

DRAFT

Volcano Heights Sector Development Plan: Fiscal Analysis

June 2013



Prepared For: City of Albuquerque

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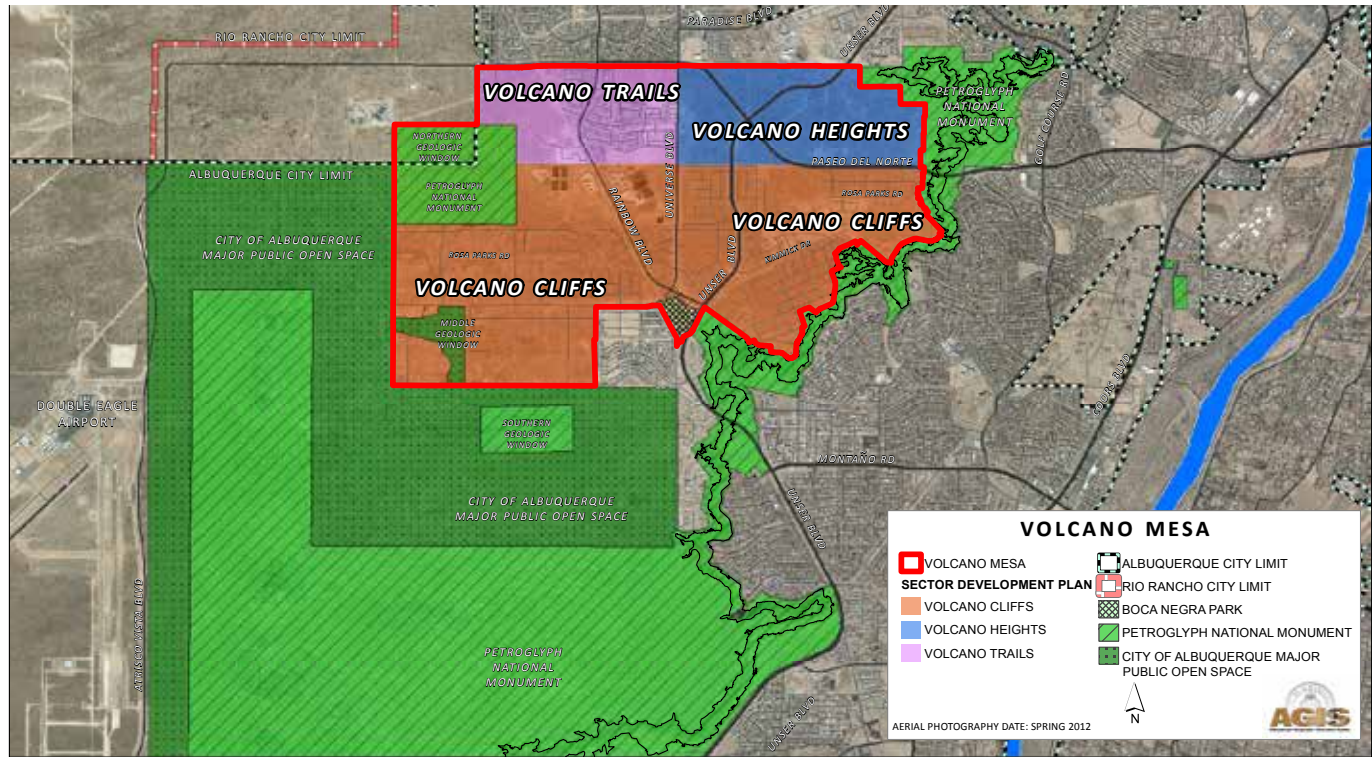


Figure 1: Volcano Mesa Sector Development Areas

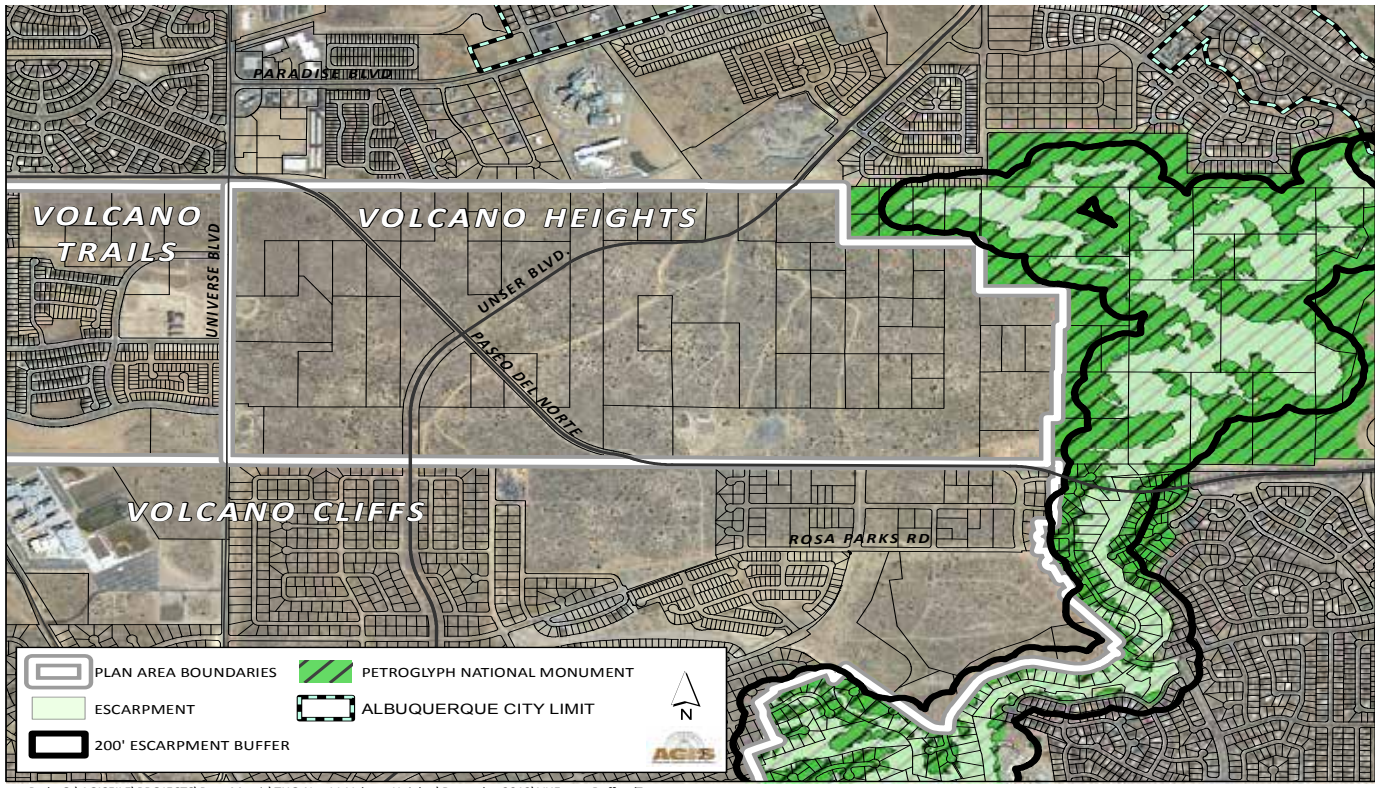


Figure 2: Volcano Heights Sector Area

This study was prepared to gauge the fiscal impact of potential development as envisioned by the Volcano Heights Sector Development Plan. There are several real challenges to development in this 570-acre greenfield area. Going from a completely undeveloped area – with no utilities, roads, drainage, or water service available – to a high-density, high-intensity Major Activity Center represents a steep investment and a significant obstacle to initial investment and ultimate build out success. A series of infrastructure improvements is necessary to catalyze development and enable private investment to succeed in implementing the development vision for a walkable district. As the only development of its type on Albuquerque's West Side, there are also significant opportunities for profit and benefits to the expanded marketability for employment west of the Rio Grande

Because Volcano Heights is based on a new development pattern with a mix of uses supported by a multimodal transportation network, there is an extra value created by such development above and beyond what could typically be expected from traditional suburban development patterns. This extra value could be leveraged through public-private partnerships to successfully create a walkable job center and live/work district on Albuquerque's West Side.

Understanding and Assumptions

The Volcano Heights Sector Development Plan encompasses approximately 570 acres in northwest Albuquerque. Currently, Volcano Heights is entirely undeveloped, with a total land value of \$1,299,365, according to the Bernalillo County Assessor Office. Typically, a city's ability to shape development is limited to either upgrading infrastructure (e.g. upgrading a road to a complete street with multimodal streetscape amenities, providing enhanced transit service, or providing other "horizontal" infrastructure improvements) or investing in catalytic projects (e.g. constructing a new civic development, redeveloping a historic property, or making other investments to "vertical" development).

In Volcano Heights, the City is in a unique position to guide development in this sector from the beginning. A strategic investment in a project that can act as a catalyst for private investment would be paid back both financially from the increased revenue from property taxes and gross receipts taxes as well as physically from laying the foundation for placemaking and high-quality development on the City's West Side.

This report compares the potential value of Volcano Heights' mixed-use development strategy to a traditional suburban single-use development pattern. The two development scenarios have been modeled using a proprietary development projection tool based on proven national growth patterns. Development has been projected over 15 years based on conservative estimates, market trends, inflation, and entitlements associated with each scenario.

As seen in Table 1, under the typical suburban model, the Plan area would build out over a 15-year period, with an approximate total development value of \$650 Million. Redevelopment could be expected in commercial areas on a 12- to 15-year cycle. The majority of land would be tied up with suburban residential development, which would either significantly limit or even eliminate the potential for future redevelopment.

With the proposed mixed-use entitlement scenario, a greater amount of land would be developed as



Land Use Type	SQFT	Units	Value
Single Family Residential	-	2,102	\$420,376,000
Townhouse Residential	-	379	\$65,592,750
Multifamily	-	759	\$82,698,300
Suburban Commercial	918,027	-	\$82,622,430
Total	918,027	3,240	\$648,289,480

Table 1: Existing Suburban Entitlement Potential Development

Land Use Type	SQFT	Units	Value
Single Family Residential	-	364	\$72,800,000
Townhouse Residential	-	291	\$48,015,000
Multifamily	-	4,114	\$448,426,000
Hotel	53,600	-	\$7,772,000
Office	1,180,135	-	\$135,715,525
Regional Retail	326,700	-	\$29,403,000
Specialty Retail	322,198	-	\$33,186,394
Local Retail	170,600	-	\$15,865,800
Total	2,053,233	4,769	\$791,183,719

Table 2: Mixed-Use Entitlement 15-Year Potential Development

15-year Development Cycle		
	Existing Suburban	Mixed-Use Place
Net New Residents	8,067	10,664
Net New Jobs	1,469	4,323

Table 3: Projected New Growth

Assumptions Table		
Residential Occupancy:	92%	
Commercial Occupancy:	85%	
Average MF Unit Size	1000	Sqft
Average SF Unit Size	2000	Sqft
Hotel Room Size:	300	Sqft
Avg. Residents Per MF Unit	2.4	People
Avg. Residents Per SF Unit	2.8	People
Inflation Rate	2%	per year

Table 4: Analysis Assumptions

large parcels. Because this initial development will set the pattern for an urban, walkable district, as the market changes or new uses become desirable, new development or redevelopment can easily be added or upgraded, which in turn further strengthens the sense of place and increases the level of activity and viability for all existing uses. The idea is not to create a new downtown, but to instead balance density and height to achieve a critical mass of activity, creating a place that people want to visit or live, given their own preferences or desires. Instead of competing or clashing with existing development as it might in a traditional suburban context, new developments or redevelopment add to the success of the area as a

whole and to each business and residential project.

At the end of the assumed 15-year buildout cycle, the mixed-use entitlement has already surpassed the value of the traditional suburban entitlement and has the potential to grow or stay stable over time. Given that a critical mass has been created through placemaking efforts, the potential for redevelopment is stronger, and the cost of services per user is lower than the traditional model.

Table 3 demonstrates estimated population and employment impact for the two development scenarios.

Table 4 shows the assumptions used in the



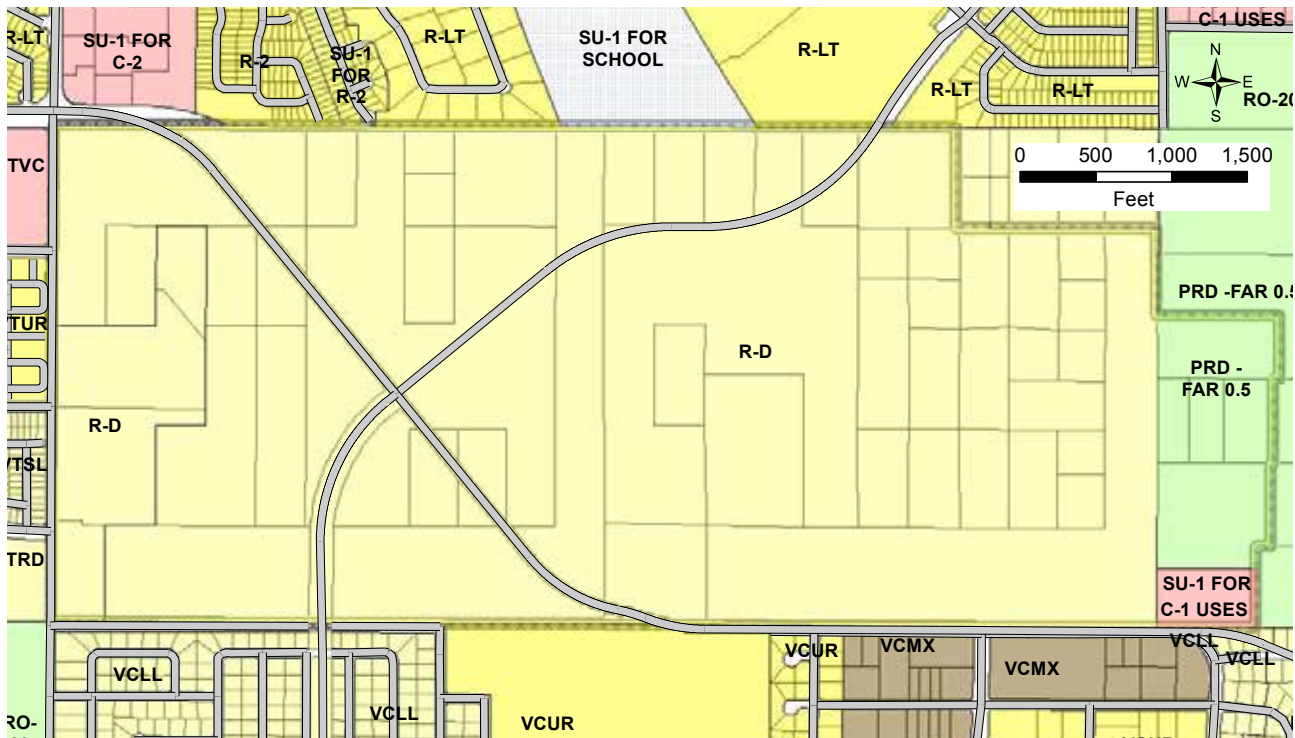


Figure 3: Volcano Heights Existing Zoning Map

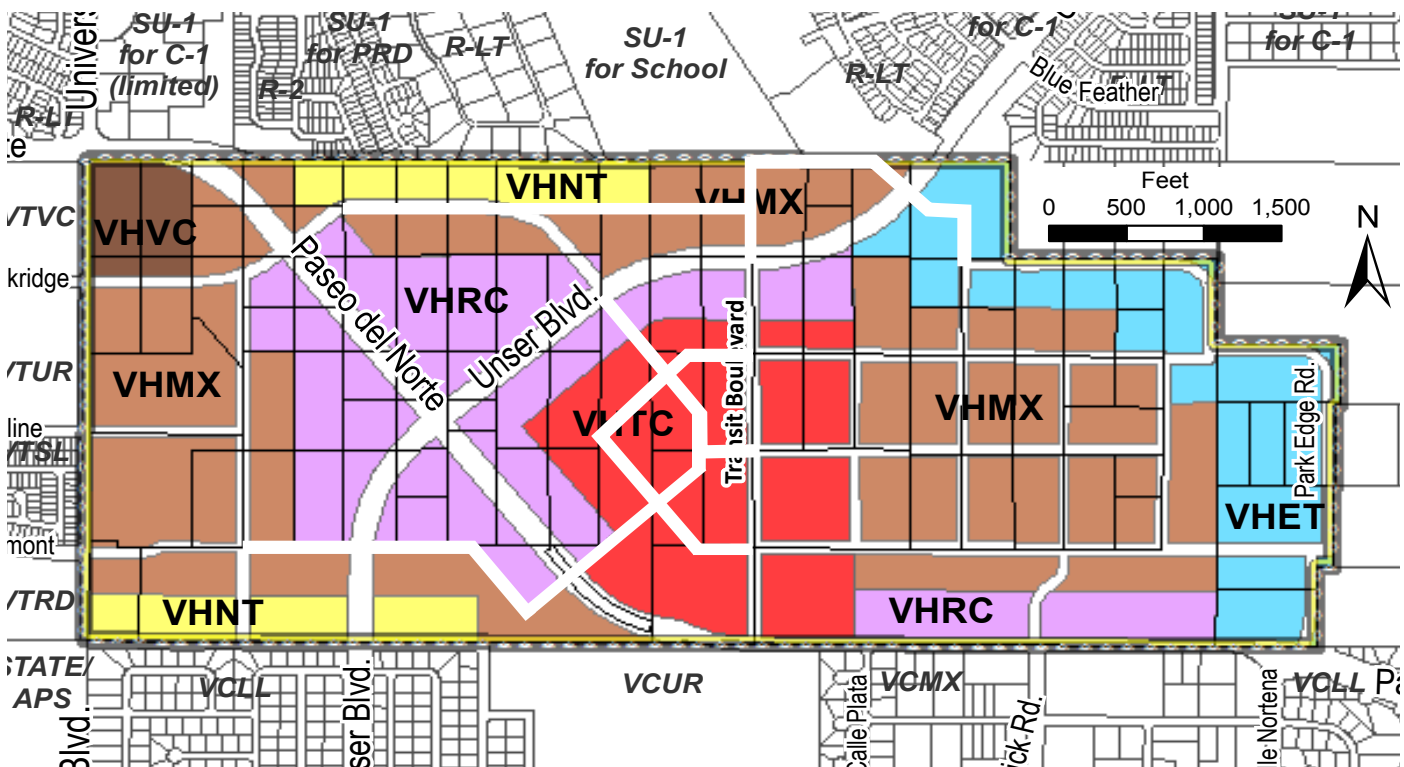


Figure 4: Volcano Heights Proposed Zoning Map

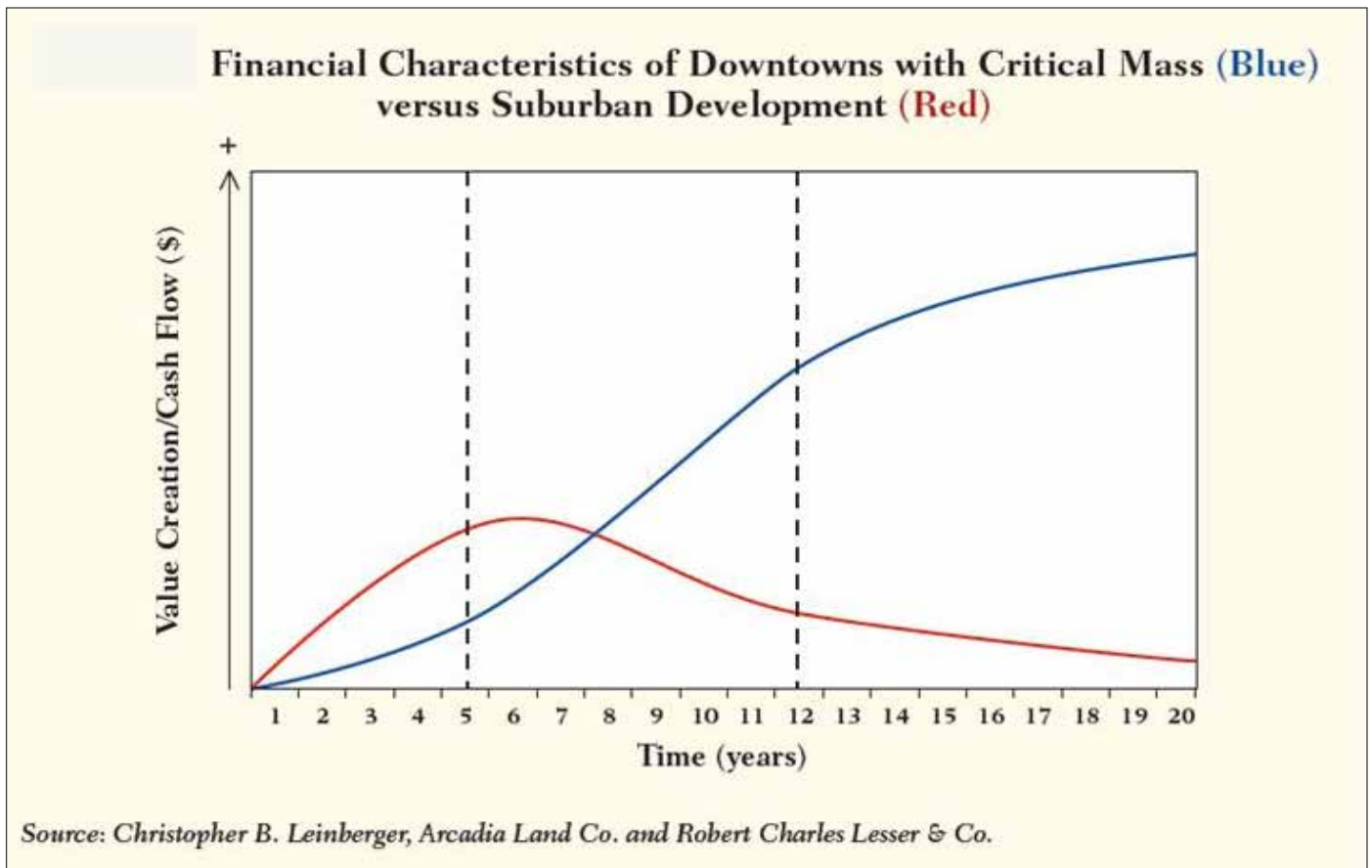


Figure 5: Value of Development Types

calculations. Base data was derived from a number of sources, including Bernalillo County and the City of Albuquerque.

Development Scenario Value

The two development scenarios project two very different built environments that have diverging values over time. Figures 6 and 7 assume the average development values over the course of 15 years. The suburban entitlement model is assumed to have a build out with equal investment amounts over 15 years. This projection amount reflects the average accounting for fluctuations over two to three real estate cycles. The value reaches a peak after one real estate cycle, after which new investment moves to another greenfield development opportunity. After that point, values decline dramatically in commercial areas and more slowly in residential areas.

In contrast, the mixed-use entitlement model depicts growth over 15 years in a pattern that is typical of place-based environments, where growth builds slowly to a tipping point. Momentum is gained once the “place” is established and provides the foundation for future value. Because entitlements in Volcano Heights allow a mix of uses, existing development can be repurposed to meet changing market opportunities. Form-based codes allow evolution from one real estate cycle to the next, allowing additional investment within a developed area available through a streamlined administrative approval process. These form-based codes ensure the level of quality from one project to the next, protecting property values and offering predictability for investors and neighbors. The adaptability of the mixed-use development model removes the potential ceiling on value and



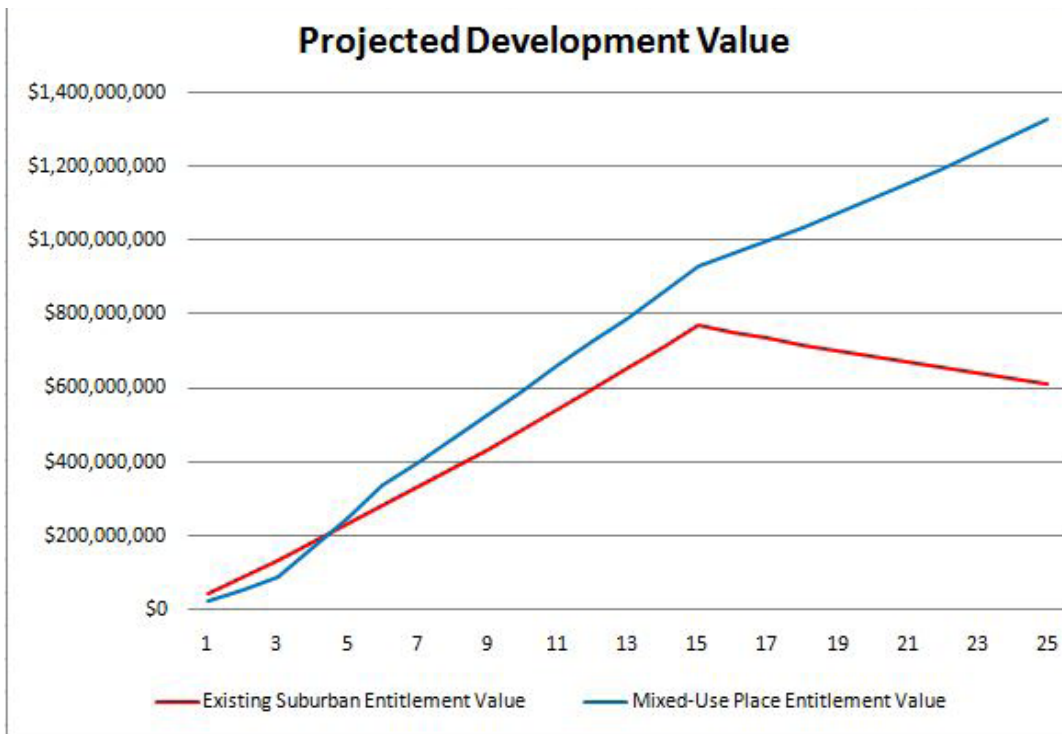


Figure 6: Property Value Comparison

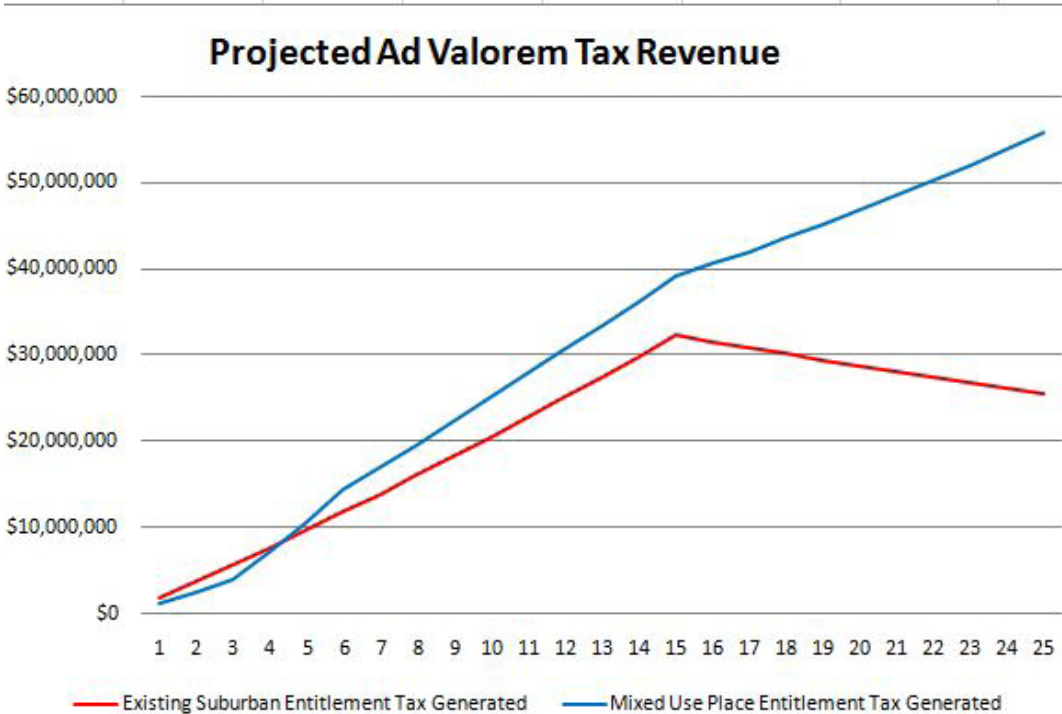


Figure 7: Ad Valorem Tax Revenue Comparison

Implementation and Conclusion

minimizes the likelihood of disinvestment and decline over time.

Fiscal Impact

According to the Bernalillo County Tax Assessor, the current appraised value for 562 unimproved acres in Volcano Heights is \$1,299,365. After 15 years, under the suburban entitlement scenario, the value of development (i.e. projected ad valorem value) is approximately \$769 million. Under the mixed-use entitlement model, this value is approximately \$932 million, an increase of over 20%.

Current and Projected Property Value and Ad Valorem Tax Revenue

The following graph shows the anticipated ad valorem tax revenue that will be generated per year over 25 years. Assuming no change in property tax rates, suburban entitlements provide approximately \$530 million in ad valorem tax revenue, while the mixed-use development model provides approximately \$769 million, almost a 45% increase in value. Common exemptions, such as a Homestead exemption, were not deducted from the projected Ad Valorem tax revenue estimation.

Implementation

Once the Sector Development Plan is adopted and sets the entitlements, regulations, and policies in place to focus on placemaking and mixed-use development, various City departments and outside agencies can analyze the infrastructure needed to support the development vision. This includes the City Department of Municipal Development for roads, Public Service Company of New Mexico for electric utilities, New Mexico Gas for gas utilities, the Albuquerque Bernalillo County Water Utility Authority for water and wastewater, and cable and internet service providers. Enforceable policies and regulations are needed in order to create accurate assumptions about what infrastructure will be

required to support desired development patterns.

Once infrastructure costs have been estimated, the City should consider strategic investments that could best catalyze and leverage private investment. Mixed-use development is expected to require more costly infrastructure than suburban development. Knowing the additional value of these mixed-use environments, the City can consider which portion of the additional cost makes sense to support, given the expected levels of return over and above typical suburban development. These decisions can be made on a rational basis, and the potential revenues should justify some measure of support or initial catalytic infrastructure project in Volcano Heights.

Conclusion

Cities across the United States have discovered that the high initial investment and steep drop off of value typical of the suburban development pattern leads to long-term fiscal liability that exceeds tax income over the lifecycle of development and infrastructure. Many cities are moving instead to a model of public-private partnerships that lay a foundation to create a sense of “place” in which initial investments are more than recovered by the long-term value as the area continues to produce value over time. This mixed-use model is a solution to the suburban model of short-term gain that jeopardizes long-term value.

As this report indicates, the potential for better outcomes is compelling, and the City should carefully consider how to invest in Volcano Heights’ success to reap the financial benefits, as well as the enhanced opportunities for economic development and placemaking, this model offers. This opportunity truly represents a win-win for development. The use of special districts, such as Public Improvement Districts (PIDs), Special Assessment Districts (SADs), or Tax



Development Analysis Tool																	
Volcano Heights Albuquerque																	
2013-2038																	
Revenue Projection																	
Period	Base	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	15-Year Total
Conventional Build																	
Existing Conditions Taxable Value	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	19,490,475
Conventional Build Value		43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	43,219,299	648,289,480
Conventional Total Value		44,518,664	89,927,701	136,244,918	183,488,480	231,676,914	280,829,116	330,964,362	382,102,312	434,263,022	487,466,946	541,734,949	597,088,312	653,548,742	711,138,380	769,879,811	769,879,811
State	1,767	60,545	122,302	185,293	249,544	315,081	381,928	450,112	519,659	590,598	662,955	736,760	812,040	888,826	967,148	1,047,037	7,991,594
County	10,548	361,403	730,033	1,106,036	1,489,559	1,880,753	2,279,771	2,686,769	3,101,907	3,525,347	3,957,257	4,397,804	4,847,163	5,305,509	5,773,021	6,249,884	47,702,764
City	14,969	512,855	1,035,967	1,569,541	2,113,787	2,668,918	3,235,151	3,812,709	4,401,819	5,002,710	5,615,619	6,240,787	6,878,457	7,528,882	8,192,314	8,869,015	67,693,501
School APS	13,595	465,799	940,914	1,425,531	1,919,840	2,424,036	2,938,315	3,462,880	3,997,936	4,543,694	5,100,367	5,668,173	6,247,335	6,838,080	7,440,641	8,055,252	61,482,388
CNM	4,345	148,870	300,718	455,603	613,585	774,728	939,093	1,106,745	1,277,750	1,452,176	1,630,089	1,811,562	1,996,663	2,185,467	2,378,047	2,574,478	19,649,919
UNMH	8,316	284,919	575,537	871,967	1,174,326	1,482,732	1,797,306	2,118,172	2,445,455	2,779,283	3,119,788	3,467,104	3,821,365	4,182,712	4,551,286	4,927,231	37,607,501
AMAFCA	1,106	37,885	76,528	115,944	156,149	197,157	238,986	281,651	325,169	369,558	414,834	461,016	508,122	556,170	605,179	655,168	5,000,622
Total Tax Generated	54,646	1,872,277	3,781,999	5,729,916	7,716,792	9,743,404	11,810,549	13,919,037	16,069,695	18,263,366	20,500,910	22,783,205	25,111,146	27,485,646	29,907,636	32,378,065	247,128,289
Mixed Use Build																	
Existing Conditions Taxable Value	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	19,490,475
Mixed Use Build Value		24,294,267	26,508,308	33,008,308	76,037,620	76,037,620	84,351,620	53,557,354	53,557,354	53,557,354	53,557,354	53,557,354	51,343,313	51,343,313	51,343,313	51,343,313	793,397,760
Mixed Use Total Value		25,593,632	53,913,177	89,299,113	168,422,081	249,127,507	339,761,043	401,412,982	464,297,960	528,440,638	593,866,169	660,600,211	726,454,893	793,626,668	862,141,879	932,027,394	932,027,394
State	1,767	34,807	73,322	121,447	229,054	338,813	462,075	545,922	631,445	718,679	807,658	898,416	987,979	1,079,332	1,172,513	1,267,557	9,370,787
County	10,548	207,769	437,667	724,930	1,367,250	2,022,417	2,758,180	3,258,671	3,769,171	4,289,881	4,821,006	5,362,753	5,897,361	6,442,661	6,998,868	7,566,198	55,935,331
City	14,969	294,839	621,080	1,028,726	1,940,222	2,869,949	3,914,047	4,624,278	5,348,713	6,087,636	6,841,338	7,610,114	8,368,760	9,142,579	9,931,874	10,736,956	79,376,080
School APS	13,595	267,786	564,094	934,337	1,762,200	2,606,621	3,554,920	4,199,984	4,857,950	5,529,074	6,213,622	6,911,860	7,600,898	8,303,716	9,020,590	9,751,803	72,093,049
CNM	4,345	85,585	180,286	298,616	563,203	833,082	1,136,161	1,342,325	1,552,612	1,767,105	1,985,888	2,209,047	2,429,265	2,653,888	2,883,002	3,116,700	23,041,112
UNMH	8,316	163,799	345,044	571,514	1,077,901	1,594,416	2,174,471	2,569,043	2,971,507	3,382,020	3,800,743	4,227,841	4,649,311	5,079,211	5,517,708	5,964,975	44,097,822
AMAFCA	1,106	21,780	45,880	75,994	143,327	212,008	289,137	341,602	395,118	449,703	505,380	562,171	618,213	675,376	733,683	793,155	5,863,632
Total Tax Generated	54,646	1,076,366	2,267,373	3,755,564	7,083,159	10,477,306	14,288,990	16,881,824	19,526,515	22,224,099	24,975,636	27,782,202	30,551,787	33,376,763	36,258,239	39,197,344	289,777,814

Development Analysis Tool											
Volcano Heights Albuquerque											
2013-2038											
Revenue Projection											
Period	16	17	18	19	20	21	22	23	24	25	25-Year Total
Conventional Build											
Existing Conditions Taxable Value	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	32,484,125
Conventional Build Value	0	0	0	0	0	0	0	0	0	0	648,289,480
Conventional Total Value	751,932,181	734,433,242	717,371,775	700,736,846	684,517,790	668,704,210	653,285,970	638,253,186	623,596,221	609,305,681	609,305,681
State	1,022,628	998,829	975,626	953,002	930,944	909,438	888,469	868,024	848,091	828,656	17,215,300
County	6,104,185	5,962,129	5,823,624	5,688,582	5,556,915	5,428,541	5,303,376	5,181,339	5,062,354	4,946,344	102,760,153
City	8,662,259	8,460,671	8,264,123	8,072,488	7,885,645	7,703,473	7,525,854	7,352,677	7,183,828	7,019,201	145,823,721
School APS	7,867,466	7,684,375	7,505,861	7,331,810	7,162,110	6,996,652	6,835,331	6,678,043	6,524,687	6,375,165	132,443,888
CNM	2,514,461	2,455,945	2,398,891	2,343,264	2,289,027	2,236,147	2,184,588	2,134,319	2,085,306	2,037,518	42,329,386
UNMH	4,812,366	4,700,373	4,591,179	4,484,716	4,380,914	4,279,707	4,181,030	4,084,820	3,991,016	3,899,556	81,013,178
AMAFCA	639,894	625,003	610,483	596,327	582,525	569,067	555,946	543,153	530,680	518,519	10,772,221
Total Tax Generated	31,623,260	30,887,324	30,169,787	29,470,189	28,788,080	28,123,024	27,474,595	26,842,376	26,225,963	25,624,960	532,357,847
Mixed Use Build											
Existing Conditions Taxable Value	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	1,299,365	32,484,125
Mixed Use Build Value	0	0	0	0	0	0	0	0	0	0	793,397,760
Mixed Use Total Value	965,947,718	1,001,055,253	1,037,391,552	1,074,999,621	1,113,923,973	1,154,210,677	1,195,907,416	1,239,063,540	1,283,730,129	1,329,960,049	1,329,960,049
State	1,313,689	1,361,435	1,410,853	1,461,999	1,514,937	1,569,727	1,626,434	1,685,126	1,745,873	1,808,746	24,869,606
County	7,841,564	8,126,567	8,421,545	8,726,847	9,042,835	9,369,882	9,708,376	10,058,718	10,421,321	10,796,616	148,449,601
City	11,127,718	11,532,157	11,950,751	12,383,996	12,832,404	13,296,507	13,776,853	14,274,012	14,788,571	15,321,140	210,660,188
School APS	10,106,711	10,474,041	10,854,228	11,247,721	11,654,987	12,076,506	12,512,779	12,964,322	13,431,668	13,915,372	191,331,384
CNM	3,230,129	3,347,529	3,469,037	3,594,799	3,724,962	3,859,681	3,999,114	4,143,428	4,292,794	4,447,386	61,149,971
UNMH	6,182,065	6,406,754	6,639,306	6,879,998	7,129,113	7,386,948	7,653,807	7,930,007	8,215,873	8,511,744	117,033,438
AMAFCA	822,022	851,898	882,820	914,825	947,949	982,233	1,017,717	1,054,443	1,092,454	1,131,796	15,561,790
Total Tax Generated	40,623,897	42,100,380	43,628,539	45,210,184	46,847,187	48,541,484	50,295,082	52,110,056	53,988,554	55,932,800	769,055,977



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