



Analysis of the Return on Investment in City of Vancouver Downtown Development

Final Report

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1.0 Executive Summary

- The total public investment in downtown Vancouver economic development supporting development initiated between 1997 and 2006 is estimated at \$54.6 million discounted to a present value in 2006.
 - The total City of Vancouver investment in downtown Vancouver economic development supporting development initiated between 1997 and 2006 is estimated at \$26.9 million. This amount excludes investments using restricted funds such as City sales taxes dedicated to transportation capital, Community Development Block Grant awards or Federal transportation grants.
 - The State of Washington investment in the Vancouver Convention Center is estimated at \$27.7 million.
- The total State and local tax revenue attributed to the developments supported by the public investment from 1997 through 2025 is estimated at \$163.6 million discounted to a present value in 2006.
 - The total City of Vancouver tax revenue generated through 2025 is estimated at \$26.7 million. City tax sources include property, sales, utility, real estate excise and State shared lodging taxes.
 - The total tax revenue generated through 2025 for Clark County, the Port of Vancouver, The Fort Vancouver Regional Library, C-TRAN and the Vancouver School District is estimated at \$23.9 million.
 - The total State of Washington tax revenue generated through 2025 is estimated at \$113.0 million (2006 NPV). State tax sources include sales, business & occupation, property, utility, and real estate excise taxes.
- The total net revenue benefit, after subtracting the likely tax benefits from development without public support and adding the impact of the sale of the VancouverCenter and West Coast Bank parking garages, is \$133.5 million discounted to a present value in 2006.
 - The total net benefit to the City of Vancouver is estimated at \$27.0 million, the total net benefit to other local jurisdictions is estimated at \$19.2 million and the total net benefit to the State of Washington is estimated at \$87.2 million.
- The rate of return to the City of Vancouver from its investment in downtown Vancouver economic development is estimated at 4.3% or roughly equivalent to the City's return on its invested funds.
 - The net present value of the City's investments combined with the City's net benefit is positive.
 - The estimated return on investment is 11.0 percent after including the net benefit to the City and all other local jurisdictions in Clark County.

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- The overall net present value of the State of Washington's investment and net benefit is \$59.4 million in 2006 net present value terms. The State's percentage return on investment is not reportable since the State's cash flow is positive in each year.
- The overall rate of return on the combined City and State investment in downtown Vancouver economic development is 35.9 percent and is much higher than the City's return due to the large State net benefit.
- The total estimated new construction cost of the public and private development directly related to the City's investments is estimated at \$200 million with a total private investment estimated at between \$250 million and \$300 million.
- The estimated public investment leverage ratio associated with the City's investments is 9.3:1 while the overall public investment leverage ratio is estimated at 4.6:1.
- The public and private development directly related to public investments generated other economic benefits to the community.
 - The total on-going employment attributed to the new development is estimated at 1,474 jobs.
 - The total employment attributed to the construction of the new development is estimated 489 jobs.
 - The total annual economic activity directly attributed to the new development is estimated at \$135 million.
 - An estimated \$110,000 per year in new funding for the Southwest Washington Convention and Visitors Bureau.
- The new development directly supported the goals of the City's Comprehensive Plan and the Esther Short Subarea and Redevelopment Plan.
 - The development directly supported ten of the Comprehensive Plan's Economic Development and Housing policies.
 - The development generated between 45 percent and 75 percent of the targets for jobs, commercial development and housing included in the Esther Short Subarea and Redevelopment Plan.

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The next section of the report presents a summary of the development included in the analysis. Section 3 presents the analysis relating to the investments made by the City, the State and the private sector. Section 4 includes a summary of the estimated benefits and Section 5 summarizes the estimated return on investment. Additional observations from the analysis are presented in Section 6.

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2.0 Background and Introduction

This report presents the result of an analysis of the return on the City of Vancouver's investment in downtown Vancouver economic development. "Downtown Vancouver" is defined as that area west of Interstate 5, south of Mill Plain Boulevard, east of the railroad tracks, and north of the Columbia River with the addition of Main Street between Mill Plain Boulevard and Fourth Plain Boulevard. The analysis includes City investments made between 1997 and 2006, investments planned for 2007 and related costs in future years. The analysis excludes investments using restricted funds such as Community Development Block Grant awards or Federal transportation grants. The analysis assessed the benefits associated with ten development projects initiated between 1997 and 2006. The analysis begins in 1997 because that was the year the City formed the Downtown Redevelopment Authority and reconstituted the Economic Development Department. Table 2.1 presents a summary of each development.

Table 2.1 – Development Summary

Development	Approximate Square Feet					Structured	Residential
	Office	Retail	Residential	Other	Total	Parking	Units
City Center 12 Cinema	1,500	1,500		52,967	55,967	-	-
Heritage Place	-	13,000	150,000	-	163,000	55,000	137
West Coast Bank	75,000	-	35,000	-	110,000	78,345	21
Kirkland Union Manor	-	-	45,323	-	45,323	-	61
Anthem Park (1)	14,127	2,499	60,206	-	76,832	45,219	62
VancouverCenter - Ph 1	99,285	14,854	205,631	-	319,770	275,000	228
Esther Short Commons	-	24,908	136,308	-	161,216	-	160
Hilton Convention Center Hotel	19,533	11,588	-	144,531	175,652	59,570	-
Lewis and Clark Plaza	-	-	38,870	-	38,870	-	46
Columbian Development (2)	101,406	5,724	-	-	107,130	-	-
VancouverCenter - Ph 2 (2)	99,549	14,615	33,240	-	147,404	-	20
Total	410,400	88,688	704,578	197,498	1,401,164	513,134	735

(1) Office square feet estimated based on live/work units

(2) Developments not completed as of November 2006

Source: City of Vancouver

The City of Vancouver Economic Development Department and Identity Clark County sponsored this analysis. An oversight committee provided overall guidance for the analysis, reviewed key assumptions and provided feedback on the initial results. Oversight committee members included:

- John Becker Blease, Ph.D., Assistant Prof. of Finance, WSU-Vancouver
- Deborah Ewing, Commercial Real Estate Broker, Eric Fuller & Associates
- Dave Groth, MAI, Managing Owner, PGP Valuation
- Debra McCracken, Senior Property Manager, Norris, Beggs & Simpson
- Bob Ridgley, Retired Chief Executive Officer, NW Natural

A number of people provided data and information used in the analysis. Acknowledgements are included in Appendix A.

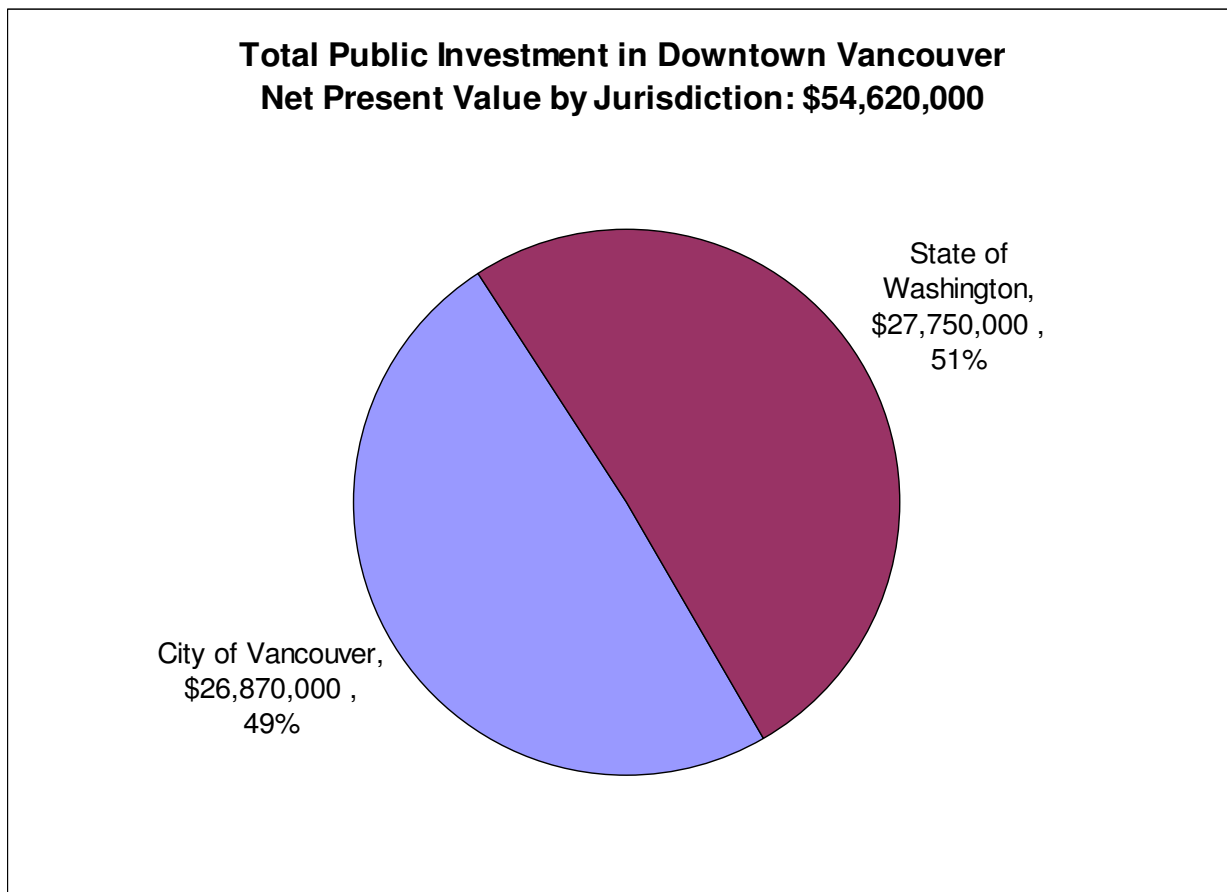
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3.0 Investment Summary

Total Public Investment by Jurisdiction

The total public investment in downtown Vancouver related to the public and private development initiated between 1997 and 2006 is estimated at \$54.6 million discounted to a net present value (NPV) in 2006. The City of Vancouver represents approximately 48 percent of the investment and the State of Washington the remaining 52 percent.

Chart 3.1 – Total Public Investment by Jurisdiction

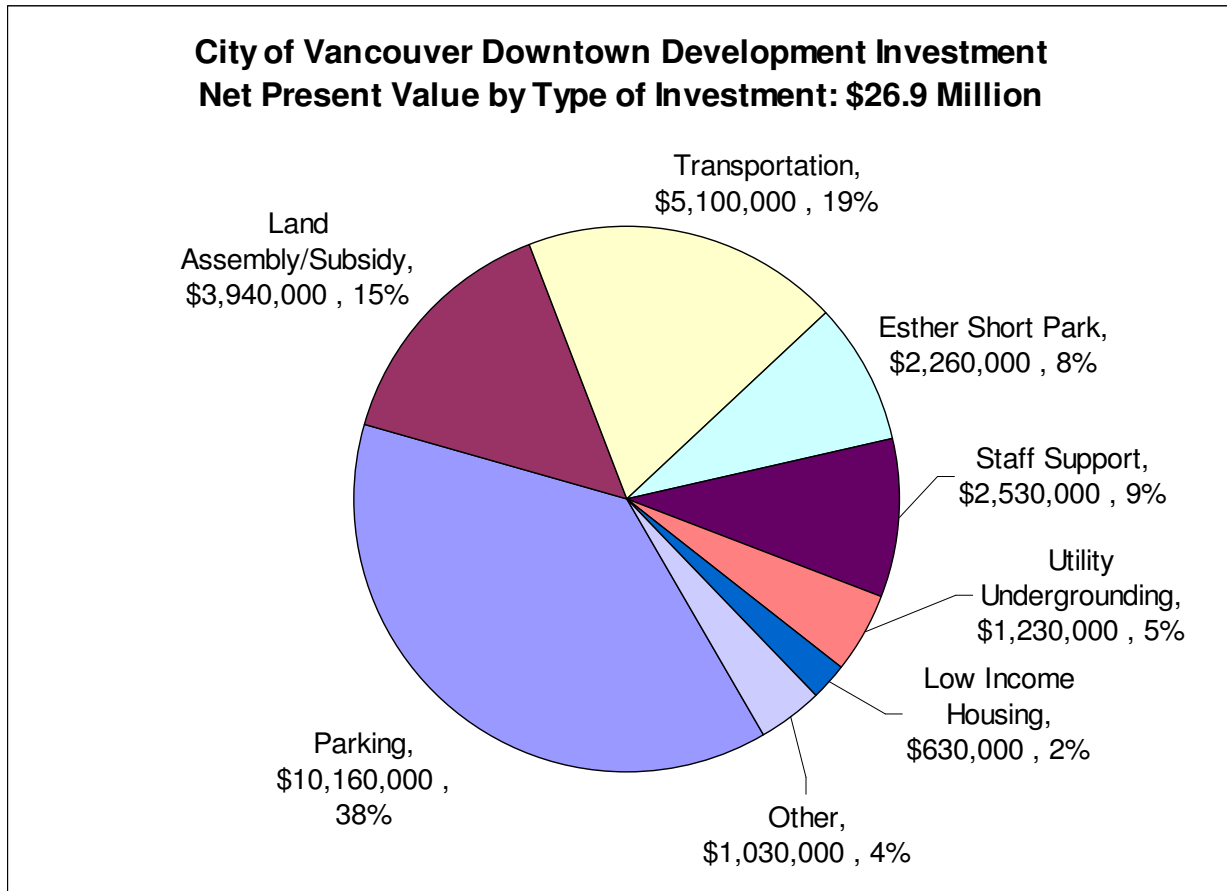


City of Vancouver Investment by Type

The City of Vancouver investment in downtown Vancouver between 1997 and 2007 is estimated \$26.9 million, discounted to a net present value (NPV) in 2006 using a discount rate equal to the return the City earns on funds in its investment pool. The 2006 NPV by type of investment is shown in Chart 3.2 below.

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Chart 3.2 – City of Vancouver Investment by Type of Investment



Financial support for the City's parking garages in the VancouverCenter and West Coast Bank buildings represent the largest City investment in downtown Vancouver. Other significant investments include land assembly – primarily the purchase and demolition of the former Lucky Lager brewery properties – transportation improvements and the renovation of Esther Short Park. The impact of the ten year Multi-Family Housing Tax Exemption is reflected in the property tax revenue estimates included as part of the analysis in Section 4 below. An explanation of this impact is provided at the end of this section and Section 6 includes additional observations related to the ten year Multi-Family Housing Tax Exemption. The investment analysis excludes investment of restricted funds. Investments of restricted funds in downtown Vancouver development include approximately \$1.5 million of dedicated Sales Tax funding for the 4th Street realignment transportation project, \$440,000 in Federal transportation grants received for signal and intersection improvements and various amounts of CDBG funding for sidewalk replacement and the public park in the Anthem Park development.

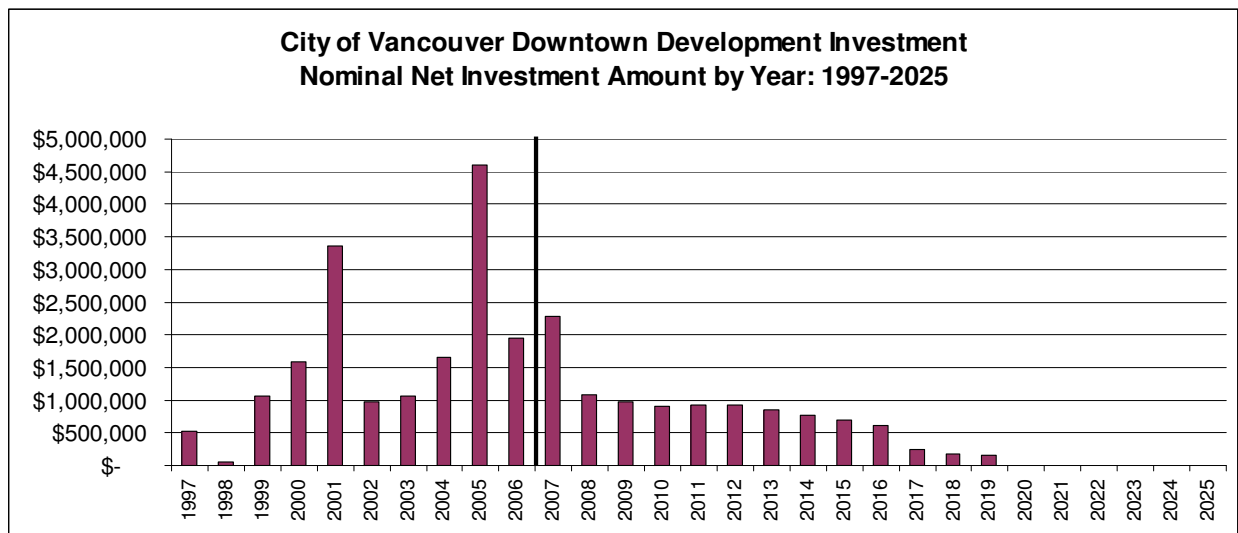
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City of Vancouver Investment by Year

The City of Vancouver investment amount by year, shown in Chart 3.3 below, varies considerably and is projected to extend through 2019. The investments reflect a large one time expenditure in 2001 related to the Brewery Blocks and funding for improvements to Sixth and Esther streets in 2005. Operating expenditures for the City's Economic Development department, repayment of Economic Development bonds and support for the City's Parking Fund represent expenditures from 2008 through 2019.

Chart 3.3 – City of Vancouver Investment by Year – Nominal Dollars



State of Washington Investment

The State of Washington investment in downtown Vancouver is estimated at \$27.8 million. The largest share of this investment – approximately 92 percent – represents the 0.033% State sales tax rebate provided to the City of Vancouver Public Facilities District (PFD) and the Clark County Public Facilities District. Both the City and County PFDs have dedicated their State sales tax rebate to the Vancouver Convention Center. The analysis reflects the agreement between the City PFD and the County PFD to limit the amount of funding for the Convention Center Hotel with the amount over the limit going to fund the Clark County Exhibit Hall at the Fairgrounds. The balance of the State's investment consists of State shared lodging taxes attributed to the Hilton Convention Center Hotel and a small reimbursement of environmental cleanup expenses at the VancouverCenter and Vancouver Convention Center sites.

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Private Investment

Private investment in downtown Vancouver includes financial support for the renovation of Esther Short Park and private funding of development projects. An estimated \$3.6 million donation from George and Carolyn Propstra funded Propstra Square, the Bell Tower/ Glockenspiel and water feature at Esther Short Park and provided funds to support maintenance of the flower beds surrounding Propstra Square. The amount of private investment in the development identified in Table 2.1 on page 2 has been reported at between \$250 million and \$300 million.

Historical Context

City of Vancouver investments in downtown economic development began before 1997. A brief review identified a total of eleven City-supported development projects from approximately 1980 through 1997. The largest of these projects were the Century Tel, Riverview Tower, Main Place and Murdock Plaza office buildings. The City also supported Upper Main streetscape improvements, Transit Mall development and redevelopment of other buildings such as the former Vancouver Furniture store. Table 3.1 below compares the general types of investments the City used before and after 1997 and the frequency of use. Note that the City Council adopted the City's Multi-Family Housing Tax Exemption ordinance in 1997.

Table 3.1 – City of Vancouver Development Support – Pre and Post 1997

<u>Type of Development Support</u>	<u>Number of Times Used</u>	
	<u>~1980-1996</u>	<u>1997-2006</u>
Land Assembly/Subsidy	4	6
Transportation Improvements	2	6
Parking	5	4
Staff Support	Yes	Yes
Utility Undergrounding	1	2
CDBG Funding	3	2
Low Income Housing Support		1
Multi-Family Housing Tax Exemption		5
Subarea Planning/Streamlined Permitting		Yes

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Estimated Impact of Ten Year Multi-Family Property Tax Exemption

The City of Vancouver granted a ten year multi-family property tax exemption to five of the developments identified in Table 2.1, and two smaller developments (a total of ten units) not shown in the table. The tax exemption applies only to the designated multi-family units in each development. The developments in Table 2.1 granted a multi-family property tax exemption included in the Heritage Place, VancouverCenter (apartment buildings only), Kirkland Union Manor, Anthem Park and Lewis & Clark Plaza developments. The exempted properties represent 471 residential units and an estimated \$65.8 million in new construction valuation.

The exemption on the multi-family housing has two impacts. First, the cost of new construction related to the eligible multi-family units is not added to the tax roll until ten years after construction is completed. As a result, none of the government jurisdictions receive the additional property tax revenue related to the new construction during that ten year period. Second, the owners of the exempt multi-family property do not pay property tax on the exempted new construction – although they do pay property taxes on the land – for a period of ten years. The new construction cost of the non-exempted development is added to the tax roll and the owners of that development pay property tax on both the land and improvements.

The multi-family housing tax exemption impacts the revenues of the various jurisdictions by providing them with less revenue than what they might have received had the exact same development been built without the exemption. Assuming the same development had been built without the exemption, the lost potential revenue to the State and local governments, in 2006 net present value terms, is estimated at \$11.8 million. However, an analysis of the Heritage Place mixed-use development shows that the estimated present value of the total tax revenue attributed to that development through 2025 – including the impact of the multi-family housing tax exemption – is approximately 87 percent higher than the estimated tax revenue that would have been received if the property had been developed at a density consistent with other downtown developments built without the City's financial participation. Section 6 includes additional analysis of the ten year multi-family property tax exemption for the Heritage Place development.

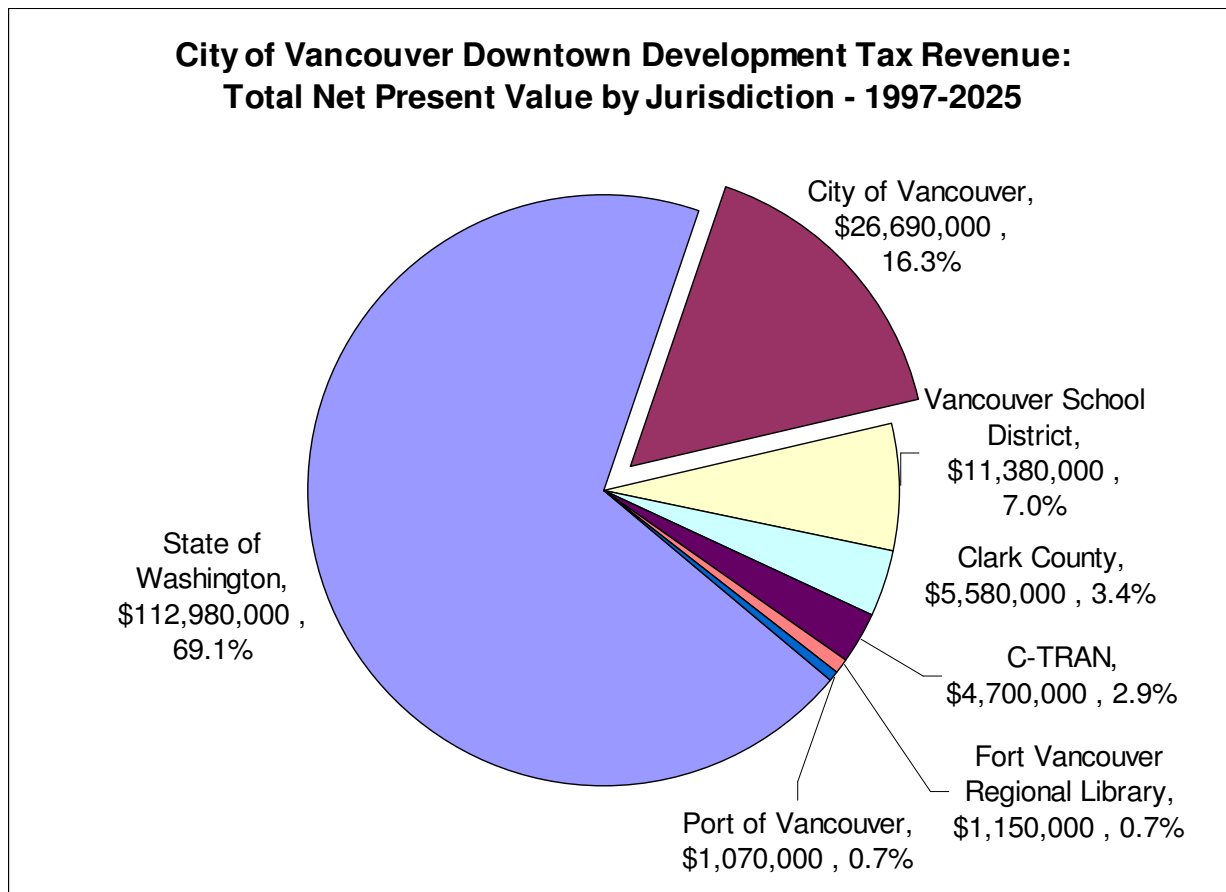
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4.0 Benefit Summary

Total Tax Revenue by Jurisdiction

The total tax revenue attributed to the public and private development in downtown between 1997 and 2006 (see Table 2.1) is estimated \$163.6 million, discounted to a net present value (NPV) in 2006 using a discount rate equal to the City's return on funds in its investment pool. Chart 4.1 below shows the total tax revenue (2006 NPV) by jurisdiction.

Chart 4.1 – Total Tax Revenue by Jurisdiction



The State of Washington receives the largest share of the total tax revenue representing an estimated 69.1 percent. The City of Vancouver receives an estimated 16.3 percent. Collectively, other local governments including Vancouver School District, Clark County, C-TRAN, Fort Vancouver Regional Library and the Port of Vancouver receive 14.6 percent of the total tax benefit. Not included in the tax benefit analysis are impact fees, development fees, business license fees or fees for City water, wastewater or stormwater utilities.

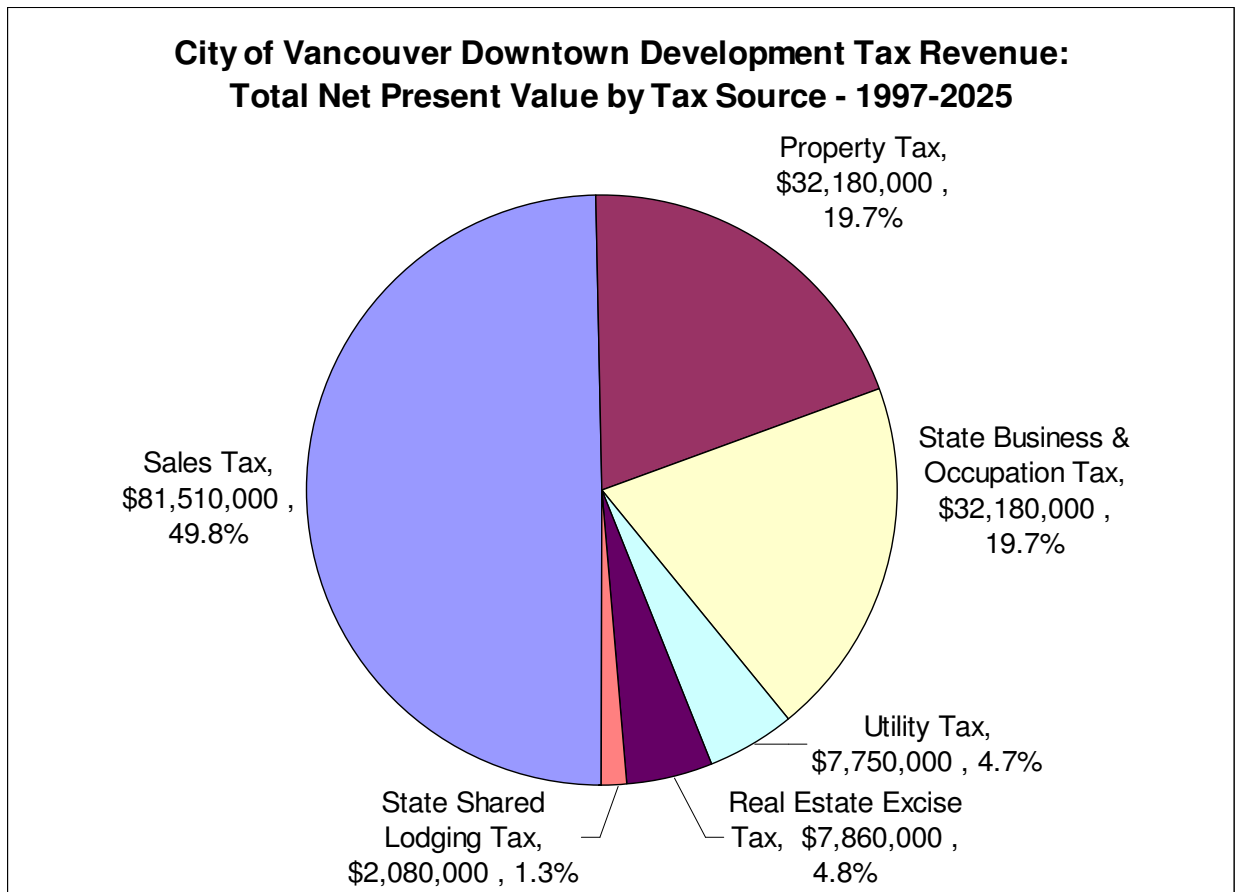
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Total Tax Revenue by Tax Source

Chart 4.2 presents the overall distribution of the estimated \$163.6 million in total tax revenue across the various tax sources. As shown, State and local sales taxes represent slightly less than half of the revenues. State and local property taxes and the State Business & Occupation tax each represent 19.7 percent of the total tax revenue. The State of Washington receives 100 percent of the Business & Occupation Tax, 81 percent of the Sales Tax, 72 percent of the Real Estate Excise Tax, 30 percent of the Utility Tax and 21 percent of the Property Tax. Note that approximately \$18.1 million of the revenue or 11 percent directly supports funding for public education.

Chart 4.2 – Total Tax Revenue by Tax Source



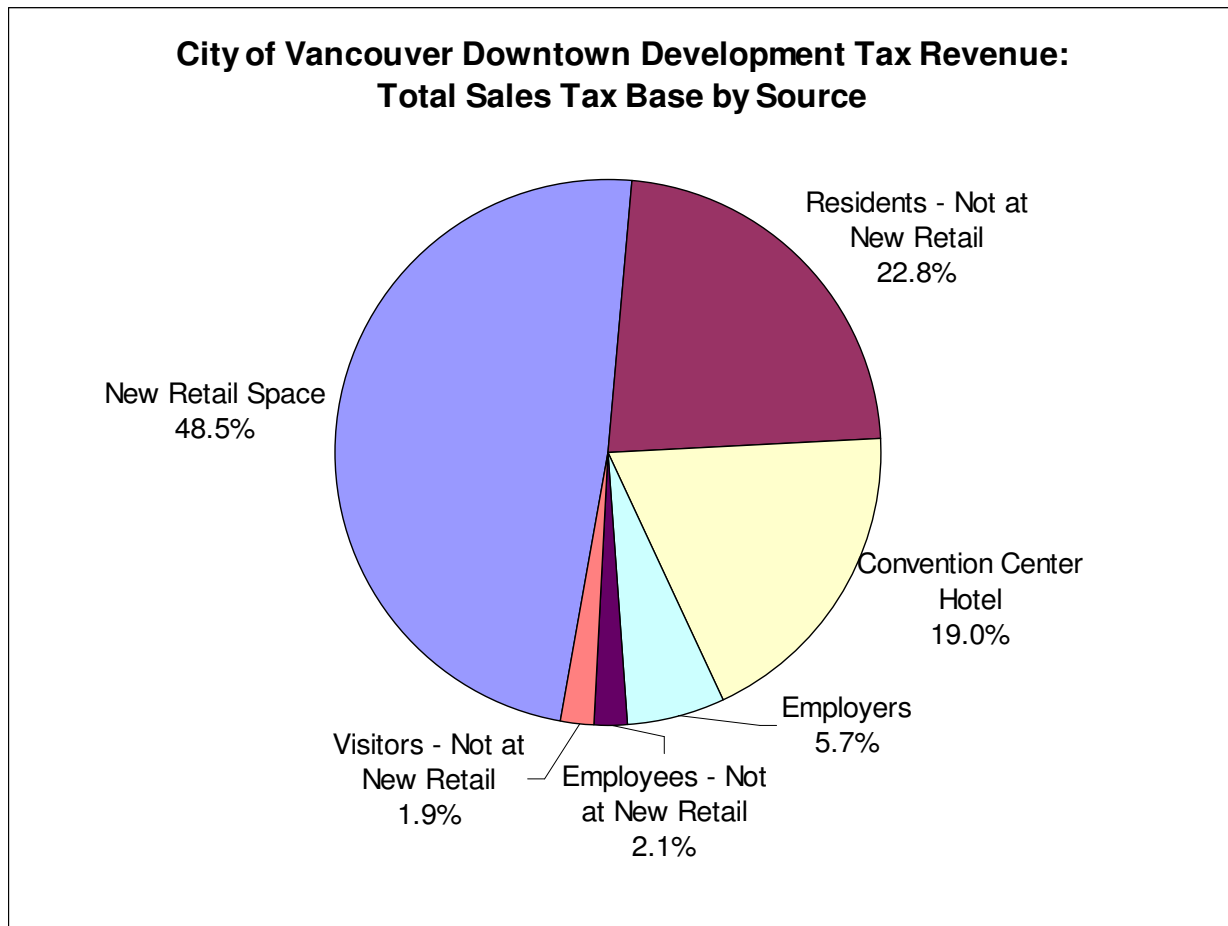
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Sales Tax Base by Source

The sales tax is the largest source of revenue attributed to the public and private development in downtown and the largest share of the sales tax base comes from the newly developed retail space. The residents, office workers and hotel guests associated with the other new development generate a significant share of the taxable retail sales at the new space with the balance expected to come from employees of other businesses located downtown and other patrons. Taxable retail purchases at locations other than the new retail development by occupants of the new residential units represent slightly less than one-quarter of the sales tax base followed by revenues from the Convention Center Hotel at 19.0 percent. Taxable purchases by employers, employees and visitors not made at the new retail space make up the balance of the sales tax base. The analysis assumed that 30 percent of the retail sales associated with the new residents and 50 percent of the retail sales associated with hotel guests would take place outside the City of Vancouver. Chart 4.3 shows the distribution of the sales tax base attributed to the new development.

Chart 4.3 – Sales Tax Base by Source

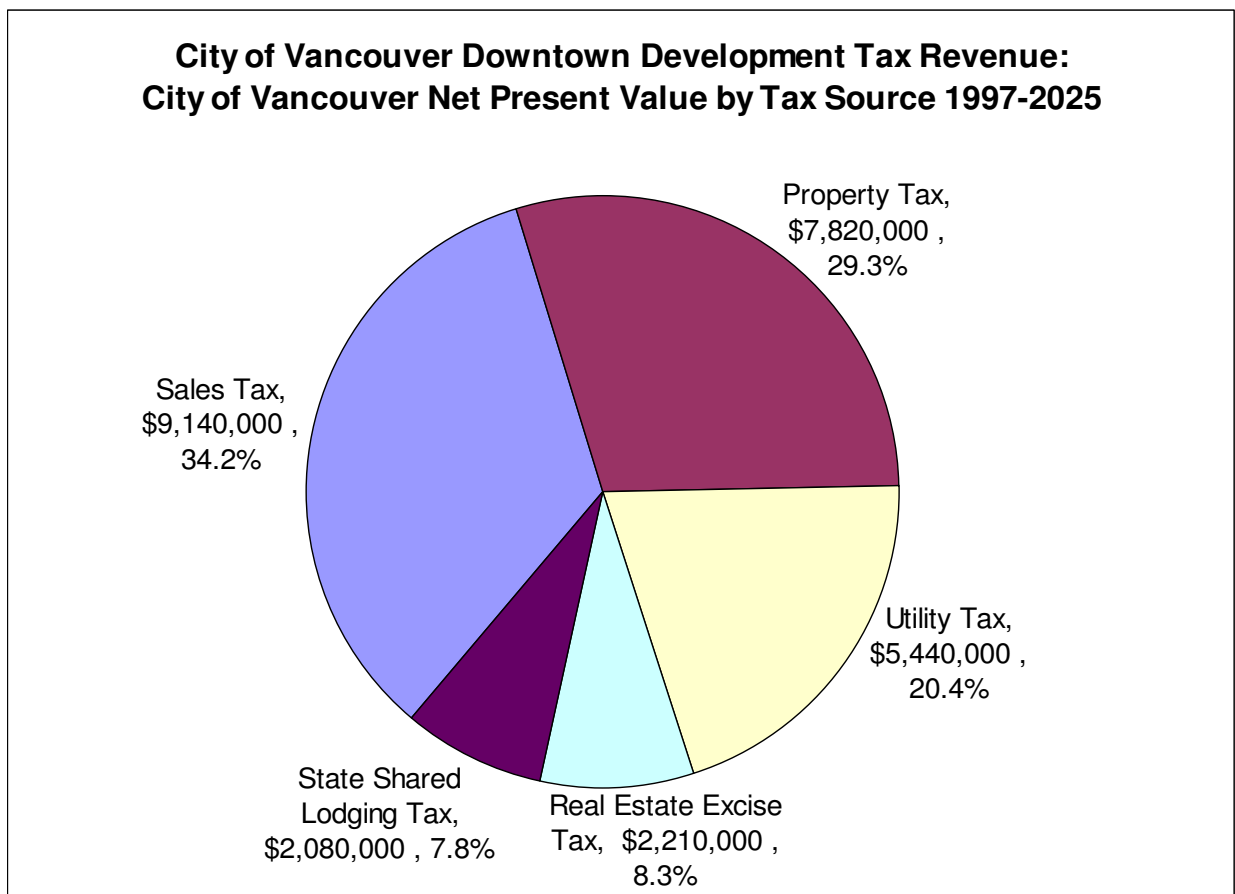


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City of Vancouver Total Tax Revenue by Tax Source

The distribution of the estimated \$26.7 million in tax revenue accruing to the City of Vancouver is relatively balanced across the City's three major tax sources. The sales tax is the largest revenue source at 34.2 percent followed by the property and utility taxes at 29.3 and 20.4 percent respectively. Contributing to the more balanced distribution across tax sources as compared to the total distribution is the lower City sales tax rate and higher City utility tax rates compared to the State of Washington. Chart 4.4 shows the distribution of City tax revenue by tax source.

Chart 4.4 – City of Vancouver Total Tax Revenue by Tax Source



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Total Net Benefit

The analysis presented to this point reflects the gross tax revenue attributed to the development identified in Table 2.1. An accurate analysis of the return on public investment in downtown Vancouver requires an adjustment to take into account the estimated tax revenue that would have been generated by development occurring without the public investment. In addition, the analysis needs to include the impact of the potential sale of the City's parking garages. The net benefit analysis described below incorporates both of these factors.

The first adjustment is a reduction to reflect the estimated revenue the various jurisdictions would have received assuming no City or State investment. The analysis used the Pioneer Building at 1400 Washington and the Angelo Building at 404 E. 15th as examples of the type of development that would have occurred without public support. Taken together these buildings have an estimated 33,633 square feet of office space and 80,000 square feet of land. The analysis looked at the revenue that this type of development would have produced if it had been developed on land where the Heritage Place, VancouverCenter, West Coast Bank, Esther Short Commons, Convention Center Hotel and Columbian developments are located. Table 4.1 compares the actual development at those sites to the development assumed with no City or State investment.

Table 4.1 – Development with No Public Investment v. Actual Development

	<u>No Public Investment</u>	<u>Actual Development</u>	<u>Difference</u>	<u>% Diff.</u>
<u>Land Area</u>				
Land Area (SF)	555,552	555,552	-	0%
Land Area (Acres)	12.75	12.75	-	0%
<u>Commercial Development</u>				
Office Space	233,769	394,773	161,004	69%
Retail Space	-	84,689	84,689	
Residential Space	-	560,179	560,179	
Hotel/Convention Space	-	144,531	144,531	
Total Space	233,769	1,184,172	950,403	407%
<u>Jobs</u>				
Jobs	632	1,370	738	117%
Average Jobs/Acre	50	107	58	117%
<u>Residential Development</u>				
Residential Units	-	566	566	
Population		849	849	
Average Units/Acre		44		

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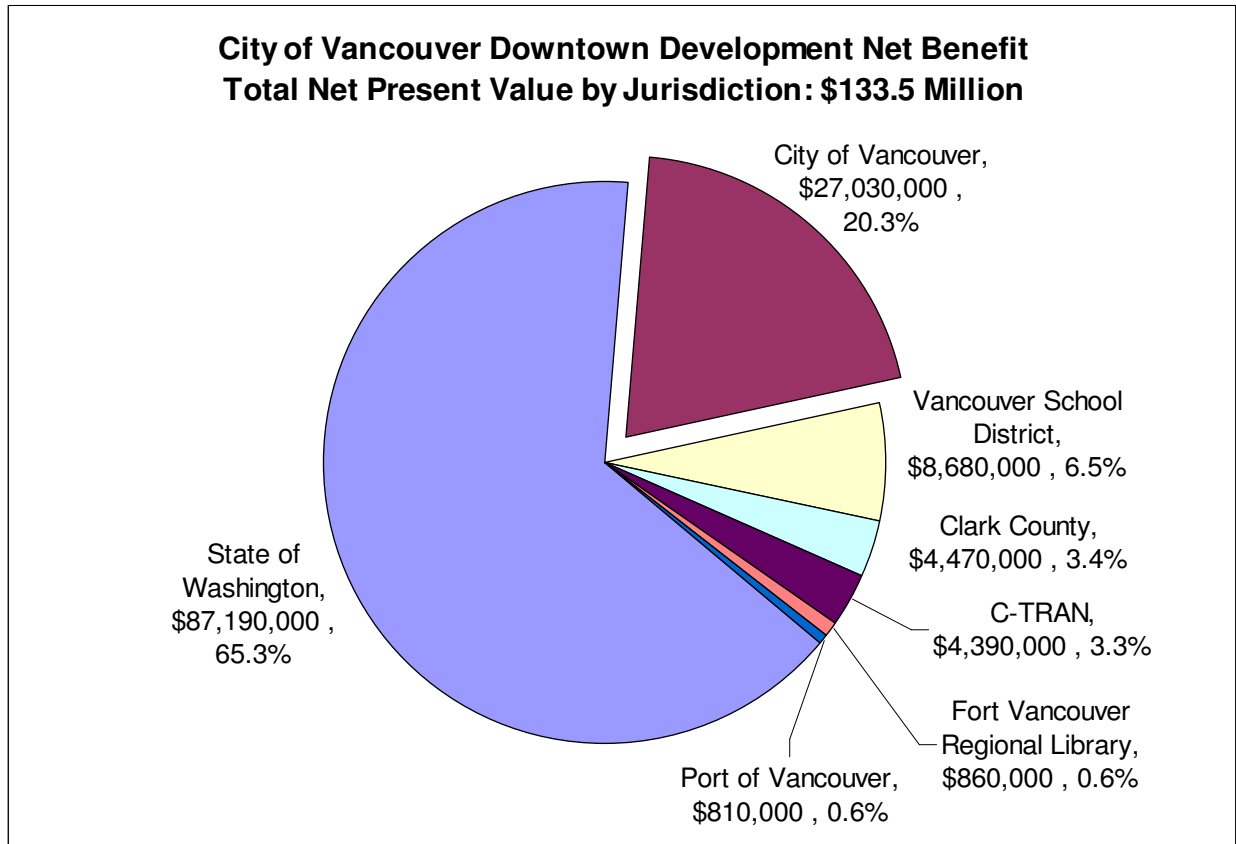
The estimated revenue from development at the identified sites with no public investment is \$34.0 million. The analysis subtracts this amount from the estimated revenue from the actual development to determine the net tax revenue attributable to the public investment.

The second adjustment adds an estimated \$3.9 million in 2006 NPV benefit to the City associated with the sale of the VancouverCenter and West Coast Bank Building parking garages in 2016. The City's development agreements with the developers of both buildings provide options for the developer to purchase their respective parking garages beginning in 2016. Conservative estimates of the net revenue for the parking garages results in sales proceeds in 2016 that are an estimated \$1.0 million less than the principal amount of the debt attributed to the garages in that year. However, over the period 2016-2025, the City is better off selling the garages and contributing the \$1.0 million to pay off the related principal amount of the debt than it is if it kept the garages (and paid the full principal and interest) over the same period. Extending the analysis to 2030 creates a scenario where the City is indifferent between selling and keeping the parking garages. Extending the analysis past 2030 would result in an economic advantage for the City to retain the parking garages. The analysis also includes the surplus revenue estimated for the City's Parking Fund from 2017 through 2025.

Chart 4.5 shows the distribution of the estimated \$133.5 million total net benefit by jurisdiction after adjusting for the estimated revenue from development without public participation and the net impact from the sale of the VancouverCenter and West Coast Bank building parking garages. Note that the City's net benefit is an estimated \$300,000 higher than the tax benefit shown in Chart 4.1 due to the net effect of a \$3.6 million reduction for development without public investment and a \$3.9 million addition related to the sale of the parking garages.

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Chart 4.5 – Total Net Benefit Attributed to Public Investment by Jurisdiction

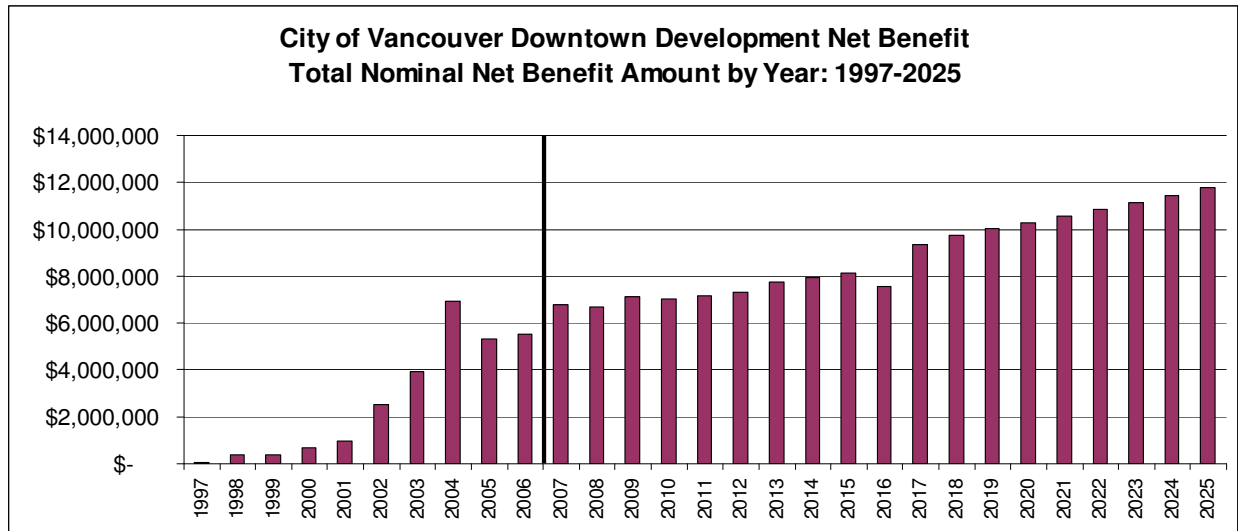


Total Net Benefit by Year

The net benefit amount by year, shown in Chart 4.6 below, increases rapidly through the construction period and then grows more gradually through 2025. The higher amount in 2004 reflects one time sales tax revenues associated with construction. Growth in the annual net benefit from 2012 through 2015 reflects the expiration of the Multi Family Housing Property Tax Exemptions. The decrease in 2016 and the increase in 2017 reflect the impact of the sale of the VancouverCenter and West Coast Bank parking garages. The amounts shown in Chart 4.6 are adjusted for the estimated benefits that would have been generated by development without City and State support.

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Chart 4.6 – Nominal Net Benefit by Year: All Jurisdictions

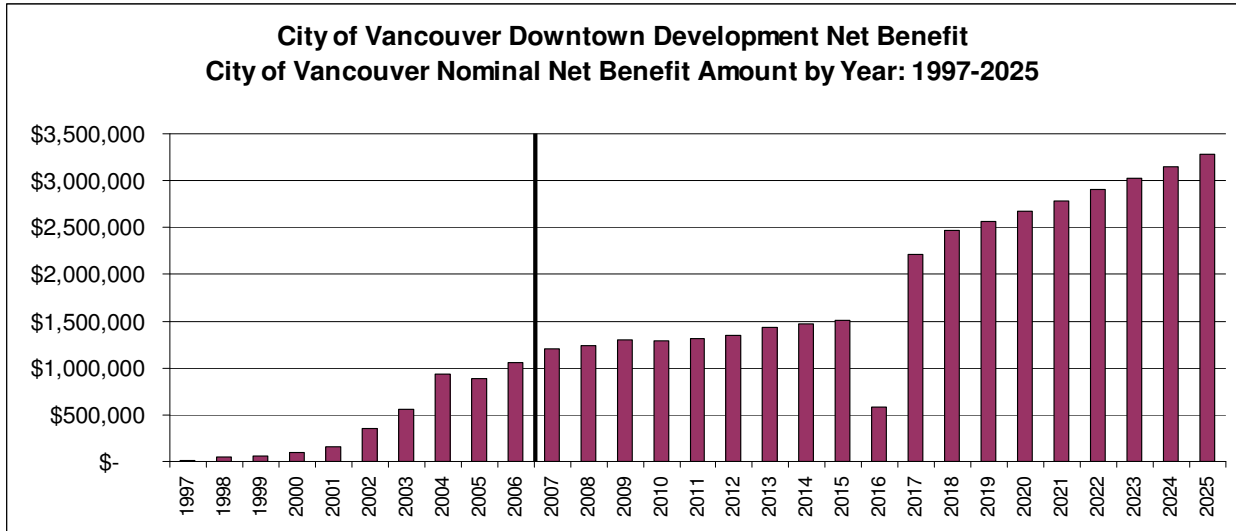


City of Vancouver Net Benefit by Year

The City of Vancouver net benefit by year, shown in Chart 4.7 below, shows a pattern similar to the total net benefit in Chart 4.6. The annual net benefit increases rapidly through the construction period and then grows more gradually through 2025. The significant increase in 2004 reflects the impact of one time sales tax revenues associated with construction. Growth in the annual net benefit from 2012 through 2015 reflects the expiration of the Multi Family Housing Property Tax Exemptions. The decrease in 2016 reflects a payment to pay off the debt on the VancouverCenter and West Coast Bank parking garages at the time of their sale. The growth in 2017 reflects the projected net operating surplus from the City's Parking Fund after the sale of the garages. Again, the amounts shown in Chart 4.7 are adjusted for the estimated benefits that would have been generated by development without City and State support.

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Chart 4.7 – Nominal Net Benefit by Year: City of Vancouver



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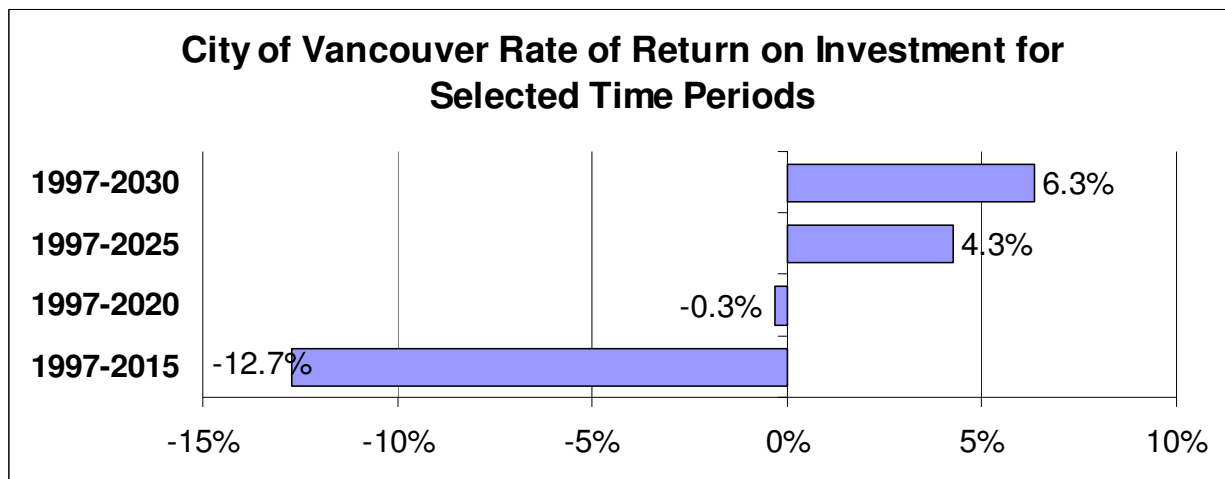
5.0 Return on Investment

Return on Investment – City Investment Only

The City of Vancouver's estimated investment in downtown economic development combined with the City's estimated net benefit through 2025 shows a rate of return on the City's investment of 4.3 percent. That rate of return is approximately equal to the annual return on the City's invested funds (4.2 percent) for the period 1997 through 2005 and the projected return for the period 2006 through 2014 (also 4.2 percent).

The City's rate of return is dependent on revenues received from 2017 through 2025. Chart 5.1 shows the City of Vancouver's estimated rate of return for different time periods. The estimated rate of return if the net benefit ended in 2020 instead of 2025 is -0.3 percent. In contrast, the City's estimated rate of return increases to 6.3 percent if the ending date is extended from 2025 to 2030. In fact, the net benefit will extend indefinitely. The analysis used an ending year of 2025 or twenty years from 2006 to reflect the City's Downtown Investment Guidelines principle of using a twenty year time horizon for analyzing the City's financial participation in public/private partnerships.

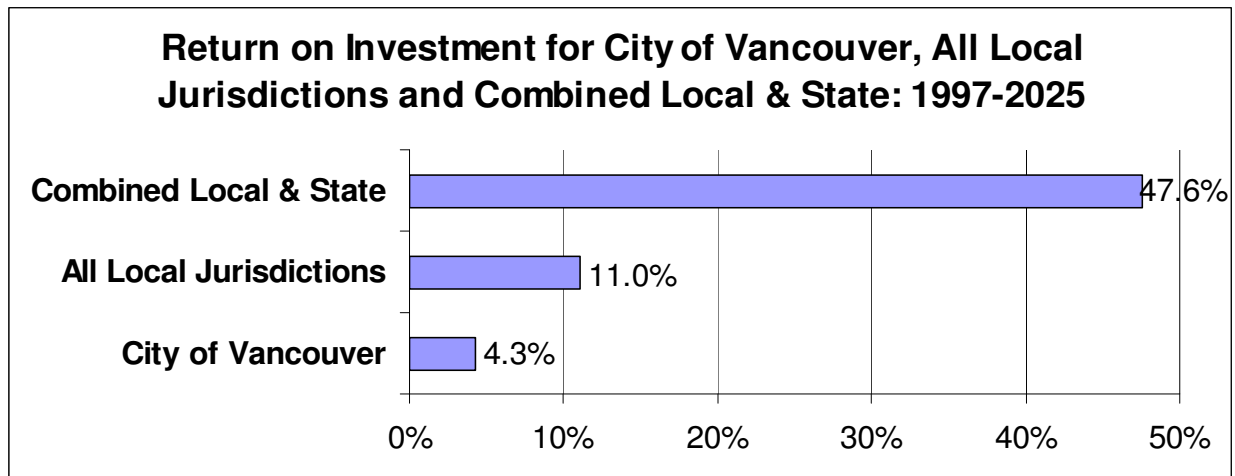
Chart 5.1 – City of Vancouver Rate of Return for Selected Time Periods: City Investment Only



The estimated rate of return increases when the analysis includes the net benefit received by other government agencies. The rate of return is estimated at 11.0 percent when including the estimated net benefits to Clark County, Vancouver School District, Fort Vancouver Regional Library, the Port of Vancouver, and C-TRAN. The estimated rate of return on the City's investment increases to 47.6 percent after including the estimated net benefit accruing to the State and all local jurisdictions and comparing that net benefit to the City's investment.

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Chart 5.2 – Rate of Return by Jurisdiction: City Investment Only



An alternate assessment of the City's return on investment is to look at the net present value. The City of Vancouver's Downtown Investment Guidelines includes a principle that states that the City's financial participation in public/private partnerships should have a positive net present value over a period of twenty years. The analysis in this report included a broader definition of financial participation than the one outlined in the Downtown Investment Guidelines. Specifically, in addition to the City's direct financial support for specific projects (ex: parking garage acquisition) the analysis included other City financial support for downtown development including staff time, transportation improvements, utility undergrounding, the purchase and demolition of the Lucky Lager Brewery property and the redevelopment of Esther Short Park. Using this expanded definition of financial participation the estimated net present value of the City's financial participation is \$150,000.

Return on Investment – State of Washington Investment

The State of Washington's estimated investment in downtown economic development combined with the State's estimated net benefit through 2025 shows a positive return of \$59.4 million, discounted to a present value in 2006. This reflects the estimated \$87.2 million in net benefit and the estimated \$27.8 million investment. The State's percentage return on investment is not reportable since the State's net cash flow is positive in each year.

The State's net present value return increases to \$67.6 million when the State's investment and net benefit attributed to the Vancouver Convention Center and Hotel are excluded. The State's net present value is higher when the impact of the Vancouver Convention Center and Hotel is excluded due to the negative net present value (\$8.1 million) associated with the State's investment when the net benefit is limited to the impact of the Convention Center and Hotel.

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Return on Investment – All Public Investment

The total estimated public investment in downtown economic development combined with the total estimated net benefit through 2025 shows a positive net present value of \$78.9 million. The estimated rate of return on the total public investment is 35.9 percent. The overall rate of return includes the full \$133.5 million (2006 NPV) in estimated net benefit and the \$54.6 million (2006 NPV) in public investment.

Payback Ratio

An alternative assessment of the return on the public investment in economic development is to calculate the payback ratio. The payback ratio is the estimated total benefit divided by the estimated total investment. The estimated payback ratio for the City of Vancouver is 1.0. The payback ratio for the City's investment increases to 1.7 when the benefit to the other local jurisdictions is included. The estimated payback ratio for the State of Washington is 3.1. The total payback ratio, including the total net benefit to all jurisdictions and the total City and State investment is 2.4. All of the payback ratio calculations use amounts presented in 2006 net present value terms.

Public Investment Leverage Ratio

The amount of private investment stimulated by the public investment is another measure of the effectiveness of economic development investments. According to an October 2004 memo from Leland Consulting Group included in the Vancouver Community Center Vision project revitalization efforts around the nation typically have "a leverage ratio of private to public investment of 4:1 or 5:1 or higher." The public investment leverage ratio for the downtown Vancouver development included in this analysis is 4.6:1, assuming a total private investment of \$250 million and a total City and State investment of \$54.6 million. The public investment leverage ratio increases to 9.3:1 when including the estimated \$250 million of private investment and only the \$26.9 million of the City's investment. All of the public investment leverage ratio calculations use amounts presented in 2006 net present value terms.

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6.0 Other Observations

City of Vancouver Comprehensive Plan Policy Implementation

In addition to the fiscal benefits to State and local government the ten downtown development projects included in this analysis helped to implement several City of Vancouver planning objectives. Vancouver Comprehensive Plan Policies supported by the downtown development include:

- Economic Development Comprehensive Plan Policies
 - ED-1. Jobs – Housing Balance: Increase the ratio of jobs to residents in the City of Vancouver and the region.
 - The development projects included in this analysis generated a ratio of jobs to population ratio of 1.3 compared to the estimated ratio for the entire City of 0.5.
 - ED-3. Public Revenue Enhancement: Promote development which enhances revenue generation to provide public services.
 - The development projects include in this analysis are estimated to generate annual revenues in excess of \$6 million for public agencies.
 - ED-6. Efficient Use Of Employment Land: Maximize utilization of land designated for employment through more intensive new building construction, and redevelopment and intensification of existing sites.
 - The jobs per acre ratio for the VancouverCenter, West Coast Bank, Convention Center Hotel and Columbian developments is estimated at 147 compared to an estimated 50 for other office buildings in downtown and near Vancouver Mall.
- Housing Comprehensive Plan Policies
 - H-1. Housing Options: Provide for a range of housing types and densities for all economic segments of the population. Encourage and support equal and fair access to housing for renters and homeowners.
 - The housing developments included in this analysis support a variety of housing options including affordable housing, live/work housing, senior housing and high-end condominiums.
 - H-2. Affordability: Provide affordable housing by formulating innovative policies, regulations and practices, and establishing secure funding mechanisms. Target affordability programs toward below median area income.

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- The housing developments included in the Esther Short Commons, Kirkland Union Manor, Anthem Park and Lewis and Clark Plaza developments support affordable housing.
- H-4. Innovative Zoning: Encourage innovative housing policies which provide for affordable housing and maintain neighborhood character. Develop inclusionary housing policies which provide for compatible affordable housing within new subdivision developments.
 - Housing units are placed above retail space in each of the mixed use developments.
 - The Lewis & Clark Plaza development includes public art exposition space.
- H-5. Housing Placement Near Services and Centers: Facilitate siting of higher density housing near public transportation facilities and in designated centers and corridors.
 - The housing developments included in this analysis are all placed near services and centers.
- H-6. Special Needs Housing: Facilitate housing for special needs populations dispersed throughout Vancouver and the region. Such housing may consist of residential-care facilities, shelters, group homes, or low income housing, and should be located near transportation and other services such as health care, schools, and stores.
 - The housing development included in the Esther Short Commons, Kirkland Union Manor, Anthem Park and Lewis and Clark Plaza developments support this policy.
- H-8. Public-Private Partnerships: Facilitate enhanced partnerships between public, private, and non-profit sectors to address affordable housing.
 - All of the housing developments included in the analysis support this policy.
- H-9. Funding for Housing: Pursue funding mechanisms to support affordable housing involving local, state, and federal agencies.
 - The housing development included in the Esther Short Commons, Kirkland Union Manor, Anthem Park and Lewis and Clark Plaza developments support this policy.

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Esther Short Subarea and Redevelopment Plan Implementation

The development included in this analysis supported several of the Esther Short Subarea and Redevelopment Plan (Plan) objectives. Specifically, the supported developments inside the Esther Short Subarea resulted in:

- Development of 407,462 square feet of commercial space or 75 percent of the 540,000 targeted in the Plan.
- Development of 545 new residential units housing an estimated 817 new residents or 54 percent of the 1,010 new residential units and 1,500 new residents envisioned in the Plan.
- Creation of 1,220 direct jobs or 45 percent of the 2,700 new jobs targeted in the Plan.

Other Economic and Community Benefits

In addition to the fiscal benefits to State and local government and the support for planning policy implementation the ten downtown development projects included in this analysis generated other benefits to the local economy and the community. Those benefits include:

- An estimated 1,474 direct jobs and an estimated 2,898 total jobs.
- An estimated 489 construction jobs.
- An estimated \$135 million (in 2006 dollars) in total direct economic activity and an estimated \$275 million in total direct and indirect economic activity.
- An estimated \$10,000 per year in 911 tax revenue for the Clark Regional Communications Agency plus additional 911 tax revenue for the State of Washington.
- An estimated \$100,000 in new annual revenue for the Southwest Washington Convention and Visitors Bureau.
- An estimated \$1.1 million in City of Vancouver Park impact fees.
- An estimated \$800,000 in Vancouver School District school impact fees.
- Support for the recruitment and retention of employers in downtown Vancouver.
- An increase in the City's commercial tax base to help mitigate the relatively high percentage of the City's tax base that is residential. Commercial tax base generally requires less services than residential.
- Promotion of Vancouver in the Portland Metropolitan Area and the region.
- Encouraging investment by other land owners in the redevelopment of other buildings in downtown Vancouver.
- Expanded tourism with sixty-five conventions held at the Vancouver Convention Center that each required more than 50 hotel rooms attracting more than 17,000 out of town attendees.

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- Expanded offering of community events and attractions
 - More than 50 events were held in Esther Short Park in 2006 attracting an estimated 80,000 attendees.
 - The Vancouver Farmer's Market summer season attracts up to 15,000 people and the region's first indoor Farmer's Market opened in the Spring 2006 in Esther Short Commons.
 - Local events such as the Festival of Trees have an expanded venue to accommodate more display space and participants.

Analysis of the Heritage Place Multi-Family Property Tax Exemption

An analysis of the net benefit attributed to the Heritage Place development can help highlight the impact of the Multi-Family Property Tax Exemption. Heritage Place, developed between 1998 and 2001 to the North of Esther Short Park, included 137 residential units and approximately 13,000 square feet of commercial space. Direct City participation in Heritage Place included selling the land at below market value, vacating Daniels Street for use as a pedestrian plaza, contributing to the construction of the public plaza, completing sidewalk and other street improvements along Eighth Street and granting a ten year property tax exemption to the multi-family portion of the development.

Table 6.1 shows the estimated tax revenue attributed to the actual Heritage Place development by jurisdiction and compares that amount to the estimated tax revenue from the same development but without the ten year multi-family property tax exemption. The estimated total tax revenue generated by the Heritage Place development is \$12.9 million compared to \$19.8 million for the same development without the tax exemption, discounted to a net present value in 2006. As shown, the tax revenue generated from the actual development is \$6.9 million or 35 percent lower. The percentage difference by jurisdiction varies and depends on the jurisdiction's dependency on the property tax. The Vancouver School District, the Port of Vancouver and the Fort Vancouver Regional Library – all jurisdictions that are dependent on the property tax – show the largest difference. In contrast, C-TRAN shows no difference since it generates all of its local tax revenue from the sales tax.

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Table 6.1 – Heritage Place Tax Revenue Comparison: Actual v. No Exemption

Jurisdiction	Actual Development	No Property Tax Exemption	Difference	% Diff.
City of Vancouver	\$ 2,210,000	\$ 3,870,000	\$ (1,660,000)	-43%
Total Clark County	\$ 420,000	\$ 1,280,000	\$ (860,000)	-67%
Vancouver School District	\$ 870,000	\$ 3,160,000	\$ (2,290,000)	-72%
Port of Vancouver	\$ 70,000	\$ 300,000	\$ (230,000)	-77%
Fort Vancouver Regional Library	\$ 80,000	\$ 330,000	\$ (250,000)	-76%
C-TRAN	\$ 400,000	\$ 400,000	\$ -	0%
State of Washington	\$ 8,870,000	\$ 10,510,000	\$ (1,640,000)	-16%
Total All Jurisdictions	\$ 12,920,000	\$ 19,850,000	\$ (6,930,000)	-35%

The tax revenues attributed to Heritage Place without the ten year multi-family property tax exemption assume that the same development would have been built had the City not granted the exemption and supported the development in other ways. According to City staff and City staff reports to the Vancouver City Council, development of lower density would have likely occurred without the City's support. Table 6.2 compares the estimated tax revenue attributed to the actual Heritage Place development by jurisdiction and compares that amount to the estimated tax revenue from a lower density development built without the ten year multi-family property tax exemption or other City support. For this analysis, the lower density development is assumed to be approximately 40,000 square feet of office space with on-site parking. As shown, the tax revenue generated from the actual development is \$6.0 million higher (87 percent) than the lower density development. As in Table 6.1, the impact on a specific jurisdiction depends on its dependence on the property tax. The City of Vancouver is estimated to generate approximately \$1.5 million more from the actual development with the tax exemption than from a lower density development. For comparison purposes, an estimated 76,000 square feet of office space would be needed to generate the same revenue as the actual development including the impact of the property tax exemption.

Table 6.2 – Heritage Place Tax Revenue Comparison: Actual v. Lower Density

Jurisdiction	Actual Development	Lower Density Development	Difference	% Diff.
City of Vancouver	\$ 2,210,000	\$ 730,000	\$ 1,480,000	203%
Total Clark County	\$ 420,000	\$ 230,000	\$ 190,000	83%
Vancouver School District	\$ 870,000	\$ 550,000	\$ 320,000	58%
Port of Vancouver	\$ 70,000	\$ 50,000	\$ 20,000	40%
Fort Vancouver Regional Library	\$ 80,000	\$ 60,000	\$ 20,000	33%
C-TRAN	\$ 400,000	\$ 60,000	\$ 340,000	567%
State of Washington	\$ 8,870,000	\$ 5,230,000	\$ 3,640,000	70%
Total All Jurisdictions	\$ 12,920,000	\$ 6,910,000	\$ 6,010,000	87%

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Comparison to Development Outside Downtown

Development in downtown Vancouver differs from the development in other parts of the City of Vancouver. Table 6.3 compares the downtown mixed use development included in this analysis with the proposed Eastgate Plaza (Fourth Plain) and Landing at Evergreen (136th Ave. and Mill Plain) developments.

Table 6.3 – Development Profiles: Downtown, Fourth Plain and 136th Avenue

	<u>Downtown Mixed Use</u> ¹	<u>Eastgate Plaza</u> ²	<u>Landing at Evergreen</u> ²
<u>Land Area</u>			
Land Area (Acres)	12.8	47.0	50.0
<u>Development Square Feet</u>			
Office Space	394,773	-	180,000
Retail Space	84,689	449,000	340,000
Industrial Space	-	161,225	-
Residential Space	560,179	-	265,000
Hotel/Convention Space	144,531	-	96,000
Total Space	1,184,172	610,225	881,000
Square Feet/Acre	92,849	12,984	17,620
<u>Commercial Parking Spaces</u>			
Structured	1,177	-	
Surface	374	2,217	1,772
Total	1,551	2,217	1,772
Est. Surface Parking Acres	2.6	15.3	12.2
<u>Residential Development</u>			
Residential Units	566	NA	210
Population	849		368
Average Units/Acre	44		4
<u>Estimated Construction Cost</u> ³			
Total	\$ 210,000,000	\$ 70,000,000	\$ 129,000,000
Cost/Sq. Foot	\$ 177	\$ 115	\$ 146
<u>Estimated Jobs</u> ³			
Jobs	1,370	1,117	1,344
Average Jobs/Acre	107	24	27
Public Infrastructure Cost/Job ⁴	\$ 1,672	\$ 12,196	\$ 20,047
<u>Estimated Gross Economic Activity</u> ³			
Estimated Gross Economic Activity	\$ 130,200,000	\$ 108,400,000	\$ 93,000,000
Estimated Gross Activity/Job	\$ 95,000	\$ 97,000	\$ 69,000
Estimated Taxable Retail Sales	\$ 21,200,000	\$ 112,300,000	\$ 85,000,000

¹ VancouverCenter, West Coast Bank, Esther Short Commons, Heritage Place, Columbian and Conference Center Hotel developments

² Development profile from developer marketing material and City of Vancouver

³ Estimates developed using 2006 assumptions used in the analysis

⁴ From April 2003 Focused Public Investment Plan Infrastructure Cost Report (Clark County)

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The downtown developments summarized in Table 6.3 include VancouverCenter, West Coast Bank, Esther Short Commons, Heritage Place, Columbian and the Vancouver Convention Center Hotel.

Observations from the comparison in Table 6.3 include:

- The downtown development is on a smaller land area – approximately 75 percent smaller.
- The downtown development includes a larger amount of developed square footage, including:
 - More office space.
 - Less retail space.
 - Less industrial space.
 - More residential space.
 - More hotel/convention space.
- The majority of the parking spaces for the downtown development are in structured parking garages while all the parking spaces in the other developments are on surface lots and require more land area for parking.
- The downtown development supports more residential units and more population.
- The downtown development has a higher overall construction cost and a higher average construction cost per developed square foot.
- The downtown development supports more jobs and a higher number of jobs per acre of development.
- The downtown development requires a smaller public infrastructure investment per job according to data from the April 2003 Focused Public Investment Plan Infrastructure Cost Report prepared for Clark County.
- The downtown development has a larger amount of gross economic activity and slightly higher gross economic activity per job.
- The downtown development has a smaller amount of estimated taxable retail sales.

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Appendix A: Acknowledgements

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Appendix B: Selected Assumptions and Sources

City Investment

- Parking Garage
 - Historical and projected revenues and expenses through 2008 from City Accounting department and Parking Manager
 - Parking Manager estimate of growth rates for revenues and expenses used for 2008-2025
 - Full amount of General Fund subsidy included as attributable to development included in the analysis
- Transportation Expenses
 - From City Transportation
- Debt Service on Economic Development Bonds
 - From City Treasurer
- Economic Development Operating Budget
 - Fifty percent of actual expenditures from 1997-2005
 - Average growth in expenditures from 1997-2005 of 5.2 percent applied to estimate future expenditures
 - Fifty percent of estimated expenditures for 2006 and 2007
 - Twelve and one half percent of estimated expenditures in 2008
 - Six and one quarter percent of estimated expenditures in 2009
 - Three percent of estimated expenditures from 2010-2025
- Repayment of Brewery Property Acquisition Loan
 - Payments from City Accounting staff
- Downtown Initiatives Fund Expenditures
 - City Economic Development staff
 - City Accounting staff
- Value of Street Vacation
 - Not included if land used for public plaza
 - Valued at estimated market price for other land (from staff reports)
- Payments Received for Land/Other
 - Deducted from investments
 - Obtained from City Accounting and Economic Development staff
- Operating revenues and expenses associated with Esther Short Park are not included

State Investment

- Historical actual City of Vancouver and Clark County Public Facilities District State Sales Tax Credit Contributions
- Projected City of Vancouver and Clark County Public Facilities District State Sales Tax Credit Contributions
 - 4.5 percent annual increases beginning in 2006

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- Total amount less City Lodging Tax contribution compared to Tax Related Revenues Cap
 - Excess amount over Cap allocated to the Clark County Exhibit Hall per agreement
- State Shared Lodging Tax
 - Used same methodology as City Lodging Tax Revenue
- Department of Ecology Environmental Clean Up Reimbursement
 - City staff

Property Tax Base

- New Construction Assessed Value
 - Assessor's Office 2006 Marshall & Swift construction cost data for VancouverCenter used for office, retail and residential
 - International Code Council 2006 used for Theatre
 - RS Means 2006 data used for structured parking with validation from R&H Construction memo
 - Adjusted by Engineering News Record (ENR) Seattle Building Cost Index for prior years and the ENR 2001-2005 AARG for future years
- Multi-Family Tax Abatement
 - Reduced new construction by construction costs as identified on certificates
 - Exceptions: Some new construction values added to tax roll before exemption applied
 - Some developments had note in Assessor's Office system regarding value to be added when exemption expires

Sales Tax Base

- New Construction Costs (hard costs)
 - 75 percent of new construction assessed values
 - Adjusted by Engineering News Record Building Cost Index for Seattle in prior years and the Index's 2001-2005 average increase in future years
- Tenant Improvements/Space Updating
 - \$15 per square foot every 8 years
- New Residential Units
 - 43 percent of median household income from Bureau of Labor Statistics data
 - Less 30 percent "leakage" in 2006 to Oregon and outside City of Vancouver
 - Adjusted in prior years using Portland CPI-U
 - Portland 2000-2005 CPI-U = 1.9 percent
 - Future inflation estimated at 2.5 percent

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- Employers
 - ~\$900 per job for office and other supplies
 - Based on 2005 City of Vancouver Finance Department actual expenditures
- Employees
 - \$2,360 per employee
 - 2004 data from International Council of Shopping Centers
 - Source: March 2006 memo to City of Vancouver from Leland Consulting Group
- New Commercial/Retail Space
 - Used \$250 per square foot all new space
 - Higher amount (\$339) from 2004 International Council of Shopping Centers; Source: March 2006 memo to City of Vancouver from Leland Consulting Group
 - October 2004 report by Reed Hansen and Associates for City of Bremerton
 - \$200 per sf for new retail space
 - \$750 per sf for fast food space
- Visitors
 - Hotel room nights based on estimate of occupancy and rate validated to July 2006 year to date operating results
 - Hotel food and beverage and conference services revenue based on current estimates with inflation
- Visitor retail spending
 - Hotel occupancy at 1.35 people per room night
 - Spending of \$50 per day per person: \$30 per day on food and beverage services and \$20 per day on retail
 - Source: 2005 Washington State Tourism study and 2004 Clark County data – Dean Runyan and Associates
 - Assume 50 percent of spending in Vancouver
 - Adjustment to Avoid Double Counting
 - Deduct estimated spending at new retail space
 - 10 percent of household spending – Leland memo
 - 75 percent of employee spending – estimate
 - 50 percent of visitor spending in Vancouver

Lodging Tax Base

- Hotel occupancy stabilizes at 70 percent in 2009
- Average rate of \$103 in 2006 increasing at 3 percent per year

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Utility Tax Base

- Commercial Space
 - Building Owners and Managers (BOMA) 2005 suburban Portland survey data on utility expenditures per square foot
 - Telephone estimated \$10 per month per employee in 2006
 - Adjusted in prior years using Portland CPI-U
 - Future inflation estimated at 2.5 percent
- Residential Units
 - Water and sewer: current utility rates for multi-family units
 - Electricity estimated at \$67 per month
 - Natural gas estimated at \$10 per month
 - Telephone and cable TV estimated at \$50 per month each

Business & Occupation Tax Base

- Tax Base per Job
 - Based on 2005 statewide average tax base per job for select NACIS codes; Source: State of Washington Department of Labor; Department of Revenue
 - Commercial/Retail: Food Service/Drinking
 - Office: Professional and Business Services
 - Theatre: Arts, Entertainment & Leisure
 - Hotel: Accommodation

Real Estate Excise Tax Base

- New assessed valuation with appreciation at 3.5 percent per year
- Twelve and one half percent turnover per year used (Bureau of Labor Statistics: ~15%)

Tax Rates by Jurisdiction and Year

- Property Tax
 - Tax rates apply to new construction value only at time construction is added to the tax rolls
 - New construction levy amount equals new construction in year occurs multiplied by the tax rate in prior year
 - Revenue grows at 1 percent per year
 - Historical actual rates used
 - Projected rates used average rate decline per year 2002-2006 = 3.5 percent
- Sales Tax
 - Historical rates reflect changes and credits
 - Current rates projected through 2025

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Job Estimates

- Office/commercial square feet per job: 370
- Retail square feet per job: 470
- Source: 1999 METRO study and other sources

Population Estimates

- People per Multi-Family Residence: 1.5
- Clark County Comprehensive Plan Estimate: 1.9
- Other Sources: 1.3

Multiplier Estimates

- Total Jobs per Million Dollars of Direct Output: 24.70
- Total Employment per Direct Job: 1.97
- Construction per Million Dollars of Cost: 24.57
- Source: State of Washington Office of Financial Management 1997 Input-Output Multiplier Report

Adjustment for Impact of Sale of Parking Garages

- Option to Purchase Beginning in 2016
 - Higher of market value or debt amount
 - Valuation
 - Projected per space revenue and expenses per Rick Williams estimates for Riverwest parking garage
 - Assume 10 percent higher net revenue for private ownership
 - Capitalization rate = 8 percent
 - Market value ~\$1 million less than debt in 2016
- Estimated Net Present Value: 2016-2025
 - Do not sell = \$2.0 million
 - Sell and contribute ~\$1.0 million to retire debt = \$3.9 million
- Estimated Parking Fund Net Revenue Included

Adjustment for Lower Density Development – No Public Investment

- Total Site Area Developed: 12.8 Acres
- Excludes Lewis & Clark Plaza, Kirkland Union Manor, Anthem Park, and City Center 12 Cinemas
- Office Buildings Estimated at 42 percent of Site Area
 - Angelo Building at 404 E. 15th
 - ~40,000 sf lot and 16,587 sf office space
 - Pioneer Building at 1400 Washington
 - ~40,000 sf lot and 17,076 sf office space
- Tax Benefit Model Applied to New Development