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MEMORANDUM

To: Borough Commissioners
Sharon McCullough
Mario A. Iavicoli

From: Edward J. McManimon, III

Re: Pro Forma Projection of Costs and Tax Impact of Acquisition by Borough of Bancroft Site and Development as Active and Passive Open Space

Date: September 20, 2011

At your request, I have prepared this memo to set forth a financial model making certain assumptions about the cost and tax impact to the Borough of:

- 1) acquiring the Bancroft Site for the current assessed value on the Borough tax records;
- 2) demolishing the existing structures on the Bancroft Site, with exception of Lullworth Hall;
- 3) developing the west side of Hopkins Lane for a lighted turf field and parking for use by the high school and other related public uses (presumably including the construction of 10 low income housing units);
- 4) developing and maintaining the east side of Hopkins Lane for active and inactive open space and recreation;
- 5) making appropriate sidewalk and road improvements to Hopkins Lane to accommodate the open space; and
- 6) providing for the funding of the 20 unit COAH obligation on-site and off-site, which must be assumed by the Borough if there is no private development on the site.

I am aware from the Commissioners that the Board of Education may have under consideration a concept that would provide for additional public uses on the Bancroft Site. Since these would be public uses, I don't believe that the information provided here is inconsistent with what would likely be proposed by the Board of Education. I assume that the Commissioners will be working cooperatively with the Board of Education to explore any proposals made. In fact, this analysis provides a framework within which the tax impact, whether positive or negative, of any proposal made by the Board may be estimated.

This analysis is not intended to be a proposal, nor does it reflect any decision by the Commissioners to purchase the Bancroft site, but rather a presentation of a cost and tax impact analysis of the open space option to the redevelopment of the Bancroft Site based on the assumptions indicated. It is intended to enable the Borough and its residents to understand the basic factors that determine the financial impact of pursuing this option and what the result is if any one or more of the financial assumptions change.

In developing this model, the current assessed value of the Bancroft Site (\$12,000,000) was used only because it is a value that exists and at least serves as a starting point for calculation of costs. Its actual market value is likely to be substantially less than that amount considering that the structures on the site are of no value to the Borough or any developer and actually result in a decreased value because of the cost to demolish them. Of course, the price that the owner is willing to sell for must also be factored in. I have also used amounts for the various improvements derived from prior estimates of the Borough Planners and Bancroft in order to form the basis of a tax impact from such use. To the extent that the actual amounts for any or all of the costs increase or decrease from the amount in this model, the projected tax impact would change as noted herein.

Basically, each \$1 million increase or decrease in debt would be approximately \$75,000 each year (over 20 years) in debt service or approximately \$16 in taxes on an average home as noted below. Lastly, the tax impact is not divided between the Borough and the School District since the costs are born by the same taxpayers. Some allocation is likely at a future date based on use and benefit and other policy considerations.

The assumptions are as follows:

A. Costs to the Borough

1. Purchase Price of Bancroft Site
(The assessed value on the Borough tax records is \$12 million, of which \$9.6 million is land value.) \$12,000,000

2. Demolition (average between Clarke Caton projection of \$1,900,000 and Bancroft projection of \$1,450,000	\$1,750,000
3. Construction of Turf Field and Parking on West Side of Hopkins Lane	\$1,250,000
4. Park Improvements on East Side of Hopkins Lane	\$1,700,000
5. Road and Sidewalk Improvements on Hopkins Lane	\$275,000
6. Engineering, Planning, Environmental, Finance, Legal	\$550,000
7. COAH Obligation for 20 Low Income Housing Units On and Off Site	<u>\$2,000,000</u>
Total Capital Cost:	<u>\$19,525,000</u>
B. Less: Grants, Property Sale Proceeds and Other Available Funds	
1. Borough Green Acres Funds (already committed to the Borough)	\$950,000
2. County Funds (uncertain with no specific commitment but estimated from County commitments elsewhere in the County)	\$3,000,000
3. Sale of Lullworth Hall	\$750,000
4. Funds Available in Borough Open Space Fund	<u>\$550,000</u>
Total Deductions	<u>\$5,250,000</u>
Total to be Financed by Borough (costs less deductions)	<u>\$14,275,000</u>
C. Annual Debt Service Over 20 Years (\$75,000/million)	
\$75,000 x 14.275	<u>\$1,070,625</u>

D. Annual Maintenance and Upkeep on Park Area (assumes one additional employee and amortizing additional equipment)	\$100,000*
E. Annual Budgeted Sinking Fund to replace and maintain turf field during and after 15 years	<u>\$75,000</u>
Total Annual Cost to Borough Taxpayers	<u>\$1,245,625</u>

F. Annual Tax Impact on Average Home = \$271

Tax Rate 2.57/\$100 of value

Assessed Value of
Average Home \$491,000

1 Cent on Tax Rate = \$226,184

Impact of Plan – (\$1,245,625/\$226,184) is 5.51 cents

G. Each \$1 million increase or decrease in cost
(e.g. purchase price, grants, grass field vs. turf field, etc.) =

\$75,000 annual expense and a tax increase or decrease on an average
home of \$16 above or below the \$271 amount

H. Each \$25,000 increase or decrease in annual maintenance and upkeep
costs would add or subtract \$5 to the \$271 annual tax increase

*If the Borough Open Space Tax is maintained, it produces approximately \$115,000 per year which could be used for this purpose.