



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

WORKING DRAFT

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

MEMORANDUM

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To: Ms. Laurel Prevetti, Deputy Director
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City of San Jose

From: Keyser Marston Associates, Inc.

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Date: April 19, 2007

Subject: Draft Preliminary Estimates of Annual General Fund Impacts to be generated by Evergreen East Hills Development

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In accordance with your request, Keyser Marston Associates, Inc. (KMA) has undertaken a preliminary evaluation of the annual fiscal impacts on the City's General Fund to be generated by the development of the Evergreen East Hills area. KMA has evaluated the annual recurring impacts upon build-out of each of the four areas that comprise the Evergreen East Hills Project under three different development scenarios. A summary of the three alternative scenarios are as follows:

	Scenario 1 – Existing General Plan	Scenario 2 – Property Owners' Proposal	Scenario 3 – City Staff Proposal
Residential Units	217 units	4,730 units	4,300 units
Industrial	4.66 million square feet	0 square feet	1.77 million square feet
Retail/office	0 square feet	495,000 square feet	525,000 square feet

When reviewing these preliminary findings, it is important to keep in mind that the analysis is an evaluation of impacts upon build-out of the entire program. As such, it does not reflect impacts resulting from varying absorption rates. This consideration is significant to the Evergreen East Hills analysis because impacts of residential development are significantly different than the impacts of industrial development. Because many City services are driven by population, the cost of providing services to residential developments is typically significantly greater than the cost of providing

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services to industrial areas. And, in development scenarios that consist of a mix of residential and industrial (Scenarios 1, and 3) the revenues from the industrial development can serve to off-set the cost of providing services to the residential units.

While Scenarios 1 and 3 provide for a significant amount of industrial development, there is no indication that industrial development will actually proceed concurrently with residential development. Because of market conditions and the consideration that industrial development has not already occurred on the sites despite their availability, there is a relatively high probability that residential development will proceed at a faster rate and precede the industrial development. To account for this possible scenario, KMA has also evaluated a variation of Scenario 3, which reflects the assumption that residential development occurs but the industrial development does not. This additional scenario is identified as Scenario 3a.

These estimates should be viewed as preliminary draft estimates due to the following: 1) they have not been reviewed by City departments; and 2) there are some assumptions that we are still in the process of verifying.

Draft Preliminary Estimates

Annual Impacts Without Property Owner Assessments/Exactions - As shown on Table 1, it is estimated that each of the four development scenarios will generate a recurring annual net deficit to the City's General Fund unless a portion of annual maintenance costs and services are funded by property owners. The estimated annual deficits absent a system of assessments are as follows:

	Estimated Annual Net General Fund Revenues (Expenses) Upon Build-out With <u>Enhanced Police Service Standards</u> but Without Property Owner Exactions	Estimated Annual Net General Fund Revenues (Expenses) Upon Build-out With <u>Existing Police Service Standards</u> but Without Property Owner Exactions
Scenario 1	(\$1,031,000)	(\$465,000)
Scenario 2	(\$3,638,000)	(\$1,670,000)
Scenario 3	(\$3,185,000)	(\$1,212,000)
Scenario 3a	(\$3,628,000)	(\$1,906,000)

As shown, providing for an enhanced level of police protection has a significant impact on the size of the projected annual fiscal deficit. For Scenarios 2 and 3 the marginal difference is approximately \$2 million per year. Another key driver of the deficit is the

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consideration that property taxes to be generated by the Arcadia site will not be available to the General Fund to fund service expenses because the site is located within a redevelopment project area. The deficit associated with the Arcadia site accounts for over 50% of the projected deficit for the entire Evergreen East Hills area.

Scenario 1 is estimated to generate the smallest annual deficit. However, the probability of this industrial scenario being built in the near term is low. Scenario 3 is anticipated to generate the next smallest annual deficit, but similar to Scenario 1 these findings are driven by the assumption that 1.8 million square feet of industrial space will be built concurrent with the residential development. Without the industrial space, Scenario 3 would generate an annual deficit consistent with the deficit projected for Scenario 2.

Annual Impacts With Property Owner Assessments/Exactions – It is common for property owners to bear a portion of the annual cost to maintain infrastructure serving a neighborhood. The financing structures that are used consist of assessment districts, such as a landscaping and lighting district, and special taxes. As shown on Table 1, if a portion of annual maintenance costs were to be borne by the property owners through a combination of property tax assessments and special taxes, each of the development scenarios would be, at a minimum, fiscally neutral to the City's General Fund. If fiscal neutrality is established as the requirement, it is estimated that an average assessment equal to .04% to .14% of assessed value would be required to meet the condition of neutrality, depending on the service level for police protection services. The estimated assessment required for each scenario to reach neutrality is as follows:

	Estimated Annual Assessment/Special Tax as a Percent of Assessed Value Required to Achieve Fiscal Neutrality assuming <u>Enhanced Police Service</u> Standards	Estimated Annual Assessment/Special Tax as a Percent of Assessed Value Required to Achieve Fiscal Neutrality assuming <u>Existing Police Service</u> Standards
Scenario 1	.07%	.03%
Scenario 2	.11%	.05%
Scenario 3	.10%	.04%
Scenario 3a	.14%	.07%

The current average tax rate in the Evergreen Areas does not exceed 1.2%. With an additional assessment/tax to cover a portion of the cost to service the area, it is estimated that the average all-in tax rate in the Evergreen Area would not exceed 1.24% to 1.34%. While this tax rate range and strategy should be further discussed with the

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property owners, it is not inconsistent with the tax rates borne by other residential neighborhoods.

Major Revenue Sources and Expense Categories – The revenue and expense estimates for Scenarios 1, 2, and 3 are presented in Table 2. The most significant sources of General Fund revenues are: property taxes; property taxes in-lieu of motor vehicle license fees; and sales taxes. For Scenario 2, property taxes account for approximately 38% of General Fund revenues, VLF revenues (including property taxes in-lieu of VLF) account for 20%, and sales taxes account for approximately 17% of General Fund revenues.

The key expense categories include: police protection, fire protection, road maintenance, and library operating expenses. For Scenario 2, police protection expenses are estimated to range from \$2.4 to \$4.3 million annually (21% to 34% of General Fund expenses), fire protection expenses are estimated to total \$2.1 million, road maintenance costs are estimated to total \$2.6 million and the cost to operate additional library space is estimated to total \$1.2 million annually.

Impacts of Each of the Four Development Areas - As shown on Table 2, each of the four development areas is anticipated to generate an annual deficit to the General Fund under the assumption that police protection service levels are enhanced. The Arcadia site is anticipated to generate the largest deficit (\$1.3 to \$1.9 million annually under Scenario 2) because this site is located within a redevelopment project area and will therefore not generate any property tax revenue to the General Fund.

Key Differences between Fiscal Analysis Prepared by CBRE for the Campus Industrial area and the Subject Fiscal Analysis - The methodology used by the CBRE fiscal impact analysis of the campus industrial site differed from the methodology used in this fiscal impact analysis of the entire Evergreen East Hills area. Major differences include the following:

- This analysis has estimated additional expenses associated with public safety (fire and police), road maintenance, park maintenance and operations, and library operations based on the specific needs of the Evergreen Project as established by the EIR, the project's design, and City policy. The CBRE analysis estimated annual costs in these categories using an "average cost" approach based on the City's existing budget and per capita ratios. This difference in approach has a significant impact on the magnitude of the annual expense to the General Fund to serve the area.

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- This analysis also includes motor vehicle license fee revenues as a revenue source to the General Fund, while it appears that the CBRE analysis excluded these revenues as a source.

Key Assumptions

Fire Department Expenses – The analysis assumes that a ladder truck company is staffed to serve the development. The annual cost to staff the ladder truck is estimated at \$2.1 million per year. This assumption is consistent with the findings of the EIR and the City's adopted service standards.

Police Department Expenses - Two service levels have been analyzed. The first reflects the Police Department's request that a service standard of 1.82 officers per 1,000 residents be established. The second reflects current service standards in the City. As shown on Table 2, it is estimated the service standard desired by the Police Department would result in an annual cost of \$4.3 million for Scenario 2. In comparison, maintaining existing service levels would cost approximately \$2.4 million per year.

Park Operating and Maintenance Expenses – Included in the analysis is the annual cost to operate and maintain all parks, recreational facilities, and open space being proposed by the owners' amenity package. For park and open space facilities proposed on the opportunity sites, 100% of estimated operating and maintenance costs have been allocated to the development site in which the park will be located. For park and open space facilities not located on opportunity sites, though funded by the developers' proposed package, estimated annual operating and maintenance costs have been allocated to each development site based on its proportionate share of population within 2-miles of the location of the park. The cost of operating the Lake Cunningham regional-serving park included in the owners' amenity package has not been allocated to any of the development sites, based on direction from the Parks and Recreation Department.

Property Taxes Generated by the Arcadia site – It is our understanding that the Arcadia site is located within a redevelopment project area. As a result, incremental property taxes beyond the amount generated in the base year will be allocated to the Redevelopment Agency and will not be available to the General Fund.

Library Expenses – The analysis assumes that a need for 8,000 sf of library space is generated by residents in Scenarios 2 and 3, based on General Plan service level requirements and confirmation from Library Department staff. Annual employee costs,

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maintenance costs per square foot, and costs to update computer systems and materials were provided by Library Department staff, resulting in a total yearly expense of \$1.2 million.

Sales Tax Revenues – Revenues were estimated based on taxable resident spending, taxable employee spending, and taxable sales from new retail establishments, as in the Coyote Valley Specific Plan Fiscal Impact Analysis. San Jose’s capture rate of spending from each of these sources is based on estimates in the Coyote Valley and Campus Industrial fiscal impact analyses, as well as KMA’s experience in similar projects.

Parks, Recreation, and Neighborhood Services Expenses – If San Jose secures \$30 million in transportation bond funds, additional monies will be available for Community Amenities. Maintenance costs that would be generated by any additional amenities have not been modeled.

**TABLE 1
SUMMARY OF ESTIMATED ANNUAL IMPACTS ON GENERAL FUND AT BUILDOUT
ALTERNATIVE DEVELOPMENT SCENARIOS
EVERGREEN EAST HILLS
FISCAL IMPACT ANALYSIS
CITY OF SAN JOSE, CALIFORNIA**

WORKING DRAFT 4/19/2007

Recurring Annual General Fund Impact	SCENARIO 1 Industrial Development (Existing)	SCENARIO 2 Residential Development (Developer)	SCENARIO 3 Resid. + Indust. Development (City staff)	SCENARIO 3A No Industrial Develops
Revenues	\$4,309,000	\$9,180,000	\$9,212,000	\$7,679,000
Expenses				
Police I - Departmental Request	\$5,340,000	\$12,818,000	\$12,397,000	\$11,307,000
Police II - Existing Levels of Service	\$4,774,000	\$10,850,000	\$10,424,000	\$9,585,000
Net Impact before a Portion of Expenses are Privatized				
Police I - Departmental Request	(\$1,031,000)	(\$3,638,000)	(\$3,185,000)	(\$3,628,000)
Police II - Existing Levels of Service	(\$465,000)	(\$1,670,000)	(\$1,212,000)	(\$1,906,000)
Net Impact with a Portion of Expenses Privatized				
Police I - Departmental Request	\$0	\$0	\$0	\$0
Police II - Existing Levels of Service	\$0	\$0	\$0	\$0

**TABLE 2
SUMMARY ESTIMATE OF ANNUAL GENERAL FUND IMPACTS
EVERGREEN EAST HILLS
FISCAL IMPACT ANALYSIS
CITY OF SAN JOSE, CALIFORNIA**

WORKING DRAFT 4/19/2007

	SCENARIO 1 - Industrial Development (Existing)					SCENARIO 2 - Developer Proposed Residential Development					SCENARIO 3 - City Proposed Residential + Industrial Development				
	Arcadia	EVCC	PHGC	Campus Indust.	Total	Arcadia	EVCC	PHGC	Campus Indust.	Total	Arcadia	EVCC	PHGC	Campus Indust.	Total
RECURRING GENERAL FUND REVENUES															
Secured Property Tax	\$0	\$0	\$0	\$1,753,000	\$1,753,000	\$0	\$201,000	\$744,000	\$2,575,000	\$3,521,000	\$0	\$201,000	\$692,000	\$2,513,000	\$3,406,000
Unsecured Property Tax	\$0	\$0	\$0	\$125,000	\$125,000	\$0	\$5,000	\$0	\$0	\$5,000	\$0	\$5,000	\$1,000	\$48,000	\$54,000
Construction and Conveyance Tax	\$5,000	\$0	\$0	\$21,000	\$26,000	\$15,000	\$4,000	\$19,000	\$61,000	\$99,000	\$17,000	\$4,000	\$18,000	\$51,000	\$90,000
Sales Tax (1% local share)	\$65,000	\$0	\$0	\$328,000	\$393,000	\$498,000	\$162,000	\$222,000	\$708,000	\$1,590,000	\$514,000	\$162,000	\$207,000	\$632,000	\$1,515,000
Use Tax	\$0	\$0	\$0	\$256,000	\$256,000	\$4,000	\$7,000	\$0	\$0	\$11,000	\$4,000	\$7,000	\$2,000	\$97,000	\$111,000
Public Safety Tax	\$3,000	\$0	\$0	\$0	\$3,000	\$20,000	\$6,000	\$10,000	\$27,000	\$63,000	\$21,000	\$6,000	\$10,000	\$20,000	\$56,000
Motor Vehicle License Fees	\$97,000	\$0	\$0	\$794,000	\$891,000	\$311,000	\$94,000	\$353,000	\$1,120,000	\$1,879,000	\$359,000	\$94,000	\$329,000	\$1,105,000	\$1,887,000
Franchise Tax	\$27,000	\$0	\$0	\$149,000	\$176,000	\$178,000	\$55,000	\$87,000	\$220,000	\$540,000	\$183,000	\$55,000	\$83,000	\$219,000	\$539,000
Utility Tax	\$51,000	\$0	\$0	\$275,000	\$326,000	\$329,000	\$101,000	\$160,000	\$407,000	\$998,000	\$338,000	\$101,000	\$153,000	\$404,000	\$996,000
Fines, Forfeitures, Penalties	\$9,000	\$0	\$0	\$47,000	\$55,000	\$56,000	\$17,000	\$27,000	\$69,000	\$170,000	\$57,000	\$17,000	\$26,000	\$69,000	\$169,000
Business License Tax	\$0	\$0	\$0	\$280,000	\$280,000	\$27,000	\$17,000	\$0	\$0	\$44,000	\$27,000	\$17,000	\$2,000	\$106,000	\$153,000
Gas Tax	\$13,000	\$0	\$0	\$0	\$13,000	\$78,000	\$22,000	\$40,000	\$102,000	\$242,000	\$80,000	\$22,000	\$38,000	\$75,000	\$215,000
Other Licenses / Permits	\$0	\$0	\$0	\$8,000	\$8,000	\$4,000	\$1,000	\$2,000	\$4,000	\$10,000	\$4,000	\$1,000	\$1,000	\$6,000	\$12,000
Other Departmental Fees / Charges	\$0	\$0	\$0	\$3,000	\$3,000	\$3,000	\$1,000	\$1,000	\$4,000	\$9,000	\$3,000	\$1,000	\$1,000	\$4,000	\$9,000
TOTAL	\$271,000	\$0	\$0	\$4,038,000	\$4,309,000	\$1,522,000	\$694,000	\$1,667,000	\$5,297,000	\$9,180,000	\$1,607,000	\$694,000	\$1,562,000	\$5,349,000	\$9,212,000
RECURRING GENERAL FUND EXPENSES															
General Government	\$7,000	\$0	\$0	\$41,000	\$48,000	\$49,000	\$15,000	\$24,000	\$60,000	\$147,000	\$50,000	\$15,000	\$23,000	\$60,000	\$147,000
Public Safety - Fire Protection	\$326,000	\$0	\$0	\$1,774,000	\$2,100,000	\$693,000	\$213,000	\$337,000	\$857,000	\$2,100,000	\$713,000	\$213,000	\$322,000	\$852,000	\$2,100,000
Public Safety - Police Protection I OR	\$168,000	\$0	\$0	\$1,174,000	\$1,342,000	\$1,437,000	\$444,000	\$696,000	\$1,768,000	\$4,345,000	\$1,464,000	\$441,000	\$659,000	\$1,781,000	\$4,345,000
Public Safety - Police Protection II	\$120,000	\$0	\$0	\$655,000	\$776,000	\$784,000	\$241,000	\$382,000	\$970,000	\$2,376,000	\$805,000	\$241,000	\$364,000	\$963,000	\$2,372,000
Capital Maint. - General Services	\$10,000	\$0	\$0	\$55,000	\$65,000	\$66,000	\$20,000	\$32,000	\$82,000	\$201,000	\$68,000	\$20,000	\$31,000	\$81,000	\$200,000
Capital Maint. - Transportation	\$324,000	\$0	\$0	\$858,000	\$1,183,000	\$406,000	\$0	\$514,000	\$1,669,000	\$2,589,000	\$406,000	\$0	\$514,000	\$1,459,000	\$2,380,000
Capital Maint. - Landscaping	\$128,000	\$0	\$0	\$298,000	\$426,000	\$74,000	\$0	\$187,000	\$565,000	\$827,000	\$74,000	\$0	\$187,000	\$529,000	\$791,000
Capital Maint. - Sewer	\$12,000	\$0	\$0	\$20,000	\$32,000	\$10,000	\$0	\$30,000	\$83,000	\$123,000	\$10,000	\$0	\$30,000	\$66,000	\$106,000
Community Services - Library	\$0	\$0	\$0	\$0	\$0	\$395,000	\$111,000	\$205,000	\$522,000	\$1,232,000	\$458,000	\$125,000	\$217,000	\$433,000	\$1,232,000
Community Services - PRNS	\$30,000	\$0	\$0	\$0	\$30,000	\$221,000	\$2,000	\$316,000	\$364,000	\$904,000	\$222,000	\$2,000	\$315,000	\$207,000	\$746,000
Community Services - PBCE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,000	\$1,000	\$0	\$0	\$0	\$1,000	\$1,000
City-Wide Expenses	\$17,000	\$0	\$0	\$95,000	\$112,000	\$114,000	\$35,000	\$55,000	\$140,000	\$344,000	\$117,000	\$35,000	\$53,000	\$139,000	\$343,000
Vehicle M&O Transfer	\$0	\$0	\$0	\$1,000	\$2,000	\$2,000	\$0	\$1,000	\$2,000	\$5,000	\$2,000	\$0	\$1,000	\$2,000	\$5,000
TOTAL - POLICE I	\$1,023,000	\$0	\$0	\$4,317,000	\$5,340,000	\$3,467,000	\$840,000	\$2,398,000	\$6,113,000	\$12,818,000	\$3,584,000	\$852,000	\$2,351,000	\$5,611,000	\$12,397,000
TOTAL - POLICE II	\$975,000	\$0	\$0	\$3,799,000	\$4,774,000	\$2,814,000	\$637,000	\$2,084,000	\$5,315,000	\$10,850,000	\$2,925,000	\$651,000	\$2,056,000	\$4,793,000	\$10,424,000
NET ANNUAL IMPACT - POLICE I	(\$752,000)	\$0	\$0	(\$279,000)	(\$1,031,000)	(\$1,945,000)	(\$146,000)	(\$731,000)	(\$816,000)	(\$3,638,000)	(\$1,977,000)	(\$158,000)	(\$789,000)	(\$262,000)	(\$3,185,000)
NET ANNUAL IMPACT - POLICE II	(\$704,000)	\$0	\$0	\$239,000	(\$465,000)	(\$1,292,000)	\$57,000	(\$417,000)	(\$18,000)	(\$1,670,000)	(\$1,318,000)	\$43,000	(\$494,000)	\$556,000	(\$1,212,000)

TABLE 2 (continued)
SUMMARY ESTIMATE OF ANNUAL GENERAL FUND IMPACTS
EVERGREEN EAST HILLS
FISCAL IMPACT ANALYSIS
CITY OF SAN JOSE, CALIFORNIA

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	SCENARIO 3A - City Proposed				
	Residential + Industrial Development				
	Arcadia	EVCC	PHGC	Campus Indust.	Total
RECURRING GENERAL FUND REVENUES					
Secured Property Tax	\$0	\$201,000	\$692,000	\$1,847,000	\$2,740,000
Unsecured Property Tax	\$0	\$5,000	\$1,000	\$0	\$6,000
Construction and Conveyance Tax	\$17,000	\$4,000	\$18,000	\$44,000	\$83,000
Sales Tax (1% local share)	\$514,000	\$162,000	\$207,000	\$508,000	\$1,391,000
Use Tax	\$4,000	\$7,000	\$2,000	\$0	\$13,000
Public Safety Tax	\$21,000	\$6,000	\$10,000	\$20,000	\$56,000
Motor Vehicle License Fees	\$359,000	\$94,000	\$329,000	\$804,000	\$1,586,000
Franchise Tax	\$183,000	\$55,000	\$83,000	\$162,000	\$483,000
Utility Tax	\$338,000	\$101,000	\$153,000	\$300,000	\$892,000
Fines, Forfeitures, Penalties	\$57,000	\$17,000	\$26,000	\$51,000	\$151,000
Business License Tax	\$27,000	\$17,000	\$2,000	\$0	\$47,000
Gas Tax	\$80,000	\$22,000	\$38,000	\$75,000	\$215,000
Other Licenses / Permits	\$4,000	\$1,000	\$1,000	\$3,000	\$9,000
Other Departmental Fees / Charges	\$3,000	\$1,000	\$1,000	\$3,000	\$8,000
TOTAL	\$1,607,000	\$694,000	\$1,562,000	\$3,816,000	\$7,679,000
RECURRING GENERAL FUND EXPENSES					
General Government	\$50,000	\$15,000	\$23,000	\$44,000	\$132,000
Public Safety - Fire Protection	\$796,000	\$238,000	\$360,000	\$706,000	\$2,100,000
Public Safety - Police Protection I OR	\$1,458,000	\$437,000	\$658,000	\$1,292,000	\$3,844,000
Public Safety - Police Protection II	\$805,000	\$241,000	\$364,000	\$714,000	\$2,123,000
Capital Maint. - General Services	\$68,000	\$20,000	\$31,000	\$60,000	\$179,000
Capital Maint. - Transportation	\$406,000	\$0	\$514,000	\$1,065,000	\$1,985,000
Capital Maint. - Landscaping	\$74,000	\$0	\$187,000	\$418,000	\$680,000
Capital Maint. - Sewer	\$10,000	\$0	\$30,000	\$55,000	\$95,000
Community Services - Library	\$458,000	\$125,000	\$217,000	\$433,000	\$1,232,000
Community Services - PRNS	\$222,000	\$2,000	\$315,000	\$207,000	\$746,000
Community Services - PBCE	\$0	\$0	\$0	\$0	\$1,000
City-Wide Expenses	\$117,000	\$35,000	\$53,000	\$103,000	\$307,000
Vehicle M&O Transfer	\$2,000	\$0	\$1,000	\$1,000	\$4,000
TOTAL - POLICE I	\$3,661,000	\$872,000	\$2,388,000	\$4,385,000	\$11,307,000
TOTAL - POLICE II	\$3,008,000	\$676,000	\$2,093,000	\$3,807,000	\$9,585,000
NET ANNUAL IMPACT - POLICE I	(\$2,054,000)	(\$178,000)	(\$826,000)	(\$569,000)	(\$3,628,000)
NET ANNUAL IMPACT - POLICE II	(\$1,401,000)	\$18,000	(\$531,000)	\$9,000	(\$1,906,000)