



CITY OF TUMWATER ECONOMIC DEVELOPMENT ADVISORY COMMITTEE

Meeting #4 – March 13, 2008 5:30-7:30 PM Tumwater City Hall Training Room

- 1. Housekeeping** **5:30-5:35**
 - Approve Minutes from Meeting #3

- 2. Discuss New Analytic Inputs** **5:35-6:00**
 - *Fiscal Implications of Land Use Alternatives Memorandum*
 - Tax rates in neighboring cities (material to be provided at meeting, not in advance packet)

- 3. Recap Discussion and Agreements from Meeting #3** **6:00-6:10**
 - Identified areas of focus and preliminary directions and questions for each
 - See Issue Tracking Worksheet

- 4. Additional Discussion of Specific Issues** **6:10-7:15**
 - See Discussion Guide
 - Industrial Lands, Part 1
 - Sustainability, Part 1

- 5. Opportunity for Public Comment** **7:15-7:25**

- 6. Next Steps** **7:25-7:30**
 - Council Retreat: Saturday, March 15
 - Confirm schedule for upcoming meetings
 - April 10, 5:30-7:30 – stakeholder interview results, lands analysis, Retail Pt. 2, Industrial Lands Pt. 2
 - May 15 – Sustainability, Pt. 2
 - June 12
 - July 10



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ISSUE TRACKING WORKSHEET

Areas & Preliminary Directions	Outstanding Questions or Discussion Areas	Potential Strategies
Retail		
<ul style="list-style-type: none"> Attract big box retail, targeting it in areas that are currently zoned to allow it Support locally-owned businesses Develop additional neighborhood retail nodes 		<ul style="list-style-type: none"> To be developed
Town Center		
<ul style="list-style-type: none"> Support the existing vision for Town Center, applying strategies to help it be successful 		<ul style="list-style-type: none"> To be developed: public investments, incentives, and other strategies to encourage desired retail and residential development
Place Making		
<ul style="list-style-type: none"> Do not focus solely on Town Center, but evaluate opportunities on the brewery site and Littlerock Road Desired “places” may have strong retail, residential, or outdoor components Seek opportunities to enhance Tumwater’s “nightlife” 	<ul style="list-style-type: none"> What is the City’s appetite and ability to invest in additional sites? What functions or benefits should be prioritized, considering community, retail/ commercial, and residential? 	<ul style="list-style-type: none"> To be developed

Areas & Preliminary Directions	Outstanding Questions or Discussion Areas	Potential Strategies
Industrial Lands		
<ul style="list-style-type: none"> • See Discussion Guide for Meeting #4 		<ul style="list-style-type: none"> • To be developed
Business Climate		
<ul style="list-style-type: none"> • To be discussed at a future meeting 		<ul style="list-style-type: none"> • Strategies to provide clarity, consistency, and predictability for developers and to facilitate desired development
Environmental Sustainability		
<ul style="list-style-type: none"> • See Discussion Guide for Meeting #4 		<ul style="list-style-type: none"> • To be developed
Quality of Life/Residential Strategies		
<ul style="list-style-type: none"> • To be discussed at a future meeting 	<ul style="list-style-type: none"> • Do we want to attract office workers as residents? • How can we strengthen overall community identity? • How can we strengthen neighborhood identity? 	<ul style="list-style-type: none"> • To be developed
Image and Tourism		
<ul style="list-style-type: none"> • To be discussed at a future meeting 	<ul style="list-style-type: none"> • What is a specific, desired image for promotion of the City? • What key audiences, key messages, and media do we want to focus on? 	<ul style="list-style-type: none"> • To be developed



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DISCUSSION GUIDE

Industrial Lands, Part 1

- What is the range of potential uses for the City's industrially zoned lands?
 - Manufacturing uses
 - Warehouse and distribution uses
 - Open spaces, urban forest
 - Other uses such as retail or residential
[to be discussed at Meeting #5, with lands analysis and Retail Discussion, Pt. 2]
- What is the market demand for these various of these uses?
- What are the impacts of these uses, considering fiscal impact to the City, employment opportunities, indirect support for nearby businesses, quality of life, and City image?
- What development options allow for future flexibility, with short-term uses that can be adapted or redeveloped for different uses in the longer-term?
- What are other cities doing with their industrially zoned lands?
- What potential strategies would make warehouse and distribution uses more attractive, considering the physical form of buildings, traffic, and compatibility with nearby uses?

Sustainability, Part 1

- Outline the range of topics that may fall under the 'sustainability' umbrella
- What are potential motivations and desired outcomes for cities addressing sustainability as it relates to city practices, practices of businesses and developers, practices of residents, and economic development?
- What are other cities doing in this arena?
- What is the regional market outlook for green business or clean tech businesses?
- How do we want to address this issue in the economic development plan and how should we focus conversation in Part 2 of our discussion?

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CONVENE: 5:34 p.m.

PRESENT: Chair Bruce Cramer, O Bee Credit Union; committee members Michael Cade, Economic Development Council; Neil McClanahan, City Council; Marcus Glasper, Planning Commission; Ed Hildreth, Planning Commission; Joan Cathey, City Council; Heber Kennedy, Port of Olympia, Karen Valenzuela, City Council; Jim Hindman, Costco Wholesale.

Absent: Melinda Walz; Citizen; Nancy Partlow, Citizen; John Morton, Tumwater Downtown Association; Nancy Stevenson, Citizen.

Staff Present: Planning and Facilities Director Mike Matlock, Senior Planner Tim Smith, and Recording Secretary Jessica Tate.

Others Present: Brian Murphy and Kapena Pflum, Berk & Associates.

**HOUSEKEEPING
ITEMS:**

Mr. Murphy reviewed the meeting agenda.

MOTION:

Councilmember Valenzuela moved, seconded by Mr. Hildreth, to approve the agenda as presented. All in favor. Motion carried.

**APPROVE MINUTES
FROM MEETING #2:**

Councilmember McClanahan moved, seconded by Mr. Glasper, to approve the minutes from meeting #2 as presented. All in favor. Motion carried.

**NOTE OPPORTUNITY
FOR PUBLIC
COMMENT AT
CONCLUSION OF
MEETING:**

Mr. Murphy reported there will be an opportunity for public comment near the conclusion of the meeting.

**DEBRIEF FIRST
COMMUNITY OPEN
HOUSE:**

Mr. Murphy asked for input on the first community open house.

Chair Cramer commented that it seemed more people attended the open house than what was documented in the meeting summary. It appears most people were focused on certain items and had already made up their mind on many of the issues. Most people were opposed to development of warehouses and box stores and favored restoring the brewery, development of larger parks, and widening streets. Retail and business tax revenue is needed to support those desires.

Mr. Kennedy arrived at 5:41 p.m.

Councilmember Valenzuela commented that the open house achieved

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a sense of community and was an enjoyable event.

Mr. Murphy reported the intent of the next open house is to receive input regarding the pending draft plan.

Chair Cramer suggested the open house should be scheduled around other significant meetings, such as Council, Port, and school district meetings. Mr. Murphy acknowledged the request.

Members agreed a Thursday night is most preferable.

Mr. Glasper suggested utilizing a larger meeting location, such as the middle school library to encourage more attendance. Mr. Murphy acknowledged the request.

Mr. Hildreth suggested additional advertisement for the open house, such as in homeowner association flyers. Mr. Murphy acknowledged the request.

Mr. Murphy said he'll also revise the meeting set-up to encourage more rotation of stations so all goals are reviewed.

Chair Cramer suggested advertising the open house on the City's website as well.

Councilmember Valenzuela said she appreciated the flexibility during the open house. A school location allows more flexibility in the ending time of the meeting as well.

DISCUSS SITUATION
ASSESSMENT AND
IDENTIFY KEY ISSUES:

Mr. Murphy distributed the Economic Profile Update Summary. He explained how the Potential Economic Development Plan Issues and Sub-Topics "Tumwater Specific Strategies" chart is meant to flow. The chart is broken into four categories including Vision Element, Community Element, Economic Element, and Tourism Element.

Mr. Kennedy stated the Tourism Element could be incorporated into the Economic Element to form a "three legged stool" format approach.

Chair Cramer said the intent is to focus on the economic engine. Tourism is one successful way to provide revenue.

Mr. Pflum reviewed the Economic Profile Update Summary handout. All 2000 Census data was updated with 2007 estimates.

Chair Cramer asked whether the most recent estimates for annexation areas are included. Mr. Pflum indicated the information has not been

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included.

Mr. Pflum referred to page 12, Exhibit 12 “Distribution of Tumwater Housing Units by Type and Tenure”, in the Baseline Fiscal Analysis document. The chart breaks down all the housing units in Tumwater by type of housing (number of units), occupancy (owner, renter, vacant), and percent of total housing stock. The renter-occupied portion of Tumwater’s housing stock is primarily in the single-attached and multi-family housing types, which is a typical pattern in urban employment centers. Approximately 21% of Tumwater’s multi-family housing stock is in buildings with nine or fewer units. That is slightly higher than Olympia (18%), Lacey (16%), and Seattle (15%).

Mr. Pflum referred to the Economic Profile Update Summary handout. The map includes Population Density and 2000 and Residential Building Permits by TAZ, 2000-2006. Most residential development occurred in the Littlerock annexation area. The southeast portion of the City contains a fair amount of residential permitting activity.

The “New Building Permit Data, Residential Building Permits by Type, 2000-2006” table breaks down the figures for comparison. Approximately 95% of single family building permits issued in the Littlerock Road/70ths Avenue annexation area is single family homes, while the southeast Tumwater urban growth area contains 100% single family homes

Overall, recent building permit activity in Tumwater and its UGA consists of approximately 18% multi-family units. That is a lower percentage than the existing housing stock in the City, which is approximately 38% multi-family.

Mr. Pflum reviewed the Summary Situation Assessment – Discussion Draft:

Population, Demographics, and Income:

- While Tumwater has not grown rapidly from 2000-2007, the City is poised to take on substantial population growth through annexation and continued infill development.
- The City’s population has low average persons-per-household, indicating a higher percentage of single person households, young professionals, and families without children.
- Income per capita figures are relatively high.
- Tumwater has a relatively well-educated population

Strategic Issues/Opportunities

- Absorption of population increases without adverse effect to the City's services and identity.
- Alignment of goods and services with desires of local residents.

Housing:

- Tumwater's percentage of multi-family and renter-occupied housing units is typical of an urban employment center.
- Recent housing permit activity has increased the share of single-family housing units.

Strategic Issues/Opportunities

- Attraction of office workers to become Tumwater residents

Employment:

- Tumwater is a net importer of employees, with more jobs than housing.
- The City's biggest employment sectors are services, public administration, and manufacturing.
- Tumwater is home to about 5,900 state employees.
- The Tumwater workforce is slightly older, with a higher percentage earning more than \$3,400 per month than many peers.
- Approximately 14% of Tumwater employees live in Olympia, while 62% come from unincorporated areas.

Strategic Issues/Opportunities

- Strategies to increase local spending by office workers

Retail Performance:

- Tumwater, Lacey, and Olympia compete for a share of a strong regional market; Tumwater has seen rapid growth, but its share declined between 2005 and 2006.
- Tumwater is strong in all retail sectors other than health and personal care (drug stores).
- The community is interested in retaining and fostering locally-owned businesses

Strategic Issues/Opportunities

- Maintain or enhance the City's position in the competitive retail environment.
- Identify retail niches in which Tumwater is most competitive.

Development Climate:

- The community has a relatively poor perception in the development community, particularly with regard to predictability

and clarity of expectations.

(Sources: Community Open House and Economic Development Advisory Committee Discussions)

Strategic Issues/Opportunities

- Communicate expectations and assure consistency and predictability for developers

Fiscal Position of the City:

- Benefiting from anticipated development in the Littlerock annexation, the City's fiscal health is relatively good in the short and medium-term assuming conservative staffing and levels of service.
- Under the baseline analysis, the City faces greater fiscal challenges in the long-term, with a need to reduce costs or increase revenues.

(Source: Baseline Fiscal Analysis)

Strategic Issues/Opportunities

- Strategies to address the City's long-term fiscal challenges, reducing levels of service or enhancing the City's revenue base.

Quality of Life and City Identity:

- Residents believe strongly in the City's quality of life, focusing on the natural setting, neighborhoods, and parks/open spaces.
- Community concerns include traffic congestion and the compatibility of adjacent uses (warehouse/distribution, schools, neighborhoods, the airport, etc.)
- The City is physically divided by I-5, the river, and power lines

(Sources: Community Open House and Economic Development Advisory Committee Discussions)

Strategic Issues/Opportunities

- Prioritized projects
- Preservation of the natural environment
- Connections to the river
- Transportation strategies
- Strategies to knit community together

Image and Tourism:

- Tumwater does not have a high profile image; the community's historic background and Historic District provide an opportunity.
- Tourism draws include the Historic District and the river, particularly with the development of a proposed fish hatchery

(Sources: Community Open House and Economic Development

Advisory Committee Discussions)

Strategic Issues/Opportunities

- Affirmation or modification of the Pioneer image; strategies to reinforce the image.
- Tumwater's identity within the Olympia/Tumwater/Lacey partnership
- Investment in and promotion of tourism designations
- Options for overnight stays

Mr. Hildreth said encouraging locally owned businesses is important because of the importance affirmed by citizens. Mr. Pflum said he'll have more information on the issue for the next meeting. National retail chains are the only option as retail anchors.

Mr. Murphy indicated future stakeholder interviews should provide more information on how to create a conducive environment to facilitate desired development in appropriate locations.

Discussion followed regarding potential fiscal impacts resulting from the completion of the Wal-Mart development.

Mr. Kennedy commented that the fiscal position of the City is very conservative in terms of staffing and levels of service. The issue might need to be reviewed with additional detail in the future.

Councilmember Cathey commented that lowering levels of service will impact economic development as well. A balance must be maintained in terms of the issue.

CONSENSUS:

The Economic Development Advisory Committee accepted the Summary Situation Assessment as a basis for moving forward.

Mr. Murphy reviewed the Recommended Priority Areas:

Recommended Priority Areas:

- Direction on the fiscal sustainability of the City, directing either cost-saving measures (potentially including level of service reductions) or the enhancement of sustainable (not construction-driven) revenue streams
- Capture of office workers as residents, shoppers, and diners.
- Quality of life and neighborhood enhancements
- Catalytic projects that create a regional draw and creation of a vibrant community gathering place
- Small business retention and growth
- Zoning, development regulations, and business district visions

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that provide consistency and predictability for developers, and guidance on incompatible uses

(Primary focus is on the first and second bullets.)

Mr. Murphy referred to the Tumwater Specific Strategies chart. He asked for discussion and input mainly on the Economic Element portion. Discussion followed resulting in brainstorming and lists for Littlerock-70th Avenue annexation area, industrial & warehouse, and placemaking.

Chair Cramer indicated one significant challenge is how to get working people to remain in the City after work. Councilmember Valenzuela said there is heavy traffic in the City at 8:00 a.m., 12:00 p.m., and 5:00 p.m. There are not many services near state buildings. The Old Town Center development is still not as vibrant as was intended and envisioned since its redevelopment began over 18 months ago.

Mr. Murphy advised that information on incremental impacts of retail and residential will be provided at the next meeting.

Mr. Kennedy commented on the importance of adequately addressing both impulse retail and destination retail needs. Councilmember Valenzuela indicated that was one goal of the Town Center effort. Mr. Kennedy said components such as rental costs and the construction quality of space negatively impacts the Town Center vision.

Discussion followed regarding the Littlerock-70th annexation area zoning.

Mr. Hindman said Costco Wholesale still pulls sales from a large demographic, as could retail in the entire City because of its position relative to Lewis, Mason, and Grays Harbor counties and visibility from I-5.

Littlerock-70th Annexation Area:

- Encourage larger scale Retail (encourage where zoning is appropriate)

Mr. Kennedy described the benefits of Tumwater's positioning in terms of intermodal connections for international trade.

Industrial & Warehouse:

- Washington has advantages in international trade
- Port of Tacoma expansion

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- Need for intermodal connections
- Tumwater has great access and market position
- Trends toward larger warehouse distribution centers of 400,000 to 500,000 square feet
- Traffic impacts
- Warehouse versus Manufacturing versus Urban Forest/Environment/Quality of Life

Discussion followed on the types of warehouse development that could potentially provide more revenue tax to the City.

Mr. Murphy asked for input regarding the “Placemaking” portion of the Tumwater Specific Strategies Chart.

Mr. Kennedy suggested a river walk project could be very successful in Tumwater similar to the cities of Spokane and San Antonio, TX. Mr. Hindman said the old brewery property could be a catalyst for the idea.

Mr. Glasper indicated a comment he often hears from state employees is Tumwater’s lack of a “night life.” Providing a tasteful night life in Tumwater might encourage evening spending, assist with rushed traffic patterns, and encourage an increase in residency.

Mr. Hindman said Tumwater Falls Park and the Historic District would be beneficial areas to create “Placemaking”. Mr. Cramer agreed and added the Tumwater Valley Golf Course could be included as well. Mr. Kennedy commented that most people do not think of a town center as “the place to be.”

Placemaking Strategies:

- Town Center, brewery, river-front, Port, Littlerock Road (options are not mutually exclusive)
- Create an attractive nightlife

Mr. Murphy asked members to consider other potential issues to discuss during future meetings. The committee should consider how sustainability intersects with economic development.

**OPPORTUNITY FOR
PUBLIC COMMENT:**

Keith Thomas, Re/Max Parkside, Tumwater, distributed three studies to members for review. The first is from the Washington Research Council, which speaks to the impacts of jobs and housing being out of balance and describes GMA as not working. The second study addresses why homes in Washington are expensive and the disadvantages of local planners utilizing local statistics that assume communities are self-contained. The third study discusses the challenge facing communities regarding planning for quality

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economic vitality.

John Fedor, P.O. Box 14338, Tumwater, indicated the committee touched on several subjects he was going to speak about. Tumwater must emphasize the need to create an economic engine for retail sales, as Olympia has done with its auto mall and Lacey with Cabela's. Tumwater is maintaining a lower level of service than what it should be today, which also builds into the deficit. Creating a night life in Tumwater will require development of vibrant uses such as a movie theater and restaurants. Current proposed warehouse distribution center developers are the type that will create high quality buildings. He described Littlerock Road as an hourglass with commercial development above and below that is pinched in the middle causing developers to turn away from the area. Tumwater must encourage and allow retailers to settle in Tumwater or they will settle in neighboring cities.

NEXT STEPS:

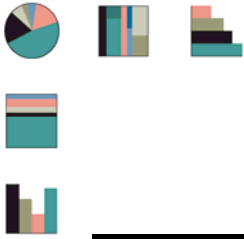
Upcoming Advisory Committee Meetings:

- March 13, 2008, 5:30 p.m. to 7:30 p.m. – Stakeholder interview results, development of strategies under selected goal areas
- April 10, 2008, 5:30 p.m. to 7:30 p.m. – Continued development of strategies under selected goal areas
- March 15, 2008 – City of Tumwater Council retreat

ADJOURNMENT:

With there being no further business, Chair Cramer adjourned the meeting at 7:37 p.m.

Prepared by Jessica Tate, Recording Secretary
Puget Sound Meeting Services



MEMORANDUM

DATE: March 6, 2008

TO: City of Tumwater

FROM: Berk & Associates

RE: Fiscal Implications of Land Use Alternatives – **DISCUSSION DRAFT**

The Baseline Fiscal Analysis conducted for this project identifies mid- to long-term fiscal challenges for the City of Tumwater, assuming very conservative staffing and service levels. Any expansion or enhancement of City services would require shorter-term actions to enhance the City's fiscal position, and in any case, strategies and actions are needed in the short-term to set the City up for longer-term success.

Cities facing fiscal sustainability challenges may draw upon a specific set of strategies, ranging from (1) revenue generation through economic development or tax and fee increases to (2) cost reductions through decreases in city services or the introduction of service efficiencies. This memorandum focuses on economic development opportunities in particular, informing decision-makers at the City of Tumwater and other stakeholders about implications for fiscal sustainability of the City as they consider land use choices designed to foster economic development.

This fiscal lens should be considered together with discussion of the community's vision – the desired future of the City – and the Economic Demographic Profile, which provides insight into the City of Tumwater's market position in a regionally competitive retail market.

ECONOMIC DEVELOPMENT GOALS

When considering opportunities for economic development, a city typically pursues two goals simultaneously: (1) the city seeks to promote development that helps achieve the city's overall vision and (2) it seeks development patterns that will strengthen the city's long-term fiscal sustainability. The overall objective is to move the city closer to achieving its broad vision for the future while simultaneously ensuring that the city maintains the financial means to provide services that residents desire.

Any use of land within city boundaries generates two counteracting fiscal forces:

1. It generates a stream of tax revenues, a share of which accrues to the city, principally from property tax, utility taxes, B&O taxes and retail sales tax; and
2. It also generates demands for public services, including those typically provided by cities such as construction and maintenance of infrastructure, public safety services, parks construction and maintenance, recreation and community services, and a host of other city services that may be consumed less directly, but are no less real.

A question that city policy-makers face when they consider the city's posture towards new development is: *How would the development in question affect each side of the city's fiscal equation?*

Within the world of municipal governance, a great deal of conventional wisdom exists about the relative fiscal attractiveness of different types of development. In reality, however, the net fiscal impact of a given development project varies tremendously from city to city. We have worked with cities in Washington State for which we could honestly say that *no* form of development would be a net fiscal winner for the city. And, much more common, we have worked with cities in circumstances in which virtually *any* form of development would represent a fiscal windfall for the city due to economies of scale in city services and synergies among uses.

The goals of this memo are to (1) outline *factors* that have a bearing on the relative fiscal attractiveness of different kinds of development, (2) outline a *general hierarchy* of the relative fiscal attractiveness of different uses, and (3) discuss some of the *potential synergies* that may make a given type of development more attractive under certain circumstances. Our hope is that, with this information in hand, decision-makers at the City of Tumwater will be in a better position to evaluate the implications of different forms of potential development.

INCREMENTAL COSTS VERSUS AVERAGE COSTS

When a city policymaker thinks about the fiscal implications of serving the city's constituents, he or she often thinks in terms of per-capita costs and per-capita revenues.

In reality, however, when a city thinks about the fiscal impact of adding *new* households or a *new* center of commercial activity, *average revenues* and *average costs of service* are not particularly helpful. In this situation, the key questions are related to *incremental* revenues and costs:

1. What *new* revenues will the new development bring to the city?; and
2. What *new* costs of service will the development introduce?

On the revenue side of the equation, new households or new businesses bring with them the full slate of new city revenues. They will pay property and utility taxes; residents will pay sales taxes on their purchases (some of which will be made locally); and to the extent that new businesses increase the city's overall capture of retail activity (attracting purchases that would otherwise be made elsewhere), new businesses will drive new sales tax revenues. In addition, increases in the city's population allow the city to collect additional revenues that are distributed at the state or county level based on population.

Some of these revenues may be thought of as *direct* revenues in that the revenues to the City are taxes or fees paid directly by the new resident or commercial establishment. Other revenues are *indirect*, meaning that the new resident or commercial enterprise provides greater demand for goods and services provided by other local establishments. *Secondary* or *tertiary* effects may also emerge and tend to be mutually reinforcing (e.g. new households may increase support for a local retail node, which in turn improves the node's ability to attract expenditures that would otherwise be lost to the city).

In contrast with new revenues, on the *cost* side of the equation, in many instances new households or new businesses may generate only modest increases in the cost of providing city services.

With a number of fixed costs already in place (e.g. key positions at City Hall and existing city systems and infrastructure) it is often the case that the *incremental* cost of serving a new household or a new business is significantly lower than the *average* cost of serving the city's existing constituents. Based on our experience working with cities across the state, we believe that virtually every small to mid-sized city enjoys *some* level of these so-called "economies of scale."

A city with 100 new households does not need to hire a new city manager, a new police chief, or a new finance director. Likewise, a city with five new businesses would not expect to spend significantly more on long-range planning. For a smaller city like Tumwater, where fixed costs for key positions represents a significant portion of the City's total operating budget, economies of scale from new development can be significant.

That being said, there comes a point at which additional staff positions need to be added to meet increasing demand for services, and the City needs to take this into consideration as it considers development scenarios. With a population of more than 15,000 (including its recent annexation), Tumwater may be at a point where economies of scale are not as widespread and automatic as they once were. This is evidenced by the recently identified need to staff an additional fire station.

Another key cost center for Tumwater is the cost of public safety. While every city's circumstances are unique, Berk & Associates' experience is that many cities that grow from less than 10,000 residents to, say, 14,000 residents enjoy significant economies of scale for public safety services. As they grow into cities of 15,000 or more, however, some cities find that capacity constraints begin to emerge, introducing the need to expand staffing.

FISCAL IMPACTS OF DIFFERENT LAND USES

From a city's perspective, every type of land use generates a unique mix of revenues and service costs. Inevitably, the balance between costs and revenues will vary by contemplated land uses. For most cities, the net fiscal contribution of land uses could generally be ranked as follows, ranking from most to least attractive:

1. Automobile dealer
2. Retailers of high-cost items like furniture, home electronics, etc.
3. Big and medium box retailers and restaurants
4. Small retailers and consumer service providers
5. Office
6. Industrial
7. High value residential
8. Mid-to-low value residential

Having ventured to present a ranked list of land uses, the very next thing we will say is that such a ranked list is of limited value. The inter-relationships between land uses and fiscal impacts are extremely complex, varying based on the place, time, and conditions surrounding the development in question.

For example, while multifamily housing may not offer the biggest fiscal windfall for a city *on average*, there are some circumstances where multifamily may be crucial to the city's fiscal success. In many cities, for example, close-in pockets of multifamily housing provide crucial support for adjacent retail establishments, serving as a critical foundation for the cities' ongoing economic development. If, on the other hand, multifamily units are built on the periphery of a city, where they provide little support for the city's commercial nodes, those developments would be less likely to offer significant benefits to the city's fiscal position. This is relevant as Tumwater considers the future of Town Center.

When reviewing the above list, it is also important to bear in mind that the relative contribution of different uses depend on future events and policy changes. For example, if taxation of internet transactions becomes a reality, and households' purchasing patterns continue to shift towards internet purchases, then residential land uses become more attractive across the board (this is further discussed below, under *Challenges and Opportunities Related to New Sales Tax Sourcing Rules*).

Ultimately, rather than concentrating on the *typical* fiscal contribution of land uses, it is more valuable to understand the underlying mechanisms through which land use and fiscal sustainability relate.

High Value Retail

Among all potential uses of a given property, high value retail generates the greatest fiscal benefit to a city. An auto dealership can generate city sales taxes of \$100,000 to \$500,000 or more annually. At the same time, because the value of each transaction is so high, an auto dealership generates this revenue with very little incremental demand for city services. To a lesser degree, other retailers of high value goods, including furniture, appliances, or home electronics all generate relatively high revenues, while attracting relatively few trips compared with big box retail uses that generate lower average revenues per transaction.

Another benefit of high value retailers is that they have the ability to attract customers from a very large area. Auto dealers in Puyallup, for example, attract customers from a large portion of the Puget Sound area, allowing the City of Puyallup to draw on a tax base that extends far outside its municipal boundaries. In the realm of furniture stores, IKEA performs in a similar manner for the City of Renton, drawing customers from across King County and beyond, generating as much as \$1 million a year in City tax revenues.¹

Big Box Retail

Like auto dealerships and other high-value retailers, big box retailers like Costco, Wal-Mart, Target, Home Depot, or Lowes can generate anywhere from \$100,000 to \$500,000 or more a year in sales tax revenues for a city. The difference between the two categories is that big box retailers (1) generally attract greater numbers of trips and (2) generally draw on a slightly smaller trade area to attract their customers.

Overall, big box retail is very beneficial to a city's fiscal position, but generates greater demand for city services like public safety and transportation infrastructure. For the typical city in Washington State, a single big box store might generate \$300,000 in sales tax revenues annually, while at the same time, creating enough activity to demand, on average, one additional commissioned police officer on the

¹ Based on estimated average sales per square feet of \$500 and more than 200,000 square feet of retail space.

city's police force. Big box retail also generates a high number of trips that must be supported by the city's transportation infrastructure. Traffic and impacts to a community's character can be minimized by locating large scale, auto-oriented retail in geographic locations that best support this use.

Regardless, a strategy to attract big-box retail to the City would need to weigh the potential fiscal benefits of such a store against the impact it may have on the existing retail businesses and community character.

Restaurant and Entertainment

By themselves, entertainment venues and restaurants can generate substantial revenues to a city. An added benefit of these categories of uses is that, in addition to generating revenues on their own, they also generate positive spillover effects.

Most shopping centers and traditional downtowns seek out restaurants, movie theaters, and performing arts venues as a way to attract a critical mass of activity. In most instances, people who travel to a commercial center to see a movie or a play will venture out for an entire evening, eating at a nearby restaurant and shopping at nearby stores. The more pleasant and seamless a district can make that experience, the better positioned that center is to generate revenues.

From a public amenity perspective, the benefits of establishing a shopping/entertainment node are substantial. From a fiscal-balance perspective, the net benefits are substantial as well, but entertainment uses can generate certain demands for city services like policing. Also, depending on the configuration of the district, public investment in infrastructure and amenities may be necessary to make the district attractive to potential visitors.

The good news is that public investments that make an entertainment district attractive to visitors are often the same investments that help to create a venue and focus for community activity—a goal that most cities have identified as desirable in its own right.

Lower Value Retail and Consumer Services

From a fiscal-balance perspective, the bottom rung in the hierarchy of retail attractiveness falls to community retail and consumer service uses. This category includes grocery stores, drug stores, fast food chains, banks, auto-services, video stores, and various other retail and consumer services.

All of these uses are attractive because they generate net fiscal benefits to the city and because they provide services the community needs. For cities that are already seeing strains on the existing capacity of their police department, the activity surrounding these uses can drive additional costs of service.

Office

When thinking about development of office uses, it is useful to divide uses into two categories:

1. Those uses that provide services to local markets. This includes services like banks and investment services, real estate offices, and professional services like doctors, dentists, and lawyers.
2. Uses that provide services to broader markets (i.e. markets that are not concentrated in the immediate area).

The principal difference between these two categories of office uses is that the first category typically “needs” to be located in a given local area, while the second category has much more flexibility in its location choices. Tumwater’s office situation is unique given the City’s proximity to Olympia and the large amount of State government office space it contains. State offices fall into the second category above, though given the State’s facilities planning efforts and designated Preferred Leasing Areas, it is arguable how much flexibility exists in location choices.

From a fiscal perspective, State offices differ from other office development because (1) they are not subject to business and occupation tax and (2) to the extent that the building is owned by the State, it is not subject to property tax. Currently, two of the large office facilities in Tumwater are owned by the State, though this number could increase in the future.

Because they are not subject to business and occupation tax, State offices in the City will not match retail uses for revenue generation, though office space occupied by other businesses could. A typical, newly-developed office building might generate between \$80 and \$100 per employee in City property tax and another \$100 in utility taxes per year. In addition, with recent Legislative changes in Washington State’s sales tax sourcing rules, typical office uses can be expected to generate sales taxes as a result of delivered goods like furniture, equipment, and supplies. Depending on the nature of the office, these sales tax revenues from deliveries might equal an additional \$20 or \$30 per employee annually.

In addition to direct revenue, office employees typically make daytime expenditures for food, drink, and convenience purchases in nearby retail areas. For many districts, daytime support from office workers can represent an important source of support, adding (1) a small but stable source of spending in local restaurants and retail establishments and (2) bolstering activity in the area in a way that makes it more attractive for other users.

Another benefit of office uses is that they generally drive only modest demand for services. Office uses generate relatively few vehicle trips, they generate very little in the way of demand for police services, and any demand they generate for parks facilities is likely to occur during mid-day periods when existing park capacity may be underutilized.

Industrial

Like office, industrial uses in Tumwater would generate property taxes and utility taxes. The difference between industrial and office uses is that a typical industrial use generates less revenue per acre of land in terms of property taxes, utility taxes, taxes on delivered retail goods, and employee demand for local services:

- Industrial buildings cost less to construct (per square foot) and so generate less in property taxes and construction-related sales.
- Industrial uses typically require a lower ratio of building square footage to square footage of land (referred to as floor-area-ratio [FAR]). While a suburban office building might support more than 70 employees per acre, a typical industrial use is likely to support 25 or fewer.² In comparison with office, industrial uses with a lower density of workers provide more modest daytime expenditures to support nearby commercial centers.

² Assuming an FAR of 0.5 for office and 300 square feet per employee, versus an FAR of 0.3 for industrial, with 500 square feet per employee.

- Lastly, analysis that Berk & Associates has performed in the past suggest that, on average, office uses generate more utility taxes than do industrial uses. While there are certainly exceptions where industrial uses demand large amounts of electricity or natural gas, we have found that, on average, office uses are more intensive in their use of electricity (to power lights, computers, etc.) and telephones.

Considering that Tumwater's industrial land-use is largely comprised of warehouse and distribution uses, there are further fiscal considerations. Relative to other light industrial uses, warehouses employ substantially fewer people per square foot and are likely to generate less B&O tax revenue. Furthermore, given the new sales tax sourcing rules, warehouses and distribution centers will not provide the same level of sales tax revenues they have in the past.

Before Washington's change in sales tax sourcing rules, local sales taxes on products that were delivered from warehouses accrued to the City where the warehouse was located. Under the new rules, sales taxes for those delivered goods will accrue to the jurisdiction where the *delivery* occurs. This means that warehouses are unlikely to generate significant sales tax revenues in the future. Light industrial uses, on the other hand, may become better sources of sales tax revenues. To the extent that taxable goods are delivered to light industrial users, those deliveries will begin to generate sales taxes for the city once the rule changes take effect.

On the cost side, the demands for service introduced by industrial uses can vary depending on the nature of the use and the general level of activity. Manufacturing and warehouse and distribution uses tend to put more stress on a city's road network. An acre of warehouse or other industrial uses, however, may generate as little demand for police services as does an acre of office.

While the direct fiscal impacts of industrial uses tends to be moderately positive, the real benefit of industrial uses come from their indirect effects. As a sector, industrial employers are often a key component of a city's economic and fiscal health. Industrial employers tend to produce goods for regional, national, or international markets. As a result, these employers tend to drive local economies by bringing in an infusion of dollars from outside the area. These dollars create crucial ripple effects throughout the local economy, serving as the engine that supports residential development, retail activity, and local services, including industrial support services.

These effects are arguably much less pronounced for warehouse and distribution centers than other light industrial employers. To the extent that Tumwater is constrained in land available for industrial uses, the potential fiscal benefits of warehouses and distribution centers need to be weighed against the opportunity costs associated with potentially forgoing other light industrial opportunities in the future should the market support them.

Residential

Generally, each new resident in Tumwater translates to new demand for restaurants, retail, and consumer services. If that opportunity can be focused to support the City's vision of an attractive Town Center and other retail nodes, Tumwater will have an opportunity to enhance its market position, retaining or perhaps strengthening its position relative to Lacey and Olympia. This would allow the City to attract more dollars from outside its boundaries, and/or capturing a larger share of new and existing residents' expenditures.

For a city like Tumwater, the extent to which developing new housing will represent a fiscal benefit to the city depends on a number of factors:

1. **How great are the city's opportunities for economies of scale?** If a city is in a position to absorb additional constituents without incurring incremental costs of service for police and fire services, then *any* form of new housing is likely to generate significant net fiscal benefits for the city.

2. **Where is the housing located? How does it contribute to Tumwater's economic development plans?** Given Tumwater's goal of developing an attractive Town Center, new housing can play an important role by bolstering the "core" foundational market that supports such development. In particular, housing that is located in areas with easy pedestrian access to Tumwater's business districts would be especially effective in supporting additional commerce. Close-in housing offers:
 - a. **Assured Demand** – A supply of nearby housing is typically viewed as a guaranteed pool of customers for certain categories of businesses. The convenience of being able to access businesses simply by walking a few blocks predisposes residents to frequent nearby businesses.

 - b. **Baseline Level of Activity** – Urban designers are quick to point out that, when it comes to making a traditional commercial center attractive, it is important to pay attention to a few key characteristics:
 - i. What is the speed and volume of traffic on the roadway?

 - ii. How does someone on the sidewalk relate to the roadway?

 - iii. How does someone on the sidewalk relate to sidewalk fixtures and the buildings lining the street?; and

 - iv. What is the general level of pedestrian *activity* on the street?

For the reasons noted above, close-in housing can help assure a baseline level of activity on the street, making the street a more inviting and interesting place for people to spend their time.

Opportunities for Economies of Scale

If the city is in a position to absorb additional constituents without incurring incremental costs of service for police services and staffing at City Hall, then *any* form of new housing is likely to generate significant net fiscal benefits for the city.

- **Revenue Impacts.** On the revenue side of the equation, new households bring with them the full slate of new revenues. They will pay property taxes and utility taxes, and they will pay sales taxes on all of their purchases (many of which will be made locally). In addition, the new population allows the city to collect additional revenues that are distributed at the state or county level based on the city population.

- **Cost of Service Impacts.** In contrast with new revenues, on the cost side of the equation, new residents in Tumwater may generate only modest increases in the cost of providing city services. City Hall, Public Works, Parks and even Planning would probably see fairly small differences in what they do. The Tumwater Police Department would probably see an increase in new calls for service in a given year, but because of the Tumwater's size and relatively low crime rate, the

Department may be in a good position to respond to these calls without increasing the number of patrol officers.

As discussed previously, this *economies of scale* phenomenon means that, with a number of fixed costs already established, the *incremental* cost of providing services to 100 more residents may be significantly less than the *average* cost of providing services to *all* residents. However, as we have noted above, opportunities to enjoy economies of scale are not always linear, and some growing cities find that growing from 10,000 to 14,000 residents is different than growing from 15,000 to 18,000 residents.

If the above discussions of incremental revenues and incremental costs do, in fact, apply to the City of Tumwater—new residents would represent a clear fiscal windfall to the City. Moreover, this discussion of direct fiscal impacts does not take into account the potential benefits that residential development could have on the City's overall market position. If such development did help Tumwater achieve a more vibrant Downtown, and if that success resulted in the City capturing a greater share of expenditures by locals and/or visitors, then the indirect fiscal benefits of the new residential development could exceed the direct benefits outlined above.

Multifamily Housing

From a decision maker's perspective, a few key characteristics distinguish multifamily housing:

- **Higher costs of police services:** Berk & Associates has analyzed the experiences of hundreds of cities across Washington State and has found that, on average, the addition of multifamily housing tends to increase demand for police services more than the addition of an equivalent number of single family units. When we talk with police chiefs at different cities, they agree that some forms of multifamily *do* generate higher demand for police services, but they suggest that not all multifamily housing is created equal. Most suggest that higher value multifamily tends to generate demand in a manner more similar to single family.³ Other anecdotal evidence suggests that demand for police services depends on how the housing relates to the surrounding urban environment. For decades, city planners have noted the importance of "eyes on the street"—the notion that, in settings where a few stories of multifamily housing are strongly connected to the street, residents take a certain degree of ownership over what happens in and around their building, increasing safety and security.
- **Opportunities for support of commercial and civic centers:** For many commercial centers, the dense, close-in support of multifamily housing is a key component of the center's success. The close support of multifamily housing provides restaurants and retailers with a *guaranteed base of sales*. Moreover, multifamily support also provides a *foundational baseline of activity* that makes the center more attractive to residents in its broader market. In this sense, multifamily housing can often act as a *critical* ingredient to the success of the center.
- **Housing options:** Multi-family housing also provides for a broader range of housing options delivered less cost than traditional single family homes.

³ It is also worth noting that, statistically, renter-occupied single family housing tends to drive even higher demand for police services than does renter-occupied multifamily.

In the end, the fiscal attractiveness of multifamily housing in Tumwater will be heavily dependent on the type of multifamily housing in question and careful consideration of how the housing relates to nearby retail. If the housing is relatively low value and does not actively support the Town Center or other retail nodes, then addition of new multifamily is likely to introduce a net drain to the City's fiscal structure. If multifamily is of higher value and/or is designed to provide support to the City's Town Center project, then it can be attractive, and perhaps even crucial, to the City's vision and long-run fiscal sustainability.

CHALLENGES AND OPPORTUNITIES RELATED TO NEW SALES TAX SOURCING RULES

In the last Legislative session, the Washington State Legislature enacted new rule changes for sales tax sourcing. Under the old rules, if a Tumwater resident purchased a new kitchen appliance in Lacey and the appliance was delivered to Tumwater from a warehouse in Kent, then the "location" of the sale for taxing purposes was deemed to be Kent (where the delivery of the good originated). The City of Kent, therefore, would collect the local sales tax revenues associated with this sale. Under the new sourcing rules, the "location" of the sale will now be Tumwater (the point of final delivery), which would collect the local sales tax revenues for this transaction. This rule change is slated to take place on July 1, 2008.

For cities like Tumwater, the short-term implications of the change in sourcing are difficult to forecast. The State Department of Revenue estimates that the City will see some net loss of sales tax revenues. In effect, they are estimating that the value of goods being delivered *to* Tumwater is less than the value of goods that are delivered *from* addresses within the City, which is largely a result of the warehouses and distribution centers in Tumwater. Considering that sales taxes comprise approximately 26% of total General Fund revenues, even a 10% decrease in sales taxes would likely create a noticeable impact to City finances.

To achieve passage of the changed sourcing rules, the Legislature addressed concerns of so-called "loser cities" by allocating state revenues to make up for losses that some cities are likely to see. Under existing rules, if in applying the new sourcing rules the State Department of Revenue calculates that Tumwater is harmed by the new sourcing rules (i.e. if the value of delivered sales to the City is less than the value of goods that City businesses deliver elsewhere), then the State will pay the City the difference.

In passing the new sourcing rules, the State Legislature has directed the State Treasurer to transfer sufficient revenues to the newly-formed streamlined sales and use tax mitigation account on an annual basis. It is uncertain how long this mitigation will remain in effect.

Notwithstanding the Department of Revenue's estimates of likely impacts, it *is* possible that new sourcing rules (and/or a longer-term shift to applying sales taxes to all internet/catalog sales) could represent a fiscal opportunity for Tumwater. If, for example, the City pursued a program by which it encouraged residents and businesses to have purchases of big-ticket items delivered to Tumwater addresses, then it is possible that the City could see an overall increase in sales tax revenues.

OTHER FISCAL CHALLENGES

Most of Tumwater's general operating revenues come from four sources: (1) the City's local retail sales tax (0.85% of taxable sales), (2) utility taxes, (3) B&O taxes and (4) property taxes. These three

sources generated roughly 69% of the City's total general fund revenue in 2006. Sales and property taxes each account for over 25% of the total General Fund revenue.

Tumwater, like many cities in Washington State, faces future fiscal challenges. Some of these fiscal challenges stem from the recent series of statewide initiatives that have eroded most cities' financial support from taxes and fees. From a city's perspective, the most damaging blow resulted from the 2001 statewide passage of Initiative 747 (limiting the growth of property tax levies on a city's existing property to less than the rate of inflation), which set up the long-run erosion of cities' property tax bases. In addition to I-747, voter-approved initiatives eliminated revenue sources such as Motor Vehicle Excise Tax and Vehicle License Fee distributions that were available to fund city services.

Without intervening measures (i.e. a public vote to approve a levy lid lift), Tumwater's levy rate will almost certainly continue to drop in the coming years, as will the purchasing power of the City's property tax base. There are two ways to counter the effects of I-747 and maintain a solid property tax base in the face of inflation:

- **Encourage new construction to enlarge the City's base.** The 1% revenue growth limit does not apply to the value of new construction, so any new development in Tumwater, residential or commercial, will contribute to higher property tax revenues for a given year, as well as to building a larger property tax base.
- **Seek levy lid lifts to maintain the City's levy rate.** The one method available to the City for increasing property tax revenues at higher rates is to commit to seeking "levy lid lifts" from voters. If voters were to approve a series of levy lid lifts that allowed the City to maintain its current levy rate over the coming years, then property tax revenues from "built" areas of the City (the existing base) could increase at a faster rate (driven by overall increases in property values). Levy lid lifts are ways to maintain the City property tax levy rate and to sustain its revenue base.

CONCLUSION

Ultimately, a city's strategy for attaining fiscal sustainability has to approach questions of governance and land use as a whole. When approaching questions of economic development, cities have multiple goals:

1. Seeking development that helps to achieve the city's overall vision **and**
2. Seeking development that will strengthen the city's long-term fiscal sustainability.

In any given instance, however, cities can, and do, choose to give priority to one goal over the other.

In one instance, a city may alter its land use policies to attract a high-revenue-generating big box store, and in a separate deal, the very same city may choose to forego a potential high-revenue-generating opportunity, preferring to promote development that will move the city closer to achieving its long-term vision.

From a purely fiscal perspective, all cities would like to attract or retain an auto dealership, an IKEA, or a Costco. For the most part, however, whether or not a city gets such a fiscal boon depends on the luck of geography, the availability of suitable sites, and established shopping patterns and the strengths of other sites in the market area.

For most cities, the key to achieving fiscal sustainability is to (1) have a realistic understanding of where the city stands; (2) provide development opportunities that will serve the city well, both fiscally

and in terms of achieving the city's overall vision; and (3) take advantage of the potential for supportive direct and indirect relationships between land uses.

A city is well served when it looks carefully at the role that each type of land use can play in supporting its vision. Most cities share Tumwater's goal of creating a sense of *place* for its residents and businesses. One way to strengthen such a center is to encourage development patterns that will generate mutual support among land uses. This requires focusing residential and commercial development in ways that give the city's central place the best chance to enhance its position in the market.