



REAL ESTATE RESEARCH & APPRAISAL

Cle Elum City Heights

Fiscal Analysis

Prepared for:

**Northland Resources, LLC and
City of Cle Elum**

Prepared by: Property Counselors

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Introduction and Summary

INTRODUCTION

Northland Resources, LLC has submitted an application to the City of Cle Elum for annexation, rezone, and entering into a Development Agreement that would authorize planned mixed-use (PMU) development of 330 acres to be annexed to the City and an additional 28 acres already within the City. The entire 358 acres would be called City Heights. The objectives of the proposal are to:

- Create a master planned community that is both constructible and economically viable.
- Achieve urban residential densities to comply with Washington State Growth Management Act (GMA) policies, to assist the City of Cle Elum by providing housing to meet Washington State Office of Financial Management population projections for the City and its Urban Growth Area.
- Develop a mix of dwelling unit types, including single-family detached and attached homes for permanent residents, detached and attached homes and fractional-ownership homes to serve the recreational housing market.
- Invigorate the downtown commercial area by increasing the population within the service area.
- Develop up to approximately 5% of the developable area of the site with commercial space for neighborhood services. Provide for uses that would not compete with downtown core businesses.
- Design the development to be responsive to site-specific characteristics: include significant open space and recreational amenities to preserve unique features of the site.
- Provide an interconnecting trail system to enhance the ability of the public to travel east and west through the Cle Elum area on trails through open space rather than on roads shared with vehicles.
- Provide connections to existing developed areas within the City for residents to enjoy the public amenities provided within the development, and to facilitate access to the services provided in the commercial core.
- Construct a stormwater management system compliant with the Washington Department of Ecology 2005 Stormwater Management Manual for Eastern Washington.
- Implement site improvements over a period of approximately 6 to 12 years, or in response to market demand.
- Comply with City of Cle Elum Comprehensive Plan policies, zoning regulations, and development standards through the provisions of a Development Agreement between the applicant and the City to guide the character of the project.

The City of Cle Elum, through the Environmental Impact Statement (EIS) Scoping process, has provided the applicant with direction regarding environmental review and community input to the Development Agreement. This direction has been to hold true to the basic tenets of the Washington State Growth Management Act, the goals of which are to implement “smart growth.” Many of these principles attempt to lower the cost and optimize the efficiency of providing public services concurrent with new development.

The fiscal impact analysis for the EIS addresses the financial impacts to local governmental entities of providing the public services and capital facilities necessary to serve the Planned Mixed-Use development. This technical report documents the results of the fiscal analysis. The report is prepared by Property Counselors, an economic consulting firm that specializes in addressing issues related to land use and facilities development. The scope of the analysis includes an evaluation of the on-going operating impacts of the City Heights development as well as the impacts on required capital facilities. The analysis addresses initial and ongoing costs, available sources of funds to address these costs, and methods to fund any identified shortfalls.

The fiscal impact report is organized in seven sections:

Introduction and Summary

Development Alternatives

Affected Environment

Comparison of Operating Impacts

Comparison of Enterprise Function Operating Impacts

Comparison of Capital Impacts and Possible Funding Sources

References

The key findings are summarized in the remainder of this section.

SUMMARY

Development Alternatives

Five alternatives are evaluated in the EIS:

Alternative 1: Preferred Alternative (985 dwelling units and approximately 20,000 sf of neighborhood commercial uses).

Alternative 2: Reduced Residential Density (875 dwelling units and approximately 40,000 sf of neighborhood commercial uses).

Alternative 3A: No Annexation, Development within the County under Single Ownership (essentially the same conceptual land use plan as Alternative 2, different regulatory authority).

Alternative 3B: No Annexation, Development within the County under Multiple Ownerships (approximately 500 single-family detached homes, no coordinated system of road improvements or utilities infrastructure).

Alternative 4: No Action (no annexation, no development at this time, continuation of existing conditions).

The alternatives are further compared in Table 1.

Table 1. Summary of Land Use Alternatives

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
Residential Units					
Single Family Detached	690	525	525	500	-
Single Family Attached	295	350	350	-	-
Total	985	875	875	500	-
Commercial (Sq. Ft.)	20,000	40,000	40,000	-	-
Population (avg. annual)	2,060	1,814	1,814	1,073	-
School Enrollment	228	199	199	121	-

For purposes of the analysis, it is assumed that 90% of the dwelling units will be occupied year-around. The assumption is intended to address the upper end of the range of possible impacts. The actual number of year-around units will be determined by future market conditions and will be dependent upon the actual development constructed.

Operating Impacts

The operating impact is expressed as the difference between annual operating revenues and operating expenses on an ongoing basis, in constant 2009 dollars. One-time revenues associated with construction and initial property sales are also estimated in constant 2009 dollars. These one-time revenues can be utilized by the City of Cle Elum to offset temporary costs associated with construction activities and imbalances between ongoing revenue and operating expenses that may be associated with a growing population base. The estimates are intended to capture the relationship between direct revenue generated by the project and the marginal changes in expenditures. The changes to expenditures reflect possible economies of scale, and possible changes in service levels. The estimates are based on assumptions that are inherently subject to uncertainty and variation depending upon evolving events. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results will vary from those described in this report, and the variations may be material.

Table 2. Summary of Operating Impacts (\$2009)

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
City of Cle Elum					
Recurring Annual Revenue	\$1,256,776	\$1,085,728	\$0	\$0	\$0
Annual Operating Expense	1,227,970	1,081,137	-	-	-
Net Annual Surplus/Deficit	28,806	4,591	-	-	-
One-Time Revenue	3,496,003	2,942,750	-	-	-
Avg Annual One-Time (over 10 yrs.)	349,600	294,275			
Kittitas County					
Recurring Annual Revenue	\$1,307,990	\$1,142,754	\$1,641,907	\$1,047,322	\$0
Annual Operating Expense	1,100,797	969,170	1,432,242	847,558	-
Net Annual Surplus/Deficit	207,194	173,583	209,666	199,763	-
One-Time Revenue	1,107,828	949,975	3,892,725	2,725,500	-
Avg Annual One-Time (over 10 yrs.)	110,783	94,998	389,273	272,550	-
Cle Elum Roslyn School District					
Recurring Annual Revenue	\$2,123,515	\$1,856,121	\$1,856,121	\$1,129,426	\$0
Annual Operating Expense	2,123,515	1,856,121	1,856,121	1,129,426	-
Net Annual Surplus/Deficit ¹	-	-	-	-	-
Contribution to Bonds	190,600	161,398	161,398	113,153	-
Kittitas County Hospital District 2					
Recurring Annual Revenue	\$195,658	\$168,916	\$171,334	\$112,033	\$0
Annual Operating Expense	121,999	107,411	110,480	67,195	-
Net Annual Surplus/Deficit	73,660	61,505	60,855	44,838	-
Kittitas County Fire District 7					
Recurring Annual Revenue	\$0	\$0	\$141,053	\$98,890	\$0
Annual Operating Expense	-	-	139,687	82,662	-
Net Annual Surplus/Deficit	-	-	1,367	16,228	-

¹The fact that projected operating expenditures for the school district are equal to operating revenues is not coincidental. As explained in this report, the District will be able to raise revenues sufficiently to fund necessary expenditures.

The City of Cle Elum is projected to experience a modest surplus (2.3% of projected operating revenue) under Alternative 1 and a nominal surplus under Alternative 2 (.4% of projected operating revenue) between annual operating revenues and operating expenses at full build-out. The higher proportion of single-family detached units in Alternative 1 would result in greater revenues relative to the cost of services. Either alternative would contribute one-time tax revenues. Over an assumed 10 year construction period, the average annual one-time revenues would be approximately \$350,000 for Alternative 1 or approximately \$294,000 for Alternative 2.

Kittitas County will provide County-wide services such as assessor, prosecutor, courts and health, under all alternatives, and municipal services to unincorporated areas under Alternative 3A or 3B. The County is projected to experience a moderate annual surplus under Alternatives 1, 2, 3A, or 3B (10% to 15% of projected operating revenues). However, the surplus would be greater under Alternatives 3A or 3B. The cost of municipal services in unincorporated areas is less than the incremental revenues from the County's

road district tax levy. Any of the four alternatives would generate one-time revenues during construction ranging from an average of \$95,000 with Alternative 2 to \$389,000 with Alternative 3.

The Cle Elum-Roslyn School District would be able to collect sufficient revenue from State, Federal and local sources to cover additional operating expenses. There would be no net effect on operations. However, the District can spread the cost of current bond levies over a wider tax base, thereby lowering the impact on existing taxpayers.

Kittitas County Hospital District 2 provides emergency medical services in the upper Kittitas Valley and also provides a local clinic and urgent care center through a contract service. Additional tax revenues plus charges for ambulance service are projected to exceed the likely increased cost of services as a result of the City Height development.

Kittitas County Fire District 7 would serve the development under Alternative 3A or 3B. Increased property tax revenues are estimated to slightly exceed operating expenses in these scenarios.

Property tax collections for any alternative and all jurisdictions would be affected by the limit on annual increases in property tax collections. Property tax revenues would likely grow at a rate less than the increase in expenditures. In the absence of new development, property tax revenues can grow at no more than 1% per year (RCW 84.55.010), while expenditures will grow with inflation, likely to be 2% or more per year. This factor would affect the fiscal balance of jurisdictions over time. Jurisdictions like Fire District 7 that rely almost entirely on property tax revenues would be particularly affected. Eventually, a jurisdiction may choose to go to the voters for approval to lift the tax levy lid.

Enterprise Operating Impacts

Additional wastewater flows would increase the utilization of the City's existing wastewater treatment plant. The additional operating cost of treating the development-related flows would be small (only 2% and 33% of revenues for treatment and collections, respectively). The projected increase in revenues at current rates would greatly exceed the projected increase in cost. The annual benefit (expressed in constant \$2009) would be approximately \$305,000 with Alternative 1, \$268,000 with Alternative 2 or 3A, or \$158,000 with Alternative 3B (if the City was willing to provide sewer service to Alternative 3A or 3B outside the City limits). The surplus could be used to fund reserves, pay for improvements or could allow the City to reduce rates to all sewer service customers.

There is likely a similar positive impact for the potable water treatment system. While some improvements will be required, the additional flows will increase the efficiency of the treatment facility. Further, the additional water required for the new development for the acreage currently within the UGA will be provided to the City by Northland Resources at no cost. Water system information provided by the City doesn't allow the same marginal cost analysis that was possible for the sewer system, so the fiscal benefits aren't quantified

Capital Cost Impact

A discussion of capital costs associated with water and sewer service is provided in the *Grading, Drainage and Utilities Technical Engineering Report: City Heights, Cle Elum* (Encompass Engineering & Surveying, November 2009), outside of the scope of this report. The major capital cost impact of the City Heights development would be the cost of additional school facilities if and when any modifications or additions to existing facilities are determined to be required. While the Cle Elum-Roslyn School District currently has excess capacity at the elementary school level, and to a lesser extent at the middle school level, the District may at some time in the future have to add classroom and supporting facilities to

serve the increased enrollment associated with the City Heights development. Several uncertainties exist at the time of this writing that make actual mitigation requirements difficult to determine. For example, there is uncertainty regarding the number of students that would be attending the elementary, junior high and high schools in the future, and the number of homes within City Heights that would be permanently occupied by families with children. There are options available for how to accommodate future facilities needs. As an offset to the total cost of new facilities or facilities expansion, varying levels of matching funds are available from the State. At the present time, the District is eligible for only nominal State matching funds. At the time that additional capacity is required, the District would likely be eligible for State funds for a larger portion of this cost.

If needed, classrooms and support facilities could be provided through the construction of new facilities, the expansion of existing facilities, or utilization of modular facilities. The School District's Capital Facilities Plan calls for, among other things, the construction of a new high school campus. Construction of a new campus (classrooms, offices, gymnasium, recreational facilities, etc) would need to be financed through the issuance of voter-approved bonds. The City has the ability to issue bonds approved by the voters (including new residents within City Heights) to complete a new campus and may choose to support such an initiative in the future; however, if bonds were not approved by the voters, options other than an entire new campus would need to be utilized to accommodate transitional growth in student enrollment.

The School District could choose to accommodate growth by expanding the existing facilities as and when needed, whether with permanent facilities or with modular units. These costs could be financed through impact fees. The City and County are authorized to impose school impact fees on behalf of the District; however at the present time, neither the City nor County does collect these fees from new development. These fees could take the form of a per lot payment or a per student payment at the time actual development occurs.

The Development Agreement to be negotiated between the City of Cle Elum and the project proponent will provide for funding options satisfactory to the School District to provide a means to finance the facilities needed to accommodate the growth in student population attributable to development of City Heights.

Development Alternatives

The Environmental Impact Statement (EIS) will evaluate two development scenarios under City regulations with the provision of City services, two alternatives in which there would be no annexation and the project would develop in the County, and no action.

Alternative 1: Preferred Alternative (985 dwelling units and approximately 20,000 sf of neighborhood commercial use).

Alternative 2: Reduced Residential Density (875 dwelling units and approximately 40,000 sf of neighborhood commercial use).

Alternative 3A: No Annexation, Development within the County under Single Ownership (essentially the same conceptual land use plan as Alternative 2, different regulatory authority).

Alternative 3B: No Annexation, Development within the County under Multiple Ownerships (approximately 500 single-family detached homes, no coordinated system of road improvements or utilities infrastructure).

Alternative 4: No Action (no annexation, no development at this time, continuation of existing conditions).

The characteristics of the development alternatives are compared in Table 3. For purposes of the impact analysis, it is assumed that 90% of all dwelling units will be occupied year-around. This assumption is intended to address the upper end of the range of possible impacts. The actual number of year-around units will be determined by future market conditions and will be dependent upon the actual development constructed. Each alternative is described in this analysis at full build-out as well as at the midpoint of development. Analysis of fiscal conditions at the midpoint is intended to highlight construction period impacts and revenue lags.

Table 3. Summary of Land Use Alternatives

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
Description					
Residential					
Single Family-Detached Year-round	621	473	473	450	-
Single Family-Detached Seasonal	69	52	52	50	-
Single Family-Detached Subtotal	690	525	525	500	
Single Family-Attached Year-round	266	315	315	-	-
Single Family-Attached Seasonal	29	35	35	-	-
Single Family-Attached Subtotal	295	350	350	-	-
Total	985	875	875	500	-
Commercial (Sq. Ft.)					
Convenience Retail	10,000	10,000	10,000		
Service	10,000	30,000	30,000		
Subtotal	20,000	40,000	40,000		
Population					
Year-round Units	1,987	1,749	1,749	1,035	-
Seasonal Units	220	193	193	115	-
Annual Average	2,060	1,814	1,814	1,073	-
School Enrollment					
Elementary	92	81	81	49	
Middle	55	48	48	29	
High	81	71	71	43	
Total	228	199	199	121	-

The commercial development identified for Alternative 1, 2 or 3A is intended to serve residents of the development and is limited to small retail shops and services.

The population estimates are based on average population factors for each type of dwelling unit:

Single-Family Detached: 2.3 persons/unit

Single-Family Attached: 2.1 persons/unit

The year-around average population reflects the impact of seasonal units occupied four months per year.

The projected school enrollment is derived from enrollment factors per dwelling unit:

	Single Family Detached	Single-Family Attached
Elementary (K-5)	0.109	0.092
Middle (6-8)	0.068	0.055
High (9-12)	0.095	0.081
Total	0.269	0.228

The student population projection factors are derived from the Cle Elum-Roslyn School District current enrollment factors for all types of units with an adjustment to reflect the differing household mix with the two types of units. The enrollment estimates reflect the assumption that the school age demographic factors for the development would be similar to current demographics for the district.

Affected Environment and Current Fiscal Conditions

TAXING DISTRICTS

Five taxing districts currently collect property taxes within the City of Cle Elum. If the City Heights development were to remain under County jurisdiction, Kittitas County Fire District 7 and Kittitas County Road District 1 would replace the City as a provider of services. Taxing districts and their tax rates for 2009 taxes are summarized below.

Table 4. Taxing Districts and Tax Rates

	City Jurisdiction	County Jurisdiction
State	\$2.018444	\$2.018444
Kittitas County	0.892025	0.892025
Current Expense		
Kittitas County Road		1.102931
City of Cle Elum	1.297042	
Kittitas County Fire District 7		0.54545
Cle Elum Roslyn School-Levy	0.254811	0.254811
Cle Elum Roslyn School-Bond	0.624122	0.624122
Hospital District 2	0.325838	0.325838
Total	\$5.412282	\$5.763621

SERVICE PROVIDERS

The City of Cle Elum provides the following governmental services:

- General Government
- Law Enforcement (including Municipal Court)
- Fire Protection (volunteer department)
- Community Development Services
- Street Maintenance
- Parks and Recreation

Under County jurisdiction, the same services are provided by:

- General Government by Kittitas County
- Law Enforcement by County Sheriff
- Fire Protection by KCFD #7 (volunteer department)
- Community Development Services by Kittitas County
- Road Maintenance by Kittitas County Road District
- Parks and Recreation by Kittitas County (limited)

In addition, the County provides County-wide services such as:

- General Government (including assessor and auditor)
- Criminal Justice
- Health

Kittitas County Hospital District 2 serves the upper Kittitas Valley (roughly from Thorp to Snoqualmie Pass) provides the emergency medical services, and owns the community hospital and urgent care facilities with services provided by Hospital District 1.

Fiscal conditions for these jurisdictions are described below.

CITY OF CLE ELUM

City revenues and expenditures are summarized in Table 5 for the years 2007 through 2009. The operating position of the City is reflected in a revenue and expense comparison for the General Fund and Special Revenue funds. (Special revenue funds are funds for operating functions, such as street maintenance, that are funded from sources other than general taxes.) The City's operating revenues increased by 20% between 2007 and 2008. Budgeted revenues for 2009 were 4.5% less than actual revenues in 2008. The City's actual revenues in 2009 have fallen short of budgeted levels. The City has reduced budgeted expenditures, but still faces a shortfall.

The City's budget challenges are related to the structure of the local tax base. The largest source is retail sales tax at approximately 30% of total operating revenues in 2008. Taxable retail sales are related to both household spending and construction activity. Table 6 summarizes the trends in retail sales activity over the last five years. (The sales data by sector are reported by the Washington Department of Revenue by the month of sale. Distributions to the City occur two months later. This lag creates some inconsistencies in the growth rates shown in Table 5 and Table 6.)

As shown, total taxable sales grew from \$65.5 million in 2005 to \$117.4 million in 2007, an average annual growth rate of 33.9%. Taxable sales declined by 4% in 2008, and declined further by 29.9% in the first nine months of 2009 compared to the same period in 2008. This decline represents a dramatic reduction in the City's major source of operating revenue. The major contributor to this decline is taxable sales in the construction sector. As shown, this sector grew from \$13.2 million in sales in 2005 to \$49.4 million in 2008, an average annual increase of 93%. Construction sales revenue then declined by 7% in 2008, and 49% in the first nine months of 2009 compared to the same period in 2008.

Other revenues are relatively stable, particularly property taxes that can grow at 1% per year (plus collections related to new construction) somewhat independent of any dramatic increases or decreases in underlying property values.

In summary, the primary cause of the City's budget shortfalls are related to the loss in revenues associated with the slowdown in development.

**Table 5. City of Cle Elum Operating Revenue and Expenditures
General and Special Revenue Funds**

Operating Revenue			
	2007	2008	2009
	Actual	Actual	Budget
General Property Taxes	392,688	400,951	413,655
Sales and Use Taxes	1,032,288	1,107,902	975,000
Business and Utility Taxes	297,190	325,481	338,900
Other Local Taxes	176,276	125,600	197,000
Licenses and Permits	148,383	54,244	140,350
Business Licenses and Permits	15,955	16,992	18,000
Francise Fees			37,290
Building Permits	131,117	36,204	120,850
Animal Licenses/Other	1,311	3,446	1,500
Subtotal	148,383	56,642	177,640
Charges and Fees for Service	44,912	59,027	58,500
Development Fees/Charges	7,443	17,320	10,000
Other Fees/Charges	37,469	39,310	48,500
Subtotal	44,912	56,630	58,500
Interest and Investment Earning	89,747	36,143	124,825
Fines and Forfeits	73,322	68,454	78,000
Rents, Premiums, Other etc.	362,152	592,486	314,095
Intergovernmental	456,143	905,966	872,205
Total	3,073,101	3,676,255	3,512,530
Operating Expenditures			
	2007	2008	2009
Law and Justice	\$776,310	918,343	\$1,029,495
Fire and Emergency Services	178,431	188,620	281,015
Health and Human Services	-		0
Transportation	291,139	439,438	352,825
Physical Environment	40,550	50,372	46,700
Economic Environment	167,166	208,123	191,990
Culture and Recreation	78,473	139,231	171,880
General Government	319,931	496,527	541,200
Capital	1,205,215	1,024,832	558,900
Other		99,087	303,875
Total	\$3,057,215	3,564,573	\$3,477,880

Source: State Auditor's Office, Local Government Financial Reporting System.
City of Cle Elum, Annual Financial Report 2008. City of Cle Elum, 2009 Budget.

The largest category of City expenditures is law and justice, followed by general government, transportation, and fire and emergency services.

Table 6. City of Cle Elum Taxable Retail Sales Trends

	2005	2006	2007	2008	2008 Q1-3	2009 Q1-3	Ann. Growth		
							2005-2007	2007-2008	2008-2009
Total Retail Trade	23,604,490	26,966,914	31,337,526	31,974,048	23,708,029	20,284,244	15.2%	2.0%	-14.4%
Construction	13,226,675	26,464,021	49,424,608	45,974,048	34,839,529	17,656,461	93.3%	-7.0%	-49.3%
Other Taxable Sales	28,679,050	30,610,598	36,661,022	34,726,352	27,537,759	22,439,919	13.1%	-5.3%	-18.5%
Total Taxable Sales	65,510,215	84,041,533	117,423,156	112,674,448	86,085,317	60,380,624	33.9%	-4.0%	-29.9%
Construction as % of Total	20.2%	31.5%	42.1%	40.8%	40.5%	29.2%			

Source: Washington Department of Revenue, Quarterly Business Review, and Property Counselors

There are two aspects of the City's current fiscal condition that are relevant to projecting future conditions. First, current conditions are largely a result of the slowdown in development activity, and increased development in projects like City Heights will lead to increased revenues. These revenues are estimated based on the characteristics of the projected development. Second, use of current expenditure factors for projecting the future understates the future cost of providing services. The fiscal analysis in this report is based on 2007 cost factors (with adjustments for inflation) for services related to the requirements of development like City Heights. Such service levels should be sustainable over time.

City of Cle Elum revenue and expenditure patterns can be compared to cities with similar profiles. The Association of Washington Cities (AWC) has classified all cities in the state according to their size, rate of growth, personal income, and amount of commercial activity. The various categories are shown in Figure 1. The revenue and expenditure patterns for 14 designated clusters are compared in Table 7. Cle Elum is presently classified as a Tourism Hub. The revenue and expense patterns for cities in this category are shown on a per capita basis in Table 8. The revenue and expense data in both tables are derived from a database called Local Government Financial Reporting System (LGFRS) compiled by the Washington State Auditor's office. The data in the system are adjusted to exclude any double counting, and are presented in a format that can be compared across jurisdictions. The most recent data available are from 2007.

Figure 1.

Key Economic Indicators in Washington City & Town Groupings

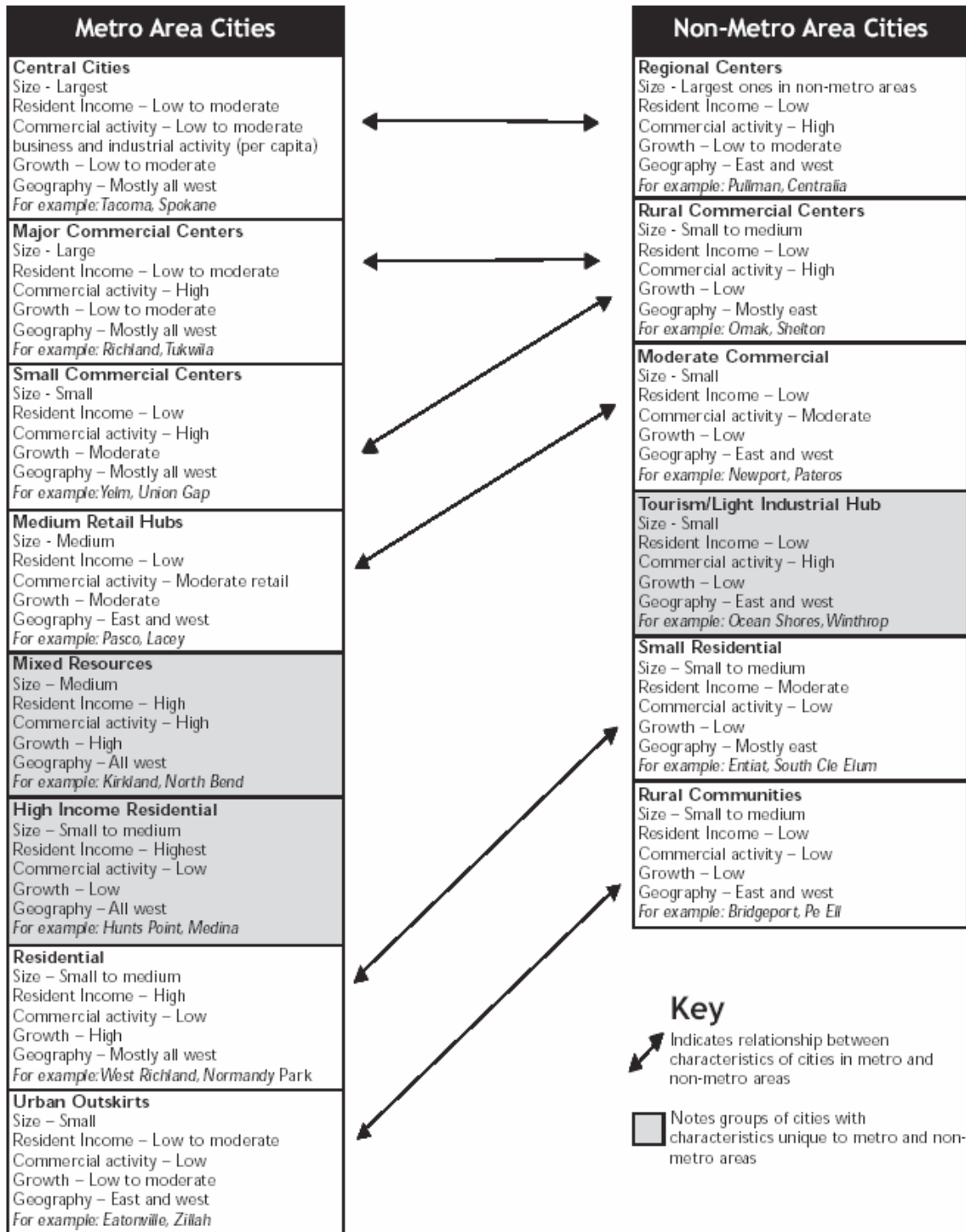


Table 7. Per Capita Revenue and Expenditures by AWC Cluster – 2007

	Cluster 1	Cluster 2	Cluster 3	Cluster 4	Cluster 5	Cluster 6	Cluster 7	Cluster 8	Cluster 9	Cluster 10	Cluster 11	Cluster 12	Cluster 13	Cluster 14
	Regional Centers	Rural Commercial Centers	Tourism Hubs	Natural Resources /Light Industrial Hubs	Small Residential	Rural Communities	Urban Outskirts	Residential	High Income Residential	Mixed Resource Cities	Small Commercial Centers	Medium Retail Hubs	Major Commercial Centers	Largest Cities
Average Population 2007	23,872	9,322	3,623	1,713	1,058	1,246	3,668	18,271	1,679	20,907	6,291	52,898	40,651	228,583
Average Operating Revenue - 2007														
General Property Taxes	\$189	\$155	\$254	\$152	\$149	\$122	\$145	\$241	\$505	\$325	\$221	\$171	\$334	\$342
Sales & Use Taxes	217	277	400	165	120	82	141	131	234	397	387	198	412	262
Business & Utility Taxes	157	162	176	118	100	108	126	79	92	229	147	146	174	409
Other Local Taxes	36	23	137	26	21	12	22	42	104	113	57	45	81	94
Licenses & Permits	32	33	77	22	23	19	35	50	262	115	71	32	60	46
Charges & Fees for Services	45	60	76	46	18	46	56	65	67	113	91	49	192	109
Interest & Investment Earnings	24	22	45	25	28	22	25	23	101	43	32	20	41	38
Fines & Forfeits	13	16	18	12	9	9	16	11	38	15	18	17	31	29
Rents, InsPrem, Internal, Contrib, Misc	73	33	86	53	37	31	33	19	67	36	22	28	49	107
Intergovernmental Revenues	92	113	98	124	135	114	105	73	70	58	98	95	108	118
Subtotal	879	895	1,367	743	638	566	704	734	1,540	1,446	1,143	800	1,482	1,553
Capital Contributions-Fed/State/Local	-	-	-	-	-	-	-	-	-	-	-	-	7	-
Debt Proceeds	0	-	13	6	69	11	15	8	-	-	5	3	6	3
Total Revenues	\$879	\$895	\$1,380	\$749	\$706	\$578	\$718	\$742	\$1,540	\$1,446	\$1,148	\$803	\$1,495	\$1,556
Average Operating Expenditures - 2007														
Law & Justice Services	\$233	\$272	\$340	\$242	\$178	\$160	\$235	\$206	\$390	\$253	\$345	\$243	\$379	\$350
Fire & Emergency Services	147	115	110	73	43	79	82	81	233	218	96	87	250	250
Health & Human Services	2	1	2	2	6	1	3	7	0	2	8	8	15	58
Transportation	58	97	136	61	87	56	54	57	124	103	95	61	74	127
Natural Resources	127	115	305	71	59	50	94	131	254	258	191	125	244	281
General Government	81	78	145	96	78	65	87	87	268	161	148	63	138	119
Utilities	16	3	18	13	8	21	11	5	-	8	7	3	3	4
All Other	24	15	31	7	5	5	9	3	-	0	11	10	12	51
Subtotal	689	697	1,087	566	465	437	575	577	1,268	1,003	901	600	1,114	1,239
Capital	69	96	196	162	90	69	77	79	341	19	143	94	90	135
Debt Service-Interest	3	2	3	1	12	1	12	2	-	2	2	2	2	5
Debt Service-Principal	5	18	8	5	23	2	2	5	1	2	4	4	1	3
Total Expenditures	\$766	\$812	\$1,295	\$734	\$590	\$509	\$665	\$663	\$1,609	\$1,027	\$1,050	\$700	\$1,208	\$1,382

Cle Elum is similar to the other cities in Cluster 3, in terms of both revenues and expenses on a per capita basis. The distinguishing characteristics of the Tourism Hub cities are the visitor traffic and commercial activity and associated demand for public services. The costs related to serving the residential population are only a part of the total service requirements. The per capita costs of service are inflated by the service demands by visitors and commercial activity. In the absence of the visitor and related commercial activity, the City would operate more like the Natural Resource/Light Industrial Hubs in Cluster 4 or the small residential community in Cluster 5. The City Heights conceptual land use alternatives considered are basically residential communities with a small amount of supporting commercial development. The per capita costs of service for the residential development should be more similar to the figures for “Resource Hub” cities than the figures for “Tourism Hub” cities.

The expenditure categories in Tables 7 and 8 are defined by the Washington State Auditors Office. They differ somewhat from service definitions used by the City. The expenditure categories and the associated City services are:

Law and Justice: Law enforcement, judicial, and corrections.

Fire and Emergency Services: Fire control, emergency services and communications.

Transportation: Street maintenance.

Natural Resources: Environment/development and parks and recreation.

General Government: Executive/legislative and administration.

The three major City departments are police, fire and public works. Current fiscal issues for these services are summarized below.

Police: The Police Department serves Cle Elum, Roslyn and South Cle Elum, and provides seven officers to serve a population of approximately 3,500, a ratio of 2 officers per 1,000 population. However, the department also responds to the demands of the recreation/tourist population and travelers on I-90 and state highways. With those responsibilities, demands for law enforcement are particularly high in the summer months. The department is dispatched through Kittcom, contracts with the County for jail services, operates its own District Court, and handles animal control.

Fire: The fire department is all-volunteer. There are currently 45 members of the department, with associated costs expenditures for liability insurance, equipment and training. There are no full-time paid staff members. The current equipment is adequate for structure fires and small wildland fires, but may need to be expanded to meet the needs of the City Heights project.

Public Works: The department provides a wide array of street, water/sewer, storm, and park maintenance services. Public Works staff will be responsible for plan review, inspection, and repair during construction, as well as ongoing maintenance activities thereafter.

KITTITAS COUNTY

Kittitas County provides a range of services to all County residents as well as municipal services in unincorporated areas. Table 9 summarizes the revenue and expense for General Fund and Special Revenue funds in 2007.

**Table 9. Kittitas County Operating Revenue and Expense
General Fund and Special Revenue Funds – 2007**

Revenues	2007	% of Total
General Property Taxes	\$7,952,527	23.0%
Sales and Use Taxes	5,748,086	16.6%
Other Local Taxes	449,402	1.3%
Licenses and Permits	2,468,163	7.1%
Charges and Fees for Service	2,966,657	8.6%
Interest and Investment Earnings	1,782,498	5.2%
Fines and Forfeits	1,966,935	5.7%
Rents, Premiums etc.	1,412,823	4.1%
Intergovernmental	9,831,781	28.4%
Total	34,578,872	100%
Expenses		
Law and Justice	\$9,588,432	37.6%
Fire and Emergency Services	1,195,696	4.7%
Health and Human Services	2,896,622	11.4%
Transportation	5,041,198	19.8%
Natural Resources	2,458,238	9.6%
General Government	4,215,191	16.5%
Other	121,953	0.5%
Total	\$25,517,330	100.0%

Source: Washington State Auditor’s Office, Local Government Financial Reporting System.

The largest source of County revenue is general property taxes. This amount includes the property tax levy from all properties in the County and the road tax levy in the unincorporated areas. The retail sales and use tax is the next largest source and includes the 1.5% on taxable transactions in unincorporated areas and 0.6% on transactions in the incorporated areas. The County isn’t authorized to collect business and utility taxes.

Law and Justice is the largest category of County expenditures. It includes the Sheriff’s Department, courts, and detention facilities. The police operations expenditures are largely devoted to the unincorporated areas and total \$2,218,305 or 23% of total law and justice expenditures. Transportation expenditures represent street fund expenditures in unincorporated areas. Street fund expenditures totaled \$5.0 million in 2007.

Of the total expenditures, \$7.3 million was spent for direct services to unincorporated areas, at a cost equivalent to \$440 per capita; while \$18.3 million was spent on County-wide services, at a cost equivalent to \$477 per capita.

CLE ELUM-ROSLYN SCHOOL DISTRICT 404

The Cle Elum-Roslyn School District serves a population of approximately 8,300 estimated by the State Office of Financial Management for 2008. The District enrollment for 2008/2009 was:

Elementary	363
Middle	215
High	<u>317</u>
Total	895

District enrollment has declined during the past four years.

The District operating budget in 2008/2009 is summarized in Table 10.

**Table 10. Cle Elum Roslyn School District No. 404
Summary of General Fund Budget 2008/2009**

Revenues	
Local Support	\$1,999,678
State Support	6,169,778
Federal Support	552,353
Total	\$8,721,809
Expenditures	
Instruction	\$6,447,047
Support Services	2,199,447
Total	\$8,646,494

Source: State Office of Superintendent of Public Instruction, Form F 195.

State support includes apportionment dollars for basic and special education, as well as special purpose funding for specific programs and services. Federal support includes funding for various stimulus titles and special services and programs. State funding may be affected by the current State budget challenges, but any reductions will affect local revenues and expenses regardless of what happens with City Heights.

Most of the local support is from the District's operating levy. But the amount of additional taxes collected is determined more by the limits on local support, rather than increases in the local tax base. State law limits the portion of total District funding that is provided by local sources. In Cle Elum, the local sources can't exceed 24% of non-local revenues. As State funding increases with enrollment growth according to State apportionment formulas, the maximum amount of local support can increase proportionately. As long as the District has voter authorization to collect an operating levy, it will be able to collect sufficient local revenues to maintain operating expenditures. For example, with State and Federal funding in 2008/2009 at \$7,511 per each additional pupil, the 24% limitation allows for \$1,803 in local funding per additional pupil, thereby maintaining total expenditures at \$9,314 per pupil.

KITTITAS COUNTY FIRE DISTRICT 7

Fire District 7 serves an area roughly equivalent to the school district excluding the City of Cle Elum and the Town of Roslyn. Estimated population is 5,500. The District operates with a volunteer force out of three stations.

The District's primary source of revenue is property taxes. Total collections for 2009 are projected to be \$993,000.

KITTITAS COUNTY HOSPITAL DISTRICT 2

The Hospital District provides emergency medical and ambulance service in the upper Kittitas Valley, and owns the community medical center and urgent care center, which is operated by Hospital District 1. The operating budget for the District is summarized in Table 11.

The Hospital District is funded largely by the general District levy and the Emergency Medical Services (EMS) levy, as well as charges for ambulance services. The District responds to approximately 1,000 calls per year. The service area population is approximately 10,000, but a portion of the calls are for visitors or travelers on interstate and state highways through the District's service area.

**Table 11. Kittitas County Hospital District 2
Summary of 2009 Budget**

Revenues	
EMS Tax Levy	\$475,000
General Tax Levy	530,000
Facility Rent	271,097
Ambulance Revenue	666,764
Subtotal	1,942,861
Less Deductions	(172,081)
Total	\$1,770,780
Expenditures	
Salaries and Wages	\$519,352
Benefits	114,919
Supplies	75,810
Utilities	18,224
Professional Services	72,654
Clinic Management & Subsidy	125,000
Depreciation and Interest	464,183
Other	45,852
Total	\$1,435,394

Comparison of Operating Impacts

OVERVIEW OF OPERATING IMPACTS

The fiscal impact analysis considers the impact of each of the prospective City Heights development alternatives at full build-out. The operating impact is expressed as the difference between annual operating revenues and operating expenses on an ongoing basis, in constant 2009 dollars. One-time revenues associated with construction are also expressed in 2009 dollars and are presented in both cumulative and average annual levels over the construction period. Impacts were also considered for the midpoint of construction in order to show the effect of lags in the receipt of revenues.

The estimates are intended to capture the relationship between direct revenue generated by the project and the marginal changes in expenditures. The changes to expenditures reflect possible economies of scale, and possible changes in service levels. The estimates are based on assumptions that are inherently subject to uncertainty and variation depending upon evolving events. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results will vary from those described in this report, and the variations may be material.

There are some elements of operating impact that are difficult to fully quantify, both from a cost and a revenue perspective. No project occurs in a vacuum and there are often several factors that can influence both the revenue and cost side of a project's impact. The synergy between multiple concurrent projects can often result in more revenue and many of the benefits that are derived from a project are not easily quantifiable. Projects that are primarily business oriented (office or industrial) need homes and services within a community to attract employees. The cost of new upgrades for stormwater control may not be financially feasible for a population of 1,800 people but may become more feasible when a population of over 3,600 people can share in the cost. Similarly, public amenities (such as a swimming pool, trails or parks) become more affordable and more possible when the cost is spread over a larger population.

REVENUE ASSUMPTIONS

The assumptions for any conceptual land use alternative are summarized below.

- The average sale price is assumed to be \$382,000 for single-family detached homes, \$186,000 for single-family attached, \$115,000 for single-family detached lots, and \$41,000 for attached unit lots, based on information provided by the proponent. These prices are similar to prices in recent new single-family detached home projects within the study area. Mechanisms for dealing with revised revenues as a result of project price points differing from assumptions will be negotiated in a development agreement between the City and the project proponent if Alternative 1 or 2 is selected, or as specified by the County in conditions of approval if Alternative 3A or 3B is selected.
- The average incremental assessed valuation beyond the existing value is assumed to be the full assessed value of the finished development. The incremental assessed value for the single-family detached and attached units is assumed at 95% of average sale price. Assessed values of recently sold homes varied from moderate discounts to premiums over assessed value. Assumed values are \$363,000 for single-family detached and \$177,000 for single-family attached units. The incremental assessed value for convenience retail and professional office is assumed at \$130 and \$165 per square foot respectively, based on comparable development.

- Taxable retail sales reflect likely purchases by project residents within the City. They are estimated by using Consumer Expenditure Survey data to adjust State-wide household spending figures to account for local income levels. Spending for retail goods and related services is estimated to be \$12,900 per household. Of that, \$7,900 is estimated to be taxable. Not all that spending will be captured locally, as spending for certain goods will leak outside the local area. Approximately \$6,900 per household is estimated to be captured locally for each year-around dwelling unit, and \$2,300 is estimated for each seasonal unit (assuming four months of use each year). The number of seasonal units is assumed at 10% of total units for these revenue estimates, consistent with all other estimates.
- Taxable construction cost is estimated at approximately 75% of the incremental assessed valuation for each use.
- Utility charges are based on estimates from US Census Consumer Expenditure Survey data of \$2,500 per unit for single-family detached and \$2,000 for single-family attached units. Utility charges are assumed at \$2.50 and \$2.00 per square foot for retail and office use based on Building Owners and Managers Association data (BOMA 2006).
- Per capita distributions (State shared revenues) are estimated at \$36 per capita for cities as estimated by the Municipal Research Services Center (MRSC 2009).

The estimated increased tax base for each of the conceptual land use alternatives is summarized in Table 12.

Table 12. Comparison of Estimated Tax Base Impacts (\$2009)

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
Assessed Value	305,388,500	258,600,000	258,600,000	181,300,000	-
Taxable Retail Sales	6,345,504	5,637,126	5,637,126	3,219,900	-
Utilities Charges	2,221,700	1,977,500	1,977,500	1,175,000	-
Property Sales (Cumulative)	-	-	-	-	-
Lot Sales	91,100,000	74,462,500	74,462,500	57,250,000	-
Home Sales	318,361,000	265,632,500	265,632,500	190,850,000	-
Ongoing Annual Property Sales	39,795,125	33,204,063	33,204,063	23,856,250	-
Taxable Construction Value	170,435,000	146,150,000	146,150,000	99,000,000	-

The preferred alternative would provide the largest increase in tax base for all measures as a result of having the most housing units and population. Alternative 2 or 3A would have the same tax base impacts because the amount and type of development would be the same with either of these alternatives.

Tax rates are assumed at current levels for all taxes. All the jurisdictions considered in this analysis collect property tax. Cities and counties are also authorized to collect retail sales tax. Of the total 8.0% tax, 1.5% is collected by local jurisdictions. Within the City, 0.85% goes to the City, 0.15% goes to the County for general purposes, and 0.5% goes to the County for criminal justice. In unincorporated areas, the entire 1.5% goes to the County.

Cities are also authorized to collect a Business and Occupation (B&O) tax on gross business receipts, and a utility tax on public and private utility charges. The City of Cle Elum collects a 6% tax on utilities, but no B&O tax.

Real estate sales are subject to a 1.28% State tax and 0.5% local tax. The local tax is restricted to capital facilities.

Tax rates are assumed at 2009 levels as summarized in Table 13.

Table 13. Assumed Tax Rates

Property Tax (\$/1000AV)	
State	\$2.018444
Kittitas County-Current Expense	0.892025
Kittitas County-Road District	
City of Cle Elum	1.297042
Fire District 7	
School District 404-Levy	0.254811
School District 404-Bond	0.624122
Hospital District 2	0.325838
Total	\$5.412282
Gross Receipts Tax	
Retail Sales Tax	
State	6.50%
Kittitas County	
Share of City/Unincorporated	0.15%
Criminal Justice	0.50%
City of Cle Elum/Unincorporated	0.85%
Juvenile Corrections	
Total	8.00%
Utilities Tax	6.00%
Hotel Tax	
Real Estate Excise Tax	
State	1.28%
City or County	0.50%
Total	1.78%

OPERATING EXPENSE AND OTHER REVENUE ASSUMPTIONS

City of Cle Elum

As presented in the Affected Environment section, the City of Cle Elum is classified as a Tourism Hub in the Association of Washington Cities scheme. As such, it serves a population much larger than its residents alone. Similar sized communities without a tourism base (Resource and Industrial Hubs) spend significantly less on services. Because the proposed City Heights development would be largely a year-around residential development, its service requirements should match the operating cost patterns of the Resource cities. For purposes of this analysis, the per capita expense and certain non-development related revenue items are taken from the Resource cities category. The expenditure factors should reflect the range and level of services likely for the population of the size and type anticipated.

Table 14 summarizes the factors used in the analysis of operating expense and revenue assumptions for the City. The factors shown are derived from the 2007 figures for Resource cities by applying a 5.5% increase to reflect changes in the Consumer Price Index between 2007 and 2009. The total operating expenditure factor is \$596 per capita, of which \$255 per capita is for law and justice. While there are few delivery standards for City services, a factor of 2.0 police officers per 1,000 population is a commonly

accepted figure. With average salary of \$5,000 per month, a benefit rate of 43%, and an annual equipment allowance of \$10,000, the average cost of a police officer in Cle Elum is approximately \$95,000. Two officers per 1,000 population is equivalent to \$195,000 per 1,000 population, or \$195 per capita. This factor is less than the assumed rate of \$255, and indicates that the assumed rate should be adequate to cover the cost of the increased service requirements that would result from the City Heights project if developed under Alternative 1 or 2. Funding for increased staff will ramp up to the level at build-out.

Table 14. City of Cle Elum Revenue and Expense Factors

Other Revenue Factors (\$/Capita)	
Permits Non-Development	\$10.55
Charges Non-Development	21.10
Fines	12.66
State Distributions	35.00
Other Intergovernmental	95.00
Earnings/Rents Etc.	56.00
Operating Expense Factors (/Capita)	
Law and Justice	\$255.31
Fire and Emergency Services	77.02
Health and Human Services	2.11
Transportation	64.36
Natural Resources	74.91
General Government	101.28
Other	21.10
Total	596.08

The expenditure categories shown are the Budgeting Accounting and Reporting System (BARS) categories used by the State Auditors Office. The Natural Resources category includes Planning and Community Development and Parks. The Other category includes Libraries.

Costs for Planning and Community Development in the Natural Resources category do not include the costs associated with development review and permitting. These costs are assumed to be offset by permit fees and charges for service. These revenue items are also excluded in order to be consistent.

Kittitas County

Revenue and expense factors are specified for both countywide functions and municipal services in the unincorporated area if Alternative 3A or 3B were selected for implementation. The countywide service factors are summarized in Table 15. These figures are derived from 2007 figures shown earlier in Table 9. The 2007 figures are escalated to 2009 levels using a 5.5% Consumer Price Index (CPI) increase.

Table 15. Kittitas County Revenue and Expense Factors

Other Revenue Factors (\$/Capita)	
Permits Non-Development	\$55.75
Charges Non-Development	13.89
Fines	54.18
Intergovernmental	270.82
Earnings/Rents Etc.	88.02
Operating Expense Factors (/Capita)	
Law and Justice	
County-wide	\$203.02
Law Enforcement-Uninc.	255.31
Health and Human Services	79.79
Transportation	64.36
Natural Resources	67.71
General Government	116.11
Other	3.36

The expense factors for municipal services to the unincorporated area are assumed at the same levels as for City per capita expenditures for law enforcement and transportation. It is assumed that the level of service and the method of service delivery would not differ from that provided by the City for Alternative 1 or 2. The factors used are \$255 per capita for law enforcement (patrol only) and \$64.36 for transportation (road maintenance).

Cle Elum-Roslyn School District

Future expenditures by the District will be determined by the level of non-local revenue with local funding at approximately 24% of that amount in order to keep the level of local support within the State-mandated limits. In effect, any new pupils will be funded by non-local sources as determined by the State and Federal governments, with local sources capped at a percentage of that amount. Expenditures per pupil will match available sources, with no incremental operating impacts.

Kittitas County Fire District 7

Fire District 7 would serve the City Heights development under Alternative 3A or 3B. The cost of service is assumed at the same per capita amount as for City fire protection service to Alternative 1 or 2. The level of service and method of delivery should not differ. The assumed per capita factor is \$77.02 per capita in 2009 dollars.

Kittitas County Hospital District 2

The Kittitas County Hospital District currently experiences a volume of approximately 100 calls per 1,000 population. Excluding expenditures for clinic management and subsidy, and depreciation and interest, the average cost per call can be estimated as \$846. The City Heights development under any conceptual land use alternative would likely generate calls at a rate lower than the current average of 100 calls per 1,000 population. As described for the City of Cle Elum, current service requirements are generated by visitors and through traffic as well as local residents. The District doesn't have figures on the break-out between resident and non-resident calls. Retail sales data for the City indicate that off-season economic activity is approximately 70% of the average for the entire year. Arguably, the resident

service demands reflect no more than 70% of total demand. Accordingly, the service demand for the City Heights development would not be expected to exceed 70 calls per 1,000 population. While District staff does not have the data to confirm this assumption, they indicate that it appears reasonable (personal communication with Mark Raaka, EMT-P, Operations Manager, Upper Kittitas County Medic One, September 10, 2009). The mechanism for monitoring the level of year-round development and estimating actual service demands will be negotiated in a development agreement between the City and the project proponent if Alternative 1 or 2 is selected, or as specified by the County in conditions of approval if Alternative 3A or 3B is selected.

The District would recover a portion of its expenses through charges for ambulance services. This factor is assumed at the current annual average of \$667 in ambulance revenues per total call. Property tax collections are available to fund the remaining expenses.

COMPARISON OF OPERATING IMPACTS

City of Cle Elum

Table 16 summarizes the City of Cle Elum operating impact for the five City Heights conceptual land use alternatives. Since only Alternative 1 or 2 would be developed within the City limits, the City is projected to collect additional revenues, incur costs for public services, and collect an operating surplus for these two alternatives. Under Alternative 2, the surplus would be smaller because of the lower property values related to a larger number and proportion of single-family attached dwelling units. For either of these alternatives, the City would receive one-time tax revenues of \$2.9 million to \$3.5 million associated with construction and initial property sales. These one-time revenues would average \$350,000 per year over a 10 year construction period for Alternative 1 and \$294,000 for Alternative 2.

The largest sources of recurring revenues would be property taxes, intergovernmental revenue, recurring real estate excise taxes (from resales), and utility taxes. Retail sales taxes from resident purchases are a relatively small source of revenue.

Major City operating expenditures include Law and Justice, General Government, and Natural Resources. Under Alternative 1, the Law and Justice expenditures of \$526,000 are sufficient to fund four full-time-equivalent officers (at an annual cost of \$95,000 per officer for salary, benefits, and equipment), doubling the City's Municipal Court expenditures of \$40,800 (increase of staffing from .3 FTE to .6 FTE), as well as \$105,000 for jail and dispatch costs. The Fire and Emergency Services expenditures of \$159,000 of under Alternative 1 are sufficient to fund the additional cost of 20 additional members (at an annual cost of \$4,200 per member for insurance, equipment and training) and fund a portion of the cost of the salary of a full-time chief of approximately \$50,000 plus benefits. Transportation expenditures under Alternative 1 of \$138,000 could fund several additional staff at \$40,000 plus benefits.

Annual impacts during the development period would be higher than in the developed condition of the project. Property taxes lag development by an average of 18 months. At the midpoint of an assumed ten year construction period, the value of property on the tax rolls would be approximately 72% of the nominal value of construction in place. Further, there aren't likely to be many resales of property during the initial year, so there would not be much recurring real estate excise taxes. (There will be one-time taxes from initial sales, however.) The estimated operating deficit at the midpoint would be approximately \$140,000 per year for Alternative 1 or \$130,000 per year for Alternative 2. The estimated one-time revenues of \$350,000 and \$294,000 for Alternatives 1 and 2 respectively are reasonably calculated to be adequate to fund these early deficits, as well as one-time purchases for equipment, or any special construction period service demands.

It is important to note that the results of the operating impact analysis may vary over time. Property tax revenues are subject to a limit on annual increases. Voter-approved Initiative 747 limited annual increases to 1% plus taxes on new construction. While the courts found the initiative unconstitutional, the Legislature reinstated the 1% limit (RCW 84.55.010). Future property tax collections are likely to grow at a lower rate than expenses; thus, the fiscal balance may change over time. In the absence of new development, property tax revenues can grow at no more than 1% per year, while expenditures will grow with inflation, likely to be 2% or more per year. This factor would affect the fiscal balance of jurisdictions over time. Eventually, jurisdictions may choose to go to the voters for approval to lift the tax levy lid.

Table 16. Comparison of Operating Impacts, City of Cle Elum (\$2009)

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
Recurring Tax Revenues					
Property Tax	396,102	335,415	-	-	-
Retail Sales Tax	53,937	47,916	-	-	-
Utilities Tax	133,302	118,650	-	-	-
Real Estate Excise (recurring)	198,976	166,020	-	-	-
Permits Non-Development	21,734	19,135	-	-	-
Charges Non-Development	43,468	38,270	-	-	-
Fines	26,081	22,962	-	-	-
State Distributions	72,103	63,482	-	-	-
Other Intergovernmental	195,709	172,307	-	-	-
Earnings/Rents Etc.	115,365	101,571	-	-	-
Total	1,256,776	1,085,728	-	-	-
Operating Expenses					
Law and Justice	525,962	463,071	-	-	-
Fire and Emergency Services	158,658	139,687	-	-	-
Health and Human Services	4,347	3,827	-	-	-
Transportation	132,577	116,725	-	-	-
Natural Resources	154,311	135,860	-	-	-
General Government	208,646	183,698	-	-	-
Other	43,468	38,270	-	-	-
Total	1,227,970	1,081,137	-	-	-
Estimated Net Annual Surplus	28,806	4,591	-	-	-
One-Time Revenues					
Retail Sales on Construction	1,448,698	1,242,275	-	-	-
Real Estate Excise Tax on Sale					
Lots	455,500	372,313	-	-	-
Homes	1,591,805	1,328,163	-	-	-
Subtotal	2,047,305	1,700,475	-	-	-
Total	3,496,003	2,942,750	-	-	-
Avg Annual One-Time (over 10 yrs.)	349,600	294,275	-	-	-

Kittitas County

Table 16 summarizes the Kittitas County operating impact for the five City Heights conceptual land use alternatives. Under any of the four build alternatives, the County would collect revenues and incur expenses for County-wide functions. Under Alternative 3A or 3B, the County would collect a road district property tax levy and incur additional expenses for Sheriff's patrol and road maintenance.

The County is likely to experience an annual surplus under Alternative 1, 2, 3A, or 3B. However, the surplus would be less under Alternative 1 or 2. The additional costs of municipal services in the unincorporated areas are lower than the incremental tax revenues from the roads levy.

The estimated cost of law enforcement under Alternative 3A would fund 3.4 additional officers at an annual rate of \$135,000 per officer, fully equipped – the rate reported by Sheriff Department staff (personal communication with Sergeant Steve Pannatoni, Kittitas County Sheriff's Department. November 23, 2009).

The County would receive one-time tax revenues from construction and property sales within the City Heights development. For Alternative 1 or 2, the County would receive a share of the local retail sales tax, while with Alternative 3A or 3B; it would receive the entire local share, as well as real estate excise tax on property sales.

The annual impact at the midpoint of construction would be less favorable to the County because of lags in property tax collection and property resales. The County would incur operating deficits at the midpoint under Alternative 3A or 3B. The estimated one-time revenues are more than adequate to fund these early deficits.

Table 17. Comparison of Operating Impacts, Kittitas County (\$2009)

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
Recurring Tax Revenues					
Property Tax-Current Expense Fund	272,414	230,678	230,678	161,724	-
Property Tax-Street Fund	-	-	285,218	199,961	-
Retail Sales Tax	41,246	36,641	84,557	48,299	-
Utilities Tax	-	-	-	-	-
Real Estate Excise (recurring)	-	-	166,020	119,281	-
Permits Non-Development	114,849	101,116	101,116	59,838	-
Charges Non-Development	28,619	25,197	25,197	14,911	-
Fines	111,617	98,271	98,271	58,154	-
Intergovernmental	557,921	491,208	491,208	290,683	-
Earnings/Rents Etc.	181,324	159,642	159,642	94,472	-
Total	1,307,990	1,142,754	1,641,907	1,047,322	-
Operating Expenses					
Law and Justice					
County-wide	418,230	368,221	368,221	217,902	-
Law Enforcement	-	-	463,071	274,032	-
Health and Human Services	164,374	144,719	144,719	85,640	-
Transportation	132,577	116,725	116,725	69,074	-
Natural Resources	139,497	122,817	122,817	72,679	-
General Government	239,198	210,596	210,596	124,625	-
Other	6,920	6,093	6,093	3,606	-
Total	1,100,797	969,170	1,432,242	847,558	-
Estimated Net Annual Surplus	207,194	173,583	209,666	199,763	-
One-Time Revenues					
Retail Sales on Construction	1,107,828	949,975	2,192,250	1,485,000	-
Real Estate Excise Tax on Sale					
Lots	-	-	372,313	286,250	-
Homes	-	-	1,328,163	954,250	-
Subtotal	-	-	1,700,475	1,240,500	-
Total	1,107,828	949,975	3,892,725	2,725,500	-
Avg Annual One-Time (over 10 yrs.)	110,783	94,998	389,273	272,550	-

As with the City, the 1% restriction on the rate of growth in property tax revenues within the County (as a result of RCW 84.55.010) will likely result in revenues growing more slowly than expenditures. The fiscal balance may change over time.

Cle Elum-Roslyn School District

Table 18 summarizes the operating impacts of the City Heights conceptual land use alternatives on the School District. Because of the lid on local tax revenues, the District can effectively fund the cost of additional pupils by collecting proportionately more funds locally to fill the gap between expenditures and non-local support. As enrollment grows, non-local support would grow by approximately \$1.7 million under Alternative 1, local funding would be allowed to increase by approximately \$400,000 under the lid, and total funding would be adequate to support the \$2.1 million in additional spending at existing spending levels. In addition, the District would have a larger tax base over which to spread the fixed cost of bond repayment. The Annual Contribution to Bond line in the table reflects the amount of money contributed by the development to lessen the debt service burden on the remainder of District taxpayers.

Table 18. Comparison of Operating Impacts, Cle Elum-Roslyn School District (\$2009)

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
Assumptions					
Student Population	228	199	199	121	-
Operating Cost per Student	9,314	9,314	9,314	9,314	-
State Funding per Student	6,894	6,894	6,894	6,894	-
Federal Funding per Student	617	617	617	617	-
Local Share as Percent of Other	0	0	0	0	-
Levy Rate-Operating	0.254811	0.254811	0.254811	0.254811	-
Levy Rate-Bond	0.624122	0.624122	0.624122	0.624122	-
Projected Operating Revenue					
Local Funding	411,003	359,249	359,249	218,599	-
State Funding	1,571,836	1,373,909	1,373,909	836,007	-
Federal Funding	140,676	122,962	122,962	74,821	-
Total	2,123,515	1,856,121	1,856,121	1,129,426	-
Operating Expense	2,123,515	1,856,121	1,856,121	1,129,426	-
Estimated Net Annual Surplus	-	-	-	-	-
Annual Contribution to Bond	190,600	161,398	161,398	113,153	-

Kittitas County Fire District 7

Table 19 summarizes the operating impacts on the Fire District to serve City Heights Alternative 3A or 3B. Increased property tax revenues are estimated to slightly exceed operating expenses (projected surplus equivalent to 1% of projected revenues). Property tax revenues will probably grow more slowly than expenditures. The impact of restrictions on the growth in property tax collections is particularly great on jurisdictions that rely almost exclusively on those revenues. Eventually, the District may choose to go to the voters for approval to lift the tax levy lid.

Table 19. Comparison of Operating Impacts, Kittitas County Fire District 7 (\$2009)

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
Resource Assumptions	-	-	-	-	-
Assessed Valuation	-	-	258,600,000	181,300,000	-
Property Tax Rate	0.54545	0.54545	0.54545	0.54545	-
Expenditure Assumptions	-	-	-	-	-
Expenditure Per Capita	77	77	77	77	-
Population	-	-	1,814	1,073	-
Projected Revenue	-	-	-	-	-
Property Tax Revenue	-	-	141,053	98,890	-
Operating Expense	-	-	-	-	-
Fire and Emergency Services	-	-	139,687	82,662	-
Estimated Net Annual Surplus	-	-	1,367	16,228	-

Kittitas County Hospital District 2

Table 20 summarizes the operating impacts of the City Heights conceptual land use alternatives on the Hospital District. The District would be likely to experience an operating surplus as increased tax collections and ambulance charges should exceed the incremental costs of services. However, because of the restrictions on the rate of growth in property tax revenues, revenues may grow more slowly than expenditures, and the fiscal balance may change over time. Eventually, the District may choose to go to the voters for approval to lift the tax levy lid.

Table 20. Comparison of Operating Impacts, Kittitas County Hospital District and Emergency Medical Services (\$2009)

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
Revenue and Expense Factors					
Avg Annual Year-round Population	2,060	1,814	1,814	1,073	-
Average Calls per 1000 population	70	70	72	74	-
Projected Calls	144	127	131	79	-
Average cost per Call	846	846	846	846	-
Incremental Assessed Value	305,388,500	258,600,000	258,600,000	181,300,000	-
Tax Rate (\$/\$1000)	0.325838	0.325838	0.325838	0.325838	-
Ambulance Revenues (/call)	667	667	667	667	-
Projected Revenue					
Property Tax Revenue	99,507	84,262	84,262	59,074	-
Ambulance Revenue	96,151	84,654	87,073	52,958	-
Subtotal	195,658	168,916	171,334	112,033	-
Projected Expenditures					
EMS and Transport	121,999	107,411	110,480	67,195	-
Estimated Net Annual Surplus	73,660	61,505	60,855	44,838	-

Comparison of Enterprise Function Operating Impacts

Enterprise functions are the public services such as utilities that are intended to be funded by charges for service. These functions are accounted for in separate funds, and rates are set to assure that operating costs are funded, and capital costs are recovered. The City of Cle Elum operates a water treatment and distribution system, and a sewer treatment facility (through a contractor). Both facilities are paid for, but both currently operate below capacity. While Suncadia pays for 69% of the hookups under the terms of their agreement to fund the original facility, the additional hookups resulting from City Heights would spread the fixed operating costs over a larger base.

According to the City Heights *Grading, Drainage, and Utilities Technical Report* (Encompass Engineering and Surveying [EES] 2009), there is capacity in Cle Elum's sewer collection and treatment system to accommodate the proposed City Heights development if agreement could be reached with one of the Sewer Parties not presently using all of the capacity allocated to it for development that has not yet occurred. Current flows to the wastewater treatment facility are approximately 630,000 gallons per day based on an average of flows generated in 2006, 2007, and 2008. (Data provided by Gregg Hall, City Administrator). The capacity of the trunk line and treatment plant is reported in the EES Technical Report to be 10.5 million gallons per day. *Peak volumes* for City Heights projected in the Technical Report range from 931,000 gallons per day with Alternative 1 (8% of design flows for the facility), to 454,000 gallons per day (4.3% of design flow) with Alternative 3B (if Alternative 3B could be served by City sewer outside the City limits). The corresponding *average flows* are projected to range from 213,000 gallons per day with Alternative 1 to 104,000 gallons per day with Alternative 3B.

The additional flows from City Heights would significantly increase the efficiencies of the treatment plant. According to projections (spreadsheet provided by Gregg Hall, City Administrator) by Veolia, the contract operator for the plant, an increase of 230,000 gallons per day in average flows between 2009 and 2012 would result in only \$46,650 in increased cost of operation. Of that, only \$8,600 would be a real increase (after subtracting an assumed 3% annual inflation). That increased volume is approximately equal to the increased flows that would be associated with City Heights Alternative 1. Using that figure as a base, the incremental treatment cost is interpolated for the other alternatives. Based on 2008 cost data with an adjustment to 2009 levels, the average cost of collection and clerical is \$.74 per gallon per day. Assuming the entire collection and clerical cost is variable (a conservative assumption), increased collection and clerical costs can be estimated for each alternative. Applying current utility rates, the net revenue impact on the system is estimated as shown in Table 21.

Table 21. Projected Operating Impact of City Heights Alternatives to the City of Cle Elum Wastewater Treatment Facility

	1. Preferred Alternative	2. Reduced Residential Density	3A. No Annexation Single Ownership	3B. No Annexation Multiple Ownerships	4. No Action
Residential Units	985	875	875	500	-
Total Estimated Daily Flow	212,834	192,834	192,834	103,758	
Average Monthly Charge	39.82	39.82	39.82	39.82	
Annual Cost Increase-Treatment	8,001	7,249	7,249	3,900	-
Cost/GD Collection and Clerical	0.74	0.74	0.74	0.74	0.74
Increased Annual Revenue	470,672	418,110	418,110	238,920	-
Increased Annual Expense					
Treatment	8,001	7,249	7,249	3,900	-
Collection and Clerical	157,430	142,636	142,636	76,748	-
Total	165,430	149,885	149,885	80,648	-
Net Operating Income	305,242	268,225	268,225	158,272	-

The projected increase in revenues at current rates would greatly exceed the projected increase in cost. The surplus could be used to fund reserves, pay for improvements or could allow the City to reduce rates to all sewer service customers.

There would likely be a similar positive impact for the water treatment system. The City's existing water distribution, storage, and treatment system would require expansion to serve City Heights. The additional flows will increase the efficiency of the treatment facility. Further, the water required for the new development will be provided to the City by Northland at no cost. Information provided by the City does not allow the same marginal cost analysis as for the sewer system. The net impact to water system operations is not quantified.

Comparison of Capital Impacts and Possible Funding Sources

OVERVIEW OF CAPITAL IMPACTS

Comparison of the capital impacts of the City Heights conceptual land use alternatives is based on estimates of facility needs, available funding sources, and any funding gaps. The impacts are discussed in general terms in this section, with the exception that the impact on the School District is quantified. Ultimately, the mechanisms for funding capital cost impacts will be negotiated between the City and project proponent.

CITY OF CLE ELUM

In the case of Alternative 1 or 2, the City would experience growth in staff as well as demands for facilities such as parks. The City is authorized to impose impact fees for roads, parks, schools, and fire facilities, but does not currently impose such fees. The project will include parks and open space in amounts that exceed the project's proportionate share suggested by City's proposed Level of Service standards.

KITTITAS COUNTY

The County would experience increased demands for County-wide services as well as Sheriff's protection and road maintenance in unincorporated areas if Alternative 3A or 3B were selected for implementation. The increased staff associated with the County-wide services would be small in comparison to total staffing, and could be accommodated in existing facilities. Additional law enforcement services would require approximately four additional officers, but fewer officers at any one time. Additional road maintenance services could be provided out of existing facilities.

CLE ELUM-ROSLYN SCHOOL DISTRICT

The School District is currently under-utilized on an overall basis with 895 students and a capacity for 970, according to the Washington State Office of the Superintendent of Public Instruction formula. Further, the District anticipates enrollment to remain relatively constant in the next few years. Therefore, there would be available capacity to accommodate the additional school enrollment resulting from City Heights under any of the development alternatives in the initial years.

Over the longer term, the City Heights student population under any of the conceptual land use alternatives may create the need for additional capacity depending on demographic patterns that develop over time, both within City Heights and within the School District as a whole. If needed, classrooms and support facilities could be provided through the construction of new facilities, the expansion of existing facilities, or utilization of modular facilities. The School District's Capital Facilities Plan calls for, among other things, the construction of a new high school campus. Construction of a new full campus facility (classrooms, offices, gymnasium, recreational facilities, etc) would most likely need to be financed through the issuance of voter-approved bonds. Table 22 provides a comparison of the City Heights alternatives proportionate-share capital cost of creating a new campus to accommodate additional student enrollment under each alternative. The estimated enrollment represents facility capacity in a range of 8.3% of the capacity of a middle school in Alternative 3B to 20.5% of the capacity for an elementary school in Alternative 1.¹

Requirements for additional buses are estimated assuming that the elementary, middle, and high schools would continue on the same bell schedule, and that buses would not make multiple runs.

As shown in Table 22, the capital cost share of new facilities would be approximately \$7.7 million for Alternative 1, \$6.7 million for Alternative 2 or 3A, and \$4.1 million for Alternative 3B. At this time, the District has the lowest factor for State matching funds. District representatives estimate the effective match rate under current conditions would be 8% (e-mail from Brian Twardoski, July 14, 2009).

¹ The capacities of elementary, middle, and high schools are assumed at 450, 350, and 500 students, respectively.) It is assumed that the new facilities could be developed on the existing District properties adjacent to SR 903. The average square footage requirements are taken from the factors used by the State Office of Public Instruction with an adjustment of 30% to account for circulation. The cost per square foot figures were taken from McGraw Hill Construction estimates for National Clearinghouse for Educational Facilities. District staff have commented that the cost factors used are low and should be in a range of \$250 to \$300 per square foot for construction. Further, the most recent bus purchased by the District cost \$120,000. (e-mail from Brian Twardoski, March 29, 2010).

Table 22. Comparison of Capital Impacts-Share of Cost of New Schools, Cle Elum-Roslyn School District (\$2009)

	1. Preferred Alternative	2. Reduced Residential	3a. No Annex Single Owner	3b. No Annex Multi-Owners	4. No Action
School Enrollment					
Elementary	92	81	81	49	
Middle	55	48	48	29	
High	81	71	71	43	
% of School Capacity					
Elementary	20.5%	17.9%	17.9%	10.9%	
Middle	15.7%	13.7%	13.7%	8.3%	
High	16.1%	14.1%	14.1%	8.6%	
Square Feet Required					
Elementary (@ 117 sq.	10,810	9,449	9,449	5,749	
Middle (@ 157 sq. ft.)	8,618	7,533	7,533	4,584	
High (@ 161 sq. ft.)	12,995	11,359	11,359	6,912	
Cost per Square Foot					
Elementary	\$210	\$210	\$210	\$210	
Middle	\$210	\$210	\$210	\$210	
High	\$255	\$255	\$255	\$255	
Additional Buses (@ 65					
Average Cost per Bus	3.5	3.1	3.1	1.9	
	\$85,000	\$85,000	\$85,000	\$85,000	
Estimated Capital Impact					
Buildings					
Elementary	\$2,270,082	\$1,984,232	\$1,984,232	\$1,207,381	
Middle	1,809,750	1,581,865	1,581,865	962,545	
High	3,313,848	2,896,566	2,896,566	1,762,525	
Subtotal	7,393,680	6,462,664	6,462,664	3,932,451	
School Buses	298,155	260,611	260,611	158,578	
Total	7,691,835	6,723,275	6,723,275	4,091,029	

Given that the actual student population generated by the City Heights development will differ somewhat from these projections, and that phased development of the project is proposed over 6 to 12 years, it may be necessary to evaluate the actual projected impact on classroom capacity on an annual basis. Further, The School District capital impact estimate is directly related to the assumption regarding the percentage of dwelling units occupied on a year-around basis. For purposes of the impact analysis, 90% of units are assumed to be occupied year-around. Once it is clear that school building capacities will be reached, the optimal solution will be to implement the District's Long-Range Facilities Plan; specifically, embark on a capital improvement and expansion plan with voter approval of a bond measure (personal communication with Brian Twardoski, Director of Operations and Finance, Cle Elum-Roslyn School District, December 10, 2009).

Other options to accommodate the additional students such as adding additional classrooms to the existing facilities or utilizing modular units to accommodate expansion would result in lower costs. The cost impact of adding additional classrooms is compared for alternatives in Table 23. The average cost per classroom is assumed at \$300,000 reflecting 1,425 square feet plus a 20% circulation factor, and a unit cost of \$175 per square foot. It is assumed that the new facilities could be developed on the existing District properties adjacent to SR 903. As shown in the table, the capital cost impact would be approximately \$2.4 million for Alternative 1, \$2.1 million for Alternative 2 or 3A, and \$1.3 million for Alternative 3B. As with the estimates in Table 22, the impacts would be lower if the share of year-round housing units is less than 90%, and if the match factor is higher at the time of construction.

Table 23. Comparison of Capital Impacts-Cost of Additional Classrooms, Cle Elum-Roslyn School District (\$2009)

	1. Preferred Alternative	2. Reduced Residential	3a. No Annex Single Owner	3b. No Annex Multi-Owners	4. No Action
School Enrollment					
Elementary	92	81	81	49	-
Middle	55	48	48	29	-
High	81	71	71	43	-
% of School Capacity					
Elementary	20.5%	17.9%	17.9%	10.9%	0.0%
Middle	15.7%	13.7%	13.7%	8.3%	0.0%
High	16.1%	14.1%	14.1%	8.6%	0.0%
Classroom Cost Factors					
	\$300,000	\$300,000	\$300,000	\$300,000	
Additional Buses (@ 65 :	3.5	3.1	3.1	1.9	
Average Cost per Bus	\$85,000	\$85,000	\$85,000	\$85,000	
Match Percentage	8%	8%	8%	8%	
Estimated Capital Impact					
Buildings	\$2,097,605	\$1,833,473	\$1,833,473	\$1,115,646	-
School Buses	298,155	260,611	260,611	158,578	-
Total	2,395,759	2,094,084	2,094,084	1,274,224	-

The costs under this option could be financed through impact fees. The City and County are authorized to impose school impact fees on behalf of the District; however at the present time, neither the City nor County does collect these fees from new development. These fees could take the form of a per lot payment or a per student payment at the time actual development occurs.

The Development Agreement to be negotiated between the City of Cle Elum and the project proponent will provide for funding options satisfactory to the School District to provide a means to finance the facilities needed to accommodate the growth in student population attributable to development of City Heights.

KITTITAS COUNTY FIRE DISTRICT 7

Fire District 7 currently operates seven stations and responded to 488 calls in 2008. Assuming a service area population of approximately 5,500, the number of calls per 1,000 population was 89. Applying that factor, the number of additional calls attributable to City Heights would range from approximately 160 annually under Alternative 3A, to 93 under Alternative 3B. The District's the three existing stations that would provide immediate response (Bullfrog Road, Upper Peoh Point, and Airport Road) have adequate capacity to serve this increased volume of calls.

KITTITAS COUNTY HOSPITAL DISTRICT

The additional demand for services under any of the City Heights conceptual land use alternatives could be accommodated in existing Hospital District facilities.

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