COMMONWEALTH RESEARCH GROUP, INC.
Post Office Box 7
78 Winthrop Road
Brookline, Massachusetts 02446
Telephone: (617) 879-3151 Telefacsimile: (617) 879-3390
E-mail: etkendall.crg@rcn.com

Ernest T. Kendall, Ph.D.
President

January 12, 2005

Charles J. Rothenberger, Esquire
Connecticut Fund for the Environment
Alliance for Sound Area Planning
205 Whitney Avenue, First Floor
New Haven, Connecticut 06106

Dear Mr. Rothenberger:

I have reviewed the "Updated Fiscal Impact Analysis of the Preserve" dated December 6, 2004 and produced by Robert Charles Lesser & Co., LLC (RCLCo). I have the following comments regarding it:

1. RCLCo has committed the developer, Riversound, LLC, to payment of many of the initial capital costs and some of the ongoing maintenance costs that will be associated with the development of The Preserve. This apparently is the direct result of our report to you dated November 9, 2004. RCLCo now states that the developer will form a homeowners association that will assume responsibility the construction of a fire station and for future maintenance and repair costs for the roads, bridges, and wastewater management system in The Preserve.

2. All but one of the criticisms that RCLCo made of our analyses are incorrect. The one correct criticism is minor with little effect on the end results.

    a) RCLCo states that we incorrectly transferred total annual costs of $1,538,947, as shown on our Table 8A, to Table 9A as $1,574,035. They are wrong: Table 8A is in 2003 dollars while Table 9A is in 2004 dollars – as plainly indicated on each table. These two numbers are the same.

    b) RCLCo states that we ignored the golf course and thereby omitted tax revenues of $86,302. We did ignore the golf course – and stated so – because we could not obtain the data we needed to analyze it. The informal data that we did receive from a Selectman of the town indicated that it would value the golf course at $100,000 per hole, resulting in a tax revenue of $23,400 per year. Offsetting this are the potential environmental costs associated with the golf course. The net effect remains undetermined.

c) RCLCo states that we were wrong in accepting their housing prices because (1) we did not include an additional 10 percent cost for upgrades and options, (2) did not consider that their prices were in 2002 dollars, and (3) we did not account for the 19.5 percent increase in home prices in Connecticut since 2002 (according to the U.S. Office of Federal Housing Enterprise Oversight – a number that we could not verify from that source.) In fact, we accepted their housing prices only after we determined that they were reasonable. We did this by consulting the compilation of MLS data for Old Saybrook made by Prudential Connecticut Realty – which showed that the average sale price of single and multifamily residential properties in Old Saybrook in the first half of 2004 was $444,458—down three percent from the $457,755 value in 2003. The sales weighted average price quoted by the developer was $441,583—which is close enough to reality to accept, but in 2004 dollars. Since we wrote our report, Prudential Connecticut Realty has produced a report on sales in Old Saybrook through September 30, 2004 that shows that year-to-year prices increased by 19 percent. Thus, we have a three percent decline through June and a 19 percent increase through September – indicating the volatility of the market -- and it becomes only logical simply to accept the increase in the Consumer Price Index (CPI) to make long-term projections of these prices. We did this by making projections in constant real dollars and RCLCo also did so by increasing its prices by 2.5 percent per year – the average increase of the CPI over the last 10 years.

d) We analyzed the fiscal impact of The Preserve for two cases: (1) assuming 0.41 students per household and (2) assuming 0.70 students for household. RCLCo criticized the second analysis as being unreasonable. We performed the first analysis based upon Census 2000 data for Old Saybrook. We performed the second analysis based upon the fact that the school system sets budgets based upon that assumption. It is further supported by a "Research Note" published by the National Multi Housing Council[1] that states that, citing Census 2000 data, the nationwide average number of school-age children in single-family houses built in the 1990s is 0.64. The micro-census data for Old Saybrook also reportedly supports our 0.70 assumption as well.

e) RCLCo criticizes our assumption that the town will have to bear the maintenance and repair costs of 4.9 miles of rose in The Preserve. (In fact, as they pointed out, there are only 4.31 miles of roads here, as we later realized. The effect of this error on the fiscal impact is very small.) They state that the town will only have to maintain two miles of the road – spine Road A – and that ongoing maintenance of the internal roads within the community will be paid for by residents of The Preserve, through a homeowners association. Great!

---

1 Mark Obrinsky, Vice President of Research and Chief Economist, National Multi Housing Council, Suite 540, 1850 M Street, NW, Washington, DC 20036. (202) 974-2300.

3. RCLCo denies that bridges will have to be inspected regularly (i.e., every two years) by Town inspectors, stating that these inspections will be the responsibility of the State of Connecticut DOT. They then claim that replacement of the bridges will not be needed for 70 years and that they will require little or no maintenance for 40 to 50 years.. If their first claim is correct, then inspection of the roads into and in The Preserve will not be a cost to the Town. Their second claim is partially correct: bridges can last 70+ years, but will need deck overlay and joint replacements at 30+ years, and deck replacement at 45-50 years. Bridge replacement is usually required after 70-80 years.

4. RCLCo disputes the idea that it will be necessary to pay for professional firefighters to staff the substation in The Preserve. They state that there is no evidence that residents of The Preserve would not volunteer for fire duty, and that golf course employees can be trained as EMTs. Certainly, residents could volunteer if they are available, but if they are young professionals, working in Hartford or other urban centers within reasonable commuting distance, they won't be available to serve during the day time. If they are elderly, they may well not be physically able to volunteer.

5. For some inexplicable reason, RCLCo chooses to allocate "Other Revenues" between residents and employees in the Town. Thus, they only apply 62.7 percent of these revenues (in 2003) to offset expenses. This means that the fiscal impact of The Preserve will have a more negative effect. While they say that this is a well accepted way to make these allocations, we have not encountered this in our past investigations and regard it with a high degree of skepticism. We see no reason why such things as boat taxes, property taxes for the relief of the elderly, state Board of Education grants and school bond reimbursements, mooring fees, and Parks and Recreation revenues should be attributed to employees in the town.

6. The methodology used by RCLCo is incorrect and unacceptable. The reasons why we say this are described below:

   Evaluation of the fiscal impact of real estate development on a town or municipality requires an evaluation of the present value of the future stream of revenues from the development, less the cost of community services needed to service the development. This is required in order to take into account both (1) price inflation and (2) the time value of money. One hundred dollars received today is worth more than $100 received ten years from now because the hundred dollars received today can earn interest for 10 years and become much more than $100 then. At the same time, the purchasing power of this $100 declines due to price inflation. It is therefore standard practice in the evaluation of fiscal impacts to project future expenses and revenues using an acceptable rate of growth in their values. Their differences are then determined on a yearly basis and the present value of the net cost (positive or negative) is taken as of an acceptable valuation date. Present values are determined by discounting the future values using an acceptable discount rate – a measure of the interest that money can earn over time. Then the yearly present values are added to obtain a lump sum value representing today's value of this time stream of these future costs and revenues.

RCLCo did not perform this analysis. Instead, it determined future costs and revenues using its own assumptions, took yearly differences, and then simply added up those yearly differences to determine the fiscal impact of The Preserve on Old Saybrook. In doing this, they treated a dollar earned or spent in the year 2025 as if it has the same value as a dollar earned or spent in the year 2005—and that is simply not true.

RCLCo did acknowledge the effects of inflation by claiming to increase both revenues and expenditures by 2.5 percent per year. In fact, this was a good value to take for a growth rate of these factors: the average growth in the CPI from 1993 to 2003 was 2.50 percent per year. Unfortunately, while RCLCo did increase its revenues at a yearly rate of 2.5 percent, it increased expenditures by only 2.1 percent per year. The net result of this is an increase in the positive fiscal impact as time goes on.

The fiscal impact of new residential development on a town depends upon (1) the assessed value of the new residences, (2) the tax rate applied to them, and (3) the number of school-age children that can be expected from the development who will attend schools in the town. Old Saybrook adjusts its mill rate on a yearly basis to account for changes in property valuations. This is a logical way of maintaining a constant tax burden on homeowners, even in volatile real estate markets. It also permits us to assume growth in tax revenues and expenditures that will match the overall changes in the cost of living. We have done that here, using a mill rate of $17.78 per thousand, the average for the past five years. Had we used the current mill rate of $13.80 per thousand dollars of assessed value, the present value of the 25 year fiscal impact would have been a cost of $6 million in 2004 dollars, instead of the $2 million that we projected earlier.

To summarize, RCLCo has committed the developer to paying for a number of the ongoing future maintenance and repair costs that concerned you. Its criticisms of our work are completely inaccurate, and the methodology that it employed in developing its own fiscal impact is incorrect and unacceptable. Please call me if you have any questions or comments.

Sincerely,