NewGen Strategies & Solutions

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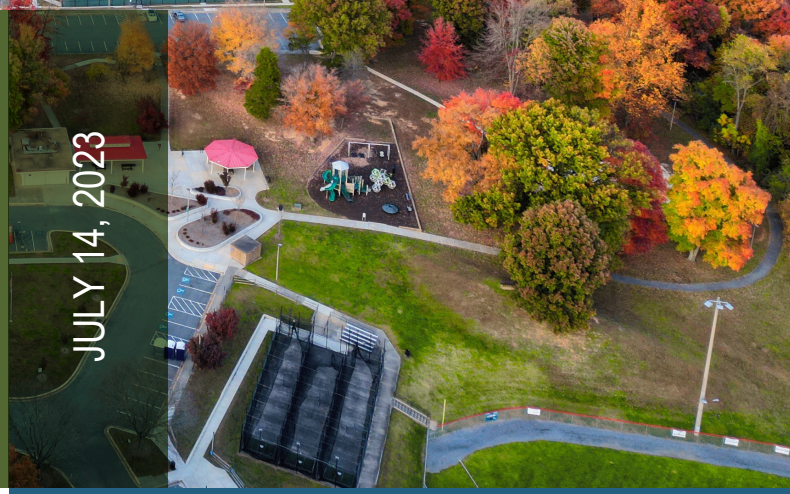
FINAL REPORT

DEVELOPMENT FISCAL IMPACT ANALYSIS

JULY 14, 2023



City of Rockville
Get Into It

Prepared for:
City of Rockville
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NewGen Strategies & Solutions
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July 14, 2023

Mr. Diron Baker, CPMSM
Senior Civil Engineer
Department of Public Works
Engineering Division
111 Maryland Avenue
Rockville, MD 20850

Subject: **Development Fiscal Impact Analysis**

Mr. Baker:

NewGen Strategies and Solutions is pleased to submit the enclosed Development Fiscal Impact Analysis Report completed for the City of Rockville. The report provides our analysis of the fiscal impact of existing and future development within the City.

It has been a distinct pleasure to work with the City. The assistance provided by management and staff was essential to completing this analysis. The dedication of everyone who assisted in the study process should be acknowledged as they were vital to the study's success. Thank you for the opportunity to work with the City on this critical project.

Sincerely,

Michael Maker
Partner

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1. STUDY OVERVIEW AND APPROACH

1.1 Background

Rockville is the fourth-largest city in Maryland, with a population of just under 70,000. The land area of the City is about fourteen square miles, and the City is largely built out with respect to new greenfield development (i.e., previously undeveloped areas). A considerable portion of current construction in the City is the redevelopment of existing property (frequently with higher density development, reflecting the high value of the underlying land) or infill of the relatively small amounts of undeveloped land within the City's boundaries. The City of Rockville has grown from a small suburban community to an urban center over a period of less than fifty years. Due to the City's many assets combined with its location within the greater Washington DC area, the City will undoubtedly continue to grow and redevelop. While the City uses a host of considerations to guide its growth and redevelopment policy, the fiscal impact of development is a critical factor that should not be ignored.

To assist the City with evaluating the fiscal impact of future development or redevelopment, the City engaged NewGen to update the high-level development fiscal impact analysis (Rockville Pike Fiscal Impact Analysis) it conducted (as the Municipal & Financial Services Group [MFSG]) for the City several years ago. A fiscal impact analysis examines whether revenues generated by development are sufficient to cover the resulting costs (operating and capital) from the development for services provided. This type of analysis is often used as one factor related to understanding the consequences of the location, type, density, and intensity of new development or redevelopment. Other factors such as economic development, traffic and transportation, and environmental protection are generally also used in weighing development decisions.

1.2 Approach

In Maryland, local land use decisions are primarily based on adopted comprehensive plans that consider multiple elements, such as existing and needed infrastructure, protection of the environment, economic development, housing options, and community character. Well-planned projects will include a healthy mix of commercial and residential uses, promoting strong communities. The use of fiscal impact analysis is becoming increasingly common in Maryland communities in the development of their respective comprehensive plans to proactively evaluate the cost of growth and assist in determining the related fiscal impacts. Alternatively, as with the City of Rockville, fiscal impact analysis can follow the development/adoption of a comprehensive plan to investigate the fiscal impact of plan implementation.

In general, fiscal impact analysis estimates the operating and capital impacts of new development on the finances of a local government. The goal is to ascertain the extent to which a proposed project (commercial, residential, or mixed-use) pays for itself by comparing generated revenues with incurred costs. Credible, objective fiscal impact analysis provides elected and appointed officials, planning staff, and the public with the facts needed to make informed decisions. A traditional fiscal impact analysis measures the direct tax revenues produced by the new land use and the associated new residents or employees (in the case of commercial development) along with the cost of the services the local government must provide the new residents or employees (community outreach, police, public works, recreation and parks, services, etc.). It is important to note that the expenditures and revenues developed

in the fiscal impact analysis are independent of each other. As a result, a fiscal impact analysis differs from the budgeting process, which looks at expenditures based on available revenues.

If revenues exceed expenditures, a development project or site can be described as having a positive net fiscal impact. Should expenditures exceed revenues, a negative net fiscal impact results. And, if revenues and expenditures are equivalent, the net fiscal impact is said to be neutral.

1.3 Assumptions

The fiscal impact analysis has been developed using an average costing approach, which attributes the costs of serving new development according to the average cost per unit of service in existing development multiplied by the number of units (typically in the form of population and employees) the growth is estimated to create.

The methodology used calculates costs and revenues on a per capita and per employee basis, which allows for the determination of expenditures and revenues based on the number of individuals and/or employees associated with an existing or new development.

Residential development is further segmented into the following four property types: Single Family, Townhouse, Multifamily, and Senior housing. Commercial development is further segmented into the following four property types: Office, Retail, Industrial, and Other (hospital facilities, community service centers, etc.).

It is important to note that our analysis only includes expenses and revenues related to services provided by the City. Services provided by the County, such as public education, fire and rescue services, and libraries, and any services provided by the State were not included in our analysis because the City does not bear the fiscal responsibility for providing such services. For example, excluding public education costs in our analysis results in residential properties in the City having more of a positive fiscal impact than residential properties in a municipality that incurs public education costs (such as the County).

The following assumptions were made in the completion of the fiscal impact analysis:

1.3.1 Operating Expenditures and Revenues

The fiscal impact analysis includes all operating costs associated with existing or future development as captured in the City's General Fund. The costs associated with the City's utility enterprise funds (water, sewer, stormwater, or other) were excluded from the analysis as these services are designed to be self-supporting. Similarly, on the revenue side, only General Fund revenues were included in the analysis (i.e., revenues from the State or other outside entities were not included as mentioned above). Fiscal Year (FY) 2022 and 2023 General Fund budgeted expenditures and revenues were used as the basis for the analysis. The expenditures and revenues were forecast over a 20-year projection period.

1.3.2 Capital Expenditures and Debt

In accordance with the attempt to isolate costs directly related to development, capital expenditures, and debt issuances were approached in a similar capacity. All capital expenditures and debt issuances related to any enterprise funds were deducted from the amounts associated with development, whereas General Fund capital expenditures were included. Any capital expenditures projected to be debt-funded were amortized based to derive future debt service.

1.3.3 Allocation of Expenses and Revenues

To complete the fiscal impact analysis, it was necessary to allocate General Fund operating expenses between those incurred by the City due to residential and commercial demands. The expenditures were allocated between residential and commercial based on the type of expense. The base allocation used for many of the costs was an aggregate of the assessed value, number of parcels, number of units, and population to employees. After deducting values associated with exempt parcels, this resulted in an allocation of approximately 74% residential and 26% commercial. The 74% residential was further broken out into 43% single family, 13% townhouse, 15% multifamily, and 3% senior housing. The 26% commercial was further broken out into 11% office, 5% retail, 6% industrial, and 5% other. Revenues generated within the City (such as fees and charges for service but excluding property taxes) were allocated in a similar manner.

1.3.4 Economic Assumptions

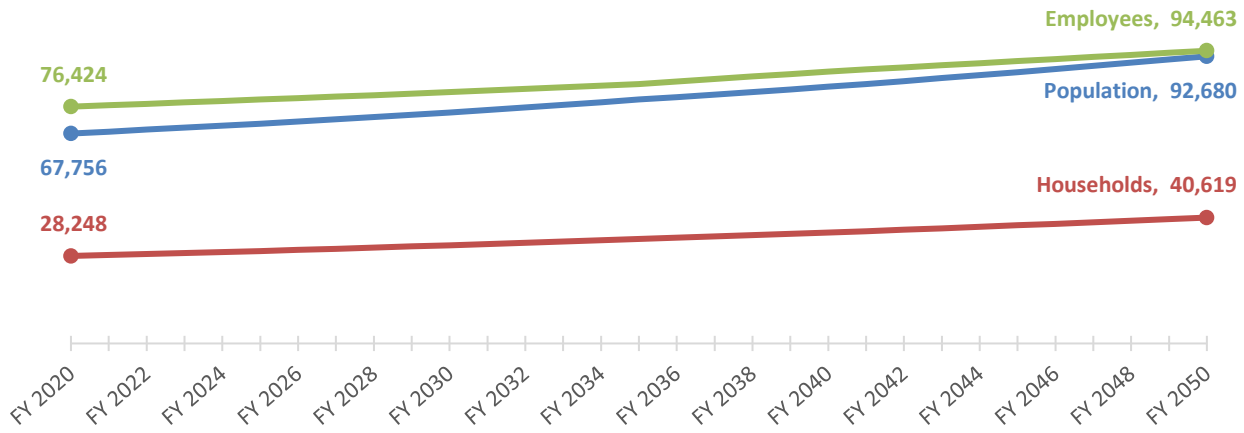
The fiscal impact analysis was conducted using a 20-year projection period, and it was assumed that the current allocation of expenditures and revenues would remain the same during the projection period. The following economic assumptions were made to forecast revenues and expenditures over the projection period:

- Inflation rate of expenses: 1.5% to 5.0%
- Growth in revenues 2.0% to 2.5%
- Real property tax rate (per $100 of assessed value) $0.292
- Maturity on financed capital 20 years
- Interest rate on borrowing 3.0%

1.3.5 Demographics

The current and projected future demographics within the City serve as the basis for the costs and revenues per capita and per employee. For the analysis, the City provided existing population, household, and employment figures along with a 25-year forecast for each in five-year increments. Data was also provided regarding expected developments for residential and commercial properties. The exhibit below presents a summary of the demographic projections developed from the City's Round 10 Cooperative Forecast for the Metropolitan Washington Council of Governments.

Exhibit 1.3.1 Demographic Projections



The City also provided access to the assessed value data of all properties, which implicitly includes a count of all housing units. To make forecasts regarding population, the City provided assumptions about the number of individuals present per household by household type. The exhibit below presents this data.

Exhibit 1.3.2 Persons Per Household

Household Type	Persons Per Household
Single Family	2.990
Townhouse	2.597
Multifamily	2.095
Senior	1.200

It should be noted that multifamily households include condominiums and apartment units.

The employee projections use the same assessed value data set to generate results; however, the means of achieving individual counts differs. Where the population statistics stem from units and assumed number of persons per household, employees are projected through square footage of commercial structures. The City provided assumptions regarding the amount of square feet assumed per employee for commercial property types.

Exhibit 1.3.3 Square Footage per Employee

Commercial Type	Square Feet per Employee
Office	294
Retail	633
Industrial	1,450
Other	500

The square feet per employee data was used to generate total employee values from the existing square footage data alongside the projections for continued commercial growth.

1.3.6 Non-Fiscal Factors

It should be noted that the fiscal impact is only one of many factors that must be examined when evaluating new development. There are a host of environmental, economic, and social considerations that are not factored into this analysis.

2. INCREMENTAL REVENUES AND EXPENSES

This section of the report details the methodology used to calculate the incremental revenues and expenses used in the study, including the calculated per capita and per employee revenues and expenditures based on the City's current demographics and General Fund budget.

2.1 Property Tax Revenues

The primary source of revenues to fund General Fund activities is property taxes, representing approximately 45% of General Fund revenues. To determine the annual property taxes generated from each of the developments, the total land and improved assessed value of the site was multiplied by the current property tax rate of $0.292. The assessed values of existing developments were attained from the City, and future property taxes were calculated based on the assumptions mentioned above. The assessed property base is expected to grow at a 2.5% rate each year, while there is no assumption for the tax rate to change.

2.2 Income Tax Revenues

The second largest source of revenues to fund General Fund activities is income taxes, representing approximately 18% of General Fund revenues. Income taxes are collected by Montgomery County (at a tax rate of 3.2%), and a portion (17%) is then allocated to the City (an effective tax rate of 0.54%). To project the impact of income taxes generated by future developments, the model determines income tax revenues based on the number of residents in Rockville. This base is growing with the current income inflation numbers and is increased by each new individual expected to live in Rockville. The tax base is then multiplied by the current County tax rate, with a portion distributed to Rockville.

2.3 Gas, Admissions, and Hotel Tax Revenues

A tertiary income for Rockville is taxes placed on gas purchases, amusement events, and hotel stays. The model takes into account the growth in these taxable areas alongside the growth of population. The logic behind the projections is that increased population density results in more trips being generated for the City. An increased number of trips results in an increased number of services that those trips require, whether it is the need for gas purchases, amusement, or hotel stays. Therefore, the model determines the number of trips each property type and employment center generates annually. The trips are converted into spending instances which are multiplied by the average revenue generated by each occurrence to reach the taxable income.

2.4 Other Revenues

General Fund revenues other than real property, income, gas, admissions, and hotel taxes are grouped into the following categories:

- Charges for Service
- Fines and Forfeitures
- Revenue from Other Governments (other than income, gas, and admissions taxes)
- Licenses and Permits
- Other Revenue (other than hotel taxes)
- Property Taxes (other than real property taxes)
- Transfers

- Use of Money and Property

To calculate other revenues generated by development, revenues from the City's adopted FY 2023 operating budget were evaluated. The standard approach to evaluating other revenues in relation to development is to calculate the revenue per capita and per employee. This approach allows for a determination of the revenue generated based on the type of development and the resulting increase in population or employees resulting from the development.

The first step in the calculation was to allocate the revenue sources between residential and commercial properties. Specific revenue line items were allocated to residential development, commercial development, or both. For revenue items relevant to both residential and commercial development, an allocation factor was calculated based on the methodology mentioned earlier, resulting in an allocation factor of 72% residential and 28% commercial with the subcategory allocations previously discussed. All revenue items were assumed to increase by individual growth rates, one for each major revenue tax type. The allocation of other revenues between residential and commercial results in an annual amount of revenue generated from residential properties and commercial properties. These revenues are then used to develop a per capita revenue (residential non real property tax revenues divided by City population) and per employee revenue (commercial non real property tax revenue divided by number of jobs/employees in the City).

2.5 Operating Expenses

Operating expenses generated by development are calculated in the same manner as other revenues. To calculate expenses generated by development, the operating expenses from the City's adopted FY 2023 operating budget were used. Expenditures were reviewed at the departmental level within the operating budget. The departments identified in the budget include City Attorney, Human Resources, Mayor and Council, City Manager, Community Planning and Development Services (CPDS), Housing & Community Development, Finance, Information Technology, Police, Public Works, Recreation and Parks, and Non-Departmental. The expenses within these departments were allocated based on whether they were related to residential development, commercial development, or both. For expense items relevant to both residential and commercial development, the residential-to-commercial allocation split of 74% to 26% was used alongside the subcategory allocations previously mentioned. All expense items were assumed to increase by individual inflation values (personnel, healthcare, retirement, operating, capital outlay, or other). The analysis resulted in a split of operating expenses between those related to serving residential properties and those related to commercial properties. This allowed for the calculation of per capita and per employee operating expenses.

2.6 Debt and Capital Expenses

Debt and capital expenses were also reviewed. The City provided amortization schedules for General Fund debt. Capital expenditures from the City's five-year CIP (included in the adopted FY 2023 budget) were incorporated, including timing and funding source (PAYGO or bond). For years beyond the five-year CIP (ending in FY 2027), average annual spending by funding source was escalated for future years. For those projects designated to be bond-funded, future debt payments were calculated. For debt service and cash-funded capital relevant to both residential and commercial development, the residential-to-commercial allocation split of 74% to 26% was used with the same subcategory allocations. The analysis resulted in a split of debt and capital costs between those related to serving residential properties and those related to commercial properties. This allowed for the calculation of per capita and per employee debt and capital expenses.

3. FISCAL IMPACT ANALYSIS

The calculation of the per capita/employee revenues and expenses allows for the evaluation of the fiscal impact of development areas.

One of the primary goals of any fiscal impact analysis study is to identify what types of development would be most effective given the circumstances and assumptions. To analyze the standard development options available to Rockville, the analysis looks at the average occurrences across different structure types. For the single family residential and townhouse properties, average demographics are listed. For the multifamily and commercial properties, specific existing developments with known demographics are referenced.

The demographic assumptions regarding each site and results of the fiscal impact analysis for each development type are outlined in this section.

3.1 Residential Development

The following presents the demographic assumptions and results of the fiscal impact analysis for the residential developments in the City described earlier (average or specific). The results demonstrate the projected annual revenue and expenses generated for the residential developments.

Single Family

One existing single family detached home with the following demographic information:

- Average square footage of a residential single family detached home: 1,840
- Average assessed value: $518,800
- Assumed people per household: 2.99

Exhibit 3.1.1 Single Family Fiscal Impact

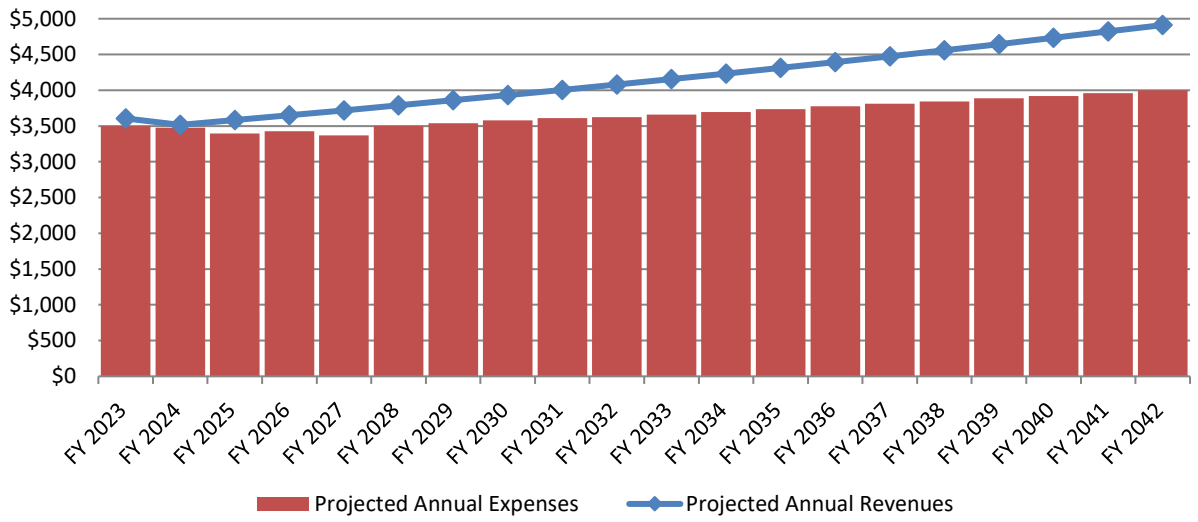


Exhibit 3.1.2 Single Family Fiscal Impact Summary

Revenues / Expenses	Result
20-Year Revenues	$82,970
20-Year Expenses	$73,320
20-Year Net Fiscal Impact	$9,650
Average Annual Net Fiscal Impact	$483

The exhibits above demonstrate that the average single family residential property in the analysis is fiscally positive (the property generates more revenues than expenses). On average, over the projection period, the property generates $483 per year more revenue than expenses. The positive result is primarily due to the higher assessed value of the properties, with an average of $518,800. The data in our analysis demonstrates that any single family residence within the City with an average assessed value over the 20-year timeframe of $399,200 or more generates more revenue than expenses.

Townhouse

One single family attached home with the following demographic information:

- Average square footage of a residential single family attached home: 1,660
- Assessed value: $479,900
- Assumed people per household: 2.60

Exhibit 3.1.3 Townhouse Fiscal Impact

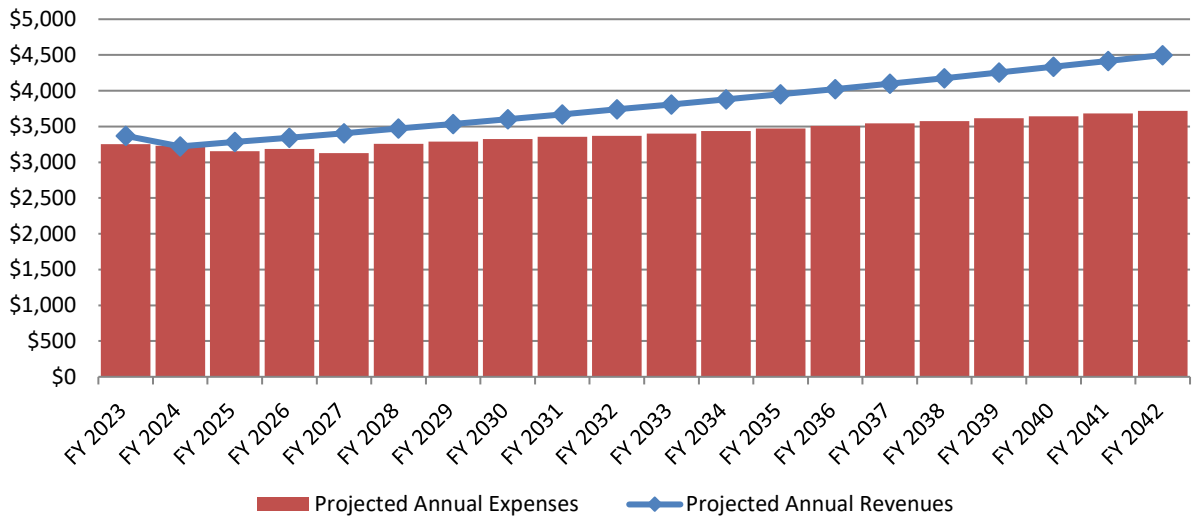


Exhibit 3.1.4 Townhouse Fiscal Impact Summary

Revenues / Expenses	Result
20-Year Revenues	$76,090
20-Year Expenses	$68,160
20-Year Net Fiscal Impact	$7,930
Average Annual Net Fiscal Impact	$397

The exhibits above demonstrate that the average townhouse property in the analysis is fiscally positive. On average, over the projection period, the property generates $397 per year more revenue than expenses. Like the single family detached property, the primary reason for the positive result is due to the higher assessed value of the properties, with an average of $479,900. The data in our analysis demonstrates that any townhouse within the City with an average assessed value over the 20-year timeframe of $382,200 or more generates more revenue than expenses.

Multifamily – Single Unit

Single condo or apartment unit with the following demographic information:

- Average square footage per unit: 1,000
- Assessed value per unit: $192,800
- Assumed people per unit: 2.095

Exhibit 3.1.5 Multifamily (Individual Unit) Fiscal Impact

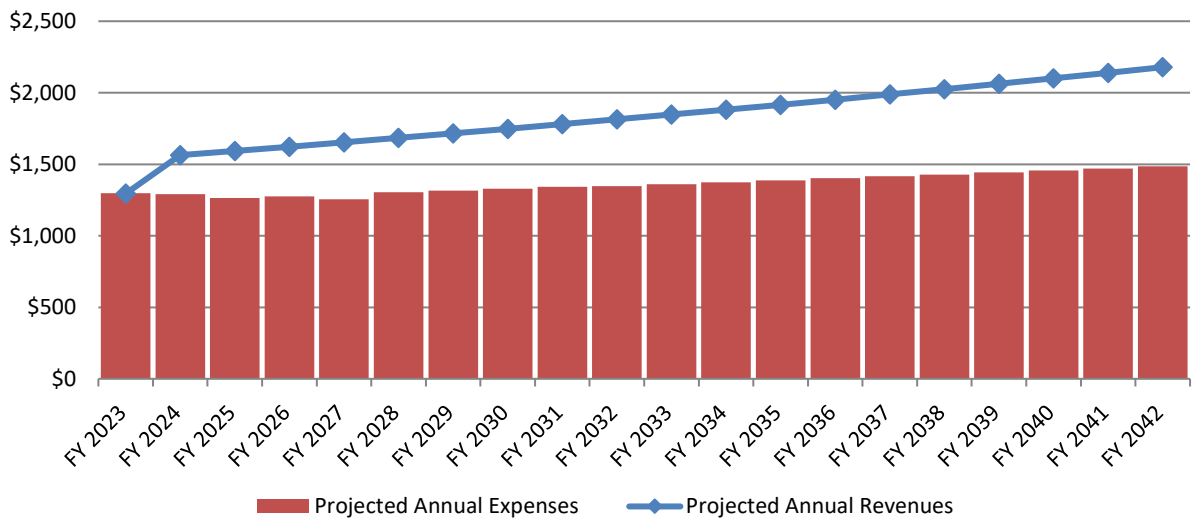


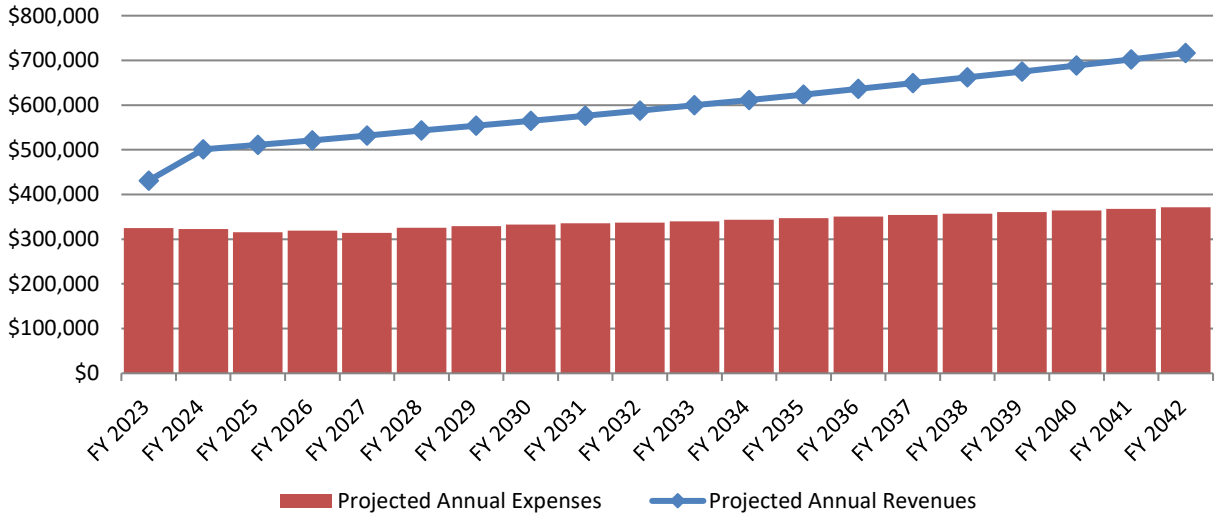
Exhibit 3.1.6 Multifamily (Individual Unit) Fiscal Impact Summary

Revenues / Expenses	Result
20-Year Revenues	$36,560
20-Year Expenses	$27,250
20-Year Net Fiscal Impact	$9,310
Average Annual Net Fiscal Impact	$466

The exhibits demonstrate that a multifamily condo or apartment modeled after the average existing unit has a positive net fiscal impact on the City. On average, over the projection period, the development generates $466 per year more revenue than expenses. A condo building with similar demographics as the average unit (assessed value of $192,800, area of 1,000 square feet, and an assumed 2.095 residents) is above that which would result in a positive net fiscal impact. Based on the assumptions and results of our analysis, a condo or apartment unit within the City with an average assessed value over the 20-year timeframe of $74,100 or more per unit generates more revenue than expenses.

Of course, multifamily units are not developed as single units; therefore, the exhibit below is modeled from the recently constructed Ansel apartments at 33 Monroe Street, which contains 250 units, is 172,740 square feet, and has an assessed value of $84,095,800. This demonstrates that a modern development with several units is more likely to generate a more substantial positive fiscal impact than a single average unit.

Exhibit 3.1.7 Multifamily (33 Monroe St) Fiscal Impact



Senior Housing – Single Unit

Single senior housing unit with the following demographic information:

- Square footage: 1,150
- Assessed value: $139,300
- Assumed people per unit: 1.20

Exhibit 3.1.8 Senior Housing Fiscal Impact

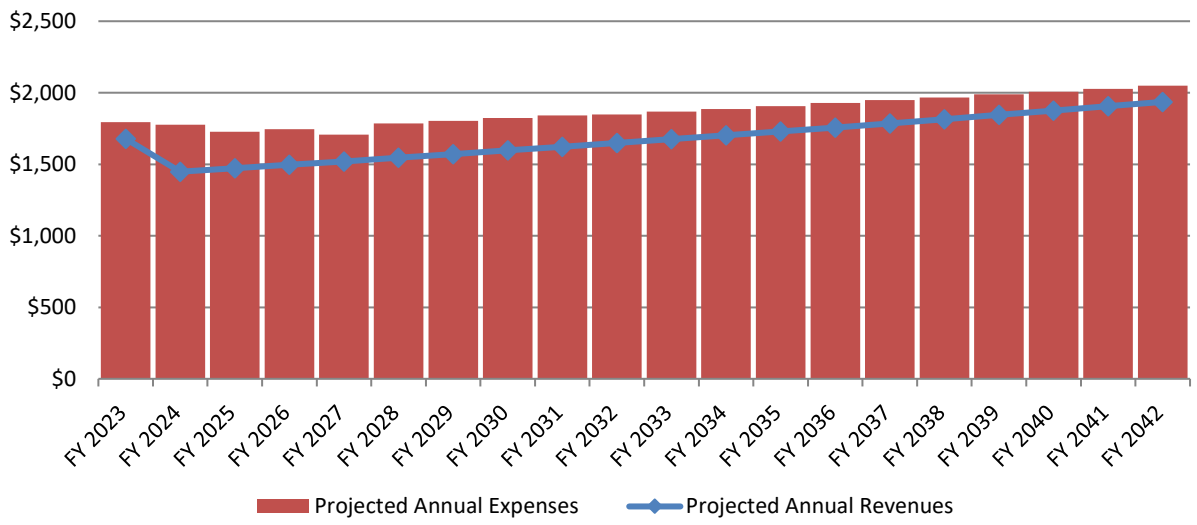


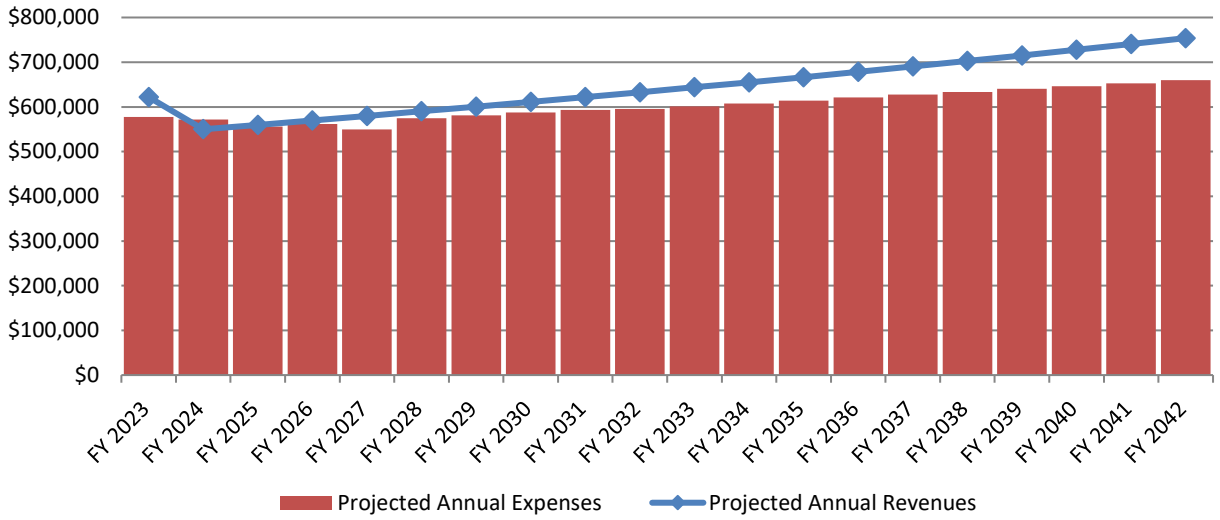
Exhibit 3.1.9 Senior Housing Fiscal Impact Summary

Revenues / Expenses	Result
20-Year Revenues	$33,630
20-Year Expenses	$37,430
20-Year Net Fiscal Impact	($3,800)
Average Annual Net Fiscal Impact	($190)

The exhibits above demonstrate that the average Senior Housing unit in the analysis is fiscally negative. On average, over the projection period, the property generates $190 per year less revenue than expenses. The primary driver of the negative result is due to the distribution of costs associated with senior recreational facility and program costs across a limited population. The data in our analysis demonstrates that any senior housing unit within the City with an average assessed value over the 20-year timeframe of $191,400 or more generates more revenue than expenses.

Like multifamily, senior housing units are seldom developed independently; therefore, looking at a larger-scale example makes more sense. The exhibit below shows the fiscal impact projection for Ingleside at King's Farm. The analysis has a different impact than the individual unit; however, that can vary from property to property. Ingleside has a higher property value per unit than the average, and much of the free space used for communal areas and pools does not contain residences, which can affect fiscal impact in different ways. Therefore, the analysis demonstrates that even though a single average unit might result in a negative fiscal impact, a more recent development could result in a positive fiscal impact.

Exhibit 3.1.10 Senior Housing (Ingleside at King's Farm) Fiscal Impact



3.2 Commercial Development

The following presents the demographic assumptions and results of the fiscal impact analysis for the average or specific commercial developments in the City described earlier. The results demonstrate the projected annual revenue and expenses generated for the commercial developments.

Office

Single office unit with the following demographic information:

- Square footage: 15,500
- Assessed value per square foot: $202
- Assessed value: $3,127,600
- Assumed square footage per employee: 294
- Assumed employees: 53

Exhibit 3.2.1 Office Fiscal Impact

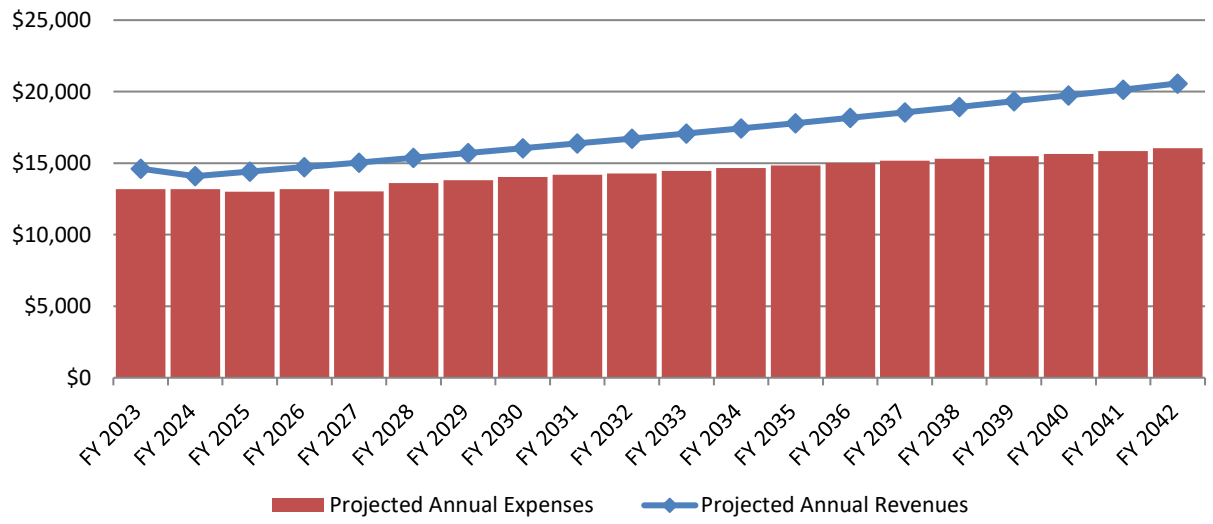


Exhibit 3.2.2 Office Fiscal Impact Summary

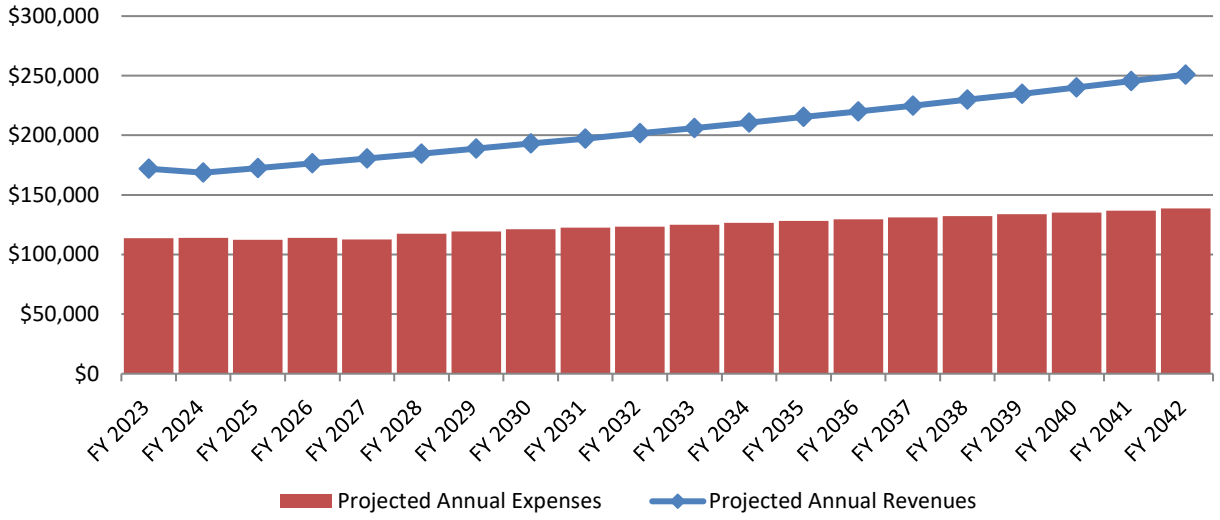
Revenues / Expenses	Result
20-Year Revenues	$340,830
20-Year Expenses	$287,980
20-Year Net Fiscal Impact	$52,850
Average Annual Net Fiscal Impact	$2,643

The exhibits demonstrate that an office space modeled after the average existing unit has a positive net fiscal impact on the City. On average, over the projection period, the development generates $2,643 per year more revenue than expenses. Based on the assumptions and results of our analysis, office space within the City with an average assessed value over the 20-year timeframe of $159 per square foot or more generates more revenue than expenses.

The individual office unit depicts a positive fiscal impact, and when a recent example of an office space development is examined at 2200 Research Blvd, the impact is even more significant. The office space

complex stands at 133,870 square feet, with an assessed value of $42,314,300 and an assumed 455 employees, demonstrates that a newer (or recently renovated) and therefore more expensive building only increases the positive net fiscal impact when compared to existing buildings, as seen below.

Exhibit 3.2.3 Office (2200 Research Blvd) Fiscal Impact



Retail

Single retail unit with the following demographic information:

- Square footage: 8,340
- Assessed value per square foot: $241
- Assessed value: $2,012,500
- Assumed square footage per employee: 633
- Assumed employees: 13

Exhibit 3.2.4 Retail Fiscal Impact

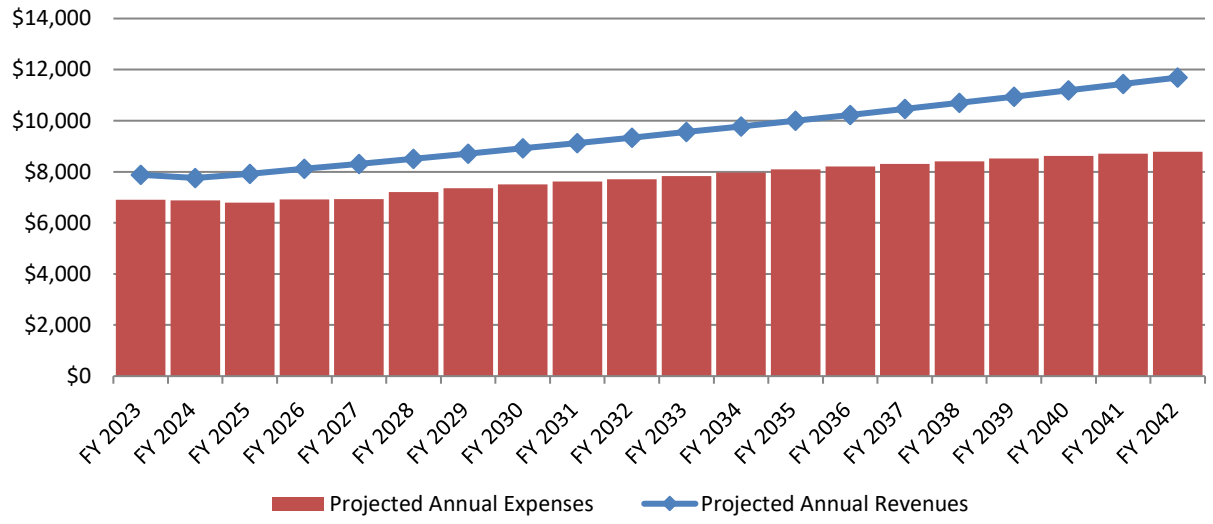


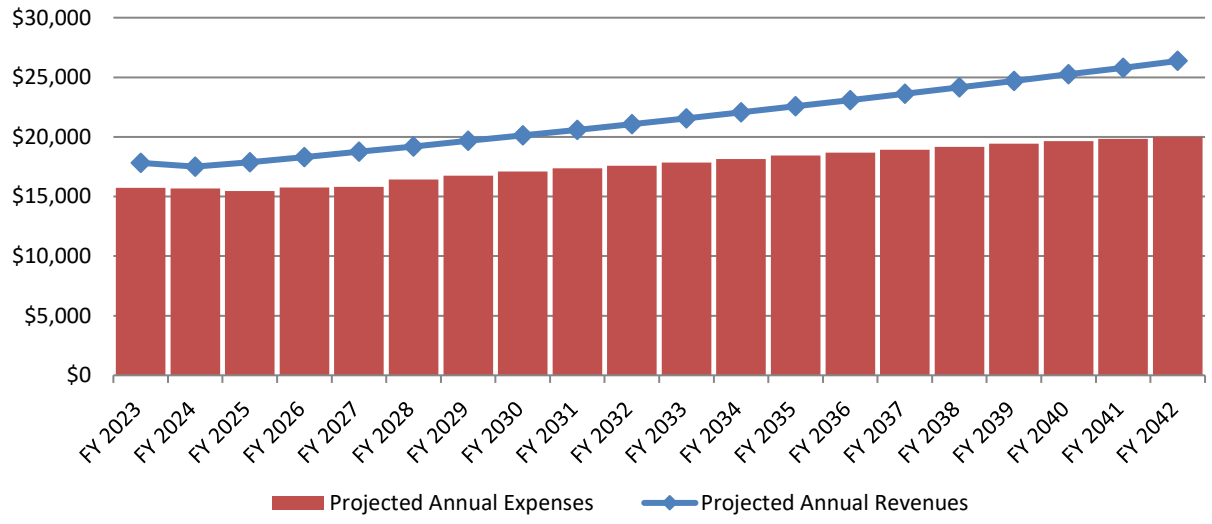
Exhibit 3.2.5 Retail Fiscal Impact Summary

Revenues / Expenses	Result
20-Year Revenues	$190,590
20-Year Expenses	$155,260
20-Year Net Fiscal Impact	$35,330
Average Annual Net Fiscal Impact	$1,767

The exhibits demonstrate that a retail space modeled after the average existing unit results in a positive net fiscal impact on the City. On average, over the projection period, the development generates $1,767 per year more revenue than expenses. Based on the assumptions and results of our analysis, retail space within the City with an average assessed value over the 20-year timeframe of $187 per square foot or more generates more revenue than expenses.

When the average unit is compared to a more recent development, such as 10 Upper Rock Circle, a positive fiscal impact is once again achieved. The modern facility has more square footage (16,000) and a higher assessed value ($4,531,000) than the average but has only 30 employees. These factors result in a very similar fiscal impact, as depicted below.

Exhibit 3.2.6 Retail (10 Upper Rock Cir) Fiscal Impact



Industrial Space

Single industrial unit with the following demographic information:

- Square footage: 8,100
- Assessed value per square foot: $128
- Assessed value: $1,034,000
- Assumed square footage per employee: 1,450
- Assumed employees: 6

Exhibit 3.2.7 Industrial Fiscal Impact

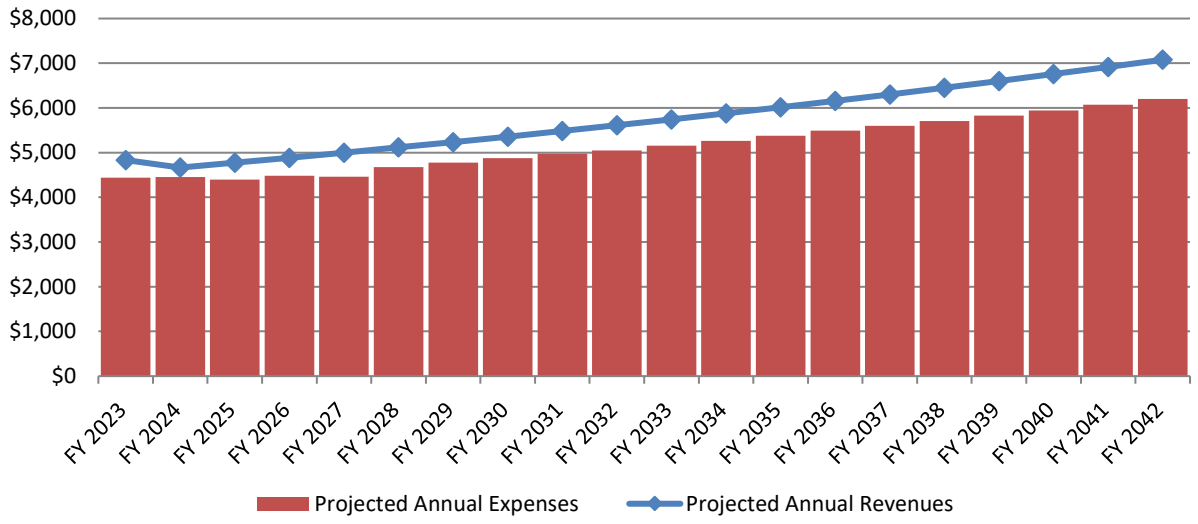


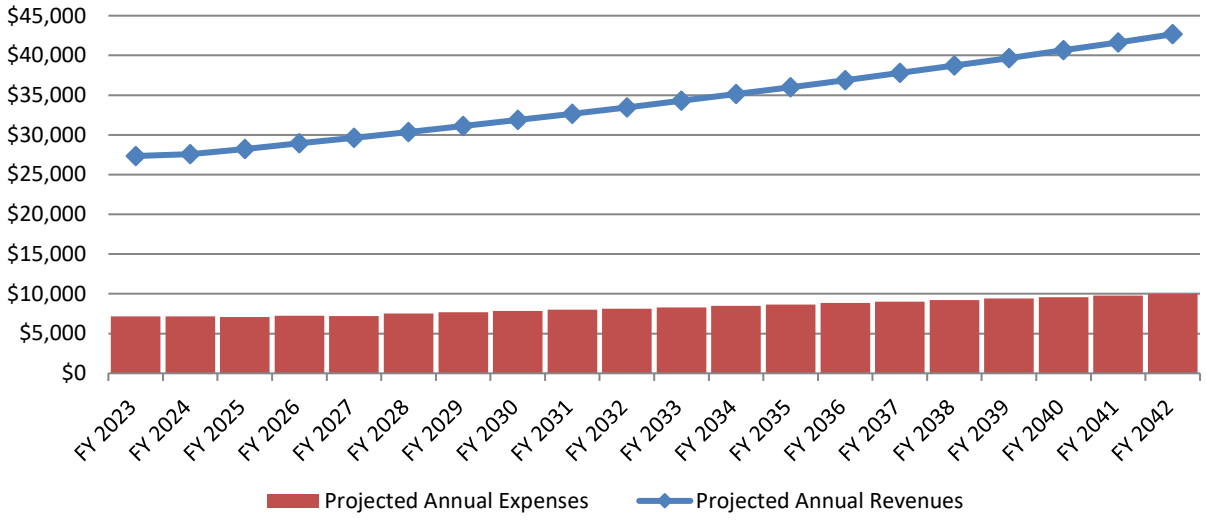
Exhibit 3.2.8 Industrial Fiscal Impact Summary

Revenues / Expenses	Result
20-Year Revenues	$114,880
20-Year Expenses	$103,220
20-Year Net Fiscal Impact	$11,660
Average Annual Net Fiscal Impact	$583

The exhibits demonstrate that an industrial space modeled after the average existing unit has a slightly positive net fiscal impact on the City. On average, over the projection period, the development generates $583 per year more revenue than expenses. Based on the assumptions and results of our analysis, industrial space within the City with an average assessed value over the 20-year timeframe of $109 per square foot or more generates more revenue than expenses.

Of course, industrial units vary by size, value, and employee count. When looking at a more recent industrial unit of a specific type, such as 4 Research Place (a storage facility), the differences in fiscal impact between varying sites is apparent. The chart below demonstrates that the lower number of employees (nine) for the facility, which is 88,000 square feet at an assessed value of $8,200,000, creates a scenario where the industrial unit is much more fiscally positive than average. Thus, for a category like industrial, which appears to be less fiscally impactful, the takeaway should be that the category is not without benefit but that the specific types of industrial developments should be examined closely.

Exhibit 3.2.9 Industrial (4 Research Pl) Fiscal Impact



4. SUMMARY OF FISCAL IMPACT ANALYSIS

The fiscal impact analysis for the average developments across all property types varied greatly but highlighted the trend that more population would require a higher property value to be fiscally net positive. Below is a summary of the average annual net fiscal impact by development type over the next 20 years.

Exhibit 4.1.1 Summary of Development Average Annual Net Fiscal Impacts

Development	Average Annual Net Fiscal Impact
Single Family	$483
Townhouse	$397
Multifamily	$466
Senior Housing	($190)
Office Space	$2,643
Retail Space	$1,767
Industrial Space	$583

It should be reiterated that the numbers in the chart above are based on average property sizes throughout the City and assumed population per household and square feet per employee. Specific developments may yield different results. However, in a City that could be seeing more redevelopment opportunities, it may be possible for any number of upcoming projects to all have positive fiscal impacts.

As mentioned in the previous section, there are several reasons why developments can have either a positive or negative fiscal impact on the City. The primary reason is due to the assessed value of each of the developments. Since property taxes account for almost half of the revenues within the General Fund, the assessed value of a property has a significant impact on whether or not it is fiscally positive or negative. The assessed value breakeven values (minimum assessed value to result in positive net fiscal impact) for each type of development are summarized below.

Exhibit 4.1.2 Assessed Value Breakeven Amounts

Development	Assessed Value Breakeven
Single Family	$399,200
Townhouse	$382,200
Multifamily	$74,100
Senior Housing	$191,400
Office Space (per square foot)	$159
Retail Space (per square foot)	$187
Industrial Space (per square foot)	$109

It should be noted that the values presented in the exhibit assume an average number of individuals per type of development and that variations in these figures would result in differing breakeven values.

In addition to property taxes and the assessed values of the properties included in the analysis, another factor resulting in fiscal impacts for the developments is a result of the type of development selected for the analysis. Generally, the more properties with fewer residents or employees per given area selected, the more positive the net fiscal impact.

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APPENDIX A: FINANCIAL ADVISORY BOARD (FAB) MEMORANDUM

DEVELOPMENT FISCAL IMPACT ANALYSIS

MEMORANDUM

DATE: April 25, 2023

FROM: Financial Advisory Board
City of Rockville

TO: Diron H. Baker, CPMSM
Senior Civil Engineer
Department of Public Works - Engineering Division
111 Maryland Avenue; Rockville, MD 20850
City of Rockville

SUBJECT: Comments on the Spreadsheet Model for Fiscal Impact Analysis

The Department of Community Planning and Development Services intends to use an updated model to ascertain the fiscal impact on Rockville of different development proposals. At the Financial Advisory Board (the Board) meeting on Wednesday, March 14, 2023, the Board received a presentation by Michael Maker, NewGen Strategies & Solutions and Aidan Oates, NewGen Strategies & Solutions regarding development of the model and its use for fiscal impact analysis. The Board was requested to provide comments, if any, on the model and the analysis.

As in most modeling the results depend on the inputs assumed. This model is no different. Board members question several of the assumed inputs used in conducting the analysis presented, such as the assumed rate of inflation, but not the internal workings of the spreadsheet model.

The Board has no material comments regarding the spreadsheet model. The model is flexible, and inputs can be changed to compare the fiscal impacts of assumed inputs.

Prior to this Board meeting, April 25, 2023, Mr. Spagnuolo submitted several questions regarding the model. Mr. Spagnuolo's questions will be satisfied if the responsible city staff are comfortable with the model's current construction and assumptions per his questions on those matters, including back testing. Staff has been interacting with Mr. Spagnuolo and a successful wrap-up is anticipated.

Respectfully,

Members of the Financial Advisory Board

Ms. Diane Gould
Mr. Jack Kelly
Mr. David Mack
Ms. Lori Merrill
Mr. Kenneth MacRitchie
Mr. William C. Spagnuolo, Jr.
Dr. Robert Wright, Chair

CC Mr. Robert DiSpirito, City Manager
Mr. Barack Matite, Deputy City Manager
Mr. David Gottesman, Assistant City Manager
Mr. Craig Simoneau, Director of Public Works
Ms. Jenny Snapp, Assistant Director of Planning and Economic Development, Community Planning and Development Services
Ms. Stacey Webster, Chief Financial Officer/Director of Finance
Ms. Kimberly Francisco, Deputy Chief Financial Officer
Ms. Manisha Tewari, Research Manager, Department of Community Planning and Development Services
Ms. Xiaojing Zhang, Director, Office of Accounting, Department of Finance, and Staff Liaison to the Board
Councilmember Beryl L. Feinberg, Council Liaison to the Board

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APPENDIX B: RESPONSES TO FINANCIAL ADVISORY BOARD QUESTIONS

DEVELOPMENT FISCAL IMPACT ANALYSIS

Re: Fiscal Impact Model - Questions

Diron Baker
Mon 4/17/2023 8:03 AM

To:William C. Spagnuolo, Jr. <william.spagnuolo1@gmail.com>;Xiaojing Zhang <xzhang@rockvillemd.gov>;Robert Wright <bobwright0130@gmail.com>

Cc:Craig Simoneau <csimoneau@rockvillemd.gov>;Ricky Barker <rbarker@rockvillemd.gov>;Stacey Webster <SWebster@rockvillemd.gov>;Kimberly Francisco <kfrancisco@rockvillemd.gov>;Jenny Snapp <jsnapp@rockvillemd.gov>;Katie Gerbes <kgerbes@rockvillemd.gov>;Manisha Tewari <mtewari@rockvillemd.gov>;John Scabis <jscabis@rockvillemd.gov>

Mr. William Spagnuolo, good morning.

Please see responses, below, in green.

All the best,
Diron

From: William Spagnuolo <william.spagnuolo1@gmail.com>
Sent: Saturday, March 18, 2023 9:40 AM
To: Diron Baker <dbaker@rockvillemd.gov>
Cc: Xiaojing Zhang <xzhang@rockvillemd.gov>; Robert Wright <bobwright0130@gmail.com>
Subject: Fiscal Impact Model - Questions

Hi Diron,

I wanted to ask a few questions around the Fiscal Impact model we went over on 3/14/2023.

1. Pursuant to my comment in the meeting, how was comfort built around the projections (especially near term) if the previous model was not back tested for accuracy and those insights were not used to calibrate the new model?

Comfort was built around the projections by using the most current data available from the City of Rockville, Montgomery County, and the Metropolitan Washington Council of Governments (COG). Back testing was not part of the original scope of services requested of the Consultant in this effort. If the City has the necessary data, if there is funding available, and if a Consultant is available to perform this type of analysis, this is certainly something that could be pursued in the future.

The current model is not meant to be a static snapshot, but a dynamic tool available to CPDS staff moving forward to be refined and adjusted as appropriate.

2. On the expenses based on the city budget or actuals, are budget amendment assumptions built into the expense figures for FY 2023 and FY 2024? The city appears to make a considerable amount of amendments each year and was wondering if these were factored in. I could not see explicitly in what I reviewed if they were. Same question also goes for the revenues.

Forecasted expenses and revenues are based on the FY 2023 adopted budget column from the source file “Revenues and Expenditures FY21 - FY23.xlsx”.

3. On the residential and commercial projections tab, specifically for the approved projects, how realistic are the start and end dates? Has any review been conducted on recent projects between approval and actually finishing? Said another way, is any lag being applied to the dates that may better reflect reality in the event it is found that the projections are always earlier than the actual end of construction date?

Our forecast for Round 10 is for the time period of 30 years from 2020 to 2050. We build short term projections (5-10 years) based on developments that are in the pipeline, which means that they have been approved by the Mayor and Council and the Planning Commission. Long term projections (beyond 10 years) are developed by taking into account the completion time for larger projects in the pipeline, potential new development based on master plan recommendations, developable capacity of underutilized land in prime locations, guidelines provided by the County and COG on the growth model, and a consideration of many other factors. Since the market and economic conditions are hard to predict, we can never be sure about the start and the end dates of any projects, they are the best estimate of conditions at the time that the forecasts were developed. However, this is a robust process where COG gives all jurisdictions the option to review market conditions and adjust/update their forecasts periodically as needed. The forecasts are typically updated every two years. At that time we do review the projects that have been completed and take them of the list. Based on previous rounds, the estimated completion times for short term projections are quite accurate.

4. How were vacancy rates derived for the dwelling units tab?

These were provided by City planning staff and are used by the City in its dwelling unit report.

5. On the demographics tab, how realistic is holding the persons per household type constant? Is there a trending data set based on actuals that can be used to inform this?

These were provided by City planning staff. They may have historic figures for these to observe any trends.

6. On all Green revenue tax tabs - How realistic is a constant YoY 2% increase? I think on most of this there is a limit on how much you can increase taxes. I see this infrastructure is in the gas tax tab, but does not appear to be used. Why is it not applied there but is applied to the hotel tax, income tax, etc.?

The revenue growth rates in the model are generally aligned with the revenue growth that is reflected in the budget forecasts – however the model does not include the forecasted property tax rate increase for FY 2025 as presented in the proposed FY 2024 budget. If the adopted budget includes a forecasted tax rate increase we will update the model. The 2.5% growth rate noted in the ‘Rev (Real Property Tax)’ tab is not indicative of a tax rate increase, but rather an increase in the assessed values of Rockville properties. Regarding the gas tax, there is a portion of this rate that is tied to inflation. Under Maryland law a component of the rate will increase based on CPI, but cannot decrease even if there is negative inflation. For hotel tax we expect that nightly hotel rates will rise incrementally over time, and that the 2% hotel tax rate will generate more revenue. The growth rate does not reflect changes to the hotel tax rate itself. The same applies for income tax, where we expect increases to the taxable earnings of Rockville residents, not increases to the tax rate.

These questions are based on my initial review, I'll reach back out if I notice anything else.

Best,

William Spagnuolo
973-919-9161

NewGen Strategies & Solutions

THANK YOU!

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