




City of Greenleaf

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Memorandum

Date: 16 January 2024
To: Council
cc: Mayor, City Attorney, City Engineer, Royal Pro-C
From: Lee C. Belt, City Clerk
RE: ROYAL RIDGE APPLICATION – CITY CLERK’S ANALYSIS



Greetings!

The Royal Ridge application is multi-faceted and of significant impact to the city, whether approved or denied. The City Council faces a difficult decision.

City staff has several responsibilities, including: 1) To assist with correct process; 2) To help ensure that Council has the relevant facts available from which to make a reasoned decision; 3) To provide recommendations without unduly affecting Council’s decision-making process; and, 4) To the extent possible, assist the Council in avoiding unanticipated negative consequences to the city.

To these ends, this memorandum attempts to provide an opinion as of this date regarding possible financial impact to the city’s different funds if the Royal Ridge application is approved or denied. Council is encouraged to weigh the value and use, or discount, this memorandum as Council deems appropriate along with other data considered for a reasoned Council decision. The Clerk is very appreciative of the City Treasurer’s efforts regarding fiscal trends, and particularly for development of 8-yr potable water and sanitary sewer utility projection spreadsheets.

What follows are general trend expectations for potential financial impact through a discussion of city fiscal background information (background), a fiscal projection for Royal Ridge denial (no-growth scenario), a fiscal projection for Royal Ridge approval (growth scenario), a brief concluding summary (summary), and a list of attachments (attachments).

BACKGROUND:

The City manages five (5) separate fund accounts: General Fund, Roads Fund, Irrigation Fund, Garbage Fund, Water Fund and Sewer Fund.

General, road, and irrigation funds are governmental funds, with revenue received primarily from a tax to provide services to the public.

General fund revenue – General fund revenue can be generally described as from two sources: Property tax (collected and distributed by the County, with oversight from the Idaho State Tax Commission), and revenue sharing (State sales tax and other sources distributed by formula with cities). General fund is used to provide the general services of the city (police, parks, etc.) and may be used without restriction to supplement other funds as needed.

Currently, approximately 40% of the city's General Fund revenue is from property tax, with the remaining approximately 60% from State revenue sharing.

Property tax is limited to a 3% increase from the previous year, with annexation and new construction limited to 5% additional under an 8% total cap on annual property tax increase - Thank you, HB389(2021) for making it so that annual annexation and new construction growth over this 8% cap will not pay its' way into perpetuity...

State revenue sharing to General Fund is distributed on a population basis.

Road Fund Revenue – Road fund revenue is from revenue sharing formulas (primarily from a state gas tax per-lane-mile formula, with some smaller things such as from County collected registration fees), and is restricted to the function of the city's road system.

There is a flaw in the State's per-lane-mile revenue sharing formula for city road revenue where at some point the revenue received per-road-mile is insufficient to maintain the system without significant additional income, typically from the city's general fund or institution of a designated property tax to supplement. This funding reality was largely responsible for the creation of the Ada County Highway District in the 1970s to divert rural funding to the urban need when the City of Boise was at about 70,000 population (pop.).

With careful management, the clerk's opinion is that state road revenue sharing should be sufficient to scale with growth to maintain the road system at the less-than-optimal-service-level typical for Idaho local road jurisdictions into the foreseeable future. There is a reason why Idaho roads commonly have patched potholes, obvious cracks, and surface issues with an immediately discernible improvement upon crossing the State line into Oregon.

A better road level of service and long-term cost savings could be attained through increased maintenance (delay of larger road replacement expenses by more frequent

maintenance fog coating, crack sealing, chip seal resurfacing, etc.) and adopting the Asphalt Pavement Alliance's "perpetual pavement" standard (3-layer flexible pavement design & construction concept producing a deep-strength asphalt pavement resistant to structural fatigue distress for at least 50 years before shallow re-surfacing of a portion (typically less than half) of the top asphalt layer, and never needing total removal and replacement - <https://www.driveasphalt.org/resources/perpetual-pavement>).

The city may find it prudent to consider establishing a dedicated road property tax per IC §50-312. A dedication road property tax would both: 1) Fund better level of service; and 2) Establish the mechanism available under State Code to protect the city's General Fund from the inevitable funding short-fall which exists in the State's per-road-mile revenue sharing formula for cities.

Irrigation fund revenue – Irrigation fund revenue is largely from irrigation tolls levied on property, and is restricted to the function of the city's irrigation distribution system.

The city's standard is to require that new annexations and development transfer water rights to the city's irrigation distribution system and install pressurized irrigation infrastructure for dedication to the city. Pressurized irrigation requires electricity for pumps, but is considered more efficient than gravity irrigation.

Garbage, water, and sewer funds are proprietary funds, primarily funded through user fees, to provide specific business-type services necessary for the health and well-being of the community by having potable water, sanitary sewer, and solid waste removal.

Garbage Fund Rates – Garbage fund is primarily a pass-through for sanitation service from a franchised service provider, with rates primarily covering the cost of franchised service. The franchised service provides a lower rate to city residents when compared to the service provider's standard rate for surrounding County residents due to the stability and reduced cost to the franchised service provider of the city franchise, in part derived from having the utility billing performed by the city.

Water and Sewer Fund Rates – For Water and sewer funds, the rates are set annually to cover system debt, annual operating expenses, and short-term annual maintenance needs.

There is significant pressure to keep monthly water and sewer rates low, to the extent that it is extremely rare anywhere for a city water or sewer utility to be fully funded beyond normal annual operating and short-term maintenance expenses. Reserves for long-term maintenance needs including planning for capital improvement, capital replacements, capital upgrades, and for replacement of critical equipment in the event of unanticipated catastrophic failure are generally under-funded in all city water and sewer utilities. The city's water and sewer funds do have some reserves, and are more robust now than they have been in the past, but these funds remain dependent upon grants, bonds, and, if available or adequate, general fund reserves to address long-term

maintenance needs for planning, capital replacement, capital improvement, and critical failure remediation reserves.

It is notable that the city should give serious consideration in the future to re-evaluation of overall fiscal strategies and policies when the city approaches self-sufficiency (perhaps 3,000 to 7,000 pop.?), as the city approaches 10,000 pop., and as the city approaches 50,000 pop.

At self-sufficiency, the city has grown such that the general fund is able to fully support all typical general fund city services and the population has attracted industrial and retail businesses such that the majority of the population does not typically need to commute outside the city's impact area to earn or spend their income.

At 10,000 pop. a city is no longer classified as 'rural' by USDA-RD and is no longer eligible for USDA-RD assistance (including infrastructure grants and loans).

At 50,000 pop. a city becomes 'entitled' to direct receipt of Federal HUD revenue rather than participation in a competitive grant process through the State.

These benchmark populations will result in significant need for analysis and adjustment of overall city fiscal strategies for services to be provided.

NO GROWTH SCENARIO

General Fund No-growth Projection – As mentioned above, approximately 40% of the city's General Fund revenue is from property tax, with the remaining approximately 60% from State revenue sharing.

For property tax a no-growth or slow-growth scenario under the 8% annual property tax growth cap created by HB389(2021) allows property tax to scale for continuation of general fund services.

For State revenue sharing distributed by population, if the city does not grow and stays the same or decreases in population, then the city can expect to receive less than cities of current similar size which do grow in population. If State sales tax revenue plateaus or decreases rather than continuing to increase as it has over the last several years, then a no-growth scenario brings potential for reduction in State revenue sharing dollars received, rather than a reduced increase in revenue from this funding source.

Road Fund No-growth Projection – As stated above, with careful management the clerk's opinion is that state road revenue sharing should be sufficient to scale in a no-growth scenario to maintain the road system at the less-than-optimal-service-level typical for Idaho local road jurisdictions well beyond the Royal Ridge project.

Irrigation Fund No-growth Projection – The clerk anticipates that rates and rate increases will stay roughly the same as experienced over the past several years, with potential for incremental one to five percent annual increases due to inflation, rising material and labor costs for repair of the gravity-feed system segments, and increase in electricity rates from Idaho Power for pressurized system segments.

Without growth, increase in irrigation system expenses will require rate increases to cover those increased costs, without the potential mitigating effect of growth providing additional accounts to ‘spread’ fixed expenses across a larger account base to delay the need for, and/or reduce the amount of, rate increases.

Garbage Fund No-growth Projection – The clerk anticipates incremental one to five percent annual rate adjustments due to inflation and rising material costs resulting in increased rate requests from the franchised service provider.

Water Fund No-growth Projection - The clerk anticipates incremental one to five percent annual rate adjustments due to inflation and rising material costs.

No growth means no addition of rate payers to spread the cost of base-rate fixed expenses, including debt service and salaries, required to keep the system running regardless of the amount of water produced and delivered. Increased expenses will require increased rates to meet those expenses directly without opportunity to soften impact through growth in users of the system to spread these fixed costs.

It is important to note that, due to water and sewer funds operating more complex systems with larger budgets, they are more susceptible to increases in fixed costs requiring increased rates than are irrigation fund (buffered by fixed expense water toll shared with the larger customer base of the Wilder Irrigation District which provides irrigation water to the city irrigation distribution system) and garbage fund (buffered by fixed expenses shared with the larger customer base of the franchise service provider).

Sewer Fund No-growth Projection – With no growth, the clerk anticipates that sewer rates will increase.

No growth means no addition of rate payers to spread the cost of fixed expenses, including debt service and salaries, required to keep the system running regardless of the amount of waste-water collected and processed. Increased expenses will require increased rates to meet those expenses directly without opportunity to soften impact through growth in users of the system to spread these fixed costs. Sewer fund also has an increase in debt service interest rate which will impact rates in fiscal year 2029 (01 Oct 2028).

Under a no-growth scenario, this current fiscal year 2024 is the last year the city can sustain the current \$89.99 monthly sewer rate. Current projections for a no-growth scenario call for incremental sewer rate increases starting in fiscal year 2025, increasing to a projected sewer rate of \$114.17 by fiscal year 2029.

Sewer fund also has exposure to increased regulation from renewal of a pollutant discharge elimination system permit, which may require capital improvements phased in over a five-to-ten-year period from permit renewal. Please bear in mind that sanitary sewer capital improvements are typically much more expensive than potable water capital improvements, and that a bond may be necessary, which would further increase rates for the increase in debt service expense.

It is important to note that sewer fund has already benefited from substantial growth, primarily through treating non-residential waste from other facilities. The sewer rate was established at \$79.99 with wastewater treatment plant opening in 2013, which had to be raised to \$82.37 in fiscal year 2017, raised to \$84.86 in fiscal year 2018, raised to \$87.91 in fiscal year 2019, raised to \$89.99 in fiscal year 2020, and raised to \$91.34 in fiscal year 2021. Rates were lowered back to the current rate of \$89.99 in fiscal year 2022. ZoRoCo Packaging's purchase of 37 equivalent dwelling units (EDUs) of capacity buffered rate increases from fiscal years 2019 through 2021, and ZoRoCo's purchase of an additional 53 EDUs of capacity in fiscal year 2022 allowed rates to return to \$89.99 and hold at this rate through fiscal year 2024.

Additional revenue from temporary treatment of waste from the Dry Creek facility has also helped buffer the sewer fund since fiscal year 2020. Dry Creek has begun transitioning away from processing waste with the city, and this revenue source is expected to decline until transition is completed within the next few years.

Additional industrial or outside waste processing is not currently anticipated.

GROWTH SCENARIO

General Fund Growth Projection – As mentioned above, approximately 40% of the city's General Fund revenue is from property tax, with the remaining approximately 60% from State revenue sharing.

For property tax, a growth scenario up to the 8% annual property tax growth cap created by HB389(2021) allows property tax to scale with growth for continuation and potential addition of general fund services. Rapid growth over the 8% annual property growth cap would result in no capture of the property value for inclusion in the city's taxable value into perpetuity. The rough estimate of additional property value from annexation and new construction for calendar 2024 to meet the 8% cap is just under \$5 million.

For State revenue sharing distributed by population, if the city grows faster than cities of current or similar size, then the city can expect increased revenue in comparison to these other cities. If State sales tax revenue plateaus or decreases rather than continuing to increase as it has over the last several years, then a growth scenario helps mitigate potential for reduction in State revenue sharing dollars received.

Road Fund Growth Projection – As stated above, with careful management the clerk’s opinion is that state road revenue sharing should be sufficient to scale with growth to maintain the road system at the less-than-optimal-service-level typical for Idaho local road jurisdictions well beyond the Royal Ridge project.

Irrigation Fund Growth Projection - The clerk anticipates that under a growth scenario rates and rate increases will stay roughly the same as experienced over the past several years, with potential for incremental one to five percent annual increases, due to inflation, rising material and labor costs for repair of the gravity-feed system segments, and increase in electricity rates from Idaho Power for pressurized system segments.

With growth, increase in irrigation system expenses has potential to be mitigated by additional accounts to ‘spread’ fixed expenses across a larger base to delay the need for, and/or reduce the amount of, rate increases.

Garbage Fund Growth Projection - The clerk anticipates that under a growth scenario rates and rate increases will stay roughly the same as experienced over the past several years, with potential for incremental one to five percent annual increases, due to inflation, rising material and labor costs resulting in increased rate requests from the franchised service provider.

Growth provides a larger account base, which both strengthens the city’s position for negotiation of contract rates with the franchised service provider, and provides a larger base to ‘spread’ the fixed costs charged by the franchised service provider.

Water Fund Growth Projection - The clerk anticipates that under a growth scenario rates and rate increases will stay roughly the same as experienced over the past several years, with incremental one to five percent adjustments, due to inflation and rising material costs.

With growth, increase in water fund expenses has potential to be mitigated by additional accounts to ‘spread’ fixed expenses across a larger base to delay the need for, and/or reduce the amount of, rate increases.

Sewer Fund Growth Projection - The clerk anticipates that under a growth scenario rates and rate increases will stay roughly the same as experienced over the past several years, with incremental one to five percent adjustments, due to inflation and rising material costs.

With growth, increase in sewer fund expenses has potential to be mitigated by additional accounts to ‘spread’ fixed expenses across a larger base to delay the need for, and/or reduce the amount of, rate increases.

SUMMARY

In a nutshell, the clerk expects the city to be financially affected by growth / no growth scenarios as follows:

No significant impact to road, irrigation, and garbage funds, as these are expected to scale at about the same level with growth as they will without.

Water and sewer funds would both benefit from growth in mitigating future rate increases. *It is notable that without growth the clerk does not see any future scenario without significant sewer fund rate increases.*

General fund is a mixed bag. Roughly 40% of general fund comes from property tax, which is capped at no more than 8% annual increase. Rapid growth of over \$5 million of new construction valuation (for example, more than ten new homes added to the tax rolls at \$500,000.00 each) in calendar 2024 would negatively impact property tax into perpetuity. However, roughly 60% of general fund revenue comes from State revenue sharing, which is distributed by population, so without growth, the City of Greenleaf can expect to receive less in revenue sharing as funding is shifted to other communities that are experiencing growth. Thus, growth over the 8% annual property tax cap is detrimental to property tax revenue (currently 40% of general fund revenue), yet increase in population benefits the city's share of State revenue sharing (currently 60% of general fund revenue).

Based on the reasoning given above, at this point in time the clerk believes the city would fiscally benefit more from growth than from no-growth. The clerk therefore recommends approval of the Royal Ridge project from a budgetary perspective.

Ideally, an offset mechanism would be put in place through the development agreement to attempt recovery of property tax valuation un-captured and lost into perpetuity from any annexation and new construction over the 8% cap on annual property tax levy increase created by HB389(2021). Hopefully, at some point in the future the State Legislature will makes adjustments to stop HB389(2021)'s arbitrary penalization of small political subdivisions in times of rapid growth.

ATTACHEMENTS:

- 8-yr Water Fund Projection, no-growth vs growth with 25 homes/yr customer base increase
- 8-yr Sewer Fund Projection, no-growth vs growth with 25 homes/yr customer base increase

8-yr Water Fund Projection, no growth vs growth, p.1 of 2 - DRAFT

Timeline	Revenue Per EDU	EDU for 2023 budget 327						FY 2026 with growth
		Increase Per year	Actual FY 2023	FY 2024 no growth	FY 2024 with growth	FY 2025 no growth	FY 2025 with growth	
Revenue Projections Water Only								
Current EDU	328	1.03	327	328	353	378	328	403
Current EDU plus growth per year	25							
Water rate \$3.55 per month	\$53.55			\$53.55	\$53.55	\$53.55	\$53.55	\$53.55
Monthly debt obligations	\$6,460.61							
Current - 09-30-2023	\$19.70							
Current - 09-30-2023	\$6,296.42							
10-1-2024 and forward	\$19.20			\$17.84	\$19.20	\$16.66	\$19.20	\$15.62
10-1-2024 and forward								
At Current water rate	\$11,267.98							
At Current water rate	\$34.35			\$35.71	\$34.35	\$36.89	\$34.35	\$37.93
Additional Rev	\$3,750.00			\$11.43	\$11.43	\$12.37	\$11.43	\$11.60
Metered average usage				\$45.78	\$48.96	\$45.78	\$45.78	\$49.53
Total per EDU available for O&M				\$45.78	\$48.96	\$49.26	\$45.78	\$49.53
Fixed Expenses- Monthly								
Salary and Benefits	\$7,100.00			\$22.30	\$20.72	\$22.96	\$23.65	\$19.25
Electricity	\$900.00			\$2.83	\$2.63	\$2.91	\$3.00	\$2.44
lab expense	\$0.00			\$-	\$-	\$-	\$-	\$-
Engineer	\$1,000.00			\$3.14	\$2.92	\$3.23	\$3.33	\$2.71
Legal- shared	\$450.00			\$1.41	\$1.31	\$1.46	\$1.50	\$1.22
Shared admin services	\$450.00			\$1.41	\$1.31	\$1.46	\$1.50	\$1.22
misc	\$1,380.00			\$3.52	\$4.03	\$4.46	\$4.60	\$3.74
Total fixed	\$340.00			\$0.46	\$0.99	\$1.10	\$1.13	\$0.92
Variable	\$11,620.00			\$29.06	\$33.91	\$37.58	\$38.71	\$31.51
Fuel	\$0.00			\$-	\$-	\$-	\$-	\$-
Chlorine and other chemicals	\$310.00			\$0.61	\$0.97	\$1.00	\$1.03	\$1.03
Maintenance, supplies, misc, postage, DECQ,	\$1,050.00			\$3.25	\$3.30	\$3.40	\$3.50	\$3.50
Total variable	\$275.00			\$1.13	\$0.86	\$0.89	\$0.92	\$0.92
Net Profit/Loss per EDU	\$2,685.00			\$7.82	\$8.43	\$8.68	\$8.95	\$8.95
All capital outlay and some special projects and upgrades depend on Net Profit and connections fees and increase of additional sewer rev.				\$6.32	\$6.62	\$(0.49)	\$(1.87)	\$9.08
Water Connection fees	\$4,631.00	1.05		\$121,563.75	\$127,641.94	\$134,024.03	\$134,024.03	\$134,024.03
Water Meter Fee	\$444.46			\$11,111.50	\$11,111.50	\$11,111.50	\$11,111.50	\$11,111.50

8-yr Water Fund Projection, no growth vs growth, p.2 of 2 - DRAFT

	FY 2027		FY 2028		FY 2029		FY 2030		FY 2031	
	no growth	with growth	no growth	with growth	no growth	with growth	no growth	with growth	no growth	with growth
	328	428	328	453	328	478	328	503	328	528
\$	53.55	53.55	53.55	53.55	53.55	53.55	53.55	53.55	53.55	53.55
\$	19.20	14.71	19.20	\$13.90	19.20	\$13.17	19.20	\$12.52	19.20	\$11.93
\$	34.35	38.84	34.35	39.65	34.35	40.38	34.35	41.03	34.35	41.62
\$	11.43	10.93	11.43	10.32	11.43	9.78	11.43	9.30	11.43	8.86
\$	45.78	49.76	45.78	49.97	45.78	50.16	45.78	50.33	45.78	50.48
\$	24.36	18.67	25.09	18.17	25.85	17.74	26.62	17.36	27.42	17.03
\$	3.09	2.37	3.18	2.30	3.28	2.25	3.37	2.20	3.48	2.16
\$	-	-	-	-	-	-	-	-	-	-
\$	3.43	2.63	3.53	2.56	3.64	2.50	3.75	2.45	3.86	2.40
\$	1.54	1.18	1.59	1.15	1.64	1.12	1.69	1.10	1.74	1.08
\$	1.54	1.18	1.59	1.15	1.64	1.12	1.69	1.10	1.74	1.08
\$	4.74	3.63	4.88	3.53	5.02	3.45	5.17	3.37	5.33	3.31
\$	1.17	0.89	1.20	0.87	1.24	0.85	1.27	0.83	1.31	0.82
\$	39.87	30.56	41.07	29.74	42.30	29.03	43.57	28.41	44.88	27.88
\$	-	-	-	-	0.00	0.00	0.00	0.00	0.00	0.00
\$	1.06	1.06	1.10	1.10	1.13	1.13	1.16	1.16	1.20	1.20
\$	3.60	3.60	3.71	3.71	3.82	3.82	3.94	3.94	4.06	4.06
\$	3.60	3.60	3.71	3.71	3.82	3.82	3.94	3.94	4.06	4.06
\$	0.94	0.94	0.97	0.97	1.00	1.00	1.03	1.03	1.06	1.06
\$	9.21	9.21	9.49	9.49	9.77	9.77	10.07	10.07	10.37	10.37
\$	(3.30)	9.99	(4.78)	10.75	(6.29)	11.36	(7.86)	11.85	(9.46)	12.23
\$	140,725.24		\$147,761.50		\$155,149.57		\$162,907.05		\$171,052.40	
\$	11,111.50		\$11,111.50		\$11,111.50		\$11,111.50		\$11,111.50	

8-yr Sewer Fund Projection, no growth vs growth, p.1 of 2

Timeline	Revenue		EDU for 2023 budget		FY 2024		FY 2025		FY 2026	
	Per EDU	400	Actual	400	no growth	with growth	no growth	with growth	no growth	with growth
as of FY24 budget		422		400	422	447	422	472	422	422
Revenue Projections Sewer Only										
Current EDU		422		400	422	447	422	472	422	422
Current EDU plus growth per year		25								
Sewer rate 89.99 per month		\$89.99								
Monthly debt obligations		\$13,186.78								
Monthly debt obligations per EDU		\$31.25								
10-1-2028 and forward		\$15,470.00								
10-1-2028 and forward		\$36.66								
At Current sewer rate		\$24,789.00								
At Current sewer rate		\$58.74								
Additional Sewer Rev (dry creek & coverage)		\$1,521.67								
FY24 budget										
Total per EDU available for O&M										
Fixed Expenses- Monthly										
Salary and Benefits										
Utilities										
Certified Operator										
lab expense										
Engineer-shared & reuse										
Legal- shared										
Shared admin services										
misc										
Total fixed										
Variable										
sludge handling										
Fuel										
Chlorine and other chemicals										
Maintenance, supplies, misc										
misc and eng city projects										
Total variable										
Net Profit/Loss per EDU										
All capital outlay and some special projects and upgrades depend on Net Profit and connections fees and increase of additional sewer rev.										
Sewer connection fees		\$7,574.00								
Sewer inspection fees		\$200.00								

1.05 \$ 198,817.50 \$ 5,000.00 \$ 208,758.38 \$ 5,000.00

