Skagit Floodway Mitigation and Hamilton Relocation Program

FACT SHEET

Successful mitigation means that various intentional measures have been taken to reduce the hazard vulnerability of communities, or specific facilities/structures. These measures include things such as incorporating mitigation considerations into the business practices of state and local governments, building codes, permitting, insurance, community development planning, floodplain management, and many more. – *Chuck Hagerhjelm, Mitigation and Recovery Manager, WA Military Department Emergency Management Division*

Why Promote Floodway Buyouts & Hamilton Relocation?

1. Legal Responsibility

   Removing floodway structures is the only legal means to mitigate them under Washington State Floodplain Management Code (Chapter 173-158), and reflected in Skagit County Code 14.34.200. All flood-damaged, residential structures (excepting farmhouses) in the floodway must be assessed by the WA Department of Ecology for risk of harm to life and property. WA Department of Ecology will not recommend the repair or replacement of substantially damaged residential structures located in a regulatory floodway (WAC 173-158-070(1)). Substantially damaged is defined as "the cost of restoring the structures to its before damage condition would equal or exceed fifty percent of the market value of the structure before the damage occurred. Under the Skagit County Code, no variance is available in this situation (section 14.34.130).

   Local building officials make determinations of substantial damage, using the best damage information available and professional judgment. Damage information may include post flood damage assessment, National Flood Insurance claims paid (available to the County Community Rating Systems Coordinator), flood insurance adjuster Proof of Loss information, and FEMA residential home inspection (conducted following a federal damage declaration and after a property owner registers with FEMA for emergency assistance). Building value information may include Assessed Building Value, flood insurance adjuster estimated depreciated Building Replacement Value, Cost Approach used with independent appraisal reports, and professional judgment of depreciated building replacement value (based on size, condition, and building replacement costs form independent sources such as Marshall & Swift Residential Cost Handbook). It is not recommended that local official accept the Comparison Approach used with independent appraisals, as these do not appropriately adjust for the flood damage history and imminent flood threat of floodway buildings.

2. Financial Interest

   Past Costs: FEMA reports that losses to date for the 100 flood affected properties in Hamilton alone cost public programs and the NFIP close to $20 million. Unincorporated areas incur similar costs, however, they are masked by being more dispersed. In unincorporated Skagit County, $1.5 million has been paid in flood insurance premiums since the National Flood Insurance Program (NFIP) began in 1978, and more than $6.5 million in claims has been paid by the NFIP. This means that the NFIP has paid out more than 425% than has been received in premiums from Skagit County properties. Hamilton properties have paid about $50,000 in premiums and have received $3 million in NFIP claims. The NFIP has paid in claims more than 6,000% than it has received in premiums from Hamilton properties.

Projected Costs: The U.S. Army Corps of Engineers predicts more than $94 million in cumulative flood damage costs for the river reaches between Sedro-Woolley and Concrete (Table 1)[1]. Purchase and removal of 400 floodway residential units is conservatively estimated to result in the avoidance of $40.9 million in these cumulative flood damages.

Table 1: U.S. Army Corps of Engineers Damage Projections for River Reach 8, 9, and 10

Flood Event (in years)	Structures & Contents	Residential Clean-up Costs	Temporary Relocation	Public Assistance	Nonresidential Structures & Contents	**Total Cost**
10	9,297,000	1,416,000	378,000	1,308,000	6,242.50	**12,405,242**
25	15,749,776	2,060,090	562,332	1,946,188	8,080.45	**20,326,466**
50	16,076,633	1,973,875	557,910	1,931,495	10,237.85	**20,550,151**
75	14,919,810	2,064,834	557,346	1,928,720	11,740.20	**19,482,451**
100	17,110,893	2,297,133	604,095	2,091,728	13,076.04	**22,116,925**
Totals	**73,154,112**	**9,811,932**	**2,659,683**	**9,206,132**	**49,377**	**94,881,236**

Additional Economic Value: Promoting residential relocation, rather than just removing floodway residences has additional economic value. First, comparison of Assessed Market Value (AMV) for floodway and non-floodplain residential properties reveals that the AMV for floodway properties averages $50,000 less than their non-floodplain counterparts. Development of 400 residential units out of the floodplain, coincidental with removal of 400 floodway units is projected to have a net positive AMV by approximately $20 million, and increase property tax revenue by more than $220,000 annually[2]. Second, the per capita annual income was compared for Hamilton and Lyman. These two communities are comparable in size and proximity, with the main difference being that Lyman has no developed areas located in the floodplain. The per capita annual income of Lyman residents is approximately $3,500 higher, suggesting an annual opportunity cost of $1.4 million in per capita income.

3. Social Interest

Hamilton will likely go bankrupt and disincorporate with one more flood, or within two years; shifting to Skagit County responsibility for address of the repetitive flooding and poverty. Should the town dissolve, the Public Development Authority also dissolves, and the benefits of Hamilton's urban density development potential and qualification for low-income specific grant funds are lost. In June 2007, Public Development Authority

[1] U.S. Army Corps of Engineers *Economic Flood Damage Assessment of Without Project Conditions for the Skagit River, WA Flood Damage Reduction Feasibility Study,* June 2005

[2] Average AMV increase for non-floodplain location = $20 million multiplied by average tax rate of $11.14/$1,000.

planning grant funds will be exhausted. Without earnest local political support, and a funding strategy underway for relocation site purchase, the program has little chance of being implemented before the town dissolves. Following are some indicators of Hamilton's increasing social and economic decline.

- HUD reports that the majority of Hamilton households qualify as low-income (59%), and median household income is the lowest of any incorporated Skagit County community ($31,500) 54% lower than Skagit County ($48,773) and 45% lower than Washington State ($45,776).
- 21.2% of Hamilton families live below the poverty level as compared with 7.3% for Washington State, and 9.2% nationwide.
- 30.9% of Hamilton adult residents qualify as disabled, compared to 17.8% for Washington State
- Less than one third of Hamilton households occupy detached single-family homes of standard construction, with the remainder living in mobile or manufactured houses, and recreational vehicles.
- 2000 Census data for Hamilton reports 135 housing units. Of these, 90 are owner-occupied (66%), 27 are renter-occupied (20%), and 18 are vacant (13%). Rent in Hamilton is about 55% cheaper than other areas of the county ($453/month versus $703/month).

It is common report that some Hamilton neighbors resent town relocation plans. It is the obligation of the Hamilton government to address the needs of its residents by providing for safe and affordable housing and employment opportunities. This may only be accomplished through Urban Growth Area expansion and support for an increase in locally available jobs.

Is The Relocation Program Too Big and Too Costly?

No. The benefits of including floodway properties in Skagit County far exceed the costs. For example, economies of scale for infrastructure capital costs have a threshold for cost effectiveness and for operational self-sufficiency that is met with the 400 residential unit projection. Also, state and federal funders favor multi-jurisdictional solutions, such as this.

In addition, different elements of the Relocation Program qualify for funds from different public and non-governmental sources. Table 2 breaks down the funding needs and likely sources, and explanation of each category is provided below[3].

[3] Source: Medium cost scenario provided in the Benefit Cost Analysis for the Hamilton-Skagit Flood Mitigation & Town Relocation Project, 12/2005

Table 2: Relocation Program Funding Prospects

Funding Source	Grant	Loan/Other	NGO Costs	Totals
Floodway Acquisitions				
Federal Programs	$ 11,649,120			
State Programs	$ 3,883,040			
Flood Insurance Claims			$ 11,094,400	
Flood Insurance ICC	$ 3,000,000			
Lender Short Sales			$ 10,371,040	
Relocation Site Revenue			$ 17,690,000	$ 57,687,600
Relocation Site Purchase				
State Programs	$ 1,000,000			
Private Partnership		$ 3,000,000		$ 4,000,000
Infrastructure Development				
Federal Programs	$ 6,337,500			
State Programs	$ 1,218,750	$ 1,218,750		
Dev. Fees, Utility Rates			$ 1,725,000	$ 10,500,000
Totals	**$ 27,088,410**	**$ 4,218,750**	**$ 40,880,440**	**$ 72,187,600**
Percentage of Totals	**38%**	**6%**	**57%**	**100%**

Floodway Acquisitions:

- Federal floodway acquisition programs include FEMA PreDisaster Mitigation grant, Hazard Mitigation Grant Program, and Flood Mitigation Assistance grant. State match is available through the Flood Control Assistance Account Program.
- Flood insurance claims paid through the National Flood Insurance Program following flood events are anticipated to contribute about 25% of floodway acquisition costs. This estimate is based on the percentage that claims have contributed in the 2007 acquisition project.
- Flood insurance ICC is the Increased Cost of Compliance insurance benefit that is available to qualifying properties insured with the National Flood Insurance Program. ICC pays up to $30,000 per property for the removal of structures and site cleanup. The estimate used here is conservative, and assumes that only 50% of properties will qualify and that of these, an average of $15,000 will be applied per qualifying property.
- Lender short sales of loans are necessary for floodway acquisitions to remain cost effective for public programs. The appraised market value of properties, primarily in unincorporated Skagit County, does not reflect the imminent threat of flooding for homes with a floodway designation. This trend has led to the over-mortgage of repetitive flood loss properties, and threatens to undermine public agency mitigation goals. The lender short sale estimate is based on the difference between the average home price (per EDASC) and property Assessed Market Value.
- Relocation site revenue will be generated from the sale of lots at the town relocation site. A mid-range estimate is $55,000 per residential lot, minus the $3 million loan needed for relocation site purchase, minus program administration costs. This is about $15 million to subsidize floodway property purchase, and provide residents with relocation assistance in the form of credit toward a home or construction loan.

Relocation Site Purchase:

- Governor Gregoire has committed $1 million in her 2007 Capital Budget, contingent upon the procurement of $3 million in matching funds.

- Private sector partners are being pursued for this match, through a loan or some other mutually beneficial financing arrangement.

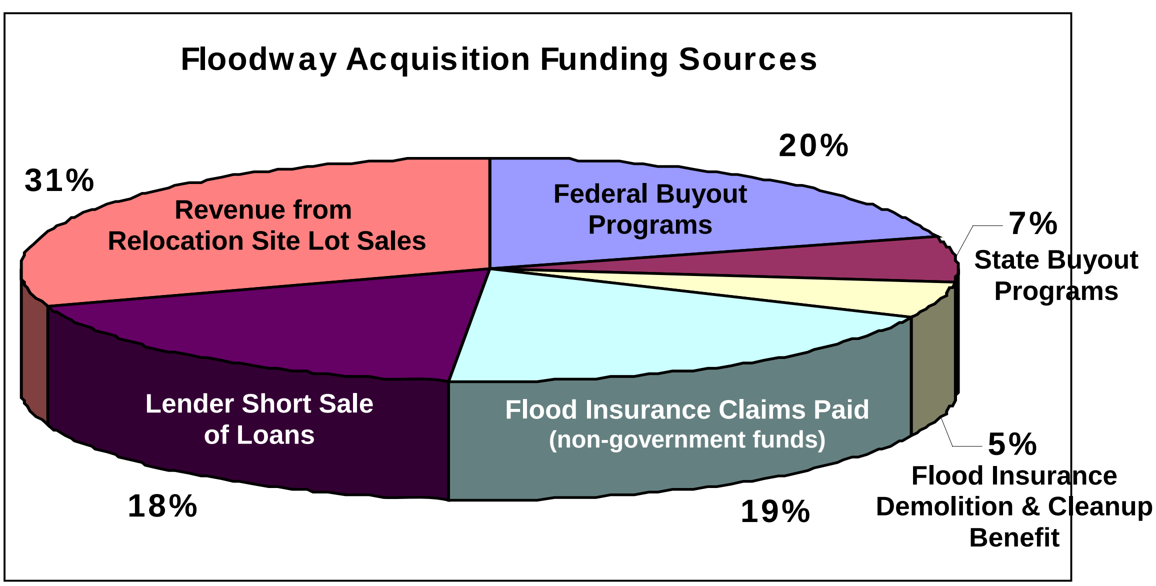
Infrastructure Development:

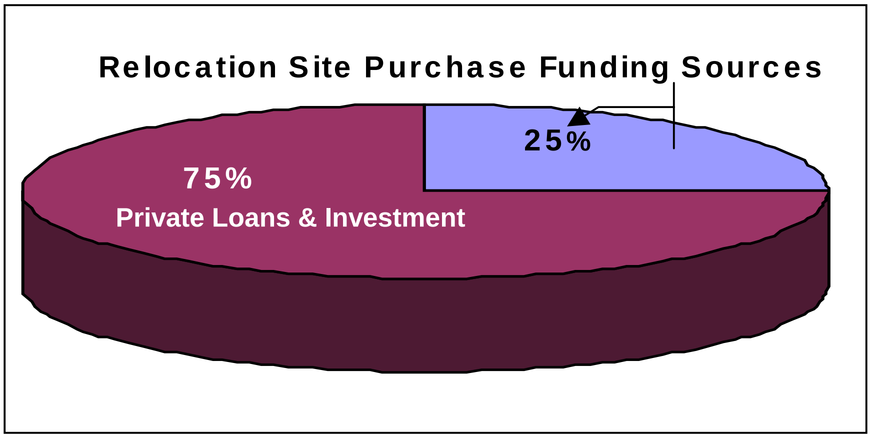
- Federal programs that target low-income communities include HUD Community Development Block Grant and several USDA programs. Federal grants are projected to assume 65% of infrastructure costs.
- State grant and loan programs are available through the Department of Community, Trade, and Economic Development, CERB, the Public Works Board, Housing Finance Commission, and other programs as match to federal programs. Job creation with the Janicki project in Hamilton will qualify the program for CERB and other Economic Development funds for public facilities. It is assumed that grants and loans will each assume 12.5% of infrastructure costs.
- Development fees and utility rates are estimated to fund the balance of infrastructure costs, debt service, operations, and maintenance.

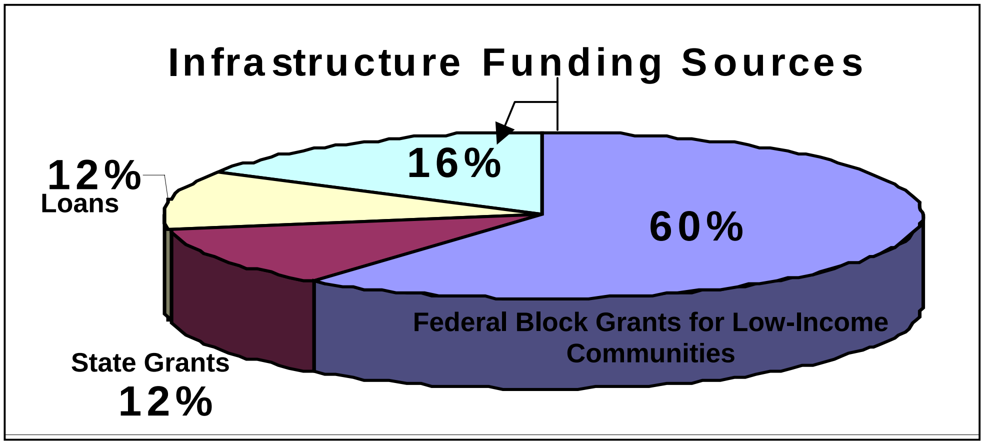
Will Other County or Dike District Mitigation Projects Lose Funding?

No. Other mitigation projects will not loose funding for two key reasons. First, capital projects, such as those that involve dike improvements or floodwater bypass construction, qualify for different funds than residential acquisition and urban infrastructure projects. Second, the relocation program is phased over 10-15 years, as relocation site development occurs, as floodway residents seek to voluntarily participate, and as flood events compel residents to participate. In this manner, funds solicited from state and federal grant programs will remain comparatively small and target very specific programs. The pie charts on the following page are generated from the funding source table above, and illustrate the likely funding sources for each of the three principal elements of the program (floodway property acquisition, relocation site purchase, and infrastructure).

However, strong local commitment to this multi-jurisdictional, regional approach may be used to leverage funds that benefit other mitigation projects. As grant and appropriation budgets become increasingly scarce, proposals that demonstrate regional impacts, address multiple issues, and offer creative cost sharing partnerships are more competitive for receiving funds.







Are Landlords and Special Interests The Greatest Beneficiaries?

No. Everyone in Skagit County benefits by permanently resolving the direct costs of flooding and the indirect costs in terms of social and economic decline.

Rental Housing: As stated previously, about 27 residential units in Hamilton are rentals. At least one is a multi-family unit with five apartments. Most rentals are assumed to be in the floodway.

It is a misconception that FEMA buyouts pay premium prices for floodway properties, and that absentee landlords will make windfall profits at taxpayer expense. Landlords profit more with the status quo, where they continue to receive National Flood Insurance Program benefits following each flood, make minimum repairs and retain the balance of insurance payments, and continue to rent sub-standard housing.

For any property (owner-occupied or rental), FEMA may only offer what qualifies as "cost effective" under very restrictive FEMA guidelines. Also, FEMA deducts from the offer amount the most recent flood insurance claim paid to a property owner, thus further reducing the public cost for property acquisitions. The FEMA-cost effective offer is often less than or equal to Assessed Market Value, which may be half of what properties are likely to sell for on the open real estate market.

Property owners who have paid down their mortgage receive more of the offer amount as a cash payment. For properties encumbered with high loans, the lender can receive only the cost effective offer and must agree to write off any outstanding loan amount. Staff is aggressively pursuing this strategy, called "short sale", to help residents afford to relocate.

For these property owners, all of their flood insurance benefits and the FEMA buyout money have been applied toward their mortgage. Also, the short sale may damage their credit rating. For these displaced residents, it may be challenging to qualify for a new mortgage, a reasonable interest rate, and come up with sufficient funds for a down payment. With revenue generated by the sale of some lots at the town relocation site, the Public Development Authority is able to offer these property owners "relocation assistance", such as money applied toward a home or construction loan down payment.

Special Interests: The Public Development Authority mission is to develop and implement a permanent flood mitigation solution that restores the Town of Hamilton as a viable and desirable municipality in and around which to live and work, reduces repetitive losses from flood-prone areas of Skagit County, and enhances our riparian natural resources. Janicki Industries was recruited to the Public Development Authority in order to represent the economic development and job creation interests of this community. They were solicited by staff for their commitment to the Skagit community, their experience with affordable housing projects, their participation with EDASC, and their interest in an eastern Skagit expansion that would create more new jobs for residents since collapse of the timber industry. Janicki participation is as important as Tribal, natural resource, housing, and government participation, and their private investment may very likely exceed all public monies invested and committed to date. A public-private partnership with Janicki Industries is endorsed by our state and federal representatives, and mitigation program managers. The Public Development Authority governance structure provides added assurance that a public-partnership arrangement for relocation site purchase and development remains true to the Authority's mission. A lack of support for Janicki participation in this Program equates to a lack of support for the community and economic revitalization of this severely timber impacted region of Skagit County.

Hamilton is the only incorporated community in Skagit County that shows a drop in annual taxable retail sales (Table 3)[4]. Without a commitment to economic development located outside of the floodway, the small remaining taxable retail sales will eventually be eliminated.

Table 3: Taxable Retail Sales Comparison

	2005 1st - 3rd Qtr	2006 1st - 3rd Qtr	Percent Change
Anacortes	264,884,426	270,246,105	2.0%
Burlington	571,340,472	631,596,030	10.5%
Concrete	4,752,129	5,593,585	17.7%
Hamilton	930,950	550,283	-40.9%
La Conner	35,466,875	37,191,637	4.9%
Lyman	2,176,954	2,245,723	3.2%
Mount Vernon	395,969,130	508,477,248	28.4%
Sedro Woolley	96,503,852	113,678,871	17.8%

[4] State Department of Revenue statistics: Taxable Retail Sales and Unit Count For All Cities and Counties in Washington State, by calendar year.

The recent purchase of the former Crown Pacific log yard in Hamilton by Janicki Industries offers significant economic development and job creation potential. In addition, Public Development Authority staff is working with Public Utility District #1 to extend publicly-owned high-capacity fiber optic communication facilities along SR20 to Marblemount and Seattle City Light fiber. This would connect eastern Skagit County, including Hamilton , to other major urban areas of the county, and would create the first redundant fiber optic network in the northwest region, which would significantly enhance information and telecommunication security for several utilities and other critical service providers.

Is Hamilton Asking For Special Treatment?

No. The Town is preparing a Subarea Plan that documents the need for, and justification of, a non-floodplain Urban Growth Area expansion that will accommodate the existing 100-floodway residential units, plus additional units needed to meet the 25-year population forecast. In addition, the plan calls for relocation of the town business center to a non-floodplain location, and inclusion of 60-acres of industrial area that adjoins existing industrial zoned lands in the town. Planning for residential growth, job creation, and the public services to support these is a municipal function, and a public good that benefits the entire county. The Town and Public Development Authority expect no special treatment. Staff follows all requirements for UGA expansion, Relocation Program development, and funds procurement that guide all communities.

Grant funds available through the county are solicited only when it makes sense, and through normal competitive application processes. Loan from the county, such as the $50,000 made available to the Public Development Authority, are applied for only when they may be secured in a means that is acceptable to county management, and meet State Auditor requirements.