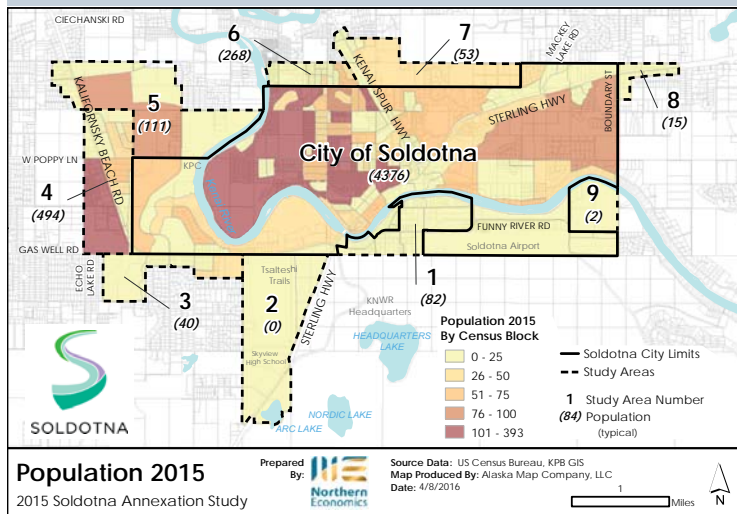


APPENDIX A

Analysis of the Fiscal Effects of Annexation for the City of Soldotna

Appendix A includes the following:

- 1) *Analysis of the Fiscal Effects of Annexation for the City of Soldotna;*
- 2) City of Soldotna Ordinance 2015-018, An Ordinance Increasing Estimated Revenues and Appropriations by \$50,000 in the General Fund and Small Capital Projects Fund for Professional Services Associated with Annexation Economic Impact Analysis;
- 3) City of Soldotna Resolution 2015-036, A Resolution Authorizing the City Manager to Execute a Contract with Northern Economics in the Amount of \$49,930 for Economic Analysis of Annexation Alternatives;



Analysis of the Fiscal Effects of Annexation for the City of Soldotna

Prepared for
The City of Soldotna

May 2016



in association with

- Agnew::Beck
- Alaska Map Company
- Kevin Waring Associates

Wisdom • Trust • Relevance • Innovation

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Abbreviations

AAC	Alaska Administrative Code
CAGR	Compound Annual Growth Rate
CDP	Census Designated Place
KPB	Kenai Peninsula Borough
LBC	Local Boundary Commission
ROW	Right of Way
DCCED	Alaska Department of Community, Commerce, and Economic Development
ADOLWD	Alaska Department of Labor and Workforce Development

1 Introduction and Purpose

The purpose of this report is to analyze the fiscal effects on the City of Soldotna (hereafter referred to as Soldotna or the City) should the City decide to move forward with a petition to annex areas adjacent to the current city boundaries. Envision Soldotna 2030, the community's Comprehensive Plan, contains a goal to, *"explore annexation to promote orderly high-quality development, cost-effective extension of public services, protection of the City's sales tax base, and protection of the natural environment"* (Envision, pg. 57). This study is intended to provide the City Council, Administration, and the public with economic information, which is one part of a broader consideration that must be given to the topic.

Under Alaska's constitution, cities do not have the power to annex territory. Cities can only propose an annexation by initiating a petition to the Local Boundary Commission (LBC). The LBC has sole authority to approve local governmental boundary changes. The role of the LBC, and its procedures and standards for reviewing proposed city annexations, are explained more fully in Section 2 of this report.

This document does not specifically suggest which, if any, of the geographic areas the City might petition to annex. The purpose of this analysis is strictly to understand the effects of annexation on the City's finances based on different annexation alternatives. This type of analysis is the first step in evaluating the feasibility and the impacts of a potential annexation and should be followed by future analyses, public discussions, and debate about any possible future LBC application.

This report does not have a traditional executive summary because it does not contain recommendations to Soldotna. Instead, the goal is for the reader to start with the beginning of the analysis, working through the background and goals of the analysis, the role of the LBC, and designation of study areas before discussing how the study team and Soldotna worked through the fiscal effects modeling process. Lastly, results from the fiscal effects analysis are discussed, with results reported for each potential study area and the aggregation of all study areas.

The study team hopes that the results contained in the report enlighten discussion about annexation and the potential fiscal effects.

1.1 Background

Soldotna is located in the Kenai Peninsula Borough, approximately 150 highway miles south of Anchorage, at the junction of the Sterling and Kenai Spur Highways. It lies 10 miles inland from Cook Inlet and borders the Kenai River.

Alaska Native Athabaskans have lived and used the areas around the Kenai River for many thousands of years. Modern day development patterns date back to the late 1940s when new arrivals to Alaska began homesteading in the area. Construction of the Sterling Highway from Anchorage and the Kenai Spur Highway in the late 1950s resulted in increased settlement in the area. In 1957, oil was discovered in nearby Swanson River, further boosting the population and economy of the area (City of Soldotna 2016). Soldotna incorporated in 1960 with 332 residents and is currently one of 19 first class cities in Alaska.

Soldotna has grown steadily to its current population of 4,319 residents, located within an area of approximately 7.3 square miles. However, rapid growth outside of the City's boundaries continues to increase pressure on City resources. Adjacent areas that experienced the highest growth since 2000 include the Funny River and Kalifornsky Census Designated Places (CDPs), located adjacent to Soldotna's south and west boundaries. Between 2005 and 2008, annexation discussions resulted in the development of a draft petition to annex these high-growth areas. The then-current mayor vetoed a

resolution that would have allowed the City to file the petition with the LBC. Since 2000, Funny River CDP and Kalifornsky CDP averaged an approximately 2.5 percent annual growth rate; and in 2014 the CDPs combined contained over twice the population of Soldotna.¹

According to Soldotna's 2011 Comprehensive Plan, as development of nearby areas progresses, and the need for essential services that the KPB does not provide becomes evident, residents will look to the City to provide those services. Currently Soldotna provides a variety of services, including operating a water, sewer and wastewater treatment utility; providing police protection, planning and zoning, animal control, library services, and parks and recreation services; and maintaining streets, sidewalks, and storm sewers. Soldotna also owns and operates the municipal airport.

1.2 Study Goals

The purpose of this study is to assess the economics of any potential petition for annexation. In plain terms, the City is interested in understanding whether municipal services could be provided to areas adjacent but outside the current City limits, or if doing so would have a negative impact on City finances. If annexation costs the City more than the revenue it generates, it may not be feasible nor desirable from an economic perspective. The City would need to evaluate whether non-economic factors would justify further consideration.

1.2.1 Comprehensive Plans

Tracing back to the 1970s, each of Soldotna's comprehensive plans have included a discussion of or goal related to annexation. As previously stated in the introduction, one of the goals set forth by Envision Soldotna 2030, the current comprehensive plan, is to explore annexation to promote high-quality development, cost effective extensions of public services, protection of the City's sales tax base, and protection of the natural environment. Additional considerations include recognizing that key corridors into and out of the City help define the community and are commercial opportunities for job growth and economic development. With the comprehensive plan's many goals related to economic development, it's helpful to recognize that Soldotna's economy does not start and stop at the municipal boundaries, but involves influences and interactions over a much broader area. It is in the City's best interest to plan for and secure long term economic and financial health for residents. City financial conditions are dictated by the type of revenue that is generated within its boundaries. Currently, sales tax makes up the majority of city revenues but property taxes are also part of the City's revenue stream. As growth happens outside of the City's boundaries, more demand is placed on city services from populations outside of the City boundary. Annexation may be one tool to help secure long term financial sustainability. Additionally, the City, through its economic and community development policies, has the potential to help shape that growth for the benefit of the City.

1.2.2 Decline in Oil Prices and Changing Fiscal Situation

As Soldotna considers annexation, the price of oil has plummeted, and Alaska is facing a nearly \$4 billion annual deficit. During the 2016 legislative season, lawmakers in search of solutions that cut the state's deficit, have made steep reductions to state spending, along with repeatedly discussing and evaluating potential new state revenue sources—including implementation of sales and income taxes,

¹ Populations for Kalifornsky CDP and Funny River CDP in 2014 were 8,441 and 877, respectively. Therefore, most of the population resides in the Kalifornsky CDP which is approximately 7 times larger than Soldotna. It is important to note that while the entire Kalifornsky CDP is not being studied for annexation, Soldotna, along with Kenai, serve as a regional hub for trade and services.

and use of the earnings reserve of the Alaska Permanent Fund. These actions will undoubtedly have an impact on local governments as they are likely to experience decreased revenue sources from the state, while potentially increasing tax burdens to residents.

As the State of Alaska confronts its fiscal situation, local governments will come under increased pressure to be less dependent on state resources, and more self-dependent to provide basic services. While annexation is a tool that enables the City to plan for timely and cost-effective extension of services, it also aims to provide the City with a sustainable principal revenue source for which to provide basic services to residents.

The fiscal and economic strength of Soldotna helps promote independence while maximizing the health, safety, and quality of life for Soldotna residents. In addition to the health and well-being of Soldotna and its residents, the area is home to one of the world's most productive fisheries—the Kenai River, which borders many of the adjacent developing areas. Responsible development along the shores of the Kenai River will help ensure the health and vitality of one of the area's greatest resources.

1.3 Process for Considering Annexation

To consider a petition for annexation, the comprehensive plan suggests the City should assemble a socially diverse and impartial panel of community and business leaders to evaluate the potential need for annexation and the appropriate areas to be petitioned. The meetings of the panel should be open to the public and transparent. In addition, the City should employ a variety of methods to educate Soldotna residents and adjacent residents about the annexation process.

In 2014, the City formed a 12-person Annexation Working Group to advise the administration whether petitioning for annexation was still a priority topic, since adoption of the comprehensive plan was several years prior.

The Annexation Working Group met four times in 2014, though the meetings were not advertised nor open to the public. In December 2014, the group adopted the “Statements of Consensus,” shown in Figure 1. These statements identify key policy issues related to patterns of growth in the Soldotna region, as well as the need to examine the financial issues associated with annexation. The group also identified the need to engage the public early in the annexation process to share information and develop ideas about annexation options.

In 2015, the City Council appropriated funds and retained Northern Economics, Inc. to conduct an economic analysis of potential annexation as the first step to determining whether annexation is financially feasible to the City of Soldotna. With the economic results from this study in hand, the City can decide whether to continue considering a petition for annexation, or no longer consider it. If the City Council decides to continue, the next step will be to engage area residents in a robust public process to understand and address any concerns. The role of the LBC and its annexation standards are described in more detail in the next chapter.

Figure 1. Advisory Annexation Committee Statement of Consensus, December 2014

ADVISORY ANNEXATION COMMITTEE
STATEMENTS OF CONSENSUS – December 2014

- The City has grown in population while maintaining roughly the same City boundaries since incorporation.
- Many residents select to live in Soldotna because of the services that are offered to include: proximity to schools, shopping, and the hospital, paved roads and sidewalks, sewer and water, and city amenities like the sports center, parks and library.
- Residential development in the unincorporated area outside the City has outpaced residential building inside the City.
- As new residential growth flows outside, new retail and service businesses may follow their customers outside the city.
- With increasing development outside city boundaries, the need for essential service like water, sewer and public safety will become evident and residents will look to the city to provide those services. Annexation is a tool that enable the city to plan for the timely and cost-effective extension of those services.
- The City's sewer and water service boundaries go well beyond existing city limits and authorize the city as the sole provider of those services. Currently these services only serve a portion of the area within the existing city limits and a small number of properties outside of the City limits.
- The City has the unique ability to plan for and deliver essential public services to adjacent areas as development progresses.
- The city should be proactive and take steps to achieve its economic and development goals.
- Soldotna should continue to identify or create sites for new large-scale retail development.
- Maintaining a strong sales tax base is vital to the city's ability to fund public services and keep city property taxes low.
- The City should explore annexation to promote orderly, high quality development, cost-effective extension of services, and protection of the city's tax base, quality of life, and natural environment.
- The City should engage the public early in the annexation process to solicit concerns and issues, to share information, and to develop ideas about possible ways to resolve annexation issues.
- The City should research the financial feasibility of annexation in the areas around the City.
- The City should identify and address code and policy changes in advance -- before an annexation petition is submitted.

Source: City of Soldotna 2016b.

1.4 Next Steps

The tasks below outline the subsequent steps should Soldotna continue to consider annexation:

Publish study. The complete economic analysis of potential annexation will be published for the community to review.

Present findings. The Study Team will present the findings to the City Council. This is scheduled for June 2016.

Decide whether to pursue annexation. Based on the results from the economic analysis, the City may decide to develop a petition for annexation.

If annexation is pursued, implement public process and draft petition. If the City decides to pursue annexation, it will implement a community engagement process to draft a petition for annexation that makes sense for Soldotna.

If petition is drafted, submit to LBC. If the City, through its public process, drafts and approves a final petition for annexation, it will be submitted to the LBC for consideration. The LBC's role in considering petitions is explained in the next section.

LBC decision. If a petition is submitted to the LBC, the LBC will decide whether the petition should be approved and, if appropriate, submitted for legislative review.

2 Role of the Local Boundary Commission

Annexation is the only option available for Alaska cities, boroughs, and unified municipalities to extend their boundaries. Alaska's constitution (Article X, Section 12) established a local boundary commission and reserved to it the power to consider and approve any proposed local governmental boundary change, subject only to veto by the legislature (Article X, Section 12, Alaska Constitution).

The Alaska Supreme Court clarified the LBC's purpose and role in a landmark 1962 decision²:

Article X [of the Alaska Constitution] was drafted and submitted by the Committee on Local Government, which held a series of 31 meetings between November 15 and December 19, 1955. An examination of the relevant minutes of those meetings shows clearly the concept that was in mind when the local boundary commission section was being considered: that local political decisions do not usually create proper boundaries and that boundaries should be established at the state level. The advantage of the method proposed, in the words of the committee: ". . . lies in placing the process at a level where area-wide or state-wide needs can be taken into account. By placing authority in this third-party, arguments for and against boundary change can be analyzed objectively."

Boundaries

A local boundary commission or board shall be established by law in the executive branch of the state government. The commission or board may consider any proposed local government boundary change. It may present proposed changes to the legislature during the first ten days of any regular session. The change shall become effective forty-five days after presentation or at the end of the session, whichever is earlier, unless disapproved by a resolution concurred in by a majority of the members of each house. The commission or board, subject to law, may establish procedures whereby boundaries may be adjusted by local action. (*Article X, Section 12, Alaska Constitution*)

Fundamentally, the role of the LBC is to ensure an objective review of local city and borough boundaries to avoid placing sole decision-making responsibilities with local governments, particularly with respect to boundaries which can be difficult to properly define.³

Petition Methods

State statutes and administrative regulations further define the role and operations of the LBC, including the method by which local governments may propose local governmental boundary changes, the LBC's procedures for considering proposals, and the standards by which the LBC must evaluate proposals.

The "legislative review" procedure authorized by the constitution is the primary, default method by which local governments may seek to alter their boundaries. There are several important features of the LBC's process as it applies to "legislative review" city annexations.

- The only means by which Alaskan cities can alter their boundaries is by an annexation petition to the LBC.
- Cities and certain other parties may propose local boundary changes by petition to the LBC, but only the LBC can approve a boundary change. Cities cannot, by themselves, change their local boundaries.
- The LBC reviews the petition for compliance with applicable standards.

² Fairview Public Utility District No. 1 v. City of Anchorage, 368 P.2nd 540 (Alaska 1962).

³ Local Boundary Commission, Report to the 29th Alaska State Legislature, 1st Session February 2015

- As part of its review, the LBC conducts an extensive process for public comment, including a local public hearing. Both supporters and opponents of annexation have opportunity to argue the merits of their position before the LBC.
- Based on the petition record, the LBC may approve, amend or impose conditions and approve, or disapprove the petition. To approve a petition, the LBC must find the petition satisfies all applicable standards.
- If the LBC approves the petition, it presents the petition to the legislature. The legislature may disapprove the petition only by a resolution approved by a majority of members of each house.
- Proposed boundary changes are not decided by local vote. This process is consistent with the constitutional intent, affirmed by the Alaska Supreme Court, to place decisions about often contentious local boundary changes “at a level where area-wide or state-wide needs can be taken into account” and where “arguments for and against boundary change can be analyzed objectively” by a third party.

In summary, Alaska’s constitution, state law and administrative regulations set in detail the “rules of the game” both for petitioners and for opponents and supporters of annexation petitions as they argue their position before the LBC.

LBC regulations require local governments to hold at least one local public hearing on a draft “legislative review” annexation petition before the local governing body can approve the final petition for submittal to the LBC. However, experience has shown that local government are well advised to conduct an extensive and open public information and consultation process, such as discussed above in section 1.3, as they consider the merits of a proposed annexation.

Parenthetically, it may be noted that the legislature has authorized limited exceptions to the “legislative review” method described above for boundary changes. The legislature has waived its authority to review certain non-controversial city annexation petitions, called “local action” petitions. These petitions must meet specific conditions and must still be reviewed and approved by the LBC. In effect, the legislature has pre-judged that these annexations are below its threshold of concern for exercising legislative review. (The annexation alternatives evaluated in this report do not appear well-suited to annexation by “local option“.) By statute, local action petitions are limited to:

- Annexation of adjoining city-owned property.
- Annexation of adjoining territory, unanimously supported by property owners and voters in the territory proposed for annexation; and
- Annexations approved by a majority of voters in the annexing city and in the territory proposed for annexation.

Local Boundary Commission Annexation Standards

Table 1, below, summarizes the LBC’s annexation standards for review of city annexation petitions. This summary is included here as context for the economic study. If the City opts to pursue annexation and develop a petition, this economic assessment provides some information to inform the development of the petition according to the LBC standards. In particular, this economic study provides data to help evaluate the “resources” criterion (3ACC 110.110), which examines the economic feasibility of annexing certain areas. While the study may also provide pertinent information pertaining to other annexation standards, such as “character of the territory,” it is important to note that a petition will require information on other topics listed in Table 1.

Table 1. Local Boundary Commission Standards for City Annexation (3 AAC 110.090-3 AAC 110.130)

LBC Criterion	Standard	Specifics that may be considered
1. Needs of the Territory Proposed to be Annexed (3 AAC 110.090)	The territory must exhibit a reasonable need for city government.	Existing or anticipated residential and commercial growth outside the City anticipated over 10 years. Existing or anticipated health, safety and general welfare problems Existing or anticipated economic development Adequacy of existing services in the territory Extraterritorial powers of municipalities Territory may not be annexed to a city if services to that territory can be provided more efficiently by another existing city or by an organized borough.
2. Character of the Territory Proposed to be Annexed (3 AAC 110.100)	The territory must be compatible in character with the annexing city.	Land use, subdivision platting and ownership pattern Salability of land for private uses. Population density / recent population changes Suitability of land for community purposes Transportation and facility patterns Natural geographic features/environmental factors
3. Resources of the Territory Proposed to be Annexed and the Annexing City (3 AAC 110.110)	The economy of the proposed post-annexation boundaries must include the human and financial resources necessary to provide essential city services on an efficient, cost-effective level.	Expenses and revenues from added territory Economic base + property values Industrial, commercial and resource development
4. Population of the Territory Proposed to be Annexed and the Annexing City (3 AAC 110.120)	The population within the post-annexation boundaries must be sufficiently large and stable to support the extension of city government.	Total population Duration of residency / age distribution Historical population patterns / seasonal change
5. Appropriate boundaries (3 AAC 110.130)	The proposed post-annexation boundaries must include all areas necessary to provide full development of essential city services on an efficient, cost-effective level.	Land use + ownership patterns / Population density Transportation patterns Geographic features / Should be contiguous Not large unpopulated areas 10 years' worth of predictable growth
6. Best interests of the State (3 AAC 110.135)	The proposed annexation must be in the balanced best interests of the state, the territory proposed for annexation, the annexing city, and the borough in which the annexation is proposed.	Promotes maximum self-government Promotes minimum number of government units Relieves the state from providing local services

3 Study Areas

For purposes of this report, land outside of the City of Soldotna being evaluated as part of this economic analysis is referred to as study area(s). Study areas are different from annexation territories. If the City decides to pursue annexation, a petition would be drafted that would include specific annexation territories, and additional information beyond what is contained in this economic report. The City has not decided whether to pursue a petition for annexation, and as a result, no annexation territory has been identified. Boundaries for the study areas were created in order to estimate city revenues and expenses for various areas of land in close proximity to existing city limits.

It is important to note that just because an area is included in the economic analysis study, does not mean it will ultimately be part of a petition for annexation, if the City decides to move forward. Similarly, just because an area is not currently within the study area, does not mean it is exempt from being considered for an annexation petition in the future. If the City decides to pursue a petition for annexation, the community may request certain areas come out of the territory being considered for annexation. Alternatively, community members may request that other areas be included.

3.1 Method to Develop the Study Area

At the beginning of the economic analysis, the City indicated that it intended to focus the economic analysis on areas which exhibited one or more of the following characteristics:

- Areas where residents and businesses are already receiving city services, such as emergency response, water and/or sewer utilities, or where extension of utilities can be reasonably achieved or anticipated;
- Existing or potential commercial highway corridors or nodes near the City, whose development has the potential to erode the City's sales tax base;
- Areas that are undeveloped or under-developed which provide opportunities for residential, commercial, or other types of development, and that may benefit from city services and standards prior to residential, commercial, or other development; and
- Areas where health and safety issues may exist or where a request has been received by the City to offer services not available in the borough.

When defining these areas, the study team took great care to exclude, when possible, specific neighborhoods, agricultural lands, and other areas due to prior public comment and demographics.

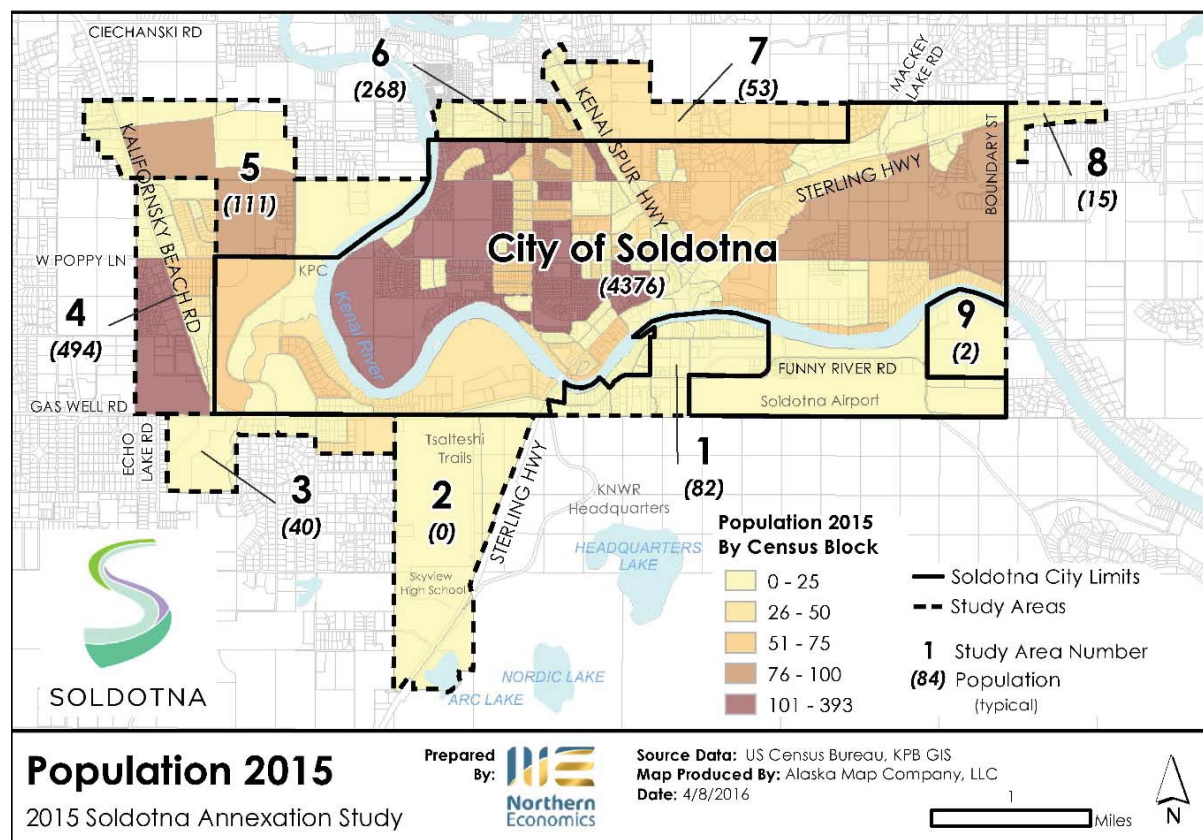
The scope of work and budget for the economic assessment allowed for the overall study area to be broken up into several individual subareas, to allow for a more detailed analysis.

There are no statewide policies that explicitly identify the criteria for an economic analysis of annexation. However, there are criteria that the LBC implements when deciding whether to approve an annexation (as described in section 2). The LBC criteria are similar to those used by the City's in selecting its study area:

- Where is growth happening now and over the next 10 years?
- Where are there health and safety issues that need addressing by the City?
- Where is economic development happening or anticipated?
- Do the sub-areas have similar natural features?
- Are the land use patterns similar?

These study areas, and their populations, are depicted in Figure 2.⁴ The nine study areas have an estimated population of 1,065 citizens and encompass approximately 4.5 square miles. To help the reader more quickly identify each study area, the analysis will refer to the study areas as: Funny River West (1), Skyview (2), K-Beach South (3), K-Beach Central (4), K-Beach North (5), Knight Drive (6), Kenai Spur (7), Sterling Hwy (8), and Funny River East (9).

Figure 2. Study Area Map by Phase

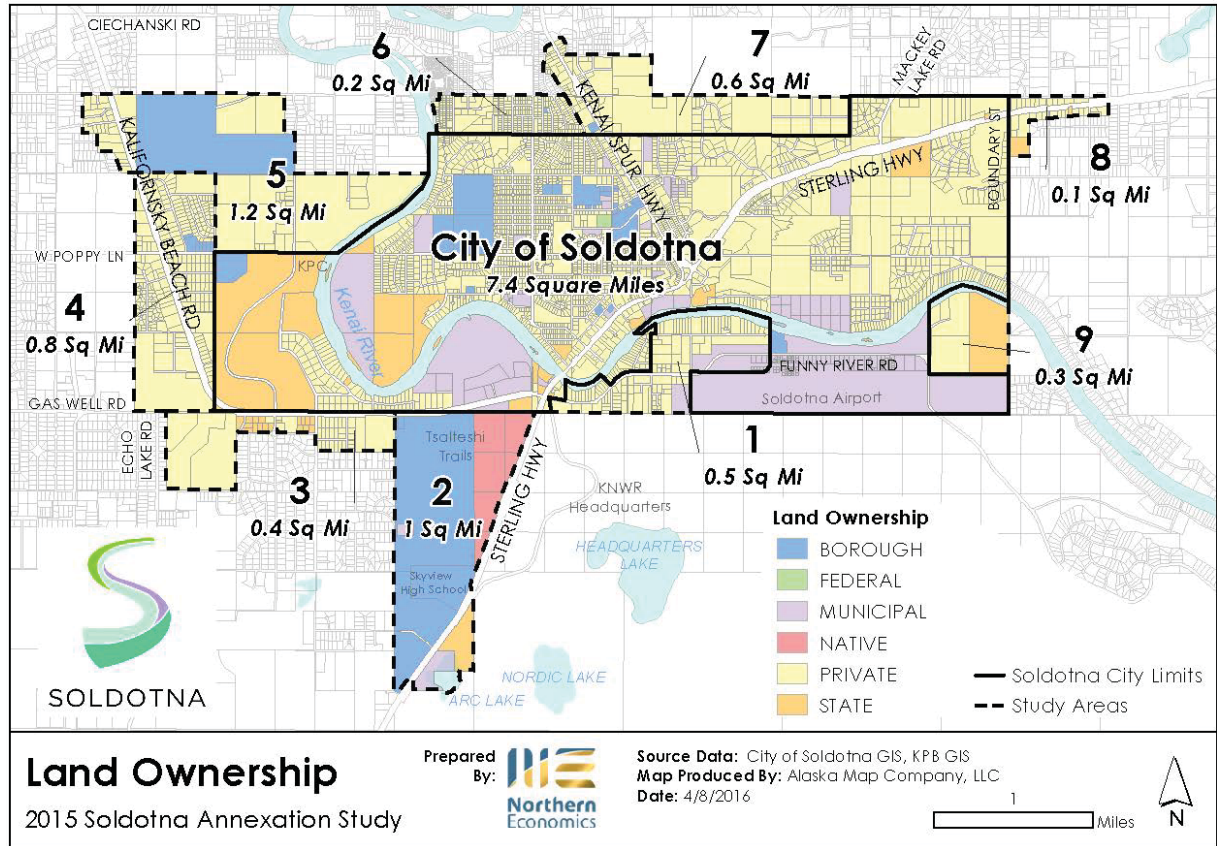


Source: Alaska Map Company 2016.

Land ownership in the nine study areas and Soldotna is summarized in Figure 3 and Table 2. The study areas are largely comprised of private- and borough-owned lands, totaling over 2,883 acres combined. Of that, over 1,800 acres are privately owned—nearly two-thirds—while the Kenai Peninsula Borough (KPB) owns nearly 700 acres. Nearly all of the KPB’s ownership exists in Skyview (2) and K-Beach North (5). In Skyview (2), the Tsalteshi Trail System and Skyview High School both reside on KPB land. The State of Alaska and Salamatof Native Association each own roughly 140 acres of land throughout the study areas. All of Salamatof Native Association’s land is located in Skyview (2) along the Sterling Highway while the State of Alaska owns lands dispersed among Skyview (2), K-Beach South (3), Sterling Hwy (8), and Funny River East (9).

⁴ Full-size maps located in Appendix.

Figure 3. Study Area Land Ownership Map, by Area



Source: Alaska Map Company 2016.

Table 2. Study Area Land Ownership, by Area, in Acres

Area	Borough	Municipal	Native	Private	State	Federal	Total
Funny River West (1)	0.0	62.3	0.0	186.8	0.0	0.0	249.1
Skyview (2)	445.2	27.3	136.5	0.0	34.1	0.0	643.1
K-Beach South (3)	0.0	0.0	0.0	212.5	19.9	0.0	232.4
K-Beach Central (4)	9.2	0.0	0.0	396.4	0.0	0.0	405.5
K-Beach North (5)	240.0	0.0	0.0	448.7	0.0	0.0	688.7
Knight Drive (6)	0.3	0.0	0.0	114.3	0.0	0.0	114.6
Kenai Spur (7)	2.1	0.0	0.0	345.5	0.0	0.0	347.6
Sterling Hwy (8)	0.3	0.0	0.0	40.1	10.5	0.0	50.8
Funny River East (9)	0.0	0.0	0.0	75.4	76.3	0.0	151.7
All Areas	697.1	89.5	136.5	1,819.6	140.8	0.0	2,883.6
City of Soldotna	174.9	899.5	0.0	2,324.4	537.5	4.5	3,940.9

Source: KPB 2016; City of Soldotna 2016c.

Table 3 identifies land use categories by land use codes assigned by the KPB to land in the study areas where development has occurred.⁵ City zoning codes provide much more accurate data, and were used to summarize the City of Soldotna's land use composition. Residential land use accounts for 762.6 acres of the total 1,909.2 developed acres. At a little more than 253 acres, commercial land use accounts for the second largest land use classification. These proportions of land use are similar to the current city zoning within Soldotna. It is also worth noting that the amount of vacant land in each of the study areas ranges between 17 and 51 percent. Land vacancy and build-out are discussed further in section 5 with respect to the carrying capacity of each study area.

Table 3. Study Area Land Use Codes, by Area, in Acres

Area	Residential	Commercial	Farm/ Agriculture	Leased	Industrial	Gravel Pit	Institutional	Non- Vacant	Vacant	Total
Funny River West (1)	85.5	38.4	0.0	0.0	0.5	12.5	56.2	193.2	54.0	247.2
Skyview (2)	17.2	0.0	0.0	0.1	5.0	0.0	504.6	526.9	108.4	635.3
K-Beach South (3)	76.6	5.3	48.2	0.0	0.0	0.0	11.1	141.2	90.5	231.7
K-Beach Central (4)	79.0	120.5	0.0	0.0	1.3	20.0	18.0	238.8	163.7	402.5
K-Beach North (5)	222.3	34.9	0.0	0.0	0.0	54.0	22.0	333.1	352.2	685.4
Knight Drive (6)	51.4	3.1	0.0	0.0	0.0	6.9	0.3	61.6	52.3	113.9
Kenai Spur (7)	117.4	37.2	0.0	0.0	0.0	109.8	0.0	264.4	83.1	347.5
Sterling Hwy (8)	4.1	14.0	0.0	0.0	21.7	0.0	1.1	40.9	10.0	50.8
Funny River East (9)	109.0	0.0	0.0	0.0	0.0	0.0	0.0	109.0	42.7	151.7
All Areas	762.6	253.4	48.2	0.1	28.4	203.2	613.3	1,909.2	956.8	2,866.0
City of Soldotna ⁶	1,265.8	412.7	0.0	0.0	347.6	102.2	973.2	3,101.5	817.4	3,919.0

Source: KPB 2016; City of Soldotna 2016c.

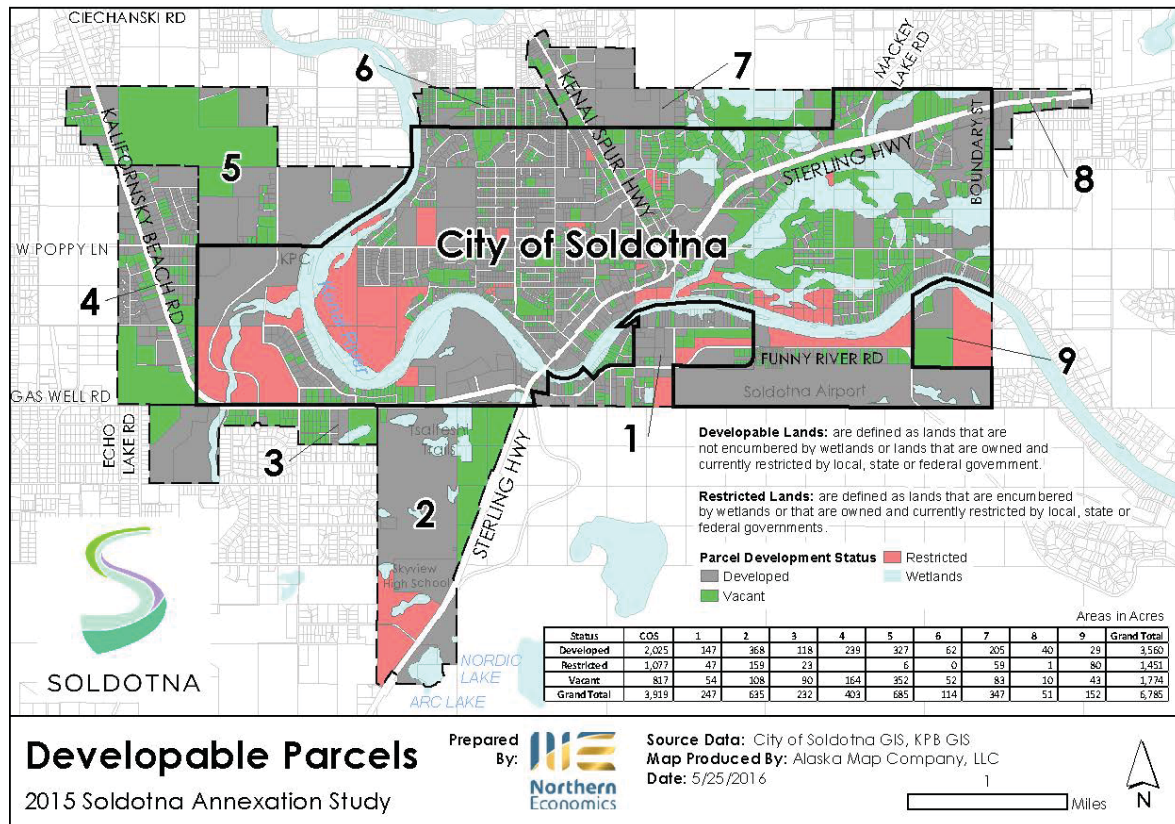
Figure 4 provides an accurate and detailed version of the current availability for development of individual parcels within the City of Soldotna and surrounding annexation study areas. Parcels and portions of parcels are broken into three different categories: developed, vacant and restricted. Developed lands include any land use type or zoning and are defined as developed if the parcel contains a building according to the KPB building table or contained substantial nonstructural infrastructure like a trail system, airport, gravel pit, power lines, water tower etc. These lots were manually determined using current satellite imagery and with the help of the City of Soldotna.

⁵ The KPB assigns land use codes for all land in the Borough. However, these codes are subject to change before development, and therefore are not included at this time.

⁶ Initial estimates of developed and vacant lands were generated using the Kenai Peninsula Borough GIS parcel data. It was found that these data, specifically the 'Usage' field were too limited in scope and contained many errors resulting in less than desirable report results. Per the suggestions of the City of Soldotna and with the help of planning staff a new layer was developed to minimize the reliance on the 'Usage' field.

Restricted lands are defined as lands that are encumbered by wetlands or that are owned and currently restricted by local, state or federal governments. These lots are primarily government owned and used as parks, schools and conservation parcels. Vacant lands are those parcels that are not developed or restricted.

Figure 4. Study Area Land Use Map, by Area



Source: Alaska Map Company 2016.

4 Approach

This section details the approach and methodologies used to estimate the fiscal effects to the City under various annexation scenarios for nine areas adjacent to current city boundaries. To measure impacts, the model compares the cost of providing basic city services in each study area to the expected revenue that study area would generate under current conditions using a series of study area-specific mathematical models. The net fiscal impacts are measured as the difference between expected costs and expected revenues, in real dollars, under each specific annexation scenario. Combining the net fiscal effects of all areas estimates the total fiscal impact to Soldotna.

To construct the fiscal model, several model components are needed, including fiscal and demographic data for Soldotna. The area specific models operate primarily on a per capita basis, using the five-year average per capita revenues and expenditures. Fiscal impacts are then primarily driven by changes in population. It is important to note that a few expenditure components are unlikely to change with population, and different methodologies were employed for these.

4.1 Methods

The analytical methods utilized for the fiscal effects analysis rely on historical revenue and expenditure data from the City, alongside demographic estimates for each study area provided by the Alaska Map Company. Fiscal effects are measured by impacts to Soldotna's general fund. General fund revenue sources include both property and sales taxes, along with various other fines, fees, and donations. These funds are then used by the general fund to provide many of the City's basic services, which include general government, public safety, and public works (including streets).

It is important to note that the general fund also provides revenue to several capital project funds and special revenue funds through transfers. However, because these funds are not considered basic city services, they are only implicitly modeled by the performance of the general fund, and not specifically included in the analysis. This includes the Public Utilities fund, which provides water, sewer, and wastewater treatment operations. The extension of utilities is an independent decision based on the Utility Master Plan and on current infrastructure needs that would not necessarily be impacted by any annexation decisions, and therefore are not included in the analysis.

The fiscal effects model is primarily a function of changes in population; therefore, only general fund revenue sources and expenditures directly associated with changes in population are included using a per capita methodology. Services that did not make sense to extrapolate on a per capita basis either employed an alternative methodology or were omitted entirely. Individual model components are examined in detail within section 4.1.1., below.

4.1.1 Individual Model Components

Individual model components used in the analysis include estimated revenue and expenditure streams. Historic general fund per capita revenue and expenditure components are shown in Table 4. The factors measured on a per capita basis are representative of the five-year per capita average between 2010 and 2014, while tax revenues and the street expenditure categories are estimated using slightly different methodologies.

Table 4. Historical Per Capita Revenue and Cost Factors

	2010	2011	2012	2013	2014	Average
Revenues	2,100	1,944	2,004	1,917	1,936	1,980
Sales Tax	1,738	1,638	1,754	1,785	1,792	1,741
Property Tax	200	203	140	81	62	137
Building Permits/Fees	23	18	36	19	35	26
Traffic and Animal Fines/Fees	16	21	19	19	15	18
Other Revenues	122	64	56	13	32	57
Expenditures	1,242	1,195	1,282	1,326	1,430	1,295
General Government	329	299	316	318	341	321
Public Safety	493	490	475	495	536	498
Public Works - Administration	73	71	78	99	114	87
Public Works - Planning and Zoning	46	45	52	51	71	53
Public Works - Building Maintenance	30	31	37	35	42	35
Public Works - Streets	271	258	259	262	244	259
Public Works - Shop	0	0	65	66	81	43

Source: Alaska Department of Community, Commerce, and Economic Development (DCCED) 2015; ADOLWD 2015.

Table 5 summarizes model revenue and expenditure factors. The subsequent sections discuss each model components in detail, including population and housing components.

Table 5. Model Revenue and Cost Factors

Category	Value
Revenues	
Property Tax	0.5 Mills per \$1,000 in Value
Sales Tax	3%
Building Permits/Fees	\$26 per Capita
Traffic and Animal Fines/Fees	\$18 per Capita
Other Revenues	\$57 per Capita
Expenditures	
General Government	\$321 per Capita
Public Safety	\$498 per Capita
Public Works - Administration	\$87 per Capita
Public Works - Planning and Zoning	\$53 per Capita
Public Works - Building Maintenance	\$35 per Capita
Public Works - Streets	\$20,550 per mile (paved) \$28,350 per mile (gravel)
Public Works - Shop	\$43 per Capita

Source: DCCED 2015; ADOLWD 2015; PDC Inc. Engineers 2016.

4.1.1.1 Population and Housing

Population for each of the study areas is estimated by multiplying the number of household units in the study area by the average household size as recorded by the 2010 Census. Average household size was determined using 2010 Census block data for each study area. The Census Bureau defines census blocks as smaller areas within Census tracts, which are, in turn, part of reported counties or boroughs. In the event a study area stretched across multiple census blocks, block data for the majority of the study area were used. Table 6 summarizes 2010 and 2015 population estimates. K-Beach Central (4) contains the largest population (494), with Knight Drive (6) having the second largest at 268. K-Beach North (5)'s population increased the most since 2010, adding 37 people.

Table 6. Demographic Statistics by Area

Study Area	2010 Population	2010 Housing Units	2010 Average Household Population	New Housing Units 2010- 2015	2015 Housing Units	New Population	2015 Population
Funny River West (1)	78	84	0.93	4	88	4	82
Skyview (2)	0	0	0.00	0	0	0	0
K-Beach South (3)	40	15	2.67	0	15	0	40
K-Beach Central (4)	486	189	2.57	3	192	8	494
K-Beach North (5)	74	42	1.76	21	63	37	111
Knight Drive (6)	261	119	2.19	3	122	7	268
Kenai Spur (7)	53	28	1.89	0	28	0	53
Sterling Hwy (8)	11	6	1.83	2	8	4	15
Funny River East (9)	1	1	1.00	1	2	1	2
All Areas	1,004	484	2.07	34	518	71	1,075
City of Soldotna	4,163	1,974	2.11	73	2,047	154	4,317

Source: U.S. Census 2016a; KPB 2016.

With the exception of K-Beach South (3) and Kenai Spur (7), population for each study area is then projected using historic population growth rates for the CDP that is located closest to the study area. CDPs include Funny River, Kalifornsky, Ridgeway, Sterling, and Soldotna.⁷ K-Beach South (3) and Kenai Spur (7) are expected to experience alternative build-outs based on more recent development patterns. Therefore, their populations are projected based on a separate methodology, and are discussed in section 5. Table 7 summarizes population projections for each study area. Note, because of rounding, Compound Annual Growth Rates (CAGR) may not be uniform across CDPs.

⁷ 10-year average growth rates for CDPs are shown Table 12 on page 13.

Table 7. Population Projections by Area

CDP	Study Area	2015	2020	2025	2030	CAGR, 2015–2030 (%)
Funny River	Funny River West (1)	82	92	107	116	2.3
Kalifornsky	Skyview (2)	0	0	0	0	0.0
	K-Beach South (3)	40	70	121	218	12.0
Kalifornsky	K-Beach Central (4)	494	529	567	607	1.4
Kalifornsky	K-Beach North (5)	111	126	146	167	2.8
Ridgeway	Knight Drive (6)	268	273	278	283	0.4
	Kenai Spur (7)	53	55	57	59	0.7
Sterling	Sterling Hwy (8)	15	15	15	15	0.0
Funny River	Funny River East (9)	2	2	2	2	0.0
All Areas		1,065	1,162	1,293	1,467	2.2
City of Soldotna	Soldotna	4,376	4,583	4,800	5,028	0.9

Source: Northern Economics analysis of data from U.S. Census 2016b.

4.1.1.2 Revenues

The revenue group reflects the primary sources of general fund revenues received by Soldotna. The analysis does not account for sources of revenue that are unlikely to be affected by annexation, such as federal grants. Instead, it focuses on the revenue sources that are within the City's power to control. The revenue streams include real property tax, sales tax, building permits/fees, traffic and animal fines/fees, and other revenues. Each revenue category is discussed in the following section.

Real Property Tax

Real property taxable values were obtained through the KPB's assessor's office and analyzed using GIS software. Real property consists of the land and everything located on the land, known as improvements. Improvements may include houses, mobile homes, outbuildings, barns, sheds, etc. Table 8 summarizes real property taxable value for each of the study areas. The total taxable value of all areas is estimated at over \$150 million—less than the assessed value of \$218.5 million. This difference is a result of numerous exemptions on real property tax.⁸ In 2014, K-Beach Central (4) contained the highest amount of taxable value at \$68.3 million—even as exemptions accounted for nearly 15 percent of the area's total assessed value. Funny River West (1) has the second highest value at \$24.6 million. Conversely, Skyview (2) contained virtually no taxable real property. Interestingly, the City has approximately the same amount of exempt property value than taxable value.

⁸ The City of Soldotna's property tax exemptions differ slightly from the KPB. Therefore, total assessed property in each of the study areas was adjusted to mirror the City's exemptions. The calculation involved including exemptions for reduced valuation for easements and disabled veterans. All other KPB exemptions that are not also granted by Soldotna were included in the taxable value.

Table 8. Real Property Tax Values by Area

	Land Value	Improved Value	Assessed Value	Taxable Value	Exempt Value ⁸
Study Area	\$ Millions				
Funny River West (1)	11.6	16.4	28.0	24.6	3.3
Skyview (2)	1.4	38.0	39.4	.0	39.4
K-Beach South (3)	2.2	5.1	7.4	3.0	4.4
K-Beach Central (4)	11.8	66.6	78.4	68.3	10.1
K-Beach North (5)	6.4	14.1	20.5	16.3	4.2
Knight Drive (6)	3.6	15.0	18.6	16.3	2.4
Kenai Spur (7)	5.9	11.9	17.8	17.3	.6
Sterling Hwy (8)	1.5	3.5	5.0	3.9	1.1
Funny River East (9)	3.1	.4	3.4	1.9	1.5
All Areas	47.5	171.0	218.5	151.6	67.0
City of Soldotna	210.2	766.3	976.5	484.8	491.7

Source: KPB 2016; Wheat 2016.

Revenues from real property tax for each of the study areas are estimated by extrapolating 2014 per capita real property taxable value and multiplying by Soldotna's current mil rate of 0.5 mils. Total real property taxable value is estimated and extrapolated for each study area, including all exemptions, and is shown in Table 8.

Sales Tax

Total taxable sales data by service area were provided by the KPB finance department for 2012–2014. However, only five of the nine study areas were released due to confidentiality restrictions. For those study areas for which data were available, the average of annual total taxable sales between 2012 and 2014 was used to estimate 2015 sales tax revenues. However, for those study areas without total sales data, the analysis estimated total 2015 taxable sales using a weighted average of total taxable sales per business license. The weighted average is calculated using 2014 business license and total taxable sales data from those study areas for which data were available.⁹ Total taxable sales are then extrapolated forward using a per capita methodology. Sales tax revenues are estimated by multiplying estimated total taxable sales by Soldotna's current sales tax rate of 3 percent.

Additional sales tax revenue is estimated as a result of sales taxes levied on utilities. If Soldotna chooses to annex any, or all, of the study areas, additional sales tax revenue is expected to come from utility sales such as natural gas and electricity. To project sales tax revenue associated with utility sales, the study team calculated the service area population being served by the local electric utility. Using total revenue generated from energy sales reported in the utility's annual report, a per capita estimate was calculated and used to estimate future revenue based on changes in population. This methodology assumes commercial and industrial users will grow at the current proportion.

The team was unable to calculate the service area population for local natural gas sales. As a result, the model held revenues from natural gas sales steady at a level amount.

⁹ Calculation of the weighted average included available data from areas 1, 4, and 7 (areas 2 and 9 reported having no taxable sales or businesses). This methodology was used to estimate total taxable sales for areas 3, 5, 6, and 8 for which taxable sales were confidential. The calculation did not include taxable sales or business license data for the City of Soldotna, as it would likely overestimate the average business's taxable sales in the study areas.

Building Permits/Fees

Between 2010 and 2014, Soldotna collected approximately \$26 per capita in building and permit fees. The model estimates current and future revenues based on this amount, times population estimates for each study area.

Traffic and Animal Fines/Fees

On average, \$18 was collected from each person for traffic and animal fines between 2010 and 2014. The model projects traffic and animal fines by multiplying this amount by population estimates for each study area.

Other Revenues

Other revenues include interest income, library fees, donations, and miscellaneous revenues contained in the general fund. Other revenue per capita averaged \$57 between 2010 and 2014. As was done with other revenues, future revenues in this category are projected by multiplying the per capita average by the increase in population in each of the study areas.

4.1.1.3 Expenditures

The expenditures group reflects general fund expenditures incurred by Soldotna. This group does not include expenditures associated with special revenue or capital project funds, since many of these funds do not intersect the primary expenditures of the City. In addition, general fund expenditures associated with the City's library and non-departmental items are omitted as they are unlikely to respond to changes in population. Another important expenditure not included, but worth noting, is the utility fund, which account for water, sewer and wastewater treatment plant operations. Because the provision of utilities is an independent decision based on the Utility Master Plan and existing infrastructure needs, it would not necessarily be impacted by any annexation decisions and therefore not included.

With the exception of street maintenance expenditures, all expenditures were estimated on a per capita basis using the average per capita expenditure between 2010 and 2014 and the forecasted change in population in each study area. For general government and public safety expenditures, economies of scale are applied based on the assumption that per capita expenditures are likely to marginally decrease as population increases.¹⁰ A list of average per capita expenditures is shown in Table 5.

General Government

On average, general government services cost Soldotna \$321 per person between 2010 and 2014. However, for general government, the study team assumes that the per capita expense will decrease marginally as the population grows. This is illustrated in Figure 5 where general government per capita expenditures for various Alaskan cities are plotted. As the size of the City increases, per capita general government expenditures decrease. Soldotna is shown below the regression line, indicating that the City's per capita expenditure on general government is more efficient than what the regression predicts it would be. Soldotna also outperforms several other cities that have larger populations—indicating expenditures on general government are efficient for its size.

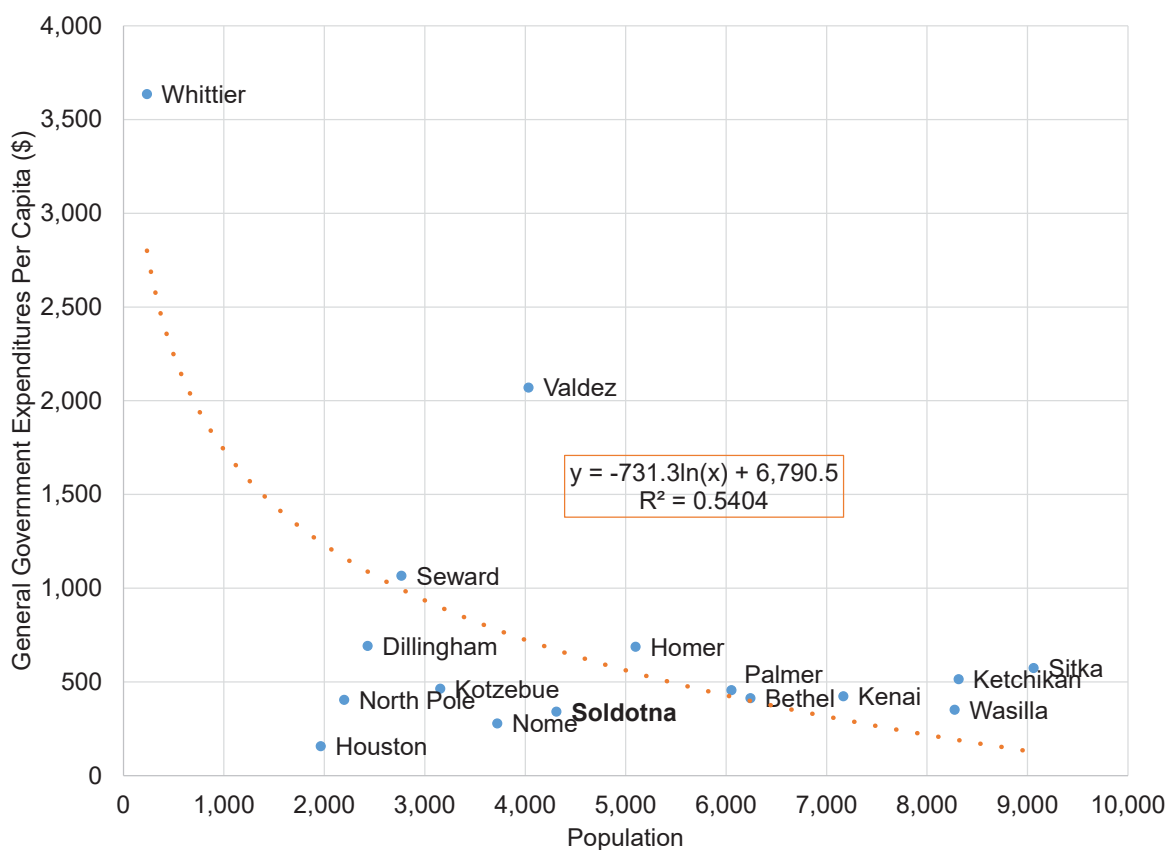
For modelling purposes, the study team estimated the per capita expenditures for Soldotna using the regression line for 2015 and 2030. The change in estimated per capita expenditures was then divided

¹⁰ General government and public safety expenditures were adjusted using work previously completed by Northern Economics, Inc., and were not chosen specifically for this analysis. Previous work only included analysis of general government and public safety.

by the change in population, yielding a decrease in per capita general government expenditures of approximately \$0.16 for each additional person. For example, the per capita expense for Soldotna's general government in 2015 is \$320.68. By 2035, the per capita expense is estimated to decrease to \$219.11, given a population increase of 652.

The model estimates costs of providing these services to the study areas by multiplying the estimated population in the study area by the adjusted average per capita cost. This category includes costs associated with the mayor and city council, general administration, finance, and management information systems.

Figure 5. Per capita General Government Expenditures

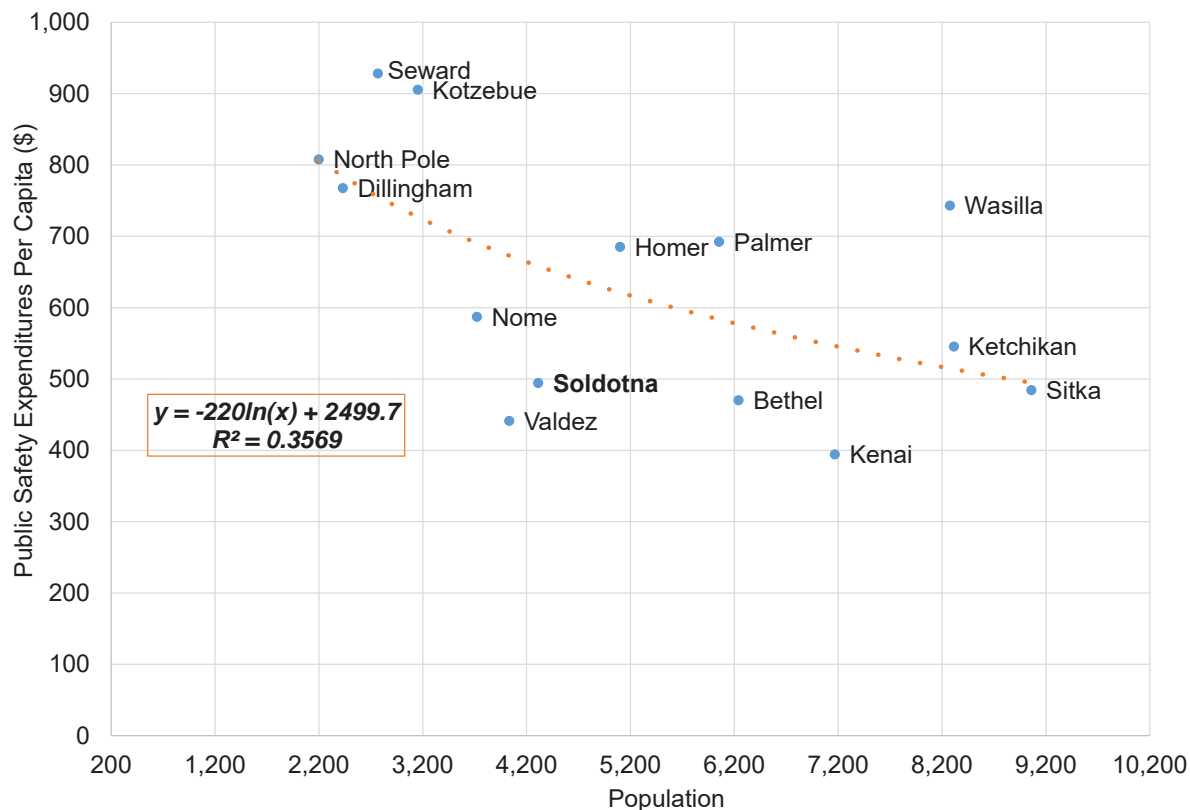


Public Safety

Public safety costs for Soldotna include police and animal control services. Public safety expenditures cost the City of Soldotna an average of \$498 per person between 2010 and 2014. Figure 6 shows per capita expenditures on public safety for Soldotna and various other Alaskan cities.

Like general government, per capita expenditures are expected to decrease marginally as population increases. Also like general government, Soldotna's per capita expense is below the regression line, indicating the City is more efficient than what the regression estimates. Also, Soldotna's per capita expenditures on public safety are smaller than many other Alaskan cities with larger populations. The model estimates costs of providing these services within the study areas by multiplying the estimated population in the study area by the adjusted average per capita cost.

Figure 6. Per capita Public Safety Expenditures



In addition to the per capita methodology, discussions with city officials concluded that additional costs would likely be incurred as a result of Soldotna's police department taking over jurisdiction of Skyview High School. Therefore, Skyview (2) includes an additional \$5,000 annual expenditure. This expenditure includes additional costs for manpower, incidental equipment usage, and other expenses.

Public Works

Public works expenditures include costs associated with administration, streets, economic development and planning, building maintenance, and shop. For all areas except streets, the model estimates costs of providing these services to the study areas by multiplying the estimated population in the study area by the average per capita cost. Between 2010 and 2014, the average per capita expenditure for those categories was \$217. A breakdown of these categories was shown earlier in Table 5.

Road Maintenance

The analysis includes maintenance for all paved and gravel roads contained within each study area. Using GIS software, and data from the KPB (2016), current road infrastructure is estimated for each of the study areas. Projecting road infrastructure was done using an area that represents a typical urban residential buildout. This methodology assumes that all main thruways are built and future road infrastructure only requires the addition of feeder roads. To accomplish this, the analysis derives an estimate of linear road feet per acre that is multiplied by increased acreage resulting from additional population. The proportion of paved and gravel roads is held constant for each study area.

The number of miles for each road type is then multiplied by a per mile maintenance cost recently published in the March 2016 Streets Inventory and Management Plan.¹¹

Capital Expenditures

The study team engaged with Soldotna's leaders to determine what, if any, capital expenditures might be expected as a result of incorporating any, or all, study areas. Most capital expenditures are decided through the City's regular budgeting process and would not be immediately impacted by annexation. All of the needs of the City are weighed, prioritized and funded accordingly.

Personal communication with the street maintenance department manager revealed that, given annexation of all study areas, a new road grader would be necessary to service the additional roads requiring maintenance from Soldotna. The cost of a new road grader is estimated to be approximately \$300,000, and is included only under the scenario where all study areas are annexed—requiring Soldotna to maintain approximately 21 miles of additional road.

¹¹ The Streets Inventory and Management Plan explicitly states that due to differences in expenditures as a result of differing population densities, the per-mile maintenance costs stated in the study aren't likely to result in direct cost increases of those amounts. Therefore, this methodology is likely to overestimate maintenance costs resulting from additional roads being maintained by the City.

5 Build-out Projections

A build-out projection is needed to estimate the amount and location of potential build-out scenarios for each of the study areas. For this study, the build-out analysis extrapolates the existing conditions in each study area by dividing the projected population (see Table 7) by the average 2010 household population (Table 6) to derive the total number of households. This estimation also includes a vacancy rate of 9.7 percent—the U.S. Census Bureau’s current estimation for Soldotna. Projected housing units for each of the study areas are shown in Table 9.

Table 9. Total Household Units, by Area

Study Area	2015	2020	2025	2030
Funny River West (1)	97	109	126	137
Skyview (2)	0	0	0	0
K-Beach South (3)	16	29	49	90
K-Beach Central (4)	211	226	242	259
K-Beach North (5)	69	79	91	104
Knight Drive (6)	134	136	139	142
Kenai Spur (7)	31	32	33	34
Sterling Hwy (8)	9	9	9	9
Funny River East (9)	2	2	2	2
All Areas	568	621	692	777
City of Soldotna	2,276	2,384	2,497	2,615

Table 10 summarizes some of the existing build-out conditions in each of the study areas. The average acreages per housing unit ranges from 0.4 in area 6 to 15.9 in area 9. The smaller the acreage, the more densely populated the area is. For example, Knight Drive (6) contains many multi-family housing units (duplexes, triplexes, apartments, etc.). Funny River East (9) however, contains two residential households that exist on large lots of land. With the exception of K-Beach South (3) and Kenai Spur (7), all areas are assumed to maintain their current build-out metric.

Additional analysis of K-Beach South (3) suggests future development will occur differently than past development for two reasons. First, recent development in areas adjacent to K-Beach South (3) has consisted of multi-family structures. In addition, many of the parcels located in K-Beach South (3) are smaller than one acre and would inhibit any build-out of single-family houses. For these reasons, K-Beach South (3) is projected using Soldotna’s average acreage per housing unit (0.5).

Due to Kenai Spur’s (7) small population and the low growth rate of Ridgeway CDP, the model did not estimate any growth through 2030. After discussions with Soldotna officials who recognized recent growth in areas immediately adjacent to this area, the study team estimates Kenai Spur (7) to grow by 1.89 persons (Table 6) every five years through 2030. This results in a growth in population from 53 in 2015 to 59 in 2030.¹²

¹² Population estimates are rounded to the nearest whole number.

Table 10. Study Area Build-out Metrics, by Area

Study Area	Total Residential Parcel Acres	Occupied 2015 Housing Units	Average Acres per Housing Unit	2015 Constructed Acres	2015 Vacant Acres	Total Parcel Acres	ROW* Acres	Total Acres	Efficiency Factor (%)
Funny River West (1)	96	88	1.1	193	54	247	58	305	81%
Skyview (2)	0	0	0.0	527	108	635	36	671	95%
K-Beach South (3)	80	15	0.5 ¹³	141	90	232	27	259	89%
K-Beach Central (4)	131	192	0.7	239	164	403	79	482	84%
K-Beach North (5)	234	63	3.7	333	352	685	54	739	93%
Knight Drive (6)	46	122	0.4	62	52	114	26	140	81%
Kenai Spur (7)	62	28	2.2	264	83	347	35	382	91%
Sterling Hwy (8)	7	8	0.9	41	10	51	20	71	72%
Funny River East (9)	32	2	15.9	109	43	152	12	164	92%
All Areas	688	518	1.2	1,909	957	2,866	347	3,213	89%
City of Soldotna	1,093	2,047	0.5	3,102	817	3,919	801	4,720	83%

Note: *ROW = Right of Way

Source: KPB 2016.

To ensure that each study area has the carrying capacity to meet the build-out, the projected number of households is multiplied by the average acreage per housing unit to estimate the total land required. The total is then adjusted upward using an efficiency factor (shown in Table 10) to control for right-of-way (ROW) easements.

Typically, ROW easements are a roadway or pathway that provide a transportation corridor and access to property. Therefore, ROW land cannot be developed and is needed in addition to the total land needed for development. The efficiency factor is calculated by dividing total parcel acres by total acres.

These efficiency factors vary by study area based on the current buildout of each area. For instance, Sterling Hwy (8) has the lowest efficiency factor at 72 percent due to the majority of the area containing the Sterling Highway, which has 200 feet of ROW. Holding Sterling Hwy (8)'s build-out characteristics constant, this means that for every acre developed in the Sterling Hwy (8) area, over one-third of an additional acre is needed for ROW—requiring 1.38 acres of land. Put another way, someone wishing to develop 0.72 acres would need one acre to accommodate ROW land.

¹³ Existing conditions estimate the average acres per housing unit in area 3 to be 5.4. However, a separate analysis of areas adjacent to area 3 lead the study team to believe that a future build-out would encompass a larger portion of multi-family development given patterns in recent development and parcel sizes. Therefore, area 3's average acre per housing unit is assumed to be equal with the City of Soldotna.

The cumulative build-out of each area is shown in Table 11. Total acreage for residential build-out is expected to grow to 330 acres by 2030. With the exception of Funny River West (1), all study areas are expected to have ample capacity for growth through 2030. Funny River West (1) is estimated to reach maximum capacity in 2028. The estimated population growth for Funny River West (1) in 2029 and 2030 are then included in K-Beach South (3). K-Beach South (3) are estimated to see the second largest relative decreases in carrying capacity with only 51 percent of vacant land remaining by 2030. As expected, Skyview (2) and Sterling Hwy (8) are not expected to develop and will not see any change.

Table 11. Cumulative Residential Build-out, Acres by Area

Study Area	2015 ¹⁴	2020	2025	2030	Vacant Parcel Acreage	% Vacant Used	% Vacant Remaining
Funny River West (1)	0	16	39	54	54	100	0
Skyview (2)	0	0	0	0	108	0	100
K-Beach South (3)	0	7	20	44	90	48	51
K-Beach Central (4)	0	12	26	39	164	24	76
K-Beach North (5)	22	61	109	162	352	46	54
Knight Drive (6)	1	2	3	4	52	8	92
Kenai Spur (7)	0	3	5	8	83	10	90
Sterling Hwy (8)	0	0	0	0	10	0	100
Funny River East (9)	19	19	19	19	43	44	56
All Areas	41	120	221	330	957	34	65
City of Soldotna	11	79	152	227	817	28	72

Source: Northern Economics analysis of data from KPB 2016.

¹⁴ As previously shown in Table 6, three of the study areas were estimated to have grown between 2010 and 2015. Development between 2010 and 2015 was increased using compound annual growth.

6 Discussion of Current Conditions and the Status Quo

The section presents a baseline scenario for the status quo and will briefly discuss potential implications for Soldotna assuming no annexation occurs. The section begins by looking at forecasted population for the City of Soldotna and the availability of land needed to accommodate the projected growth. The section then briefly discusses current and potential impacts on city services from regional growth.

6.1 Population and Development

The study team and model do not see annexation or lack of annexation as a significant driver of population growth rates either inside the City of Soldotna or in the potential study areas considered in this analysis. Neither annexation, nor the lack of annexation, are likely to change the underlying economic and demographic factors that are driving population growth rates. Over the past five years, the ten-year growth rate for Soldotna's population has been largely stable at around one percent per year (see Table 12). The Funny River CDP's growth rate has been consistently slowing and while growth averaged 3.3 percent per year from 2001 to 2010, the same area averaged just 1.6 percent from 2005 to 2014. Growth in the Kalifornsky CDP is also slowing, but it is still averaging more than 100 new residents per year. While annual growth varies, the Ridgeway CDP appears to be growing at a steady half percent per year or less on average. The Sterling CDP is also a consistent grower at just under two percent per year.

The team expects these trends and patterns to continue forward regardless of annexation and any changes of long-term trends will likely be driven by larger macroeconomic factors such as the state's fiscal condition, oil prices, and large-scale development projects. In addition, these growth rates are higher than the long-term 0.2 percent to 0.8 percent growth rates per year that are projected by the State of Alaska's demographic scenario for the KPB as a whole.

Table 12. CDP Population Growth Rates, 10-Year Averages, Per Year

Area	Preceding 10-Year Population Growth Rate (%)				
	2010	2011	2012	2013	2014
City of Soldotna	1.1	1.2	1.0	0.5	1.1
Funny River CDP	3.3	3.8	3.0	2.1	1.6
Kalifornsky CDP	3.0	3.0	2.8	2.8	2.3
Ridgeway CDP	0.5	0.4	0.5	0.3	0.5
Sterling CDP	1.8	2.0	1.7	1.6	1.6

Source: Northern Economics analysis of data from U.S. Census 2016b.

Should current trends continue, Soldotna itself will grow by roughly 650 residents over the next 15 years, while the potential study areas will grow by just under 400 people. In short, it is not unreasonable to expect the immediate area's population to increase by somewhere around 1,000 individuals over the next 15 years. These projections do not include growth in portions of the borough immediately outside the considered areas, other communities in the borough that use the City's facilities, and growth in the rest of the Southcentral area, which will likely continue to use Soldotna as a base for exploring the recreational opportunities offered by the Kenai Peninsula. Population projections are summarized in Table 13.

Table 13. Study Area and City of Soldotna Population Projections

Area	2015	2020	2025	2030	2015–2030 Expected Change
City of Soldotna	4,376	4,583	4,800	5,028	652
All Study Areas	1,065	1,162	1,293	1,467	402
Total Change	5,441	5,745	6,093	6,495	1,054

Source: Northern Economics analysis of data from U.S. Census 2016b.

Given these growth projections, Soldotna would need to use nearly 30 percent of the City’s vacant land, as shown previously in Table 11. A quick, back-of-the-envelope calculation reveals that under the current projections, vacant land would become entirely used up within Soldotna’s current boundaries in approximately 50 years (2062). It is important to note that this calculation is for reference only, and does not include any area required for development other than residential uses. It only serves to highlight the fact that Soldotna is not currently constrained by land capacity and that plenty of vacant land is currently available within the current boundaries.

6.2 City Services

Soldotna lies at the heart of the Kenai Peninsula and serves as regional crossroads for visitors to the southern and central portion of the Peninsula. At the same time, Soldotna provides access to goods and services to borough citizens who reside outside of the City’s boundaries.

The City of Soldotna, through its support of facilities such as the Soldotna Regional Sports Complex, the Soldotna Public Library, and the Soldotna Airport, Parks, serves as a hub for the smaller communities and unincorporated areas beyond the City’s boundaries. While residents in these communities and unincorporated areas help pay for municipal services when they shop in Soldotna, there is no direct connection between these citizens’ use of these facilities and their resident/non-resident status within the City—Soldotna does not charge them differential fees for using the City’s public services nor does it prevent them from using services at rates similar to city residents.

This regional role presents a challenge for the City as some of its services are provided to a broader population base than what exists within the City. Continuing to provide these services in the future requires consideration of population growth both inside and outside the current city limits.

6.3 Fiscal Baseline

As the populations of adjacent areas to Soldotna continue to grow, there are likely to be fiscal effects realized by the City from non-resident uses. These services include, but are not limited to, general government, public safety, and public works (including street maintenance).

As mentioned previously, non-residents may also use the Soldotna Regional Sports Complex and Soldotna Public Library. Regional residents not residing within Soldotna indirectly pay for some of these services through sales tax and other fees. This analysis does not attempt to quantitatively measure the fiscal impacts resulting from non-resident use of Soldotna services. Instead, results will highlight some of the implications associated with the baseline scenario.

For instance, city officials have noted a commercial development boom in K-Beach Central (4). This growth could be the result of land availability, the price of land, desirable location (located between the City of Kenai and Soldotna), the absence of a city sales tax, or a combination of all of these factors.

In addition, the absence of building and zoning codes/fees could also make development outside of Soldotna less expensive for businesses. If Soldotna decides not to petition for annexation, the City could experience a gradual decrease in the sales tax base as businesses move their operations outside of Soldotna. However, large scale movements are unlikely within the time frame of the analysis given Soldotna's location at the heart of the Kenai Peninsula's transportation network. Other factors, including a state sales tax, could exacerbate these behaviors and are discussed in section 7.3.

The erosion of Soldotna's taxable sales base, or pressure to decrease the sales tax rate given a state sales tax, would be detrimental to the City given its high dependence on sales tax revenues. Soldotna could diversify its revenue sources by increasing property taxes or implementing user fees. Either way, action is needed to ensure a sustainable revenue source for basic services used by residents.

Table 14 and Table 15 were created in response to State legislative discussions regarding the implementation of a State sales tax. While the most recent State discussions have excluded a sales tax, the tables and information are provided for informational purposes. The tables show the sensitivity of incremental rate changes to both the sales tax and property tax. With the fluid fiscal situation at the State level, consideration of alternative local revenue streams is likely regardless of any annexation decision by the City.

Table 14 shows approximate sales tax revenues using total taxable sales as reported by Soldotna's 2014 CAFR. Decreasing the sales tax rate by one percentage point would cost the City over \$2.5 million.

Table 14. Sales Tax Sensitivity, 2014 Data, in Dollars

Sales Tax Rate (%)	3.0 ¹⁵	2.5	2.0	1.5	1.0	0.5
Sales Tax Revenue	7,862,953	6,552,460	5,241,968	3,931,476	2,620,984	1,310,492

Source: Northern Economics analysis of data from DCCED 2015.

Alternatively, Table 15 shows expected property tax revenues at various mill rates using total taxable value from 2014. Property taxes generate much less revenue for Soldotna than the sales tax. Given the scenario mentioned above of a one percent decrease in sales tax leading to over \$2.5 million in lost revenue, increasing the property tax mill rate six-fold—to three mills—would only recover a little over half of the revenues lost from decreasing the sales tax by one percent. It is important to note that a mill is one-thousandth of a dollar—or one-tenth of one cent. Therefore, an incremental increase of 0.5 mills (as shown in Table 15) is only an increase of 0.0005 percent. Table 15 is also derived using KPB parcel data, and does not include property tax levied on personal property. Therefore, estimated amounts vary from actual amounts reported in the City's financial statements.

Table 15. Property Tax Sensitivity, 2014 Data, in Dollars

Property Tax Rate (mills)	0.50 ¹⁶	1.00	1.50	2.00	2.50	3.00
Property Tax Revenue	242,382	484,763	727,145	969,527	1,211,908	1,454,290

Source: Northern Economics analysis of data from KPB 2016.

¹⁵ City of Soldotna's current sales tax rate

¹⁶ City of Soldotna's current property tax mill rate

Table 16 illustrates the required mill rate to compensate for the potential reduction in sales tax revenue resulting from decreasing the sales tax rate. Again, it would take a property tax rate of nearly 6 mills to offset lost revenue stemming from a one percent decrease in the sales tax rate.

Table 16. Tax Rate Tradeoff, 2014 Data

Sales Tax Rate (%)	3.0	2.5	2.0
Sales Tax Revenue	\$7,862,953	\$6,552,460	\$5,241,968
Loss From Reduction	\$0	\$1,310,492	\$2,620,984
Mill Rate Required for Status Quo	0.5	3.2	5.9

Source: Northern Economics analysis of data from DCCED 2015; KPB 2016.

7 Analysis of Fiscal Effects

This section summarizes the results of the fiscal analysis. The section begins by discussing the fiscal impact of each study area, and is followed by an overall summary of all nine study areas.

7.1 Projected Fiscal Effects by Study Area

This section describes the anticipated fiscal effects by study area. Results from this analysis should be interpreted carefully. For example, this analysis provides insight into whether annexing a given area would result in a positive or negative fiscal implication for the City. However, while the model used is complex, it is also sensitive to the underlying assumptions used in it. The fact that the model is based upon assumptions and estimated changes over times means that the model also contains an amount of uncertainty.

Therefore, model results should not be interpreted as exact numbers. Additionally, when estimated revenues and expenditures are close to one another, and the net benefit/loss is small, the results should be interpreted as being “more likely” (as opposed to certain) to result in a positive or negative fiscal effect.

For example, if expenditures are projected to be \$5,000 more than revenues in a given year, it would be difficult to determine with certainty if this would actually provide a net loss to the City since \$5,000 is within the model’s margin of error. Instead, it would be better to conclude that such a result is more likely to result in higher expenditures than revenues than it would be to conclude that the study area will definitely result in a \$5,000 deficit.

Funny River West (1)

Funny River West (1) borders the City to the north, east, and west and is one of two study areas bordered by Soldotna on three sides. The study area assumes the border of Soldotna would extend from the current boundary, along the southern border of the Soldotna airport, to Ski Hill Road (Figure 7). Funny River West (1) is approximately 250 acres in size, with 22 percent of the acres remaining vacant. The area primarily consists of private land (75 percent). Nearly half of the developed land in Funny River West (1) is residential, with commercial and institutional development accounting for the majority of the rest. The remaining non-private land (25 percent) is municipal owned and contains Soldotna's airport.

Funny River West (1) largely borders the Kenai River to the north—except for a small portion of waterfront property that currently exists within the boundary of Soldotna. The area is bordered by Soldotna's existing boundaries on three sides. Annexation of Funny River West (1) would add a relatively large amount of high-value riverfront property to the City while simultaneously allowing Soldotna to ensure responsible and sustainable development along the Kenai River. In addition to bordering the Kenai River, the Funny River West (1) study area also contains land use, subdivision platting, and owner patterns that are compatible in character with Soldotna.

In addition to Funny River West (1)'s natural and political boundaries, the City of Soldotna currently provides water and sewer services to parts of the area. For example, fire hydrants extend to the eastern-most portion of the airport. Also, fifteen property owners adjacent to Funny River Road and outside the City limits are connected to Soldotna water and sewer services.

Finally, as previously mentioned, a portion of Soldotna's airport is located in Funny River West (1). This portion, not within the existing city boundary, contains land in the immediate flight path of air traffic that creates safety implications for the airport.

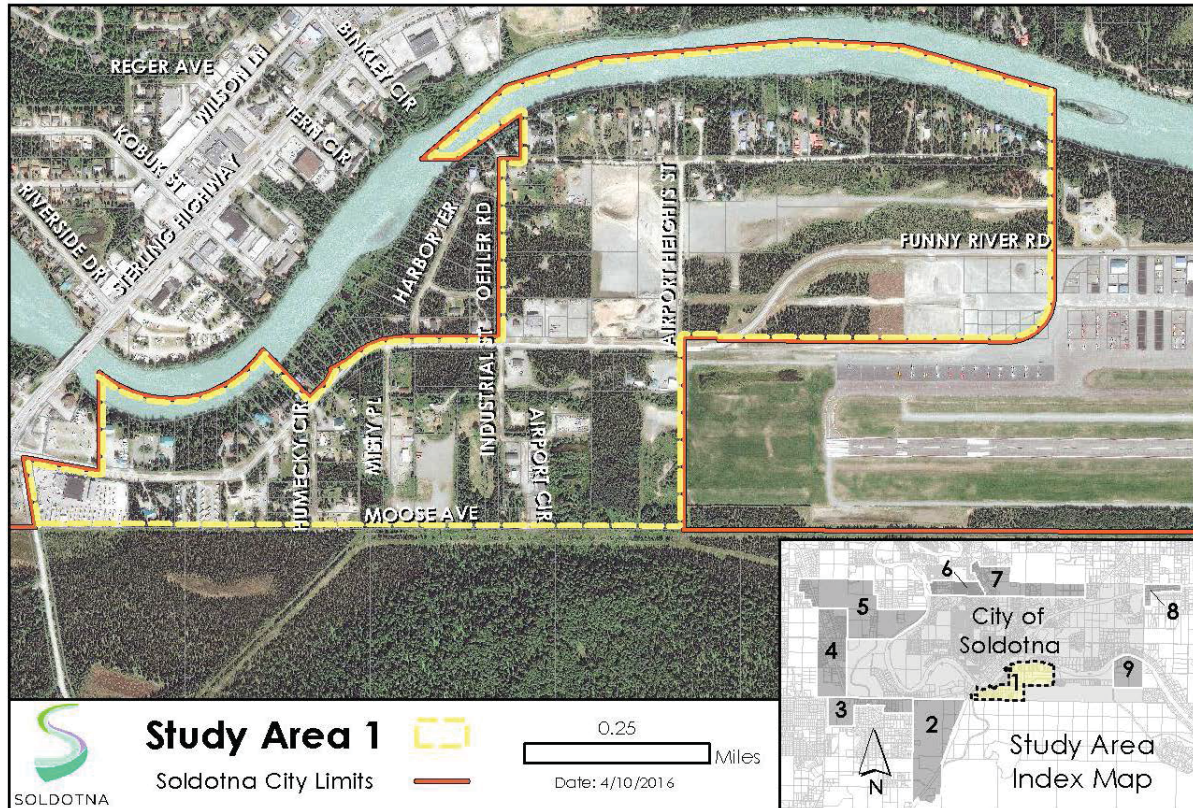
Key Takeaways

Funny River West (1) is projected to increase the population of Soldotna by 34 residents by 2030.

The composition of residential and commercial development in Funny River West (1) provides a strong economic base to the City of Soldotna, as both taxable sales and real property values are expected to grow over time. In 2015, the area is estimated to generate \$1.34 in revenue for every \$1 in expenditures.

The area is expected to have a positive fiscal impact on the City of Soldotna—generating between \$44,000 and \$55,700 in net revenue annually between 2015 and 2030.

Figure 7. Funny River West (1)



Source: Alaska Map Company 2016

Model estimates indicate that Funny River West (1) contained 82 residents in 2015, and is projected to increase to 116 residents by 2030—reaching its maximum capacity for buildout in 2028. Due to the relatively large municipal land ownership of the airport, Funny River West (1) contains the second largest amount of real property value estimated at over \$24 million. Taxable real property value is estimated to grow to over \$34 million by 2030—resulting in approximately \$17,000 in tax revenue at the City’s current mill rate of 0.5. Total taxable sales data were provided for Funny River West (1), equating to approximately \$148,000 in estimated revenue in 2015. Sales tax revenue is projected to grow to nearly \$210,000 by 2030. Overall, Funny River West (1) is estimated to have a positive fiscal effect on Soldotna. Estimated fiscal effects from Funny River West (1) are summarized in Table 17.

Table 17. Estimated Fiscal Effects Summary for Funny River West (1)

Projection	2015	2020	2025	2030
Population	82	92	107	116
Total Taxable Sales (\$1,000s)	4,930.4	5,531.7	6,433.6	6,974.7
Total Taxable Value (\$1,000s)	24,643.0	27,648.2	32,156.1	34,860.8
Road to be maintained by Soldotna	1.6	1.9	2.3	2.6
Paved	0.0	0.0	0.0	0.0
Gravel	1.6	1.9	2.3	2.6
Revenue	(\$1,000s)			
Sales Tax	147.9	165.9	193.0	209.2
Property Tax	12.3	13.8	16.1	17.4
Building Permits/Fees	2.2	2.4	2.8	3.0
Traffic and Animal Fines/Fees	1.5	1.6	1.9	2.1
Other Revenues	4.7	5.3	6.1	6.6
Utility Sales Tax	6.5	7.3	8.4	9.2
Gas	3.2	3.6	4.2	4.6
Electric	3.2	3.6	4.2	4.6
Total Revenue	175.0	196.4	228.4	247.6
Expenditures	(\$1,000s)			
General Government	26.3	29.4	33.9	36.6
Public Safety	40.8	45.8	53.2	57.6
Public Works - Administration	7.1	8.0	9.3	10.1
Public Works - Planning and Zoning	4.3	4.9	5.7	6.1
Public Works - Building Maintenance	2.9	3.2	3.7	4.1
Public Works - Streets	46.1	53.9	65.4	72.5
Public Works - Shop	3.5	3.9	4.6	4.9
Misc Expenditures	.0	.0	.0	.0
Total Expenditures	131.0	149.1	175.7	191.9
Difference (\$1,000s)	44.0	47.3	52.7	55.7
Ratio (revenue to expense)	1.34	1.32	1.30	1.29

Source: Northern Economics, Inc. estimates 2016.

Funny River West (1)'s geographical and political boundaries present an opportunity for Soldotna to correct a non-contiguous boundary while simultaneously ensuring responsible and sustainable development along the Kenai River. And since Soldotna currently provides sewer and water service throughout the area, it is reasonable to expect that the City could provide these same services efficiently to the remaining area. Other efficiencies are also likely given Soldotna borders Funny River West (1) on three sides. Funny River West (1) appears to contain the human and financial resources necessary to provide these efficiencies.

Skyview (2)

Skyview (2) extends south along the Sterling Highway from Funny River Road to Skyview High School, including Arc Lake. The westerly boundary would run parallel with Washington Avenue to Kalifornsky Beach Road. An aerial photo of Skyview (2) is shown in Figure 8. Skyview (2) represents the second largest study area with approximately 635 acres. Nearly 70 percent of Skyview (2) is owned by the KPB, 21 percent is owned by Salamatof Native Association, and the remaining is split between state and municipal ownership. The vast majority of Skyview (2) is developed (83 percent). Of the 527 developed acres in Skyview (2), 96 percent are coded as institutional land use

In addition to containing Skyview High School, Skyview (2) also contains Alaska Department of Transportation and Public Facilities infrastructure, the Tsalteshi Trails system, Arc Lake Park, and a one Million gallon drinking water reservoir and pump house that serves the City's water utility system.

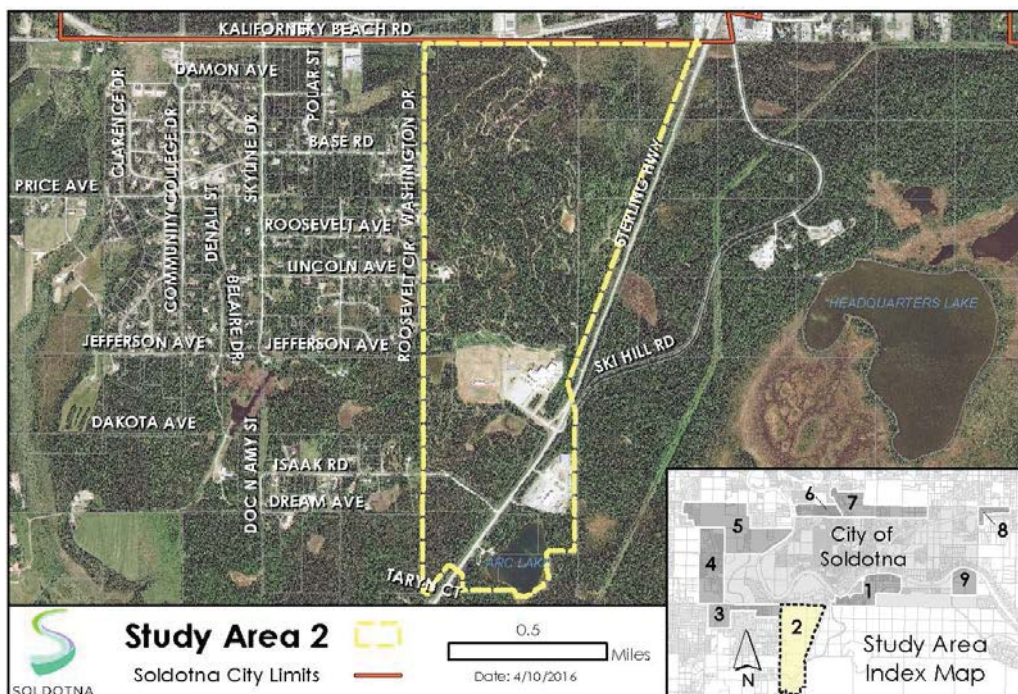
Skyview (2) currently does not contain any residents and the study team does not project this to change through 2030 given the current makeup of land use. For instance, it is highly unlikely that development will occur on lands currently occupied by the Tsalteshi Trail system. Development could occur on land owned by Salamatof Native Association, but no formal plans have been disclosed to develop Association lands located in Skyview (2).

Key Takeaways

Skyview (2) is not projected to increase the population of Soldotna; therefore, very few, if any fiscal impacts are expected. Skyview (2) consists mostly of public land, containing no taxable sales and very little taxable real property value.

All roads in Skyview (2) are likely to continue being maintained by the KPB. The only other anticipated expenditure would arise from policing jurisdiction being assumed by the Soldotna Police Department.

Figure 8. Skyview (2)



Source: Alaska Map Company 2016

Because no changes to population are projected, Skyview (2) is likely to generate little, if any, fiscal effect from annexation. GIS analysis reveals that Skyview (2) contains nearly \$40 million in assessed real property value. However, nearly all assessed value is exempt from tax, as shown in Table 8. Also, most existing roads in Skyview (2) would continue to be maintained by the State, therefore no street maintenance expenditures are expected. Estimated fiscal effects from Skyview (2) are shown in Table 18.

Table 18. Estimated Fiscal Effects Summary for Skyview (2)

Projection	2015	2020	2025	2030
Population	0	0	0	0
Total Taxable Sales (\$1,000s)	.0	.0	.0	.0
Total Taxable Value (\$1,000s)	5.6	5.6	5.6	5.6
Road to be maintained by Soldotna	0.3	0.3	0.3	0.3
Paved	0.0	0.0	0.0	0.0
Gravel	0.3	0.3	0.3	0.3
Revenue	(\$1,000s)			
Sales Tax	.0	.0	.0	.0
Property Tax	.0	.0	.0	.0
Building Permits/Fees	.0	.0	.0	.0
Traffic and Animal Fines/Fees	.0	.0	.0	.0
Other Revenues	.0	.0	.0	.0
Utility Sales Tax	.0	.0	.0	.0
Gas	.0	.0	.0	.0
Electric	.0	.0	.0	.0
Total Revenue	.0	.0	.0	.0
Expenditures	(\$1,000s)			
General Government	.0	.0	.0	.0
Public Safety	.0	.0	.0	.0
Public Works - Administration	.0	.0	.0	.0
Public Works - Planning and Zoning	.0	.0	.0	.0
Public Works - Building Maintenance	.0	.0	.0	.0
Public Works - Streets	.0	.0	.0	.0
Public Works - Shop	.0	.0	.0	.0
Misc Expenditures	5.0	5.0	5.0	5.0
Total Expenditures	5.0	5.0	5.0	5.0
Difference (\$1,000s)	-5.0	-5.0	-5.0	-5.0
Ratio (revenue to expense)	0	0	0	0

Source: Northern Economics, Inc. estimates 2016.

K-Beach South (3)

K-Beach South (3) is approximately 232 acres, located south of Kalifornsky Beach Road and Gas Well Road between Skyview (2) and Echo Lake Road (Figure 9). Private ownership makes up the vast majority of ownership (91 percent), with state-owned land comprising the remainder. Approximately 40 percent of the area is vacant with residential and farm/agriculture land uses accounting for 88 percent of developed lands. A large designation of farm/agriculture land exists along Slikok Creek.

K-Beach South (3) contains parcels located on the south side of Kalifornsky Beach Road, and if annexed, could help ensure Soldotna maintains a strong presence in development along the region's main corridors—providing good opportunities for retail sales to visitors. In addition, it would give Soldotna the ability to establish an overlay along the highway that could help create incentives to encourage reuse and/or redevelopment along the Kalifornsky Beach corridor to promote quality development—avoiding shallow and diffuse development.

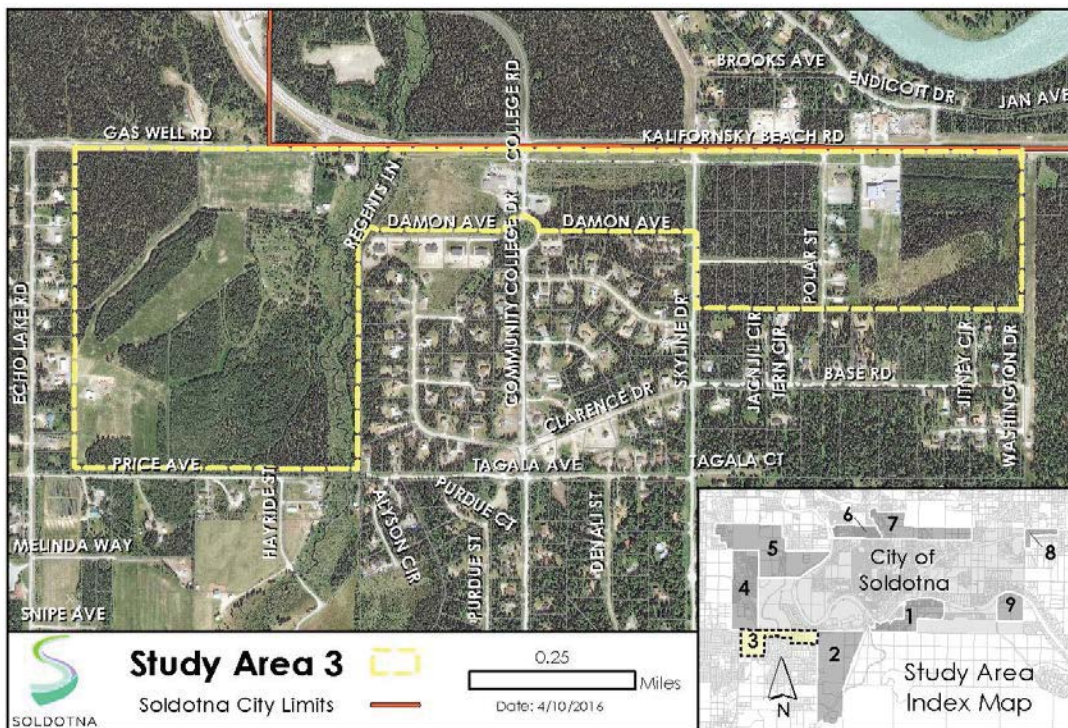
Many of Soldotna's services could also be provided to K-Beach South (3) efficiently. City water and sewer is currently installed on the north side of Kalifornsky Beach Road to Chugach Drive and crosses Kalifornsky Beach Road to serve a school located in this study area. The City also currently travels to this area to provide road maintenance, utility maintenance, and public safety.

Key Takeaways

K-Beach South (3) is projected to increase the population of the Soldotna the most, adding 178 residents by 2030. Development in K-Beach South (3) will gradually increase the taxable base of Soldotna—increasing the fiscal effect on the City. Fiscal effects are projected to grow from \$4,800 in 2015 to over \$144,000 by 2030. By 2030, the area is estimated to generate \$1.54 in revenue for every \$1 in expenditures.

Current real taxable value in K-Beach South (3) is estimated at \$2.9 million. Significant development is projected to increase real taxable value to over \$16 million by 2030.

Figure 9. K-Beach South (3)



Source: Alaska Map Company 2016

K-Beach South (3) is projected to grow from 40 residents to 218 residents by 2030. In 2015, both total taxable sales and total taxable real property value are estimated at over \$2 million. Both values are estimated to grow to over \$12 million by 2030. However, for every \$1 collected in sales tax revenue, only \$0.02 is collected in real property tax revenue.

Overall, K-Beach South (3) is not expected to have a large fiscal impact on the City. Fiscal effects are estimated to be approximately \$5,000 in 2015, but are expected to grow rapidly as K-Beach South (3) develops—reaching nearly \$145,000 by 2030. Road maintenance is projected to be the largest expenditure for K-Beach South (3). The majority of roads in K-Beach South (3) are gravel—with the total amount of road reaching 1.8 miles by 2030. Estimated fiscal effects from K-Beach South (3) are summarized in Table 19.

Table 19. Estimated Fiscal Effects Summary for K-Beach South (3)

Projection	2015	2020	2025	2030
Population	40	70	121	218
Total Taxable Sales (\$1,000s)	2,231.9	3,905.7	6,751.4	12,163.6
Total Taxable Value (\$1,000s)	2,971.0	5,199.3	8,987.3	16,192.0
Road to be maintained by Soldotna	1.1	1.2	1.4	1.9
Paved	0.3	0.3	0.3	0.4
Gravel	0.8	0.9	1.1	1.4
Revenue	(\$1,000s)			
Sales Tax	67.0	117.2	202.5	364.9
Property Tax	1.5	2.6	4.5	8.1
Building Permits/Fees	1.1	1.8	3.2	5.7
Traffic and Animal Fines/Fees	.7	1.3	2.2	3.9
Other Revenues	2.3	4.0	6.9	12.5
Utility Sales Tax	3.2	5.5	9.5	17.2
Gas	1.6	2.8	4.8	8.6
Electric	1.6	2.8	4.8	8.6
Total Revenue	75.7	132.4	228.9	412.3
Expenditures	(\$1,000s)			
General Government	12.8	22.1	37.3	63.9
Public Safety	19.9	34.8	59.8	106.8
Public Works - Administration	3.5	6.1	10.5	18.9
Public Works - Planning and Zoning	2.1	3.7	6.4	11.5
Public Works - Building Maintenance	1.4	2.5	4.2	7.6
Public Works - Streets	29.4	32.7	38.4	49.4
Public Works - Shop	1.7	3.0	5.2	9.3
Misc Expenditures	.0	.0	.0	.0
Total Expenditures	70.9	104.8	161.7	267.4
Difference (\$1,000s)	4.8	27.6	67.1	144.9
Ratio (revenue to expense)	1.07	1.26	1.41	1.54

Source: Northern Economics, Inc. estimates 2016.

K-Beach Central (4)

K-Beach Central (4) would extend Soldotna's current boundary west to include the section of Kalifornsky Beach Road between Gas Well Road and Andrews Avenue (Figure 10). K-Beach Central (4) is the third largest study area and is almost entirely privately owned (98 percent). The remainder of K-Beach Central (4) is owned by the KPB and is currently occupied by the solid waste, maintenance and road departments. K-Beach Central (4) also represents the largest study area in terms of population. The area is estimated to contain 494 residents—or approximately 46 percent of all areas combined. In addition, area 4 also contains 121 acres of developed commercial land—the largest among all areas.

K-Beach Central (4)'s large commercial build-out offers large gains to Soldotna's sales tax base—further building a sustainable revenue source with which to provide basic services to residents. K-Beach Central (4)'s large population also provides the opportunity for the City of Soldotna to provide efficient services. K-Beach Central (4) would benefit from the City's planning and zoning services, build-out requirements, and improved infrastructure. In addition, the City could provide water and sewer services—especially to areas with historic water quality problems.

Key Takeaways

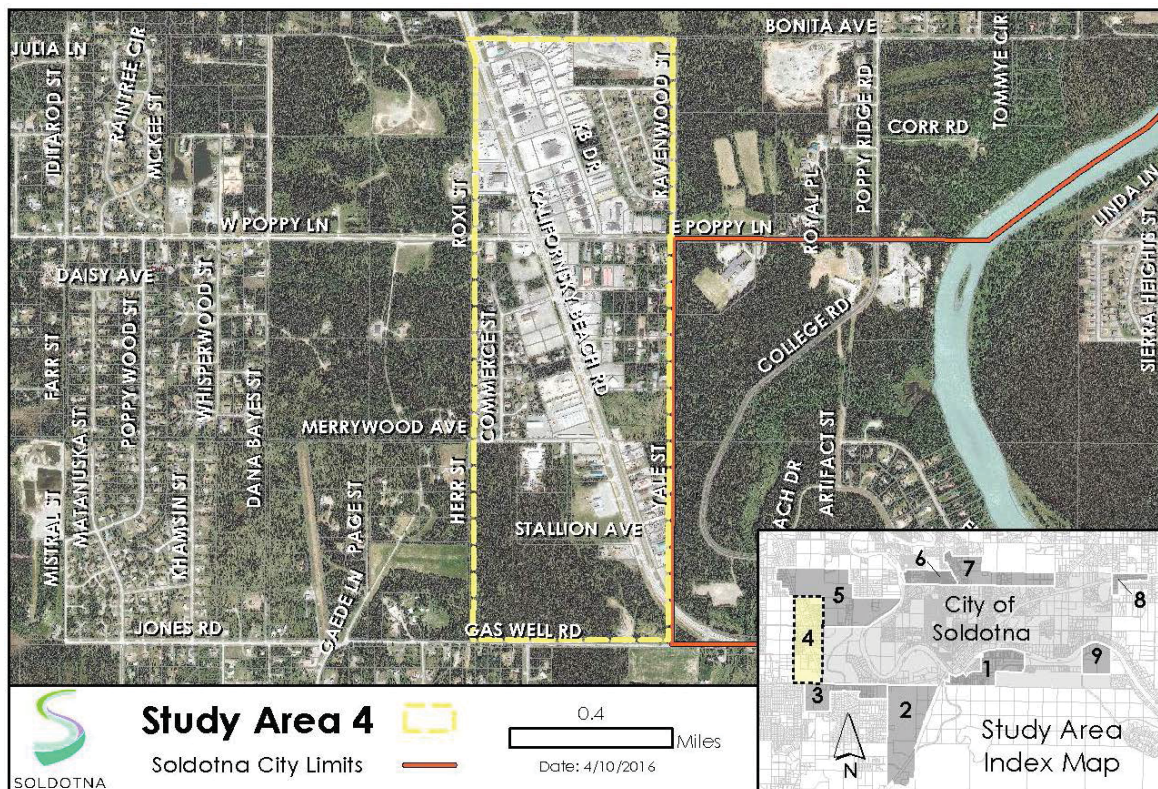
K-Beach Central (4) is projected to increase the population of Soldotna by 113 residents by 2030—representing the second largest study area.

K-Beach Central (4) contains the largest amount of developed commercial land; and subsequently the largest sales tax base.

The area's high concentration of taxable sales and population growth would create a significant positive fiscal effect on Soldotna. Fiscal impacts are projected between \$265,400 and \$350,200 annually—generating \$1.46 in revenue for every \$1 in expenditures by 2030.

Taxable real property is expected to increase 19 percent—from \$68 million in 2015, to over \$83 million in 2030.

Figure 10. K-Beach Central (4)



Source: Alaska Map Company 2016

As mentioned above, K-Beach Central (4) contains the largest amount of commercial development, and subsequently the greatest source of taxable sales and sales tax revenue. It is estimated that sales tax revenue would have been over \$700,000 in 2015, and projected to increase to nearly \$1 million by 2030. In addition, K-Beach Central (4) contains a relatively large population that is projected to reach 607 residents by 2030—over 40 percent of the population of all areas combined. Therefore, real property tax revenues are estimated to be over \$34 thousand in 2015 and increasing to over \$41 thousand in 2030. Although much less than sales tax revenues, K-Beach Central (4) contains by far the largest source of estimated real property tax revenues of all other study areas.

Annexation of K-Beach Central (4) would further help ensure the City maintains a strong presence in development along Kalifornsky Beach Road, one of the region's main corridors, providing good opportunities for retail sales to visitors. In addition, the relatively large residential population is sufficiently large and stable and contains the human and financial resources to provide services efficiently. Driven primarily by a large sales tax base and residential population, K-Beach Central (4) is expected to have a large positive fiscal effect on Soldotna. Model projections for K-Beach Central (4) are summarized in Table 20.

Table 20. Estimated Fiscal Effects Summary for K-Beach Central (4)

Projection	2015	2020	2025	2030
Population	494	529	567	607
Total Taxable Sales (\$1,000s)	25,861.7	27,694.0	29,683.4	31,777.4
Total Taxable Value (\$1,000s)	68,251.4	73,087.0	78,337.1	83,863.6
Road to be maintained by Soldotna	4.7	4.9	5.1	5.3
Paved	1.3	1.4	1.5	1.5
Gravel	3.3	3.5	3.6	3.8
Revenue	(\$1,000s)			
Sales Tax	775.9	830.8	890.5	953.3
Property Tax	34.1	36.5	39.2	41.9
Building Permits/Fees	13.0	13.9	14.9	16.0
Traffic and Animal Fines/Fees	8.8	9.5	10.1	10.9
Other Revenues	28.3	30.3	32.5	34.8
Utility Sales Tax	39.0	41.7	44.7	47.9
Gas	19.5	20.9	22.4	23.9
Electric	19.5	20.9	22.4	23.9
Total Revenue	899.1	962.8	1,031.9	1,104.7
Expenditures	(\$1,000s)			
General Government	158.4	166.8	175.4	184.0
Public Safety	246.0	262.6	280.4	299.1
Public Works - Administration	42.9	45.9	49.2	52.7
Public Works - Planning and Zoning	26.2	28.0	30.0	32.2
Public Works - Building Maintenance	17.3	18.5	19.9	21.3
Public Works - Streets	121.8	127.5	133.5	139.5
Public Works - Shop	21.0	22.5	24.2	25.9
Misc Expenditures	.0	.0	.0	.0
Total Expenditures	633.7	671.8	712.6	754.6
Difference (\$1,000s)	265.4	291.0	319.3	350.2
Ratio (revenue to expense)	1.42	1.43	1.45	1.46

Source: Northern Economics, Inc. estimates 2016.

K-Beach North (5)

K-Beach North (5) is the largest study area and is largely undeveloped. As previously shown in Table 6, K-Beach North (5) has been the quickest growing area over the past five years and is likely the next logical area for development to occur. K-Beach North (5) contains the Kalifornsky Beach Road corridor north of K-Beach Central (4) to the intersection of Murwood Avenue. The majority of K-Beach North (5) exists east of the Kalifornsky Beach Road, bordering K-Beach Central (4) and intersecting the Kenai River. K-Beach North (5) contains a substantial portion that borders the Kenai River between Poppy Lane and Bonita Avenue (Figure 11).

Roughly two-thirds of K-Beach North (5) is privately owned, with the remaining one-third owned by the KPB. Fifty-one percent of K-Beach North (5) is vacant with residential land making up the majority of developed land (67 percent). In addition, there are small developments of land in K-Beach North (5) for commercial, gravel pit, and institutional use ranging from 7 to 16 percent. K-Beach North (5) contains plenty of room for development—residential, commercial, or both.

As previously mentioned, K-Beach North (5) contains a small section of the Kalifornsky Beach Road corridor, and borders the Kenai River on the east. Annexation would allow Soldotna to ensure that development along the Kenai River maximizes both the health and sustainability of the river, and the economic and recreational aspects of the river's extraordinary fisheries. K-Beach North (5) also offers a significant area for future development to occur. As the adjacent areas of Soldotna grow, annexation provides a means for the City to address potential impacts on the health, safety, and quality of life of its residents and future residents.

Key Takeaways

K-Beach North (5) would increase the population of Soldotna by 56 residents by 2030. As projected, the area would initially provide the City with a positive fiscal effect—estimated at \$17,200.

Positive fiscal effects are projected to diminish and become negative as residential growth in K-Beach (5) outpaces commercial development. By 2030, the area is expected to have a negative fiscal effect of -\$33,200—generating \$0.88 in revenue for every \$1 in expenditures.

K-Beach North (5) does not contain the taxable sales base required to cover the costs resulting from the growth in population. In addition, even though real property taxable value is projected to increase from \$16.3 million in 2015, to \$24.5 million in 2030, it is not expected to cover the costs of increased demand for services.

K-Beach North (5) is estimated to initially have a small positive fiscal impact on Soldotna. As the population in area 5 is projected to increase, the fiscal impact is estimated to decrease due to the expected increase in services to the growing population and few areas coded commercial land. Taxable sales in K-Beach North (5) are estimated to remain relatively low, increasing from \$4.4 million in 2015 to \$6.7 million in 2030. In addition, the large amounts of undeveloped land and inability for existing property taxes to raise sufficient revenue contribute to the increasing fiscal impact. As Table 21 shows, K-Beach North (5) is projected to move from a small net positive fiscal effect in 2015 to a moderate negative fiscal effect by 2030. However, it is worth noting that if commercial development were to outpace residential growth, the area could have significantly different fiscal impacts.

Table 21. Estimated Fiscal Effects Summary for K-Beach North (5)

Projection	2015	2020	2025	2030
Population	111	126	146	167
Total Taxable Sales (\$1,000s)	4,463.7	5,066.9	5,871.2	6,715.7
Total Taxable Value (\$1,000s)	16,326.3	18,532.6	21,474.2	24,563.0
Road to be maintained by Soldotna	1.1	2.2	3.0	3.9
Paved	0.2	0.3	0.4	0.6
Gravel	0.9	1.8	2.5	3.3
Revenue	(\$1,000s)			
Sales Tax	133.9	152.0	176.1	201.5
Property Tax	8.2	9.3	10.7	12.3
Building Permits/Fees	2.9	3.3	3.8	4.4
Traffic and Animal Fines/Fees	2.0	2.3	2.6	3.0
Other Revenues	6.4	7.2	8.4	9.6
Utility Sales Tax	8.8	9.9	11.5	13.2
Gas	4.4	5.0	5.8	6.6
Electric	4.4	5.0	5.8	6.6
Total Revenue	162.1	184.0	213.2	243.9
Expenditures	(\$1,000s)			
General Government	35.6	40.1	46.0	52.1
Public Safety	55.3	62.7	72.5	82.7
Public Works - Administration	9.6	10.9	12.7	14.5
Public Works - Planning and Zoning	5.9	6.7	7.7	8.8
Public Works - Building Maintenance	3.9	4.4	5.1	5.9
Public Works - Streets	29.9	58.6	81.2	105.9
Public Works - Shop	4.7	5.4	6.2	7.1
Misc Expenditures	.0	.0	.0	.0
Total Expenditures	144.9	188.8	231.5	277.0
Difference (\$1,000s)	17.2	-4.8	-18.3	-33.2
Ratio (revenue to expense)	1.12	0.97	0.92	0.88

Source: Northern Economics, Inc. estimates 2016.

Knight Drive (6)

Knight Drive (6) is comprised of land north of Soldotna's current boundary at Knight Drive, to Spruce Avenue, between the Kenai River and Pioneer Drive (Figure 12). Knight Drive (6) does not contain any land located on the Kenai Spur Highway corridor, which is contained in Kenai Spur (7) and discussed in the next section. Knight Drive (6) is 54 percent developed, and virtually entirely privately owned. Nearly all developed land is residential (83 percent), with the remaining developed lands coded for commercial use (5 percent) and gravel pit (11 percent). The remaining 46 percent of Knight Drive (6) is vacant.

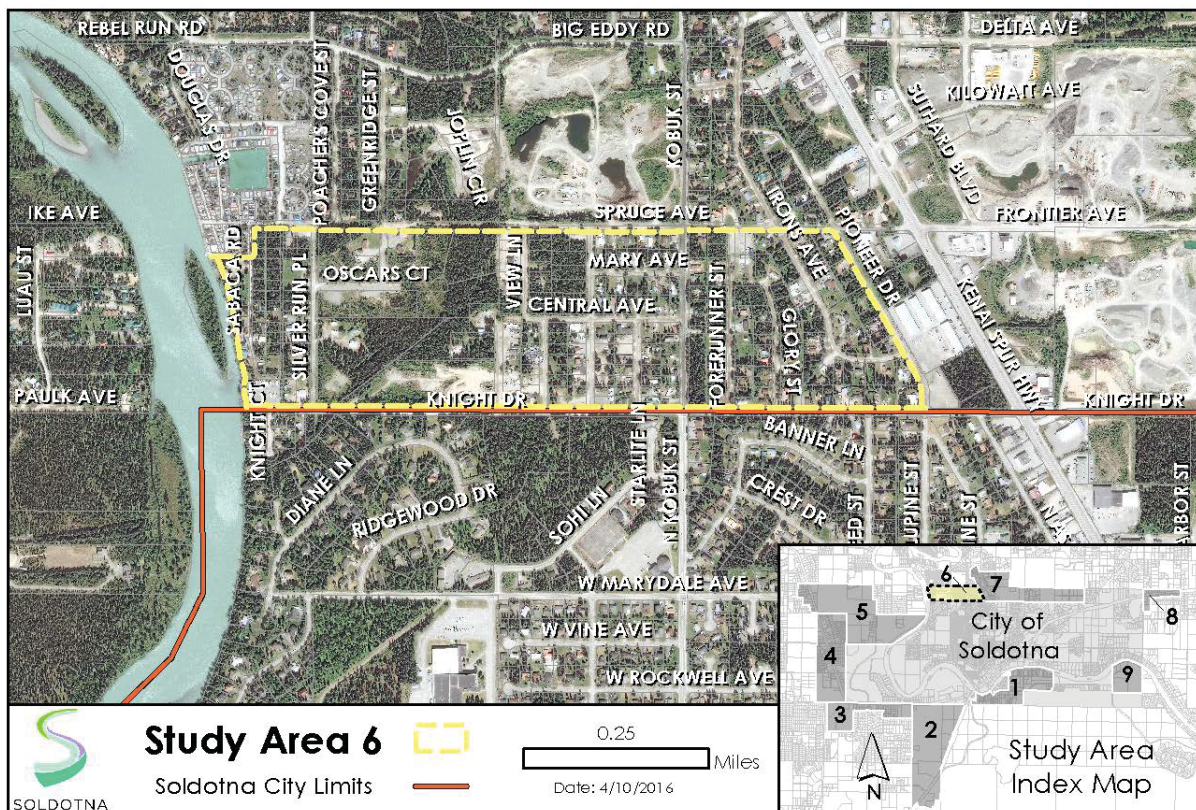
Key Takeaways

Knight Drive (6) contains currently contains the second largest population among study areas with 268 citizens; however, significant growth is not expected.

The low concentration of commercial development in Knight Drive (6), combined with a large existing population result in a significant negative fiscal effect—between -\$215,000 and -\$223,000 annually—generating \$0.42 in revenue for every \$1 in expenditure.

While the population in Knight Drive (6) is large, the per capita real property tax base is low. Combined with a low projected growth, the inability for property tax to generate significant revenue is further exacerbated.

Figure 12. Knight Drive (6)



Source: Alaska Map Company 2016

Knight Drive (6) contains the second highest number of residential housing units and the highest density of housing units to acres. This is evident as the population in Knight Drive (6) is the second highest (only

area 4 has more) but contains nearly one-third fewer acres. Because Knight Drive (6) represents one of the largest populations, annexation could allow for Soldotna to efficiently provide essential city services that aren't currently offered by the KPB. For example, Soldotna water, sewer, and combinations of both are stubbed out to Pioneer Drive, Kobuk Street, Glory Street, and Forerunner Street. One residence on Knight Drive (6) is already connected to City utilities. Annexation could allow for the City to plan for timely and cost-effective extensions of such services when needed. In addition, the City could help alleviate past environmental issues.

The large, high-density population of Knight Drive (6) would benefit from the City's planning and zoning services, build-out requirements, and improved infrastructure—helping to improve Knight Drive (6)'s neighborhoods.

Knight Drive (6)'s population is not expected to grow substantially since the area assumes similar growth rates as the Ridgeway CDP, which has a CAGR of only 0.4 percent over the last decade. This amounts to a relatively low growth in total real property taxable value, as shown in Table 8.

Very little land in Knight Drive (6) is coded for commercial land use. For 2015, the model estimates there were approximately \$3.1 million in total taxable sales. This is expected to grow to over \$3.3 million by 2030, with an estimated \$101,000 in sales tax revenue. Given the lack of sales tax revenue, combined with Knight Drive (6)'s large population and the inability for property taxes to generate sufficient revenue, the model estimates that Knight Drive (6) would have a large negative fiscal effect on Soldotna. Fiscal model results are shown in Table 22.

Table 22. Estimated Fiscal Effects Summary for Knight Drive (6)

Projection	2015	2020	2025	2030
Population	268	273	278	283
Total Taxable Sales (\$1,000s)	3,188.4	3,247.8	3,307.3	3,366.8
Total Taxable Value (\$1,000s)	16,250.6	16,553.8	16,857.0	17,160.1
Road to be maintained by Soldotna	3.2	3.2	3.2	3.2
Paved	0.0	0.0	0.0	0.0
Gravel	3.2	3.2	3.2	3.2
Revenue	(\$1,000s)			
Sales Tax	95.7	97.4	99.2	101.0
Property Tax	8.1	8.3	8.4	8.6
Building Permits/Fees	7.0	7.2	7.3	7.4
Traffic and Animal Fines/Fees	4.8	4.9	5.0	5.1
Other Revenues	15.4	15.6	15.9	16.2
Utility Sales Tax	21.1	21.5	21.9	22.3
Gas	10.6	10.8	11.0	11.2
Electric	10.6	10.8	11.0	11.2
Total Revenue	152.1	155.0	157.8	160.6
Expenditures	(\$1,000s)			
General Government	85.9	87.3	88.7	90.1
Public Safety	133.5	135.9	138.3	140.7
Public Works - Administration	23.3	23.7	24.1	24.6
Public Works - Planning and Zoning	14.2	14.5	14.7	15.0
Public Works - Building Maintenance	9.4	9.6	9.7	9.9
Public Works - Streets	89.6	90.4	91.1	91.6
Public Works - Shop	11.4	11.6	11.8	12.1
Misc Expenditures	.0	.0	.0	.0
Total Expenditures	367.3	373.0	378.6	384.0
Difference (\$1,000s)	-215.2	-218.0	-220.8	-223.4
Ratio (revenue to expense)	0.41	0.42	0.42	0.42

Source: Northern Economics, Inc. estimates 2016.

Kenai Spur (7)

Kenai Spur (7) is located adjacent to Knight Drive (6), extending east to Heath Street. The makeup of Kenai Spur (7) is very similar to that of Knight Drive (6) in that almost all land is privately owned (99 percent). Eighty-three percent of Kenai Spur (7) is vacant. Existing developments include land classified by the Borough as residential (44 percent), gravel pit (42 percent), and commercial (14 percent).

Kenai Spur (7) contains the stretch of the Kenai Spur Highway north of Soldotna's current boundary at Knight Drive to its intersection at Irons Avenue. Kenai Spur (7) is the only study area that would incorporate any section of the Kenai Spur Highway corridor. This corridor lies between Soldotna and the City of Kenai, and represents an area that is likely to experience present and future commercial development—contributing to a sustainable revenue source with which to provide basic services to residents. Development along the Kenai Spur corridor could also benefit from city services, such as planning and zoning, building requirements, and improved infrastructure.

The population of Kenai Spur (7) is estimated to be 53 residents. This is expected to increase slightly through 2030 due to Kenai Spur (7)'s current makeup—it is highly unlikely that development would occur on the large gravel pit located in the area. In addition, much of the vacant land has limited access and may be restricted due to the presence of wetlands. For this, the study team estimates Kenai Spur (7)'s population to grow by one family, or 1.89 persons (Table 6), every five years.

Key Takeaways

Kenai Spur (7) contains both high taxable sales and real property taxable value per capita—resulting in a strong taxable base. The area is projected to have the largest positive fiscal effect on Soldotna, ranging between \$430,000 and \$483,000 annually between 2015 and 2030.

The population of Kenai Spur (7) is projected to grow slowly, from 53 citizens in 2015 to 59 residents in 2030. By 2030, the area is estimated to generate \$4.50 in revenue for every \$1 in expenditures.

Real property taxable value is projected to grow from \$17.2 million to \$19.1 million.

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The large relative proportion of commercial uses, combined with a flat population projection, results in a large positive estimated fiscal effect if annexed by Soldotna. If the population remains flat, revenues and expenditures are estimated to remain unchanged. In 2015, the model estimates Kenai Spur (7)'s total taxable real property and sales at over \$17.5 million and \$18 million, respectively. This results in estimated property and sales tax revenues of over \$8,000 and \$541,000, respectively. Fiscal model results for Kenai Spur (7) are shown in Table 23.

Table 23. Estimated Fiscal Effects Summary for Kenai Spur (7)

Projection	2015	2020	2025	2030
Population	53	55	57	59
Total Taxable Sales (\$1,000s)	18,038.1	18,682.3	19,363.0	20,043.7
Total Taxable Value (\$1,000s)	17,259.1	17,875.5	18,526.8	19,178.1
Road to be maintained by Soldotna	2.7	2.8	2.8	2.9
Paved	0.4	0.4	0.4	0.5
Gravel	2.3	2.3	2.4	2.4
Revenue	(\$1,000s)			
Sales Tax	541.1	560.5	580.9	601.3
Property Tax	8.6	8.9	9.3	9.6
Building Permits/Fees	1.4	1.4	1.5	1.5
Traffic and Animal Fines/Fees	.9	1.0	1.0	1.1
Other Revenues	3.0	3.1	3.3	3.4
Utility Sales Tax	4.2	4.3	4.5	4.6
Gas	2.1	2.2	2.2	2.3
Electric	2.1	2.2	2.2	2.3
Total Revenue	559.3	579.3	600.4	621.5
Expenditures	(\$1,000s)			
General Government	17.0	17.6	18.2	18.8
Public Safety	26.4	27.3	28.3	29.3
Public Works - Administration	4.6	4.8	4.9	5.1
Public Works - Planning and Zoning	2.8	2.9	3.0	3.1
Public Works - Building Maintenance	1.9	1.9	2.0	2.1
Public Works - Streets	73.6	74.8	76.1	77.3
Public Works - Shop	2.3	2.3	2.4	2.5
Misc Expenditures	.0	.0	.0	.0
Total Expenditures	128.5	131.7	135.0	138.2
Difference (\$1,000s)	430.8	447.6	465.5	483.3
Ratio (revenue to expense)	4.35	4.40	4.45	4.50

Source: Northern Economics, Inc. estimates 2016.

Sterling Hwy (8)

Sterling Hwy (8) would extend the northeast boundary of Soldotna to incorporate a small swath of land along the Sterling Highway to the intersection of Pine Street (Figure 14). Sterling Hwy (8) represents the smallest study area at approximately 51 parcel acres. Land ownership in Sterling Hwy (8) is nearly 80 percent private, with the remainder owned by the State of Alaska. Sterling Hwy (8) has the second largest portion of developed land for commercial use (34 percent).

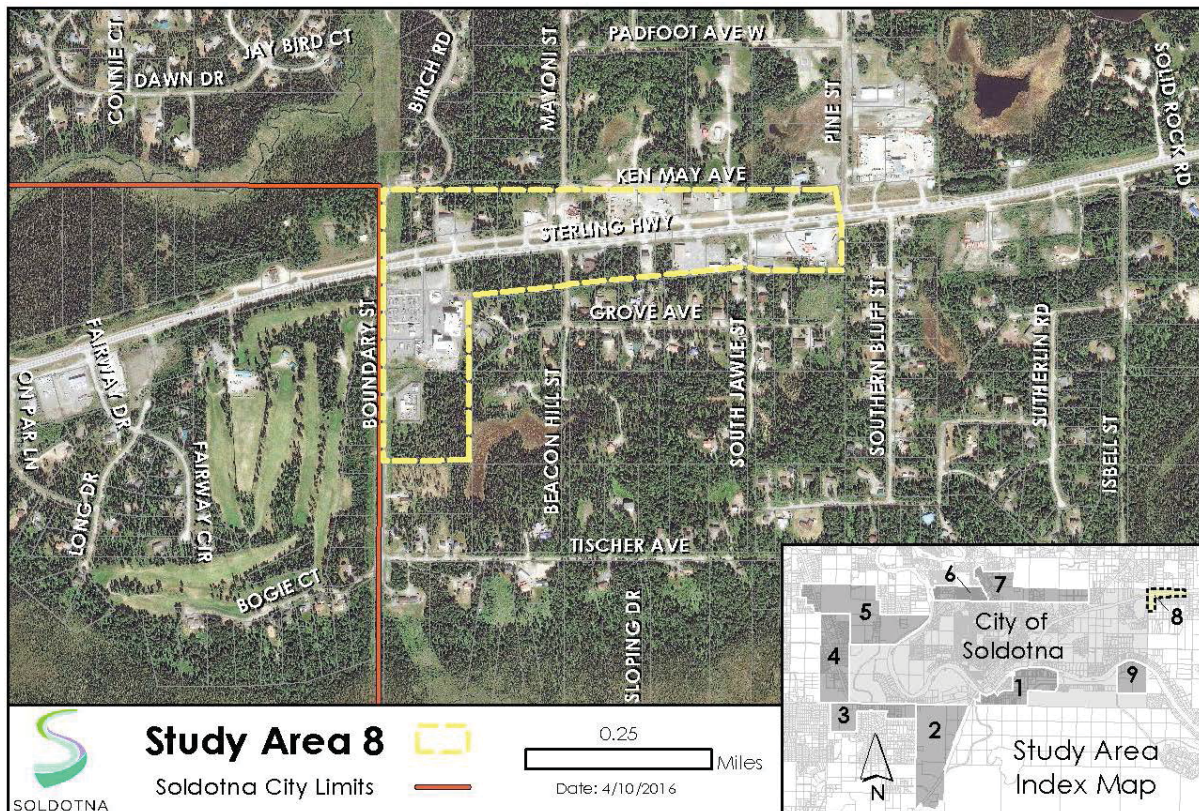
Sterling Hwy (8) would extend Soldotna's boundary along the Sterling Highway to the intersection of Pine Street. Furthering the boundary along the highway would allow the City to develop the corridor to align with Soldotna's goals to create a positive first impression of the City by ensuring more of the highway is safe, efficient, and aesthetically pleasing. Like other areas containing highway corridors, Sterling Hwy (8) would contribute to building a sustainable revenue source for Soldotna to provide basic services to residents while benefiting from city planning and zoning, building requirements, and improved infrastructure.

Key Takeaways

Sterling Hwy (8) contains the largest portion of commercially developed land and is projected to generate the highest ratio of revenues to expenditures, with \$8.30 in revenue generated for every \$1 in expenditures.

Only eight percent of developed land in Sterling Hwy (8) is classified as residential. The area contains 15 residents—which is not expected to change through 2030. The high proportion of commercial land and taxable sales, combined with a low population, result in Sterling Hwy (8) having a strong positive fiscal effect on Soldotna—with projected net revenues of \$113,500 annually.

Figure 14. Sterling Hwy (8)



Source: Alaska Map Company 2016

Sterling Hwy (8) contains a small residential population that is estimated to remain flat through 2030 due to the desirability of the area as a commercial strip. As a result, a strong positive fiscal effect is estimated, as shown in Table 24. It should be noted that virtually all existing roads in Sterling Hwy (8) would continue to be maintained by the State; therefore, no street maintenance expenditures are expected if the area were annexed.

Table 24. Estimated Fiscal Effects Summary for Sterling Hwy (8)

Projection	2015	2020	2025	2030
Population	15	15	15	15
Total Taxable Sales (\$1,000s)	4,144.9	4,144.9	4,144.9	4,144.9
Total Taxable Value (\$1,000s)	3,933.3	3,933.3	3,933.3	3,933.3
Road to be maintained by Soldotna	0.4	0.4	0.4	0.4
Paved	0.0	0.0	0.0	0.0
Gravel	0.4	0.4	0.4	0.4
Revenue	(\$1,000s)			
Sales Tax	124.3	124.3	124.3	124.3
Property Tax	2.0	2.0	2.0	2.0
Building Permits/Fees	.4	.4	.4	.4
Traffic and Animal Fines/Fees	.3	.3	.3	.3
Other Revenues	.9	.9	.9	.9
Utility Sales Tax	1.2	1.2	1.2	1.2
Gas	.6	.6	.6	.6
Electric	.6	.6	.6	.6
Total Revenue	129.0	129.0	129.0	129.0
Expenditures	(\$1,000s)			
General Government	4.8	4.8	4.8	4.8
Public Safety	7.5	7.5	7.5	7.5
Public Works - Administration	1.3	1.3	1.3	1.3
Public Works - Planning and Zoning	.8	.8	.8	.8
Public Works - Building Maintenance	.5	.5	.5	.5
Public Works - Streets	.0	.0	.0	.0
Public Works - Shop	.6	.6	.6	.6
Misc Expenditures	.0	.0	.0	.0
Total Expenditures	15.5	15.5	15.5	15.5
Difference (\$1,000s)	113.5	113.5	113.5	113.5
Ratio (revenue to expense)	8.30	8.30	8.30	8.30

Source: Northern Economics, Inc. estimates 2016.

Funny River West (9)

Funny River West (9) is located in the southeast corner of Soldotna's boundaries. The area is on the south side of the Kenai River at the east end of the airport, north of the gravel pit (Figure 15). Funny River West (9)'s ownership is split between private and the State of Alaska evenly, and it is currently developed exclusively for residential use on non-state lands. The majority of Funny River West (9)'s lands are developed with only 28 percent of land within the area vacant. The state-owned portion of Funny River West (9) consists of land selected by the State of Alaska, and managed by the Alaska Department of Natural Resources, and comprises the eastern half of the area.

Key Takeaways

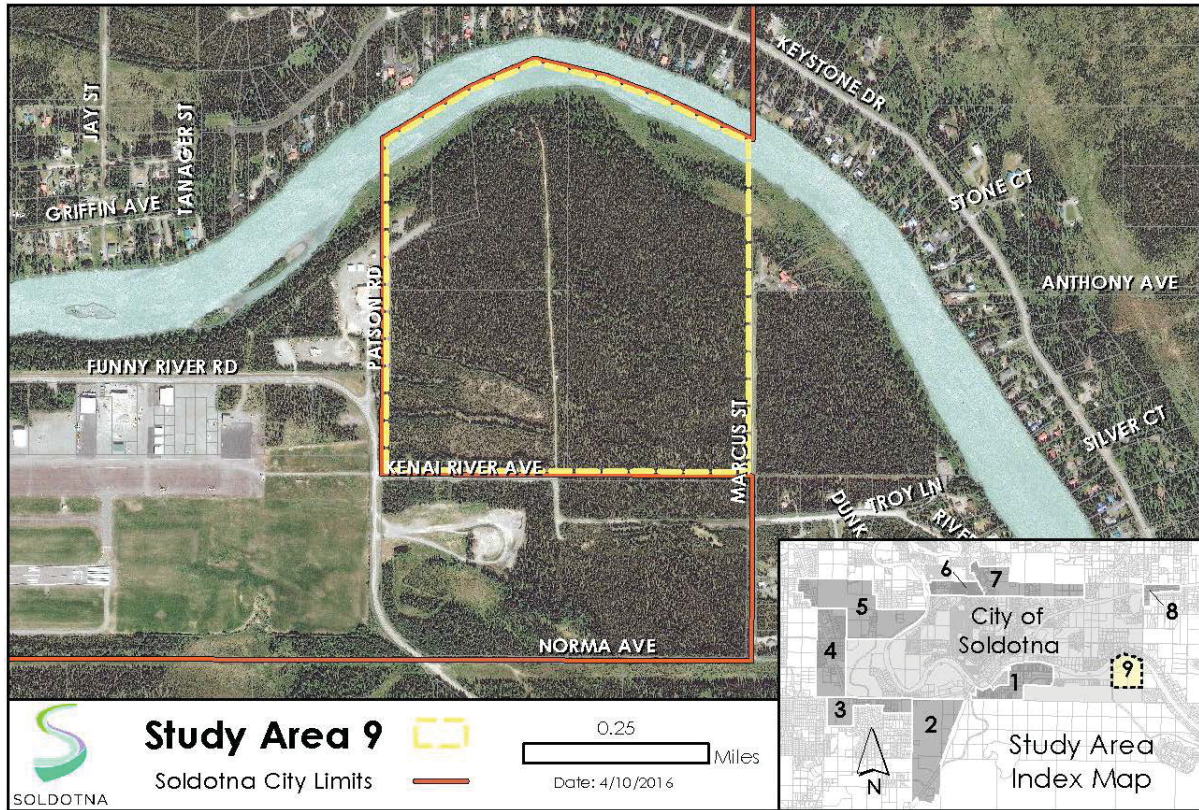
Funny River West (9) contains no taxable sales and very little real property taxable value. The area contains two residents and is unlikely to have a significant fiscal effect on the City of Soldotna.

No major development is expected in Funny River West (9) through 2030.

Funny River West (9) is bordered by Soldotna's existing boundaries on three sides and contains a section of Kenai River waterfront properties. As previously discussed, annexation of Funny River West (9) would add high-value riverfront property to the City while ensuring development occurs in a manner that is safe and sustainable to the Kenai River.

In addition to Funny River West (9)'s natural and political boundaries, City of Soldotna water and sewer services already extend to the eastern-most portion of the airport—less than 500 feet from the study area. It is also immediately adjacent to City-owned airport use land.

Figure 15. Funny River West (9)



Source: Alaska Map Company 2016

In 2015, Funny River West (9) is estimated to have a population of 2, and is projected to remain flat through 2030. Funny River West (9) contains zero taxable sales and an estimated \$1.9 million in total taxable real property value, resulting in property tax revenues estimated at \$1,000. Table 25 summarizes the estimated fiscal effect of Funny River West (9). As shown, area 9 is projected to have a very small negative fiscal effect on the City given its small population and flat growth.

Table 25. Estimated Fiscal Effects Summary for Funny River West (9)

Projection	2015	2020	2025	2030
Population	2	2	2	2
Total Taxable Sales (\$1,000s)	.0	.0	.0	.0
Total Taxable Value (\$1,000s)	1,909.8	1,909.8	1,909.8	1,909.8
Road to be maintained by Soldotna	0.0	0.0	0.0	0.0
Paved	0.0	0.0	0.0	0.0
Gravel	0.0	0.0	0.0	0.0
Revenue	(\$1,000s)			
Sales Tax	.0	.0	.0	.0
Property Tax	1.0	1.0	1.0	1.0
Building Permits/Fees	.1	.1	.1	.1
Traffic and Animal Fines/Fees	.0	.0	.0	.0
Other Revenues	.1	.1	.1	.1
Utility Sales Tax	.2	.2	.2	.2
Gas	.1	.1	.1	.1
Electric	.1	.1	.1	.1
Total Revenue	1.3	1.3	1.3	1.3
Expenditures	(\$1,000s)			
General Government	.6	.6	.6	.6
Public Safety	1.0	1.0	1.0	1.0
Public Works - Administration	.2	.2	.2	.2
Public Works - Planning and Zoning	.1	.1	.1	.1
Public Works - Building Maintenance	.1	.1	.1	.1
Public Works - Streets	.0	.0	.0	.0
Public Works - Shop	.1	.1	.1	.1
Misc Expenditures	.0	.0	.0	.0
Total Expenditures	2.1	2.1	2.1	2.1
Difference (\$1,000s)	-.8	-.8	-.8	-.8
Ratio (revenue to expense)	0.63	0.63	0.63	0.63

Source: Northern Economics, Inc. estimates 2016.

All Areas

The amalgamation of all study areas would bring a range of impacts to Soldotna and its residents. Four of the nine study areas exist adjacent to the Kenai River. Annexation of these areas would allow the City to protect and maintain the general health of the Kenai River while showcasing its assets to ensure a quality experience.

Six of the nine study areas contain stretches of major highway corridors. Over time, these corridors have shaped Soldotna's character and development. They provide primary circulation and access for visitors and residents alike, and often provide the first impression of Soldotna to visitors. These corridors also contain prime commercial properties, giving Soldotna the ability to ensure quality commercial development.

There are also areas that contains several other important assets for which Soldotna could help ensure responsible development that has the potential to impact the health, safety and quality of life for residents. These include parks, wetlands, and institutions (airport, high school, etc.).

Model results for all areas combined are summarized in Table 26. The incorporation of all areas would have added 1,065 people in 2015, increasing Soldotna's population by almost 25 percent—and is projected to increase to 1,467 by 2030. In 2015, the incorporation of all areas would have increased total taxable sales and value by over \$62 million and \$151 million, respectively, and would have resulted in increased sales tax revenue of over \$1.8 million and property tax revenue of over \$75,000. While expenditures are estimated to increase to nearly \$3 million by 2030.

Soldotna's current sales tax is the largest revenue generator. For example, in 2015, for every \$24 generated through sales tax, approximately \$1 was generated in property tax. Therefore, the amount of taxable sales and population become the main drivers of feasibility for each of the study areas.

Overall, the annexation of all areas is projected to have a large positive fiscal effect on the City with the ratio of revenues to expenditures projected to increase slightly from 1.20 in 2015 to 1.43 by 2030. As mentioned in section 4.1, it is important to note that the fiscal effects analysis only estimates impacts to Soldotna's general fund. However, the general fund provides funding for several capital project funds and special revenue funds through transfers. So while the ratio of revenues to expenditures is projected to grow, it should not be assumed the City is retaining wealth. As Soldotna's revenues (and expenditures) grow, the City may choose to: 1) expand services (increase expenditures), 2) cut taxes (decrease revenues), or 3) a combination of both.

Table 26. Estimated Fiscal Effects Summary for All Areas Combined

Projection	2015	2020	2025	2030
Population	1,065	1,162	1,293	1,467
Total Taxable Sales (\$1,000s)	62,859.0	68,273.3	75,554.6	85,186.7
Total Taxable Value (\$1,000s)	151,550.1	164,745.1	182,187.2	201,666.3
Road to be maintained by Soldotna	15.1	16.8	18.6	20.4
Paved	2.2	2.5	2.7	3.0
Gravel	12.8	14.3	15.8	17.4
Revenue	(\$1,000s)			
Sales Tax	1,885.8	2,048.2	2,266.6	2,555.6
Property Tax	75.8	82.4	91.1	100.8
Building Permits/Fees	28.0	30.5	34.0	38.6
Traffic and Animal Fines/Fees	19.0	20.8	23.1	26.2
Other Revenues	61.0	66.6	74.1	84.0
Utility Sales Tax	84.0	91.7	102.0	115.7
Gas	42.0	45.8	51.0	57.9
Electric	42.0	45.8	51.0	57.9
Total Revenue	2,153.6	2,340.1	2,590.9	2,921.0
Expenditures	(\$1,000s)			
General Government	341.5	368.7	405.0	450.9
Public Safety	530.4	577.5	641.0	724.7
Public Works - Administration	92.4	100.9	112.2	127.3
Public Works - Planning and Zoning	56.4	61.6	68.5	77.7
Public Works - Building Maintenance	37.3	40.7	45.3	51.4
Public Works - Streets	390.4	437.9	485.7	536.3
Public Works - Shop	45.4	49.5	55.1	62.5
Misc Expenditures	305.0	5.0	5.0	5.0
Total Expenditures	1,798.9	1,641.8	1,817.7	2,035.8
Difference (\$1,000s)	354.7	698.4	773.2	885.2
Ratio (revenue to expense)	1.20	1.43	1.43	1.43

Source: Northern Economics, Inc. estimates 2016.

7.2 Fiscal Effects Summary

Under 2015 conditions and current assumptions, the incorporation of all study areas is estimated to add over 1,000 residents to Soldotna's populace and over \$150 million in taxable real property value—a 24 percent increase in population and 31 percent increase in taxable real property value. The incorporation of all areas in 2015 is estimated to have a positive fiscal effect equal to \$0.35 million on the City—growing to \$0.85 million by 2030 as the ratio of revenue to expenditures increases from 1.20 to 1.43. Fiscal effects are summarized in Table 27.

Table 27. Summary of Annualized Fiscal Effects by Area

Area	Expenditures	Revenues	Difference	\$ Revenue per \$ Expenditure
	(\$1,000s)			
2015				
Funny River West (1)	131.0	175.0	44.0	1.34
Skyview (2)	5.0	0.0	-5.0	N/A
K-Beach South (3)	70.9	75.7	4.8	1.07
K-Beach Central (4)	633.7	899.1	265.4	1.42
K-Beach North (5)	144.9	162.1	17.2	1.12
Knight Drive (6)	367.3	152.1	-215.2	0.41
Kenai Spur (7)	128.5	559.3	430.8	4.35
Sterling Hwy (8)	15.5	129.0	113.5	8.30
Funny River East (9)	2.1	1.3	-0.8	0.63
All Areas	1,798.9 ¹⁷	2,153.6	354.7 ¹⁷	1.20
2030				
Funny River West (1)	191.9	247.6	55.7	1.29
Skyview (2)	5.0	0.0	-5.0	N/A
K-Beach South (3)	267.4	412.3	144.9	1.54
K-Beach Central (4)	754.6	1,104.7	350.2	1.46
K-Beach North (5)	277.0	243.9	-33.2	0.88
Knight Drive (6)	384.0	160.6	-223.4	0.42
Kenai Spur (7)	138.2	621.5	483.3	4.50
Sterling Hwy (8)	15.5	129.0	113.5	8.30
Funny River East (9)	2.1	1.3	-0.8	0.63
All Areas	2,035.8	2,921.0	885.2	1.43

Source: Northern Economics, Inc. estimates 2015.

The individual areas differ greatly in their projected net fiscal effects:

- Funny River West (1) is projected to increase the population of Soldotna by 34 residents by 2030. Fiscally, the area would generate \$1.34 in revenue per \$1 expenditure in 2015 and \$1.29 of revenue per expenditure in 2030. Real property value is projected to grow from \$24.6 in 2015 to \$34.9 million in 2030. Funny River West (1) is likely to present a consistent positive fiscal effect on the City given its primarily residential and commercial makeup.
- Skyview (2) is not projected to increase the population of Soldotna; therefore, very few, if any fiscal impacts are expected. Skyview (2) consists mostly of public land, containing no taxable real property value. Roads in Skyview (2) are maintained by other agencies, and not expected to be transferred to the City if annexed.
- K-Beach South (3) is likely to have a positive fiscal effect on the City if annexed. The area is projected to increase the population of Soldotna by 178 residents by 2030. Fiscally, the area would generate \$1.07 in revenue per \$1 expenditure in 2015 and \$1.54 of revenue per

¹⁷ Includes \$300,000 for purchase of additional road equipment given the annexation of all areas combined.

expenditure in 2030. K-Beach South (3) has high potential for residential and commercial development in future years.

- K-Beach Central (4) is projected to have a significant positive fiscal effect on Soldotna. K-Beach Central (4) contains the largest amount of developed commercial land; and subsequently the greatest source of taxable sales and sales tax revenue. K-Beach Central (4) is projected to increase the population of Soldotna by 113 residents by 2030. Taxable real property is expected to increase 18 percent—from \$68 million in 2015, to over \$83 million in 2030. Fiscally, the area would generate \$1.42 in revenue per \$1 expenditure in 2015 and \$1.46 of revenue per expenditure in 2030.
- K-Beach North (5) is projected to increase the population of Soldotna by 56 residents by 2030. The model estimates K-Beach North (5) to initially have a positive fiscal effect on the City. However, that is projected to diminish through 2030—becoming slightly negative. This is largely driven by a small taxable sales base and marginally low property tax revenues. Taxable real property value is estimated to increase from \$16.3 million in 2015, to \$24.6 million in 2030. However, projected revenues from property tax are not expected to cover the costs of increased demand for services.
- Knight Drive (6) is the only area with a significant negative fiscal effect on Soldotna, with a deficit of \$215,000 projected for 2015—or \$0.41 in revenue for every \$1 expenditure. The deficit is expected to grow to \$223,000 by 2030. The deficit is largely driven by Knight Drive (6)'s large population and lack of taxable sales base. While relatively large, the population of area 6 is expected to grow at a small rate, leading to small growth in real property value. Area 6 contains the highest population density, with little expected growth.
- Kenai Spur (7) is likely to exhibit the largest positive fiscal effect on Soldotna. Like K-Beach Central (4), this is the result of a large taxable sales base. In addition, Kenai Spur (7)'s population is estimated at 53, and projected to grow very little through 2030. Fiscally, the area would generate \$4.35 in revenue per \$1 expenditure in 2015, growing slightly to \$4.50 by 2030. With only a small change in population estimated, there are little expected changes to any model components. Model estimates project the net benefit of Kenai Spur (7) to be over \$400,000 annually.
- Sterling Hwy (8) is estimated to add 15 residents to Soldotna, but its population is not projected to increase through 2030. Sterling Hwy (8) contains the second largest proportion of developed commercial land. Fiscally, the area would generate the highest ratio of revenue to expenditures—\$8.30 in revenue per \$1 expenditure through 2030. Sterling Hwy (8) is projected to have a consistent positive fiscal impact on Soldotna given its large amount of property coded for commercial land use.
- Funny River East (9) is estimated to add 2 residents to Soldotna, and is not projected to increase through 2030. Fiscally, the area would generate \$0.63 in revenue per \$1 expenditure through 2030. Funny River East (9) is projected to have a very small negative fiscal effect, if any. There are no taxable sales or roads projected in Funny River East (9). Total taxable real property value is nearly \$2 million, and is expected to remain unchanged through 2030.

7.3 Policy Implications of Results

As indicated by the model results, just over half of the study areas are expected to have positive fiscal impacts on Soldotna. Some areas would produce much greater revenues than the cost of providing services, while some are closer to break-even. One area – Knight Drive (6) would have the greatest

negative impact to the City's finances, if annexed, because of higher costs to provide services but relatively low revenue. Overall, all study areas combined are estimated to result in a positive net impact of over \$350,000 in 2015—growing to nearly \$900,000 by 2030. The expected costs and revenues of any other potential annexation (for example a single area, or combination of some but not all areas) can be determined by adding the costs and revenue estimates for individual subareas from Table 27.

It is important to note that these results are estimated on the assumption that no major policy changes occur over the projection horizon. However, as this analysis was being completed, a resolution (2016-023) was before the City of Soldotna to set the rate of levy for property taxes for the 2017 fiscal year to 2.0 mills. In addition, citizens voted to create a charter commission in May 2016 that will draft a charter for the City to become a home-rule community. Upon being drafted, the charter would also require voter approval, and could allow the city more autonomy and powers over its policies. Unlike first-class general law cities, home-rule communities have greater control over their own tax structure. For example, Seward has opted to levy a bed tax while the City of Kenai continues charging sales tax on unprepared food from September to May. Soldotna is currently a first-class general law city and is more limited by state statute.

As previously mentioned, and as most Alaskans are aware, the State of Alaska finds itself in increasingly tumultuous times. As the state reaches an annual deficit nearing \$4 billion, many different policies aimed at increasing state revenues and decreasing state expenditures have been discussed. A recent study completed by the University of Alaska's Institute of Economic and Social Research analyzed the short-run impacts of ten different fiscal options. Included in those options were a three percent and four percent sales tax and broad-based state cuts. While all options are likely to have some impact on local governments, implementation of a sales tax and/or broad-based state cuts are likely to have the largest impact on Soldotna.

For example, Soldotna's ability to generate revenue is highly dependent on sales tax revenues generated by the three percent sales tax currently in place. If the State of Alaska were to implement a state sales tax, it would be charged in addition to the current city and borough sales tax. This would create two possible outcomes. First, a state sales tax could effectively turn the sales tax rate charged by businesses in Soldotna from 6 percent (3 percent for both the City and KPB) to 9 percent given the implementation of a 3 percent state sales tax. The impacts from such action would decrease the disposable income of residents, which is likely to decrease spending by local consumers, incentivize the migration of businesses charging sales tax to areas outside of the City, or both. Alternatively, Soldotna could face pressure to lower the current sales tax rate to help mitigate the previously mentioned effects. This change could also have a large impact on the City due to Soldotna's reliance on sales tax revenue, as discussed in section 6.3. Annexing adjacent areas where commercial development is occurring, or likely to occur, will help ensure the City maintains a sustainable principal revenue source with which to provide basic services to residents.

As the State of Alaska looks for a balanced strategy to decrease the deficit, decreasing state expenditures will have additional implications for the City. Currently, Alaska State Bill 210 (SB-210) is under consideration by the Senate Finance Committee. SB-210 proposes to cut revenue sharing, and ultimately phase out the program. Over the past five years, Soldotna has received between \$297,660 and \$432,124 in shared revenue, or an average of \$347,564 (Table 28). These funds can be used at the discretion of the community for any public purpose, as it is generally recognized that local residents are in the best position to determine the needs and priorities of their own communities. A reduction, and eventual abolishment of state shared revenue will have a direct impact on Soldotna's finances, and will further constrain the City's resources to deliver basic public services.

Table 28. State Shared Revenue, City of Soldotna 2010–2016

State Revenue Sharing	2010	2011	2012	2013	2014	Average
Shared Revenue	303,169	297,660	403,951	432,124	300,916	347,564

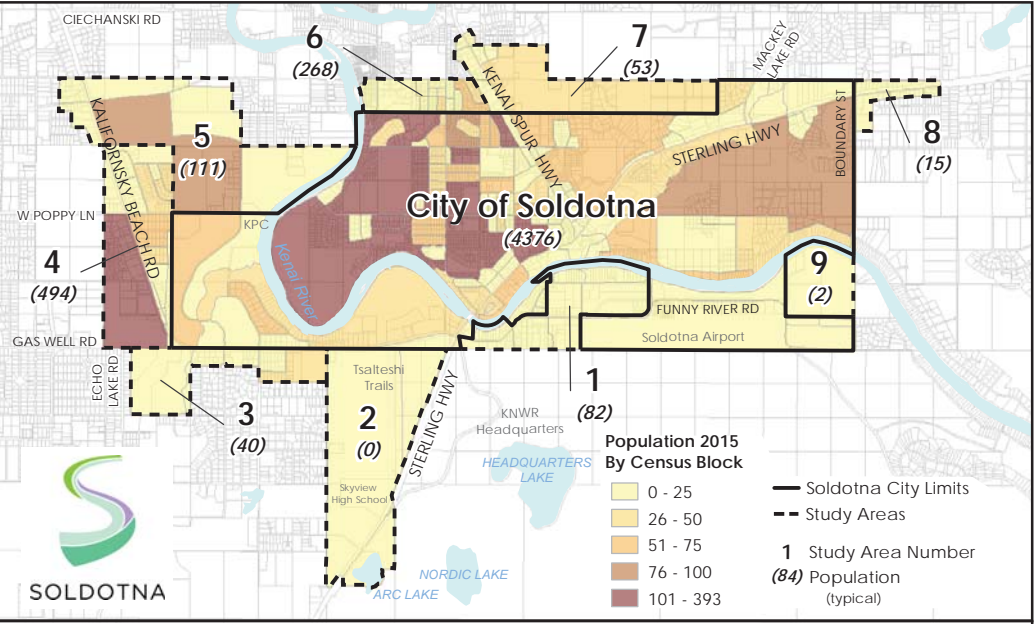
Source: DCCED 2015.

As this report is being finished, the Alaska legislature has entered into a special session in hopes of resolving these pressing issues. Until action is taken by the legislature, it will be difficult to speculate on the type and severity of the state's actions. It is important to reiterate that while these two scenarios are illustrated for Soldotna, many other actions are being considered, including the possibility of no action.

8 References

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Appendix: Area Maps



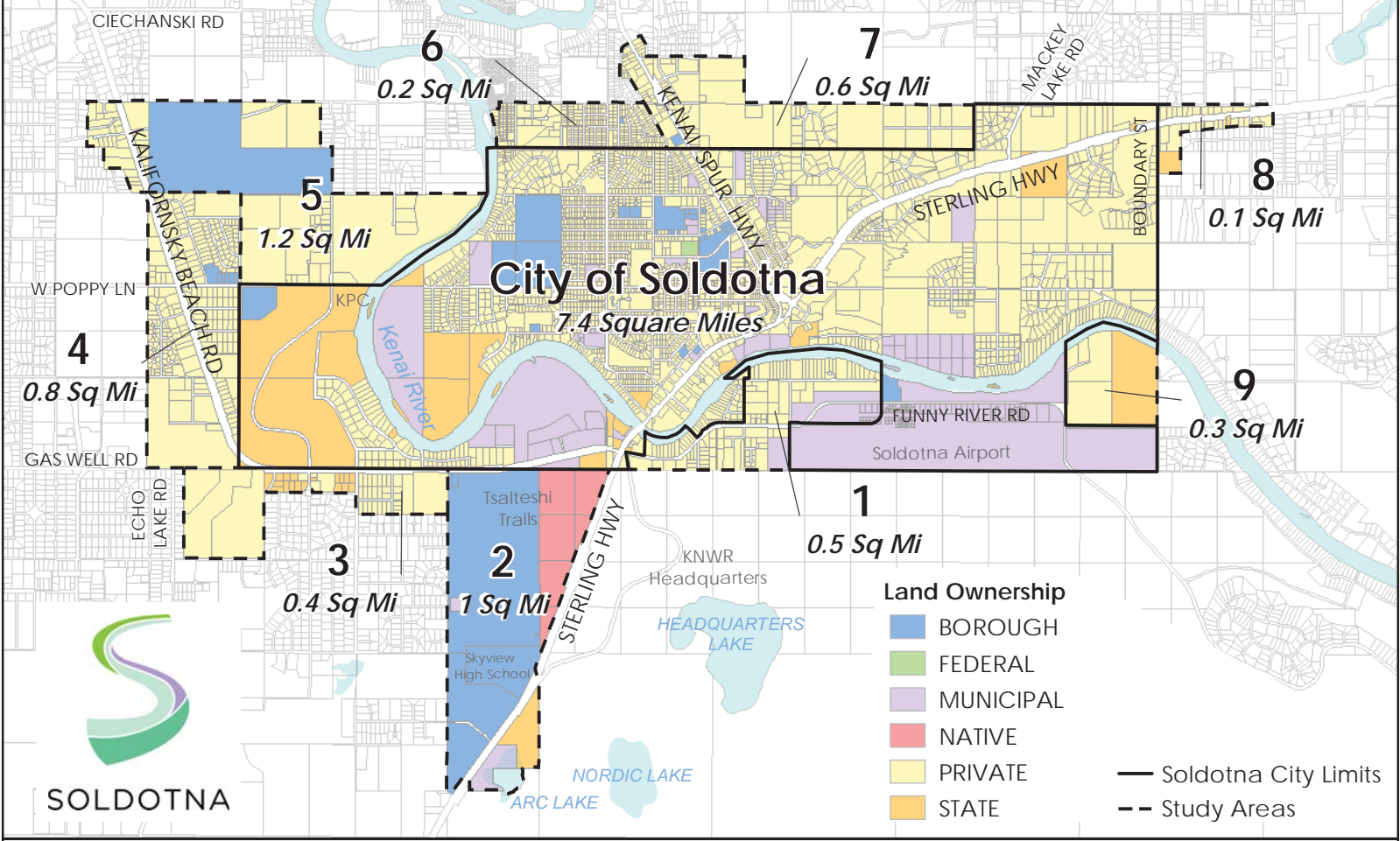
Population 2015

2015 Soldotna Annexation Study

Prepared By: **NE** Northern Economics

Source Data: US Census Bureau, KPB GIS
 Map Produced By: Alaska Map Company, LLC
 Date: 4/8/2016





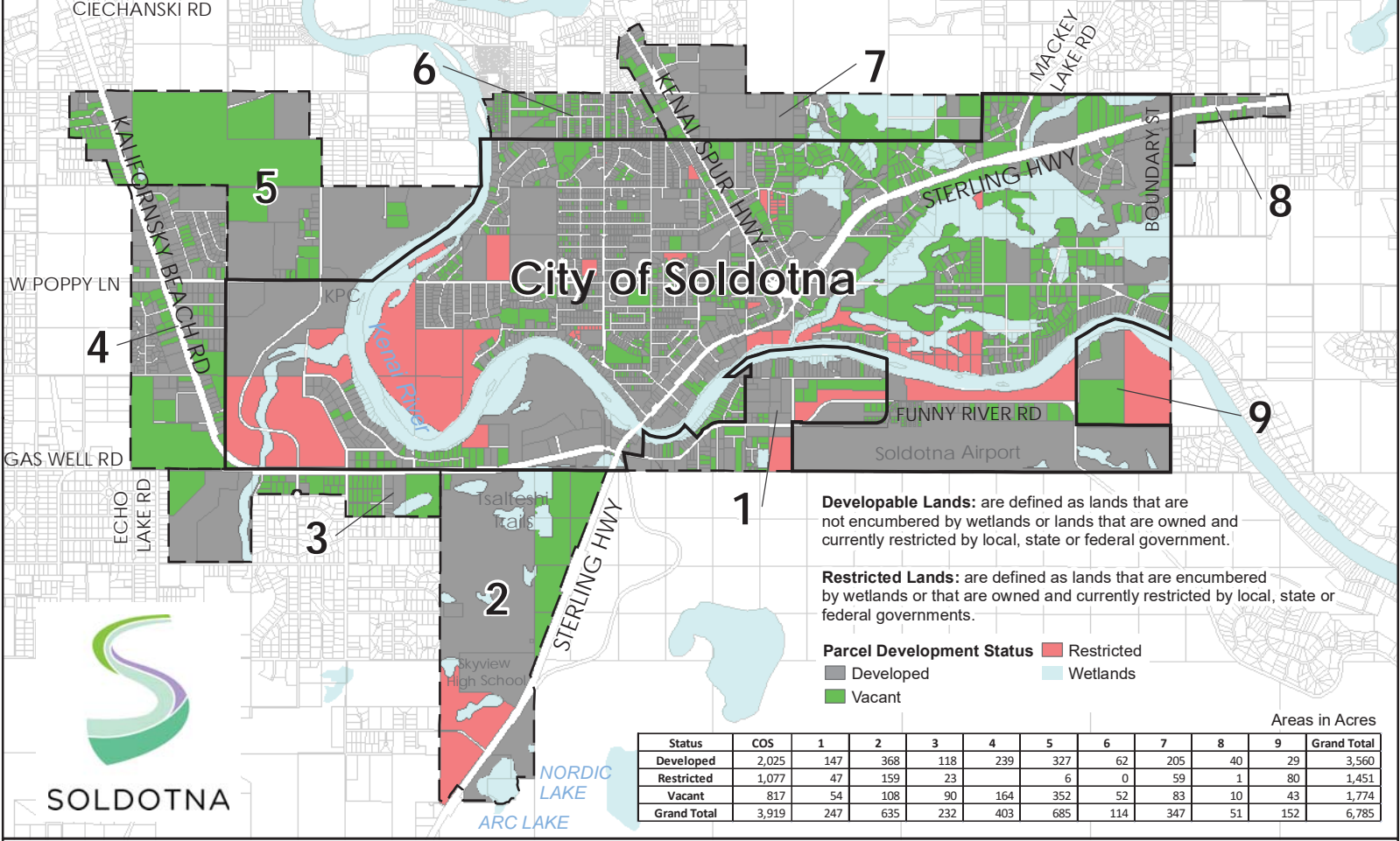
Land Ownership

2015 Soldotna Annexation Study

Prepared By: **Northern Economics**

Source Data: City of Soldotna GIS, KPB GIS
 Map Produced By: Alaska Map Company, LLC
 Date: 4/8/2016





Developable Parcels

2015 Soldotna Annexation Study

Prepared By: Northern Economics

Source Data: City of Soldotna GIS, KPB GIS
 Map Produced By: Alaska Map Company, LLC
 Date: 5/25/2016



Introduced By: City Manager
Date: April 22, 2015
Public Hearing: May 13, 2015
Action: Enacted as Amended
Vote: 5 Yes, 1 No

CITY OF SOLDOTNA
ORDINANCE 2015-018

AN ORDINANCE INCREASING ESTIMATED REVENUES AND APPROPRIATIONS BY
\$50,000 IN THE GENERAL FUND AND SMALL CAPITAL PROJECTS FUND FOR
PROFESSIONAL SERVICES ASSOCIATED WITH ANNEXATION ECONOMIC IMPACT
ANALYSIS

WHEREAS, a regional growth and development goal of the City of Soldotna's comprehensive plan is to "explore annexation to promote orderly, high quality development, cost-effective extension of services, and the protection of the city's tax base and natural environment"; and

WHEREAS, the City of Soldotna's comprehensive plan also calls for the development of a new city process to meet with prospective residents and stakeholders to identify the issues and concerns about annexation; and

WHEREAS, the City desires to engage the public to solicit concerns and issues, to share information, and to develop ideas about possible ways to resolve annexation issues prior to making a decision about whether or not to proceed with annexation; and

WHEREAS, it is in the best interest of the City to research the financial feasibility of annexation in the areas around and within the City to estimate new expected revenues to the City as well as additional costs associated with providing services to a larger area; and

WHEREAS, the City should identify code and policy changes that address concerns from residents in neighboring areas prior to the submittal of a petition; and

WHEREAS, these funds will be used to assist in economic impact analysis; and

WHEREAS, it is in the best interest of the City of Soldotna to appropriate funds to thoroughly study the issue prior to making a decision;

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SOLDOTNA, ALASKA:

Section 1. That estimated revenues and appropriations be increased as follows:

General Fund:

Increase Estimated Revenues:	
Appropriation of Fund Balance	\$50,000
Increase Appropriations:	
Transfer to Capital Projects	\$50,000

Small Capital Projects Fund

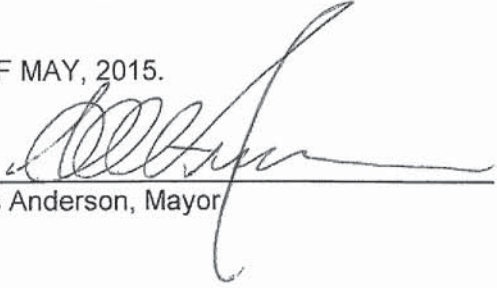
Increase Estimated Revenues:	
Transfer from General Fund	\$50,000
Increase Appropriations:	
Annexation Economic Impact Analysis Research	\$50,000

Section 2. The administration shall present the results of the economic impact analysis to the City Council for their consideration at a future date.

Section 3. The area of study shall include those lands within the boundaries of the City of Soldotna Sewer and Water Service Areas.

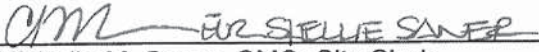
Section 4. This ordinance shall become effective immediately upon its enactment.

ENACTED BY THE CITY COUNCIL THIS 13TH DAY OF MAY, 2015.



Nels Anderson, Mayor

ATTEST:



Michelle M. Saner, CMC, City Clerk

Ayes: Sprague, Murphy, Baxter, Whitney, Daniels
Noes: Bos

TO: MARK DIXSON, CITY MANAGER
THROUGH: STEPHANIE QUEEN, DIRECTOR ED+P *jq*
FROM: JOHN CZARNEZKI, CITY PLANNER *jc*
DATE: MAY 6, 2015
SUBJECT: ORDINANCE 2015-018

The administration has been asked to clarify and provide additional detail as to how Ordinance 2015-018 would be implemented. We have also heard concern and confusion about the water/sewer service area boundary map, which was attached as an appendix. The purpose of this memo is to provide our thoughts on these two issues, prior to the public hearing on Ord. 2015-018.

As we previously noted, Ordinance 2015-018 would appropriate funds for a study which would include two separate – but related – parts; an economic impact analysis to study the costs/revenues associated with annexing different areas outside our existing city limits, and a public involvement plan to better understand and potentially address concerns that residents in those areas have. Though we originally intended on combining these two efforts into a single contract with both parts occurring simultaneously, we wanted to propose an alternative for your consideration.

One way to more quickly target smaller areas to study within the larger water/sewer service area, would be to conduct the economic impact analysis first, then use that information to make decisions about areas for study further. This would provide people some answers sooner – since the economic study would not take the full 2 years we proposed for the overall project. We also believe this would have the added benefit of potential cost savings to the City, for example, by allowing our public involvement to focus only on those areas we feel have the most merit. More thoughts on this phased approach are provided below:

- Upon approval of Ordinance 2015-018, the administration would solicit a consultant to research the financial feasibility of annexation. The award of the contract would be presented to the Council for approval, following our regular procurement processes. It is our estimate that the economic study will cost approximately \$50,000 and take 6-9 months to complete. This figure and schedule was arrived at through conversations with consultants who do this type of work, after reviewing the Palmer economic analysis, and from our own recent history with past City planning efforts.

The economic analysis would divide the City's sewer and water service area up into many different subareas, then estimate new expected revenues to the City as well as any additional costs associated with providing services to each one. Our expectation is that different areas would have significantly different impacts on the City, both positive and negative. Once complete, the analysis would be presented to the Council.

- If the Council authorizes us to proceed we would initiate the socioeconomic phase, focusing our public input process on those areas identified and agreed upon from the economic impact study. We would prepare a request for proposals for a consultant to assist in developing and implementing the public input process, and again would bring to Council a resolution authorizing the award of the contract.

As noted in the previous memo, the purpose of this effort would be to solicit public concerns and issues, to share information about the City and annexation, and to explore ideas about possible ways to resolve issues and concerns identified throughout the process. We anticipate this portion of the project would cost more than the economic impact, up to \$100,000.

Again, at the conclusion of the socioeconomic phase, the results would be presented to the City Council as a report. The report would describe the process – who we talked to and how people gave input – and also what we learned. But in addition to simply listing out concerns and what we heard, our intention would be that each section also recommend action items that can be taken to address them. These could include recommendations on code changes, modification of administrative policies, etc.

- With both the economic impact analysis and the socioeconomic report, the Council would again provide the administration direction. We estimate this step is approximately two years out. This could include, among others, the direction to:
 - o Do nothing, based on the desire to stop pursuing annexation;
 - o Moving forward with implementing some of the ‘fixes’ we identified in the study (a process in itself which could take many months or even a year);
 - o Prepare a formal annexation petition, for the Council’s consideration.

As you can see, the Council would have many decision-points along the way, each time with more information and a more focused area of interest.

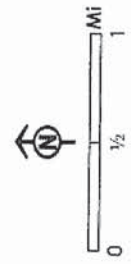
Our purpose in attaching the water/sewer service boundaries to the Ordinance was to assure folks living outside that area that they would not be affected by this effort. We have heard that it is being interpreted differently, with many people believing we are planning to annex up to that green line. We always anticipated that through the public input and economic analyses, the actual areas that get considered for annexation, if at all, would much smaller than the larger utility boundary. But, we chose this approach because we feel there is merit in allowing the public to be part of that initial decision, rather than the administration simply providing our ideas and professional opinions at this time.

Should the council adopt the Ordinance as-is, we would likely implement this phased approach in our larger contract anyway. But should you desire to amend the authorization to only include the \$50,000 for the economic impact analysis, we would be supportive of that approach as well. Thank you for your consideration, and please feel free to contact me with any questions or concerns.



City of Soldotna Water & Sewer Service Area Boundaries

- Current City Boundaries
- Water/Sewer Service Area Boundaries
- Existing Water Mains
- Existing Sewer Mains



The information depicted on this map is for graphical representation only. The City of Soldotna assumes no responsibility for activities resulting from the use of this map or any errors produced thereupon.

Date: 3/25/2015
Author: Austin Johnson, Planning/GIS Technician
Imagery: 2012/2000 Composite

TO: MARK DIXSON, CITY MANAGER
THROUGH: STEPHANIE QUEEN, DIRECTOR ED+P
FROM: JOHN CZARNEZKI, CITY PLANNER
DATE: APRIL 6, 2015
SUBJECT: ANNEXATION PUBLIC INPUT PROCESS & ECONOMIC STUDY

The attached ordinance requests \$150,000 to contract for professional services for annexation research and analysis, public outreach, and code and policy review.

This appropriation will allow for the development of a public process to solicit public concerns and issues, to share information and to explore ideas about possible ways to resolve issues. It will also enable the development of a financial analysis that will research the feasibility of annexation in the areas around the City and estimate costs and benefits of serving a larger area.

The financial analysis will be extremely important in identifying the implications of annexation both to those who live in the areas outside the existing city boundaries, but also to those within. In some cases it's been found that annexation could result in negative fiscal effects, and that a modest increase in city revenues or decrease in expenditures would be necessary.

In addition, the Local Boundary Commission (LBC) will look for an assessment of the financial feasibility of annexation given the City's existing budgets and forecasted increases to support existing and new development within the proposed boundaries of the city. The LBC statutory standards (3 AAC 110.110) give the Commission the authority to consider anticipated city functions, expenses, income, land uses, property valuations and future development within the city that would result from annexation.

The region proposed to be studied will include those areas within the City of Soldotna's sewer and water service area boundaries. Periodic progress reports will be presented to the council throughout each phase of the process, and a final presentation of the findings will be presented at the conclusion of the study and input process.

We respectfully request an appropriation of \$150,000 to accomplish this effort. The consultant selection process will result in a professional services contract, and a resolution will be brought forward to the Council for adoption.

Feel free to contact me with any questions or concerns.

Introduced By:
Date:
Action:
Vote:

City Manager
July 22, 2015
Adopted
6 Yes, 0 No

CITY OF SOLDOTNA
RESOLUTION 2015-036

A RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE A CONTRACT WITH
NORTHERN ECONOMICS IN THE AMOUNT OF \$49,930 FOR ECONOMIC ANALYSIS OF
ANNEXATION ALTERNATIVES

WHEREAS, the City recently advertised and solicited proposals for professional services for the economic analysis of annexation alternatives; and

WHEREAS, one proposal was received for this project, and was determined to be both responsive and responsible; and

WHEREAS, an evaluation review committee found that the group of consultants led by Northern Economics submitted a high ranking proposal with expertise and experience in the subject matter; and

WHEREAS, it is in the best interest of the city of Soldotna to award the professional services contract for economic analysis of annexation alternatives to Northern Economics;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SOLDOTNA, ALASKA:

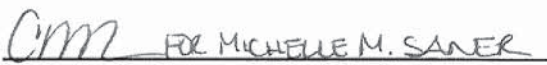
Section 1. The City Manager is hereby authorized to execute a contract with Northern Economics for professional consulting services for the Economic Analysis of Annexation Alternatives in the amount of \$49,930, and execute any subsequent change orders according to SMC which are reasonable and necessary to effectuate the intent and purpose of the project.

Section 2. This resolution shall become effective immediately upon its adoption.

ADOPTED BY THE CITY COUNCIL THIS 22ND DAY OF JULY, 2015.


Nels Anderson, Mayor

ATTEST:


Michelle M. Saner, CMC, City Clerk

Ayes: Daniels, Marquez, Sprague, Murphy, Baxter, Whitney
Noes: None

15RES036

MEMORANDUM**TO: MAYOR AND COUNCIL****DATE: July 15, 2015****SUBJECT: AUTHORIZATION FOR AWARD, PROFESSIONAL SERVICES –
ECONOMIC ANALYSIS OF ANNEXATION ALTERNATIVES**

The Economic Development and Planning Department solicited proposals for professional consulting services to conduct an Economic Analysis of Annexation Alternatives. The request for proposals was published in the Alaska Dispatch News on June 10, 12 and 15, 2015.

A non-mandatory pre-proposal meeting was held on June 22, 2015 in which representatives from six consulting firms attended. One proposal was received by the July 8, 2015 deadline, and consisted of a team of consultants led by Northern Economics. Partnering with Northern Economics are Agnew::Beck, The Alaska Map Company, and Kevin Waring & Associates. The proposal ranked high in all rating areas.

The scope of work for the project will include defining the Study Area, economic analysis of annexation alternatives, and analysis of the status quo. Ordinance 2015-018 appropriated funds for this project.

In defining the Study Area, the request for proposal specified that the most detailed review would be the following areas:

- Areas already receiving City services, such as water and/or sewer utilities, or areas close to existing utilities where extension can be reasonably achieved or anticipated
- Existing or potential commercial corridors or nodes near the City whose development has the potential to erode the City's sales tax base
- Undeveloped or underdeveloped areas which provide opportunities for residential, commercial, or other types of development, and would benefit from City services and standards prior to development
- Areas where a request has been received by the City to offer a service not available in the Borough.

Under the above parameters and with the limited funds for this project, we will be directing the consultants to focus on those areas essentially identified by the initial working group. Those areas would include the Kalifornsky Beach business corridor, the Kenai Spur business corridor which includes areas already receiving city utilities, the Funny River areas which also receive services and would straighten our southern boundary, and extensions on the Sterling Highway towards Arc Lake¹ and towards the potential commercial areas east of the City.

We should also point out that residential areas generally have a negative economic impact since the low level of property taxes would not cover the expense of providing services. For that reason, we will not be focusing on any residential areas or properties, unless those areas are purely incidental to the areas addressed above.

The evaluation committee recommends award of the Economic Analysis of Annexation Alternatives contract to Northern Economics for the amount of \$49,930.

¹ We recognize that the majority of parcels from Kalifornsky Beach Road to Arc Lake are exempt from property taxes and do not generate sales tax. A recommendation will be made on whether there is a significant non-economic reason for annexation.