

FINAL MEMORANDUM

DATE: January 6, 2014

TO: John Caulfield and Becky Newton, City of Lakewood

FROM: Michael Hodgins, Emmy McConnell, & Annie Saurwein, BERK Consulting

RE: **City of Lakewood Pacific Highway Site Redevelopment Fiscal Impacts and Retail Development Options**

EXECUTIVE SUMMARY

Introduction and Approach

The City of Lakewood (City) is in discussion with the Washington State Department of Transportation (WSDOT) regarding a property in Lakewood near Interstate 5 that is currently owned by WSDOT. This property, along with several adjacent parcels, may present an opportunity to foster a catalyst-type redevelopment project in the City.

The purpose of this memo is to identify the potential fiscal impacts of relocating the WSDOT maintenance facility to allow retail development on this site. Since there is no specific retail project plan in place for the potential site, we developed four generalized scenarios that demonstrate plausible futures for the site. Additionally, we have modeled each of the four examples both with and without an auto dealership, a specific amenity that the City of Lakewood would like to attract to its community.

Estimated Fiscal Impacts

This section summarizes how the estimated one-time and annual fiscal impacts combine to create financial benefit for the City in the long-term, specific to the redevelopment of the site for retail purposes. Exhibit 1 shows the estimated net present value (NPV) to the City of each of the development scenarios for a 15-year and 25-year time horizon. We have subtracted out the 15-year and 25-year NPV of the existing developments on the site, in order to provide a net impact picture.

Exhibit 1
Estimated Net Present Value of Potential Development Scenarios

Scenarios Including an Auto Dealership		
	15-Year NPV (6% discount rate)	25-Year NPV (6% discount rate)
Scenario 1: High-End Retail	\$ 15.7 M	\$ 21.9 M
Scenario 2: Mid-Level Retail	\$ 12.9 M	\$ 17.9 M
Scenario 3: Outlet w/Grocery	\$ 17.5 M	\$ 24.5 M
Scenario 4: Outlet Mall	\$ 16.7 M	\$ 23.2 M

Scenarios Not Including an Auto Dealership		
	15-Year NPV (6% discount rate)	25-Year NPV (6% discount rate)
Scenario 1: High-End Retail	\$ 9.6 M	\$ 13.3 M
Scenario 2: Mid-Level Retail	\$ 8.1 M	\$ 11.3 M
Scenario 3: Outlet w/Grocery	\$ 12.8 M	\$ 17.8 M
Scenario 4: Outlet Mall	\$ 11.8 M	\$ 16.5 M

Source: BERK, 2014.

Note: NPV estimates are net of revenues that would have been earned from existing developments on the Pacific Highway Site, in order to reflect the net impact of the potential redevelopment scenarios.

- Estimated NPV of potential development over a 15-year time horizon ranges from \$8.1 million for a mid-level retail development without an auto dealership, up to \$17.5 million for an outlet mall with a grocery and an auto dealership.
- Estimated NPV of potential development over a 25-year time horizon ranges from \$11.3 million for a mid-level retail development without an auto dealership, up to \$24.5 million for an outlet mall with a grocery and an auto dealership.

Key Questions

This range of potential outcomes suggests that the City would need to answer some key questions about this project before moving forward with a decision. Such questions should include:

- Would it benefit the City and eventual developers to improve accessibility to the site via transportation improvements?
- Can the City attract retail uses that are complementary to the Lakewood Towne Center development, rather than uses that may cannibalize some existing retail sales activity at Towne Center?

Next Steps

Conduct a Market Assessment. The City should conduct a market assessment to understand the plausibility of any given project scenario. This assessment will be important to better understanding the risk inherent in the type of development that occurs, and the likelihood of an auto dealership at the site in the future. The results of this market assessment can guide the City toward a narrower range of potential impacts.

Determine Land Assembly Process. The City should begin talking with property owners at the current site, as the proposal would necessitate that WSDOT as well as multiple other owners sell their land so it can be sold as one lot to a potential developer. The City should begin conversations to determine owners' willingness to sell.

INTRODUCTION

Background

The City of Lakewood (City) is in discussion with the Washington State Department of Transportation (WSDOT) regarding a property in Lakewood near Interstate 5 that is currently owned by WSDOT. This property, along with several adjacent parcels, may present an opportunity to foster a catalyst-type redevelopment project in the City.

The project site is currently being used for industrial purposes, as a WSDOT maintenance site. The City does not believe that this is the highest and best use for the site, as the site's prime Interstate 5 (I-5) frontage, heavy daily traffic loads, and proximity to the Lakewood Station-Sound Transit make it particularly suited for retail development. Additionally, residential development (including multifamily and single family residential) and the construction of a new hotel (proximate to the site) is already planned elsewhere in the City, which will increase demand for nearby retail services. Retail development is also aligned with community interests and the fiscal goals of the City.

There are many stakeholders involved in this project. The city has a financial interest in achieving highest and best use for its properties, to generate tax revenue to support city services. WSDOT has an interest in having a cost effective and easily accessible maintenance site for delivery of its services. Additionally, there are multiple current property owners at the site who would need to be willing to sell their properties in order for this type of development to occur.

The City is seeking assistance in evaluating the possible fiscal benefits that a redevelopment project at this location might generate.

Project Overview

The purpose of this project is to help the City understand the potential net fiscal impact of new retail development on this site. Since the opportunity for retail development and site relocation is still conceptual, the approach was designed to develop planning-level estimates of the impacts of multiple potential futures, in order to provide the City with a comprehensive range of alternatives. This report includes the following sections:

- **Project Site Overview.** This section provides a description of the site, including location, current use, and important features.
- **Potential Redevelopment Scenarios.** As an initial step of this work, we have selected and evaluated several peer retail sites to determine what kinds of projects might be feasible at the Pacific Highway Site. We have assessed each peer site's potential as a retail site by how it aligns with community interests and with the fiscal goals of the City. All of the options we explored were retail power centers¹.
- **Estimated Fiscal Impacts of Development.** This section summarizes the impacts that the City may experience under each development alternative, including the additional revenues the City may receive and the additional service costs the City may incur.

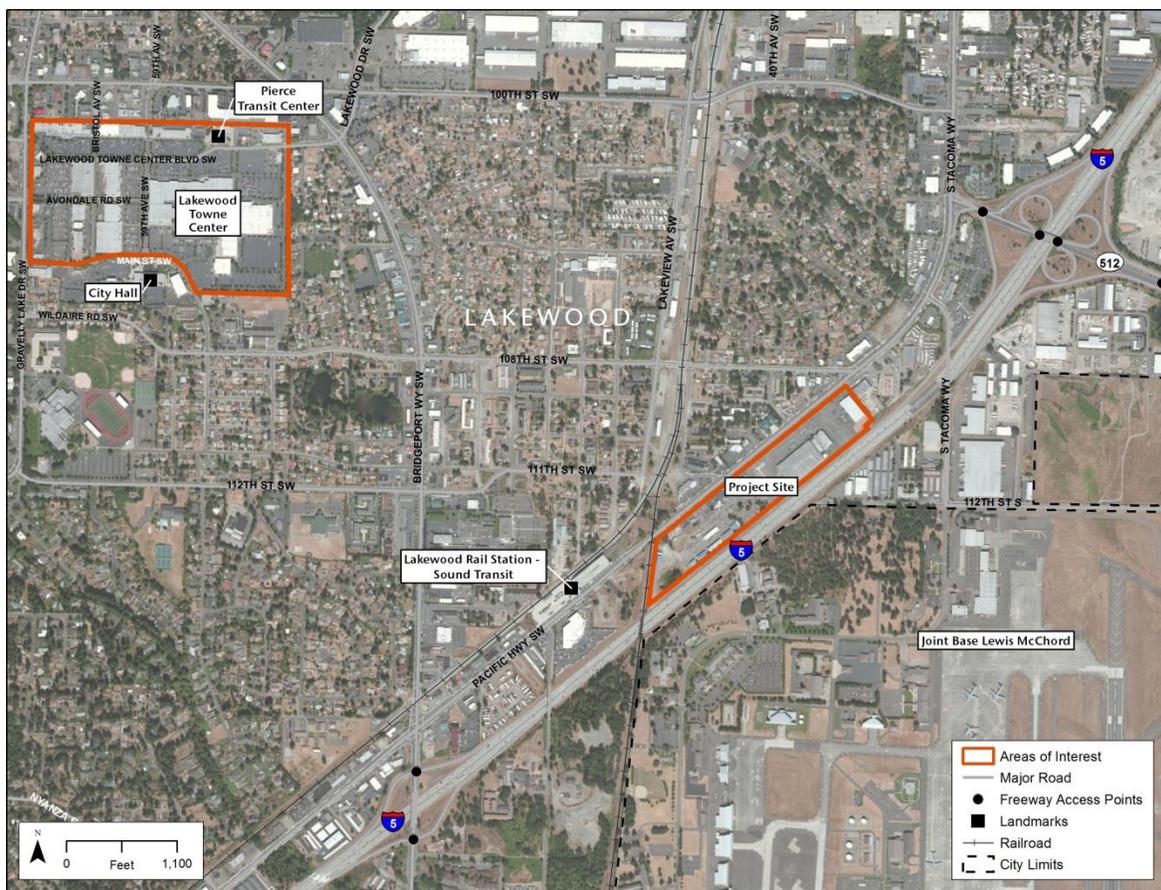
¹ Retail Power Center: An unenclosed shopping center made up of about 250,000-600,000 SF of leasable area. Generally designed to allow for the movement and access of vehicles over pedestrian foot traffic.

PROJECT SITE OVERVIEW

The Project Site is located along Pacific Highway, to the west side of Interstate 5 south of the intersection of State Route 512. The site includes a mix of industrial and commercial uses including a current WSDOT Maintenance Site. The closest main thoroughfare is Interstate 5 to the east with an average daily traffic count of 141,000 vehicles per day in both directions.

The existing site is 25.04 acres or 1,090,870 square feet. Existing buildings on the site are, cumulatively, 213,965 square feet, for an existing floor-to-area ratio (FAR) of 0.20, which is below the site’s realistic potential. Exhibit 2 shows the location of the site in question, with key nearby points of interest such as Lakewood Towne center and the Sounder Rail Station also labeled.

**Exhibit 2
Pacific Highway Site Map**



Source: BERK, 2014.

POTENTIAL REDEVELOPMENT SCENARIOS

Examples of Peer Sites

We evaluated several retail sites to establish peers to the Lakewood WSDOT site. This analysis included comparing sites by several key characteristics, including lot size, building square feet, floor-to-area ratio (FAR), average daily traffic count, and the demographics of the surrounding community. The retail sites that we evaluated were:

Site	Lot Size (acres)	Building Square Feet
Centralia Outlet and Retail Mix	23.2	206,440
Kelso Three Rivers Mall	34.1	375,950
Marysville Kohl's Retail Mix	27.9	288,877
North Bend Outlets	24.9	223,780
Spanaway Retail Mix	24.8	229,363
Tukwila Best Buy	29.7	615,305
Tukwila Costco and Home Depot	30.9	396,619
Tukwila Nordstrom Rack and Kohl's	21.1	229,762

When evaluating which scenarios were most attractive as potential redevelopment models for the Pacific Highway site, we considered many things. First, we considered what kind of assets and amenities were most attractive to the City of Lakewood. The City suggested that they were interested in bringing a large anchor store to the site, as well as some restaurants which would get drivers off the freeway and into Lakewood. Secondly, we considered what might be most likely for Lakewood. It is unlikely that the City would be able to attract an Ikea, however, it is plausible they could attract a Nordstrom Rack or Kohl's store.

Based on these considerations, four of the peer sites resonated as potential redevelopment options for the Pacific Highway site, these include:

Site	Lot Size (acres)	Building Square Feet
Centralia Outlet and Retail Mix	23.2	206,440
Marysville Kohl's Retail Mix	27.9	288,877
North Bend Outlets	24.9	223,780
Tukwila Nordstrom Rack and Kohl's	21.1	229,762

Illustrative Development Scenarios

From the resonant peer sites, we developed four generalized scenarios that demonstrate the City of Lakewood’s redevelopment options and the impacts of each of those options. Additionally, we have added the option to model each of the four examples both with and without an auto dealership, a specific amenity that the City of Lakewood would like to attract to its community. These four scenarios are summarized in Exhibit 3.

Exhibit 3
Potential Redevelopment Scenarios

Scenarios Including an Auto Dealership				
Type of Retail Space	Scenario 1: High-End Retail	Scenario 2: Mid-Level Retail	Scenario 3: Outlet w/Grocery	Scenario 4: Outlet Mall
Anchor Retail Tenant SF	47,000	126,000	30,000	-
Inline Retail SF	180,000	-	125,000	227,500
Detached Retail SF	15,000	15,000	30,000	-
Restaurant SF	-	4,000	9,800	12,700
Grocery SF	-	-	45,000	-
Discount Grocery SF	-	95,000	-	-
Auto Dealership SF	30,000	30,000	30,000	30,000
Total SF	272,000	270,000	269,800	270,200
<i>Floor Area Ratio (FAR)</i>	<i>0.22</i>	<i>0.22</i>	<i>0.22</i>	<i>0.22</i>

Scenarios Not Including an Auto Dealership				
Type of Retail Space	Scenario 1: High-End Retail	Scenario 2: Mid-Level Retail	Scenario 3: Outlet w/Grocery	Scenario 4: Outlet Mall
Anchor Retail Tenant SF	143,000	126,000	30,000	-
Inline Retail SF	135,000	50,000	170,000	277,500
Detached Retail SF	15,000	20,200	45,000	-
Restaurant SF	-	-	2,900	9,800
Grocery SF	-	-	45,000	-
Discount Grocery SF	-	95,000	-	-
Total SF	293,000	291,200	292,900	287,300
<i>Floor Area Ratio (FAR)</i>	<i>0.24</i>	<i>0.24</i>	<i>0.24</i>	<i>0.24</i>

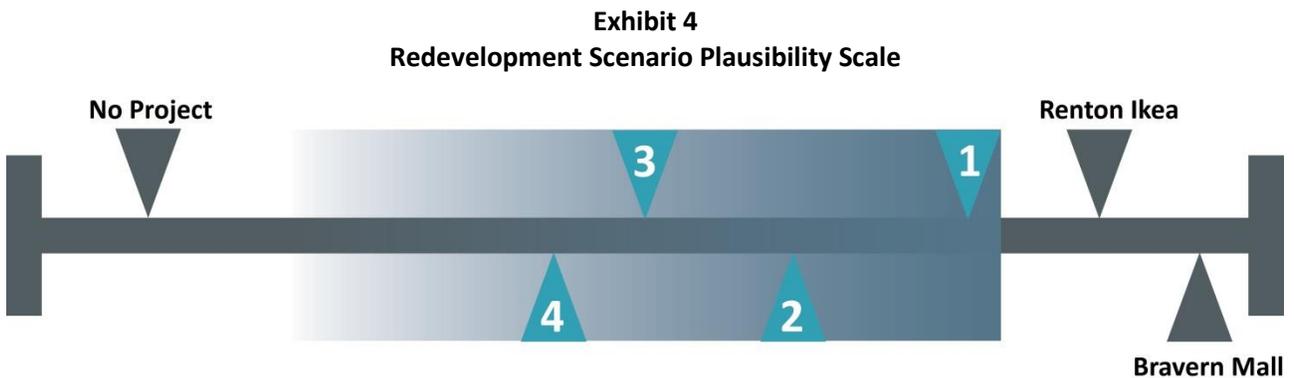
Source: BERK, 2014.

- Scenario 1: High-End Retail.** This scenario was modeled based on the Tukwila Nordstrom Rack and Kohl’s retail site that is located east of I-5 on the northeast corner of Minkler Blvd and Southcenter Parkway. Nordstrom Rack and Kohl’s Department store are the two anchors within a larger retail complex that includes Designer Shoe Warehouse (DSW).
- Scenario 2: Mid-Level Retail.** This scenario was modeled on the Marysville Kohl’s Retail Mix located on the northeast side of the I-5 and 116th St NE intersection in Marysville. The site is anchored by a Kohl’s Department Store, and a WinCo Grocery. Other retailers include a Ross Dress for Less.
- Scenario 3: Outlet Mall w/Grocery.** This scenario was modeled on the North Bend Outlet Mall, which has a significant collection of outlet retail stores. The North Bend Outlet Mall is considered a destination for the many travelers who cross Snoqualmie pass every year, as well as many travelers who visit the Cascade Mountains recreationally for hiking and snow sports, because it is the last significant retail site on the West side of the pass.

- Scenario 4: Outlet Mall.** This scenario was modeled on the Centralia Outlet Mall, which has a smaller collection of outlet retail stores. Like the North Bend Outlet Mall, this mall was also envisioned as a stop-off for travelers (in this case people traveling from the Seattle to Portland). The auto dealership alternative of this site includes less retail space to allow for the land space necessary for the dealership.

For all scenarios, the auto dealership alternative of the site includes less retail space to allow for the land space (about 6 acres) necessary for the dealership.

As we did while evaluating the initial peer sites, we have plotted these four sites on an overall plausibility scale, Exhibit 4, below. We have added a few outliers, the Bravern Mall in Bellevue and the Ikea Site in Renton as outliers beyond likely possibilities at the Lakewood site, and “no project” as an outlier of a project toward the lowest side of the scale.



Source: BERK, 2014.

It’s important to remember that this scale reflects BERK’s consideration of the plausibility of any given development, but does not mean that projects on either end are impossible. The City and the eventual developer may pursue high-revenue retailers such as Ikea for the eventual project, but that type of retailer was not considered in this analysis, in order to provide a conservative estimate of realistic and likely benefits.

Auto Dealership

As part of the redevelopment scenario brainstorming process, the City of Lakewood expressed some interest in earmarking part of the Pacific Highway site for an auto dealership. The City believes it may be advantageous to have more than one new auto dealership within this area of the I-5 corridor, to create synergy with a similar use – Lakewood Ford. Therefore, each scenario is analyzed both with and without an auto dealership.

ESTIMATED FISCAL IMPACTS OF DEVELOPMENT

This section summarizes the impacts that the City may experience under each potential development scenario. This section analyzes both the potential revenues the City may receive from the new development, as well as the potential costs the City may incur from increases in City services.

Changes to operating costs will be driven by how the development will impact the City's public services, such as law enforcement, parks and street maintenance, and general city administration. Changes to operating revenues will depend on how the different development types drive general fund tax revenues.

Estimated Revenue Impacts

To understand the directionality and magnitude of the impacts on operating revenues, this section describes the impacts from new retail development on the City's general fund tax revenues. Revenues that constitute a minor portion of the City's budget or that would not be impacted by site use changes are not analyzed. Exhibit 5 provides an overall summary of the estimated revenue impacts for each potential development scenario.

Exhibit 5

Estimated One-time and Annual Revenue Impacts from Retail Development at Pacific Highway Site

Scenarios Including an Auto Dealership				
	Scenario 1: High-End Retail	Scenario 2: Mid-Level Retail	Scenario 3: Outlet w/Grocery	Scenario 4: Outlet Mall
Total Retail SF	272,000	270,000	269,800	270,200
Estimated Revenue Impacts (annually, in 2014\$)				
Retail Sales & Use Tax	1,109,000	902,000	1,066,000	1,181,000
Property Tax	73,000	72,000	72,000	72,000
Utility Tax	48,000	48,000	47,000	48,000
Estimated Gross Annual Revenue Impact	1,230,000	1,022,000	1,185,000	1,301,000
<i>Loss of current use</i>	<i>(74,000)</i>	<i>(74,000)</i>	<i>(74,000)</i>	<i>(74,000)</i>
Estimated Net Annual Revenue Impact	1,156,000	948,000	1,111,000	1,227,000
Estimated One-time Sales Tax from Construction	370,000	367,000	367,000	367,000
Scenarios <u>Not</u> Including an Auto Dealership				
	Scenario 1: High-End Retail	Scenario 2 - Mid- Level Retail	Scenario 3: Outlet w/Grocery	Scenario 4: Outlet Mall
Total Retail SF	293,000	291,200	292,900	287,300
Estimated Revenue Impacts (annually, in 2014\$)				
Retail Sales & Use Tax	646,000	543,000	703,000	815,000
Property Tax	78,000	78,000	78,000	77,000
Utility Tax	55,000	55,000	55,000	54,000
Gross Annual Estimated Annual Revenue Impact	779,000	676,000	836,000	946,000
<i>Loss of current use</i>	<i>(74,000)</i>	<i>(74,000)</i>	<i>(74,000)</i>	<i>(74,000)</i>
Net Annual Estimated Annual Revenue Impact	705,000	602,000	762,000	872,000
Estimated One-time Sales Tax from Construction	398,000	396,000	398,000	391,000

Source: BERK, 2014.

- For scenarios including an auto dealership, **one-time tax impacts from construction** are estimated to be approximately \$370,000. For scenarios without an auto dealership, one-time tax impacts from construction are slightly higher due to additional retail square footage. Estimates range from \$391,000 up to \$398,000. All values are expressed in 2014 dollars, assuming construction in calendar year 2015.
- **Ongoing annual tax revenues** from sales, property, and utility taxes are estimated to range from \$1,022,000 up to \$1,301,000 for the different scenarios which include an auto dealership. For scenarios without an auto dealership, annual revenue estimates range from \$676,000 up to \$946,000.

Estimated annual revenues from the existing developments on the site, which the City would lose under redevelopment, are about \$74,000 per year. Therefore, potential ongoing net revenues to the City would range from approximately \$948,000 to \$1,227,000.

The following descriptions explain how the estimates in Exhibit 5 were calculated, and the important nuances inherent in each type of revenue estimate.

Sales Tax

Sales tax is generated from the taxable sales of goods occurring within the City's boundaries. Sales tax revenues comprise the largest single revenue source for the City's general fund. For the 2013-14 biennium, sales tax revenues from the basic and local option sales tax and criminal justice sales tax are projected to average \$8.8 million annually, or about 26% of the total general fund budget².

Sales tax impacts from potential site development will be generated in two ways:

- **One-time Construction Expenditures.** The initial construction of the development will generate sales tax for the full cost of supplies, material, and labor used in construction. Rider Levett Bucknall's (RLB) *Fourth Quarter 2012 Quarterly Construction Report* provides the average cost of construction in the Seattle metro area for office, retail, and residential construction. Although there is not a specific project yet planned under any scenario to pinpoint accurate construction costs, the report allows us to estimate the range of impacts for the different scenarios.

RLB states that the average cost of building retail is between \$115 to \$200 per SF, depending on the quality of construction. This analysis uses the midpoint of this range (\$160 per SF) to estimate the construction cost of the potential retail developments.

Based on this assumption and the square footage included in each scenario, one-time revenues from construction could range from as little as \$367,000 for a mid-level retail or outlet mall development that includes an auto dealership, up to as much as \$398,000 for a high-end retail or outlet mall development without an auto dealership.

- **Retail Square Feet Included in the Development.** The scenarios range from 269,800 SF of retail space up to 293,000 SF of retail space, depending on the scenario and whether it is being analyzed with an auto dealership. Given this range in retail square footage and the variation in types of businesses included in each scenario, it is not surprising that there is a significant range of possibilities for the amount of sales tax that will be generated annually by these scenarios.

² City of Lakewood Adopted 2013-14 Budget

The amount of taxable retail sales generated by development varies based on the type of retail included in the development. This analysis created different assumptions for anchor retail tenants, inline retail tenants, detached retail tenants, restaurants, grocery stores, and auto dealerships. This level of detail creates a unique mix of tax generation across each of the scenarios.

Based on these assumptions, annual ongoing sales tax revenue could range from as little as \$543,000 per year for a mid-level retail development without an auto dealership up to \$1,181,000 per year for an outlet mall that includes an auto dealership.

Property Tax

The second largest source of general fund revenue comes from the City's property tax levy. For the 2013-14 biennium, the property tax levy is projected to generate approximately \$6.3 million annually, or about 18% of total general fund revenue³.

When new construction is built, the City can add that assessed value (AV) to its tax rolls and collect revenues on it. In this way, AV from new construction is the only way for a jurisdiction to increase its property tax revenues by more than 1% per year without increasing its property tax levy.

To estimate AV of these future scenarios, we used an assumption that construction costs would represent approximately 80% of the development's taxable AV upon completion. This assumption is based on previous analyses of the relationship between construction costs and taxable AV conducted by BERK.

Based on these assumptions, annual ongoing property tax revenue generated by the site could range from \$72,000 per year for multiple types of development that include an auto dealership and go up to \$78,000 for developments without an auto dealership.

The actual taxable AV of potential future development will depend heavily on the construction quality and finishes of the final projects, but this analysis provides a reasonable estimate of the magnitude of potential revenues across the different scenarios.

Utility Tax

The City projects it will collect approximately \$8.4 million in utility taxes and franchise fees in the 2013-14 biennium for electricity, gas, telecom, water, sewer, solid waste⁴. Utility taxes and franchise fees are charged against total utility revenues, and revenue from utility taxes that flows to the general fund scales in proportion with the quantity of utilities purchased by the site's future tenants.

The retail development on the site would be served by existing utility service providers in the City, and therefore would generate utility tax revenue for the City based on the total utility billing generated by the site's occupants.

Estimated future utility revenues are based on an assumption that utility billings will increase linearly with increases in population and employment within the City. Based on the estimated number of employees in each of the potential development scenarios, annual ongoing utility tax and franchise fee revenue could range from between \$47,000 and \$55,000 per year, depending on the type of development.

³ City of Lakewood Adopted 2013-14 Budget

⁴ City of Lakewood Adopted 2013-14 Budget

Actual utility usage will depend on the final construction design, as buildings vary significantly in energy efficiency depending on design decisions such as materials and energy sources for HVAC systems.

Estimated Cost Impacts

Impacts to the City's operating costs will be driven by how the potential development would change demand for public services provided by the City. Given that the potential developments are located in an area with reasonably similar existing development, most public services with heavily fixed components, such as utility infrastructure, will be unaffected by the minor differences in service demand between the current site use and the potential scenarios.

This appendix analyzes the public services that are more variable due to direct service needs, such as law enforcement, parks and recreation maintenance, street maintenance, and general city administration.

Law Enforcement

The City's Police Department provides law enforcement services for the City's residents. The Department currently has 120 personnel, including 101 commissioned officers and 10 civilian support staff. When assessing the impacts of a development, it's important to understand that retail uses drive demand for law enforcement in a few different ways:

- Greater vehicular and pedestrian traffic can change the demand for additional traffic enforcement.
- Additional retail spaces may result in increased shoplifting and fraud crimes at a rate similar to existing City businesses.

Regarding the demand for additional traffic enforcement, it is unlikely that this development would result in the need for additional traffic enforcement staffing. Given that the site is located near existing streets and existing retail facilities, the development would not result in significant additional lane miles or sidewalks for the Department to manage.

Similarly, increased demand for additional police services due to the retail square footage is also likely to be negligible. Even at their largest, the potential development scenarios would represent only a small fraction (<5%) of retail activity already existing in the City. Therefore, while we acknowledge there would likely be some additional calls for service generated by the development, it is unlikely that the development would have a direct impact on the need for additional police department staff.

Parks and Recreation Maintenance

Costs related to parks and recreation space maintenance are unlikely to be a factor under the potential development scenarios. Residential development is the primary driver of park and recreation space needs in the City, and none of the potential scenarios includes residential development. Therefore, it is estimated there will be no impact on parks and recreation maintenance costs from this project.

Street Maintenance

Demand for street maintenance activity is directly related to the number of lane miles in the City, as well as the complexity and maintenance needs of specific types of streetscapes and median and sidewalk landscaping.

Given that the area around the potential development site is already accessible by multiple roadways, it is unlikely that the project will require significant new lane miles of roadway to be built to support the development. However, it is likely that some minor street improvements would benefit the development

by improving access, aesthetics, and traffic flow between the site and other areas of interest, such as Lakewood Towne Center.

If the City chooses to make such improvements, there would be marginal increases in the cost of street maintenance in the City, but it is not possible to estimate these impacts at this time without further knowledge of the needs of the specific project.

General City Administration

General city administrative services include such functions as finance, information technology, legal services, and human resources. Each of these departments exists to provide other city departments, and to some extent, the public, with the business services they need to adequately and efficiently serve the Lakewood community. Given that there is not a direct relationship between the presence of retail space and the demand for administration activity, it is estimated there will be no impact on general city administrative services from this project.

Summary of Estimated Fiscal Impacts

This section summarizes how the estimated revenue and cost impacts combine to create financial benefit for the City in the long-term. Exhibit 6 shows the estimated net present value (NPV) of each of the development scenarios for a 15-year and 25-year time horizon.

Exhibit 6
Estimated Net Present Value of Potential Development Scenarios

Scenarios Including an Auto Dealership		
	15-Year NPV (6% discount rate)	25-Year NPV (6% discount rate)
Scenario 1: High-End Retail	\$ 15.7 M	\$ 21.9 M
Scenario 2: Mid-Level Retail	\$ 12.9 M	\$ 17.9 M
Scenario 3: Outlet w/Grocery	\$ 17.5 M	\$ 24.5 M
Scenario 4: Outlet Mall	\$ 16.7 M	\$ 23.2 M

Scenarios Not Including an Auto Dealership		
	15-Year NPV (6% discount rate)	25-Year NPV (6% discount rate)
Scenario 1: High-End Retail	\$ 9.6 M	\$ 13.3 M
Scenario 2: Mid-Level Retail	\$ 8.1 M	\$ 11.3 M
Scenario 3: Outlet w/Grocery	\$ 12.8 M	\$ 17.8 M
Scenario 4: Outlet Mall	\$ 11.8 M	\$ 16.5 M

Source: BERK, 2014.

Note: NPV estimates are net of revenues that would have been earned from existing developments on the Pacific Highway Site, in order to reflect the net impact of the potential redevelopment scenarios.

Note about the Discount Rate: 6% was chosen as the discount rate for this analysis, even though the current cost of money is a few percentage points lower. The reason this higher rate was chosen is twofold: (1) since the timing of the project is unknown, it's important not to base the entire analysis on the current cost of money, which is relatively low compared to historical averages; and (2) given the nonstandard type of project under consideration and all the players involved, we have added a small premium above the cost of money to address the risk involved in this type of project.

- Estimated NPV of potential development over a 15-year time horizon ranges from \$8.1 million for a mid-level retail development without an auto dealership, up to \$17.5 million for an outlet mall with a grocery and an auto dealership.

- Estimated NPV of potential development over a 25-year time horizon ranges from \$11.3 million for a mid-level retail development without an auto dealership, up to \$24.5 million for an outlet mall with a grocery and an auto dealership.

Fiscal Impacts of the Project to Other Public Agencies

The revenues generated for the City by the development and increased retail activity are not the only revenues that will be generated by this project. Other public entities will also benefit. Approximate one-time and ongoing benefits to other jurisdictions are provided in the table below.

Exhibit 7
Approximate Revenue Benefits to Other Jurisdictions

Jurisdiction	Tax/Source	Approximate One-time Revenue	Approximate Annual Net Revenue
Pierce County	Sales Tax (0.15%)	\$65,000	\$85,000 to \$185,000
	Property Tax	-	\$90,000
Pierce Transit	Sales Tax (0.6%)	\$250,000	\$350,000 to \$800,000
Port of Tacoma	Property Tax	-	\$10,000
Pierce County Library	Property Tax	-	\$25,000
Washington State	Sales Tax (6.5%)	\$2.8 M	\$3.9 M to \$8.4 M
	Property Tax	-	\$135,000
	B&O Tax	\$650,000	\$425,000 to \$675,000
	Utility Tax	-	\$35,000

Note: Annual net revenue estimates are net of revenues from existing developments.

ADDITIONAL CONSIDERATIONS FOR FURTHER ANALYSIS

Street and Transit Improvements

It may benefit the City and eventual developers to improve accessibility to the site. There may be associated capital costs as well as ongoing maintenance costs of maintaining those improvements.

The City has also discussed how it could improve transit and automotive access between the potential development site and the existing Lakewood Towne Center facility. Given that the potential development site has great visibility on I-5, making easy and well-marked connections between the site and Towne Center could increase activity at Towne Center, and improve the area's reputation for a comprehensive retail experience.

Lakewood Towne Center

Lakewood Towne Center is located near the potential development site, approximately 1.5 miles west of the I-5 and State Route 512 intersection. The site occupies nearly 90 acres, comprises 917,000 SF of retail space, and contains a mix of small, medium, and large retailers mostly in an outdoor, mini-mall configuration. Major tenants at Lakewood Towne Center include: Target, Marshalls, Old Navy, Ross Dress for Less, Bed Bath and Beyond, Pier 1 Imports, PetSmart, Barnes and Noble, AMC Theaters, and Safeway. Smaller retailers include Panera Bread, Coldstone Creamery, GameStop, Rent-A-Center, Lane Bryant, 24 Hour Fitness, Red Robin, Wells Fargo, and Key Bank. Lakewood Towne Center currently contributes about 15% of the City's total taxable retail sales revenues.

With any new retail development, there is risk that existing retail centers within the community may experience a decrease in retail sales. This decrease occurs because new retail development does not generate new retail demand equal to its capacity. Therefore, some purchases that occur at the new development are purchases that would have taken place at Lakewood Towne Center if the new development did not exist.

Understanding the risk for this type of behavior is complex. This analysis does not assume any decrease in retail sales at Lakewood Towne Center, and therefore may be marginally overstating the true net revenue the development could generate. However, given the site's high visibility on I-5, it is likely that the potential development would generate sales activity that is new to the area.

A key factor in determining the potential development's impact on Lakewood Towne Center will be whether the uses in the new development are complementary to those currently at Towne Center. Complementary retail types will create synergy and increase revenue potential in both locations. However, if uses are too similar to Lakewood, it could create a situation where consumers choose between the two, rather than shop at both.

Other Risks Not Explicitly Modeled

The assumptions used in the modeling exercise, such as the discount rate and the retail sales per square foot assumptions, are meant to be reasonably conservative to create a plausible estimate of future revenues to the City. However, there are other potential risks that the City should be aware of that are not explicitly modeled. These risks should be understood, and kept in mind as decisions are made throughout the process. Careful management of these risks can improve the likelihood of a positive net benefit from the potential development.

- **Development timeline.** The model assumes construction of the development in 2015 and retail activity beginning in 2016. In actuality, it may take time to fill out all available space with active retail tenants. The City should keep this phasing in mind as it plans for improvements and financing of potential costs.
- **Retail achievement.** Different types of retail could create distinctly different amounts of revenue within the same square footage of retail space. The City should analyze the plausibility of different retail types through a thorough market assessment process, to ensure that the scenarios that create adequate revenue to support this proposal are feasible and likely on the site.

RECOMMENDATIONS FOR NEXT STEPS

Conduct a Market Assessment. The City should conduct a market assessment to understand the plausibility of any given project scenario. This assessment will be important to better understanding the risk inherent in the type of development that occurs, and the likelihood of an auto dealership at the site in the future. The results of this market assessment can guide the City toward a narrower range of potential impacts.

Determine Land Assembly Process. The City should begin talking with property owners at the current site, as the proposal would necessitate that WSDOT as well as multiple other owners sell their land so it can be sold as one lot to a potential developer. The City should begin conversations to determine owners' willingness to sell.