

July 14, 2017

Mr. Garrett D. Gordon
Partner
Lewis Roca Rothgerber Christie
50 West Liberty Street, Suite 410
Reno, NV 89501

Re: Fiscal Impact Analysis of Highland Ranch Project-Multiple Uses

Garrett,

You requested an opinion regarding the fiscal impact of multiple options available for the development of the Highland Ranch property. It is my understanding the property is to be zoned C2, a Commercial District use, with the following definition:

“Purpose: This district provides a mix of retail and other commercial services in concentrated centers that serve the local community, or tourist-oriented uses adjacent to I-80 and the Spanish Springs Valley. It may also include larger retail centers that serve as a regional draw. Single-use or “strip center” commercial patterns of development are discouraged. Smaller, limited use centers should be integrated into the surrounding neighborhood.”¹

The Highland Ranch is made of two parcels with a total of 67.4 acres.² Of these, according to you, 36 acres are developable. Per your request, this report estimates the fiscal impact on the City of Sparks if the 36 acres are developed within the permitted C2 uses, which include General Commercial and Multi-family uses.

We previously conducted a fiscal impact analysis for these parcels using two scenarios, “Highland Ranch Park Fiscal Impact Analysis of Proposed Annexation,” dated July 2016. Scenario 1 of this study assumed 14 acres of General Commercial space, with remaining acres left as open space. Scenario 2 assumed 110,000 square feet of self-storage space and a 200-unit apartment complex. This report provided a good model and methodology base to conduct this latest analysis. As a result, the July 2016 report was updated with the following changes.

1. The July 2016 report was conducted in 2016 dollars using estimated FY 2015-2016 City of Sparks budget data as its base. Though estimated FY 2016-17 data is now available through the recently released FY 2017-18 budget, due to the short timeframe available to complete this report, no new data or timing updates were provided. As a result, the analysis is based on FY 2015-16

¹ Section 20.02.007 - Commercial districts (C), City of Sparks Municipal Code.

² Washoe County Assessor’s Office.

data and all estimates are provided in 2016 dollars. Additionally, the analysis shows project construction is to begin in 2017, which may not occur.

2. Scenario 1-instead of the assumption of 14 acres of General Commercial construction, the analysis assumes the entire 36 buildable acres of the property are developed as general commercial space. Analysis uses coverage, size, and building and land taxable (appraised) value information for comparable uses in the area to estimate square footage and valuation associated with the project.
3. Scenario 2-analysis still assumes 200 apartment units will be constructed on 20 acres of land. The remaining 16 buildable acres will be developed as general commercial uses. The developer provided updated apartment construction information. General commercial information estimated in Scenario 1 is used in this scenario.
4. Meetings with City of Sparks representatives, including the Planning, Engineering, and Finance Departments, subsequent to the July 2016 report, resulted in updated fiscal impact methodology for Road Fund cost estimates (Appendix 9 for both scenarios), which was used to update July 2016 estimates:
 - a. July 2016 report estimated all road related expenditures in the year expenditures were to occur. Revised analysis annualizes costs over a twenty-year period to smooth the impact of the project over time.
 - b. City of Sparks FY 2017-18 budget proposed to move 50% of franchise fee revenue from the Road Fund to Parks and Recreation. This proposal has not been approved. However, in anticipation of approval, the analysis includes this revenue reduction for the Road Fund.
 - c. No extraordinary road rehabilitation costs, which occur every 20 years, were included in the July 2016 report as they fell outside of the 20-year analysis period. This report includes these costs.
5. Conversations with the City of Sparks Finance Department subsequent to the July 2016 report resulting in the reclassification of the General Fund Public Works expenditures from indirect to direct costs. This resulted in a change in the estimated costs for this department and resulting administrative overhead percentage for the General Fund.

Given the above assumptions and changes to the original July 2016 analysis, the following fiscal impacts on the City of Sparks are estimated over the analysis period.

Scenario 1

Table 1 below shows if the Project's 36 acres of buildable land are developed under C2 zoning as general commercial uses, the project will generate a surplus for the General Fund, over the 20-year analysis period in the amount of \$2.62 million.

The table shows the Road Fund will experience a deficit in the amount of \$265,000 over the 20-year analysis period. This is because Road Fund revenue is typically residentially driven and the project will not add any new residents to the area. Some Road Fund revenues (such as those from gas taxes) will be generated by the commercial project, but these revenues are difficult to estimate and, therefore, are conservatively not included in the analysis.

The surplus in the General Fund is greater than the deficit in the Road Fund, resulting in a positive net impact for the City. As a result, a general commercial development on the Highland Ranch parcels will result in a positive impact on the City of Sparks. Furthermore, the analysis used large retail stores (Kohl's, Costco, Home Depot) in close proximity to Highland Ranch to estimate police and fire costs

associated with the project. These are high traffic, high impact uses. Should other, less customer-based uses be constructed on the parcels, costs associated with the project may be reduced.

Table 1. City of Sparks General and Road Fund Impacts-Scenario 1

Year	General Fund				Road Fund			
	Total Project Revenue	Total Project Costs	Annual Revenue Surplus	Cumulative Revenue Surplus	Total Project Revenue	Total Project Costs	Annual Revenue Surplus	Cumulative Revenue Surplus
2017	\$ 96,605	\$ -	\$ 96,605	\$ 96,605	\$ -	\$ -	\$ -	\$ -
2018	187,793	86,538	101,255	197,861	-	44	(44)	(44)
2019	193,425	89,482	103,943	301,804	-	185	(185)	(229)
2020	199,226	93,702	105,523	407,327	-	15,532	(15,532)	(15,761)
2021	205,200	96,405	108,795	516,123	-	15,538	(15,538)	(31,299)
2022	211,354	99,187	112,167	628,290	-	15,543	(15,543)	(46,842)
2023	217,693	102,051	115,642	743,932	-	15,549	(15,549)	(62,391)
2024	224,221	104,998	119,223	863,155	-	15,555	(15,555)	(77,945)
2025	230,946	108,033	122,913	986,068	-	15,561	(15,561)	(93,506)
2026	237,872	111,156	126,716	1,112,784	-	15,567	(15,567)	(109,072)
2027	245,006	114,372	130,634	1,243,418	-	15,573	(15,573)	(124,645)
2028	252,354	117,682	134,673	1,378,091	-	15,579	(15,579)	(140,224)
2029	259,923	121,089	138,834	1,516,925	-	15,585	(15,585)	(155,809)
2030	267,718	124,596	143,122	1,660,047	-	15,592	(15,592)	(171,401)
2031	275,748	128,206	147,542	1,807,589	-	15,598	(15,598)	(187,000)
2032	284,018	131,923	152,096	1,959,684	-	15,605	(15,605)	(202,605)
2033	292,537	135,748	156,788	2,116,473	-	15,612	(15,612)	(218,217)
2034	301,311	139,686	161,624	2,278,097	-	15,619	(15,619)	(233,836)
2035	310,348	143,740	166,608	2,444,705	-	15,626	(15,626)	(249,463)
2036	319,656	147,913	171,743	2,616,448	-	15,634	(15,634)	(265,097)
Total	\$ 4,812,955	\$ 2,196,506	\$ 2,616,448		\$ -	\$ 265,097	\$ (265,097)	

Scenario 2

Table 2 below shows the impacts on the City of Sparks if the parcels are developed with multi-family (apartment) and general commercial uses. The Table shows the project will generate a revenue surplus for the General Fund in the amount of \$911,000 over the 20-year analysis period. The table shows the Road Fund will also experience a revenue surplus, estimated at \$287,000 over the analysis period.

This indicates that the Highland Ranch parcels can include multi-family development and result in a positive fiscal impact for the City when combined with some level of commercial development.

Table 2. City of Sparks General and Road Fund Impact-Scenario 2

Year	General Fund				Road Fund			
	Total Project Revenue	Total Project Costs	Annual Revenue Surplus	Cumulative Revenue Surplus	Total Project Revenue	Total Project Costs	Annual Revenue Surplus	Cumulative Revenue Surplus
2017	\$ 38,376	\$ -	\$ 38,376	\$ 38,376	\$ -	\$ -	\$ -	\$ -
2018	168,064	92,687	75,377	113,753	-	44	(44)	(44)
2019	292,876	259,067	33,809	147,562	23,582	185	23,397	23,353
2020	301,660	268,273	33,388	180,950	24,289	15,532	8,757	32,110
2021	310,708	276,108	34,600	215,550	25,018	15,538	9,481	41,591
2022	320,027	284,174	35,854	251,403	25,769	15,543	10,226	51,816
2023	329,626	292,476	37,150	288,553	26,542	15,549	10,993	62,809
2024	339,513	301,023	38,489	327,042	27,338	15,555	11,783	74,592
2025	349,696	309,821	39,874	366,917	28,158	15,561	12,598	87,190
2026	360,185	318,878	41,306	408,223	29,003	15,567	13,436	100,626
2027	370,988	328,201	42,787	451,009	29,873	15,573	14,300	114,927
2028	382,116	337,799	44,317	495,326	30,769	15,579	15,190	130,117
2029	393,577	347,678	45,899	541,225	31,692	15,585	16,107	146,224
2030	405,382	357,848	47,534	588,759	32,643	15,592	17,051	163,275
2031	417,541	368,317	49,225	637,984	33,622	15,598	18,024	181,298
2032	430,066	379,094	50,972	688,956	34,631	15,605	19,026	200,324
2033	442,966	390,187	52,778	741,734	35,670	15,612	20,058	220,382
2034	456,252	401,607	54,645	796,380	36,740	15,619	21,121	241,502
2035	469,938	413,363	56,575	852,955	37,842	15,626	22,216	263,718
2036	484,034	425,464	58,570	911,525	38,977	15,634	23,344	287,062
Total	\$ 7,063,590	\$ 6,152,065	\$ 911,525		\$ 552,158	\$ 265,097	\$ 287,062	

Conclusion

Based on the hypothetical fiscal impact analysis conducted for the Highland Ranch property, a general commercial development will result in a significant positive fiscal impact for the City of Sparks in the short- and long-term. The analysis also shows an apartment development on the property, balanced with commercial uses, can also result in a positive fiscal impact to the City. This is not only beneficial to the City’s budget, but also provides a good work-life balance in the area.

Appendices 1-9 for each scenario are included with this letter, providing a detailed overview of all methodology, assumptions, sources of data and calculations. Please contact me with any questions.

Sincerely,



Eugenia Larmore, PhD, MBA, CMA, CVA, MAFF