City of Rockville Get Into It

MEMORANDUM

September 09, 2013

TO: Mayor and Council

FROM: Manisha Tewari, Planner

VIA: David Levy, Chief of Long Range Planning

SUBJECT: Fiscal Analysis of Three Scenarios for 900 and 901 King Farm Boulevard

This memorandum provides a brief comparison of fiscal impacts of four scenarios relating to properties at 900 and 901 King Farm Boulevard, in response to requests from Councilmembers.

The scenarios are:

Scenario 1 - Development of 144 townhouse units (126 market rate and 18 MPDU).
Scenario 2 - An office development of 615,282 square feet (as originally approved for these two properties by the Concept Plan).
Scenario 3 - An office development of 345,600 square feet, which represents the amount of office square footage that is reduced by the proposed resolution (144 units x 2,400 square feet).
Scenario 4 - Site left vacant.

Councilmembers requested estimates of revenues. This memorandum provides those estimates, but also includes estimates of City costs and total net fiscal impacts, over a 20-year period. No market research was done to analyze the viability of the development scenarios studied.

The results are shown in the following table.

Summary of Results

Scenario	Est. Assessed Value of Property (Present Value)	Est. 20-year City Revenues from MFSG fiscal model	Est. Average Annual Revenues	Est. 20-year City Costs from MGSG fiscal model	Est. Average Annual Costs	Est. 20-year City Fiscal Impact, from MFSG fiscal model	Est. Average Annual Fiscal Impacts
Townhomes (144 Units)	$60,480,000	$7,663,753	$383,187	$5,977,454	$298,872	$1,686,299	$84,314
Office development (615,282 square feet)	$98,500,000	$16,377,127	$818,856	$14,420,842	$721,042	$1,956,285	$97,814
Office development (345,500 square feet)	$55,300,000	$9,198,929	$459,946	$8,100,096	$405,004	$1,098,833	$54,941
Vacant Site *	$950,400	$74,569	$3,728	-	-	-	-

Notes:
*Assessed Value from SDAT
The ability to estimate City costs on a vacant site has not been built into the MFSG model, because costs are based on numbers of residents and/or employees related to the development. Staff acknowledges that there are some municipal carrying costs for vacant parcels, but currently does not have a comparable methodology to estimate them. Therefore, only the revenue for the vacant site is listed in the above table.

As background, a model for estimating fiscal impacts of development in Rockville was developed by a consulting firm, Municipal and Financial Services Group (MFSG), in 2012-13. The same model was used for this exercise. David Hyder of MFSG, who developed the model, reviewed and approved the methodology and assumptions that have been used for this analysis.

The subject property is currently in the City's Tax Class 4. Such properties pay a reduced property tax rate of $0.045 per $100 of assessed value based on certain agreements. The agreement with the King Farm developers was signed in 1995 and expires in calendar year 2015; meaning that the property tax rate will rise to $0.292 per $100 of assessed value starting July 1, 2016, even if it still remains vacant. (FY 2017 is the first fiscal year after the annexation agreement's expiration.) The rate will also rise if the property changes ownership or if building permits are obtained.

The following assumptions were used for estimating the revenues and costs, in addition to built-in assumptions and multipliers within the model:

1) The time frame considered for the analysis is 20 years, as was done in MFSG's previous work, and the first year values are based on present assessed values.
2) For the purpose of this analysis, the property tax rate is assumed to be $0.292 for all scenarios over the entire 20 years, including the scenario of a vacant lot. Since all development projects will take at least 2-3 years to reach completion and full assessed value, the appropriate comparison

between scenarios begins no earlier than the time when the Class 4 status will have expired and the property tax rate will have reverted to $0.292, even if the property remains vacant.

3) The average assessed value of townhouses is assumed as $420,000. The number was determined by averaging the State Department of Assessments and Taxation assessed values of all townhomes in King Farm and Fallsgrove of similar sizes. The lower MPDU values have been incorporated into the average. At this assumption, the total assessed value of the project would be $420,000 x 144 = $60,480,000.
4) Persons per household for townhomes are assumed as 2.41. The source of the household number is the MFSG model.
5) The estimated assessed value of the two office buildings for the first year in the model is assumed as $98,500,000. The value was calculated based on comparable estimates of similarly sized office buildings in King Farm. The cost is assumed as $160 per square foot.
6) The estimated number of employees associated with offices is 4 employees per 1,000 square feet. This number was developed as a part of the cooperative forecasting process in which Rockville participates, and provides population, household and employment numbers to Washington Metropolitan Council of Governments.
7) Appreciation (value growth) rate of property is assumed to be 3.00%

Sources of City revenue include the following:

1. Property taxes (both real property and personal property), which are based on assessed values and tax rates
2. Revenue from other governments, which includes the portion of income taxes received by the state based on county income tax
3. Fines and forfeitures
4. Charges for services
5. Use of money and property
6. Licenses and permits
7. Other revenues and administrative charges

Sources of City Costs include the following:

1. All operating costs associated with existing and future development as captured in the City's general fund.
2. Capital expenditures, which include costs by development type associated with public safety, refuse collection, transportation and streets, parks and recreation and general government buildings.

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