APPLIED ECONOMICS

FISCAL IMPACTS OF THE BUNGER ANNEXATION AREA ON THE CITY OF MARICOPA

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Economic & Fiscal Impact | Demographic Analysis | Economic Development

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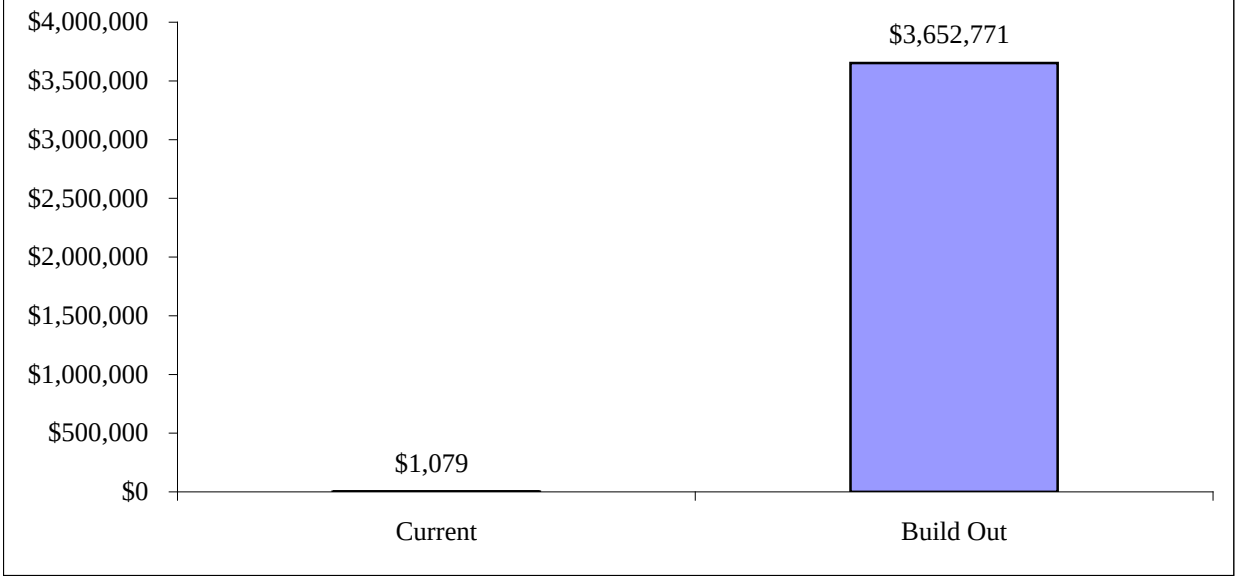
EXECUTIVE SUMMARY

This analysis demonstrates the potential socioeconomic and fiscal impacts of the Bunger annexation area on the City of Maricopa. The annexation area is located 8 miles southeast of the center of the City of Maricopa along the Maricopa-Casa Grande Highway in northwest Pinal County. The area encompasses 251.4 gross acres including a canal, the Union Pacific rail line and the Maricopa-Casa Grande Highway. When these parcels are removed, the developable area includes about 208.7 acres. The area is currently vacant and is zoned as agricultural land. Future general plan land uses includes 57.3 acres each of office, light manufacturing and warehouse and 36.8 acres of retail/commercial uses.

The following is a summary of the net fiscal impacts of this proposed annexation area on the City of Maricopa. The fiscal impacts include the General Fund and HURF Fund. This study focuses on operations and maintenance revenues and expenditures. However, if annexed, this area may require improvements to streets or other infrastructure to bring them up to current city standards. These improvements are not included in the fiscal impacts.

The analysis includes two points in time: current and build out. The annual net impacts currently are minimal given that the land is undeveloped. The long-term net impacts for this area are projected to be significantly positive, given that it is entirely nonresidential and includes a significant amount of sales tax generating uses (Figure 1). At build out, annual net impacts are estimated at $3.7 million with revenues exceeding expenditures by over 200 percent.

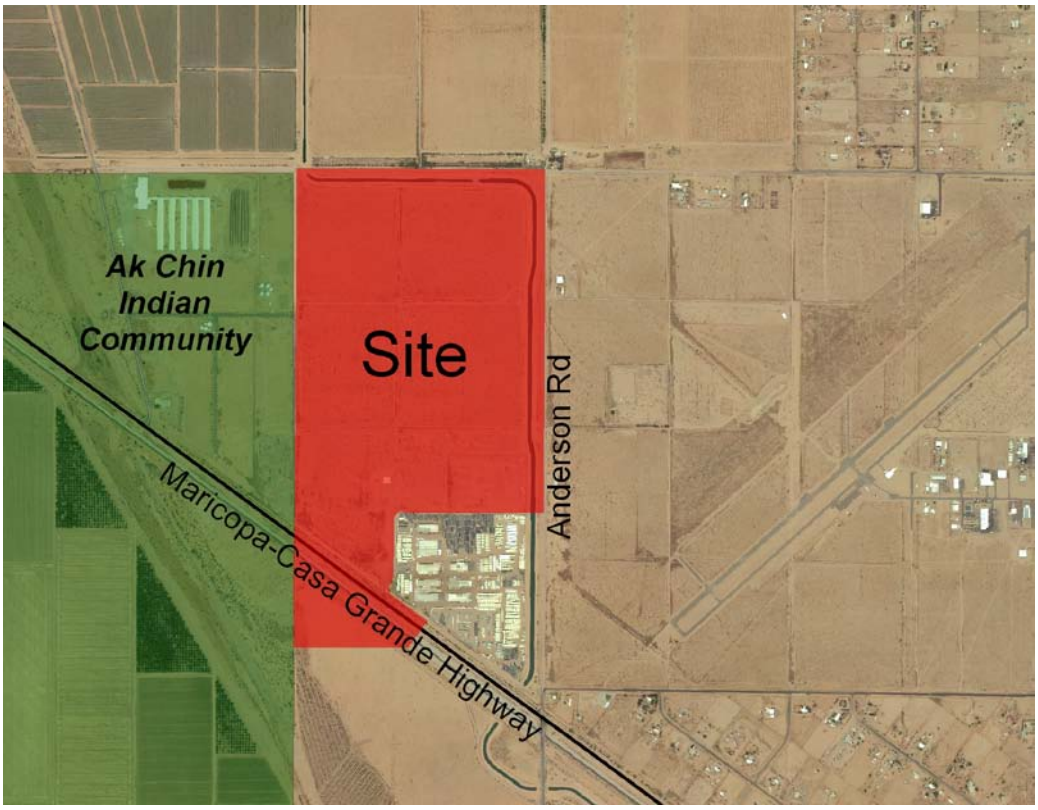
FIGURE 1
Annual Net Impacts
General Fund and HURF Fund



1.0 INTRODUCTION

This analysis demonstrates the potential socioeconomic and fiscal impacts of the Bunger annexation area on the City of Maricopa. This 251 acre area, shown in Figure 2, is generally located 8 miles southeast of the center of the City of Maricopa along the Maricopa-Casa Grande Highway in northwest Pinal County. The property is adjacent to the Ak-Chin Indian Community to the west, and the City of Maricopa on the north, and extends ½ mile between the alignment of Ensenada Road and Anderson Road. There is an existing Mobile Mini manufacturing operation at the northwest corner of Maricopa-Casa Grande Highway and Anderson Road, which is not part of the proposed annexation, and a small airport immediately to the east of the property across Anderson Road. The property is currently undeveloped but is projected to include a mix of office, light manufacturing, warehouse and retail development based on the future general plan land use.

FIGURE 2
PROPERTY LOCATION



The impact analysis for the Bunger annexation includes current conditions and build out. The mix of nonresidential development that is projected for this area could result in an estimated 3.0 million square feet of built space and total employment of about 9,500 by build out.

The information and observations contained in this report are based on our present knowledge of the components of development, and of the current physical, socioeconomic and fiscal conditions of the affected areas. Projections made in this report are based on hypothetical assumptions and current public finance policies. However, even if the assumptions outlined in this report were to occur, there will usually be differences between the projections and the actual results because events and circumstances frequently do not occur as expected. This analysis is based on the best available information and is intended to aid the City of Maricopa in making decisions relative to the proposed development. All dollar figures should be interpreted as order of magnitude estimates only.

1.1 General Approach

The impact assessment includes revenues and expenditures associated with existing and new development in the annexation area. It does not specifically include capital costs for new or replacement infrastructure, but does include relevant maintenance costs for items such as streets. The analysis includes the General Fund and the HURF Fund.

The basic approach for the analysis is to determine the level and character of future development (measured in non-residential square footage, employment, road miles, etc.), and then to model the revenues and expenditures likely to be associated with that development. Current and historical budgets for the city were reviewed to identify revenue and expenditure line items that would be impacted by the annexation. Once identified, each line item was analyzed to identify a socioeconomic factor that could be used to predict a corresponding impact for the annexation area. For example, road miles are a good indicator of the cost of street maintenance. Therefore, by knowing the number of new road miles in the annexation area at any point in time, one could estimate the related costs in public works department. Many of the services provided by the city are utilized by both residents and businesses, thus population and employment are drivers for a number of revenue and expenditure items. In the case of this annexation area there will be no future population, but a significant amount of future employment.

1.2 Report Organization

The balance of this report is divided into two sections. Section 2.0 details the methodology and assumptions used in calculating the development characteristics and the fiscal assumptions used to develop the model. Section 3.0 describes the results of the fiscal impact calculations for the annexation area. Detailed tables on the fiscal impact assumptions and results are included in the appendices following Section 3.

2.0 METHODOLOGY

This chapter describes the methodology and assumptions used in developing the fiscal impact model and the absorption projections.

2.1 Development Characteristics

In order to analyze the fiscal impacts of annexation, it was necessary to characterize the areas in terms that could be compared with existing properties within the city. The annual impact of nonresidential development can be described in terms of employment, nonresidential square footage, assessed value, taxable sales, construction expenditures and street miles, based on assumptions about the type of development that could be expected to occur on this property. The assumptions used in this analysis are consistent with surrounding development in Maricopa.

The following sections briefly describe the assumptions used to estimate each of the major characteristics of the annexation area.

Nonresidential development and employment. In total, the annexation area will include 207.8 acres of development resulting in 3.04 million square feet of built space. Projected employment is expected to reach 9,530 by build out based on the number of acres by land use, standard assumptions for floor-area ratios (the ratio of building area to land area), occupancy rates and per employee square footage requirements (Figure 3). The information below details the assumptions used in the model by land use.

FIGURE 3
DEVELOPMENT ASSUMPTIONS

Land Use	Square Feet per Employee	FAR	Occupancy	Land Value per Acre	Taxable Sales per Sq Ft	Percent Retail	Annual Lease	Percent Leased
Nonresidential								
Office	250	0.75	95%	$210,526	$0.00	100%	$15.40	100%
Community Commercial	300	0.20	90%	$157,046	$350.00	100%	$20.59	100%
Light Manufacturing	400	0.25	95%	$50,175	$25.00	50%	$6.84	25%
Warehouse	500	0.20	90%	$134,185	$25.00	50%	$5.88	50%
Vacant								
Agriculture	0	na	na	$5,072	na	0%	na	na

- **Office** – 57.3 developed acres with 1,684,792 square feet based on a floor area ratio of 0.75; 95% long term occupancy rate; 250 square feet per employee and 6,400 total employees; $98 assessed value per square foot; annual lease rate of $15.40 per square foot.

- **Light Manufacturing** – 57.3 developed acres with 592,797 square feet based on a floor area ratio of 0.20; 95% long term occupancy rate; 400 square feet per employee and 1,410 total employees; $61 assessed value per square foot; annual lease rate of $6.84 per square foot with 50% of the space available for lease and the remainder owner-occupied.

- **Warehouse** – 57.3 developed acres with 474,238 square feet based on a floor area ratio of 0.20; 90% long term occupancy rate; 500 square feet per employee and 850 total employees; $40 assessed value per square foot; annual lease rate of $5.88 per square foot with 50% of the space available for lease and the remainder owner-occupied.

- **Community Commercial** – 36.8 developed acres with 288,541 square feet based on a floor area ratio of 0.20; 90% long term occupancy rate; 300 square feet per employee and 870 total employees; $81 assessed

value per square foot; annual lease rate of $20.59 per square foot with 100% leasable space; taxable sales of $350 per square foot.

A summary of current and future land use and square footage for the annexation area is shown in Figure 4. At build out, the Bunger Annexation could support about 3.04 million square feet of nonresidential space.

FIGURE 4
CURRENT AND FUTURE LAND USE
BUNGER ANNEXATION

	Current		Build Out	
	Gross Acres	Sq Ft	Gross Acres	Sq Ft
Nonresidential				
Office	0.00	0	57.30	1,684,792
Community Commercial	0.00	0	36.80	288,541
Light Manufacturing	0.00	0	57.30	592,797
Warehouse	0.00	0	57.30	474,238
Other				
Agriculture/Open Space	208.70	na	0.00	na
Total	208.70	0	208.70	3,040,368

Note: Excludes railroad, canal and highway parcels.

2.2 Fiscal Assumptions

The fiscal model created to assess the impacts of the Bunger annexation area was based on current and historical budgets for the City of Maricopa. Historical trends were analyzed for the 2007-08 fiscal year through the 2011-12 fiscal year. Revenue and expenditure line items in the General Fund and HURF Fund were included since these funds will be most impacted by the annexation. The model does not include any construction costs for new infrastructure, but does include relevant maintenance costs to the approximately 3 new lane miles of streets that would be added as the property develops.

Various drivers were tested for each of the revenue and expenditure items in the model. In this way, consistent rates were developed that could be applied to the socioeconomic data for the proposed annexation area. In many cases an average of rates over the past several years was used. It is important to note that current expenditures are below historic levels due to the recession and reduced revenues. In most cases, an average of current and previous years was used in the model to better reflect long term conditions. However, some revenue and expenditure items increased at rates that were less consistent over time, or experienced permanent increases or decreases due to operational or other changes. In these cases, rates from more current budget years were used to accurately reflect current conditions. The rates and basis for all revenue and expenditure line items are shown in Figure 5.

Many of the revenue and expenditure line items are driven by population, or by “service population”, which includes both population and employment. This is because many of the services provided by the City, as well as the various types of revenues that local governments depend on, are proportional to the number of people living and working there. In some cases, population may be weighted more heavily than employment since some services are used proportionally more by residents.

Major line items that are not driven by population or employment include property tax which is a function of assessed value; sales tax which is a function of taxable sales; a variety of permits and service charges that are a function of construction costs. On the expenditure side, planning is a function of construction value and population, and engineering and building safety are a function of annual construction. Transportation is a function of street miles and population, and public works is a function of street miles.

It is important to note that market conditions over the next 20 years could significantly affect the projected land use and hence property and sales tax revenues resulting from the annexation area. The assumptions used in this analysis are fairly conservative and thus differences between the assumptions and actual conditions are likely to result in higher assessed values rather than lower. Also, since the exact timing for build out of this property is not known, the fiscal results are presented in current dollars.

FIGURE 5
FISCAL IMPACT MODEL DRIVERS AND RATES
GENERAL FUND AND HURF FUND

Revenue/Expenditure Item	Driver	Rate/Basis for Calculation
REVENUES		
Taxes and Fees		
Property Tax	assessed value	0.00481 * ((16% * vacant land value) + (10% * residential value) + (20% * comm/ind value))
Local Sales Tax	taxable sales per square foot, retail share, occupancy	(occ rate*sales per sq ft*square footage by type*retail share* 2%) + (lease rate*square footage by type*lease share*2%) + (3.5% * 65% * construction value) +(4% * hotel/motel sales * occupancy)
Franchise Fees	service population	$6.1205 * (population + employment)
Intergovernmental		
State Income Tax	Census population (will be 0 except for res. projects)	$88.84 per capita, no impact until after Census
State Sales Tax	Census population (will be 0 except for res. projects)	$79.64 per capita, no impact until after Census
Auto Lieu	population	$43.21 * population
Highway Users Revenue	population	$56.40 * population
Licenses and Permits		
Recreation Fees	population	$6.56 * population
Engineering Fees	construction value	$0.0018 * construction value
Business Licenses	employment	$3.962 * employment
Building Permits	construction value (80%), service population (20%)	($0.004 * construction value) + ($0.9235 * (population + employment)
Fines and Forfeitures		
Police Hearings	service population (pop*3)	$1.578 * (population *3 + employment)
Court Fines	service population (pop*3)	$3.383 * (population *3 + employment)
Interest on Investments		
Interest Income	previous year ending balance, if positive	1.5% * previous year ending balance
Other Revenues		
Misc. Revenue	service population (pop*2)	$3.706 * (population *2 + employment)
EXPENDITURES		
General Government		
Mayor & Council	population (10% of current rate for new population)	$7.214 * population
City Clerk	service population (pop*2)	$4.0199 * (population *2 + employment)
City Magistrate	service population (pop*2)	$2.514 * (population *2 + employment)
City Manager	City FTEs @ 0.0025 per (population*2 + employment)	$4267.32 * FTEs
City Attorney	population	$4.59 * population
Human Resources	City FTEs @ 0.0025 per (population*2 + employment)	$1321.52 * FTEs
Information Technology	City FTEs @ 0.0025 per (population*2 + employment)	$3167.71 * FTEs
Economic Development	job growth	$175.27 * new jobs
Finance/Administrative Services	service population (pop*2)	$11.50 * (population *2 + employment)
Nondepartmental	City FTEs @ 0.0025 per (population*2 + employment)	$19,745.07 * FTEs
Development Services		
Development Services Administration	other planning expenditures	8.55% * planning expenditures
Engineering	construction value	($0.003 * construction value)
Fleet Management	City FTEs @ 0.0025 per (population*2 + employment)	$1516.80 * FTEs
Planning	construction value (60%), population (40%)	($0.0018 * construction value) + ($1.87 * population)
Building Safety	construction value	($0.0089 * construction value)
Facilities Management	City FTEs @ 0.0025 per (population*2 + employment)	$2428.20 * FTEs
Code Enforcement	service population	$4.037 * (population + employment)
Transportation	street miles (60%), population (40%)	($322.18 * new street miles) + ($1.34 * population)
Public Works (HURF)	population	$24.45 * population
Public Safety		
Police	police officers@ 0.0003 per (population *2.5 + employment) growth	$87,882 * police officers
Fire	service population (pop*3)	$38.77 * (population *3 + employment)
Community Services		
Community Services Administration	other community services expenditures	9.66% * community service expenditures
Recreation	population	$18.15 * population
Park Maintenance	park acres	$21,826.65 * park acres
Library	population	$9.46 * population

Note: service population = population + employment.

3.0 IMPACT RESULTS

3.1 Impact Results-Current Conditions

This chapter describes the results of the fiscal impact analysis. Under current conditions, the property would generate about $7,332 per year to the city in primary property taxes to the General Fund. The only real cost associated with the property is for maintenance of existing dirt roads estimated at $6,500 per year. This results in a positive net impact of $1,079 per year.

3.2 Impact Results-Build Out

At build out, the Bunger annexation would result in a positive net fiscal impact to the City of $3.7 million per year. The property would generate a significant amount of both property and sales tax. With the addition of 3.04 million square feet of nonresidential space, assessed value is estimated at $244.3 million, resulting in about $2.4 million per year in property tax revenues to the General Fund (Figure 6). In terms of sales tax, the 288,500 square feet of retail space could generate taxable sales of $91.1 million per year. In addition, lease revenues from retail as well as office, light manufacturing and warehouse space add another $39.8 million per year in taxable sales resulting in annual revenues to the City of $2.6 million. Detailed impact results are shown in Figure 7. Other significant revenue sources include business licenses, utility franchise fees and miscellaneous revenues. There would be interim construction sales tax and other construction-related fee revenues that are not included here since they are non-recurring. This analysis is intended to reflect long term annual impacts.

FIGURE 6
SOCIOECONOMIC IMPACTS
BUNGER ANNEXATION

	Current Conditions	Build Out
Employment	-	9,531
Total Noresidential Square Feet	-	3,040,368
Retail Square Feet	-	288,541
Police Officers	0.0	2.5
City FTEs	0.0	23.8
Taxable Sales (millions)	$0.0	$130.9
Assessed Value (millions)	$1.1	$244.3
City Maintained Road Lane Miles	0.0	3.0

Sources: Applied Economics, 2012.

The largest on-going general fund expenditures for this area would be fire, police and non-departmental. The police department estimates they would need 2 to 3 additional officer to serve this area resulting in an annual cost to the city of about $222,000. Annual fire service costs are estimated at $377,000 based on current average costs in the existing city.

This annexation area would also include 3 lane miles of additional streets, resulting in about $40,000 in annual maintenance expenditures in the HURF fund, as shown in the impact results. The capital cost of these improvements along Anderson Road is estimated at $1,693,011. These improvements would likely be paid for by the developers of the adjacent property and are not included in the impact results shown here.

FIGURE 7
GENERAL FUND AND HURF FUND NET IMPACT
BUNGER ANNEXATION

Revenues/Expenditures	Current Conditions	Build-Out
REVENUES	**$7,579**	**$5,310,902**
Taxes and Fees		
Property Tax	$7,332	$2,432,612
Local Sales Tax	$0	$2,618,597
Franchise Fees	$0	$59,504
Intergovernmental		
State Income Tax	$0	$0
State Sales Tax	$0	$0
Auto Lieu Tax	$0	$0
Highway Users Revenue	$0	$0
Licenses and Permits		
Recreation Fees	$0	$0
Engineering Fees	$0	$0
Business Licenses	$0	$77,036
Building Permits	$0	$8,978
Fines and Forfeitures		
Police Hearings	$0	$15,344
Court Fines	$0	$32,891
Interest on Investments		
Investment Earnings	$0	$24,247
Other Revenues		
Misc. Revenue	$0	$41,693
EXPENDITURES	**$6,500**	**$1,658,131**
General Government		
Mayor & Council	$0	$0
City Clerk	$0	$39,082
City Magistrate	$0	$24,445
City Manager	$0	$103,807
City Attorney	$0	$0
Human Resources	$0	$32,148
Information Technology	$0	$77,058
Economic Development	$0	$0
Finance/Administrative Services	$0	$111,766
Nondepartmental	$0	$480,321
Development Services		
Administration	$0	$14,986
Engineering	$0	$0
Fleet Management	$0	$36,898
Planning	$0	$0
Building Safety	$0	$0
Facilities Management	$0	$59,069
Code Enforcement	$0	$38,476
Transportation	$0	$986
Public Works (HURF)	$6,500	$39,766
Public Safety		
Police	$0	$222,446
Fire	$0	$376,877
Community Services		
Community Services Administration	$0	$0
Recreation	$0	$0
Park Maintenance	$0	$0
Library	$0	$0
OVERALL NET OPERATING IMPACT	**$1,079**	**$3,652,771**
as percent of revenue	14.2%	68.8%

Source: Applied Economics, 2012.

3.2 Summary

Over the long term, the Bunger Annexation would generate a sizeable positive net fiscal impact on the City of Maricopa given that projected development includes exclusively nonresidential uses and includes a sizeable amount of retail space. The amount of property and sales tax revenues generated by the future development are more than enough to cover the cost of services, which is generally less for nonresidential development than for residential development. Should future development plans or market conditions change significantly, the projected impact results could be quite different, but based on the assumptions used here this area is fiscally sustainable on its own, and would be a positive addition to the city in terms of net fiscal impacts.