FISCAL EVALUATION OF UNIVERSITY HOUSE PROJECT GAINESVILLE COMMUNITY REDEVELOPMENT AGENCY

JUNE 2006

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SECTION 1
INTRODUCTION

PMG Associates, Inc. (PMGA) was engaged to perform analyses of projects submitted for inclusion in the Transformation Projects Incentive (TPI) Program, which permits payments to developers from Tax Increment Financing (TIF) funds received by the CRA. This report addresses the evaluation of the University House on 13th Street project by University Partners.

PURPOSE

This contract will provide services to measure the economic impact from the redevelopment project and to evaluate the project from the perspective of the CRA. The measurement of fiscal impact focuses on the amount of TIF generated, but also includes the other revenues that accrue to the CRA and the City of Gainesville. Additional analysis will concentrate on the "spin-off" that may be generated from this project.

LOCATION

The project is located in the 5th Avenue – Pleasant Street Redevelopment District of Gainesville at the northeast corner of 13th Street and 7th Avenue. The project site covers approximately 7.6 acres.

PROJECT DESCRIPTION

The proposed project will include residential uses for the provision of student housing. The proposed number of units is 185 and project includes the following unit styles and at the distribution presented.

- 1 Bedroom – 1 Bath – 8%
- 2 Bedroom – 2 Bath – 17%
- 3 Bedroom – 3 Bath – 25%
- 4 Bedroom – 4 Bath – 50%

SECTION 2
REVIEW OF APPLICATION

TRANSFORMATION PROJECTS INCENTIVE (TPI) PROGRAM

The Gainesville CRA has developed a vision and guidelines for redevelopment of the land within its boundaries. The primary goal is to develop a project that "transforms" the area from its historic development patterns to one that attracts a significant or "Signature" project that would be the impetus or trigger for future redevelopment efforts. To begin the analysis of such projects, the CRA has developed a point system for evaluating these projects. The system is designed to provide an objective evaluation for awarding incentives to projects.

The criteria for granting the request for TIF incentives from the developer is expressed in the following taken from the TPI document.

5th Avenue – Pleasant Street Redevelopment District.

Does the project:

- Create improved housing stock within the District.
- Increase the commercial viability of the area.
- Serve as an engine for economic development.
- Develop sidewalk linkages to mass transit routes on major corridors bordering the District.
- Create City market rate housing within the area.
- Provide for an increase in population.
- Use Crime Prevention through Environmental Design (CPTED) techniques.
- Increase recreational opportunities in the District.

This set of criteria represents the desires of the CRA for the redevelopment of properties in the area. Additionally, satisfaction of these criteria is also a factor in the point system for granting points for the incentive program. The establishment of criteria is a significant element of any redevelopment program. The criteria should provide the guidelines for approval of any project.

The project was evaluated using the criteria listed above and based on the understanding of the project and the conditions that exist. The following table reflects the professional opinion of PMG Associates regarding how well the University House project met the criteria. As can be evidenced by reviewing the table, the University House project meets 6 of the 8 listed criteria.

TABLE 2-1
UNIVERSITY HOUSE'S SATISFACTION
OF EVALUATION CRITERIA OF THE CRA

CRITERIA	SATISFY?
Create improved housing stock within the District.	YES
Increase the commercial viability of the area.	YES
Serve as an engine for economic development.	NO
Develop sidewalk linkages to mass transit routes on major corridors bordering the District.	YES
Create City market rate housing within the area.	NO
Provide for an increase in population.	YES
Use Crime Prevention through Environmental Design (CPTED) techniques.	YES
Increase recreational opportunities in the District.	YES

The residents of the student housing will spend additional dollars in the area. However this type of activity cannot truly be called an economic engine since the activity is limited. In addition, the units are student housing and not market housing for residents of Gainesville.

INDEPENDENT SCORING OF APPLICATION

Using the scoring sheet for the 5th Avenue – Pleasant Street Redevelopment District, PMGA conducted its own analysis of the score that should be awarded to the University House project. This evaluation was based on our review of the project, the goals of the CRA and the application submitted. We also reviewed the explanation of the scoring supplied by the Applicant. The Applicant suggested that the project generated a total of 40 points in the scoring. A point total of 25 is required to receive an enhancement of 80%.

The PMGA evaluation of the scoring criteria results in an agreement that the point total of 40 is reasonable for this project. The scoring for each category is found in the following description. This analysis mirrors the description provided by the Applicant with any changes noted.

- **Residential Units (101-200 units = 5 points)**
  The project contains 185 residential units and meets the criteria established.

- **Retail Spaces (None provided = 0 points)**
  There is no retail component to the project.

- **Office Spaces (None provided = 0 points)**
  There is no office component to the project.

- **Provides Parking to the General Public (10-29 spaces = 2 points)**
  There is a designation of parking spaces for commercial uses in the area.

- **Stories (4 – 5 stories = 5 points)**
  The project has several four story buildings, which meets the criteria.

- **Redevelopment Benefit (6 points – See below)**
  Redevelopment of Automobile use = 0 points
  (from redevelopment of the Bus station)
  Creative stormwater solutions = 3 points
  Requires Environmental Cleanup = 3 points
  (contamination has been found on the site)

- **Location within District (3 points)**
  The project is on 13th Street.

- **Land Assembly (75% of a Block = 5 points)**
  The project covers most of a block.

- **Meets District Goals (Meets 6 of the Selection Criteria = 2 points)**
  The project meets seven of the six criteria established by the CRA. The criteria regarding the economic engine and market housing are not met.

- **District Impact (0-3 project = 3 points)**
  The number of incentive projects is within the range.

- **Merit Points (5 points)**
  This category is highly subjective. However, the program to improve recreational, opportunities in the area makes the project more appealing than a normal student housing initiative.

Total Point Tabulation - 40

REVIEW OF EXISTING REPORTS AND PLANS

PMGA also reviewed all relevant zoning regulations and planning documents for the City and the project to fully understand the proposal and its implications to the CRA and the City. In addition, all financial information supplied by the Applicant was reviewed in detail to determine the impacts of the project.

The information supplied by the Applicant was sufficient for the review and data was drawn from the application.

SECTION 3
GAP ANALYSIS

Gap Analysis refers to the ability of the developer to attain the normal rate of return on investment for the proposed project. Any return less than the normal rate generates a "gap" in revenue. The measurement of a gap is important since the only funding that can occur is to close this gap. Typically, the gap is generated from two sources;

1. When the project cannot produce market levels of sales or lease rates
2. The costs to develop the property are extraordinarily high due to construction costs, land assembly or other factors

MEASUREMENT OF THE GAP

The gap in the normal rate of return for any project is determined by identifying the net revenue (Rents minus Costs) from the project divided by the original investment. For rental or leased projects, the net operating income is used as the net revenue. For fee simple projects where the property is sold, the net revenue is Sales prices minus construction and selling costs.

Revenue

University House has only lease components for the development. The procedure to measure return on investment would be to determine the annual Net Operating Revenue and divide this figure by the total investment amount.

Costs

The total costs associated with the project are $36,015,347 which include land purchase, construction costs, soft costs, financing and other expenses. These costs were examined and determined to be reasonable based on the current nature of the construction industry.

Rate of Return

The "normal" return on investment figure varies based on the industry and the location. Previous experience in the Gainesville CRA confirms that the 7.25% return on investment used in this analysis is typical and reasonable for a project of this type. The 7.25% figure will be used for the purpose of identifying any potential gap in the return.

Identification of the Gap

The revenue and expense information provided by the applicant shows net operating revenue of $2,258,869. This figure is derived by examining the gross revenue from rents and subtracting all applicable expenses. This data was provided to PMGA, who examined the line items for consistency and acceptability. The pro forma data was acceptable and appropriate. The net operating income figure presented by the applicant will be used in this analysis.

The net operating revenue is then divided by the total project cost to determine the appropriate return on investment. The return, without incentives generates a return of 6.27%, which is less than the 7.25% figure that is appropriate for the project.

Based on these calculations, the gap is determined to be $4,858,533.

CAUSE OF THE GAP

The gap for the University House project is generated due to the following factors.

- Higher land costs per unit since a portion of the property is considered environmentally sensitive and not all of the property is buildable.

- High construction cost. The property does have some contamination of the soil due to the practices of previous owners and business operators. In addition, the project will include landscaping and other elements that will increase the costs.

SECTION 4
TIF GENERATION

The generation of Tax Increment Financing (TIF) revenue for the project is a function of the increase in Taxable Value of the property and the applicable Ad Valorem Tax rates for the City of Gainesville and Alachua County.

TAXABLE VALUE

The Taxable Value of any property is established by the Property Appraiser for the appropriate County. Taxable Value is determined through an evaluation method based on the type of property. Income producing assets (retail and rental property) are valued based on the net operating revenue from the units.

To determine the Taxable Value of the University House project, PMGA reviewed documents from the offices of the Alachua County Property Appraiser. PMGA has previously met with the Property Appraiser's Office, and during that meeting the process and procedures that are used in their valuation were discussed. PMGA agrees completely with the approach used by the Property Appraiser's Office in the estimation of value for University House. The procedure used by PMGA is that the results of the Property Appraiser's analysis will be used as the final property valuation. The Property Appraiser's Office provides a range of value. A midpoint is used in the analysis.

At this time, only an estimate is possible since the project is not complete and factors such as construction cost, lease rates and sales prices are not final. After completion of the project, the Property Appraiser will conduct a valuation of the property as a normal course of their operation. That value will be final and will be entered on the Tax Rolls. Each year the value could increase based on trends in the market and other operating factors.

Base Year Value

The Property Appraiser's Office sent a letter to University Partners Development dated March 28, 2006. This letter described the analysis and the estimate of Taxable Value. The estimate included two separate methods due to the uncertainty of the situation. During our conversations with the staff of the Property Appraiser's Office, PMGA learned that the method used on a regular basis is the Net Income Method, which considers rental rates. The estimate based on a percentage of construction is rarely used. For this evaluation, the Net Income Method will be used which generates an estimated Taxable Value of $18,956,995. University Partners used the higher amount of $19,340,709 which is based on 85% of construction costs. The use of the Net Income Method reduces the Taxable Value by less than 2%.

To determine the TIF amount, only the increment is included. The Base Taxable Value of the property is the current figure of $2,427,100. Therefore, the incremental amount in the base year defined in current (2006) dollars that TIF is based is $16,529,895.

TIF Rates

TIF amounts are generated by applying the incremental value times the Ad Valorem Tax Rates for the City of Gainesville and Alachua County. TIF only applies to operating tax rates and excludes Debt Service millage rates. TIF does not apply to School Board and Library District levies. The current Ad Valorem Rates for the County and City are 8.9887 for Alachua County and 4.9355 for the City of Gainesville. These rates were verified by PMGA as the latest official figures. The total TIF rate is then 13.9142 mills.

TIF Revenues

Revenues accrue to the CRA based on the Taxable Value for the District and the TIF rates. These revenues are reduced by 5% which is retained for administrative reasons by the organizations that levy the tax. Therefore the total incremental tax revenues must be reduced to arrive at the TIF amount generated by this project.

Growth Rates

The value of the property will increase over the years as all property values increase in the area. The Property Appraiser uses a rate of 3% annually for estimation purposes. However, a 5% growth rate is likely more accurate since the project will not have Homestead Exemption applied to the Value.

Potential Modifying Factors

Determination of the value of the proposed project is based on the lease rates supplied by the Applicant. These rates have been reviewed by the Property Appraiser's Office and by PMGA. The rates are reasonable compared to other student housing facilities in the area. In addition, the projection of demand for additional student housing shows additional facilities can be absorbed. The location, closer to the campus, also adds to demand.

There is no evidence that the demand for the units, at the prices specified, will generate net operating revenue less than projected. If the net operating revenue is at the level projected, the Assessed Value figure is valid.

DISCOUNT RATES

The Discount Rate is the interest rate used in accounting procedures to determine the Present Value of future cash flows, (ie. the discounted value of an amount of cash received at some future date). The Applicant used a Discount Rate of 8% to compute the Present Value of the TIF revenues in his report. PMGA has calculated a Discount Rate of approximately the same amount. The 8% Discount Rate is appropriate for this analysis.

PRESENT VALUE OF TIF REVENUE

The fiscal analysis performed by PMGA varied in several ways from the analysis submitted by the Applicant. These changes are:

- The gap is defined by PMGA at $4.8 million for a 7.25% return on investment.
- The incremental value of the project is slightly less as PMGA used the projection received from the Property Appraiser based on the net Income Method, while the applicant used the highest value based on a percentage of construction cost.

To provide detailed information regarding the Present Value of the TIF revenues, a table has been provided and is included in the Appendix. The analysis includes an incentive of 80% for fifteen. The results of the analysis are provided in Table 4-1.

TABLE 4-1

RETURN BASED ON INCENTIVE PACKAGE

Incentive Package	Developer Amount		CRA Amount	
	Total Dollars	Discounted Dollars	Total Dollars	Discounted Dollars
80%, 15 years	$4,627,883	$2,245,206	$4,332,433	$1,342,700

SECTION 5
ECONOMIC IMPACT

The overall impact to the City of Gainesville from the University House project can also be expressed in monetary terms. The City will generate revenue from a variety of sources including Utility Taxes, Franchise Fees and other fees and levies. The fiscal impact will be experienced as long as these sources are in existence.

REVENUE SOURCES

The revenue sources selected for this analysis include all of those that are appropriate for the projects under consideration.

The sources are:

- Utility Tax – 10% on Electric Uses
- Communication Service Tax – 5.32% on Telephone, Cable and Internet service
- Franchise Fees – 10% on Commercial Solid Waste collection
- Stormwater Fees - $6.50 per ERU per month
- State Shared Revenues – Based on population growth
- Ad Valorem Taxes – the 5% of the Increment retained by Gainesville (begins when the project is fully assessed)

IMPACTS FROM THE UNIVERSITY HOUSE PROJECT

Revenues generated from the sources cited above are estimated at $85,700 annually in current dollars. These revenues will increase over time as fees and rates increase. The allocation of the revenues by source is found in Table 5-1.

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TABLE 5-1
ANNUAL REVENUES GENERATED BY THE CITY OF GAINESVILLE FROM UNIVERSITY HOUSE

Source	**Amount**
Utility Tax	$27,750
Communication Service Tax	$23,600
Franchise Fees	$13,250
Stormwater Fees	$14,500
State Shared Revenues	$ 0
Ad Valorem Taxes	$ 6,600
TOTAL	**$85,700**

INCREASED EXPENSES TO THE CITY OF GAINESVILLE

The City has the responsibility to provide services to the project just as with the current development and the remainder of the City. The largest portion of the General Fund budget is for Public Safety (Police and Fire/Rescue). For the new development, the emphasis will continue to be placed on these departments.

The development of the University House project places a large concentration of students in an area that has previously not included such residents. The area is changing and other residential units are beginning to appear. As with most of the existing student housing, the requirement for Public Safety response is greater than in other areas of the City. The provision of student housing at this location will not require an additional patrol unit, by itself. However, this development may require the addition of another patrol unit in the zone that includes University House, to be shared with the entire zone. The pro rata share of this additional cost is likely less than 25% of a zone car, or a cost of approximately $65,000 annually.

SPIN OFF DEVELOPMENT

Spin-off from this project will be provided by the spending by the residents of the units outside of the project. The additional spending in the community will add economic benefits to the stores and businesses in the area. The students do spend on retail items outside of the residential complex. Spending for food, and other retail commodities can be significant based on the number of students at the project. An estimate of $3,000 per year per person has been made based on typical spending trends. Based on the 587 students expected at the project, a total of $1,761,000 annually will be spent on local retail establishments. This amount may not generate the need for additional stores or restaurants. However, it will enhance the activity at the existing establishments.

SECTION 6
PUBLIC/PRIVATE PARTNERSHIP

When reviewing the University House project and the incentive request, the best possible method is to state certain questions and provide the answers so that a determination can be made as to the desirability of this project. Many of these questions have been posed by the CRA and the City of Gainesville staff. Additionally, other issues became evident during the analysis.

The final portion of this section is a listing of the Positive and Negative aspects of this proposal.

Does A Gap Exist?

Yes, a gap of $4.8 million occurs due to the difficulty of development of the site and reduced rents from the commercial space due to existing leases.

Is The Pro Forma Presented By The Applicant Acceptable?

Yes, the Development Costs and Revenue are acceptable.

Would The Development Proceed Without The Incentive?

Possibly, the applicant has stated that environmental clean-up is significant at the site. The return on investment is lower than typical for the project and the developer may need to reduce costs if they were to proceed without an incentive.

Is The Project Appropriate For An Incentive?

Yes, the project meets the requirements for an incentive

Would Providing The Incentive Generate A Fiscal Concern For The CRA Or City?

No, the CRA will pay the incentive based on the receipt of incremental taxes. The CRA still receive a positive cash flow. The City receives revenue from a variety of sources. Increased expenditures in the General Fund are not significant and there would be no negative cash flow.

What Would Be The TIF Generated?

The analysis performed by PMG Associates, Inc. estimated the amount of TIF generated for this project as follows.

Incentive Package	Developer Amount		CRA Amount	
	Total Dollars	Discounted Dollars	Total Dollars	Discounted Dollars
80%, 15 years	$4,627,883	$2,245,206	$4,332,433	$1,342,700

Are The Values Listed Appropriate?

Yes, the amount are appropriate.

Is There Significant Spin-Off Development That Would Be Generated?

No, this project will not generate the demand for other projects of the same type. The economic spending for retail by the residents will not require the addition of retail establishments.

Does The Project Meet The Goals Of The CRA?

The project meets six of the eight goals of the CRA. The project does not diversify the housing and does not include a mix of commercial activity. In addition, there are no amenities for the community, as the project is internalized.

Does The Project Meet The 40 Point Requirement For The 80% Incentive Program?

Yes, the project meets the requirements

What Is The Economic Impact To The City Of Gainesville?

The project will generate moderate revenue for the City and will require additional services. The project is likely to be revenue neutral with revenue and expenses generally equal.

EVALUATION OF PUBLIC/PRIVATE PARTNERSHIP

The evaluation of the Application for the incentive program should be based on the ability to meet the goals of the CRA and to generate economic improvement to the area. The incentive should only be provided when the project meets these requirements. The Gainesville CRA has an advantage in this process with the previous establishment of goals and criteria for receipt of the incentives. Those conducting the evaluation process should not waiver on these factors and hold the Applicant to a strict test of measurement.

Positive and Negative Factors

The facts concerning the project and its economic impact were considered regarding the reasons for granting the incentive and denying the request. The factors are:

Positive Factors:

- Gap Exists
- Increased property values
- Improves aesthetics of the area
- CRA will have a positive cash flow
- Meets most of the goals of the CRA
- Adds amenities for the community with recreation project

Negative Factors:

- Spin-off development limited
- No variety in housing market
- Doesn't help meet the commercial needs of the area

CONDITIONS OF APPROVAL

Should the CRA decide to grant the incentive, PMG Associates, Inc. strongly urges that the following conditions be made a part of the agreement.

1. The Developer must start construction on all phases of the project within two years from the date of the agreement.
2. The incentive should be established with a upper limit of the Present Value of the income stream. When the Applicant reaches the pre-set Present Value amount, the TIF payments cease.
3. No changes to the architectural and building materials are permitted without approval of the CRA. The CRA would be able to reopen the incentive agreement.

APPENDIX

PRESENT VALUE TABLE

TABLE A-1

PRESENT VALUE OF TIF REVENUE AT 80% FOR 15 YEARS, 5% GROWTH RATE AND 7.25% DISCOUNT RATE

Project Year	Calendar Year	Project Value (1)	Base Value	Incremental Value	Inremental Taxes	TIF @ 95%	CRA Amount	Incentive Amount	PV CRA	PV Incentive
1	2006	$18,956,995	$2,427,100	$16,529,895	$0	$0	$0	$0	$0	$0
2	2007	$19,904,845	$2,427,100	$17,477,745	$0	$0	$0	$0	$0	$0
3	2008	$20,900,087	$2,427,100	$18,472,987	$0	$0	$0	$0	$0	$0
4	2009	$21,945,091	$2,427,100	$19,517,991	$271,886	$217,508	$43,502	$195,758	$35,263	$158,682
5	2010	$23,042,346	$2,427,100	$20,615,246	$287,170	$229,736	$45,947	$206,763	$34,727	$156,273
6	2011	$24,194,463	$2,427,100	$21,767,363	$303,219	$242,575	$48,515	$218,318	$34,189	$153,852
7	2012	$25,404,186	$2,427,100	$22,977,086	$320,071	$256,057	$51,211	$230,451	$33,650	$151,424
8	2013	$26,674,396	$2,427,100	$24,247,296	$337,765	$270,212	$54,042	$243,191	$33,110	$148,993
9	2014	$28,008,115	$2,427,100	$25,581,015	$356,344	$285,075	$57,015	$242,314	$32,569	$138,420
10	2015	$29,408,521	$2,427,100	$26,981,421	$375,851	$300,681	$60,136	$255,579	$32,030	$136,129
11	2016	$30,878,947	$2,427,100	$28,451,847	$396,334	$317,067	$63,413	$269,507	$31,493	$133,844
12	2017	$32,422,895	$2,427,100	$29,995,795	$417,841	$334,273	$66,855	$284,132	$30,957	$131,568
13	2018	$34,044,039	$2,427,100	$31,616,939	$440,424	$352,339	$70,468	$299,488	$30,424	$129,304
14	2019	$35,746,241	$2,427,100	$33,319,141	$464,136	$371,309	$74,262	$259,916	$29,895	$104,633
15	2020	$37,533,553	$2,427,100	$35,106,453	$489,033	$391,226	$78,245	$273,858	$29,369	$102,793
16	2021	$39,410,231	$2,427,100	$36,983,131	$515,175	$412,140	$82,428	$288,498	$28,848	$100,968
17	2022	$41,380,743	$2,427,100	$38,953,643	$542,624	$434,099	$86,820	$303,870	$28,331	$99,159
18	2023	$43,449,780	$2,427,100	$41,022,680	$571,446	$457,157	$91,431	$320,010	$27,819	$97,366
19	2024	$45,622,269	$2,427,100	$43,195,169	$601,709	$481,367	$96,273	$0	$27,312	$0
20	2025	$47,903,382	$2,427,100	$45,476,282	$633,485	$506,788	$101,358	$0	$26,811	$0
21	2026	$50,298,551	$2,427,100	$47,871,451	$666,849	$533,479	$106,696	$0	$26,315	$0
22	2027	$52,813,479	$2,427,100	$50,386,379	$701,882	$561,506	$112,301	$0	$25,825	$0
23	2028	$55,454,153	$2,427,100	$53,027,053	$738,667	$590,933	$118,187	$0	$25,341	$0
					$9,431,911	$7,545,529	$1,509,106	$3,891,652	$604,279	$1,943,406