College of Business
University of Nevada, Reno

TECHNICAL MEMORANDUM

Date: December 6, 2018

To: Daphne Hooper
City Manager, City of Fernley

From: Frederick Steinmann
Assistant Research Professor
University Center for Economic Research

Cc: Colleen Unterbrink, City of Fernley
Tim Thompson, City of Fernley
Doug Thornley, Holland & Hart
Marty Johnson, JNA Consulting Group, Inc.

RE: Assessment of Eliminating the West Development and Residential Subareas from the City of Fernley Redevelopment Study Area (Proposed Redevelopment Project Area No. 1)

This University Center for Economic Development technical memorandum has been prepared in response to a request from the City of Fernley City Council, made during the December 5, 2018 City Council Meeting, to assess the potential fiscal and administrative impact of removing the West Development and Residential subareas from the proposed Redevelopment District.

After estimating and assessing the potential impact that the removal of the West Development and Residential subareas may have on future incremental property tax revenues collected by the proposed Redevelopment Agency, it is still my professional advice that the proposed Redevelopment District be formed with the five existing subareas kept intact. The resulting decline in estimated incremental property tax revenues will be minimal to the proposed Redevelopment Agency's ability to generate sufficient operating income. However, the elimination of the West Development and Residential subareas will complicate the ability of the proposed Redevelopment Agency to successfully implement a broader revitalization and economic development strategy and may deny property owners in those subareas that have been identified as blighted from the opportunity to participate in redevelopment projects.

As outlined in the ***City of Fernley Redevelopment Agency, Redevelopment Plan for Redevelopment Project Area No. 1*** (UCED Technical Report 2017/18-13), successful revitalization and redevelopment of the Historic Downtown and the Industrial subareas will likely depend upon the ability of the proposed Redevelopment Agency to create new market-rate, affordable, and attainable housing for the increase in demand for housing that new commercial, retail, professional office, and industrial development will likely create. Establishment of the proposed Redevelopment District with all five subareas is critical to the strategy of minimizing long-term increases in the cost of providing services to the increased workforce, and

University Center for Economic Development
University of Nevada, Reno/0024
Reno, Nevada 89557
(775) 784-1655
(775) 784-4728 Fax
www.business.unr.edu

needed in order to implement various elements of the City of Fernley's Master Plan (revised August 2018). The City of Fernley's current Master Plan calls for increased density and urban infill development of both residential and non-residential development as a means of controlling costs and protecting the City's and area's natural resources and open spaces.

Elimination of the West Development and Residential subareas would lower the estimated total base assessed value of the proposed Redevelopment District, thereby lowering the overall amount of property tax revenue generated from the total base assessed value and paid to the City of Fernley, Lyon County, and the Lyon County School District for Operations over the initial 30-year term of the proposed Redevelopment District. While the estimated total base assessed value and property tax revenue paid to the City, the County, and the School District for Operations would be significantly lowered by removing both subareas, the reduction in incremental property tax revenue collected by the proposed Redevelopment Agency over the initial 30-year term is negligible (a 4.9 percent reduction in Scenario 1, a 3.8 percent reduction in Scenario 2, and a 0.3 percent reduction in Scenario 3). In Scenario 4, the elimination of the West Development and Residential subareas may actually result in an increase (a 0.5 percent increase in Scenario 4) in estimated incremental property tax revenues collected by the proposed Redevelopment Agency over the initial 30-year term. In all four revised scenarios, the elimination of the West Development and Residential subareas would also accelerate the year in which growth in incremental property tax revenues collected by the proposed Redevelopment Agency would overcome the impacts of the existing property tax abatements.

Estimation and Assessment of Eliminating the West Development and Residential Subareas

Table 1 summarizes the results of eliminating the West Development and Residential subareas from the proposed Redevelopment District on the estimated total base assessed value of the proposed Redevelopment District.

Table 1 – Impact of Removing the West Development and Residential Subareas from the Proposed Redevelopment District
Estimated Total Assessed Value Base

Area	Amount
Initial Redevelopment Study Area Total Base Assessed Value (All Five Subareas)	**$315,512,154**
Historic Downtown Base Assessed Value	$73,420,250
Industrial Base Assessed Value	$110,384,115
East Development Base Assessed Value	$62,264,140
Additional Parcels (No Physical Location) Base Assessed Value	$29,616
Residential Base Assessed Value	$66,115,710
West Development Base Assessed Value	$3,298,323
Initial Redevelopment Study Area Total Base Assessed Value (Minus West Development and Residential Subareas)	**$246,098,121**

University Center for Economic Development
University of Nevada, Reno/0024
Reno, Nevada 89557
(775) 784-1655
(775) 784-4728 Fax
www.business.unr.edu

Removal of the West Development and Residential subareas would reduce the estimated total base assessed value of the proposed Redevelopment District by an estimated $69.4 million, or 22.0 percent, reducing the estimated total base assessed value from an estimated $315.5 million (with all five subareas) to an estimated $246.1 million (including only the Historical Downtown, Industrial, and East Development subareas). However, the estimated decline in incremental property tax revenue collected by the proposed Redevelopment Agency over the initial 30-year term of the Agency/District would be significantly less than the decline in the proposed District's estimated total base assessed value under the four development scenarios developed in the Redevelopment Plan.

Table 2 summarizes the results of eliminating the West Development and Residential subareas from the proposed Redevelopment District on the estimated incremental property tax revenue generated from the proposed Redevelopment District over the initial 30-year term.

Table 2 – Impact of Removing the West Development and Residential Subareas from the Proposed Redevelopment District
Estimated Incremental Property Tax Revenue, Initial 30-Year Term

Area	Scenario 1 No New Construction	Scenario 2 $1.5 Million in New Construction	Scenario 3 $20.0 Million in New Construction	Scenario 4 $50.0 Million in New Construction
Total Incremental Property Tax Revenue (All Subareas)	$60,689,338	$68,642,769	$172,510,604	$348,712,223
Year Revenue > Abatements (All Subareas)	2032	2031	2027	2024
Total Incremental Property Tax Revenue (WD and R Removed)	$57,690,301	$66,060,135	$172,051,355	$350,281,722
Year Revenue > Abatements (WD and R Removed)	2030	2029	2025	2023
Difference in Total Incremental Property Tax Revenue	**-$2,999,037**	**-$2,582,635**	**-$459,249**	**$1,569,499**
% Difference in Total Incremental Property Tax Revenue	**-4.9%**	**-3.8%**	**-0.3%**	**0.5%**

In Scenario 1 (no new construction), estimated incremental property tax revenues would decline, because of the removal of the West Development and Residential subareas from an estimated $60.7 million (with all five subareas kept intact) to an estimated $57.7 million (including only the Historical Downtown, Industrial, and East Development subareas), a net decline of approximately $3.0 million or 4.9 percent. In Scenario 1, the year in which incremental property tax revenues would overcome the impact of the existing property tax abatements and in which the proposed Redevelopment Agency would begin to collect revenue would accelerate, increasing from 2032 to 2030.

In Scenario 2 ($1.5 million in new construction), estimated incremental property tax revenues would decline from an estimated $68.6 million (with all five subareas kept intact) to an estimated $66.1 million (only the

Historical Downtown, Industrial, and East Development subareas), a net decline of approximately $2.6 million or 3.8 percent. In Scenario 2, the year in which incremental property tax revenues would overcome the impact of the existing property tax abatements and in which the proposed Redevelopment Agency would begin to collect revenue would accelerate, increasing from 2031 to 2029.

In Scenario 3 ($20.0 million in new construction), estimated incremental property tax revenues would decline from an estimated $172.5 million (with all five subareas kept intact) to an estimated $172.1 million (only the Historical Downtown, Industrial, and East Development subareas), a net decline of approximately $459,249 or 0.3 percent. In Scenario 3, the year in which incremental property tax revenues would overcome the impact of the existing property tax abatements and in which the proposed Redevelopment Agency would begin to collect revenue would accelerate, increasing from 2027 to 2025.

In Scenario 4 ($50.0 million in new construction), estimated incremental property tax revenues would actually increase from an estimated $348.7 million (with all five subareas kept intact) to an estimated $350.3 million (only the Historical Downtown, Industrial, and East Development subareas), a net increase of approximately $1.6 million or 0.5 percent. In Scenario 4, the year in which incremental property tax revenues would overcome the impact of the existing property tax abatements and in which the proposed Redevelopment Agency would begin to collect revenue would accelerate, increasing from 2024 to 2023.

A graphic representation of each one of these four estimated scenarios is presented in Figure 1, Figure 2, Figure 3, and Figure 4 attached to the end of this technical memorandum.

Possible Explanation for the "Minimal" Fiscal Impact of Removing the West Development and Residential Subareas

One possible explanation as to why the removal of the West Development and Residential subareas results in a relatively minimal fiscal and financial impact on the projected incremental property tax revenues for the proposed Redevelopment Agency is the impact that the existing property tax abatements (3.0 percent for residential properties and 4.2 percent for non-residential properties) have on the overall appreciation of property tax revenue in general. As illustrated in Table 3, the Residential subarea, in particular, is largely comprised of residential properties.

Table 3 – Total Number of Residential Units, Business Units, and Other Units Present Redevelopment Area

Area	**Residential Units**	**Business Units**	**Other Units**
Redevelopment Area	2,907	166	11
Historic Downtown Area	702	89	6
Industrial Area	352	66	4
West Development Area	0	1	0
Residential Area	896	3	1
East Development Area	843	2	0

Source: City of Fernley Redevelopment Agency, Redevelopment Plan for Redevelopment Project Area No. 1 – City of Fernley, Nevada, pg. 58

University Center for Economic Development
University of Nevada, Reno/0024
Reno, Nevada 89557
(775) 784-1655
(775) 784-4728 Fax
www.business.unr.edu

The Residential subarea contains 896 total residential parcels, the largest concentration of residential properties in the entire existing proposed Redevelopment District.

In addition to the Residential subarea, in particular, being comprised largely of residential properties, a large number of the individual properties located within the Residential subarea have depreciated significantly due to their initial age of construction. Natural depreciation in the total assessed value of individual properties erodes, over time, the total amount of property tax revenue that is paid and collected from individual properties. Table 4 summarizes the year of initial construction and improvement by total number of parcels for each individual subarea and for entire proposed Redevelopment District with all five subareas left intact.

Table 4 – Total Number of Parcels by Year Category of Initial Construction and Improvement Redevelopment Area						
	Redevelopment Area	**Historic Downtown**	**Industrial**	**West Development**	**Residential**	**East Development**
Present to 2010	11 (0.3%)	0 (0.0%)	3 (0.7%)	0 (0.0%)	0 (0.0%)	8 (0.9%)
2005 to 2009	493 (15.4%)	103 (10.8%)	30 (6.7%)	0 (0.0%)	191 (20.8%)	169 (19.6%)
2000 to 2004	1,268 (39.6%)	26 (2.7%)	70 (15.6%)	0 (0.0%)	541 (58.9%)	631 (73.0%)
1990 to 1999	325 (10.2%)	74 (7.7%)	97 (21.6%)	9 (90.0%)	127 (13.8%)	18 (2.1%)
1980 to 1989	283 (8.8%)	114 (11.9%)	130 (28.9%)	1 (10.0%)	26 (2.8%)	12 (1.4%)
1970 to 1979	598 (18.7%)	468 (48.9%)	93 (20.7%)	0 (0.0%)	26 (2.8%)	11 (1.3%)
1960 to 1969	99 (3.1%)	77 (8.0%)	8 (1.8%)	0 (0.0%)	3 (0.3%)	11 (1.3%)
1959 and Earlier	123 (3.8%)	95 (9.9%)	19 (4.2%)	0 (0.0%)	5 (0.5%)	4 (0.5%)
TOTAL	**3,200 (100.0%)**	**957 (100.0%)**	**450 (100.0%)**	**10 (100.0%)**	**919 (100.0%)**	**864 (100.0%)**

Source: City of Fernley Redevelopment Agency, Redevelopment Plan for Redevelopment Project Area No. 1 – City of Fernley, Nevada, pg. 68

According to records provided by the Lyon County Assessor's Office, in the Residential subarea, 541 total individual parcels had an initial construction and improvement date of between 2000 and 2004. An additional 191 total individual parcels had an initial construction and improvement date of between 2005 and 2009 and an additional 127 total individual parcels had an initial construction and improvement date of between 1990 and 1999.

In short, the Residential subarea, in particular, may be overly impacted by a concentration of residential properties that have partially depreciated in-terms of their initial assessed value and by the impact the more restrictive abatement rate of 3.0 percent has on the year-to-year appreciation in property tax revenue generated and paid than the other subareas with a better mixture of residential and nonresidential properties or a mixture of residential properties that have not depreciated as much as residential properties in the Residential subarea. By eliminating the West Development and, in particular, the Residential subareas from the proposed Redevelopment District, the negative impact that the abatements and depreciated properties are potentially having on long-term projected incremental property tax revenues have also been mitigated. While reducing the overall estimated total base assessed value for the proposed Redevelopment District significantly, the removal of the negative impacts that the abatements and depreciated properties are potentially having improves the long-term fiscal and financial position of the proposed Redevelopment Agency over the initial 30-year term.

It should be noted that, potentially, by eliminating the West Development and Residential subareas and thereby reducing the estimated total base assessed value for the proposed Redevelopment District, the amount of property tax revenue that would be paid to the City of Fernley, Lyon County, and the Lyon County School District for Operations from the estimated total base assessed value would also be reduced. Property tax revenue that would be paid to the City, the County, and the School District for Operations from the estimated total base assessed value could be potentially reduced by as much as 22.0 percent over the initial 30-year term of the proposed Redevelopment District. Furthermore, if Scenario 4 is realized, the amount of incremental property tax revenue generated from the City's share (0.6713 percent), the County's share (0.9287 percent), and the School District's for Operating share (0.7500 percent) might actually increase by as much as 0.5 percent over the initial 30-year term of the proposed Redevelopment District.

Recommendation to Keep All Five Subareas in the Proposed Redevelopment District

Based upon the limited and minimal fiscal and financial impact that the removal of the West Development Residential subareas would have on the proposed Redevelopment District's fiscal and financial feasibility, it is still my professional recommendation that the existing redevelopment study area, with all five existing subareas, be kept intact and that the proposed Redevelopment District be created with the inclusion of the Historic Downtown, Industrial, East Development, West Development and Residential subareas. This professional recommendation is made based upon the following four primary conclusions:

1. The revised financial analysis, that includes a closer examination of the impact the existing property tax abatements and the presence of depreciated assessed values is having on the Residential subarea in particular, provides additional evidence of blight within the proposed Redevelopment District and, in particular, within the Residential subarea. Nevada Revised Statute Chapter 279 Section 388 ("Blight area" defined) Subsection 1 paragraph g states:

   "Prevalence of depreciated values, impaired investments and social and economic maladjustment to such an extent that the capacity to pay taxes is substantially reduced and tax receipts are inadequate for the cost of public services rendered."

   The disproportionate impact of the more restrictive property tax abatement rate of 3.0 percent in the Residential subarea may be contributing to a higher prevalence of property within the entire proposed Redevelopment District having their capacity to pay taxes being substantially reduced.

2. The removal of the West Development and Residential subareas would reduce the estimated total base assessed value of the entire proposed Redevelopment District by approximately $69.4 million and could also reduce the overall bonding capacity of the proposed Redevelopment District. While the total assessed value of the proposed Redevelopment District is only one of many factors that are

University Center for Economic Development
University of Nevada, Reno/0024
Reno, Nevada 89557
(775) 784-1655
(775) 784-4728 Fax
www.business.unr.edu

taken into account when estimating a redevelopment district's bonding capacity, this reduction in total assessed value would be significant.

Furthermore, the removal of the West Development and Residential subareas would significantly reduce the diversity of property types within the proposed Redevelopment District. Another important factor in determining a redevelopment district's bonding capacity is the overall level of diversity in property types. It is typically desirable to have a diversity of residential and non-residential properties (commercial, retail, professional office, industrial, etc.) within a redevelopment district in order to 'hedge' against the impact potential market variability in the demand for different types of property may have on property valuations.

3. By removing the West Development and Residential subareas, the proposed Redevelopment Agency's ability to administer and implement the Redevelopment Plan will be significantly reduced. The existing redevelopment study area, that currently consists of all five subareas (Historic Downtown, Industrial, West Development, Residential, and East Development), was designed with a broader revitalization strategy in mind while taking into account the various goals, objectives, and strategies of the City of Fernley's Master Plan (revised August 2018). The successful revitalization of, specifically, the Downtown and Industrial subareas through the attraction of new businesses and the expansion of existing businesses will likely lead to an increase in the demand for more market, affordable, and attainable housing. Future incremental property tax revenues generated from the development of these new and existing businesses could potentially be used to either incentivize private development or directly finance the construction of new housing opportunities in the West Development and Residential subareas.

   As outlined throughout the City of Fernley's Master Plan (revised August 2018), a series of goals, objectives, and strategies were adopted to encourage infill development for both residential and nonresidential future uses. The encouragement of infill development within the West Development and Residential subareas through the use of possible redevelopment agency activities can be incorporated into the Master Plan's overall goals of reducing the negative impacts of suburban sprawl on existing residents and agricultural uses, protecting the surrounding area's natural resources and open spaces, and reducing the per capita cost of providing public services and infrastructure to a growing physical footprint of the city.

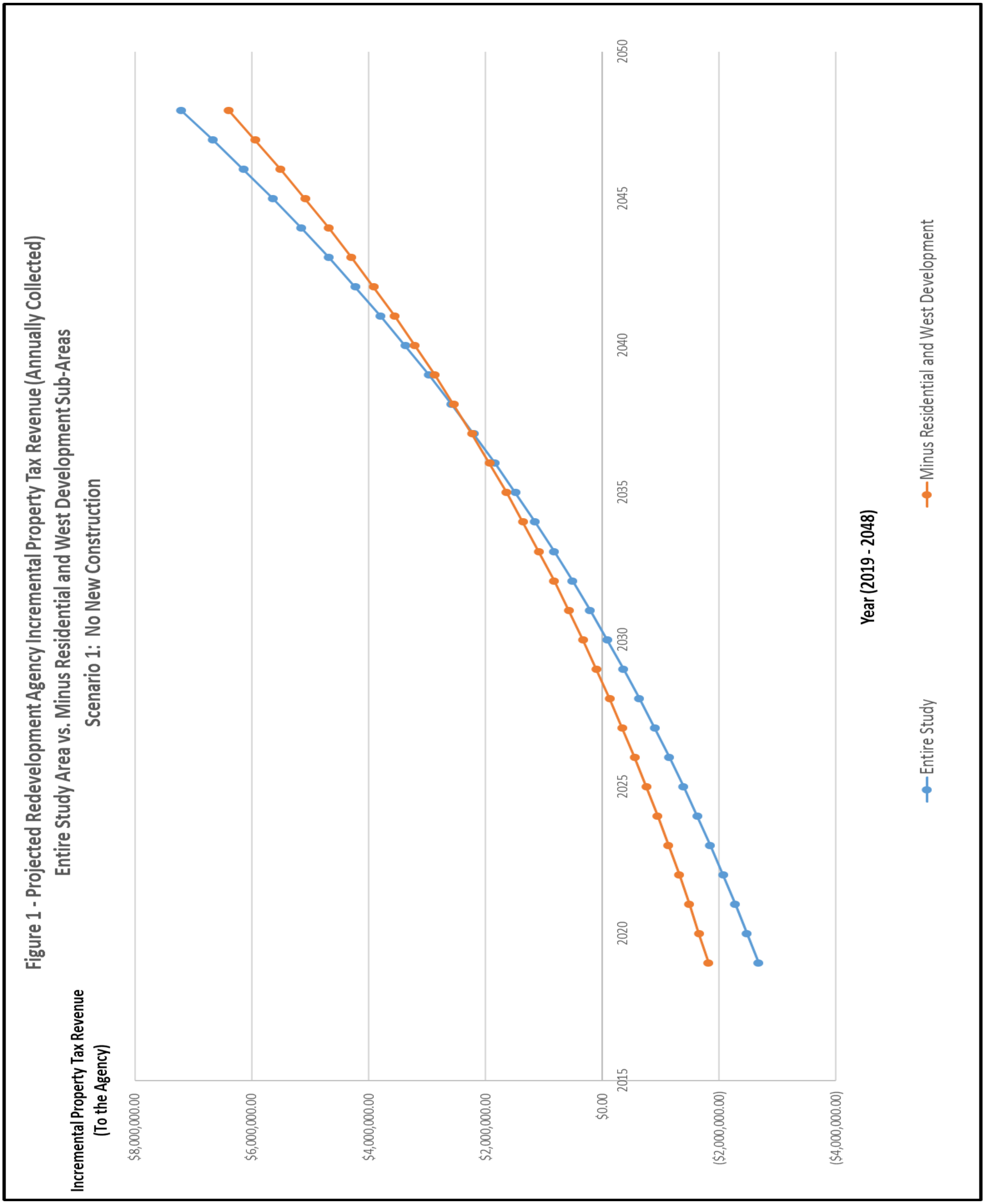
4. The removal of the West Development and Residential subareas would deny the ability of the existing property owners within both subareas to approach and partner with the proposed Redevelopment Agency to eliminate or mitigate the various blighting conditions identified within both subareas. As outlined in the Redevelopment Plan, five of the 11 separate conditions of blight (as defined by Nevada Revised Statute Chapter 279 Section 388) are documented to exist within the West Development Area. Two of the 11 separate conditions of blight (now three with the addition of NRS 279.388.1.g as referenced above in this technical memorandum) are documented to exist within the Residential subarea. Generally, Nevada state law strictly prohibits the ability of a redevelopment agency to reinvest incremental property tax revenues collected from a redevelopment district in areas that are not part of that district. The current and existing property owners within both the West Development and Residential subareas will be denied, as a general point of Nevada state law, the opportunity to partner with the proposed Redevelopment Agency on projects that would eliminate or mitigate these blighting conditions and that could potentially and significantly improve their own individual property values.

University Center for Economic Development
University of Nevada, Reno/0024
Reno, Nevada 89557
(775) 784-1655
(775) 784-4728 Fax
www.business.unr.edu

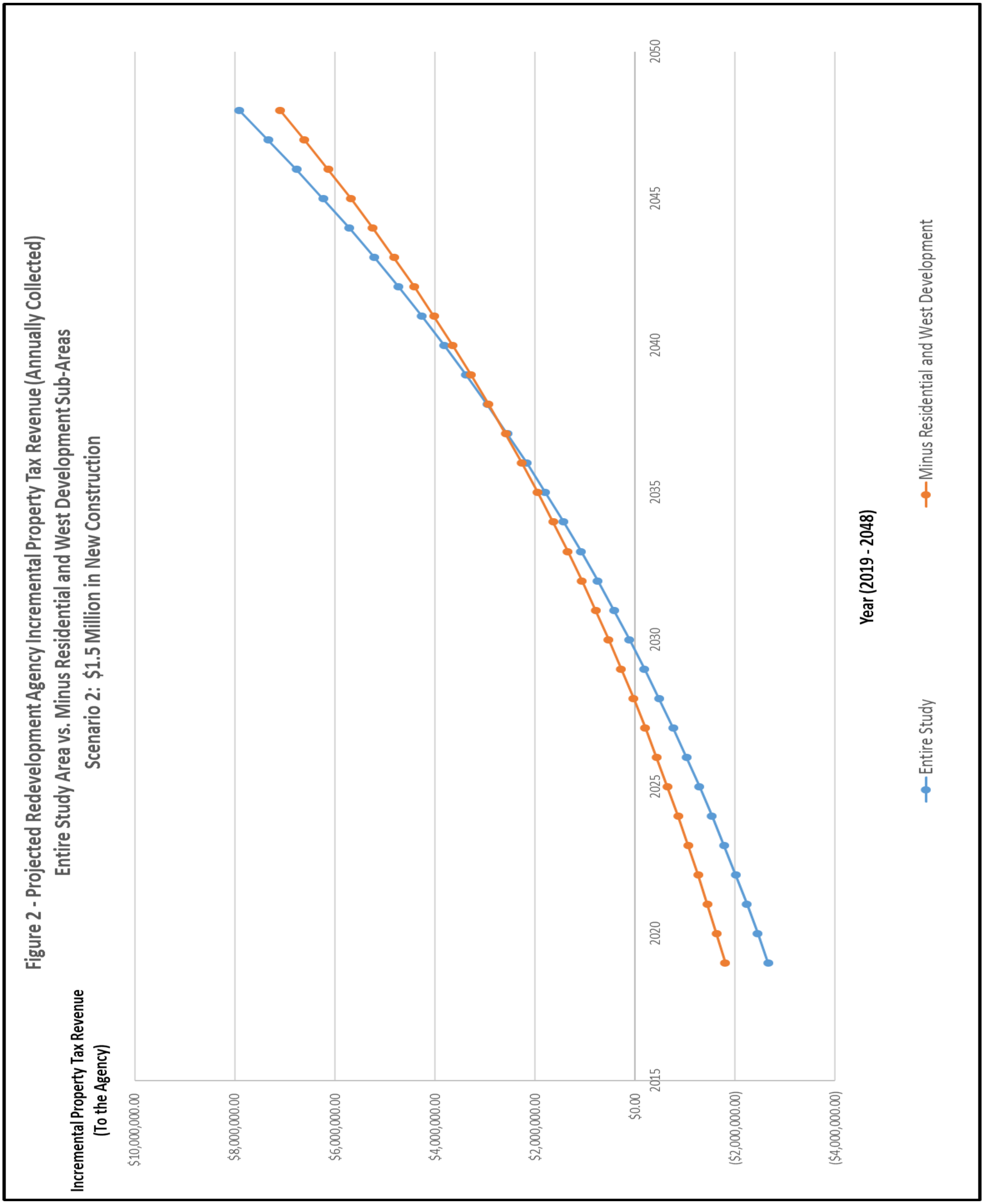
If you have any questions regarding the information presented in this technical memorandum, please feel free to contact me by phone (775.784.1655) or by email (fred@unr.edu) at your convenience.

Sincerely,

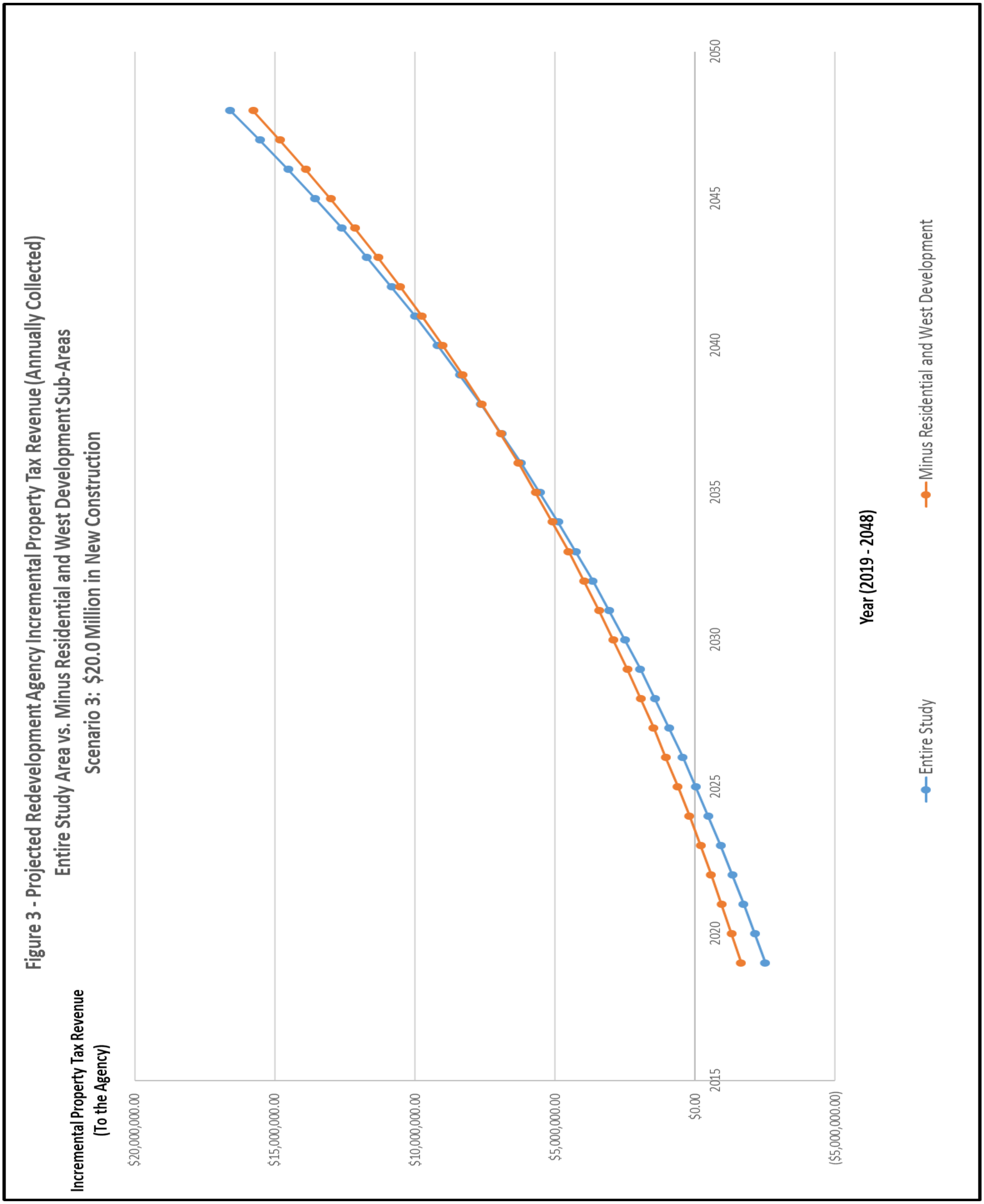
Frederick Steinmann
Assistant Research Professor
University Center for Economic Development



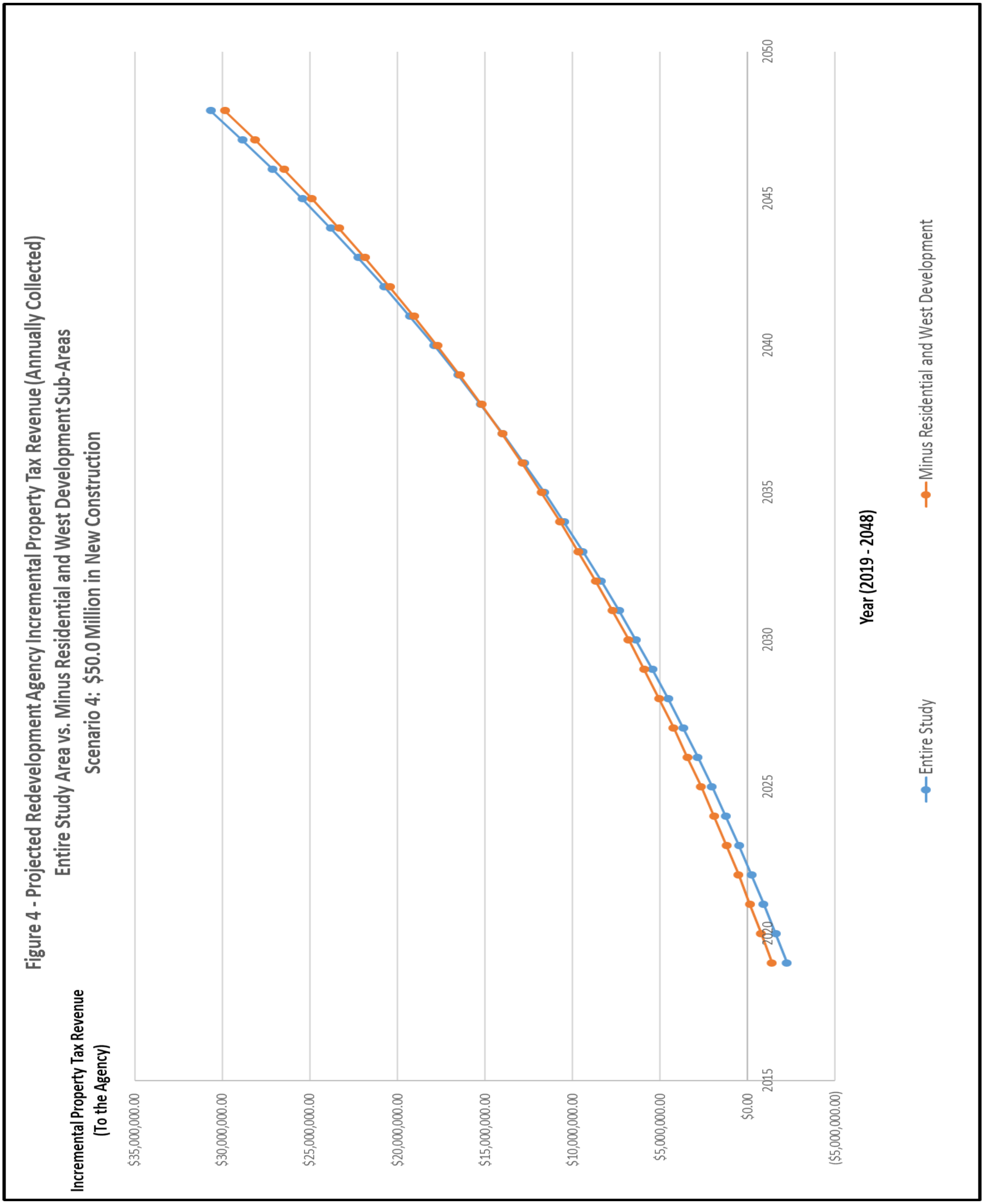
University Center for Economic Development
University of Nevada, Reno/0024
Reno, Nevada 89557
(775) 784-1655
(775) 784-4728 Fax
www.business.unr.edu



University Center for Economic Development
University of Nevada, Reno/0024
Reno, Nevada 89557
(775) 784-1655
(775) 784-4728 Fax
www.business.unr.edu



University Center for Economic Development
University of Nevada, Reno/0024
Reno, Nevada 89557
(775) 784-1655
(775) 784-4728 Fax
www.business.unr.edu



University Center for Economic Development
University of Nevada, Reno/0024
Reno, Nevada 89557
(775) 784-1655
(775) 784-4728 Fax
www.business.unr.edu