

# BERKELEY HEIGHTS MUNICIPAL COMPLEX REDEVELOPMENT PROJECT STATUS - WHERE WE ARE AND HOW WE GOT HERE

---

## CONTEXT AND BACKGROUND

**The Municipal Redevelopment Project is large and complex due to the technical specifications required to meet the needs of various departments and our residents.**

The Municipal Complex integrates various departments and community service needs, including:

- Township Administration and Departments, including tax collection, tax assessment, finance, municipal clerk, engineering, planning and zoning, building and code enforcement, Emergency Management
- Police Department
- Recreation Center
- Library (Adults and Children with separate requirements)
- Senior Center and public meeting spaces
- Department of Public Works
- Resident / Commuter Parking

Berkeley Heights has needed this initiative for a long time. The current Municipal Complex was built in 1939, is not ADA compliant, and a portion of the Police Department functions out of two portable trailers that were considered a temporary solution over 17 years ago.

Each Department has specific, detailed facility requirements to function effectively in the future. Some of these requirements include legal specifics, particularly the Police Department. All these requirements need to be incorporated into a cohesive design that works functionally and aesthetically and fits into the unusual physical land space available to the Township. In addition, the existing buildings on the site need to stay in use throughout the duration of the project.

This is a very unique project because it is simultaneously replacing a number of facilities and is configured to provide many different services to the community. This building plan was shaped by Berkeley Heights' available land footprint and the fact that the Township deferred these needs for the past several decades.

It's not unlike a home construction project. If you or someone you know has ever built a new home or remodeled one, you know that it's an imposing process that requires significant investment of time, energy and expense. Even a discrete task such as choosing the tile for the backsplash requires you to make multiple shopping trips to tile stores, spend hours on Houzz and have a dozen or so conversations with friends and/or decorators. It takes time and requires input from every family member. And in the end, it's not unusual for the technical plans and costs to change compared to the initial ideas.

**As your elected representatives, Council members have a duty and obligation to mind the Township wallet and address the long-term needs of the Township.**

Given this project's complexity, the Town Council engaged and consulted with multiple experts to assist them in the planning and design of the facility (e.g., design, functionality, timing, financing, State laws governing such projects, etc.). As your elected representatives, Council members have a duty and obligation to incorporate all of this complex information into a functional design with a cost estimate.

## **BERKELEY HEIGHTS MUNICIPAL COMPLEX REDEVELOPMENT PROJECT STATUS - WHERE WE ARE AND HOW WE GOT HERE**

---

### **No one wants to pay more in taxes.**

The Town Council members are residents of Berkeley Heights—taxpaying residents like you. When your taxes are affected, their taxes are affected, too. They care deeply about the needs of our community, and often have to make tough decisions that ultimately are in the best interest of the Town. They take their responsibilities seriously and have spent significant effort coordinating this project with other community redevelopment projects to **MINIMIZE** the impact on our collective tax burden.

### **CHANGE IN COST ESTIMATE: WHAT HAPPENED?**

We have been engaged with the community to plan this project for the past several years. Our experts have dedicated a lot of time and effort to work through potential approaches for this project. As a result of the challenging land footprint at the current Town Hall, we originally envisioned the municipal redevelopment project differently where we proposed to redevelop the existing school and rectory buildings at Hamilton Ave and convert them into our new Municipal Complex.

After several public meetings and addressing residents' concerns, we revised and redesigned the project plan to replace the Municipal Complex on the existing site. This adds both complexity and cost as we are required to keep the Town functioning in an active construction zone.

The original estimate for this project was \$28 million as of January 2017. This estimate was based on a concept design that was priced by experts, with customary and prudent cost contingencies included. It was the best estimate available to the Council at the time.

During the past 18 months, a couple of factors have contributed to changes in the preliminary cost estimates for the project. These include additional clarity as to the project's design specifics, as well as robust economic conditions which are driving overall material and labor costs higher than could have been anticipated.

After an extensive proposal and bidding process to select a redeveloper that started with a total of 30 interested parties, two contractor bids were received. Both came in at least \$3 million higher than the estimate done in late 2016. In addition, the Council decided to accelerate \$1 million of planned technology investments. These would have been financed under separate capital funding that is part of the regular annual budget process. Taken together, this brought the total project increase to \$4 million, for a total estimated project cost of \$32 million.

### **Key Questions Regarding the Project**

The level of cost increase has resulted in several questions being asked by the Council and residents:

- Why is the project more expensive and what are the drivers of the cost increase?
- Can there be cuts to the scope or the details to bring the overall cost back down to the original \$28 million? Are the increases necessary?
- How have other projects of this scale and complexity been completed?
- What is the impact of the project cost on the tax increase the average household can expect?

These questions are a necessary, healthy part of our discussions with residents.

**BERKELEY HEIGHTS MUNICIPAL COMPLEX REDEVELOPMENT  
PROJECT STATUS - WHERE WE ARE AND HOW WE GOT HERE**

---

**Municipal Complex Redevelopment Project – Change in Costs Estimates**

Key changes to project costs estimates are summarized below. It is important to emphasize that these costs arose from the due diligence necessary as part of the technical design phase and the Council has minimized any future cost uncertainty by negotiating a Guaranteed Maximum Price (GMP) from the awarded contractor (subject to no new material, unforeseen circumstances).

Description	January, 2017 Conceptual Estimate	June, 2018 Project Estimate	Difference in Estimate
New Municipal Building (GMP)	\$18,100,000	\$20,600,000	\$2,500,000
Site-work, Abatement & Demolition (GMP)	2,900,000	5,275,000	2,375,000
Equipment (Furniture, Moving, Data/Telecommunications)	675,000	1,775,000	1,100,000
New Salt Dome (GMP)	900,000	945,000	45,000
DPW Facility Renovations	1,545,000	0	(1,545,000)
Soft Cost and Contingency	3,880,000	3,405,000	(475,000)
<b>Estimated Project Totals</b>	<b>\$28,000,000</b>	<b>\$32,000,000</b>	<b>\$4,000,000</b>

GMP - Guaranteed Maximum Price

**New Municipal Building – Increase of \$2.5 Million** The increase in building costs is primarily driven by more robust macro-economic conditions (material and labor costs), as well as refinement in costs estimates that occurred between the conceptual and technical design phase of the project.

The building requirements are very specific and serve the needs of the Police Department, DPW, our residents (Recreation Center, Library, Senior Center, Meeting Space, additional parking) and Township Administration. A reduction in scope would impact one or more of these populations. With that said, a detailed review of each component of the cost has been done and reviews will continue throughout the project to look for opportunities to reduce costs.

Clearly, this project is significantly different than a situation where a township replaces only a single service or facility (i.e., replacing only a library or administrative office). Because no progress was made on any improvements for many years, we now need to address multiple services and facilities all at the same time. It is difficult to find a project truly comparable in size and complexity.

**Site Work, Abatement and Demolition - \$2.375 Million** As part of the technical design phase, we conducted a detailed environmental engineering evaluation, received an estimate from an abatement company and completed significant New Jersey DEP review procedures. It is important to point out that the Township is legally required to meet its environmental obligations.

After receiving the site work report, we discovered that more extensive ground water drainage and management and other remediation procedures were required. Although much of this is required by law, it also is the right way to approach this project. We need to ensure drainage issues would not directly impact the homes and residents in the surrounding area.

**Equipment (Furniture, Moving, Data/Telecommunications, Technology) - Increase of \$1,100,000** The original project estimate did not include new investments in technology needed for

**BERKELEY HEIGHTS MUNICIPAL COMPLEX REDEVELOPMENT  
PROJECT STATUS - WHERE WE ARE AND HOW WE GOT HERE**

---

a project this size and scale. At that time, it was the intention of the Council to use existing equipment and replace it in the future as part of the annual capital planning that takes place under normal Township budgeting processes.

Given rapid changes in technology and the desire to improve productivity and service levels to our residents, the Council determined that it was better to accelerate these investments. Now, the new building (and its functionality) will be up to date when it's completed. In reality, these are not incremental costs—they are actual expenses we would have had to incur in the near future.

This \$1.1 million addition is an initial estimate. The telecommunications and the final technology details have not been placed through our procurement and competitive bid procedures as of this date.

**New Salt Dome - Increase of \$45,000** The minor increase in the Salt Dome cost primarily represents the inclusion of heavy-duty pavement around the Salt Dome. This pavement will help minimize costly maintenance in the future and was recommended because of soil conditions and the large trucks that will be constant utilizing the facility.

**DPW Facility Renovations - Decrease of \$1,545,000** During the past 18 months, the Township has implemented several process and productivity improvements in various departments, including the DPW. After critically reviewing our future needs and considering other cost aspects of the entire redevelopment project, the Township has determined that we can eliminate the original scope of expenditures planned for the DPW.

**Soft Cost and Contingency - Decrease of \$475,000** As we progressed from the conceptual to technical design phase of the project, we obtained additional clarity about the project's completion (i.e., scope, timetables, and cost). In addition, we have completed all significant competitive bidding processes associated with the project and locked in Guaranteed Maximum Pricing for key elements of the project (representing 90-95% of the total costs).

**TAX IMPACT TO RESIDENTS**

Understanding how property taxes are calculated is often one of the most confusing challenges for homeowners. And it's an area where residents have asked for more transparency and clarity.

Our property taxes are calculated based on a tax rate, described below, which is applied to your property's assessed value. Currently, assessed values are approximately 54% of your home's fair market value.

Determining the tax rate is a complex and dynamic process that is impacted by three key inputs:

1. Required costs and expenses to provide Township services and debt service. While the Town's budgeted expenses may appear to be somewhat steady from year to year, they are quite often impacted by unforeseen events which makes it hard to estimate them. The recent winter storms are a simple example.
2. Anticipated and known revenue streams (Taxes, Fees, Grants, State Aid and Pilot payments, etc.). The State has strict, detailed requirements that dictate when particular revenues can be included in the budget and which revenues cannot be "anticipated." A current example is hotel taxes from new Embassy Suites. We aren't allowed to anticipate these revenues in our

## **BERKELEY HEIGHTS MUNICIPAL COMPLEX REDEVELOPMENT PROJECT STATUS - WHERE WE ARE AND HOW WE GOT HERE**

---

2018 budget but they will end up in our Town's coffers. In addition, we do our best to anticipate and plan for future revenue streams like grants and pilots.

3. Tax Ratable Base, representing the sum of assessed values for residential and commercial properties within the Township boundaries. The most dynamic and complex input is forecasting changes to our assessed ratable tax base. There are constant additions to and deletions from the town's ratable tax base that are not easily forecasted or known when financial presentations are reviewed with residents. Additionally, the Town is subject to County and State revaluation requirements that are often costly, complex and politically charged. Any changes to revaluation requirements will impact the published tax rates, making discussions regarding tax rate impacts and comparisons harder to describe.

All of these inputs are impacted by ongoing levels of uncertainty and change that occur every day. For example, estimates are required to be made months (and sometimes years) in advance of when the actual expense will be realized.

Having said that, let's attempt to explain the tax rate impacts associated with the Municipal Redevelopment and other Redevelopment projects taking place in Berkeley Heights.

### **Changes Impacting Tax Rates Since January 2017**

**The following facts and assumptions underlie the tax rate estimates computed as of January 2017 and June 2018.**

#### ***Increase in Debt Levels and Related Debt Service for Municipal Complex***

As presented on June 26, 2018, the net borrowing required to fund the Municipal Redevelopment Project has increased from \$21 million to \$24.4 million. This represents a pledge of the Hamilton Avenue property sale proceeds to reduce the overall debt levels. Additionally, the interest rate on Bond Anticipation Notes has increased from .95% to 1.8% due to prevailing market conditions.

#### ***Increase in Pilot and Other Tax Revenues – From the Affordable Housing Settlement***

Since January 2017, the Township has completed a legal settlement relating to its affordable housing obligations (COAH). Due to robust economic conditions, we have recently finalized negotiations and signed contracts on four different redevelopment projects that will generate annual Pilot revenue streams of approximately \$1,268,000. In addition, with the sale of Hamilton Avenue, we will have an additional 47 homes which will provide new tax revenues approximating \$185,000, for total new revenues of \$1,453,000. These combined revenues have substantially increased from our January 2017 estimate of \$329,000 and will serve to offset a large portion of increased project costs.

**BERKELEY HEIGHTS MUNICIPAL COMPLEX REDEVELOPMENT  
PROJECT STATUS - WHERE WE ARE AND HOW WE GOT HERE**

ESTIMATED AVERAGE TAX IMPACT SUMMARY				
	January 2017 Assumptions	June 2018 Assumptions		
		Additional \$4 Million in Debt	Additional \$4 Million Debt at Updated Interest Rates	Updated Revenues with New Debt
Cost to Purchase Hamilton Ave	\$ 3,000,000	\$ 2,900,000	\$ 2,900,000	\$ 2,900,000
Less Hamilton Ave Sale Price	(10,000,000)	(10,500,000)	(10,500,000)	(10,500,000)
Cost of Municipal Complex	28,000,000	32,000,000	32,000,000	32,000,000
Estimated Net Project Cost (NPC) / Borrowing	<u>\$ 21,000,000</u>	<u>\$ 24,400,000</u>	<u>\$ 24,400,000</u>	<u>\$ 24,400,000</u>
Interest Rate on Bond Anticipation Notes	0.95%	0.95%	1.80%	1.80%
Interest rate on Serial Bonds	3.75%	3.75%	3.75%	3.75%
Total Principal & Interest (BAN 7yr/Bonds 20yr)	\$ 29,134,221	\$ 35,487,484	\$ 36,684,284	\$ 36,684,284
Average Annual Principal & Interest	1,079,045	1,314,351	1,358,677	1,358,677
Total Revenue Offsetting Taxes ( 23yrs in 2017/25yrs in 2018)	7,565,068	8,222,900	8,222,900	36,333,400
Estimated Annual Revenue Offsetting Taxes	\$ 328,916	328,916	328,916	1,453,336
Estimated Balance to be Funded by Taxes	\$ 21,569,153	\$ 27,264,584	\$ 28,461,384	\$ 350,884
Estimated Average Tax Increase per year	\$ 136	\$ 171	\$ 179	\$ 3
<b>Impact of New Assumptions</b>	<b>\$ -</b>	<b>\$ 35</b>	<b>\$ 8</b>	<b>\$ (176)</b>

1 - Average "Balance to be Funded by Taxes" per Year	798,858	1,009,799	1,054,125	12,996
2 - Average Residential Portion	599,143	757,350	790,594	9,747
3 - Average Tax Increase per Average Assessed Residential Property	136	171	179	3
1 - To calculate, take "Balance to be Funded by Taxes" / 27 Years. 27 years is the term/life of the bond anticipation notes and serial bonds.				
2 - To calculate, take #1 * 75%. 75% represents the rough percentage of residential assessed value vs total assessed value of the Township.				
3 - #2 / 4,427. 4,427 is the number of residential properties in Berkeley Heights in 2018. The number of residential properties in 2017 was 4,413.				

Please note: In doing this analysis, we found that the 2017 estimate contained a mathematical error. That error caused the estimated average tax increase per year to be stated as \$78 rather than as \$136. That error was not made in the 2018 calculation that was presented on June 26, 2018. The \$3 estimated average tax increase per year is correct.

**New potential revenues not currently included in the above estimates**

The following projects are scheduled to be presented to the Planning Board in the coming months. These will potentially improve our ratables and increase Township tax revenues. We are not including these in our estimates because contracts have not yet been signed or they are "anticipated" revenue streams that cannot be included. However, we believe these additional revenue streams will be meaningful and available to offset future tax increases.

- Elite Properties – 45 rental units at former Berkeley Heights Florist site
- Elite Properties – 10 rental units at former Mondelli property
- Connell Corporation – 328 rental units plus 85,000 square feet of retail space
- Embassy Suites – hotel room taxes are also a new "anticipated" revenue stream that will be earned starting in 2018