



NASSAU CAPITAL ADVISORS, LLC

MEMORANDUM

**TO:** JOHN PAGANKOPF, AICP/PP  
H. HOVNIANIAN INDUSTRIES

**FROM:** ROBERT POWELL, PH.D.

**RE:** HERITAGE TOWN CENTER REDEVELOPMENT PROJECT  
REVIEW AND SUMMARY OF DISCUSSIONS REGARDING FISCAL IMPACT  
WITH RICHARD READING ASSOCIATES AND 4WARD PLANNING, INC.

**DATE:** MAY 3, 2016

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At your request I have completed a review of the results of the most recent discussions between Richard Reading and Todd Poole related to the projected fiscal impact of this redevelopment project on Manchester's municipal and public school budgets.

*Background*

At the most recent Township Working Group meeting on April 21, 2016, several members identified a number of variations in the findings and conclusions within the fiscal impact report of Mr. Poole as revised April 18, 2016, and a similar fiscal impact memo prepared by Mr. Reading dated April 21, 2016.

On April 25, 2016, you convened a meeting with Mr. Poole, Mr. Reading and me to review those specific items regarding fiscal impact which were still creating variations in projections as between the two reports.

As a result of those discussions, and with your support, we have agreed to make revisions to several assumptions which form the basis of the fiscal impact analysis. The revisions fall into two broad categories:

- (1) You have authorized several revisions to be made to the redevelopment plan which will increase the percentage of "age-restricted" housing built. These changes will result in a reduction in the projected increase in population created by the project, and a material reduction in the number of public school children added to the school district budget.
- (2) We have reached an agreement with Mr. Reading and Mr. Poole to adjust certain key fiscal impact formulas and metrics in the 4Ward Planning model so as to conform with formulas/metrics which have been recommended by Mr. Reading.

*These changes, as more fully described below, result in our consensus conclusion that the project can now be expected to create a combined financial surplus for the Township and the School District at full build-out.*

*Summary of Revisions*

*1. Revised Housing Mix and Reduction in New Student Population*

We have agreed to adjust the housing mix in the redevelopment plan by adding 1,849 "age-restricted" active adult townhomes, which will replace 763 "age-targeted" housing units and another 1,086 units with

no age restrictions or preferences. This change reduces the overall growth in population for the development, and eliminates all projected school children from 1,849 housing units (28.3% of the total 6,543 housing units). As a result, the projected number of public school children generated by the developed drops from 2,148 in the prior report from Mr. Poole to 1,791. In addition, this plan revision reduces the projected increase in population from the project from 16,471 persons down to 15,757. Both of these results (fewer school children and smaller population increase) serve to improve in a material way the fiscal impact of the project.

2. *Method of Estimating New Residents/School Children Created by Project:*

In Mr. Poole's fiscal analysis, he had assumed that 10% of occupants of all new housing in the project would be existing Manchester residents moving within the town, and 90% of the occupants would be new Township residents. This assumption tended to mitigate, somewhat, the new burden on municipal services for the project, on the assumption that 10% of the new residents were already receiving municipal services, and should not be counted twice. We had also assumed that 90% of the students generated by the project would be new to the Township, with 10% coming from families already in the community. Mr. Reading's analysis assumed that for calculating these increased services cost, we should assume 100% of the new households (and students within them) will be new to the Township. In my opinion, both Mr. Poole's and Mr. Reading's assumptions have credible support in the fiscal impact literature. However, we have agreed to utilize the formula in Mr. Reading's analysis. This means we will burden municipal costs assuming that 100% of the new occupants are new residents, and that 100% of all school children generated by the new housing will be calculated in the fiscal cost to the schools. On a related issue, we have agreed that with respect to the new employees which will be working in Manchester as a result of the jobs the project will create, we will assume that 67% of these new employees will reside outside of the Township, which means we will assign an appropriate new municipal cost burden to them for the marginal increase in services their presence in the Township will create.

3. *Indexing Future Costs and Tax Revenues:*

Mr. Poole's fiscal analysis has assumed a 3% annual increases in rental rates and sales prices for the new improvements constructed, which in turn results in a modest increases in tax revenues from the development. Mr. Poole's analysis also assumes a 2.6% annual increase in the costs of municipal services over time. These indexing figures are consistent with long-term inflation results of similar new developments. Mr. Reading utilized a static analysis of such costs and revenues. We have settled on the somewhat more dynamic indexing formula in the consensus model.

4. *Demographic Multipliers:*

Mr. Poole's latest fiscal report estimated the number of new residents, public school children and employees based upon demographic multipliers which are similar to those used by Mr. Reading, namely the multipliers published by the Center for Urban Policy Research (CUPR). Mr. Poole's most recent report estimated total population increase of 15,757 persons, including 1,791 public school children. Although the base-line source for both reports was the same, Mr. Reading's interpretation of the data led him to estimates which are somewhat lower (i.e., total population increase of 14,468 including 1,671 public school children). We have kept the higher (and therefore more conservative) estimates used by Mr. Poole in our consensus analysis.

5. *Public School Children Cost Factor*

Both fiscal impact models estimated the financial impact of the project on the public schools. We have collectively had the benefit in the past several weeks of further data from the Board of Education and other sources in order to arrive at our best estimate of this future cost factor. Mr. Poole's initial report assumed a phased school cost in Phase I of the project of \$1,681 per new student; \$5,901 per new student in Phase II; \$10,478 per pupil in Phase III and \$11,961 per pupil in Phase IV. We have now adjusted these school cost numbers upward, reflecting the latest budget data we have obtained. The current budget for the school district (2015-16) has an expense budget of \$16,908 per pupil, of which \$14,119 (83.5%) is funded by local tax revenues. We therefore revised the school cost burden going forward in the latest model to reflect an average annual per pupil school expenditure of \$16,000 at full buildout, which we believe fairly reflects this marginal cost out into the future. As set forth in more detail below, our model now shows a combined fiscal surplus (municipal and school costs) at completion, through Phase IV, of \$4,343,088. Mr. Reading also calculated the impact using an alternative "static" model, which shows a combined fiscal surplus (municipal and school costs) at completion of \$1,107,910. Mr. Reading further noted that there may be economies resulting from the expansion of the public school enrollment from its current level of 2,970 to a projected 4,761 in Phase IV which should be considered in any further refinement of the analysis.

*Summary and Conclusions*

In his April 28, 2016 memo reviewing these and other changes we have agreed to make to the fiscal impact model, Mr. Reading concluded, at page 5:

*The future looking perspective of 4ward's Fiscal Impact Analysis and the Phase by Phase construction of the information contained therein yields a conclusion that the proposed redevelopment would have an overall, positive fiscal impact on the municipality and the school district.*

At page 9 of the same April 28, 2016 memo, Mr. Reading added the following summary of our most recent revisions to the model:

*The revised (April 26, 2016) Fiscal Impact Analysis anticipated total annual property tax revenues of \$45,108,994 for the Township and School District upon the completion and occupancy of the entire development (Phase IV). These revenues (\$45,108,994) are reported to offset the allocated costs of \$40,765,906, resulting in an annual net fiscal impact of \$4,343,088 for the Township and School District:*

***Main Street Manchester/Heritage Minerals  
Net Fiscal Impacts (Revised April 26, 2016)  
(At Completion – Phase IV)***

|                              | <i>Municipal</i> | <i>School District</i> | <i>Combined</i> |
|------------------------------|------------------|------------------------|-----------------|
| <i>Annual Tax Revenues</i>   | \$14,555,195     | \$30,553,799           | \$45,108,994    |
| <i>Project Service Costs</i> | \$14,166,037     | \$26,599,869           | \$40,765,906    |
| <i>Net Fiscal Impact</i>     | \$389,158        | \$3,953,930            | \$4,343,088     |

Finally, Mr. Reading's April 28, 2016 memo confirmed the fiscally-positive results of these changes to the model, by summarizing the results of an *alternative* calculation, using a "static analysis" (as if the project had been completed, occupied and assessed in 2015). His alternative static analysis used current tax rates, assessment

ratios, and current municipal and school district budgets. He summarized his findings of this alternative analysis, at page 9, thusly:

*This cost/revenue comparison reveals a combined municipal and school district surplus of \$1,107,910 plus a surplus of \$354,210 for County operations.*

Respectfully submitted,



Robert S. Powell, Jr., Ph.D.  
Managing Director

Cc: Mr. Todd Poole  
Mr. Richard Reading