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CLARK COUNTY
WASHINGTON

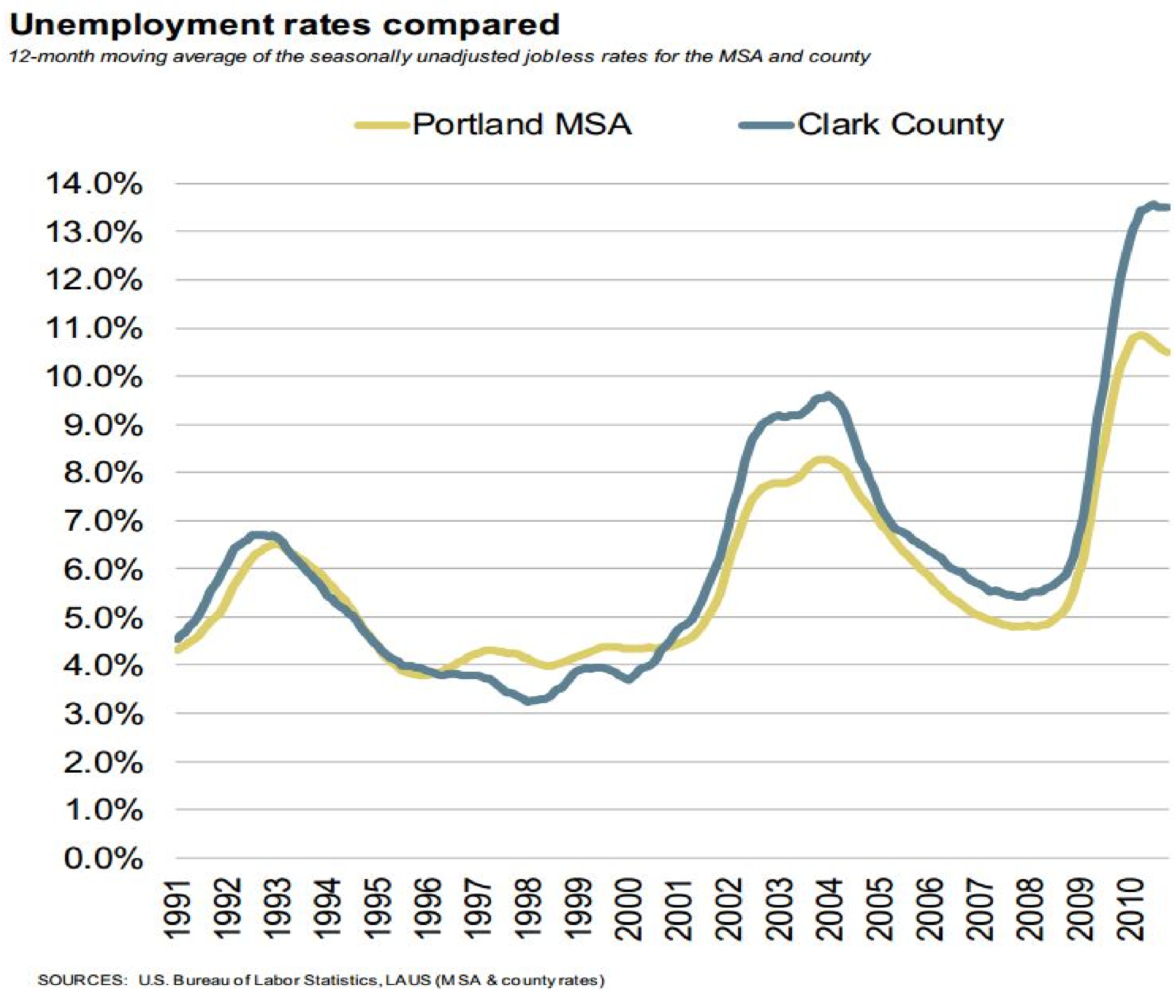
Clark County Commissioner Job Creation Fee Waiver Program Evidenced Based Findings

November 25, 2014

In contrast to political campaigns and editorial opinions, generally accepted government auditing standards require appropriate evidence to support a reasonable basis for findings and conclusions.

The following evidence is followed by the commissioner conclusions contrasted by those asserted by the auditor for the same data.

Clark County's economic problem before the Program



The Evidence: The September 2011 Columbia River Economic Development Council (CREDC) Clark County Economic Report:

"Clark County has fallen behind and the unemployment rate in Clark County is now among the highest in the state. Clark County's construction and manufacturing workforce was hit particularly hard by the Great Recession. The recovery from the recession is slow. Scott Bailey (the regional economist for the Washington Employment Security Department) predicts that the prospects for job growth are grim. In fact, he is concerned that there may be very little job recovery over the next five years."

http://www.credc.org/wp-content/uploads/2013/03/FINAL_Clark-County-ED-Plan-9_2011.pdf

The Evidence: Regional Economist Scott Bailey June 2013 Report:
"June brought continued job growth in Clark County, but at a slower pace than the three prior months."
"Job growth over the year was 2,700, or 2.1 percent, almost identical to last month."

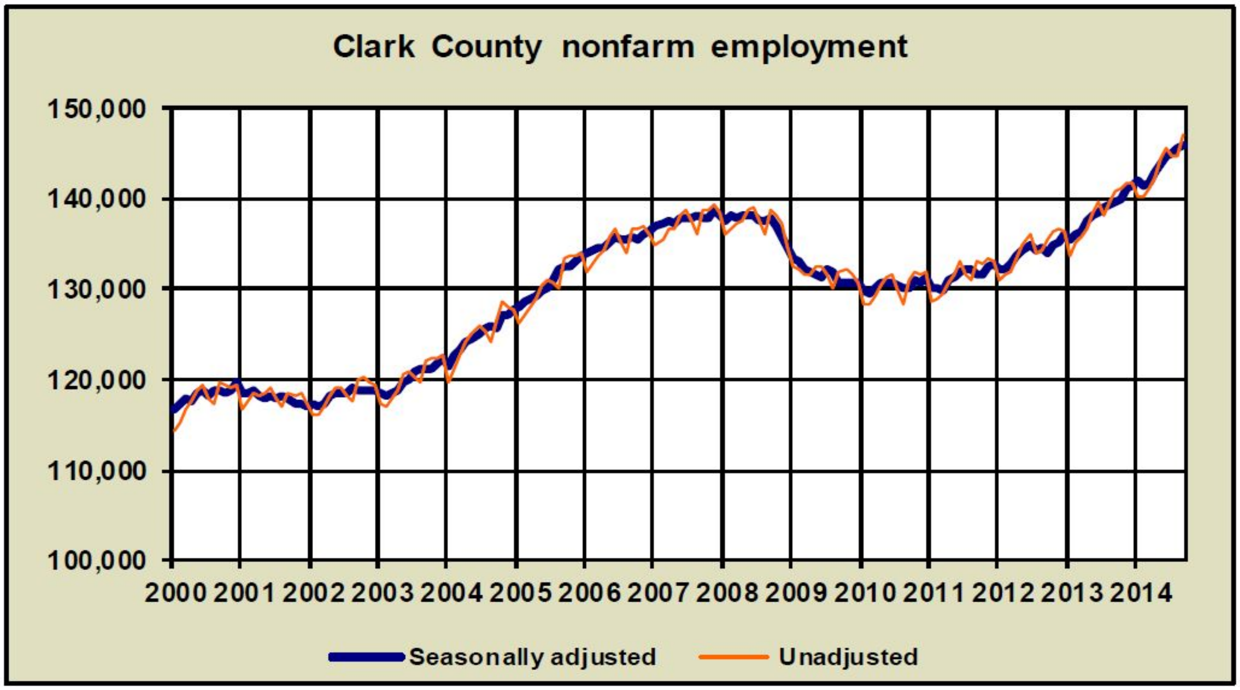
Unemployment for Clark County was exceeding 10% every month from December 2008 through May 2013 and consistently among the worst in the Northwest as reported by the Washington State Department of Employment Security.

Clark County's economy was lagging behind the Portland Metro area and forecasted by Regional Economist Scott Bailey to remain grim for the foreseeable future with continuing damaging and debilitating ripple effects through every sector.

Commissioner conclusion:
Unless Clark County made a significant change from the status quo, the future forecasted by the CREDC and the Regional Economist would likely come to pass. Clark County should become the most business-friendly community on the West Coast. We must gain a competitive edge over other communities encouraging business decision makers to conclude that "this is the time and this is the place." Focus on making our customers successful by streamlining the permit processes and waiving all permit application and traffic impact fees (TIF) for non-residential construction. Track the results to determine if new accelerated business growth, in addition to creating new local jobs, would create accompanying new revenue. Adopt Job Creation Resolution # 2013-06-06.

Auditor conclusion:
National studies conclude that in spite of their goal to stimulate local economies, incentive programs by local government programs may have an overall negative impact on regional economies and do more harm than good by actually decrease sales and jobs at other competing businesses. Oppose the Job Creation Resolution. Continue the status quo.

Clark County's economic turnaround since the adoption of the Program



The Evidence: Regional Economist Scott Bailey September 2014 Report Summary:
"September was another good month for Clark County's labor market. Seasonally-adjusted nonfarm employment rose by 400 jobs over the month. Employment growth over the past twelve months remained over 4 percent.

Unadjusted employment rose by 2,300 jobs over the month. The start of the school year brought 1,800 workers back to work in public and private schools. There was also the usual large seasonal hiring in recreational services."

Unofficially: unrounded numbers put Clark County job growth at 6,400 or 4.6% which is nearly twice the 2.4% job growth rate for the Portland Metro area.

Once again, the job growth rate in Clark County was the fastest in the Northwest compared to 2.5% for Washington, 2.2% Oregon, and 1.9% nationally.

Every major sector was up over the year including:
+1,400 new jobs in transportation & utilities, +5.4%
+1,000 new jobs in professional & business services, +6.1%
+1,000 new jobs in construction, +9.8%
+900 new jobs in education & health services, +3.8%
+500 new jobs in government, +2.2 %
+400 new jobs in information services, +15.4%
+300 new jobs in finance, +4.3 %

"The preliminary August unemployment rate of 7.0 percent was revised upward by 0.5 points to 7.5 percent. Before noting that the preliminary September rate of 5.9 percent will be revised upward by about the same amount, let's stop and appreciate an unemployment rate that starts with a "5", however ephemeral. We haven't had one of those since April 2008."

Commissioner conclusion:
The Program was adopted with the intention of decreasing unemployment in Clark County and spurring economic development. The contrast that moved Clark County from among the worst to outpace all other communities is obvious. Clark County has become the fastest job growth community in the Northwest.

Auditor conclusion:
The impact of the fee waiver programs on construction appears to be minimal. The fee waivers had no impact on business growth or job creation. The results of the Program also do not contribute towards the County's ability to achieve its economic development goals and in some instances works contrary to them. It would have occurred anyway. The Program had minimal impact on business construction. Clark County's jump ahead of all other communities would have happened anyway.

OVERALL SUMMARY - Fee Waivers Through September 2014 Qualifying Under Resolution 2013-06-06					
Projects		169	Proj. Inc. in Taxable Retail Sales (by Applicant)	$	99,106,788
Square Footage		1,366,462	2014-2018 Proj. Local Sales Tax Increase	$	5,946,407
Value of Construction	$	41,640,016	2014-2018 Proj. State Retail Sales Tax Inc.	$	32,209,706
Application Fees Waived This Month [1,3]	$	136,859	Projected Construction Sales Tax	$	795,240
Application Fees Waived To Date [1,3]	$	1,669,429	2014-2018 Proj. Co. Property Tax Increase	$	749,882
TIF Waived To Date	$	732,559	2014-2018 Proj. Co. Conservation Futures	$	12,186
Possible TIF to be Waived [4,5]	$	5,877,015	2014-2018 Proj. State Property Tax Increase	$	493,722
Projected New Employees (by Applicant)		1,584			
Proj. New Annual Sales [2] (by Applicant)	$	253,082,323			

The Evidence: Monthly reports detailing the activity of all fee waiver recipients:

During the first 16 months, 169 projects were started. Applicants estimate that they will create 1584 new permanent local full time jobs, $253 million in new local sales, $99 million in new local taxable sales, and generate $8 million in new Clark County Tax revenue and $40 million in new state and county tax revenue in the first five years. Sales tax revenue on construction sales exceeds all of the Traffic Impact Fees waived to date. Every relevant metric is captured and automatically posted online every month.

Evidenced based findings and conclusions:
Clark County is back to work and prospering better than all other Northwest communities. Perhaps Clark County's unprecedented business-friendly competitive advantage will prove to be an

innovative model for other communities to follow. The program appears to be financially sustainable and should be continued.

Auditor's findings and conclusions:
The Program does not follow best practices for economic development incentive programs. As a result, the Program lacks transparency and is difficult to manage or evaluate. The resolution creating the Program does not include key elements such as expected outcomes, performance measures, or methods to validate program data. The results of the Program also do not contribute towards the County's ability to achieve its economic development goals and in some instances works contrary to them. The Program should be eliminated or substantial changes should be made to improve its effectiveness.

Errors and Omissions

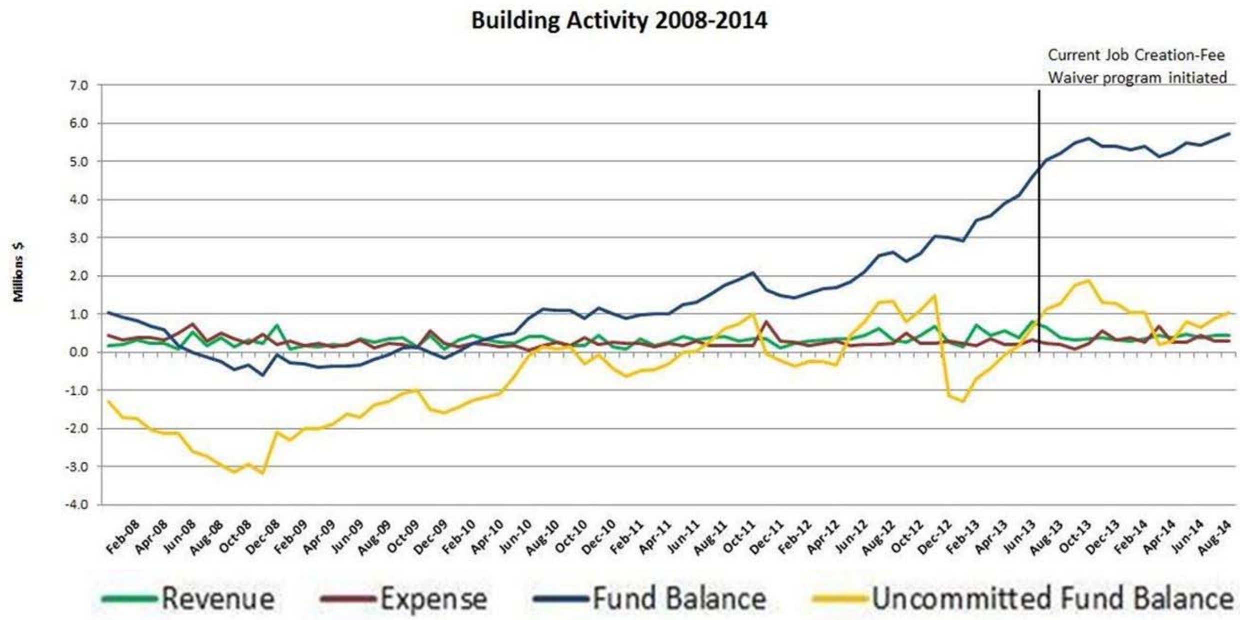
Obtaining credible data: A 2011 survey asked applicants turning in their plans if a 2010 lesser Program that offered a partial fee discount if they would have built their project anyway. About 60 percent said that the Program didn't make any difference.

The current Program requires applicants to provide the estimated new annual taxable sales that their project will generate, in order to qualify for waived fees. For the first six months, we neglected to ask for that metric. Staff discovered that it was difficult to go back and get that information because the person turning in the plans was normally not the business owner or the decision maker.

Rather, they were often the contractor or builder who did not know much about the number of employees or the amount of annual taxable sales. They often didn't care about a partial fee waiver program because those costs would simply be passed along to the business owner. The application process is now correct to ensure that the knowledgeable business decision maker provides the required information up front. The flawed 2011 poll for a 2010 lesser program is not relevant to the current Program.

The free market: The Auditor claims that the majority of jobs created are low paying and that residents must commute to Portland to earn higher wages. Such an opinion, if true, asserts a philosophy outside of the scope of the Program. The Program welcomes the free market. Appendix "A" includes a broad sampling of the new businesses and the number of new full time jobs for each.

Community Development Department Fund Sustainability



The Evidence: The six year financial track record of the Community Development Department that processes building permits: The cash fund balance is in blue. The uncommitted cash balance after major commitments have been deducted is in yellow. The vertical line marks the time when the Fee Waiver Program was adopted.

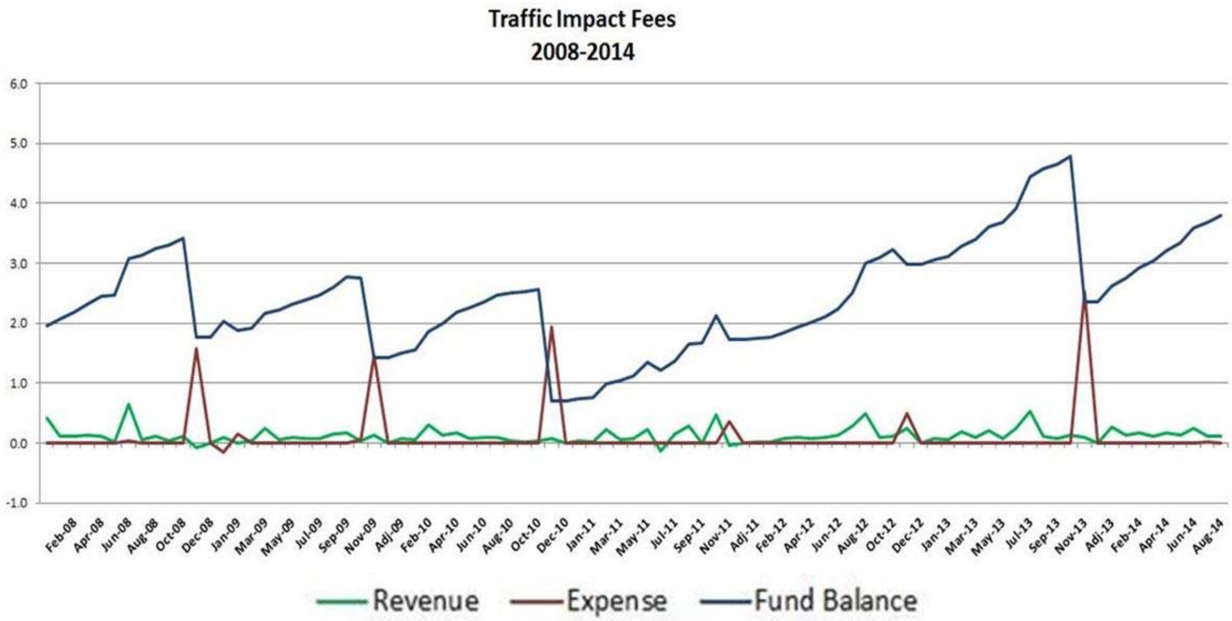
The Program has already funded the multi-million cost of the new software system to replace the dated Tidemark Permit Management Software and the $400,000 cost to build a new permit center. The Program has been funding the extended hours and added staff to meet the extra demand and better serve customers. Streamlined processes have lowered the cost for staff to issue permits.

No General Fund supplements have been added. The initial $3 million General Fund contingency cash budgeted for the Program for the 2013/2014 biennium was cancelled because it was not needed. The Budget Office does not recommend any General Fund contingency cash for the 2015/2016 biennium. The uncommitted cash balance has remained positive and the actual cash balance has exceeded all previous periods. Simply continuing the traditional annual General Fund support is sufficient.

Commissioner conclusion:
Since the Community Development Department Fund revenue rate is steady and healthy, sustainability is not an issue.

Auditor conclusion:
The Program is not cost-effective or sustainable. During the second quarter of 2014, the fees collected were not sufficient to cover the cost of permitting operations, resulting in a $350,000 decline in DCD’s reserve funds. At this rate, DCD management projects that they will need General Fund support to continue operations during the next biennial budget.

Traffic Impact Fee Revenue Sustainability

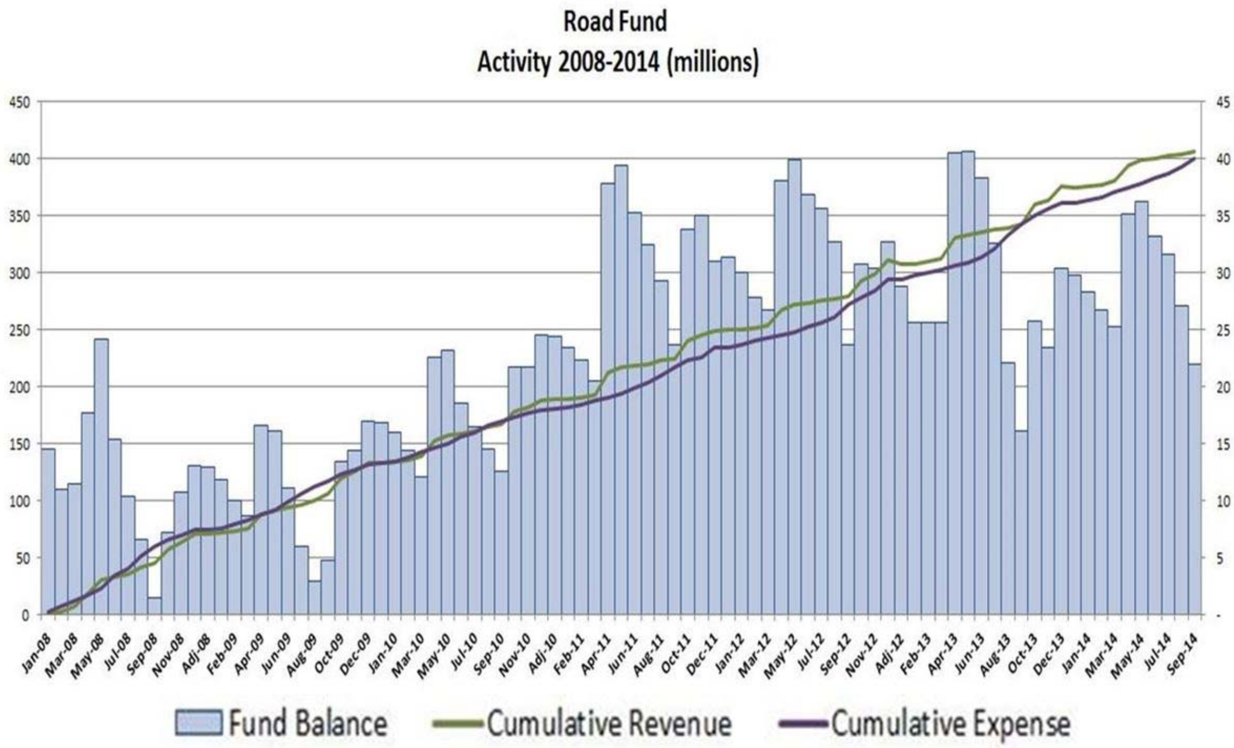


The Evidence: The six year track record of the Traffic Impact Fee fund:
The cash fund balance slope, in blue, indicates the revenue rate. The size of the cash withdrawals are indicated by the height of the red spikes.

Commissioner conclusion:
Since the TIF Fund revenue rate is steady and healthy, sustainability is not an issue.

Auditor conclusion:
The loss of TIF dollars may result in delays to key infrastructure projects. We recommend the BOCC consider eliminating the Program or work with DCD to make substantial changes to align it with best practices and other County policies on economic development. Based on this trend, management projects they will need General Fund support to continue permitting operations during the next biennial budget.

Road Fund Sustainability

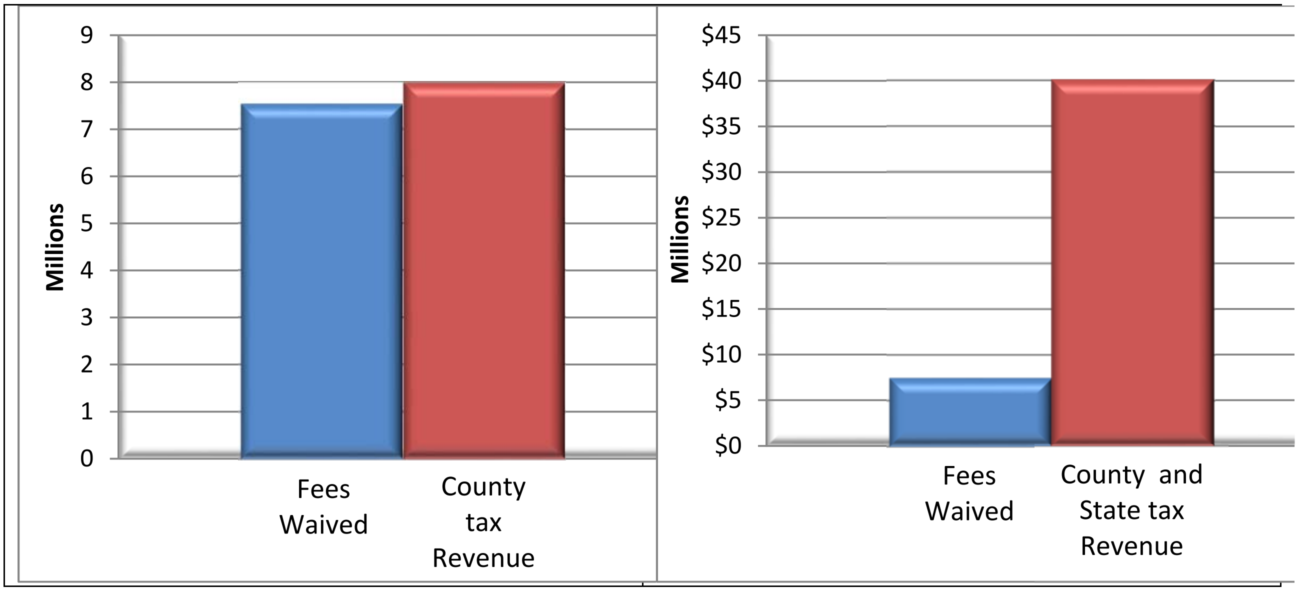


The Evidence: The six year track record of the Road Fund:
As evidenced by the $20+ million in Road Fund cash balance, the projects undertaken by Public Works is limited not by the available Road Fund cash balance, but more so by the time it takes external agencies to issue the environmental permits.

Commissioner conclusion:
Since the Road Fund revenue rate is steady and healthy, sustainability is not an issue.

Auditor conclusion:
Funding for the Program is not sustainable and may Impact future county infrastructure projects. Due to the negative financial impact on infrastructure spending and the General Fund, the BOCC should consider eliminating the Program.

Fees waived compared to projected tax revenue



The Evidence: The above graphs show the total fees waived (both permit processing fees and TIFs) through September 2014 compared to the projected tax revenue for the first five years. The left graph shows the new sales and property tax revenue projected for Clark County alone. The right graph includes the 6.5% sales tax revenue projected to be received by the state. No tax exemptions or discounts have been granted to any business. The Program includes no tax subsidies. Each business will be paying the same property tax rate and sales tax rate as every other business and providing a net tax revenue gain that lessons the burden on all other taxpayers.

Commissioner conclusion:
The projected tax revenue exceeds all fees waived for the county. The combined state and county tax revenue projected exceeds 500% of all fees waived. To date, the Program is sustainable and should be continued to develop a longer track record.

Auditor conclusion:
The Program is an unsustainable incentive and tax subsidy that shifts the costs to other taxpayers. (Note: The auditor report omitted all tax revenue.)

Appendix A (a sampling of new Clark County businesses using the Program)

Business	New Employees
Fabric Store	19
River City Granite	4
Columbia River Vet Clinic	10
Drywall company	8
D & D Doors	5
Hertz Rental Corp	2
Village Vineyard	11
My Fit Nation	5
Wildfire Environmental	5
Wolfsburg Auto Service	5
Concept Reality Machine Shop	5
Wheelkraft NW metal refinisher	7
Therapeutic Associates physical therapy	6
Clark Center @ WSU	6
Northwest Truck Painting	4
BBT Performance automotive fabrication	2
Hazel Dell Appliance	5
ProPac Pharmacy	17
Western Psychological Services	19
Family Chiropractic	2
Russell Automation	3
Athena Home Care Services	15
Smith-Root Corporate Headquarters	16
Salmon Creek Retail	54
Planet Fitness	12
Shutter Queen wood products assembly	4
All Star Fusion cheerleading, dance and gymnastics	2
Fargher Lake Inn	30
Lotus Group/Kestrel Engineering	10
Evergreen Plastic Containers	15
Farmer's Insurance Office	4
NLIGHT with Cleanroom	65
PADDEN PARKWAY BUSINESS PARK	396
WELCOME HOME ASSISTED LIVING	38
Community Home and Health Hospice care facility	40
MARKS DESIGN AND METALWORKS	15

The complete list is available at:
http://clark.wa.gov/development/about/documents/FeeWaiver-DEV-0914.pdf