

Town of Los Gatos

REQUEST FOR PROPOSALS

FISCAL CONDITION ANALYSIS WITH FIVE-YEAR AND LONG-TERM FORECAST, FISCAL IMPACT ANALYSIS, AND ASSET LIABILITY MANAGEMENT STUDY

Date Issued: 8/20/2025

Proposal Submittal Deadline: 9/22/2025, by 4:00 p.m. Pacific Standard Time

Issued By:

Issued By:
Town of Los Gatos – Finance Department
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Schedule of Activities (Tentative):

Activity	Anticipated Date
RFP Release	8/20/2025
Deadline for Questions	9/15/2025
Last Day to Issue Addenda	9/17/2025
Proposal Submission Deadline (4:00 p.m.)	9/22/2025
Proposal Evaluation	Week of September 22, 2025
Consultant Interviews (if necessary)	Week of September 29, 2025
Contract Negotiation and Execution	Week of September 29, 2025

Town Contacts:

Gitta Ungvari, Finance Director
Email: Finance@losgatosca.gov

A. PURPOSE

The Town of Los Gatos is seeking proposals from qualified firms to perform one or combined studies including:

1. A Fiscal Condition Analysis with Five-Year and Long-Term Financial Projections, and or
2. A Fiscal Impact Analysis for proposed and planned growth.

And to provide a separate proposal not to be combined for the following

3. An Asset Liability Management (ALM) Study.

Proposers may submit responses for each of the first two studies individually and as a combined packaged. For the third study, the Town is looking for a proposal that is not combined with the first two studies.

The three studies are listed in priority order with the most time sensitive being the fiscal condition analysis with five-year and long-term financial projections. Based on the proposals, the Town will determine which of the proposals to accept with emphasis on the most time sensitive analysis.

The Town reserves the right, at its sole discretion, to cancel, withdraw, postpone, or modify this RFP at any time, including after receipt of proposals, without incurring any obligation or liability to any proposer. The Town also reserves the right, after contract execution, to terminate the agreement for convenience, without cause, upon thirty (30) days written notice, with no liability beyond payment for work satisfactorily performed to the date of termination.

Issuance of this RFP does not commit the Town to award a contract, to pay any costs incurred in the preparation of a proposal, or to procure or contract for any services.

B. OVERVIEW

The Town is undertaking this analysis to obtain an independent, data-driven assessment of its fiscal condition and near-term outlook. Current internal five-year projections indicate structural operating deficits, and the Town seeks third-party validation of assumptions, methodologies, and results to inform decision-making by staff, the Finance Commission, and the Town Council. The selected Consultant will evaluate historical trends and structural drivers, develop a transparent five-year multi-scenario forecast, and quantify risks, sensitivities, and reserve implications, while clearly distinguishing one-time from ongoing resources. The objective is to provide a public-facing foundation for budget strategy, service level planning, and proactive risk management.

Concurrently, the Town faces multiple large development proposals, including affordable housing projects associated with the General Plan and Housing Element. The Town requires a clear understanding of the net fiscal effects of this growth—revenues and costs, operating and capital, timing and step-cost triggers (e.g., staffing, equipment, facilities)—under best-case, baseline, and worst-case scenarios through 2040. In addition, the Town seeks to inventory and evaluate key asset-liability exposures (pension, OPEB, bonded debt, and unfunded infrastructure needs) to guide prudent funding strategies, reserve calibration, and long-term sustainability. Together, these efforts will produce integrated tools and findings that support transparent policymaking and durable fiscal health.

At the April 14, 2025 Finance Commission meeting, the Commission recommended consolidating prior scope efforts for these studies into a single Request for Proposal process. The Commission approved eight key recommendations:

1. **Consolidate scopes** into a single RFP with three separate line items:
 - Fiscal Analysis and Five-Year Forecast
 - Long-Term Outlook (to 2040, aligned with the General Plan and Housing Element)
 - Optional standalone ALM Study
2. **Require scenario planning** using defined sets of assumptions for:
 - Best, worst, and most likely cases
 - National and macroeconomic conditions (e.g., recession, tariffs, labor costs)
 - Risk and opportunity matrix
 - Consultant's own recommended scenario modifications or additions
3. **Stakeholder engagement** including interviews with internal staff and external partners (e.g., Sewer District, Fire Department).
4. **Define accounting basis and format** (e.g., government-wide vs. fund-based reporting) to ensure clarity, usability, and reconciliation across documents.
5. **Include cost** as a decision matrix criterion to evaluate overall value of proposals.
6. **Require explanation of tools and methodologies**, including the use of AI, data sources, forecasting models, and technical platforms.
7. **Request work samples** similar to proposed scopes to assess consultant capability.
8. **Articulate specific questions** to be answered:
 - What is the Town's fiscal condition over the next five years? (Study 1)
 - What is the long-term financial outlook? (Study 1 and/or Study 2)
 - What is the fiscal impact of projected development under the 2040 Plan and Housing Element? (Study 2)

C. MINIMUM QUALIFICATIONS

To the satisfaction of the Town of Los Gatos, each proposer shall ensure their proposal, as applicable, includes sufficient information to facilitate the following

- Demonstrated experience conducting fiscal analyses and long-range financial forecasting for California municipalities.
- Familiarity with local government budgeting, finance, infrastructure liabilities, pensions, economic development analysis, and General Plan documents.
- Experience engaging with a wide variety of constituencies including but not limited to internal departments, elected officials, and other non-Town constituencies.
- Strong presentation, communication, and public reporting skills.
- Ability to deliver user-friendly financial models and documentation.

D. GENERAL PROVISIONS AND REQUIREMENTS

The Town may establish general provisions and requirements related to the work being performed including but not limited to:

1. Possession of all licenses required to perform services in California, if applicable.
2. Town approval required for any key personnel changes.
3. All deliverables must be provided in PDF and native editable formats.

4. All materials prepared or supporting prepared deliverables become the property of the Town.

E. SCOPE OF SERVICES

Study 1 — Fiscal Condition Analysis with Five-Year Forecast

Objective. Provide a rigorous, view of the Town's current fiscal condition; produce a five-year multi-scenario operating forecast; quantify risks and opportunities; and deliver a transparent, staff-maintainable model aligned with GAAP, GFOA, and State Controller conventions. The work product will tie, where applicable, to other authoritative documentation such as the ACFR/CAFR, adopted budget, State Controller's Report, or other relevant document.

1) Project Initiation & Workplan

- **Kickoff meeting:** Confirm goals, deliverables, scope boundaries, schedule, and communication cadence; finalize the assumptions governance process (how assumptions are proposed, reviewed, approved, and versioned).
- **Detailed workplan:** Activities, dates, responsibilities, dependencies, and review milestones; identify critical path items.
- **Stakeholder map:** Identify internal staff, department contacts, and external partners (e.g., special districts) for interviews and data validation.

2) Data Intake, Validation & Controls

- **Minimum data (at least 10 years):** ACFR/CAFRs; California State Controller's reports; adopted budgets and mid-year updates; trial balances; revenue detail (property, sales, TOT, fees/permits/fines, franchise, business license, transfers); labor MOUs; position and pay schedules; CalPERS actuarial reports (normal cost, UAL, amortization bases, projected employer rates); OPEB actuarial valuations; debt schedules and official statements; CIP, deferred maintenance reports, and life-cycle/asset management reports; grants and one-time funds; reserve policies.
- **Data Quality Assurance/Quality Control:** Reconcile to audited financial statements or other applicable document; identify reclassifications and one-time items; maintain a Data Sources Register with date, owner, and quality notes. Implement process to ensure the accuracy, consistency, and completeness of the information presented in deliverables.
- **Accounting basis:** Specify fund-based vs. government-wide views used in analysis; provide crosswalks/reconciliations.

3) Methodology & Assumptions Framework

- **Method statement:** Document forecasting structure, drivers, and equations utilized; define how scenario variants are applied.
- **Assumptions log:** Centralized register for economic (AV growth, inflation/CPI, wage growth, medical trend), operational (vacancy, hiring, service levels), policy (fees, taxes), financial (interest rates, investment earnings), and actuarial (CalPERS/OPEB) assumptions. Include source, rationale, date, owner.
- **Standards compliance:** Where applicable, align with guidance from, but limited to, GAAP, GFOA best practices, and State Controller reporting.

4) Fiscal Condition Assessment (Current State)

- **Liquidity & reserves:** Trends vs. policy targets; one-time vs. ongoing resource use; working capital indicators.
- **Revenues:** Composition, concentration, and volatility of General Fund revenues (property, sales, TOT, utility/franchise, fees/permits, transfers). Analyze seasonality, elasticity, collection risk, and extraordinary items.
- **Expenditures:** Personnel (base pay, steps, COLA, vacancy/backfill, overtime), benefits (health, workers' comp), pension and OPEB contributions, non-personnel (contracts, utilities, insurance, fleet, fuel), and internal service charges; identify structural cost pressures and unfunded mandates.
- **Liabilities & commitments:** Pensions (UAL by amortization base, rate trajectories), OPEB (pay-go vs. prefunding status), bonded debt (coverage, covenants), leases, and deferred capital/maintenance backlogs.
- **Structural balance:** Historical ongoing revenues vs. ongoing expenditures; reliance on one-time resources; identification of structural gaps.
- **Practices Modeling:** Provide data showing the historical and current condition based on recognized models, such as the ICMA Fiscal Trend Monitoring System, the League of California Cities Municipal Financial Health Diagnostic, or other tools appropriate to provide collective insight to fiscal condition.
- **Benchmarking (if applicable):** Contextualize key ratios versus peer agencies and/or recommended practice ranges.

5) Five-Year Operating Forecast (Baseline, Best-Case, Worst-Case)

- **Baseline ("most likely"):** Reflect adopted policies, existing MOUs, known program changes, and consensus macro assumptions.
- **Best-case:** Favorable macro trajectory (higher taxable sales, steady AV growth, stable TOT), improved investment returns, successful cost containment and vacancy savings.
- **Worst-case:** Recessionary path(s), slower or negative AV growth, elevated wage/medical inflation, lower TOT/consumer spending, state takeaways/mandates, and higher CalPERS rates or revised amortization schedules.
- **Revenue modeling:** Property tax (AV growth components, Prop 13 reassessment dynamics); sales tax (category mix, elasticity to income/price indices); TOT recovery curve; fees/permits (activity volumes/fee policy); other taxes and intergovernmental sources.
- **Expenditure modeling:** Wage steps/COLA per MOU; staffing plan and vacancy factors; health trend; CalPERS employer rates and UAL amortization payments; OPEB contributions; operations & maintenance inflation; known contracts and step-cost triggers.
- **Sensitivity analysis:** Run targeted shocks (e.g., $\pm 1\text{--}2\%$ AV growth, $\pm 0.5\text{--}1.0$ pts sales growth/elasticity, $\pm 2\text{--}3\%$ medical trend, $\pm 50\text{--}100$ bps investment earnings, pension discount-rate changes) and show fiscal effects. Determine reasonable and appropriate ranges for use in the analysis.
- **Reserves tracking:** Model policy floors, replenishment rules, and draw triggers under each scenario.

6) Risk, Opportunity & Stress Testing

- **Risk/Opportunity Matrix:** Probability × impact scoring for high-leverage drivers (economy, tax base, tourism/TOT, labor/benefits, state policy, disasters, grant volatility); quantify fiscal exposure ranges.
- **Macro stresses:** Multi-year recession and recovery paths; interest rate shocks; investment earnings variance; inflation spikes.
- **Operational stresses:** Hiring lag or higher vacancy; higher overtime; insurance/premium shocks; major contract repricing; supply chain spikes.
- **Event stresses:** Disaster scenarios (i.e. wildfire/earthquake/flood) with plausible cost and revenue effects; state action (takeaways, deferrals).
- **Mitigation levers:** Revenue measures (policy options), expenditure pacing, capital deferral windows, position management, reserve deployment/replenishment strategies, each with indicative fiscal effect, lead time, and dependencies where reasonable.

7) Reserves & Policy Analysis

- **Adequacy tests:** Compare forecast reserves to policy targets under all scenarios and stresses; estimate time to restore reserves if drawn.
- **Policy review:** Evaluate reserve policy structure (levels, triggers, replenishment) and recommend enhancements consistent with GFOA guidance.

8) Model Specifications (Editable & Maintainable)

- **Workbook architecture:** Separate Inputs/Assumptions, Drivers, Revenue Modules, Expenditure Modules, Pensions/OPEB, Results by Fund, Reserves, Stress/Sensitivity, Charts & Tables, Reconciliation.
- **Controls:** Version control; cell protections where appropriate; color-coded inputs vs. formulas; scenario toggles; sensitivity sliders; documentation panel/tooltips.
- **Reconciliation:** Crosswalks to audited financials and to adopted budget for Year 1; one-time vs. ongoing segmentation; fund-to-government-wide alignment notes.
- **User guide:** Embedded data dictionary, instructions for updating, and a checklist for annual refresh.

9) Engagement & Validation

- **Department interviews:** Validate workload/demand drivers, pipeline initiatives, service level commitments, step-cost triggers, and risks.
- **Finance collaboration:** Agree on key inputs (e.g., macro path, labor/benefit assumptions, revenue elasticities); coordinate with actuaries/auditors as needed.
- **External partners (as relevant):** Validate assumptions with external partners (i.e. sewer, stormwater, etc.) on joint cost drivers or pass-throughs.

10) Deliverables

- **Kickoff packet:** Final workplan, data request, and engagement calendar.
- **Interim Findings Memo:** Early condition read-out; emerging risks/opportunities; preliminary assumptions for staff review.

- **Five-Year Forecast Model (editable):** With scenarios, sensitivities, reconciliation tabs, and print-ready exhibits.
- **Risk & Opportunity Matrix + Stress-Test Pack.**
- **Final Report (PDF + native):** Executive summary; current condition; five-year forecast (all scenarios); long-term outlook; risk/stress results; reserve analysis; recommended actions (timing, indicative fiscal effect); appendices (assumptions log, data sources, reconciliation tables, benchmarking).
- **Presentations:** At least two public meetings (Finance Commission and Town Council) and staff work sessions.
- **Training & Handover:** Live walkthrough, update playbook, and placement of all files per Town direction.

12) Schedule (Illustrative)

- Weeks 1–2: Kickoff; data intake; interview scheduling; method statement.
- Weeks 3–6: Condition diagnostics; interim findings memo.
- Weeks 7–10: Five-year forecasting; scenario build; sensitivities.
- Weeks 11–12: Reserves/policy analysis; risk matrix; stress tests.
- Weeks 13–14: Draft report/model; staff review and revisions.
- Weeks 15–16: Final report/model; presentations; training and handover.

13) Town Support (Anticipated)

- Timely access to financials, audit and actuarial reports, MOUs/position data, CIP/backlog, development and fee pipelines, debt/grants, and reserve policies; scheduling of interviews; facilitation of external partner conversations as needed.

Study 2 — Fiscal Impact Analysis

The Consultant will complete a robust Fiscal Impact Analysis mirroring the analytical structure and depth of the 2020 Comprehensive Plan Fiscal Impact Analysis for Annapolis, Maryland or equivalent (Attachment 6). The analysis shall include:

1) Growth-Based Cost Modeling

- Distinguish fixed vs. variable General Fund operating costs.
- Project variable operating and staffing costs by department (e.g., General Government, Police, Parks and Public Works, Library) using appropriate demand bases (residential population, service population, or employment).
- Disaggregate costs into staffing vs. non-staffing components and identify per-unit cost escalators.

2) Revenue Modeling

- Property tax and related in-lieu components based on development assumptions (e.g., housing units, commercial sq. ft.).
- Sales and use tax, transient occupancy tax (TOT), franchise fees, business license tax, and fees/permits/fines using Town-specific volumes and policy assumptions.
- Other locally controlled revenues (i.e. third party partners).

3) Scenario-Based Forecasts

- Develop best-case, baseline, and worst-case scenarios over a 20-year horizon.
- Conduct sensitivity testing on service-population growth, property values, cost escalation, and revenue volatility (including recession simulations).

4) Capital Cost Estimation

- Provide rough-order-of-magnitude (ROM) capital cost estimates tied to infrastructure demands generated by new growth.
- Recommend methodologies the Town can reuse for site-specific capital forecasting.

5) Results & Communication

- Estimate net fiscal impact (revenues vs. costs) at buildout and annually through 2040.
- Present findings with clear charts/tables comparing revenue/cost deltas and stress-tested variance bands.
- Highlight fiscal implications by development type (e.g., residential vs. commercial) and intensity/density.

6) Methodological Transparency

- Clearly define data sources, modeling assumptions, and calibration approach.
- Collaborate with staff to validate variables and use Town-specific historical financials, land use policies, and demographic projections.

Study 3 — Asset Liability Management (ALM) Study

The Consultant shall:

- **Inventory & Evaluate Liabilities:** Provide an inventory and evaluation of key liabilities including but not limited to pension, OPEB, bonded debt, and unfunded infrastructure needs.
- **Funding Needs & Risk Reduction:** Offer a standalone analysis of long-term funding needs and identify strategies to reduce risk.
- **ALM Modeling:** Present model outputs showing fund balance sustainability and risk exposure across scenarios.
- **Reserve Guidance:** Provide guidance on optimal reserves and potential reserve policy enhancements.

Combined Studies —Study 1 and 2

The Consultant shall deliver a unified analysis that:

- Integrates the Fiscal Condition & Forecast (Study 1) with the Fiscal Impact Analysis (Study 2) to provide a coherent picture of short and long-term fiscal sustainability.
- Ensure consistency in assumptions across the impact and forecast models, using development assumptions and infrastructure costs as key inputs.
- Packages results into a single report with distinct sections, shared assumptions, and harmonized formats.

All Studies — Required Elements

All proposals for all Studies must include:

- Scenario analysis with well-documented assumptions, covering macroeconomic and local risks.
- A risk & opportunity matrix that quantifies high-impact variables and their fiscal effects.
- Interviews with all Town departments and relevant external agencies (e.g., Sewer District, Fire Department) to inform assumptions.
- Accounting/Reporting transparency, specifying whether analyses are government-wide or fund-based, source of the information, and how they reconcile.
- Editable deliverables (e.g., Excel models, PowerPoint decks) with a documented methodology and user guide.
- Public presentations: at least two meetings (Finance Commission and Town Council), plus staff work sessions as needed.
- Work samples of comparable scope and complexity.
- Disclosure of AI/data tools: clarify if/how AI or specialized analytics are used in modeling.
- Standards compliance: GAAP, GFOA, and California State Controller standards.
- Usability & training: a clear plan for long-term usability, including staff training where needed.

F. PROPOSAL FORMAT AND SUBMITTAL REQUIREMENTS

1 Proposal Format and Organization

Proposals shall be clear, concise, and organized in the order below. Provide one (1) searchable PDF and any native files specifically requested (e.g., Excel models), using the section headers shown to facilitate review.

1. **Cover Letter (maximum 2 pages)**
Briefly summarize qualifications and project understanding; identify the primary contact authorized to bind the firm. Confirm acceptance of the Town's Sample Consultant Services Agreement (**Attachment 5**) or list any specific exceptions/edits requested.
2. **Completed Certification Forms (Attachments 1–4)**
 - Attachment 1 – Conflict of Interest Statement
 - Attachment 2 – Non-Collusion Declaration
 - Attachment 3 – References
 - Attachment 4 – Statement Regarding Insurance Coverage and Worker's Compensation Insurance Acknowledgment Certificate
3. **Scope Comments and Methodology**
Comment on the Scope of Services and describe the proposed approach, specialized methods/tools, milestones, QA/QC, and how deliverables will be provided to the Town (including assumptions governance and documentation practices).
4. **Experience and Expertise**
Demonstrate experience performing similar studies for California municipalities, including fiscal condition analysis, forecasting, fiscal impact analysis, and ALM. Include relevance to local government budgeting, finance, infrastructure liabilities, pensions/OPEB, and General Plan/Housing Element contexts.
5. **Key Personnel and Resumes**
Identify the Project Manager and key staff; provide brief role descriptions and relevant qualifications. Commit to maintaining the proposed team; note any planned subcontractors.

6. **Timeline and Work Plan**

Provide a realistic schedule with major tasks, interim deliverables, review points, and public meetings (Finance Commission and Town Council). Indicate opportunities for phasing.

7. **Samples of Comparable Projects (1–3)**

Provide recent examples demonstrating similar scope, scale, and complexity (links or PDFs).

8. **Disclosure of Litigation/Discipline (last 5 years)**

Disclose and explain any relevant matters; indicate status/outcome.

9. **References (Attachment 3)**

Provide a minimum of three (3) current references from comparable engagements within the past five (5) years, including contact information.

10. **Preliminary Fee Schedule (itemized by Study)**

Provide an itemized fee proposal for **Study 1, Study 2, Study 3**, and/or **Combined Study 1 and 2** (as applicable), inclusive of travel and incidental expenses. Identify personnel classifications, hourly rates, estimated hours by task, and optional services.

11. **Statement of Insurance Coverage (Attachment 4)**

Identify carriers, types, and limits; confirm ability to meet Town requirements if selected.

12. **Tools, Data Sources, and Use of AI**

Summarize data sources, technical platforms, and any AI/advanced analytics used in modeling; describe transparency, validation, and human-in-the-loop review.

2 Submittal Instructions

- **Due Date/Time:** Proposals must be received **electronically** by **9/22/2025, 4:00 p.m. Pacific Time**. Late submittals will be deemed non-responsive.
- **Delivery Method:** Email the proposal PDF (and any required native files) to **Finance@losgatosca.gov**. If using a file-sharing link, include access permissions that do not expire before award. The Proposer is responsible for confirming receipt due to potential email size limits.
- **Email Subject Line:** “Town of Los Gatos – Fiscal Analysis Proposal (Studies 1, 2, 3, or Combined 1 and 2)”.
- **Single Proposal:** Each Proposer may submit **only one** proposal; alternate proposals are not permitted unless requested by the Town. Providing separate complete documents for each study option will collectively be considered only one proposal.
- **Format:** One (1) searchable PDF is preferred. Provide **Excel** versions for any financial models included in the submittal. Bookmark major sections and use consistent tab labels in workbooks.

3 Questions and Addenda

- **Questions:** Direct all questions in writing to the Town’s Contact at **Finance@losgatosca.gov** by **9/15/2025** (see Schedule of Activities). Do not contact other Town officials or evaluators. Responses will be issued only by **Addendum**.
- **Addenda:** The Town will issue addenda on its website. Proposers are responsible for checking for updates and must acknowledge all addenda in the proposal. The **last day to issue addenda** is **9/17/2025** (see Schedule of Activities).

4 Proposal Conditions

- **Responsibility for Delivery:** Proposers assume full responsibility for timely delivery. The Town is not responsible for email transmission issues or access restrictions on shared links. Proposals received after the deadline will not be considered.
- **RFP Schedule:** See Schedule of Activities. The Town reserves the right to amend the schedule as necessary.
- **Use of Town Forms/Attachments:** Proposers shall submit Town forms (Attachments 1–4) as provided in this RFP.
- **Contract Template:** The Town’s Sample Consultant Services Agreement (Attachment 5) is provided for reference; proposers shall accept or propose specific exceptions in the Cover Letter.
- **Acceptance or Rejection:** The Town reserves the right to accept or reject any and all proposals for any reason, including but not limited to, lack of budget for studies, etc.
- **Public Records:** All materials may become public records per the California Public Records Act.

5 Acknowledgment of Minimum Qualifications

By submitting, the Proposer affirms it meets the Minimum Qualifications and agrees to the General Provisions and Requirements as stated in Sections C and D of this RFP.

G. EVALUATION PROCESS

Proposals will be evaluated based on:

1. Conflict of Interest/Non-Collusion Declarations (Pass/Fail)
2. Proposal Completeness and Organization (15 points)
3. Understanding of Scope and Methodology (20 points)
4. Qualifications and Experience (20 points)
5. Accessibility and Communication (15 points)
6. References and Work Samples (10 points)
7. Pricing and Cost-Effectiveness (20 points)

The Town reserves the right to conduct interviews. Evaluation is at the sole discretion of the Town. Selection will be based on best fit as determined by the Town and will not be solely determined on points or price. The point values and evaluation criteria described herein are guidelines only; the Town reserves the right to weigh, interpret, or disregard criteria at its sole discretion. Any changes to the Town’s standard contract for service will also be considered in the evaluation.

The Town may, at its sole discretion, terminate evaluation of any or all proposals at any time and may reopen, cancel, or postpone the procurement process without award. Proposals shall remain valid for a period of one hundred twenty (120) days from the proposal due date unless otherwise agreed in writing by the Town. Proposers may not withdraw their proposal within this period without the written consent of the Town. Proposers shall have no claim whatsoever for compensation or reimbursement in such event.

H. ADDITIONAL INFORMATION

- All costs incurred in the preparation, submission, or presentation of a proposal in response to this RFP, including but not limited to, travel, interviews, presentations, and negotiation activities,

shall be borne solely by the proposer. The Town shall have no obligation for any such costs, regardless of whether a contract is awarded.

- All materials may become public under the California Public Records Act (PRA). The Town will not be liable for the disclosure of any materials submitted in response to this RFP that are required to be disclosed under the PRA or other applicable law. The Town reserves the right to reject any or all proposals.
- Equal opportunity requirements apply.
- All work must comply with local, state, and federal law.
- Selection of a proposer and commencement of negotiations does not obligate the Town to execute a contract. The Town may terminate negotiations and select another proposer, issue a new RFP, or take no further action.
- Any communication, verbal or written, made by the Town or its representatives during this solicitation process shall be considered non-binding unless incorporated into a formal, written agreement executed by the Town.
- Any dispute arising under or related to this RFP shall be governed by the laws of the State of California, and the venue for any legal action shall be the Superior Court of California in and for the County of Santa Clara. The Town's total liability in connection with this RFP shall be limited to the amount, if any, payable under a duly executed contract.

I. ATTACHMENTS

1. Conflict of Interest Statement
2. Non-Collusion Declaration
3. References Form
4. Insurance Certification
5. Sample Consultant Services Agreement
6. 2020 Comprehensive Plan Fiscal Impact Analysis for Annapolis, Maryland

The Town of Los Gatos thanks you for your interest in this important initiative.

ATTACHMENT 1 - CONFLICT OF INTEREST STATEMENT

THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE PROPOSAL

**FISCAL CONDITION ANALYSIS WITH FIVE-YEAR AND LONG-TERM FORECAST,
FISCAL IMPACT ANALYSIS, AND ASSET LIABILITY MANAGEMENT STUDY**

The undersigned declares:

I/We _____ (Insert Name) have the following financial, business, or other relationship with Town of Los Gatos that may have an impact upon the outcome of the contract. If none, please specify that no other relationships may have an impact on this contract or Project.

I/We _____ (Insert Name) have the following current clients who may have a financial interest in the outcome of this contract. If none, please specify that no other clients may have a financial interest with an impact on this contract or Project.

Pursuant to Government Code section 1090 and any other laws, rules and regulations that may apply, the Proposer covenants that neither it, its subcontractors nor employees presently have an interest, and shall not acquire any interest, direct or indirect, financial or otherwise that would conflict in any manner or degree with contract awarded from this RFP. Proposer certifies that to the best of its knowledge, no one who has or will have any financial interest in the contract awarded from this RFP is an officer or employee of the Town. Through its submittal of a proposal, Proposer acknowledges that it is familiar with Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California and will immediately notify the Town if it becomes aware of any facts concerning the contract to be awarded that constitute a violation of said provisions.

Furthermore, if there is reason to believe that collusion exists among the Proposers, the Town may refuse to consider proposals from participants in such collusion. No person, firm, or corporation under the same or different name, shall make, file, or be interested in more than one proposal for the same work unless alternate proposals are called for. A person, firm, or corporation who has submitted a sub-proposal to a Proposer, or who has quoted prices on materials to a Proposer, is not thereby disqualified from submitting a sub-proposal or quoting prices to other Proposers. Reasonable ground for believing that any Proposer is

interested in more than one proposal for the same work will cause the rejection of all proposals for the work in which a Proposer is interested. If there is reason to believe that collusion exists among the Proposers, the Town may refuse to consider proposals from participants in such collusion. Proposers shall submit as part of their proposals documents the completed Non-Collusion Declaration provided herein.

I, on behalf of the Proposer, declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration is executed on _____
[date], at _____ [city], _____ [state].

_____ Proposer Name	(Person, Firm, Corp.)	_____ Title of Authorized Representative
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_____ Address	_____ Name of Authorized Representative
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City, State, Zip

_____ (Date)	_____ (Signed)
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ATTACHMENT 2 – NON-COLLUSION DECLARATION

THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE PROPOSAL

**FISCAL CONDITION ANALYSIS WITH FIVE-YEAR AND LONG-TERM FORECAST,
FISCAL IMPACT ANALYSIS, AND ASSET LIABILITY MANAGEMENT STUDY**

The undersigned declares:

I am the _____ [Insert Title] of _____, [Insert name of company, corporation, LLC, partnership or joint venture] the party making the foregoing proposal.

The proposal is not made in the interest of, or on behalf of, any undisclosed person, partnership, company, association, organization, or corporation. The proposal is genuine and not collusive or sham. The Respondent has not directly or indirectly induced or solicited any other respondent to put in a false or sham proposal. The Respondent has not directly or indirectly colluded, conspired, connived, or agreed with any bidder or anyone else to put in a sham proposal, or to refrain from responding. All statements contained in the proposal are true.

Any person executing this declaration on behalf of a respondent that is a corporation, partnership, joint venture, limited liability company, limited liability partnership, or any other entity, hereby represents that he or she has full power to execute, and does execute, this declaration on behalf of the respondent.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration is executed on _____ [date], at _____ [city], ____ [state].

By: _____

Name: _____

Title: _____

ATTACHMENT 3 - REFERENCES

THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE PROPOSAL

FISCAL CONDITION ANALYSIS WITH FIVE-YEAR AND LONG-TERM FORECAST, FISCAL IMPACT ANALYSIS, AND ASSET LIABILITY MANAGEMENT STUDY

List three (3) references for work of a similar nature to the Services performed within the last five (5) years. Use additional sheets as necessary.

1. _____	
Name of Agency	Agency Address
_____	_____
Contact Name	Contact Title
_____	_____
Contact Telephone	Contact Email Address
_____	_____
Contract Period	Contract Amount
_____	_____

Description of services performed including costs.

2. _____	
Name of Agency	Agency Address
_____	_____
Contact Name	Contact Title
_____	_____
Contact Telephone	Contact Email Address
_____	_____
Contract Period	Contract Amount
_____	_____

Description of services performed including costs.

3. _____	
Name of Agency	Agency Address
_____	_____
Contact Name	Contact Title
_____	_____
Contact Telephone	Contact Email Address
_____	_____
Contract Period	Contract Amount
_____	_____

Description of services performed including costs.

I hereby certify that the Proposer performed the work listed above.

Signature of Proposer

Name

Date

**ATTACHMENT 4 - STATEMENT REGARDING INSURANCE COVERAGE AND
WORKER'S COMPENSATION INSURANCE ACKNOWLEDGMENT CERTIFICATE**

**THIS FORM MUST BE PRINTED OUT, COMPLETED AND SUBMITTED WITH THE
PROPOSAL**

**FISCAL CONDITION ANALYSIS WITH FIVE-YEAR AND LONG-TERM FORECAST,
FISCAL IMPACT ANALYSIS, AND ASSET LIABILITY MANAGEMENT STUDY**

PROPOSER HEREBY CERTIFIES that the Proposer has reviewed and understands the insurance coverage requirements specified in the RFP. Should the Proposer be awarded a contract for Services, Proposer further certifies that the Proposer can meet the specified requirements for insurance, including insurance coverage of any subcontractors, and agrees to name the Town as additional insured for the Services specified.

By certifying this form, the Proposer also understands the Worker's Compensation insurance requirement per the California Labor Code, Sections 1860 and 1861:

I am aware of the provisions of Section 3700 of the Labor Code, which require every employer to be insured against liability for worker's compensation or to undertake self-insurance in accordance with the provisions of that code, and I will comply with such provisions before commencing the performance of the work of this contract.

Name of Proposer (Person, Firm, or Corporation)

Signature of Proposer's Authorized Representative

Name & Title of Authorized Representative

Date of Signing

ATTACHMENT 5 – SAMPLE CONSULTANT SERVICES AGREEMENT

[ATTACHED BEHIND THIS PAGE]

AGREEMENT FOR CONSULTANT SERVICES

THIS AGREEMENT is made and entered into on _____(DATE) by and between TOWN OF LOS GATOS, a California municipal corporation, ("Town") and _____ NAME OF COMPANY, ("Consultant"), whose address is _____ ADDRESS OF COMPANY. This Agreement is made with reference to the following facts.

I. RECITALS

- 1.1 The Town desire to engage Consultant to provide XXXXXXXXXX.
- 1.2 The Consultant represents and affirms that it is willing to perform the desired work pursuant to this Agreement.
- 1.3 Consultant warrants it possesses the distinct professional skills, qualifications, experience, and resources necessary to timely perform the services described in this Agreement. Consultant acknowledges Town has relied upon these warranties to retain Consultant.

II. AGREEMENTS

- 2.1 Scope of Services. Consultant shall provide services as described in that certain proposal sent to the Town on (DATE), which is hereby incorporated by reference and attached as Exhibit A.
- 2.2 Term and Time of Performance. This contract will remain in effect from _____ to _____. Consultant shall perform the services described in this agreement as follows: XXXXXXXXXX.
- 2.3 Compliance with Laws. The Consultant shall comply with all applicable laws, codes, ordinances, and regulations of governing federal, state and local laws. Consultant represents and warrants to Town that it has all licenses, permits, qualifications and approvals of whatsoever nature which are legally required for Consultant to practice its profession. Consultant shall maintain a Town of Los Gatos business license pursuant to Chapter 14 of the Code of the Town of Los Gatos.
- 2.4 Sole Responsibility. Consultant shall be responsible for employing or engaging all persons necessary to perform the services under this Agreement.
- 2.5 Information/Report Handling. All documents furnished to Consultant by the Town and all reports and supportive data prepared by the Consultant under this Agreement are the Town's property and shall be delivered to the Town upon the completion of Consultant's services or at the Town's written request. All reports, information, data, and exhibits prepared or assembled by Consultant in connection with the performance of its services pursuant to this Agreement are confidential until released by the Town to the public, and the Consultant shall not make any of these documents or information available to any

individual or organization not employed by the Consultant or the Town without the written consent of the Town before such release. The Town acknowledges that the reports to be prepared by the Consultant pursuant to this Agreement are for the purpose of evaluating a defined project, and Town's use of the information contained in the reports prepared by the Consultant in connection with other projects shall be solely at Town's risk, unless Consultant expressly consents to such use in writing. Town further agrees that it will not appropriate any methodology or technique of Consultant which is and has been confirmed in writing by Consultant to be a trade secret of Consultant.

- 2.6 Compensation. Compensation for Consultant's professional services **shall not exceed \$XXXX**, inclusive of all costs. Payment shall be based upon Town approval of each task.
- 2.7 Billing. Billing shall be monthly by invoice within thirty (30) days of the rendering of the service and shall be accompanied by a detailed explanation of the work performed by whom at what rate and on what date. Also, plans, specifications, documents or other pertinent materials shall be submitted for Town review, even if only in partial or draft form.

Payment shall be net thirty (30) days. All invoices and statements to the Town shall be addressed as follows:

Invoices:

Town of Los Gatos

Attn: Accounts Payable

P.O. Box 655

Los Gatos, CA 95031-0655

Email preferred: ap@losgatosca.gov

- 2.8 Availability of Records. Consultant shall maintain the records supporting this billing for not less than three years following completion of the work under this Agreement. Consultant shall make these records available to authorized personnel of the Town at the Consultant's offices during business hours upon written request of the Town.
- 2.9 Assignability and Subcontracting. The services to be performed under this Agreement are unique and personal to the Consultant. No portion of these services shall be assigned or subcontracted without the written consent of the Town.
- 2.10 Independent Contractor. It is understood that the Consultant, in the performance of the work and services agreed to be performed, shall act as and be an independent contractor and not an agent or employee of the Town. As an independent contractor he/she shall not obtain any rights to retirement benefits or other benefits which accrue to Town employee(s). With prior written consent, the Consultant may perform some obligations under this Agreement by subcontracting, but may not delegate ultimate responsibility for performance or assign or transfer interests under this Agreement. Consultant agrees to testify in any litigation brought regarding the subject of the work to be performed under this Agreement. Consultant shall be compensated for its costs and expenses in preparing for, traveling to, and testifying in such matters at its then current hourly rates of compensation, unless such litigation is brought by Consultant or is based on allegations of Consultant's negligent performance or wrongdoing.

- 2.11 Conflict of Interest. Consultant understands that its professional responsibilities are solely to the Town. The Consultant has and shall not obtain any holding or interest within the Town of Los Gatos. Consultant has no business holdings or agreements with any individual member of the Staff or management of the Town or its representatives nor shall it enter into any such holdings or agreements. In addition, Consultant warrants that it does not presently and shall not acquire any direct or indirect interest adverse to those of the Town in the subject of this Agreement, and it shall immediately disassociate itself from such an interest, should it discover it has done so and shall, at the Town's sole discretion, divest itself of such interest. Consultant shall not knowingly and shall take reasonable steps to ensure that it does not employ a person having such an interest in this performance of this Agreement. If after employment of a person, Consultant discovers it has employed a person with a direct or indirect interest that would conflict with its performance of this Agreement, Consultant shall promptly notify Town of this employment relationship, and shall, at the Town's sole discretion, sever any such employment relationship.
- 2.12 Equal Employment Opportunity. Consultant warrants that it is an equal opportunity employer and shall comply with applicable regulations governing equal employment opportunity. Neither Consultant nor its subcontractors do and neither shall discriminate against persons employed or seeking employment with them on the basis of age, sex, color, race, marital status, sexual orientation, ancestry, physical or mental disability, national origin, religion, or medical condition, unless based upon a bona fide occupational qualification pursuant to the California Fair Employment & Housing Act.

III. INSURANCE AND INDEMNIFICATION

- 3.1 Minimum Scope of Insurance:
- i. Consultant agrees to have and maintain, for the duration of the contract, General Liability insurance policies insuring him/her and his/her firm to an amount not less than: two million dollars (\$2,000,000) combined single limit per occurrence for bodily injury, personal injury and property damage.
 - ii. Consultant agrees to have and maintain for the duration of the contract, an Automobile Liability insurance policy ensuring him/her and his/her staff to an amount not less than one million dollars (\$1,000,000) combined single limit per accident for bodily injury and property damage.
 - iii. Consultant shall provide to the Town all certificates of insurance, with original endorsements effecting coverage. Consultant agrees that all certificates and endorsements are to be received and approved by the Town before work commences.
 - iv. Consultant agrees to have and maintain, for the duration of the contract, professional liability insurance in amounts not less than \$1,000,000 which is

sufficient to insure Consultant for professional errors or omissions in the performance of the particular scope of work under this agreement.

General Liability:

- i. The Town, its elected and appointed officials, employees, and agents, are to be covered as insured as respects: liability arising out of activities performed by or on behalf of the Consultant; products and completed operations of Consultant, premises owned or used by the Consultant. This requirement does not apply to the automobile or professional liability insurance required for professional errors and omissions.
- ii. The Consultant's insurance coverage shall be primary insurance as respects the Town, its elected and appointed officials, employees, and agents. Any insurance or self-insurances maintained by the Town, its elected and appointed officials, employees, and agents, shall be excess of the Consultant's insurance and shall not contribute with it.
- iii. Any failure to comply with reporting provisions of the policies shall not affect coverage provided to the Town, its elected and appointed officials, employees, and agents.
- iv. The Consultant's insurance shall apply separately to each insured against whom a claim is made or suit is brought, except with respect to the limits of the insurer's liability.

- 3.2 All Coverages. Each insurance policy required in this item shall be endorsed to state that coverage shall not be suspended, voided, cancelled, reduced in coverage or in limits except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to the Town. Current certification of such insurance shall be kept on file at all times during the term of this agreement with the Town Clerk.
- 3.3 Workers' Compensation. In addition to these policies, Consultant shall have and maintain Workers' Compensation insurance as required by California law and shall provide evidence of such policy to the Town before beginning services under this Agreement. Further, Consultant shall ensure that all subcontractors employed by Consultant provide the required Workers' Compensation insurance for their respective employees.
- 3.4 Indemnification. The Consultant shall save, keep, hold harmless and indemnify and defend the Town, its elected and appointed officials, employees, and agents, from all damages, liabilities, penalties, costs, or expenses in law or equity that may at any time arise or be set up because of damages to property or personal injury received by reason of, or in the course of performing the work described in this contract.

IV. GENERAL TERMS

- 4.1 Waiver. No failure on the part of either party to exercise any right or remedy hereunder shall operate as a waiver of any other right or remedy that party may have hereunder, nor does waiver of a breach or default under this Agreement constitute a continuing waiver of a subsequent breach of the same or any other provision of this Agreement.
- 4.2 Governing Law and Venue. This Agreement, regardless of where executed, shall be governed by and construed to the laws of the State of California. Venue for any action regarding this Agreement shall be in the Superior Court of the County of Santa Clara.
- 4.3 Termination of Agreement. The Town and the Consultant shall have the right to terminate this agreement with or without cause by giving not less than fifteen days (15) written notice of termination. In the event of termination, the Consultant shall deliver to the Town all plans, files, documents, reports, performed to date by the Consultant. In the event of such termination, Town shall pay Consultant an amount that bears the same ratio to the maximum contract price as the work delivered to the Town bears to completed services contemplated under this Agreement, unless such termination is made for cause, in which event, compensation, if any, shall be adjusted in light of the particular facts and circumstances involved in such termination.
- 4.4 Amendment. No modification, waiver, mutual termination, or amendment of this Agreement is effective unless made in writing and signed by the Town and the Consultant.
- 4.5 Disputes. In any dispute over any aspect of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees, including costs of appeal.
- 4.6 Notices. Any notice required to be given shall be deemed to be duly and properly given if mailed postage prepaid, and addressed to:
- | | |
|---------------------|-----------------|
| Town of Los Gatos | CONSULTANT NAME |
| Attn: Town Clerk | Attn: |
| 110 E. Main Street | ADDRESS |
| Los Gatos, CA 95030 | |
- or personally delivered to Consultant to such address or such other address as Consultant designates in writing to Town.
- 4.7 Order of Precedence. In the event of any conflict, contradiction, or ambiguity between the terms and conditions of this Agreement in respect of the Products or Services and any attachments to this Agreement, then the terms and conditions of this Agreement shall prevail over attachments or other writings.
- 4.8 Entire Agreement. This Agreement, including all Exhibits, constitutes the complete and exclusive statement of the Agreement between the Town and Consultant. No terms, conditions, understandings or agreements purporting to modify or vary this Agreement,

unless hereafter made in writing and signed by the party to be bound, shall be binding on either party.

IN WITNESS WHEREOF, the Town and Consultant have executed this Agreement.

Town of Los Gatos by:

Chris Constantin, Town Manager

Recommended by:

Consultant, by:

Gitta Ungvari, Finance Director

Approved as to Form:

Gabrielle Whelan, Town Attorney

bae urban economics

DRAFT 2020 Comprehensive Plan Fiscal Impact Analysis *For the City of Annapolis, Maryland*

August 8, 2020



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EXECUTIVE SUMMARY

As part of the Annapolis Comprehensive Plan update, BAE Urban Economics has prepared a fiscal impact analysis of new growth in Annapolis between 2020 and 2040. Among the key features of the Comprehensive Plan are the development and growth projections that serve as the basis for the policies and strategies set forth in it. A fiscal impact analysis is a powerful tool to assess whether the new growth assumed in the plan will strain government services or generate net revenues that allow the government to improve and expand services and invest in economic growth. By 2040, Annapolis is projected to grow by 583 new households and 4,347 new residents. The service population is projected to grow by 4,388. Growth projections are based on population, jobs, and household projections from the Baltimore Metropolitan Council (BMC), Round 9 projections, published in 2016.

Methodology Overview

This fiscal impact analysis evaluates operating costs and revenues in the General Fund. The analysis uses the Fiscal Year 2020 (FY20) Adopted Budget as a baseline to estimate the current level of service provided by the city government in terms of operating costs. Operating cost projections are based on the growth in either the residential population demand base or the service population demand base, which is the residential population plus 50 percent of jobs. Revenues other than real property tax and income tax revenue were projected similarly, based on an average revenue per chosen demand base. Real property tax and income tax revenue were calculated based on the development assumptions in the Comprehensive Plan. The Annapolis property tax rate is applied to the assumed assessed values of new development. Income tax revenue is based on the property values of new residential development and calculating a minimum income required to purchase or rent a given unit.

An estimate of capital costs is provided, but it is not incorporated into the fiscal impact analysis, as the assumptions behind the calculations are more tenuous and less reliable than the evaluation of operating costs and revenues. However, to the extent that growth will generate capital costs, these are expected to be minimal as Annapolis will not require new, additional major capital infrastructure.

Given the recent COVID-19 outbreak and its potential effects on the economy, various property tax revenue scenarios are tested for impact on the overall growth-related revenue estimate. Although the crisis may impact the fiscal resiliency of the City, it is important to note the fiscal impact is calculated for the next 20 years.

Summary of Findings

This analysis finds that the growth projected in the Comprehensive Plan update will have an estimated net fiscal impact totaling \$776,000 to the City of Annapolis General Fund by 2040, which is calculated by adding approximately \$3.3 million in new revenues and subtracting

\$2.5 million in new operating costs. Capital costs are estimated to be \$553,600. This is a marginally positive fiscal impact and a sensitivity analysis suggests the fiscal impact could reasonably turn out negative, although this would also be marginal relative to the size of the FY20 adopted budget. This result is explained by the heavily residential development program assumed in the model, which serves as the basis for the fiscal impact.

INTRODUCTION

This report presents an analysis of the projected net fiscal impact that the population and employment growth envisioned in the City of Annapolis Comprehensive Plan update will have on the City of Annapolis General Fund between 2020 and 2040. Fiscal impact analysis is a powerful tool to assess the revenues and costs associated with new development within a jurisdiction. New homeowners and businesses generate revenues to local governments by paying taxes, fees, and fines. They also bring about new costs for a jurisdiction in the form of new or improved roads, more schools and parks, and increased investment in public safety. These costs are comprised of both operating and capital components; growth can require both new infrastructure and an increase in operating capacity to maintain a given level of service. Fiscal impact analysis allows a jurisdiction to compare the revenues and costs from new growth, which can inform decisions ranging from assessing the feasibility of a new development to updating tax rates and reevaluating existing services.

Fiscal impacts are calculated in terms of impact on the annual budget. In general, the formula for calculating the fiscal impact per land use (i.e. low-density residential, mixed use, etc.) or development type (single-family detached, multi-family, office, etc.) is:

$$\begin{array}{ccccccc} \text{Annual Fiscal} & & & & & & \\ \text{Impact} & = & \text{Revenues} & - & \text{Operating Costs} & - & \text{Capital Costs} \\ \text{(of new growth)} & & \text{(of new growth)} & & \text{(of new growth)} & & \text{(of new growth)} \end{array}$$

A fiscal impact analysis of a comprehensive plan allows jurisdictions to assess the feasibility of the new growth projected in the plan. In coordination with the city and the comprehensive planning team, BAE Urban Economics conducted a thorough fiscal impact analysis for the City of Annapolis to estimate the revenues and costs associated with new growth based on the FY20 adopted budget, the Capital Improvement Program (CIP), and detailed discussions with city department heads and staff. Discussions with city staff focused on how department operations would change in response to new growth, as measured in the revenues and expenditures of each department. These discussions were the basis of deciding how to model revenues and costs with respect to the growth in the Comprehensive Plan.

Critically, a fiscal impact analysis does not account for the economic impacts of the Comprehensive Plan. Most components of the plan are intended to improve the Annapolis economy, whether directly or indirectly. Whether it is through improved environmental and social outcomes or directly through economic development policies, the Comprehensive Plan seeks to make Annapolis a desirably place to live. The economic impacts of the Comprehensive Plan will ultimately be based on more specific notions of, for example, the kinds of new jobs and incomes that come to Annapolis as a result of the plan, and the impact the plan has on resident's incomes, property values and overall standing. The plan details

how the city plans to become more efficient and sustainable, which will also deliver economic benefits. Indeed, there are analyses that model these impacts and are useful to conduct as they would give an indication of future fiscal standing. However, a fiscal impact analysis specifically avoids considering the dynamic impact of the Plan on the economy. Instead, it seeks to determine whether the City is projected to accommodate the plan's assumed level of new growth at the level of service the government currently extends through its operations, staff, and capital infrastructure without raising taxes or other sources of revenue.

Therefore, the dollar value of the fiscal impact is less important than whether the impact is positive or negative, and what the magnitude of the impact is. The fiscal impact is not a prediction of the annual budget levels in FY2040 but rather, an indication of risks or opportunities presented by the deficit or surplus generated by new growth.

METHODOLOGY

A variety of methodologies were used to project growth-related impacts to different sources of revenue and for the different departments within the City. In general, through meetings and consultations with city staff, components of the FY20 adopted budget were designated as 'fixed' or 'variable'; that is, determinations were made regarding which revenues and costs would be impacted by growth. Ultimately, only revenues and expenditures from the General Fund were analyzed as Enterprise Funds¹ are not impacted by growth, and Internal Service Funds² are accounted for in the operating costs of departmental budgets in the General Fund.

GFAR
capital
Fund?

Operating cost projections are based on the growth in either the residential population demand base or the service population demand base, which is the residential population plus 50 percent of jobs. Revenues other than real property tax and income tax revenue were projected similarly, based on an average revenue per chosen demand base. Real property tax and income tax revenue were calculated based on the development assumptions in the Comprehensive Plan. The Annapolis property tax rate is applied to the assumed assessed values of new development. Income tax revenue is based on the property values of new residential development and calculating a minimum income required to purchase or rent a given unit.

An estimate of growth-related capital costs and school costs is also provided, but these costs are not incorporated into the fiscal impact analysis itself. The city of Annapolis does not bear any schools costs, as schools are provided by Anne Arundel County. Moreover, as the city is built out, there will be limited new capital costs in terms of major infrastructure, which include roads classified as arterials or higher, and new sewer and water line (not including connections). Sidewalks, road connections to entrances and other site related infrastructure are not typically included in the fiscal impact analysis of a comprehensive plan, where the goal is to establish an order of magnitude for the fiscal impact, and the cost of smaller infrastructure can vary considerably.

unfunded
capital
needs

The costs of smaller infrastructure, to the extent there are any, depend largely on assumptions about development types and potential sites, which is more information than established currently in the Comprehensive Planning process. It is certainly useful to conduct a fiscal impact analysis with more specific assumptions that are informed by proposed development

¹ "The Enterprise Funds are used to account for those activities of the City that are financed and operated in a manner similar to private business enterprises where costs and expenses, including depreciation, are recovered principally through user charges. Individual operations that the City has designated as enterprise funds include Water, Sewer, Parking, Transportation, Watershed Restoration, and Refuse funds."

² Internal Services Funds, including Health Insurance, Self-Insurance, Fleet Operations, and Fleet Replacement activities, provide service to the City government, and are paid for primarily through departmental budgets. As a result, increases in operating costs to departmental budgets will account for transfers from those departments to the Internal Service Funds.

types on a given site or in a given area, but it can only be done when there are proposed or finalized land use changes. In fact, fiscal impact analyses are often used to evaluate individual development projects. For the purposes of the current Comprehensive Plan, a fiscal analysis will be ultimately conducted for specific potential development sites to study the impact of potential zoning changes. Nonetheless, a rough estimate of capital costs is provided in this report based on the average spending in the Capital Improvement Plan for FY20 through FY25. As the estimate is less rigorously conceived than the estimates of revenues and operating costs, it is not included in the fiscal impact result.

As shown in the fiscal impact analysis presented in this report, 87.2 percent of the \$80.8 million in City FY20 General Fund revenues are held variable, meaning that these revenues will generally increase in relation to the City's population and employment growth through 2040. Notably, projecting growth-related real property tax revenues accounts for over 64 percent of potential General Fund revenues based on FY20 levels.

Table 1: FY20 General Fund Revenues Held Variable

Source of Revenue	FY20 Revenue Held Variable	FY20 Adopted Budget	% Variable
Taxes (a)	\$ 54,834,000	\$ 54,983,800	99.7%
Licenses & Permits	\$ 3,256,300	\$ 3,256,300	100.0%
Fines & Forfeitures	\$ 435,000	\$ 435,000	100.0%
Interest, Rent, Other	\$ -	\$ 1,549,000	0.0%
Intergovernmental (b)	\$ 6,343,000	\$ 11,565,000	54.8%
Charges for Service	\$ 5,626,500	\$ 5,626,500	100.0%
Other	\$ -	\$ 3,423,500	0.0%
Total	\$ 70,494,800	\$ 80,839,100	87.2%

Notes:

(a) Taxes include real and personal property taxes, and penalties and interest.

(b) Of intergovernmental sources of revenue, only the income tax is projected.

The fiscal impact analysis presented in this report estimates that 53.4 percent of the approximately \$83.0 million in General Fund operating expenses in the FY20 adopted budget are variable, while the remaining expenditures were determined to be unaffected by new growth. Non-staff operating expenditures and staffing costs were analyzed separately. Operating expenditure line items were held fixed or variable depending on if they were determined to be affected by growth.

Similarly, operating costs related to staff salaries, wages, and benefits were projected based on the need for new staff, which was based on the level of employed staff per department in FY20. Certain positions in each department, such as chiefs and directors, were held fixed

while lower level staff were held variable. The percentages of FY20 General Fund expenditures held variable are summarized in Table 2.

Table 2: FY20 General Fund Expenditures Held Variable

Department	Variable Expenditures	Variable Staff Costs	FY20 Adopted Budget	% Variable
General Government (a)	\$ 1,363,650	\$ 5,359,113	\$ 30,581,430	22.0%
Police	\$ 2,458,830	\$ 13,336,939	\$ 19,620,830	80.5%
Fire	\$ 1,380,370	\$ 11,894,367	\$ 19,286,270	68.8%
Emergency Management (b)	\$ -	\$ -	\$ 417,520	0.0%
Public Works	\$ 2,386,250	\$ 3,337,587	\$ 7,885,250	72.6%
Parks	\$ 1,597,850	\$ 1,155,655	\$ 5,176,700	53.2%
Total	\$ 9,186,950	\$ 35,083,661	\$ 82,968,000	53.4%

Notes:

(a) General government includes: City Council and the Office of the Mayor, Human Resources, Management Information Technology, Finance, Planning & Zoning, and the Office of Environmental Policy.

(b) Emergency management expenditures were determined to be fixed as they all growth-related needs over the next 20 years will come from non-local allocations.

Operating costs were projected linearly; for each variable line item and staffer within each department, projections of the increased costs generated by new growth were based on the rates of growth in either service population or residential population. The service population, which is defined as the residential population plus 50 percent of jobs, is projected to grow faster over the next 20 years than the growth in the residential population and is a useful proxy to measure the growth-related costs of services provided to residents and workers. For example, public works costs are likely to increase alongside the growth in the service population, as both workers and residents demand public works services. Parks costs, on the other hand, would not be impacted by an increase in workers, and are more appropriately projected by population growth.

A level of service was determined for the non-staff operating expenditures by dividing the amount budgeted for a given variable line item in FY20 by the size of the base year service or residential population. For example, based on the \$320,050 appropriated for supplies³ in the Planning & Zoning Department, an average \$3.18 is spent per member of the service population (55,763 in 2020). The level of service is multiplied by the growth in the given demand base. Growth projections used in this fiscal impact analysis are discussed in the next section.

Similarly, a level of service for staffing is based on dividing the number of employed staff by the appropriate base year population. For example, based on the 14 'Equipment Operator' positions in the Department of Public Works, there are 0.00025 of them per member of the service population in 2020. This is multiplied by the change in service population to

³ This budget refers to the line item for "Supplies and Other" within the Department budget for Planning & Zoning. Expenditures within this line item include office supplies, training for staff and memberships.

determine how many new Equipment Operators are needed, which is then multiplied by the total salary and benefits received by each Equipment Operator to determine a cost. Based on an analysis of salaries, it was found that, on average, city staff across all departments receive benefits (i.e. health insurance) valued at 35 percent of their salary. This cost increase is incorporated into salary levels of staff when calculating the costs of growth-related staff needs.

Capital costs are also estimated, although not incorporated into the fiscal impact as the assumptions about growth-related capital needs are less rigorously evaluated than the analysis of operating costs and revenues. While it is very unlikely that the city will require new, additional major capital infrastructure to service growth, there may be increased costs due to additional wear and tear on existing infrastructure. Using the average spending in the CIP between FY20 and FY25 per service population, we estimate how much additional spending in the CIP would be required by the growth in the service population by 2040. It is important to note that more detailed analysis of specific capital costs that are sensitive to development type and land use can be conducted once there are reliable assumptions that can be made. There is no reason, however, to expect that more detailed fiscal impact analyses that are land use- and site-specific will lead to an increase in the estimate of capital costs provided in this report, as it is simply unknown what, if anything, the city would be responsible for in a given development project.

In terms of revenues, real property taxes are calculated directly based on the number of new residential units and nonresidential square footage contained within the comprehensive plan, and their respective market values, which are used as proxies for estimating assessed values. Furthermore, income tax revenue is based on calculating the household incomes needed to purchase or rent the new residential units, and then applying Annapolis' share of Anne Arundel County's income tax rate. All other costs and revenues, such as fines and fees, are projected based on the existing average levels of revenues per service population today.

All calculations presented for costs, revenues and impacts are rounded to the nearest \$1,000.

PROJECTIONS

Projections of the residential population, jobs, and households are based on growth rates developed by the Baltimore Metropolitan Council (BMC). As shown in Table 3, the residential population of Annapolis is expected to grow by 4,347 between 2020 and 2040, while jobs are projected to grow by 82 in total. Therefore, the service population, which is defined as the residential population plus 50 percent of jobs, is anticipated to grow by 4,388. It is important to note that household growth is projected to increase at a lower rate than population growth, meaning that existing Annapolis households in 2020 will become larger. Using the average household sizes, new households can account for up to 1,478 of the 4,347 new residents, or only one-third of new growth. Therefore, the estimate of income tax revenues in this fiscal impact analysis is conservative as only the incomes of residents in new households are calculated. All projections used in this fiscal impact analysis are based directly on projections within the 2020 Comprehensive Plan.

Table 3: Summary of Demographic Projections

Annapolis	Base 2020	2025	2030	2035	2040	Overall Change 2020-2040	% Change 2020-2040
Population (a) (b)	40,262	40,765	40,918	43,852	44,609	4,347	10.8%
Households (a) (c)	16,426	16,527	16,868	16,929	16,989	563	3.4%
Avg. Household Size	2.45	2.47	2.43	2.59	2.63	0.17	7.1%
Jobs (d)	31,001	31,026	31,041	31,060	31,083	82	0.3%
Service Population (e)	55,763	56,278	56,438	59,382	60,151	4,388	7.9%

Notes:

- (a) Projections for population and households follow trends published in Round 9 of the BMC forecasts.
- (b) Base year data reflects 2018 estimates from Esri, scaled by the BMC Round 9 annual growth rate from 2015-2020 (0.06%).
- (c) Household projections account for 132 residential units currently in the construction pipeline as of April 1, 2020. Projections based on the BMC trend and Esri base year estimate include an additional 6.65 units (132/20) each year.
- (d) Base year estimate and trends are based on BMC Round 9 estimates, with no adjustments.
- (e) Service population is defined as the residential population plus 50% of jobs.

Source: Baltimore Metropolitan Council, Round 9; Department of Planning & Zoning; Esri; BAE, 2020.

OPERATING COSTS IMPACT

The impact of new growth on operating costs from 2020 to 2040 is based on expenditures in the General Fund. Expenditures were analyzed by department and summarized in categories including General Government, Police, Fire, Public Works, and Recreation and Parks.

Among General Government expenditures, budget items for Management Information Technology (MIT), Finance, and Planning and Zoning were held variable as the needs for these departments are likely to increase as the city grows, based on discussions with city staff. Projected increases in expenditures in the General Government category were based on the projected growth in service population, as these departments are affected by both residential growth and the presence of jobs and businesses. Providing the same level of service over the

next 20 years to new growth, as represented by the variable non-staff operating expenditures in these departments, will generate approximately an additional \$107,000 in operating costs at plan buildout in 2040. Staffing is also only projected to increase in these departments. Based on the growth in the service population, General Government will need to hire four or five new staffers to maintain the ratio of these staffers to the service population in 2020. The weighted average salary of these positions is \$64,000, for a total cost of approximately \$396,000, including accounting for an additional 35 percent in benefits.

Police operating expenditures are projected based on the growth in households, and no operating expenditures were held fixed. Household growth is chosen as the demand base because public safety costs can reasonably be expected to increase alongside development, as indicated by the Chief of Police. However, the growth-related impact on police costs realistically lies between the development growth and population growth. As a result, growth-related impacts of public safety costs are adjusted in a sensitivity analysis of overall findings later in this report.

Staff needs were projected for all administrative positions, while only the Police Chief, Major, and Captain positions were held fixed in terms of uniformed officers. From 2020 to 2040, police operating expenditures will cost approximately \$84,000. Administrative staff will need to increase by one staffer to maintain the existing level of service, while the number of uniformed officers will need to increase by four or five. In total, including 35 percent for benefits, staffing costs between 2020 and 2040 will be \$457,000.

Growth-related operating costs for the Fire Department by 2040 are slightly below the growth-related operating costs for police. Based on the growth in the service population, Annapolis will need to spend \$81,000 for operations and \$408,000 in staff costs. This includes adding four or five firefighters below the rank of Fire Captain.

The FY20 Department of Public Works budget is subdivided into six categories including Administration, Engineering and Construction, Streets, Traffic Control and Maintenance, Snow, and Facilities. All operating expenditures were projected based on the increase in service population between 2020 and 2040 and maintaining the existing level of service. The projected cumulative operating expenditures over the next twenty years would cost approximately \$188,000. Leadership and management positions within the various departments within Public Works were held fixed, while the rest were projected based on the growth in service population as well. Between 2020 and 2040, this analysis estimates that growth-related Public Works staff costs will be approximately \$444,000, including benefits. This represents hiring approximately five new staff.

Recreation and Parks costs round out the General Fund expenditures. Of the 11 subcategories within the Recreation and Parks budget, only costs for Arts in Public Places are held fixed. Recreation and Parks costs are projected based on the growth in the residential

population as growth in nonresident workers will not generate an additional need. Operating expenditures between 2020 and 2040 are estimated to be \$212,000. Non-management level employees at the Pip Moyer Recreation Center are projected to increase, as well as custodial and administrative parks workers and harbormaster staff costs. In total, including 35 percent benefits, staff costs for Recreation and Parks will cost in total \$125,000 by 2040, representing one to two additional staff. Notably, there are several contractual workers identified in the Recreation and Parks budget, although these staff are accounted for in the projection of contractual services within the operating expenditures, not staff costs.

In total, the cumulative growth-related impact to the General Fund expenditures between 2020 and 2040 is approximately \$2.5 million, as shown in Table 4. This includes \$672,000 in new operating expenditures and \$1.8 million in staff costs. Total projected operating and staffing costs represent a 3.0 percent increase over the FY20 adopted budget levels. The Police and Fire departments represent 59.7 percent of the growth-related operating costs, followed by Public Works (16.5 percent), General Government (15 percent), and Recreation and Parks (8.8 percent).

Table 4: Growth-Related Operating Costs, 2020-2040

Department	2020 Adopted Budget	Operating Expenditure Impact, by 2040	Staff Costs Impact, by 2040	Total Impact, by 2040	% Total Impact, by 2040	% Increase since 2020
General Government (a)	\$ 30,581,000	\$ 107,000	\$ 396,000	\$ 503,000	20.1%	1.6%
Police	\$ 19,621,000	\$ 84,000	\$ 457,000	\$ 541,000	21.6%	2.8%
Fire	\$ 19,286,000	\$ 81,000	\$ 408,000	\$ 489,000	19.5%	2.5%
Public Works	\$ 7,885,000	\$ 188,000	\$ 444,000	\$ 632,000	25.3%	8.0%
Recreation and Parks	\$ 5,217,000	\$ 212,000	\$ 125,000	\$ 337,000	13.5%	6.5%
Total	\$ 82,590,000	\$ 672,000	\$ 1,830,000	\$ 2,502,000	100.0%	3.0%

Notes:

(a) General Government includes: City Council and the Office of the Mayor, Human Resources, Management Information Technology, Finance, Planning & Zoning, and the Office of Environmental Policy.

Sources: City of Annapolis, FY 2020 Adopted Budget; BAE, 2020.

REVENUE IMPACT

The impact of growth on Annapolis General Fund revenues will come primarily from real property taxes, which account for 64 percent of FY20 revenues. The other major source of revenue is intergovernmental transfers, which account for 14.3 percent of FY20 revenues. While some intergovernmental transfers, such as the utility tax or highway tax, are likely to increase over the next 20 years, these are State-based transfers for which analysis is beyond this report. However, income tax revenue is projected, which accounts for nearly 55 percent of intergovernmental transfers.

Real property tax revenue is calculated directly based on an assumption of the future development in Annapolis by 2040 and associated property values. Importantly, proposed land use changes and development types have not yet been finalized in the Comprehensive Plan at the time of the writing of this report, and the assumptions here are subject to change. Iterations of the fiscal impact model can be performed as the planning process advances, of after it is complete.

Income tax is based on the incomes of the households that occupy the new projected development. As a result, income tax revenue projections in this fiscal impact analysis are potentially underestimated as new households do not account for all the population growth Annapolis is projected to experience between 2020 and 2040. The BMC Round 9 projections of population for Annapolis assume an increase in the household size of existing households, which will likely result in an increase in income tax revenue from additional residents in existing households. However, this analysis does not estimate this additional income tax revenue associated with additional residents in existing households due to a lack of information in the projections related to the age, employment, and income of these residents. The income tax revenue calculations shown in this analysis therefore represent a somewhat conservative estimate of income tax revenues attributable to the projected growth. All other revenues to the General Fund are either held fixed or projected by either growth in the service population, residential population, or jobs.

Property Tax Revenue Impact of New Growth, 2020-2040

Property tax revenues are calculated directly based on a preliminary assumption of the development projections in the Annapolis Comprehensive Plan. The Annapolis property tax is applied to the estimated market value of the new development in 2040, which is calculated based on assumptions of rents, sale prices, and vacancy rates. The property tax revenue at buildout in 2040 is shown in order to compare the impact of growth-related operating costs. However, the assessed property values assumed throughout the development period are the market values assumed, which are based on market conditions in FY19 and do not include

inflation. A sensitivity analysis accounting for potential recession-level effects of the Covid-19 crisis on property values is also provided later in this report.

Assumptions for determining the market value of new residential development are shown in Table 5. There will be a total of 600 new homes built. The market value of the for-sale units is based on the market values for new construction from FY19, as reported in the market study for the Annapolis Comprehensive Plan. The market rate values for new construction are higher than the median sale price. The total market value of for-sale units, which is simply the number of units multiplied by the respective sale price by unit type, is \$317.6 million.

The market value of for-rent multifamily units is also based on the rents reported in the market study, and in addition, assumes a five percent vacancy rate and average annual expenses based on the National Apartment Association's '2019 NAA Survey of Operating Income & Expenses in Rental Apartment Communities.' Using a cap rate of 4.75 percent, the estimated

market value of the for-rent multifamily properties is determined. The market value of the all for-rent units, including affordable units, is \$22.0 million.

Table 5: Assessed Value Assumption for New Residential Units, 2020-2040

Total New Residential Units *	600
Market-Rate Residential	
For Rent	
Number of New Units	109
Average Monthly Rent (a)	\$1,600
Vacancy Rate	5%
Average Annual Expense per Unit (b)	\$ 8,661
NOI (per unit)	\$ 9,579
For Sale	
New Single Family Homes	69
Sale Price (c)	\$ 700,000
New For-Sale Townhomes	322
Sale Price	\$ 650,000
New Condos	100
Sale Price	\$ 600,000
Summary	
For-Rent Residential NOI	\$ 1,044,111
Residential Capitalization Rate	4.75%
Estimated Market Value	\$ 21,981,000
For-Sale Total Value	\$ 317,599,000

Notes:

(a) Based on the Q3 2019 Asking rents from the 'Demographic and Economic Profile and Real Estate Market Analysis.'

(b) Based on the estimated operating costs for mid & hi-rise rental properties from the National Apartment Association's '2019 NAA Survey of Operating Income & Expenses in Rental Apartment Communities.'

(c) Based on new construction sale price from the 'Demographic and Economic Profile and Real Estate Market Analysis.'

Sources: City of Annapolis; National Apartment Association; BAE, 2020.

The estimated market value of new nonresidential development is based on assumptions of NNN rent (per square foot) from the market study and a 5.0 percent vacancy rate that are used to determine a net operating income (NOI) per square foot. A 6.25 cap rate is applied to the NOI multiplied by the projected increase in nonresidential development. The only nonresidential development projected in the Comprehensive Plan is a net 20,000 square feet increase in the retail inventory and a net 20,000 square feet increase in the office inventory. As shown in Table 6, the estimated market value of new retail development by 2040 is \$8.5 million, and the estimated market value of new office development is \$8.2 million.

Table 6: Assessed Value Assumptions for New Nonresidential Units, 2020-2040

Nonresidential		
Retail		
NNN Rent (per sq. ft. per year)	\$	28.00
Vacancy Rate		5%
NOI (per sq. ft.)	\$	26.60
Net New Retail (SF)		20,000
Office		
NNN Rent (per sq. ft. per year)	\$	27.00
Vacancy Rate		5%
NOI (per sq. ft.)	\$	25.65
Net New Retail (SF)		20,000
Summary		
Retail NOI (a)	\$	532,000
Nonresidential Capitalization Rate		6.25%
Estimated Market Value	\$	8,512,000
Office NOI (b)	\$	513,000
Nonresidential Capitalization Rate		6.25%
Estimated Market Value	\$	8,208,000

In total, at plan buildout in 2040, the market value of new development, which represents the assessed value for real property tax revenue purposes, is approximately \$356.3 million.

Applying the Annapolis real property tax rate of 0.7380 per \$100 of assessed value generates annual revenue at buildout of \$2.6 million. This is summarized in Table 7.

Table 7: Annual Real Property Tax Revenue at Plan Buildout, 2040

	City of Annapolis
Assessed Value of New Res. Development, 2020-2040	\$ 339,580,000
Assessed Value of New Non-Res. Development, 2020-2040	\$ 16,720,000
Assessed Value of Total New Development, 2020-2040	\$ 356,300,000
Property Tax (per \$100 of assessed value)	0.7380
Annual Property Tax Revenue at Plan Buildout	\$ 2,629,000

Income Tax Revenue Impact of New Growth, 2020-2040

This analysis uses the home sale price and rent assumptions shown in Table 5 above to estimate household incomes among new households in Annapolis and applies Annapolis' share of Anne Arundel County's income tax rate, which is an effective tax rate of 0.7025 percent, to estimate income tax revenues from these households. Income assumptions for the new for-rent units are calculated by assuming a vacancy rate of 5.0 percent and a rent-to-income ratio of 25 percent, which would imply these renters are not cost-burdened. For the new for-sale units, the revenue calculations assume a 20 percent down payment on the median sale price, a fixed 30-year mortgage rate of 4.50 percent, and a monthly mortgage payment to gross monthly income ratio of 28 percent. The effective Annapolis income rate is applied to the incomes calculated using this method and multiplied by the number of new units. Applying this method to new single-family units with an assumed sale price, for example, of \$700,000 would require a household income of \$121,604, which is above the

2019 household median income in Annapolis (\$80,010). Assumptions for growth-related income tax revenue are shown in Table 8.

Table 8: Growth-related Income Tax Revenue Calculation Assumptions

Market-Rate Residential		
For Rent		
New For-Rent Units		109
Average Monthly Rent (a)	\$	1,600
Vacancy Rate		5%
Annual Household Income (b)	\$	76,800
New Income Tax Revenue (c)	\$	38,000
For Sale		
New Single Family Homes		
		69
Sale Price (d)	\$	700,000
Loan Amount (e)	\$	560,000
Mortgage Rate (f)		4.50%
Loan Term (months)		360
Monthly Payment	\$	2,837
Annual Income (f)	\$	121,604
New Income Tax Revenue (g)	\$	40,000
New Townhomes		
		322
Sale Price (d)	\$	650,000
Loan Amount (e)	\$	520,000
Mortgage Rate (f)		4.50%
Loan Term (months)		360
Monthly Payment	\$	2,635
Annual Income (f)	\$	112,918
New Income Tax Revenue	\$	174,000
New Condos		
		100
Sale Price (d)	\$	600,000
Loan Amount (e)	\$	480,000
Mortgage Rate (f)		4.50%
Loan Term (months)		360
Monthly Payment	\$	2,432
Annual Income (f)	\$	104,232
New Income Tax Revenue	\$	50,000

Notes:

- (a) Based on the Q3 2019 Asking rents from the 'Demographic and Economic Profile and Real Estate Market Analysis.'
- (b) Assumption of Rent-to-Income ratio: 25.00%
- (c) The Anne Arundel County income tax rate in FY20: 2.81%
Annapolis' percentage of Anne Arundel County Income Tax: 17.00%
- (d) Based on median sale price from the 'Demographic and Economic Profile and Real Estate Market Analysis.'
- (e) Loan amount assumes 20% down payment.
- (f) Assumes Fixed-rate mortgage.
- (f) Assumption of monthly mortgage payment as percentage of gross monthly income: 28%
(gross monthly income multiplied by 12 for annual income)

Source: BAE, 2020

As shown in Table 9, Combining the estimated new income tax revenue from new renter-occupied households (\$38,000) and the new income tax revenue from new owner-occupied households (\$264,000) generates a total new incomes tax revenue of \$302,000 between 2020 and 2040.

Table 9: Growth-related Income Tax Revenue, 2020-2040

	City of Annapolis
Income Tax Revenue from For-Rent Units	\$ 65,000
Income Tax Revenue from For-Sale Units	\$ 212,000
New Income Tax Revenue	\$ 277,000

Source: BAE, 2020

Overall Growth-related Impact to General Fund Revenues, 2020-2040

Other revenues in the General Fund were also accounted for in the fiscal impact analysis based on dividing FY20 revenues by a given population and multiplying by the growth in that population. Personal property tax revenue between 2020 and 2040 were projected in terms of jobs growth, as personal property is assessed on businesses. Licenses and Permits and Charges for Services revenue were projected by the growth in residential population, while fines and forfeiture revenues were projected by the growth in service population. All other revenues were held fixed. The impact of growth on other revenues between 2020 and 2040 is approximately \$347,000.

Table 10 summarizes the growth-related impact to General Fund revenues. By 2040, new growth will generate an estimated \$3.3 million in revenue. Real property tax revenue

generates 80.2 percent of the total impact, which suggests that the fiscal impact relies heavily on the market value assumptions of new development.

Table 10: Growth-related Impact to General Fund Revenues, 2020-2040

Source of Revenue	2020 Adopted Budget (a)	Revenue Impact, by 2040	% Total Impact, by 2040
Real Property Tax (b)	\$ 51,884,000	\$ 2,629,000	80.2%
Personal Property Tax (c)	\$ 2,950,000	\$ 8,000	0.2%
Income Tax (d)	\$ 6,343,000	\$ 302,000	9.2%
License & Permits (e)	\$ 3,256,300	\$ 112,000	3.4%
Fines & Forfeitures (f)	\$ 435,000	\$ 34,000	1.0%
Charges for Service (g)	\$ 5,626,500	\$ 193,000	5.9%
Total	\$ 70,494,800	\$ 3,278,000	100%

Notes:

(a) Revenues shown are only for those revenue sources held variable, so total of FY20 adopted budget levels do not match FY20 General Fund revenues.

(b) Property taxes are calculated based on the projections of new residential development for the Comprehensive Plan. The assumed projected 'development program' in place currently is a placeholder.

(c) Projected based on base year personal property tax revenue per job.

(d) Revenue tax is based on the household revenues of new residential development. As a result, this is a low estimate as new residential development does not account for the entirety of the projected population growth by 2040.

(e) Projected based on base year licenses and permits revenue per resident.

(f) Projected based on base year fines and forfeitures revenue 'service person.'

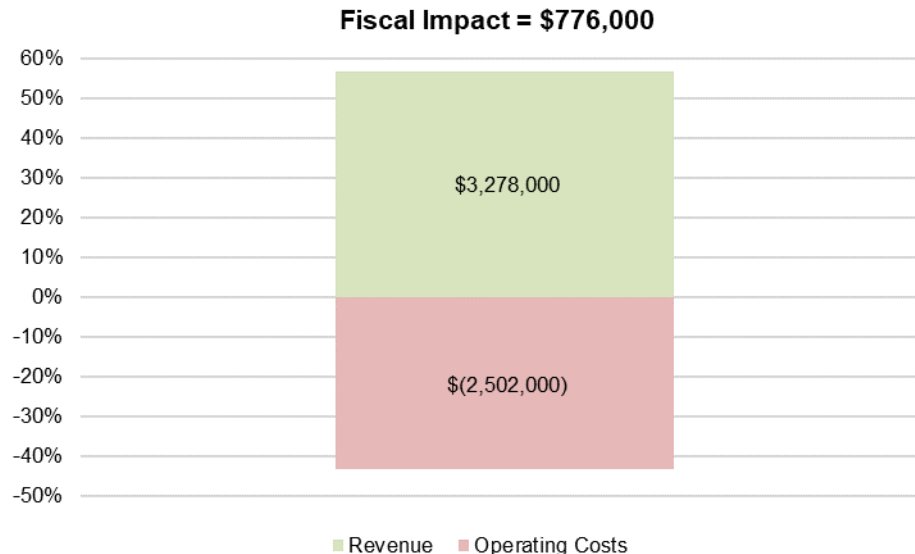
(g) Projected based on base year charges for service revenue per resident.

FISCAL IMPACT ANALYSIS OF NEW GROWTH

Combining the growth-related impacts to operating costs, capital costs, and revenues determines the overall fiscal impact by 2040. As shown in Figure 1, the fiscal impact of new growth will be \$776,000 by 2040. If new growth generates this fiscal impact by 2040, the impact at plan buildout in 2040 would be a 0.94 percent increase to the FY20 adopted budget of \$82.6 million. While this represents a positive fiscal impact, the impact is marginally above

zero. As the sensitivity analysis will demonstrate, reasonable fluctuations in the operating costs impact and revenue impact can generate a negative fiscal impact.

Figure 1: Fiscal Impact of New Growth, 2020-2040



Source: BAE, 2020

This relatively marginal impact is owed to the largely residential development program assumed in the comprehensive plan. Job growth over the over the next 20 years is projected to be 82 in total, which is a small overall percentage of the increase in the service population, meaning that growth in residents is driving demand for services. Not only this, but also despite the relatively small increase in nonresidential development projected, this development accounts for 16 percent of the increase in property tax revenues. Therefore, residential development is about fiscally neutral, or potentially an overall cost to the City by 2040 based on the level of service provided in 2020, and new nonresidential development is critical to ensuring fiscal sustainability.

Given this finding about the importance of nonresidential development, it would be wise for the city to consider flexibility in zoning as well as assessing the fiscal impact of growth of significant new developments.

Sensitivity Analysis of Fiscal Impacts

The analysis in this report suggests that Annapolis can expect to generate a fiscal impact of \$776,000 over the next 20 years. Given the assumptions in the methodology, there is some error inherent it. However, we can test realistic limits for vulnerable assumptions to evaluate a range of potential fiscal impacts. As public safety costs may be underestimated, a range of growth rates is applied to operating costs held variable for Police and Fire to assess the impact on growth-related operating costs by 2040. Furthermore, given the recent COVID-19 outbreak

and its potential effects on the economy, various property tax revenue scenarios are tested for impact on the overall growth-related revenue estimate.

Public safety costs are unlikely to grow in relation to the growth in the service population and is more likely to be related to development. However, some of the population growth in Annapolis will come from existing development, so projecting public safety costs by household growth alone may be an underestimate if the public safety departments continues to provide the level of service assumed in this analysis. Thus, the current estimate of the percentage increase to Public Safety costs, which at 2.65 percent is lower than household growth rate, is almost certainly an underestimate. As a result, the sensitivity analysis shows the impact by scaling public safety costs from the current estimated increase of 2.65 percent to an increase of 10.8 percent, which is the population growth rate projected over the next 20 years. Realistically, public safety costs should increase from somewhere between the household growth rate (3.43 percent) and the service population growth rate (7.87 percent). If public safety costs increase by 4.64 percent, the fiscal impact will be exactly \$0. Table 11 shows the fiscal impact of new growth if the revenue estimate is fixed and costs are adjusted to account for variability in public safety costs.

Table 11: Fiscal Impact Analysis with Public Safety Costs Adjustments

		Current Estimate - 2.65%	Low Estimate - 3.43%	\$0 Estimate - 4.64%	High Estimate - 10.8%
	Non-Public Safety Growth-related Impact by 2040	Public Safety Costs Projected by HH Growth with Fixed Costs	Public Safety Costs Increase by HH Growth Rate	Public Safety Costs Increase by 4.64% (\$0 Fiscal Impact)	Public Safety Costs Increase by Pop. Growth Rate
Fiscal Impact					
Revenue	\$ 3,278,000	\$ 3,278,000	\$ 3,278,000	\$ 3,278,000	\$ 3,278,000
Operating Costs	\$ (1,472,000)	\$ (2,502,000)	\$ (2,805,543)	\$ (3,278,000)	\$ (5,672,666)
Total Fiscal Impact	\$ 1,806,000	\$ 776,000	\$ 472,457	\$ -	\$ (2,394,666)

Source: BAE, 2020.

Alternatively, the fiscal impacts assuming the operating costs estimate is fixed accounts for adjustments to revenue estimate Table 12. The current COVID-19 public health emergency represents a significant threat to the economy. If the effects of COVID-19 on home values were to have the same effect that the 2008 recession had on home values and the operating costs estimate in this study is held fixed, the fiscal impact of new growth would range between \$107,000 and \$266,887. In Annapolis, based on data obtained from Zillow, the peak of home values was in June 2007, and reached its nadir in June 2012. During this period, home values fell by 25.4 percent. Between June 2007 and June 2009, home values fell by 19.4 percent in Annapolis before levelling off for a few months and declining again overall until June 2012. The revenue estimate in this fiscal impact analysis is adjusted by applying these

respective declines in home values to the real property tax revenue estimate of \$2.5 million by 2040.

Table 12: Fiscal Impact Analysis with Revenue Adjustments

Fiscal Impact	Total Projected Growth-related Impact by 2040	Scenario: Market Value of New Growth Declines by 25.4% (a)	Scenario: Market Value of New Growth Declines by 19.4% (b)
Revenue	\$ 3,278,000	\$ 2,609,353	\$ 2,768,887
Operating Costs	\$ (2,502,000)	\$ (2,502,000)	\$ (2,502,000)
Total Fiscal Impact	\$ 776,000	\$ 107,353	\$ 266,887

% Increase over FY20 Adopted Budget -

\$	82,590,000	0.9%	0.1%	0.3%
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Notes:

(a) In this scenario, the market value of new growth is adjusted by the decline in market value in Annapolis from the peak sale price in June 2007 to the lowest sale price in June 2012 (-25.43%). This reflects the decline in residential sale prices only, but will be applied to the overall market value of new development that includes new retail and office development.

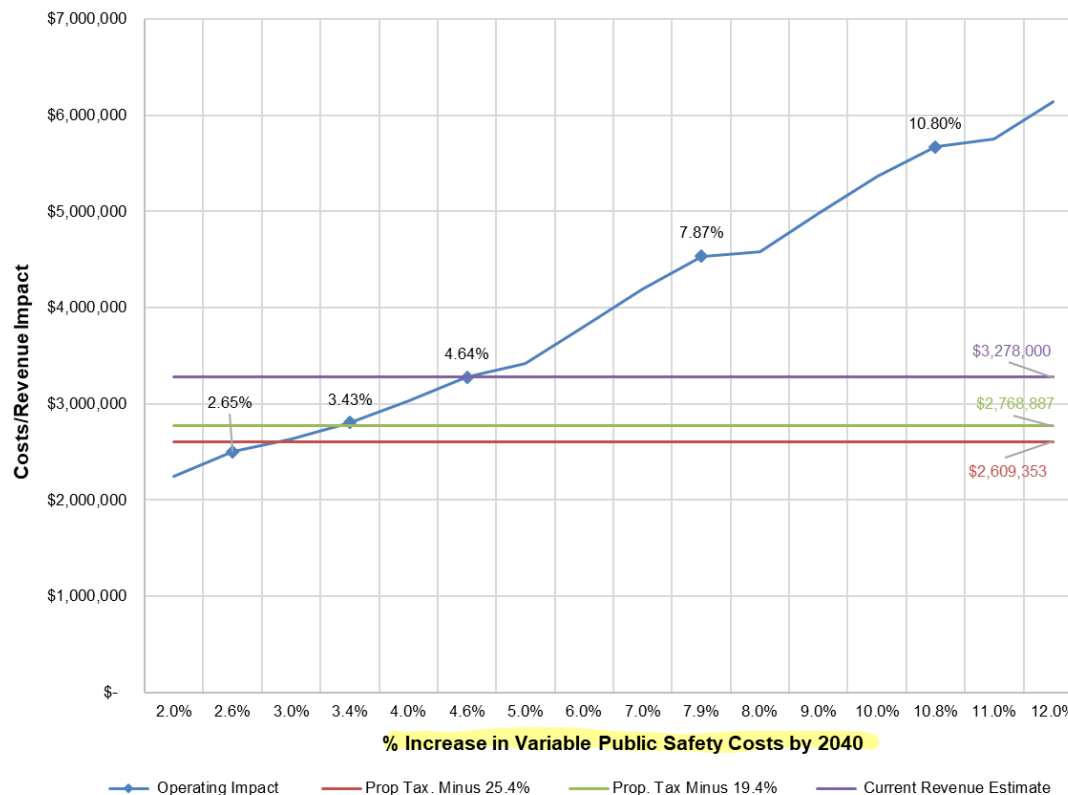
(b) In this scenario, the market value of new growth is adjusted by the decline in market value in Annapolis from the peak sale price in June 2007 to the sale price in June 2009, when prices stabilized briefly before falling again. This decline was - 19.37%. This reflects the decline in residential sale prices only but will be applied to the overall market value of new development that includes new retail and office development.

Source: Zillow; BAE, 2020.

In Figure 2, the sensitivity analysis of operating costs and revenues are combined to show the range of potential impacts. By showing the change in operating costs resulting from increasing growth-related public safety costs from the household growth as well as the three revenue estimates, the ranges of error that generate a fiscally neutral or fiscally positive impact are revealed. The lowest estimate (2.65 percent) of the increase in public safety costs and the low estimate of revenues that assumes peak recession declines in home values would generate essentially a fiscally neutral result. If new growth generates the revenues estimated in this analysis with no recession-related impacts, public safety costs can increase by up to 4.64 percent in order to generate a fiscally neutral result, which would be higher than the

growth in public safety costs currently assumed, but still below the rate of growth in both the service (7.9 percent) and residential population (10.8 percent).

Figure 2: Sensitivity Analysis



Source: BAE, 2020

Therefore, it is reasonable to expect that public safety could increase by enough to generate fiscally neutral, or potentially negative results as public safety costs are likely to be increase somewhere between the rates of growth in households and the residential population, and any increase in public safety costs over 4.64 percent would generate negative fiscal result. Indeed, if COVID-19 negatively affects property values, the margin by which public safety costs can increase relative to the household growth rates becomes slimmer. Based on the analysis of the effect the Great Recession had on Annapolis property values, public safety costs increasing at a rate greater than 3.4 percent would yield a negative fiscal result. Notably, the margins of fiscally negative results are still relatively small, and they do not vastly exceed to the magnitude of the marginally positive results that seem likely.

OTHER COST CONSIDERATIONS

While excluded from the fiscal impact analysis, it was determined that identifying an order of magnitude for growth-related capital costs would be a useful metric for the city to consider, based on discussion with staff. There is no capital outlay in the General Fund, and growth is not expected to generate a need for new major capital infrastructure, such as new water and sewer systems of roads classified as arterial or above. Additionally, while public schools are provided by Anne Arundel County, a high-level cost estimate of students from new growth in Annapolis is provided.

Capital Costs Impact

In a fiscal impact analysis of a comprehensive plan, capital costs considered are limited to major infrastructure. This includes new, additional roads classified as arterials or higher, as well as new water and sewer lines, pump stations, schools, and vehicles. The reason arterials are the smallest road-type to be considered is that these are the roads for which regular maintenance occurs and can trigger the need for additional staff. Smaller roads and road connections as required by any given development project may or may not accrue as one-time construction costs to the city, and these can be evaluated in more detail with specific assumptions about proposed development projects and their location within the city. Furthermore, the additional inventory of these kinds of transportation improvements do not trigger the need for new staff on their own. That is, projecting staffing costs based on the number of staff employed today is enough to keep up with additional maintenance costs generated by roads smaller than arterials.

In addition, based on discussion with the Department of Public Works, it was determined that the water and sewer systems have adequate capacity to manage the growth projected in this analysis. While new development requires connection to the system, the utilities charge connections fees and ultimately operate as enterprise funds that generated a net profit in FY20. Vehicles are managed through an internal revenue fund and thus growth-related vehicle needs are captured in the analysis of operating costs. As discussed in the next subsection, school-related capital costs are borne by Anne Arundel County Public Schools.

Nonetheless, there may be growth-related capital costs generated by the additional demand for existing infrastructure. Indeed, roads smaller than arterials can require some capital costs based on wear and tear, even if not as regularly as arterials. The FY20 Five-Year Capital Improvement Plan (CIP) provides a useful estimate of the capital costs associated with the existing service population. As shown in Table 13, the average size of the CIP between FY20 and FY25 is \$6.3 million. The average size of the service population served between 2020 and 2025 is 56,020. Dividing the average annual CIP by the average size of the population of the 5-year CIP yields an average capital cost per service population of \$113, which multiplied by the projected growth in the service population between 2020 and 2040 equals a growth-

related increase to the CIP of \$553,600. This is notably less than the net revenues estimated in this fiscal impact analysis (\$776,000), which implies that if the cost and revenue estimates in this analysis are considered accurate, including this estimate of capital costs would still yield a marginal, fiscally positive result.

Table 13: Estimate of Growth-Related Capital Costs

Five-Year Capital Improvement Program					
FY20	FY21	FY22	FY23	FY24	FY25
\$ 4,856,220	\$ 5,675,700	\$ 7,397,500	\$ 11,993,800	\$ 4,050,000	\$ 4,050,000
Average CIP, FY20-FY25		Average Service Population, FY20-FY40			
\$ 6,337,200		56,020			
CIP Spending per Service Pop.		Growth in Service Pop., 2020-2040			
\$ 113		4,894			
Growth-related Increase to CIP					
\$ 553,600					

School Costs Impact

Anne Arundel County Public Schools (AACPS), which serves Annapolis residents, determines a yield rate for elementary, middle, and high school students based on development type. On average, for the Annapolis High School feeder system, each new household is assumed to generate 0.142 elementary school students, 0.054 middle school students and 0.063 high school students. Applying these rates to the projected 582 new households yields 151 new students. The AACPS budget is based on developing a cost-per-pupil and in FY20, the cost-per-pupil was \$14,473, based on guidelines recommended by the Maryland State Department of Education. The number in new students in Annapolis over the next 20 years will not generate the need for an additional school at any level, so there are no capital costs associated with new growth-related students in Annapolis, although the system overall may

add more schools. As shown in Table 14, multiplying the cost per pupil by the estimated yield from new growth generates an estimated cost of \$2.2 million.

Table 14: Growth-Related Public School Costs

New Households, by 2040	582
ES Student Yield (a)	83
MS Student Yield (b)	31
HS Student Yield (c)	37
Total	151
Cost per Pupil (d)	\$ 14,473
Growth-Related Cost, by 2040	\$ 2,181,390

Notes:

- (a) Average Elementary School Student Yield Rate for the Annapolis HS Feeder System: 0.142
- (b) Average Middle School Student Yield Rate for the Annapolis HS Feeder System: 0.054
- (c) Average High School Student Yield Rate for the Annapolis HS Feeder System: 0.063
- (d) The cost per pupil is obtained from the FY20 Anne Arundel Public Schools Operating & Capital Budgets. It is calculated following the guidelines recommended by the Maryland State Department of Education

Source: Student Yield Study for Anne Arundel County Public Schools, November 2019; FY2020 Anne Arundel County Public Schools Approved Operating & Capital Budgets; BAE, 2020

CONCLUSION

Based on the methodology and assumptions in this fiscal impact analysis, Annapolis is projected to generate a marginally net positive fiscal impact based on the taxes received by new development and the costs it incurs. While the real property tax is large enough to generate most of the revenues needed to accommodate new growth, new growth incurs enough costs that the City will be unable to increase the level of service it provides. However, if there is more nonresidential development than currently projected, even more revenue will be generated without the incurring the same level of costs, as nonresidential development demands fewer services from the City. Therefore, the City may be more fiscally resilient if it increases the amount of nonresidential development projected over the next 20 years, although the current residential program yields more or less fiscally neutral results. Critically, over 80.2 percent of the revenues estimated in the fiscal impact come from property taxes paid by new development, even though most of the growth in Annapolis over the next 20 years is explained by the increase to the size of the average Annapolis household.

Nonetheless, the overall marginal findings suggest that, as currently projected, new growth itself is neither a huge winner nor a huge loser for the City based on the current levels of service the City provides. With the skew towards residential development, development itself is not an opportunity for the City, although new growth will help to generate economic activity that will promote economic growth, which is ultimately unaccounted for in a fiscal analysis. Fiscal impact analysis does not consider the impact of growth on income levels, the number of jobs and other measures that reflect the state of the private sector economy, which if positively impacted by growth, would in turn have some effect on the fiscal impact. This dynamic relationship is difficult to model and as a result, fiscal impacts and economic impacts are typically evaluated independently.

bae urban economics

DRAFT 2020 Comprehensive Plan Fiscal Impact Analysis *For the City of Annapolis, Maryland*

August 8, 2020



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EXECUTIVE SUMMARY

As part of the Annapolis Comprehensive Plan update, BAE Urban Economics has prepared a fiscal impact analysis of new growth in Annapolis between 2020 and 2040. Among the key features of the Comprehensive Plan are the development and growth projections that serve as the basis for the policies and strategies set forth in it. A fiscal impact analysis is a powerful tool to assess whether the new growth assumed in the plan will strain government services or generate net revenues that allow the government to improve and expand services and invest in economic growth. By 2040, Annapolis is projected to grow by 583 new households and 4,347 new residents. The service population is projected to grow by 4,388. Growth projections are based on population, jobs, and household projections from the Baltimore Metropolitan Council (BMC), Round 9 projections, published in 2016.

Methodology Overview

This fiscal impact analysis evaluates operating costs and revenues in the General Fund. The analysis uses the Fiscal Year 2020 (FY20) Adopted Budget as a baseline to estimate the current level of service provided by the city government in terms of operating costs. Operating cost projections are based on the growth in either the residential population demand base or the service population demand base, which is the residential population plus 50 percent of jobs. Revenues other than real property tax and income tax revenue were projected similarly, based on an average revenue per chosen demand base. Real property tax and income tax revenue were calculated based on the development assumptions in the Comprehensive Plan. The Annapolis property tax rate is applied to the assumed assessed values of new development. Income tax revenue is based on the property values of new residential development and calculating a minimum income required to purchase or rent a given unit.

An estimate of capital costs is provided, but it is not incorporated into the fiscal impact analysis, as the assumptions behind the calculations are more tenuous and less reliable than the evaluation of operating costs and revenues. However, to the extent that growth will generate capital costs, these are expected to be minimal as Annapolis will not require new, additional major capital infrastructure.

Given the recent COVID-19 outbreak and its potential effects on the economy, various property tax revenue scenarios are tested for impact on the overall growth-related revenue estimate. Although the crisis may impact the fiscal resiliency of the City, it is important to note the fiscal impact is calculated for the next 20 years.

Summary of Findings

This analysis finds that the growth projected in the Comprehensive Plan update will have an estimated net fiscal impact totaling \$776,000 to the City of Annapolis General Fund by 2040, which is calculated by adding approximately \$3.3 million in new revenues and subtracting

\$2.5 million in new operating costs. Capital costs are estimated to be \$553,600. This is a marginally positive fiscal impact and a sensitivity analysis suggests the fiscal impact could reasonably turn out negative, although this would also be marginal relative to the size of the FY20 adopted budget. This result is explained by the heavily residential development program assumed in the model, which serves as the basis for the fiscal impact.

INTRODUCTION

This report presents an analysis of the projected net fiscal impact that the population and employment growth envisioned in the City of Annapolis Comprehensive Plan update will have on the City of Annapolis General Fund between 2020 and 2040. Fiscal impact analysis is a powerful tool to assess the revenues and costs associated with new development within a jurisdiction. New homeowners and businesses generate revenues to local governments by paying taxes, fees, and fines. They also bring about new costs for a jurisdiction in the form of new or improved roads, more schools and parks, and increased investment in public safety. These costs are comprised of both operating and capital components; growth can require both new infrastructure and an increase in operating capacity to maintain a given level of service. Fiscal impact analysis allows a jurisdiction to compare the revenues and costs from new growth, which can inform decisions ranging from assessing the feasibility of a new development to updating tax rates and reevaluating existing services.

Fiscal impacts are calculated in terms of impact on the annual budget. In general, the formula for calculating the fiscal impact per land use (i.e. low-density residential, mixed use, etc.) or development type (single-family detached, multi-family, office, etc.) is:

$$\begin{array}{ccccccc} \text{Annual Fiscal} & & & & & & \\ \text{Impact} & = & \text{Revenues} & - & \text{Operating Costs} & - & \text{Capital Costs} \\ \text{(of new growth)} & & \text{(of new growth)} & & \text{(of new growth)} & & \text{(of new growth)} \end{array}$$

A fiscal impact analysis of a comprehensive plan allows jurisdictions to assess the feasibility of the new growth projected in the plan. In coordination with the city and the comprehensive planning team, BAE Urban Economics conducted a thorough fiscal impact analysis for the City of Annapolis to estimate the revenues and costs associated with new growth based on the FY20 adopted budget, the Capital Improvement Program (CIP), and detailed discussions with city department heads and staff. Discussions with city staff focused on how department operations would change in response to new growth, as measured in the revenues and expenditures of each department. These discussions were the basis of deciding how to model revenues and costs with respect to the growth in the Comprehensive Plan.

Critically, a fiscal impact analysis does not account for the economic impacts of the Comprehensive Plan. Most components of the plan are intended to improve the Annapolis economy, whether directly or indirectly. Whether it is through improved environmental and social outcomes or directly through economic development policies, the Comprehensive Plan seeks to make Annapolis a desirably place to live. The economic impacts of the Comprehensive Plan will ultimately be based on more specific notions of, for example, the kinds of new jobs and incomes that come to Annapolis as a result of the plan, and the impact the plan has on resident's incomes, property values and overall standing. The plan details

how the city plans to become more efficient and sustainable, which will also deliver economic benefits. Indeed, there are analyses that model these impacts and are useful to conduct as they would give an indication of future fiscal standing. However, a fiscal impact analysis specifically avoids considering the dynamic impact of the Plan on the economy. Instead, it seeks to determine whether the City is projected to accommodate the plan's assumed level of new growth at the level of service the government currently extends through its operations, staff, and capital infrastructure without raising taxes or other sources of revenue.

Therefore, the dollar value of the fiscal impact is less important than whether the impact is positive or negative, and what the magnitude of the impact is. The fiscal impact is not a prediction of the annual budget levels in FY2040 but rather, an indication of risks or opportunities presented by the deficit or surplus generated by new growth.

METHODOLOGY

A variety of methodologies were used to project growth-related impacts to different sources of revenue and for the different departments within the City. In general, through meetings and consultations with city staff, components of the FY20 adopted budget were designated as 'fixed' or 'variable'; that is, determinations were made regarding which revenues and costs would be impacted by growth. Ultimately, only revenues and expenditures from the General Fund were analyzed as Enterprise Funds¹ are not impacted by growth, and Internal Service Funds² are accounted for in the operating costs of departmental budgets in the General Fund.

GFAR
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Operating cost projections are based on the growth in either the residential population demand base or the service population demand base, which is the residential population plus 50 percent of jobs. Revenues other than real property tax and income tax revenue were projected similarly, based on an average revenue per chosen demand base. Real property tax and income tax revenue were calculated based on the development assumptions in the Comprehensive Plan. The Annapolis property tax rate is applied to the assumed assessed values of new development. Income tax revenue is based on the property values of new residential development and calculating a minimum income required to purchase or rent a given unit.

An estimate of growth-related capital costs and school costs is also provided, but these costs are not incorporated into the fiscal impact analysis itself. The city of Annapolis does not bear any schools costs, as schools are provided by Anne Arundel County. Moreover, as the city is built out, there will be limited new capital costs in terms of major infrastructure, which include roads classified as arterials or higher, and new sewer and water line (not including connections). Sidewalks, road connections to entrances and other site related infrastructure are not typically included in the fiscal impact analysis of a comprehensive plan, where the goal is to establish an order of magnitude for the fiscal impact, and the cost of smaller infrastructure can vary considerably.

unfunded
capital
needs

The costs of smaller infrastructure, to the extent there are any, depend largely on assumptions about development types and potential sites, which is more information than established currently in the Comprehensive Planning process. It is certainly useful to conduct a fiscal impact analysis with more specific assumptions that are informed by proposed development

¹ "The Enterprise Funds are used to account for those activities of the City that are financed and operated in a manner similar to private business enterprises where costs and expenses, including depreciation, are recovered principally through user charges. Individual operations that the City has designated as enterprise funds include Water, Sewer, Parking, Transportation, Watershed Restoration, and Refuse funds."

² Internal Services Funds, including Health Insurance, Self-Insurance, Fleet Operations, and Fleet Replacement activities, provide service to the City government, and are paid for primarily through departmental budgets. As a result, increases in operating costs to departmental budgets will account for transfers from those departments to the Internal Service Funds.

types on a given site or in a given area, but it can only be done when there are proposed or finalized land use changes. In fact, fiscal impact analyses are often used to evaluate individual development projects. For the purposes of the current Comprehensive Plan, a fiscal analysis will be ultimately conducted for specific potential development sites to study the impact of potential zoning changes. Nonetheless, a rough estimate of capital costs is provided in this report based on the average spending in the Capital Improvement Plan for FY20 through FY25. As the estimate is less rigorously conceived than the estimates of revenues and operating costs, it is not included in the fiscal impact result.

As shown in the fiscal impact analysis presented in this report, 87.2 percent of the \$80.8 million in City FY20 General Fund revenues are held variable, meaning that these revenues will generally increase in relation to the City's population and employment growth through 2040. Notably, projecting growth-related real property tax revenues accounts for over 64 percent of potential General Fund revenues based on FY20 levels.

Table 1: FY20 General Fund Revenues Held Variable

Source of Revenue	FY20 Revenue Held Variable	FY20 Adopted Budget	% Variable
Taxes (a)	\$ 54,834,000	\$ 54,983,800	99.7%
Licenses & Permits	\$ 3,256,300	\$ 3,256,300	100.0%
Fines & Forfeitures	\$ 435,000	\$ 435,000	100.0%
Interest, Rent, Other	\$ -	\$ 1,549,000	0.0%
Intergovernmental (b)	\$ 6,343,000	\$ 11,565,000	54.8%
Charges for Service	\$ 5,626,500	\$ 5,626,500	100.0%
Other	\$ -	\$ 3,423,500	0.0%
Total	\$ 70,494,800	\$ 80,839,100	87.2%

Notes:

(a) Taxes include real and personal property taxes, and penalties and interest.

(b) Of intergovernmental sources of revenue, only the income tax is projected.

The fiscal impact analysis presented in this report estimates that 53.4 percent of the approximately \$83.0 million in General Fund operating expenses in the FY20 adopted budget are variable, while the remaining expenditures were determined to be unaffected by new growth. Non-staff operating expenditures and staffing costs were analyzed separately. Operating expenditure line items were held fixed or variable depending on if they were determined to be affected by growth.

Similarly, operating costs related to staff salaries, wages, and benefits were projected based on the need for new staff, which was based on the level of employed staff per department in FY20. Certain positions in each department, such as chiefs and directors, were held fixed

while lower level staff were held variable. The percentages of FY20 General Fund expenditures held variable are summarized in Table 2.

Table 2: FY20 General Fund Expenditures Held Variable

Department	Variable Expenditures	Variable Staff Costs	FY20 Adopted Budget	% Variable
General Government (a)	\$ 1,363,650	\$ 5,359,113	\$ 30,581,430	22.0%
Police	\$ 2,458,830	\$ 13,336,939	\$ 19,620,830	80.5%
Fire	\$ 1,380,370	\$ 11,894,367	\$ 19,286,270	68.8%
Emergency Management (b)	\$ -	\$ -	\$ 417,520	0.0%
Public Works	\$ 2,386,250	\$ 3,337,587	\$ 7,885,250	72.6%
Parks	\$ 1,597,850	\$ 1,155,655	\$ 5,176,700	53.2%
Total	\$ 9,186,950	\$ 35,083,661	\$ 82,968,000	53.4%

Notes:

(a) General government includes: City Council and the Office of the Mayor, Human Resources, Management Information Technology, Finance, Planning & Zoning, and the Office of Environmental Policy.

(b) Emergency management expenditures were determined to be fixed as they all growth-related needs over the next 20 years will come from non-local allocations.

Operating costs were projected linearly; for each variable line item and staffer within each department, projections of the increased costs generated by new growth were based on the rates of growth in either service population or residential population. The service population, which is defined as the residential population plus 50 percent of jobs, is projected to grow faster over the next 20 years than the growth in the residential population and is a useful proxy to measure the growth-related costs of services provided to residents and workers. For example, public works costs are likely to increase alongside the growth in the service population, as both workers and residents demand public works services. Parks costs, on the other hand, would not be impacted by an increase in workers, and are more appropriately projected by population growth.

A level of service was determined for the non-staff operating expenditures by dividing the amount budgeted for a given variable line item in FY20 by the size of the base year service or residential population. For example, based on the \$320,050 appropriated for supplies³ in the Planning & Zoning Department, an average \$3.18 is spent per member of the service population (55,763 in 2020). The level of service is multiplied by the growth in the given demand base. Growth projections used in this fiscal impact analysis are discussed in the next section.

Similarly, a level of service for staffing is based on dividing the number of employed staff by the appropriate base year population. For example, based on the 14 'Equipment Operator' positions in the Department of Public Works, there are 0.00025 of them per member of the service population in 2020. This is multiplied by the change in service population to

³ This budget refers to the line item for "Supplies and Other" within the Department budget for Planning & Zoning. Expenditures within this line item include office supplies, training for staff and memberships.

determine how many new Equipment Operators are needed, which is then multiplied by the total salary and benefits received by each Equipment Operator to determine a cost. Based on an analysis of salaries, it was found that, on average, city staff across all departments receive benefits (i.e. health insurance) valued at 35 percent of their salary. This cost increase is incorporated into salary levels of staff when calculating the costs of growth-related staff needs.

Capital costs are also estimated, although not incorporated into the fiscal impact as the assumptions about growth-related capital needs are less rigorously evaluated than the analysis of operating costs and revenues. While it is very unlikely that the city will require new, additional major capital infrastructure to service growth, there may be increased costs due to additional wear and tear on existing infrastructure. Using the average spending in the CIP between FY20 and FY25 per service population, we estimate how much additional spending in the CIP would be required by the growth in the service population by 2040. It is important to note that more detailed analysis of specific capital costs that are sensitive to development type and land use can be conducted once there are reliable assumptions that can be made. There is no reason, however, to expect that more detailed fiscal impact analyses that are land use- and site-specific will lead to an increase in the estimate of capital costs provided in this report, as it is simply unknown what, if anything, the city would be responsible for in a given development project.

In terms of revenues, real property taxes are calculated directly based on the number of new residential units and nonresidential square footage contained within the comprehensive plan, and their respective market values, which are used as proxies for estimating assessed values. Furthermore, income tax revenue is based on calculating the household incomes needed to purchase or rent the new residential units, and then applying Annapolis' share of Anne Arundel County's income tax rate. All other costs and revenues, such as fines and fees, are projected based on the existing average levels of revenues per service population today.

All calculations presented for costs, revenues and impacts are rounded to the nearest \$1,000.

PROJECTIONS

Projections of the residential population, jobs, and households are based on growth rates developed by the Baltimore Metropolitan Council (BMC). As shown in Table 3, the residential population of Annapolis is expected to grow by 4,347 between 2020 and 2040, while jobs are projected to grow by 82 in total. Therefore, the service population, which is defined as the residential population plus 50 percent of jobs, is anticipated to grow by 4,388. It is important to note that household growth is projected to increase at a lower rate than population growth, meaning that existing Annapolis households in 2020 will become larger. Using the average household sizes, new households can account for up to 1,478 of the 4,347 new residents, or only one-third of new growth. Therefore, the estimate of income tax revenues in this fiscal impact analysis is conservative as only the incomes of residents in new households are calculated. All projections used in this fiscal impact analysis are based directly on projections within the 2020 Comprehensive Plan.

Table 3: Summary of Demographic Projections

Annapolis	Base 2020	2025	2030	2035	2040	Overall Change 2020-2040	% Change 2020-2040
Population (a) (b)	40,262	40,765	40,918	43,852	44,609	4,347	10.8%
Households (a) (c)	16,426	16,527	16,868	16,929	16,989	563	3.4%
Avg. Household Size	2.45	2.47	2.43	2.59	2.63	0.17	7.1%
Jobs (d)	31,001	31,026	31,041	31,060	31,083	82	0.3%
Service Population (e)	55,763	56,278	56,438	59,382	60,151	4,388	7.9%

Notes:

- (a) Projections for population and households follow trends published in Round 9 of the BMC forecasts.
- (b) Base year data reflects 2018 estimates from Esri, scaled by the BMC Round 9 annual growth rate from 2015-2020 (0.06%).
- (c) Household projections account for 132 residential units currently in the construction pipeline as of April 1, 2020. Projections based on the BMC trend and Esri base year estimate include an additional 6.65 units (132/20) each year.
- (d) Base year estimate and trends are based on BMC Round 9 estimates, with no adjustments.
- (e) Service population is defined as the residential population plus 50% of jobs.

Source: Baltimore Metropolitan Council, Round 9; Department of Planning & Zoning; Esri; BAE, 2020.

OPERATING COSTS IMPACT

The impact of new growth on operating costs from 2020 to 2040 is based on expenditures in the General Fund. Expenditures were analyzed by department and summarized in categories including General Government, Police, Fire, Public Works, and Recreation and Parks.

Among General Government expenditures, budget items for Management Information Technology (MIT), Finance, and Planning and Zoning were held variable as the needs for these departments are likely to increase as the city grows, based on discussions with city staff. Projected increases in expenditures in the General Government category were based on the projected growth in service population, as these departments are affected by both residential growth and the presence of jobs and businesses. Providing the same level of service over the

next 20 years to new growth, as represented by the variable non-staff operating expenditures in these departments, will generate approximately an additional \$107,000 in operating costs at plan buildout in 2040. Staffing is also only projected to increase in these departments. Based on the growth in the service population, General Government will need to hire four or five new staffers to maintain the ratio of these staffers to the service population in 2020. The weighted average salary of these positions is \$64,000, for a total cost of approximately \$396,000, including accounting for an additional 35 percent in benefits.

Police operating expenditures are projected based on the growth in households, and no operating expenditures were held fixed. Household growth is chosen as the demand base because public safety costs can reasonably be expected to increase alongside development, as indicated by the Chief of Police. However, the growth-related impact on police costs realistically lies between the development growth and population growth. As a result, growth-related impacts of public safety costs are adjusted in a sensitivity analysis of overall findings later in this report.

Staff needs were projected for all administrative positions, while only the Police Chief, Major, and Captain positions were held fixed in terms of uniformed officers. From 2020 to 2040, police operating expenditures will cost approximately \$84,000. Administrative staff will need to increase by one staffer to maintain the existing level of service, while the number of uniformed officers will need to increase by four or five. In total, including 35 percent for benefits, staffing costs between 2020 and 2040 will be \$457,000.

Growth-related operating costs for the Fire Department by 2040 are slightly below the growth-related operating costs for police. Based on the growth in the service population, Annapolis will need to spend \$81,000 for operations and \$408,000 in staff costs. This includes adding four or five firefighters below the rank of Fire Captain.

The FY20 Department of Public Works budget is subdivided into six categories including Administration, Engineering and Construction, Streets, Traffic Control and Maintenance, Snow, and Facilities. All operating expenditures were projected based on the increase in service population between 2020 and 2040 and maintaining the existing level of service. The projected cumulative operating expenditures over the next twenty years would cost approximately \$188,000. Leadership and management positions within the various departments within Public Works were held fixed, while the rest were projected based on the growth in service population as well. Between 2020 and 2040, this analysis estimates that growth-related Public Works staff costs will be approximately \$444,000, including benefits. This represents hiring approximately five new staff.

Recreation and Parks costs round out the General Fund expenditures. Of the 11 subcategories within the Recreation and Parks budget, only costs for Arts in Public Places are held fixed. Recreation and Parks costs are projected based on the growth in the residential

population as growth in nonresident workers will not generate an additional need. Operating expenditures between 2020 and 2040 are estimated to be \$212,000. Non-management level employees at the Pip Moyer Recreation Center are projected to increase, as well as custodial and administrative parks workers and harbormaster staff costs. In total, including 35 percent benefits, staff costs for Recreation and Parks will cost in total \$125,000 by 2040, representing one to two additional staff. Notably, there are several contractual workers identified in the Recreation and Parks budget, although these staff are accounted for in the projection of contractual services within the operating expenditures, not staff costs.

In total, the cumulative growth-related impact to the General Fund expenditures between 2020 and 2040 is approximately \$2.5 million, as shown in Table 4. This includes \$672,000 in new operating expenditures and \$1.8 million in staff costs. Total projected operating and staffing costs represent a 3.0 percent increase over the FY20 adopted budget levels. The Police and Fire departments represent 59.7 percent of the growth-related operating costs, followed by Public Works (16.5 percent), General Government (15 percent), and Recreation and Parks (8.8 percent).

Table 4: Growth-Related Operating Costs, 2020-2040

Department	2020 Adopted Budget	Operating Expenditure Impact, by 2040	Staff Costs Impact, by 2040	Total Impact, by 2040	% Total Impact, by 2040	% Increase since 2020
General Government (a)	\$ 30,581,000	\$ 107,000	\$ 396,000	\$ 503,000	20.1%	1.6%
Police	\$ 19,621,000	\$ 84,000	\$ 457,000	\$ 541,000	21.6%	2.8%
Fire	\$ 19,286,000	\$ 81,000	\$ 408,000	\$ 489,000	19.5%	2.5%
Public Works	\$ 7,885,000	\$ 188,000	\$ 444,000	\$ 632,000	25.3%	8.0%
Recreation and Parks	\$ 5,217,000	\$ 212,000	\$ 125,000	\$ 337,000	13.5%	6.5%
Total	\$ 82,590,000	\$ 672,000	\$ 1,830,000	\$ 2,502,000	100.0%	3.0%

Notes:

(a) General Government includes: City Council and the Office of the Mayor, Human Resources, Management Information Technology, Finance, Planning & Zoning, and the Office of Environmental Policy.

Sources: City of Annapolis, FY 2020 Adopted Budget; BAE, 2020.

REVENUE IMPACT

The impact of growth on Annapolis General Fund revenues will come primarily from real property taxes, which account for 64 percent of FY20 revenues. The other major source of revenue is intergovernmental transfers, which account for 14.3 percent of FY20 revenues. While some intergovernmental transfers, such as the utility tax or highway tax, are likely to increase over the next 20 years, these are State-based transfers for which analysis is beyond this report. However, income tax revenue is projected, which accounts for nearly 55 percent of intergovernmental transfers.

Real property tax revenue is calculated directly based on an assumption of the future development in Annapolis by 2040 and associated property values. Importantly, proposed land use changes and development types have not yet been finalized in the Comprehensive Plan at the time of the writing of this report, and the assumptions here are subject to change. Iterations of the fiscal impact model can be performed as the planning process advances, of after it is complete.

Income tax is based on the incomes of the households that occupy the new projected development. As a result, income tax revenue projections in this fiscal impact analysis are potentially underestimated as new households do not account for all the population growth Annapolis is projected to experience between 2020 and 2040. The BMC Round 9 projections of population for Annapolis assume an increase in the household size of existing households, which will likely result in an increase in income tax revenue from additional residents in existing households. However, this analysis does not estimate this additional income tax revenue associated with additional residents in existing households due to a lack of information in the projections related to the age, employment, and income of these residents. The income tax revenue calculations shown in this analysis therefore represent a somewhat conservative estimate of income tax revenues attributable to the projected growth. All other revenues to the General Fund are either held fixed or projected by either growth in the service population, residential population, or jobs.

Property Tax Revenue Impact of New Growth, 2020-2040

Property tax revenues are calculated directly based on a preliminary assumption of the development projections in the Annapolis Comprehensive Plan. The Annapolis property tax is applied to the estimated market value of the new development in 2040, which is calculated based on assumptions of rents, sale prices, and vacancy rates. The property tax revenue at buildout in 2040 is shown in order to compare the impact of growth-related operating costs. However, the assessed property values assumed throughout the development period are the market values assumed, which are based on market conditions in FY19 and do not include

inflation. A sensitivity analysis accounting for potential recession-level effects of the Covid-19 crisis on property values is also provided later in this report.

Assumptions for determining the market value of new residential development are shown in Table 5. There will be a total of 600 new homes built. The market value of the for-sale units is based on the market values for new construction from FY19, as reported in the market study for the Annapolis Comprehensive Plan. The market rate values for new construction are higher than the median sale price. The total market value of for-sale units, which is simply the number of units multiplied by the respective sale price by unit type, is \$317.6 million.

The market value of for-rent multifamily units is also based on the rents reported in the market study, and in addition, assumes a five percent vacancy rate and average annual expenses based on the National Apartment Association's '2019 NAA Survey of Operating Income & Expenses in Rental Apartment Communities.' Using a cap rate of 4.75 percent, the estimated

market value of the for-rent multifamily properties is determined. The market value of the all for-rent units, including affordable units, is \$22.0 million.

Table 5: Assessed Value Assumption for New Residential Units, 2020-2040

Total New Residential Units *	600
Market-Rate Residential	
For Rent	
Number of New Units	109
Average Monthly Rent (a)	\$1,600
Vacancy Rate	5%
Average Annual Expense per Unit (b)	\$ 8,661
NOI (per unit)	\$ 9,579
For Sale	
New Single Family Homes	69
Sale Price (c)	\$ 700,000
New For-Sale Townhomes	322
Sale Price	\$ 650,000
New Condos	100
Sale Price	\$ 600,000
Summary	
For-Rent Residential NOI	\$ 1,044,111
Residential Capitalization Rate	4.75%
Estimated Market Value	\$ 21,981,000
For-Sale Total Value	\$ 317,599,000

Notes:

(a) Based on the Q3 2019 Asking rents from the 'Demographic and Economic Profile and Real Estate Market Analysis.'

(b) Based on the estimated operating costs for mid & hi-rise rental properties from the National Apartment Association's '2019 NAA Survey of Operating Income & Expenses in Rental Apartment Communities.'

(c) Based on new construction sale price from the 'Demographic and Economic Profile and Real Estate Market Analysis.'

Sources: City of Annapolis; National Apartment Association; BAE, 2020.

The estimated market value of new nonresidential development is based on assumptions of NNN rent (per square foot) from the market study and a 5.0 percent vacancy rate that are used to determine a net operating income (NOI) per square foot. A 6.25 cap rate is applied to the NOI multiplied by the projected increase in nonresidential development. The only nonresidential development projected in the Comprehensive Plan is a net 20,000 square feet increase in the retail inventory and a net 20,000 square feet increase in the office inventory. As shown in Table 6, the estimated market value of new retail development by 2040 is \$8.5 million, and the estimated market value of new office development is \$8.2 million.

Table 6: Assessed Value Assumptions for New Nonresidential Units, 2020-2040

Nonresidential		
Retail		
NNN Rent (per sq. ft. per year)	\$	28.00
Vacancy Rate		5%
NOI (per sq. ft.)	\$	26.60
Net New Retail (SF)		20,000
Office		
NNN Rent (per sq. ft. per year)	\$	27.00
Vacancy Rate		5%
NOI (per sq. ft.)	\$	25.65
Net New Retail (SF)		20,000
Summary		
Retail NOI (a)	\$	532,000
Nonresidential Capitalization Rate		6.25%
Estimated Market Value	\$	8,512,000
Office NOI (b)	\$	513,000
Nonresidential Capitalization Rate		6.25%
Estimated Market Value	\$	8,208,000

In total, at plan buildout in 2040, the market value of new development, which represents the assessed value for real property tax revenue purposes, is approximately \$356.3 million.

Applying the Annapolis real property tax rate of 0.7380 per \$100 of assessed value generates annual revenue at buildout of \$2.6 million. This is summarized in Table 7.

Table 7: Annual Real Property Tax Revenue at Plan Buildout, 2040

	City of Annapolis
Assessed Value of New Res. Development, 2020-2040	\$ 339,580,000
Assessed Value of New Non-Res. Development, 2020-2040	\$ 16,720,000
Assessed Value of Total New Development, 2020-2040	\$ 356,300,000
Property Tax (per \$100 of assessed value)	0.7380
Annual Property Tax Revenue at Plan Buildout	\$ 2,629,000

Income Tax Revenue Impact of New Growth, 2020-2040

This analysis uses the home sale price and rent assumptions shown in Table 5 above to estimate household incomes among new households in Annapolis and applies Annapolis' share of Anne Arundel County's income tax rate, which is an effective tax rate of 0.7025 percent, to estimate income tax revenues from these households. Income assumptions for the new for-rent units are calculated by assuming a vacancy rate of 5.0 percent and a rent-to-income ratio of 25 percent, which would imply these renters are not cost-burdened. For the new for-sale units, the revenue calculations assume a 20 percent down payment on the median sale price, a fixed 30-year mortgage rate of 4.50 percent, and a monthly mortgage payment to gross monthly income ratio of 28 percent. The effective Annapolis income rate is applied to the incomes calculated using this method and multiplied by the number of new units. Applying this method to new single-family units with an assumed sale price, for example, of \$700,000 would require a household income of \$121,604, which is above the

2019 household median income in Annapolis (\$80,010). Assumptions for growth-related income tax revenue are shown in Table 8.

Table 8: Growth-related Income Tax Revenue Calculation Assumptions

Market-Rate Residential		
For Rent		
New For-Rent Units		109
Average Monthly Rent (a)	\$	1,600
Vacancy Rate		5%
Annual Household Income (b)	\$	76,800
New Income Tax Revenue (c)	\$	38,000
For Sale		
New Single Family Homes		
		69
Sale Price (d)	\$	700,000
Loan Amount (e)	\$	560,000
Mortgage Rate (f)		4.50%
Loan Term (months)		360
Monthly Payment	\$	2,837
Annual Income (f)	\$	121,604
New Income Tax Revenue (g)	\$	40,000
New Townhomes		
		322
Sale Price (d)	\$	650,000
Loan Amount (e)	\$	520,000
Mortgage Rate (f)		4.50%
Loan Term (months)		360
Monthly Payment	\$	2,635
Annual Income (f)	\$	112,918
New Income Tax Revenue	\$	174,000
New Condos		
		100
Sale Price (d)	\$	600,000
Loan Amount (e)	\$	480,000
Mortgage Rate (f)		4.50%
Loan Term (months)		360
Monthly Payment	\$	2,432
Annual Income (f)	\$	104,232
New Income Tax Revenue	\$	50,000

Notes:

- (a) Based on the Q3 2019 Asking rents from the 'Demographic and Economic Profile and Real Estate Market Analysis.'
- (b) Assumption of Rent-to-Income ratio: 25.00%
- (c) The Anne Arundel County income tax rate in FY20: 2.81%
Annapolis' percentage of Anne Arundel County Income Tax: 17.00%
- (d) Based on median sale price from the 'Demographic and Economic Profile and Real Estate Market Analysis.'
- (e) Loan amount assumes 20% down payment.
- (f) Assumes Fixed-rate mortgage.
- (f) Assumption of monthly mortgage payment as percentage of gross monthly income: 28%
(gross monthly income multiplied by 12 for annual income)

Source: BAE, 2020

As shown in Table 9, Combining the estimated new income tax revenue from new renter-occupied households (\$38,000) and the new income tax revenue from new owner-occupied households (\$264,000) generates a total new incomes tax revenue of \$302,000 between 2020 and 2040.

Table 9: Growth-related Income Tax Revenue, 2020-2040

	City of Annapolis
Income Tax Revenue from For-Rent Units	\$ 65,000
Income Tax Revenue from For-Sale Units	\$ 212,000
New Income Tax Revenue	\$ 277,000

Source: BAE, 2020

Overall Growth-related Impact to General Fund Revenues, 2020-2040

Other revenues in the General Fund were also accounted for in the fiscal impact analysis based on dividing FY20 revenues by a given population and multiplying by the growth in that population. Personal property tax revenue between 2020 and 2040 were projected in terms of jobs growth, as personal property is assessed on businesses. Licenses and Permits and Charges for Services revenue were projected by the growth in residential population, while fines and forfeiture revenues were projected by the growth in service population. All other revenues were held fixed. The impact of growth on other revenues between 2020 and 2040 is approximately \$347,000.

Table 10 summarizes the growth-related impact to General Fund revenues. By 2040, new growth will generate an estimated \$3.3 million in revenue. Real property tax revenue

generates 80.2 percent of the total impact, which suggests that the fiscal impact relies heavily on the market value assumptions of new development.

Table 10: Growth-related Impact to General Fund Revenues, 2020-2040

Source of Revenue	2020 Adopted Budget (a)	Revenue Impact, by 2040	% Total Impact, by 2040
Real Property Tax (b)	\$ 51,884,000	\$ 2,629,000	80.2%
Personal Property Tax (c)	\$ 2,950,000	\$ 8,000	0.2%
Income Tax (d)	\$ 6,343,000	\$ 302,000	9.2%
License & Permits (e)	\$ 3,256,300	\$ 112,000	3.4%
Fines & Forfeitures (f)	\$ 435,000	\$ 34,000	1.0%
Charges for Service (g)	\$ 5,626,500	\$ 193,000	5.9%
Total	\$ 70,494,800	\$ 3,278,000	100%

Notes:

(a) Revenues shown are only for those revenue sources held variable, so total of FY20 adopted budget levels do not match FY20 General Fund revenues.

(b) Property taxes are calculated based on the projections of new residential development for the Comprehensive Plan. The assumed projected 'development program' in place currently is a placeholder.

(c) Projected based on base year personal property tax revenue per job.

(d) Revenue tax is based on the household revenues of new residential development. As a result, this is a low estimate as new residential development does not account for the entirety of the projected population growth by 2040.

(e) Projected based on base year licenses and permits revenue per resident.

(f) Projected based on base year fines and forfeitures revenue 'service person.'

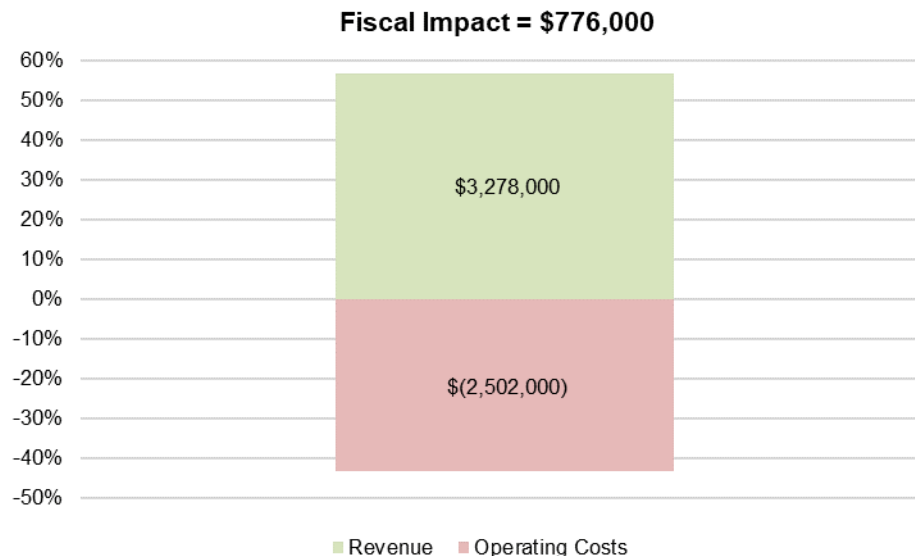
(g) Projected based on base year charges for service revenue per resident.

FISCAL IMPACT ANALYSIS OF NEW GROWTH

Combining the growth-related impacts to operating costs, capital costs, and revenues determines the overall fiscal impact by 2040. As shown in Figure 1, the fiscal impact of new growth will be \$776,000 by 2040. If new growth generates this fiscal impact by 2040, the impact at plan buildout in 2040 would be a 0.94 percent increase to the FY20 adopted budget of \$82.6 million. While this represents a positive fiscal impact, the impact is marginally above

zero. As the sensitivity analysis will demonstrate, reasonable fluctuations in the operating costs impact and revenue impact can generate a negative fiscal impact.

Figure 1: Fiscal Impact of New Growth, 2020-2040



Source: BAE, 2020

This relatively marginal impact is owed to the largely residential development program assumed in the comprehensive plan. Job growth over the over the next 20 years is projected to be 82 in total, which is a small overall percentage of the increase in the service population, meaning that growth in residents is driving demand for services. Not only this, but also despite the relatively small increase in nonresidential development projected, this development accounts for 16 percent of the increase in property tax revenues. Therefore, residential development is about fiscally neutral, or potentially an overall cost to the City by 2040 based on the level of service provided in 2020, and new nonresidential development is critical to ensuring fiscal sustainability.

Given this finding about the importance of nonresidential development, it would be wise for the city to consider flexibility in zoning as well as assessing the fiscal impact of growth of significant new developments.

Sensitivity Analysis of Fiscal Impacts

The analysis in this report suggests that Annapolis can expect to generate a fiscal impact of \$776,000 over the next 20 years. Given the assumptions in the methodology, there is some error inherent it. However, we can test realistic limits for vulnerable assumptions to evaluate a range of potential fiscal impacts. As public safety costs may be underestimated, a range of growth rates is applied to operating costs held variable for Police and Fire to assess the impact on growth-related operating costs by 2040. Furthermore, given the recent COVID-19 outbreak

and its potential effects on the economy, various property tax revenue scenarios are tested for impact on the overall growth-related revenue estimate.

Public safety costs are unlikely to grow in relation to the growth in the service population and is more likely to be related to development. However, some of the population growth in Annapolis will come from existing development, so projecting public safety costs by household growth alone may be an underestimate if the public safety departments continues to provide the level of service assumed in this analysis. Thus, the current estimate of the percentage increase to Public Safety costs, which at 2.65 percent is lower than household growth rate, is almost certainly an underestimate. As a result, the sensitivity analysis shows the impact by scaling public safety costs from the current estimated increase of 2.65 percent to an increase of 10.8 percent, which is the population growth rate projected over the next 20 years. Realistically, public safety costs should increase from somewhere between the household growth rate (3.43 percent) and the service population growth rate (7.87 percent). If public safety costs increase by 4.64 percent, the fiscal impact will be exactly \$0. Table 11 shows the fiscal impact of new growth if the revenue estimate is fixed and costs are adjusted to account for variability in public safety costs.

Table 11: Fiscal Impact Analysis with Public Safety Costs Adjustments

		Current Estimate - 2.65%	Low Estimate - 3.43%	\$0 Estimate - 4.64%	High Estimate - 10.8%
	Non-Public Safety Growth-related Impact by 2040	Public Safety Costs Projected by HH Growth with Fixed Costs	Public Safety Costs Increase by HH Growth Rate	Public Safety Costs Increase by 4.64% (\$0 Fiscal Impact)	Public Safety Costs Increase by Pop. Growth Rate
Fiscal Impact					
Revenue	\$ 3,278,000	\$ 3,278,000	\$ 3,278,000	\$ 3,278,000	\$ 3,278,000
Operating Costs	\$ (1,472,000)	\$ (2,502,000)	\$ (2,805,543)	\$ (3,278,000)	\$ (5,672,666)
Total Fiscal Impact	\$ 1,806,000	\$ 776,000	\$ 472,457	\$ -	\$ (2,394,666)

Source: BAE, 2020.

Alternatively, the fiscal impacts assuming the operating costs estimate is fixed accounts for adjustments to revenue estimate Table 12. The current COVID-19 public health emergency represents a significant threat to the economy. If the effects of COVID-19 on home values were to have the same effect that the 2008 recession had on home values and the operating costs estimate in this study is held fixed, the fiscal impact of new growth would range between \$107,000 and \$266,887. In Annapolis, based on data obtained from Zillow, the peak of home values was in June 2007, and reached its nadir in June 2012. During this period, home values fell by 25.4 percent. Between June 2007 and June 2009, home values fell by 19.4 percent in Annapolis before levelling off for a few months and declining again overall until June 2012. The revenue estimate in this fiscal impact analysis is adjusted by applying these

respective declines in home values to the real property tax revenue estimate of \$2.5 million by 2040.

Table 12: Fiscal Impact Analysis with Revenue Adjustments

Fiscal Impact	Total Projected Growth-related Impact by 2040	Scenario: Market Value of New Growth Declines by 25.4% (a)	Scenario: Market Value of New Growth Declines by 19.4% (b)
Revenue	\$ 3,278,000	\$ 2,609,353	\$ 2,768,887
Operating Costs	\$ (2,502,000)	\$ (2,502,000)	\$ (2,502,000)
Total Fiscal Impact	\$ 776,000	\$ 107,353	\$ 266,887

% Increase over FY20 Adopted Budget -

\$	82,590,000	0.9%	0.1%	0.3%
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Notes:

(a) In this scenario, the market value of new growth is adjusted by the decline in market value in Annapolis from the peak sale price in June 2007 to the lowest sale price in June 2012 (-25.43%). This reflects the decline in residential sale prices only, but will be applied to the overall market value of new development that includes new retail and office development.

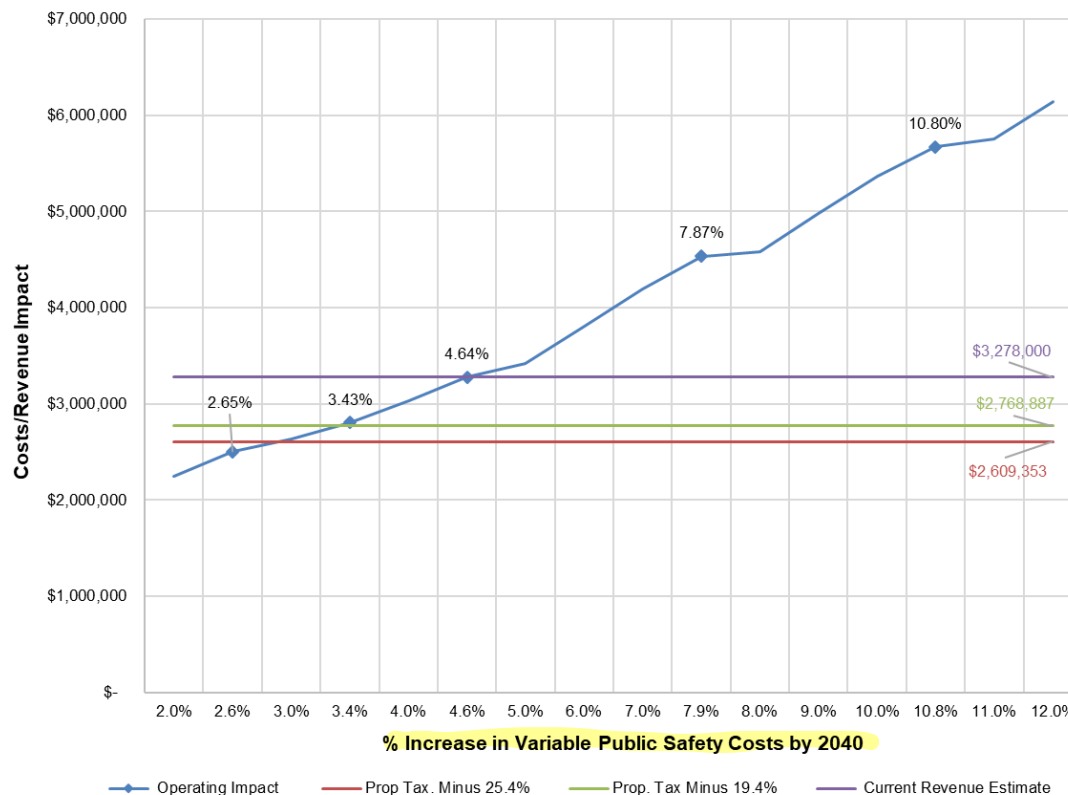
(b) In this scenario, the market value of new growth is adjusted by the decline in market value in Annapolis from the peak sale price in June 2007 to the sale price in June 2009, when prices stabilized briefly before falling again. This decline was - 19.37%. This reflects the decline in residential sale prices only but will be applied to the overall market value of new development that includes new retail and office development.

Source: Zillow; BAE, 2020.

In Figure 2, the sensitivity analysis of operating costs and revenues are combined to show the range of potential impacts. By showing the change in operating costs resulting from increasing growth-related public safety costs from the household growth as well as the three revenue estimates, the ranges of error that generate a fiscally neutral or fiscally positive impact are revealed. The lowest estimate (2.65 percent) of the increase in public safety costs and the low estimate of revenues that assumes peak recession declines in home values would generate essentially a fiscally neutral result. If new growth generates the revenues estimated in this analysis with no recession-related impacts, public safety costs can increase by up to 4.64 percent in order to generate a fiscally neutral result, which would be higher than the

growth in public safety costs currently assumed, but still below the rate of growth in both the service (7.9 percent) and residential population (10.8 percent).

Figure 2: Sensitivity Analysis



Source: BAE, 2020

Therefore, it is reasonable to expect that public safety could increase by enough to generate fiscally neutral, or potentially negative results as public safety costs are likely to be increase somewhere between the rates of growth in households and the residential population, and any increase in public safety costs over 4.64 percent would generate negative fiscal result. Indeed, if COVID-19 negatively affects property values, the margin by which public safety costs can increase relative to the household growth rates becomes slimmer. Based on the analysis of the effect the Great Recession had on Annapolis property values, public safety costs increasing at a rate greater than 3.4 percent would yield a negative fiscal result. Notably, the margins of fiscally negative results are still relatively small, and they do not vastly exceed to the magnitude of the marginally positive results that seem likely.

OTHER COST CONSIDERATIONS

While excluded from the fiscal impact analysis, it was determined that identifying an order of magnitude for growth-related capital costs would be a useful metric for the city to consider, based on discussion with staff. There is no capital outlay in the General Fund, and growth is not expected to generate a need for new major capital infrastructure, such as new water and sewer systems of roads classified as arterial or above. Additionally, while public schools are provided by Anne Arundel County, a high-level cost estimate of students from new growth in Annapolis is provided.

Capital Costs Impact

In a fiscal impact analysis of a comprehensive plan, capital costs considered are limited to major infrastructure. This includes new, additional roads classified as arterials or higher, as well as new water and sewer lines, pump stations, schools, and vehicles. The reason arterials are the smallest road-type to be considered is that these are the roads for which regular maintenance occurs and can trigger the need for additional staff. Smaller roads and road connections as required by any given development project may or may not accrue as one-time construction costs to the city, and these can be evaluated in more detail with specific assumptions about proposed development projects and their location within the city. Furthermore, the additional inventory of these kinds of transportation improvements do not trigger the need for new staff on their own. That is, projecting staffing costs based on the number of staff employed today is enough to keep up with additional maintenance costs generated by roads smaller than arterials.

In addition, based on discussion with the Department of Public Works, it was determined that the water and sewer systems have adequate capacity to manage the growth projected in this analysis. While new development requires connection to the system, the utilities charge connections fees and ultimately operate as enterprise funds that generated a net profit in FY20. Vehicles are managed through an internal revenue fund and thus growth-related vehicle needs are captured in the analysis of operating costs. As discussed in the next subsection, school-related capital costs are borne by Anne Arundel County Public Schools.

Nonetheless, there may be growth-related capital costs generated by the additional demand for existing infrastructure. Indeed, roads smaller than arterials can require some capital costs based on wear and tear, even if not as regularly as arterials. The FY20 Five-Year Capital Improvement Plan (CIP) provides a useful estimate of the capital costs associated with the existing service population. As shown in Table 13, the average size of the CIP between FY20 and FY25 is \$6.3 million. The average size of the service population served between 2020 and 2025 is 56,020. Dividing the average annual CIP by the average size of the population of the 5-year CIP yields an average capital cost per service population of \$113, which multiplied by the projected growth in the service population between 2020 and 2040 equals a growth-

related increase to the CIP of \$553,600. This is notably less than the net revenues estimated in this fiscal impact analysis (\$776,000), which implies that if the cost and revenue estimates in this analysis are considered accurate, including this estimate of capital costs would still yield a marginal, fiscally positive result.

Table 13: Estimate of Growth-Related Capital Costs

Five-Year Capital Improvement Program					
FY20	FY21	FY22	FY23	FY24	FY25
\$ 4,856,220	\$ 5,675,700	\$ 7,397,500	\$ 11,993,800	\$ 4,050,000	\$ 4,050,000
Average CIP, FY20-FY25		Average Service Population, FY20-FY40			
\$ 6,337,200		56,020			
CIP Spending per Service Pop.		Growth in Service Pop., 2020-2040			
\$ 113		4,894			
Growth-related Increase to CIP					
\$ 553,600					

School Costs Impact

Anne Arundel County Public Schools (AACPS), which serves Annapolis residents, determines a yield rate for elementary, middle, and high school students based on development type. On average, for the Annapolis High School feeder system, each new household is assumed to generate 0.142 elementary school students, 0.054 middle school students and 0.063 high school students. Applying these rates to the projected 582 new households yields 151 new students. The AACPS budget is based on developing a cost-per-pupil and in FY20, the cost-per-pupil was \$14,473, based on guidelines recommended by the Maryland State Department of Education. The number in new students in Annapolis over the next 20 years will not generate the need for an additional school at any level, so there are no capital costs associated with new growth-related students in Annapolis, although the system overall may

add more schools. As shown in Table 14, multiplying the cost per pupil by the estimated yield from new growth generates an estimated cost of \$2.2 million.

Table 14: Growth-Related Public School Costs

New Households, by 2040	582
ES Student Yield (a)	83
MS Student Yield (b)	31
HS Student Yield (c)	37
Total	151
Cost per Pupil (d)	\$ 14,473
Growth-Related Cost, by 2040	\$ 2,181,390

Notes:

- (a) Average Elementary School Student Yield Rate for the Annapolis HS Feeder System: 0.142
- (b) Average Middle School Student Yield Rate for the Annapolis HS Feeder System: 0.054
- (c) Average High School Student Yield Rate for the Annapolis HS Feeder System: 0.063
- (d) The cost per pupil is obtained from the FY20 Anne Arundel Public Schools Operating & Capital Budgets. It is calculated following the guidelines recommended by the Maryland State Department of Education

Source: Student Yield Study for Anne Arundel County Public Schools, November 2019; FY2020 Anne Arundel County Public Schools Approved Operating & Capital Budgets; BAE, 2020

CONCLUSION

Based on the methodology and assumptions in this fiscal impact analysis, Annapolis is projected to generate a marginally net positive fiscal impact based on the taxes received by new development and the costs it incurs. While the real property tax is large enough to generate most of the revenues needed to accommodate new growth, new growth incurs enough costs that the City will be unable to increase the level of service it provides. However, if there is more nonresidential development than currently projected, even more revenue will be generated without the incurring the same level of costs, as nonresidential development demands fewer services from the City. Therefore, the City may be more fiscally resilient if it increases the amount of nonresidential development projected over the next 20 years, although the current residential program yields more or less fiscally neutral results. Critically, over 80.2 percent of the revenues estimated in the fiscal impact come from property taxes paid by new development, even though most of the growth in Annapolis over the next 20 years is explained by the increase to the size of the average Annapolis household.

Nonetheless, the overall marginal findings suggest that, as currently projected, new growth itself is neither a huge winner nor a huge loser for the City based on the current levels of service the City provides. With the skew towards residential development, development itself is not an opportunity for the City, although new growth will help to generate economic activity that will promote economic growth, which is ultimately unaccounted for in a fiscal analysis. Fiscal impact analysis does not consider the impact of growth on income levels, the number of jobs and other measures that reflect the state of the private sector economy, which if positively impacted by growth, would in turn have some effect on the fiscal impact. This dynamic relationship is difficult to model and as a result, fiscal impacts and economic impacts are typically evaluated independently.