

Appendix V-B

Determining the Financial Benefits of Annexation

Is the area being considered for annexation a net financial benefit to the city?

GIVEN:

1. 20 lot subdivision
2. Development over a 5 year period.
3. 4 houses built per year.
4. Lots valued at \$10,000.
5. Houses valued at \$55,000.
6. Tax rate = \$.25/\$ 100 valuation
7. City water & sewer services installed by the developer.
8. Customers outside city limits pay 1-1/2 times city rates.
9. No houses built until annexed (1st year).

Year	City Property Taxes +		City Utility Revenues -		City Operating Costs =		Net Benefit To City	
	Property Taxes If Outside City Limits	Property Taxes if Annexed	Outside	Annexed	Outside	Annexed	Outside	Annexed
1st	\$0	\$500	\$828	\$552	\$0	\$870	\$828	\$182
2nd	\$0	\$1,050	\$1,656	\$1,104	\$0	\$1,139	\$1,656	\$1,015
3rd	\$0	\$1,600	\$2,484	\$1,656	\$0	\$1,408	\$2,484	\$1,848
4th	\$0	\$2,150	\$3,312	\$2,208	\$0	\$1,677	\$3,312	\$2,681
5th	\$0	\$2,700	\$4,140	\$2,760	\$0	\$1,946	\$4,140	\$3,514
Totals	\$0	\$8,000	\$12,420	\$8,280	\$0	\$7,040	\$12,420	\$9,240

CONCLUSION:

You may not want to annex this area, because the net financial benefit (annexed benefits - outside benefits = \$9,240 - \$12,420 = net financial benefit) for annexing this area is a negative \$3,180. Since the tax rate level is the main determination in this type of analysis, then any major change in the tax rate can effect the conclusion of this type analysis. For example, if the tax rate were \$.42, then there would be a positive net benefit resulting from the annexation of \$2,260.

*Includes only costs for street, public safety, street lights, etc. Utility operating costs are not included, but if they were this would decrease the net benefit even more.