47° North – Fiscal Fact Sheet
City of Cle Elum

This fact sheet looks at the impacts of 47°N on Cle Elum city finances. The city required that fiscal impacts be analyzed and included in the Environmental Impact Statement (fiscal study) [1.] The primary goals of the fiscal study were to determine how 47°N compares fiscally to the existing approved Master Plan for Bullfrog Flats and if 47°N would generate enough new tax revenue to pay for city services.

Below are the key takeaways from the fiscal study:

- **47°N will generate far less NET revenue (revenue minus cost of service) than the current approved Master Plan** – The studies show that 47°N will generate less than 25% of the net revenue the city expects from the current Master Plan for Bullfrog Flats.

- **The Manufactured Home Community (MHC) and RV Resort (RVR) are net revenue negative (tax revenues don't cover city costs)** – The studies show that over time the city's costs of service will outpace revenue coming into the city, net revenue will turn negative within 5 years of its opening, and it will cost the city more to serve the MHC/RVR than it will get back in tax revenue. This will require city taxpayers to make up shortfalls. **See attached graphic of the study results**.

- **The fiscal study used a number of optimistic assumptions of tax revenue growth, and cost of services (so it's even worse than it looks).**

    - To make up for the tax revenue deficit from the MHC/RVR, Sun Communities proposes a new 25 Acre Retail/Commercial Center to generate additional sales tax revenue to cover shortfalls. BUT, the study shows that new demand from 47°N alone will not generate the sales traffic needed to support a new retail center [2]. From a city fiscal perspective this means that the 47°N retail would be delayed until demand is sufficient to make it feasible (indefinite time period), **OR** it

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[1] DSEIS Appendix K, ECONorthwest, 9-9-2020; FSEIS Appendix E , ECONorthwest, 4-16-2021
NOTE: the studies were funded by the developer

[2] More than 90% of the estimated sales tax revenue from the proposed retail center must come from demand outside 47°N.

would compete directly with the existing city downtown/retail, simply moving sales tax from one part of the city to another, not generating new revenue. Either way, it is a very likely that the new sales tax revenue assumed by the fiscal study will not occur as projected, and not fill revenue deficits.

The fiscal study did not look at impacts of the 47°N retail center on the city's existing downtown, it simply assumed new tax revenue would appear without affecting existing city sales tax revenue, a very optimistic assumption for which no basis is provided [3].

- One of the City's largest costs is police protection (currently 50% of the city's general fund current expenses), so getting 47°N police costs correct is critical to understanding fiscal impacts. However, the fiscal study used very optimistic assumptions for the cost of police service to 47°N. Our Cle Elum/Roslyn police department recommended using a cost model normal for small cities like Cle Elum, while the fiscal study assumed a cost model common for larger cities. The police recommended model estimates it will cost 25% more to serve 47°N than the model the fiscal study assumed. If our police department recommendation is correct (and many believe they have a better handle on local costs than an outside consultant) 47°N will be even more net revenue negative than the study shows, and deficits will be even greater.

- **The fiscal study did not examine several major categories of costs and revenues (so it's even potentially <u>much</u> worse than it looks)**

  - **Capital costs were not included in the fiscal study** - 47°N will dramatically increase the number of housing units in the city and double the population of the city during the summer. This will require major expansions of the city's existing infrastructure. The fiscal study only analyzed recurring revenues/costs [4], it did not address the cost of capital improvements needed to maintain level of service (police station and equipment, fire station and equipment, transportation systems, etc.).

[3] NOTE: long standing City policy has been to protect and promote its existing retail/commercial areas. The current development agreement for the Bullfrog Flats property explicitly prohibits a new retail center on the property.
[4] Primarily employee salaries and material, the cost of major capital improvements and major equipment was not studied

Without exaggeration, the cost of capital improvements needed to accommodate 47°N will be unprecedented for UKC. Even the limited data in the EIS documents (transportation only) shows costs will easily run into many tens of millions of dollars. Sun Communities has proposed that it should only pay for a "share" of capital facility costs. The city of course would be responsible for remaining costs. The magnitude of costs the city will face, or how those costs would be funded, is not reported. The fiscal report is silent.

- A common way of funding major capital improvements is bonds supported by new property taxes. The fiscal studies show that the MHC/RVR will generate less than half of the property tax revenue anticipated from the current master plan for the traditional housing property. This suggests that costs to support new bonding will fall more heavily on existing tax payers; even though 47°N is in large part driving the need for the capital improvements. The magnitude of additional costs is not reported. The fiscal report is silent.

- One source of funding for capital improvements is the Real Estate Excise Tax (REET), a tax on the sale of all real estate in the city. The fiscal study analyzed REET and determined that revenues from 47°N will only be **4%** of the REET revenue originally anticipated from the current master plan. This is because all land in 47°N will be held by Sun Communities and leased, no real estate sold. This is a significant reduction in funds for the city's capital improvement projects. **REET study results are shown on the attached graphic.**

- **Impacts on the City's utility funds were not included in the fiscal study –** The fiscal study states: "charges for goods and services (primarily for utilities) have historically made up the largest share of City revenues". Even though utility funds are a major part of city budgets, they were not considered in the fiscal report.

- Long standing City policy requires that developers dedicate new completed infrastructure (roads, water, sewer, storm drainage) to the City. This new infrastructure becomes a City asset, the city sets up new accounts for each new resident and revenue is generated for the city's utility funds. New infrastructure is much less maintenance intensive than the city's old infrastructure, so new infrastructure helps the city fund the higher costs of its older infrastructure.

- Sun Communities proposes a different model for infrastructure/utilities in 47°N, it proposes to keep all roads and utilities as a private asset [5]. No resident of 47°N would have an account with, or pay utility bills, to the city. Rather, Sun proposes to operate 47°N as a private, for profit utility, charging individual residents at its own discretion. The city's role would be bulk water supply and sewage treatment under a single master contract with Sun.

  This new 47°N utility would become the city's largest single customer (by far), yet the fiscal study does not discuss how this would affect the city's utility funds, how this would affect existing rate payers, provides no details on the terms and conditions of the master contract, and provides no assessment of the risk of forming a private utility of this magnitude within the city. The fiscal report is silent.

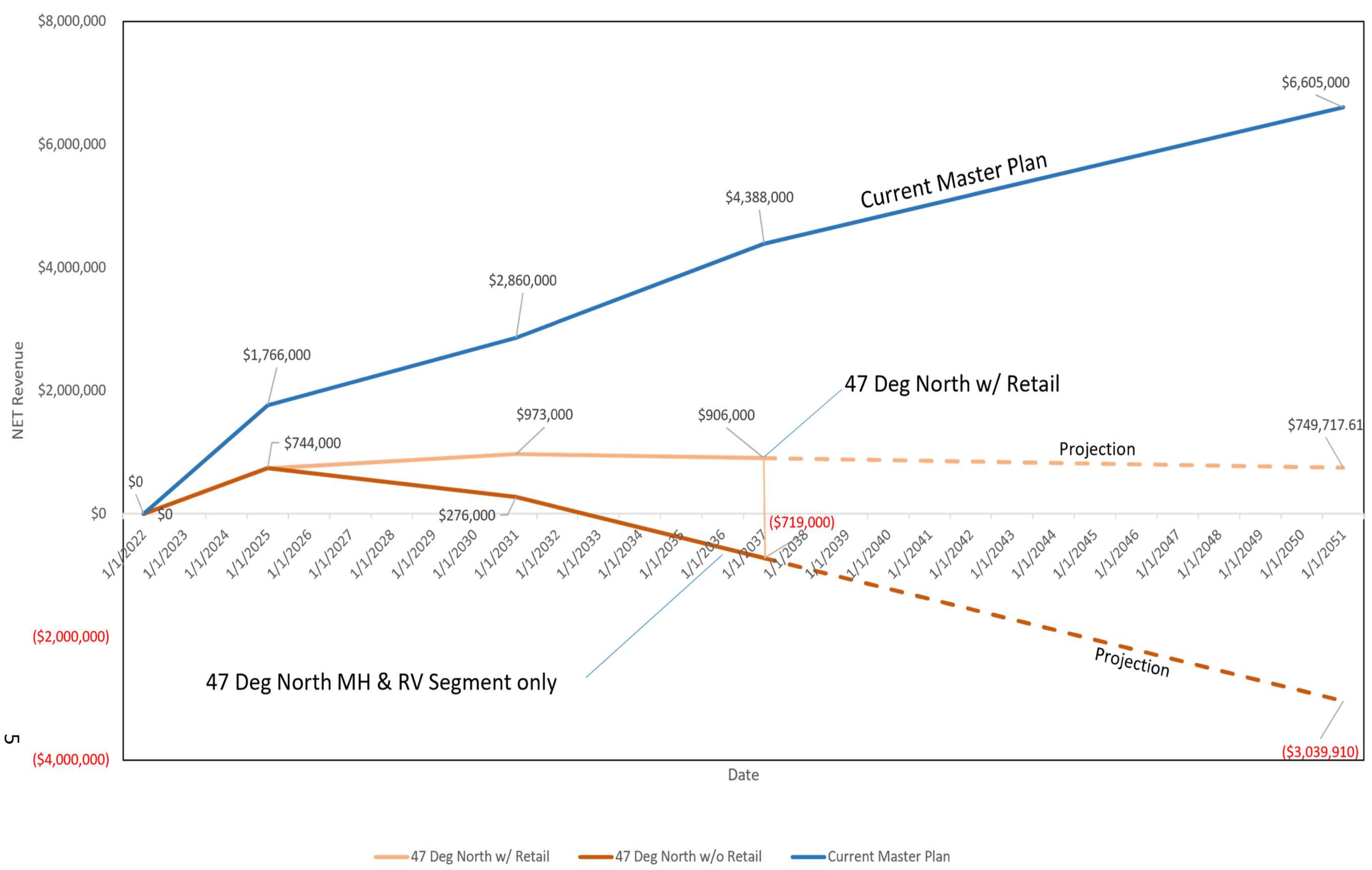
Conclusion

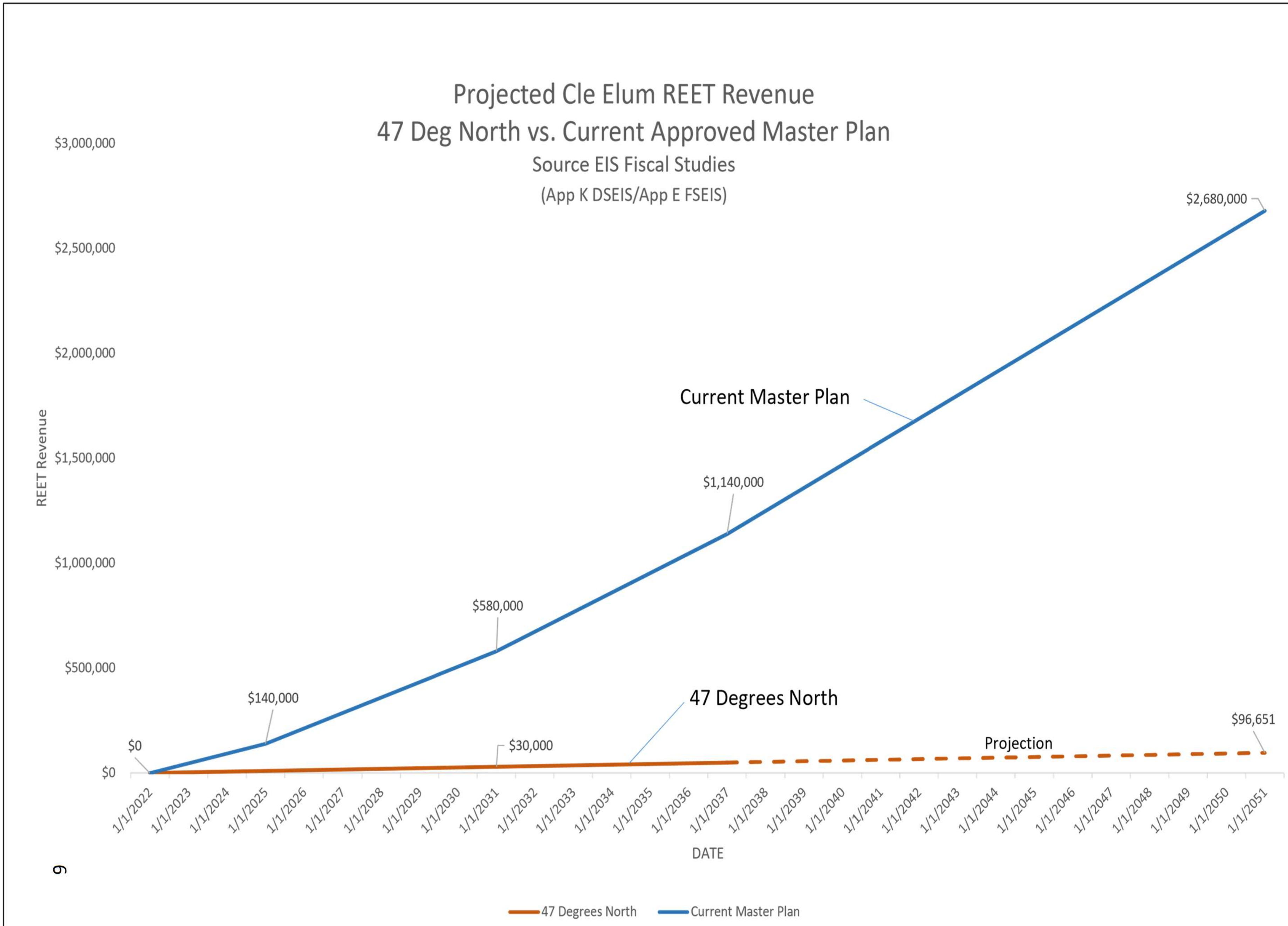
The 47°N fiscal study is incomplete, it does not analyze major potential fiscal impacts, impacts that could require existing city taxpayers to make up significant shortfalls. For the fiscal elements that were addressed, the study uses a number of optimistic assumptions that in effect transfer financial risk from Sun Communities to the city's tax payers. BUT, even with the study's optimistic assumptions, revenues from the 47°N MH Community and RV Resort will not cover the city's cost of service; city taxpayers will have to cover the shortfall.

47°N would be the largest development in city history, if approved. Based on the data available to date, which is incomplete, 47°N will have major impacts on the City's finances. The City (Mayor, Council and taxpayers) deserve a full and complete study that tabulates costs/revenues as comprehensively and realistically as possible, not as optimistically as possible, before any more action is taken on the project, Decisions should be made eyes wide open. Citizens deserve no less.

[5] NOTE: This is not allowed by the current development agreement for the Bullfrog Flats property, which requires infrastructure to be publically owned in accordance with standard city policy

Projected Cle Elum NET Revenue
47 Deg North vs. Current Approved Master Plan
Source EIS Fiscal Studies
(App K DSEIS/App E FSEIS)




Projected Cle Elum REET Revenue
47 Deg North vs. Current Approved Master Plan
Source EIS Fiscal Studies
(App K DSEIS/App E FSEIS)
REET Revenue
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
$2,680,000
Current Master Plan
$1,140,000
$580,000
$140,000
47 Degrees North
$96,651
Projection
$30,000
$0
1/1/2022
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DATE
47 Degrees North
Current Master Plan