About The Garwood Casale Development

Introduction

This models the proposed Casale Project with the Cost of Government to outline considerations for a financial plan for Garwood Borough. No other options for the Proposed Project are evaluated such as "Reduce the Scope", "Do Nothing" or "Make a Park".

Financial Plan

A financial plan is essential. Any Plan involves risks whereby some elements will not be achieved and/or the outcome will not be exactly as hoped. Therefore the Plan must have a success scenario where something is gained and risk is minimized. The plan must guard against a worst-case scenario and limit downside impacts.

A Breakeven Plan in itself would be wrong. A Plan with a loss scenario would be a disaster for the taxpayers.

The proposed Casale Project, compared to the size of Garwood, is one of the largest in the State of New Jersey, projected to increase the population of the Borough by ~12%.

This work is done to encourage the Borough Government to develop the best possible Financial Plan and present it to the public for consideration.

The Cost of Government

In 2016, property taxes pay for 87.2% of the $19.6 MM Garwood Cost of Government ($8.3 MM for Schools; $7.9 MM for Municipal Services and $3.4 MM for County tax). Cost of Government increases 3% per year compounded such that 2019 cost is projected to be $21.4 MM given no change in population and no development. There are 1,778 taxable entities that share the property tax burden ($9,618 avg. per entity). Taxable entities are comprised of a mix of residential, retail and industrial.

Cost of Government Escalation factors, 3%/yr compounded
2016 (1.000) 2017 (1.030) 2018 (1.061) 2019 (1.093) 2020 (1.126) 2021 (1.159) 2022 (1.194) 2023 (1.230) 2024 (1.267) 2025 (1.305) 2026 (1.344) 2027 (1.384) 2028 (1.426) 2029 (1.469) 2030 (1.513)

2016 Government Expense ($MM)			2016 Government Revenue ($MM)		
E1	8.3	Schools	R1	0.80	School Aid plus misc.
E2	7.9	Municipal	R2	1.77	Municipal Aid plus misc.
E2	3.4	County	R3	0.00	County, n/a
			R4	17.1	Property Tax
ET **$19.6 MM** Total Expense			RT **$19.6 MM** Total Revenue		
Data from newspaper and Borough Website			(difference due to rounding of values)		
Other 2016 Data			Reference Cash Flow Calculator		
Z1	0.54	Sewer Assessment (included in E2)	Formulae: ET = RT ET = E1+E2+E3 RT = R1+R2+R3+R4		
Z2	470	School Enrollment			
Z3	17700	$ Cost per Enrollment			
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Casale Project Summary

In 2019, the planned Casale development would add 315 apartments and 9 retail stores to the Garwood taxable entities. A population increase of 500 is projected, raising the total to 4,726 residents (4,226 + 500) - an increase of 12%. It is projected that the population increase would add $2.53 MM to the Cost of Government. A significant uncertainty in the cost increase estimate is that for schools, perhaps comprising up to $1.06 MM of the $2.53 MM increase based on 55 new school enrollment at a 2019 School Cost/Child of $19,346 per year.

Project Variables and Input for Analysis: under construction

Variable	Value	Description
x10	3.0	Government Expense Escalation, percent per year compounded
x11		Return on Project (ROP), percent above break even
x12	50	Added School Enrollment by Project
x13	315	Added Total Housing Units by Project
x14	30	Added Affordable Housing Units by Project
x15	9	Added Retail Units by Project
x16	2.0	Capital Outlay required by Garwood, $MM
x17	0.5	Professional Fees and Services required by Garwood, $MM
x18	3	Years to Complete the Project from 2016
x19	4226	Garwood Population 2016, ** Borough web site
x20	1778	Residential Property Taxable Entities 2016, **
x21	9618	Residential Property Tax 2016, average calculated (R4/x20)
x22		other

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Discussion

1. Things are complex. It is important that the current numbers are complete based on what is known. The end game is to come up with a plan that is a winning scenario with minimum risk. The Garwood Council is seeking help based on their RFP approval for negotiation lawyers. However, the best negotiators can't help if they don't know what a winning plan is.

2. Capital Recovery -- Garwood is faced with spending $2.0 to 2.5 MM now for a fire truck, professional services, etc. Liken to a mortgage, how much would Garwood have to be paid back each year for the next 10 years to be made whole?

3. How should the cost of new retail units be handled? The current Garwood costs include retail -- Shoprite, etc. are in the mix already. So using the current mix as a basis, perhaps is relatively solid.

4. Several calculations were made to assess the population increase expected from the project. Garwood's current residents per taxable entity rate was used as a starting point. The starting point is probably high because this compares apartments to mostly residential homes that exist now in Garwood. The developer estimates that the project would add 500 population (1.6 people per apartment including 20 new school enrollment). How many school enrollments is a wild card and an expensive item. What basis is there to judge, and/or control, the actual numbers that would result? Would the 32 affordable housing units skew the numbers?

5. Garwood current taxes are based on 25% of homes having children enrolled in the school system (the lowest rate in Union County). By comparison, Westfield has about the highest rate at over 40%, which substantially increases their property tax.
6. Generally, the cost of local government is proportional to population. It always escalates (~3% per year compounded).
7. The more Garwood improves the town, the higher the county tax will be.
8. Sewers: RVSA needs a guaranteed minimum amount of money to pay off the substantial bond debt. If every town in the RVSA system reduced sewer flows by 10%, assessment would still be the same.
9. All schools in the state spend about $18K per student (except higher for failed Abbott districts). State aid softens the blow on property tax. Garwood gets about 10% of school cost as state aid. Westfield gets about 3%. What will state aid be in the future? Who knows? It is unlikely to get better. So, a plan must consider all of these uncertainties.

Conclusions

Garwood must receive from this project all costs of government. PILOT payments (Payments in Lieu of Taxes) that bypass any of the costs of government must be rejected. Provisions for risk and uncertainty must be added to the planning. A plan that is only Breakeven is illogical, otherwise why bother and why take the risk? It is most likely that this project will not reduce the property taxes of existing residents.

Feasibility

This analysis indicates that for Garwood to breakeven, up to $2.5 MM per year of increased revenue is required. Given risk and uncertainty, perhaps $3.0 MM per year (based on 2019 dollars, escalated at 3% per year compounded) should be the figure to be included in the financial plan. Is this feasible for the project whereby 315 apartments are taxed at ~$9,500 per year?

Should school enrollment estimates change to confidently plan for lesser school costs, about $0.5 MM per year plan cost reductions would result. If so, $2.5 MM per year would be required by Garwood. At this level, the apartments would be taxed at about $8,000 per year.

Recommendations

1. Verify/update the numbers in this report. Update the numbers as changes to the Project occur.
2. Conduct project feasibility. Assess Garwood Borough, renters and developer expectations.
3. Consult with all applicable entities to obtain input (Schools, County, RVSA, Police, State, etc.).
4. Contact and review projects from other towns. Assess their results. Where has this been done before?
5. Present the Financial Plan to the public. Confirm that it is feasible for the developer.
6. Present the Developer Agreement to the public prior to signing.

end
by Horace Corbin, 2016-07-17