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DATE: November 1, 2013 **ECO Project #: 21512**

TO: Dale Pernula, Skagit County

FROM: Lorelei Juntunen, ECONorthwest

SUBJECT: ADDENDUM TO OCTOBER 2, 2013 BAYVIEW RIDGE FISCAL IMPACT ANALYSIS

Under contract to Skagit County, Washington, ECONorthwest produced a report detailing the impacts of a new development at Bayview Ridge to the County, the Burlington-Edison School District, and Fire District 6 (*Bayview Ridge Fiscal Impact Analysis, October 2, 2013*). This memorandum provides an addendum to that report; it updates some key assumptions with new data that were not available to Skagit County or to ECONorthwest when the initial report was produced. The addendum also provides revised findings resulting from the new data inputs.

The addendum should be read in tandem with the original report; the context for the development and scenarios as well as all methods and assumptions (except for those changed in this addendum) are documented thoroughly in the report, and are not covered here in this addendum.

Summary

Skagit County has requested three updates to the analysis in the report:

(1) **Additional information about the amount of revenues that are generated from industrial development versus residential development.** The report provides revenue estimates for two development scenarios, A and B. The key difference between the two is the amount of industrial development: Scenario B has 110 more acres of light industrial development than A. The addendum finds that revenues from taxes attributable to residential development account for 64% of total tax revenues in scenario A and 58% of total tax revenues in Scenario B.

(2) **Updated transportation cost numbers, and the implications of those changes on the overall fiscal impacts of the development**. The inclusion of the new transportation costs substantially reduced the magnitude of the net benefit reported in the initial report; the outcome of the development is neutral to positive. This is at least in part due to the fact that many of the needed transportation investments would occur regardless of whether the development moves forward, though they may be needed earlier. Over the course of the analysis period (2014-2040), the development will generate $162,000 in net revenues in Scenario A and $3.2 million in Scenario B. This benefit would increase by about $1 million under both scenarios if the developer covers a portion of the transportation costs.[1]

[1] As is explained in more detail in the body of the report, the analysis period is an important consideration in interpreting these results. Some of the new transportation costs are incurred after the end of the analysis period used

(3) **Implications of possible changes to the report's "counterfactual" scenario,** which is important to the analysis because it quantifies how the same growth might be accommodated without the Bayview Ridge development. The County asked ECONorthwest to consider the implications of a different set of counterfactual assumptions for the County's fiscal impacts: that 100% of the new development occurs inside of incorporated areas.[2] Overall, the fiscal outcome of the new counterfactual would closely approximate the existing counterfactual, but with a slightly higher net benefit. The County would continue to collect some taxes from new residents in the municipalities, but would not have to provide supporting infrastructure and services.

Further detail follows in the remainder of this memorandum.

Updates to the revenue model

The initial report provided tables that quantified the tax revenues from new development at Bayview Ridge in two development scenarios and a counterfactual scenario (if the Bayview Ridge development does not occur). The report, however, only documented the *total* amount of revenue generated in each of the scenarios. Per the request of Skagit County, this addendum breaks out the revenues generated by industrial development from the revenues generated by residential development.

BERK produced the revenue model for the initial report and this addendum. In the process of disaggregating the findings for this memorandum, BERK made two modifications to its analysis. First, it included residential development within the cities in the current expense levy calculation for the counterfactual scenario. Second, it included construction spending in the criminal justice sales tax calculation. BERK corrected for both omissions in the findings presented below. Accounting for these differences resulted in $2 million in additional revenues attributable the counterfactual scenario.

Table 1 shows tax revenues to the County by source for the two development scenarios and the counterfactual, with results disaggregated by residential and industrial development. Revenues from taxes attributable to residential development account for 64% of total tax revenues in scenario A and 58% of total tax revenues in Scenario B.

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in the initial analysis (after 2025). As a result, this addendum had to change the analysis period to fully account for all costs and associated revenues. If we considered the new costs that accrue relative to revenues until 2025 (using the old analysis period) the fiscal impact of Bayview Ridge development is **significantly negative**. However, this is an incomplete accounting.

[2] This is because the allocation of population to the Bayview Ridge UGA is an urban allocation in the Countywide Planning Policies, and if it does not occur at Bayview Ridge it would most logically be allocated to other urban areas.

Table 1: Overview of revenues to the County by source, 2014 – 2040, present value 2013 $

Revenue Source	Scenario A	Scenario B	Counter-factual	Net A	Net B
Current Expense Levy	**$9,751,000**	**$10,756,000**	**$6,370,000**	**$3,381,000**	**$4,386,000**
Residential Share	6,370,000	6,370,000	6,370,000	0	0
Industrial Share	3,381,000	4,386,000	0	3,381,000	4,386,000
County Road Levy	**$10,565,000**	**$11,654,000**	**$1,380,000**	**$9,185,000**	**$10,274,000**
Residential Share	6,902,000	6,902,000	1,380,000	5,522,000	5,522,000
Industrial Share	3,663,000	4,752,000	0	3,663,000	4,752,000
Sales Tax on Construction	**$4,052,000**	**$4,470,000**	**$847,000**	**$3,205,000**	**$3,623,000**
Residential Share	2,647,000	2,647,000	847,000	1,800,000	1,800,000
Industrial Share	1,405,000	1,823,000	0	1,405,000	1,823,000
Ongoing Sales Tax	**$702,000**	**$852,000**	**$62,000**	**$640,900**	**$790,600**
Residential Share	192,000	192,000	62,000	131,000	131,000
Industrial Share	510,000	660,000	0	510,000	660,000
Criminal Justice Sales Tax	**$475,000**	**$532,000**	**$80,000**	**$395,000**	**$452,000**
Residential Share	284,000	284,000	80,000	204,000	204,000
Industrial Share	192,000	248,000	0	191,500	248,300
REET	**$2,990,000**	**$3,298,000**	**$391,000**	**$2,599,000**	**$2,907,000**
Residential Share	1,953,000	1,953,000	391,000	1,562,000	1,562,000
Industrial Share	1,037,000	1,345,000	0	1,037,000	1,345,000
State Shared Revenues	**$137,000**	**$137,000**	**$137,000**	**$0**	**$0**
Present Value Total, 2013 $	**$28,672,000**	**$31,699,000**	**$9,267,000**	**$19,406,000**	**$22,433,000**
Residential Share	18,485,000	18,485,000	9,267,000	9,219,000	9,219,000
	64%	58%	100%	48%	41%
Industrial Share	$10,188,000	$13,214,000	$0	$10,188,000	$13,214,000
	36%	42%	0%	52%	59%

Source: BERK Consulting, 2013. Note: BERK used a modified calculation for the criminal justice sales tax revenues in this analysis, which caused revenues to differ between scenarios. Note: the criminal justice sales tax findings may understate revenues in the counterfactual, as it does not reflect the revenue sharing agreement in place among the County and cities. Adjusting revenues accordingly would not have a significant impact on the present value net total revenues for either scenario.

Transportation costs

The original report summarized transportation costs as follows in its executive summary:

> ***Transportation costs*** *to the County from the Bayview Ridge development are expected to be* ***$0****, 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.*

Since publishing the report, the County completed its evaluation of transportation costs. It found that the Bayview Ridge development will trigger new capital facilities investments and transportation maintenance costs. This section presents those costs.

The County provided a development and cost schedule for capital investments, but emphasized that all costs are order-of-magnitude estimates suitable for planning purposes, but not for detailed cash flow analysis. It is likely that the costs will shift over time as further research and engineering work is completed to determine needs for right of way acquisition, road widths, drainage needs, pedestrian and bicycle facility needs, and other variables.

The County estimated maintenance costs using an average cost method (dividing the total cost of maintaining all roads in the County by the number of miles of roads maintained). This method is rough and could be refined to better understand the marginal costs of the new development. It provides a starting place for this analysis.

Under the build scenarios (A and B), transportation investments will occur between 2017 and 2020, although these dates are subject to change in accordance with development plans. If the development does not move forward, most of the improvements will take place; however, they will occur on an extended timeline. To account for these investments, which are important to understanding the fiscal picture for the County but will occur outside of the analysis period used in the original analysis, ECONorthwest extended the timeframe through 2040 for both revenues and costs.

Table 2 shows the cost to the County of developing and maintaining the transportation system for Bayview Ridge. The net cost to the County is $8.5 million over the analysis period, which includes both capital facilities and operations and maintenance. The table does not assume any developer contributions, which based on the assumptions on page 6 would reduce the net cost to $7.3 million. Below, we explain these figures in greater detail.

Table 2: Transportation investment schedule and costs for Bayview Ridge development, 2014-2040, 2013$

Facility	Cost, Not Discounted	Scenarios A and B	Counterfactual
Josh Wilson improvements*	$1,400,000	2017	2017
Josh Wilson and Avon Allen intersection	245,000	40% build out (2018)	2035
Peterson and Avon Allen intersection	1,400,000	40% build out (2018)	2035
Josh Wilson to Peterson Rd. connector	5,000,000	40-50% build out (2018)	Not applicable
Peterson Rd., Sunrise Ln. to Higgins Airport Way	4,000,000	40-50% build out (2018)	2028
Peterson Rd., Avon Allen to Pulver	1,130,000	50-60% build out (2020)	2035
Peterson and Pulver intersection	1,400,000	50-60% build out (2020)	2040
Present Value Capital Facilities Cost		$12,483,000	$5,779,000
Present Value Maintenance Cost		$1,756,000	$0
Total Present Value Cost		$14,239,000	$5,779,000
Net Present Value Cost		**$8,460,000**	

Source: Skagit County Public Works Department, 2013.
Notes: *Josh Wilson improvements are optional and are dependent on federal grant funding.
“Present Value” costs are presented in $2013.
“Net Present Value” Costs account for the time value of money, and are the relevant figure for comparing costs that occur in the future to revenues that accrue in the future.

Table 2 shows that the County incurs maintenance costs for the transportation system. Although developers will fund the construction of roads *in* the developments, the County will be responsible for maintaining them. The County estimates that it will need to maintain 15 new road miles as a result of the Subarea development.[3] This analysis assumes that these roads will be developed in three five-mile phases in 2014, 2018, and 2022. Given this development schedule and a per mile maintenance cost of $11,500 (provided by the County, based on average cost estimating methods), **the County will incur a total present value maintenance cost of $1.8 million over the analysis period.** This figure also represents the net maintenance cost of the transportation system, as there would be no new roads to maintain under the counterfactual scenario.

[3] R. Walters, 2013, email to L. Juntunen, October 30, 2013.

The present value cost to the County of transportation improvements is $12.5 million under scenarios A and B, and $4.1 million under the counterfactual. The cost of improvements under the counterfactual is substantially lower because the Josh Wilson to Peterson Rd. connector project is not necessary without the Bayview Ridge development moving forward. The net present value cost (which accounts for the time value of money as well as inflation to the year of construction) of the development is $8.5 million.

A few considerations are important to interpretation of results and comparison to the initial findings:

- The analysis period is an important consideration in interpreting these results. Some of the new transportation costs are incurred after the end of the analysis period used in the initial analysis (after 2025). As a result, this addendum had to change the analysis period to fully account for all costs and associated revenues. If we considered the new costs that accrue relative to revenues until 2025 (using the old analysis period) the fiscal impact of Bayview Ridge development is **significantly negative**. However, this is an incomplete accounting that does not fairly incorporate the counterfactual costs.

- The County likely will not incur 100% of the cost of providing transportation facilities in the Subarea under the build scenarios; developers may share the costs of some of these investments that would not occur without the Bayview Ridge development moving forward. The County stated that developers likely will make a substantial contribution toward the cost of the Josh Wilson to Peterson Rd. connector and the Peterson Rd. and Avon Allen intersection. Assuming the developer pays for 50% of both projects,[4] the total present value cost to the County of transportation improvements would be $9.7 million and the net cost would be $5.6 million. This difference is important to considering the total fiscal impact of the development.

[4] This assumption is for illustrative purposes only; it is not intended to represent an agreement between the County and developer or any estimate of actual impacts.

Possible changes to the counterfactual scenario

The report describes the counterfactual scenario it used as follows:

> *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.*
>
> *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.*

The County asked ECONorthwest to consider the implications of a different set of counterfactual assumptions for the County's fiscal impacts: that 100% of the new development occurs inside of incorporated urban areas.

In this scenario, the County would not incur many of the costs described in the initial report. Below is a short summary of how costs to the County and these other service providers might change from the initial counterfactual (20% development in rural areas) to the new counterfactual (0% development in rural areas).

- **Transportation and drainage facilities:** The cost to the County of providing transportation and drainage services under the new counterfactual will not differ from the costs described for the existing counterfactual.
- **Parks facilities:** The addition of residents in urban areas would increase existing park use and likely raise maintenance costs incurred by the County. Therefore, costs to the county of providing parks facilities under the new counterfactual would likely increase by 25% (in accordance with population growth) from the initial counterfactual.
- **Law enforcement:** Under the new counterfactual, residents would receive law enforcement services from the local law enforcement agencies where they reside. Therefore, the County would not incur any net costs from providing law enforcement services to the Subarea.

Locating 100% of new development inside existing cities would also have an impact on revenues to the County.

- Revenues to the County from the current expense levy and the state shared revenues would not change. Under the revenue sharing agreement among the County and cities to fund the construction and operation of the new jail, the County would receive essentially the same amount of revenue in either counterfactual.
- The County would receive a smaller share of sales tax revenues from construction and resident spending in the new counterfactual. In the initial counterfactual, 20% of development occurred in unincorporated areas of the County. The County gained 100% of the 1% "local" share of the sales tax on the one-time and ongoing spending attributable to this development. In the new counterfactual, this development would occur in cities and incorporated areas. Therefore, the County would only receive 15% of the 1% local share.
- The County would not receive revenues from the county road levy or the real estate excise tax under the new counterfactual.

Overall, the fiscal outcome of the new counterfactual would closely approximate the existing counterfactual. The County would likely incur a slightly higher net benefit in the new Counterfactual due to the fact that it would continue to collect taxes from new residents in the municipalities, but would not have to provide supporting infrastructure and services.

This shift in the development patterns would also impact the Burlington-Edison School District and the local fire districts.

- **Burlington-Edison School District**: Costs to the Burlington-Edison School District under the new counterfactual would closely approximate the initial counterfactual. The operations and maintenance expenses would increase marginally, as additional students moved to the District. Its tax revenues would also increase to cover the additional operations and maintenance costs associated with serving these new students.
- **Local fire districts:** If 100% of new residents locate in incorporated areas, fire districts 2, 6, and 12 would not serve these residents, so it would incur neither costs nor revenues under the new counterfactual.

Implications for report findings on fiscal impacts

The original report found the following: "a net positive impact of $6.3 million in Scenario A and $7.8 million in Scenario B over the assumed build-out period. 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**."**

Table 3 shows the revised costs and revenues to the County from the development. The inclusion of transportation costs reduced the magnitude of the net benefit reported in the initial report, however, the outcome of the development is neutral to positive. Over the course of the analysis period, the development will generate $162,000 net revenues in Scenario A and $3.2 million in Scenario B. This benefit would increase by about $1 million under both scenarios if the developer covers a portion of the transportation costs.

Table 3: Summary of costs and revenues to the County from the Bayview Ridge development

Year	*Column 1* Total Net New Costs	*Column 2* Total Net New Revenues, Scenario A	*Column 3* Total Net New Revenues, Scenario B	*(Columns 2 - 1)* Revenues Less Costs, Scenario A	*(Columns 3 - 1)* Revenues Less Costs, Scenario B
2014	$59,000	$591,000	$665,000	$532,000	$606,000
2015	60,000	718,000	813,000	658,000	753,000
2016	62,000	846,000	964,000	784,000	902,000
2017	2,711,000	978,000	1,117,000	(1,733,000)	(1,594,000)
2018	12,411,000	1,118,000	1,276,000	(11,293,000)	(11,135,000)
2019	375,000	1,256,000	1,439,000	881,000	1,064,000
2020	3,391,000	1,401,000	1,607,000	(1,990,000)	(1,785,000)
2021	3,320,000	1,547,000	1,777,000	(1,773,000)	(1,544,000)
2022	529,000	1,699,000	1,953,000	1,170,000	1,424,000
2023	758,000	1,854,000	2,135,000	1,096,000	1,377,000
2024	776,000	2,012,000	2,319,000	1,236,000	1,543,000
2025	1,022,000	2,176,000	2,509,000	1,154,000	1,487,000
2026	1,046,000	1,548,000	1,607,000	502,000	561,000
2027	(3,168,000)	1,565,000	1,777,000	4,733,000	4,945,000
2028	1,096,000	1,583,000	1,953,000	487,000	857,000
2029	(2,998,000)	1,600,000	2,135,000	4,598,000	5,133,000
2030	1,148,000	1,618,000	2,319,000	470,000	1,171,000
2031	(1,009,000)	1,636,000	2,509,000	2,645,000	3,518,000
2032	1,202,000	1,655,000	1,808,000	453,000	606,000
2033	1,231,000	1,673,000	1,829,000	442,000	598,000
2034	1,259,000	1,691,000	1,849,000	432,000	590,000
2035	1,289,000	1,710,000	1,870,000	421,000	581,000
2036	1,319,000	1,730,000	1,891,000	411,000	572,000
2037	1,350,000	1,748,000	1,912,000	398,000	562,000
2038	1,382,000	1,769,000	1,934,000	387,000	552,000
2039	1,414,000	1,788,000	1,954,000	374,000	540,000
2040	1,447,000	1,809,000	1,977,000	362,000	530,000
Present Value Total (2013$)	**$19,244,000**	**$19,406,000**	**$22,433,000**	**$162,000**	**$3,189,000**

Source: ECONorthwest and BERK Consulting with data presented in the initial report, 2013. All values rounded to the nearest thousand. Note: Total net new costs to the County are negative in 2027, 2029, and 2031 because the cost to the County for transportation investments under the Counterfactual is greater than the total cost to the County under scenarios A and B.