

**FISCAL EVALUATION
GAINESVILLE GREENS GAINESVILLE CRA**

MAY 2006

**PMG Associates, Inc.
2151 West Hillsboro Boulevard
Suite 301
Deerfield Beach, Florida 33442
(954) 427-5010**

**FISCAL EVALUATION OF GAINESVILLE GREENS PROJECT
CITY OF GAINESVILLE CRA**

**SECTION 1
INTRODUCTION**

PMG Associates, Inc. (PMGA) has been retained by the City of Gainesville CRA to conduct fiscal analyses of projects considered for receipt of TIF revenue to enhance the project. Unlike most of the projects considered, Gainesville Greens was proposed as a result of a RFP soliciting developers to complete a project within the boundaries of the CRA. The Gainesville Greens proposal is in direct response to that solicitation.

This review will consider an original application submitted in September of 2005 and revised in May of 2006. PMGA did not receive all of the information required to evaluate this program until May 11, 2005.

PROPOSED PROJECT

The Gainesville Greens project is a mixed use residential and commercial development containing 141 units and 19,463 square feet of retail and office. In the original proposal to the CRA, the project included environmentally friendly construction and affordable housing. Since that time, the developer has experienced cost increases and has revised the development program. In the most recent application four scenarios were presented.

- One: Development with no Green Construction and No Affordable Housing
- Two: Addition of some Affordable Housing Units
- Three: Addition of Green construction
- Four: Inclusion of both Affordable Housing and Green Construction

The developer clearly favors the first option.

**SECTION 2
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” for the preferred option is caused because the sales prices received are insufficient to meet project costs and generate a reasonable return on investment.

The 16.9% return on investment is requested by the applicant based on statements from lenders that such a return is required. The principal reason stated by the applicant’s consultant is that much of the profit is based on receipt of the incentives. The applicant produced correspondence from the lenders making this claim.

The “Gap” was measured based on varying Rates of Return to illustrate the impact of the appropriate return. For this analysis, rates of 16.9% (requested by the applicant), 15% and 13.4% were used.

Rate of Return	“Gap”
16.9%	\$5,536,549
15.0%	\$4,525,682
13.4%	\$3,674,425

Previous Experiences with TIF and Rate of Return

PMGA reviewed all of the analyses for incentive requests from Gainesville and other jurisdictions throughout Florida. In no case has the rate of return been as high as proposed in the Gainesville Greens project. Despite the statements provided by the applicant to the contrary, a rate of return at the levels requested here has not been approved by any CRA where PMGA has provided review services.

The highest Rate of Return previously approved in Gainesville for incentive projects is 13.4% for University Corners. The Jefferson on Second project included a Rate of Return of approximately 9%. In other jurisdictions rates of between 11% and 13% are the norm.

Impact of higher Rate of Return in Previous Projects

If the 16.9% Rate of Return had been approved for previous projects in the CRA, the incentive would have been significantly higher.

One example is the University Corners project which received an incentive in the amount of \$37 million. If the 16.9% return on investment has been used, the incentive would have been \$45.7 million.

Gap for the other options

The additional options have varying fiscal scenarios as follows;

Option	Revenue	Project Cost	Return before Incentive
Two: Some Affordable Housing	\$55,357,614	\$53,187,278	\$2,170,336
Three: Green Construction	\$56,657,517	\$54,158,628	\$2,498,889
Four: Both Affordable Housing and Green Construction	\$56,367,517	\$54,238,895	\$2,128,622

Option	Gap at 16.9%	Gap at 15%	Gap at 13.4%
Two	\$6,818,314	\$5,807,756	\$4,956,759
Three	\$6,953,919	\$5,924,905	\$5,058,367
Four	\$7,037,751	\$6,007,212	\$5,139,390

CAUSE OF THE GAP

The “gap” in this project is due to the increased costs of construction experienced by the applicant. Unlike other projects that have received incentives from the Gainesville CRA, there are no issues with land assembly, configuration or other conditions that hamper the market.

The increase in costs has been documented by the applicant. In addition, PMGA has reviewed these cost increases with professionals in the construction industry. Although it is impossible to compare the actual increase from the costs in the original submittal to the most recent documentation, without direct comparison of plans, take-offs and other bidding documents, the increase in costs does not appear to be unreasonable.

PMGA requested clarification of the increase in costs and the rationale for the differences. Responses from the applicant’s consultant reveal the reasons for the increase from the original submittal to the most recent one. The original submittal was an estimate of the costs based on standard rates for materials. The most recent submittal is based on more complete design drawings and changes in material costs. In addition, changes to the design and configuration were made.

SECTION 3 ECONOMIC IMPACTS

The overall impact to the City of Gainesville General Fund 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 project under consideration.

The sources are:

- Utility Tax – 10% on Electric Uses
- Communications Service tax – 5.32% on Telephone, Cable and Internet service
- Franchise Fees – 10% on 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 PROJECT

Revenues generated from the sources cited above are estimated at \$108,500 annually in current dollars. These revenues will increase over time as fees and rates increase. The allocation of the revenues by source is:

Source	Amount
Utility Tax	\$ 19,800
Communications Service Tax	\$ 16,800
Franchise Fees	\$ 9,200
Stormwater Fees	\$ 15,200
State Shared Revenues	\$ 24,500
Ad Valorem Taxes	\$ 23,000
TOTAL	\$108,500

EXPENDITURES

The size of this project will not likely generate a significant increase in costs to serve the area.

SPIN-OFF EFFECTS

Spin-off from this project will be generated primarily from the additional spending of the residents of the units. Based on the sales prices of the units and the required Disposable Income, it is estimated that an additional \$7,614,000 in retail sales will be generated for the Gainesville area. This figure represents all retail sales including hard goods such as Automobiles and heavy appliances. For “soft goods” such as apparel, restaurants and other general merchandise, an estimate of annual spending of between \$3 million and \$3.5 million in the immediate area can be expected.

**SECTION 4
PUBLIC/PRIVATE PARTNERSHIP EVALUATION**

The applicant provided three incentive options in the documentation of the project. Each of these options is based on a separate development configuration. The applicant prefers the option where no Affordable Housing or Green Construction is included. This option generates a request of 80% of TIF for 20 years. Other options include some of the Affordable Housing and/or Green Construction. These options generate a request of either 96% or 98%.

The impacts of these options are as follows:

Option	CRA Amount		Developer Amount	
	Total Dollars	Present Value	Total Dollars	Present Value
80% for 20 years	\$3,318,691	\$1,645,478	\$13,274,763	\$6,581,910
96% for 20 years	\$ 663,738	\$ 329,096	\$15,929,716	\$7,898,292
98% for 20 Years	\$ 331,869	\$ 164,548	\$16,261,585	\$8,062,840

FINDINGS

- A Gap does exist, however the amount is based on the Rate of Return to be permitted for the developer
- The Rate of Return of 16.9% requested by the developer is higher than any other return for incentive projects in Gainesville. The return is also higher than in any other CRA where PMG Associates, Inc. has been retained as a consultant.
- If the CRA approves a Rate of Return of 15%, the TIF request of 80% for 20 years will generate a sufficient Present Value to meet any of the construction options including both Affordable Housing and Green Construction.
- The City of Gainesville generates additional revenue for the General Fund of \$108,500 annually.

PRESENT VALUE OF TIF REVENUE AT 3% GROWTH RATE AND 8% DISCOUNT RATE - 80 INCENTIVE FOR 20 YEARS

Project Year	Calendar Year	Project Value (1)	Incremental Taxes	TIF @ 95%	CRA Amount	Incentive Amount	PV CRA	PV Incentive
1	2006	\$42,704,798	\$0	\$0	\$0	\$0	\$0	\$0
2	2007	\$43,985,942	\$0	\$0	\$0	\$0	\$0	\$0
3	2008	\$45,305,520	\$0	\$0	\$0	\$0	\$0	\$0
4	2009	\$46,664,686	\$650,039	\$617,537	\$123,507	\$494,030	\$123,507	\$494,030
5	2010	\$48,064,626	\$669,540	\$636,063	\$127,213	\$508,851	\$118,890	\$475,561
6	2011	\$49,506,565	\$689,626	\$655,145	\$131,029	\$524,116	\$114,446	\$457,783
7	2012	\$50,991,762	\$710,315	\$674,799	\$134,960	\$539,840	\$107,136	\$428,542
8	2013	\$52,521,515	\$731,625	\$695,043	\$139,009	\$556,035	\$102,176	\$408,702
9	2014	\$54,097,160	\$753,573	\$715,895	\$143,179	\$572,716	\$97,445	\$389,781
10	2015	\$55,720,075	\$776,181	\$737,372	\$147,474	\$589,897	\$92,934	\$371,735
11	2016	\$57,391,678	\$799,466	\$759,493	\$151,899	\$607,594	\$88,631	\$354,525
12	2017	\$59,113,428	\$823,450	\$782,278	\$156,456	\$625,822	\$84,528	\$338,112
13	2018	\$60,886,831	\$848,154	\$805,746	\$161,149	\$644,597	\$80,615	\$322,459
14	2019	\$62,713,436	\$873,598	\$829,918	\$165,984	\$663,935	\$76,883	\$307,530
15	2020	\$64,594,839	\$899,806	\$854,816	\$170,963	\$683,853	\$73,323	\$293,293
16	2021	\$66,532,684	\$926,800	\$880,460	\$176,092	\$704,368	\$78,187	\$312,748
17	2022	\$68,528,664	\$954,604	\$906,874	\$181,375	\$725,499	\$66,691	\$266,765
18	2023	\$70,584,524	\$983,242	\$934,080	\$186,816	\$747,264	\$63,604	\$254,414
19	2024	\$72,702,060	\$1,012,740	\$962,103	\$192,421	\$769,682	\$60,659	\$242,636
20	2025	\$74,883,122	\$1,043,122	\$990,966	\$198,193	\$792,773	\$57,851	\$231,403
21	2026	\$77,129,615	\$1,074,416	\$1,020,695	\$204,139	\$816,556	\$55,172	\$220,690
22	2027	\$79,443,504	\$1,106,648	\$1,051,316	\$210,263	\$841,052	\$52,618	\$210,473
23	2028	\$81,826,809	\$1,139,847	\$1,082,855	\$216,571	\$866,284	\$50,182	\$200,728
			\$17,466,793	\$16,593,454	\$3,318,691	\$13,274,763	\$1,645,478	\$6,581,910

PRESENT VALUE OF TIF REVENUE AT 3% GROWTH RATE AND 8% DISCOUNT RATE - 96% INCENTIVE FOR 20 YEARS

Project Year	Calendar Year	Project Value (1)	Incremental Taxes	TIF @ 95%	CRA Amount	Incentive Amount	PV CRA	PV Incentive
1	2006	\$42,704,798	\$0	\$0	\$0	\$0	\$0	\$0
2	2007	\$43,985,942	\$0	\$0	\$0	\$0	\$0	\$0
3	2008	\$45,305,520	\$0	\$0	\$0	\$0	\$0	\$0
4	2009	\$46,664,686	\$650,039	\$617,537	\$24,701	\$592,836	\$24,701	\$592,836
5	2010	\$48,064,626	\$669,540	\$636,063	\$25,443	\$610,621	\$23,778	\$570,674
6	2011	\$49,506,565	\$689,626	\$655,145	\$26,206	\$628,939	\$22,889	\$549,340
7	2012	\$50,991,762	\$710,315	\$674,799	\$26,992	\$647,808	\$21,427	\$514,250
8	2013	\$52,521,515	\$731,625	\$695,043	\$27,802	\$667,242	\$20,435	\$490,443
9	2014	\$54,097,160	\$753,573	\$715,895	\$28,636	\$687,259	\$19,489	\$467,737
10	2015	\$55,720,075	\$776,181	\$737,372	\$29,495	\$707,877	\$18,587	\$446,082
11	2016	\$57,391,678	\$799,466	\$759,493	\$30,380	\$729,113	\$17,726	\$425,430
12	2017	\$59,113,428	\$823,450	\$782,278	\$31,291	\$750,986	\$16,906	\$405,735
13	2018	\$60,886,831	\$848,154	\$805,746	\$32,230	\$773,516	\$16,123	\$386,951
14	2019	\$62,713,436	\$873,598	\$829,918	\$33,197	\$796,722	\$15,377	\$369,036
15	2020	\$64,594,839	\$899,806	\$854,816	\$34,193	\$820,623	\$14,665	\$351,951
16	2021	\$66,532,684	\$926,800	\$880,460	\$35,218	\$845,242	\$15,637	\$375,297
17	2022	\$68,528,664	\$954,604	\$906,874	\$36,275	\$870,599	\$13,338	\$320,117
18	2023	\$70,584,524	\$983,242	\$934,080	\$37,363	\$896,717	\$12,721	\$305,297
19	2024	\$72,702,060	\$1,012,740	\$962,103	\$38,484	\$923,619	\$12,132	\$291,163
20	2025	\$74,883,122	\$1,043,122	\$990,966	\$39,639	\$951,327	\$11,570	\$277,683
21	2026	\$77,129,615	\$1,074,416	\$1,020,695	\$40,828	\$979,867	\$11,034	\$264,828
22	2027	\$79,443,504	\$1,106,648	\$1,051,316	\$42,053	\$1,009,263	\$10,524	\$252,567
23	2028	\$81,826,809	\$1,139,847	\$1,082,855	\$43,314	\$1,039,541	\$10,036	\$240,874
			\$17,466,793	\$16,593,454	\$663,738	\$15,929,716	\$329,096	\$7,898,292

PRESENT VALUE OF TIF REVENUE AT 3% GROWTH RATE AND 8% DISCOUNT RATE - 98% INCENTIVE FOR 20 YEARS

Project Year	Calendar Year	Project Value (1)	Incremental Taxes	TIF @ 95%	CRA Amount	Incentive Amount	PV CRA	PV Incentive
1	2006	\$42,704,798	\$0	\$0	\$0	\$0	\$0	\$0
2	2007	\$43,985,942	\$0	\$0	\$0	\$0	\$0	\$0
3	2008	\$45,305,520	\$0	\$0	\$0	\$0	\$0	\$0
4	2009	\$46,664,686	\$650,039	\$617,537	\$12,351	\$605,186	\$12,351	\$605,186
5	2010	\$48,064,626	\$669,540	\$636,063	\$12,721	\$623,342	\$11,889	\$582,563
6	2011	\$49,506,565	\$689,626	\$655,145	\$13,103	\$642,042	\$11,445	\$560,785
7	2012	\$50,991,762	\$710,315	\$674,799	\$13,496	\$661,303	\$10,714	\$524,964
8	2013	\$52,521,515	\$731,625	\$695,043	\$13,901	\$681,143	\$10,218	\$500,660
9	2014	\$54,097,160	\$753,573	\$715,895	\$14,318	\$701,577	\$9,745	\$477,481
10	2015	\$55,720,075	\$776,181	\$737,372	\$14,747	\$722,624	\$9,293	\$455,376
11	2016	\$57,391,678	\$799,466	\$759,493	\$15,190	\$744,303	\$8,863	\$434,294
12	2017	\$59,113,428	\$823,450	\$782,278	\$15,646	\$766,632	\$8,453	\$414,187
13	2018	\$60,886,831	\$848,154	\$805,746	\$16,115	\$789,631	\$8,061	\$395,012
14	2019	\$62,713,436	\$873,598	\$829,918	\$16,598	\$813,320	\$7,688	\$376,724
15	2020	\$64,594,839	\$899,806	\$854,816	\$17,096	\$837,719	\$7,332	\$359,284
16	2021	\$66,532,684	\$926,800	\$880,460	\$17,609	\$862,851	\$7,819	\$383,116
17	2022	\$68,528,664	\$954,604	\$906,874	\$18,137	\$888,737	\$6,669	\$326,787
18	2023	\$70,584,524	\$983,242	\$934,080	\$18,682	\$915,399	\$6,360	\$311,658
19	2024	\$72,702,060	\$1,012,740	\$962,103	\$19,242	\$942,861	\$6,066	\$297,229
20	2025	\$74,883,122	\$1,043,122	\$990,966	\$19,819	\$971,146	\$5,785	\$283,468
21	2026	\$77,129,615	\$1,074,416	\$1,020,695	\$20,414	\$1,000,281	\$5,517	\$270,345
22	2027	\$79,443,504	\$1,106,648	\$1,051,316	\$21,026	\$1,030,289	\$5,262	\$257,829
23	2028	\$81,826,809	\$1,139,847	\$1,082,855	\$21,657	\$1,061,198	\$5,018	\$245,892
			\$17,466,793	\$16,593,454	\$331,869	\$16,261,585	\$164,548	\$8,062,840