
Bayview Ridge Fiscal Impact Analysis

October 2, 2013

Prepared for:

Skagit County Planning and Development Services

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ECONorthwest specializes in economics, planning, and finance. Established in 1974, ECONorthwest has over three decades of experience helping clients make sound decisions based on rigorous economic, planning and financial analysis.

ECONorthwest gratefully acknowledges the substantial assistance provided by staff at Skagit County Planning and Development Services. Many other firms, agencies, and staff contributed to other research that this report relied on.

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1 Executive Summary

This report analyzes the potential fiscal impacts of the proposed Bayview Ridge Subarea (Subarea) development on Skagit County, the Burlington-Edison School District, and Skagit County Fire District 6. The analysis considers both the one-time impacts associated with infrastructure development and the ongoing impacts from operations and maintenance. Comparing the total costs and revenues to the County and other districts from the new development supports findings regarding the fiscal sustainability of the development, and informs policy choices about funding the new development.

1.1 The Bayview Ridge development

The Bayview Ridge Subarea is a 4,011-acre area located in the Skagit Valley, approximately one mile west of the City of Burlington and one-and-a-half miles northwest of the City of Mount Vernon. At present, the Subarea includes just over 1,000 acres of developable land. This analysis addresses the fiscal impacts of potential new master planned development on these 1,000 acres. Although Skagit County Planning and Development Services (PDS) has not completed a detailed master plan for this development, it has articulated the following general framework in a Subarea Plan (SAP) for the development, which, with some minor modifications, also underpins the projections of fiscal impacts in this report:

- Development will occur from 2014 through 2025, as described in the SAP
- 3,800 new residents will move to the subarea from 2014 through 2025, for a total resident population of 5,600 at build out
- The average household will have 2.5 persons
- Residential development will occur at an average density of 5 units per acre
- The developer will fund new infrastructure within residential and commercial developments, including private drainage systems and local access roads

1.2 Methods and limitations

ECONorthwest (ECO) modeled two development scenarios provided by PDS, and compared it to a “counterfactual” scenario that approximates the fiscal impacts of accommodating the same amount of growth without the Bayview Ridge development. Scenario A approximates the development scenario presented in the SAP. Scenario B differs from Scenario A in that it includes

additional acres of light industrial development. The counterfactual is necessary to isolate the fiscal impact of this particular development from the fiscal impact of growth in general. Growth is projected to occur in Skagit County even if this development does not move forward. And, growth that occurs anywhere in the County will have fiscal impacts. The counterfactual assumes that the 3,800 residents that would have settled in Bayview Ridge would settle elsewhere in the County, and that the 110 acres of additional industrial development would not occur. Countywide planning policies prescribe that 80% of growth occurs in cities and urban growth areas and 20% occurs in rural areas. The counterfactual scenario assumes the same split.

The analysis separately projects costs and revenues in each of the three development scenarios, and then compares them to determine whether or not total revenues are greater than total costs. To determine costs to the County and districts, ECO reviewed capital improvement plan documents and interviewed County service providers about their expected capital and operating and maintenance expenses. ECO worked with BERK Consultants to estimate revenues based on assumptions about the likely quality, value, and timing of new development at Bayview Ridge.

Fiscal impacts are calculated for the buildout period. A longer or shorter analysis period would lead to different results; implications of this assumption are described along with major findings.

Overall, because plans for the area are still conceptual in nature, and the development program is likely to change as development occurs, these assumptions are best understood as providing an order-of-magnitude comparison of likely cost and revenue impacts at full build-out, rather than a specific year-by-year cash flow analysis.

1.3 Findings for Skagit County Government

Exhibit E-1 compares total costs to total revenues in each of the scenarios, and finds a net positive impact of **\$6.3 million** in Scenario A and **\$7.8 million** in Scenario B over the assumed build-out period.

Exhibit E-1. Overview of Fiscal Impacts of Bayview Ridge Development on Skagit County, Washington in 3 Scenarios, 2014-2025

	Scenario A	Scenario B	Counterfactual (net factor)	Total Net A	Total Net B
Total Revenues	\$14,476,000	\$15,987,000	\$2,253,000	\$12,223,000	\$13,734,000
Total Costs	\$18,529,000	\$18,529,000	\$12,594,000	\$5,935,000	\$5,935,000
Net Fiscal Impact of Bayview Ridge:				\$6,289,000	\$7,799,000

Source: ECONorthwest, 2013. All values in \$2013 and rounded to nearest thousand.

Note: BERK Consultants calculated revenues in all scenarios.

Following are findings specific to the *cost* estimates. The analysis finds a total of about **\$4.1 million¹** in costs associated with parks, about **\$1.8 million** in costs associated with provision of law enforcement, and **\$0** for transportation and drainage facilities for a total of **\$5.9 million** that are attributable to the development at Bayview Ridge.

- **Transportation costs** to the County from the Bayview Ridge development are expected to be zero, according to information available as of this report from County Public Works staff. Additional analysis of transportation costs may produce a different result. This analysis assumes: (1) up-front capital expenditures to develop new internal roads, are expected to be covered by the developer; (2) ongoing operations and maintenance of the roads facilities are expected to be such a small portion of the total County operating and maintenance budget that County staff felt they were not calculable; further, it is possible that internal roads would remain in private ownership, in which case any operating and maintenance costs would be funded by the homeowners. This is a very important set of assumptions, as road systems tend to be among the more expensive pieces of infrastructure to serve a master planned community. Public Works will undertake further analysis to estimate costs to construct the Peterson to Josh Wilson connector (which is necessary to serve Bayview Ridge), and to what portion is allocable to Bayview Ridge developers. They will also further evaluate operating and maintenance costs.
- **Costs associated with the provision of drainage facilities** for Bayview Ridge are also expected to be net zero, though the total costs from a cash flow perspective are planned to be relatively high, at about \$12 million.

¹ All numbers in \$2013. ECO used a 2.5% inflation rate on project costs and values, and a 5.85% discount rate on all net present value calculations throughout the report.

Stormwater and drainage are addressed in basin-wide systems, and determining how a specific development will affect that system is complicated. The Drainage Utility is currently investing in improvements to the system in the vicinity of Bayview Ridge, but those projects are necessary to support the entire drainage system and would be completed whether or not the Bayview Ridge project moves forward. The County incurs no additional costs for drainage impacts that are caused by (or attributable *only* to) the Bayview Ridge development. It is possible that, in the later term, additional projects will be necessary that will support Bayview Ridge.

- **Parks** costs include both capital costs (development of new parks) and operation and maintenance costs, while **law enforcement costs** are entirely for increasing staffing capacity to support new development.

Overall, the total net impact of the Bayview Ridge development is strongly positive for the County during the build-out period, though more information about transportation costs is needed. Following are some additional observations and comments:

- **Before accounting for the counterfactual scenario, costs outweigh revenues.** However, about 66% of total costs are not directly attributable to the Bayview Ridge development, but are costs that would be incurred as a result of general, County-wide growth regardless of the Bayview project moving forward. Total costs should not be compared directly to revenues generated from Bayview Ridge; they would better be compared to total, County-wide revenues. For this reason, Exhibit E-1 above compares only the net costs and net revenue figures.
- **While the overall net impact is positive, the annual impact may sometimes be negative.** This fiscal impact analysis evaluates total costs relative to total revenues, with insufficient certainty in assumptions to support the annualized County budgeting processes. However, costs tend to be “lumpy”: new parks result in big capital expenses in certain years. Revenues, on the other hand, tend to be relatively smooth, ramping up overtime as new development occurs.
- **The total impact is positive during the build-out period even when revenue source restrictions are considered.** As described in the full report, many of the individual revenue sources (which are summed in Exhibit E-1 to show total revenues) are restricted. Road levy funds, for example, may only be used to support roads projects, and there are no new County roads costs assumed in this analysis. The current levy and sales tax revenues have the fewest restrictions on their use; REET

revenues are applicable to only capital expenses. These sources together comprise roughly 72% of total revenues, and still exceed total cost. More detailed cash flow analysis would be needed to determine how the timing of each of the revenues coming on line would compare to the timing of needed capital and operating costs.

- **While on the whole, the net results are positive, over a longer analysis period, the results by service category would differ:**
 - The net impact for transportation costs could continue to be positive even when more information is available regarding capital and operating expenses. The County collects property taxes on the road fund from the new development, while all internal roads are funded by the developer. Given these assumptions, even if some transportation projects were identified that required investment in the Subarea, it is possible that they could be funded through available transportation-specific revenue sources. As planning for the development moves forward, ECO recommends re-assessment of transportation cash flow (including possible mitigation measures such as impact fees) to better understand the impacts over a longer timeframe than this analysis considers.
 - Over a longer analysis period, the results are less certain for parks and public safety. Many of the revenue sources are one-time sources associated with construction. Ongoing operating costs will continue to accrue, while revenues will attenuate.
- **The County is slightly better off in Scenario B than in Scenario A.** This is due to the fact that Scenario B has more industrial development, which generates more revenues.

Overall, the picture is positive for the County over the analysis period, as a significant amount of relatively high-value development generates revenues that benefit the County without significant capital expenditures accruing to the County.

1.4 Findings for other districts

This analysis also considered the impacts to two key service providers to the Bayview Ridge Subarea: the Burlington-Edison School District and Skagit County Fire District 6. Both of these service providers anticipate capital projects to support the new development, and increased operating and maintenance costs associated primarily with additional staff.

The Burlington-Edison School District expects about **\$20 million** in capital and about **\$20 million in** operating and maintenance expenses (\$2013, including only costs specific to Bayview Ridge) over the course of the study period (2014 – 2025). Just **\$6.4** or **\$7.2 million** in O&M levy revenues (depending on scenario) offset those costs during the study period.²

The fiscal impacts to the school district differ between operating costs separately from capital costs:

- During the study period and using the assumptions in this analysis, O&M costs to the District total about \$20 million (half of costs). Revenues from the O&M levy are just \$7 or \$8 million. Over time, the O&M costs are not covered entirely by the levy. However, the school also receives an allocation of State funds based on an allocation model that accounts for levels of staffing, class sizes, and number of students. It is beyond the scope of this assignment to evaluate these revenues, but they may assist with offsetting O&M costs.
- Capital costs in Bayview Ridge are not funded through the District's existing bond levy. Additional resources would be needed.

Fire District 6 anticipates about **\$1.3 million** in net new expenditures during the study period to serve Bayview Ridge. About **\$1.5 or 1.6 million** in revenues (depending on scenario) offset those costs. The revenues and costs during the study period are close to equal, and end slightly positive.

² The new development will also generate about \$4 million in revenues for the District's bond levy, but because the bond rate is set to raise a total amount, revenue from Bayview Ridge development would simply lower the burden on other households in the District.

2 Introduction and Background

This report analyzes the potential fiscal impacts of the proposed Bayview Ridge Subarea (Subarea) development on Skagit County and other key service providers.

Three questions frame this analysis:

1. How do the expected fiscal costs of the development (which include the costs of providing County services and infrastructure) compare to the expected fiscal benefits (or tax revenues)? In other words, does the project “pencil?”
2. What range of fiscal impacts might the development have on local schools and fire service providers? While these are separate districts with a separate fiscal structure, the County recognizes the critical nature of the services these districts provides, and wanted to inform their thinking regarding policies in the Subarea with an understanding of likely fiscal impacts to these districts.
3. What are policy, financial, or other strategies for mitigating fiscal costs? The County asked ECONorthwest to consider its options in situations where costs exceed revenues.

The analysis considers both the one-time impacts associated with infrastructure development and the ongoing impacts from operations and maintenance. Comparing the total costs and revenues to the County from the new development supports findings regarding fiscal sustainability of the development.

2.1 Overview of the Bayview Ridge Subarea

The Bayview Ridge Subarea is a 4,011-acre area located in the Skagit Valley, approximately one mile west of the City of Burlington and one-and-a-half miles northwest of the City of Mount Vernon. The Subarea encompasses a 3,944-acre ‘non-municipal urban growth area.’

The Subarea now accommodates urban levels of industrial, commercial, and residential development, in addition to large areas of currently undeveloped land. According to the Bayview Ridge Subarea Plan (SAP) produced in 2008, the Subarea currently has 763 acres of aviation-related development, about 660 acres

of commercial or industrial development, and 350 acres of residential development.³

At present, the Subarea includes just over 1,000 acres of developable land. **This analysis addresses the fiscal impacts of potential new master planned development on these 1,000 acres.** According to the SAP, “the remaining undeveloped properties are generally large, providing an opportunity for master planning.”⁴ Although PDS does not yet have a detailed master plan for this development,⁵ it has articulated the following general framework in the SAP, which, with some minor modifications, also underpin the projections of fiscal impacts described in this report:

- Development will occur from 2014 through 2025
- 3,800 new residents will move to the subarea from 2014 through 2025, for a total resident population of 5,600 at build out⁶
- The average household will have 2.5 persons
- Residential development will occur at an average density of 5 units per acre
- The developer will fund new infrastructure within residential and commercial developments, including private drainage systems and local access roads.

2.2 Organization of this report

The remainder of this report consists of following chapters.

Chapter 3 describes the analytic approach.

³ Reid Middleton, 2008, Bayview Ridge Subarea Plan, prepared for Skagit County, the City of Burlington, and the Port of Skagit County.

⁴ Reid Middleton, p. 1.

⁵ A master plan would typically identify specific phasing timelines, costs, and sources of funding for public infrastructure and for private development.

⁶ It is important to note that this growth model reflects **currently adopted** population forecasts, as contained in the SAP. Newer Washington State Office of Financial Management population projections suggest that full build out would not occur until 2035. PDS requested ECONorthwest base its analysis on the growth assumptions from the SAP, with the acknowledgement that these assumptions may require updating. Kirk Johnson, 2013, e-mail correspondence with Alexandra Reese on September 5.

The extension of the development timeline likely would not have a significant impact on the findings of this analysis. Most of the fiscal costs and revenues to the County scale with development, so a shift in the timeline would result in a proportional change in the phasing of costs and revenues.

Chapter 4 assesses the fiscal impacts of the development on the County. This analysis includes the cost to the County of providing transportation, drainage, parks, and law enforcement services and facilities. It also quantifies the revenues to the County from property and sales and use taxes. In both sections, ECONorthwest explores how these costs differ between development scenarios and the counterfactual scenario (a scenario in which the Bayview Ridge development does not occur).

Chapter 5 consists of two case studies that explore the fiscal impacts of the development on the Burlington-Edison School District and regional fire districts.

Chapter 6 provides conclusions and possible strategies for mitigating the fiscal impacts of the development.

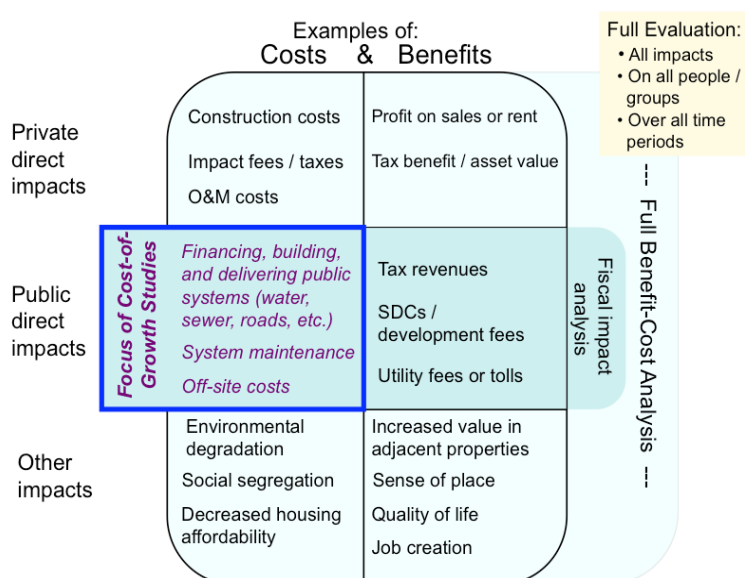
3 Approach and Methodology

This chapter defines a fiscal impact analysis, describes the analytic methods used in the report, and provides an overview of methodology and key assumptions.

3.1 Framework: What is fiscal impact analysis?

A clear discussion of fiscal impact analysis must start with a description of what it is and is not. That description should address where fiscal impact analysis fits into the context of a theoretical, all-encompassing evaluation of the benefits and costs of public action. Exhibit 1 provides that context. ECONorthwest adapted this framework from a report it produced for Skagit County in November 2011.⁷

Exhibit 1: Fiscal impact analysis in the context of a theoretical, evaluation of the benefits and costs of public action



Source: Juntunen, Moore, Jan-Knapp (2011) *Fiscal Impacts of Land Use Types, Urban Public Finance and Governance*, Oxford Press, 2011.

Exhibit 1 has two columns of impacts: one shows examples of costs, the other examples of benefits. It shows three categories of positive and negative impacts (i.e., of benefits and costs): private, public, and other. The full matrix of six boxes is what economists would refer to as a full benefit-cost analysis: it includes, in theory, all benefits and costs, public and private, internal and external,

⁷ T. Moore et al., ECONorthwest, 2011, *Evaluation of Fiscal Implications of Growth Management Options in Skagit County Washington*, prepared for Skagit County, Washington.

monetizable and non-monetizable, quantifiable, and qualitative. In concept, it includes everything.

The yellow box in the top right corner emphasizes that point: a full evaluation would look at all types of impacts, on all people, over a long time period.⁸ In practice, budgets and schedules always result in analyses that focus on a subset of full benefits and costs.

The middle two boxes show the subset of benefits and costs that is the focus of the literature of fiscal impact analyses: direct impacts on revenues and expenditures in the public-sector. “Revenues” are a subset of “benefits” and “expenditures” are a subset of “costs.” Since this report discusses impacts solely in the context revenues and expenditures, we use the terms revenues/benefits and expenditures/costs interchangeably.

Fiscal impact analysis is typically used in one of two ways:

- To determine the fiscal impacts of a site-specific development. For example, does a new residential development increase the demand for and costs of providing schools, parks, roads, and other public goods more or less than it increases revenues in taxes and fees?
- To evaluate the cost of alternative development patterns. For example, are compact or sprawling developments more likely to pay for themselves?

Skagit County asked ECONorthwest to use fiscal impact analysis to explore the impacts of a site-specific development, the Subarea, on Skagit County and other key service providers.

3.2 Scenarios for development

ECONorthwest modeled two development scenarios provided by PDS, and compared them to a “counterfactual” scenario that approximates the fiscal impacts of accommodating the same amount of growth without the Bayview Ridge development. This section describes these three scenarios. The same development scenarios were used in the analysis for county services as well as for the Burlington-Edison school district and Skagit County Fire District 6 (though the counterfactual for the two districts is slightly different, as described below).

⁸ In concept, a full analysis looks at those costs over a long time period (not just current costs, but future costs), and fairly incorporates those future costs and benefits into the analysis by bringing them back to a present value at an appropriate discount rate.

3.2.1 Scenarios A and B

Scenario A approximates the development scenario presented in the SAP. The SAP provides for a 37.5 acre “community center” zone, which includes land for future retail development, a new elementary school,⁹ and parks that will serve the new population. To determine an assumption regarding the amount of this zone that would generate property and sales tax revenues, we disaggregated this community center zone to show the number of acres allocated to retail and parks and schools separately. The Scenario groups the allocations for parks and schools to account for overlap between the elementary school development and the Community Parks development.

Scenario B differs from Scenario A in that it includes additional acres of light industrial development; residential development remains constant.

Although these two scenarios would likely result in some differences in development patterns and public service needs, our analysis does not account for those differences. Without specific details of the sort that would normally be contained in a master plan for each development scenario, predicting differences in capital facilities and investments is challenging.

The cost to the County and the two districts considered is likely to be relatively consistent between scenarios A and B for two reasons:

1. Although higher-density development is (in general) relatively less expensive than lower density development in terms of total infrastructure costs, the developers in the UGA will be responsible for most new infrastructure in residential and commercial/industrial developments. Therefore, though the volume of local access roads or private drainage systems may differ from one scenario to the next, the County will not bear the cost of these developments.
2. Services and facilities for residents, such as parks, law enforcement, and transportation, account for a large portion of the fiscal costs to the County. Since both scenarios assume the same level of residential development, this segment of costs is consistent regardless of the exact nature of the development.

⁹ At the time of writing of this report, questions have been raised about whether or not a school can be accommodated appropriately within the Bayview Ridge development. In absence of resolution of this important issue, this report assumes that the school is developed as planned in the Subarea.

Revenues do differ between these two scenarios, because they assume different amounts of total development.

3.2.2 Counterfactual scenario

ECONorthwest also considered a counterfactual scenario in which the Bayview Ridge development (including industrial development) does not occur. The counterfactual is critically important to the findings and recommendations; the projected growth is likely to still occur in Skagit County even if this particular development does not move forward. And, growth that occurs anywhere in the County will have fiscal impacts. In this case, the County anticipates that those 3,800 residents that would have settled in Bayview Ridge would settle elsewhere in the County. Countywide Planning Policies prescribe that 80% of this growth would occur in cities and urban growth areas and 20% would occur in rural areas. The counterfactual scenario assumes the same split. It assumes that no new industrial development occurs if the Bayview Ridge development does not move forward.¹⁰

In the counterfactual for the Burlington-Edison School District and Fire District 6 (which have smaller boundaries than the County as a whole and would not see as much development in a counterfactual scenario), ECO assumed that one-third of the total counterfactual new development would locate within the Districts.

The analysis estimates costs and revenues for all scenarios, and then compares them to this counterfactual scenario, in which the same growth is accommodated but in a different development pattern. Without the counterfactual, it is impossible to isolate the fiscal impact of this particular development from the fiscal impact of growth in general.

3.3 Methods and assumptions

The analysis separately projected costs and revenues in each of the three development scenarios, and then compared them to determine whether or not revenues are likely to be sufficient to cover costs.

In general, comparing revenues and costs from development is a complicated task. Revenues derived from development (property tax, sales tax, real estate excise tax, others) all flow to different funds, some of which are available for use County-wide in an annual budgeting process, and some of which are restricted in use in different ways (like certain portions of the sales tax or the real estate excise tax, which may only be used to fund specific programs or services).

¹⁰ Reid Middleton; Dale Pernula, 2013, phone call with Alexandra Reese.

Revenues also accrue over a period of time, and may not be available at the time that an infrastructure investment (a cost) is incurred.

In this analysis, our approach is to estimate the present value of the total costs of providing infrastructure and operating and maintenance costs, and the present value of total revenue sources that are available to the County to support Bayview Ridge projects. We then compare the two as a proxy for the overall fiscal sustainability of the Bayview Ridge development.

The analysis period is contemporaneous with the development build-out period, from 2014-2025, thereby providing a snapshot of fiscal impacts at the time that the development is fully complete. This analysis timeframe has implications for the interpretation of results that are described as results are presented.

The assumptions about development in this report reflect the current best thinking as documented in the SAP, which is likely to change as development proceeds. We assume that policies that could impact service standards and costs for new growth or alter the way revenues accrue do not change during the buildout period for Bayview Ridge. Substantive changes in policy could change our findings. In fact, one of the purposes of this analysis is to identify opportunities for changes in policies or revenue structures that could help to mitigate some of the impacts to the County.

Data sources, methods, and assumptions differ for costs and revenue projections.

3.3.1 Costs

ECONorthwest relied on a number of data sources for its cost analysis. Unless otherwise specified, the data used in the cost analysis section and case studies chapter derived from one of the sources listed below. We contacted each interviewee to discuss his or her current capacity and the expected costs of the development. We confirmed our assumptions and key findings to ensure that our analysis is as accurate as possible.

- Development specifications, John Bouslog, John Sitkin, and David Christensen
- Transportation facilities, Paul Randall-Grutter, Skagit County Public Works Department
- Drainage facilities, Jan Flagan and Dan Berentson, Skagit County Public Works Department
- Parks facilities, Brian Adams, Skagit County Parks and Recreation
- Law enforcement, Sheriff Will Reichardt, Skagit County Sheriff's Office
- Burlington-Edison School District, Superintendent Laurel Browning and John Leander, Burlington-Edison School District

- Fire services, Chief Brian Ekkel-Kamp, Fire District 2; Chief Josh Carpenter, Fire District 6; and Chief Travis Ashby, Fire District 12

Detailed data and assumptions are included in the text of the findings section.

3.3.2 Revenues

ECONorthwest worked with BERK Consulting to estimate property tax revenues from three types of development: light industrial, heavy industrial, and residential. Tax revenues were estimated based on the changes in the components of the County's tax base resulting from redevelopment of the Subarea. Components of growth that influence revenues include the timing, scale, and quality of the project's development as well as the population and employment impacts of the redevelopment as it is completed.

The key assumptions fall into two categories, described in the remainder of this part of the methods chapter: (1) development program; (2) tax rates and structures.

3.3.3 Assumptions about development program

The analysis's assessment of the tax revenue "footprint" of the Subarea is based on assumptions about the timing, scale, and quality of development. This analysis looks at an approximate baseline for the revenue impact of redevelopment, acknowledging the uncertainty inherent in any set of development assumptions. As more is known about the redevelopment, changes to these assumptions will produce a different tax revenue footprint for the area. The three main determinants of fiscal impact are:

- **Scale and mix of development.** Currently, little is known about the conceptual development program outside of the broad scale and mix of development. The fiscal impact is likely to change as the developer contemplates differing amounts and relative mixes of residential and commercial development. Effectively, changes to these assumptions impact how much fiscal activity will occur.
- **Quality of development.** While baseline assumptions about development quality were drawn from reliable data for construction types, it is impossible to predict future development quality with complete certainty, especially at this early stage. As more is known about the product types and target markets, it will allow a greater degree of certainty to assess how productive the products are (i.e. likely sales prices, what type of business may locate there, construction costs, etc.).

- **Timing of development.** The timing of construction, absorption, and occupancy of the redevelopment can either accelerate or delay the onset of tax revenues. Delay reduces the tax revenues of construction and operations at the area by pushing out the impacts into the future resulting in reduced years of benefits that are discounted more heavily. The opposite is true in a situation where development happens earlier.

Overall, because plans for the area are still conceptual in nature, and the development program is likely to change as development occurs, these assumptions are best understood as providing an order-of-magnitude understanding of the revenue impacts at full build-out, rather than a specific year-by-year cash flow analysis.

To get to an order-of-magnitude estimate of total revenues at build-out, the analysis assumes all development within each scenario occurs within the 12-year study period (2014-2025). This development timeline is the key assumption underlying the revenue projections. It is a fairly aggressive, but reasonable, development phasing for the County to absorb.¹¹ Exhibit 2 below shows the total amount of assumed development by scenario. The analysis also assumes that development is distributed evenly through the study period with the same amount occurring each year. Details follow the table.

Exhibit 2. Overview of Bayview Ridge Development Program Assumptions

	Scenario A	Scenario B	Counterfactual
Development Program			
Single-family Housing Units	1,520	1,520	304
Industrial Building Square Feet	2,019,730	2,612,214	0

Source: ECONorthwest, based on the SAP and conversations with PDS.

- **Housing:** The analysis assumes that each unit will house 2.5 persons and be 90% occupied. Taxable assessed value on the units is assumed to be \$262,000 per unit. Construction costs subject to retail sales taxes are estimated to be \$210,000 per unit. Retail sales taxes due to sales tax sourcing laws are assumed to be \$1,000 per unit per year.
- **Industrial:** The analysis assumes that taxable assessed value is \$63 per leasable square foot on heavy industrial buildings and \$106 per leasable

¹¹ The number of single-family units per year in unincorporated Skagit County varied widely with the housing bubble and recession. 2007 saw almost 300 SF units and 2012 had only 23. BERK Consulting estimates that, on average, a reasonable expectation would be in the mid-100s for new single-family units per year. This schedule implies that most of the new growth in unincorporated County is concentrated in the Bayview Ridge Development.

square foot for light industrial. Construction costs subject to retail sales taxes are estimated to be \$50 per leasable square foot for heavy industrial and \$85 per leasable square foot for light industrial. Retail sales taxes due to sales tax sourcing laws are assumed to be \$2 per square foot per year for both heavy and light industrial buildings.

3.3.4 Assumptions about tax rates and structure

Tax revenues are organized into three categories:

- **One-time Revenues.** These General Fund revenues are tied to the construction of housing and commercial products. Specifically, they include the retail sales tax on construction (material and services).
- **Recurring Revenues.** General Fund revenues are derived from residents, businesses, and employees occupying residential and commercial structures. Specific revenues include property tax, retail sales tax (resulting from new sales tax sourcing rules), business & occupation taxes, and utility taxes.
- **Non-General Fund Capital Restricted Revenues.** These revenues are statutorily restricted to fund capital expenses. Specific revenues relevant to the County include the Real Estate Excise Tax (REET) and the State distribution of the motor vehicle fuel tax.

The following operating tax rates were used in the revenue analysis:

- **Current Expense Levy.** Redevelopment of the site would be taxed at the County's levy rate. Initiative 747, which limited the legal levy to 101%, results in an erosion of the property tax's purchasing power over time since the revenues do not keep pace with cost inflation of government services. The current expense levy rate is \$1.587 for the 2013 tax year.
- **County Road Levy.** Redevelopment of the site would be taxed at the County's levy rate of \$1.756 for 2013 taxes.
- **Sales Tax.**
 - Local Option: Of the 8.2% sales tax currently collected in the Subarea, a 1% "local" share of the tax accrues to local jurisdictions. In unincorporated areas the County receives 100% of the 1% share. In incorporated areas, the city receives 85% of the 1% local tax and the County receives 15%. This tax is levied on businesses in the area, and also on construction activity and some transactions related to housing and business, such as certain online purchases and the delivery of personal and business goods.
 - Criminal Justice: A 0.1% sales tax levied by the County for criminal justice programs. 10% of revenue goes directly to the County and the remaining 90% is distributed to the County and cities within the county on a per capita basis. Because revenues

are estimated on a per capita basis, total revenues were the same for each scenario.

- **State Shared Revenues.** The combination of Liquor Excise Tax and Liquor Board Profits are dispersed based on a per capita distribution of 2012 revenues, which were \$73,597 and \$220,952 respectively. The motor vehicle fuel tax is also included in this category. The County receives a gas tax distribution that is unrestricted for street purposes from the State. The distribution is determined using a formula that is heavily weighted towards population. Because revenues are estimated on a per capita basis for this analysis, total revenues were the same for each scenario.

For capital expenses, the following tax rates were used in the revenue analysis:

- **Real Estate Excise Tax (REET).** Real estate transactions are subject to a 0.5% tax on the value of the transaction. REET revenues are placed in the capital restricted funds, and are used by the County to finance capital projects. REET revenues are uncertain given volatility in the real estate market.

4 Evaluation Findings

This section describes and quantifies the costs and revenues to the County associated with the proposed development, and then compares costs and revenues.

4.1 Costs to the County

Skagit County provides integral facilities and services to its residents. New residents will increase demand for these services. As a result, the County will invest in new facilities as well as budget for additional, ongoing operations and maintenance (O&M) costs. This section describes and quantifies the costs to the County associated with providing facilities and services to new subarea residents.

ECONorthwest analyzed costs to the County in four facility and service segments. While other systems are impacted by new development, these are the facilities and programs that the County controls that are most affected by the development in Bayview Ridge¹²:

1. Transportation facilities
2. Drainage facilities
3. Parks facilities
4. Law enforcement services

Exhibit 3 describes the costs to the County by segment. It shows a total of about **\$4.1 million**¹³ in costs associated with parks, about **\$1.8 million** in costs associated with provision of law enforcement, and **\$0** for transportation and drainage facilities for a total of **\$5.9 million** that are attributable to the development at Bayview Ridge. A few reminders about the analytical approach are helpful to interpreting the table:

- Because costs do not differ between Scenario A and Scenario B,¹⁴ Exhibit 3 shows just one set of costs to the County. The column showing total costs

¹² Based on conversations with PDS and other Skagit County staff.

¹³ All numbers in \$2013.

¹⁴ As described earlier in the report, both scenarios accommodate the same total amount of population and number of housing units, and while it is possible that the costs would be somewhat different between the scenarios, those differences would probably be small.

to the County projects annual cash flow necessary to support the Bayview Ridge development each year, to a total of about **\$18.5 million** for all services evaluated.

- **The counterfactual scenario** isolates the fiscal impact of the Bayview Ridge development from growth in general. It shows what the costs to the County might be if the same amount of growth and development were accommodated according to current trends and policies. In the counterfactual, instead of developing in Bayview Ridge, 80% of growth occurs in cities and urban growth areas and 20% occurs in rural areas. The costs to the County are lower in the counterfactual because the cities provide services instead of the County. Total costs to the County in the counterfactual for all services are about **\$12,593,685**.
- **The net costs** (total County costs less counterfactual) are the impact to the County from accommodating growth *in the Bayview Ridge development*: about **\$5.9 million**.

Exhibit 3: Costs to the County: Overview of findings

Parks				Law Enforcement		
Year	County Costs	Counter-factual	Net Costs	County Costs	Counter-factual	Net Costs
2014	\$1,000	\$1,000	\$0	\$0	\$0	\$0
2015	\$2,000	\$2,000	\$0	\$0	\$0	\$0
2016	\$4,000	\$4,000	\$0	\$0	\$0	\$0
2017	\$2,465,000	\$5,000	\$2,460,000	\$188,000	\$0	\$188,000
2018	\$51,000	\$6,000	\$45,000	\$192,000	\$0	\$192,000
2019	\$53,000	\$8,000	\$45,000	\$197,000	\$0	\$197,000
2020	\$54,000	\$9,000	\$45,000	\$202,000	\$0	\$202,000
2021	\$2,776,000	\$11,000	\$2,765,000	\$414,000	\$0	\$414,000
2022	\$114,000	\$13,000	\$101,000	\$425,000	\$212,000	\$212,000
2023	\$116,000	\$14,000	\$102,000	\$653,000	\$218,000	\$435,000
2024	\$119,000	\$16,000	\$103,000	\$669,000	\$223,000	\$446,000
2025	\$122,000	\$18,000	\$104,000	\$915,000	\$229,000	\$686,000
Present Value Total (2013\$)	\$4,170,000	\$69,000	\$4,102,000	\$2,332,000	\$499,000	\$1,833,000
Transportation**				Drainage		
2014	\$0	\$0	\$0	\$5,346,000	\$5,346,000	\$0
2015	\$0	\$0	\$0	\$2,491,000	\$2,491,000	\$0
2016	\$0	\$0	\$0	\$1,568,000	\$1,568,000	\$0
2017	\$0	\$0	\$0	\$1,588,000	\$1,588,000	\$0
2018	\$0	\$0	\$0	\$1,033,000	\$1,033,000	\$0
2019	\$0	\$0	\$0	*	*	*
2020	\$0	\$0	\$0	*	*	*
2021	\$0	\$0	\$0	*	*	*
2022	\$0	\$0	\$0	*	*	*
2023	\$0	\$0	\$0	*	*	*
2024	\$0	\$0	\$0	*	*	*
2025	\$0	\$0	\$0	*	*	*
Present Value Total (2013\$)	\$0	\$0	\$0	\$12,026,000	\$12,026,000	\$0

Source: ECONorthwest with data from interviewees. Drainage costs are from the Skagit County Drainage Utility 2013-2018 Drainage Improvement Program. Some of the costs shown for 2014 were incurred in 2013, but the total is consistent with the Program document.

Note: Assumptions and details described in the detailed text of the report. PV assumed a discount rate of 5.58%. Costs inflate 2.5% per year. All values rounded to nearest 1000.

*Costs in later years for drainage-related investments are currently unknown; planning is completed on a 6-year cycle. There may be additional costs incurred for projects that serve only Bayview Ridge. In the current planning cycle, no additional projects that are specific to Bayview Ridge are anticipated.

**As described in the full body of the report, additional analysis of transportation costs is needed, and may produce different results. Two off-site transportation capital projects may require investment, but costs and timing for those projects are currently unknown. What portion of those costs might be allocable to the County is currently unknown, and costs are not accounted for in this analysis.

Findings from Exhibit 3:

- **Transportation costs** to the County from the Bayview Ridge development are expected to be zero, according to information available as of this report from County Public Works staff. Additional analysis of transportation costs may produce a different result. This analysis assumes: (1) up-front capital expenditures to develop new internal roads, are expected to be covered by the developer; (2) ongoing operations and maintenance of the roads facilities are expected to be such a small portion of the total County operating and maintenance budget that County staff felt they were not calculable; further, it is possible that internal roads would remain in private ownership, in which case any operating and maintenance costs would be funded by the homeowners. This is a very important set of assumptions, as road systems tend to be among the more expensive pieces of infrastructure to serve a master planned community. Public Works will undertake further analysis to estimate costs to construct the Peterson to Josh Wilson connector (which is necessary to serve Bayview Ridge), and what portion is allocable to Bayview Ridge developers. They will also further evaluate operating and maintenance costs.
- **Costs associated with the provision of drainage facilities** for Bayview Ridge are also expected to be net zero, though the total costs from a cash flow perspective are planned to be relatively high at about \$12 million. Stormwater and drainage are addressed in basin-wide systems, and determining how a specific development will affect that system is complicated. The Drainage Utility is currently investing in improvements to the system in the vicinity of Bayview Ridge, but those projects are necessary to support the entire drainage system and would be completed whether or not the Bayview Ridge project moves forward. The County incurs no additional costs for drainage impacts that are caused by (or attributable *only* to) the Bayview Ridge development. It is possible that, in the later term, additional projects will be necessary that will support Bayview Ridge.
- **Parks** costs include both capital costs (development of new parks) and operation and maintenance costs, while **law enforcement costs** are entirely for increasing staffing capacity to support new development.
- Costs in the counterfactual are not significantly lower than those in Scenarios A and B, largely because relatively expensive drainage projects occur regardless of scenario. At the same time, revenues do drop

Costs in Scenarios A and B

According to engineering staff at Skagit County Public Works Department (PW), the developer will be responsible for constructing local access roads, and the County will incur no costs for those roads. Other systems improvements that would require capital investments are less certain. Capacity analyses conducted during the capital facilities planning process in 2008 indicate there is sufficient capacity on arterial county roads to meet future demand. ECO and PDS discussed the potential need to add capacity on Peterson Road and a potential north-south connector from Peterson Road to Josh Wilson Road in the future, but cost, timing, and portion of total costs allocable to the County and the developer have not yet been determined. Since these road improvements are not part of the current capital facilities plan and PW did not have cost estimates, they are not included in this analysis. PW will be evaluating the need for and cost of these improvements, which may change the cost equation for the County.

At this point in time and during the analysis period, PW staff also stated that the County does not anticipate an increase in maintenance costs for roads that serve the Subarea. PW will also continue to evaluate this assumption, but PW gave the following reasons for stating that the O&M costs would be zero:

- Local access roads will have not future maintenance costs. If local access roads were privately owned, residents would be responsible for their upkeep. In this case, the County would not incur any cost from maintenance activities. If the County assumes ownership of local access roads constructed by the developer, it will also assume responsibility for maintaining those roads. These roads would comprise a relatively small share of the County's total road network, and PW staff did not anticipate measurable increases from Bayview Ridge. Therefore, the analysis assumes that these additional road miles would not cause a measurable increase in PW road O&M costs.
- PW stated that increased costs for O&M to the overall transportation system from Bayview Ridge were likely to be small and are not calculable.

Costs in the Counterfactual

In the counterfactual scenario in which the Bayview Ridge development does not occur, we assume that 80% of growth occurs in cities and urban growth areas and 20% occurs in rural areas. There are no road-related costs in the counterfactual because they are provided by cities, and the increased costs to the overall system are likely to be small and are not calculable.

4.1.2 Drainage Facilities

Drainage facilities are an integral component of Subarea infrastructure. They collect and convey stormwater runoff to minimize flooding. Development of the Subarea will add impervious surfaces, increasing runoff and the demand for stormwater management.

Three entities construct and maintain public drainage facilities within the subarea: Drainage District 14, Drainage District 19, and Skagit County through its Drainage Utility. Drainage Districts operate independent of the County, so their operations are not relevant to this analysis (which focuses only on costs and revenues that accrue to the County). The Public Works Department (PW) does stormwater management through the Road Operations Division, which constructs and maintains drainage systems within the County Road right-of-way; the Drainage Utility provides stormwater management services to properties outside of the County Road right-of-way, and outside of the Drainage Districts. Therefore, the costs the County incurs to provide stormwater management services through the Drainage Utility to the subarea are pertinent to this analysis.

The Drainage Utility fills two primary roles. First, it facilitates system wide planning. Second, it implements capital projects that would be too costly for individual property owners or Drainage Districts to bear alone. As part of its planning process for the Subarea, the Drainage Utility and Drainage Districts generated a list capital investment projects necessary to support future development.¹⁵

Stormwater and drainage are addressed in basin-wide systems, and determining how a specific development will affect that system is, in some situations, impossible. The Drainage Utility is currently investing in improvements to the system in the vicinity of Bayview Ridge, but those projects are necessary to support the entire drainage system and would be completed whether or not the Bayview Ridge project moves forward. The County incurs no additional costs for drainage impacts that are caused by (or attributable *only* to) the Bayview Ridge development. It is possible that, in the later term, additional projects will be necessary that will support Bayview Ridge, but those costs are not currently known.

¹⁵ Reid Middleton; 6-Year Drainage Improvement Program: 2013-2018, 2012, Skagit County Drainage Utility. Confirmed in conversations with Drainage Utility staff.

Exhibit 5: Cost of Stormwater Development, Bayview Ridge development, Skagit County Washington, 2013-2025

Drainage			
Year	County Costs	Counter-factual	Net Costs
2014	\$5,346,000	\$5,346,000	\$0
2015	\$2,491,000	\$2,491,000	\$0
2016	\$1,568,000	\$1,568,000	\$0
2017	\$1,588,000	\$1,588,000	\$0
2018	\$1,033,000	\$1,033,000	\$0
2019	*	*	*
2020	*	*	*
2021	*	*	*
2022	*	*	*
2023	*	*	*
2024	*	*	*
2025	*	*	*

Present Value Total (2013\$)	\$12,026,000	\$12,026,000	\$0
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Source: Skagit County Drainage Utility 2013-2018 Drainage Improvement Program. Some of the costs shown for 2014 will be incurred in 2013, but the total is consistent with the Program document.

*Costs in later years for drainage-related investments are currently unknown; planning is completed on a 6-year cycle. There may be additional costs incurred for projects that serve only Bayview Ridge. In the current planning cycle, no additional projects that are specific to Bayview Ridge are anticipated.

Costs in Scenarios A and B

Many Drainage Utility projects that will serve the Bayview Ridge development are already underway or complete. The total cost of all projects for the entire basin is \$12 million, and will occur whether or not the development moves forward.

The County will not incur any ongoing O&M costs from providing drainage facilities in the Subarea. The Drainage Utility will not maintain drainage facilities.¹⁶

¹⁶ Three unique entities will maintain these drainage systems: Drainage Districts 14 and 19 (which are not part of the County and the road operations division of PW. The road operations division manages the routine maintenance of drainage systems within rights of way.

Costs in the Counterfactual

Costs would not change in the counterfactual scenario, due to the fact that most of the projects are completed or scheduled, and will occur whether or not the Bayview Ridge development moves forward.

4.1.3 Parks Facilities

Exhibit 6 summarizes findings for parks in all three scenarios. Since costs are the same in Scenarios A and B, the table groups these in the column called “County Costs”.

Exhibit 6: Cost of Parks Development, Bayview Ridge development, Skagit County Washington, 2013-2025

Parks			
Year	County Costs	Counter-factual	Net Costs
2014	\$1,000	\$1,000	\$0
2015	\$2,000	\$2,000	\$0
2016	\$4,000	\$4,000	\$0
2017	\$2,465,000	\$5,000	\$2,460,000
2018	\$51,000	\$6,000	\$45,000
2019	\$53,000	\$8,000	\$45,000
2020	\$54,000	\$9,000	\$45,000
2021	\$2,776,000	\$11,000	\$2,765,000
2022	\$114,000	\$13,000	\$101,000
2023	\$116,000	\$14,000	\$102,000
2024	\$119,000	\$16,000	\$103,000
2025	\$122,000	\$18,000	\$104,000
Present Value Total (2013\$)	\$4,171,000	\$69,000	\$4,102,000

Source: ECONorthwest with data from P&R and the Skagit County Assessor’s Office, 2013. All values rounded to nearest thousand.

The Skagit County parks system consists of three categories of parks:

1. **Regional Parks**, large sites that offer a variety of recreational experiences and serve the entire county population
2. **Community Parks**, medium-sized parks that provide ample open space for recreation in addition to sports fields and facilities
3. **Neighborhood Parks**, small, pedestrian-oriented parks situated to serve residents or employees from an immediate area

The cost numbers described in the remainder of this section refer to these parks categories.

Cost in Scenarios A and B

Regional parks: In 2012, Skagit County Parks and Recreation (P&R) conducted an inventory of the parks system in the Subarea. It found that the Subarea has access to ample regional parks, which include the Port of Skagit Trails, the Bayview State Park, and the Padilla Bay Interpretive Center.¹⁷ The County neither operates nor maintains these parks; therefore, this analysis assumes that the County will not incur any costs in the future related to the regional parks system.¹⁸

Community and neighborhood parks: The Subarea does not currently have any community or neighborhood parks, though some are planned to support future development. Therefore, the County will incur the capital investment and a portion of the O&M costs associated with development of these facilities. P&R produced a level of service (LOS) analysis for the Subarea appropriate for a high-density neighborhood within a rural area. P&R determined that the Subarea requires two nine-acre community parks in addition to nine-acres of small, neighborhood parks, as described in Exhibit 7.

Exhibit 7: Bayview Ridge Parks Development Needs and Phasing

Additional park allocation	Quantity	Development Timeline
Two Community Parks	18.2 acres	2017, 2021
Neighborhood Parks, 1/6+ acre each	9.1 acres	0.75 acre per year, 2014 through 2025
Total	27.3 acres	2017 through 2025

Source: ECONorthwest with data from P&R, 2013.

Based on the LOS presented above and data provided by P&R and the Skagit County Assessor’s Office, ECONorthwest estimated the cost of developing and maintaining these parks.

Skagit County P&R staff estimates that the community parks will cost about \$2.5 million¹⁹ each. This analysis distributed the cost as described below.

¹⁷ P&R, 2012, Community and Neighborhood Parks Level of Service (LOS) Recommendation for the Bayview Ridge Planned Urban Development (PUD).

¹⁸ The Port trail system may extend into the Bayview Ridge area at some point, and capital and O&M costs for that project have not been estimated or assigned.

¹⁹ Estimates from staff were based on current projects completed in the vicinity by other parks agencies. This figure did not include the cost of acquiring the land. How land costs will be

ECO produced a parks development timeline that parallels projected population growth. Given a 12-year development ramp up for Subarea, the model assumes P&R would develop the first Community Park in the fourth year of the development (2017) and second in the eighth year (2021). It assumes that Neighborhood Parks come online at a rate of 0.75 acres per year from 2014 through 2025.

P&R staff stated that operating and maintaining the Community Parks will require one full time employee, at a cost to the County of \$91,000 per year (including associated benefits and administrative costs). ECONorthwest used this figure as a proxy to estimate the cost of maintaining the Neighborhood Parks. The model scales O&M costs in accordance with the parks development timeline.

Although both the Community Parks and Neighborhood Parks will require ongoing maintenance, the County will maintain the Community Parks only. According to P&R staff, residential communities and commercial developments maintain the Neighborhood Parks in their areas.

Costs in the Counterfactual

If Bayview Ridge were not to occur, its parks development plans would be very different. The 20% of residents that locate in rural areas would not have access to Community or Neighborhood Parks. The 80% that locate in cities and existing urban growth areas would place pressure on existing parks systems, but likely would not require the development of new parks. Under this counterfactual scenario, P&R staff stated that population growth would primarily impact level one development priorities, which consist of marine shoreline access, regional trail systems, and improvements to our two most popular regional parks, Clear Lake Park, and the Skagit Playfields.

O&M costs for these facilities would increase in proportion with the population. Currently, P&R has an annual capital budget of about \$450,000. The addition of 3,800 residents to the County represents a three percent population increase. Parks staff recommended that ECONorthwest assume a proportional increase in the P&R budget, which yields an additional \$13,500 in O&M costs annually at buildout.

covered has not been determined. ECONorthwest assumed that the developer might donate the land (as is typical in many master planned communities), and did not include these costs in the analysis.

4.1.4 Law Enforcement

There are a number of law enforcement agencies located in Skagit County. Most of the cities and towns in the County have a local police department. Skagit County Sheriff's Office provides law enforcement services to the unincorporated County. Since the Subarea is not incorporated, the Sheriff's Office will be its primary service provider. Exhibit 8 provides an overview of costs. All costs are operating costs, for the provision of additional officers and administrative support.

Exhibit 8: Cost of Parks Development, Bayview Ridge development, Skagit County Washington, 2013-2025

Law Enforcement			
Year	County Costs	Counter-factual	Net Costs
2014	\$0	\$0	\$0
2015	\$0	\$0	\$0
2016	\$0	\$0	\$0
2017	\$188,000	\$0	\$188,000
2018	\$192,000	\$0	\$192,000
2019	\$197,000	\$0	\$197,000
2020	\$202,000	\$0	\$202,000
2021	\$414,000	\$0	\$414,000
2022	\$425,000	\$212,000	\$212,000
2023	\$653,000	\$218,000	\$435,000
2024	\$669,000	\$223,000	\$446,000
2025	\$915,000	\$229,000	\$686,000
Present Value Total (2013\$)	\$2,332,000	\$499,000	\$1,833,000

Source: ECONorthwest, based on data from P&R, 2013. All values rounded to nearest thousand.

Costs in Scenarios A&B

The total cost to the County over the analysis period is \$2.3 million, with a total of about \$1.8 million directly attributable to the Bayview Ridge development. ECONorthwest estimated cost of patrol services using LOS standards stated in the SAP. According to Countywide Planning Policy, law enforcement agencies in Skagit County should provide "one commissioned law enforcement officer per 1,000 population served or per 100 acres of developed commercial or industrial property, whichever is the higher number. For rural areas, the standard is one deputy per 2,000 rural population."²⁰

Based on this standard, the Sheriff's Office should provide an additional six to eight officers in the Subarea. Under Scenario A, the Subarea would have 640 additional acres of commercial or industrial property, which dictates a minimum of 6 new patrol officers. Under Scenario B, the Subarea would have 750 new acres of commercial or industrial property, equating to 7.5 additional officers.

Recent budget cuts and staffing reductions mean the LOS standards established in 2008 may not be feasible for Scenario A or B. According to Sheriff Reichardt, his agency had 12 more patrol deputies on the road in 2008 than it has today, which translates to a 30 percent staff reduction. The Sheriff recommended using population as a more accurate metric for estimating additional patrol service capacity.

Adding 3,800 residents to the Subarea translates to four additional patrol officers. The annual cost per officer is about \$170,000. The model phases in these officers and costs incrementally, in accordance with population increases.²¹

²⁰ SAP, p. 7-8 – 7-9.

²¹ The Sheriff's office plans to construct a new jail, to open in summer 2017. It will cost \$60 million to construct, and will require about \$5 million annually in O&M costs. These costs, while significant, would occur with or without the development and are therefore not included as a cost to the County.

Costs in the Counterfactual

If the Bayview Ridge development does not occur, the cost of patrol services would change. Without the development, 80% of the 3,800 new residents would settle inside of cities or urban growth areas, which have their own law enforcement departments. Therefore, the Sheriff's Office would only need to provide patrol services to about 760 new residents.²² Under the counterfactual scenario, the cost to the County of providing patrol services is 75% less expensive than the cost associated with Subarea development.

4.2 Revenues to the County

As a public enterprise, Skagit County is both a regional (county-wide) and a local (unincorporated) service provider. It collects a mix of regional and local revenues to support public service costs, and the key drivers of those revenues are new development and the spending associated with construction and new residents. Because plans for the area are still conceptual in nature, and the development program is likely to change as development occurs, revenue results are best understood as order-of-magnitude estimates of the revenue impacts at full build-out, rather than a specific year-by-year cash flow analysis.

Exhibit 9 provides an overview of revenues. As in the cost analysis, revenues were modeled in three scenarios. Scenarios A and B both have the same amount and type of residential developments, and differ in the amount of industrial development that occurs (Scenario B has more industrial). The counterfactual development is used to isolate the impacts of development in Bayview Ridge from the impacts of growth in general, assuming 20% of the growth occurs in rural areas and 80% in the County's cities and urban growth areas. Details about each of the sources follow the table. As shown in Exhibit 9, net revenues to the County are about **\$12.2 million in Scenario A**, and about **\$13.7 million in Scenario B**. A description of the revenue sources follows the table in Exhibit 10.

²² This analysis assumes that police departments located in cities would provide patrol services to residents living in incorporated areas.

Exhibit 9. Overview of revenues by Source, Bayview Ridge, Skagit County, Washington, 2014-2025

Revenue Source	Scenario A	Scenario B	Counterfactual	Net Revenues A	Net Revenues B
Current Expense Levy	\$3,627,000	\$4,000,000	\$474,000	\$3,153,000	\$3,526,000
County Road Levy	\$3,929,000	\$4,334,000	\$513,000	\$3,416,000	\$3,821,000
Sales Tax on Construction	\$4,052,000	\$4,470,000	\$847,000	\$3,205,000	\$3,622,000
Ongoing Sales Tax	\$237,000	\$288,000	\$14,000	\$223,000	\$274,000
Criminal Justice Sales Tax	\$15,000	\$15,000	\$15,000	\$0	\$0
REET	\$2,561,000	\$2,825,000	\$335,000	\$2,226,000	\$2,490,000
State Shared Revenues	\$55,000	\$55,000	\$55,000	\$0	\$0
Present Value Total (2013\$)	\$14,476,000	\$15,987,000	\$2,253,000	\$12,223,000	\$13,734,000

Source: BERK Consulting, 2013.

Note: See Exhibit 10 and methods section of the report for details on assumptions for revenue sources. All values rounded to nearest thousand.

Exhibit 10. Description of Revenue Sources Evaluated and Key Assumptions, Bayview Ridge Fiscal Impact Analysis

Revenue Source	Brief description	How it may be used	Other notes and assumptions
Current Expense Levy	Property tax on new and existing development	Capital and operating expenses	Rate: \$1.587 for the 2013 tax year
County Road Levy	Property tax on new and existing development	Capital and operating expenses for County roads	Rate: \$1.756 for 2013 taxes
Sales Tax on Construction	Tax levied on the value construction activity	Capital and operating expenses for general County purposes	0.2% sales tax currently collected in the study area. A 1% "local" share of the tax accrues to local jurisdictions. In unincorporated areas the County receives 100% of the 1% share. In incorporated areas, the city receives 85% of the 1% local tax and the County receives 15%.
Ongoing sales tax	Tax levied on sales in businesses and industrial properties	Capital and operating expenses for general County purposes	Same rates as sales tax on construction, but evaluated separately because it is derived from different sources
Criminal Justice Sales Tax	An optional sales tax to support criminal justice activities	Criminal justice programs and activities only	0.1% sales tax. 10% of revenue goes directly to the County and the remaining 90% is distributed to the County and cities within the county on a per capita basis.
Real Estate Excise Tax	Levied on all sales of real estate, measured by the full selling price	For any capital purpose identified in a capital improvement plan. Cannot be used for maintenance.	0.5% tax on the value of the transaction. REET revenues are uncertain given volatility in the real estate market
State Shared Revenues	Two components included: (1) Combination of Liquor Excise Tax and Liquor Board Profits are dispersed based on a per capita distribution; and (2) Motor Vehicle Fuel Tax distribution determined by a formula that is heavily weighted towards population.	Motor Vehicle fuel tax is unrestricted for street purposes	(1) Liquor Excise Tax and profits: 2012 revenues were \$73,597 and \$220,952 respectively, and were assumed to remain steady to project revenues forward in this analysis. (2) Motor Vehicle Fuel Tax calculated using state formula.

Source: ECONorthwest and BERK Consulting, 2013, with reference to Municipal Research and Services Center Report Number 53, Revised May 2010: "A Revenue Guide for Washington Counties"

4.3 Comparing County costs and revenues

Exhibit 11 compares net new costs and revenues that accrue to the County. This table isolates the fiscal impact of the Bayview Ridge development by subtracting the results of the counterfactual scenario (in which growth is assumed to occur as

if Bayview Ridge did not develop) from the results of the two scenarios for development in Bayview Ridge. It shows that, during the study period, the development is a net positive investment for the County when comparing total costs to total revenues. In scenario A, the County has accrued a total of about **\$6.3 million** more in 2025 than they would have without the development. In scenario B, the total is about **\$7.8 million**.

Exhibit 11. Summary of Costs and Revenues to the County from development in Bayview Ridge, 2014-2025

Year	Column 1 Total Net New Costs	Column 2 Total Net New Revenues, Scenario A	Column 3 Total Net New Revenues, Scenario B	(Column 2 minus Column 1) Revenues less costs, Scenario A	(Column 3 minus Column 1) Revenues less costs, Scenario B
2014	\$0	\$557,000	\$627,000	\$557,000	\$627,000
2015	\$0	\$724,000	\$814,000	\$724,000	\$814,000
2016	\$0	\$892,000	\$1,003,000	\$892,000	\$1,003,000
2017	\$2,648,000	\$1,065,000	\$1,197,000	-\$1,582,000	-\$1,450,000
2018	\$237,000	\$1,242,000	\$1,396,000	\$1,005,000	\$1,159,000
2019	\$242,000	\$1,424,000	\$1,600,000	\$1,182,000	\$1,358,000
2020	\$247,000	\$1,610,000	\$1,809,000	\$1,364,000	\$1,562,000
2021	\$3,180,000	\$1,801,000	\$2,024,000	-\$1,378,000	-\$1,156,000
2022	\$313,000	\$1,997,000	\$2,243,000	\$1,684,000	\$1,930,000
2023	\$537,000	\$2,198,000	\$2,469,000	\$1,661,000	\$1,932,000
2024	\$549,000	\$2,404,000	\$2,700,000	\$1,854,000	\$2,150,000
2025	\$790,000	\$2,614,000	\$2,936,000	\$1,824,000	\$2,146,000
Total					
2013\$	\$5,935,000	\$12,223,000	\$13,734,000	\$6,288,000	\$7,799,000

Source: ECONorthwest and BERK Consulting, based on assumptions described elsewhere in the text of the report, 2013. All values rounded to nearest thousand.

Some observations and findings related to Exhibit 11:

- **Before accounting for the counterfactual scenario, costs outweigh revenues.** However, about 66% of total costs are not directly attributable to the Bayview Ridge development, but are costs that would be incurred as a result of general, County-wide growth regardless of the Bayview project moving forward. Total costs should not be compared directly to revenues generated from Bayview Ridge; they would better be compared to total, County-wide revenues. For this reason, Exhibit 11 above compares only the net costs and net revenue figures.
- **While the overall net impact is positive, the annual impact may sometimes be negative.** This fiscal impact analysis evaluates total costs relative to total revenues, with insufficient certainty in assumptions to support the annualized County budgeting processes. However, costs tend to be “lumpy”: new parks result in big capital expenses in certain years.

Revenues, on the other hand, tend to be relatively smooth, ramping up overtime as new development occurs.

- **The total impact is positive during the build-out period even when revenue source restrictions are considered.** As described in the full report, many of the individual revenue sources (which are summed in Exhibit 11 to show total revenues) are restricted. Road levy funds, for example, may only be used to support roads projects, and there are no new County roads costs assumed in this analysis. The current levy and sales tax revenues have the fewest restrictions on their use; REET revenues are applicable to all capital expenses. These sources together comprise roughly 72% of total revenues, and still exceed total cost. More detailed cash flow analysis would be needed to determine how the timing of each of the revenues coming on line would compare to the timing of needed capital and operating costs.
- **While on the whole, the net results are positive, over a longer analysis period, the results by service category would differ:**
 - The net impact for transportation costs could continue to be positive even when more information is available regarding capital and operating expenses. The County collects property taxes on the road fund from the new development, while all internal roads are funded by the developer. Given these assumptions, even if some transportation projects were identified that required investment in the Subarea, it is possible that they could be funded through available transportation-specific revenue sources. As planning for the development moves forward, ECO recommends re-assessment of transportation cash flow (including possible mitigation measures such as impact fees) to better understand the impacts over a longer timeframe that this analysis considers.
 - Over a longer analysis period, the results are less certain for parks and public safety. Many of the revenue sources are one-time sources associated with construction. Ongoing operating costs will continue to accrue, while revenues will attenuate.
- **The County is slightly better off in Scenario B than in Scenario A.** This is due to the fact that Scenario B has more industrial development, which generates more revenues.

Overall, the picture is positive for the County over the analysis period, as a significant amount of relatively high-value development generates revenues that

benefit the County without significant capital expenditures accruing to the County.

5 Impacts to Other Districts

At the request of the County, ECONorthwest also examined the fiscal impact of the development to the school system and fire service providers that serve the Subarea. This chapter presents the findings of these analyses.

5.1 Impacts to the Burlington-Edison School District

The Subarea lies within the boundaries of the Burlington-Edison School District. The District has five elementary schools and one high school. Subarea residents attend Bay View Elementary and Burlington-Edison High School. This case study describes the fiscal impacts of future Subarea development on the District.

The cost to the District of future Subarea development is based on an LOS analysis presented in the SAP. Exhibit 12 summarizes its findings. Assuming 711 new students move to the Subarea by 2025, the District will need to add 28 new classrooms and hire 40 new teachers. It will also have to add support staff at both schools.

Exhibit 12: LOS Analysis for the Burlington-Edison School District

Facility	Students	Classrooms	Teachers
Elementary school	528	21	30
High school	183	7	10
Total	711	28	40

Source: ECONorthwest with data from the SAP and Superintendent Browning, 2013.

To meet this additional demand, the District will need to add capacity to its school facilities. According to District Superintendent Laurel Browning, both schools that serve the Subarea are at capacity. The facilities are not sufficient to house the current student population, so the District has installed a number of portable buildings.

The Superintendent provided ECONorthwest with the cost of constructing and maintaining these facilities.²³ Capital costs assume a \$30 million elementary school constructed over three years beginning in 2014 and a \$50 million high school constructed over three years starting in 2017. Operations and maintenance costs for the elementary school include \$240 thousand for maintenance and \$624 thousand for administration in 2013 dollars, beginning in 2017. They also include net new teachers ramping up from 3 in 2014 to 30 in 2025. Teachers are assumed to cost \$65 thousand each in 2013 dollars. Operations and maintenance at the new high school are assumed to be the same as at the old high school except that net new teachers would ramp up from 1 in 2014 to 10 in 2025.

In the counterfactual case, the new high school still would be built, but the new elementary school would not. One-third of the new students would locate within the Burlington-Edison school district, so one-third of the operations and maintenance costs would accrue to the district.

Exhibit 13 compares costs and revenues to the school district in three scenarios. The net costs to the School District are negative over this study period. The Burlington-Edison School District expects **\$40 million** in capital and operating and maintenance expenses (\$2013, including only costs specific to Bayview Ridge) over the course of the study period (2014 – 2025). Just **\$6.4** or **\$7.2 million** in O&M levy revenues (depending on scenario) offset those costs during the study period.

Exhibit 13. Summary of fiscal impact to the Burlington-Edison school district of the Bayview Ridge Development, 2014-2025

	Scenario A	Scenario B	Counterfactual (net factor)	Total Net A	Total Net B
Total Revenues	\$7,415,000	\$8,180,000	\$968,000	\$6,447,000	\$7,212,000
Total Costs	\$84,739,000	\$84,739,000	\$44,705,000	\$40,034,000	\$40,034,000
Net Fiscal Impact of Bayview Ridge				-33,587,000	-32,822,000

Source: ECONorthwest, based on the Subarea Plan for Bayview Ridge and interviews with the Burlington-Edison School District Superintendent, 2013

For the District, the fiscal impacts differ between operating costs separately from capital costs:

- **Operating and maintenance costs:** During the study period and using the assumptions in this analysis, O&M costs to the District total about half of the total costs (\$20 million). Revenues from the O&M levy are just

²³ These are preliminary estimates. Additional research would be needed to better estimate costs.

\$7 or \$8 million. Over time, the O&M costs are not covered entirely by the levy. However, the school also receives an allocation of State funds based on an allocation model that accounts for levels of staffing, class sizes, and number of students. It is beyond the scope of this assignment to evaluate these revenues, but they may assist with offsetting O&M costs.

- **Capital costs:** The new development will also generate some revenues (about \$4 million) for the District’s bond levy that this analysis cannot count. Because the bond rate is set to raise a total amount, this revenue from Bayview Ridge development would simply lower the burden on other households in the District. Even if the cost assumptions are not perfect (which they rarely are), the magnitude of difference on the capital side cannot be overcome with the District’s existing bond levy. Additional resources would be needed.

5.2 Impacts to fire service providers

Three fire districts provide service to the Subarea: Fire Protection District No. 2 (FD2), Fire Protection District No. 6 (FD6), and Fire Protection District No. 12 (FD12). The SAP describes each district in detail. FD2 and FD12 are volunteer districts and serve minority portions of the Subarea. FD6 serves the majority of the Subarea. This case study describes the fiscal impacts of future Subarea development on fire protection services.

ECONorthwest interviewed the fire chiefs of all three districts. The chiefs from FD2 and FD12 do not anticipate any notable increase in costs associated with providing service to the Subarea, and very little of the development occurs in these districts. FD6 Chief Josh Carpenter does expect his district’s costs to increase as the Subarea develops. **Therefore, this analysis projects fiscal impacts only for FD6.**

FD6 will invest in new staff and facilities during the buildout period to serve the entire district and the Bayview Ridge Subarea. Chief Carpenter stated that the District would transition from a volunteer to mixed-staffing model, adding new full-time administrative positions along with full-time firefighters according to the schedule outlined in Exhibit 14.

Exhibit 14: Additional FD6 staff required to serve the entire fire district, 2013\$

Additional staff required	Additional FTE	When	Annual total cost per FTE
Administrative assistant to full time	0.5	2014	\$61,100
Fire chief moves to full time	0.5	2017	\$119,600
Assistant chief / training officer	1.0	2018	\$106,600
Firefighters	5.0	1 per year, 2020-2024	\$71,500

Source: ECONorthwest with data from Chief Carpenter from FD6, 2013.

In conjunction with additional staff, the Chief also anticipates adding a new fire station near the end of the build-out period. He estimates that this station would cost about \$2.5 million (2013\$) to serve the entire district in the northeast portion of the district, freeing up capacity in the existing fire station to serve growth at Bayview Ridge. Maintaining this facility would cost an estimated \$195,000 annually.²⁴

While the FD6 has plans in place to expand services district-wide (reflected in Exhibit 14 and the paragraphs above), it has not completed a detailed study to determine specifically how much of the likely costs would be attributed to the new development at Bayview Ridge. For the order-of-magnitude estimate in this report, the Chief Carpenter estimated that roughly 30% of the total costs for capital and O&M investments would be attributable to Subarea development. This analysis assumes the same.

Exhibit 15 compares costs and revenues to Skagit County FD6 in three scenarios. Revenue estimates assume that all of the projected residential development occurs inside of FD6 boundaries, while 70% of the industrial development occurs in FD6 boundaries (some of the industrial development would occur in other district boundaries).

Exhibit 15. Summary of fiscal impact to the Skagit County Fire District 6 of the Bayview Ridge Development, 2014-2025

	Scenario A	Scenario B	Counterfactual (net factor)	Total Net A	Total Net B
Total Revenues	\$1,727,000	\$1,867,000	\$251,000	\$1,477,000	\$1,515,000
Total Costs	\$4,524,000	\$4,524,000	\$3,167,000	\$1,357,000	\$1,357,000
Net Fiscal Impact of Bayview Ridge				\$119,000	\$259,000

Source: ECONorthwest, based on the Subarea Plan for Bayview Ridge and interviews with the Burlington-Edison School District Superintendent, 2013. All values rounded to nearest thousand.

Revenues and costs come fairly close to even during the analysis period, given the assumptions in this analysis; fiscal impacts are slightly positive for FD6.

²⁴ FD6 did not provide ECONorthwest with an exact maintenance cost for the new station. Therefore, ECONorthwest estimated the cost using current O&M expenditures. According to Chief Carpenter, FD6 spends approximately \$270,000 each year on O&M. This cost includes \$75,000 for staff stipends and \$195,000 for maintenance of one fire station and its related equipment.

6 Conclusions and Considerations

The County asked ECONorthwest to consider some measures that it might take to improve the longer-term fiscal sustainability of the Bayview Ridge development from the County’s perspective. This chapter summarizes the key conclusions before providing those considerations.

Exhibit 16 compares total costs to total revenues in each of the scenarios, and finds a net positive impact of **\$6.3 million** in Scenario A and **\$7.8 million** in Scenario B over the assumed build-out period.

Exhibit 16. Overview of Fiscal Impacts of Bayview Ridge Development in 3 Scenarios to Skagit County, 2014-2025

	Scenario A	Scenario B	Counterfactual (net factor)	Total Net A	Total Net B
Total Revenues	\$14,476,000	\$15,987,000	\$2,253,000	\$12,223,000	\$13,734,000
Total Costs	\$18,529,000	\$18,529,000	\$12,594,000	\$5,935,000	\$5,935,000
Net Fiscal Impact of Bayview Ridge:				\$6,289,000	\$7,799,000

Source: ECONorthwest, 2013. All values in \$2013 and rounded to nearest thousand.

Note: BERK Consulting calculated revenues in all scenarios.

While on the whole, the fiscal impact of the development is positive for the County, more nuanced interpretation of the findings suggests some areas that may require further attention from the County to ensure longer-term fiscal sustainability for the Bayview Ridge development.

Over a longer analysis period, the results by service category would differ, suggesting the following areas for potential policy or other interventions:

1. As described in the text of the report, PW will undertake additional analysis of the capital and operating costs associated with transportation. The County is aware of two potential off-site projects that could add costs for the County, and potential transportation impacts will be in flux as details about the future mix and uses on the site are finalized. As planning for the development moves forward, these costs should support a more detailed cash flow analysis to better understand the transportation impacts. County Public Works should continue to carefully evaluate O&M and capital costs from the development, and, if off-site projects are necessary, it may make sense to consider whether impact fees to support a more urban level of service.

2. Over a longer analysis period, the impacts for parks and public safety operations should also be considered. Many of the revenues derive from one-time sources associated with construction. Ongoing operating costs will continue to accrue, while revenues will attenuate. For law enforcement, 100% of costs are operating costs; for parks, the number is smaller, at just 10% of total costs. Operating costs sum to \$5.5 million over the analysis period. While unrestricted revenue sources are sufficient to cover these costs during the analysis period, over a longer time period, this could be problematic as one-time revenues (sales tax on construction) attenuate. This attenuation is a problem consistent with development that occurs anywhere in the County, and is at least in part caused by the idiosyncrasies and limitations of the Washington State taxation system.
3. Capital costs for parks could present timing challenges. While total revenues appear to be sufficient, they may not be available to fund these investments at the time that parks investments are needed. Funding them fully could require borrowing that increases the cost and impacts the ability of the County to use revenues for other purposes. If the County wants to reduce its liability in parks capital costs, a few options are available: (1) reduce the level of service expectations for unincorporated areas to lower costs; (2) consider adding an impact fee for parks; (3) increase the developer responsibility for providing parks as amenities in the development itself; (4) delay the construction of parks to a later phase of development when higher revenues may be available. Some combination of these variables may be the best option. As master planning for Bayview Ridge continues, a cash-flow analysis on parks investments may be helpful to further inform choices.
4. Increasing the amount of industrial development (as was explored through Scenario B) improves the fiscal benefit. This is due to the fact that Scenario B has more industrial development, which generates more revenues. Any changes to the development program that increases the total amount of development activity on the site will improve the fiscal benefit, provided that cost assumptions do not change.
5. Impacts to schools are negative. Burlington-Edison School District previously used impact fees to support capital expenses; given the magnitude of growth at Bayview Ridge, the School District may want to consider reinstating these fees to reduce deficits for essential school services. A bond would also be necessary, as impact fees are unlikely to be sufficient to entirely cover the cost of new schools facilities.