

LINCOLN COUNTY FAIRGROUNDS
HIGHEST & BEST USE ANALYSIS

EXECUTIVE SUMMARY

This report provides the results of a study contracted by the Lincoln County Commission on October 10, 2017 with Elesco LLC of Tumwater, Washington. Partially funded by the Washington State Community Economic Revitalization Board (CERB), the stated purpose of the study was to identify the highest and best uses of the fairgrounds property that would increase revenues to the County enough to cover its ownership costs and reverse negative cash flows in the fairgrounds budget. While the annual County Fair is a major event that brings in substantial revenues, the main revenue sources in the off-season are low value, part-time uses such as dry storage of boats and RVs. Although the desire was to develop new uses on the property that would allow the site to continue to be used as the venue for the annual County Fair, the study also looks at the alternative of selling the property for its highest value if sufficient revenue streams cannot be identified.

Elesco LLC is a consulting firm specializing in asset-based economic development. In order to perform the Scope of Work described in the CERB grant, Elesco subcontracted with Maul, Foster & Alongi, Inc., a civil engineering firm based in Vancouver, Washington providing services through its office in Coeur d'Alene, Idaho, to investigate and assess physical site issues such as the locations and capacities of utility infrastructure. MFA assisted Elesco in identifying the physical requirements and costs to expand the existing infrastructure to meet the needs of businesses identified by Elesco as potential users of the site.

Another key requirement of the study was to identify the County's legal options for entering into contracts with private companies locating on the fairgrounds. It was noted that Washington State laws, including its Constitution, are comparatively restrictive in allowing for the use of public credit, properties or other resources for private purposes. The legal analysis was performed by Douglas C. Macbeth, JD, of Bend, Oregon under a subcontract with Elesco.

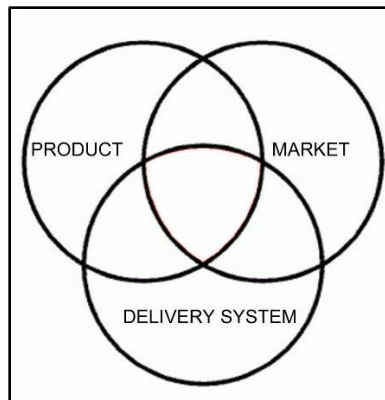
This Executive Summary corresponds to the organization of the larger report. Major findings and conclusions of each section are described, with greater details being left to the sections of the full report.

Introduction and Orientation

In addition to introducing the purpose of the study as described above, the Introduction and Orientation section provides the methodologies used to develop the findings of the report. Since the purpose of any reuse of the property is to bring new revenues into the County, the fairgrounds are treated as a potential revenue-producing asset and the analysis focuses on ways to use that asset to provide net income to the County.

That objective limits potential reuses to private-sector and/or joint public-private economic uses rather than non-revenue public uses. As much as some public uses were preferred by individuals interviewed for this project, if they did not meet the revenue requirements they were not considered as viable and were rejected.

Potential uses were examined according to a three-part model that applies to any private business:



It was assumed that the enterprise would have to provide: (1) a defined **product** or service; (2) there would have to be an accessible **market** available for that product or service; and (3) there would have to be a **delivery system** that would match the product or service to the market.

The major **resources** for the product or service would come mostly from Lincoln County and more specifically from the Davenport area. A 20-mile radius around Davenport was drawn as the primary resource area.

However, the **market** area examined in this report is not limited to Lincoln County but is mostly focused on Spokane County. For that reason, the analysis includes extensive evaluation of market opportunities in that neighboring county and especially in the West Plains area. In order to link into the economy of Spokane County, a horizon of three-to-five years is used to implement the recommendations for reuse and/or redevelopment of the fairgrounds.

Legal Analysis

Before pursuing any investigation of alternative uses of the fairgrounds it was decided to investigate the legal issues regarding private uses of public properties in Washington State in order to determine the constraints and/or prohibitions that would set the parameters for the analysis. It was known that the Washington constitution prohibits the lending of public credit for purposes that benefit private interests. It was also known that the “appearance of fairness” doctrine does not allow public agencies to take actions that favor one private party over another in public transactions. Those appeared to be impediments to the County entering into any agreements with private entities that might want to use the fairgrounds to conduct their businesses.

In the legal investigation, it was found that State statutes provide an important exception for properties used for county fairs. In 36.34.145. Leases of county property to nonprofit organizations for agricultural fairs, it states that “The legislative authority of any county owning property in or outside the limits of any city or town, or anywhere within the county, which is suitable for agricultural fair purposes may by negotiation lease such property for such purposes for a term not to exceed seventy-five years to any nonprofit organization that has demonstrated its qualification to conduct agricultural fairs”. The statute then states that “The lessee may utilize or rent out such property at times other than during the fair season for non-fair purposes in order to obtain income for fair purposes, and during the fair season may sublease portions of the property for purposes and activities associated with such fair (emphasis added)”

The legal report states that this statute appears to provide for many of the County’s objectives for the fairground. In combination with the above cited statute on the management of fairs, it would allow the delegation of the entire management of the Fair and the Fairgrounds to a non-profit entity. The specific provision allowing the property to be rented for non-fair purposes during the off season, without any restrictions on how such leases are negotiated, is a very useful power.

The conclusion of this section is that the County *can* utilize the fairgrounds for private businesses conducting activities that are non-fair related but it has to do so by assigning full management of the fairgrounds to a non-profit agency and having that agency make the leases to the private businesses. It was suggested that the Lincoln County Economic Development Council could be that non-profit agency.

Following that discussion, the legal analysis examined two other ways that the objectives of the County might be met. One was the creation of a Port District through a county-wide vote with the Port District acquiring the property from the County; and the other being the creation of a Public Development Authority (PDA) which would have the powers to develop the properties and make leases for purposes of economic development. The main revenue source for a Port District is a tax base, while for a PDA the main source is from selling bonds.

While no decision could be made on which organizational structure the County might choose to follow, the only restricted option would be if the County wanted to enter into leases directly with private businesses. However, those restrictions would be removed if the County chooses to lease the entire fairgrounds to a non-profit agency, forms a Port District, or creates a Public Development Authority. Knowing those options exist enabled further investigation to move forward.

Fairgrounds Site Analysis

As noted above, this section was developed by the engineering firm Maul, Foster & Alongi, Inc. This was done by visiting the site and conducting a walking inspection, researching County Assessor and Public Works records, meeting with officials of Avista Corporation and other utility providers, and reviewing data from the State's Mapsifter program. A full site layout diagram was obtained along with a complete inventory of all improvements including buildings, appurtenant structures, parking and camping areas, staging areas, and utilities.

A detailed Condition Inspection report on the Lincoln County Fair Grounds, dated September 21, 2017, was provided to MFA by the Lincoln County EDC. That condition inspection was performed by Marvin T. Palanuk, Certified General Appraiser, and previously the building inspector for the City of Electric City, Washington. It gave recent inspection data on all the buildings located on the fairgrounds including their sizes, dimensions, uses, utility service infrastructure and general structure and conditions, along with photographs of the exteriors and interiors. That information was summarized and incorporated into the MFA report.

MFA used a drone to overfly the fairgrounds and provide detailed photographs to map out the existing utility infrastructure and lay out proposed improvements to areas deemed suitable for use as business sites.

In general, it was found that the current utility infrastructure is only adequate to provide service levels required for fairgrounds operations and minimal support such as service outlets to RV parking areas, restrooms, stock areas, wash areas, and other specific uses. Upgrades to three-phase power and extension of water and sewer lines were recommended to those buildings and sites identified for possible business development.

However, there were no constraints identified that would preclude such business development. No significant environmental issues were found that would require mitigation. The only significant concern was that several of the buildings are in poor condition and would require relatively expensive upgrades to meet current codes for the proposed business uses.

Lincoln County Analysis

As noted above, any strategy for reusing fairgrounds assets for business development will require selecting a product or service to produce there. The resources for identifying a suitable product or service will need to come from Lincoln County and specifically from the 20-mile radius area around Davenport that includes most of the available labor force.

One of the first concerns identified in the report is the relatively small population base that has not shown any pattern of growth over the past 17 years. From 2000 to 2017, Lincoln County's population grew from 10,184 residents to 10,579, for growth of only 395 people and an annual average growth rate of 0.22%. Population in the City of Davenport actually declined during that same period, going from 1,734 people to 1,614 for an annual average loss of 0.42%.

Office of Management and Budget (OMB) population forecasts do not show any significant changes in this pattern. From 2010 to 2040 the population of Lincoln County is predicted to grow from 10,616 residents to 10,848, a gain of only 232 people and an annual average growth rate of only 0.07%.

Also of concern was that the age distribution of the population showed sizable losses of the working age groups. Between 2010 and 2016 the age group of 18 – 64 declined by 424 persons. At the same time, the age group of 65 and over *increased* by 389 persons. This is not a good pattern for estimating the future availability of a labor force.

Lincoln County's economic trends show that the economy is dominated by the growing of wheat, with 1.2 million of the county's 1.5 million acres devoted to wheat production. There were 897 farms in Lincoln County in 2012, up from 796 in 2007 although the average size of farms decreased from 1,366 acres to 1,243 acres. The value of all products sold was \$183,244,000 consisting of \$173,610,000 in crop sales and \$9,634,000 in livestock sales. (Note: The next US Census of Agriculture was taken in 2017 but results were not available at the time this report was written)

Labor force and employment data from the Washington State Employment Security Department showed total non-farm employment in Lincoln County in November 2017 was 2,610 workers with 1,290 in private-sector employment and 1,320 in public-sector employment. The data showed only 50 jobs in the manufacturing sector with another 200 jobs in mining, logging and construction.

These low numbers could not be reconciled with other data from EDA and the US Department of Labor so a labor profile of the 20-mile radius around Davenport was run using the US Census Bureau's On-the-Map program comparing employment information by sectors for 2002 and 2015. That produced some very significant differences in identifying the labor resources available at the Lincoln County Fairgrounds.

The On-the-Map program allows a data search for a user-defined geographic area and can be run for both employment by place of work and employment by place of residence. That comparative analysis showed there were 2,469 employed workers in the 20-mile radius around Davenport by place of work in 2015 but there were 3,248 workers by place of residence. That means there were 779 more workers living in the 20-mile circle than actually worked there.

Even more significant was the effect of this comparative approach on the sectors of employment. While ESD data showed only 50 workers in the entire county employed in manufacturing, the US Census data showed 179 workers who lived within the 20-mile circle employed in the manufacturing sector. Similar results were shown for other sectors requiring advanced skills

The obvious conclusion from this analysis was that there are many more workers living within the 20-mile circle who commute to jobs in Spokane County or elsewhere and who have occupational skills that are not counted in the Lincoln County labor force data. Those workers will be a major asset for recruiting and employing skilled workers at the Lincoln County Fairgrounds.

Spokane County Analysis

The analysis of neighboring Spokane County primarily examined market opportunities for businesses recruited or developed at the Lincoln County Fairgrounds. Spokane County has a current population of more than 500,000 people and a private sector with about 12,700 business establishments employing more than 180,000 workers. That economic engine is right next door to the Davenport area so the reports recommends that business development efforts at the fairgrounds should aim at tapping into that market.

Especially significant is the rapid development of the West Plains area, only about 25 miles east of Davenport. The West Plains area is home to Spokane International Airport and Fairchild Air Force Base, the largest employer in Spokane County. A newly-formed West Plains / Spokane Airport Public Development Authority is empowered to develop business sites, negotiate leases, and generally promote the economic development of the entire area of Spokane County west of Interstate 90.

Several organizations are actively promoting business investment, recruitment and expansion in Spokane County but the report focuses primarily on Greater Spokane, Inc. (GSI). This member organization has targeted several sectors of the economy for special attention and is working on helping supply chain businesses locate in the area. A meeting with GSI officials confirmed that they would be willing to work with Lincoln County EDC, or a Port District or PDA, to assist businesses in Lincoln County to find business partners that could be supplied by companies operating at the Lincoln County fairgrounds. They indicated they would welcome companies in Davenport that can supply manufacturers in Spokane County with parts and/or services that are currently being sourced off-shore or in other areas of the country.

Resources for Business Development

The next section of the report summarizes the resources that Lincoln County can provide to attract or develop businesses at the fairgrounds, beginning with the fairgrounds land and existing buildings. It observes that there is currently a relatively scarce inventory of existing industrial buildings available in Spokane County and that some companies might like the buildings at the fairgrounds and their lower rents. The biggest shortage is in warehousing space which is highly suitable to the buildings at the fairgrounds.

Lincoln County's agricultural resources are highlighted again for their potential to generate businesses through backward and forward linkages. Suppliers to the agricultural industry would be natural tenants at the fairgrounds as would be processing companies that can use the grain or other agricultural commodities as raw material.

Tourism and recreation are listed as resources because Davenport is a major gateway from Spokane County to the Lake Roosevelt National Recreation Area. A recent survey showed that visitors to the NRA cited lack of services as an issue which might be resolved by service businesses locating in Davenport.

A possible tourist attraction might be developed on the fairgrounds as Davenport Farm Village, a collection of farming-related shops, restaurants, entertainment venues, and other kinds of businesses. A model is shown called Oak Tree Village in Southern California that is similar to the way Knott's Berry Farm got started – offering farm produce and specialty products and growing into a self-contained entertainment center with an agricultural flavor.

The Davenport Municipal Airport is also cited as a resource. This facility presently serves local and visitor aircraft operations as well as agricultural applicators. It is suggested that the airport could accommodate the growing use of drones for agricultural and utility services and that support facilities could be located on the fairgrounds. It is also recommended that expansion plans for the airport, including lengthening the runway, include a plan for a business and industrial park that could house businesses expanding from their initial operations at the fairgrounds.

Finally, the area's labor force that presently commutes to jobs in Spokane County is cited as a major resource for Lincoln County. It is recommended that an occupational survey be conducted to quantify the types and magnitudes of skilled labor living within a 20-mile radius of Davenport. If that is not practical, it is recommended that some local newspaper ads could be placed indicating that a company is considering locating at Davenport and needs to determine the skills that are available in the area. Many economic development agencies use that technique to show companies that they can recruit skilled workers locally to meet their needs.

Development and Implementation Strategies

This section ties all of the prior information together into recommendations for development at the fairgrounds. After demonstrating that there is not pent-up demand for businesses wanting to move to the Davenport area, it is observed that the alternative will be to initiate economic development strategies to increase local demand for business sites and facilities. The report recommends two ways to do this:

- (1) Developing forward and backward linkages to the primary economic sector in Lincoln County which is Agriculture, primarily wheat production, along with other grains, livestock, and other diverse agricultural commodities;
- (2) Linking into the larger and more diversified market that exists in adjacent Spokane County by participating in the supply chain that supports regional manufacturers.

Agricultural Development Strategy

The first strategy is to use the fairgrounds as an asset to leverage Lincoln County's agricultural production, primarily wheat, to develop new products and new methods of production to add local value. One way for Lincoln County to do this would be to create a partnership with an existing flour mill company such as ADM to construct a small mill to produce flour on-site along with products made from other grains, possibly combined with other local ingredients. There is growing consumer support, known as the "locavore" movement, for buying locally-made products from locally-produced ingredients.

In 2012, the University of Vermont conducted a feasibility study for developing a multi-purpose grain processing facility in that state. The study found that a commercial scale mill in Vermont could break even on an EBITDA cash flow (earnings before interest, depreciation, taxes, and amortization) selling certified organic flour at \$0.50 per pound, if it could achieve a minimum operating capacity of 30% in a purchased land scenario and 40% in a leased land scenario.

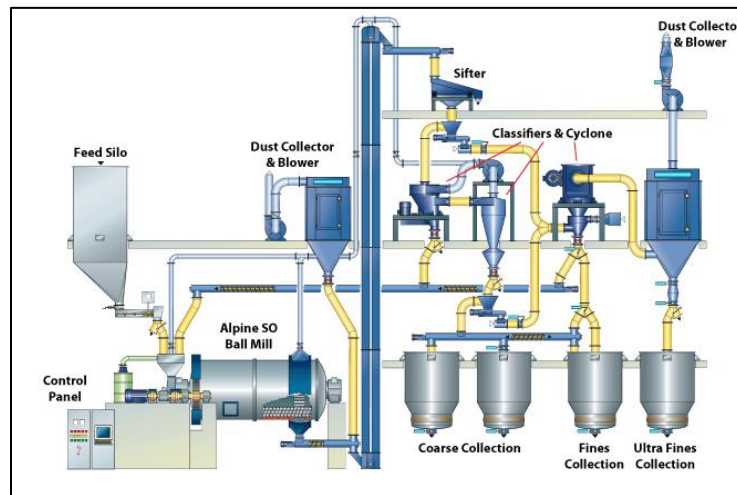
If the Lincoln County Commission were to participate in developing this facility at the fairgrounds, that site would be leased from the County providing revenues from the land lease as well as a possible percentage of the net operating revenues (a performance lease). The economics of that arrangement would depend on the amount of the land lease, the size of the mill with associated volumes of supply and sales, along with supply acquisition and sales prices. A key variable for the land lease revenues would be amortization of infrastructure development costs. Whatever the gross amount of net revenues, this would make a positive contribution to off-setting the costs of maintaining and operating the fairgrounds facilities.

For its location, the University of Vermont model recommended a site of 3 – 4 acres which would allow for future expansion. Initially, however, the study stated that **"a minimum of ½ acre should be sufficient to house the mill itself"**. By reconfiguring some of the facilities at the fairgrounds, it is believed that a suitable site to house a flour mill could be developed. Existing

streets and open spaces could be used to support the mill when they are not required for the annual fair.

Another option to put a flour mill into the Lincoln County Fairgrounds would be to acquire a Unifine mill and operate it similar to one being placed in Ritzville. This could be done at significantly less cost and space requirements than the standard roller mill described in the University of Vermont study.

Instead of grinding the grain (stone mill) or shredding & sifting the grain (roller mill), the Unifine Mill is a type of impact milling system similar to a hammer mill. The system pulverizes the grain on impact - resulting in minimal starch damage and a more optimum and uniform flour particle size compared to flour produced by other systems. The rotor and stator are extremely durable and offer long-term, dependable milling.



Unifine Flour Mill Process Diagram

Other opportunities to utilize the agricultural products grown in Lincoln County and surrounding areas can also be explored but are not examined in this report. Some of these may include hydroponics, aquaponics, greenhouse farms that produce fruits and flowers, and assemblage of home-grown agricultural products to be sold under a common label. A wine and/or craft brewery or distillery tasting room would also draw tourist customers to the fairgrounds and could lead to a production operation there. There should be an opportunity to develop a Davenport or Lincoln County brand that could find markets outside the region and even for export.

Supply Chain Strategy

This strategy will take a great deal of dedicated effort, time, and capital investment to make it happen. However, it has the potential to diversify and strengthen the economy of Lincoln County. It could capture a large portion of the labor force that is currently commuting to Spokane County, which would significantly increase demand for retail products and services in Davenport and also in Reardan and other communities in Lincoln County.

Implementing this strategy will require developing a CNC machine shop and metal fabrication business at the fairgrounds to supply component parts to manufacturing companies located in Spokane County and beyond. This company is called Davenport Precision Machine (DPM) in this report. Again, however, it is recommended that this facility be created in partnership with an existing machining company so that DPM could initially provide overflow support to a company that already has a customer base. The advantage to the partner company would be to increase production without having to invest in on-site expansion. This strategy is summarized as:

Formation of a new business/educational/innovation entity specializing in custom precision fabrication and additive manufacturing to make components of the supply chain for companies in the Spokane area that are engaged in manufacturing and final assembly operations in selected industry clusters.

There is a growing trend among U.S. companies, especially OEM companies (original equipment manufacturers) to bring their supply chains back into the United States from off-shore locations. This is being done to control the logistics of the supply chain, i.e. ensuring that deliveries of components match the timing of their use as well as to control quality and pricing. OEM manufacturers are looking for domestic companies that can meet these requirements as well as match costs to what they would pay to offshore suppliers and to cover transportation and handling costs. Primary emphasis would be on the industrial clusters targeted by GSI for accelerated development in the Spokane area.

In the research on business trends and patterns in Spokane County, it became evident that the next several years will see significant growth of technology-oriented businesses in the West Plains area between Davenport and Spokane. While Fairchild Air Force Base already provides a major source of potential business, the creation of the West Plains/Spokane Airport Area Public Development Authority will add opportunities to expand the number of businesses that could be customers for a machine shop operation in Davenport.

Organizational Structure

The organizational structure of this entity needs to be kept simple but still encompass three components that will work together to acquire funding and cross-utilization of resources:

- An advanced CNC machine shop to produce products for the supply chain
- An educational component that can provide workforce training in support of Washington’s Workforce Training and Education Coordinating Board’s objectives.
- A product development laboratory providing innovation and shared workspace facilities for entrepreneurial development.

The simplest approach will be to create the entity through an existing non-profit agency, such as the Lincoln County Economic Development Council. This will allow work to begin immediately on putting the resources together that are needed for the project. A business plan for the project is provided in the report that includes the key resources required. If a Port District or a PDA is formed to oversee this process, then the details of the structure will depend on which form of governmental agency is created and how long it will take to become operational. If the Lincoln County Commission wants to pursue this strategy, it will need to carefully consider its options and make a decision on what kind of economic development entity it wants to spearhead the effort.

Fairgrounds Location

Fairground location

Several buildings at the fairgrounds could be made suitable for a small manufacturing facility/ machine shop with the addition of the utilities required for its operation. The report recommends using Building #15 located just south of the main hall at the entrance to the



fairgrounds. The main hall has a commercial kitchen that could be used as its own incubator to develop new food products in the value added food processing cluster.

Building #15, known as the “commercial building”, is a Quonset hut that was constructed in 1970 with ±4,800 square feet of interior floor space in dimensions of 40 feet wide by 120 feet long. It has no windows but does have skylights.

Establishing a commercial operation in Bldg. #15 would impose minimum conflicts with other activities at the fairgrounds, would provide easy access for cars and trucks from Hwy 2, and could utilize existing parking for employees and visitors. A building of this size should be sufficient to serve as an incubator for companies entering the supply chain but still is small enough to encourage them to relocate to permanent space at the airport as they expand.

A detailed operational model / business plan is provided in the body of the report.

A third strategy is described in the report to meet a need of the CERB grant for this project. That strategy examines the option to for the County to sell the fairgrounds site which would make it no longer available for the annual County Fair. While this would relieve the County from the negative cash flow burden of owning and maintaining the property, it is considered as a last resort option if none of the other strategies can be implemented.

In its present condition as a fairgrounds, the land and buildings have very low value. Redeveloping the property for any other use would require substantial investment to remove many or all of the structures and reconfigure the entire utility infrastructure. As noted many times in the report, there is not quantifiable demand for this kind of land in Davenport so while a sale, possibly at auction, might be possible there would be limited ways to control how the site is used and it would bring a relatively low financial return to the County.

The best way to implement that option would be to determine a specific use for at least the commercial frontage on Hwy 2 and sell the land to a buyer who would use it for that purpose. The report outlines how several commercial travel centers have been built in Washington and Oregon by American Indian Tribes to diversity their economies from reliance on casinos. Travel centers at Omak and Tokeland, Washington are profiled along with one recently opened in Madras, Oregon by the Confederated Warm Springs Tribes.

This is not a recommended strategy but can be kept as a backup if the fairgrounds site is not used for the other strategies described in the report. There will need to be a legal determination on whether the County Commission could keep all the proceeds from a sale or would have to repay any of those funds back to the State.

Financial Analysis of Recommended Alternatives

The final section of the report provides cost and revenue models to show the potential financial returns to the County from implementation of the recommended strategies. These are detailed models so only the conclusions are presented in this Executive Summary.

Development of a wheat grain flour mill on the site is shown as a modular project with initial operation of a 20-ton flour mill and expansion to 80 tons in 20-ton increments. Without knowing what organizational structure will be used to own and operate the mill, it is assumed that the main source of revenue to the County would be from the land lease. This was cited as being a net revenue of \$30,500 per year.

Revenue from the supply chain business would also come from rental of the building which is estimated at a low of \$34,560 per year with minimal improvements to \$46,080 with upgraded interiors. If both projects were fully implemented, the revenues to the County would fall in the range of **\$65,052** to **\$76,572** annually.