



TISCHLER & ASSOCIATES, INC.

PROVIDING COST OF GROWTH SERVICES

**REVIEW OF BRIAR CHAPEL DEVELOPMENT
FISCAL IMPACT ANALYSIS**

**PREPARED FOR
CHATHAM COUNTY, NORTH CAROLINA**

AUGUST 20, 2004



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I. EXECUTIVE SUMMARY

The study prepared for Newland Communities “A Fiscal Impact Analysis of the Briar Chapel Development” (hereinafter called “study”) by the consultant shows a net annual surplus at build out of about \$1.7 million at existing service levels and about \$.9 million at expanded service levels. The net surplus with the expanded service levels utilizing the net present value concept, in which the future values are summed and then discounted, is about \$ 2.6 million over the eight-year buildout period.

There are two very important components to generating this surplus. One is the anticipated market value of the new units. The average house price or value is as follows: affordable housing - \$75,000-105,000; commercial area apartments - \$85,000; family/park area housing - \$185,000 – 650,000; and TND areas - \$142,500-650,000. The average house price is \$317,000 for the 2,389 units. Since the major revenue source is property tax, this revenue source will vary as the market values increase or decrease.

The other major factor is the additional voluntary impact fees and the value of land/improvements donations. For example, Table 17 indicates that the developer will contribute \$4,538,000 in voluntary impact fees and \$712,771 in donated school land and related improvements. This \$5,250,000 contribution to schools is a major reason why there are cumulative net revenues to the County for the first eight years of over \$7.1 million at existing service levels and \$3.7 million with expanded service levels.

As noted further in this report, there are instances where some costs, not significant, have not been reflected, as well as some possible credits. However, the credits not reflected include the charter school site (\$617,000), future county park contributions (\$1,985,000) and other contributions of \$220,000. The net result is that there are still likely to be net revenues to the County.

These results indicate that the County’s current revenue structure is inadequate to have new growth cover its costs unless there are relatively high market values and most likely monetary contributions.

A further discussion and analysis is presented in the following paragraphs.

II. MAJOR ASSUMPTIONS

Tischler & Associates, Inc. (TA) was retained to review the above referenced document. TA has previously prepared the County’s school impact fee and has prepared fiscal impact evaluations throughout the country. There are several important assumptions noted below.

TA has assumed that the proposed development schedule and the related market values and sales per square foot are reasonable. As indicated in Appendix B of the study, the consultant conducted “a comprehensive analysis, including interviews with key department heads and County officials...” TA also assumes that the various

Fiscal Impact Analysis
•
Capital Improvements Programs
•
Impact Fees
•
Growth Policy Planning
•
Economic and Market Analysis
•
Fiscal and Economic Software



County departments have reviewed the basic assumptions, particularly as it relates to the expanded service levels.

The focus of the study is on the per capita-average cost approach to obtain the existing service level fiscal results. For the expanded service level approach, a modified per capita approach was utilized. In this case, based on interviews with relevant department staff, a higher level of service was established. The additional cost for this higher level of service was assumed and reflected in the expanded service level fiscal results. Briar Chapel would pay only its share of this expanded service level cost, including any capital facilities that needed to be built. It is implicitly assumed that the additional capital facility space and expenses not used by Briar Chapel would be covered by other new development.

The study has utilized constant 2004 dollars and constant revenue rates as well as constant costs. This is appropriate since this analysis is at a point in time.

The study assumes 2.47 persons per household, which is based on the 2000 Census for Chatham County. Given that a number of these units will be marketed to those aged 55 years or older as well as to singles, and lacking more specific data, this appears to be a reasonable assumption.

Another important assumption is the pupil generation rate utilized. The study looks at the profile of a nine county area based on the 2000 Census and identifies block groups that have medium housing values comparable to those projected at Briar Chapel. "Based on the analysis of 2000 Census data for comparably valued housing in the nine county area immediately surrounding Chatham County, the Briar Chapel development could be expected to generate between .34 and .44 public school students per new housing unit" (Appendix A). The consultant therefore concluded that "the estimated student generation rate of .40 is consistent with the 1996 study prepared by Tischler & Associates, Inc. and is considered a reasonable estimate by the Chatham County School Superintendent." (page 38) (It should be noted that the pupil generation rate is for the average, not new, house. A new house is likely to have more children initially. But this will change, as the household becomes empty nesters. Therefore this approach is appropriate.) It is possible that if the pupil generation rate for multi-family units, townhouses and single-family units were calculated separately, the pupil generation rate may be slightly lower, and result in less cost to the school district and allocable to the project.

As noted in the study the "market analysis is based on housing prices in 2002 and there has been no adjustment upward to reflect 2004 prices". This assumption is likely to have understated the revenues accrued to the project from real estate taxes.

III. REVENUES

Property tax revenues are the main revenue source for the County and constitute about 86% of the development's revenue contribution. The existing property tax rate of 0.6464% is utilized and the current collection rate of 98% is applied. Given this type of new development, it is likely that the property tax collection rate would be closer to 100% over time and therefore the revenue stream is probably slightly understated.

The study groups revenue into three major categories: property taxes, sales taxes and impact fees and voluntary contributions. The property tax revenues, at build out, approximate \$5.5 million and represent 86% of the total revenues. Residential property taxes are \$4.8 million, commercial



is \$370,000 and motor vehicle taxes are estimated at \$346,000 annually. As noted, the collection percentage of 98% is probably conservative and therefore could understate annual property taxes by upwards of \$100,000 annually. The motor vehicle property taxes, which total almost \$346,000, assume an average motor vehicle value per household of \$26,350. This figure may be appropriate if one assumes that there are about two cars per house.

Sales tax revenues are about 17% of the property tax revenues. This amount is \$923,217 and is comprised of Articles 39, 40, 42 and 44. About 40% of this amount is from Article 39 sales tax. The study assumes that about 15% of the earnings are spent for Chatham County purchases. The qualifying sales tax purchases are limited to food, gas and oil, household supplies and incidentals. The other three Articles (40, 42 and 44) are based on a per capita rate.

The third category under revenues pertains to school revenues; the existing school impact fee plus the voluntary impact fees; and school site donation. This category is over \$8.8 million, of which the current school impact fees generate about \$3.6 million, or about 41% of the total. The major reason why the fiscal results are positive is because the development is offering about \$4.6 million in voluntary impact fees and another \$.7 in school land/improvements donations.

The analysis nets out one-time fees and does not reflect revenue sources such as grants, interest, intergovernmental and miscellaneous.

IV. EXPENDITURES

The basic approach to calculating expenditures was to use a per capita methodology in which the Chatham County population (55,902) was divided into the departmental costs to arrive at a per capita cost. This was then applied against the Briar Chapel population of 5,901. All of the major budget categories utilize this approach. These include administration; culture and recreation; general government; human services; natural resource management; and public safety. A more precise approach would have been to allocate the costs between residential and nonresidential land uses and derive a cost per person and a cost per employee/trip and/or per square foot. The development will have about 500,000 square feet of nonresidential space upon completion. The most important category for following this approach is the sheriff. Fortunately, the sheriff has estimated the additional needs that will be incurred from this particular development and that is reflected in the study. Nonetheless, the use of the per capita methodology should reflect a reasonable proxy of the operating cost implications.

The study also reflects an *expanded service level* for sheriff and EMS. As noted in Appendix B, “currently the County provides 1.3 deputies per 1,000 population. Based on the density of the Briar Chapel development, the Chatham County sheriff’s office anticipates the need to increase that service level to 2.3 deputies per 1,000 population...” “Furthermore, based on the significant growth occurring in the northern portion of the County, the sheriff’s office has a near-term need for a satellite office facility.” Briar Chapel’s cost of this total expenditure will be about 92%, or \$364,664. This assumes the satellite facility of about 2,000 square feet of office space with a rental of \$13 per square foot.

The second departmental operating cost reflecting an *expanded service level* approach is emergency medical services. Two new EMS units are forecasted as well as a new EMS base. The new EMS base is estimated at \$275,000 and has an annual financed cost of \$62,275. Briar Chapel will represent about 59% of the demand or \$36,747. This assumes other revenues would



make up the difference. A per capita-average cost approach was applied to the County's FY04 budgeted EMS costs of \$1,450,032 to calculate the existing level of service costs. The additional countywide cost related to this increased level of service attributable to Briar Chapel is \$113,891.

The overall approach to the *capital improvement* program is to take the average of the project costs shown on the CIP for 2005-2009 and divide by the Chatham County population, including Briar Chapel. This per capita amount is then multiplied against the population of Briar Chapel to determine the amount allocable to Briar Chapel, \$146,511.

The study does not reflect the General Fund contribution to the capital projects. This annual cost is about \$34,000. The underestimation of costs is almost offset by the inclusion of future operating expenses charged against the development. The study increases operating expenses when a building is opened and allocates it against the existing population. These costs could be charged against future population.

Another change to the CIP is the library services. The library cost of \$4.2 million for the Northeast Library is excluded. Instead, the new 10,000 square foot library to be built on site is reflected. The development's share is 43.5%. The additional operating cost under the expanded level of service is \$19,334. The capital cost reflects the \$80,000 land value donated by the developer, which is not taken as a credit by the developer. The additional debt service cost attributable to the development is \$61,581. This expanded level of service assumes that the County will have other funding sources to pay for the 56.5% of the facility costs that is not attributable to Briar Chapel. Since this approach does not assume any impact on the central library and remainder of the system, there is probably a slight understatement of costs.

Newland Communities has committed to donate a number of recreational fields and has also committed the homeowners association to maintain the cost related to these facilities. Table 17A of the study indicates the value for the County park contribution is \$1,985,000, of which the unimproved land value is \$1,380,000. This contribution does not receive credit in the study. The developer also does not take credit for the (1) EMS and fire station sites of \$40,000, (2) water reclamation site of \$100,000 and (3) charter school site of \$617,000.

V. SCHOOL DISTRICT

The school operating costs are based on per student operating costs of \$2,142. This includes the total net expenditure of \$16.3 million divided by the student enrollment of 7,617, or \$2,142 per student. This figure is then multiplied by the estimated 956 Briar Chapel public school students to derive the operating expense of \$2 million.

For capital costs, the land, building and equipment cost for each type of school are estimated. This figure is then divided by the student capacity for each prototype school to obtain the capital cost. The number of Briar Chapel students by school is then multiplied by the capital cost per student. From this is deducted the developer's land and related improvements contribution of \$.7 million, the impact fees of \$3.6 million and voluntary impact fees of \$4.6 million. The net capital cost is then assumed to be debt financed and the annual debt service equates to \$818,779. (It is significant to note that the estimated capital costs are significantly higher than those in the 1996 TA impact fee study. This is a good reason for updating the 1996 report.) As throughout the study, it is assumed that the schools will be expanded on a pro rata basis so that there is not excess capacity that the County has incurred and is paying for. Also the study does not reflect



any additional impact on non-school capital facilities, such as administrative and/or maintenance facilities, which school officials do not anticipate expanding, according to the authors of the study. The annual cost for school buses is estimated to be about \$47,000 annually, a figure that is not in the final report. This is probably the greatest cost oversight not reflected in the study, although it is not significant.

VI. GENERAL FUND CONCLUSIONS

In conclusion, for reasons noted above, the proposed development should generate net revenues to the County based on the proposed development program, sales prices and extra developer donations and dedications.

VII. NORTH CHATHAM FIRE DISTRICT

This Fire District generates revenues from their fire tax rate of 0.0600% applied against the property tax base. At build out, Briar Chapel will generate about \$480,000 in revenues. Fire department officials estimated the need for a new fire station manned by three full time personnel and serviced by two new fire vehicles. The estimated operating costs for personnel are \$360,000. The estimated capital costs are \$1.1 million. When debt is amortized at 5% for five years, the annual debt service is \$261,329. Of the annual total cost of \$621,329, Briar Chapel's portion is about 52%. The cost allocable to Briar Chapel is \$325,898 and the resulting net surplus is \$153,565. It is important to note that this assumes that other new growth and resulting revenues will also be available so that the District is not out-of-pocket an additional \$295,000 annually over the five-year span.

VIII. UTILITY FUND

The first calculation relates to operating revenues. The incremental revenue, based on the number of Briar Chapel households and average water bill, less the incremental expenditure, leads to an annual deficit of \$7,722.

For capital, the availability fee value will generate \$4,873,560 in revenue. The associated capital cost for tap setting is \$1,015,325. The other remaining capital cost shown is the required plant expansion of \$6 million. The cost of the water tower is netted out by this cost being paid by Newland Communities. Of the \$6 million plant expansion cost, Briar Chapel is assumed to reflect 50% of the costs. Under these assumptions the net surplus to the utility fund is \$858,235. To the extent there are not other users for the plant expansion in the near term, rate payers would make up the difference for this temporary over capacity.