# FISCAL EVALUATION OF THE PALMS PROJECT GAINESVILLE COMMUNITY REDEVELOPMENT AGENCY

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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. The Palms project has been reviewed employing the procedures previously developed by PMGA.

## 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 Downtown District of Gainesville at the corner of SW 2 Avenue and SW 3 Street.

## PROJECT DESCRIPTION

The proposed project will include 48 condominium units designated as primary housing. The units will be approximately 1,200 square feet in size and consist of 2 Bedrooms and 2 Bathrooms.

## 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.

**Downtown Redevelopment District.**

Does the project:

- Aggressively promote a pedestrian dominant environment.
- Redevelop surface parking lots, blighted, or underutilized sites.
- Encourage shared parking facilities and parking garages
- Promote concentrated buffering or screening between incompatible uses or negative site elements.
- Design and position new buildings to suggest architectural "permanence."
- Provide high profile direct pedestrian connections and enhanced landscape features.
- Encourage integration of a broader demographic mix
- Encourage intensive mix of residential and business uses based on scale, context and contribution to area vitality
- Provide for increased amenities within the downtown neighborhoods
- Reinforce the street edge of adjacent roadways with architecturally interesting and open, inviting building faces.

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 Palms project met the criteria. As can be evidenced by reviewing the table, the Palms project meets 8 of the 10 listed criteria.

**TABLE 2-1**
**THE PALMS SATISFACTION**
**OF EVALUATION CRITERIA OF THE CRA**

| CRITERIA | SATISFY? |
|---|---|
| Aggressively promote a pedestrian dominant environment | Yes |
| Redevelop surface parking lots, blighted, or underutilized sites | Yes |
| Encourage shared parking facilities and parking garages | Yes |
| Promote concentrated buffering or screening between incompatible uses or negative site elements | Yes |
| Design and position new buildings to suggest architectural “permanence.” | Yes |
| Provide high profile direct pedestrian connections and enhanced landscape features. | Yes |
| Encourage integration of a broader demographic mix | Yes |
| Encourage intensive mix of residential and business uses based on scale, context and contribution to area vitality | No |
| Provide for increased amenities within the downtown neighborhoods | No |
| Reinforce the street edge of adjacent roadways with architecturally interesting and open, inviting building faces. | Yes |

The project does not provide any business uses on the site, and no community amenities are offered.

## INDEPENDENT SCORING OF APPLICATION

Using the scoring sheet for the Downtown Redevelopment District, PMGA conducted its own analysis of the score that should be awarded to the Palms 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 26 points in the scoring and should receive an incentive of 80% of the TIF generated. A point total of 25 or above is required to receive an enhancement of 80%. Any project receiving between 19 and 24 points is eligible for an incentive of 60% of the TIF generated.

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 (between 30 and 49 units = 4 points)**
  The project contains 48 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 (0 spaces = 0 points)**
  The Palms does not provide parking within its planned project. Parking spaces for residents are to be acquired from an existing parking garage near the site. The Palms actually reduces public parking in the area.

- **Stories (4 – 6 stories = 5 points)**
  The project is defined as a four story building, which meets the criteria.

- **Redevelopment Benefit (6 points – See below)**
  Re-Use of existing building = 0 points
  Redevelopment of surface parking = 3 points
  Redevelopment of Automobile use = 0 points
  Creative stormwater solutions = 3 points
  Requires Environmental Cleanup = 0 points

- **Land Assembly (25-49% of a Block = 1 points)**
  The two parcels are less than ½ of a block.

- **Meets District Goals (Meets 8 of the Selection Criteria = 2 points)**
  The project meets eight of the ten criteria established by the CRA. The criteria regarding the diversification of housing and retail are not met. There are also no amenities provided to the community.

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

- **Merit Points (3 points)**
  The applicant claimed the full five points for this category, and PMG Associates does not agree. There is no mix of residential and retail in the project and no community amenities are provided. The housing ownership with this project is beneficial and preferable over rental, thus securing some Merit Points. If the project were larger, making a more significant impact on the housing stock in the district, the full Merit Points could be awarded.

**Total Point Tabulation - 24**

## 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 (Sales minus Project Costs) from the project divided by the original investment. For fee simple projects where the property is sold, the net revenue is Sales prices minus construction and selling costs.

**Revenue**

The Palms includes 48 condominium units with a selling price of $10,956,160. This value is determined by using the average size of the units at approximately 1,200 square feet and sales at the assumed cost of $190 per square foot.

The Applicant believes that higher Price Points could be attained. However, the current market does not support estimates higher than those listed in this application.

**Costs**

The total costs associated with the project are $11,303,233 which include land purchase, construction costs, soft costs, financing and other expenses. PMGA has reviewed the costs on a line item basis and find that they are reasonable in the context of planning for this project. However, it is not possible to determine the Project Costs in detail without full design and Value Engineering efforts.

The Project Costs for the Palms do appear to be slightly higher than average for recent projects in the Gainesville area. It is very likely that a higher cost per square foot could exist due to the smaller scale of The Palms. No Economies of Scale can be achieved with this project.

**Rate of Return**

The "normal" return on investment figure varies based on the industry and the location. Previous experience with condominium projects in the area confirms that the 8.0% return on investment used in this analysis is typical and reasonable for a project of this type. The 8.0% figure will be used for the purpose of identifying any potential gap in the return.

**Identification of the Gap**

Based on the figures supplied by the Applicant, a gap of $1,158,640 exists.

## CAUSE OF THE GAP

The Gap is generated by Sales Prices that are below average for the district. The Applicant submitted Real Estate listing data for other condominiums for sale in the general area of the proposed Palms project. The evidence documented that competing projects closest to the Palms have the lowest Sales Prices in the area. This condition may change over time if the existing units for sale decrease or the attractiveness of the Palms generates additional market pressure. However, the uncertainty of the market does not provide such evidence, at this time.

Additional influences on the Gap are the higher Project Costs per unit at the Palms. This condition is generated by the lack of any Economy of Scale for the project due to its size.

## 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 Palms 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 The Palms. 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 Contemporary Management Concepts, Inc. dated October 9, 2006. This letter described the analysis and the estimate of Taxable Value. The estimate included a range due to the uncertainty of the situation. During our conversations with the staff of the Property Appraiser's Office, PMGA agreed that a range was appropriate. We also noted that we would use the mid-point of that range in our analysis.

The estimated Value of the project ranged from $10,048,000 to $11,230,000. PMGA used the Assessed Value of $10,639,000 for this analysis.

Taxable Value is attained by subtracting any Exemptions from the Assessed Value of a property. For this project, all 48 units were assumed to be homesteaded. The $25,000 exemption per unit generates a Taxable Value of $9,439,000 in the first year after completion.

To determine the TIF amount, only the increment is included. The Base Taxable Value of the property is the current figure of $160,900. Therefore, the incremental value of the project that TIF is based is $9,278,100.

**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 8.8887 for Alachua County and 4.8509 for the City of Gainesville. These rates were verified by PMGA as the latest official figures. The total TIF rate is then 13.7396 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 due to the impact of the Save Our Homes Legislation.

**Potential Modifying Factors**

Determination of the value of the proposed project is based on the sales prices 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 comparables in the area.

## 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 6% to compute the Present Value of the TIF revenues in his report. PMGA has calculated a Discount Rate of approximately the same amount. The 6% Discount Rate is appropriate for this analysis.

## PRESENT VALUE OF TIF REVENUE

To provide detailed information regarding the Present Value of the TIF revenues, several tables have been provided and are included in the Appendix. These tables offer alternatives in the incentive package provided to the developer. The first alternative illustrates the Applicants request for 80% of TIF given as an incentive for 15 years. This option includes a varying rate of incentive from 90% for the first five years, 80% for the next five years and 70% for the years from year 11 through 15. No incentive will be provided after year 15.

PMGA has also provided another alternative based on the receipt of 60% of TIF for the incentive. The reason for this alternative is the opinion of PMGA that The Palms does not meet the point requirement for 80% incentive.

The result of the analyses is provided in Table 4-1.

**TABLE 4-1**

**RETURN BASED ON INCENTIVE PACKAGE**

| Option | Developer Amount | | CRA Amount | |
|---|---|---|---|---|
| | Total Dollars | Discounted Dollars | Total Dollars | Discounted Dollars |
| 80%, 15Years<br>(Based on Applicant's Analysis) | $1,827,702 | $1,169,900 | $488,620 | $277,296 |
| 60%, 15 Years<br>(Based on PMGA analysis) | $1,389,793 | $ 868,318 | $926,529 | $578,878 |

## SECTION 5
## ECONOMIC IMPACT

The overall impact to the City of Gainesville from the Palms 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 PALMS PROJECT

Revenues generated from the sources cited above are estimated at $28,640 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.

**TABLE 5-1**
**ANNUAL REVENUES GENERATED BY THE CITY OF GAINESVILLE FROM THE PALMS**

| Source | Amount |
|---|---|
| Utility Tax | $ 8,640 |
| Communication Service Tax | $ 5,360 |
| Franchise Fees | $ 1,440 |
| Stormwater Fees | $ 3,750 |
| State Shared Revenues | $ 7,200 |
| Ad Valorem Taxes | $ 2,250 |
| **TOTAL** | **$28,640** |

## 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.

Due to the limited size of this project, it is not anticipated to generate any measurable increase in costs to the City of Gainesville. The existing service levels will be able to properly serve the development.

## SPIN OFF DEVELOPMENT

Spin-off from this project can be measured by the spending by the residents of the units outside of the project. The Palms project includes primary housing for residents that must meet their basic needs through business establishments in the area.

The additional spending in the community will add economic benefits to the stores and businesses in the area because of retail spending of the residents. Based on the cost of the units and typical spending patterns, it is estimated that the residents will generate local retail sales in the amount of $10,400 per unit annually. This estimate generates an annual spending in the local retail establishments of $499,200. 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

### 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 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.
4. The Applicant suggests that they may try to attain higher price points than those identified in the application. If the Sales Prices do increase more than construction costs over the project development period, the TIF amount should be reevaluated by the CRA.

**TABLE A-1**

**PRESENT VALUE OF TIF REVENUE AT VARYING RATE FOR 15 YEARS, 3% GROWTH RATE AND 6% DISCOUNT RATE**

**(90% FOR YEARS 1-5, 85% FOR YEARS 6-10, AND 70% FOR YEARS 11-15)**

**(REQUESTED BY APPLICANT)**

| Calendar Year | Assessed Value | Taxable Value | Base Value | Incremental Value | Incremental Taxes | TIF @ 95% | CRA Amount | Incentive Amount | PV CRA | PV Incentive |
|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $10,639,000 | $9,439,000 | $160,900 | $9,278,100 | $0 | $0 | $0 | $0 | $0 | $0 |
| 2008 | $10,639,000 | $9,439,000 | $160,900 | $9,278,100 | $127,477 | $121,104 | $12,110 | $108,993 | $11,425 | $102,824 |
| 2009 | $10,958,170 | $9,758,170 | $160,900 | $9,597,270 | $131,863 | $125,270 | $12,527 | $112,743 | $11,149 | $100,340 |
| 2010 | $11,286,915 | $10,086,915 | $160,900 | $9,926,015 | $136,379 | $129,561 | $12,956 | $116,604 | $10,878 | $97,903 |
| 2011 | $11,625,523 | $10,425,523 | $160,900 | $10,264,623 | $141,032 | $133,980 | $13,398 | $120,582 | $10,612 | $95,512 |
| 2012 | $11,974,288 | $10,774,288 | $160,900 | $10,613,388 | $145,824 | $138,533 | $13,853 | $124,679 | $10,352 | $93,168 |
| 2013 | $12,333,517 | $11,133,517 | $160,900 | $10,972,617 | $150,759 | $143,221 | $28,644 | $114,577 | $20,193 | $80,772 |
| 2014 | $12,703,522 | $11,503,522 | $160,900 | $11,342,622 | $155,843 | $148,051 | $29,610 | $118,441 | $19,692 | $78,770 |
| 2015 | $13,084,628 | $11,884,628 | $160,900 | $11,723,728 | $161,079 | $153,025 | $30,605 | $122,420 | $19,202 | $76,808 |
| 2016 | $13,477,167 | $12,277,167 | $160,900 | $12,116,267 | $166,473 | $158,149 | $31,630 | $126,519 | $18,722 | $74,887 |
| 2017 | $13,881,482 | $12,681,482 | $160,900 | $12,520,582 | $172,028 | $163,426 | $32,685 | $130,741 | $18,251 | $73,005 |
| 2018 | $14,297,926 | $13,097,926 | $160,900 | $12,937,026 | $177,750 | $168,862 | $50,659 | $118,203 | $26,686 | $62,268 |
| 2019 | $14,726,864 | $13,526,864 | $160,900 | $13,365,964 | $183,643 | $174,461 | $52,338 | $122,123 | $26,011 | $60,691 |
| 2020 | $15,168,670 | $13,968,670 | $160,900 | $13,807,770 | $189,713 | $180,228 | $54,068 | $126,159 | $25,349 | $59,148 |
| 2021 | $15,623,730 | $14,423,730 | $160,900 | $14,262,830 | $195,966 | $186,167 | $55,850 | $130,317 | $24,703 | $57,639 |
| 2022 | $16,092,442 | $14,892,442 | $160,900 | $14,731,542 | $202,405 | $192,285 | $57,686 | $134,600 | $24,070 | $56,164 |
| | | | | | $2,438,234 | $2,316,322 | $488,620 | $1,827,702 | $277,296 | $1,169,900 |

**TABLE A-2**

**PRESENT VALUE OF TIF REVENUE AT 60% FOR 15 YEARS, 3% GROWTH RATE AND 6% DISCOUNT RATE**

| Calendar Year | Assessed Value | Taxable Value | Base Value | Incremental Value | Incremental Taxes | TIF @ 95% | CRA Amount | Incentive Amount | PV CRA | PV Incentive |
|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $10,639,000 | $9,439,000 | $160,900 | $9,278,100 | $0 | $0 | $0 | $0 | $0 | $0 |
| 2008 | $10,639,000 | $9,439,000 | $160,900 | $9,278,100 | $127,477 | $121,104 | $48,441 | $72,662 | $45,699 | $68,549 |
| 2009 | $10,958,170 | $9,758,170 | $160,900 | $9,597,270 | $131,863 | $125,270 | $50,108 | $75,162 | $44,596 | $66,894 |
| 2010 | $11,286,915 | $10,086,915 | $160,900 | $9,926,015 | $136,379 | $129,561 | $51,824 | $77,736 | $43,513 | $65,269 |
| 2011 | $11,625,523 | $10,425,523 | $160,900 | $10,264,623 | $141,032 | $133,980 | $53,592 | $80,388 | $42,450 | $63,675 |
| 2012 | $11,974,288 | $10,774,288 | $160,900 | $10,613,388 | $145,824 | $138,533 | $55,413 | $83,120 | $41,408 | $62,112 |
| 2013 | $12,333,517 | $11,133,517 | $160,900 | $10,972,617 | $150,759 | $143,221 | $57,289 | $85,933 | $40,386 | $60,579 |
| 2014 | $12,703,522 | $11,503,522 | $160,900 | $11,342,622 | $155,843 | $148,051 | $59,220 | $88,831 | $39,385 | $59,077 |
| 2015 | $13,084,628 | $11,884,628 | $160,900 | $11,723,728 | $161,079 | $153,025 | $61,210 | $91,815 | $38,404 | $57,606 |
| 2016 | $13,477,167 | $12,277,167 | $160,900 | $12,116,267 | $166,473 | $158,149 | $63,260 | $94,889 | $37,443 | $56,165 |
| 2017 | $13,881,482 | $12,681,482 | $160,900 | $12,520,582 | $172,028 | $163,426 | $65,371 | $98,056 | $36,503 | $54,754 |
| 2018 | $14,297,926 | $13,097,926 | $160,900 | $12,937,026 | $177,750 | $168,862 | $67,545 | $101,317 | $35,582 | $53,373 |
| 2019 | $14,726,864 | $13,526,864 | $160,900 | $13,365,964 | $183,643 | $174,461 | $69,784 | $104,677 | $34,681 | $52,021 |
| 2020 | $15,168,670 | $13,968,670 | $160,900 | $13,807,770 | $189,713 | $180,228 | $72,091 | $108,137 | $33,799 | $50,699 |
| 2021 | $15,623,730 | $14,423,730 | $160,900 | $14,262,830 | $195,966 | $186,167 | $74,467 | $111,700 | $32,937 | $49,405 |
| 2022 | $16,092,442 | $14,892,442 | $160,900 | $14,731,542 | $202,405 | $192,285 | $76,914 | $115,371 | $32,094 | $48,140 |
| | | | | | $2,438,234 | $2,316,322 | $926,529 | $1,389,793 | $578,878 | $868,318 |