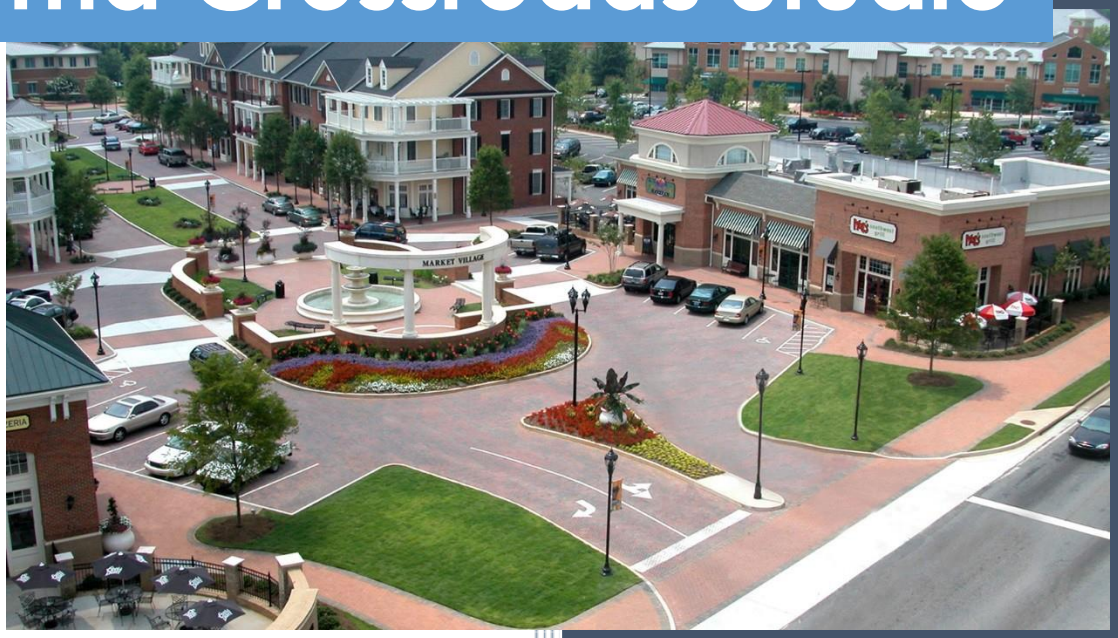
Georgia Tech Center for Economic Development Research

Fiscal Impact Analysis of the Smyrna Crossroads Studio



Prepared for: **City of Smyrna**

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Executive Summary

Graduate students in Georgia Tech's School of City and Regional Planning took part in a semester long studio for the City of Smyrna to look at major zoning and development changes across four character areas in response to the new SunTrust Stadium complex. The studio proposed that over the next 20 years, the city redevelop these areas to include more than $347.7M in new single-family residential investment; $1.4B in new multi-family residential investment; $390M in new hotel space; 3.2M sq. ft. of new office space; and approximately 500,000 sq. ft. of new retail space. Combined, the value of the new investment is $3.7B over 20 years.

The studio did not phase-in or provide any other timing schedule for these investments because the impact of the proposals isn't based around one single project, but the general lifting of the area due to the increase in demand stimulated by both the new stadium complex, the pedestrian bridge, and the slow-buildout of the road network. Therefore, the studio assumed that there would be a steady 20-year buildout based on the studio's proposed floor-area-ratio (FAR) increases.

The Center for Economic Development Research at Georgia Tech utilized a regression-based fiscal impact model that was specifically developed to analyze mixed-used developments. The city model also utilized the Per Capita Multiplier Method — the classic average costing approach to estimate local costs. Further, the model used commuting patterns and financial data specific to the City of Smyrna.

Although the development proposals are for 20 years, the model utilized here provides only a 10-year fiscal forecast. Under the steady 20-year buildout scenario, the new revenues from the development don't cover the city's new operational costs until year 6. From year 6 on, the net fiscal impact steadily increases. Over the first 10 years of the development, the net present value of the development on the city's financial situation is less than $1 million….virtually a break-even proposition.

With respect to the new infrastructure, if the city issued 20-year debt to cover the entire $52 million in new infrastructure costs, the annual debt cost would be $3.5 million. After the impact fee proposed by the studio, the annual debt obligation needed to be covered by a bond millage would be $2.8 million which translates into 1.14 mills given the city's current net bond tax digest. That would represent nearly a 13 percent tax increase over the city's current millage rate. If the bond was issued to only cover the required $19 million of initial required investments that drops to 0.22 mills, or a 2 percent tax increase.

Section 1

Introduction

About the Enterprise Innovation Institute

The Enterprise Innovation Institute (EI^2) is Georgia Tech's primary economic development outreach unit. EI^2's roots date back to 1960 when the Georgia General Assembly created its predecessor organization. EI^2 continues Georgia Tech's sixty-year legacy of commitment to community economic development, by providing research, technical, and management assistance to support economic development efforts in local communities.

The Center for Economic Development Research (CEDR), a unit within EI^2, assists local elected officials, economic developers, policy makers, and community and state leaders. CEDR provides innovative tools and methods to leverage local advantages and improve the quality of life of residents. CEDR economic development professionals help communities attract, maintain, and grow business and industry. The services offered by CEDR include economic and fiscal impact analysis, professional development for economic developers, labor market analysis, and strategic planning.

Learn more about CEDR at cedr.gatech.edu.

Project Overview

CEDR is pleased to present this report: *Fiscal Impact Analysis of the Smyrna Studio.* This report is based on the results of a semester long studio completed by the Georgia Tech School of City and Regional Planning for the City of Smyrna in the fall of 2016. The studio's purpose was to look at major zoning and development changes across four character areas in response to the new SunTrust Stadium complex.

The report includes estimates of the fiscal impact to the operating budget of the City of Smyrna that would result from the development of the proposals in the studio. These impacts include both new revenues and new expenses that the city can expect to incur as the development progresses over a 20-year timeline. The report also includes the required infrastructure investments and the estimated cost to the city of a general obligation bond to cover the capital expenditures.

Report Organization

The report contains the following two sections:

Section 2: Scenario Assumptions

This section presents the assumptions that were used in the analysis. These include developments proposed by the studio, the timing of those developments, the value added per square foot, and the new infrastructure investments required.

Section 3: Fiscal Impact Analysis

This section presents the fiscal impact results of the development scenario developed by studio. It includes a brief description of the model; the fiscal impact of the development on city operations; and the necessary funding to cover required city capital improvements.

Section 2

Scenario Assumptions

The data that forms the basis of this analysis was provided by the School of City and Regional Planning at Georgia Tech. The data was developed by graduate students as part of a semester long studio for the City of Smyrna to look at major zoning and development changes across four character areas in response to the new SunTrust Stadium complex.

In summary, over the next 20 years, the studio proposal includes more than $347.7M in new single-family residential investment; $1.4B in new multi-family residential investment; $390M in new hotel space; 3.2M sq. ft. of new office space; and approximately 500,000 sq. ft. of new retail space. Combined, the value of the new investment is $3.7B over 20 years.

However, as part of the studio's work, they did not phase-in or provide any other timing schedule for these investments. The impact of the studio's proposals isn't based around one single project, but the general lifting of the area due to the increase in demand stimulated by both the new stadium complex, the pedestrian bridge, and the slow-buildout of the road network. Therefore, for purposes of this fiscal impact analysis, it was assumed that there would be a steady 20-year buildout based on the studio's proposed floor-area-ratio (FAR) increases. Table 1 below provides the assumptions on value per square foot that were used by the studio to determine the value of their proposals. These assumptions are critical to the fiscal impact estimates as the value of the new property drive many of the fiscal impact model equations.

With respect to new employment, the studio assumed 1 job per 400 square feet of retail space, and 1 job per 300 square feet of office space. Hotel jobs were conservatively assumed to be 1 job per 2 rooms.

Retail sales per square foot and the associated new retail sales were not needed for this analysis because the City of Smyrna receives no sales tax. Cobb County has only an education sales tax (ELOST) which is dedicated to the two school systems in the county, and a Special Purpose Local Option Sales Tax (SPLOST) which is distributed 100 percent to the county, and by law can only be used for voter-approved infrastructure projects.

Finally, the studio identified several new infrastructure projects (to be funded by the city) that are necessary for the proposal. These include:

- Pedestrian bridge - $4M
- Shared parking structure - $15M (20% of parking structure cost)
- Marquee road improvements - $18M (3 miles)
- Additional park space - $15M

Combined, these projects total $52M. The pedestrian bridge and parking structure need to be built early in the project, but the remaining infrastructure investments can be spread out evenly through the project. The timing of these projects is critical to the fiscal impact analysis and is discussed in more detail in Section 3. To help cover some of these infrastructure costs, the studio assumed a $1 per constructed square footage impact fee. This fee is included as part of the capital fiscal impact analysis in Section 3.

TABLE 1: Value Per Square Foot Assumptions

Type	Value/sq. ft. (New)	Value/sq. ft. (Old)	Value Added Per Year	Total Sq. Ft. Added Per Year
Single-family	$190	$80	$17.3M	91,508
Multi-family	$200	$80	$68.8M	343,931
Office	$350	$110	$57.3M	163,768
Hotel	$300	$100	$19.5M	65,000
Retail	$300	$130	$23.0M	76,518
Total			**$185.9M**	**740,725**

Section 3

Fiscal Impact Analysis

The city fiscal impact estimates presented here are generated using a regression-based fiscal impact model that was specifically developed to analyze mixed-used developments. The model also uses the Per Capita Multiplier Method — the classic average costing approach to estimate local costs. This method assumes that over the long run, the best estimates of future operating costs are the current average operating costs. While there may currently be some level of excess capacity in current city services, there is no way to know how much capacity, or whether or not the location decision of the new households will utilize that capacity or require significant new marginal costs.

The model also utilizes commuting patterns specific to the City of Smyrna. These commuting patterns help identify where the new employees associated with the new hotel, retail, and office space will live. Certainly some may live in Smyrna, but many will likely live outside the city limits, and as such create no new service cost to the city.

Revenue and expenditure data specific to the City of Smyrna were used in the model and were taken from the most recent financial documents publicly available from the Georgia Department of Community Affairs and the Georgia Department of Revenue. Revenue and expenses for enterprise funds were not included as it is assumed that over the long-run revenues should equal the associated expenses. Similarly, revenue from the bond millage was not included, nor was the associated existing debt service cost.

It is important to note that the model simulates *operational* fiscal impact and does not consider any additional capital costs or revenues. There are two reasons for this. First, individual projects rarely have dedicated capital infrastructure costs. An increase in capital infrastructure usually supports multiple projects or a general increase in capacity which is spread across many current and future projects. It would not be appropriate to assign those costs to any one project. However, in this unique case, with such massive proposed redevelopment and required infrastructure, capital costs will be considered, but considered separately from the operational impact.

The second reason that capital costs are usually not considered is that most capital infrastructure projects are paid for using a general obligation bond which has a dedicated millage rate used to cover the payments. As such, the net fiscal impact is zero. In this case, there is a proposed impact fee, but that will cover only a share of the proposed infrastructure. The impact fee, and additional bond millage rate, will be considered below separate from the operational impact.

Finally, although the studio spread the project over 20 years, this model only forecasts the stream of new revenues and expenditures for a 10-year period. The future stream of net benefits (positive or negative) is put in current dollars using a Net Present Value (NPV) calculation using a discount rate bracketed by the interest that must be paid on current debt and the interest that could be earned in the appropriate investment funds market. For this analysis the discount rate was 3 percent.

Fiscal Impact - Operating

The results of the operational fiscal analysis are shown below in Tables 2, 3 and 4. Table 2 shows the new operational revenue that will accrue to the city as the new development is implemented. Again, these revenues do NOT include the proposed impact fee as that would be utilized to cover additional capital expenses that are not part of the operational analysis.

As can be seen in Table 2, one of the largest new revenues streams, after "charges for services" and "property tax," is "hotel/motel" tax. This particular revenue stream is highly dependent on several assumptions, including average price per room and occupancy rate. For this analysis, we assumed an average rate of $120 per night, and an annual average occupancy of 80 percent.

The final operational results are shown in Table 4. Under the steady 20-year buildout scenario, the new revenues from the development don't cover the city's new operational costs until year 6. From year 6 on, the net fiscal impact steadily increases. Over the first 10 years of the development, the net present value of the development on the city's financial situation is less than $1 million….virtually a break-even proposition.

TABLE 2: Forecast of Revenue Impact without New Impact Fee

Revenues	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Property Tax	$0.0	$0.6	$1.3	$2.0	$2.7	$3.4	$4.0	$4.7	$5.4	$6.1
Sales Tax	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Hotel/Motel Tax	$0.3	$0.6	$0.9	$1.2	$1.5	$1.8	$2.1	$2.4	$2.7	$3.0
Franchise Fee	$0.2	$0.5	$0.7	$0.9	$1.1	$1.3	$1.5	$1.7	$1.8	$2.0
Liquor License	$0.0	$0.1	$0.1	$0.1	$0.2	$0.2	$0.3	$0.3	$0.3	$0.4
Alcohol Tax	$0.0	$0.1	$0.1	$0.2	$0.2	$0.2	$0.2	$0.3	$0.3	$0.3
Fines	$0.1	$0.3	$0.4	$0.6	$0.7	$0.8	$1.0	$1.1	$1.2	$1.3
Permits	$0.1	$0.1	$0.2	$0.3	$0.3	$0.4	$0.5	$0.5	$0.6	$0.6
Services	$0.8	$1.7	$2.5	$3.3	$4.1	$4.9	$5.7	$6.4	$7.2	$7.9
Occupational Tax	$0.1	$0.2	$0.4	$0.5	$0.6	$0.7	$0.8	$0.9	$1.1	$1.1
Insurance Premium	$0.1	$0.1	$0.2	$0.2	$0.3	$0.4	$0.4	$0.5	$0.5	$0.6
Miscellaneous	$0.1	$0.2	$0.3	$0.4	$0.5	$0.6	$0.7	$0.7	$0.8	$0.9
Total New Revenues	**$1.9**	**$4.5**	**$7.1**	**$9.6**	**$12.1**	**$14.6**	**$17.0**	**$19.5**	**$21.8**	**$24.2**

Source: Center for Economic Development Research, Georgia Institute of Technology.
Totals may not add due to rounding.

TABLE 3: Forecast of Expense Impact without New Infrastructure Costs

Expenses	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
General Govt.	$0.1	$0.2	$0.3	$0.4	$0.5	$0.6	$0.7	$0.8	$0.9	$1.0
Social Welfare	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Public Safety	$0.6	$0.6	$1.6	$2.1	$2.6	$3.0	$3.5	$3.9	$4.3	$4.7
Courts	$0.0	$0.0	$0.0	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1	$0.1
Recreation	$0.2	$0.3	$0.4	$0.6	$0.7	$0.9	$1.0	$1.1	$1.2	$1.4
Public Works	$1.7	$3.4	$5.0	$6.6	$8.1	$9.6	$11.0	$12.4	$13.7	$15.0
Miscellaneous	$0.1	$0.1	$0.2	$0.2	$0.3	$0.3	$0.4	$0.4	$0.5	$0.5
Total New Expenses	**$2.6**	**$4.6**	**$7.7**	**$10.0**	**$12.3**	**$14.5**	**$16.7**	**$18.8**	**$20.8**	**$22.7**

Source: Center for Economic Development Research, Georgia Institute of Technology.
Totals may not add due to rounding.

TABLE 4: Forecast of Net Fiscal Impact without Impact Fees & New Infrastructure

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
New Revenues	$1.9	$4.5	$7.1	$9.6	$12.1	$14.6	$17.0	$19.5	$21.8	$24.2
New Expenses	$2.6	$4.6	$7.7	$10.0	$12.3	$14.5	$16.7	$18.8	$20.8	$22.7
Net Fiscal Impact	**-$0.7**	**-$0.2**	**-$0.6**	**-$0.4**	**-$0.2**	**$0.1**	**$0.4**	**$0.7**	**$1.1**	**$1.5**
Net Present Value:	**$0.9**									

Source: Center for Economic Development Research, Georgia Institute of Technology.
Totals may not add due to rounding.

Fiscal Impact - Capital

As mentioned in Section 2, the studio identified several new infrastructure projects (to be funded by the city) that are necessary for the proposed developments. These include:

- Pedestrian bridge - $4M
- Shared parking structure - $15 (20% of parking structure cost)
- Marque road improvements - $18M (3 miles)
- Additional park space - $15M

Combined, these projects total $52M. The pedestrian bridge and parking structure need to be built early in the project, but the remaining infrastructure investments can be spread out evenly through the project as needed.

The studio proposed a $1 per constructed square footage impact fee. Under the steady 20-year buildout scenario, that fee would generate $740,725 per year for 20 years…or $14.8 million.

To make up the difference, the city would need to issue a general obligation bond. Given that Smyrna has a AAA bond rating from Standard & Poor's, we assume that the city could borrow money via a 20-year general obligation bond for 3 percent. If the city borrowed the initial $19M in required infrastructure (the pedestrian bridge and parking structure) for 20 years at 3 percent, the annual cost would be $1.3 million. If they city committed the entire amount of the impact fee toward the debt coverage, that still leaves a gap of just over $536,000 needed annually. Given the city's $2.4 billion net bond tax digest, a bond millage of 0.22 mills would be needed to cover the gap. Of course, as the development was built out, this rate would drop as the bond digest increased (Table 5).

If the city issued 20-year debt to cover the entire $52 million in new infrastructure costs, the annual debt cost would be $3.5 million. After the impact fee, the annual debt obligation needed to be covered by a bond millage would be $2.8 million which translates into 1.14 mills given the city's current net bond tax digest. That would represent nearly a 13 percent tax increase over the city's current millage rate (Table 6).

TABLE 5: Forecast of Annual Capital Cost (Bridge and Parking Only)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Impact fee	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7
$19M, 20-Yr. Bond	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3
Net Debt Coverage	**-$0.5**	**-$0.5**	**-$0.5**	**-$0.5**	**-$0.5**	**-$0.5**	**-$0.5**	**-$0.5**	**-$0.5**	**-$0.5**
Bond Millage Rate:	**0.22**									

Source: Center for Economic Development Research, Georgia Institute of Technology.
Totals may not add due to rounding.

TABLE 6: Forecast of Annual Capital Cost (All Required Capital)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Impact fee	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7	$0.7
$52M, 20-Yr. Bond	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5	$3.5
Net Debt Coverage	**-$2.8**	**-$2.8**	**-$2.8**	**-$2.8**	**-$2.8**	**-$2.8**	**-$2.8**	**-$2.8**	**-$2.8**	**-$2.8**
Bond Millage Rate:	**1.14**									

Source: Center for Economic Development Research, Georgia Institute of Technology.
Totals may not add due to rounding.