



# TOWN OF CHAPEL HILL NORTH CAROLINA

Meeting Date: 10-01-14

## MEMORANDUM

**TO:** Roger L. Stancil, Town Manager

**FROM:** Kenneth C. Pennoyer, Business Management Director  
Brandon Howell, Budget Analyst

**SUBJECT:** Obey Creek Project Preliminary Fiscal Impact Report

**DATE:** October 1, 2014

### **Recommended Council Action**

- To receive this fiscal impact report on the Obey Creek Project.

### **Context with Key Issues**

- The Council has entered into the negotiation phase of the development agreement process for with Obey Creek Ventures, LLC for the Obey Creek Site. The development is proposed for land that is currently undeveloped and not on the Town's tax rolls. The 124-acre site is currently zoned for low-density residential use which supports approximately 79 single family dwellings. The developer is requesting rezoning to permit about 1.5 million square feet of mixed use development.
- The purpose of this report is to better understand how the development will impact Town government finances. It is not our goal to "solve" the question of whether a development is worthwhile to pursue from the Town's perspective, but to add a financial perspective to support the Council decision making process.
- The analysis focuses primarily on the revenue and costs associated with the impact on the Town. The analysis provided uses a methodology similar to what is commonly used to show the impact of annexations on Town finances. In other words, it shows Town revenues and costs associated with extending Town services to a specific development. Revenues estimates are also provided for overlapping jurisdictions.
- The development of this property will have fiscal impacts for Orange County and the Chapel Hill Carrboro School District (CHCCS), in addition to the Town of Chapel Hill. The property is currently being taxed as open land by Orange County and the CHCCS. The tax implications for the proposed development contained in this report are net of current tax revenues.
- Lacking information concerning when the various phases of the proposed development would come on-line, this analysis uses a full build-out scenario and current dollar values with regard to fees, tax rates and costs.

### **Development Assumptions**

The development team’s master plan includes about 1.5 million square feet of mixed use development, including retail, office, hotel and residential usage. This plan is contingent on rezoning the 124 acre tract. Currently the property is zoned for low-density residential. Under current zoning approximately 79 single family homes could be built. Assuming these homes would be about 3,200 square feet each, the total square footage of new development under current zoning would be about 252,800.

Our analysis compares the revenues and the cost of extending Town services to the development team’s master plan with what can be built using existing zoning of the property. For the purposes of this analysis both scenarios assume annexation although under the current zoning scenario there is a possibility the development will not be annexed. The development assumptions of the two scenarios are depicted below.

### DEVELOPMENT ASSUMPTIONS

<b>Development Team Master Plan</b>				
Property Use	Projected units	Square Feet	Value PSF	Projected Value @ full build-out
Retail	18	327,180	\$ 220	\$ 71,896,103
Office	5	242,070	180	43,572,600
Hotel	1	112,220	149	16,720,780
Residential	673	797,360	210	167,445,600
<b>Total</b>		<b>1,478,830</b>		<b>\$ 299,635,083</b>

<b>Current Zoning</b>				
Property Use	Projected units	Square Feet	Value PSF	Projected Value @ full build-out
Residential	79	252,800	\$ 180	\$ 45,504,000

### Estimated Revenues

The following is an estimate of the revenues to the Town, County and School District based on the development scenarios described above. These estimates are based on current tax rates and fee schedules. Revenues are shown in current dollars and are not discounted based on anticipated date of receipt.

- Property Taxes:** The following table shows the anticipated incremental annual tax revenues for the three overlapping tax jurisdictions in Chapel Hill based on the development scenarios shown above. Existing taxes are netted out of these figures for the County and School District because land value is assumed in the square footage values used above.

## Annual Property Tax Revenue @ Full Build-out

Development Team Master Plan				
Property Use	Projected Value @ full build-out	Town of Chapel Hill 52.4 cents	Orange County 87.4 cents	School District 20.84 cents
Retail	\$ 71,896,103	\$ 376,736	\$ 628,372	\$ 149,831
Office	43,572,600	228,320	380,825	90,805
Hotel	16,720,780	87,617	146,140	34,846
Residential	167,445,600	877,415	1,463,475	348,957
Less current tax		-	62,817	14,198
<b>Total</b>	<b>\$ 299,635,083</b>	<b>\$ 1,570,088</b>	<b>\$ 2,555,994</b>	<b>\$ 610,242</b>

Current Zoning				
Property Use	Projected Value @ full build-out	Town of Chapel Hill 52.4 cents	Orange County 87.4 cents	School District 20.84 cents
Residential	\$ 45,504,000	\$ 238,441	\$ 397,705	\$ 94,830
Less current tax		-	62,817	14,198
<b>Total</b>	<b>\$ -</b>	<b>\$ 238,441</b>	<b>\$ 334,888</b>	<b>\$ 80,632</b>

- **Transit and Capital:** The Town's property tax rate is broken down into the following three components:
  - **General Fund** – 38.8 cents, pays operating costs for most Town functions
  - **Transit** – 5.1 cents, supports the Town's portion of the cost of running the Town's bus system
  - **Debt Management Fund** – 8.5 cents, pays for debt service for major capital projects financed with debt.

The following table breaks out the expected Town property tax receipts based on the allocation described above.

### Town Property Tax Breakdown

Property Use	Tax Rate per \$ 100 Assessed Value	Development Master Plan	Current Zoning
<b>Projected Assessment*</b>		<b>\$ 308,114,883</b>	<b>\$ 46,736,400</b>
General Fund	38.8	1,195,486	181,337
Transit Fund	8.5	261,898	39,726
Debt Fund	5.1	157,139	23,836
<b>Total</b>	<b>52.4</b>	<b>\$ 1,614,522</b>	<b>\$ 244,899</b>

\*Includes Vehicles

- Vehicle Taxes:** The expected new development includes 673 new multifamily housing units. Based on the average number of occupants for other Chapel Hill multifamily developments (1.9 per unit) and assuming the number of vehicles per residence of 1.26 and an average assessed value of \$10,000 per vehicle, the following table shows the expected vehicle property tax. Also this table shows the same data assuming development under the current zoning which includes 2.35 residents per single family unit and 1.56 vehicles per residence and \$10,000 assessed value per vehicle.

### Annual Vehicle Tax & Fee Revenue @ Full Build-out

<b>Development Team Master Plan</b>				
Property Use	Projected units	Vehicles per Unit	Vehicle Value	Est. Vehicle Tax Value
Residential	673	1.26	10,000	8,479,800
		<b>Town of Chapel Hill 52.4 cents</b>	<b>Orange County 87.4 cents</b>	<b>School District 20.84 cents</b>
Vehicle Tax		\$ 44,434	\$ 74,113	\$ 24,083
Town Vehicle Fee @\$30		25,439	-	-
<b>Total</b>		<b>\$ 69,874</b>	<b>\$ 74,113</b>	<b>\$ 24,083</b>

<b>Current Zoning</b>				
Property Use	Projected units	Vehicles per Unit	Vehicle Value	Est. Vehicle Tax Value
Residential	79	1.56	10,000	1,232,400
		<b>Town of Chapel Hill 52.4 cents</b>	<b>Orange County 87.4 cents</b>	<b>School District 20.84 cents</b>
Vehicle Tax		\$ 6,458	\$ 10,771	\$ 3,500
Town Vehicle Fee @\$30		3,697	-	-
<b>Total</b>		<b>\$ 10,155</b>	<b>\$ 10,771</b>	<b>\$ 3,500</b>

- Sales Taxes:** Because of the complexity of the distribution formulas for sales taxes in NC it is impossible to calculate total sales taxes applicable to the point of sale municipal jurisdiction accurately starting from an estimated retail sales number. An alternative approach to estimating sales taxes based on sales is to take the total annual sales tax receipts for the Town and divide by the total annual retail sales in the Town. This will result in a multiplier that can be applied to an estimate of retail sales to project sales tax revenue. This estimation method ignores the fact that sales tax receipts for the Town are not solely based on local sales, but the result will provide a gross estimation.

The amount of sales per square foot is highly variable among various types of retail establishments. The following calculation uses a retail sales square footage value that we believe is representative of the type of retail stores that may be included in the development scenario.

**Sales Tax Estimation**

	New Retail Sq. Footage	Est. Sales per Sq. Foot	Total Est. Sales	Tax Multiplier	Est. Annual Sales Taxes @ Build Out
Sales Tax Calc.	327,180	\$ 290	94,882,200	0.00687	\$ 651,936

<b>Sales Tax Multiplier</b>	
	<b>Tax Revenues</b>
Orange County Sales Tax Distribution 2013 (1)	35,845,683
Chapel Hill Sales Tax Distribution 2013 (1)	10,240,945
Total Orange County Sales (2)	1,321,366,090
Orange County Revenue per sales dollar	2.713%
Per Capita Distribution for Orange County	61.422%
Town Sales Tax per Dollar of Retail Sales	1.666%
<p>1. <i>NCDOR for 2013</i>                  2. <i>Per Chamber</i>                  3. <i>Sales per sq foot from Economic Development</i></p>	

- **Permit Fees:** Town permit fees for the construction of properties described in the development scenario based on current (FY15) permit fees are shown below. These are one-time revenues collected during the construction period.

**Building Permit Revenue Estimation (One-Time Revenue)**

Master Plan	New Square Footage	Total Est. Permit Revenue
	1,478,830	\$ 1,093,750
Current Zoning	New Square Footage	Total Est. Permit Revenue
	252,800	\$ 269,285

Source: Town Inspections Office

- **Stormwater Utility Fees:** Assuming an increase of impervious surface of 11%, additional annual stormwater utility fees would be as follows:

**Storm water Utility Fees:**

Master Plan		
1,243 ERUs	\$	30,764
Current Zoning		
331 ERUs	\$	8,192

Source: Stormwater Division

A summary of all projected revenues for both development scenarios and all three overlapping jurisdictions is shown below:

**OBEY CREEK DEVELOPMENT REVENUE SUMMARY**

Town of Chapel Hill	Current Zoning	Development Plan	Variance
Net Property Taxes	\$ 233,891	\$ 1,540,124	\$ 1,306,234
Vehicle Taxes & Fees	10,032	69,026	58,994
Sales Tax	-	651,936	651,936
Storm Water Utility Fees	8,192	30,764	22,572
Building Permit Fees (One-Time)	269,285	1,093,750	824,465
<b>Total Annual</b>	<b>252,115</b>	<b>2,291,850</b>	<b>2,039,735</b>
<b>Total One-time</b>	<b>\$ 269,285</b>	<b>\$ 1,093,750</b>	<b>\$ 824,465</b>

Orange County	Current Zoning	Development Plan	Variance
Net Property Taxes	\$ 334,888	\$ 2,555,994	\$ 2,221,106
Vehicle Taxes	10,771	74,113	63,342
Sales Tax	-	1,580,966	1,580,966
<b>Total Annual</b>	<b>\$ 345,659</b>	<b>\$ 4,211,073</b>	<b>\$ 3,865,413</b>

School District	Current Zoning	Development Plan	Variance
Net Property Taxes	\$ 80,632	\$ 610,242	\$ 529,609
Vehicle Taxes	3,500	24,083	20,583
Impact Fees (One-Time)	902,417	865,478	(36,939)
<b>Total Annual</b>	<b>84,132</b>	<b>634,324</b>	<b>550,192</b>
<b>Total One-time</b>	<b>\$ 902,417</b>	<b>\$ 865,478</b>	<b>\$ (36,939)</b>

**SUMMARY ALL JURISDICTIONS (Town, County & School District)**

	Current Zoning	Development Plan	Variance
<b>Total Annual</b>	<b>\$ 681,906</b>	<b>\$ 7,137,247</b>	<b>\$ 6,455,340</b>
<b>Total One-time</b>	<b>\$ 1,171,702</b>	<b>\$ 1,959,228</b>	<b>\$ 787,526</b>

## Cost of Providing Town Services to Development

Consistent with the approach described above, the following analysis estimates the cost of providing services at full build-out for the two development scenarios, the Development Plan (green) and Current Zoning (orange). Cost estimates were arrived at using two methods. The first method used was based on specific factors that drive Town service costs. For instance, the cost of Police Services is driven by the number of calls for service. The calculation for the incremental cost of providing Police Services to the new development is based on an estimate of the number of calls for service that will be generated by the new development.

For other services where specific factors that drive service demand are harder to define, we used a per capita or proportional cost approach. The per-capita approach assumes that all residents use that particular service in the same proportion. For instance, to calculate Parks and Recreation costs we calculated a per-capita cost based on the current Parks and Recreation Budget divided by the amount the current population of the Town. The result is then multiplied by the estimated new residents created by the development. The methods we used to calculate the cost of extending Town services to the new development is described below. Costs shown in this analysis have not been discounted based on their expected date of expenditure.

- **Public Works:** It is assumed that that under the development plan the streets and solid waste collection will be private, therefore there will be no incremental cost to the Public Works budget. The current zoning scenario includes costs for maintaining public roads and waste collection for 79 homes.
- **Library and Parks & Recreation:** The costs for providing both library and parks & recreation services to new residents under both scenarios is based on the per-capita costing approach. It is assumed there will be 1,279 new residents under the development plan and 186 under the current zoning.
- **Police:** The cost of Police services is based on the estimated cost per service call multiplied by an estimate of projected calls generated by the new development.
- **Fire:** Costs for fire service are made up of an operating and a capital component. The operating part is based on the cost of fire protection as a function of assessed value of property. The capital portion of the cost is based on the proportional cost of new fire apparatus that are not included in the Debt Fund.
- **Transit:** The funding for the Town's bus system is split among the Town, UNC and Carrboro. The primary source of the Town's share is a dedicated portion of the Town's property tax. It is assumed that the incremental additional Transit taxes from the development will be used to offset the cost of new services. The Final Transportation Impact Study will provide additional information on transit demand created by the development.
- **General Government** – A portion of general government services is variable in nature and will increase as the Town's overall budget is increased in order to support expanded operations. The additional cost of government services is assumed to be 13% of the increase in other operating costs. This is consistent with the administrative overhead charged to enterprise funds and grants.
- **Capital – Debt Service** – The Town has a major investment in public facilities that is accounted for outside of the regular operating budget. This investment is funded through

the Debt Management Fund. Annual debt service costs are approximately 13% of the general fund operating budget. The additional cost of capital facilities associated with new development is expected to be about 13% of incremental operating costs.

The following schedule summarizes the estimated cost for the Town to extend services to the two development scenarios.

## Town Services Annual Costs

Town Service		Estimation Method	Current Zoning	Development Master Plan
Public Works:				
Solid Waste Collection		Direct Estimation	18,700	-
Street Maintenance Serv		Direct Estimation	22,500	-
Storm water		Direct Estimation	1,000	-
<b>Total</b>			<b>\$ 42,200</b>	<b>\$ -</b>

*\*Includes Vehicles*

Parks & Recreation		Per Capita	19,726	135,870
Library Services		Per Capita	8,410	57,927
Police Services		Calls for service est.	36,672	252,168
Fire Services		Calls for service est.	49,760	357,982
Transit		Revenue Off-set	39,726	261,898
Planning/Inspections		Direct cost estimation	-	-
General Government		Proportional O/H (13%)	25,544	138,560
Capital - Debt Service		Proportion of Op. (13%)	25,544	138,560

<b>Total</b>			<b>\$ 247,583</b>	<b>\$ 1,342,963</b>
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## Town Services One-Time Costs

Town Service		Estimation Method	Current Zoning	Development Master Plan
Public Works:				
Solid Waste Collection		Direct Estimation	6,500	-
Planning/Inspections		Direct cost estimation	-	10,000

<b>Total</b>			<b>\$ 6,500</b>	<b>\$ 10,000</b>
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## Town Revenues versus Cost for Extending Services

The following tables compare total estimated revenue after full build-out for both the Current Zoning and the Development Plan Scenario. Revenues and costs are separated into annual and one-time components. Some important assumptions to remember when looking at these numbers include the following:

- All revenues are based on current tax rates and fees
- All costs are current costs based on the FY15 budget
- Actual revenues may differ based on both the final characteristics of the development and changes to tax rates and fees.
- Cost estimates are based on current service levels and service delivery methods both of which are subject to change. Ultimately, costs are controlled through Council approval of annual budgets`.

### OBEY CREEK DEVELOPMENT Town Revenue/Cost Comparison

<b>Current Zoning</b>	<b>Revenues</b>	<b>Costs</b>	<b>Variance</b>
<b><u>REVENUES</u></b>			
Net Property Taxes	\$ 238,441		
Vehicle Taxes & Fees	10,155		
Sales Tax	-		
Storm Water Utility Fees	8,192		
Building Permit Fees (one-time)	269,285		
<b><u>Costs</u></b>			
Public Works		42,200	
Solid Waste (one-time)		6,500	
Parks & Recreation		19,726	
Library Services		8,410	
Police Services		36,672	
Fire Services		49,760	
Transit		39,726	
Planning/Inspections		-	
General Government		25,544	
Capital - Debt Service		25,544	
<b>Total Annual</b>	<b>\$ 256,788</b>	<b>\$ 247,583</b>	<b>\$ 9,206</b>
<b>Total (One-time)</b>	<b>\$ 269,285</b>	<b>\$ 6,500</b>	<b>\$ 262,785</b>

<b>Development Plan</b>	<b>Revenues</b>	<b>Costs</b>	<b>Variance</b>
<b><u>REVENUES</u></b>			
Net Property Taxes	\$ 1,570,088		
Vehicle Taxes & Fees	\$ 69,874		
Sales Tax	\$ 651,936		
Storm Water Utility Fees	\$ 30,764		
Building Permit Fees (one-time)	\$ 1,093,750		
<b><u>Costs</u></b>			
Public Works		-	
Planning/Inspections (one-time)		10,000	
Parks & Recreation		135,870	
Library Services		57,927	
Police Services		252,168	
Fire Services		357,982	
Transit		261,898	
Planning/Inspections		-	
General Government		138,560	
Capital - Debt Service		138,560	
<b>Total Annual</b>	<b>\$ 2,322,661</b>	<b>\$ 1,342,963</b>	<b>\$ 979,698</b>
<b>Total (One-time)</b>	<b>\$ 1,093,750</b>	<b>\$ 10,000</b>	<b>\$ 1,083,750</b>

### Schools

A significant number of new housing units are expected to be built under both development scenarios. These housing units are likely to generate new student for the Chapel Hill Carrboro City Schools (CHCCS) and thereby add to the cost of providing schools. Schools also generate revenue from two major local sources that are associated with development. In addition to property taxes (see page 3) the County, on behalf of CHCCS, charges a one-time impact fee for all new residential units built in the district. The estimated impact fees, based on the current rates, for both the proposed Development Plan scenario at full build-out and the Current Zoning scenario are shown below.

### School Impact Fees (One-Time Revenue)

<b>Development Master Plan</b>	<b>Units</b>	<b>Per Unit Fee</b>	<b>Total</b>
<b>Full Build-out</b>	673	\$ 1,286	\$ 865,478

<b>Current Zoning</b>	<b>Units</b>	<b>Per Unit Fee</b>	<b>Total</b>
<b>Full Build-out</b>	79	\$ 11,423	\$ 902,417

It should also be noted that the County spends approximately half of its budget on education therefore a portion of their tax increment from this project would go to the CHCCS.

The Schools Adequate Public Facilities Ordinance Technical Advisory Committee (SAPFOTAC) issues an annual report that, among other things, establishes projections for school membership by grade level in comparison to schools capacity based on the established level of service (LOS). The estimated number of students generated from the two development scenarios, provided by CHCCS, is shown in the following table.

**Student Generation Rates**

<b>Development Master Plan</b>	<b>Mixed-Use</b>	<b>Single-Family</b>	<b>Est. Students Generated*</b>
<b>Multi-Family Homes</b>	673	0	56

<b>Current Zoning</b>	<b>Mixed-Use</b>	<b>Single-Family</b>	<b>Est. Students Generated*</b>
<b>Single-Family Homes</b>	0	79	48

\* Per CHCCS