

**ANNEXATION TECHNICAL  
WORK GROUP  
REPORT & RECOMMENDATIONS**



**City of San Antonio**

**March 31, 2016**

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## **EXECUTIVE SUMMARY**

After nearly a decade without any significant annexation, in 2012 the San Antonio City Council requested an update of the City's Annexation Policy. The City Council approved the updated annexation policies in 2013. Subsequently in 2013, the City Council directed staff to undertake a county-wide analysis of potential annexation areas. In April 2014, City Council was presented with 30 areas for potential annexation as included in the Annexation 360 Report. The areas were selected as they ranked high when analyzed against the City Council's adopted Annexation Policy. In mid-June 2014, City Council prioritized the top five areas. In December 2014, the City Council approved a policy plan directing the Department of Planning and Community Development to initiate limited purpose annexation for five annexation priority areas. Of the five areas, three areas were proposed for Phase 1: Interstate 10 West, US Highway 281 North, and Interstate 10 East. The remaining phases would be considered in a subsequent phase.

City staff held annexation open house sessions for Phase I areas in August 2015, and the public hearing process was initiated in the fall of 2015. As a result of citizen input in early fall 2015, the Mayor and City Council requested additional time to further examine the annexation program. Two working groups were formed to provide additional analysis related to the annexation program: the Annexation Technical Work Group and the SA Tomorrow Comprehensive Plan Working Groups. The purpose of the working groups was to provide recommendations to City Council based on their review and analysis of the annexation program.

In October 2015, the City Manager convened the Annexation Technical Work Group to review and provide input on City staff's financial and growth assumptions within the 20 Year Financial Annexation Impact Study for the three annexation areas of Interstate 10 West and East and US Highway 281 North. This group consisted of a diverse representation of community and business interests. The Annexation Technical Work Group met on November 20, December 18, January 15, February 12, and March 4 for a total of five meetings. Meetings lasted an average of two hours and all members attended nearly every meeting.

Based on the Work Group's in-depth review of the City's 20 Year Financial Study and using the material within the two independently commissioned studies, they unanimously agreed that the methodology used within the City's financial study model is robust and that the growth assumptions are reasonable. The Work Group recommended a few changes be made to the financial model and that a range of net ending balances be included in the financial analysis. With these adjustments and ranges, the most likely 20 year financial general fund revenue and expense projections for the I-10 West and 281 North annexation areas continue to be financially positive while the I10 East area continues to be financially negative.

The key changes included removing from the model CPS and SAWS revenue attributed from new development and modifying the tax collection projection methodology. After reviewing nine "stress test" scenarios designed to generate a range of net ending balance outcomes over a 20 year period given different property value growth rate assumptions, the Work Group unanimously agreed that the "Baseline Model" and the "Model Replicating Growth from 1998 to 2017" represent a range of likely financial outcomes for the fiscal impact analysis of the three annexation areas. The Work Group recommended that this range of property growth rates be used within the City's 20 Year Financial Study and that the 20 year net ending balance be represented in projected future dollars as well as dollars discounted to today's dollars (using

2.6% discount rate – the City’s cost of capital) to reflect the time value of expenditures and cash flows. While 20 years has been utilized for purposes of this analysis, annexation is anticipated to be in perpetuity and therefore a finite discounting of such net financial operating impact may be much more difficult to assess.

The table below summarizes the financial results reflecting the adjustments recommended by the Work Group.

<b>Range of 20-Year Net Operating Balance</b>			
<b>(\$ in Millions)</b>			
		Base Model	Model Replicating Growth from 1998-2017
<b>IH-10 West</b>	Projected future dollars	\$96.55	\$89.92
	Discounted Cash Flow at 2.6%	\$67.17	\$62.42
<b>US 281</b>	Projected future dollars	\$106.61	\$95.66
	Discounted Cash Flow at 2.6%	\$71.56	\$63.72
<b>IH-10 East</b>	Projected future dollars	(\$150.40)	(\$156.10)
	Discounted Cash Flow at 2.6%	(\$112.90)	(\$117.05)
<b>3 Areas Combined</b>	Projected future dollars	\$52.77	\$29.48
	Discounted Cash Flow at 2.6%	\$25.83	\$9.11

**BACKGROUND**

After nearly a decade without any significant annexation, in 2012, the San Antonio City Council requested an update of the City’s Annexation Policy. The City Council approved the updated annexation policies in 2013 with the Annexation 360 Report. The updated policy provides guidance and rationale for consideration of areas for annexation within the City’s extraterritorial jurisdiction (ETJ). The Annexation Policy considers impacts to implement the Comprehensive Plan and provides City Council with specific, objective, and prescriptive guidance for making decisions about annexation and other issues within the City’s ETJ.

Subsequently in 2013, the City Council directed staff to undertake a county-wide analysis of potential annexation areas. In April 2014, City Council was presented with 30 areas for potential annexation consistent with the updated Policy in the Annexation 360 Report. In mid-June 2014, City Council prioritized the top five areas and in Summer/Early Fall 2014, City Council added resources to support the annexation program as part of the FY 2015 Budget Development Process.

In December 2014, the City Council approved a policy plan directing the Department of Planning and Community Development to initiate limited purpose annexation for five annexation priority areas which are contiguous to the city limits and within the San Antonio ETJ. Five priority areas were identified based on the evaluation criteria established by the City’s annexation policy adopted in 2013. The areas encompass 66.47 square miles and have a population of approximately 117,517.

Under limited purpose annexation, the City enforces planning and zoning ordinances, and certain city codes. During the first three years of limited purpose annexation process, property owners do not pay City property taxes, and the City does not provide police or fire protection, street maintenance, or other services. However, residents may vote in City Council elections, but not in bond elections. Upon completion of the three years period of the Limited Purpose Annexation process, the City is required to complete certain actions that could lead up to annexation for full purposes. When the area is annexed for full purposes, municipal services are provided to residents.

The five areas identified for limited purpose annexation were separated into two phases. Phase 1 areas were proposed for annexation in FY 2016 and included three areas: Interstate 10 West, US Highway 281 North, and Interstate 10 East. Phase 2 areas were proposed for annexation in FY 2017. These included US Highway 90/Loop 1604 and US Highway 151. Additional information regarding the three areas in Phase 1 includes the following:

- Interstate 10 West Area: Major gateway adjacent to La Cantera Shopping Center, Fiesta Texas, University of Texas at San Antonio, Valero, The Rim, and the NuStar Energy Headquarters. Year 1 population is 12,871; Year 20 population estimated at 21,784.
- US Highway 281 North Area: High growth areas with established neighborhoods. Year 1 population is 24,936; Year 20 population estimated at 46,844.
- Interstate 10 East Area: Major gateway with developing industrial parks characterized by dense urban area and commercial growth. Year 1 population is 40,352; Year 20 population estimated at 46,742.

Annexation open house sessions for Phase I areas were held in August 2015, and the public hearing process was initiated. As a result of citizen input in early fall 2015, the Mayor and City Council requested additional time to further examine the annexation program. Two working groups were formed to provide additional analysis related to the annexation program: the Annexation Technical Working Group and the SA Tomorrow Comprehensive Plan Working Groups. These working groups would provide recommendations to City Council based on their review and analysis of the annexation program.

The SA Tomorrow Comprehensive Plan Element Working Groups (PEWGs) are evaluating the City Council's approved annexation policies and program within the context of developing the Comprehensive Plan. The PEWGs are reviewing:

- the 31 City Council approved annexation policies adopted in 2013
- the 30 areas initially identified by staff for annexation in the Annexation 360 Report
- the five priority annexation areas (Interstate 10 East and West, Highway 281, Alamo Ranch, and US 90/1604)
- alternative annexation scenarios (e.g., annexing only commercial property)
- Emergency Service Districts impacts and benefits
- the impacts of annexation on the "central city"

Since November 2015, the PEWGs met five times with a final meeting held on March 2, 2016. The City's annexation program is being reviewed utilizing national best practices and case studies. Ultimately, the PEWGs will provide a recommendation within the context of the Comprehensive Plan that addresses the policy questions of whether, when, and where the City of San Antonio should annex. The draft Comprehensive Plan is expected to be presented to City Council in June 2016.

## **ANNEXATION TECHNICAL WORK GROUP COMPOSITION & CHARGE**

The Annexation Technical Work Group was created in October by the City Manager to provide additional analysis related to the annexation program. The Annexation Technical Work Group consisted of seven professionals representing a diverse group of community and business stakeholders. They were tasked with analyzing the City's financial and growth assumptions within the City's 20 Year Financial Annexation Impact Study. The seven individuals who served on the Work Group included:

- Roger Arriaga, San Antonio Chamber of Commerce Vice President for Public Affairs;
- Dr. Afamia Elnakat, UTSA Associate Professor of Research/Sustainable Energy Institute and SA Tomorrow Tri-Chair;
- Laurie Griffith, Executive Vice President of Texas Capital Bank's San Antonio Region and Real Estate Council member;
- Jennifer Martinez, Director of Language Services and San Antonio Outreach at Nationwide Insurance;
- Lew Moorman, Tech Bloc;
- Dr. Steve Nivin, Director and Chief Economist of the SABER Institute and Associate Professor of Economics at St Mary's University; and,
- Steve Patmon, President and Owner of SJPA and Co-Chair of SA Tomorrow's Growth and Urban Form Technical Working Group.

The Annexation Technical Work Group's charge was to review and provide input on City staff's assumptions within the 20 - Year Financial Annexation Impact Study for the three annexation areas of Interstate 10 West and East and US Highway 281 North. A number of development and financial assumptions were included, such as the number of housing starts, home values, potential discount rates in cash flow, net present value of tax collection, and projected commercial and multi-family development.

Additionally, the Annexation Technical Work Group was tasked with analyzing City and independently commissioned third-party reports that would evaluate San Antonio's Annexation financial assumptions, within the City's 20 - Year Financial Annexation Impact Study in comparison to established national best practices.

## ISSUE

### Timeline

The Annexation Technical Work Group met on November 20, December 18, January 15, February 12, and March 4 for a total of five meetings. Meetings lasted an average of two hours and all members attended nearly every meeting. City staff members from the Planning Department, the Office of Management and Budget, and the City Manager's Office were available to answer questions identified during each meeting. Questions requiring more detailed responses were prepared in a timely manner for the following meeting. Below are the topics discussed at each of the meetings.

- November 20, 2015: The Group reviewed the proposed scope of its charge and received an in-depth overview of the three annexation areas in Phase I (Interstate 10 West and East and US Highway 281 North).
- December 18, 2015: The Group conducted an in-depth review of the revenue, expenditure, and growth assumptions used in the City's Annexation 20 Year Financial Impact Study model. Fiscal impacts projected by the model for each of the three annexation areas were reviewed.
- January 15, 2016: The Group closely reviewed two independent third party reports to evaluate the City staff's financial analysis and growth assumptions. The City commissioned Public Financial Management, Inc. and Tech Bloc commissioned HR&A Advisors to develop the third party reports.
- February 12, 2016: The Group analyzed and discussed potential changes to the Financial Impact model including fine-tuning the base-line assumptions, staff recommended changes, property value growth rate, sensitivity analysis models, and a discounted cash flow analysis.
- March 4, 2016: The Group reviewed operating cash-flow scenarios, capital projects and debt capacity for the three annexation areas, and formulated and unanimously approved the Group's findings and recommendations.

### Third Party Independent Reports

As part of the charge of the Work Group, two consultants were engaged to conduct independent reviews of the financial calculations and growth assumptions underlying the City's assessment of potential financial impacts from the proposed annexation areas. In addition to reviewing the assessment and its underlying assumptions, they also evaluated the City's annexation policy and program in light of national best practices. The City's third party report was prepared by Public Financial Management, Inc. (PFM) and Tech Bloc's report was prepared by HR&A Advisors, Inc. (HR&A).

The PFM study was based on a detailed evaluation of official City documents and calculations, as well as a review of current best practice research and 30 annexation models produced by municipalities across the country. PFM's findings found that the City's fiscal impact model conforms with most of the best practices identified in the literature and found the City's methodologies are among the more robust of all the models reviewed. Though not required, the City's policy to develop a long-term fiscal impact model prior to annexation was found to be both prudent and strategic. The PFM study provided some recommendations to enhance the City's annexation fiscal impact analysis. These recommendations included introducing a high and low growth scenario model. The report also recommended a modification of the sales tax collection model. Further, the report strongly recommended the City develop an assessment of the cost of not proceeding with the proposed annexation.

The HR&A study reviewed literature related to annexation and urban growth patterns, along with background material about San Antonio and the areas targeted for annexation in the 360 Program. HR&A found that population and revenue growth are by far the most important assumptions within the fiscal assessment, and as such, require the highest degree of scrutiny. HR&A recommended that the Work Group and the City evaluate and revise the fiscal impact assessment and conduct additional due diligence before moving forward with annexation. HR&A also noted that any financial assessment is subject to a high degree of risk given the sensitivity to property growth values and changing demographic trends in suburban and urban property values. The report cited changing growth patterns in other American cities where urban growth is accelerating and suburban growth is slowing, although San Antonio's growth pattern has so far bucked this national trend. HR&A also recommended that the City develop a strategic growth framework that allows it to evaluate the impacts of annexation against other economic development investments available to the City and clearly outline the core reasons for proposed annexation beyond fiscal impacts which are inherently hard to determine given the complex factors that can swing the cash flows over time.

Both PFM and HR&A submitted reports and made presentations to the Work Group on January 15, 2016. Their findings and assessments were reviewed and evaluated by the Work Group as they developed their final recommendations.

### **Recommendation Formulation**

As a result of information presented by City staff and outside consultants over the span of five meetings, the Annexation Technical Work Group recommended the following changes to the City's 20 Year Financial Impact Study Model:

- Exclude CPS and SAWS incremental revenue on new development
- Modify Sales Tax methodology
- Include revenues for telecommunication charges
- Run alternative scenarios (sensitivity analysis) that generate a range of outcomes
- Include discounted cash flows of the net operating cash flow to reflect the upfront investment and later stage returns. The purpose of the discount cash flow analysis is to use the concept of the time value of money to place an estimated value on the investment the City would be making over the 20-year period, in today's dollars. All future cash flows are discounted using a 2.6% discount rate, which is based on



Bloomberg's 20 year municipal bond index as of January 7, 2016. The sum of the 20 years of annual net operating impact for each area represents the net present value, or the total net financial operating impact of the annexation in today's dollars. While 20 years has been utilized for purposes of this analysis, annexation is anticipated to be in perpetuity and therefore a finite discounting of such net financial operating impact may be much more difficult to assess.

After incorporating these recommended changes to the model, City staff generated nine scenario models designed to generate a range given different assumptions. Alternative scenarios were developed based on growth assumptions, property tax growth rate, and break even points. None of the scenarios include a change in the City's property tax rate. In addition, the projected public safety costs reflect a managed cost of healthcare at \$13,500 per police and fire uniformed position. This cost represents the last healthcare cost agreed to by the City and Police Union in September 2015 before the Police Union announced ending collective bargaining negotiations. In FY2016, the City estimates to spend \$19,000 annually per uniformed employee. Alternative scenarios included:

- Baseline Model: This model represents projected year-over-year growth in property values consistent with the City's Debt Plan. This includes a growth rate on base values of 6.5% in year 1, 4.0% in year 2, and 3.0 % for years 3 through 20. The growth rates in years 1 and 2 were developed using most recent data provided by the Bexar Appraisal District. The growth rate for years 3 through 20 of 3.0% are equivalent to the historical growth rate of base values throughout the city, which is a conservative projection relative to the historical growth rates in the annexation areas under consideration. The projected development over 20 years is based on the Master Development Plans currently in place in the annexation areas.
- Low Growth (20% below base): This scenario is consistent with the growth in property values included in Baseline Model. The projected development is based on 20% less growth than currently identified in the Master Development Plans.
- High Growth (20% higher than base): This scenario is consistent with the growth in property values included in Baseline Model. The projected development is based on 20% more growth than currently identified in the Master Development Plans.
- Growth (50% lower than base): This scenario is consistent with the growth in property values included in Baseline Model. The projected development is based on 50% less growth than currently identified in the Master Development Plans.
- Property Value growth reflects 1997 to 2016: This scenario assumes that year-over-year base growth in property values from year 1 to year 20 would replicate actual 20-year growth from 1997 to 2016. The projected development over 20 years is based on the Master Development Plans currently in place in the annexation areas.

- Property Value growth reflects 1998 to 2016, and 2017 projection: This scenario assumes that year-over-year base growth in property values from year 2 to year 20 would replicate actual 19 year growth from 1998 to 2016. Year 1 assumes a growth rate of 6.5%, consistent with fiscal year 2017 of the City's Debt Plan. The projected development over 20 years is based on the Master Development Plans currently in place in the annexation areas.
- Property Value growth reflects one-half growth of 1997 to 2016: This scenario assumes that year-over-year base growth in property values from year 1 to year 20 would replicate one-half of the actual 20-year growth from 1997 to 2016. The projected development over 20 years is based on the Master Development Plans currently in place in the annexation areas.
- Break-even individually: This scenario assumes a year-over-year base growth in property values so to break even at the end of the 20-year period. The projected development over 20 years is based on the Master Development Plans currently in place in the annexation areas.
- Reflects growth at 2.9%: This scenario assumes that year-over-year base growth in property values from year 1 to year 20 would be 2.9% over the 20-year period. The projected development over 20 years is based on the Master Development Plans currently in place in the annexation areas.

### **Capital Program**

The Annexation 360 Fiscal Analysis focused primarily on revenues associated with the Maintenance & Operations portion of the City property tax rate. The City's property tax rate is 55.827 cents for every \$100 property valuation. Of that, 34.677 cents provides for General Fund operating expenses such as police, fire, libraries, code enforcement, parks, and animal care services. This revenue, along with associated expenses, is included in the 20-year Net Operating Fiscal Impact Analysis included in this report.

The remaining 21.150 cents, or approximately 38% of the total property tax revenue to the City, represents the component of the tax rate that is dedicated to Debt Service and can be used to finance capital infrastructure such as major thoroughfare street construction, sidewalks, drainage, fire stations, libraries, animal care facilities, parks, and other city facilities. The revenue associated with this portion of the property tax is not included as part of the net operating fiscal impact.

In addition to the 20-year Net Operating Fiscal Impact Analysis, City staff conducted a study to determine infrastructure needs in the annexation areas. These non-operating capital projects could be financed through the issuance of debt and paid for with the Debt Service portion of property tax revenue, as mentioned above. These identified capital projects and assumptions are described in the following paragraphs.

## **Streets, Traffic, Sidewalks, and Drainage**

The Transportation and Capital Improvement (TCI) Department prepared an estimate of infrastructure needs to include streets, sidewalks, traffic signals, and drainage.

Street needs were identified by using Bexar County Street PCI data and identifying streets with a Pavement Condition Index (PCI) less than 40, Bexar County Capital Improvement Program and identifying unfunded capital projects, development and traffic patterns, and using aerial and street level maps. The streets identified for reconstruction also include bike lanes, sidewalks, and drainage as part of the capital project. A total of approximately 10 miles of street reconstruction projects were identified within the three annexation areas.

Traffic signal cost estimates were developed by determining the number of current mast arm signals that need upgrades, the number of span-wire signals that need to be brought to City standards, and the new traffic signal needs based on department knowledge of development and traffic patterns. Additionally, all elementary schools, middle schools, and high schools would have the new City standard of overhead flashing beacons. A total of 17 schools were identified within the three annexation areas.

Sidewalk needs were identified by driving the areas and using aerial maps to identify gaps in sidewalk connectivity along public streets. A total of 116 miles of sidewalk gaps were identified across all three annexation areas.

Drainage needs were determined by identifying unfunded projects as part of the Regional Watershed Master Plans and the Bexar County Flood Control Program. Also, the County's High Water Detection System locations were reviewed to identify low water crossings in the annexation areas. Currently, Bexar County has four low-water crossing locations with HALT (High-Water Alert Lifesaving Technology) that alerts drivers when the road is underwater. All four locations are within the IH-10 West annexation area. To align with current City practices, these streets would be elevated to remove the low water crossing hazards. The estimated cost may include construction of a bridge or increasing the capacity of a channel.

## **Fire Stations**

Each annexation area would require one interim fire station in the first year of full purpose annexation to provide similar service as currently exists. These interim stations and associated equipment totaling approximately \$10 million would be funded from current debt capacity since the property tax revenue will not yet be available to the City upon full purpose annexation. Within the first ten years, it is anticipated that one new permanent station would be constructed in each area to replace the interim station.

## **Animal Care, Libraries and Parks**

Annexation would require additional kennels be added at the existing animal care facility to accommodate the anticipated stray animals in the IH-10 East area. For parkland acquisition and development, needs were assessed based on the City's current ratio of parkland per resident. The cost includes the acquisition of the land as well as basic infrastructure including parking,

lighting, water fountains, picnic units, and portable toilets. The study identified the potential need for one branch library to serve the IH-10 East and 281 North areas.

The following tables provide the estimated capital infrastructure costs and debt capacity by area:

<b>Estimated Capital Infrastructure Cost</b>				
<b>(\$ in Millions)</b>				
<b>Service Category</b>	<b>IH10 West</b>	<b>281 North</b>	<b>IH10 East</b>	<b>Combined</b>
Fire Stations	\$8.9	\$9.3	\$8.4	\$26.6
Streets, Sidewalks, & Drainage	\$69.1	\$28.8	\$99.1	\$197.0
Animal Care Facility, Parks, and Libraries	\$5.1	\$4.1	\$21.2	\$30.3
<b>Total Need</b>	<b>\$83.2</b>	<b>\$42.1</b>	<b>\$128.6</b>	<b>\$254.0</b>

<b>Projected 20-Year Debt Capacity from Property Tax</b>				
<b>(\$ in Millions)</b>				
<b>Scenario</b>	<b>IH10 West</b>	<b>281 North</b>	<b>IH10 East</b>	<b>Combined</b>
Base Model	\$108.2	\$179.9	\$79.0	\$367.1
Model Replicating Growth from 1998-2017	\$105.7	\$175.7	\$76.7	\$358.0

## **WORK GROUP RECOMMENDATIONS**

Based on the Work Group’s in-depth review of the City’s 20 Year Financial Study and using the material within the two independently commissioned studies, the Work Group unanimously agreed that the methodology used within the City’s financial study model is robust and that the growth assumptions are reasonable. The Work Group recommended a few changes be made to the financial model and that a range of net ending balances be included in the final analysis as described in greater detail below.

The Annexation Technical Work Group recommends the following changes be made to the City’s 20 Year Financial Impact Study Model:

- Exclude CPS and SAWS incremental revenue on new development
- Modify the Sales Tax methodology used within the model
- Include revenues for telecommunication charges
- Run alternative scenarios (sensitivity analysis) that generate a range of financial outcomes/net ending balances
- Include discounted cash flows of the net operating cash flows

Finally, the Work Group requested that the City develop nine “stress test” scenarios for the three annexation areas of I10 West and East and 281 North designed to generate a range of net ending balance outcomes over a 20 year period utilizing different property value growth rate assumptions. The Work Group reviewed the various scenarios and unanimously agreed that the “Baseline Model” and the “Model Replicating Growth from 1998 to 2017” represent a range of likely outcomes for the fiscal impact analysis. The Work Group recommends that this range of property growth rates be used within the City’s 20 Year Financial Study and that the 20 year net ending balance be represented in projected future dollars as well as discounted by 2.6% to reflect today’s cash flows.

On October 20, 2015, when the Annexation 360 Preliminary Fiscal Analysis was presented to Council, the positive benefit for the three combined areas was \$187 million. As stated in the Transmittal Memo, the projected revenues in the financial analysis included the portion of CPS and SAWS revenues the City would receive if additional development were to occur in the annexation study areas. The report stated that in future financial scenarios, these revenues could be removed as the City would receive this increment regardless of potential annexation. Removing these amounts reduced the positive benefit for the three combined areas to \$109 million. With the Work Group’s additional recommended changes, the results of the amended model are \$53 million to \$29 million in projected future cash flows.

With these adjustments and ranges, the likely 20 year financial projections for the I-10 West and 281 North annexation areas continue to be financially positive while the I-10 East area continues to be financially negative. As a result of this determination, the group agreed that any decision to annex these three areas should be considered as a package so as not to result in a negative financial outcome to the City. Each of the three annexation areas would result in an initial investment of city funds. For the first three years of the model, I-10 West would require an initial investment of \$8.9 million in projected future dollars; US-281 would require an initial investment of \$16 million in projected future dollars; and I-10 East would produce negative cash flows every year of the 20-year annexation analysis. When combining the three annexation areas, the initial investment would total \$43.8 million in projected future dollars plus an additional \$10 million for temporary fire stations and fire equipment. As shown in Table 1, the financial results over a 20 year period are positive for I-10 West and US 281 while the I-10 East area is financially negative. In the aggregate, the three areas are positive ranging from \$29 million to \$53 million in projected future dollars. The values discounted to today’s dollars range from \$9 million to \$25 million. While 20 years has been utilized for purposes of this analysis, annexation is anticipated to be in perpetuity and therefore a finite discounting of such net financial operating impact may be much more difficult to assess.

Table 1 provides the range of projected net ending operating balances for the two recommended growth scenarios. This table reflects the projected net ending balance of revenue received less projected expenses for City services within the three annexation areas. The information is presented separately for each annexation area of I-10 West, 281 North, and I-10 East and also is presented in a combined total. Both future cash flows and discounted cash flow estimates are included. The amounts shown do not include property tax revenue that would be received for the debt service portion of the City's property tax rate.

**Table 1**

<b>Range of 20-Year Net Operating Balance (\$ in Millions)</b>			
		Base Model	Model Replicating Growth from 1998-2017
<b>IH-10 West</b>	Projected future dollars	\$96.55	\$89.92
	Discounted Cash Flow at 2.6%	\$67.17	\$62.42
<b>US 281</b>	Projected future dollars	\$106.61	\$95.66
	Discounted Cash Flow at 2.6%	\$71.56	\$63.72
<b>IH-10 East</b>	Projected future dollars	(\$150.40)	(\$156.10)
	Discounted Cash Flow at 2.6%	(\$112.90)	(\$117.05)
<b>3 Areas Combined</b>	Projected future dollars	\$52.77	\$29.48
	Discounted Cash Flow at 2.6%	\$25.83	\$9.11

Table 2 provides the annual rate of property value growth over a 20 year period for the two selected growth scenarios.

<b>Table 2</b>					
<b>Property Value Growth</b>					
Year	Baseline Model	Model Replicating Growth from 1998- 2017	Year	Baseline Model	Model Replicating Growth from 1998- 2017
1	6.50%	6.50%	11	3.00%	8.02%
2	4.00%	0.23%	12	3.00%	10.64%
3	3.00%	1.08%	13	3.00%	6.75%
4	3.00%	1.33%	14	3.00%	-2.42%
5	3.00%	4.06%	15	3.00%	-4.07%
6	3.00%	5.07%	16	3.00%	-1.62%
7	3.00%	2.00%	17	3.00%	-0.22%
8	3.00%	4.12%	18	3.00%	2.99%
9	3.00%	1.47%	19	3.00%	5.20%
10	3.00%	4.12%	20	3.00%	10.74%
			<b>Average</b>	<b>3.23%</b>	<b>3.00%</b>