexation of Gorst UGA Memo, 2014
  - Gorst Creek Watershed Stormwater Capital Improvement Plan, 2013
  - Gorst Planned Action Environmental Impact Statement, 2013
  - White Paper: Rocky Point Assumption Issues, 2014
  - Bremerton Department of Public Works and Utilities, Capital Improvement Program Overview, 2014
  - Bremerton Department of Public Works and Utilities, Water System Plan Update, 2012
  - Bremerton Department of Public Works and Utilities, Wastewater Comprehensive Plan Update, 2014
  - Bremerton Parks Department, Parks, Recreation & Open Space Plan, 2014
- Kitsap County
  - Kitsap County Assessor, Parcel data, 2014
  - Kitsap County, Buildable lands data, 2014

- Kitsap County Assessor, Personal property tax revenue, 2012
- Kitsap County GIS, Parcel and street layer, 2014
- Kitsap County, UGA Sizing & Composition Remand Final Capital Facilities Plan Update, 2012
- Kitsap County Parks, Recreation & Open Space Plan, 2012
- Kitsap County Public Works, Navy Yard City Sewer CFP 2015-2020, 2014
- Kitsap County Public Works, Sewer Utility Six-Year Capital Facilities Plan 2014-2019
- Kitsap County Public Works, Solid Waste Division Six-Year Capital Facilities Plan 2014-2019
- Kitsap County Public Works, Surface and Stormwater Plan Six-Year Capital Facilities Plan 2014-2019
- Kitsap County Public Works, Transportation Six-Year Improvement Program 2015-2020
- Puget Sound Regional Council
  - 2014 employment
- Washington State Department of Revenue
  - 2013 taxable retail sales
- Washington State Office of Financial Management
  - 2014 population
  - 2014 housing units

## 2.0 ASSUMPTIONS

### 2.1 GENERAL ASSUMPTIONS

#### General Assumptions

The analysis assumes that the City of Bremerton annexes the Navy Yard City, Rocky Point, West Hills, and Gorst UGAs into the City in 2016. The analysis assumes annexation related costs and revenues accrue on an annual basis beginning in 2016.

All analysis presented in this document is based on annual estimates. Actual impacts from annexation in any specific year will depend on the effective date of the annexation. Impacts in this document should be considered planning-level estimates for the City to understand the direction and magnitude of likely impacts.

**Escalation Assumptions.** The analysis assumes a general inflation rate of 3.0% annually. Staff salaries are escalated at 2.0% annually. Benefits are assumed to grow at 6.5% per year in most years, with the following exception: benefits are assumed to jump by 15% in 2018 due to Affordable Care Act implementation rules regarding health plans.

### 2.2 DEVELOPMENT ASSUMPTIONS

The analysis is built on the premise that key factors in the land base (such as population, employment, and commercial activity) drive both demand for services and changes in the City's tax base. Demand for services drives costs in the model, and depends on a jurisdiction's scope of services and choices regarding level of service. The tax base drives revenues and will vary based on a jurisdiction's choices regarding fiscal and taxing policy (limited by tax laws).

The BERK fiscal analysis framework is flexible and allows for varying assumptions about anticipated development in the City and annexation areas over time, and how these changes affect the underlying local tax base. In particular, the following elements are explicitly specified: (1) development assumptions including type, scale, and timing of new development; (2) type and mix of tenants, associated employment, and business income levels; (3) housing mix (single-family and multi-family) and density; and (4) productivity of new retail activity.

Development assumptions within the City of Bremerton's current boundaries assume a level of development activity similar to that seen historically. Development assumptions for the potential annexation areas are described below.

Exhibit 2 summarizes the population and employment projections that underlie the cost and revenue estimates in this study. The first column shows the current estimated housing units, population, and employment within the Navy Yard City, Rocky Point, West Hills, and Gorst UGAs. The subsequent columns show the estimated housing units, population, and employment in the UGA boundaries over time.



**Exhibit 2. Development Metrics for Potential Annexation Areas (2014-2031)**

	2014	2016	2021	2026	2031	AAGR 2014-2031
<b>Navy Yard City</b>						
Housing Units	1,332	1,365	1,447	1,529	1,611	1%
Population	2,613	2,727	2,916	3,105	3,294	1%
Est. Employment	374	435	597	776	974	6%
<b>Rocky Point</b>						
Housing Units	734	764	839	915	990	2%
Population	1,557	1,664	1,843	2,022	2,201	2%
Est. Employment	2	2	2	2	2	-
<b>West Hills Island</b>						
Housing Units	209	230	282	334	387	4%
Population	480	554	679	803	927	4%
Est. Employment	15	15	15	15	15	-
<b>Gorst</b>						
Housing Units	106	107	141	268	520	10%
Population	222	234	311	573	1,040	10%
Est. Employment	237	237	275	342	428	4%
<b>Total All Potential Annexation Areas</b>						
Housing Units	2,381	2,466	2,710	3,046	3,508	2%
Population	4,872	5,179	5,748	6,503	7,462	3%
Est. Employment	628	689	889	1,135	1,419	5%

Source: Kitsap County, 2014; BERK, 2015.

**Gorst.** These development assumptions are based on the adopted Preferred Alternative in the 2013 Gorst Subarea Plan, which designated long-term growth targets for 2035. Interim years are interpolated based on conversations with planners and City staff, and give a *conceptual representation* of the pace at which the UGA may develop to reach its long-term targets.

- Immediately upon annexation in 2016, the City of Bremerton will add to its boundaries the 107 housing units, 234 residents, and approximately 237 jobs in the Gorst UGA.
- By 2021, it's estimated that the Gorst area will have grown to include approximately 141 housing units, 311 residents, and approximately 275 jobs. All of this activity would be located within the new boundaries of the City of Bremerton.
- Based on the Gorst Subarea Plan, this fiscal analysis assumes that Gorst will grow to approximately 520 housing units, 1,040 residents, and approximately 428 jobs by 2031.

**Navy Yard City, Rocky Point, and West Hills.** Since a detailed subarea plan has not been developed for these subareas, development assumptions for this model were based on assuming similar build-out rates for these PAAs as for the Gorst subarea. Therefore, of the available capacity in each subarea, the same percentage of available residential and commercial capacity was assumed to be built out by 2035 in all four subareas. The driving assumption was the implicit build-out percentage from the Gorst Subarea Plan Preferred Alternative.

## 3.0 SUMMARY OF KEY FINDINGS

This section provides a brief overview of the key findings of how annexation of the Navy Yard City, Rocky Point, West Hills, and Gorst UGAs will impact the City of Bremerton, based on the conceptual development assumptions identified above. This section quantifies the impacts for both operating costs and revenues as the City transitions through the annexation.

- Short-term impacts, defined as 2016-2020, are explained in more detail in Section 4.0.
- Longer-term impacts of annexation (after 2020) are described in Section 5.0.

### 3.1 BASELINE BUDGET ASSUMPTIONS (NO ANNEXATION)

While all cities across the state are different in terms of tax bases, mixes of commercial and residential land uses, and fiscal policies, almost all cities face structural challenges in local government funding that have led to the cost of municipal services growing at faster rates than tax and fee revenues. This creates an ongoing budget challenge for cities to maintain adequate levels of service without changing tax and fee policies. The most significant contributors to this underlying structural challenge have been the result of two voter approved initiatives:

1. Initiative 695, which was passed by voters in 1999, reduced Motor Vehicle Excise Tax rates to a flat \$30 fee. A portion of these revenues were used to support sales tax equalization payments that were a significant funding source for many cities with lower than average sales tax collections.
2. Initiative 747 (and subsequent legislative action to restore the provisions of the Initiative after it was declared unconstitutional by the Supreme Court in November 2007) limits growth in property taxes to 1% per year, without voter approval. The effect of this change was to reduce the rate of growth in property tax revenues, which is one of the three most important sources of local government funding, to a rate that, in most cases, is lower than general inflation. The 1% limit does not apply to the value of new construction.

As a result, a projection of revenues and costs that assumes no change in current policies (tax or level-of-service) suggests the City of Bremerton can expect to face budget deficits in the coming years. This finding is consistent with the common fiscal challenge in most other cities in Washington State and is principally related to the impact of rising costs of doing business and additional staffing related to in-city growth needed to maintain existing levels of service.

Since a city cannot operate with a budget deficit, the Bremerton City Council will make choices each budget cycle to bring cost and revenue growth into alignment and maintain a balanced budget every year. When analyzing annexation, it is important to consider that the way in which the City chooses to address any baseline operating deficits may change the potential impacts of annexation. For example, if the City were to consider raising business or residential taxes to close the gap, the different tax rates would change revenues expected from the annexation areas based on the individual land base in those areas. If the approach were to reduce costs by modifying levels of service, then these revised levels of service would reduce costs associated with annexation in different proportions, again based on the land base and the corresponding demand for services.

It is not possible to know what the City of Bremerton's future Councils may choose to do to balance future budgets, and the City does not need to make those decisions at this time. Since the goal of this annexation study is to evaluate the incremental fiscal impacts of a potential annexation, it analyzes a

scenario which assumes continuing current policies. This results in a long-term outlook that shows increasing budget deficits. These long-term deficits represent the structural imbalance between municipal cost and revenue growth rates. In reality, the City will balance its budget in any given year.

### 3.2 ANNEXATION IS ESTIMATED TO PROVIDE A NET FISCAL BENEFIT TO THE CITY

The key finding of this analysis is that **the annexation of the Navy Yard City, Rocky Point, West Hills, and Gorst UGAs will have a slight negative impact in the short-term to the City of Bremerton, and a moderate annual benefit in the medium- to long-term.** A high-level picture of this finding is shown in Exhibit 3.

**Exhibit 3**  
**Estimated Long Term Net Fiscal Impact of Annexation**

	2017	2020	2032
<b>Core Expenditures</b>	<b>2,408,000</b>	<b>3,179,000</b>	<b>6,080,000</b>
<b>Core Revenues</b>	<b>2,215,000</b>	<b>3,715,000</b>	<b>6,336,000</b>
<i>FTEs from Annexation</i>	<i>13.5</i>	<i>15.0</i>	<i>18.9</i>
<b>Net Resources (000's)</b>	<b>(193,000)</b>	<b>536,000</b>	<b>256,000</b>
<b>Deficit/Surplus as % of Expenditures</b>	<b>-8%</b>	<b>17%</b>	<b>4%</b>

Source: BERK, 2015.

Note: This Exhibit shows the City's future fiscal outlook *if no changes were made to policies that impact costs and revenues.* In reality, the City Council will balance its budget each year. This table represents the impact that the Navy Yard City, Rocky Point, West Hills, and Gorst UGAs would have under the City's current cost and revenue structures.

The Exhibit shows that in the near term there may be a slight negative impact, as the City may need to hire some staff before the full revenue impacts of the UGA are realized. In addition, the near term figures include impact of potential property tax and sales tax revenue sharing with Kitsap County (approximately \$785,000 in 2017; see Section 4.1 for more information).

The short-term and long-term impacts on revenues and costs are described in more detail in the following sections. Specific decisions around long-term service decisions for police and fire services may change the long-term impact.

## 4.0 SHORT-TERM ANNEXATION IMPACTS

### 4.1 SHORT-TERM OPERATING REVENUE IMPACTS

Exhibit 4 shows short-term estimated revenues that would accrue to the City of Bremerton from annexation of the Potential Annexation Areas (PAAs), assuming annexation in 2016. All analysis presented in this document is based on annual estimates. Actual impacts from annexation in any specific year will depend on the effective date of the annexation. **This analysis of operating impacts only includes revenues for the General Fund and Street Fund.**

**Exhibit 4**  
**Annual Annexation Revenue Impacts, 2016-2020 (Assuming 2016 Annexation Year)**

Operating Revenues	2016	2017	2018	2019	2020
<i>Revenues not assuming any revenue sharing</i>					
Sales Tax	629,000	665,000	698,000	735,000	777,000
Criminal Justice Tax	60,000	63,000	66,000	68,000	72,000
Property Tax/Road Levy	0	1,088,000	1,128,000	1,168,000	1,209,000
Leasehold Excise Tax	0	0	0	0	0
Utility Taxes	296,000	312,000	330,000	347,000	368,000
Commercial Parking Tax	0	0	0	0	0
Gambling Tax	0	0	0	0	0
Solid Waste Franchise Fee	19,000	20,000	21,000	22,000	23,000
Building Permits and Fees	57,000	59,000	61,000	63,000	65,000
Business Licenses and Permits	11,000	12,000	13,000	14,000	15,000
EMS Levy	0	191,000	192,000	192,000	193,000
Liquor Board Profits and Excise Tax	52,000	54,000	56,000	59,000	61,000
Gas Tax	104,000	106,000	108,000	110,000	113,000
Planning and Plan Check Fees	23,000	24,000	24,000	25,000	26,000
Municipal Court Costs	61,000	63,000	65,000	67,000	69,000
Fines and Forfeits	134,000	140,000	147,000	153,000	161,000
Recreation Charges	(13,000)	(13,000)	(11,000)	(10,000)	(9,000)
Grants and Other Intergovernmental	108,000	113,000	119,000	124,000	129,000
Other Charges	29,000	31,000	32,000	33,000	35,000
B&O Tax	0	0	0	329,000	329,000
Police Services and Ambulance Transport Fees	68,000	71,000	74,000	76,000	79,000
Internal Charges for Service	0	0	0	0	0
<b>Total</b>	<b>1,638,000</b>	<b>2,999,000</b>	<b>3,123,000</b>	<b>3,575,000</b>	<b>3,715,000</b>
<i>Potential Impacts of Revenue Sharing</i>					
Loss in Sales Tax Revenue	(472,000)	(333,000)	(174,000)	0	0
Loss in Property Tax Revenue	0	(451,000)	(312,000)	(161,000)	0
<b>Total After Revenue Sharing</b>	<b>1,166,000</b>	<b>2,215,000</b>	<b>2,637,000</b>	<b>3,414,000</b>	<b>3,715,000</b>

Source: City of Bremerton, 2014; and BERK, 2015.

Exhibit 4 provides two different pictures of the level of revenue the City may receive from annexation. The top portion of the table shows the full level of revenue that would be generated by the PAAs. The bottom portion of the table provides a picture of how revenues may accrue to the City if the City were to sign a revenue sharing agreement with Kitsap County to mitigate the impacts of annexation on the County's finances. Such an agreement would only be put in place if the interlocal method of annexation were used.

Currently, the City is not subject to a revenue sharing agreement with Kitsap County. However, for the purpose of providing a conservative fiscal analysis, the revenue estimates assume that the City may choose to participate in revenue sharing.

The 2020 revenue impacts shown in Exhibit 4 reflect a stable picture of the PAAs going forward, given the assumption that any potential revenue sharing agreements with Kitsap County would be completed by 2020. In 2020, it's estimated that the City would receive approximately \$3.7 million in revenue from the annexation of these areas. This amount would grow going forward based on inflation as well as increased development in the UGA as services are built out.

## Operating Revenue Detail

This section describes the methodology used to estimate the primary revenue items described above.

### Primary Revenue Sources

As with many cities in Washington State, the three largest revenue sources for the City of Bremerton are Sales Tax, Property Tax, and Utility Taxes (including Payments In Lieu of Taxes (PILOT)), which make up approximately 60% of the City's 2014 general and street fund operating revenues. Additionally, the City levies a Business & Occupation (B&O) tax that is a significant revenue contributor, although the City is working to reduce this source of revenue over time.

**Sales Tax.** Taxable retail sales are assumed to increase by 0.5% per year more than the general inflation rate of 3.0% used in this analysis. If the City entered a revenue sharing agreement with Kitsap County to offset the impact to the County of losing the UGA, this analysis assumes the City would receive 25% of sales tax revenues generated in the UGA in 2016, 50% in 2017, 75% in 2018, and 100% of revenues thereafter. Any actual revenue sharing agreement would be negotiated with the County and may vary from these assumptions.

**Property Tax.** The property tax revenue (the amount that the City can collect) is limited to 1% or IPD (Implicit Price Deflator), whichever is lower, above the previous year collections plus a levy on the value of new construction. In future years, the base assessed value in the City and annexation areas is expected to increase at a rate of 2% (0.5% below inflation). Additional assessed value will be added to the area through residential and commercial development.

If the City entered a revenue sharing agreement with Kitsap County to mitigate the impacts of annexation on the County's budget, this analysis assumes that property tax revenues would be shared with the County using the same ratios as described above for sales tax. The timing of annexation will impact when the City begins to collect the property tax levy from the PAAs. Collections would only begin in 2017 if the City annexes the UGA early in 2016.

**Utility Tax and PILOT.** Utility taxes for telephone, gas, cable, electricity, and garbage are assumed to grow based on the combination of population and employment in the PAAs. Current rates of these utility revenues relative to population and employment in the City of Bremerton were applied to assumed population and employment totals in the UGA to estimate utility revenues generated within the UGA.

The City utility systems transfer Payments In Lieu of Taxes (PILOT) to the General Fund. PILOT payments include water, wastewater, and stormwater systems and are charged to the utility as a percentage of the total revenue from all customers. These revenues are similar to utility taxes and are projected in a similar fashion.

The City already provides water service within Gorst, Navy Yard City, and West Hills, and charges a 50% surcharge for these customers since they are outside city limits. Rocky Point currently has its own water district, although the water is purchased from the City of Bremerton; this study assumes that the Rocky

Point Water District would be absorbed into the City upon annexation. Therefore, annexation of these UGAs would result in a decrease in revenues from these customers to the utilities. This will subsequently result in a decrease in PILOT revenues to general and street funds (approximately \$95,000 in 2016).

**Business & Occupation Tax.** City of Bremerton is slowly reducing its dependency on B&O taxes as a major revenue source by increasing the total Gross Business Income (GBI) exemption by \$20,000 per year until the tax is no longer collected (Bremerton Municipal Code 3.48.050(2)(b)). In 2015, this exemption is at \$120,000. Due to this provision, B&O tax receipts have generally stayed flat over the last several years. To account for this going forward, B&O revenues for both the City and the annexation areas are projected to stay at current levels throughout the timeframe of this analysis, effectively reducing the real value over time.

In addition, business in the PAAs would be exempt from the City's B&O tax for the first three years after annexation. Therefore, B&O tax revenues are assumed to begin accruing to the City in 2019. For existing Gross Business Income (GBI) in the Gorst UGA, the model assumes that the City's retail tax rate will apply, since the majority of business activity in Gorst comes from the retail sector. This tax rate is 0.125%.

For the increase in GBI from development within the UGA, this analysis uses an effective tax rate of 0.1625% to account for exemptions and varying rates based on types of businesses. This effective rate reflects the City's current ratio of B&O tax revenues compared to total Gross Business Income (GBI) in the City.

### *Other Revenue Sources*

The City receives revenue from many other sources, as described below.

**Criminal Justice Tax.** Kitsap County levies a dedicated sales tax to support criminal justice expenditures. This 0.1% sales tax is collected by the state Department of Revenue, and is distributed to counties and cities on a per capita basis. In 2014, Bremerton estimates per capita criminal justice sales tax revenue at approximately \$11.04 per capita. Future revenues are calculated on a per capita basis, with the annual per capita revenue assumed to increase at the rate of inflation.

**Solid Waste Franchise Fee.** The Solid Waste provider in the City pays a franchise fee for providing this service within the City limits. These revenues are projected on a per capita basis and are estimated to be \$3.51 per resident in 2014. These fees are assumed to extend into the PAAs upon annexation.

**Building Permits and Fees, and Planning and Plan Check Fees.** These fees help cover the cost of staff that review building plans and permit applications for residents. Since the City does not set its fees on a strict cost recovery basis, these revenues are estimated on a per capita and per job basis, and are assumed to increase both with inflation as well as with increases in population and employment.

**Business Licenses and Permits.** The City of Bremerton charges a fee to obtain a business license within the city limits. These revenues are projected based on the ratio of total employment in the City and the annexation areas. Annual employment estimates are generated from land use and development assumptions within the model.

**EMS Levy.** The City of Bremerton is currently authorized by voters to levy an Emergency Medical Services tax. The maximum allowable levy is \$0.50. In 2014, the levy rate was \$0.50, since it was renewed at the maximum rate in August 2014.

Because the EMS Levy is a form of property tax, is it subject to the same 1.0% annual increase plus new construction in years without voter-approved increases. It is therefore assumed that the levy revenue

will begin to stabilize going forward as assessed values begin to grow at a pace more in line with historical growth as the region recovers from the recession.

The timing of annexation will impact when the City begins to collect the EMS levy from the PAAs. Collections would only begin in 2017 if the City annexes the UGA early in 2016.

**Liquor Board Profits and Excise Tax.** According to Washington State law, a share of the state profits from liquor sales and state collected excise tax on liquor is distributed directly to cities on a per capita basis. Currently, the City's budget estimates the per capita distribution for liquor profits and excise taxes to be \$9.89 in 2014. This per capita estimate is assumed to increase with inflation.

**Gas Tax.** A portion of the state-collected gas tax is shared directly with municipalities, which bear a substantial portion of the overall costs of road maintenance and construction. The gasoline and diesel tax is a flat amount levied per gallon (rather than a percentage of the price at the pump).

Cities are allowed to use this funding for maintenance or capital, and Bremerton uses the full funding amount for street maintenance. The gas tax revenue estimates from the City's budget project a per capita gas tax allocation of \$20.03 in 2014. Since the tax is a per-gallon tax and not impacted by changes in prices, this per capita number is assumed to remain constant into the future.

**Municipal Court Revenues.** These revenues are collected through fees that help cover the cost of Municipal Court services. These revenues are estimated to grow with increases in population and employment going forward, with the per capita and per employment amount growing with inflation into the future.

**Fines and Forfeits.** The City's budget currently projects the per capita revenues for fines and forfeits to be approximately \$24.53 in 2014. This per capita estimate is assumed to increase with inflation going forward.

**Recreation Charges.** This analysis assumes that current UGA residents are already using the City's parks and recreation services, and therefore new revenue will only come from population growth from development within the UGA. Users who live in the PAAs and currently pay for parks and recreation services are charged a 25% surcharge for being non-residents. Therefore, there would be some loss in revenue from these uses being transitioned into the City at first. Over time, the revenue from new users will offset revenue loss from the 25% non-resident surcharge.

**Grants and Other Intergovernmental Revenue.** The grants and transfers from other government agencies considered in this analysis are for operational expenditures only, not for capital projects. Future revenues from these sources are estimated on a per capita basis and applied to the annexation area population. The current per capita revenues, according to the City's 2014 budget, are \$20.08 and are assumed to increase at the rate of inflation. It is important to note that it is difficult to estimate this source of revenue, as grants tend to fluctuate widely from year to year, and that very little additional revenue will likely be seen from annexation.

**Police Services and Ambulance Transport Fees.** The City estimates it will receive approximately \$323,100 in 2014 from law enforcement services, such as fees for police service, fingerprint fees, and police records searches. Currently, the City's budget projects the per capita revenues for police services to be approximately \$20.57 in 2014. This per capita estimate is assumed to increase with inflation going forward.

This analysis assumes that the City would take over provision of fire and EMS services for Rocky Point, West Hills, and Navy Yard City. Bremerton Fire Department estimates approximately five ambulance transports per month from Navy Yard City, resulting in approximately \$21,000 in additional revenue per year.

**Other Charges.** This analysis models approximately \$250,000 in other miscellaneous revenues. These charges include revenue streams such as investment interest, donations, miscellaneous permits and fees not related to buildings or businesses, and other minor charges for City services. Currently the revenue estimated in the City’s budget projects the per capita revenues for these miscellaneous charges to be approximately \$6.79 in 2014. This per capita estimate is assumed to increase with inflation going forward.

**Car Tab Fees.** These fees currently accrue to the Transportation Benefit District (TBD) and are used to improve and repair existing streets. Tab fees are approved for a six year period and there is no existing City policy on allocating these revenues between capital and operating projects. In addition, any TBD revenues dedicated to operations in the Street fund are typically offset by expenditures to carry out the work plan, resulting in a net fiscal impact of zero. For these reasons, car tab fee revenue estimates are not included in this study.

**Leasehold Excise Tax, Commercial Parking Tax, Gambling Tax, and Internal Charges for Service.** These revenues are not expected to be impacted by the annexation of these PAAs, as the taxes are structured in such a way that they will not see an increase from adding the UGA to the City’s boundaries.

## 4.2 SHORT-TERM OPERATING COST IMPACTS

Exhibit 5 summarizes the estimated cost impacts of a 2016 annexation in 2020 – five years later. The chart shows 2020 because it presents a snapshot of the short-term impact of annexation once development in the PAAs has begun and the departments have hired up to their full short-term need. Years 2016-2019 are not shown in the table because the exact impact in any one year will depend on how the City chooses to ramp up its hiring. The City will need to weigh the impacts on the ground as well as the actual revenue increases from the PAAs to determine when hiring decisions need to be made. The methodology behind these hiring numbers is described after the chart.

**Exhibit 5**  
**Snapshot of Annexation Staffing and Cost Impacts, 2020**

Estimated Staff and Cost Impacts by Department	2020	
	FTEs	Annual Cost*
City Council	-	-
Mayor/Auditor	-	-
Finance/Human Resources	1.50	191,000
Engineering	-	-
Law Enforcement	6.50	1,055,000
Fire	3.00	970,000
Municipal Court	-	37,000
Community Development	1.50	207,000
Parks	0.50	84,000
Streets/Public Works	2.00	518,000
Legal	-	-
Non-departmental	-	117,000
<b>TOTAL</b>	<b>15.00</b>	<b>3,179,000</b>

*\* The annual cost includes staffing costs as well as non-labor costs such as contracts and equipment.*

Source: BERK, 2015.



The annual costs listed next to the FTE amounts reflect the total annual cost increase in each of these departments due to annexation. In some cases, these increases include equipment, supplies, utility costs, and contract charges.

## Operating Cost Detail

Operating cost and staffing impacts were estimated based on our land base fiscal model and refined after conversations with City staff. The following departments are estimated to receive cost impacts from the annexation:

- **Finance.** The finance department will likely need to add one additional Accounting Assistant II beginning in 2017 to handle the increase in licensing activity, and about 0.5 FTE additional payroll specialists to handle increased staffing levels in other departments.
- **Police.** The Police Department currently serves the City in five patrol areas with a total of 71 FTEs including commissioned and non-commissioned staff. According to the Bremerton Police Department, annexing all four PAAs at the same time would trigger the need for a new patrol area to serve the residents and businesses in these areas with the same response times that other City residents receive. While Rocky Point, West Hills, and Gorst do not currently generate a large call volume, Navy Yard City is known for a high volume of service calls related to felony crimes.

If a new patrol area were added, it would require 6.0 FTEs to provide full-day patrol service. There would also be a need for 0.5 FTE Community Resource Specialists.

There is a timing gap of approximately one year that exists for Police Officers between testing, academy, training, and readiness for patrol activities. To bridge this gap and also to phase-in the annexation impact in the short-term, the Police Department could add two FTEs to the graveyard shift (8pm until 6:40am) to cover the time with the highest number of calls. Another option is adding two FTEs to the graveyard shift and two FTEs to the day shift (6:20am until 5pm) to have better service coverage. However, both of these scenarios would still likely result in slower response times to the PAAs and possibly the City until the new patrol area is added.

These additional staff members will necessitate a one-time capital investment for new vehicles (3 patrol cars at \$42,000 each, using ratio of two officers per car) and equipment (\$5,000 per officer, \$30,000 total).

- **Fire.** The four PAAs differ in their estimated impacts to fire services:
  - **Gorst.** Given the geographic constraints of the UGA, the City plans to contract with South Kitsap Fire and Rescue (SKFR) to continue providing service to Gorst. The City would pay for this service based on SKFR's current levy rate of \$2.00 per \$1,000 AV. This equates to approximately \$100,000 annually beginning in 2014, and would increase over time with development in Gorst.
  - **Rocky Point.** Similar to Gorst, this area is currently served by SKFR. The City already responds to calls in this area based on mutual aid agreements, and the Fire Department estimates that they can provide service to this area with no additional staffing.
  - **West Hills.** This area is currently served by Central Kitsap Fire and Rescue (CKFR). Considering the small geography and low call volume, the Fire Department estimates that they can provide service to this area with no additional staffing.
  - **Navy Yard City.** This area is also currently served by SKFR; unlike other PAAs, it generates high volumes of calls for service. The Fire Department estimates that annexing this area will necessitate changes to the current response zones including the need for two additional firefighters.

In addition, the City would likely need to add one FTE for additional fire inspection services. This position would work with the fire marshal's office to conduct inspections of existing developments within the annexation areas to ensure they are compliant with the City's fire code as they come into the City's jurisdiction. This staff person would also support the need for additional inspections as development ramps up in Gorst.

- **Municipal Court.** The City currently contracts for public defender services, budgeted at \$285,000 per year in the City's 2014 budget. Since the increase in demand for these services is driven by caseload, this analysis assumes that this contract will increase proportionally with population growth over time. To estimate the impacts of annexation, the current per capita cost of this contract within the City was applied to the increase in population from annexation. This approach results in an estimated cost of approximately \$17,000 in 2014, growing with both inflation and population going forward. This contract cost also grows over time due to population increase within the current city boundaries. Considering caseload increases in the current city and annexation areas, the total contract is projected to increase to approximately \$380,000 in 2020.

In addition, the City will likely need to increase the Municipal Court's capacity to hear a higher number of cases. This can be accomplished by increasing the contracted number of hours with the Court Commissioner, estimated to cost approximately \$15,000 per year. This cost will continue to increase with inflation annually until 2021 when an additional part-time judge (or bigger contract for the Commissioner) is estimated to be needed.

The total cost impact of annexation is estimated at \$37,000 in 2020.

- **Community Development.** The community development department will likely need to add 1.5 FTE additional Building Development Specialist II (building inspector and plan reviewer) to handle the increase in permit activity citywide. These additional staff members will necessitate a one-time capital investment for a vehicle when they are hired. The analysis assumes a one-time cost of \$36,000 for vehicle and other equipment.
- **Parks Maintenance and Recreation.** The City's parks Level of Service (LOS) requires a neighborhood park to be within ½ mile pedestrian distance of all residences. Based on the land area included in the PAAs and the locations of existing neighborhood and community parks, the model estimates there would need to be seven new neighborhood parks to meet LOS requirements for the newly annexed areas. Using a minimum of 1.5 acres per new neighborhood park, this translates into a minimum of 10.5 acres of new park area in the annexed areas. Assuming a maintenance cost to the City of approximately \$4,000 per developed acre, this would generate about \$42,000 in costs per year once the parks are developed (reflected in the model as 0.25 FTE laborer, with associated non-labor costs). While the exact development timeline of these parks is unknown, this analysis assumes maintenance beginning in 2019 to provide the City with a conservative estimate of cost impacts.

Additionally, based on population growth, the City may need to hire approximately 0.25 FTEs in recreation program staff to support additional recreational users once residential development in the UGA comes online.

- **Street Maintenance.** The new lane miles that will be added to the City through annexation, from both the existing roads in the PAAs as well as new roads that will be built as the UGA develops, will drive the need for additional maintenance staff. Based on the constraints of hiring for partial positions, the City would have to add a full 2.0 FTE based on the additional demand.

Additionally, there will be marginal costs related to the additional lane mileage beyond staff time, including supplies, materials, and utility costs to support the maintenance work. This results in annual costs of significantly more than just salaries and benefits for the 2.0 FTE. These additional non-labor costs are based on the average non-labor costs per FTE that the City currently budgets in the Street Fund.

- **Non-Departmental Impacts.** In addition to department-specific impacts, the growth in population and development will result in marginal cost increases to election services, population-based contracts with other jurisdictions, and programs like animal control. These costs are based on the share of population between the baseline City and the City after annexation. This analysis of non-departmental impacts includes the following major costs:
  - Election services
  - Care and custody of prisoners
  - Animal Control
  - Kitsap County emergency management contract
  - Public health district contract and alcoholism programs

Additionally, the City may incur additional costs from assuming responsibility for the proportionate share of South Kitsap Fire and Rescue’s (SKFR) debt service that is paid by residents of the PAAs.

In total, non-departmental impacts are estimated at about \$100,000 per year immediately after annexation, and the majority of these costs will grow with inflation and population over time.

The analysis assumes that the other departments not mentioned explicitly above – such as City Council, Legal, the Mayor’s and Auditor’s Offices, and Engineering – will not be impacted.

### 4.3 SHORT-TERM CAPITAL IMPACTS

The following provides an overview of short-term capital facility projects between 2015 and 2020 with an assumption of annexation in 2016. Overall, there are nine separate short-term capital facility projects identified, totaling approximately \$18.6 million. Responsibility for these projects is divided between the City of Bremerton, Kitsap County, public grants, and local utility LIDs. Exhibit 6 provides a list of the individual projects by capital facility type, PAA, and funding source.

**Exhibit 6 Planned Short-term Sewer Capital Projects**

Capital Facility Type	UGA	Projects	Costs	Year	Funding Source <sup>1</sup>
Sewer	Navy Yard City	Navy Yard City I & I Collection System Improvements (#4107001)	\$2,650,000	2015-2016	Kitsap County
Sewer	Rocky Point	Phinney Bay Extension (Sub Basin RP-3) (#NS-2A)	\$1,960,000	2016-2017	UFA/G
Sewer	Navy Yard City, Rocky Point, West Hills, et al	East & West Brem UGA Sewerage - ULID Development (#NS-1-NS-8)	\$4,050,000	2016-2018	UFA/G
Sewer	Rocky Point	Jackson to Corbet Drive (Sub Basin RP-3) (#NS-2F)	\$830,000	2017-2018	UFA/G
Sewer	West Hills	Ostrich Bay Extension (#NS-4A)	\$3,720,000	2018-2020	UFA/G
Sewer	Rocky Point	Sewer Collection - Sub Basin RP-5 (#NS-2H)	\$1,910,000	2018-2020	UFA/G
Sewer	Navy Yard City	Westside WWTP Outfall (#C-11)	\$2,650,000	2019-2020	UFA
Sewer	Navy Yard City, Gorst	Grout Annular Space of SW Bremerton Force Main (#C-18)	\$200,000	2020	UFA
Stormwater	Gorst	Gorst Creek Watershed Flood Cause Study	\$600,000	< 2020	UFA/G
<b>Total</b>			<b>\$18,570,000</b>		

<sup>1</sup> UFA = User Fee Assessment; G = Grants & LID

SOURCE: City of Bremerton Wastewater Comprehensive Plan Update, 2014; Gorst Creek Watershed Stormwater Capital Improvement Plan, 2013.

## City of Bremerton Responsibilities

For purposes of this analysis, capital facility projects financed by user fee assessments (UFA) were classified as City of Bremerton projects. A conservative approach was taken whereby projects that either have full or partial City funding ownership including UFAs were categorized as City funded projects. As a result, it is estimated that approximately \$15.9 million in short-term capital facility projects would be funded by the City.

The following provides a brief overview of short-term capital facility projects by capital type for those projects identified as having City-based funding sources.

**Fire.** (Cost: None). There were no short-term capital impacts related to Fire services for annexation.

**Police.** (Cost: None). There were no short-term capital impacts related to Police services for annexation.

**Parks.** (Cost: None). There were no short-term capital impacts related to Parks services for annexation.

**Sewer.** One to seven projects (Cost: up to \$15.3 million). A total of seven short-term sewer capital facility projects have been identified that are located across the four annexation areas. The four PAAs differ in their respective estimated impact to short-term sewer capital facilities as listed below. *Note: Some projects overlap or cross annexation geographies and may be listed more than once.*

- **Gorst.** (Cost: Up to \$200,000). One short-term sewer-related capital improvement project was identified for Gorst, the Grout Annular Space of SW Bremerton Force Main. This project is funded by the City via user assessment fees.
- **Navy Yard City.** (Cost: Up to \$6.9 million). Three short-term sewer capital facility projects have been identified for Navy Yard City including:
  - Westside WWTP Outfall
  - East and West Bremerton UGA Sewerage – ULID Development
  - Grout Annular Space of SW Bremerton Force Main

All of these projects would be financed by a combination of user fees assessments, grants, and/or utility LIDs.

**Navy Yard City – Additional Context:** Prior to the current annexation study, the County expressed interest in the City taking ownership of the Navy Yard City sewer infrastructure. However, as the infrastructure for this area dates to WWII there are significant related operating, maintenance, and capital facility costs. Approximately five years ago the County offered the City \$1,000,000 in capital funding to support transition to City ownership. At the time, it was decided that City ownership did not make sense from a financial perspective and transition of ownership to the City did not take place.

Currently, there is one short-term sewer capital facility project listed within the *Kitsap County Public Works Sewer Utility Six-Year Capital Facilities Plan* – the Navy Yard City I & I Collection System Improvements project, with an estimated cost of \$2.7 million. Based upon conversations with the City, this project would need to be completed by the County as a prerequisite for annexation.

- **Rocky Point.** (Cost: up to \$8.8 million). A total of four short-term capital improvement projects have been identified including:
  - Jackson to Corbet Drive Sub Basin RP-3
  - Phinney Bay Extension Sub Basin RP-3

- Sewer Collection Sub Basin RP-5
- East and West Bremerton UGA Sewerage – ULID Development

All of these projects would be financed by a combination of user fess assessments, grants, and/or utility LIDs.

- **West Hills.** (Cost: up to \$1.5 million). Two short-term capital facility projects have been identified including:
  - Ostrich Bay Extension
  - East and West Bremerton UGA Sewerage – ULID Development

All of these projects would be financed by a combination of user fess assessments, grants, and/or utility LIDs.

**Stormwater.** One project (Cost: up to \$600,000). The *Gorst Creek Watershed Capital Improvement Plan* lists the need for a Flood Cause Study to evaluate flooding within the UGA. The plan estimated the cost of the study at \$600,000 and designated the City of Bremerton as responsible for funding. Listed revenue sources for this Flood Cause Study include the stormwater fund and grants. There were no other short-term stormwater capital facility projects identified in the remaining PAAs.

**Transportation:** (Cost: TBD). There were no short-term capital impacts related to transportation for annexation.

**Water.** (Cost: None). There were no short-term capital impacts related to water capital facilities for annexation.

## Short-term Capital Revenues

The City of Bremerton’s capital projects are primarily funded by the Capital Improvement Funds, except for capital projects undertaken by the City’s enterprise funds. Those capital projects are generally funded by the enterprise funds themselves.

The City manages four capital improvement funds – general capital improvements, park facilities construction, Washington Avenue connector, and Lower Wheaton Way. The largest funding sources for Washington Avenue connector and Lower Wheaton Way are grants, which are not expected to be impacted by annexation. The remaining capital funds are primarily supported by the Real Estate Excise Tax (REET). This section describes how the annexation would generate additional REET revenues.

**Real Estate Excise Tax.** The REET is levied on all sales of real estate, both commercial and residential, that occur within City boundaries. The City collects REET at a 0.5% tax rate based on the transaction price of the sale.

To estimate REET revenues, this analysis makes assumptions about the turnover rate of properties within the PAAs. The current rate of real estate sales is still slightly lower than historical averages due to the recovery from the recession. To be conservative, this analysis assumes a turnover rate of 4.0% for residential properties and 2.5% for commercial properties through 2015, and then a return to a more typical rate of 5.0% for residential properties and 3.5% for commercial properties for 2016 and beyond.

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These assumptions result in the following REET revenue impacts from the PAAs: in the near term, 2016-2020, the City is estimated to receive a total of approximately \$675,000 in REET revenues from the PAAs, or an average of about \$135,000 per year. This is based on turnover of existing property as well as sales of new development. This compares to approximately \$400,000 in the City's REET revenue per year, which is expected to increase as the economy recovers and development returns to a more typical pace.

The City has additional revenue sources, besides REET, that can be used for capital funding. These include the Motor Vehicle Fuel Tax and the Commercial Parking Tax. However, given current pressures on operations through the general and street funds, it may be difficult for the City to reallocate significant portions of these funds to capital expenditures in the short-term.

## 5.0 LONG-TERM ANNEXATION IMPACTS

### 5.1 LONG-TERM OPERATING IMPACTS

Over the long run, it is estimated that revenues generated by activity in the PAAs will be higher than costs and staffing needs generated by the areas. These general long-term fiscal impacts of annexation mirror the short-term findings, as shown in Exhibit 3, and will result in a positive annual impact to the City of Bremerton's operations budget.

However, as with any long-term financial analysis, there are risks inherent in some of the revenue and cost analysis that could arise. A few issues that could substantially change the long-term outlook include:

**Development Assumptions.** The development assumptions included in the model drive nearly all of the cost and revenue findings presented above. Very few impacts are generated simply by the geography of the annexation, rather they are generated by the people and businesses that choose to live and operate there. Therefore, there would be risk if the PAAs did not develop as quickly as planned.

The risk is primarily that the PAAs would not have as large of a fiscal benefit to the City. Given the moderate current population and the low level of service need, a lower development rate would result in both lower costs and revenues, resulting in a minor and possible negligible fiscal benefit if development did not occur.

**Fire Service Needs.** The short term impacts of annexing Gorst UGA are to be addressed through a contract with South Kitsap Fire & Rescue. However in the long term, the City would need to look at providing these services directly. In that case, the City would need a fire station (of which there is one currently in Gorst), an engine/paramedic unit, and 6-12 FTE's to provide fire service.

### 5.2 LONG-TERM CAPITAL IMPACTS

Over the remainder of the study period, there are additional capital facility needs, particularly for parks, sewer, stormwater, and transportation facilities. Responsibility for these projects is divided between the City of Bremerton, Kitsap County, Washington Department of Transportation (WSDOT), and private property owners via local utility LIDs.

#### All Capital Facility Needs

The scope of this analysis does not include a new examination of all PAAs' capital facility needs. Instead this section focuses on compiling and describing the capital needs identified in recent capital facility needs analyses including:

- City of Bremerton, Bremerton Annexation of Gorst UGA Memo, 2014
- City of Bremerton, Gorst Creek Watershed Stormwater Capital Improvement Plan, 2013
- City of Bremerton, Gorst Planned Action Environmental Impact Statement, 2013
- City of Bremerton, White Paper: Rock Point Assumption Issues, 2014
- Bremerton Department of Public Works and Utilities, Capital Improvement Program Overview, 2014
- Bremerton Department of Public Works and Utilities, Water System Plan Update, 2012

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- Bremerton Department of Public Works and Utilities, Wastewater Comprehensive Plan Update, 2014
- Bremerton Parks Department, Parks, Recreation & Open Space Plan, 2014
- Kitsap County, UGA Sizing & Composition Remand Final Capital Facilities Plan Update, 2012
- Kitsap County Parks, Recreation & Open Space Plan, 2012
- Kitsap County Public Works, Navy Yard City Sewer CFP 2015-2020
- Kitsap County Public Works, Sewer Utility Six-Year Capital Facilities Plan 2014-2019
- Kitsap County Public Works, Solid Waste Division Six-Year Capital Facilities Plan 2014-2019
- Kitsap County Public Works, Surface and Stormwater Plan Six-Year Capital Facilities Plan 2014-2019
- Kitsap County Public Works, Transportation Six-Year Improvement Program 2015-2020

### City of Bremerton Responsibilities

Funding sources for the identified long-term capital facility projects vary by project type and include the City of Bremerton, Kitsap County, WSDOT, grants, and local utility LIDs. For purposes of this analysis, capital facility projects financed by user fee assessments (UFA) were classified as City of Bremerton projects.

Overall, after the year 2020 there are 32 projected capital facility projects located across the PAAs, totaling \$51.3 million. Exhibit 7 provides a high level summary of long-term capital facility costs by jurisdictional funding source with an estimated \$33.8 million worth of capital facility projects to be funded by the City of Bremerton.

As shown in detail in Exhibit 8, there are multiple long-term capital facility projects whose funding sources are either undetermined or potentially shared. As a result, a conservative approach was taken whereby projects that either have full, potential, or undetermined City funding ownership were listed as City of Bremerton projects. A brief discussion of long-term capital facility projects by facility type is provided below.

**Exhibit 7 Long-term Capital Facility Projects by Jurisdiction**

	City	County	County/State	State	Total
Fire	TBD	-	-	-	\$ -
Parks	TBD	-	-	-	\$ -
Police	-	-	-	-	\$ -
Sewer	\$ 31,890,000	-	-	-	\$ 31,890,000
Stormwater	\$ 1,858,000	-	\$ 456,000	\$ 3,224,000	\$ 5,538,000
Transportation	TBD	\$ 12,804,000	-	-	\$ 12,804,000
Water	-	-	\$ 1,100,000	-	\$ 1,100,000
<b>Total</b>	<b>\$ 33,748,000</b>	<b>\$ 12,804,000</b>	<b>\$ 1,556,000</b>	<b>\$ 3,224,000</b>	<b>\$ 51,332,000</b>

Source: Kitsap County/City of Bremerton Gorst Creek Watershed Stormwater Capital Improvement Plan, 2013; City of Bremerton Wastewater Comprehensive Plan Update, 2014; City of Bremerton Parks, Recreation & Open Space Plan, 2014; Kitsap County Public Works Transportation Six-Year Improvement Program 2015-2020; City of Bremerton Wastewater Comprehensive Plan Update, 2014.



**Fire.** New fire station and equipment (Cost: TBD). Upon annexation, the South Kitsap Fire & Rescue district would provide support services including equipment to the Gorst UGA. Over the long-term the City would assume fire service to this area requiring a fire station and the purchase of related equipment (e.g. fire engine, paramedic unit). The estimate for these costs are undetermined but would be needed as part of long-term capital facilities planning for the City.

**Police.** (Cost: None). There were no long-term capital impacts related to Police services for annexation identified.

**Parks.** Seven additional neighborhood parks totaling 10.5 acres in size (Cost: TBD). To meet Level of Service (LOS) standards established by the City, a neighborhood class level park is required to be within ½ mile pedestrian distance of all residences. Based on the land area included in the PAAs and the locations of existing neighborhood and community parks, the analysis estimates there would need to be seven new neighborhood parks to meet established LOS requirements within the newly annexed areas. The LOS park analysis excludes both Pendergast Park Regional Park in Navy Yard City and Harborside Fountain Park in Bremerton.

Using a minimum of 1.5 acres per new neighborhood park, an additional seven new parks would translate into a minimum of 10.5 acres of new park lands that would need to be purchased in the annexed areas. The estimated cost of purchasing new park lands depends on a variety of factors such as location, site topography, potential remediation needs, and other factors. Estimating this cost is outside the scope of this analysis; this cost remains undetermined.

**Exhibit 8. Long-term Capital Facility Projects by Capital Facility Type**

Capital Facility Type	UGA	Projects	Costs	Year	Funding Source <sup>3</sup>
Fire	All	Fire station; engine/paramedic unit	TBD	> 2020	TBD
Parks <sup>1</sup>	All	7 Additional neighborhood parks (10.5 acres)	TBD	> 2020	TBD
Police	All	None	\$0	> 2020	-
Sewer	Navy Yard City	Replace Crosstown Pipeline (#C-3)	\$8,600,000	> 2020	UFA
Sewer	Navy Yard City	SR 304 Sewer Collection (#NS-3)	\$4,280,000	> 2020	UFA/G
Sewer	Rocky Point	Pump Station MD-2 (#NS-2B)	\$4,730,000	> 2020	UFA/G
Sewer	Rocky Point	Pump Station MD-3 (#NS-2C)	\$2,830,000	> 2020	UFA/G
Sewer	Rocky Point	Sewer Collection - Sub Basin MD-1 (#NS-1A)	\$2,550,000	> 2020	UFA/G
Sewer	Rocky Point	Sewer Collection - Sub Basin MD-2 (#NS-1B)	\$1,320,000	> 2020	UFA/G
Sewer	Rocky Point	Sewer Collection - Sub Basin RP-1 (#NS-2D)	\$1,220,000	> 2020	UFA/G
Sewer	Rocky Point	Sewer Collection - Sub Basin RP-2 (#NS-2E)	\$2,180,000	> 2020	UFA/G
Sewer	Rocky Point	Sewer Collection - Sub Basin RP-4 (#NS-2G)	\$820,000	> 2020	UFA/G
Sewer	Rocky Point	Sewer Collection - Sub Basin RP-5 (#NS-2H)	\$1,910,000	> 2020	UFA/G
Sewer	West Hills	North Extension (#NS-4B)	\$1,450,000	> 2020	UFA/G
Stormwater	All	NPDES Upgrades	TBD	> 2020	TBD
Stormwater	Gorst	Gorst Creek floodplain flooding	\$15,000	> 2020	TBD
Stormwater	Gorst	Highway flooding from two creeks	\$3,224,000	> 2020	WSDOT
Stormwater	Gorst	Hillside seepage & stream overbank flooding	\$99,000	> 2020	TBD
Stormwater	Gorst	Private storm sewer piping creating sink hole & fish passage barrier	\$456,000	> 2020	County/State
Stormwater	Gorst	Roadway undermining and culvert clogging	\$13,000	> 2020	UFA/G
Stormwater	Gorst	Storm drain piping & sink hole	\$216,000	> 2020	TBD
Stormwater	Gorst	Stream overtopping	\$1,049,000	> 2020	TBD
Stormwater	Gorst	Upstream Culvert 12 inlet flooding and fish passage, Map ID #111010	\$292,000	> 2020	TBD
Stormwater	Gorst	Water quality concerns with yard flooding	\$0	> 2020	-
Stormwater	Gorst	Water quality with private pond	\$0	> 2020	-
Stormwater	Gorst	WSDOT Hwy 3 flooding	\$174,000	> 2020	TBD
Transportation <sup>2</sup>	All	Possible bike improvements	TBD	> 2020	TBD
Transportation	All	Possible pedestrian Improvements	TBD	> 2020	TBD
Transportation	Gorst	Belfair Widening to 4 lanes - Bremerton City Limits to Sam Christopherson Ave.	\$2,822,000	> 2020	County
Transportation	Gorst	Belfair Widening to 4 lanes - Mason County Line to Bremerton City Limits	\$9,982,000	> 2020	County
Transportation	Gorst	Possible Intersection improvements - Sherman Heights Road	TBD	> 2020	TBD
Water	All	None	\$1,100,000	> 2020	County/State
<b>Total</b>			<b>\$51,332,000</b>		

1 This table does not include costs of upgrading the UGAs' current transportation infrastructure to an urban standard.

2 These parks were identified as part of the long-term annexation analysis, and are not identified in any existing City or County capital documents.

3 UFA = User Fee Assessment; G = Grants & LID

Source: Kitsap County/City of Bremerton Gorst Creek Watershed Stormwater Capital Improvement Plan, 2013; City of Bremerton Wastewater Comprehensive Plan Update, 2014; City of Bremerton Parks, Recreation & Open Space Plan, 2014; Kitsap County Public Works Transportation Six-Year Improvement Program 2015-2020; City of Bremerton Wastewater Comprehensive Plan Update, 2014.

**Sewer.** One to eleven projects (Cost: up to \$31.9 million). A total of 11 long-term sewer capital facility projects have been identified that would be fully or partially located within the PAAs. All of the 11 long-term sewer projects identified are listed in the 2014 *City of Bremerton Wastewater Comprehensive Plan Update*. The four PAAs differ in their estimated impacts to sewer capital facilities:

- **Gorst.** (Cost: None). No long-term sewer capital improvements have been identified.
- **Navy Yard City.** (Cost: Up to \$12.9 million). Two long-term sewer capital improvement projects have been identified. The first is the Replace Crosstown Pipeline project to be financed by user fee assessments. The second is the SR 304 Sewer Collection project and it would be financed by a combination of user fess assessments, grants, and/or utility LIDs.
- **Rocky Point.** (Cost: up to \$17.6 million). A total of eight long-term capital improvement projects have been identified. These include two pump station projects (Pump Station MD-2 and MD-3) and six sub-basin sewer collection projects (Sub Basin MD-1, MD-2, RP-1, RP-2, RP-4, and RP-5). All projects would be financed by combination of user fess assessments, grants, and/or utility LIDs.
- **West Hills.** (Cost: up to \$1.5 million). One project has been identified – the North Extension project. This project would be financed by combination of user fess assessments, grants, and/or utility LIDs.

**Stormwater.** (Cost: up to \$1.86 million). The majority of long-term stormwater projects identified are within the Gorst annexation area. Additional NPDES-related stormwater projects are anticipated across all PAAs (see Exhibit 9).

- **All PAAs.** It is anticipated that the NPDES regulatory framework adopted by the City of Bremerton would facilitate the planning and building of new stormwater structures within any one or all of the PAAs. To date, no NPDES related capital improvement projects have been identified nor funding sources identified. However, upon annexation, NPDES related projects may add costs and/or impacts to stormwater capital facility planning over the long-term.
- **Gorst.** Between one to seven projects (Cost: up to \$1.86 million). The *Gorst Creek Watershed Plan* identifies 35 sites within the watershed that need stormwater improvements. Of these projects, 11 are within the Gorst UGA. These projects are shown in Exhibit 9 below.

**Exhibit 9  
Long-term Stormwater Capital Facility Needs for the Gorst UGA (2018 - 2035)**

Projects	Costs	Designated Responsibility
WSDOT Hwy 3 flooding	\$174,000	City
Hillside seepage & stream overbank flooding	\$99,000	City
Storm drain piping & sink hole	\$216,000	City
Highway flooding from two creeks	\$3,224,000	WSDOT
Stream overtopping	\$1,049,000	City
Gorst Creek floodplain flooding	\$15,000	City
Roadway undermining and culvert clogging	\$13,000	City
Private storm sewer piping creating sink hole & fish passage barrier	\$456,000	Non-city, County, State
Upstream Culvert 12 inlet flooding and fish passage, Map ID #111010	\$292,000	City
Water quality concerns with yard flooding	\$0	-
Water quality with private pond	\$0	-
<b>Total</b>	<b>\$5,538,000</b>	

Source: Kitsap County/City of Bremerton Gorst Creek Watershed Stormwater Capital Improvement Plan, 2013.

The plan provides initial cost estimates for these projects and lists the entity responsible for each project. Of the 11 projects in the Gorst UGA, seven are designated the responsibility of the City of Bremerton. These seven projects total \$1.86 million. Responsibility for stormwater projects is based on the *Gorst Creek Watershed Stormwater Capital Improvement Plan Technical Memorandum* completed in September, 2013.

Discussions with the City of Bremerton Public Works Department indicate that they believe the City is only responsible for projects in the public right-of-way, which is just one project totaling \$13,000. There are also three sites where the responsibility is uncertain. These uncertain projects' costs total \$771,000. As a result, potential long-term stormwater capital costs vary widely based on how responsibility is ultimately assigned.

To be conservative, the City may want to assume the maximum of \$1.86 million when considering the full impacts of annexation. Once Gorst residents begin paying into the City's stormwater fund, the City may be expected to partner on drainage issues on both public and private party.

**Transportation.** (Cost: TBD). Future transportation infrastructure capital investments will be necessary to achieve a modern urban standard. The City should consider long-term planning around upgrading the UGAs' current transportation infrastructure to an urban standard which may include adding sidewalks, curbs, gutters, bike paths, and storm drain systems. These improvements could be phased over time as the City identifies specific needs and revenue sources.

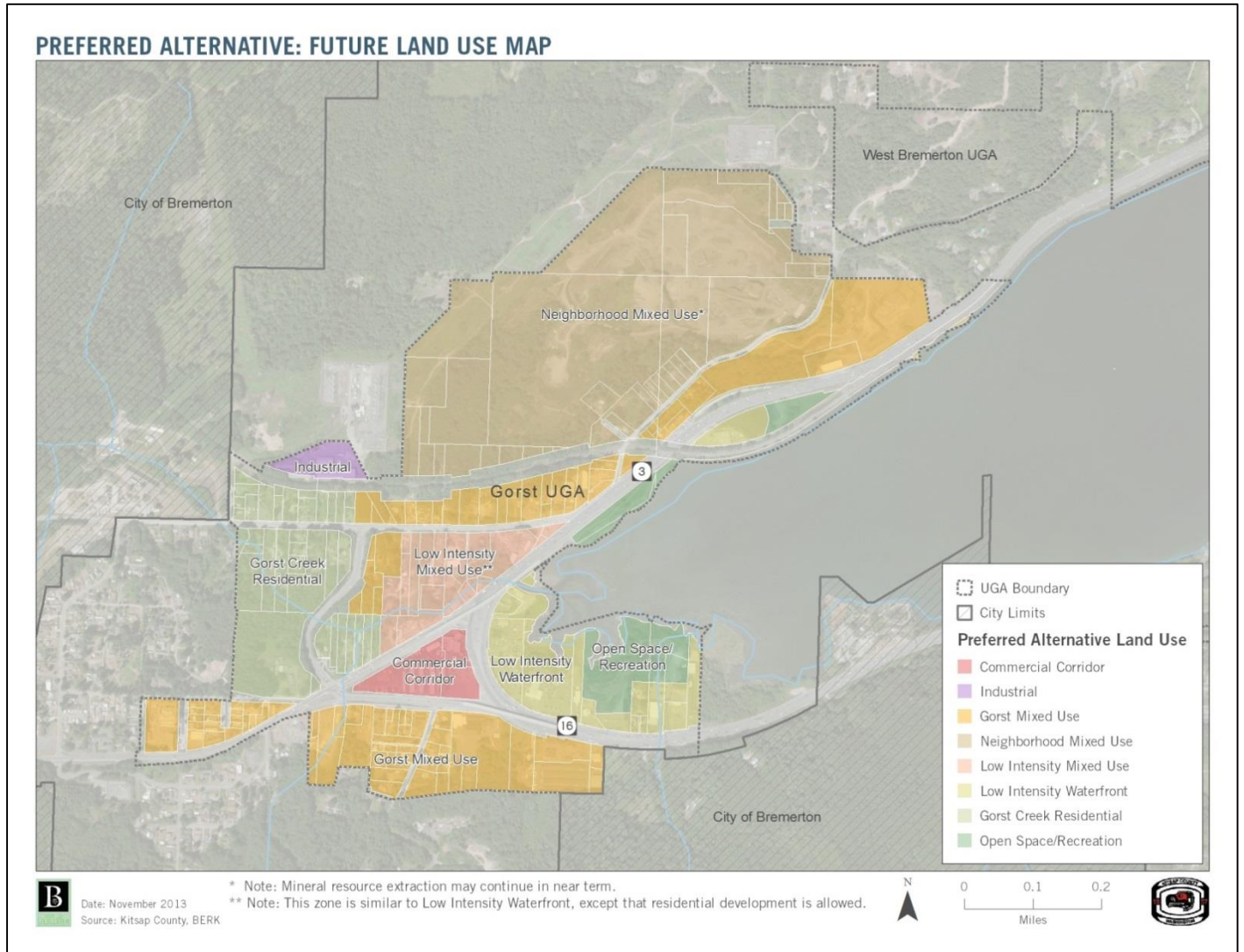
**Water.** (Cost: Up to \$1.1 million). Currently, the City's Water Utility provides drinking water to the Gorst, Navy Yard City, and West Hills annexation areas as part of the Bremerton Service Area. The City also ultimately supplies drinking water to the Rocky Point annexation area but its relationship to Rocky Point remains unique.

In particular, although Rocky Point conveyed its water system infrastructure to the City in 1952, the area has maintained its own special purpose water district with an elected three-person board of commissioners with responsibilities for administration, planning, and capital improvements. This structure currently results in redundant costs for Rocky Point residents. Upon annexation the City would likely enter into negotiations with the Rocky Point Water District for potential inclusion within the City of Bremerton water utility. Prior to assumption by the City, should that occur, improvements may need to be completed within the Rocky Point Water District, financed by non-City funding sources. These improvements have an estimated cost of approximately \$1.1 million.

# APPENDIX A: GORST PREFERRED ALTERNATIVE LAND USE MAP

Exhibit A- 1 shows the future land use map for the Gorst UGA under the Preferred Alternative.

**Exhibit A- 1  
Gorst UGA Preferred Alternative Future Land Use Map**



Source: City of Bremerton, 2014.