

MEMORANDUM

To: Don Reimer, Chaffee County

From: Dan Guimond and Brian Duffany, Economic & Planning Systems

Subject: Economic Review of Nestle Waters 1041 Application;
EPS#18916

Date: January 30, 2009

The Economics of Land Use



Introduction

Economic & Planning Systems (EPS) has reviewed Nestle Waters North America's (Nwana) Chaffee County 1041 Application, including Appendix K Fiscal Impact Analysis prepared by THK Associates. EPS was asked by Chaffee County to review this development application to determine if it adequately addresses the economic, fiscal, and socioeconomic impact requirements of the County's 1041 requirements. This memorandum summarizes EPS' review of the THK analysis as well as the socioeconomic requirements of the application not addressed in the report.

EPS first reviewed the County's 1041 Regulations to determine the applicable economic and fiscal issues that should be addressed in Nwana's application. EPS then reviewed the Application and its technical appendices against the County's 1041 Regulations to determine if a) the section or requirement is relevant to the Nwana application, b) the application addressed the requirements, and c) if the methodology used is reasonable and appropriate. EPS' comparison of the Nwana application to the County 1041 Regulations is summarized in **Exhibit A**. The issues which warrant further examination and discussion are identified in ***bold and italicized text*** and discussed below.

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Review of Nestle 1041 Application

§2-203-5 (f) – Assessed Value

The THK Fiscal Analysis presents the existing assessed value for the site under the column "As-Is" and the estimated assessed value of the site at Project completion "As-Improved" in Table 2. It appears that only the 1.4-acre liquor store site which is planned for the truck loading facility is included in this figure.

EPS checked the Chaffee County Assessor website and confirmed that the Analysis includes Parcel #R327122300030 owned by Gunsmoke Liquor LLC with an assessed value of \$51,440, as shown on Table 2. The 1041 Application prepared by Apex Development Services shows one or more parcels associated with the Ruby Mountain Campground property Improved with a single wide trailer, a single family residence, and outbuildings which are proposed to be demolished. There will be an associated reduction in assessed value and property tax when these buildings are razed, which is not included in the THK analysis.

Conversations with County staff indicate that four parcels are affected by the project, not including any right of way for pipeline construction, which would have insignificant assessed value impacts. **Exhibit B** below shows the four parcels affected by the project. The total assessed value for all parcels is \$107,350 from which the County collects a total of \$853 per year in property tax. It is our opinion that the revenue impacts of changes to these properties are likely to be negligible. It is therefore the County's discretion if the applicant should be required to address changes to the other affected parcels.

Exhibit B Project Assessed Value Impacts

Parcel ID	Owner	Assessor Usage	Assessed Value	Property Tax	
				County	All Svc. Providers
				7,944	42,715
327122300030	Gunsmoke Liquor LLC	Commercial	\$51,440	\$409	\$2,197
342111400191	Hagen Harold A	Residential	\$18,230	\$145	\$779
342111400190	Hagen Harold K & Mary H (Hatchery)	Agricultural	\$37,430	\$287	\$1,599
342111100005	Nestle Waters North America Inc	Agricultural	\$250	\$1.99	\$10.88
Total			\$107,350	\$853	\$4,585

Sources: Chaffee County, Economic & Planning Systems
 H:\18916-Chaffee County Fiscal Review\Data\18916-1041\regs.xls\Parcels

§2-203-5 (g) – Revenues and Expenditures

THK's analysis presents the project's revenues from 2009 to 2039 as 30-year cumulative totals. Presenting cumulative revenues is an inaccurate and misleading way to present this type of fiscal information. Under THK's assumption of 3.0 percent annual appreciation, the total cumulative Chaffee County property taxes for 2009-2039 are \$351,210 for the proposed project. The County, however, is more concerned with annual rather than cumulative revenues. Chaffee County property taxes are projected at \$409 in 2009 growing to \$992 in 2039. The annual average revenue over this time period is \$690 per year, as shown in **Exhibit C**. This is much less than the 30-year total of \$20,730. The annual average revenues for all service providers from 2009 to 2039 is \$3,720, compared to the cumulative 30-year total of \$111,460. Showing the cumulative total implies a much greater degree of positive impact than the annual numbers reflect.

**Exhibit C
 Cumulative vs. Annual Fiscal Impacts
 Chaffee County Fiscal Review**

	As Is	As Improved
2009-2039 Cumulative		
Assessed Value	\$2,608,360	\$44,210,340
Property Taxes		
Chaffee County	\$20,730	\$351,210
All Service Providers	\$111,460	\$1,888,450
Net Fiscal Impacts		
Chaffee County	\$11,190	\$351,210
All Service Providers	\$58,290	\$1,888,450
2009-2039 Annual Average		
Assessed Value	\$86,880	\$1,473,880
Property Taxes		
Chaffee County	\$690	\$11,710
All Service Providers	\$3,720	\$62,950
Net Fiscal Impacts		
Chaffee County	\$370	\$11,710
All Service Providers	\$1,940	\$62,950

Source: THK Associates; Economic & Planning Systems
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There is a similar issue with how the Net Fiscal Impact is shown. The Net Fiscal Impact on Chaffee County (revenues minus expenditures) is estimated by THK at a cumulative total of \$351,210 and \$1.88 million for all service providers. The more appropriate annual average fiscal impact is \$11,710 for Chaffee County and \$62,950 for all service providers.

§2-206-6 (a) (ii & li) – Recreation Impacts

The application does not address this issue or explain why there are no economic impacts. While the impacts may be insignificant, the Applicant should revise the text on pages 21 to 23 to estimate these impacts or to explain why no economic impacts are estimated.

§2-203-6 (e) (i. & li.) – Employment Impacts

Jobs Multiplier

THK did not provide employment multipliers for the project as required in the 1041 Regulations. However, any employment impacts generated by this project are short term one-time impacts related to construction, rather than permanent jobs which would expand the County's economic base. This calculation would therefore be relatively minor and can be waived.

Retail Spending

The retail spending impacts from construction wages may be overstated. Appendix K Table 5 shows that 20 percent of construction worker wages spent on retail or \$175,000. THK estimates 50 percent of retail spending in Chaffee County which EPS believes is aggressive. The analysis does not estimate how many of the workers reside in Chaffee County. If the majority of workers

reside in the County, these retail expenditures would be made regardless of this construction project and should not be counted as an impact. If the majority of the workers are expected to commute from outside Chaffee County, we feel that the estimate of 50 percent local spending would be high. Construction workers are often highly mobile, commuting long distances to job sites. The majority of their retail spending will more likely be closer to their place of residence.

It may be more appropriate to estimate construction worker spending from dollar per day per person estimates rather than deriving them from wages. For example, using THK's estimate of 59 jobs and a 90-day construction period, EPS assumed that \$12 per day is spent by each worker (lunch and a few small miscellaneous purchases). This generates \$63,720 in retail spending, as shown in **Table 2**, which is less than half of THK's estimate of \$158,500. Sales tax would be \$1,300 under EPS' assumptions and \$3,170 under THK's. Admittedly, these are minor revenue figures and are almost insignificant given the uncertainty in the other assumptions (where workers live, for example).

Table 2
Alternative Retail Spending Estimate (EPS)

Description	Calculation
Eating & Drinking / Grocery \$ per day per worker	\$12
Workers	59
Construction Days	90
Total Spending	\$63,720
County Sales Tax Rate	2.0%
Sales Tax Generated	\$1,274

Source: THK Associates, Economic & Planning Systems

§2-203-6 (f) (i & ii) – Public Facilities Costs

EPS agrees with THK that the Project is not likely to generate major impacts to public facilities and public facilities costs in Chaffee County. However minor, the cost impacts should be acknowledged if the offsetting revenues are being shown. The THK analysis in Tables 2, 4, and 7 shows a "Cost to Serve" of zero. The cost to serve impacts were all calculated on a per-capita basis, and since the project generates no population, the impacts were estimated as zero. While the impacts are minor, it overestimates the revenue impacts to state that there are no cost impacts. Some service provider impacts are more appropriately estimated using other average cost factors discussed later in this memorandum.

§2-203-6 (g) – Local Government Revenues and Expenditures

Subsection (i) – 10 Year Revenue History

The 1041 Regulations request a 10-year history of revenues and expenditures for affected jurisdictions and special districts. The applicant reported that these figures were not readily available. We do not feel that this is a major issue affecting the County or the project and could be waived at the County's discretion.

Subsection (ii) – Impacts to Revenues and Expenditures (Fiscal Impacts)

The previous sections of this memorandum addressed 1041 Regulations criteria which overlap with the Fiscal Impact Analysis required under this subsection. This section of the memorandum will now address more comprehensively the THK Fiscal Impact Report submitted as Appendix K.

Demolition of Liquor Store

The existing liquor store will be demolished and replaced with the truck loading facility. The bulk of the sales will be replaced by increased sales in other existing stores. We would expect some loss of sales since this store is at a gateway location for tourists/visitors coming from the Front Range and passing through to other destinations. The County, at their discretion, could request that THK estimate lost sales tax and net it out from property tax and other revenues.

Assessed Value and Property Tax

As previously discussed, THK's analysis only addresses the truck loading site. There will be assessed value changes on other parcels that should be included in the analysis, mainly the well head area parcels. Also, any demolitions and changes in assessed value should be netted out from new construction to show the net difference between the "As-Improved" and "As-is" scenarios.

Also as previously stated, revenues should not be presented as cumulative 30-year totals. Annual average revenues are more appropriate because local governments operate on annual budgets rather than on expectations of total future revenue.

Cost to Serve

THK shows the cost to serve the proposed water facility as \$0. While we agree that the service costs to this Project are expected to be minimal, they are not zero. Further, if project-related revenues are estimated, so should project costs. It may be appropriate to address these impacts qualitatively rather than to attempt to quantify negligible impacts and compare them against 30-year cumulative revenues.

If more detailed service costs are to be estimated, THK should modify its methodology, as all operating costs are estimated on a per-capita basis. When applied to a project with no residential component, this method underestimates service costs. A commercial project has some impacts to roads, police, fire, and hospitals.

One-Time Fees and Revenues

Page Two of THK's Appendix B, (third full paragraph) shows building permit fees estimated at \$22,000 on \$5.5 million of construction value. One-time building permit fees are not a profit center to the County. They are designed to cover the cost of development review, inspection, and permit processing. Building permit fees are therefore a cost recovery revenue that is fiscally neutral against its related costs. Therefore, building permit fees should not be counted as a positive fiscal impact.

§2-203-6 (h) – Housing

The County is concerned with potential impacts on summer tourism from construction workers occupying lodging rooms. The concern is that the influx of construction workers during the spring rafting season may occupy lodging that would normally be used by visitors, assuming

construction workers are commuting to Chaffee County from other communities. To the extent that the County's bed base is large enough to absorb these workers, it would not be an issue. An inventory of accommodations in Chaffee County by location would help determine if the bed base is large enough to absorb these workers. Also, Nestle's construction contractors may be able to provide information on the residency and commuting patterns of the workers likely to work on this project.

Conclusions

The overall fiscal impacts of the Nestle Waters facility are relatively minor. EPS did not discover any major fiscal impacts of concern to the County. Fiscal impacts are therefore not considered to be a discriminating factor in the overall project review process. The project-related site planning and traffic impacts would appear to be of greater relevance to the project review.

That said, the current report overstates the fiscal benefits by overstating revenues and ignoring some costs altogether. We recommend that THK revise its calculations to show more clearly how key revenue impacts were estimated as follows:

- **Project Valuation** – Provide a more transparent estimate of the estimated future market value of the facility by component. Per-square-foot values and construction costs for the major components of the project (loading facility and well head sites) could be itemized and shown in table. This would allow the County to better understand how assessed values, property taxes, construction values, and building permit fees were estimated.
- **Net Revenues** – THK should provide an analysis of existing revenues to service providers in the project area compared to revenues upon project completion. This will show if future revenues are greater than or less than existing revenues. Sales tax and property tax are the primary annual revenues which the project affects.
- **Cumulative vs. Annual Average Revenues** – Showing 30-year cumulative revenues and assessed values overstates the impacts of the project. Revenue analyses should be presented as annual numbers with annual costs as an offset to estimate an annual fiscal balance or net fiscal effect.