

FISCAL IMPACT ANALYSIS – BROWN RANCH ANNEXATION

BROWN RANCH DEVELOPMENT
STEAMBOAT SPRINGS, CO

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Report Authors

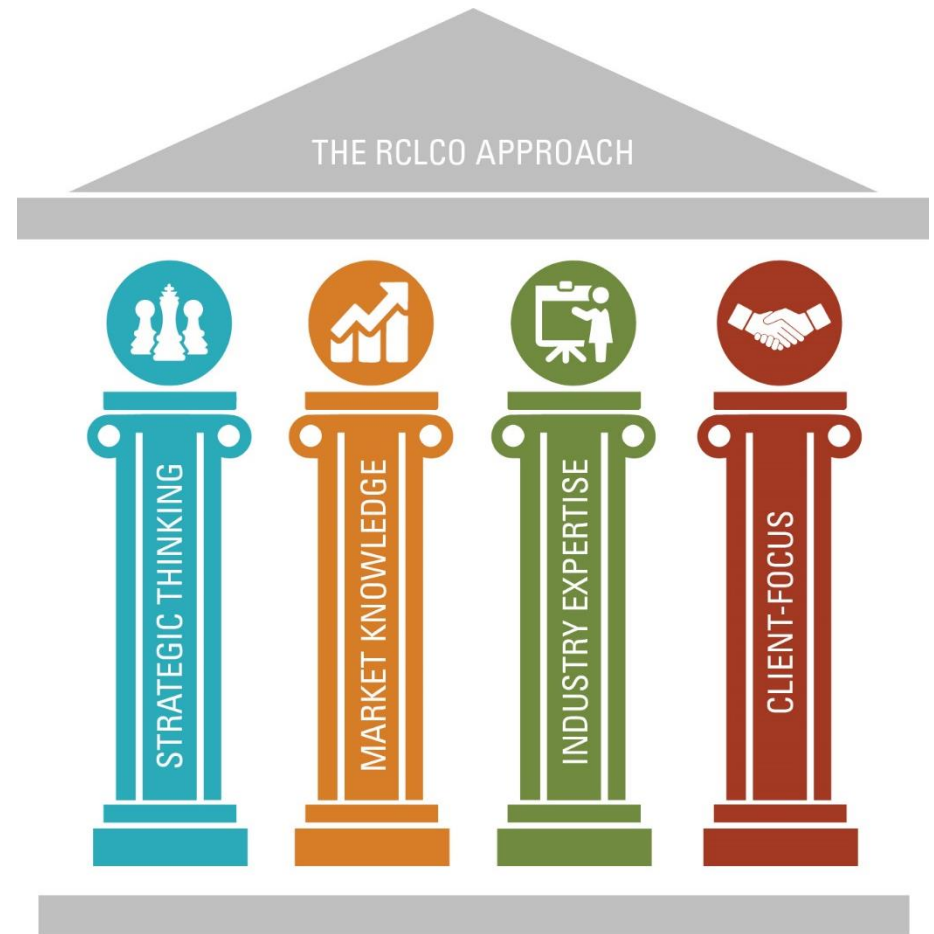
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OBJECTIVES & OVERVIEW OF FISCAL IMPACT ANALYSIS

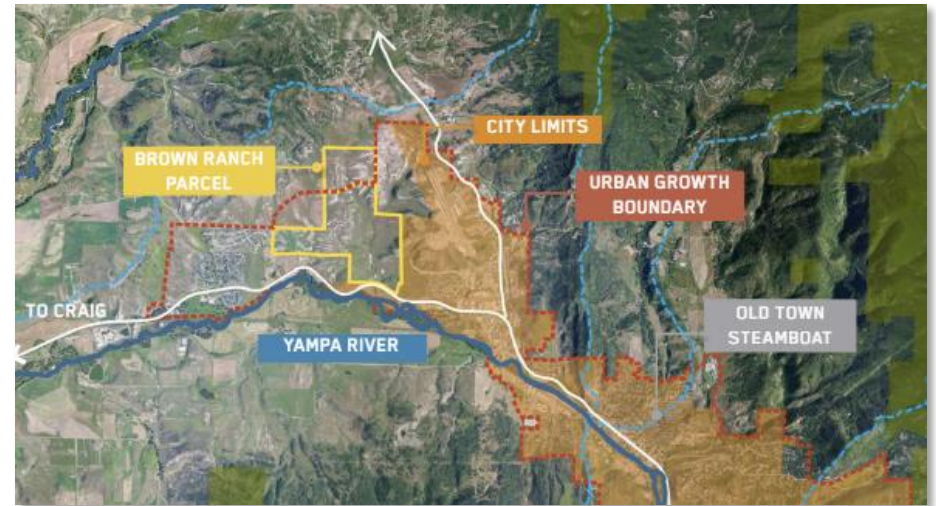
OBJECTIVES

At buildout, Brown Ranch is contemplated to be a 2,264-unit development with a mix of products that will serve local workforce households, as well as a small neighborhood-serving commercial core with a mix of civic uses. Given the large scale of development planned for Brown Ranch, there are expected to be significant long-term community benefits to the City of Steamboat and Routt County that will enable sustainable economic growth. More workforce housing in Steamboat will not only provide a more stable and diverse community and employment base, but there will also be tangible benefits such as some increase in sales tax, vehicle taxes, and spillover impacts related to lodging taxes as the economy grows. However, given the need for more City and County services, there are also expected to be significant operating costs.

In order to better understand these trade-offs and inform City Council of the estimated cost of annexing Brown Ranch into the city boundaries, the Yampa Valley Housing Authority and the City of Steamboat Springs seek a comprehensive fiscal and economic impact analysis as Brown Ranch is considered for annexation, including the following key tasks:

- ▶ Determine major city revenues that would be generated by the Brown Ranch development
- ▶ Determine major city expenses that would be generated by the Brown Ranch development
- ▶ Calculate the projected direct net fiscal impact of the annexation and development at Brown Ranch on an overall and per household basis

Aerial View
Brown Ranch Parcel; September 2023



EXISTING FISCAL CONDITIONS

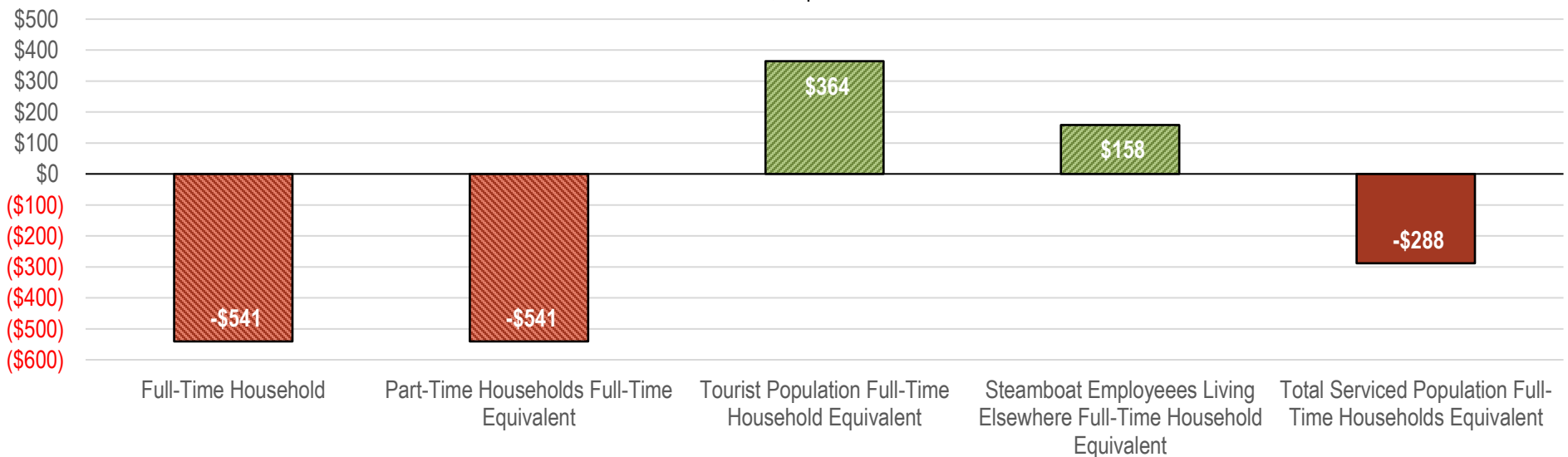
THE CURRENT FISCAL STRUCTURE PLACES THE BURDEN OF A BALANCED BUDGET ON REVENUES GENERATED BY TOURISTS AND EMPLOYEES LIVING ELSEWHERE

- ▶ Steamboat Springs' current fiscal structure is such that part-time and full-time households have a net-negative impact on the budget, with a large share of operating income revenues generated by tourists and employees living elsewhere. The use of minimal property taxes, specifically, is atypical and makes it difficult for full-time households to generate positive cash flow to the city.
 - » As a result of the existing fiscal framework, **it is unlikely the city will be able to annex land and develop full-time housing of any capacity without creating additional net costs to the city.**

Estimated Net Fiscal Impact by Service Group
Brown Ranch; September 2023

Service Group	2023 Revenues	2023 Expense	2023 Net Impact
Full-Time Households	\$29,974,770	\$32,974,197	(\$2,999,427)
Part-Time Households	\$5,954,474	\$6,550,308	(\$595,835)
Tourists	\$5,498,842	\$5,047,144	\$451,698
Employees Living Elsewhere	\$8,845,782	\$8,537,269	\$308,513
Total	\$50,273,868	\$53,110,169	(\$2,836,301)

Estimated Net Fiscal Impact by Service Group Full-Time Equivalent
Brown Ranch; September 2023



Note: General Fund and future Brown Ranch revenues ignore intergovernmental revenues in an attempt to isolate cash flow generated by the city's service population
Full-time equivalencies are used throughout the report to create an apples-to-apples comparison

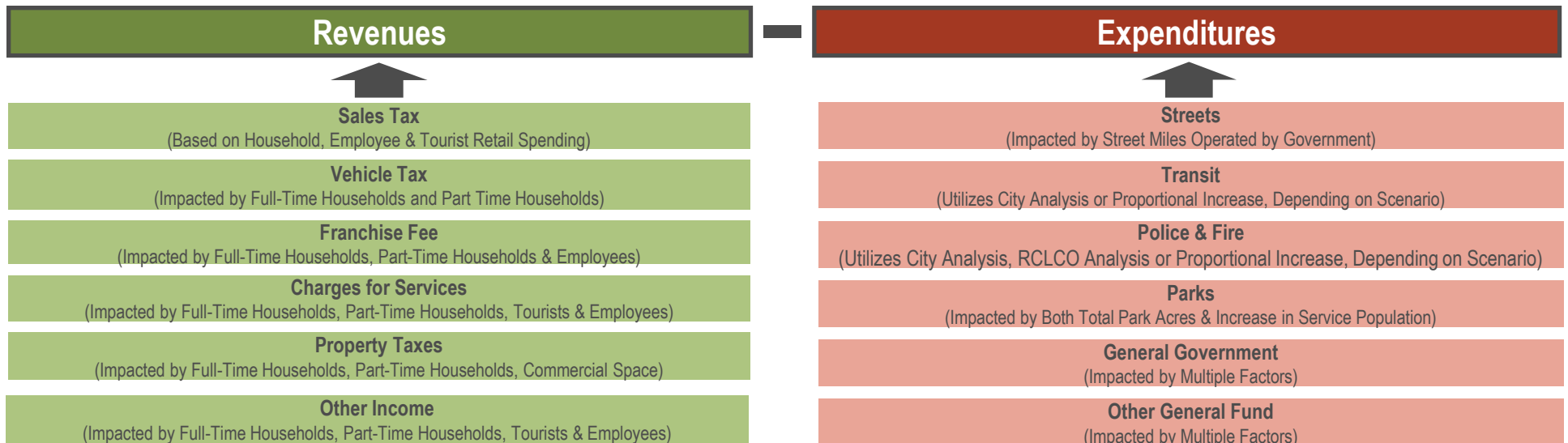
Source: Steamboat Spring; RCLCO

FISCAL IMPACT OVERVIEW & METHODOLOGY

RCLCO CALCULATED THE FISCAL IMPACT THROUGH A MIX OF CUSTOM ANALYSIS AND CITY-PROVIDED EXPENSES

- ▶ The analysis summarized in this report calculates the net fiscal impact of the development that will occur at Brown Ranch. The net fiscal impact is defined as the annual operating tax revenues that Brown Ranch will generate less annual expenses. For the purpose of the study, RCLCO focused the analysis specifically on the General Fund and property taxes levied through the Fire & EMS Fund.
- ▶ To calculate revenues, RCLCO first identified the expected revenue streams outlined in the 2023 Steamboat Springs Adopted Budget. For each revenue stream, RCLCO determined what percentage was fixed and would not increase with additional development, and what percentage is variable and likely to increase as Brown Ranch takes shape. RCLCO then used expected household growth, direct tourism growth – which was assumed to be zero – and employment growth induced by the Brown Ranch development in order to determine the net impact the development is likely to have on each of Steamboat Springs revenue streams.
 - » **Sales Tax** was calculated using a custom analysis. In order to project sales tax, RCLCO calculated annual taxable retail spending by full-time household, part-time households, tourist and Steamboat employees living elsewhere, and then applying that figure to the relevant tax rate and expected growth induced by Brown Ranch.
 - » **Property Tax** was calculated by taking likely construction costs of the full development and applying the appropriate property tax rate, taking into consideration the cities taxable value approach and tax exemptions for affordable housing.
- ▶ RCLCO calculated costs for streets, general government, and other expenses using a similar framework as revenues, taking variable cost per stakeholder and applying that to the expected growth at Brown Ranch. For fire, transit, parks and police RCLCO created multiple scenarios utilizing both city estimates and in-house projections in order to determine the overall costs. The city and housing authority ultimately agreed on scenario 5, which is outlined in this report.

Calculation of Net Fiscal Impact; Brown Ranch Development & Annexation



SUMMARY OF PLANNED DEVELOPMENT

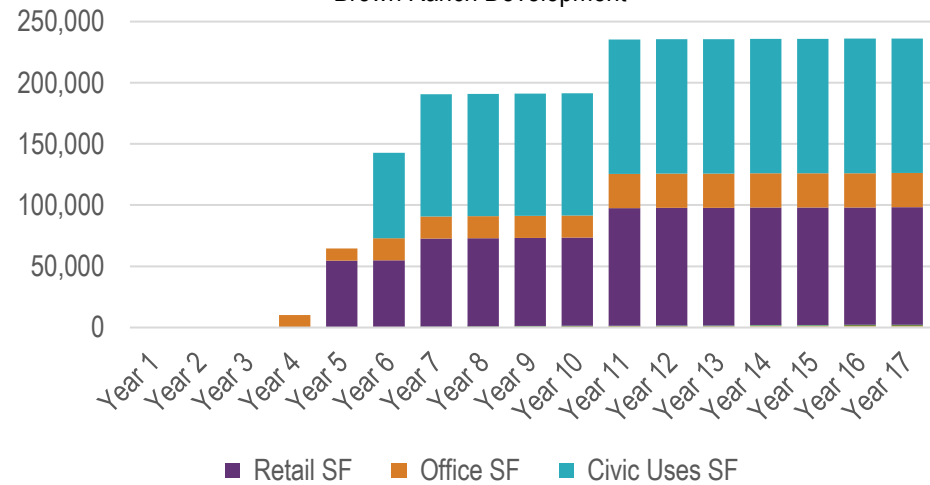
BROWN RANCH IS EXPECTED TO INCLUDE 2,264 HOMES AND INCREASE THE HOUSING SUPPLY WITHIN STEAMBOAT SPRINGS BY ~20% AT BUILD OUT

- ▶ Brown Ranch is a 534-acre site located northwest of the existing Steamboat Springs city limits. Initial plans for the site include development of several residential uses, for **a total of 2,264 housing units**.
- ▶ The development will target existing full-time households within Routt County and in-commuters, as opposed to part-time households or seasonal users. Given the current housing supply of roughly 10,000 units in Steamboat Springs, **this development will create a significant increase to the housing stock and will assuage housing supply issues for the local workforce**, allowing Steamboat to grow in a sustainable manner.
- ▶ In addition to significant housing supply increases, Brown Ranch will include a town center which incorporates retail, civic and office space.

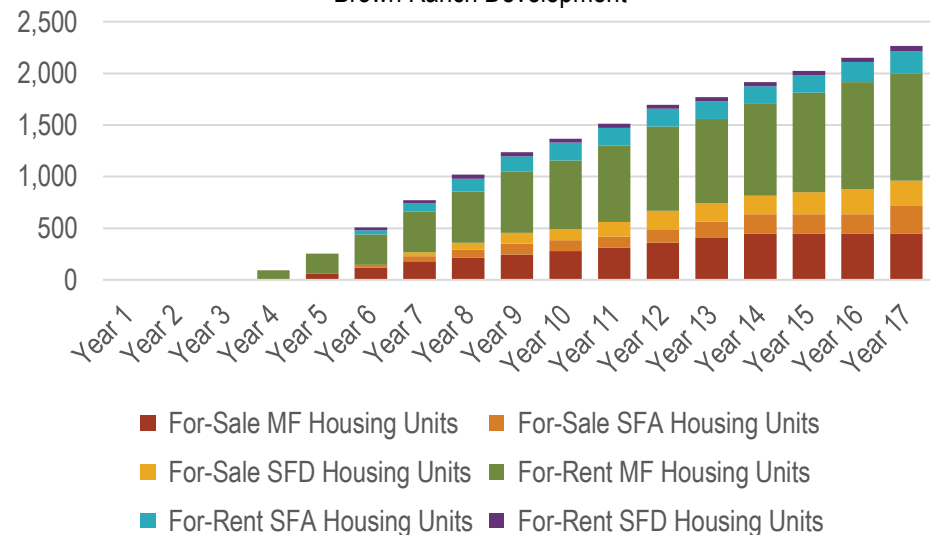
Current Development Program; Brown Ranch Development

LOCATION AND USE	QUANTITY
Total Residential	2,264
For-Sale MF Housing Units	451
For-Sale SFA Housing Units	266
For-Sale SFD Housing Units	245
For-Rent MF Housing Units	1,035
For-Rent SFA Housing Units	218
For-Rent SFD Housing Units	49
Total Commercial	234,000 SF
Retail SF	96,000 SF
Office SF	28,000 SF
Civic Uses SF	110,000 SF

Square Footage of Commercial Space by Year and Type;
Brown Ranch Development



Residential Units by Year;
Brown Ranch Development

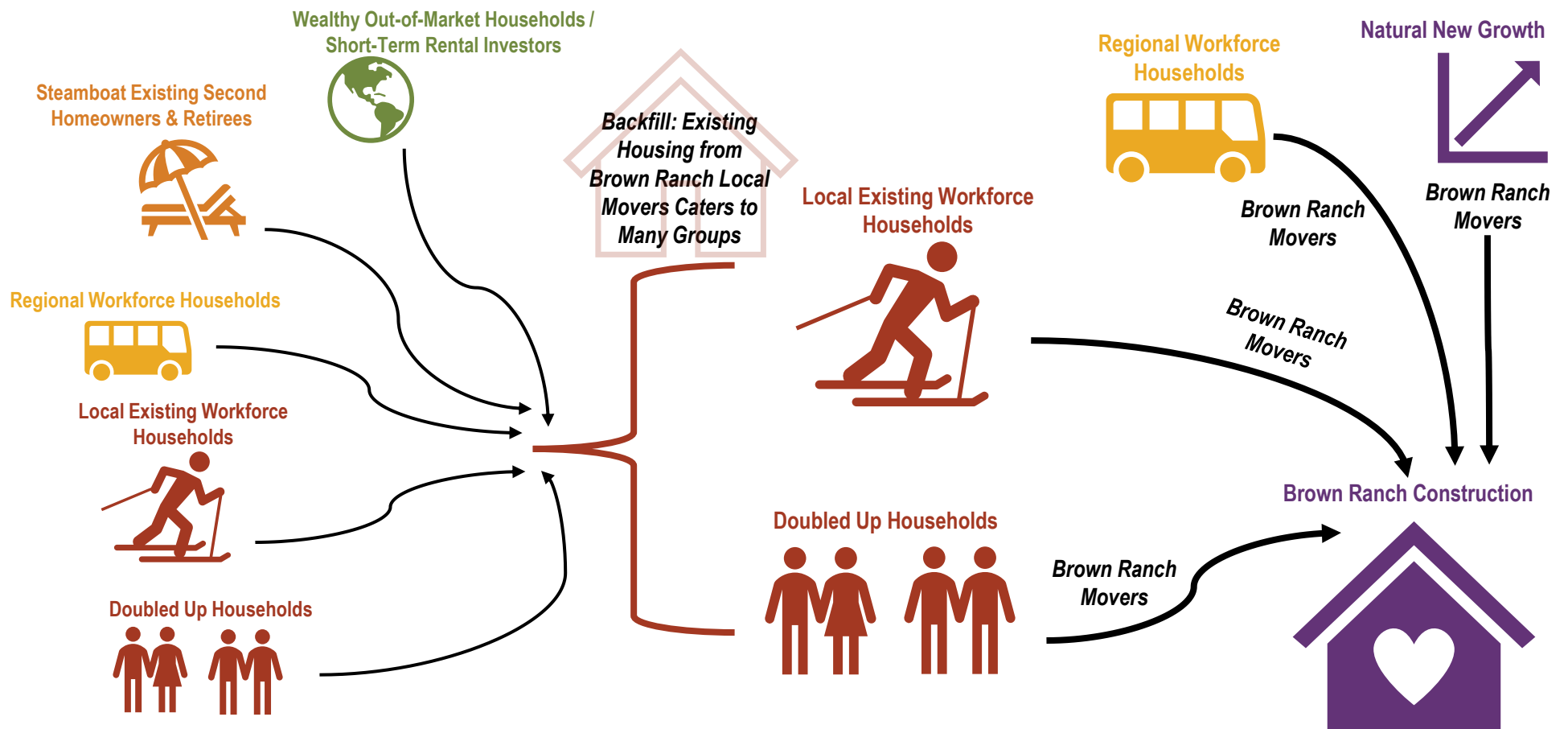


SOURCE: RCLCO

BROWN RANCH NET NEW GROWTH

BROWN RANCH IS EXPECTED TO GENERATE 80% NET NEW GROWTH AND 20% BACKFILLING OF EXISTING SUPPLY DUE TO SHIFTING AND DE-DOUBLING HOUSEHOLDS

- ▶ While the majority of new units at Brown Ranch are expected to generate direct net new household growth (largely due to workforce households living in other parts of Routt or Moffat counties relocating to Brown Ranch as well as natural growth), a share of moves to Brown Ranch will consist of existing Steamboat workforce households relocating within the market (de-doubling and shifting households), opening up “backfill” within the existing housing stock.



Source: RCLCO

NET FISCAL IMPACT

INTRODUCTION TO SCENARIO 5

AFTER EVALUATING SEVERAL SCENARIOS WITH VARYING COST SENSITIVITIES, THE CITY OF STEAMBOAT SPRINGS AND THE YAMPA VALLEY HOUSING AUTHORITY AGREED ON SCENARIO 5, WHICH ESTIMATES BROWN RANCH WILL COST THE CITY A NET \$1,203 PER HOUSEHOLD PER YEAR

- **Introduction:** RCLCO has been working closely with the Yampa Valley Housing Authority and city of Steamboat Springs to determine likely expenses induced by the Brown Ranch development and annexation. In general, the expense per new household added has been subject to ongoing debate, **with the City and Housing Authority ultimately agreeing on Scenario 5 as the most appropriate projection.** As a result, Scenario's 1 through 4 have been removed from the analysis.
- **Scenario 5 Explanation:** In general, Scenario 5 utilizes a conservative approach towards expenses, which includes a significant cost increase to the city's police and fire department. The scenario incorporates a custom analysis for streets expense provided by the City of Steamboat Springs and an agreed upon \$400,000 increase in transit expense annually to better connect Brown Ranch.
- **Implication for Steamboat Springs:** Under the accepted scenario, the Brown Ranch development will cost the city a net \$1,203 per household added per year. As a result, the Yampa Valley Housing Authority has agreed to pay the city \$1,203 per unit annually in order to offset costs associated with annexation.

Expense Comparison	Existing Dynamics		Scenario 5		
	Current Budget	Fiscal Impact per Full-Time HH	Assumption	At Full Build-Out (2040)	Avg Cost Per HH at Full Build Out
Streets Expense	\$4,165,345	\$418	Uses City analysis based on lane miles	\$577,450	\$255
Transportation Services (Transit) Expense	\$5,742,703	\$577	\$400,000 appropriated by the City	\$400,000	\$177
Police Services Expense	\$7,597,024	\$763	Keeps Cost per household constant	\$1,727,493	\$763
Fire Services Expense	\$7,485,114	\$752	Uses City analysis based on fire department expected needs	\$1,595,885	\$705
Parks & Recreation Expense	\$10,036,786	\$1,008	Uses Scenario 1 calculations (constant expenses per household); assumes City pays for half	\$577,828	\$254
Total Revenues	\$50,273,868	\$5,403		\$3,202,423	\$1,414
Total Costs	\$53,110,169	\$5,943*		\$5,927,090	\$2,618*
Total Net Fiscal Impact	(\$2,836,301)	(\$541)		(\$2,724,667)	(\$1,203)

*Note: Total Costs Includes General Government Expenses Not Shown Above But Totalling \$463 Per Household in Scenario 5 Source: Steamboat Springs; Yampa Valley Housing Authority; RCLCO

REVENUES SUMMARY

HOUSEHOLDS AT BROWN RANCH WILL GENERATE AN ESTIMATED \$1,415 OF REVENUE ANNUALLY PER HOUSEHOLD, MOST OF WHICH COMES FROM SALES TAX

- ▶ Unlike expenses, **RCLCO only utilized only one base scenario to determine expected revenues generated by Brown Ranch.** For vehicle tax, franchise fee, General Government, streets, fire & police, park & rec and other revenues, RLCCO analyzed existing revenue streams and calculated what percentage of revenues were fixed and what revenues would increase with additional development. Then, RCLCO allocated those revenues to the Steamboat Springs service population (i.e. full-time households, part-time households, tourists and employees living elsewhere – all converted to full-time household equivalents). Using this framework, RCLCO was able to determine the net revenue increase expected for each additional household and apply these figures to expected growth at Brown Ranch.
- ▶ For sales tax, RCLCO calculated total taxable retail spending within the city by full-time households, part-time households, tourists and employees living elsewhere. RCLCO then applied those figures to the relevant tax rate and household growth at Brown Ranch.
- ▶ For property tax, RCLCO calculated the cost of construction for the Brown Ranch development and factored in potential market values, taxable values, the city tax rate and the proportion which is affordable or tax exempt to estimate total annual property tax.
- ▶ **Sixty-five percent of all revenue generated by Brown Ranch is expected come in the form of sales tax.** Other significant revenue drivers include vehicle tax and franchise fee and property tax levied through the Fire & EMS Fund.

Estimated Net Fiscal Impact on General Fund & Fire & EMS Fund – Cumulative & Per Household Brown Ranch Development & Annexation

Impact of Development on General Fund Revenues		
Total Revenues from Brown Ranch	Annual At Full Build-Out	2023-2040 Total
General Fund	\$3,037,390	\$28,043,954
Sales Tax	\$2,010,540	\$18,543,577
Vehicle Tax	\$356,516	\$3,282,652
Franchise Fee	\$165,198	\$1,539,753
General Government	\$35,231	\$326,644
Streets & Transit	\$3,094	\$28,489
Fire & Police	\$108,573	\$999,901
Parks & Rec	\$176,076	\$1,638,802
Other	\$182,162	\$1,684,136
Fire & EMS Fund (Property Tax)	\$165,033	\$1,612,927
TOTAL REVENUES	\$3,202,423	\$29,656,881

Impact of Development on General Fund Revenues		
Revenues Per HH at Brown Ranch	Annual At Full Build-Out	2023-2040 Total
General Fund	\$1,342	\$12,386
Sales Tax	\$888	\$8,190
Vehicle Tax	\$157	\$1,449
Franchise Fee	\$73	\$680
General Government	\$16	\$144
Streets & Transit	\$1	\$12
Fire & Police	\$48	\$441
Parks & Rec	\$78	\$723
Other	\$80	\$743
Fire & EMS Fund (Property Tax)	\$73	\$712
REVENUES PER NEW HH	\$1,415	\$13,098

Note: All findings are in 2023 dollars and are not inflation adjusted

Source: RCLCO

EXPENDITURES SUMMARY

SCENARIO 5 UTILIZES CONSERVATIVE ESTIMATES PROVIDED BY RCLCO AND THE CITY OF STEAMBOAT SPRINGS

► The below summary of expenses for Scenario 5 utilizes generally conservative estimates, which include high costs associated with police and fire. The analysis uses a mixture of analysis provided by RCLCO and Steamboat Springs and is generally accepted by both the City and the Yampa Valley Housing Authority.

Expense Comparison	Existing Dynamics		Scenario 5		
	Current Budget	Existing Cost per Full-Time HH Equivalent	Assumption	At Full Build-Out (2040)	Avg Cost Per HH
General Government	\$13,352,672	\$1,341	Utilizes RCLCO Analysis	\$789,287	\$349
Public Works	\$1,303,702	\$131	Utilizes RCLCO Analysis	\$71,639	\$32
Streets	\$4,165,345	\$418	Uses City Analysis Based on Lane Miles	\$577,450	\$255
Transportation Services (Transit)	\$5,742,703	\$577	\$400,000 Annually Appropriated by the City	\$400,000	\$177
Police Services	\$7,597,024	\$763	Keeps Cost per Household Constant	\$1,727,493	\$763
Fire Services	\$7,485,114	\$752	Uses City Analysis	\$1,595,885	\$705
Parks & Recreation	\$10,036,786	\$1,008	City will Provide 50% of Cost	\$577,828	\$255
Community Development	\$1,722,988	\$173	Utilizes RCLCO Analysis	\$135,700	\$60
Other Expenses	\$1,703,835	\$171	Utilizes RCLCO Analysis	\$51,808	\$23
Total Costs	\$53,110,169	\$5,334		\$5,927,090	\$2,618

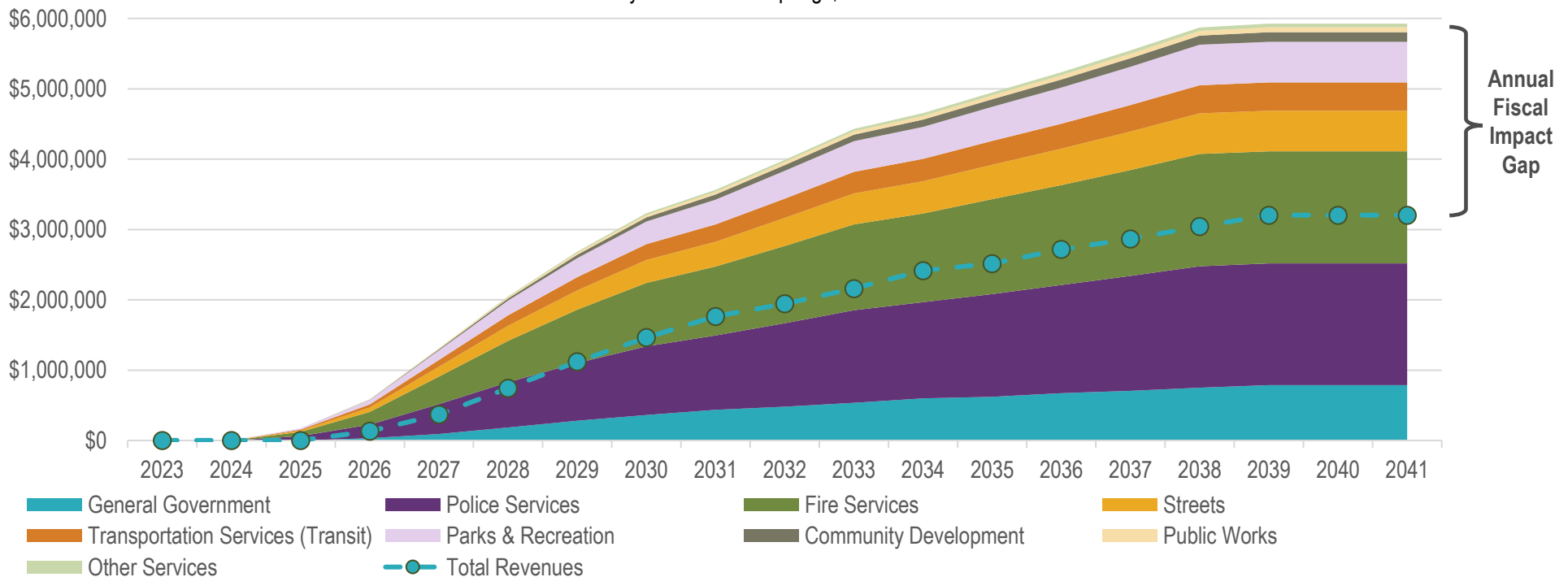
Source: RCLCO

NET FISCAL IMPACT – SCENARIO 5

THE YAMPA VALLEY HOUSING AUTHORITY HAS AGREED TO OFFSET NET COSTS ASSOCIATED WITH BROWN RANCH – AN ESTIMATED \$1,203 PER YEAR PER HOUSEHOLD

- ▶ With the assumed expenses and revenues projected under Scenario 5, Brown Ranch will cost the city \$2,724,667 annually, or \$1,203 per housing unit. In order to offset these costs, the Yampa Valley Housing Authority has agreed to pay the City of Steamboat Springs the full \$1,203 annually per household.
- ▶ The cost projections do not incorporate revenues and expenses associated with the city's Capital Projects Fund and are focused only on the General Fund, which represents the typical operational budget within the city.
- ▶ The estimates outlined below are generally conservative, and the realized expenses incurred by the city may be lower than projected.

Estimated Annual Revenues, and Expenses Induced by Brown Ranch;
City of Steamboat Springs; Scenario 5



Note: Dollar amounts are in 2023 dollars.

Source: RCLCO

DISCLAIMERS

CRITICAL ASSUMPTIONS

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will experience a period of slower growth in the next 12 to 24 months, and then return to a stable and moderate rate in 2024 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when inflection points in economic and real cycles will occur.

With the above in mind, we assume that the long-term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- ▶ Economic, employment, and household growth
- ▶ Other forecasts of trends and demographic and economic patterns, including consumer confidence levels
- ▶ The cost of development and construction
- ▶ Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- ▶ Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- ▶ Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand
- ▶ Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

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