

32a.

Documentation, Explanations, Clarifications, Revisions

for Updated Fiscal Analysis

Henderson, Young & Company

March 16, 2014 (initial questions by HY&Co)

April 28, 2014 (answers by DPFPG to questions)

May 21, 2014 (HY&Co responses to DPFPG answers)

Gillian Zacharias

From: Andy Williamson
Sent: Monday, March 17, 2014 2:24 PM
To: Colin Lund (clund@oakpointe.com)
Cc: Christy Todd; Stacey Welsh
Subject: FW: Follow-up questions re: Fiscal Impact Analysis of Phase 2
Attachments: Follow-up log 3-16-14.doc

Colin

Attached you will find a list from the city's fiscal expert to DPFG .

As in the past please have your expert fill in their response next to our question

Thanks

Andy

From: Randy Young [<mailto:ryoung@hendersonyoung.com>]
Sent: Monday, March 17, 2014 1:58 PM
To: Andy Williamson
Cc: Christy Todd
Subject: Follow-up questions re: Fiscal Impact Analysis of Phase 2

Andy--

Please send the attached list of follow-up questions about the Fiscal Impact Analysis of Phase 2 to YarrowBay with a request that DPFG enter their responses in the places indicated in order to create a log of the questions, responses and any subsequent replies.

Randy Young
Henderson, Young & Company
8060 - 165th Ave., NE, Suite 220
Redmond, WA 98052
(425) 869-1786
Fax: (425) 869-5669

Documentation, Explanations, Clarification and Revisions

Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills MPDs in Black Diamond, Washington

Prepared by DPFPG December 31, 2013

This log contains follow-up information about DPFPG's December 31, 2013 Fiscal Impact Analysis of Phase 2 and Updated Phase 1A of The Villages and Lawson Hills Master Planned Developments (MPDs). This log consists of a series of requests for additional information prepared by the City's fiscal consultant, Henderson, Young & Company (HYCo), responses by DPFPG, and subsequent follow-ups by HYCo and DPFPG. The following is a key to the source and timing of requests and responses:

- **Initial requests by HYCo prepared March 16, 2014.**
 - *Initial response by DPFPG, dated _____, 2014 (reserved for DPFPG response).*
 - Follow-up response by HYCo, dated _____, 2014 (reserved for HYCo response).

Absorption Tab

- **Explain why the 1,939 residential units (in cells U34 and U35) is different than the 2,014 residential units provided to Black Diamond by YarrowBay on August 5, 2013 as data for Phases 1A and 2.**
 - *DPFG Response:*
- **Explain why the finished unit values (in cells G15 through G32) are different than the 2015 sale price per unit provided to Black Diamond by YarrowBay on August 5, 2013 as data for Phases 1A and 2.**
 - *DPFG Response:*
- **Explain how the absorption schedule is realistic considering that there has been very little activity at the development site to date.**
 - *DPFG Response:*

Summary Tab

- **Row 19 (Property Tax), shows property tax revenue being received by Black Diamond beginning in 2014. The detailed analysis is in Tab y2, which shows land sales of over \$40.5 million. Explain how land sales that occur in year 2 (2014) can pay property taxes that are received by Black Diamond in 2014? And if the timing of the property tax receipts needs to be revised for 2014, explain whether or not it should be adjusted for subsequent years.**
 - *DPFG Response:*
- **Row 57 (General Fund Reserve), columns I through S: Section 13.6.3.b specifies that the reserve for operating funds should be equal to the current reserve percent in the City's budget used for the FIA. Modify the formulas in cells I57 – S57 to replace the 2012 Black Diamond Budget data for reserves (255,590/4,998,082) which is a reserve of**

5.1%, with the current 2013 Black Diamond Budget data for reserves, 579,939/4,322,711 which is a reserve of 13.4%.

▪ *DPFG Response:*

- **Row 74 (MPD Funding Agreement): Explain the source or basis for the amounts of the payments pursuant to the MPD Funding Agreement for the years 2016 - 2021. Also, explain why the amounts for the years 2017 through 2022 are 46% higher (\$266,315 per year) than the amounts of the payments pursuant to the MPD Funding Agreement for the years 2016 - 2021 in the August 8, 2013 FIA for Phase 1A.**

▪ *DPFG Response:*

Revenue Tab

- **Rows 16-24 (Utility Taxes): Add a row for stormwater utility tax revenue (see comment about the Utility Tax Tab, below, for explanation).**

▪ *DPFG Response:*

Property Tax Rate Calc Tab

- **Row 29: Explain why the levy rate increases every year despite DPFG's acceptance as part of the FIA for Phase 1A that the levy rate would remain the same for all years of the FIA. The following is the concern that HYCo expressed August 23, 2012: "The calculations of "allowable" levy rate are based on an incorrect assumption that Black Diamond will maximize property tax revenue. If the City of Black Diamond were to use this assumption it would cause all existing taxable properties in Black Diamond to be subjected to the same increasing levy rate that Table 4 calculates for new development in The Villages Phase 1A. The levy rates calculated in Table 4 will increase between 0.87% and 1.00% every year between 2012 and 2021, reaching a total increase of 9.3% by 2021. As a result, property tax payments by existing properties would increase by the same amounts. It is highly unlikely that the City of Black Diamond would establish property tax revenue at the maximum allowable. For the purpose of revising Table 4, the assumption should be that the current levy rate of 2.59339 will continue for every year 2013 through 2021. Even this assumption is somewhat aggressive. Cities that have significant changes in their assessed valuation hope to be able to reduce future property tax levy rates because of the growth in taxable value. Rather than attempt to forecast such decreases, the revised version of Table 4 should use the current levy rate of 2.59339 for all years 2013 – 2021." **Based on this concern DPFG agreed to use the current levy rate for each year of the FIA. For the Phase 2 FIA, the current levy rate is now 2.82640, and that rate should be used for each year 2014 – 2022.****

▪ *DPFG Response:*

Expenses Tab

- **Change the amounts in cells D18, D30, and D31 to be the amounts from Black Diamond's Final Budget for 2013.**

▪ *DPFG Response:*

- **Explain why the Hearing Examiner-SEPA expenditure in Black Diamond's Final Budget for 2013 is omitted from DPFG's Expenses Tab.**

- *DPFG Response:*

Police-Summer Tab

- "LOS Adjustment" (Column G and Note 1): Explain why an 83% adjustment is justified considering the following. Summer's staffing of 24 serves population plus 50% of employment of 15,667 which is a level of service of 1.5309 per 1,000. Table 8-1 of Black Diamond's Comprehensive Plan specifies 17.35 staffing for 7,500 – 10,000 population. Black Diamond's population plus 50% employment at the completion of Phase 2 is estimated to be 9,742, which is a level of service of 1.7809 per 1,000. The appropriate adjustment for police for the FIA is to adjust Summer's 1.5309 to match Black Diamond's 1.7809. The resulting adjustment is $1.7809 \div 1.5309 = 116\%$.
 - *DPFG Response:*

P&R-Poulsbo Tab

- Poulsbo's practice of charging 70% of park program costs to users may have its origins in the City's practice, until very recently, of accounting for parks in a separate fund where it was expected to recover a significant portion of its costs from non-tax sources, such as user fees. The City of Black Diamond has limited user fees, primarily for parking at a boat launch, and a fee for special events at parks. It is not appropriate to adjust Poulsbo's costs because Black Diamond has not determined whether or not it will charge for park program costs. At most, the adjustment would be 38% based on Black Diamond's practice of using its fee revenue of \$16,100 for park maintenance costs of \$42,000 ($16,100 \div 42,000 = 38\%$).
 - *DPFG Response:*

Public Works-Summer Tab

- During the Phase 1A FIA, it was determined that there were no separate Public Works functions in the general fund that were not already included in other general fund functional costs, such as Parks and Recreation. As a result, it is not necessary to include any separate or additional General Fund costs for Public Works. The revised version of the spreadsheets and report for Phase 1A deleted Public Works from the General Fund. Portions of Black Diamond's Public Works department costs that are related to the street fund were included in the Road Case tab for the Street Fund analysis, and were based on the cost per capita in the comparable city (Fircrest) as the basis for the costs to be added to the Street Fund. Move the public works costs from the general fund to the street fund, or explain why you believe it should not be shifted.
 - *DPFG Response:*

Const Tax Tab

- Row H (2013 data): Shows \$14 million of Phase 1A Hard Costs in 2013, generating \$57,792 in sales tax revenue for Black Diamond. Document the Phase 1A hard costs that were incurred, and the sales tax that was paid on those costs.
 - *DPFG Response:*

- **List all firms that have engaged in development activities in Black Diamond that are subject to sales tax, and confirmation that they have business licenses with the City of Black Diamond.**
 - *DPFG Response:*

Road Case Tab

- **Cell E15: The revenue amount of \$146,565 is the total revenue of Black Diamond's Street Fund (see 2013 Final Budget, page 56). Of that total, \$60,695 is itemized in the 2013 Final Budget as "Funding Agreement-Sal & Ben Reimb". Explain whether or not this amount is included in the "MPD Funding Agreement" payment amounts in the Summary Tab, row 74.**
 - *DPFG Response:*

Stormwater Tab

- **Cell D14 is linked to Assump Tab, cell F15. It would be expected that Stormwater Tab cell D15 would be linked to Assump Tab, cell F16, but it is not linked. It turns out that the correct value (455 employees) is in the Stormwater Tab, but not the Assump Tab. If this spreadsheet will be used for future FIA, the link should be restored, and the correct data included in Assump Tab, cell F16.**
 - *DPFG Response:*

Utility Tax Tab

- **Row 18 (Water Utility Tax): Does the water utility tax revenue include or exclude water utility taxes from homes built in the disputed water service area?**
 - *DPFG Response:*
- **Rows 14-22 (Utility Taxes): Add a row for stormwater utility tax revenue (itemized on page 19 of the City's 2013 budget). The City includes it as a general fund revenue. It is not the stormwater utility charge that is the revenue source for the stormwater fund.**
 - *DPFG Response:*

Asump Tab

- **As noted above under the Stormwater Tab, the data in cell F16 should be corrected.**
 - *DPFG Response:*

Gillian Zacharias

From: Justin Wortman <jwortman@oakpointe.com>
Sent: Monday, April 28, 2014 3:05 PM
To: ryoung@hendersonyoung.com
Cc: Andy Williamson; Stacey Welsh; Colin Lund; Megan Nelson
Subject: YarrowBay Responses to Henderson Young Comments on Fiscal Impact Analysis
Attachments: The Villages Phase 1A and 2 FIA 4.28.2014.pdf; Randy Young Follow-Up Log 4-28-2014.doc

Randy,

Andy Williamson asked me to send you the attached documents, which are YarrowBay's responses to your questions on the Fiscal Impact Analysis and an updated version of the analysis itself.

Please let me know if you have any questions or problems opening the documents.

Thanks,
Justin

Justin Wortman
Assistant Project Manager



10220 NE Points Drive, Suite 310
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(425) 898-2139 fax
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REVISION/CORRECTION SUBMITTAL FORM



Submittal Requirements:

All revisions / correction submittals MUST contain the following:

1. A completed City of Black Diamond Revision/Correction submittal form
2. Two (2) sets of revised and/or corrected drawings/sheets (wet stamped by architect, if applicable).
3. Revised structural calculations, if applicable (must be stamped by engineer)
4. A written letter to the City that shows an itemized summary of your submittal (must include sheet and detail numbers)
5. All changes **MUST BE CLOUDED** or **HIGHLIGHTED** on each plan set

Date: 4/28/14

Permit #: PLN13-0027, PLN11-0008
PLN11-0010

Property Address: SEE THE PROJECT NARRATIVES FOR PHASE 2 PLATS A, B, & C

Project Name: THE VILLAGES @ LANSON HILLS MDCs - PHASE 2

Contact Person: COLIN LUND

Phone: (425) 898-2100

Email: CLUND@YARROWBAYHOLDINGS.COM

TYPE OF SUBMITTAL:

REVISION: A change the applicant has made to a plan that is either:

1. An approved plan already issued by the City or
2. A project under current plan review

CORRECTION: An applicant response to a correction letter written by the City to the applicant

Permit Issued? Yes No *A plan check fee for revision is \$84 per hour with a minimum of \$42 for ½ hour

Please describe revision/correction submittal:

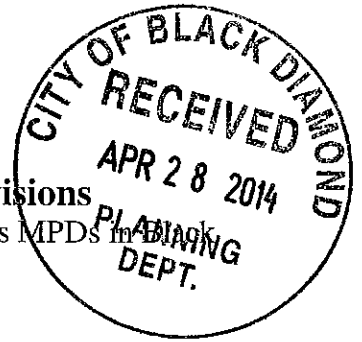
RESPONSES TO DOCUMENTATION EXPLANATIONS, CLARIFICATION, AND REVISIONS FOR PHASE 2 UPDATED
FISCAL IMPACT ANALYSIS FOR THE VILLAGES AND LANSON HILLS MDCs

Sheets Affected: If more than two (2) sheets will be changed, please submit two (2) new full sets of plans. Revisions on issued permits only require submittal of the affected sheets.

For City Use Only:

REQ'D APPROVAL	CHECKED BY	ROUTE TO	DATE	INITIAL	COMMENTS	FEES
()	1. BUILDING	_____	_____	_____	_____	_____
()	2. PLANNING	_____	_____	_____	_____	_____
()	3. FIRE	_____	_____	_____	_____	_____
()	4. PW	_____	_____	_____	_____	_____
()	5	_____	_____	_____	_____	_____

TOTAL \$



Documentation, Explanations, Clarification and Revisions

Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills MPDs in Black Diamond, Washington

Prepared by DPFPG December 31, 2013

This log contains follow-up information about DPFPG's December 31, 2013 Fiscal Impact Analysis of Phase 2 and Updated Phase 1A of The Villages and Lawson Hills Master Planned Developments (MPDs). This log consists of a series of requests for additional information prepared by the City's fiscal consultant, Henderson, Young & Company (HYCo), responses by DPFPG, and subsequent follow-ups by HYCo and DPFPG. The following is a key to the source and timing of requests and responses:

- **Initial requests by HYCo prepared March 16, 2014.**
 - *Initial response by DPFPG, dated April 28, 2014 (reserved for DPFPG response).*
 - Follow-up response by HYCo, dated _____, 2014 (reserved for HYCo response).

Absorption Tab

- **Explain why the 1,939 residential units (in cells U34 and U35) is different than the 2,014 residential units provided to Black Diamond by YarrowBay on August 5, 2013 as data for Phases 1A and 2.**
 - *DPFG Response: The change in Absorption (reduction of 75 units) was the result of site plan changes to The Villages Parcels V28 and V29 and Lawson Hills Parcels L3 and L4. The Villages Phase 2 Plat C (V28 and V29) was reduced by 49 units due to product type changes at the time of Preliminary Plat Submittal in November 2013. The Lawson Hills Phase 2 Plat B (L3 and L4) is anticipated to be reduced by 26 units due to product type changes at a future re-submittal of Lawson Hills Phase 2 Plat B.*
- **Explain why the finished unit values (in cells G15 through G32) are different than the 2015 sale price per unit provided to Black Diamond by YarrowBay on August 5, 2013 as data for Phases 1A and 2.**
 - *DPFG Response: In November 2013, YarrowBay received a report from John Burns Real Estate Consulting that provided updated pricing recommendations for Phases 1A and 2 product types and lots. The finished unit values reflected the recommendations contained in this November report. Since publication of the December 2013 Phase 2 Fiscal Impact Analysis, YarrowBay has received a further updated report from John Burns. As a result, we have revised the finished unit values in cells G15 through G32 to reflect this most current information. Excerpts of the John Burns Report will be provided with revised submittal.*
- **Explain how the absorption schedule is realistic considering that there has been very little activity at the development site to date.**
 - *DPFG Response: Based on the updated absorption schedule in the John Burns Report, DPFPG adjusted the absorption schedule in the FIA by one year. Lots will be prepared/finished in 2015 and home sales in 2016.*

Summary Tab

- **Row 19 (Property Tax)**, shows property tax revenue being received by Black Diamond beginning in 2014. The detailed analysis is in Tab y2, which shows land sales of over \$40.5 million. Explain how land sales that occur in year 2 (2014) can pay property taxes that are received by Black Diamond in 2014? And if the timing of the property tax receipts needs to be revised for 2014, explain whether or not it should be adjusted for subsequent years.
 - *DPFG Response: This assumption is the same methodology used in the approved Phase 1A fiscal analysis. We pushed sales out one year, but this does not result in a material change to the model because all revenues are still captured, they are just pushed out one year.*

- **Row 57 (General Fund Reserve)**, columns I through S: Section 13.6.3.b specifies that the reserve for operating funds should be equal to the current reserve percent in the City's budget used for the FIA. Modify the formulas in cells I57 – S57 to replace the 2012 Black Diamond Budget data for reserves (255,590/4,998,082) which is a reserve of 5.1%, with the current 2013 Black Diamond Budget data for reserves, 579,939/4,322,711 which is a reserve of 13.4%.
 - *DPFG Response: Black Diamond passed its 2013 budget as Ordinance 12-994 on December 20, 2012. On page 17 of this budget, the General Fund Reserve is listed as 555,226/4,476,042, a reserve of 12.8%. The City appears to have amended this budget twice in 2013. On June 20, 2013, the City passed Ordinance 13-1005, which decreased the General Fund by 80,059. On December 5, 2013, the City passed Ordinance 13-1016, which increased the General Fund by 400. Based on these ordinances, we are unable to determine the origin of the 579,939/4,322,711 amount that you have suggested we include. Please advise us with regard to the source for this amount.*

- **Row 74 (MPD Funding Agreement)**: Explain the source or basis for the amounts of the payments pursuant to the MPD Funding Agreement for the years 2016 - 2021. Also, explain why the amounts for the years 2017 through 2022 are 46% higher (\$266,315 per year) than the amounts of the payments pursuant to the MPD Funding Agreement for the years 2016 - 2021 in the August 8, 2013 FIA for Phase 1A.
 - *DPFG Response: The City of Black Diamond underreported staffing costs for the MPD Funding Agreement for 2016 – 2021 for Phase 1A that was used in the August 8, 2013 FIA. The MPD Funding Agreement costs included in the FIA did not include ancillary costs like insurance and other overhead for the staffing positions for which YarrowBay is providing funding. The Phase 2 FIA was updated to include this information in the payments, per the MPD Funding Agreement. Moreover, as construction and other development activities associated with the project increase, Black Diamond's staffing requirements will also increase, which creates additional costs. These additional costs are also captured in the updated FIA as increased MPD Funding Agreement payments.*

Revenue Tab

- **Rows 16-24 (Utility Taxes)**: Add a row for stormwater utility tax revenue (see comment about the Utility Tax Tab, below, for explanation).

- *DPFG Response: DPFPG will include this line item as requested.*

Property Tax Rate Calc Tab

- **Row 29: Explain why the levy rate increases every year despite DPFPG’s acceptance as part of the FIA for Phase 1A that the levy rate would remain the same for all years of the FIA. The following is the concern that HYCo expressed August 23, 2012:** “The calculations of “allowable” levy rate are based on an incorrect assumption that Black Diamond will maximize property tax revenue. If the City of Black Diamond were to use this assumption it would cause all existing taxable properties in Black Diamond to be subjected to the same increasing levy rate that Table 4 calculates for new development in The Villages Phase 1A. The levy rates calculated in Table 4 will increase between 0.87% and 1.00% every year between 2012 and 2021, reaching a total increase of 9.3% by 2021. As a result, property tax payments by existing properties would increase by the same amounts. It is highly unlikely that the City of Black Diamond would establish property tax revenue at the maximum allowable. For the purpose of revising Table 4, the assumption should be that the current levy rate of 2.59339 will continue for every year 2013 through 2021. Even this assumption is somewhat aggressive. Cities that have significant changes in their assessed valuation hope to be able to reduce future property tax levy rates because of the growth in taxable value. Rather than attempt to forecast such decreases, the revised version of Table 4 should use the current levy rate of 2.59339 for all years 2013 – 2021.” **Based on this concern DPFPG agreed to use the current levy rate for each year of the FIA. For the Phase 2 FIA, the current levy rate is now 2.82640, and that rate should be used for each year 2014 – 2022.**
 - *DPFG Response: DPFPG will adjust the levy rate as requested to be consistent with the Phase 1A fiscal analysis.*

Expenses Tab

- **Change the amounts in cells D18, D30, and D31 to be the amounts from Black Diamond’s Final Budget for 2013.**
 - *DPFG Response: As noted under the Summary Tab, Black Diamond passed its 2013 budget as Ordinance 12-994 on December 20, 2012 and appears to have amended this budget twice in 2013. Please advise us with regard to the source for the amounts that you are referencing.*
- **Explain why the Hearing Examiner-SEPA expenditure in Black Diamond’s Final Budget for 2013 is omitted from DPFPG’s Expenses Tab.**
 - *DPFG Response: The Hearing Examiner-SEPA expenditure in Black Diamond’s Final Budget for 2013 is omitted because, per section 13.6(1)(i) of the Development Agreements, one time revenues and expenses for general fund departments are not to be included in the fiscal analysis.*

Police-Summer Tab

- **"LOS Adjustment" (Column G and Note 1): Explain why an 83% adjustment is justified considering the following. Sumner’s staffing of 24 serves population plus 50% of employment of 15,667 which is a level of service of 1.5309 per 1,000. Table 8-1 of Black Diamond’s Comprehensive Plan specifies 17.35 staffing for 7,500 – 10,000**

population. Black Diamond's population plus 50% employment at the completion of Phase 2 is estimated to be 9,742, which is a level of service of 1.7809 per 1,000. The appropriate adjustment for police for the FIA is to adjust Sumner's 1.5309 to match Black Diamond's 1.7809. The resulting adjustment is $1.7809 \div 1.5309 = 116\%$.

- *DPFG Response: Same methodology adjustment from prior approved Phase 1A fiscal analysis. Sumner's budget funds 24 positions (DPFG assumed 21 FTE to be conservative). The City of Black Diamond only needs to fund 17.35 FTE based on the City's Comprehensive Plan. Sumner needs a budget of \$3.8 million to fund the 21 FTE, and to fund 17.35 FTE they would need less, ($17.35/21 = 83\%$) approximately \$3.1 million.*

P&R-Poulsbo Tab

- **Poulsbo's practice of charging 70% of park program costs to users may have its origins in the City's practice, until very recently, of accounting for parks in a separate fund where it was expected to recover a significant portion of its costs from non-tax sources, such as user fees. The City of Black Diamond has limited user fees, primarily for parking at a boat launch, and a fee for special events at parks. It is not appropriate to adjust Poulsbo's costs because Black Diamond has not determined whether or not it will charge for park program costs. At most, the adjustment would be 38% based on Black Diamond's practice of using its fee revenue of \$16,100 for park maintenance costs of \$42,000 ($16,100 \div 42,000 = 38\%$).**
 - *DPFG Response: The methodology and assumptions used are based on comparable city analysis. If the comparable city has a higher service level because of certain funding programs, the fiscal analysis needs to also assume that the City of Black Diamond will implement those funding programs to achieve the same level of service.*

Public Works-Sumner Tab

- **During the Phase 1A FIA, it was determined that there were no separate Public Works functions in the general fund that were not already included in other general fund functional costs, such as Parks and Recreation. As a result, it is not necessary to include any separate or additional General Fund costs for Public Works. The revised version of the spreadsheets and report for Phase 1A deleted Public Works from the General Fund. Portions of Black Diamond's Public Works department costs that are related to the street fund were included in the Road Case tab for the Street Fund analysis, and were based on the cost per capita in the comparable city (Fircrest) as the basis for the costs to be added to the Street Fund. Move the public works costs from the general fund to the street fund, or explain why you believe it should not be shifted.**
 - *DPFG Response: DPFPG will delete this cost as requested.*

Const Tax Tab

- **Row H (2013 data): Shows \$14 million of Phase 1A Hard Costs in 2013, generating \$57,792 in sales tax revenue for Black Diamond. Document the Phase 1A hard costs that were incurred, and the sales tax that was paid on those costs.**
 - *DPFG Response: Hard costs and sales tax revenue values for 2013 have been updated. The updated values will be incorporated into the revised fiscal analysis.*

- **List all firms that have engaged in development activities in Black Diamond that are subject to sales tax, and confirmation that they have business licenses with the City of Black Diamond.**

- *DPFG Response: The State of Washington is a point of delivery state with regard to sales tax. Because of the point of delivery requirement, it is reasonable to allocate sales tax revenue to the City for any firms conducting business within the City's limits. Furthermore, per BDMC 2.58.010, the City obligates anyone conducting business in the City to have obtained a business license. The FIA assumes that consistent with this requirement, if a firm is operating within the City, the firm has obtained a business license.*

To date, J.R. Hayes & Sons, Inc. is the only firm that has engaged in development activities in Black Diamond on behalf of YarrowBay. J.R. Hayes & Sons has obtained a Black Diamond business license (license #BUS10-0010).

Road Case Tab

- **Cell E15: The revenue amount of \$146,565 is the total revenue of Black Diamond's Street Fund (see 2013 Final Budget, page 56). Of that total, \$60,695 is itemized in the 2013 Final Budget as "Funding Agreement-Sal & Ben Reimb". Explain whether or not this amount is included in the "MPD Funding Agreement" payment amounts in the Summary Tab, row 74.**
- *DPFG Response: DPFPG investigated this occurrence and determined it was being double counted. DPFPG will remove this amount from the road case tab. It does not appear to happen in any other department or special fund revenues.*

Stormwater Tab

- **Cell D14 is linked to Assump Tab, cell F15. It would be expected that Stormwater Tab cell D15 would be linked to Assump Tab, cell F16, but it is not linked. It turns out that the correct value (455 employees) is in the Stormwater Tab, but not the Assump Tab. If this spreadsheet will be used for future FIA, the link should be restored, and the correct data included in Assump Tab, cell F16.**
- *DPFG Response: DPFPG will correct the link as requested.*

Utility Tax Tab

- **Row 18 (Water Utility Tax): Does the water utility tax revenue include or exclude water utility taxes from homes built in the disputed water service area?**
- *DPFG Response: The analysis currently includes these revenues, but to be conservative, DPFPG will adjust the fiscal analysis to exclude the water utility taxes from the homes in the disputed water service area.*
- **Rows 14-22 (Utility Taxes): Add a row for stormwater utility tax revenue (itemized on page 19 of the City's 2013 budget). The City includes it as a general fund revenue. It is not the stormwater utility charge that is the revenue source for the stormwater fund.**
- *DPFG Response: DPFPG will add the Stormwater Utility Tax as mentioned above.*

Asump Tab

- **As noted above under the Stormwater Tab, the data in cell F16 should be corrected.**
 - *DPFG Response: DPGF will correct the link.*

Gillian Zacharias

From: Randy Young <ryoung@hendersonyoung.com>
Sent: Tuesday, May 13, 2014 2:49 PM
To: Andy Williamson
Cc: Stacey Welsh
Subject: Phase 1A and 2 fiscal impact analysis - an issue to resolve
Attachments: Follow-Up Log 5-12-2014 excerpt.doc

Andy--

YarrowBay submitted DPFPG's initial fiscal impact analysis for Phases 1A and 2 dated Dec. 31, 2013. I reviewed and evaluated that version. On March 16th I submitted to you a list of approximately 20 follow-up questions and requests for revisions, clarification or documentation. You forwarded my list to YarrowBay. On April 28th YarrowBay submitted DPFPG's written responses to my follow-up topics and a revised fiscal impact analysis for Phases 1A and 2 that made changes based on several of my comments.

At this point, it appears that most issues have been resolved. The complete log of my questions, DPFPG's responses, and my replies will be an appendix to my final evaluation report, just as I did for Phase 1A. However, my final report cannot be completed until we resolve all the issues. The purpose of this e-mail is to let you know that the methodology for calculating police costs is not yet resolved. I am attaching a copy of my March 16th comment, DPFPG's April 28th response, and my proposed reply. I recommend that this be brought to YarrowBay's attention for further revision by DPFPG.

Randy Young
Henderson, Young & Company
8060 - 165th Ave., NE, Suite 220
Redmond, WA 98052
(425) 869-1786
Fax: (425) 869-5669

EXCERPT

Documentation, Explanations, Clarification and Revisions

Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills MPDs in Black Diamond, Washington
Prepared by DPFPG December 31, 2013

This log contains follow-up information about DPFPG's December 31, 2013 Fiscal Impact Analysis of Phase 2 and Updated Phase 1A of The Villages and Lawson Hills Master Planned Developments (MPDs). This log consists of a series of requests for additional information prepared by the City's fiscal consultant, Henderson, Young & Company (HYCo), responses by DPFPG, and subsequent follow-ups by HYCo and DPFPG. The following is a key to the source and timing of requests and responses:

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Police-Summer Tab

- **"LOS Adjustment" (Column G and Note 1): Explain why an 83% adjustment is justified considering the following. Sumner's staffing of 24 serves population plus 50% of employment of 15,667 which is a level of service of 1.5309 per 1,000. Table 8-1 of Black Diamond's Comprehensive Plan specifies 17.35 staffing for 7,500 – 10,000 population. Black Diamond's population plus 50% employment at the completion of Phase 2 is estimated to be 9,742, which is a level of service of 1.7809 per 1,000. The appropriate adjustment for police for the FIA is to adjust Sumner's 1.5309 to match Black Diamond's 1.7809. The resulting adjustment is $1.7809 \div 1.5309 = 116\%$.**
 - *DPFPG Response: Same methodology adjustment from prior approved Phase 1A fiscal analysis. Sumner's budget funds 24 positions (DPFPG assumed 21 FTE to be conservative). The City of Black Diamond only needs to fund 17.35 FTE based on the City's Comprehensive Plan. Sumner needs a budget of \$3.8 million to fund the 21 FTE, and to fund 17.35 FTE they would need less, ($17.35/21 = 83\%$) approximately \$3.1 million.*
 - The methodology for the adjustment for Phase 1A went beyond the reference to total police employees and used the number of officers per 1,000 population. Specifically, DPFPG's August 30, 2012 response stated:
Table 8-1 of the City's 2009 Comprehensive Plan clearly states a Level of Service for a population between 5,000-7,500 to have a total police staff of 12.1. At build-out, Phase 1A will increase the City's population to roughly 6,015. This is within the above stated population range. With a total staff of 12.1 police officers for a population of 7,500, that equates to 1.6 officers/1,000 population. The City currently has 10 police officers (2 open/unfunded positions) for a population of 4,190. That staffing level equates to 2.38 officers/1,000 population, well above the City's Comprehensive Plan Table 8-1 LOS standards. Since the City currently exceeds its LOS levels for police staffing for its population size according to Table 8-1 of the City's Comprehensive Plan, it is appropriate to calculate a reduction in per person costs to meet the required LOS staffing levels. To do this, DPFPG looked at LOS

police staffing of 1.6 divided by current police staffing of 2.38, which results in funding for 70% of the City's current police budget. This would make police staffing consistent with the City's 2009 Comprehensive Plan (emphasis added).

In May of 2013, the Hearing Examiner required that the fiscal analysis of police services be revised to be based on a different city, and the City of Fircrest was selected. DPFPG's initial fiscal analysis using Fircrest made no adjustment for staffing levels, despite being given the City's analysis that indicated an adjustment of 127% might be warranted. HYCo followed up on July 18, 2013, as follows:

HYCo finds that Revised FIA 6/21/13 uses the City of Fircrest as the comparable city for police services in Black Diamond for Phase 1A. However, the costs per capita are not adjusted for Black Diamond's level of service for police, whereas a level of service adjustment was made in FIA 9/20/12. ... HYCo recommends that the Fircrest costs per capita be revised to reflect a level of service adjustment based on the same reasoning used to adjust the per capita costs in FIA 9/20/12, which is to equal the level of service in Black Diamond's comprehensive plan.

DPFG's final fiscal analysis of Black Diamond's police made an adjustment of 114% based on 12.1 officers per 1,000 in Fircrest compared to 10.6 officers per 1,000 in Black Diamond.

Therefore, in order to be consistent with the adjustments for police staffing made in both versions of the Phase 1A fiscal analysis, DPFPG should adjust the Sumner police expenses in Table 6 based on the data provided in our initial follow-up statement above: 1.7809 Sumner officers per 1,000 ÷ 1.5309 Black Diamond officers per 1,000 = 116%.

Gillian Zacharias

From: Randy Young <ryoung@hendersonyoung.com>
Sent: Wednesday, May 21, 2014 1:12 PM
To: Andy Williamson
Subject: Phases 1A and 2 Fiscal Impact Analysis - log of follow-up subjects
Attachments: Follow-Up Log 5-21-2014.doc

Andy--

I have completed my review of DPF's responses to the 20 requests I submitted regarding the Fiscal Impact Analysis of Phases 1A and 2, dated December 31, 2013. I have also completed my review of their revised Fiscal Impact Analysis of Phases 1A and 2, dated April 28, 2014, since that includes their revisions in response to my requests.

Attached to this e-mail is a copy of the log of the 20 items in my original request March 16th, DPF's April 28th responses, and my final comments dated today, May 21, 2014. I will prepare the report of my evaluation of the April 28, 2014, Fiscal Impact Analysis of Phases 1A and 2 and submit it to you by the end of this week.

Randy Young
Henderson, Young & Company
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(425) 869-1786
Fax: (425) 869-5669

Documentation, Explanations, Clarification and Revisions

Phase 2 Updated Fiscal Impact Analysis for The Villages and Lawson Hills MPDs in Black Diamond, Washington

Prepared by DPFPG December 31, 2013, and Revised April 28, 2014

This log contains follow-up information about DPFPG's December 31, 2013 Fiscal Impact Analysis of Phase 2 and Updated Phase 1A of The Villages and Lawson Hills Master Planned Developments (MPDs). This log consists of a series of requests for additional information prepared by the City's fiscal consultant, Henderson, Young & Company (HYCo), responses by DPFPG, and subsequent follow-ups by HYCo and DPFPG. The following is a key to the source and timing of requests and responses:

- **Initial requests by HYCo prepared March 16, 2014.**
 - *Initial response by DPFPG, dated April 28, 2014.*
 - Follow-up response by HYCo, dated May 21, 2014.

Absorption Tab

- **Explain why the 1,939 residential units (in cells U34 and U35) is different than the 2,014 residential units provided to Black Diamond by YarrowBay on August 5, 2013 as data for Phases 1A and 2.**
 - *DPFG Response: The change in Absorption (reduction of 75 units) was the result of site plan changes to The Villages Parcels V28 and V29 and Lawson Hills Parcels L3 and L4. The Villages Phase 2 Plat C (V28 and V29) was reduced by 49 units due to product type changes at the time of Preliminary Plat Submittal in November 2013. The Lawson Hills Phase 2 Plat B (L3 and L4) is anticipated to be reduced by 26 units due to product type changes at a future re-submittal of Lawson Hills Phase 2 Plat B.*
 - HYCo accepts DPFPG's response as concluding the inquiry regarding this item.
- **Explain why the finished unit values (in cells G15 through G32) are different than the 2015 sale price per unit provided to Black Diamond by YarrowBay on August 5, 2013 as data for Phases 1A and 2.**
 - *DPFG Response: In November 2013, YarrowBay received a report from John Burns Real Estate Consulting that provided updated pricing recommendations for Phases 1A and 2 product types and lots. The finished unit values reflected the recommendations contained in this November report. Since publication of the December 2013 Phase 2 Fiscal Impact Analysis, YarrowBay has received a further updated report from John Burns. As a result, we have revised the finished unit values in cells G15 through G32 to reflect this most current information. Excerpts of the John Burns Report will be provided with revised submittal.*
 - HYCo accepts DPFPG's response as concluding the inquiry regarding this item.
- **Explain how the absorption schedule is realistic considering that there has been very little activity at the development site to date.**
 - *DPFG Response: Based on the updated absorption schedule in the John Burns Report, it DPFPG adjusted the absorption schedule in the FIA by one year. Lots will be prepared/finished in 2015 and home sales in 2016.*

- HYCo accepts DPFG's response as concluding the inquiry regarding this item. HYCo observes that the change in absorption is accompanied by a corresponding extension of the analysis time horizon by one year to the year 2023 in order to provide two full years after the completion of Phase 1A and 2, as required by Section 13.6 of the Development Agreements.

Summary Tab

- **Row 19 (Property Tax), shows property tax revenue being received by Black Diamond beginning in 2014. The detailed analysis is in Tab y2, which shows land sales of over \$40.5 million. Explain how land sales that occur in year 2 (2014) can pay property taxes that are received by Black Diamond in 2014? And if the timing of the property tax receipts needs to be revised for 2014, explain whether or not it should be adjusted for subsequent years.**
 - *DPFG Response: This assumption is the same methodology used in the approved Phase 1A fiscal analysis. We pushed sales out one year, but this does not result in a material change to the model because all revenues are still captured, they are just pushed out one year.*
 - HYCo accepts DPFG's response as concluding the inquiry regarding this item. The Fiscal Impact Analysis is designed to provide accurate estimates based on reasonable assumptions. While it is possible that some of the property tax revenue in DPFG's fiscal analysis may not be collected until the following year, it is also true the expense side of the ledger assumes that all units sold in a year will require full city services for the full year, but in reality many units will be sold throughout the year, so that some will need less service during the part of the year that they are occupied.
- **Row 57 (General Fund Reserve), columns I through S: Section 13.6.3.b specifies that the reserve for operating funds should be equal to the current reserve percent in the City's budget used for the FIA. Modify the formulas in cells I57 – S57 to replace the 2012 Black Diamond Budget data for reserves (255,590/4,998,082) which is a reserve of 5.1%, with the current 2013 Black Diamond Budget data for reserves, 579,939/4,322,711 which is a reserve of 13.4%.**
 - *DPFG Response: Black Diamond passed its 2013 budget as Ordinance 12-994 on December 20, 2012. On page 17 of this budget, the General Fund Reserve is listed as 555,226/4,476,042, a reserve of 12.8%. The City appears to have amended this budget twice in 2013. On June 20, 2013, the City passed Ordinance 13-1005, which decreased the General Fund by 80,059. On December 5, 2013, the City passed Ordinance 13-1016, which increased the General Fund by 400. Based on these ordinances, we are unable to determine the origin of the 579,939/4,322,711 amount that you have suggested we include. Please advise us with regard to the source for this amount.*
 - HYCo accepts DPFG's response as concluding the inquiry regarding this item.
- **Row 74 (MPD Funding Agreement): Explain the source or basis for the amounts of the payments pursuant to the MPD Funding Agreement for the years 2016 - 2021. Also, explain why the amounts for the years 2017 through 2022 are 46% higher (\$266,315 per year) than the amounts of the payments pursuant to the MPD Funding Agreement for the years 2016 - 2021 in the August 8, 2013 FIA for Phase 1A.**

- *DPFG Response: The City of Black Diamond underreported staffing costs for the MPD Funding Agreement for 2016 – 2021 for Phase 1A that was used in the August 8, 2013 FIA. The MPD Funding Agreement costs included in the FIA did not include ancillary costs like insurance and other overhead for the staffing positions for which YarrowBay is providing funding. The Phase 2 FIA was updated to include this information in the payments per the MPD Funding Agreement. Moreover, as construction and other development activities associated with the project increase, Black Diamond’s staffing requirements will also increase, which creates additional costs. These additional costs are also captured in the updated FIA as increased MPD Funding Agreement payments.*
 - HYCo accepts DPGF’s response as concluding the inquiry regarding this item.

Revenue Tab

- **Rows 16-24 (Utility Taxes): Add a row for stormwater utility tax revenue (see comment about the Utility Tax Tab, below, for explanation).**
 - *DPFG Response: DPGF will include this line item as requested.*
 - HYCo accepts DPGF’s response as concluding the inquiry regarding this item.

Property Tax Rate Calc Tab

- **Row 29: Explain why the levy rate increases every year despite DPGF’s acceptance as part of the FIA for Phase 1A that the levy rate would remain the same for all years of the FIA. The following is the concern that HYCo expressed August 23, 2012: ”The calculations of “allowable” levy rate are based on an incorrect assumption that Black Diamond will maximize property tax revenue. If the City of Black Diamond were to use this assumption it would cause all existing taxable properties in Black Diamond to be subjected to the same increasing levy rate that Table 4 calculates for new development in The Villages Phase 1A. The levy rates calculated in Table 4 will increase between 0.87% and 1.00% every year between 2012 and 2021, reaching a total increase of 9.3% by 2021. As a result, property tax payments by existing properties would increase by the same amounts. It is highly unlikely that the City of Black Diamond would establish property tax revenue at the maximum allowable. For the purpose of revising Table 4, the assumption should be that the current levy rate of 2.59339 will continue for every year 2013 through 2021. Even this assumption is somewhat aggressive. Cities that have significant changes in their assessed valuation hope to be able to reduce future property tax levy rates because of the growth in taxable value. Rather than attempt to forecast such decreases, the revised version of Table 4 should use the current levy rate of 2.59339 for all years 2013 – 2021.” **Based on this concern DPGF agreed to use the current levy rate for each year of the FIA. For the Phase 2 FIA, the current levy rate is now 2.82640, and that rate should be used for each year 2014 – 2022.****
 - *DPFG Response: DPGF will adjust the levy rate as requested to be consistent with the Phase 1A fiscal analysis.*
 - HYCo accepts DPGF’s response as concluding the inquiry regarding this item.

Expenses Tab

- **Change the amounts in cells D18, D30, and D31 to be the amounts from Black Diamond’s Final Budget for 2013.**

- *DPFG Response: As noted under the Summary Tab, Black Diamond passed its 2013 budget as Ordinance 12-994 on December 20, 2012 and appears to have amended this budget twice in 2013. Please advise us with regard to the source for the amounts that you are referencing.*
 - HYCo accepts DPFPG's response as concluding the inquiry regarding this item.
- **Explain why the Hearing Examiner-SEPA expenditure in Black Diamond's Final Budget for 2013 is omitted from DPFPG's Expenses Tab.**
 - *DPFG Response: The Hearing Examiner-SEPA expenditure in Black Diamond's Final Budget for 2013 is omitted because, per section 13.6(1)(i) of the Development Agreements, one time revenues and expenses for general fund departments are not to be included in the fiscal analysis.*
 - HYCo accepts DPFPG's response as concluding the inquiry regarding this item.

Police-Summer Tab

- **"LOS Adjustment" (Column G and Note 1): Explain why an 83% adjustment is justified considering the following. Sumner's staffing of 24 serves population plus 50% of employment of 15,667 which is a level of service of 1.5309 per 1,000. Table 8-1 of Black Diamond's Comprehensive Plan specifies 17.35 staffing for 7,500 – 10,000 population. Black Diamond's population plus 50% employment at the completion of Phase 2 is estimated to be 9,742, which is a level of service of 1.7809 per 1,000. The appropriate adjustment for police for the FIA is to adjust Sumner's 1.5309 to match Black Diamond's 1.7809. The resulting adjustment is $1.7809 \div 1.5309 = 116\%$.**
 - *DPFG Response: Same methodology adjustment from prior approved Phase 1A fiscal analysis. Sumner's budget funds 24 positions (DPFG assumed 21 FTE to be conservative). The City of Black Diamond only needs to fund 17.35 FTE based on the City's Comprehensive Plan. Sumner needs a budget of \$3.8 million to fund the 21 FTE, and to fund 17.35 FTE they would need less, $(17.35/21 = 83\%)$ approximately \$3.1 million.*
 - HYCo accepts DPFPG's response as concluding the inquiry regarding this item. HYCo analyzed staffing levels of another comparable city, Poulsbo, to determine the reasonableness of DPFPG's adjustment of Sumner's staffing from 24 to 21. Poulsbo's police department has a staffing level of 19.6 FTE for a city comparable to Sumner, therefore, HYCo concludes that DPFPG's adjustment is reasonable.

P&R-Poulsbo Tab

- **Poulsbo's practice of charging 70% of park program costs to users may have its origins in the City's practice, until very recently, of accounting for parks in a separate fund where it was expected to recover a significant portion of its costs from non-tax sources, such as user fees. The City of Black Diamond has limited user fees, primarily for parking at a boat launch, and a fee for special events at parks. It is not appropriate to adjust Poulsbo's costs because Black Diamond has not determined whether or not it will charge for park program costs. At most, the adjustment would be 38% based on Black Diamond's practice of using its fee revenue of \$16,100 for park maintenance costs of \$42,000 ($16,100 \div 42,000 = 38\%$).**

- *DPFG Response: The methodology and assumptions used are based on comparable city analysis. If the comparable city has a higher service level because of certain funding programs, the fiscal analysis needs to also assume that the City of Black Diamond will implement those funding programs to achieve the same level of service.*
 - HYCo accepts DPFPG's response as concluding the inquiry regarding this item.

Public Works-Summer Tab

- **During the Phase 1A FIA, it was determined that there were no separate Public Works functions in the general fund that were not already included in other general fund functional costs, such as Parks and Recreation. As a result, it is not necessary to include any separate or additional General Fund costs for Public Works. The revised version of the spreadsheets and report for Phase 1A deleted Public Works from the General Fund. Portions of Black Diamond's Public Works department costs that are related to the street fund were included in the Road Case tab for the Street Fund analysis, and were based on the cost per capita in the comparable city (Fircrest) as the basis for the costs to be added to the Street Fund. Move the public works costs from the general fund to the street fund, or explain why you believe it should not be shifted.**
 - *DPFG Response: DPFPG will delete this cost as requested.*
 - HYCo accepts DPFPG's response as concluding the inquiry regarding this item.

Const Tax Tab

- **Row H (2013 data): Shows \$14 million of Phase 1A Hard Costs in 2013, generating \$57,792 in sales tax revenue for Black Diamond. Document the Phase 1A hard costs that were incurred, and the sales tax that was paid on those costs.**
 - *DPFG Response: Hard costs and sales tax revenue values for 2013 have been updated. The updated values will be incorporated into the revised fiscal analysis.*
 - HYCo accepts DPFPG's response as concluding the inquiry regarding this item.
- **List all firms that have engaged in development activities in Black Diamond that are subject to sales tax, and confirmation that they have business licenses with the City of Black Diamond.**
 - *DPFG Response: The State of Washington is a point of delivery state with regard to sales tax. Because of the point of delivery requirement, it is reasonable to allocate sales tax revenue to the City for any firms conducting business within the City's limits. Furthermore, per BDMC 2.58.010, the City obligates anyone conducting business in the City to have obtained a business license. The FIA assumes that consistent with this requirement, if a firm is operating within the City, the firm has obtained a business license.*

To date, J.R. Hayes & Sons, Inc. is the only firm that has engaged in development activities in Black Diamond on behalf of YarrowBay. J.R. Hayes & Sons has obtained a Black Diamond business license (license #BUS10-0010).

 - HYCo accepts DPFPG's response as concluding the inquiry regarding this item.

Road Case Tab

- **Cell E15: The revenue amount of \$146,565 is the total revenue of Black Diamond's Street Fund (see 2013 Final Budget, page 56). Of that total, \$60,695 is itemized in the**

2013 Final Budget as “Funding Agreement-Sal & Ben Reimb”. Explain whether or not this amount is included in the “MPD Funding Agreement” payment amounts in the Summary Tab, row 74.

- *DPFG Response: DPFPG investigated this occurrence and determined it was being double counted. DPFPG will remove this amount from the road case tab. It does not appear to happen in any other department or special fund revenues.*
 - HYCo accepts DPFPG’s response as concluding the inquiry regarding this item.

Stormwater Tab

- **Cell D14 is linked to Assump Tab, cell F15. It would be expected that Stormwater Tab cell D15 would be linked to Assump Tab, cell F16, but it is not linked. It turns out that the correct value (455 employees) is in the Stormwater Tab, but not the Assump Tab. If this spreadsheet will be used for future FIA, the link should be restored, and the correct data included in Assump Tab, cell F16.**
 - *DPFG Response: DPFPG will correct the link as requested.*
 - HYCo accepts DPFPG’s response as concluding the inquiry regarding this item.

Utility Tax Tab

- **Row 18 (Water Utility Tax): Does the water utility tax revenue include or exclude water utility taxes from homes built in the disputed water service area?**
 - *DPFG Response: The analysis currently includes these revenues, but to be conservative, DPFPG will adjust the fiscal analysis to exclude the water utility taxes from the homes in the disputed water service area.*
 - HYCo accepts DPFPG’s response as concluding the inquiry regarding this item.
- **Rows 14-22 (Utility Taxes): Add a row for stormwater utility tax revenue (itemized on page 19 of the City’s 2013 budget). The City includes it as a general fund revenue. It is not the stormwater utility charge that is the revenue source for the stormwater fund.**
 - *DPFG Response: DPFPG will add the Stormwater Utility Tax as mentioned above.*
 - HYCo accepts DPFPG’s response as concluding the inquiry regarding this item.

Asump Tab

- **As noted above under the Stormwater Tab, the data in cell F16 should be corrected.**
 - *DPFG Response: DPFPG will correct the link.*
 - HYCo accepts DPFPG’s response as concluding the inquiry regarding this item.