

# City of Brier Financial Analysis

## Fire/EMS Service Scenario Analysis

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Prepared by BERK Consulting

**Note:** This analysis has been updated as of April 6, 2023 with projections for the City's budget in 2023 and with 2023 property tax rates from the Snohomish County Assessor.

## Key Findings

- Without action, the City's General Fund will be **depleted by 2025**.
- **Annexing** into the South County Regional Fire Authority (SCRFA) will allow the City to remain **financially solvent**.
- If the City does not annex into SCRFA, Brier voters will need to approve **three separate voted property tax levies**, with combined rates of at least \$1.07 per \$1,000 of assessed value in 2024.
- If the City annexes into SCRFA, a property tax rate reduction equal to the SCRFA contract costs is **not feasible** and would only push back the depletion of the General Fund by about 4 months.

## Analysis Scenarios

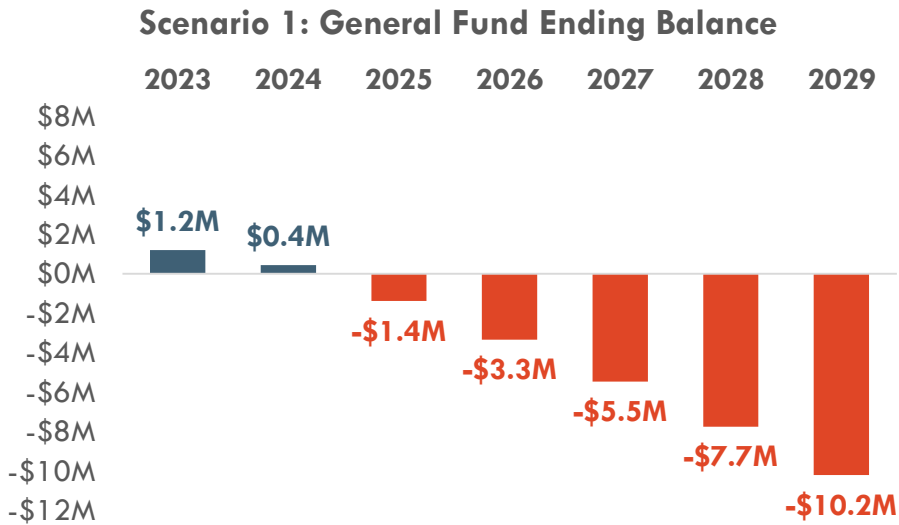
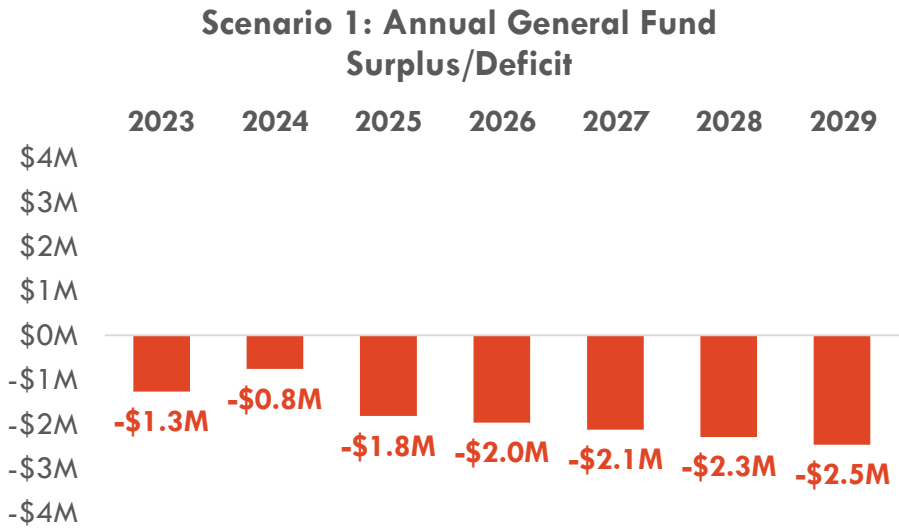
BERK staff projected the City of Brier's General Fund revenues, expenditures, and balance for the next 7 years (2023-2029) under four scenarios:

- **Scenario 1:** The **status quo** scenario, under which the City continues to contract with South County Regional Fire Authority (SCRFA) for fire protection and EMS services, keeps its current EMS levy, and does not pass any additional property tax levies.
- **Scenario 2:** The **status quo** scenario, plus **additional levies**. Under this scenario, the City continues to contract with SCRFA for fire/EMS services, but Brier voters also pass a restored EMS levy at a rate of \$0.50 per \$1,000 of assessed value (AV), a law enforcement levy at a rate of \$0.50 per \$1,000 of AV, and a levy lid lift; and all three go into effect at the start of 2024.
- **Scenario 3:** The **annexation** scenario, under which the City is annexed into the SCRFA at the start of 2024. Under this scenario, the City no longer collects an EMS levy, but maintains its current regular property tax levy (with the statutory 1% revenue increase each year). The City no longer has any direct fire/EMS expenditures, but Brier property owners pay property taxes and benefit charges to SCRFA, which provides fire/EMS services to Brier residents.
- **Scenario 4:** The **annexation** scenario with a consideration of a possible **property tax give back** to Brier property owners. This scenario considers whether it is possible for the City to reduce the regular property tax levy rate (and thus "give back" some property tax revenues) under an annexation scenario. **With the latest version (April 6) this scenario was updated to consider the City's financial position if the City reduced the property tax levy by an amount equal to the contract costs paid to SCRFA, which translates to a property tax rate reduction of \$0.37 per \$1,000 of AV in 2024.**

## Scenario 1: Status Quo

Without action, the City of Brier will run annual General Fund deficits in every year between 2023 and 2029, with the annual deficit exceeding \$1.8 million by 2025 and growing larger in subsequent years. **Without action, the City's General Fund will be depleted, and the City will face bankruptcy, before the end of 2025.** Exhibit 1 shows the General Fund annual deficit/surplus and annual ending balance for 2023-2029 under Scenario 1.

**Exhibit 1. Scenario 1: Annual General Fund Surplus/Deficit and Ending Balance, 2023-2029**



Sources: BERK projection, 2023; based on data from City of Brier, 2023; Snohomish County Assessor’s Office, 2023; US Bureau of Labor Statistics, 2022; Washington State Auditor’s Office, 2022; Washington State Department of Revenue, 2022; and Washington State Office of Financial Management, 2022.

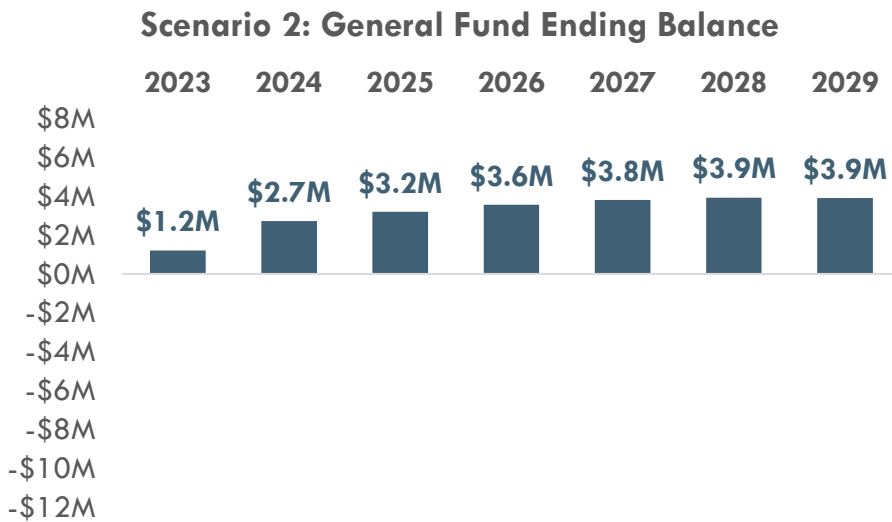
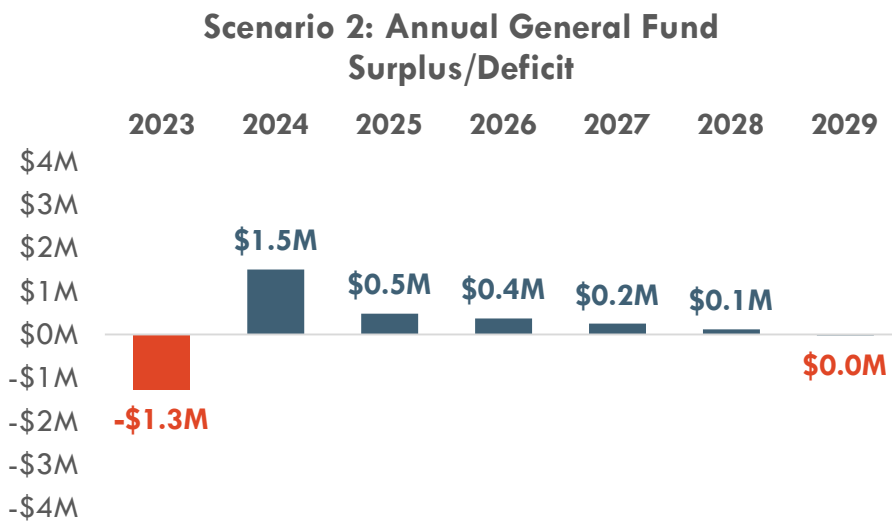
## Scenario 2: Status Quo plus Voted Levies

If the City does not annex into SCRFA, the City will need to pass multiple additional levies to remain solvent. Even with a permanent EMS levy starting at a rate of \$0.50 per \$1,000 of AV and a permanent law enforcement levy starting at a rate of \$0.50 per \$1,000 of AV in 2024, the City would still run annual deficits starting in 2028 and would deplete the General Fund by 2034. **In order to reach comparable financial standing (in terms of General Fund balance) to the annexation scenario (Scenario 3), the City will need to pass a multi-year permanent levy lid lift with at least a starting rate of \$0.07 and an annual increase limit of 3% for the first five years, in addition to the two \$0.50 EMS and law enforcement levies.**

These three levies will all require voter approval. The EMS and law enforcement levies both require 60% voter approval and 40% voter turnout. The levy lid lift requires only a simple majority to pass but can only be put on the ballot in a primary or general (not special) election. In order to be in place by January 1, 2024, the levy lid lift will need to be on the ballot and pass in the 2023 primary election.

With all three levies in place, the City will maintain an annual General Fund surplus through 2028, before beginning to run a narrow annual deficit in 2029. This is because the City’s costs are expected to rise faster than the levy revenues. Though this scenario will result in approximately the same General Fund balance as Scenario 3 (Annexation) by 2029, it has a worse long term outlook than Scenario 3, with the annual deficit exceeding \$1 million by 2035. Exhibit 2 shows the General Fund annual deficit/surplus and annual ending balance for 2023-2029 under Scenario 2.

**Exhibit 2. Scenario 2: Annual General Fund Surplus/Deficit and Ending Balance, 2023-2029**

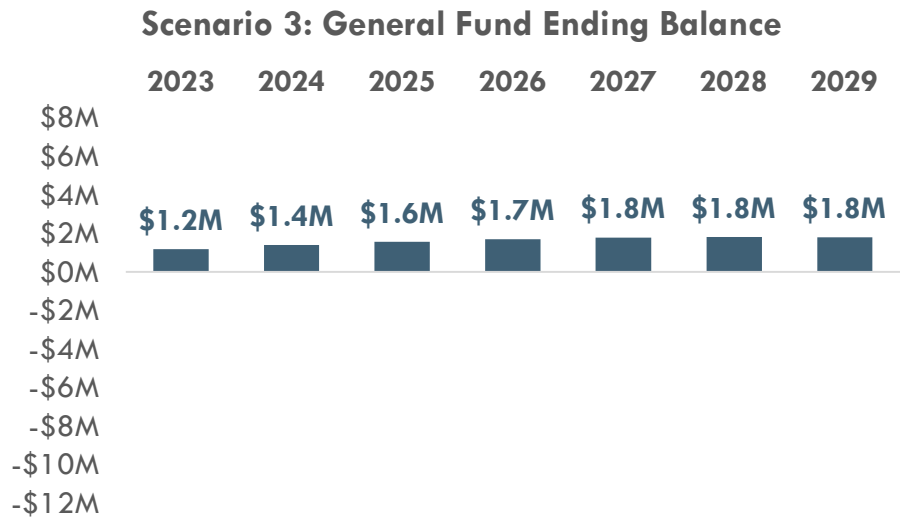
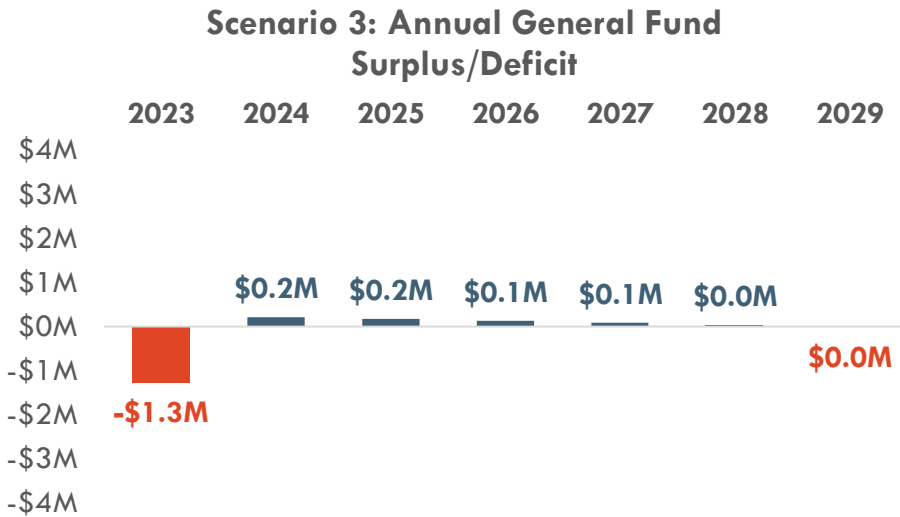


Sources: BERK projection, 2023; based on data from City of Brier, 2023; Snohomish County Assessor’s Office, 2023; US Bureau of Labor Statistics, 2022; Washington State Auditor’s Office, 2022; Washington State Department of Revenue, 2022; and Washington State Office of Financial Management, 2022.

## Scenario 3: Annexation

If the City annexes into SCRFA, it will see narrow General Fund surpluses of approximately \$30,000 to \$210,000 in each year between 2024 and 2028, with a narrow annual deficit of approximately \$20,000, which will grow over time, beginning in 2029. This scenario projects a General Fund balance of \$1.8 million at the end of 2029. Exhibit 3 shows the General Fund annual deficit/surplus and annual ending balance for 2023-2029 under Scenario 3.

**Exhibit 3. Scenario 3: Annual General Fund Surplus/Deficit and Ending Balance, 2023-2029**



Sources: BERK projection, 2022; based on data from City of Brier, 2022; Snohomish County Assessor's Office, 2022; US Bureau of Labor Statistics, 2022; Washington State Auditor's Office, 2022; Washington State Department of Revenue, 2022; and Washington State Office of Financial Management, 2022.

## Scenario 4: Annexation with Give Back

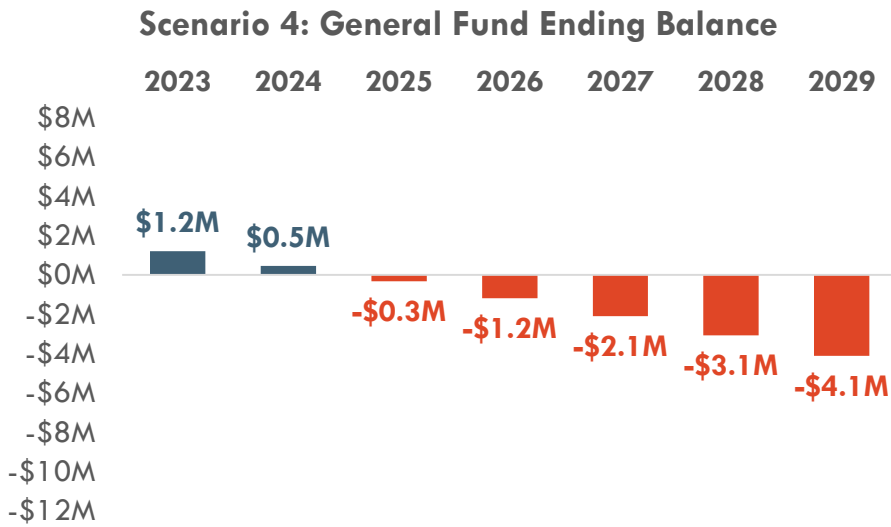
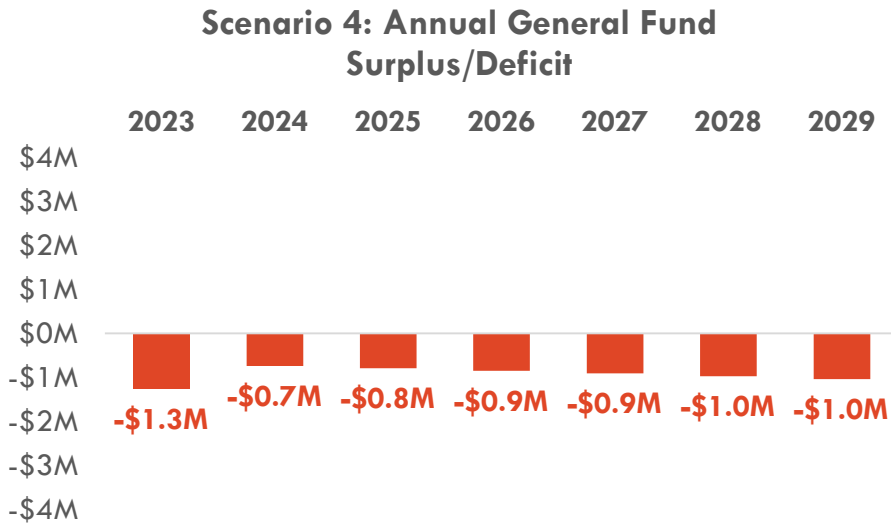
Scenario 4 explores whether it is financially feasible for the City to provide property taxpayers with a "give back" (levy rate reduction) if the City annexes into SCRFA. **If the City were to reduce its regular property tax levy by an amount equal to the costs of the SCRFA contract, less the foregone EMS levy**

revenues, in 2024, this reduction would equal \$0.37 per \$1,000 of AV. With this rate reduction, the City would still deplete its General Fund before the end of 2025, albeit approximately 4 months later than in Scenario 1 (the status quo). Exhibit 4 shows the General Fund annual deficit/surplus and annual ending balance for 2023-2029 under Scenario 4 with a give back equal to \$0.37 per \$1,000 of AV.

With even a minor rate reduction of just \$0.05 per \$1,000 of AV in 2024, the City would begin to run annual deficits in 2026. And still this would represent a give back of just \$54 to the average residential property owner in 2024, while putting the City in a significantly more precarious financial position.

**Because the City's costs are expected to grow faster than revenues under all scenarios (including annexation), a tax give back is unadvisable. If it were equal to the amount of the SCRFA contract, it would result in depletion of the General Fund before the end of 2025. Even a small rate reduction that provides only a minimal benefit to the average taxpayer relative to the typical total property tax burden still puts the City on a path towards annual deficits very quickly.**

**Exhibit 4. Scenario 4: Annual General Fund Surplus/Deficit and Ending Balance, 2023-2029**

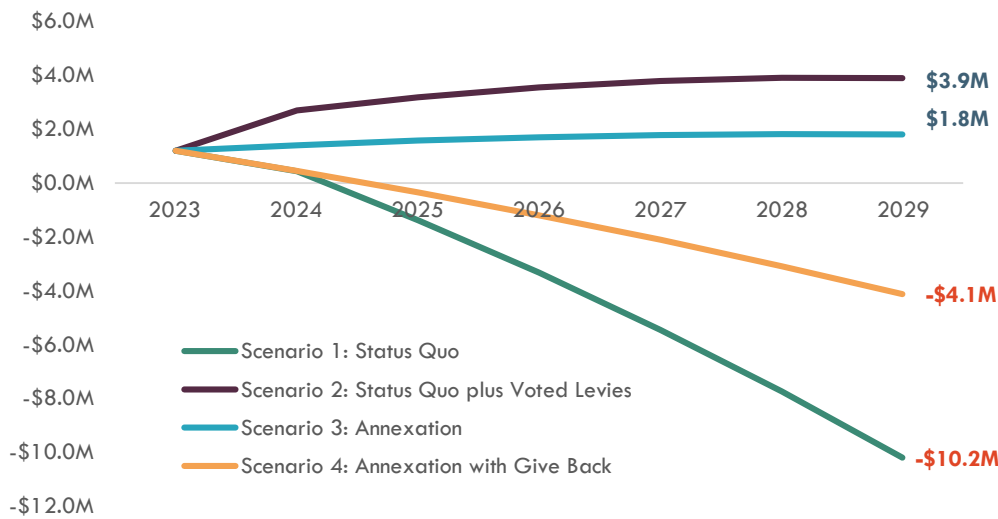


Sources: BERK projection, 2023; based on data from City of Brier, 2023; Snohomish County Assessor’s Office, 2023; US Bureau of Labor Statistics, 2022; Washington State Auditor’s Office, 2022; Washington State Department of Revenue, 2022; and Washington State Office of Financial Management, 2022.

## Scenario Comparison

Exhibit 5 shows the year-end General Fund balance under each scenario for 2023-2029. While the voted levies scenario does result in a stronger General Fund balance in 2029, this balance is eroded over time as the levy rates fall and by 2035 (not shown), it would result in a similar General Fund balance to the annexation scenario. It also results in higher property tax rates and bills for property owners than the annexation scenario.

**Exhibit 5. General Fund Balance at Year End by Scenario, 2023-2029**



Sources: BERK projection, 2023; based on data from City of Brier, 2023; Snohomish County Assessor’s Office, 2023; US Bureau of Labor Statistics, 2022; Washington State Auditor’s Office, 2022; Washington State Department of Revenue, 2022; and Washington State Office of Financial Management, 2022.

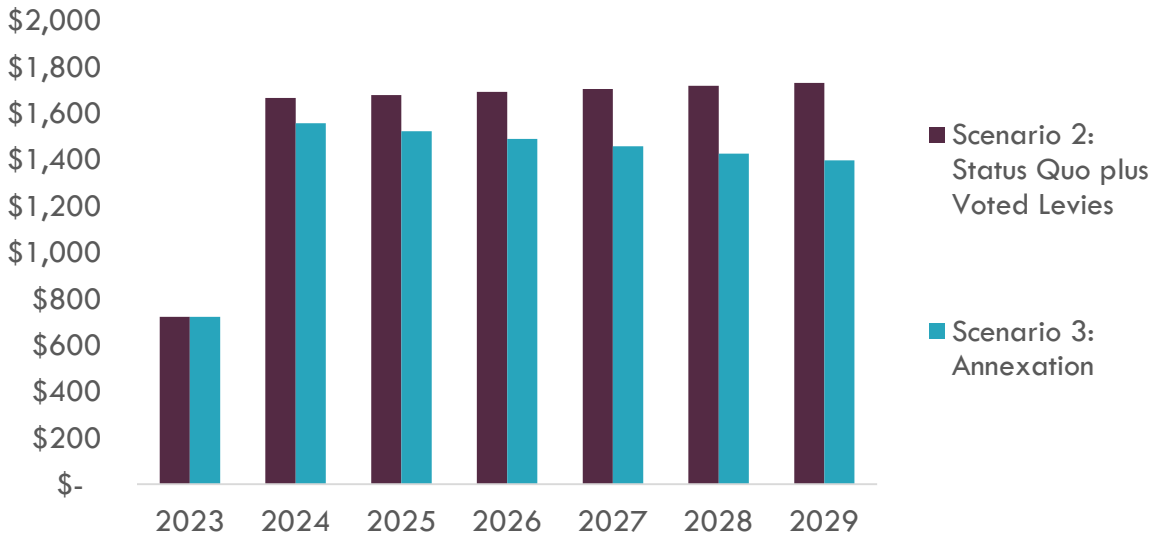
## Taxpayer Burden

It is challenging to estimate the impact of these scenarios on the average property taxpayer in Brier because the SCRFA levy rate depends on the assessed value of the whole RFA district (which is affected by annexations), and the benefit charge rates SCRFA sets. Using SCRFA’s property tax levy rates from prior years, BERK staff made a very general estimate of the possible SCRFA property tax rate in 2024, erring on the side of estimating a higher rate than is likely.

This analysis (see Exhibit 6) shows that Scenarios 2 and 3 will both result in an approximate doubling of the combined City and SCRFA property tax bill in 2024 for the owner of an average value residential property. Scenario 2 (Status Quo plus Voted Levies) results in slightly higher annual tax bills for the owner of the average value property than under Scenario 3 (Annexation). Tax bills under Scenario 1 and Scenario 4 are not compared here because both of these scenarios result in depletion of the City’s General Fund by 2025.



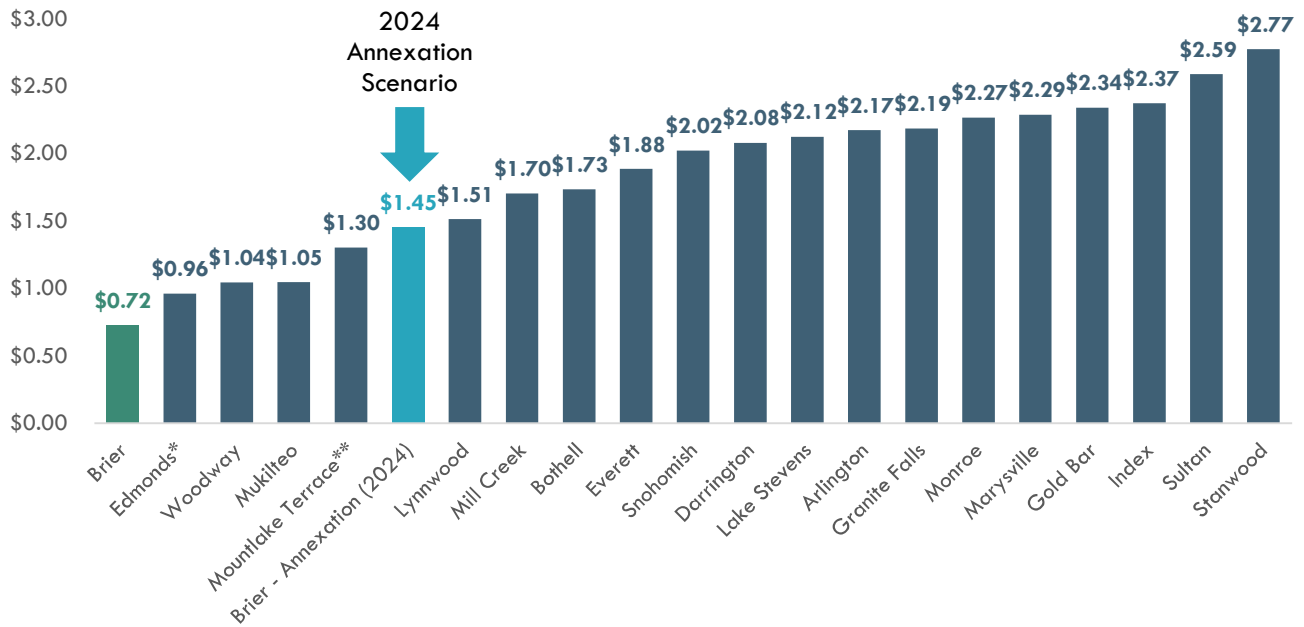
**Exhibit 6. Estimated City and RFA Property Tax Bill for Average Value Residential Property under Scenarios 2 and 3, 2023-2029**



Sources: BERK projection, 2023; based on data from City of Brier, 2023; Snohomish County Assessor’s Office, 2023; US Bureau of Labor Statistics, 2022; Washington State Auditor’s Office, 2022; Washington State Department of Revenue, 2022; and Washington State Office of Financial Management, 2022.

The City of Brier currently has a lower city property tax rate than most cities in Snohomish County. The few cities that do have lower rates than Brier have their fire/EMS services provided by another jurisdiction (fire district or RFA), and so have a higher combined city and fire district/RFA rate than Brier. Exhibit 7 compares Brier’s 2023 city property tax rate to the combined city and fire service provider rate for all other cities in Snohomish County. It also includes the estimated combined City of Brier and SCRFA property tax rate for 2024 under an annexation scenario. It shows that Brier currently has the lowest combined city and fire service provider property tax rate of any city in Snohomish County, and that the combined City of Brier and SCRFA rate in 2024 would still put Brier below the median (albeit when compared to 2023 rates) among Snohomish County cities.

**Exhibit 7. Combined City and Fire District/RFA Property Tax Rate, Snohomish County Cities, 2023, and Estimated Combined Brier Rate under Annexation, 2024, in \$ per \$1,000 AV**



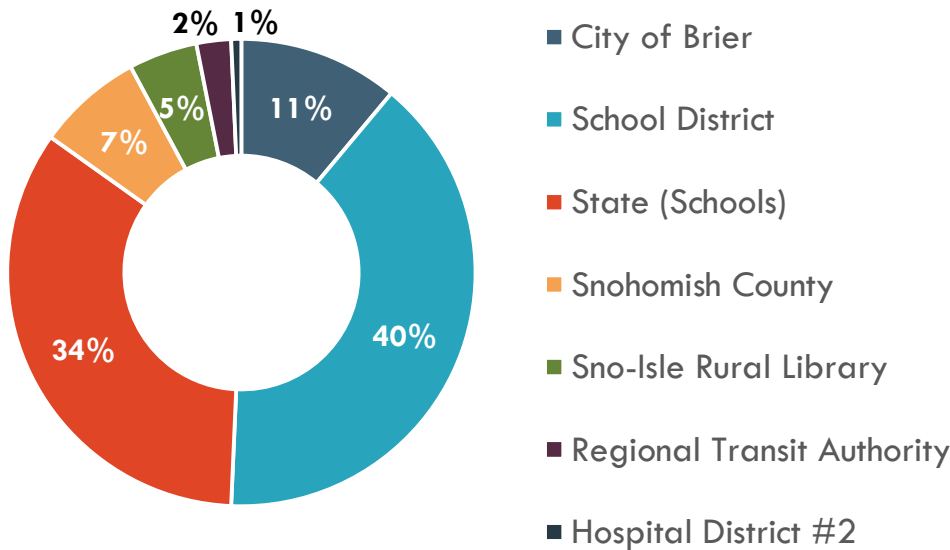
\* Edmonds contracts with SCRFA for fire and EMS services. When the current contract expires, Edmonds will likely face a similar choice as Brier is currently facing.

\*\* Mountlake Terrace is currently considering the question of annexation into SCRFA.

Sources: City of Brier, 2023; Snohomish County Assessor's Office, 2023; BERK, 2023.

One final element to consider is that the City of Brier property tax currently represents a small portion of the total property tax bill for the average Brier property owner. In 2023, the owner of an average value property in Brier will pay approximately \$6,530 in total property taxes. Of this, approximately \$720 (11%) goes to the City of Brier, while the remaining 89% goes to the School District, the State (to fund schools), the County, the Library District, the Regional Transit Authority, and the Public Hospital District. Exhibit 8 shows what portion of the property tax bill would go to each jurisdiction for the owner of the average value residential property in Brier in 2022.

**Exhibit 8. Sample Property Tax Bill Composition for Owner of an Average Value Residential Property in Brier, 2023**



Note: There are two school districts that encompass portions of the City of Brier – Edmonds School District and Northshore School District. This illustrative example uses an average of the two school districts’ levy rates for 2023 (\$2.62 and \$2.56 per \$1,000 of AV, respectively).

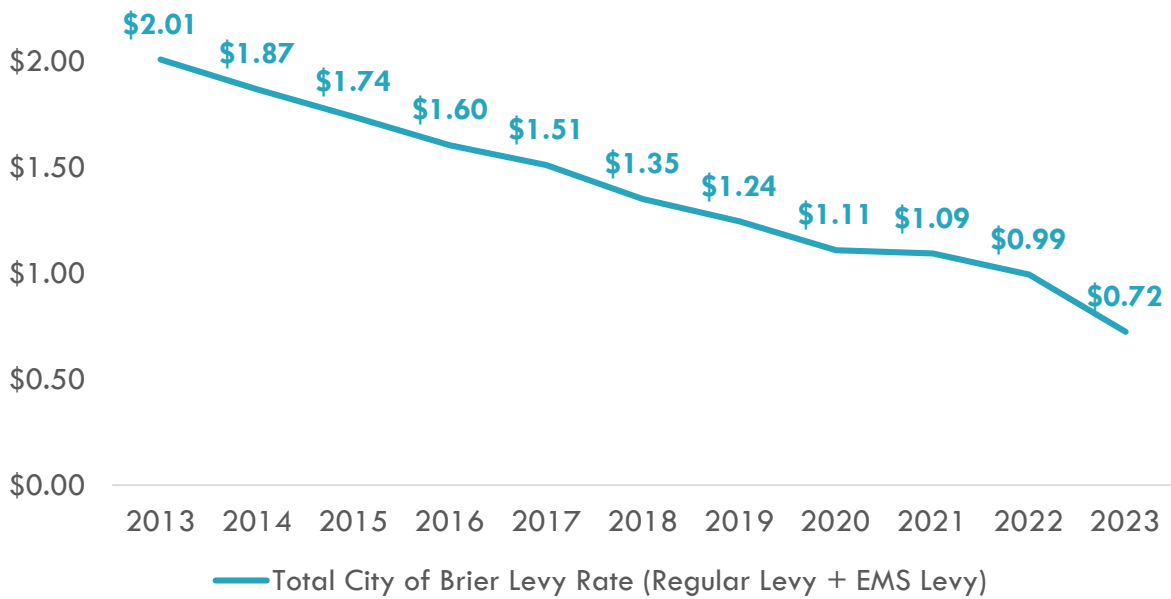
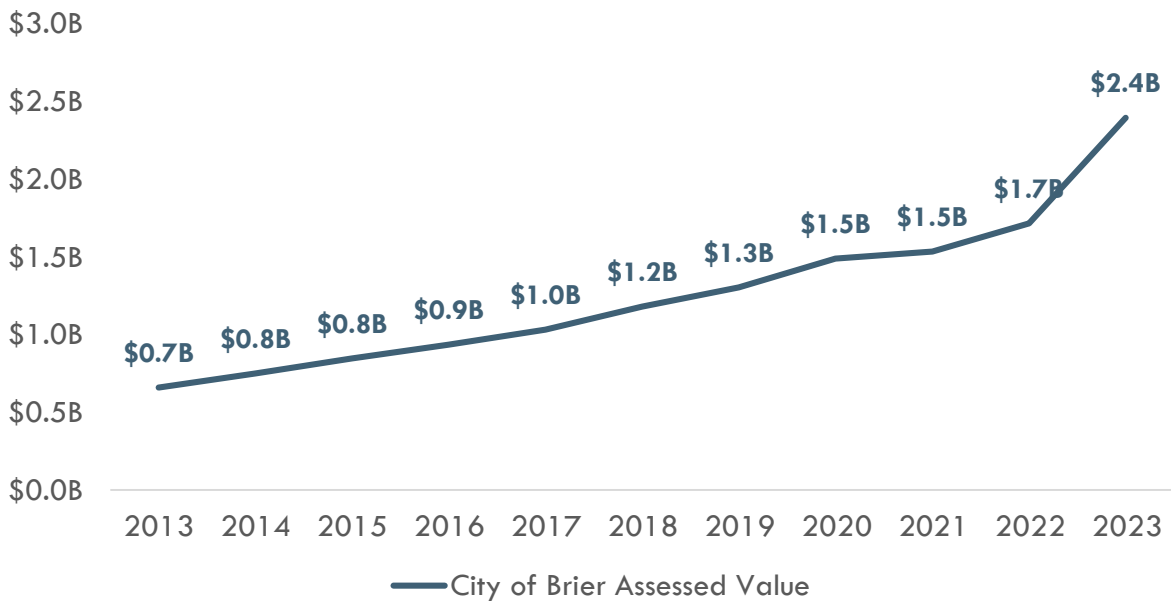
Sources: Snohomish County Assessor’s Office, 2023; BERK, 2023.

## Appendix A: Assessed Value, Levy Rate, and Property Tax Revenues

Under state law, the City’s property tax revenues can only grow by a maximum of 1% from year to year, excluding property tax revenues generated by new construction ([RCW 84.55.010](#)). While property values have been increasing dramatically in Brier in recent years, the City isn’t able to capture this value increase through property taxes because of the 1% revenue growth limit.

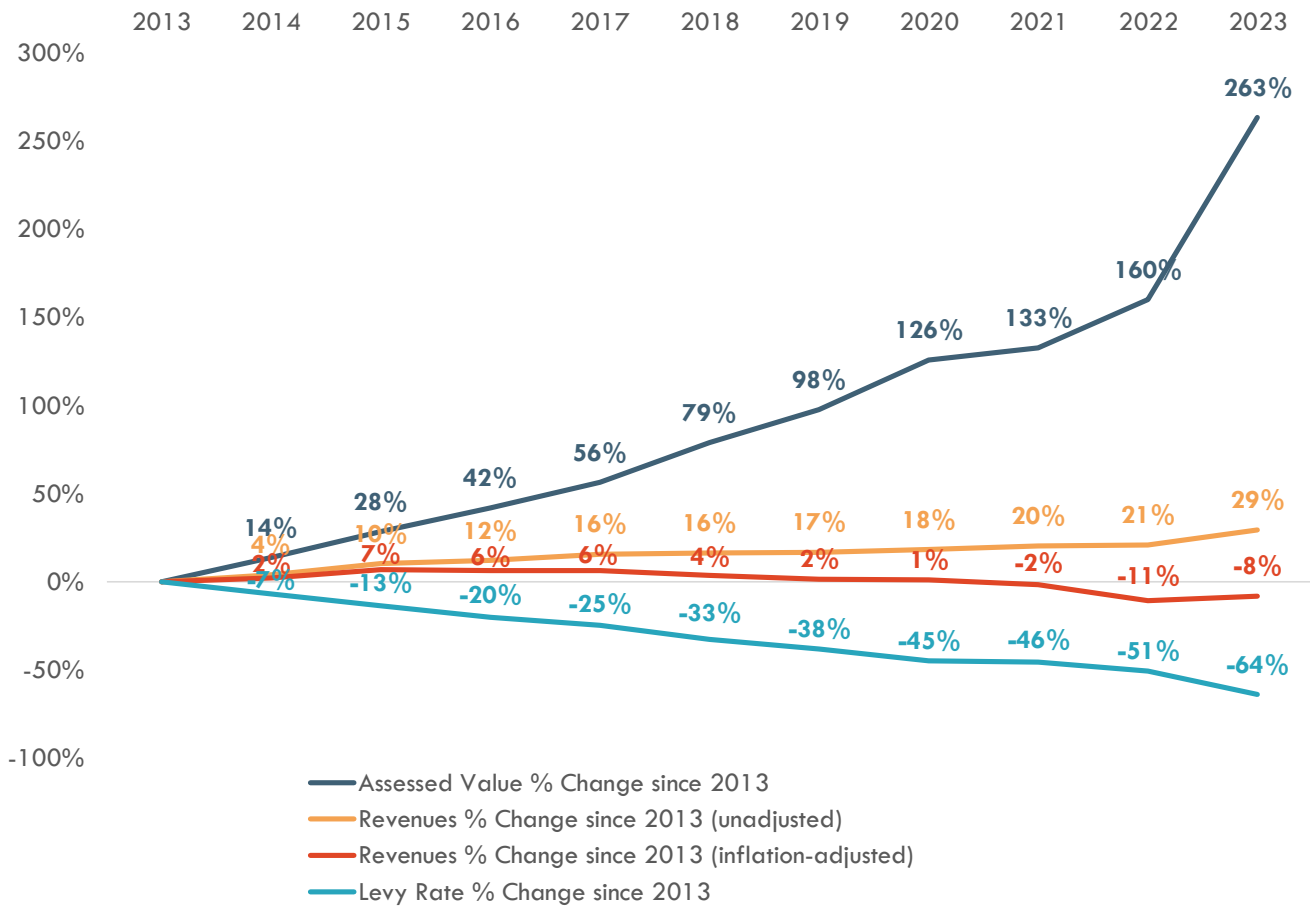
Exhibit 9 shows how the City’s AV has more than tripled since 2013. At the same time, the property tax levy rate has fallen from more than \$2.00 per \$1,000 of AV in 2013 to less than \$0.75 in 2023. The City has had to reduce the levy rate to remain compliant with the 1% revenue growth limit. Exhibit 10 shows the percent change in the City’s AV, property tax revenues, and levy rate since 2013. It shows that while AV has more than tripled (increased by 263%) over the last 10 years, annual property tax revenues have actually fallen by 8% in real (inflation-adjusted) terms and only increased by 29% in nominal (unadjusted) terms.

**Exhibit 9. City of Brier Assessed Value (in \$billions) and Levy Rate (per \$1,000 of AV), 2013-2023**



Sources: BERK, 2023; City of Brier, 2023; Snohomish County Assessor’s Office, 2023.

**Exhibit 10. Percent Change in AV, Unadjusted Property Tax Revenues, Inflation-adjusted Property Tax Revenues, and Levy Rate from 2013, 2013-2023**



Sources: BERK, 2023; City of Brier, 2023; Snohomish County Assessor's Office, 2023; US Bureau of Labor Statistics, 2022.

# Appendix B. Assumptions

## General Assumptions:

- Population projections assume annual population growth from 2022-2035 will equal the compound annual population growth rate (CAGR) for Brier between 2017 and 2022.
- Historical inflation is evaluated using the CPI-U annual index for the Seattle-Tacoma-Bellevue metro area. 2022 CPI-U values include data from the first three quarters of 2022. Future inflation is projected using a 5-year average of past inflation.

## Revenue Assumptions:

- Sales tax, utility tax, intergovernmental revenues, and other revenues are projected to remain flat on a per capita and inflation-adjusted basis. In other words, these revenues are projected to increase in proportion to population growth and to keep up with inflation.
- Property tax revenues are projected to increase by 1% each year (in accordance with state law), not including revenues generated from the value of new construction. Annual new construction values are projected to equal average historical annual values but adjusted for projected future inflation.
- Other General Fund increases are projected to equal average historical annual values but adjusted for projected future inflation.

## Cost Assumptions:

- Personnel costs (salaries, wages, and benefits) are projected to increase by 7% across the board in nominal terms in 2023. In addition, police personnel costs are expected to increase by \$160,000 in 2023.
- In 2024 and future years, personnel costs are projected to increase by 5% annually in nominal terms.
- Non-fire/EMS and non-personnel costs are projected to remain flat on a per capita and inflation-adjusted basis. In other words, these revenues are projected to increase in proportion to population growth and to keep up with inflation.

## Fire and EMS Cost Assumptions:

- The City will pay \$1,288,000 in 2022 and \$1,390,000 in 2023 to SCRFA in fire/EMS service costs.
- In 2024, if the City is NOT annexed into the RFA, the City will pay \$1,473,400 in fire/EMS contract costs (a 6% nominal increase). In 2025, if the City is NOT annexed into the RFA, the City will pay \$2.5 million in fire/EMS contract costs. If NOT annexed into the RFA, future year (after 2025) fire/EMS contract costs will stay flat on a per capita and real (inflation-adjusted) basis. In other words, these expenditures are projected to increase in proportion to population growth and to keep up with inflation.
- If the City is annexed into the RFA, the City will have no fire/EMS expenditures from 2024 onward. The City will cease to collect the EMS levy in 2024.