

Big Chino Water Ranch Project Impact Analysis Prescott & Prescott Valley, Arizona

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Executive Summary

The Arizona Department of Water Resources, as of January 1999, declared that the Prescott Active Management Area (AMA) was no longer in “safe yield” and must comply with the Assured Water Supply Rules to reach safe yield by 2025. Thus, the City of Prescott and Town of Prescott Valley are proposing the importation of new supplies of water. The two communities partnered and purchased lands north of the Prescott AMA and as part of the plan, the Big Chino Water Ranch (BCWR) pipeline will be constructed at an estimated cost of \$174.8 million (2008 dollars).

Elliott D. Pollack & Company was retained by Central Arizona Partnership to perform an impact analysis of the BCWR project. The analysis involved a number of tasks including identifying reasonable forecasts for community population growth; comparing these forecasts to scenarios of growth if water supply is restricted by the Assured Water Supply Rules; illustrating the opportunity costs of not developing the pipeline; and quantifying the results of the analysis. All dollar figures are in 2008 dollars. Following is a summary of the results:

- The City of Prescott was granted an Assured Water Supply Designation of 14,822 acre-feet in 2005. As of the end of 2007, the City estimated that 1,700 acre-feet remained available for allocation to new development. Without any importation of water, the City of Prescott can build an estimated 4,857 residential units, or support a population of 10,686 people. This population will be reached by 2014. The Town of Prescott Valley has the water rights to more than 5,000 acre feet and estimates they could issue about 17,000 residential permits. This would support an additional 40,000 people and would constrain growth past 2031. However, it is important to note that the limitations that will first exist in the City of Prescott may temporarily push new residential development to the Town of Prescott Valley.
- If the City of Prescott and the Town of Prescott Valley are unable to issue additional permits, and the communities are no longer able to grow, they would incur lost economic activity as well as a significant impact on government revenues. With no additional residential homes, the demand for commercial will also be limited. These impacts are calculated over a 25-year impact period.

Economic Impact

The annual economic impact of lost construction in the community is significant. The economic output (or “value” added to the community) is more than just the construction outlay. Indeed, the construction creates jobs and local spending throughout the community and creates further economic benefits that are of value. These benefits take the form of additional business opportunities within the community and additional job opportunities for area residents. All figures listed below are in 2008 dollars.

Residential Impact

- Over 25 years, the Arizona Department of Commerce, Research Administration estimates that 9,860 units would have been built in Prescott between 2015 and 2039. This translates to a total economic activity loss of nearly \$2.0 billion. Similarly, housing demand would have been 8,414 units in the Town of Prescott Valley between 2032 and 2056 and would have generated \$1.7 billion in economic output once growth restrictions are imposed.

Commercial Impact

- Commercial construction would also discontinue within city and town limits. Over 25 years (between 2015 and 2039), the demand for retail and office space in the City of Prescott would equate to \$243.3 million in lost economic activity. In the Town of Prescott Valley between 2032 and 2056, lost commercial development would equate to \$147.6 million in lost economic output.
- For lost commercial development there is also a foregone impact from the ongoing operations of these businesses that typically generate annual and cumulative economic impacts on the City and Town. Given the cumulative nature of the ongoing operations the 25 year impact equates to \$8.0



billion of lost economic output for the City of Prescott and \$3.0 billion in lost economic activity in the Town of Prescott Valley.

- The construction of the BCWR over two years would generate 1,788 person years of employment with \$73.7 million in wages and \$176.2 million in economic activity.
- Overall, the lost residential and commercial development, along with the foregone economic impact from the pipeline construction would equate to \$15.2 billion in lost economic activity for the area over 25 years.

25-Year Economic Impact Summary Big Chino Water Ranch Project (2008 dollars)				
	<u>Residential</u>	<u>Commercial</u>	<u>Pipeline</u>	<u>Total</u>
City of Prescott	\$1,976,607,000	\$8,217,380,000	N/A	\$10,193,987,000
Town of Prescott Valley	\$1,686,753,000	\$3,134,128,000	N/A	\$4,820,881,000
During construction in Yavapai County	N/A	N/A	\$176,232,000	\$176,232,000
Total lost economic output	\$3,663,360,000	\$11,351,508,000	\$176,232,000	\$15,191,100,000

Note: Based on an abstract 25-year period of slowing population growth and housing and commercial demand.
Source: EDPco; IMPLAN; Arizona Department of Revenue; ATRA; ADWR

Fiscal Impact

Fiscal impact analysis studies the public revenues associated with a particular economic activity. The primary revenue sources of local, county, and state governments (i.e., taxes) are analyzed to determine how an activity may affect the various jurisdictions. All figures listed below are in 2008 dollars.

Residential Impact

- For each 500 single family units that would not be built due to water supply restrictions, the City of Prescott would lose \$9.4 million during construction and \$525,700 ongoing and cumulative annually from resident spending, property taxes on those homes and state shared revenues. The Town of Prescott Valley would lose \$8.4 million during construction and \$527,900 ongoing annually.
- The total impact of lost residential construction over an abstract 25 year period (based on annual housing demand forecasts) is an estimated \$309.4 million in lost revenue for the City of Prescott. Over 25 years, the Town of Prescott Valley would lose more than \$236.6 million.

Commercial Impact

- In addition, new commercial development will similarly cease. For each 50,000 square feet of retail space and 50,000 square feet of office space, the City of Prescott collects about \$143,000 in construction sales taxes and \$39,000 in impact fees. For the same 50,000 square foot retail building and 50,000 square foot office building, the Town of Prescott Valley would collect \$166,600 in construction sales tax and \$125,100 in utility and development impact fees.
- The ongoing annual impact from operations of 50,000 square feet of retail space and 50,000 square feet of office space generates about \$361,100 in annual revenues for the City and \$349,500 in annual revenues for the Town of Prescott Valley.
- The ongoing revenues are cumulative over 25 years and vary based on population growth demand. The total fiscal impact on the City of Prescott from lost commercial development over 25 years would be over \$88.2 million while the Town of Prescott Valley would lose \$57.4 million.



**25-Year Fiscal Impact Summary
City of Prescott and Town of Prescott Valley
Big Chino Water Ranch Project
(2008 dollars)**

	City of Prescott	Town of Prescott Valley
25-year Impact of lost residential	\$309,400,600	\$236,602,500
25-year Impact of lost commercial	\$88,171,000	\$57,364,800
Total fiscal impact over 25 years	\$397,571,600	\$293,967,300

Source: EDPco; IMPLAN; ADOR; ATRA; ADWR; City of Prescott

Additional economic considerations have not been quantified in this report. Constraints on development will also inflate home prices and make the communities less affordable. This was the case in Flagstaff, Sedona in Arizona and Las Vegas, Nevada, to name three. Since the Prescott and Prescott Valley areas rely on retirement, second homes, and tourism as primary base industries (i.e. the industries that make the communities tick), a rapid increase in housing prices could have significant negative consequences for the local economies.



1.0 Introduction

Elliott D. Pollack & Company was retained by Central Arizona Partnership to perform an impact analysis of the Big Chino Water Ranch (BCWR) project. The analysis involved a number of tasks including identifying reasonable forecasts for community population growth; comparing these forecasts to scenarios of growth if water supply is restricted by the Assured Water Supply Rules; illustrating the opportunity costs of not developing the pipeline; and quantifying the results of the analysis.

1.1 BCWR Project Background

The Arizona Department of Water Resources, as of January 1999, declared that the Prescott Active Management Area was no longer in “safe yield” and must comply with the Assured Water Supply Rules to reach safe yield by 2025. The City of Prescott and Town of Prescott Valley have been working to find an alternative water supply and are proposing the importation of new supplies of water. The Assured Water Supply Rules also require that only renewable or imported water supplies from outside the Prescott AMA be utilized for new subdivisions within the AMA.

The City of Prescott and the Town of Prescott Valley partnered and purchased lands north of the Prescott AMA. The area is referred to as the Big Chino Ranch. The City and Town plan to import water from the “Big Chino”. As part of this plan, the BCWR pipeline will be constructed at an estimated cost of \$174.8 million. This will include BCWR environmental assessment and remediation, well field development, a Ranch Management Plan, a transmission pipeline and associated storage, pumping infrastructure and installation of monitoring wells to gauge the potential impacts of the withdrawal and transportation of groundwater from the BCWR.

The project will result in an additional 8,717 acre-feet of water available for importation by the City of Prescott and Town of Prescott Valley. If the BCWR project is not built and the City and Town are not able to import water, their growth will be considerably limited.

In order to quantify the impact of the Assured Water Supply Rules, this study provides an estimate of the potential lost residential and commercial construction. Examples of the economic and fiscal impact of construction and ongoing impacts are provided.

For definitional purposes, economic impact analysis examines the regional implications of an activity in terms of three basic measures: output, earnings and job creation. Fiscal impact analysis evaluates the public revenues and costs created by a particular economic activity. In fiscal impact analysis, the primary revenue sources of a city, county or state government are analyzed to determine how the activity may financially affect them.

1.2 Limiting Conditions

This study prepared by Elliott D. Pollack & Company is subject to the following considerations and limiting conditions:



- It is our understanding that this study is for the client's due diligence and other planning purposes. Neither our report, nor its contents, nor any of our work were intended to be included and, therefore, may not be referred to or quoted in whole or in part, in any registration statement, prospectus, public filing, private offering memorandum, or loan agreement without our prior written approval.
- The reported recommendation(s) represent the considered judgment of Elliott D. Pollack and Company based on the facts, analyses and methodologies described in the report.
- Except as specifically stated to the contrary, this study will not give consideration to the following matters to the extent they exist: (i) matters of a legal nature, including issues of legal title and compliance with federal, state and local laws and ordinances; and (ii) environmental and engineering issues, and the costs associated with their correction. The user of this study will be responsible for making his/her own determination about the impact, if any, of these matters.
- All estimates regarding construction costs were provided by the City of Prescott and the Town of Prescott Valley. Data has been reviewed and verified to determine its reasonableness and applicability to the proposed project.
- This economic and fiscal impact study evaluates the potential "gross impacts" of the construction and operations. The term "gross impacts" as used in this study refers to the total revenue, jobs and economic output that would be lost if the pipeline is not built and the communities are not able to continue to issue residential and commercial permits.
- This analysis does not consider the costs to the cities associated with providing services. Such analysis is beyond the scope of this study. In addition, the analysis is based on the current tax structure and rates imposed by the State, County, and cities. Changes in those rates would alter the findings of this study. All dollar amounts are stated in constant 2008 dollars and, unless indicated, do not take into account the effects of inflation.
- Our analysis is based on currently available information and estimates and assumptions about long-term future development trends. Such estimates and assumptions are subject to uncertainty and variation. Accordingly, we do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the forecasted results. The assumptions disclosed in this impact analysis are those that are believed to be significant to the projections of future results.
- All dollar figures are in 2008 dollars. No inflation has been added to the figures in this analysis.



2.0 Economic & Fiscal Impact Methodology

This report provides the impact of the various water supply growth scenarios in the City of Prescott and Town of Prescott Valley. This section of the report provides the methodology used in determining the economic and fiscal impacts if the BCWR pipeline is not constructed and the City of Prescott and Town of Prescott Valley are not able to import water and, therefore, reach safe yield.

2.1 Economic Impact Methodology

Economic impact analysis examines the economic implications of an activity in terms of output, earnings, and employment. For this study, the economic impact will be realized by the following two activities:

1. Annual construction impacts from lost residential units as well as supported commercial construction. “Lost” units are defined as those units that will not be built if additional water supplies are not secured.
2. Short-term economic impacts of BCWR construction.

The different types of economic impacts are known as *direct*, *indirect*, or *induced*, according to the manner in which the impacts are generated. For instance, direct employment consists of permanent jobs held by the construction workers. Indirect employment is those jobs created by businesses that provide goods and services essential to the construction of the residential units, commercial development, or pipeline. These businesses range from manufacturers (who make goods) to wholesalers (who deliver goods). Finally, the spending of the wages and salaries of the direct and indirect employees on items such as food, housing, transportation, and medical services creates induced employment in all sectors of the economy throughout the study area. These secondary effects are captured in the analysis conducted in this study.

Multipliers have been developed to estimate the indirect and induced impacts of various direct economic activities. The Minnesota IMPLAN Group developed the multipliers used in this study. The economic impact is categorized into three types of impacts:

- (1) **Employment Impact** – the total “wage and salary” and self-employed jobs in a region. Jobs include both part time and full time workers.
- (2) **Earnings Impact** – the personal income, earnings or wages, of the direct, indirect and induced employees. Earnings include total wage and salary payments as well as benefits of health and life insurance, retirement payments and any other non-cash compensation.
- (3) **Economic Output** – the economic output, also referred to as economic activity, relates to the gross receipts for goods or services generated by the company’s operations.



Economic impacts are, by their very nature, regional in character. Such impacts are best illustrated when not assigned to a specific city or locality, although clearly the primary impact of job creation would be on the City or Town where the project is located. However, people working on the pipeline construction or residential and commercial building would commute to the area from their homes in all parts of the County. Therefore, the economic impact of the development project is expressed in this report as a countywide benefit. All dollar figures, unless otherwise stated, are expressed in 2008 dollars.

2.2 Fiscal Impact Methodology

Fiscal impact analysis studies the public revenues associated with a particular economic activity. The primary revenue sources of local, county, and state governments (i.e., taxes) are analyzed to determine how an activity may affect the various jurisdictions. This section will describe the fiscal impacts that will occur from the loss of residential and commercial construction over time for the City and Town of Prescott Valley. The fiscal impact of the pipeline construction is provided on the State of Arizona and on Yavapai County. This is because the pipeline will be constructed outside City and Town limits. Thus, the City of Prescott and Town of Prescott Valley will not reap the direct fiscal benefits of the pipeline construction.

The fiscal impact figures cited in this report have been generated from information provided by a variety of sources including the U.S. Bureau of the Census; the U.S. Department of Labor; the Internal Revenue Service; the City of Prescott; the Town of Prescott Valley; Yavapai County; the State of Arizona; the Arizona Tax Research Association; and the U.S. Consumer Expenditure Survey.

Elliott D. Pollack and Company has relied upon the estimates of construction cost and other water restriction assumptions supplied by the City of Prescott and the Town of Prescott Valley outlined in the tables of this report. Unless otherwise stated, all dollar values are expressed in 2008 dollars.

Fiscal impacts are categorized by type in this study, similar to economic impact analysis. The primary sources of revenue generation for governmental entities are related to construction and ongoing residential living once construction is completed. Construction impacts relate to the revenues generated from residential, commercial and pipeline construction and include the state and local sales taxes levied on construction materials. These are the “primary” revenues generated from the project. In addition, the direct, indirect and induced employees supported by the construction activity also generate revenues to local governments. For instance, employees would spend part of their salaries on retail goods (thereby paying sales taxes), pay property taxes and contribute to the other revenue sources that are shared by the State with local cities. Part of the State’s collection of sales taxes on construction materials is also shared with local governments. These revenues are referred to in this report as “secondary” impacts.



The ongoing operations of residential product also create beneficial fiscal effects for a community. In addition to sales tax collections from resident spending and property tax collections from the occupied homes, the state shared revenue formulas are based on per capita formulas. These are “primary” revenues to governmental entities that can be calculated from the assumptions of the study.

Following is a description of the applicable tax revenue sources of the various jurisdictions that will be considered for this analysis.

- Construction Sales Tax

The State, County, City, and Town levy a sales tax on materials used in the construction of buildings or development of land improvements. That tax is calculated by State law under the assumption that 65% of the construction cost of the facility and its land improvements are related to construction materials with the remaining 35% devoted to labor. The sales tax rate is then applied to the 65% materials figure. The sales tax on construction materials is a one-time collection by the governmental entity. The State currently levies a 5.6% sales tax on construction activity (a portion of which is shared with local governments); the Yavapai County construction sales tax rate is 0.75%; the City of Prescott’s rate is 2.0% and the Town of Prescott Valley’s rate is 2.33%

- Development Impact Fees

The City of Prescott and Town of Prescott Valley impose impact fees for commercial and residential construction. For residential units fees include utility fees, meter fees and development impact fees. For this report, the average single family home is assumed to have a ¾” meter and 33 fixture units. For commercial construction, fees are assessed for utility usage, meter fees, and development impact fees. Prescott Valley currently has a moratorium on commercial impact fees which is expected to be extended through 2010. For this report, the average 50,000 square foot building is assumed to have a 1” meter and 33 fixture units.

- Sales (Transaction Privilege) Tax

The State, counties, and local cities in Arizona charge sales tax on retail goods and services. The sales tax rate for the State is 5.6%. Portions of this tax are redistributed through revenue sharing to counties and cities throughout Arizona based on population.

The sales tax rate is 2.0% for the City of Prescott and 2.33% for the Town of Prescott Valley. Yavapai County levies a sales tax of 0.75%. These tax rates are applied to the taxable spending of the residents as well as to the spending of direct, indirect and induced employees. Most of the employees supported by the project reside within a city or, at the very least, purchase goods from retailers located within a municipality. Based on data from the U.S. Consumer Expenditure Survey, the projected extent of retail spending and resulting sales tax receipts was calculated.

- Property Taxes

Taxes on real property would be levied on new homes built in the area. Yavapai County and the City of Prescott currently levy property tax rates of 3.4085 and 0.4973 per \$100 of assessed value, respectively. The Town of Prescott Valley does not levy a property tax. In order to estimate property taxes, the value of a typical housing unit in the City and County has been calculated at approximately \$200,000 including both single family homes and apartment



units. This value assumes that employees would occupy units in a pattern similar to the current inventory of housing in the area.

- State Unemployment Tax

Unemployment insurance tax for employees is 2.7% on the first \$7,000 of earned income. This factor is applied to the projected wages and earnings of direct and indirect employees.

- State Shared Revenues

Each city in Arizona receives a portion of State revenues from four different sources - State sales tax, State income tax, vehicle license tax and highway user tax. The formulas for allocating these revenues are primarily based on population. Counties also share in the revenue sources of the State, with the exception of income tax.

- State Income Tax

The State of Arizona collects taxes on personal income. The tax rate used in the analysis averages about 1.6% for earnings. These percentages are based on the most recently available income tax data from the State and the projected wage levels of jobs created by the construction and operations impact. This tax is applied to the wages and earnings of direct and indirect employment. Portions of this tax are redistributed through revenue sharing to cities throughout Arizona based on population.

- State Sales Tax

As mentioned above, a portion of the State's sales tax collections are shared with cities and counties. This report includes both the state shared revenues from construction sales taxes as well as retail sales taxes from resident spending.

- HURF Taxes

The State of Arizona collects specific taxes for the Highway User Revenue Fund (HURF). Both the registration fees and the motor vehicle fuel tax (gas tax) are considered in this analysis. The motor vehicle fuel tax is \$0.18 per gallon and is calculated based on a vehicle traveling 12,000 miles per year at 20 miles per gallon. Registration fees average \$66 per employee in the State of Arizona. These factors are applied to the projected direct and indirect employee count. Portions of these taxes are distributed to cities and counties throughout Arizona based on a formula that includes population and the origin of gasoline sales.

- Vehicle License Tax

The vehicle license tax is a personal property tax placed on vehicles at the time of annual registration. This factor is applied to the projected direct, indirect and induced employee count. The average tax used in this analysis is \$325 and portions of the total collections are distributed to the Highway User Revenue Fund. The remaining funds are shared between cities and counties in accordance with population-based formulas.

The above tax categories represent the largest sources of revenues that would be generated to City, County, and State governments. This analysis considers gross tax collections and does not differentiate among dedicated purposes or uses of such gross tax collections.



3.0 Population Growth

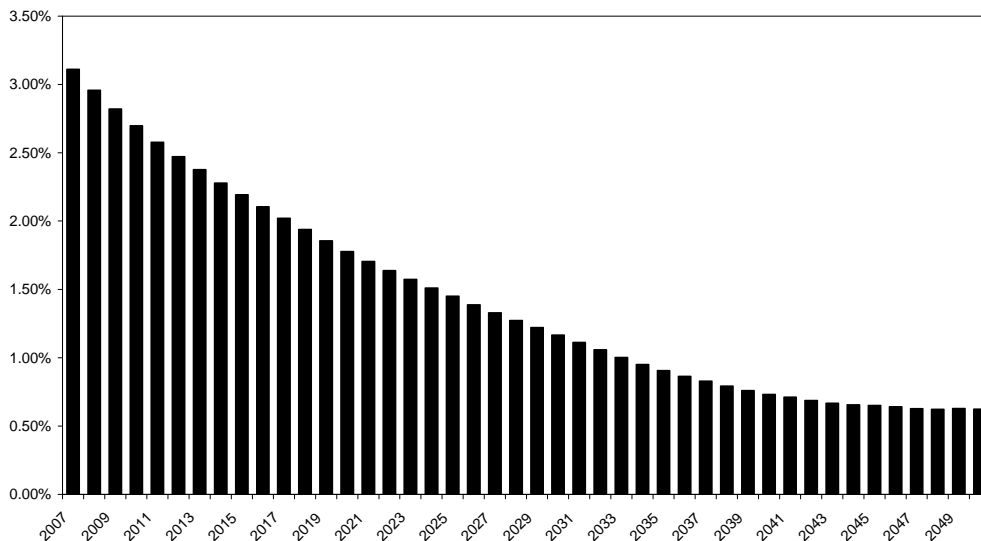
This section of the report provides the population projections for the City of Prescott and the Town of Prescott Valley, as well as the estimated impact on growth if the Big Chino Water Ranch Project is not constructed.

3.1 Population Projections

The Arizona Department of Commerce, Research Administration (ADOC) forecasts population for all cities and towns in Arizona through 2050. The projections do not take into consideration the impacts that would be placed on the communities by the Assured Water Supply Rules. Thus, this set of projections is used as a baseline for the scenario of growth in each of the areas, without consideration of limited water supply.

The chart below illustrates how the population growth rate for the City of Prescott slows consistently over the next few decades, but growth is still positive and does not come to a complete halt (as would be the case if the water supply is diminished). The patterns of slower growth in the City of Prescott and Town of Prescott Valley is consistent with the slower growth projected for the State as a whole. The methodology used by ADOC in the earlier years of the forecast period projects each area individually using estimates for births, deaths and net migration. In the later years of the forecast period, a long-term population projection for the State was calculated out to 2055. The county estimates for this period were derived from a growth-share percentage that stems from the earlier years of the forecast. For cities, the county numbers act as population maximums, where the sum of the sub-regions cannot exceed the county total, taking into account land area changes.

City of Prescott Population Projections
Annual Growth Rate
2007 - 2050
Source: Arizona Department of Commerce, Research Administration



The table below provides the annual population projections for the City of Prescott. According to ADOC, as of 2007, the City of Prescott was home to about 43,500 residents. Over the next few years, the City will grow by an average of about 1,300 persons per year to 47,400 in 2010. During the following decade, the average annual growth will continue to be more than 1,000 persons per year and population is projected reach 59,000 by 2020. By 2050, the Arizona Department of Commerce, Research Administration projects population to reach 79,600 people.

Prescott City Population Projections				
Year	Population	Marginal Growth	Cumulative Growth	Percent Growth
2006	42,154	-	-	-
2007	43,508	1,354	1,354	3.11%
2008	44,835	1,326	2,680	2.96%
2009	46,136	1,301	3,982	2.82%
2010	47,416	1,280	5,261	2.70%
2011	48,670	1,255	6,516	2.58%
2012	49,904	1,233	7,749	2.47%
2013	51,119	1,215	8,965	2.38%
2014	52,311	1,192	10,157	2.28%
2015	53,484	1,173	11,330	2.19%
2016	54,635	1,151	12,481	2.11%
2017	55,762	1,127	13,608	2.02%
2018	56,865	1,102	14,710	1.94%
2019	57,940	1,076	15,786	1.86%
2020	58,989	1,049	16,835	1.78%
2021	60,013	1,024	17,859	1.71%
2022	61,012	999	18,858	1.64%
2023	61,988	976	19,834	1.57%
2024	62,939	951	20,785	1.51%
2025	63,866	927	21,711	1.45%
2026	64,764	899	22,610	1.39%
2027	65,637	872	23,483	1.33%
2028	66,483	846	24,329	1.27%
2029	67,305	822	25,150	1.22%
2030	68,099	794	25,945	1.17%
2031	68,865	766	26,711	1.11%
2032	69,602	737	27,448	1.06%
2033	70,306	705	28,152	1.00%
2034	70,982	675	28,827	0.95%
2035	71,631	649	29,476	0.91%
2036	72,255	625	30,101	0.86%
2037	72,859	604	30,705	0.83%
2038	73,441	582	31,287	0.79%
2039	74,004	563	31,850	0.76%
2040	74,550	546	32,396	0.73%
2041	75,084	534	32,930	0.71%
2042	75,604	519	33,450	0.69%
2043	76,112	508	33,958	0.67%
2044	76,615	502	34,460	0.66%
2045	77,117	502	34,962	0.65%
2046	77,615	498	35,460	0.64%
2047	78,105	490	35,950	0.63%
2048	78,594	489	36,440	0.62%
2049	79,091	497	36,937	0.63%
2050	79,588	497	37,434	0.62%

Sources: Arizona Department of Commerce, Research Administration, EDPco



The Town of Prescott Valley is slightly smaller than the City of Prescott and as of 2007 had 37,600 residents. By 2020, with no growth restrictions, the Town will reach a population of 60,400. By 2050, ADOC projects a population of 90,600 people.

Prescott Valley Population Projections				
Year	Population	Marginal Growth	Cumulative Growth	Percent Growth
2006	35,609	-	-	-
2007	37,599	1,990	1,887	5.29%
2008	39,549	1,950	3,837	4.93%
2009	41,460	1,911	5,748	4.61%
2010	43,341	1,881	7,629	4.34%
2011	45,185	1,844	9,473	4.08%
2012	46,998	1,813	11,286	3.86%
2013	48,783	1,786	13,071	3.66%
2014	50,534	1,751	14,822	3.47%
2015	52,260	1,725	16,548	3.30%
2016	53,950	1,690	18,238	3.13%
2017	55,607	1,657	19,895	2.98%
2018	57,227	1,619	21,515	2.83%
2019	58,808	1,581	23,096	2.69%
2020	60,350	1,542	24,637	2.55%
2021	61,853	1,504	26,141	2.43%
2022	63,322	1,469	27,610	2.32%
2023	64,756	1,434	29,044	2.21%
2024	66,154	1,398	30,442	2.11%
2025	67,515	1,362	31,803	2.02%
2026	68,836	1,320	33,124	1.92%
2027	70,119	1,283	34,406	1.83%
2028	71,362	1,243	35,650	1.74%
2029	72,569	1,207	36,857	1.66%
2030	73,737	1,168	38,025	1.58%
2031	74,863	1,126	39,151	1.50%
2032	75,945	1,083	40,233	1.43%
2033	76,980	1,035	41,268	1.34%
2034	77,973	993	42,261	1.27%
2035	78,927	954	43,215	1.21%
2036	79,844	918	44,132	1.15%
2037	80,732	887	45,020	1.10%
2038	81,587	855	45,875	1.05%
2039	82,414	827	46,702	1.00%
2040	83,217	803	47,505	0.97%
2041	84,002	785	48,290	0.93%
2042	84,766	764	49,054	0.90%
2043	85,512	746	49,800	0.87%
2044	86,250	738	50,538	0.86%
2045	86,988	738	51,276	0.85%
2046	87,720	732	52,008	0.83%
2047	88,441	721	52,729	0.82%
2048	89,160	719	53,448	0.81%
2049	89,889	730	54,177	0.81%
2050	90,620	730	54,908	0.81%

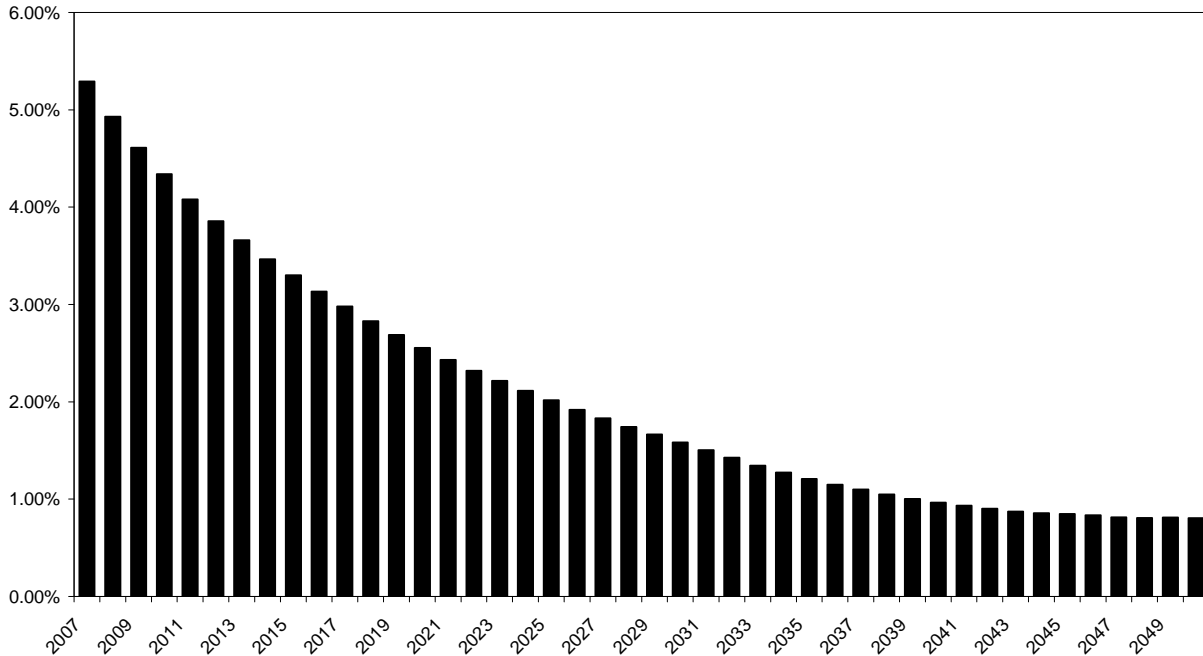
Sources: Arizona Department of Commerce, Research Administration, EDPco



Similar to that of the City of Prescott, the Town of Prescott Valley’s rate of growth is projected to slow over time (see chart below).

**Town of Prescott Valley Population Projections
Annual Growth Rate
2007 - 2050**

Source: Arizona Department of Commerce, Research Administration



3.2 Housing Demand Assumptions

The table on the following page summarizes the population estimates each decade for the City of Prescott and the Town of Prescott Valley and provides a housing demand analysis. The average annual change in population for the City of Prescott slows from about 1,300 new persons per year for the remainder of this decade, to 1,157 persons each year during next decade, and down to 504 new residents each year by mid-century (2040 to 2050). Similarly, the Town of Prescott Valley will experience a slower rate of net change in population, from about 1,914 new people each year through 2010 down to 740 persons each year by 2050.

Household demand is derived from these figures based on persons per household statistics. For the City of Prescott, 2.2 persons per household is used (based on the current ratio). The Town of Prescott Valley is slightly younger with more families and has a person per household ratio of 2.4. Thus, an estimated 592 households will be demanded by new population growth through the remainder of this decade in the City of Prescott and 798 households in the Town of Prescott Valley. Over time, the housing demand slows with population growth. The pattern of slower growth in the City of Prescott and Town of Prescott Valley are consistent with the slower growth projected for the State as a whole.



**Population Estimates
and Housing Demand Assumptions**

	City of Prescott	Town of Prescott Valley
Estimated population		
2007	43,508	37,599
2010	47,416	43,341
2020	58,989	60,350
2030	68,099	73,737
2040	74,550	83,217
2050	79,588	90,620
Net change in population		
2007-2010	3,907	5,742
2010-2020	11,574	17,008
2020-2030	9,110	13,387
2030-2040	6,451	9,480
2040-2050	5,038	7,403
Annual average change in population		
2007-2010	1,302	1,914
2010-2020	1,157	1,701
2020-2030	911	1,339
2030-2040	645	948
2040-2050	504	740
Annual average household demand		
2007-2010	592	798
2010-2020	526	709
2020-2030	414	558
2030-2040	293	395
2040-2050	229	308

Source: Arizona Department of Commerce, Research Administration;
City of Prescott; Town of Prescott Valley

Again, the pattern of slower growth in the City of Prescott and Town of Prescott Valley is consistent with the slower growth projected for the State as a whole. The methodology used by ADOC in the later years of the forecast period required that the city estimates not exceed the county totals which were derived from a growth-share percentage of the total State projections.

In summary, both the City of Prescott and Town of Prescott Valley are projected to experience continued population growth through 2050. This growth will be seriously compromised by growth restrictions imposed by the Arizona Department of Water Resources in order for these cities to reach safe yield by 2025.



3.3 Population Growth Limitations

The City of Prescott was granted an Assured Water Supply Designation of 14,822 acre-feet in 2005. As of the end of 2007, the City estimated that 1,700 acre-feet remained available for allocation to new development at an acre-foot to dwelling unit ratio of 0.35. Thus, without importation of water from the BCWR, the amount of uncommitted water remaining in the City of Prescott’s portfolio could serve an estimated 4,857 residential units, equivalent to an additional population of 10,686 people (based on 2.2 persons per household). The City’s Water Management Policy presently budgets 200 acre-feet per year for allocation of water to new development. If this rate was continued past 2010, the City would be able to allocate the remaining uncommitted water through 2014, after which the City would not be able to allocate any additional water for new subdivision growth.

The Town of Prescott Valley has the water rights to more than 5,000 acre feet and estimates that, based on the Town’s 0.33 ratio for acre-feet to dwelling units, they could issue about 17,000 residential permits. This would support an additional 40,000 people (based on 2.4 persons per household) and would limit growth past 2031.

However, it is important to note that the limitations that will first exist in the City of Prescott may temporarily push new residential development to the Town of Prescott Valley. This would increase demand for housing and, thus, speed up the timeframe in which the Town would also run out of their supply of water.

Population Growth Without the Big Chino Water Ranch Project (2008 dollars)		
	City of Prescott	Town of Prescott Valley
Ratio for dwelling units	0.35	0.33
Persons per household	2.2	2.4
Current remaining acre feet	1,700	5,000 +
Dwelling units available remaining	4,857	17,000
Population supported by remaining units	10,686	40,000 +
Estimated year to reach maximum growth	2014	2031

Source: City of Prescott; Town of Prescott Valley; Arizona Department of Commerce, Research Administration; EDPCo



3.4 Big Chino Water Ranch Additional Water Supply

The ADWR has provided an estimate of 8,717 acre feet that would be available for importation by Prescott and Prescott Valley from the BCWR pipeline. The City of Prescott would buy the rights to 4,717 acre feet of this total and the Town of Prescott Valley would buy 4,000 acre feet. It is still unclear how much of the allocated supply would be dedicated to new growth. If 100% is dedicated to new growth (Scenario 1 in this analysis), the City of Prescott will be able to issue an additional 13,477 permits (based on the dwelling unit ratio of 0.35). This would accommodate nearly 30,000 more residents and, once added to the 10,686 existing supported population, the City of Prescott could add an additional 40,300 people. The Town of Prescott Valley would have access to 12,121 additional residential permits, supporting 29,000 people, or a total of 72,300 new residents when added to existing water supply constraints.

Under Scenario 2 in this analysis, 80% of the new water supply would be dedicated to new growth, resulting in nearly 10,800 additional permits for the City of Prescott (34,400 new residents) and 9,700 for the Town of Prescott Valley (66,500 new residents). Scenario 3 is the most conservative scenario and suggests that only 50% of the new water supply would be dedicated to new subdivision growth, resulting in 6,700 new permits (25,500 new people) for the City of Prescott and 6,100 permits (57,700 new people) for the Town of Prescott Valley.



**Restricted Growth Scenarios
Big Chino Water Ranch Project
(2008 dollars)**

	City of Prescott	Town of Prescott Valley
<u>BCWR Pipeline</u>		
Allocated acre feet	4,717	4,000
<u>Scenario 1</u>		
Percent dedicated to new growth	100%	100%
New units that can be built	13,477	12,121
New population that can be supported	29,650	29,091
Total population (existing + new) supported	40,335	72,291
<u>Scenario 2</u>		
Percent dedicated to new growth	80%	80%
New units that can be built	10,782	9,697
New population that can be supported	23,720	23,273
Total population (existing + new) supported	34,405	66,473
<u>Scenario 3</u>		
Percent dedicated to new growth	50%	50%
New units that can be built	6,739	6,061
New population that can be supported	14,825	14,545
Total population (existing + new) supported	25,511	57,745

Source: City of Prescott; Town of Prescott Valley; Arizona Department of Commerce, Research Administration; EDPCo

In summary, under all three scenarios as described above, the BCWR provides the ability for the City of Prescott and Town of Prescott Valley to continue to grow. Without this secure supply of water, significant growth cannot occur. The following sections illustrate the impact on growth without the BCWR.



4.0 Impact of Residential Growth

This section of the analysis provides the economic and fiscal estimates related to lost residential construction. This will occur under the scenario that the City of Prescott and Town of Prescott Valley cannot issue any additional residential permits due to growth restrictions placed on them under Assured Water Supply Rules.

4.1 Assumptions of Analysis

For the purpose of this analysis and to illustrate the economic and fiscal impacts of lost residential construction, the impact of lost economic activity is provided in increments of 500 single family homes with an average value of \$200,000 per unit (for a total value of homes sold annually of \$100 million). This represents a rough average of the annual lost economic activity for each community. In reality, development is subject to the ebbs and flows of the business cycle. Thus, actual economic losses will be higher than 500 housing units in some years and less in others. The construction of each 500 homes would cost \$61.8 million based on a survey by the National Association of Home Builders related to construction costs. All figures are in 2008 dollars.

Residential Construction Assumptions Big Chino Water Ranch Project (2008 dollars)	
Number of single family homes in analysis	500
Average value of single family home	\$200,000
Percent of home value that is construction	61.8%
Total value of homes sold	\$100,000,000
Total value of construction	\$61,814,281

Source: Arizona Department of Commerce, Research Administration;
Elliott D. Pollack & Co.; City of Prescott; Town of Prescott Valley

The following table provides the assumptions used in determining the development impact fees for each 500 single family units lost. The fees include utility tie-in fees based on 33 fixture units and 3/4" inch meter size as well as development impact fees. For the average home built in the City of Prescott, total fees paid are \$15,629 while in the Town of Prescott Valley total fees would be \$13,565.



Residential Development & Impact Fee Assumptions Big Chino Water Ranch Project (2008 dollars)	
City of Prescott	
Sewer buy-in fee	\$1,848
Water system fee	\$5,389
Water resource Fee	\$4,945
Meter fee	\$220
Development Impact Fee	\$3,227
Total	\$15,629
Prescott Valley	
Waste water system capacity	\$3,162
Water system capacity	\$1,570
Water resource fee	\$1,526
Meter fee	\$450
Development Impact Fee	\$6,857
Total	\$13,565
Note: Figures based on 3/4" inch meter size and 33 fixture units. Source: City of Prescott; Town of Prescott Valley	

4.2 Economic Impact of Residential Construction

The following table provides the economic impact of construction for each 500 single family homes that would be built (or not built) in 2008 dollars. The annual economic impact on the community is significant. The economic output (or “value” added to the community) is more than just the construction outlay. Indeed, the construction creates jobs and local spending throughout the community and creates further economic benefits that are of value. These benefits take the form of additional business opportunities within the community and additional job opportunities for area residents. These economic values (also known as direct, indirect, and induced impacts) are quantitatively estimated in this report.

The \$61.8 million in direct construction costs would result in 400 direct construction jobs with \$17.8 million in annual wages. The “ripple effect” of this construction would generate an additional 385 indirect and induced jobs with \$13.9 million in wages and \$38.4 million economic activity. Overall, the annual impact of 500 single family homes generates 785 jobs in the economy, \$31.7 million in wages, and \$100.2 million in economic activity.



**Economic Impact of Construction
Impact of 500 Single Family Homes
Big Chino Water Ranch Project
Yavapai County
(2008 dollars)**

Impact Type	Jobs	Wages	Economic Output
Direct	400	\$17,809,100	\$61,814,300
Indirect	198	\$7,294,100	\$21,171,000
Induced	188	\$6,578,100	\$17,244,200
Total	785	\$31,681,300	\$100,229,500

^{1/} The total may not equal the sum of the impacts due to rounding. All dollar figures are in constant dollars. Inflation has not been included in these figures

Source: Elliott D. Pollack & Company; IMPLAN; City of Prescott; Town of Prescott Valley

4.3 Fiscal Impact of Residential Construction

As described in Section 2.2 of this report, the fiscal effects have been divided into primary and secondary impacts, depending on their source and how the dollars flow through the economy into tax accounts. For instance, some revenues, such as construction sales taxes, are definable, straightforward calculations based on the cost of construction. These revenues are described in this study as primary revenues.

Secondary revenues, on the other hand, flow from the wages of those direct, indirect and induced employees who are supported by the project. Revenue projections are based on typical wages of the employees working in the project, their spending patterns, projections of where they might live, and other assumptions outlined earlier in this report.

State of Arizona Fiscal Impact of the Construction

The table below provides the fiscal impact on the State of Arizona from the loss of an estimated 500 single family residential units. Based on the total sales price of the units of \$100 million, the State would collect a construction sales tax (and speculative builders tax) of \$2.6 million. Secondary revenues from construction employment total \$1.3 million for a total fiscal impact on the State of \$3.9 million. Again, this is assuming that the water would not be used for alternative development somewhere else in the State.



**Fiscal Impact from Construction
500 Single Family Homes
State of Arizona
(2008 dollars)**

Impact Type	Primary Revenues	Secondary Revenues from Employment					Total Revenues
	Construction Sales Tax	Employees Spending Sales Tax	Income Tax	HURF Vehicle License Tax	HURF Gas Tax	Unemp. Tax	
Direct Revenues	\$2,571,300	\$304,600	\$261,300	\$25,800	\$37,100	\$75,600	\$3,275,700
Indirect Revenues	N/A	\$136,300	\$98,500	\$12,800	\$18,300	\$37,300	\$303,200
Induced Revenues	N/A	\$126,100	\$88,800	\$12,100	\$17,400	\$35,500	\$279,900
Total Revenues	\$2,571,300	\$567,000	\$448,600	\$50,700	\$72,800	\$148,400	\$3,858,800

1/ The figures for the State of Arizona do not include revenues distributed to counties, cities, and towns. The figures are intended only as a general guideline as to how the State could be impacted by the project. The above figures are based on the current economic structure and tax rates of the State of Arizona.

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association; ADWR; City of Prescott

Yavapai County Fiscal Impact of the Construction

The County's construction sales tax rate of 0.75% would generate direct construction sales tax of \$487,500. Additional secondary employee impacts of \$517,800 would be lost for each 500 single family units if the growth restrictions are imposed. In total, Yavapai County would lose more than \$1.0 million in revenues annually for each 500 single family units not constructed.

**Fiscal Impact from Construction
500 Single Family Homes
Yavapai County
(2008 dollars)**

Impact Type	Primary Revenues	Secondary Revenues from Employment			Total Revenues
	Construction Sales Tax	Employees Spending Sales Tax	Residents Property Tax	State Shared Revenues	
Direct Revenues	\$487,500	\$56,000	\$203,300	\$10,600	\$757,400
Indirect Revenues	N/A	\$25,300	\$100,400	\$1,700	\$127,400
Induced Revenues	N/A	\$23,500	\$95,400	\$1,600	\$120,500
Total Revenues	\$487,500	\$104,800	\$399,100	\$13,900	\$1,005,300

1/ The figures are intended only as a general guideline as to how the County could be impacted by the project. .

The above figures are based on the current economic structure and tax rates of the County

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association; ADWR; Yavapai County

City of Prescott Fiscal Impact of the Construction

The following table provides the fiscal impact of the construction of 500 single family units on the City of Prescott. The construction would generate \$1.3 million in construction sales tax and \$7.8 million in development impact fees. An additional \$290,600 in secondary revenues would be generated from employment. The projected total of \$9.4 million in City of Prescott revenues can be used as a proxy for each 500 units built.



**Fiscal Impact from Construction
500 Single Family Homes
City of Prescott
(2008 dollars)**

Impact Type	Primary Revenues		Secondary Revenues from Employment			Total Revenues
	Construction Sales Tax	Development Impact Fees	Employees Spending Sales Tax	Residents Property Tax	State Shared Revenues	
Direct Revenues	\$1,300,000	\$7,814,400	\$127,400	\$25,300	\$1,900	\$9,269,000
Indirect Revenues	N/A	N/A	\$57,500	\$12,500	\$400	\$70,400
Induced Revenues	N/A	N/A	\$53,400	\$11,900	\$300	\$65,600
Total Revenues	\$1,300,000	\$7,814,400	\$238,300	\$49,700	\$2,600	\$9,405,000

^{1/} The figures are intended only as a general guideline as to how the city could be impacted by the project. .

The above figures are based on the current economic structure and tax rates of the city.

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association; ADWR; City of Prescott

Town of Prescott Valley Fiscal Impact of the Construction

The construction sales tax collected by the Town of Prescott Valley from the construction of 500 single family homes would be an estimated \$1.5 million. Development fees would add another \$6.8 million to lost primary revenues each year. Additional secondary revenues from employee spending and state shared revenues would be \$148,700. In total, for each 500 single family homes, the Town of Prescott Valley would collect \$8.4 million.

**Fiscal Impact from Construction
500 Single Family Homes
Town of Prescott Valley
(2008 dollars)**

Impact Type	Primary Revenues		Secondary Revenues from Employment		Total Revenues
	Construction Sales Tax	Development Impact Fees	Employees Spending Sales Tax	State Shared Revenues	
Direct Revenues	\$1,514,500	\$6,782,500	\$78,500	\$1,300	\$8,376,800
Indirect Revenues	N/A	N/A	\$35,500	\$300	\$35,800
Induced Revenues	N/A	N/A	\$32,900	\$200	\$33,100
Total Revenues	\$1,514,500	\$6,782,500	\$146,900	\$1,800	\$8,445,700

^{1/} The figures are intended only as a general guideline as to how the town could be impacted by the project. .

The above figures are based on the current economic structure and tax rates of the town.

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association; ADWR; Town of Prescott Valley.

4.4 Fiscal Impact of Residents

In addition to the lost annual residential construction, there would be lost revenues for the City of Prescott and Town of Prescott Valley resulting from fewer residents living in the area. This lost revenue can be quantified in terms of sales taxes from resident spending, property taxes on the homes they occupy, and state shared revenues from the State of Arizona.

Unlike the impact from lost residential construction, the impact from the residents is an ongoing, cumulative annual impact and, over time, would result in a significant impact on fiscal revenues for the City and Town.



The following table provides the estimate of lost revenues for each 500 single family residences. In terms of assumptions for the calculations, spending estimates are based on the median household income multiplied by the estimated taxable spending for that income bracket as determined by the Consumer Expenditure Survey. A leakage rate of 25% is assumed, as it is likely that a portion of the total spending of the residents is spent outside City and Town limits. Property taxes for the City of Prescott are based on a value per home of \$200,000 and calculated based on the City's property tax rate of 0.4973 per \$100 of net assessed value.

State shared revenues include income taxes, sales taxes, vehicle license taxes and Highway User Revenue Fund taxes collected by the State and shared with cities and towns mostly based on population (see explanation in Section 2.2 of this report). On average, each city or town within Arizona received \$300 per capita in state shared revenues.

In total, the City of Prescott would lose \$525,700 after the first 500 homes are completed and occupied. The next 500 homes would then generate twice that amount, or \$1,051,400. Over 25 years, taking into account slowing population growth and housing demand, the City of Prescott would lose \$123.9 million in revenues that would have been generated by the residents.

The Town of Prescott Valley would lose \$527,900 from each additional 500 single family units. These figures are ongoing annually and cumulative. Over 25 years, the Town of Prescott Valley would lose an estimated \$94.5 million. Section 4.6 of this report provides a more detailed explanation of the 25-year impact.



Ongoing Fiscal Impact of Residents (2008 dollars)		
	City of Prescott	Town of Prescott Valley
<u>Assumptions of Analysis</u>		
Number of residential units for analysis	500	500
Persons per household	2.2	2.4
Population in 500 Single Family Units	1,100	1,200
Median Household Income (2000)	\$35,446	\$34,341
Median HH Income Estimate (2007)	\$42,134	\$40,821
Leakage rate	25%	25%
Value per home for property taxes	\$200,000	N/A
State shared revenues per capita	\$300	\$300
<u>Revenues per 500 Single Family Units (Annual and Cumulative)</u>		
	<u>Year 1</u>	<u>Year 1</u>
Sales tax revenues	\$146,000	\$167,900
Property tax revenues	\$49,700	N/A
State shared revenues	\$330,000	\$360,000
Total annual revenues per 500 units	\$525,700	\$527,900
	<u>Cumulative over 25 years</u>	<u>Cumulative over 25 years</u>
Sales tax revenues	\$42,042,000	\$38,941,000
Property tax revenues	\$14,283,200	N/A
State shared revenues	\$67,602,400	\$55,528,000
Total revenues over 25 years	\$123,927,600	\$94,469,000
NOTE: 25 year estimate takes into account slowing population growth and housing demand.		
Source: Arizona Department of Commerce, Research Administration; Census Bureau; Bureau of Labor Statistics; City of Prescott; Town of Prescott Valley		

4.5 Summary of Impacts from Residential Construction and Ongoing Residents

In summary, the economic impact of the construction of 500 single family homes in Yavapai County would generate 785 jobs, \$31.7 million in wages and \$100.2 million in economic output. In terms of fiscal impacts, the State of Arizona would collect nearly \$3.9 million in primary and secondary revenues and Yavapai County would collect \$1,005,300 in revenues. The City of Prescott and Town of Prescott Valley would collect \$9.4 million and \$8.4 million, respectively.

The residents of each 500 homes would generate an additional \$525,700 and \$527,900 each year for the City of Prescott and Town of Prescott Valley, respectively, on a cumulative basis. Thus, for the ongoing resident impact, while the first year would generate these amounts, the second year would generate twice this amount and overtime, this impact becomes very significant for the City of Prescott and Town of Prescott Valley



each year. The following section provides a more detailed analysis of the impact on a cumulative basis.

Residential Impact Summary Per 500 Single Family Units (2008 dollars)	
Economic Impact of Construction (500 Single Family Units)	
Jobs	785
Wages (\$ mil)	\$31.7
Economic Output (\$ mil)	\$100.2
Fiscal Impact of Construction (500 Single Family Units)	
State of Arizona	\$3,858,800
Yavapai County	\$1,005,300
City of Prescott	\$9,405,000
Town of Prescott Valley	\$8,445,700
Fiscal Impact of the Residents (Ongoing & Cumulative Annually)	
City of Prescott	\$525,700
Town of Prescott Valley	\$527,900
Source: Arizona Department of Commerce, Research Administration; Elliott D. Pollack & Company; City of Prescott; Town of Prescott Valley	

4.6 25-Year Estimate of the Impact of Lost Residential Development

In the absence of the Big Chino Water Ranch Project, the City of Prescott and the Town of Prescott Valley will face limited growth. Each city has a restricted water supply and it is currently estimated that the City of Prescott will run out of growth opportunity in 2014, while the Town of Prescott Valley by 2031, possibly sooner if development shifts from Prescott to Prescott Valley.

The following tables illustrate the impact on the City of Prescott and the Town of Prescott Valley government revenues over a 25-year timeframe. The number of housing units that would be built each year for this example is based on the Arizona Department of Commerce, Research Administration population projections described in Section 3.1 of this report. For each community, the impact of restricted water supply starts at different points of time based on the existing water supply. In addition, each community is growing at different rates, at different points of time. However, as Prescott reaches this point, for a short period the Prescott Valley area will pick up the slack and will provide the housing for the region. This means that the timeframe for Prescott Valley is likely to be much less than what was derived through review of the population projections. These unknown economic factors make it difficult to illustrate the impact over a specific time frame. Thus, the following tables are meant to be an example of an abstract 25-year impact and could, in fact, be higher or lower, depending on when the water supply ends for each of the communities.



Based on population projections from the Arizona Department of Commerce, Research Administration and current estimates for water supply, the City of Prescott will likely not be able to issue additional residential permits after 2014. In 2015, the population projections from ADOC would equate to 533 new homes. This translates into \$106.9 million in economic output, construction sales tax of \$1.4 million, development impact fees of \$8.3 million and an additional \$310,000 in secondary construction revenues. The residents of these 533 homes would generate an additional \$156,000 in sales tax revenues and \$53,100 in property tax revenues. The state shared revenue distribution formulas (based on population) would not kick in until two years after the 2020 census. At that point, the 3,500 homes built would represent 7,700 additional residents, or \$2.6 million in state shared revenues.

Over 25 years, the total lost economic activity would approach \$2.0 billion dollars. This figure represents the total economic output (or “value” added to the community). The construction creates jobs and local spending throughout the community and creates further economic benefits that are of value. These benefits take the form of additional business opportunities within the community and additional job opportunities for area residents.

In addition to this significant loss of economic output, over 25 years, the construction and ongoing impact of the residents would have generated \$309.4 million in revenues for the City of Prescott.



City of Prescott Residential Impact Summary over 25 Years* (2008 dollars)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Homes built	533	523	512	501	489	477	465	454	444	432
<u>Economic impact of construction</u>										
Economic output (\$ mil)	\$106.9	\$104.8	\$102.7	\$100.4	\$98.0	\$95.6	\$93.3	\$91.1	\$88.9	\$86.6
<u>Fiscal impact of construction</u>										
Construction sales tax	\$1,386,800	\$1,359,700	\$1,332,500	\$1,302,800	\$1,271,200	\$1,239,700	\$1,209,800	\$1,181,000	\$1,153,500	\$1,123,400
Development Impact Fees	\$8,336,100	\$8,173,400	\$8,009,400	\$7,831,200	\$7,641,400	\$7,451,600	\$7,272,100	\$7,099,100	\$6,933,800	\$6,753,100
Secondary revenues during construction	\$310,000	\$304,000	\$297,900	\$291,200	\$284,200	\$277,100	\$270,400	\$264,000	\$257,900	\$251,100
<u>Ongoing fiscal impact of residents</u>										
Sales tax revenues	\$156,000	\$309,000	\$459,000	\$606,000	\$749,000	\$889,000	\$1,025,000	\$1,158,000	\$1,288,000	\$1,414,000
Property tax revenues	\$53,100	\$105,100	\$156,100	\$205,900	\$254,500	\$301,900	\$348,200	\$393,400	\$437,500	\$480,500
State shared revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,610,400	\$2,610,400	\$2,610,400
Total annual revenues	\$10,242,000	\$10,251,200	\$10,254,900	\$10,237,100	\$10,200,300	\$10,159,300	\$10,125,500	\$12,705,900	\$12,681,100	\$12,632,500
	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Homes built	421	408	397	385	374	361	348	335	320	307
<u>Economic impact of construction</u>										
Economic output (\$ mil)	\$84.4	\$81.9	\$79.5	\$77.1	\$74.9	\$72.4	\$69.8	\$67.1	\$64.2	\$61.5
<u>Fiscal impact of construction</u>										
Construction sales tax	\$1,095,300	\$1,062,000	\$1,031,100	\$999,900	\$971,100	\$938,700	\$905,600	\$870,600	\$832,600	\$798,000
Development Impact Fees	\$6,583,900	\$6,383,800	\$6,197,800	\$6,010,600	\$5,837,600	\$5,642,600	\$5,443,800	\$5,233,300	\$5,004,800	\$4,796,900
Secondary revenues during construction	\$244,800	\$237,400	\$230,500	\$223,500	\$217,100	\$209,800	\$202,400	\$194,600	\$186,100	\$178,400
<u>Ongoing fiscal impact of residents</u>										
Sales tax revenues	\$1,537,000	\$1,657,000	\$1,773,000	\$1,886,000	\$1,995,000	\$2,101,000	\$2,203,000	\$2,301,000	\$2,395,000	\$2,485,000
Property tax revenues	\$522,400	\$563,000	\$602,400	\$640,700	\$677,900	\$713,800	\$748,400	\$781,700	\$813,500	\$844,000
State shared revenues	\$2,610,400	\$2,610,400	\$2,610,400	\$2,610,400	\$2,610,400	\$2,610,400	\$2,610,400	\$5,187,300	\$5,187,300	\$5,187,300
Total annual revenues	\$12,593,800	\$12,513,600	\$12,445,200	\$12,371,100	\$12,309,100	\$12,216,300	\$12,113,600	\$14,568,500	\$14,419,300	\$14,289,600
	Year 21	Year 22	Year 23	Year 24	Year 25	TOTAL				
Homes built	295	284	274	265	256	9,860				
<u>Economic impact of construction</u>										
Economic output	\$59.1	\$56.9	\$55.0	\$53.0	\$51.3	\$1,976.6				
<u>Fiscal impact of construction</u>										
Construction sales tax	\$767,100	\$738,300	\$713,600	\$687,800	\$664,800	\$25,636,900				
Development Impact Fees	\$4,610,900	\$4,437,900	\$4,289,400	\$4,134,500	\$3,996,300	\$154,105,300				
Secondary revenues during construction	\$171,500	\$165,000	\$159,500	\$153,800	\$148,600	\$5,730,800				
<u>Ongoing fiscal impact of residents</u>										
Sales tax revenues	\$2,571,000	\$2,654,000	\$2,734,000	\$2,811,000	\$2,886,000	\$42,042,000				
Property tax revenues	\$873,300	\$901,500	\$928,800	\$955,100	\$980,500	\$14,283,200				
State shared revenues	\$5,187,300	\$5,187,300	\$5,187,300	\$5,187,300	\$5,187,300	\$67,602,400				
Total annual revenues	\$14,181,100	\$14,084,000	\$14,012,600	\$13,929,500	\$13,863,500	\$309,400,600				

*Years of operation assume an abstract 25-year period, uniform stabilization, and constant 2008 dollars. Accordingly, depending on specific water constraint dates and population growth scenarios, the actual annual results may vary. However, the overall impact could extend duration but should not change the estimates.
Source: Arizona Department of Commerce, Research Administration; Elliott D. Pollack & Company; City of Prescott

Growth in the Town of Prescott Valley would be impacted by limited water supply by 2031, based on the Arizona Department of Commerce Research Administration population projections. At that point, housing construction could not continue and the Town would not receive further revenues associated with construction taxes and additional resident spending. In Year 1, the 451 homes would have generated \$90.4 million in economic activity, \$7.6 million of construction-related taxes and another \$151,000 in revenues from the spending of the residents (2008 dollars). Once the new residents would have been accounted for in the 2040 Census, state shared revenues would add an additional \$3.0 million each year for the decade and by the 2050 Census, an additional \$5.2 million in state shared revenues each year.

In total, the Town of Prescott Valley would lose \$1.7 billion in economic activity throughout the county and \$236.6 million in revenues over this 25-year period should the Big Chino Water Ranch Project not be built. This is considered a conservative estimate as Prescott Valley is likely to run out of water much sooner than 2031 (see discussion above) and housing demand is projected to be higher in earlier years.



Town of Prescott Valley Residential Impact Summary over 25 Years* (2008 dollars)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Homes built	451	431	414	397	382	370	356	345	335	327
<u>Economic impact of construction</u>										
Economic output (\$ mil)	\$90.4	\$86.4	\$82.9	\$79.6	\$76.6	\$74.1	\$71.4	\$69.1	\$67.1	\$65.5
<u>Fiscal impact of construction</u>										
Construction sales tax	\$1,366,400	\$1,306,000	\$1,253,300	\$1,203,400	\$1,158,100	\$1,120,100	\$1,079,200	\$1,043,700	\$1,013,700	\$990,400
Development Impact Fees	\$6,119,100	\$5,848,800	\$5,612,600	\$5,389,500	\$5,186,300	\$5,016,000	\$4,832,900	\$4,674,100	\$4,539,600	\$4,435,200
Secondary revenues during construction	\$134,200	\$128,200	\$123,100	\$118,200	\$113,700	\$110,000	\$106,000	\$102,500	\$99,500	\$97,200
<u>Ongoing fiscal impact of residents</u>										
Sales tax revenues	\$151,000	\$296,000	\$435,000	\$568,000	\$696,000	\$820,000	\$940,000	\$1,056,000	\$1,168,000	\$1,278,000
State shared revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total annual revenues	\$7,770,700	\$7,579,000	\$7,424,000	\$7,279,100	\$7,154,100	\$7,066,100	\$6,958,100	\$6,876,300	\$6,820,800	\$6,800,800
	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Homes built	318	311	308	307	305	300	300	304	304	302
<u>Economic impact of construction</u>										
Economic output (\$ mil)	\$63.8	\$62.3	\$61.7	\$61.6	\$61.1	\$60.2	\$60.0	\$61.0	\$61.0	\$60.6
<u>Fiscal impact of construction</u>										
Construction sales tax	\$964,200	\$942,100	\$931,600	\$930,900	\$923,900	\$909,800	\$907,300	\$921,000	\$921,700	\$915,000
Development Impact Fees	\$4,317,800	\$4,219,200	\$4,171,900	\$4,169,100	\$4,137,600	\$4,074,600	\$4,063,200	\$4,124,800	\$4,127,600	\$4,097,500
Secondary revenues during construction	\$94,700	\$92,500	\$91,500	\$91,400	\$90,700	\$89,300	\$89,100	\$90,400	\$90,500	\$89,800
<u>Ongoing fiscal impact of residents</u>										
Sales tax revenues	\$1,385,000	\$1,489,000	\$1,592,000	\$1,695,000	\$1,797,000	\$1,898,000	\$1,999,000	\$2,101,000	\$2,203,000	\$2,304,000
State shared revenues	\$2,970,900	\$2,970,900	\$2,970,900	\$2,970,900	\$2,970,900	\$2,970,900	\$2,970,900	\$2,970,900	\$2,970,900	\$2,970,900
Total annual revenues	\$9,732,600	\$9,713,700	\$9,757,900	\$9,857,300	\$9,920,100	\$9,942,600	\$10,029,500	\$10,208,100	\$10,313,700	\$10,377,200
	Year 21	Year 22	Year 23	Year 24	Year 25	TOTAL				
Homes built	304	307	309	312	314	8,414				
<u>Economic impact of construction</u>										
Economic output (\$ mil)	\$61.0	\$61.5	\$62.0	\$62.5	\$63.0	\$1,686.8				
<u>Fiscal impact of construction</u>										
Construction sales tax	\$922,300	\$929,700	\$937,100	\$944,600	\$952,100	\$25,487,600				
Development Impact Fees	\$4,130,300	\$4,163,300	\$4,196,700	\$4,230,200	\$4,264,100	\$114,142,000				
Secondary revenues during construction	\$90,600	\$91,300	\$92,000	\$92,700	\$93,500	\$2,502,600				
<u>Ongoing fiscal impact of residents</u>										
Sales tax revenues	\$2,406,000	\$2,509,000	\$2,613,000	\$2,718,000	\$2,824,000	\$38,941,000				
State shared revenues	\$5,163,800	\$5,163,800	\$5,163,800	\$5,163,800	\$5,163,800	\$55,528,000				
Total annual revenues	\$12,713,000	\$12,857,100	\$13,002,600	\$13,149,300	\$13,297,500	\$236,601,200				

*Years of operation assume an abstract 25-year period, uniform stabilization, and constant 2008 dollars. Accordingly, depending on specific water constraint dates and population growth scenarios, the actual annual results may vary. However, the overall impact could extend duration but should not change the estimates.
Source: Arizona Department of Commerce, Research Administration; Elliott D. Pollack & Company; Town of Prescott Valley

As discussed in Section 3.4, the amount of water that will be dedicated to new growth from the Big Chino Water Ranch Project is yet to be determined. Thus, for the purpose of this report, three scenarios were presented. In Scenario 1, 100% of the water supply would be dedicated to new growth. In Scenario 2, 80% of the water supply is dedicated to new growth and in Scenario 3, 50% of the new water supply is dedicated to new growth. The above tables provide the impact of 9,860 units over 25 years for the City of Prescott and 8,414 units over 25 years for the Town of Prescott Valley and do not consider additional impacts from the above scenarios.



5.0 Impact of Commercial Growth

This section of the analysis provides the economic and fiscal estimates of the lost commercial construction that would occur under the scenario that the City of Prescott and Town of Prescott Valley cannot issue any additional residential building permits due to the Assured Water Supply Rules. Since the spending of resident incomes supports many companies, this economic loss can indeed be directly tied to the lost residential development. However, ongoing resident spending is already captured in the analysis in the previous section. Therefore, this section quantifies lost, one-time commercial construction impacts and the on-going losses during operation, but in order to avoid double counting, excludes the secondary impact of employment.

5.1 Commercial Demand

In order to quantify the impact of potential losses of commercial construction if growth restrictions are enforced in Prescott and Prescott Valley, this analysis first examines the projected commercial demand without consideration of growth limitations.

The following analysis relies on a defined trade area for the Prescott Region. This is because demand for commercial development is not restricted by City or Town boundaries. Thus, besides Prescott and Prescott Valley, the trade area used in this report also includes Chino Valley, Dewey, Humboldt, Mayer and other small communities that rely on the region for commercial services. The market area does not include Clarkdale, Cottonwood and Camp Verde that are geographically separated from the Prescott Region by distance and mountainous terrain. These three communities also have many of the commercial services offered in the Prescott area and, therefore, do not significantly contribute to retail sales and office demand in the Prescott area.

Retail Demand

The per capita square footage of shopping center space is an important measurement of supply and demand for retail uses. The increase in the per capita square footage of retail space in the Prescott Region is indicative of a growing and maturing market. For instance, the square footage of retail space in metro Phoenix has leveled off over the past 15 years at approximately 30 square feet per person. As the Prescott Region grows and begins to reach certain thresholds, we would expect the per capita square footage figure to increase as well. A larger population is able to support a much broader range of retail services and goods than a smaller population. A larger population also means that numerous retailers selling the same goods are going to express interest in entering the Prescott Region marketplace. We, therefore, believe that there is room for additional retailers in the market today given the expected growth of the region.

The following table shows the expected retail inventory that will be in place in the Region by 2008 based on current construction plans. In 2006, the per capita level of retail space declined slightly, but will increase rather sharply to 29 square feet per person with the new planned and under construction centers by 2008. In just a couple of years, the inventory of



retail space may be increasing by one-third. Some of this growth is related to the construction activity of Wal-Mart, including another Supercenter and a new Sam's Club in Prescott Valley. However, other national retailers are also entering the area including a Lowe's and two furniture chains.

The demand for retail space over the next ten years is shown on the following table. The forecast is based on projected growth in population as estimated by the Arizona Department of Commerce, Research Administration and a continuation of retail demand at 29.2 square feet per person. Over the next ten years, that demand should average over 100,000 square feet per year. However, as is noted in the most recent data, the construction of such space is likely to occur in clusters, not on a continual basis.

Forecasted Retail Shopping Center Growth Prescott Region						
	1999	2002	2006	2008	2011	2016
Population	96,242	106,742	137,127	143,919	154,742	175,171
SF of Shopping Center Space	1,944,337	2,469,211	3,105,272	4,204,494	4,520,693	5,117,511
SF Per Person	20.2	23.1	22.6	29.2	29.2	29.2
Increase in SF		524,874	636,361	1,098,922	316,199	596,818
Annual Increase in SF			159,090	219,784	105,400	119,364

Source: Elliott D. Pollack & Co., Arizona DES

Office Demand

Office uses are an important component of the economy, providing space for all types of professional and service uses. Historically, offices have been used for the provision of services to the local population, such as attorneys, title companies, real estate companies, doctors and dentists, insurance agents and similar businesses. However, as a community matures, office space will be demanded for a wide variety of corporate and other uses. The Prescott Region is likely reaching the stage of its growth where the office market will be more of a factor in the real estate market in the future.

The Prescott Region office market is comprised of approximately 1.3 million square feet of space. As the original, historic center of the Region, Prescott accounts for nearly 1.1 million square feet of the Region's office space, or 79%. Much of the Prescott office inventory is oriented toward government business as well as banking and other uses. On an annual basis, approximately 48,000 square feet of office space has been constructed in the Region. Since 2000, more than 58,000 square feet of office has been constructed annually. As the region grows, annual construction activity should increase.

In order to forecast the future demand for office space in the Prescott area, projections were made of employment growth based on historical trends. In addition, the relationship between office construction activity and employment growth was also analyzed. The following table shows the relationship between employment growth and office building construction. The office square footage that was constructed over that time frame is about 700,000 square feet. Through simple division, the table shows that the inventory of office space per job is 35 square feet in 2006. Likewise, for each new job added to the Prescott



Region economy between 1990 and 2000, the market added 30 square feet of office space. Between 2000 and 2006, the increase in office space per employee was 35 square feet.

Office Building Construction Analysis			
	1990	2000	2006
Yavapai County Employment	27,800	49,700	64,050
Estimated Prescott Region Employment	16,680	29,820	38,430
Increase in Employment		13,140	8,610
Average Annual Employment Increase		1,314	1,435
Prescott Region Office SF	654,609	1,047,459	1,352,202
Growth in Office SF		392,850	304,743
Growth Factors			
Office SF Per Employee		35	35
Office SF Built Per Each New Employee		30	35
Sources: Yavapai County Assessor, Arizona DOC, Elliott D. Pollack & Co.			

The forecast for office space over the next 10 years uses a factor of 35 square feet per new job created in the local economy. If employment in the Region grows as forecasted, this could create demand for between 58,000 and 71,000 square feet of new space per year. To give context to this forecast, the average annual demand for office space since 1990 have been 48,000 square feet. Therefore, the employment forecast may be optimistic compared with historic activity.

Projected Office Buiding Demand Alternative Demand Scenarios			
	2006	2011	2016
Yavapai County Employment	64,050	77,927	94,810
Estimated Prescott Region Employment	38,430	46,756	56,886
Increase in Employment		8,326	10,130
Demand Scenario 1			
Office Demand at 35 SF Per Job		291,409	354,544
Average Annual Office Demand		58,282	70,909
Demand Scenario 2			
Average Annual Demand Since 1990		48,293	48,293
Sources: Yavapai County Assessor, Arizona DOC; Elliott D. Pollack & Co.			

5.2 Assumptions of Analysis

Modeling results are provided pertaining to commercial development. The data is provided for each 50,000 square feet of both retail space and office space. Using a consistent square foot value (i.e. 50,000 sq. ft.) for the two types of example commercial projects is



purposeful because it allows one to examine how different types of business impact government coffers. The consistent increments also make it easier to later apply the estimated fiscal benefits to projections of lost absorption in order to derive a final forecast of City and Town revenue losses. In terms of assumptions for the analysis, the construction cost per square foot for retail is estimated at \$120 while for office, the cost per square foot is estimated to be \$100. There is estimated to be 400 square feet per employee in the retail market and 250 square feet per employee in the office market. Rents are currently about \$30 per square foot for a retail lease and \$25 per square foot in the office market.

Commercial Development Analysis Big Chino Water Ranch Project (2008 dollars)	
<u>Retail Assumptions</u>	
Square feet	50,000
Cost per square foot	\$120
Total construction cost	\$6,000,000
Total value for property tax	\$4,800,000
Square feet per employee	400
Sales per square foot	\$300
Rent per square foot	\$30
Total annual rent collected	\$1,425,000
<u>Office Assumptions</u>	
Square feet	50,000
Cost per square foot	\$100
Total construction cost	\$5,000,000
Total value for property tax	\$4,000,000
Square feet per employee	250
Rent per square foot	\$25
Total annual rent collected	\$1,187,500
Source: Elliott D. Pollack & Co., ULI, ICSC, Macerich Annual Report, Survey of Retailers; Census of Retail Trade; BOMA	

The City of Prescott and Town of Prescott Valley also levy impact fees on commercial development. The following table provides an estimate of fees for a commercial building with a 1" inch meter and 33 fixture units. The City of Prescott does not currently levy development impact fees, but developers would still pay sewer and water fees totaling \$19,506. In the Town of Prescott Valley, utility and meter fees total \$8,811 while development impact fees vary by commercial use. The retail building fee is currently \$1.45 per square foot while an office building is levied a fee of \$0.70 per square foot. Thus, for a commercial building of 50,000 square feet, fees would total \$72,500 for a retail building and \$35,000 for an office building.



Commercial Impact Fee Assumptions For each 50,000 Square Foot Building Big Chino Water Ranch Project	
Prescott	
Sewer buy-in fee	\$1,848
Water system fee	\$9,000
Water resource fee	\$8,258
Meter fee	\$400
Total	\$19,506
Prescott Valley	
Utility	\$8,261
Meter fee	\$550
Total	\$8,811
Development Impact Fee (DIF)	
Retail	\$72,500
Office	\$35,000
<small>Note: Figures based on 1" inch meter and 33 fixture units. There is currently a moratorium on Prescott Valley DIF's, that is expected to be extended through 2010. Source: City of Prescott; Town of Prescott Valley</small>	

5.3 Economic Impact of Commercial Construction

The following table displays the economic impact associated with the construction of retail and office development projects. The impacts are provided in terms of job gains, wages paid, and economic output. Again, these are estimates for incremental development projects.

The construction of 50,000 square feet of retail space produces 99 jobs with \$4.1 million in wages and \$9.7 million in economic output. The construction of 50,000 square feet of office space creates 82 total jobs, with \$3.4 million in wages and more than \$8.1 million in economic activity. This information is displayed within the table on the following page.

Economic impacts are by their nature regional in character. Such impacts are best illustrated when not assigned to a specific city or locality, although clearly the primary impact of job creation would be on the City or Town where the commercial development is located. People working on the commercial building would commute to the area from their homes in all parts of the County. Therefore, the economic impact of the development project is expressed in this report as a countywide benefit. All dollar figures are expressed in 2008 dollars.



**Economic Impact of Construction
Commercial Development
Yavapai County
(2008 dollars)**

Impact Type	Jobs	Wages	Economic Output
Retail (50,000 square feet)			
Direct	60	\$2,692,900	\$6,000,000
Indirect	14	\$527,500	\$1,503,100
Induced	24	\$845,200	\$2,215,600
Total	99	\$4,065,600	\$9,718,700
Office (50,000 square feet)			
Direct	50	\$2,244,100	\$5,000,000
Indirect	12	\$439,600	\$1,252,600
Induced	20	\$704,300	\$1,846,300
Total	82	\$3,388,000	\$8,098,900

^{1/} The total may not equal the sum of the impacts due to rounding. All dollar figures are in constant dollars. Inflation has not been included in these figures

Source: Elliott D. Pollack & Company; IMPLAN

5.4 Fiscal Impact of Commercial Construction

The construction activity displayed above also creates opportunities for tax collections for the State, Yavapai County, City of Prescott and Town of Prescott Valley. Both primary (construction sales taxes and impact fees) and secondary (taxes from employees) would be collected, but because resident spending is already captured in the analysis in the previous section and in order to avoid double counting, this section of the report excludes the secondary impact of employment.

In summary, the construction of each 50,000 square feet of retail will generate construction sales taxes of \$154,300 for the State of Arizona, \$27,300 for Yavapai County, \$78,000 for the City of Prescott and \$90,900 if the establishment is constructed in the Town of Prescott Valley. The City of Prescott would collect an additional \$19,506 in impact fees while the Town of Prescott Valley would collect \$81,311.



In terms of the construction of 50,000 square feet of office space, the State would collect \$128,600 in construction sales taxes, the County would collect \$22,800 and if the office building were constructed in the City of Prescott or Town of Prescott Valley, a total of \$65,000 or \$75,700 would be collected, respectively. Utility fees for office space in the City of Prescott are estimated at \$19,506 while in the Town of Prescott Valley, a total of \$43,811 in utility fees and development impact fees would be collected.

Fiscal Impact of Commercial Development (2008 dollars)		
	<i>Construction</i>	<i>Development</i>
<i>Retail Impact (50,000 sf)</i>	<i>Sales Tax</i>	<i>Impact Fees</i>
State of Arizona	\$154,300	N/A
Yavapai County	\$27,300	N/A
City of Prescott	\$78,000	\$19,506
Town of Prescott Valley	\$90,900	\$81,311
<i>Office Impact (50,000 sf)</i>		
State of Arizona	\$128,600	N/A
Yavapai County	\$22,800	N/A
City of Prescott	\$65,000	\$19,506
Town of Prescott Valley	\$75,700	\$43,811
<p>Note: Impact fees based on 1" inch meter and 33 fixture units. There is currently a moratorium on Prescott Valley DIF's, that is expected to be extended through 2010.</p> <p>Source: Elliott D. Pollack & Company; Arizona Department of Revenue ATRA; ADWR; City of Prescott; Town of Prescott Valley.</p>		

5.5 Economic Impact of Ongoing Commercial Operations

The following table illustrates the incremental impact of ongoing retail and office operations for each 50,000 square feet of space. Each 50,000 square feet of retail space would generate 125 direct jobs and an additional 29 indirect and induced jobs, for a total of 154 jobs. These jobs would have total wages of \$3.6 million and generate total economic output of \$7.6 million each annually.

Office operations of this size would generate 200 direct jobs with wages of \$8.5 million and direct economic output of \$20.7 million. The ripple effect throughout the economy would create an additional impact on the region for a total economic impact of 373 jobs, \$14.5 million in wages and \$37.0 million in economic activity.



**Economic Impact of Ongoing Operations
Commercial Development
Yavapai County
(2008 dollars)**

Impact Type	Jobs	Wages	Economic Output
Retail (50,000 square feet)			
Direct	125	\$2,615,800	\$4,839,600
Indirect	7	\$260,300	\$773,600
Induced	22	\$754,700	\$1,978,400
Total	154	\$3,630,800	\$7,591,600
Office (50,000 square feet)			
Direct	200	\$8,465,700	\$20,699,200
Indirect	87	\$2,985,800	\$8,330,800
Induced	87	\$3,045,000	\$7,982,600
Total	373	\$14,496,500	\$37,012,600

^{1/} The total may not equal the sum of the impacts due to rounding. All dollar figures are in constant dollars.
Inflation has not been included in these figures

Source: Elliott D. Pollack & Company; IMPLAN

5.6 Fiscal Impact of Ongoing Commercial Operations

The ongoing annual fiscal impact of commercial operations (for each 50,000 square feet) is shown on the table below. Sales tax at the retail establishments would be the largest revenue generator for most governments, with property tax being the second. In total, the City of Prescott would collect \$333,300 for each 50,000 square feet of retail space and \$27,800 for each 50,000 square feet of office space. The Town of Prescott Valley would collect \$349,500 for each 50,000 square feet of retail, but because the Town does not levy a property tax and they also do not charge a sales tax on the rental of real property, there is no fiscal impact from direct office operations.

Unlike the impact from lost commercial construction, the impact from the business operations is ongoing and cumulative each year and, over time, would result in a significant impact on fiscal revenue for the City and Town.



Fiscal Impact of Commercial Operations (2008 dollars)				
	<i>Sales Tax</i>	<i>Lease Tax</i>	<i>Property Tax</i>	<i>Total</i>
<u>Retail Impact (50,000 sf)</u>				
State of Arizona	\$741,700	N/A	N/A	\$741,700
Yavapai County	\$112,500	N/A	\$32,700	\$145,200
City of Prescott	\$300,000	\$28,500	\$4,800	\$333,300
Town of Prescott Valley	\$349,500	N/A	N/A	\$349,500
<u>Office Impact (50,000 sf)</u>				
State of Arizona	N/A	N/A	N/A	N/A
Yavapai County	N/A	N/A	\$27,300	\$27,300
City of Prescott	N/A	\$23,800	\$4,000	\$27,800
Town of Prescott Valley	N/A	N/A	N/A	N/A

Source: Elliott D. Pollack & Company; Arizona Department of Revenue; ATRA; ADWR; City of Prescott; Town of Prescott Valley.

5.7 25-Year Estimate of the Impact of Lost Commercial Development

The demand for commercial space determined in the prior sections relies on a defined trade area for the Prescott Region. This is because demand for commercial development is not restricted by City or Town boundaries. With the Assured Water Supply Rules, the commercial demand throughout the Prescott region will slow, and any new commercial development will be outside City and Town limits. In order to estimate the long-term (25 year) impact on the City of Prescott and Town of Prescott Valley, this report assumes that the historical capture rate for the City and Town of all commercial space would have remained constant. In addition, the ratio of space that would have been built in Prescott Valley compared to the City of Prescott follows a straight-line trend.

The 25-year commercial impact is estimated using the same impact period as presented in the 25-year residential impact. That is, each city has a restricted water supply and it is currently estimated that the City of Prescott will run out of growth opportunity in 2014, while the Town of Prescott Valley by 2031, possibly sooner if development shifts from Prescott to Prescott Valley.

The following tables illustrate the impact on the City of Prescott and the Town of Prescott Valley government revenues over a 25-year timeframe. For each community, the impact of restricted water supply starts at different points of time based on the existing water supply. In addition, each community is growing at different rates, at different points of time. However, as Prescott reaches this point, for a short period the Prescott Valley area will pick up the slack and will provide the housing for the region. This means that the timeframe for Prescott Valley is likely to be much less than what was derived through



review of commercial demand. These unknown economic factors make it difficult to illustrate the impact over a specific time frame. Thus, the following tables are meant to be an example of an abstract 25-year impact and could, in fact, be higher or lower, depending on when the water supply ends for each of the communities.

As described in the residential section, based on current population projections, the City of Prescott would not be able to issue additional permits after 2015. At this point, there would be annual demand of about 50,000 square feet of retail space in the City and another 30,000 square feet of office space. This translates into \$14.9 million in economic output and \$158,600 in construction related revenues for the City. The operations of these establishments would generate \$31.6 million in annual economic activity and \$348,600 in revenues for the City annually. The operating impacts are ongoing and cumulative over the 25 years while the construction impact are one time lost revenue opportunities.

Over 25 years (with demand for commercial space varying based on population growth), the total lost economic activity would approach \$243.3 million from construction and \$8.0 billion dollars from business operations. This figure represents the total economic output (or “value” added to the community). In addition to this significant loss of economic output, over 25 years, the construction and ongoing impact of the businesses would have generated \$2.9 million and \$85.2 million, respectively, in revenues for the City of Prescott.

City of Prescott Commercial Impact Summary over 25 Years* (2008 dollars)										
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
<u>Impact of construction</u>										
Economic output (\$ mil)	\$14.9	\$14.5	\$14.0	\$13.5	\$13.0	\$12.6	\$12.1	\$11.7	\$11.3	\$10.9
Fiscal impact	\$158,600	\$155,000	\$151,200	\$147,400	\$143,500	\$139,900	\$136,400	\$133,100	\$129,600	\$126,300
<u>Ongoing impact of operations</u>										
Economic output (\$ mil)	\$31.6	\$62.3	\$92.1	\$120.9	\$148.8	\$175.7	\$201.9	\$227.2	\$251.6	\$275.2
Fiscal impact	\$348,600	\$686,200	\$1,012,000	\$1,326,000	\$1,628,400	\$1,919,600	\$2,200,200	\$2,470,600	\$2,730,600	\$2,980,500
	<u>Year 11</u>	<u>Year 12</u>	<u>Year 13</u>	<u>Year 14</u>	<u>Year 15</u>	<u>Year 16</u>	<u>Year 17</u>	<u>Year 18</u>	<u>Year 19</u>	<u>Year 20</u>
<u>Impact of construction</u>										
Economic output (\$ mil)	\$10.4	\$10.0	\$9.6	\$9.2	\$8.8	\$8.4	\$8.0	\$7.5	\$7.1	\$6.7
Fiscal impact	\$122,700	\$119,300	\$116,000	\$112,800	\$109,600	\$106,200	\$102,800	\$99,300	\$96,100	\$93,100
<u>Ongoing impact of operations</u>										
Economic output (\$ mil)	\$297.9	\$319.8	\$340.8	\$361.0	\$380.4	\$398.9	\$416.5	\$433.2	\$449.1	\$464.2
Fiscal impact	\$3,219,400	\$3,448,300	\$3,667,100	\$3,876,400	\$4,075,900	\$4,265,500	\$4,445,100	\$4,614,100	\$4,773,700	\$4,924,600
	<u>Year 21</u>	<u>Year 22</u>	<u>Year 23</u>	<u>Year 24</u>	<u>Year 25</u>	TOTAL				
<u>Impact of construction</u>										
Economic output (\$ mil)	\$6.4	\$6.1	\$5.8	\$5.5	\$5.3	\$243.3				
Fiscal impact	\$90,400	\$88,000	\$85,600	\$83,500	\$81,600	\$2,928,000				
<u>Ongoing impact of operations</u>										
Economic output (\$ mil)	\$478.6	\$492.4	\$505.6	\$518.2	\$530.4	\$7,974.1				
Fiscal impact	\$5,067,600	\$5,203,500	\$5,332,400	\$5,454,900	\$5,571,800	\$85,243,000				

*Years of operation assume an abstract 25-year period, uniform stabilization, and constant 2008 dollars. Accordingly, depending on specific water constraint dates and population growth scenarios, the actual annual results may vary. However, the overall impact could extend duration but should not change the estimates.
Source: Arizona Department of Commerce; Elliott D. Pollack & Company; City of Prescott

Growth in the Town of Prescott Valley would be impacted by limited water supply by 2031, based on the Arizona Department of Commerce, Research Administration population projections. At that point, no development would occur and the Town would not receive further revenues associated with construction taxes. In Year 1, the 27,000 square feet of retail space and 8,300 square feet of office space would have generated \$6.6 million in economic activity during construction and \$124,100 of construction-related taxes (2008



dollars). The operations of these businesses would have generated an additional \$10.2 million in economic output and \$188,200 in fiscal revenues for the Town of Prescott Valley.

In total, the Town of Prescott Valley would lose \$147.6 million in economic activity during construction and \$3.0 billion from business operations throughout the county. The lost fiscal impact over 25 years is \$2.8 million in revenues during construction and \$54.5 million from operations should the Big Chino Water Ranch Project not be built. This is considered a conservative estimate as Prescott Valley is likely to run out of water much sooner than 2031 (see discussion above) and commercial demand is projected to be higher in earlier years.

Town of Prescott Valley Commercial Impact Summary over 25 Years* (2008 dollars)										
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
<u>Impact of construction</u>										
Economic output (\$ mil)	\$6.6	\$6.4	\$6.2	\$6.1	\$6.0	\$5.8	\$5.7	\$5.6	\$5.6	\$5.5
Fiscal impact	\$124,100	\$121,200	\$118,500	\$116,100	\$114,100	\$111,900	\$110,000	\$108,500	\$107,600	\$106,300
<u>Ongoing impact of operations</u>										
Economic output (\$ mil)	\$10.2	\$20.2	\$30.0	\$39.4	\$48.8	\$57.9	\$66.8	\$75.6	\$84.3	\$92.9
Fiscal impact	\$188,200	\$371,400	\$549,700	\$723,700	\$894,300	\$1,060,800	\$1,224,000	\$1,384,500	\$1,543,400	\$1,700,000
	<u>Year 11</u>	<u>Year 12</u>	<u>Year 13</u>	<u>Year 14</u>	<u>Year 15</u>	<u>Year 16</u>	<u>Year 17</u>	<u>Year 18</u>	<u>Year 19</u>	<u>Year 20</u>
<u>Impact of construction</u>										
Economic output (\$ mil)	\$5.4	\$5.4	\$5.5	\$5.5	\$5.5	\$5.6	\$5.7	\$5.8	\$5.9	\$6.0
Fiscal impact	\$105,500	\$105,600	\$106,600	\$107,000	\$106,700	\$107,500	\$110,000	\$111,100	\$112,800	\$114,600
<u>Ongoing impact of operations</u>										
Economic output (\$ mil)	\$101.4	\$109.9	\$118.5	\$127.2	\$135.8	\$144.5	\$153.5	\$162.6	\$171.8	\$181.3
Fiscal impact	\$1,855,000	\$2,010,200	\$2,167,100	\$2,324,800	\$2,481,800	\$2,640,300	\$2,803,200	\$2,967,900	\$3,135,700	\$3,306,600
	<u>Year 21</u>	<u>Year 22</u>	<u>Year 23</u>	<u>Year 24</u>	<u>Year 25</u>	TOTAL				
<u>Impact of construction</u>										
Economic output (\$ mil)	\$6.1	\$6.2	\$6.3	\$6.5	\$6.6	\$147.6				
Fiscal impact	\$116,400	\$118,200	\$120,000	\$121,900	\$123,700	\$2,825,900				
<u>Ongoing impact of operations</u>										
Economic output (\$ mil)	\$190.9	\$200.6	\$210.6	\$220.8	\$231.1	\$2,986.5				
Fiscal impact	\$3,480,600	\$3,657,700	\$3,838,000	\$4,021,600	\$4,208,400	\$54,538,900				

*Years of operation assume an abstract 25-year period, uniform stabilization, and constant 2008 dollars. Accordingly, depending on specific water constraint dates and population growth scenarios, the actual annual results may vary. However, the overall impact could extend duration but should not change the estimates.
Source: Arizona Department of Commerce; Elliott D. Pollack & Company; Town of Prescott Valley



6.0 Impact of Big Chino Water Ranch Project Construction

Construction phase impacts are generally short-term effects related to onsite and offsite construction employment and other industries that support the construction. The following section provides the construction related impacts of the Big Chino Water Ranch Project.

6.1 Construction Cost Assumptions

The assumptions for construction costs were provided by the City of Prescott and Black & Veatch engineering firm. In total, the project including soft costs is estimated to be \$174.8 million. Of this, \$108.8 million is direct construction related costs and \$66.0 million is other “soft” costs such as engineering, contingencies, and site acquisition).

The cost of the pipeline is recouped by fees assessed by the City and Town such as impact fees, user fees and outright sales of effluent.

Big Chino Water Ranch Project Construction Costs (2008 dollars)	
<u>Description</u>	<u>Cost</u>
Well field	\$12,300,000
Pumpline	\$48,000,000
Highway 89 Pump Station	\$6,600,000
Chino Valley Water Production Facility New Pipeline	\$17,900,000
Intermediate Pump Station	\$16,500,000
APS substations & power improvements	\$7,500,000
Access requirements	\$2,000,000
Arsenic treatment	\$14,000,000
Contingencies & requirements	\$28,400,000
Engineering	\$16,000,000
Easements & property site acquisition	\$5,600,000
Total project costs	\$174,800,000
Direct Construction	\$108,800,000
Other (treatment, engineering, contingencies & acquisition)	\$66,000,000
Total value subject to construction sales tax ^{1/}	\$42,900,000
<small>1/ Actual contract value subject to construction sales tax is yet to be determined. This figure assumes that construction sales tax is only levied on the pump stations, as water pipelines are exempt. Sources: City of Prescott, Black & Veatch Engineering</small>	

6.2 Economic Impact of Construction

The development of the Big Chino Water Ranch Project is estimated to take two years to complete. Each year the direct construction costs would generate an average of 550 direct construction jobs, with \$24.4 million in wages and \$54.4 million in economic output.



The ripple effect of these jobs would generate 350 indirect and induced jobs, \$12.4 million in wages and \$33.7 million in economic out. In total, the construction of the BCWR project will generate 890 jobs each year with wages of \$36.9 million and a total economic output of \$88.1 million annually. These jobs would cease to exist when construction is completed. The figures are summarized in the following table.

Economic Impact of Construction Each Year for Two Years Big Chino Water Ranch Project Yavapai County (2008 dollars)			
Impact Type	Jobs	Wages	Annual Economic Output
Direct	550	\$24,415,000	\$54,400,000
Indirect	130	\$4,782,000	\$13,628,000
Induced	220	\$7,663,000	\$20,088,000
Total	890	\$36,861,000	\$88,116,000

1/ The total may not equal the sum of the impacts due to rounding. All dollar figures are in constant dollars. Inflation has not been included in these figures

Source: Elliott D. Pollack & Company; IMPLAN; City of Prescott Water Resources Dept.

6.3 Fiscal Impact of Construction

The construction of the BCWR project will also result in tax revenues for the State of Arizona and Yavapai County. The next table displays that during the two year construction period, a total of \$1.4 million in construction sales taxes will be generated for the State of Arizona. This figure assumes that the pipeline itself will be exempt from construction sales tax and only applies to the well field, pump stations and access requirements. When adding tax revenues from other categories such as employee spending sales taxes, income taxes, etc., tax revenues to the State sum to an estimated \$4.4 million.



**Total Fiscal Impact from Construction
Big Chino Water Ranch Project
State of Arizona
(2008 dollars)**

Impact Type	Primary Revenues	Secondary Revenues from Employment					Total Revenues
	Construction Sales Tax	Employees Spending Sales Tax	Income Tax	HURF Vehicle License Tax	HURF Gas Tax	Unemp. Tax	
Direct Revenues	\$1,378,900	\$834,600	\$716,400	\$70,800	\$101,500	\$207,000	\$3,309,200
Indirect Revenues	N/A	\$177,500	\$129,200	\$16,500	\$23,700	\$48,300	\$395,200
Induced Revenues	N/A	\$293,900	\$206,900	\$28,300	\$40,500	\$82,600	\$652,200
Total Revenues	\$1,378,900	\$1,306,000	\$1,052,500	\$115,600	\$165,700	\$337,900	\$4,356,600

1/ The figures for the State of Arizona do not include revenues distributed to counties, cities, and towns. The figures are intended only as a general guideline as to how the State could be impacted by the project. The above figures are based on the current economic structure and tax rates of the State of Arizona.

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association; ADWR; City of Prescott

The table below displays the fiscal impacts related to the construction of the pipeline at the county level. Total tax revenues during the two year construction phase will equal approximately \$1.4 million. State shared revenues represented in the table include the construction sales taxes collected by the State at the 5.6% sales tax rate and then distributed to counties based on population.

**Fiscal Impact from New Construction
Big Chino Water Ranch Project
Yavapai County
(2008 dollars)**

Impact Type	Primary Revenues	Secondary Revenues from Employment			Total Revenues
	Construction Sales Tax	Employees Spending Sales Tax	Residents Property Tax	State Shared Revenues	
Direct Revenues	\$209,100	\$153,500	\$556,500	\$19,500	\$938,600
Indirect Revenues	N/A	\$33,000	\$130,000	\$2,300	\$165,300
Induced Revenues	N/A	\$54,700	\$222,200	\$3,500	\$280,400
Total Revenues	\$209,100	\$241,200	\$908,700	\$25,300	\$1,384,300

1/ The figures are intended only as a general guideline as to how the County could be impacted by the project. .

The above figures are based on the current economic structure and tax rates of the County

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association; ADWR; Yavapai County

The BCWR project does not fall within City of Prescott or Town of Prescott Valley limits and, thus, these governments will not collect construction sales tax from construction. It is likely, however, that some of the employees that are working on the construction of the project will reside (and spend portions of their income) within the City or Town.



7.0 Summary of Economic and Fiscal Impacts

If the City of Prescott and Town of Prescott Valley are not able to import water from the Big Chino Water Ranch delivery pipeline, growth in these two areas will slow considerably. The following tables summarize the results from prior sections in this report.

7.1 Lost Economic Activity

The annual economic impact of lost construction in the community is significant. The economic output (or “value” added to the community) is more than just the construction outlay. Indeed, the construction creates jobs and local spending throughout the community and creates further economic benefits that are of value. These benefits take the form of additional business opportunities within the community and additional job opportunities for area residents. These economic values are illustrated in the table below.

Each 500 single family homes built generates about 785 jobs with \$31.7 million in wages and \$100.2 million of output. Over 25 years, the Arizona Department of Commerce, Research Administration estimates that 9,860 units would have been built in Prescott between 2015 and 2039. This translates to a total economic activity loss of nearly \$2.0 billion. Similarly, housing demand would have 8,414 units in the Town of Prescott Valley and would have generated \$1.7 billion in economic output over this timeframe.

Commercial construction would also stop within city and town limits. For each 50,000 square feet of retail and 50,000 square feet of office space built, 181 jobs with \$7.4 million in wages and \$17.8 million in economic output would be lost. Over 25 years (based on varying commercial demand annually between 2015 and 2039), the demand for retail and office space in the City of Prescott would equate to \$243.3 million in lost economic activity. In the Town of Prescott Valley between 2032 and 2056, lost commercial development would equate to \$147.6 million in lost economic output.

The ongoing operations of these businesses generate annual and cumulative economic impacts on the City and Town. Each 50,000 square feet of retail space and 50,000 square feet of office space generates 527 jobs in the local economy with \$18.1 million in wages and \$44.6 million in economic output.

Given the cumulative nature of the ongoing operations the 25 year impact equates to \$8.0 billion of lost economic output for the City of Prescott and \$3.0 billion in lost economic activity in the Town of Prescott Valley.

The construction of the BCWR over two years would generate 1,788 person years of employment with \$73.7 million in wages and \$176.2 million in economic activity.

The above described impacts would equate to total lost economic activity of \$15.2 billion over the impact periods outlined for each community.



**Economic Impact Summary
Big Chino Water Ranch Project
(2008 dollars)**

Impact from Construction of each 500 Single Family Homes

Jobs	785
Wages	\$31,681,300
Economic Output	\$100,229,500

Total economic output over 25 years*

City of Prescott	\$1,976,607,000
Town of Prescott Valley	\$1,686,753,000

Impact from Commercial Development

Impact from construction of 50,000 sf of retail and office

Jobs	181
Wages	\$7,453,600
Economic Output	\$17,817,600

Total economic output over 25 years*

City of Prescott	\$243,296,000
Town of Prescott Valley	\$147,588,000

Impact from operations of 50,000 sf of retail and office

Jobs	527
Wages	\$18,127,300
Economic Output	\$44,604,200

Total economic output over 25 years*

City of Prescott	\$7,974,084,000
Town of Prescott Valley	\$2,986,540,000

Impact from Construction of BCWR project (total over 2 years)

Jobs	1,788
Wages	\$73,721,000
Economic Output	\$176,232,000

Total 25-year economic impact (all communities)

City of Prescott	\$10,193,987,000
Town of Prescott Valley	\$4,820,881,000
During construction in Yavapai County	\$176,232,000
Total lost economic output	\$15,191,100,000

Note: Based on an abstract 25-year period of slowing population growth and housing and commercial demand.

Source: EDPco; IMPLAN; Arizona Department of Revenue; ATRA; ADWR



7.2 Foregone Fiscal Revenues

For each 500 single family units that would not be built due to water supply restrictions, the City of Prescott would lose \$9.4 million during construction and \$525,700 ongoing and cumulative annually from resident spending, property taxes on those homes and state shared revenues. The Town of Prescott Valley would lose \$8.4 million during construction and \$527,900 ongoing annually. The total impact over an abstract 25 year period is based on projected annual housing demand and is estimated to be \$309.4 million in lost revenue for the City of Prescott and \$236.6 million in the Town of Prescott Valley.

In addition, new commercial development will similarly cease. For each 50,000 square feet of retail space and 50,000 square feet of office space, the City of Prescott collects about \$143,000 in construction sales taxes and \$39,000 in impact fees while the Town of Prescott Valley would collect \$166,600 in construction sales taxes and \$125,100 in impact fees. The ongoing annual impact from operations generates about \$361,100 in annual revenues for the City and \$349,500 in annual revenues for the Town.

These revenues are cumulative over 25 years and based on projected annual commercial square footage. The total fiscal impact on the City from lost commercial development would be \$88.2 million while the Town of Prescott Valley would lose \$57.4 million over 25 years.

Fiscal Impact Summary Big Chino Water Ranch Project (2008 dollars)				
	State of Arizona	Yavapai County	City of Prescott	Town of Prescott Valley
<i>Impact from each 500 Single Family Homes</i>				
Construction sales tax	\$2,571,300	\$487,500	\$1,300,000	\$1,514,500
Development impact fees	N/A	N/A	\$7,814,400	\$6,782,500
Secondary Revenues from construction employees	\$1,287,500	\$517,800	\$290,600	\$148,700
<i>Ongoing and cumulative resident impact annually</i>				
Resident spending sales tax			\$146,000	\$167,900
Property tax paid on homes			\$49,700	N/A
State shared revenues			\$330,000	\$360,000
Total impact from each 500 single family homes built	\$3,858,800	\$1,005,300	\$9,930,700	\$8,973,600
Total impact over 25 years			\$309,400,600	\$236,601,200
<i>Impact from each 50,000 Square Feet of Retail and Office Construction</i>				
Construction sales tax	\$282,900	\$53,700	\$143,000	\$166,600
Development impact fees	N/A	N/A	\$39,000	\$125,100
<i>Ongoing and cumulative impact annually</i>				
Sales tax	\$741,700	\$112,500	\$300,000	\$349,500
Lease tax	N/A	N/A	\$52,300	N/A
Property tax	N/A	\$60,000	\$8,800	N/A
Total impact from 50,000 sf of Office and Retail	\$1,024,600	\$226,200	\$543,100	\$641,200
Total impact over 25 years			\$88,171,000	\$57,364,800
<i>Impact from Construction of BCWR project</i>				
Construction sales tax	\$1,378,900	\$209,100	N/A	N/A
Secondary revenues from construction employees	\$2,977,700	\$1,175,200	N/A	N/A

Source: Elliott D. Pollack & Company; IMPLAN; Arizona Department of Revenue; Arizona Tax Research Association; ADWR; City of Prescott



In addition to the ongoing impacts of lost construction, the State of Arizona and Yavapai County would collect taxes from the construction of the pump stations. The City and Town would not receive direct taxes from this construction, as State Law formulas for determining construction sales taxes are based on where the project is put in place. In this case, the BCWR is outside of City and Town limits.

In total, the City of Prescott stands to lose nearly \$397.6 million over a 25-year period from lost residential and commercial development. The Town of Prescott Valley would lose an estimated \$294.0 million (see table below).

25-Year Fiscal Impact Summary City of Prescott and Town of Prescott Valley Big Chino Water Ranch Project (2008 dollars)		
	City of Prescott	Town of Prescott Valley
25-year Impact of lost residential	\$309,400,600	\$236,601,200
25-year Impact of lost commercial	\$88,171,000	\$57,364,800
Total fiscal impact over 25 years	\$397,571,600	\$293,966,000

Source: EDPco; IMPLAN; ADOR; ATRA; ADWR; City of Prescott



8.0 Additional Economic Considerations

While the primary purpose of this report is to estimate the value of lost development under conditions of water supply restrictions, there are additional items that are worth considering. This section addresses some of these issues.

8.1 Development Patterns

One issue worth noting is the possibility of sporadic and inefficient development that could arise through wildcat development outside of the reviewed communities' boundaries. There appears to exist a loophole that would allow for some additional development to occur if water needs are met through well drilling. These wells would still tap into the same aquifer; however, regulation language would allow this to occur.

This could have a number of additional impacts on the local economies. First, if some wildcat development does indeed occur, the county and state would receive additional tax dollars. The cities, on the other hand, would receive more limited benefits that would likely be more than offset by added costs. For example, the potential wildcat development would be less refined and less well planned. Thus, the character of the area could change to the extent that less desirable building products, such as trailers, move into the area. In addition, over time, there could be added pressure to provide city roads in the areas.

Another point to keep in mind is that as Prescott reaches the point at which no more homes can be built, for a short period the Prescott Valley area will pick up the slack and will provide the housing for the region. This means that the timeframe for Prescott Valley is likely to be much less than what was derived through review of the population projections.

8.2 Economic Consequences of Development Constraints

Constraints on development will also inflate home prices and make the communities less affordable. This was the case in Flagstaff, Sedona in Arizona and Las Vegas, Nevada, to name three. Since the Prescott and Prescott Valley areas rely on retirement, second homes, and tourism as primary base industries (i.e. the industries that make the communities tick), a rapid increase in housing prices could have significant negative consequences for the local economies.

