32b.

Independent Evaluation of Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills Master Planned Developments

Henderson, Young & Company

May 26, 2014

Independent Evaluation
of
Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills Master Planned Developments

The Phase 2 Updated Fiscal Impact Analysis and this independent evaluation use the same process and procedures that were used for the 2012 Fiscal Impact Analysis of Phase 1A. The background information about fiscal impact analysis that was included in the Phase 1A evaluation report is repeated in this independent analysis of Phase 2.

1. What Fiscal Impact Analysis Tells Cities About Development

Fiscal impact analysis uses estimates of future revenues and future costs to determine whether the net fiscal impact is a surplus or a deficit. Fiscal impact analysis of proposed development in a city estimates the future taxes, fees, and other revenue that will be paid by the proposed development, and the estimated cost of providing city government services such as police, fire, parks, streets, stormwater, and other services to the proposed development. If the amount of future revenue from the development is *more* than the future costs to serve the development, the city will receive a positive fiscal impact (i.e., a *surplus*) from the proposed development. Conversely, if the amount of future revenue is *less* than the amount of future costs the city will have a negative fiscal impact (i.e., a *deficit*) from the proposed development.

2. Fiscal Impact Analysis Requirements for the MPDs

The City of Black Diamond, BD Village Partners LP, and BD Lawson Partners (the Developer) negotiated and signed Development Agreements in December 2011 that contain many specific requirements and obligations of the City and the Developer concerning development of The Villages and Lawson Hills Master Planned Developments (MPDs). Section 13.6 of both Development Agreements require the Developer to submit a fiscal impact analysis for each phase of the project before the development can proceed.

If the fiscal analysis shows a deficit after application of a credit equal to the Developer's Total Funding Obligation pursuant to the Funding Agreements between the Developer and the City, Section 13.6.5.a of both Agreements requires a supplemental analysis proposing how any projected City fiscal shortfall should be addressed. Section 13.6.6 requires an annual review to compare the projections of the fiscal analysis to the City's budget.

The detailed requirements for the fiscal impact analysis are contained in Section 13.6 of the Development Agreements. The City hired our firm, Henderson, Young & Company, to serve as the City's experts in fiscal impact analysis to assist the City during negotiation of Section 13.6. We participated actively in the negotiation on the City's behalf to ensure that the methodology and other requirements would protect the City's interests.

3. Fiscal Impact Analysis Methodologies for the MPDs

There is more than one method that can be used to prepare a fiscal impact analysis, and different methods can produce significantly different results. In order to ensure that the most appropriate method is used for Black Diamond the Development Agreement identifies the methods that are acceptable and specifies which method is to be used for each fund and function of Black Diamond's city government. The three methods used in the fiscal impact analysis of Phase 2 of the MPDs are per capita, comparable cities, and case study. Each of these methods is summarized below.

Per Capita Method. Black Diamond's current revenues would be divided by Black Diamond's current population to calculate the amount of revenue per person ("per capita"). The amount of revenue per capita would then be multiplied times the population from the new development and the result would be the estimate of the revenue to be received by Black Diamond from the new development of Phase 2 of the MPDs. The same method would be used to calculate the cost per capita for services provided by Black Diamond to the current population, and the estimated cost to Black Diamond to provide services to the new development. The "per capita" method is the simplest method, but it assumes that future revenues and costs will be the same per capita as current revenues and costs. This method would not account for important changes that occur in most cities as they grow, such as levels of service, economies of scale, commercial development, and different tax bases.

Comparable Cities Method. The estimated population growth from the new development would be added to Black Diamond's current population to determine the total future population after the completion ("build out") of Phase 2 of the MPDs. Other cities would be identified that have current populations that are comparable to Black Diamond's future "build out" population with Phase 2 of the MPDs completed. The other cities would then be evaluated on a number of other criteria, such as income, housing values, owner v. renter occupancy, age of population, housing density, education level, and whether each city provides specific services or contracts with other agencies to provide those services. The city that is most comparable to Black Diamond would be selected as the basis for the comparable cities method. The revenue and cost of the comparable city would be the basis for "per capita" estimates of the revenue and cost of the new development. The comparable cities method can be applied to all city funds and functions, but that approach would not account for differences in how specific government services are organized, or the levels of service, or differences in how some revenues are generated. Section 13.6 of the Development Agreements allow different comparable cities to be identified for different services provided by Black Diamond.

Case Study Method. This method uses unique methods to determine future revenues or future costs when information is available that would produce a more accurate analysis than the per capita method and the comparable cities method.

Methods Used for Phase 2 of the MPDs. The specific methods required by the Development Agreements to be used for specific portions of the fiscal impact analysis are listed below:

Comparable Cities. The four main public services provided by the City of Black Diamond are analyzed using the comparable cities method. The four services and the comparable city for Phase 2 for each service are as follows:

Function	Comparable City
Fire	Poulsbo
Parks	Poulsbo
Police	Sumner
Public Works (Street Fund)	Sumner

Case Study. The two biggest sources of revenue received by the City of Black Diamond are analyzed using the case study method:

Revenue	Case Study Basis
Property Taxes	Taxable value of new development.
Sales Taxes	Estimated value of taxable sales to new development.

Per Capita. All other sources of revenue and services provided by Black Diamond are analyzed using the per capita method. Our experience is that the per capita method is acceptable for the remaining items because they are reasonably accurate and the significant additional research to use the other methods does not produce material differences in the outcomes. In addition, these other items are relatively small parts of the total, and any differences from using other methods would have insignificant effects on the bottom line.

One other note: Black Diamond's water and sewer utilities were excluded from the fiscal impact analysis because they are paid for by user fees, therefore they do not impact the surplus or deficit outcome of the fiscal impact analysis.

4. Updated Fiscal Impact Analysis of Phase 2: Chronology

This section of our independent evaluation provides a chronology of events leading up to the preparation of this report of our independent evaluation.

- The Developer initiated the steps in the process of developing Phase 2 of The Villages and Lawson Hills MPDs that triggered the requirement in Development Agreements Sections 13.6 to prepare and submit a fiscal impact analysis. The Developer engaged the firm Development Planning & Financing Group, Inc. (DPFG) to prepare the fiscal impact analysis for Phase 2 of the MPDs.
- The City of Black Diamond hired Henderson, Young & Company (HYCo) to represent the City's interests by researching potential comparable cities, and by conducting an independent expert evaluation of the fiscal impact analysis submitted by the Developer.
- On August 5, 2013, the Developer submitted to the City the number of dwelling units, square feet of commercial space, and the estimated sale prices for Phase 2 of the MPDs[1].
- On August 14, 2013, HYCo completed estimates of population and property values for Phase 2.
- Between August 15 and September 29, 2013, HYCo identified 23 potential comparable cities for the Phase 2 fiscal impact analysis, and researched and evaluated over 20 factors for each city.
- On September 30, 2013, HYCo submitted a memorandum to the City summarizing the analysis of potential comparable cities for the Phase 2 fiscal impact analysis, and recommending the specific comparable cities to be used by DPFG for fire, parks, police, and street maintenance.
- On December 31, 2013, DPFG prepared a report titled *Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills Master Planned Developments* ("DPFG FIA 12/31/13") pursuant to the requirements of Section 13.6 of the Development Agreements. DPFG FIA 12/31/13 was submitted by the Developer to the City.
- HYCo reviewed the DPFG FIA 12/31/13, including every data item and every formula in DPFG's 30 spreadsheets.
- On March 16, 2014, HYCo submitted to the City a list of 20 specific items about which HYCo had questions, comments or requests for additional information, with space for DPFG to respond. The City forwarded HYCo's list to the Developer for transmittal to DPFG.
- On April 28, 2014, DPFG submitted the list of HYCo's 20 items with its response to each of HYCo's requests for documentation and/or explanation.

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[1] The Phase 2 Fiscal Impact Analysis includes the cumulative total development of Phases 1A and 2. Therefore, the development data submitted was for Phases 1A and 2, and all subsequent analyses included development and impacts of the combined total of both phases.

DPFG also submitted a revised *Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills Master Planned Developments* dated April 28, 2014 ("DPFG FIA 4/28/14") and a revised set of spreadsheets.

- HYCo reviewed and evaluated DPFG's responses, revised report (DPFG FIA 4/28/14) and revised spreadsheets. On May 21, 2014, HYCo completed the log that contained all of HYCo's requests from March 16th, all of DPFG's responses from April 28th, and HYCo's final responses. The log containing all HYCo's requests and DPFG's responses is an integral part of our independent evaluation, and it is included as the appendix to this Independent Evaluation Report.
- On May 26, 2014,, HYCo completed this report of our independent evaluation of the fiscal impact analysis of Phase 2 of the MPDs

5. Results of Fiscal Impact Analysis in DPFG FIA 4/28/14

Table 2 of DPFG FIA 4/28/14 provides a concise summary of the results of DPFG's fiscal analysis of Phase 2 of the MPDs. The net fiscal impact for each year is near the bottom of Table 2 in the row "Modified Annual General Fund Surplus (Deficit)". The net fiscal impact is positive (i.e., a surplus) for the City of Black Diamond for each and every year of development of Phase 2 (2014 – 2021). The Development Agreement also requires the fiscal impact analysis to be extended to cover the two years after the completion of Phase 2. The net fiscal impact is positive (i.e., a surplus) for the City of Black Diamond for the two years after the completion of Phase 2 (2022 – 2023). Throughout the 11-year period covered by the fiscal impact analysis the surplus decreases every year, except for a very small increase in 2022. By 2023, the surplus is less than one half of 1% of the total revenue. The following table shows the amount of the surplus for each year.

Year	Surplus
2013	$1,654,229
2014	1,579,093
2015	1,525,165
2016	1,064,953
2017	961,065
2018	854,905
2019	770,166
2020	491,331
2021	147,239
2022	155,239
2023	23,455

6. Independent Evaluation

HYCo's independent evaluation included all the reviews and requests for additional documentation and explanations that are described above in Section 4. Our independent evaluation continued until DPFG provided documentation of all raw data from sources that are acceptable to HYCo. Furthermore, our independent evaluation continued until DPFG provided explanations that are acceptable to HYCo for all assumptions and calculations. Finally, our independent evaluation continued until DPFG made the revisions requested by HYCo.

HYCo finds that DPFG FIA 4/28/14 uses data sources, assumptions, methods and calculations that are typical of current practices in fiscal impact analysis and therefore the results can be considered reasonable estimates of fiscal impacts.

HYCo finds that the DPFG FIA 4/28/14 incorporates all the revisions and clarifications identified during our thorough independent evaluation, therefore HYCo recommends that the City of Black Diamond accept the DPFG FIA 4/28/14 as fulfilling the requirements of Section 13.6 of the Development Agreements. HYCo also finds that the annual surpluses in DPFG FIA 4/28/14 Table 2, and summarized above in this Independent Evaluation Report, demonstrate that there is no fiscal shortfall, therefore the Developer is not required to submit a supplemental analysis pursuant to Section 13.6.5.a of the Development Agreements.

The City should take note, however, that the positive fiscal impact (i.e., surplus) for the City of Black Diamond from 2013 through 2022 is due to the continuation of payments by the Developer pursuant to the MPD Funding Agreement and the receipt of one-time sales taxes on construction. Table 2 in DPFG FIA 4/28/14 lists the amount of those payments. The following table compares the amount of each year's surplus to the amount of the MPD funding agreement payments by the developer, and the amount of one-time sales taxes on construction.

Year	Surplus	MPD Funding Agreement Payments	One-Time Sales Taxes on Construction	Balance Without MPD Funding or One-Time Sales Taxes
2013	$ 1,654,229	$ 1,653,685	$ 544	$ 0
2014	1,579,093	1,533,685	45,408	0
2015	1,525,165	1,293,685	86,688	144,792
2016	1,064,953	1,053,685	271,061	-259,793
2017	961,065	840,000	492,979	-371,914
2018	854,905	840,000	458,555	-443,650
2019	770,166	840,000	430,433	-500,267
2020	491,331	840,000	262,215	-610,884
2021	147,239	840,000	278,082	-970,843
2022	155,239	840,000	152,913	-837,674
2023	23,455	840,000	0	-816,545

7. Annual Reviews

The Funding Agreements (Sections 6) and the Development Agreements (Sections 13.6.6) between the City and the Developer require that the fiscal impact analysis must be reviewed annually.

The annual review will examine work completed by the MDRT, the prior MDRT costs, anticipated MPD development for the coming year, MDRT staffing levels for the next calendar year, consultants needed, the prior year's quarterly accounting, FFE necessary to support MDRT members for the following year, and then compare the fiscal analysis in light of these data to the City's budget for the upcoming calendar year.

8. Caution Regarding Use of Cumulative Totals

We note that Table 2 in the DPFG FIA 4/28/14 includes a row for the cumulative surplus. HYCo recommends that the cumulative totals should not be used for planning purposes because the annual review may include significant changes to variables that produce the results of the fiscal analysis. Here are examples of variables that would have significant effects on the cumulative fiscal impact analysis:

- Absorption: the number of units that are actually built and sold
- Property taxes, including changes in taxable value and/or levy rates
- Voted initiatives and/or legislative changes to city revenues and/or city services

9. Conclusion and Recommendations

In my capacity as the fiscal impact expert member of Black Diamond's Master Development Review Team, I am submitting this Independent Evaluation Report to the City's Designated Official pursuant to Section 13.6 of the Development Agreements.

Based on the information presented in my Independent Evaluation Report, it is my expert opinion that the City of Black Diamond's Designated Official should accept the revised *Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills Master Planned Developments* dated April 28, 2014, and the supporting spreadsheets and log of documentation and explanations as fulfilling the requirements of Section 13.6 of the Development Agreements.

Furthermore, I find that the annual surpluses in DPFG FIA 4/28/14, Table 2, and summarized above in this Independent Evaluation Report, demonstrate that there is no fiscal shortfall in this fiscal impact analysis for Phase 2 of the MPDs, therefore

I conclude that the Designated Official is not required to request a supplemental analysis pursuant to Section 13.6.5.a of the Development Agreements.

10. Future Changes

My conclusions and recommendations are based on the DPFG FIA 4/28/14 , supporting spreadsheets, and the log of documentation and explanations. Future changes to data, assumptions and/or documentation may be used by the City when it prepares its budget for each year. In addition, changes to data, assumptions and/or documentation will be incorporated in the subsequent fiscal impact analysis performed prior to each phase of MPD development. The annual reviews and each fiscal impact analysis for each new phase of MPD will be subject to future independent expert evaluation that will contain new findings, conclusions and recommendations.

Randall L. Young
Henderson, Young & Company
May 26, 2014

Appendix A

Documentation, Explanations, Clarification and Revisions
Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills MPDs
in Black Diamond, Washington
Prepared by DPFG December 31, 2013, and Revised April 28, 2014

This log contains follow-up information about DPFG's December 31, 2013, *Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills Master Planned Developments* (MPDs), and the revised version dated April 28, 2014. This log consists of a series of requests for additional information prepared by the City's fiscal consultant, Henderson, Young & Company (HYCo), responses by DPFG, and subsequent replies by HYCo. The following is a key to the source and timing of requests and responses:

- **Initial requests by HYCo prepared March 16, 2014.**
  - *Initial response by DPFG, dated April 28, 2014.*
    - Follow-up response by HYCo, dated May 21, 2014.

Absorption Tab

- **Explain why the 1,939 residential units (in cells U34 and U35) is different than the 2,014 residential units provided to Black Diamond by YarrowBay on August 5, 2013 as data for Phases 1A and 2.**
  - *DPFG Response: The change in Absorption (reduction of 75 units) was the result of site plan changes to The Villages Parcels V28 and V29 and Lawson Hills Parcels L3 and L4. The Villages Phase 2 Plat C (V28 and V29) was reduced by 49 units due to product type changes at the time of Preliminary Plat Submittal in November 2013. The Lawson Hills Phase 2 Plat B (L3 and L4) is anticipated to be reduced by 26 units due to product type changes at a future re-submittal of Lawson Hills Phase 2 Plat B.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

- **Explain why the finished unit values (in cells G15 through G32) are different than the 2015 sale price per unit provided to Black Diamond by YarrowBay on August 5, 2013 as data for Phases 1A and 2.**
  - *DPFG Response: In November 2013, YarrowBay received a report from John Burns Real Estate Consulting that provided updated pricing recommendations for Phases 1A and 2 product types and lots. The finished unit values reflected the recommendations contained in this November report. Since publication of the December 2013 Phase 2 Fiscal Impact Analysis, YarrowBay has received a further updated report from John Burns. As a result, we have revised the finished unit values in cells G15 through G32 to reflect this most current information. Excerpts of the John Burns Report will be provided with revised submittal.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

- **Explain how the absorption schedule is realistic considering that there has been very little activity at the development site to date.**
  - *DPFG Response: Based on the updated absorption schedule in the John Burns Report, it DPFG adjusted the absorption schedule in the FIA by one year. Lots will be prepared/finished in 2015 and home sales in 2016.*

- HYCo accepts DPFG's response as concluding the inquiry regarding this item. HYCo observes that the change in absorption is accompanied by a corresponding extension of the analysis time horizon by one year to the year 2023 in order to provide two full years after the completion of Phase 1A and 2, as required by Section 13.6 of the Development Agreements.

Summary Tab

- **Row 19 (Property Tax), shows property tax revenue being received by Black Diamond beginning in 2014. The detailed analysis is in Tab y2, which shows land sales of over $40.5 million. Explain how land sales that occur in year 2 (2014) can pay property taxes that are received by Black Diamond in 2014? And if the timing of the property tax receipts needs to be revised for 2014, explain whether or not it should be adjusted for subsequent years.**
  - *DPFG Response: This assumption is the same methodology used in the approved Phase 1A fiscal analysis. We pushed sales out one year, but this does not result in a material change to the model because all revenues are still captured, they are just pushed out one year.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item. The Fiscal Impact Analysis is designed to provide accurate estimates based on reasonable assumptions. While it is possible that some of the property tax revenue in DPFG's fiscal analysis may not be collected until the following year, it is also true the expense side of the ledger assumes that all units sold in a year will require full city services for the full year, but in reality many units will be sold throughout the year, so that some will need less service during the part of the year that they are occupied.

- **Row 57 (General Fund Reserve), columns I through S: Section 13.6.3.b specifies that the reserve for operating funds should be equal to the current reserve percent in the City's budget used for the FIA. Modify the formulas in cells I57 – S57 to replace the 2012 Black Diamond Budget data for reserves (255,590/4,998,082) which is a reserve of 5.1%, with the current 2013 Black Diamond Budget data for reserves, 579,939/4,322,711 which is a reserve of 13.4%.**
  - *DPFG Response: Black Diamond passed its 2013 budget as Ordinance 12-994 on December 20, 2012. On page 17 of this budget, the General Fund Reserve is listed as 555,226/4,476,042, a reserve of 12.8%. The City appears to have amended this budget twice in 2013. On June 20, 2013, the City passed Ordinance 13-1005, which decreased the General Fund by 80,059. On December 5, 2013, the City passed Ordinance 13-1016, which increased the General Fund by 400. Based on these ordinances, we are unable to determine the origin of the 579,939/4,322,711 amount that you have suggested we include. Please advise us with regard to the source for this amount.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

- **Row 74 (MPD Funding Agreement): Explain the source or basis for the amounts of the payments pursuant to the MPD Funding Agreement for the years 2016 - 2021. Also, explain why the amounts for the years 2017 through 2022 are 46% higher ($266,315 per year) than the amounts of the payments pursuant to the MPD Funding Agreement for the years 2016 - 2021 in the August 8, 2013 FIA for Phase 1A.**
  - *DPFG Response: The City of Black Diamond underreported staffing costs for the MPD Funding Agreement for 2016 – 2021 for Phase 1A that was used in the August 8, 2013 FIA. The MPD Funding Agreement costs included in the FIA did not include ancillary costs like insurance and other overhead for the staffing positions for which YarrowBay is providing funding. The Phase 2 FIA was updated to include this information in the payments per the MPD Funding Agreement. Moreover, as construction and other development activities associated with the project increase,*

Black Diamond's staffing requirements will also increase, which creates additional costs. These additional costs are also captured in the updated FIA as increased MPD Funding Agreement payments.

- HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Revenue Tab

- **Rows 16-24 (Utility Taxes): Add a row for stormwater utility tax revenue (see comment about the Utility Tax Tab, below, for explanation).**
  - *DPFG Response: DPFG will include this line item as requested.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Property Tax Rate Calc Tab

- **Row 29: Explain why the levy rate increases every year despite DPFG's acceptance as part of the FIA for Phase 1A that the levy rate would remain the same for all years of the FIA. The following is the concern that HYCo expressed August 23, 2012:** "The calculations of "allowable" levy rate are based on an incorrect assumption that Black Diamond will maximize property tax revenue. If the City of Black Diamond were to use this assumption it would cause all existing taxable properties in Black Diamond to be subjected to the same increasing levy rate that Table 4 calculates for new development in The Villages Phase 1A. The levy rates calculated in Table 4 will increase between 0.87% and 1.00% every year between 2012 and 2021, reaching a total increase of 9.3% by 2021. As a result, property tax payments by existing properties would increase by the same amounts. It is highly unlikely that the City of Black Diamond would establish property tax revenue at the maximum allowable. For the purpose of revising Table 4, the assumption should be that the current levy rate of 2.59339 will continue for every year 2013 through 2021. Even this assumption is somewhat aggressive. Cities that have significant changes in their assessed valuation hope to be able to reduce future property tax levy rates because of the growth in taxable value. Rather than attempt to forecast such decreases, the revised version of Table 4 should use the current levy rate of 2.59339 for all years 2013 – 2021." **Based on this concern DPFG agreed to use the current levy rate for each year of the FIA. For the Phase 2 FIA, the current levy rate is now 2.82640, and that rate should be used for each year 2014 – 2022.**
  - *DPFG Response: DPFG will adjust the levy rate as requested to be consistent with the Phase 1A fiscal analysis.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Expenses Tab

- **Change the amounts in cells D18, D30, and D31 to be the amounts from Black Diamond's Final Budget for 2013.**
  - *DPFG Response: As noted under the Summary Tab, Black Diamond passed its 2013 budget as Ordinance 12-994 on December 20, 2012 and appears to have amended this budget twice in 2013. Please advise us with regard to the source for the amounts that you are referencing.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

- **Explain why the Hearing Examiner-SEPA expenditure in Black Diamond's Final Budget for 2013 is omitted from DPFG's Expenses Tab.**
  - *DPFG Response: The Hearing Examiner-SEPA expenditure in Black Diamond's Final Budget for 2013 is omitted because, per section 13.6(1)(i) of the Development Agreements, one time revenues and expenses for general fund departments are not to be included in the fiscal analysis.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Police-Sumner Tab

- **"LOS Adjustment" (Column G and Note 1): Explain why an 83% adjustment is justified considering the following. Sumner's staffing of 24 serves population plus 50% of employment of 15,667 which is a level of service of 1.5309 per 1,000. Table 8-1 of Black Diamond's Comprehensive Plan specifies 17.35 staffing for 7,500 – 10,000 population. Black Diamond's population plus 50% employment at the completion of Phase 2 is estimated to be 9,742, which is a level of service of 1.7809 per 1,000. The appropriate adjustment for police for the FIA is to adjust Sumner's 1.5309 to match Black Diamond's 1.7809. The resulting adjustment is 1.7809 ÷ 1.5309 = 116%.**
  - *DPFG Response: Same methodology adjustment from prior approved Phase 1A fiscal analysis. Sumner's budget funds 24 positions (DPFG assumed 21 FTE to be conservative). The City of Black Diamond only needs to fund 17.35 FTE based on the City's Comprehensive Plan. Sumner needs a budget of $3.8 million to fund the 21 FTE, and to fund 17.35 FTE they would need less, (17.35/21 = 83%) approximately $3.1 million.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item. HYCo analyzed staffing levels of another comparable city, Poulsbo, to determine the reasonableness of DPFG's adjustment of Sumner's staffing from 24 to 21. Poulsbo's police department has a staffing level of 19.6 FTE for a city comparable to Sumner, therefore, HYCo concludes that DPFG's adjustment is reasonable.

P&R-Poulsbo Tab

- **Poulsbo's practice of charging 70% of park program costs to users may have its origins in the City's practice, until very recently, of accounting for parks in a separate fund where it was expected to recover a significant portion of its costs from non-tax sources, such as user fees. The City of Black Diamond has limited user fees, primarily for parking at a boat launch, and a fee for special events at parks It is not appropriate to adjust Poulsbo's costs because Black Diamond has not determined whether or not it will charge for park program costs. At most, the adjustment would be 38% based on Black Diamond's practice of using its fee revenue of $16,100 for park maintenance costs of $42,000 (16,100 ÷ 42,000 = 38%).**
  - *DPFG Response: The methodology and assumptions used are based on comparable city analysis. If the comparable city has a higher service level because of certain funding programs, the fiscal analysis needs to also assume that the City of Black Diamond will implement those funding programs to achieve the same level of service.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Public Works-Sumner Tab

- **During the Phase 1A FIA, it was determined that there were no separate Public Works functions in the general fund that were not already included in other general fund functional costs, such as Parks and Recreation. As a result, it is not necessary to include any separate or**

additional General Fund costs for Public Works. The revised version of the spreadsheets and report for Phase 1A deleted Public Works from the General Fund. Portions of Black Diamond's Public Works department costs that are related to the street fund were included in the Road Case tab for the Street Fund analysis, and were based on the cost per capita in the comparable city (Fircrest) as the basis for the costs to be added to the Street Fund. Move the public works costs from the general fund to the street fund, or explain why you believe it should not be shifted.

- *DPFG Response: DPFG will delete this cost as requested.*
  - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Const Tax Tab

- **Row H (2013 data): Shows $14 million of Phase 1A Hard Costs in 2013, generating $57,792 in sales tax revenue for Black Diamond. Document the Phase 1A hard costs that were incurred, and the sales tax that was paid on those costs.**
  - *DPFG Response: Hard costs and sales tax revenue values for 2013 have been updated. The updated values will be incorporated into the revised fiscal analysis.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

- **List all firms that have engaged in development activities in Black Diamond that are subject to sales tax, and confirmation that they have business licenses with the City of Black Diamond.**
  - *DPFG Response: The State of Washington is a point of delivery state with regard to sales tax. Because of the point of delivery requirement, it is reasonable to allocate sales tax revenue to the City for any firms conducting business within the City's limits. Furthermore, per BDMC 2.58.010, the City obligates anyone conducting business in the City to have obtained a business license. The FIA assumes that consistent with this requirement, if a firm is operating within the City, the firm has obtained a business license.*
    To date, J.R. Hayes & Sons, Inc. is the only firm that has engaged in development activities in Black Diamond on behalf of YarrowBay. J.R. Hayes & Sons has obtained a Black Diamond business license (license #BUS10-0010).
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Road Case Tab

- **Cell E15: The revenue amount of $146,565 is the total revenue of Black Diamond's Street Fund (see 2013 Final Budget, page 56). Of that total, $60,695 is itemized in the 2013 Final Budget as "Funding Agreement-Sal & Ben Reimb". Explain whether or not this amount is included in the "MPD Funding Agreement" payment amounts in the Summary Tab, row 74.**
  - *DPFG Response: DPFG investigated this occurrence and determined it was being double counted. DPFG will remove this amount from the road case tab. It does not appear to happen in any other department or special fund revenues.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Stormwater Tab

- **Cell D14 is linked to Assump Tab, cell F15. It would be expected that Stormwater Tab cell D15 would be linked to Assump Tab, cell F16, but it is not linked. It turns out that the correct value (455 employees) is in the Stormwater Tab, but not the Assump Tab. If this spreadsheet will be**

used for future FIA, the link should be restored, and the correct data included in Assump Tab, cell F16.

- *DPFG Response: DPFG will correct the link as requested.*
  - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Utility Tax Tab

- **Row 18 (Water Utility Tax): Does the water utility tax revenue include or exclude water utility taxes from homes built in the disputed water service area?**
  - *DPFG Response: The analysis currently includes these revenues, but to be conservative, DPFG will adjust the fiscal analysis to exclude the water utility taxes from the homes in the disputed water service area.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

- **Rows 14-22 (Utility Taxes): Add a row for stormwater utility <u>tax</u> revenue (itemized on page 19 of the City's 2013 budget). The City includes it as a general fund revenue. It is not the stormwater utility <u>charge</u> that is the revenue source for the stormwater fund.**
  - *DPFG Response: DPFG will add the Stormwater Utility Tax as mentioned above.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.

Asump Tab

- **As noted above under the Stormwater Tab, the data in cell F16 should be corrected.**
  - *DPFG Response: DPFG will correct the link.*
    - HYCo accepts DPFG's response as concluding the inquiry regarding this item.