

November 10, 2009

TO: Wyatt Shields, City Manager

FROM: Rick Goff, Economic Development Director

SUBJECT: Background Regarding Fiscal Impact Analysis of Five Mixed Use Development Projects in the City of Falls Church

The City's Economic Development Office has completed a new and expanded study of the fiscal impact of mixed use development on City revenues and expenses. Using the latest fiscal impact software updated and customized for the City by TishlerBise Consultants of Bethesda, MD, staff has examined all five mixed use projects completed in the City since 2002: The Broadway, The Byron, Pearson Square, The Spectrum, and The Read Building. The net fiscal impact of each proposed mixed use project is among the critical factors in the decision-making process for approval under the City's land use ordinance.

Methodology

- Over the past year, "FISCALS," the modeling software used for this analysis, was updated by the City's consultants to include the latest City budget information as well as input from all City departments and the school system regarding service levels and capital needs related to mixed use projects and cumulative growth trends in the City. TischlerBise reported that with six years of mixed use development history staff was in a better position to evaluate impacts of new development than in 2003 when the model was first introduced. Those staff perspectives are now incorporated in "FISCALS" as trigger points for additional operating and capital expenses. Also, revenue assumptions have been updated to reflect 2009 assessed real estate values, current tax rates, and business tax revenue based on comparable uses in comparable physical space in the City.
- "FISCALS" is not an *economic* impact model. It does not measure direct or secondary jobs created by the new development, spinoff economic impact such as higher adjacent property values, or consumer spending in the city attributable to new residents living in these new buildings. The model focuses strictly on City revenues and expenses as they directly impact the City budget. "FISCALS" is a static model that makes no assumptions about inflationary values over time.
- The model is not intended to make policy decisions on building new schools. However, it can identify red flags that indicate tipping points for capacity issues.
- In this study, the City used actual tax revenue as reported by the Commissioner of Revenue when it was available and complete (BPOL, sales, meals, bank

franchise, cigarette and other). Otherwise model generated projections were used based on historic averages for tax revenue in comparable commercial space.

- It can be problematic to compare current fiscal impact model results with original projections from earlier versions of the model because tax rates have changed, assessed values and resulting property tax revenues are different, there has been a decline in state aid to the city, and certain City expenses have been triggered by the *cumulative* effect of new development, along with general population and physical growth in the City. The impact of the recession is another factor that the model could not have anticipated.
- Projections for buildings not yet fully occupied necessarily involved assumptions for types of use and the revenue and expenses those uses would, on average, generate.

Findings

- The five mixed use projects have yielded nearly \$2.5 million in net annual revenue to the City as of today.
- These projects have yielded \$4.7 million in gross annual revenue to the City compared to \$363,560 gross annual revenue produced by the five properties and their respective uses prior to redevelopment.
- These projects have generated 92 school aged pupils in the City's school system since 2002. This figure reflects 0.19 pupils per dwelling unit in contrast to a 0.15 per unit assumption for pupils when the projects were considered for approval. Pupil assumptions incorporated in the original fiscal impact projections were based on the public school commissioned Grier Studies of 2001 and 2006.
- Pearson Square (0.29) and the Spectrum (0.17) pupil ratios per dwelling unit have thus far proven higher than anticipated, while pupil ratios for the Byron (0.11), Read Building (0.04) and Broadway (0.08) have been lower.
- **Proffers:** These projects yielded 40 ADUs or workforce dwelling units. They produced \$200,000 in cash to the City's affordable housing fund. They generated \$2.7 million in school capital contributions. The reduced rent for arts flex space at Pearson Square is valued at \$688,000 over ten years and an additional \$100,000 in cash was donated for the build out of the space by the developer. Numerous other cash and non-cash proffers were contributed to the five projects.
- Almost 215,000 sf in new commercial space built in the City (an 11% increase). This space is 70% filled today in the toughest retail and office markets in recent history.

Further Insights

- **Pearson Square:** There has been much discussion about how this project has yielded more pupils than originally anticipated. The adaptation of dwelling units from condos to rental condos, especially with a significant inventory of three-bedroom units, undoubtedly generated more pupils and thus more City expenses as measured by the fiscal impact model. An additional cash proffer for school capital expenses was contributed by the developer in 2007 when the change was approved by the City.
- Pearson Square was approved as one project involving two buildings. Atlantic Realty Company would not have invested in the project without approval of the residential component. The City would not have approved the project without the office building, which was required to be built first. Staff's recommendation to Council and the Planning Commission to approve the project involved a fiscal impact estimate for the *entire* project.
- According to the City's 2003 CAFR, about \$48 million in general fund activities served a City population of about 10,500. By 2008 about \$68 million (a 42% increase) in general fund activities served a City population of about 12,000 (a 14% increase). This higher per capita resident expense is reflected in the fiscal impact model's calculations for expenses, a trend which has deflated the net fiscal impact of the five projects studied.
- There was 9% growth in student population in the city between 2002 and 2008 (156 additional pupils from throughout the City). During the same time period, public school expenses grew 60%. This does not include debt service expenses for the middle school. According to data in the City's 2008 CAFR, City debt service increased from \$1.1 million per year in 2001 to about \$5.3 million in 2008, largely due to the middle school construction bond. Mixed use development contributed 5% to the overall pupil population in the City through 2008.
- Mixed use development has made a big contribution to the City on the net and gross revenue side. In terms of net revenue, \$2.5 million equates to about 9 cents in real estate property tax revenue.
- There has been virtually no growth in the City workforce since the onset of mixed use development.

