



**camoin associates**  
ECONOMIC DEVELOPMENT

August 6, 2010

**VIA CERTIFIED MAIL**

Town Board  
Town of Tuxedo  
c/o Ms. Elaine M. Laurent, Town Clerk  
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**RE: Comments on Tuxedo Reserve Draft FSEIS Dated June 21, 2010**

Dear Members of the Board:

On December 28, 2009, Camoin Associates submitted comments to the Town Board on the Tuxedo Reserve's (the "Project") Draft Supplemental Environmental Impact Statement ("DSEIS") dated September 14, 2009. Our comments (the "Original Comments") pertained to the Economic and Fiscal Analysis contained in the DSEIS and associated appendices (the "Original Analysis").

Camoin Associates has again been commissioned by the Tuxedo Land Trust to conduct a peer review ("Peer Review") of the Project's Draft Final Supplemental Environmental Impact Statement ("Draft FSEIS") dated June 21, 2010 including *Chapter 3.3: Comments and Responses Economic and Fiscal Analysis* (the "Applicant Responses") and *Appendix D: Revised DSEIS Chapter 3: Economic and Fiscal Analysis* (the "Revised Analysis").

We have performed our review of the Revised Analysis and the Applicant Responses and have summarized our findings for your consideration. On behalf of the Tuxedo Land Trust, we hereby request that this Peer Review and all exhibits be entered into the official record of public comment for the draft FSEIS.

**CAMOIN ASSOCIATES QUALIFICATIONS**

Camoin Associates has provided economic development consulting services to municipalities, economic development agencies, non-profit organizations and private enterprises since 1999. We specialize in economic and fiscal impact studies, including large scale residential, commercial, industrial and mixed-use developments. We have participated in many SEQRA-related coordinated reviews and have been retained on multiple occasions to provide peer review services. Camoin Associates has presented on the subject of fiscal impact analysis at various events, including annual conferences of the New York State Economic Development Council, and

has authored a white paper titled, "The Importance of Fiscal Impact Analysis in Economic Development & Planning."

## PURPOSE AND LIMITATIONS

The purpose of this investigation is to provide an opinion on the validity or non-validity of the Revised Analysis in general terms and, if applicable, to identify any concerns with the methodology and assumptions of the Revised Analysis. We also note the extent to which our Original Comments were addressed by the Applicant Responses in the Draft FSEIS.

Camoin Associates did not attempt to undertake a full fiscal impact analysis of the Project through additional data collection or data manipulation. This Peer Review is not itself a fiscal impact assessment and Camoin Associates makes no representations as to whether the proposed Project will have a positive or negative fiscal impact on the affected jurisdictions.

## SUMMARY OF FINDINGS

The Related Company's ("Developer") Original Analysis contained a number of substantial deficiencies that we outlined in our Original Comments. The Developer accepted some of our comments in its Applicant Responses and corrected those errors. However, the Developer appears to have ignored the most important (in dollar-impact terms) of the Original Comments and has replicated the errors of the Original Analysis in the Revised Analysis.

Therefore, this Peer Review restates many of our Original Comments and provides the Town Board will additional evidence and documentation as to why our Original Comments cannot be ignored by the Developer in the Revised Analysis without risking a misrepresentation of the fiscal impact of the Project on the Town of Tuxedo.

The errors are treated in detail below and are summarized as follows. The Revised Analysis:

- Incorrectly accounts for changes to State Aid to School and may be overstating future state aid payments by as much as \$700,000 per year;
- Incorrectly accounts for new property tax revenues to the Town, School District and other districts to the amount of \$530,000 per year;
- Undercounts School District costs by up to \$490,000 per year; and
- Overcounts the amount of new sales tax revenue by up to \$310,000 to be received by the Town during the years when the Project is under development but not yet completed.

Therefore, the Applicant's projected net benefits to the Town and School District may be overstated by over \$2 million per year. As such, the Project may, in fact, have a negative fiscal impact not described in the Revised Analysis. We provide details on each in the following discussion.

## ERROR IN STATE AID PROJECTIONS – Comment 3-33 and 3-34

Camoin Associates provided certain Original Comments on the DSEIS, two of which are listed as Comment 3-33 and Comment 3-34 of the Draft FSEIS. These two comments refer to the importance of calculating the impact of the Project on the amount of state aid provided to the school district, particularly with respect to the Combined Wealth Ratio (CWR). We disagreed with the methodology employed in the DSEIS in that it ignored changes to the CWR caused by the Project and thus changes to state aid per pupil. In Responses 3-33 and 3-34, the Related Companies provided various counter arguments and, critically, state that,

*“[t]he methodology for calculating state aid, which was established in the FEIS, was re-evaluated by RES and confirmed to be accurate.” (See last sentence of Response 4-34 on page 3.3-27).*

However, in an RES Group<sup>1</sup> memo to Bonnie Franson titled “Draft Initial Review of Draft Supplemental Environmental Impact Statement” dated March 31, 2010, RES states on bullet point 3 that:

*“[the analysis does] not appear to consider the potential impact that Tuxedo Reserve will have on the wealth of the Tuxedo Union Free School District. Since wealth is a factor in determining the amount of State Aid a district receives, please consider its impact.”*

The Developer chose to ignore both our Original Comments on the matter and RES Group’s comments that the Project could change the factors influencing the amount of state aid that the school receives and therefore have a material impact. The Developer, in fact, admits to this deficiency in its Original Response 3-34:

*“A development that makes a local school district wealthier may affect (decrease) state aid received by that district. That adjustment is difficult to predict and calculate, however, for many reasons. Specific allocation factors may change annually, certain aids may be “held harmless” from change; the data may be “lagged” (e.g. using three-year-old property valuation information); and there are other reasons why it is difficult to project state school aid from year to year, let alone to calculate how Tuxedo Reserve would affect state school aid over its buildout.”*

In effect, the Developer is essentially saying that state aid formulas are too complex and that the Town should just assume per-pupil state aid will remain the same whether or not the project is built. We agree that the formulas are complex, but that does not mean they can be ignored. To illustrate how important this item is, we direct the Town’s attention to a similar peer review Camoin Associates conducted in 2008 for a project in the Town of Pine Plains. As with Tuxedo Reserve, the proposed project was a large housing development that would significantly change the population of the host Town. The developer commissioned a study into the state aid question

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<sup>1</sup> Note that the reference to RES refers to the RES Group, consultant to the Town of Tuxedo on fiscal impact matters.

titled, "State Aid to the Pine Plains Central School District Projection Methodology", dated January 11, 2008 and attached to this letter as Attachment A. After an exhaustive analysis spanning 25 pages, the conclusion was:

*"The preceding analysis clearly indicates that if built, the Carvel Property Development will influence the amount in State Aid that the Pine Plains Central School District would receive on a per-pupil basis. Specifically, both a second home and comparative primary home scenario would likely lead to a decrease in State Aid, projected to be in the order of approximately \$2,400 less in aid per pupil, per year."*

However, the summary continues by saying that some of that decrease may be attributable to other factors including trends in population and wealth happening irrespective of the development. The analysis then projects that the difference between state aid with the development and without the development is **\$945 per pupil** (see Table B.21, Summary of Impacts to State Aid, line "Projected State Aid/Pupil" in Attachment A).

So, what could this mean for the Tuxedo Union Free School District? In the absence of a competent analysis from the Developer, we simply do not know. However, we do know that the Tuxedo Reserve project is slated to add 427 pupils to the school district's 310 "aidable pupils". (We must exclude non-resident pupils from Greenwood Lake.) Therefore, total aidable pupils upon project completion would be 737. If the Tuxedo Reserve project has a similar impact on state aid per pupil as the Carvel Property Development, it means that the Developer would be overstating school aid by approximately \$700,000 per year (737 x \$945, rounded) upon full buildout. We do not know if this is the correct number because the analysis, however complex, has not been done. Given the current relatively high level of wealth factoring into the CWR for TUFSD, the actual decrease in state aid per pupil may be less than what was projected in Pine Plains, but it is inarguable that there *will* indeed be an impact from this Project on the per-pupil calculation of school aid received by the School District. Without performing this analysis, the current assertion in the SEQRA analysis that the project's impact upon the School District is tax-positive becomes suspect and any shortfall would have to be filled by the school property tax levy and thus become a burden on School District tax payers.

#### ERROR IN PROPERTY TAX CALCULATION – Comment 3-7

In our Original Comment 3-7, we noted that the Original Analysis overstated the amount of new property tax revenue the Project would generate for the Town and School District. This is because the Developer failed to net out the more than \$530,000 of existing property tax revenue the land is already producing for the Town and School District. The Developer has reproduced this error in the Revised Analysis and, in response to Comment 3-7, states:

*"[...] The tables appropriately present the total future tax revenues expected to be generated by the Project with the Proposed Modifications, which is the proper basis for comparison against the total of likely future Town and school expenses."*

This response is incorrect. We direct the Town to what is considered the industry “textbook” on fiscal impact studies, titled The New Practitioner's Guide to Fiscal Impact Analysis (Robert W. Burchell, David Listokin, William R. Dolphin. Center for Urban Policy Research. New Brunswick, N.J. 1985.) In particular, the Town will find instructive “Section III. Fiscal Impact Revenue Projection Techniques” in which the authors lay out the various accepted methodologies for calculating future revenue streams. Integral in the various methodologies is the fundamental idea that we must isolate the incremental change that a specific project will cause on the host community and, conversely, that we must ignore those items that would exist absent the specific project. Since the land in question is generating property tax revenue currently, the development of the Tuxedo Reserve cannot count such pre-existing revenue as being “caused” by the Tuxedo Reserve project.

To amplify and corroborate this statement with further evidence, we direct the Town to the University of North Carolina’s School of Government which, in a recently published bulletin on the subject, states:

*“The public sector benefits resulting from growth and development are **the increased revenues** from property and sales taxes, fees, user charges, utilities, and intergovernmental transfers [...] Growth-related changes in property tax revenues are estimated by applying the local property tax rate to the projected valuation of taxable property **to be added** in the jurisdiction due to the new development.”* (Emphasis added) “Analyzing the Benefits and Costs of Economic Development Projects”. Community and Economic Development Bulletin No. 7. University of North Carolina School of Government. April 2010. Page 10.

This is not a purely academic discussion and the reader will benefit from a simplified illustration to show how failure to follow the accepted methodology of fiscal impact studies can lead to an erroneous conclusion. Imagine a Town with a balanced budget of exactly \$10 million in revenues and expenses. Of the \$10 million in revenue, one large parcel in the Town currently generates \$1 million in property tax revenue. A developer proposes a development that will cause \$2 million in expenses to be incurred by the host community. The developer states that his project will generate \$2 million in property tax revenue when complete.

Hypothetical Project Impact			
	Current Budget	Change Due to Project	Future Budget
Revenues			
From Property	\$1,000,000	\$1,000,000	\$2,000,000
From All Other	<u>\$9,000,000</u>		<u>\$9,000,000</u>
Total Revenue	\$10,000,000		\$11,000,000
Expenses			
Addt from Project	n/a	\$2,000,000	\$2,000,000
All Other	<u>\$10,000,000</u>		<u>\$10,000,000</u>
<u>Total Expenses</u>	<u>\$10,000,000</u>		<u>\$12,000,000</u>
Surplus (Deficit)	\$0		(\$1,000,000)

Using the Related Company’s methodology, the developer informs the Town that there will be no negative fiscal impact because the \$2 million in costs the Project creates will be offset exactly by the \$2 million in property tax revenue that the project will generate upon completion. But, as the table above illustrates with great clarity, the Town will incur a \$1 million deficit due to the project being built. That is because revenues have only increased \$1 million but costs have increased \$2 million.

So we can safely conclude on both academic and practical grounds that the Developer’s methodology is incorrect and has overstated new property tax revenue by \$530,000 per year.

#### ERROR IN SCHOOL COST PROJECTIONS – Comment 3-38

In our Original Comment 3-38, we noted that the Developer assumed that general administrative costs of the Tuxedo Union Free School District would remain constant despite enrollment increasing by 70% due to the Project. We stated that the presumption of most fiscal impacts studies is that costs will rise in similar proportion unless otherwise proven by the analyst.

The Developer responds in Response 3-38 that the methodology is fine as presented in the Original Analysis and then, curiously, begins a discussion on the per-pupil cost of administrative services in school districts across Orange County. However, we are not interested in the per-pupil cost of administrative services but the total cost of administrative services. Whether or not the per-pupil cost of administration goes up or down is irrelevant, since our Comment 3-38 pertains to the TUFSD’s total administrative cost which the Developer’s Revised Analysis states will remain constant.

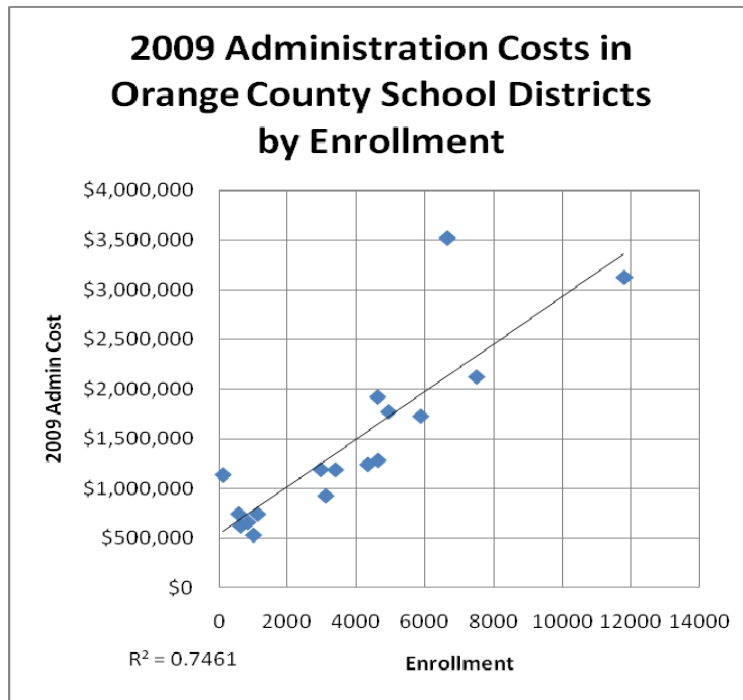
Indeed, in Response 3-38 the Developer uses data from the Office of the State Comptroller website<sup>2</sup> on school districts in Orange County to show how per pupil costs tend to fall as enrollment rises. For the Town's benefit, we have produced the following table that shows the referenced data for all school districts in Orange County sorted by enrollment from least to highest. As you descend the lines of the table, enrollment increases and total administrative costs increase. We present this data in graphic format below the table that plots all Orange County school districts, with the x-axis being total enrollment and the y-axis being total administrative costs. We have superimposed a trend line that best describes the relationship between enrollment and administrative costs. You will note that the line clearly rises from left to right as enrollment increases. Furthermore, the R-squared value of the line is 0.7461 showing a very strong correlation<sup>3</sup> between enrollment size and administrative costs.

School District Name	Enrollment	Administration Costs
Kiryas Joel Village Union Free School District	123	\$1,139,070
Greenwood Lake School District	579	\$746,011
<b>Tuxedo School District</b>	<b>639</b>	<b>\$625,193</b>
Florida School District	849	\$661,678
Chester Union Free School District	1,014	\$533,134
Highland Falls-Fort Montgomery School District	1,136	\$744,069
Goshen School District	2,955	\$1,192,798
Port Jervis School District	3,104	\$928,276
Cornwall Central School District	3,385	\$1,189,627
Warwick Valley School District	4,332	\$1,243,589
Washingtonville School District	4,619	\$1,923,126
Minisink Valley School District	4,631	\$1,285,699
Valley Central School District	4,941	\$1,774,150
Pine Bush School District	5,884	\$1,729,120
Middletown School District	6,656	\$3,521,480
Monroe-Woodbury School District	7,494	\$2,125,655
Newburgh School District	11,807	\$3,124,246

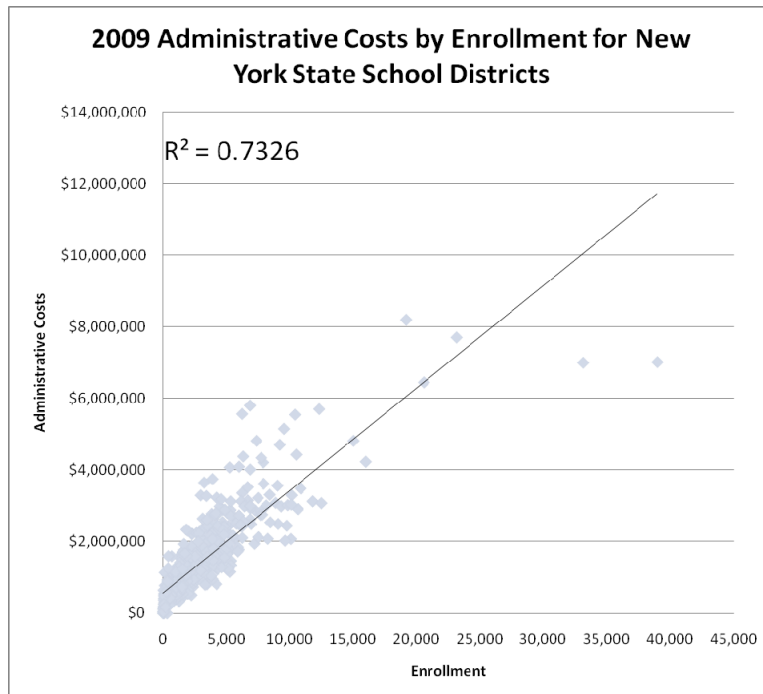
Source: [http://www.osc.state.ny.us/localgov/datanstat/findata/index\\_choice.htm](http://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm)

<sup>2</sup> [http://www.osc.state.ny.us/localgov/datanstat/findata/index\\_choice.htm](http://www.osc.state.ny.us/localgov/datanstat/findata/index_choice.htm)

<sup>3</sup> An R-squared value of 1.0 represents a perfect correlation between dependent and independent variables in a regression analysis. A high R-squared value therefore suggests that a large portion of the costs of administration can be explained solely on the basis of enrollment.



We take this analysis one step further and present data for all school districts in New York State in the graph below. The R-Squared value remains a robust 0.7326, showing a strong correlation between enrollment and administrative costs.



Based on the above, we reject Response 3-38 that the methodology used in the Original Analysis and Revised Analysis are based on “strong fundamentals” as noted therein. The data the Developer used to support this assertion in fact directly contradicts the notion that administrative costs will remain constant if enrollment increases. Furthermore, if we assume administrative costs increase proportionally to increases in enrollment, we would conclude that the Developer’s Revised Analysis understates TUFSD costs by \$490,000 (ie. 70% increase in current administrative costs of \$700,000.)

#### ERROR IN SALES TAX REVENUE PROJECTION – Comment 3-51

In our Comment 3-51, we stated that the Original Analysis incorrectly assumed that the Town would immediately benefit from increased sales tax revenue from increases in population resulting from the Project. We noted that, as confirmed by the Orange County Finance Commissioner, the sales tax distribution formula is only recalculated after the decennial US Census. Therefore, while expenses from the increases in population would be felt immediately by the Town, there would be a lengthy delay (up to 10 years) in population-related increases of new sales tax distributions from the County.

In its response to Comment 3-51, the Developer does not refute our reasoning but simply states that:

*“The DSEIS applied the methodological approach used in the FSEIS, which assumed that non-property tax revenue will increase in proportion to increases in population [...] While the commenter may disagree with the methodological approach used in the FEIS [...] absent a change in circumstances relating to sales tax distribution, maintaining the same analytical approach is appropriate for the revised fiscal analysis.”*

The Developer has used the same methodology in the Revised Analysis as was used in the Original Analysis. It is not, as the Developer suggests, just a matter of disagreement between Camoin Associates and the Developer as to how to best approach this question. We again refer the Town to the fiscal impact analysis “textbook” The New Practitioner’s Guide to Fiscal Impact Analysis, which solidly supports our methodology over that of the Developers. To amplify this statement, we further refer the Town to “Preparing a Local Fiscal Benefit–Cost Analysis,” George Erickcek. International City/County Management Association IQ Report 37, no. 3 (2005) and “Best Practices: Analyzing the Benefits of Economic Development Projects” Approved by the Government Finance Officers Association Executive Board, March 5, 2010 as two additional examples of experts in the field clearly showing that the timing of revenue and expenditure streams must be accurately accounted for.

As with the discussion on the error in the calculation of new property taxes (see page 5 and 6), this is not just a matter of academics or philosophy. There are real practical concerns for the Town in its budgeting process. The Developer lays out certain costs that the Town will incur in the

early years of the project which the Developer's Revised Analysis says will be offset by new sales tax revenue. This will simply not occur because the sales tax revenue distribution will not change until well into the future and the Town will be left holding the bill in those intervening years. The magnitude of the Developer's error changes from year-to-year during the construction phase, but could be as high as \$310,000.

## METHODOLOGY AND SOURCES

Camoin Associates conducted an objective review of the Analysis using standard practices and assumptions in the field of fiscal analysis. We consulted the following sources of information:

- Tuxedo Reserve Supplemental Environmental Impact Statement. AKRF, Inc. September 2009.
- Tuxedo Reserve Draft Final Supplemental Environmental Impact Statement. June 21, 2010.
- Analyzing the Benefits and Costs of Economic Development Projects. Community and Economic Development Bulletin No. 7. University of North Carolina School of Government. April 2010.
- Burchell, Robert W., David Listokin, William R. Dolphin. The New Practitioner's Guide to Fiscal Impact Analysis. Center for Urban Policy Research. New Brunswick, N.J. 1985.
- Erickcek, George. "Preparing a Local Fiscal Benefit-Cost Analysis," ICMA IQ Report 37, no. 3 (2005).
- Best Practices: Analyzing the Benefits of Economic Development Projects. Approved by the Government Finance Officers Association's Executive Board, March 5, 2010.
- 2009-2010 State Aid Handbook. State Formula Aids and Entitlements for Schools in New York State as Ameded by Chapters of the Laws of 2009. Office of State Aid, University of the State of New York. October 2009.
- "Appendix 14.2 - State Aid to the Pine Plains Central School District Projection Methodology". Carvel Property Development DSEIS for Town of Pine Plains. January 11, 2008.

Many additional sources of information were consulted during our review of the Original Analysis and can be found in our Original Comments dated December 29, 2009. We thank the Town Board for its kind consideration of the forgoing and welcome any questions you may have.

Sincerely,  
CAMOIN ASSOCIATES

/s/

R. Michael N'dolo  
*Associate Principal*

Attachment A: "Appendix 14.2 - State Aid to the Pine Plains Central School District Projection Methodology". Carvel Property Development DSEIS for Town of Pine Plains. January 11, 2008