

The Township of Montclair Seymour Street Redevelopment Plan Fiscal Impact Report

August 12, 2016

Summary of Findings: the following is a Fiscal Impact Report regarding the Seymour Street Redevelopment Project in Montclair, New Jersey. This Report indicates our preliminary findings based on available project information as outlined herein. As indicated throughout this Report our revenue estimates are to the low side and our municipal expenses, including school costs, are estimated to the high side. This results in a conservative Project fiscal impact analysis. **When these numbers are considered together a positive estimated annual fiscal impact of \$1,202,764 results and a net annual impact of \$653,621 results.** If the proposed project comes to fruition the result will be a property which will be the “largest” taxpayer in Montclair. This Report, although in draft form, is for use by the Montclair Mayor and Council, Planning Board and Township management.

1. Project Scope. Pursuant to your request and our meetings of June 27 and July 19, 2016 the following Report and schedules represent our preliminary review of the financial impact of the Seymour Street redevelopment project (“Project”).

The start of the analysis is to determine the potential value of the new Project. The second step is to estimate the amount of revenue, including property tax revenues or payment in lieu of taxes (“PILOT”), generated by the Project. We then analyze profitability and the impact or need for additional services. Finally, the economic impact on jobs and the local economy is estimated.

The following four properties are included in the redevelopment project.

Figure 1. The Properties.

Property Description	Tax Assessment
Block 3105, Lot 1-(STS Tire)	\$806,900
Block 3105, Lot 2-(Seymour Street Parking)	0
Block 3105, Lot 9 (Social Security Office)	0
Block 3106, Lot 17-(Fullerton Parking)	0
Total Tax Assessment	\$806,900
Total 2015 Property Taxes	\$30,142

Note: the total Project area is approximately 2.75 acres.

The redevelopment objective would thus be to generate economic opportunities and generate revenues to support the Township of Montclair (“Township”) tax base. Of course, this must be accomplished using appropriate land use and design principles.

The annual gross revenue generated by the Project is estimated by us at \$7,818,030 to \$8,455,000 at Project stabilization.¹

¹ Project stabilization is the point in time the Project is fully leased (less a reasonable vacancy rate) and the Project has been financed and considered substantially complete.

This estimated annual gross revenue (“AGR”) is generated by the three project components; retail, office, and residential. We have left off the analysis certain aspects of the COAH units for now, but have run a pro forma for this component.

The numbers in this Report are preliminary results and independent of the redeveloper’s estimates but do generally match their initial estimates. We also give some context to the numbers including a first look at total project costs.

Figure 2. Residential Project Scope-Including Estimated Rents.

Rent Matrix	Units	Unit-SF	Total-SF	Rent Per SF-\$	Annual Rent-\$
Micro	27	480	12,960	38	492,480
Studio	46	600	27,600	38	1,048,800
1 bedroom	93	800	74,400	40	2,976,000
2 bedroom	14	940	13,160	40	526,400
Sub-total	180		128,120		5,043,680
COAH	20	800	16,000	16	256,000
Totals	200		144,120		5,299,680

Figure 3. Total Mixed Use Project Scope Including Estimated Rents.

Seymour Redevelopment-Mixed Use Scope					
Pro forma	Building Area	Mkt. Area	% of Total	Rent/S.F.--\$	Total AGR-\$
1-Office	34,300	34,300	0.16	28	1,029,000
2-Retail	49,645	49,645	0.23	30	1,489,350
3-Residential-(rental)	166,570	128,120	0.60	39	5,299,680
Total Project Area	250,515		1.00		7,818,030
Total Market area (Building)		212,065			
4-Residential COAH	20,000	16,000			
Total	270,515	228,065			

2. Project Profitability. To be clear: the estimated annual gross revenue of \$7,818,030 is the available pool of funds available from the Project to finance the cost of construction (including annual debt service), pay for operating expenses and pay the Township for the PILOT. The redeveloper estimates AGR at \$8,455,000. After the project costs are estimated the next step is to determine the amount of debt service necessary to finance the Project. The amount of annual debt service is deducted from AGR so that a return on investment, or profit, is calculated.

It is clear from these calculations that the Project profit is sufficient to pay a PILOT equivalent to traditional taxes, using as the basis the current Montclair equalized tax rate and the assumptions in Figure 4 hereof.² The affordable units and the financing of these units requires refinement.³

² The total project costs excludes the Midtown Parking deck (310 parking spaces). This is considered a separate project although integral to the success of this Project.

³ When the allowable vacancy rate of 5% is deducted from gross revenue, the AGR for PILOT purposes is \$7,427,129.

Figure 4. Project Financial Statistics (return on invested capital, debt service coverage ratio, etc.)

Seymour Street Project Financing Stats.		NOTES:
TPC	\$89,048,365	\$175 + per s.f. hard cost allowance.
Equity-Investment	\$31,166,928	35% of TPC
Permanent Financing	\$57,881,437	65% of TPC
1-AGR	\$7,818,030	Gross-BE Estimate excludes vacancy %.
2-Annual Operating Expenses	\$1,685,919	Triple net leases for non-residential.
3-NOI-Ebitda (1-2)	\$6,132,111	72% Retained revenue-margin.
4-DS (6%/20)	\$4,976,167	1.232 DSCR
5-NOI (3-4)	\$1,155,944	
6-PILOT	\$938,163	12% of AGR. Stabilized.
7-Adjusted NOI (5-6)	\$217,780	
ROIC	1.0%	Return on invested capital.

While the numbers presented in Figure 3 represent one illustration it is clear that the total project costs (TPC) requires an investment of \$90 million. The annual lease payment to the Township is estimated at a minimum of \$264,600. This lease payment is part of the operating expenses included in item number 2 in Figure 4, above. When added to the PILOT this is total estimated annual revenue of \$1,202,764. This compares favorably to the current revenues generated by the properties of \$30,142 annually. In summary, this Project will generate a minimum of \$1,172,622 in new, or additional, gross annual revenues to the Township treasury.

Figure 5. Combined Results. NOI for each Project Component. Please note, the market rent for office space may increase when a tenant is identified.

Seymour Street Project-Montclair, NJ					
Scenario 1	1-Office	2-Retail	3-Residential	TOTAL	
AGR-Ebitda-One Potential Scenario	1,029,000	1,489,350	5,299,680	7,818,030	
Estimated Gross Parcel Value @ 8% Cap Rate	12,862,500	18,616,875	66,246,000	97,725,375	
Estimated Development {Construction} Cost:	16,395,616	17,365,677	55,287,072	89,048,365	
Parcel Value Less Development Cost (from Model)	(3,533,116)	1,251,198	10,958,928	8,677,010	
ROI-Project without debt service	-21.5%	7.2%	19%	9.70%	
Estimated annual yield, in \$, after 4 years	n/a	\$316,000	\$2,250,000	\$2,150,000	
Note: The capitalization rate will change based upon the use.				XXXXX	
				XXXXX	
PILOT at 12% of AGR per Pro forma (minimum)				\$938,163	

3. Fiscal Impact. The data is in place to begin describing the economic impact of the Project on the Township including school services, municipal services, and property taxes together with related impacts on employment and other economic factors. It is important to emphasize that the creation of new employment opportunities generates local household income fostering economic activity. The factors to be considered are:

- 1-the increase in economic value and tax revenues along with new municipal and school costs;
- 2-the increase in new retail and office jobs;
- 3-increased economic activity resulting from increased household income and employment income due to new residences and jobs created;
- 4-increased construction jobs.

Background. The Township of Montclair, comprising 6.16 square miles, is formed in a north to south rectangle, is primarily residential in nature with a discreet and vibrant downtown, along Bloomfield Avenue. Other retail centers on Valley Road and Grove Street add to the vibrancy of Montclair. The Bloomfield Avenue corridor is where the Project is located, between Seymour Street and South Willow Street adjacent to the Wellmont Theater. Seventy-five percent of the land area is residential and just over 10% is commercial. Single-family houses make up 48% of the housing stock. Forty percent of the housing stock was built prior to 1940. Ninety-two individual properties and 6 districts are listed on the State and National Registers of Historic Places, two of which are also locally designated districts - Town Center and Pine Street.

The following is the U.S. Census Bureau population trend data for Montclair, Essex County, and the State of New Jersey:

<u>Year</u>	<u>Montclair</u>	<u>Essex County</u>	<u>New Jersey</u>
2010	37,669	783,969	8,791,894
2000	38,658	793,633	8,414,350
1990	37,729	778,206	7,730,188
1980	38,321	850,451	7,364,158
1970	44,043	932,526	7,171,112
1960	43,129	923,545	6,066,782
1950	43,929	905,949	4,835,329

Note: the Township has approximately 6,115 persons per square mile (population density).

School Expense Impact. Any residential project brings with it the possibility that school aged children (“SAC”) will live in the Project. SAC require annual public expenditures to educate. The number of SAC generated by the Project is estimated at between ten and fifteen.⁴ The 15 students, maximum, who are expected to live in the proposed Project are likely to be concentrated in the early grades with a few in the later high school grades. Indeed, some may be younger than school age or attend non-public schools. At the current estimated average annual tax cost of \$19,000 per student the estimated cost to educate these new students is \$285,000 annually.⁵ (\$19,000x15.)

⁴ The Township planning department performed a study showing that 6% of multi-family residences (in total) have SAC. This number is somewhat less than the published results of *Who Lives in New Jersey Housing? New Jersey Demographic Multipliers*, by David Listokin, et al. Rutgers University Center for Urban Policy Research (CUPR), published November, 2006.

⁵ Source: the Montclair school district 2015-2016 user friendly budget.

Education facilities within the Township include a public school system, two private schools and two parochial schools, each providing instruction for grades K through 12. Montclair Public Schools were established in 1860. The School System is a Type I school district that is coterminous with the Township's borders. The Board of Education of Montclair governs the non-fiscal operations of the School System and the Board of School Estimate oversees the School System's fiscal operations. The School System's fiscal year end is June 30th.

Figure 6.

Historical Montclair Public School Student Enrollments	
Fiscal Year	Number of Students
2016-2017	6,625
2015-2016	6,695
2014-2015	6,685
2013-2014	6,736
2012-2013	6,667
2011-2012	6,638
2010-2011	6,645
2009-2010	6,673
2008-2009	6,636
2007-2008	6,561
2006-2007	6,621

In summary, we must include the maximum education cost of \$285,000 for the school aged children living in the residences located at the Project. This means that \$285,000 must be deducted from the estimated new annual gross revenues generated by the Project of \$1,172,622.

This computation brings the estimated new annual gross revenues to \$887,622. However, this is very conservative. If rents are higher than estimated or the number of SAC is ten as opposed to fifteen the new annual gross revenues would be well over \$1,000,000.

Municipal Service Impact. We noted previously that the population of the Township declined by approximately 1,000 from 2000 to 2010. Therefore, the increased population arising from the Project will simply replace “lost” population. Limited marginal, or new, municipal costs will result from this property repurposing.⁶

⁶ Marginal cost (MC) is defined as the incremental cost of providing a service. In other words the cost of hiring one additional police officer, as an example. Proportional cost increase is defined as the percentage increase of providing a service based upon a related growth factor. In other words if population of a new, unserved service area increased the population of a town by 5% the cost of providing services may increase by 5%.

Examples of municipal services include: 1-garbage collection which will be disposed of by redevelopment property tenants or the residential management company; 2-construction code fees and fire safety fees will be paid by the Project owners; and, 3-the redevelopment properties are located in an existing police patrol sector.

Because the residences may generate added public safety services a proportional 0.9% increase in the Township’s public safety budget may be required to provide these services.

This proportional percentage, 0.9%, is the percent increase in the population generated by the Project (325/38,000).

The proportional public safety service increase is \$234,000 annually in 2016 dollars (\$25,961,157x.0.9%). The following chart shows the estimated Project population by residential unit type.

Figure 7. New Unit Estimated Population.

Unit Type	Units	Estimated New Persons
Micro	27	38
Studio	46	74
1 bedroom	93	149
2 bedroom	14	28
Sub-total	180	289
COAH	20	36
Totals	200	325

Note: the above estimates of new persons are extrapolated from the occupancy rates in the CUPR study (footnote 4) and our own research.

Below is a chart showing the breakdown of the Township of Montclair budget and relevant financial statistics using the state promulgated chart of accounts. Some added overhead costs may also be incurred by the Township. These costs are classified as general government costs which may be incurred by the Township to mail PILOT bills and handle other administrative functions. The PILOT statute allows for a 2% charge, of the total PILOT, to reimburse a municipality for such expenses. This is a \$20,000 estimated annual reimbursement for such costs. A review of the Township budget reveals no significant service area which will be impacted by this Project, other than those previously mentioned.

Figure 8. Montclair Budget Statistics.

FCOA (Source)	Municipal Appropriation Category	% Change 2015-2016	Difference	2015 Current Fund Budget	2016 Current Fund Budget
20	General Government	-1.60%	(61,297)	3,819,476	3,758,179
21	Land-Use Administration	43.59%	123,919	284,300	408,219
22	Uniform Construction Code	4.50%	31,167	692,000	723,167
23	Insurance	15.21%	1,131,066	7,436,349	8,567,415
25	Public Safety	4.60%	1,140,664	24,820,493	25,961,157
26	Public Works	-11.85%	(666,776)	5,626,600	4,959,824
27	Health and Human Services	16.71%	206,197	1,234,175	1,440,373
28	Parks and Recreation	6.17%	48,353	783,650	832,003
29	Education (including Library)	2.80%	90,000	3,212,093	3,302,093
30	Unclassified		-	-	-
31	Utilities and Bulk Purchases	-19.88%	(424,250)	2,134,250	1,710,000
32	Landfill / Solid Waste Disposal	-4.48%	(100,000)	2,232,688	2,132,688
35	Contingency	0.00%	-	3,500	3,500
36	Statutory Expenditures	3.62%	261,115	7,217,994	7,479,109
37	Judgements		350,000		350,000
42	Shared Services	1.86%	16,450	884,744	901,194
43	Court and Public Defender	-10.97%	(81,832)	745,860	664,028
44	Capital	20.00%	50,000	250,000	300,000
45	Debt	-0.71%	(57,000)	8,063,000	8,006,000
46	Deferred Charges	-46.69%	(166,846)	357,313	190,467
48	Debt - Type 1 School District	2.75%	197,574	7,185,526	7,383,100
50	Reserve for Uncollected Taxes	-2.31%	(78,254)	3,389,772	3,311,518
55	Surplus General Budget		-		
	Totals		2,010,251	80,373,783	82,384,034
7	2015 Muni. Tax Levy (Includes Library) and Type I School Tax			61,816,680	
8	Surplus Budgeted Revenue			3,025,000	
8, 9, 11, 15	Other Budgeted Revenue			15,025,310	
	Sub-total			79,866,990	
10	Grants			129,448	
UFB-Summary	Total 2015 Budget			79,996,438	
UFB- Tax	2014-2015 Tax Assessments			5,743,201,038.00	
UFB- Tax	2015 Municipal Tax Rate			0.913	
Tax Duplicate	School Tax			112,856,034.00	
Tax Duplicate	County Tax			34,971,399.73	
UFB- Tax	Total 2015 Tax Levy			202,492,087.73	
UFB- Tax	Total 2015 Tax Rate			3.526	
BOE Budget	Est. per student cost-NET			15,312	

Tax Base Impact. This Project requires a significant investment and will immediately upon stabilization be the “largest” taxpayer in Montclair. This Project will generate a gross annual revenue to the Township of **\$1,202,764**. Below is a chart showing the current “largest” taxpayers located in the Township. The largest taxpayer currently pays approximately \$485,000 in annual property taxes. The proposed Project will pay double this amount and probably more.

Figure 9. Largest Taxpayers Located in Montclair.

PROPERTY OWNER/TAXPAYER	PROPERTY TYPE	2016 ASSESSED VALUE
Rockcliffe Apartments	Apartments	\$15,146,300
Lackawanna 2013 LLC	Commercial	\$13,487,000
Hawthorne Towers, LLC	Apartments	\$11,288,000
Princeton Bank & Industry Consulting Group	Commercial	\$10,732,400
Bellclair, LLC	Commercial	\$10,649,300
Richard Grabowsky	Commercial	\$9,674,600
Orange Pavilion, LLC	Apartments	\$9,250,000
39-51 Church Street Association	Commercial	\$8,500,000
Bank of America	Commercial	\$7,957,100
First Montclair, LLC	Commercial	\$7,841,300

Calculation of Annual Revenue (PILOT) Impact. In the previous sections we have detailed the potential estimated Project fiscal impacts. As indicated throughout this Report our revenue estimates are to the low side and our municipal, including school, costs are estimated to the high side. This results in a conservative Project fiscal impact analysis. When the numbers are considered together a positive estimated fiscal impact of \$653,621 results. Again, we emphasize this is conservative.

Figure 10. Calculation of Fiscal Impacts.

Description	Amount
Estimated Annual Gross PILOT Revenue	\$ 938,163
Operating Lease to Township	\$ 264,600
Sub-total-Estimated Gross Project Revenue	\$1,202,763
Less: Estimated Annual School Expenses	\$285,000
Less: Estimated Annual Public Safety Expenses	\$234,000
Estimated Net Annual Project Revenue	\$683,763
Less: Current Tax Revenues Received	\$30,142
Estimated Net New Annual Revenues	\$653,621

4. Retail and Office Space Impact. The new Seymour Street mixed use redevelopment Project will generate additional retail space (49,645 square feet) and office space (34,300 square feet) as well as provide the stimulation of interesting specific uses (a rehabilitated arts theater for example). This is a total combined 83,945 square feet of non-residential space.

These uses, located along the Bloomfield Avenue corridor, will increase adjacent property values and increase tax assessments and tax payments to support municipal and school services. Moreover, employment opportunities will be provided which will enhance the local economy. Employees will spend money locally and some, perhaps many, will live in Montclair.

The retail space will be mostly service and restaurant oriented businesses. These types of uses typically employ between 2.0 and 3.0 full-time equivalent employees (FTE) per 1,000 square feet of space. Office space is somewhat more difficult to estimate because the nature of the space will determine the number of FTE. For example, an active medical office tends to have more FTE than a pedestrian accounting office. To be conservative we will assume one office employee will have 400 square feet of office space. This also computes to 2.5 employees per 1,000 square foot of office space.

Therefore, the Project is estimated to generate 2.5 FTE per 1,000 square foot of non-residential space. While 83,945 square feet of space is planned, a portion of this will be used for corridors, loading areas, storage and the like. We deduct 16,789 for such uses so that the actual "employment area" is 67,156 square feet.

This non-residential space generates an estimated 168 employees (67x2.5). At a conservative \$35,000 annual income per employee this equates to \$5,880,000 in annual income generated by the non-residential uses. In turn these new employees will frequent area businesses and will add to the local economy.

Income Impacts. The quality of the residences must be emphasized. The residences at the proposed Project will be well constructed condominium units with granite (or equivalent) counter tops, stainless steel appliances, built in microwave units, ample volume ceilings and quality flooring. The exteriors will be integrated with the retail/office uses to provide a downtown lifestyle center which will be attractive and present a welcoming impression.

The residences will be occupied by individuals and couples having annual incomes approaching \$75,000. This income level will be necessary to pay the rents averaging \$25,000 annually and higher. The occupants will be primarily of two categories. First, professionals in their mid-twenties to age thirty five or so. Second, empty nesters or "almost empty-nesters", in their early fifties or older. As we previously described these two categories of households do not tend to have school aged children.

One-hundred eighty (180) market rate units, households, are planned to be built. This equates to an estimated \$13,500,000 in total annual household income. A certain amount of this income will be spent in local shops and restaurants. This spending increases retail activity and improves, or at the very least buttresses, property values.

When the new estimated employment income, \$5,880,000, is considered along with the household income a total estimated additional annual income of \$19,380,000 is generated by the Project.

If only 15% of this income is spent locally, or about \$3,000,000 annually, a significant local commerce generator results.

Construction Employment. The number of construction jobs generated by a new project (or a repurposed project area) ranges from one job for each \$100,000 spent on construction to one job per \$150,000 spent. Using the middle of this range, \$125,000, is appropriate in this analysis. The estimated total project cost is approximately \$90,000,000. Of this amount a portion will be spent on non-construction items. Therefore, we will subtract 30% from this number (a high amount to remain conservative), or \$27,000,000. This results in a net construction cost of \$63,000,000. Using the aforementioned \$125,000 of spending per construction job we obtain 500 as the number of new construction jobs. All of these jobs are temporary jobs but they do add to the employment base of the region and the employees will spend money locally thereby supporting local businesses.

* * * * *

Conclusion. From an economic perspective this proposed mixed-use Project generates economic activity will adding to the positive fiscal outlook of Montclair. The Project will be the largest taxpayer in Montclair and will be an employment and income generator.

The Wellmont Theater being invigorated will also add to economic activity. If the shows and experiences presented by the theater are tasteful and are either headliners or artistic in nature the theatergoers will also frequent businesses and add to the local economy.