GREENWOOD VILLAGE
MEMORANDUM

DATE: April 7, 2016

FOR: April 18, 2016 City Council Study Session

TO: The Honorable Mayor and Members of City Council

THRU: Jim Sanderson, City Manager

FROM: Shawn Cordsen, Finance Director

SUBJECT: Orchard Station Subarea Fiscal Impact Analysis

Introduction

This analysis examines the fiscal impacts of redevelopment as envisioned by the Orchard Station Subarea Plan. The primary purpose of this analysis is to determine whether revenues generated by redevelopment sufficiently support the resulting increase in costs for services. The speculative and general nature of the plan requires the application of numerous and often abstract assumptions.

Methodology

For purposes of this analysis, staff applied the average costing approach. Average costing attributes costs to new development based on the average cost per unit of service provided to existing development. It does not take into account excess or deficient capacity to deliver services, and assumes that average costs of municipal services will remain stable in the future. As the redevelopment scenario presented is just one of many possible options, this method was selected as it is easily adaptable to alternative redevelopment scenarios.

The scope of the analysis is limited to those fiscal impacts *directly attributable* to the subarea and as though the development were fully completed and in place today. This approach is intended to make the estimates more meaningful and understandable to readers while lessening the need for assumptions regarding the organization’s future fiscal situation or the cumulative effects of development on surrounding areas.

Existing Development

The Orchard Station Subarea encompasses approximately 1.4 million square feet of commercial space including a mix of office buildings, hotels, retail and restaurant establishments, a church, and approximately 13.1 acres of vacant land. Details regarding the current structural demographics within the subarea are provided in the following table.

Structure	Sq. Ft.[1]	%
Office	817,091	59.3%
Lodging	213,415	15.5%
Retail/Restaurant	7,090	0.4%
Tax Exempt	341,406	24.8%
Total	**1,379,002**	**100.0%**

The existing subarea provides employment to approximately 2,150 individuals and contributes $1.1 million of annual municipal revenue via property, sales, use, lodging, and occupational privilege taxes. The following table provides an accounting of the revenue directly generated by the subarea. In some cases tax types have been consolidated to safeguard the proprietary information of local businesses.

Tax Type	Annual Collections[2]	%
Property Tax	$ 66,846	5.9%
Sales/Use/Lodging	968,277	85.1%
Occupational Privilege Tax	103,012	9.0%
Total	**$ 1,138,135**	**100.0%**

Redevelopment Scenario

The speculative and general nature of the subarea plan lacks the detail to adequately evaluate any possible fiscal impacts. Therefore, it was necessary to develop a conceptual redevelopment scenario from which to work from. With the assistance of consultants, the scenario presented in this analysis was “reverse engineered” based on the capacity of the local transportation network and developed via numerous deliberations with City Council. The following table compares the existing density and uses with that of the redevelopment scenario.

Structure	Existing	Less: Demolition	Add: Construction	Total	%
Office	817,091	128,791	1,050,000	1,738,300	51.7%
Lodging	213,415	0	175,000	388,415	11.5%
Retail/Restaurant	7,090	0	180,000	187,090	5.6%
Tax Exempt	341,406	341,406	0	0	0.0%
Residential	0	0	1,050,000	1,050,000	31.2%
Total	**1,379,002**	**470,197**	**2,455,000**	**3,363,805**	**100.0%**

As shown in the above table, the scenario proposes a net increase of approximately 2.0 million square feet of development. Additional assumptions include the following:

- New commercial office space will be the type and quality found in and around the Village Center.
- New lodging establishments will be similar to existing mid-level service providers within the City.
- New retail/restaurant will comprise a mix of uses similar to that found near the Landmark.

[1] Arapahoe County Assessor
[2] Fiscal Year 2015 Collections

- Residential development will consist of approximately 910 units:
  - 800 condominium units @ 1,000 sq. ft. with quality similar to that of the Landmark.
  - 110 townhome units @ 2,273 sq. ft. with quality similar to that of Georgetown.

Revenue Analysis

Revenue projections are based on a per square foot multiplier approach using data assembled from the existing developments identified by the applied assumptions. The use of the per square foot multiplier method essentially converts the square footage of each structure into a projected amount of revenue. Barring changes to the applied assumptions, the model is easily adaptable to alternative development scenarios. The following table provides the revenue generated per square foot for each structure category and revenue type.

	Office	Lodging	Retail/ Restaurant	Residential Condominium	Residential Townhome
One-Time Revenue:					
Development Taxes/Fees	$ 4.11	$ 3.81	$ 4.95	$ 5.55	$5.55
Recurring Annual Revenue:					
Property Tax	$ 0.12	$ 0.07	$ 0.12	$ 0.09	$ 0.06
Sales Tax	0.12	1.84	5.24	0.00	0.00
Use Tax	0.35	0.03	0.15	0.00	0.00
Lodging Tax	0.00	1.33	0.00	0.00	0.00
Occupational Privilege Tax	0.11	0.02	0.14	0.00	0.00
Total Annual Revenue	$ 0.70	$ 3.29	$ 5.65	$ 0.09	$ 0.06

To calculate the estimated revenue generated by the redevelopment scenario, one need only apply the above multipliers to the proposed square footage of each category structure as illustrated in the following table. It should be noted that one-time revenue calculations are based on the square footage of construction, however, due to the anticipated retention of several existing structures, the calculation of annual revenues includes the cumulative finished square footage of the subarea.

	One-Time Revenue			Annual Revenue		
	Square Footage	Per Sq. Ft. Multiplier	Annual Revenue	Square Footage	Per Sq. Ft. Multiplier	Annual Revenue
Office	1,050,000	$ 4.11	$ 4,315,500	1,738,300	$ 0.70	$ 1,216,810
Lodging	175,000	3.81	666,750	388,415	3.29	1,277,885
Retail/Restaurant	180,000	4.95	891,000	187,090	5.65	1,057,059
Res. Condo	800,000	5.55	4,440,000	800,000	0.09	72,000
Res. Townhome	250,000	5.55	1,387,500	250,000	0.06	15,000
Total	2,455,000		$ 11,700,750	3,363,805		$ 3,638,754

As shown in the above table, the redevelopment scenario is anticipated to produce approximately $11.7 million in one-time development taxes and fees, as well as ongoing annual revenues of roughly $3.6 million. The net increase in annual revenues of $2.5 million is the result of a combination of factors including, an increase in the revenue generated per square foot of commercial development over that which is currently generated, additional development density, and lastly, the elimination of vacant and/or tax exempt property. As previously mentioned the above figures represent only those revenues *directly attributable* to the subarea redevelopment scenario. While the redevelopment is expected to attract an additional 2,800 employees, as well as some 2,100 residents, the economic impact of these individuals have been omitted from this analysis.

Expenditure Analysis

As with revenues, the expenditure forecasting method is based on a per unit multiplier approach using historical service delivery costs. However, service demands do not always directly correlate to the square footage of development, nor are services provided uniformly between commercial and residential consumers. In keeping with the scope of evaluating only those fiscal impacts *directly attributable* to the subarea, departments were asked to identify only those services for which demand would increase as a result of the redevelopment scenario. Those services and anticipated additional costs include the following:

- The proposed redevelopment scenario is expected to have little, to no impact, on overhead, administration or the support functions of the organization.

- The Parks, Trails and Recreation Department concluded that impacts will be limited to the recreation reimbursement program. Using historical participant data, staff calculated the per household cost of the program at $86.25. Multiplying the per household amount by the 910 residential units proposed in the redevelopment scenario results in anticipated additional cost to the City of $78,488.

- The Public Works Department evaluated the proposed redevelopment scenario based on the addition of five lane miles of public roadway, as well as the assumption that new residential development would not be subject to city-provided trash service. Using historical data pertaining to snow and ice control, traffic signs, striping, street light maintenance, roadway drainage, and pavement management, the department determined an average cost per lane mile of $36,500, and a total annual cost to the City of $182,500.

- The Police Department evaluated the public safety demands of the redevelopment scenario using call-for-service volume from existing comparative developments as outlined in the assumptions. Using existing costs related to personnel, equipment and vehicles, as well as the average duration of calls for service, the department was able to calculate the following per square foot multipliers as provided in the following table.

	Square Footage	Per Sq. Ft. Multiplier	Annual Cost
Office	921,209	$ 0.04	$ 36,848
Lodging	175,000	0.02	3,500
Retail/Restaurant	180,000	0.05	9,000
Res. Condo	800,000	0.03	24,000
Res. Townhome	250,000	0.02	5,000
Total	2,326,209		$ 78,348

The above figures presented are representative of the additional costs of services *exclusively* for the redevelopment scenario. Therefore, they do not take into account the existing capacity of the organization to deliver such services. Additionally, the above analysis does not address the compounding impacts of this and other development along the I-25 corridor, nor does it account for the logistics of providing the services.

In September 2015, the Police Chief presented a comprehensive evaluation of Police Department staffing requirements to City Council. In that presentation the Chief addressed the Orchard Station Subarea redevelopment scenario, as well as other developments either completed, in progress, or anticipated throughout the City. A memorandum from the Police Chief has been enclosed which further examines the existing and anticipated future service demands and staffing levels of the Police Department.

Conclusion

Analysis of the redevelopment scenario indicates a positive net fiscal impact to the City of $11.7 million in one-time development related revenue, as well as an ongoing net annual surplus of $2.2 million. Fiscal impact analysis can bring a realistic sense of the costs of growth into the public discussion. It is important to acknowledge however, fiscal impacts are only one of many concerns when evaluating land use decisions.