Chapter 5. Fiscal Implications

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Fiscal Implications

The proposed special taxing district would raise more than $660k per annum, allowing for upfront debt issuance of approximately $13 million. This would finance approximately 26 percent of the Corridor's need for investment. The balance would likely have to be financed by leveraging the General Fund or through pay-go mechanisms.

Cost Estimate

Exhibit 1: Cost Estimates by Category (all values in $2013)

	Recommendation	**Estimated Cost**
Public Investment		
Category 1	Infill of new residential units	$0
Category 2	Design guidelines	$550,000
	Sidewalk improvements (19,250 ft.)	$1,155,000
	Inter-parcel connector and curb cut closure – Southern portion (2,660 ft.; 13 curb cut closure)	$1,486,000
	Inter-parcel connector and 5 curb cut closures – Northern portion (1,660 ft.)	$890,000
	Inter-parcel connector and curb cut closure – Central portion (4,680 ft.; 29 curb cut closures)	$2,688,000
	Secondary Road (4,010 ft.) – Central portion	$3,208,000
	Preliminary study of inter-parcel connectors and a secondary road system	$150,000
	Acquisition of land for building roads (9.25 acres)	$9,807,481
	Undergrounding of utilities (40,400 ft.)	$8,080,000
	Street trees (556 trees needed)	$194,750
	Open space (1-2 acres)	
	Gathering places (¼-½ acres)	$10,374,935
	Open plan areas (1-2 acres)	
	Pedestrian lighting	$681,000
Category 3	Tax credits for property owners who comply with construction inter-parcel connectors and secondary road system	$250,000/year or $5,000,000 over 20 years
	Tax credits for qualified business owners	$250,000/year or $5,000,000 over 20 years
Category 4	Financial investments into BRT	TBD
	Total proposed public cost:	**$49,265,166**
Private Investment		
Category 1	Construction of Infill Residential Units	$310,392,000*
*Cost of building 1,500 units		

Source: Sage, Dewberry

Methodology behind Cost Estimates

Category 1

Recommendation: Infill of new residential units

Since all of these inter-parcel areas are located on private land, no fiscal cost is anticipated. The only costs would be incurred by developers who must finance the design and construction of connecting either shared parking or secondary streets to their respective properties. The City can choose to promote developer partnerships around the building of shared parking lots by offering either a subsidy or tax credit.

Category 2

Recommendation: Design guidelines

The City should have in place new design guidelines to promote improved aesthetics and more design-conscious zoning along the Corridor. There are a series of studies the City needs to procure in order to develop the new guidelines, including: Design Manual (primarily for reforming zoning codes) at $100,000; a Corridor Design and Landscape Architecture Plan at $350,000; and a Gathering & Public Place Design Plan at $100,000. In aggregate, these studies will cost $550,000.

Recommendation: Sidewalk improvements

Cost of sidewalk improvements costs:	$10 per sf.
Cost of inter-parcel connectors:	$800 per sf.
Cost of cut curb closure:	$12,000 each

The study team estimates 19,250 feet of sidewalk need to be improved with a width of 6 feet. The cost estimate is $1,155,000 (=19,250 ft. × 6 feet × $10 per sf.).

Recommendation: Inter-parcel connectors and curb cut closures

Based on the layout envisioned by the study team, each of the three portions of the Corridor (Northern, Central, and Southern) requires the construction of inter-parcel connectors working in conjunction with curb cut closures. There are approximately 2,660 linear feet of inter-parcel connectors and 13 curb cuts for the Southern portion, which translates into a total cost of $1,486,000 (= 2,660 ft. × $500 per foot + 13 curb cuts ×

$12,000). The cost of constructing inter-parcel connectors and curb cuts for the Northern portion is $890,000 (= 1,660 ft. × $500 per foot + 5 curb cuts × $12,000). The cost for the Central portion is $2,688,000 (= 4,680 ft. × $500 per foot + 29 curb cuts × $12,000).

Recommendation: Secondary road system

4,010 feet of secondary road should be constructed in the Central portion of the Corridor with an estimated cost of $800 per foot. Therefore, the total cost of building the secondary road is $3,208,000 (= 4,010 ft. × $800 per foot).

Recommendation: Preliminary study of inter-parcel connectors and a secondary road system

This is needed to accurately identify the locations for the inter-parcel connectors and the secondary road system. The cost of such study is estimated at $150,000. [1]

Recommendation: Acquisition of land for building roads

The City will need to acquire approximately 9.25 acres (402,885 square feet) of the land. According to 2010 data on the City of Gaithersburg's assessable base, the Corridor's land is valued at $24.34 ($24.343128) per square foot. Using this information, the cost of land acquisition is estimated to be $9,807,481 (= $24.34 per square feet × 402,885 sf.).

Recommendation: Undergrounding of utilities

Conversion to underground utilities along the entire Corridor is estimated to cost $200 per foot. The Corridor is comprised of 40,400 feet on both its northbound and southbound sides. Therefore, the cost for this item is estimated at $8,080,000 (= $200 per ft. × 40,400 ft.).

Recommendation: Street trees

Trees are needed along 23,370 feet of the Corridor, with the study team presuming a 42-foot break between each tree resulting in the need for 556 trees. The cost of tree planting is $350 per tree, making the total cost $194,750 (= $350 each tree × 556 trees).

Recommendation: Open space, gathering places, open play areas

The total land required to implement open space, gathering places, and open play areas equals approximately 4.5 acres. According to data provided by the Successor Agency to the San Francisco Redevelopment

[1] Estimate is industry-level standard. Source: Dewberry

Agency, the cost of constructing these areas averages $2,305,541 per acre. Applying this rate, the overall cost is estimated at $10,374,935.

Recommendation: Pedestrian lighting

To provide a safer environment for pedestrians, the study team envisions large size 25-foot-tall installed at various locations along the Corridor. Given each street light should be distanced by 300 feet apart, a total of 138 lights are needed. In addition, the study team identifies 42 intersection points where new street lights are needed. Therefore, a total of 180 streets lights both along the Corridor and at roadway intersections should be installed. Installation of each street light costs approximately $3,500. Therefore, the total cost of street light installation is $630,000 (= 180 × $3,500 each street light).

Finally, the study team recommends that 12-feet-tall street lights be installed on secondary streets. The secondary road system recommended in this report totals 4,010 feet in length. Given that the mini street lights require 150 feet distance between each other, a total 26 lights are needed. In addition, there are 8 crossroads, which also require the smaller street lights. Given that each 12-foot tall street lights costs $1,500 for installation, the total cost is $51,000.

In summary, the total cost of installing 180 lights on the main Corridor and 34 lights along the secondary roads is $681,000.

<u>Category 3</u>

Recommendation: Tax credits for the property owners who agree with the construction of secondary road system and inter-parcel connectors will cost the City a maximum of $250,000 per annum or $5 million over 20 years.

Recommendation: Tax credits for the business owners will cost the City a maximum of $250,000 per annum or $5 million over 20 years.

<u>Category 4</u>

Recommendation: Expenditure TBD and is a function of political and policy processes and outcomes.

<u>Category 5</u>

Recommendation: Sequencing capital investment in the Corridor

See cost estimate explanations in Category 2.

Financing Options

The study team has laid out a rather ambitious agenda. There is simply no way this can be financed using the City's traditionally favored technique of pay-as-you-go. Even absent financing for structured parking, the costs of implementation are substantial. For the most part, tax increment financing is irrelevant since the recommended investments do not target individual properties or proposed developments, but rather are meant to improve the overall condition of the Corridor.

Accordingly, the City has some options. One is simply to leverage the General Fund and take on general obligation debt. Given still low interest rates, we think this idea makes some sense and there is nothing that suggests that the City need rely upon a single funding mechanism.

That said, the thought of too much debt accumulation makes us squeamish, at least without the creation of another annual funding stream. There is one. A second option (the one we truly recommend) is a special taxing district. The Corridor's property owners would be subject to an additional City tax/fee – monies collected from such a funding mechanism would be directed back into the Corridor. The study team estimates that a 5-cent special funding mechanism operating only in the Corridor on top of the City's general property tax levy would generate $662,132 per annum, which would support upfront debt issuance of approximately $13 million at an interest rate of 3.25 percent and with a term of 30 years. But even that would only finance about a third of the Corridor's total need. Bottom line: the Corridor's revitalization represents a very long-term proposition and probably requires at least some leveraging of the General Fund.

Another obvious option is the imposition of lumpy impact fees on new development. However, impact fee taxing authority must first be granted by the Maryland General Assembly. Monies generated by impact fees must be spent directly on those infrastructure improvements necessitated by new growth. The fees cannot be greater than the development's fair share of the cost of the improvements. Given the Corridor's circumstances, we don't believe impact fees allow for enough flexibility in spending and therefore are to be rejected as a funding option. [2]

[2] Davies, Susan S. (n.d.) Impact Fees: The non-renewable resources. Retrieved from www.impactfees.com/publications%20pdf/davies.pdf.

Debt Service Schedule for the Corridor

As one of the financing options, the City could issue a bond secured by the annual income flowing from the proposed Corridor-wide Special Tax District. The study team estimates that additional annual revenue receipts would total $662,132.[3] Assuming that this is the amount that could be contributed to the annual debt service, the amount of debt that the City could afford is estimated to be $12,977,015.

The following exhibit shows the amortization schedule to support the valuation of the bond. The interest rates are assumed to be 3.25%[4] and the debt servicing period is assumed to last 30 years.

Exhibit 2: Special Tax District Bond Amortization Schedule

Year	Annual Payment	Principal	Interest	Balance
0				12,977,015
1	662,132	662,132	0	12,314,883
2	662,132	261,898	400,234	12,052,984
3	662,132	270,410	391,722	11,782,574
4	662,132	279,198	382,934	11,503,376
5	662,132	288,272	373,860	11,215,103
6	662,132	297,641	364,491	10,917,462
7	662,132	307,315	354,818	10,610,147
8	662,132	317,302	344,830	10,292,845
9	662,132	327,615	334,517	9,965,230
10	662,132	338,262	323,870	9,626,968
11	662,132	349,256	312,876	9,277,713
12	662,132	360,606	301,526	8,917,106
13	662,132	372,326	289,806	8,544,780
14	662,132	384,427	277,705	8,160,353
15	662,132	396,921	265,211	7,763,432
16	662,132	409,821	252,312	7,353,612
17	662,132	423,140	238,992	6,930,472
18	662,132	436,892	225,240	6,493,580
19	662,132	451,091	211,041	6,042,490
20	662,132	465,751	196,381	5,576,738
21	662,132	480,888	181,244	5,095,850
22	662,132	496,517	165,615	4,599,333
23	662,132	512,654	149,478	4,086,679
24	662,132	529,315	132,817	3,557,364
25	662,132	546,518	115,614	3,010,847
26	662,132	564,280	97,853	2,446,567
27	662,132	582,619	79,513	1,863,948
28	662,132	601,554	60,578	1,262,394
29	662,132	621,104	41,028	641,290
30	662,132	641,290	20,842	0
Summary:	***19,863,964***	***12,977,015***	***6,886,949***	***n.a.***

[3] According to the FY 2012 Comprehensive Annual Financial Report for the City, a total of $26,996,881 is collected as property tax revenue. Of this total, 11.8 percent is attributed to taxes collected from Corridor property owners. The Corridor area contributes approximately $3.2 million to City revenue per annum. The additional proposed 5-cent surcharge represents a 20.8 percent increase in the current tax rates, which translates into augmented revenues equal to *$662,132* (= 20.8% × $3.2 million a year) per annum. .

[4] Federal Reserve Bank. (2013) Selected Interest Rates, Daily (H.15). Retrieved from http://www.federalreserve.gov/releases/h15/update/.

A Note on Rate of Return

Economists are often asked under these types of circumstances to estimate rate of return on investment. In our view, trying to establish actual numeric estimates is pure guesswork. Moreover, because the individual recommendations are meant to synergize with one another, establishing rate of return for any one aspect of the endeavor is meaningless.

Here is what we think is true. The proposals we have put forth will attract around $300 million of additional residential development over the next 20 years based on the creation of infill opportunities. That will translate into approximately $750,000 in additional annual tax revenues at full build-out, which will likely have occurred over the course of two decades. These figures are in 2013 dollars. We estimate that there will be another $200 million in additional private nonresidential investment attracted, which translates into an additional $500,000 in additional tax revenues. If one adds to that diminished social pathologies due to improving economic conditions on the Corridor and considers associated fiscal savings, the rate of return on an investment totaling less than $39 million turns out to be quite high – enough to justify paying off outstanding bond debt at today's interest rates.