ECONOMIC STEWARDSHIP, INC
26 West Pine Street Sturgeon Bay WI 54235 tel 920 743 2010 fax 920 743 2055 www.EconomicStewardship.com

A Review of Burgis Associates' Fiscal Impact Analysis of R.D. Realty's Proposed Waterview Development

TO:	Parsippany-Troy Hill Township Elected and Appointed Officials
FROM:	Elaine Van S. Carmichael, AICP – Economic Stewardship, Inc.
DATE:	September 12, 2013
RE:	Market and Fiscal Impact Analysis Required for Informed Decision-Making

Parsippany-Troy Hill Township, New Jersey offers pleasant suburban living that attracts residents seeking countryside character reasonably close to metro NY employment and shopping centers. The Township's appeal extends to leading companies—including about 50 Fortune 500 employers—engaged in such economically significant sectors as health care, pharmaceuticals, and professional services. As Morris County continues its healthy growth, the region's few remaining large landholdings spark developer interest.

Municipalities that offer developers such opportunities face important decisions with the potential to strongly influence community character, quality of life and financial health. For Parsippany, a proposed ±26.73 acre project encompassing 60 townhomes and about 190,000 square feet of retail space (informally known as Waterview) is bringing these issues to the fore for a variety of stakeholders, including citizens, local taxing jurisdictions and their constituents, and elected officials. The project's developer, RD Realty LLC, is asking the Township to approve an overlay zone that would supersede the parcel's existing Planned Office Development (POD) designation; upon completion, the Waterview project would consume the last remaining area of a 132 acre tract originally encompassed by the POD.

Fiscal impact analysis consists of a set of methodological tools to help communities determine how a given development will affect overall quality of life. A fiscal impact analysis allows communities to assess whether a given project will contribute to their ability to provide important public services to residents, local businesses and visitors or, conversely pose an unacceptable burden. These public services range from education to fire protection to infrastructure maintenance and encompass both the capital and operating costs. Although fiscal impact analysis is, on its surface, concerned with revenue generation and public expenditures, this somewhat dry subject matter illuminates a critical question for all citizens: can our local government bodies continue to provide us with the level of public services that we expect, require and deserve?

Executive Summary

A group of concerned citizens seeks to explore this question and others illuminating how Waterview will affect Parsippany as a whole: the amalgam of exemplary public spaces and places, community character, educational system, and safety services that together contribute to quality of life. These people retained Economic Stewardship, Inc. to reviewing the public record on the purported fiscal impact associated with the proposed Waterview project. Economic Stewardship specializes in market and land use economics issues and provides consulting services throughout the United States.

Economic Stewardship's review concludes that Parsipanny-Troy Hill Township Council members should not rely on the Burgis evaluation of the fiscal impacts associated with the proposed development project. The methodology used by Burgis is deeply flawed and the analysis itself is incomplete. Inadequacies include:

- No incorporation of market data to support declarations of value or identify the project's net affect on other nearby retail establishments, related employment or property values, all of which create indirect fiscal impacts that go unaddressed;
- No incorporation of market data—e.g., vacancy rates in area retail and office space and past townhome sales–to substantiate RD Realty's ability to achieve its development program or document that the parcel's original designation as office space is untenable;
- A methodology that relies on arbitrary manipulation of population, employment and Township budget figures to derive "per capita" figures in lieu of tailoring the analysis to Parsippany's specific circumstances, e.g., the public service provision performance standards used by professionals to measure municipal effectiveness and ensure that future residents experience the same quality of life enjoyed today;
- Failure to consider whether the project creates capital cost requirements—like water and sewer infrastructure—that the Township or other affected taxing jurisdictions must fund;
- Omitting taxing jurisdictions besides the Township and School District from the analysis;
- Concealing sources that purportedly support the findings and hiding how factors inter-relate, such that it is difficult to reconstruct the Burgis analysis or assess its reasonableness.

Given the above findings, detailed in subsequent pages, it would be irresponsible for the Township Council to accept the Burgis report's conclusion that "the proposed development would result in a net revenue surplus for the municipality and the local school system" or to use it as the basis for making important decisions about Parsippany's future.

Purpose of the Memorandum

This memorandum addresses whether the Township Council currently has sufficient reliable, accurate information about the Waterview project's potential fiscal impacts to make an informed decision about approving the Overlay district necessary for the R.D. Realty project to go forward. The burden on Parsippany's elected officials goes beyond acting solely in the interest of the Township as a corporate entity; in New Jersey, municipal elected officials are entrusted with making decisions that affect numerous other taxing jurisdictions and thus influence quality of life for residents.

Background

R.D. Realty (RDR) is a prominent commercial developer and property manager working throughout the United States. The firm is petitioning Parsippany-Troy Hill Township to approve an overlay district that would enable them to develop 26.6 acres by the Intersection of US 46 and Waterview Road with:

- 60 three-bedroom townhomes;
- 190,000 square feet of retail.

Although RD Realty has not identified the project's future occupants, they reportedly include a 40,000 square foot Whole Foods, with a Target and a pharmacy among the remaining 150,000 square feet. If this information is correct, it becomes pertinent that Target operates two store formats. Target's General Merchandise stores are typically one-level stores within major community or regional shopping areas that total about 125,000 square feet. They offer general merchandise as well as selected grocery products and other amenities, e.g., a co-located Starbucks. By comparison, the SuperTarget store format supplements apparel and home décor with a full grocery line, including bakery, deli, meat and produce departments in space averaging roughly 175,000 square feet.

What is Fiscal Impact Analysis?

Fiscal impact analysis is concerned with public (government) costs and revenues associated with a particular development or policy initiative. It allows units of government to assess the difference between the costs of providing public services to a project (or as a result of development likely to follow a policy change) and the expected revenues it will generate. Costs include:

- the operating expenses (e.g., salaries, supplies and equipment) associated with providing services or maintaining the capacity to provide services when needed, as with fire protection;

- the capital costs associated with new facilities and infrastructure that must be built to ensure that levels of service are maintained.

Revenues that help offset operating costs include source contributions such as property taxes and business license fees and inter-governmental transfers. In some jurisdictions, negotiated or legislatively established impact fees are intended to pay for the capital improvements a new project requires.

NOTE: Fiscal impact analysis should not be confused with economic impact analysis. Economic impact analysis measures the extent to which a given one-time economic event or ongoing economic activity contributes to the economy of a region of interest. Economic impact analysis is essentially an accounting framework that uses transaction data to determine how long a dollar circulates within the economy of interest before being "exported" elsewhere to purchase a good or service that is unavailable locally. Economic impacts are categorized as either direct (basically on-site), indirect (as a result of next generation business-to-business spending) or induced (spending by household employed by affected businesses). Throughout the Burgis report, the firm makes economic impact assertions, e.g., about local spending at the project, without providing any evidence for these claims or any analysis of the extent to which the economic activity will be offset by losses elsewhere.

As with fiscal impact analysis, it is important to examine **net** effects when conducting responsible economic impact analysis. Township Council members who are concerned about changes in net employment or retail sales attributable to the proposed project—or in identifiying how much of the spending there will stay in the local economy–might find the results of an economic impact analysis illuminating.

Prior Pertinent Fiscal Impact Analyses

Township officials have been provided with two fiscal impact analyses addressing the RDR proposal:

- John McDonough Associates Analysis – As part of its application materials, RDR submitted a fiscal impact analysis prepared by John McDonough Associates, LLC, a planning firm based in Morris Plain. This work, dated September 8, 2012, addressed an earlier version of the development proposal with the same retail square footage and a total of 72 three-bedroom townhomes. As shown below, the McDonough analysis concluded that the project would deliver about $750,000 in annual net benefit to four taxing districts: the Township and its School District plus the revenue streams associated with the local open space tax and the library tax.

John McDonough Associates Analysis

	Commercial			Residential			Total		
	Annual Tax Revenues	Annual Service Costs	Net Surplus/ Deficit	Annual Tax Revenues	Annual Service Costs	Net Surplus/ Deficit	Annual Tax Revenues	Annual Service Costs	Net Surplus/ Deficit
Municipal & Local Purpose Tax	$126,440	$ (92,192)	$ 34,248	$159,093	$(111,520)	$ 47,573	$ 285,533	$ (203,712)	$ 81,821
Distrct School Tax	363,362	-	363,362	456,713	(184,800)	271,913	820,075	(184,800)	635,275
Local Open Space Tax	4,543	-	4,543	5,712	-	5,712	10,255	-	10,255
Library Tax	9,542	-	9,542	11,996	-	11,996	21,538	-	21,538
Total	$503,887	$ (92,192)	$411,695	$633,514	$(296,320)	$337,194	$1,137,401	$ (388,512)	$ 748,889

This analysis is seriously flawed[1]. However, it is **not** the focus of this memorandum because a) it addresses a different development plan and b) because the Township Council elected to commission its own fiscal impact analysis.

- Burgis Associates Analysis – The Township retains Burgis Associates to provide ongoing community planning services; firm partner and principle author Ed Snieckus, Jr. is a familiar figure at Township Council and Planning Board meetings. At the request of the Township Council, Mr. Snieckus and his colleague Donna Homqvist prepared a fiscal impact analysis of the development anticipated to occur following approval of the overlay zone based on representations made by the applicants.

  In Burgis Associates' report to the Township Council dated September 5, 2013, the firm used one methodology to derive expected revenues and then offered two separate approaches to determining expected costs. Under the two cost estimating methodologies, the various separate taxing districts were treated differently, but the report concludes that the project will deliver net benefits totaling between about $735,000 and $880,000 as shown below:

Burgis Associates Analysis

		Per Capita Method		"Alternative" Method	
	Annual Tax Revenues	Annual Service Costs	Net Surplus/ Deficit	Annual Service Costs	Net Surplus/ Deficit
Municipal and Local Purpose Tax	$ 279,100	$ (137,100)	$416,200	$ (96,300)	$182,800
Distrct School Tax	723,400	(130,300)	593,100	(25,000)	698,400
Total	$ 1,002,500	$ (267,400)	$735,100	$(121,300)	$881,200

Note: Municipal and Local Purpose Tax figures include local open space, library and fire district.

[1] The McDonough approach has much in common with the Burgis Associates' analysis and suffers from most of the same weaknesses.

Findings

The following pages set forth Economic Stewardship's major findings regarding Burgis Associates analysis concluding that the RDR project represents a net fiscal benefit to all affected jurisdictions evaluated.

What's at stake? In the absence of reliable fiscal impact analysis, the Township has no way of predicting revenue streams or service demands—and hence no way to plan for its future. Moreover, the other jurisdictions trusting Parsippany to make a good decision are left similarly at sea. Unable to predict service demand and future income, the Township Council thus risks making a decision that will affect its fiscal health for years to come.

Major findings are presented in bold text, followed by supporting points and tables.

Major Finding 1: Lack of market analysis prevents elected officials and other stakeholders from evaluating the probability of achieving the proposed development program and assessing related impacts.

Pre-development planning for Waterview represents a significant investment for RDR and its partners. Design and other consulting fees, land/options, legal costs, and other expenses can quickly mount. Clearly RDR would not proceed without first analyzing the availability of market support as part of its efforts to establish a product mix and phasing plan that would prove profitable. Until (or unless) RDR makes its market findings available, it is incumbent upon the Township's consulting planner to investigate.

Lack of market data and associated analysis prevents anyone from evaluating the:

- probability that RDR will, in fact, be able to sell their 3-bedroom townhomes to largely child-free families at a $400,000/unit price point and identify tenants for the commercial square footage, both premises upon which the fiscal impact analysis rests.

- extent to which the future tenants will compete with existing businesses with deleterious results, e.g., either cannibalizing their sales or failing to meet performance expectations. The availability of market support isn't infinitely elastic: somewhere along Parsippany's commercial real estate food chain, businesses will suffer with concomitant effects on retail vacancies, property values and future public revenues. **Note**: for the Whole Foods, which operates in an industry where profits are so tight that grocery stores often operate on razor thin margins of ± 2 percent, understanding available market support and the competitive environment is especially critical.

- if other suitable locations exist for these real estate products should sufficient market support exist.

- whether this parcel could be developed in office use as per its original zoning designation and the Parsippany Master Plan.

The bottom line: Parsippany should not be considering this project as though it exists in a vacuum. Even if it performs well, without an analysis of market conditions it is impossible to know whether it is creating other off-site impacts. Of course a market analysis might reveal that the new project will staunch leakage currently sending dollars to other communities… but without it, it's impossible to know how this project fits into the constellation of competing real estate opportunities in Parsippany.

Major Finding 2: The Burgis Associates' revenue calculations are adequate ONLY if one presumes that the townhouse sales assumptions are accurate and achievable, that several apparent math error are inconsequential, and that Burgis somehow dealt with land value.

In the absence of market data, discussed above, Burgis was obliged to presume that townhomes sell for $400,000 each. Although this assumption was developed in consultation with the Township Assessor, it is presented with no corroborating detail about size, location, amenities or adjacent uses that would help skeptics understand why these townhomes will be among Parsippany's most pricey despite their location next to 190,000 square feet of retail space and attendant traffic. In the same vein, without market data, Burgis could only use a replacement cost approach to value (vs. an income approach) when calculating the commercial portion's future contributions to Township revenues.

Here, however, a math error obscures Burgis' intent: the page 6 text notes a sales price of "$15-$20 per square foot for the retail space" which is clearly erroneous and does not comport with the $23.6 million equalized assessed value ascribed to the commercial portion of the project. The Township's equalization rate of 85.61% implies that Burgis used a per square foot figure of about $145. However, the report's Estimated Market Value section is silent as to how the value of the land itself is treated and whether it's included in the per square foot building assumptions. If so, that's a departure from standard practice.

Burgis' text also obscures, via rounding, some underlying or more precise analysis that obviously occurred and upon which the revenue projections rely. The text states that the residential and non-residential equalized assessed value ($20.5 and $23.6 million, respectively) total $44.1 million, but the calculations and subsequent tables are based on a total of $44,165,654… a figure which is not only different, but doesn't round to $44.1 million.

Burgis should review its work and a) issue a correction for either the text or the assessed value figures, b) clarify its treatment of the land's contribution to value in the future project and c) reveal whatever underlying analysis led to the more precise figures used in the revenue calculations. This memorandum assumes these matters are merely sloppy, not substantive.

Major Finding 3: In the analysis' "average cost" approach to evaluating the potential burden posed by the proposed development on Township services, Burgis makes serious logic errors that render their conclusions unreliable.

Burgis begins its assessment of the costs associated with Waterview by first calculating the expected number of residents and employees on-site. For the record, those projections of townhome residents (including, significantly, the number of children who will attend local schools) are questionable, especially since Burgis does not share the "data from numerous townhouse developments throughout northern New Jersey" it reviewed. The estimated number of residents/school children relies on 2006 data that pre-dates the Great Recession and its impact on families' ability to afford detached single family homes. Regarding the employment projections, which also date from 2006, the report also requires readers to accept, in the absence of data, that commercial employment levels have been unaffected by either the recession or seven years of technological advancement.

The Burgis text states that the firm derived its per capita estimates of municipal service costs by first determining residential and non-residential properties' proportionate contributions to the Township's total parcel count and the Township tax base. Burgis averaged these figures, applied the resulting percentages s to the portion of the town budget funded through taxes and then divided the ensuing share by the appropriate population factor (number of residents and number of employees) to yield the per capita cost for residential and non-residential property.. Here is the text:

> *"The [per capita residential cost of municipal expenditures] estimate is based on an analysis of residential and nonresidential parcels and the assessed value of parcels in the township. The percentage of residential and nonresidential value and number of parcels are averaged and applied to the amount of the local budget raised through taxes. Applying the residential percentage to the budget portion raised by taxes, and dividing by the township's population, yields an estimate of per capita cost for the services per resident. The same procedure is applied to the nonresidential portion, using the number of jobs in the community to yield the per capita cost per employee."*

By ignoring both land use and location, Burgis bases its cost assumptions on nothing substantive and little that is specific to the proposed project other than its estimates of the number of eventual occupants. Instead, the analysis ignores knowable factors affecting costs in favor of a facile but meaningless set of calculations that don't hold up against the most cursory analysis. Consider that:

- The notion that the number of parcels has anything to do with demand for services is clearly flawed; it requires one to accept that a single large parcel, like a hospital or a shopping mall, poses the same burden as a freestanding bicycle shop.

- The idea that demand for municipal services is proportionate to parcels' contributions to revenue is also clearly flawed; under this logic, a mansion valued at $2 million occupied by a family who sends the children to private school generates 20 times more service costs than a $100,000 dwelling occupied by a family struggling to get by.
- Averaging the proportion of parcels and the proportion of assessed value is arbitrary.

As Burgis notes, this methodology "has limitations… since each component of a municipal budget is not directly affected by population increases to the extent suggested by this method." But Burgis only contemplates situations where the methodology might overstate municipal costs, not situations where a development might create a "tipping point" that created the need for large scale public investment, e.g., when a municipal plant is near operational limits and demand from a new project exceeds the service capacity remaining.

Major Finding 4: Burgis does not analyze whether the proposed project creates any capital cost requirements whether the project will cause Township facilities to reach—or exceed–their capacity.

Communities quantify levels of service targets and anticipate demand using appropriate metrics. For example, water and sewer system operators think in terms of gallons per dwelling unit or commercial square feet. Libraries uphold collection items/capita standards. Traffic engineers assess the number of new trips a project generates when deciding whether an intersection must be upgraded. All of these metrics carry financial implications ignored by the Burgis analysis.

It would have been easy for Burgis to check whether the demand posed by this project—measured in real world terms, like gallons of drinking water or effluent—can be accommodated by Parsippany's infrastructure system. With this analysis, Township Council members have no way to know if this project represents an expensive "tipping point" that will prompt a significant capital investment need. This lapse matters to Parsippany residents because any such infrastructure needs must be funded through future tax dollars that may or may not be generated by the project alone.

As the Township's contract planner, Ed Sneikus could obtain these service standards and related capacity indicators with almost no effort. But unfortunately, Burgis chose a simplistic approach that ignores the Township's ability to provide services in favor of manipulating budget and population figures. In fairness, Burgis' approach reflects "average costing" methodologies developed by the Rutgers Center for Urban Policy Research that were once state-of-the art. CUPR's work on fiscal impact analysis techniques made a splash in the late 1970s and inspired numerous academic and other practitioners to delve deeper into the relationship between land use and municipal finance during subsequent decades, including well-respected Rutgers professors. In addition to incorporating market assessments, discussed above, modern fiscal impact analyses reflect another technique pioneered by CUPR: marginal cost analysis.

- Average costing approaches, including that employed by Burgis, are the simplest to use. These methodologies assume that the best predictor of future costs is current experience. In other words, average costing approaches view the relationship between development and service provision as linear. Costs are attributed to a development using factors that reflect current dollars spent per some measurable unit, e.g., per capita, per job, per square foot, or per dollar of assessed value. Average costing approaches are appropriate in communities where under-utilized facilities are available to provide services to additional development.

- Marginal costing approaches rely on an analysis of the relationship between supply of public services (capacity) and demand for them posed by the new development. This approach views public costs as cyclical; at some point–a point which might be associated with a rather small project–a jurisdiction must make a new capital improvements investment (e.g., a new school or major road improvement), causing a public expenditure which far exceeds the average costs associated with that particular planning event. Consequently, for some projects the marginal costs will be low, whereas for others they may be quite high. Marginal cost approaches make sense in communities where the capacity to provide public services matches current needs or does not quite meet desired levels of service.

Marginal cost-based impact analysis is harder than average cost-based analysis because it requires analysts to project service demand based on land use and location as well as the number of occupants. If Burgis had incorporated marginal costing fiscal impact analysis techniques into its approach, they might have discovered whether Parsippany would later be required to invest in its water or sewer systems, if local roadways could handle expected traffic or if the public safety providers would find themselves short-handed.

In lieu of quantifying demand posed by the new development in a useful way that relates to how Parsippany's departments do their work, Burgis just hopes for the best.

Major Finding 5: After stating the results of its flawed "Per Capita" methodology, Burgis uses an "Alternative Methodology" to improve its findings, without documenting its reasoning. Neither Burgis approach reflects Township/industry best practices regarding estimating the need for public services based on land use and location.

In theory, Burgis' "Alternative Methodology" is supposed to correct for the "Per Capita" methods shortfalls. It's interesting that Burgis' "Alternative Methodology" never finds that costs should be higher than the "Per Capita" methodology suggests. Instead, Burgess uses the "Alternative Methodology to simply override the findings of the "Per Capita" Methodology, substituting lower cost figures based on undocumented assertions. For example, Burgis:

- Notes that "various sources suggest" (none named) reducing general government costs by 25-50 percent. Why not look at Parsippany's specific situation instead?
- Burgis dismisses the average methodology finding that the police budget will need an additional $42,062 annually with the blithe assertion that "this project alone does not suggest the need for additional police officers." If Burgis had looked at the distribution of police calls by land use the analysis might reach different conclusions, but Township officials can't tell from this work. It's easy to imagine police officers required to respond to calls, for example, prompted by shoplifting, parking lot fender-benders and the like. Burgis could have investigated the experience elsewhere but chose not to do so.
- Similarly, with regards to the school system, Burgis makes no effort to learn whether any of the expected students are likely to push local classroom sizes over their state-mandated limits; the analysis just assumes that the new students are "unlikely to generate the need for more teachers or other costly items." Without any analysis of local school capacity, how can Township officials be sure?

In short, Burgis used a flawed per capita methodology and then dismissed its findings, which improved the results.

Major Finding 6: Burgis did not fully analyze the net fiscal impacts any taxing jurisdiction besides the Township and the School District.

Other districts affected by the proposed project fund County Open Space, Municipal Open Space, volunteer Fire District 6 and the Library.

Major Finding 7: The Burgis report's assertion that the proposed Waterview project will generate positive fiscal impacts to the Township is unsupportable. Consequently, the Township Council should not rely on its findings.

Given that the Burgis fiscal impact analysis is flawed (and the McDonough fiscal impact is both flawed and addresses a different development program), it is at best premature to conclude that, as Burgis states on page 16 of its report, "irrespective of the methodology used, the proposed development would result in a net revenue surplus for the municipality and the local school system." The

Burgis work suffers from a simplistic methodology, and an incomplete analysis made worse by the firm's failure to document sources, support assumptions and make calculations plain. The Burgis report seldom explains how various factors the firm considered inter-relate, nor does it expose the inner workings of their impact model to enable an outsider to reconstruct their analysis or assess its reasonableness. Therefore, the Burgis report cannot be fully evaluated and thus the Township Council should not rely on it to make important decisions about Parsippany's future.

In conclusion:

- The Township has a responsibility to its citizens to protect and enhance quality of life… and therefore to safeguard the interests of other jurisdictions that contribute to that quality of life as well as its own.
- If the Township Council considers fiscal impact analysis results to be an important ingredient in making wise development decisions, it should not rely on the Burgis Associates work to justify approving the RDR overlay district request.