

Independent Peer Review

Connected City Fiscal Benefits & Economic Impact Analysis

Pasco County, FL



Prepared for:
Metro Development Group
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General & Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible. These data are believed to be reliable at the time the study was conducted. This study is based on estimates, assumptions, and other information developed by WTL +Associates (referred hereinafter as "WTL+a") from its independent research effort, general knowledge of the market and the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent and/or representatives, or any other data source used in preparing or presenting this study.

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Introduction

WTL+a, a national real estate and economic development consulting firm based in Washington, D.C., with significant project experience throughout Florida, was retained by Metro Development Group (MDG) of Tampa, to conduct an independent peer review of a Fiscal Benefits and Economic Impact Analysis of the proposed *Connected City* project in Pasco County, FL. The study was prepared by Development Planning & Financing Group, Inc. (DPFG), a multi-disciplinary economic and financial services firm, out of their Raleigh, NC office.

Connected City

Connected City is a pilot program of the Florida Legislature to create the state’s first “Connected City” that will provide an ultra-fast communications network designed to attract industries and businesses with high-paying jobs as well as entrepreneurs with new technologies throughout the state. Specifically, Connected City will be the first planned “Smart Gigabit Community” in the U.S. to be built from the ground up with a fiber network providing Gigabit Internet access. Metro is working with Pasco County officials and US Ignite, a non-profit organization that is fostering the creation of next-generation Internet applications in communities across the country, and will share its best practices from other US Ignite-designated cities around the country. In addition, Connected City is expected to embrace the best elements of modern urban design, including: multimodal transportation networks, a range of housing types, conservation elements and cutting-edge amenities.

Connected City will be located on approximately 7,800 acres of land located between Wesley Chapel and San Antonio to the east of I-75, in a special planning area designated by Pasco County and bordered by State Route 52, I-75, Overpass Road and Curley Road. The project, which encompasses areas previously known as Epperson Ranch, Cannon Ranch and Ashley Groves, is expected to comprise a mix of residential product and commercial uses, including:

- Up to 37,345 housing units in a range of product types, including 26,807 multi-family units and 10,538 single-family units, and
- Up to 12.8 million sq. ft. of workplace and supporting commercial uses, including 5,602,000 sq. ft. of retail, 5,285,000 sq. ft. of office and 1,914,000 sq. ft. of industrial space

In addition, the Pasco County project will include two “Metro Lagoons” by Crystal Lagoons™ of seven to 10 acres each. These amenities will be surrounded by office and retail uses and



recreational amenities. Project buildout is proposed over a 50-year period (2016—2065) in three phases—2016-2030, 2031-2040 and 2041-2065.

Connected City’s development program, by use and phase, is illustrated below:

Table 1: Connected City Development Program

Incremental Buildout	SQ. FT./UNITS			
	2016-2030	2016-2040	2016-2065	Total
Land Use				
NonResidential (in Square Feet):				
Retail	662,000	607,000	4,333,000	5,602,000
Office	691,000	1,037,000	3,557,000	5,285,000
Industrial	272,000	484,000	1,158,000	1,914,000
Total NonResidential	1,625,000	2,128,000	9,048,000	12,801,000
Residential (In Units):				
Multifamily	2,600	5,000	19,207	26,807
Single Family:				
Less than 1,500 sf	830	224	-	1,054
1,501 to 2,500 sf	2,490	671	-	3,161
2,501 and up	4,980	1,343	-	6,323
Total Single Family	8,300	2,238	-	10,538
Total Residential	10,900	7,238	19,207	37,345

Source: Metro Development Group; DPMG, Inc.

This memorandum summarizes our key findings pertaining to a limited, independent peer review of the DPMG study. Findings are supported by additional analysis conducted to determine whether key inputs and assumptions utilized by DPMG were reasonable. **No market analyses documenting development potentials for the planned uses were provided for the peer review.** As a result, WTL+a assembled key data and prepared an analysis of the required market capture of the project’s residential and commercial workplace uses.

Summary of Findings

In summary, the **Fiscal Benefits and Economic Impact Analysis prepared by DPMG is a highly-detailed and professional study that meets accepted industry standards.** The analysis utilizes econometric modeling generated by IMPLAN, which is a nationally recognized

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system of local economic impact multipliers that are specifically designed to represent a local economy such as Pasco County. IMPLAN (and another model, REMI, Inc.) are in use by both public and private clients across the United States, and tabulate the direct, indirect and induced effects of projects like Connected City through one-time construction and ongoing (permanent) impacts:

- **Direct Impacts**—include the initial, immediate economic impacts (jobs and income) generated by a project or development, and coincide with the first round of spending in the economy
- **Indirect Impacts**—include the production, employment and income changes occurring in other businesses/industries in the community that supply inputs to the project’s industry or industries, and
- **Induced Impacts**—include the effects of spending by households in the local economy resulting from the direct and indirect effects from an economic activity. Induced effects are generated when, for example, employees spend their payroll dollars in a study area.

As DPFG noted, the development of Connected City will impact the local economy in two ways. First, initial impacts occur during construction of new homes and non-residential buildings. Once development is complete (also called “buildout”), operations of new non-residential uses and local spending by new residents and employees will impact the economy on an ongoing basis. These are the direct, indirect and induced effects above, and IMPLAN defines the total effects as “Output” (also known as “GDP” or gross domestic product).

The DPFG study is generally thorough and utilized conservative assumptions related to standard real estate and econometric inputs required in such studies. Estimates of fiscal benefits are presented in constant (2016) dollars, which is another customary approach in such studies.

Key Assumptions

Key assumptions used in the DPFG analysis are highlighted as follows:

- **Millage Rates**—DPFG utilized current fiscal year (2016) millage (mil) rates of \$7.3441 per \$1,000 of assessed valuation for Pasco County’s General Fund and \$1.7165 for Pasco County’s Municipal Service Fire District to determine annual ad valorem (property) tax

revenues over the 50-year forecast period. Mil rates were held constant (i.e., flat). Per capita estimates for various state and other local revenues sources (such as Penny for Pasco) are also based on the County's 2016 General Fund budget;

- **Growth Forecasts**—DPFG's baseline forecast assumes no (0%) annual appreciation in property tax revenues. However, DPFG assumed a "technology premium" that reflects a 3% annual appreciation in values to reflect Connected City's "technology" infrastructure. This is based on recent studies by the Fiber-to-the-Home (FTTH) Council Americas, which suggest that fiber-delivered Internet services may increase a home's value by up to 3.1%. This same study also noted that, where one-gigabit-per-second broadband is available, transaction prices were over 7% higher than homes located where the highest speed available is 25 megabytes per second (MBPS) or lower. Also, all fiscal and economic impact results in the model were rounded to the near \$1,000;
- **Penny for Pasco Infrastructure Surtax**—To calculate this surtax, DPFG assumed annual sales of \$300 per sq. ft. for that portion of Connected City's 5,602,000 sq. ft. of retail space delivered before the surtax expires in 2024. In the retail industry, annual sales of \$300 per sq. ft. would be considered an industry accepted average, reflective of a wide-ranging retail tenant mix across multiple merchandise categories. At this early conceptual stage, it is not known what format Connected City's retail space will comprise (i.e., regional mall, power center, grocery-anchored community center, "Main Street" lifestyle center, neighborhood center, etc.), although it is likely to have some combination of these formats;
- **Advanced Technology & Home-based Employment**—A key concept underpinning Connected City is its technology premiums, which are expected to attract and cultivate a substantial number of home-based businesses. DPFG utilized estimates provided by Metro Development Group, which assume that home-based workers will comprise 10%, 20%, and 30% of direct office employment in 2030, 2040 and 2065, respectively. This is a more conservative estimate than Lake Nona/Medical City in Orlando, where recent studies indicate that 27% of households are home-based workers;
- **Non-Residential (Commercial) Real Estate Vacancy Rates**—To estimate employment for each "workplace" use (retail, office and industrial), DPFG assumed stabilized vacancies of 10% per year. This is more conservative than industry standard—which typically uses stabilized-year vacancies ranging from 5% to 7% per workplace use;

- **Direct Full-time Equivalent Jobs (“FTEs”)**—FTE jobs are calculated by dividing the vacancy-adjusted non-residential square footage, by land use type, by the following coefficients obtained from International Facility Management Association (IFMA) and American Planning Association (APA) publications:
 - Retail: 750 sq. ft. per employee
 - Office: 225 sq. ft. per employee
 - Industrial: 700 sq. ft. per employee

WTL+a notes that, while the above occupancy factors are within generally accepted industry standards, employee occupancy factors are fluctuating in specific employment sectors and industries. For example, the historic office occupancy factor of 250 sq. ft. per employee has *declined* over the past 10 to 15 years due to business consolidations, hoteling, open floor plans and tenant downsizing. Today, this factor generally ranges from 150 sq. ft. for government and price-sensitive tenants to 275 sq. ft. for Class A law and select professional services firms, with an industry accepted average of about 200 sq. ft. per office employee.

By contrast, occupancy factors for industrial employees—historically in the range of 650 to 750 sq. ft. per—have *increased* due to technology and automation. In Hillsborough County’s older industrial districts, for example, occupancy factors range from 800 to 925 sq. ft. per employee while the newest freight and logistics industrial parks in Polk County/Lakeland exhibit occupancy factors of as much as 1,450 sq. ft. per employee. In other words, the 700-sq. ft. input used in the DPFGE study may be too low, which would suggest that the estimate of employees in industrial sectors is too high. Conversely, lowering the 225-sq. ft. input for office employees to 200-sq. ft. would increase the number of employees in office-using sectors at Connected City. While occupancy factors are shifting, DPFGE used historic averages for its analysis. We note that actual occupancy factors will be highly dependent on the actual tenants/end users attracted to Connected City;

- **Employment Allocation**—To estimate the types of jobs at Connected City, DPFGE utilized the current distribution of employment in the Raleigh-Cary, NC MSA. MDG noted that Raleigh was identified as a “comparable” due to the presence of technology, biotech and medical functions of Research Triangle Park, one of the nation’s long-established and premiere research and technology parks driven by the presence of Duke University, UNC-

Chapel Hill and NC State. DPFPG identified a cross-section of industry sectors in retail (10 sectors), office (31 sectors) and industrial (7 sectors) and applied the current distribution of jobs in Raleigh to the proposed non-residential program uses at Connected City, to determine the IMPLAN employment allocation. While these sectors are illustrative of a diversified economy, there are several additional sectors that could be included, particularly focused on medical and diagnostic laboratories, hospitals, hotels/motels and other accommodations, recreation, and government. We understand that in identifying comparable regions, DPFPG also considered Orlando, but it was discounted due to the significantly disproportionate impact that tourism has on the Orlando area economy;

- Taxable Real Estate Values**—To estimate potential tax revenues, DPFPG based taxable values for residential (per unit) and non-residential (per sq. ft.) land uses as shown in Table E-4, “Tax Increment Credit Analysis,” of the County’s 2014 Multi-Modal Mobility Fee Update Study. As illustrated below, **taxable values in the DPFPG study are markedly conservative compared to 2016 new construction values in Pasco County.** For example, DPFPG reports that **non-residential taxable values are potentially 30% to 60% below 2016 market values;**

Table 2: Taxable Values per Real Estate Land Use

Land Use	Tax Value per SF/Unit
NonResidential (in Square Feet):	
Retail	\$ 100
Office	\$ 53
Industrial	\$ 35
Total NonResidential	
Residential (In Units):	
Multifamily	\$ 70,000
Single Family:	
Less than 1,500 sf	\$ 93,000
1,501 to 2,500 sf	\$ 127,500
2,501 and up	\$ 330,000
Total Single Family	

Source: Metro Development Group; DPFPG, Inc.

- Annual Absorption by Use**—DPFPG estimated delivery of the project’s uses in varying intensities over the 50-year buildout based on Connected City’s Financial Plan and phasing strategy. The planning and design team also considered historic actual patterns of

absorption in residential development in jurisdictions throughout the Tampa Bay Region. Connected City’s assumed buildout, by phase, is illustrated in Table 3 below;

Table 3: Connected City Assumed Phasing, by Period

Incremental Buildout	SQ. FT./UNITS			
	2016-2030	2031-2040	2041-2065	Total
NonResidential (in Square Feet):				
Retail	12%	11%	77%	100%
Office	13%	20%	67%	100%
Industrial	14%	25%	61%	100%
Total NonResidential	13%	17%	71%	100%
Residential (In Units):				
Multifamily	10%	19%	72%	100%
Single Family:				
Less than 1,500 sf	79%	21%	0%	100%
1,501 to 2,500 sf	79%	21%	0%	100%
2,501 and up	79%	21%	0%	100%
Total Single Family	79%	21%	0%	100%

Source: Metro Development Group; DPF, Inc.

Gross vs. Net Fiscal Impacts

The DPF study did not estimate municipal service costs necessary to derive the project's overall net fiscal impacts. This analysis was subsequently requested by Pasco County officials and is currently being prepared by WTL+a. This will comprise a review of the County's 2016 General Fund budget as well as calculations, for each of 12 budget line items, of per resident and per employee municipal service costs, by phase and buildout. Budget line items include departments such as Public Safety, Development Services, Judicial, Capital, Utility Services and the like. This analysis will net out fiscal expenses from DPF's gross fiscal revenues to derive the net fiscal benefits/impacts of Connected City on Pasco County.

To be conservative, the DPF study also did not estimate retail sales tax receipts accruing to the State of Florida or Pasco County generated by retail and restaurant sales in the project's 5.6 million sq. ft. of planned retail space.

Real Estate Market Potentials & Capture

In real estate analysis, fiscal and economic impact assessments typically follow (and utilize the findings of) market and financial feasibility studies, which estimate 1) market support for the

development program, and 2) investment viability (such as developer returns) generated by specific uses such as housing, office space and the like.

As part of our peer review, WTL+a examined various “drivers” of demand for housing and workplace uses to understand the **proportion of the County’s future growth that the uses in Connected City will need to “capture” to ensure the project’s overall success.** Drivers of demand include such factors as annual growth in population, households and employment, as job growth is a critical barometer of demand for workplace uses. In addition, a market analysis would also evaluate real estate metrics, such as annual absorption (in the form of commercial leasing, residential home sales, etc.) of both residential and non-residential land uses, to determine the timeframe required to deliver and absorb the commercial uses at Connected City. Such metrics also inform price points for housing, commercial rents and other factors critical to the financial viability of real estate.

That is, **fiscal revenues identified in the DPF study are estimates that will materialize only if market demand for each land use in the development program is generated (by growth) and successfully captured** (with potentially competing projects elsewhere in Pasco County vying for the same growth).

Required Capture of Future Growth, 2015—2040

Table 4 illustrates our market capture analysis for both residential and commercial uses. This analysis cannot be completed for Connected City’s 2065 buildout because population forecasts only extend through 2040. The methodology and key findings are summarized below:

Residential (2016-2040)

- In Florida, the University of Florida’s Bureau of Business & Economic Research (BEBR) prepares long-term population forecasts for each county across the state. BEBR’s latest forecasts cover the 25-year period between 2015 and 2040 and cover three growth scenarios—low, moderate and high—with various assumptions underpinning each;
- For purposes of this analysis, WTL+a utilized the Moderate Scenario, which estimates that **Pasco County will add over 246,300 new residents over the next 25 years.** This suggests *sustained* annual growth of over 9,800 new residents to Pasco every year;

- Connected City's first two phases are expected to deliver 18,138 new housing units by 2040. Assuming average household sizes of 2.47 persons per unit for single-family and 1.5 persons per unit for multi-family suggest that Connected City could have a potential population of over 37,400 residents by 2040; and
- If such population growth occurs, this would **necessitate that Connected City's residential program capture fully 15% of Pasco County's total population growth through 2040** (and 17% of future growth to unincorporated parts of the County). In our professional opinion, this is a reasonable and *achievable* capture.

Non-Residential (Workplace) Uses

There are two methods to estimate market capture for the project's 3,753,000 sq. ft. of workplace uses planned in the first two phases of construction through 2040. Applying the same employee occupancy factors that DPGF used for retail (750 sq. ft.), office (225 sq. ft.) and industrial (700 sq. ft.) uses translates into projected employment of over 9,900 jobs by 2040.

Scenario #1

- The first scenario utilizes Pasco County's current jobs-to-population ratio. Per ESRI Business Analyst (based on Dun & Bradstreet data), Pasco County's 2016 ratio is 0.29. That is, there is roughly one-third of a job for every resident in the County. This reflects the County's shifting role in the Tampa Bay Region from a rural and low-density suburban community into a more diversified economy. From an economic development perspective, this ratio should seek to increase over time to a range of 0.50 to 0.60;
- Thus, applying the 0.29 ratio to the 246,300 new residents translates into approximately 72,500 new jobs across the County (i.e., irrespective of location) by 2040; and
- If such job growth occurs, this would necessitate that **Connected City's non-residential uses capture an estimated 14% of all future job growth in Pasco County through 2040.**

Table 4: Required Capture of Future Growth, 2015—2040

Land Use	Unit Type		Total	
	SFD	MF	Entire County	Unincorporated Area Only
Residential				
2040 Development Program				
Total Units	10,538	7,600		
Assumed Average HH Size	2.47	1.50		
Estimated On-site Population:	26,029	11,400	37,429	
Forecast Population Growth (2015-2040) (from Table 2)			246,312	224,895
Required Market Capture:			15%	17%

Workplace (Non-Residential)				
2040 Development Program	In SF	SF Per Employee	Estimated Jobs (1)	
Retail	1,269,000	750	1,607	
Office	1,728,000	225	7,296	
Industrial	756,000	700	1,026	
Total - Workplace Uses:	3,753,000	498	9,929	
Scenario #1 (Jobs-to-Population Ratio)				
Forecast Population Growth (2015-2040)			246,312	224,895
Ratio (from Table 5)			0.29	0.29
Estimated Jobs-Pasco County 2040:			72,537	66,229
Required Market Capture:			14%	15%

Scenario #2 (DEO Job Forecasts)			
Pasco County-Forecast Job Growth (2015-2023)			19,378
Average Annual Increase (from Table 5)			2,400
Years			25
Estimated Jobs-Pasco County 2040:			60,000
Required Market Capture:			17%

(1) Assumes 95% stabilized occupancy of workplace uses.

Source: U.S. Census Bureau; University of Florida, Bureau of Business & Economic Research; Florida Dept. of Economic Opportunity/DEO; ESRI Business Analyst; WTL+a, August 2016.

Scenario #2

- The second scenario utilizes job forecasts prepared by the Florida Department of Economic Opportunity. Notably, DEO's forecasts are prepared only for eight-year periods (2015—2023). Moreover, DEO combines Pasco and Hernando Counties into "Workforce Development Area #16". ESRI and Dun & Bradstreet data indicate that Pasco County contains 143,590 total jobs, which accounts for fully 90% of the 159,000 jobs in the combined two-county region;
- DEO forecasts that Pasco and Hernando will add over 21,500 new jobs by 2023. If Pasco County *maintains* its current "fair" share of 90% suggests almost 19,400 new jobs by 2023—a sustained annual growth rate of 2,400 jobs per year;
- Since long-term employment forecasts for Pasco County are not available, **the analysis assumes the addition of 2,400 new jobs on a *sustained* annual basis for the 25-year forecast period** through 2040. This would yield a more conservative estimate of 60,000 new jobs countywide by 2040; and
- If such job growth occurs, this would necessitate that Connected City's **non-residential uses capture an estimated 17% of all future job growth in Pasco County through 2040.**

In conclusion, in our professional opinion we believe that the capture rates illustrated in these various growth scenarios are entirely reasonable and achievable, and may be enhanced by Connected City's status as the first planned "Smart Gigabit Community" in the U.S. to be built from the ground up with a fiber network providing Gigabit Internet access to every household and business.