



**DEVELOPMENT-FISCAL IMPACT
STUDY**

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COMMUNITY

The City of Oak Hill is one of the “satellite” cities within Metropolitan Nashville-Davidson County and is located in the southern area of the county. To the immediate south is the City of Brentwood/Williamson County.

Oak Hill was incorporated as a city in 1952 with its primary focus being on land use planning and strict zoning control. The City consists of eight (8) square miles with population of 4,700 living in 1,800+ homes. There was limited population growth in the past decade.

The median age of the population at 46.6 years is older than the median age of the State of Tennessee at 41.3 years. The community is affluent with a median household income in 2009 of \$110,000 compared to the State of Tennessee at \$41,725.

Oak Hill is zoned mostly for low density, single family homes and is developed primarily on lots that are one acre in size or greater. The average home is appraised on the Nashville-Davidson property tax rolls at \$587,053.

There are numerous tax-exempt properties in the community including 15 churches, a number of schools, and the unique 1,200-acre Radnor Lake State Natural Area.

There is no property inside the City limits today zoned for commercial development.

CURRENT FINANCIAL POSITION OF CITY

The City operates with a General Fund operating budget (excluding periodic capital outlay) in the range of \$1.5 to \$1.6 million annually. Besides planning and zoning control, Oak Hill provides street maintenance and resurfacing, twice a week backdoor trash pickup and recycling service, monthly brush/chipper service, right-of-way maintenance, and oversight of the stormwater management program. The City also issues building permits, and oversees building codes inspection.

From a revenue standpoint, Oak Hill is unique from most Tennessee cities in that it does not have a property tax and receives minimal local option sales taxes due to the lack of commercial development. Instead, the City's largest revenue source (almost 1/3 of the total General Fund revenue) is received annually through the local share of the Halls Income Tax collected from residents of the City. This State income tax is generated from interest earned on bonds and notes and dividends received from stock ownership. Subject to certain minimum income requirements, the 6% income tax is collected by the State of Tennessee with 37.5% of the proceeds distributed back to the local jurisdiction where the payer resides.

The amount of proceeds received from the Halls Income Tax can vary dramatically year-to-year depending on strength of the stock market and interest earnings. Oak Hill has wisely estimated annual revenue collections conservatively, which has allowed the City to periodically undertake one-time, special capital projects and maintain strong reserves in the Fund Balance. The most recent General Fund balance as of June 30, 2012 was \$5,244,254, which is a healthy 350% of the annual operating budget.

Concerted efforts are underway in the Tennessee General Assembly to increase the income exemption amounts annually with the goal of phasing out the Halls Income Tax completely over the next 5-8 years. This will require the State to make up a revenue loss of \$120 million annually, which is a relatively small percentage of the overall State's General Fund budget. However, a revenue loss to Oak Hill of \$500,000 or more annually would be significant blow to the City. It will require significant reductions in the limited, basic services provided by Oak Hill today or new revenue sources to make up the difference.

FOCUS OF STUDY

Given the uncertainty in receiving the Hall Income Tax revenue in the future, the City of Oak Hill contracted with Table Rock Resources LLC to investigate, from a public perspective, the potential benefit and feasibility of generating new taxes from commercial development. The areas under consideration for development are parcels abutting the southern border of the City along Old Hickory Blvd, west of Franklin Road. This area is unique in that a significant amount of the property has limited residential development today and is located across the street from the primary commercial district in the City of Brentwood. This area is generally isolated from most of the Oak Hill residential community. Because of strict zoning control inside Brentwood and the general build-out of commercially zoned land today, there may be opportunities for new commercial development to occur in this area of Oak Hill.

For most Tennessee cities, commercial development is the primary revenue source for General Fund services because of the generation of local sales taxes and other business taxes from the property. For example, almost 60% of the total General Fund taxes collected across the street in Brentwood come from property taxes, local sales taxes, and other businesses taxes generated from the commercially zoned areas of the City. The local sales taxes alone collected in Brentwood exceed \$12 million annually. From a tax collection standpoint, Brentwood also benefits when individuals that live outside the community choose to shop there.

Amazingly, only 4% of the total property in Brentwood is zoned for commercial use (office, retail and warehouses). An equivalent amount of land dedicated for commercial development in Oak Hill would be about 250 acres. Accordingly, it does not require much land dedicated for commercial use to generate a significant amount of new tax dollars for a City.

While the primary focus of this study is to determine the financial benefit to be derived from having commercial development in the Old Hickory Blvd area west of Franklin Road, it is important to establish the baseline revenue requirement from the more traditional revenue sources should Oak Hill decide not move forward with commercial development. Hard choices will have to be made with all existing residents having to carry the load, either through higher taxes and fees or reductions in the services received today. While the City could address a 1/3 or \$500,000 annual revenue loss by eliminating long established but limited services provided to its residents, this approach should only be a last resort.

Note that there are a variety of smaller fees that could be assessed by the City to residents but they would not generate sufficient additional income to address the revenue shortfall and would create new administrative costs that would make it difficult to justify implementation. In addition, such fees typically create ill will and

complaints among residents. The ideal goal for the City should always be a revenue system that requires little or no additional administrative expense.

This approach is reflected in the recent agreement between the satellite cities and Metro Nashville relative to the future distribution of the countywide Franchise Fee. Oak Hill will benefit from the per capita redistribution of the proceeds which are projected to be in the range of \$122,500 annually in three years when fully phased-in. There will be no administrative expense to the City associated with the collection of this revenue.

TRADITIONAL REVENUE OPTIONS

The most significant, traditional revenue options available to Oak Hill to help replace the projected revenue loss from elimination of the Halls Income Tax are summarized below:

Stormwater Management Fee

At present, a residential stormwater management fee of \$3.00 per month for homes between 2,000-6,000 square feet and \$4.50 per month for homes larger than 6,000 square feet is currently collected monthly in most of Nashville-Davidson County via the Metro Water Services (MWS) bill. Oak Hill chose not to participate in the Metro program so the fee is not collected within the City limits.

If Oak Hill chose to implement a fee for providing the service, the City would need to systematically address and justify the amount of the fee and method for collection. If Oak Hill chose to implement the same fee amount and have the collection handled by MWS via the monthly utility bill, the stormwater fee would generate about \$65,000 annually from 1,800 homes; however, MWS typically charges 10% of the amount for collection services, so the net amount to Oak Hill would be \$58,500 annually.

If a residential stormwater fee was implemented in an amount similar to Belle Meade's fee of \$7.47 per month, Oak Hill could expect a net return of about \$145,000 annually. The cost from MWS for collecting the fee would be about \$16,000 annually.

There is limited rationale to support a higher collection service fee as a strict percentage amount of the stormwater management fee alone, so there may be opportunities to negotiate reductions in the collection fee with MWS. Besides eliminating the administrative cost to the City, the advantage of having MWS collect the fee is their ability to cut-off utility services for failure to pay the total bill. The City would have less cost effective options to insure payments and could be forced to undertake costly legal expenses and other services to collect delinquent fees.

From a General Fund revenue standpoint, the implementation of a stormwater management fee by the City would not be beneficial in addressing the broader City funding needs outside of the intended purpose for the fee. Creation of the dedicated fee may also create unrealistic expectations by residents for the City to undertake a higher level of corrective drainage projects, many of which may be outside the realm of a public responsibility.

Residential Refuse Collection Fee

One of the services typically provided by cities on a fee basis is residential refuse collection. The Oak Hill General Fund allocates about \$456,000 annually to provide twice a week, private contractor collection service and recycling pickup at the backdoor of each residence. The cost of providing this exceptional level of service is about \$21 per month per household or \$252 per year. This cost is similar to what many residents pay private haulers in nearby jurisdictions but they receive only once a week refuse collection service at the curbside.

If Oak Hill were to institute a monthly fee for residential refuse pickup that covers the cost of providing the service, a substantial portion of revenue lost from elimination of the Halls Income Tax could be replaced. However, the City would incur new costs when delivering the service on a fee recovery basis including customer signups, billing, collection, and other administrative costs (including reserves for bad debts when residents move away, declare bankruptcy, etc.). The additional cost should be recovered within the new fee structure. While there are various ways to handle the administration of the service, it could easily add \$3-\$4 per month to the individual resident bill, bringing the total cost to residents as high as \$25 per month. With 1,800 homes paying the City \$25 a month or \$300 annually, the City could generate **\$540,000** annually to pay for service itself and new administrative expenses. Since the challenge of collecting residential refuse fees will be similar to stormwater management fees, it would be appropriate to determine the feasibility (cost wise) of adding the refuse fee to the monthly utility bill generated and collected by MWS.

Property Taxes

Oak Hill has been fortunate to operate since incorporation without a property tax. Most Tennessee cities without a property tax rely on a significant revenue contribution from the local sales tax. Absent any commercial development in Oak Hill in the future, the establishment of a property tax represents the most efficient and cost effective way for the City to raise sufficient revenue to cover the loss in the Halls Income Tax. Processing is easy through the cooperation of the County Trustee. Collections one time a year from 1,800 properties are relatively easy and payments are essentially "guaranteed" through the ability of the City to attach a lien on the property when the owner fails to pay.

Each one (1) cent on the property tax rate would generate \$28, 235 in new revenue for the City of Oak Hill. To replace the Halls Income Tax and generate about **\$490,000** in revenue would require the City to establish a \$.17 tax rate per \$100 of assessed value of taxable property. For the average home appraised on the tax rolls at \$587,053, a \$.17 tax rate would cost the homeowner \$249 annually.

While a \$.17 City tax rate would be relatively low, the problem is the existing Metro Nashville property tax bill for the same valued home is \$5,929 annually at the current \$4.04 tax rate. When combined, the total annual property tax bill for the average Oak Hill home would be \$6,179. For comparison purposes, the same valued home across Old Hickory Blvd in Brentwood/Williamson County currently pays a combined city/county property tax bill of \$3,963 annually, or \$2,216 less annually. Because people can choose to live in either jurisdiction and there is already a \$1,966 difference in the cost of property taxes today between the two counties for the same valued home, a new Oak Hill property tax added on top would only worsen the situation. (See attached Property Tax Analysis.)

Since there will be limited new housing development in Oak Hill, the only way to increase property tax revenues efficiently in the future for maintaining and possibly improving City services would be to increase the tax rate over time. These increases along with potential Metro Nashville property tax increases in the future will only compound the total property tax differential with Brentwood and Williamson County. The attached property tax analysis also shows the impact of a \$.35 property tax rate for residents and the City. The tax bill for the average homeowner would increase to \$514 annually and would generate **\$1,009,240** annually in revenue for the City.

There is no question that Brentwood and Williamson County benefit financially by having commercial development that generates a significant amount of local sales taxes. This allows for a more "balanced" revenue structure with less reliance on residential property taxes and less dependency on the Halls Income Tax. Ironically, many Oak Hill residents shop at the retail establishments in nearby Brentwood and pay local sales taxes that help maintain the lower property taxes there.

MOVING FORWARD FROM TODAY

The Oak Hill Board of Commissioners will face very difficult decisions in the next few years on how to maintain City services. There is no easy way out with the predicted loss of the Halls Income Tax in the next 5-8 years. If the City wants to maintain the existing service levels and zoning protection for the 8 square miles under city control, there are only two realistic approaches to consider. They are:

1. Impose a property tax on residents or a less efficient but equivalent fee for providing residential refuse/recycling collection services or a combination of both; or
2. Begin the process and effort to allow a limited amount of commercial development to occur in the City (specifically retail) that will generate sufficient new local sales taxes to make up for the revenue.

COMMERCIAL DEVELOPMENT CHALLENGES

There are several significant challenges affecting potential commercial development in the Old Hickory Blvd area, west of Franklin Road that must be considered and addressed by the City of Oak Hill when moving forward with consideration of a change in land use.

1. **Market Factors** – The demographics of the surrounding population are very positive relative to higher income levels and daytime office employment in Brentwood and Seven Springs that will soon be approaching 25,000 employees. However, the low-density nature of residential development in the immediate area means there are fewer people to support commercial development after the normal workday and on weekends.

From the intersection of Franklin Road and Old Hickory Blvd, the Cool Springs commercial area is within 5 miles driving distance, Green Hills within 7 miles, and the Nolensville Road at Old Hickory Blvd area within 5 miles. While they may be some exceptions, the primary market area for potential retail development in Oak Hill would be from residents living within a 4-mile radius of the area plus daytime office workers. (See attached vicinity map)

The Esri demographic and income profile forecast data that is used widely by developers and others in analyzing potential site locations for new projects is summarized below. The radius distance is measured from the intersection of Old Hickory Blvd at Franklin Road.

OAK HILL - MARKET DEMOGRAPHICS

RADIUS DISTANCE (MILES)	ESTIMATED POPULATION YEAR 2017	MEDIAN HOUSEHOLD INCOME	AVERAGE HOUSEHOLD INCOME
1	2,555	\$66,992	\$112,364
2	12,513	\$100,000	\$137,182
3	36,396	\$87,350	\$129,390
4	72,000	\$78,252	\$117,448

When you take into account the existing commercial development already in Brentwood and the regionally oriented shopping destinations to the south and northwest, there is a more limited scope of new retail development that would likely locate in Oak Hill. Potential retail uses that would likely be interested in locating here include specialty retail targeted to the demographics of the population, grocery stores missing from the general area, restaurants, and “big box” discount stores with no presence within a 4-mile radius. This market limitation is not necessarily bad because it would likely prevent excessive retail development from happening in the community and, for the City, means that only a limited amount of new commercially zoned land would be justified and needed.

While there may be desire by some in the community to limit the actual type of retail stores that locate on potential commercial tracts in Oak Hill, there will be limits as to types of retail uses that can be included or excluded by the City. For example, the City could limit through zoning the maximum size of a single store to prevent a “big box” discount retailer from locating here; however, such limitations could significantly reduce the sales tax revenue collection potential for the City. In addition, developers may not be able or willing to invest in a project if the limitations do not allow for some flexibility to shift or change retail uses in the future based on changes in the economy and shopping trends.

2. **Multiple Land Owners** – It is critical that any commercial development considered and approved by Oak Hill be carried out in a unified fashion within the targeted area for development rather than configured around existing tract and ownership boundaries. One of the biggest challenges is the fact the most desirable land for commercial development located at the northwest corner of the Old Hickory Blvd at Franklin Road intersection is configured in numerous tracts and will require acquisition from at least three property owners. Because of the way the existing property lines are configured, significant, steeper acreage to the north will likely have to be purchased from owners that cannot and should not be developed. Most likely, its highest and best use would be permanent open space. Both land acquisition from multiple owners plus the potential high cost for this undevelopable land may present significant challenges in making a project there move forward. (See attached study area map – eastern site)

Should there be difficulty in assembling various parcels for a unified development, there is some latitude under State law for the City to facilitate the acquisition of “blighted” property from uncooperative owners through the use of the power of condemnation. This would require the City to establish a housing authority or work out an agreement with the Metropolitan Development and Housing Authority (MDHA) to acquire “missing tracts” at market value and transfer/sale the acreage to a developer

for private development. The property could technically remain in public ownership through the Industrial Development Board (see section at the end of this report on tax incentives). Any perceived use of this public power for private benefit would likely be controversial and should only be considered as an absolute last resort. However, the use of condemnation, if needed, to acquire (for example) land for a new public road to provide safe ingress/egress to a planned development site is entirely appropriate for the overall safety and welfare of the community.

3. **Traffic Limitations** – The peak office hour traffic congestion in the Maryland Farms, Old Hickory Blvd, Franklin Road, I-65 interchange area is well known. While efforts are underway between Metro Nashville and Brentwood to improve the unified coordination of traffic signals across jurisdictional boundaries, there are clear limitations as to how much additional traffic can be added to the overall road network at peak office hours and maintain acceptable levels of service for traffic flow.

The additional traffic generated from new commercial development in Oak Hill will potentially benefit from: 1) the ability of vehicles to enter the tracts via a right-lane turning movements coming from I-65; 2) potential access from two major arterial streets for the corner tract including the less congested section of Franklin Road, north of Old Hickory Blvd; and 3) potentially less new traffic generated in the future to the south due to the lack of broad support in Brentwood today for redevelopment of existing, underutilized commercially zoned land for new retail and mixed-use development.

Any proposed commercial development in Oak Hill should not be considered or approved until a traffic study, prepared by a licensed professional traffic engineer, is reviewed and substantiated by the City's own consulting traffic engineer. Internal roads in the development should be configured in a unified manner to serve multiple property owners and for potential extension into adjoining parcels in the future. Acceptable levels of service should be maintained on surrounding public roads. Any road and signalization improvements needed to address deficiencies and maintain acceptable traffic flow, safe ingress/egress into the development, etc., should be required of the developer at their expense and made a condition for zoning/site plan approval.

4. **Site and Topography** – Without question, the most desirable area for new retail development is the acreage located on the northwest corner of Old Hickory Blvd and Franklin Road, immediately behind the Shell Gas Station. This area has limited residential development nearby and is near existing commercial development. The development could be positioned on the various tracts controlled by three owners, totaling 40 acres. However, only

about 21 acres appear suitable for any significant development activity. Any development contemplated in the remaining steeper acreage to the north (typically where the grades are above elevation 850 feet), should be subject to detailed analysis and recommendations from a qualified, licensed professional engineer.

Because of the variation of topography on the site and code/handicap accessibility requirements for any commercial project today, the grading of the developable portion of the site into a relatively flat pad will be needed. Since most developments attempt for cost reasons to avoid hauling material off-site or bringing new material to the site, "cuts and fills" grading will likely be needed. This could require retaining walls to be constructed along the front and back section of the development. The retaining walls could be as high as 10-20 feet in sections and would have to be engineered for stability. Since any potential front wall section would be more visible to the public from the adjoining arterial roads and the driveways entering the development, strict design standards will also be needed in the zoning code to insure the appearance of the walls are as attractive and natural looking as possible from an aesthetic standpoint.

5. **Sewer Availability** – Any commercial development in this area will have to be connected to public sewer. A technical challenge in having more intensive development is the availability of sewer. Except for the study area located near the corner of Old Hickory Blvd and Franklin Road, public sewer in the Old Hickory Blvd area is mostly served through gravity lines that flow south into the City of Brentwood collection system. The various gravity lines flow to the main Brentwood trunk sewer line that gravity flows west along the Little Harpeth River to a major lift station located behind Christ Presbyterian Church. There the sewerage is pumped north along Chickering Road through Belle Meade and West Nashville for eventual treatment at the Whites Creek Treatment Plant by Metro Nashville and discharge into the Cumberland River. Approximately 8.5% of the total capacity of the Brentwood pumping station is dedicated to meet the sewer needs of southern Davidson County.

Because the capacity of the Brentwood sewer system was designed primarily for low-density residential development, there is a finite capacity that the sewer pumping station can deliver effectively during peak hours and in the maximum total daily flow. Brentwood also desires to avoid the installation of a costly equalization storage tank near the pumping station in the future to handle excess flow. Accordingly, it is possible that the sewer requirements from certain types of commercial (and residential) development in Oak Hill could exceed the design and allowable flows for the lines and cause the total flow into Brentwood from Davidson County to exceed the total allocated capacity at the pumping station of 8.5%. This is a complex, technical issue that needs to be addressed through detailed engineering analysis but it has

the potential of making future development in this area of Oak Hill, particularly along Old Hickory Blvd west of Hillview Drive South more costly if the sewerage must be pumped back east into the Metro system.

Initial review indicates that a gravity line that flows directly into the Metro Nashville system via the Seven Mile drainage basin could serve the land near the Franklin Road intersection. Subject to additional flow monitoring analysis and confirmation by Metro Water Services, this line should be able to serve cost effectively potential development on property near the corner of Old Hickory Blvd and Franklin Road provided the new land uses are not sewer intensive in nature.

6. **Zoning/Buffer/Public Safety Protection** – While there is a limited amount of housing development in Oak Hill along Old Hickory Blvd, there are several residential developments that would need protection should any commercial development be considered in the area. The areas of most concern are residences on the east side of Hillview Drive South area and the Woodland Hills subdivision located west of the Korean United Methodist Church. Sufficient buffer standards tailored to the specific area (i.e. – a minimum 100 foot width with preservation of existing trees and additional opacity screening via vegetation, etc.) would be needed in the zoning ordinance to visually separate any commercial land use from the adjoining residences.

Development standards should also be reviewed and strengthened if needed to permanently protect the steeper hillside sections from disturbance and incentives provided to the developer to encourage the dedication of such land to Radnor Lake or possibly for other park purposes. If feasible, walking path connections from any future development to Radnor Park should be incorporated into the project.

Developments should also be configured in a way that encourages the creation of a future multi-use bikeway network that would generally run parallel with Old Hickory Blvd and Franklin Road. In addition, for safe pedestrian movement, development standards should include internal sidewalks that also connect to the adjoining public streets, extensive and sustainable landscaping within the visible parking lot areas, strict sign standards and exterior lighting control, and the effective screening of solid waste disposal and other docking areas.

Elevation design standards should be formulated by the City for all commercial development to ensure that the buildings and layouts are attractive in appearance with acceptable exterior materials. Any “large box” retail building that may be allowed and constructed in the area should have front facades that are designed to avoid the appearance of a continuous

masonry wall with recessed wall sections, windows and other design elements.

Public safety protection should also be a high priority in any new development. While the building code may mandate automatic sprinkler systems in certain types of commercial construction, the City should require enhanced fire protection in all buildings for the protection of the firefighters and the City's most important property from a tax generation standpoint. In addition, automatic burglar alarms and hold-up alarms should be required in all retail establishments.

COMMERCIAL DEVELOPMENT OPTIONS

Assuming the challenges above can be addressed appropriately, Oak Hill will have several viable options to consider relative to the location and type of the commercial development. Because of general taxing limitations provided to cities under State law and the need for Oak Hill to generate sufficient new revenue to replace the Halls Income Tax, the most advantageous option would be retail development that generates sufficient local sales tax. Under State law, one-half of the 2.25% countywide local sales tax collected returns to the City where the taxable sale occurred (subject to maximum limitations on higher cost items such as automobiles) with the remaining one-half provided to the school system. While there are some options to generate in lieu of property taxes from office and retail development without having a city-wide property tax (which will be covered later), they will not generate sufficient additional revenue to replace the Halls Tax. Realistically, the local sales tax is the only available source that can make up the lost revenue and avoid general taxation of all Oak Hill residents via a property tax and/or refuse collection fee.

Clearly, the priority location for such development should be the developable acreage located at the northwest corner of Old Hickory Blvd and Franklin Road. Because of the need to have entry roads to reach the graded site, requirements for stormwater detention features, etc., it is likely that only 15-20 acres would be suitable for new buildings and associated parking.

There are two potential retail development options and an office only option that could be considered by the City. All are technically feasible. The retail options can be configured to work within the available land at the northwest corner site while a traditional office park development would likely require additional acreage and would need to be located further west along Old Hickory Blvd.

Traditional Shopping Center - The most realistic retail development option from an overall site development cost, implementation, and associated financing requirements would be the construction of a traditional shopping center. Typically about one (1) acre is required for each 10,000 square feet in a traditional shopping center development with surface parking. The shopping center could easily have 150,000 to 175,000 square feet of retail space, maybe more, and could be anchored by a large "big-box" discount store or possibly a smaller grocery store with apparel stores, smaller home furnishings store, etc. The remainder of the center could be small specialty retail shops and restaurants.

For comparison purposes, the center would be similar in uses and scale (but not as compact acreage wise) as "The Shoppes of Brentwood Hills" located on the east side of Interstate 65 at the Old Hickory Blvd. This 175,000 square-foot shopping center is located on 14 acres and is anchored by a 125,000 square-foot Target. An Oak Hill development would likely be served by surface parking lots but could be designed to

be attractive in appearance if sufficient design standards are incorporated into the zoning ordinance.

Under the traditional shopping center option, the primary access to the site from Franklin Road would likely be from a new road with a traffic signal located at the current entrance drive to the Korean Presbyterian Church. This is a section of Franklin Road where there is less traffic today than other sections to the south, so it would be well suited to be the main entrance into the development. Double left turn lanes could be accommodated for left turn movements from Old Hickory Blvd to northbound Franklin Road and for entering the new shopping center from Franklin Road.

Access to the site from Old Hickory Blvd would be provided by a right in/right out entrance and exit driveway in the section between Franklin Road and East Park Drive where the raised median exists. This arrangement would likely avoid the need for a direct connector road to the development from Hillview Drive South. This would reduce the impact to the existing residents in that area and would allow for a 100-foot wide landscape buffer to be maintained between the residences and the new development.

Projected annual local sales tax revenues to the City of Oak Hill will depend on the type of retail arrangement in the center. The businesses that locate there will be market driven and outside the control of the City.

Using data from the "RetailSails 2012 Chain Store Productivity Guide," local sales taxes can be calculated for various national stores based on sales per square foot and per store. For example, local sales tax collections could range from \$465,000 annually from a large discount retailer with grocery sales having 100,000 square feet of space, up to \$581,000 from a larger 125,000 square foot store. A specialty grocery store occupying 38,000 square feet could generate up to \$394,000 annually in sales taxes to the City while a more traditional grocer occupying 60,000 square feet could generate \$329,000 annually. The smaller retailers occupying 25,000 square feet of space could generate an additional \$84,000 annually to the City based on average annual sales of \$300 per square foot. Restaurants would generate, on average, even higher sales at \$500 per square foot so 25,000 square feet in restaurants use could generate \$140,000 in local sales tax annually plus additional revenue from liquor by the drink taxes.

Other taxes would be generated to the City. These taxes are very difficult to predict so conservative estimates are being provided on the front end. They could be adjusted upward in the future based on actual collections. For example, the City would receive liquor by the drink and other business taxes estimated at \$50,000 annually. Assuming a grocery store component is included and the City authorizes beer sales, an additional \$50,000 in revenue would be generated annually from the

“Wholesale Beer Tax.” If the citizens of Oak Hill authorized by referendum liquor stores in the City, an additional \$75,000 in revenue would be generated to the City.

While outside the scope of this study, Metro Nashville schools would also receive an equivalent amount of the local sales tax generated from any retail development in Oak Hill to help fund the cost of public education in Davidson County.

While various scenarios of retail configurations can be formulated for revenue calculation purposes, three realistic examples are provided in the study. Note that a variety of retail uses, configured together, are essential to any successful shopping center.

Example One below is a 175,000 square-foot shopping center, similar in building space to the “The Shoppes of Brentwood Hills.” To provide additional perspective on the size, the Brentwood Place Shopping Center (Kroger, Stein Mart, TJ Maxx, etc.) has a total of 316,000 square feet of building space on 30 acres.

TRADITIONAL RETAIL - EXAMPLE ONE

<u>Retail Type</u>	<u>Size</u>	<u>Revenue</u>
“Big Box” Store (Sales-\$415/sf.)	125,000 sq. feet	\$581,000
Wholesale Beer Taxes		50,000
Small Retailers (Sales-\$300/sf.)	25,000 sq. feet	84,000
Restaurants (Sales-\$500/sf.)	25,000 sq. feet	140,000
Business/Liquor Taxes		50,000
Liquor Store (if authorized by referendum)		<u>75,000</u>
TOTAL ANNUAL REVENUES		\$980,000

On the following page, **Example Two** is a 150,000 square-foot shopping center with no “big box” store. Instead the shopping center is anchored by a specialty grocery store with a significant amount of small retailers and restaurants. **Example Three** is a 175,000 square-foot shopping center anchored by a slightly smaller 100,000 square foot “big-box” store with the remaining space allocated for smaller retailers and restaurants.

TRADITIONAL RETAIL - EXAMPLE TWO

<u>Retail Type</u>	<u>Size</u>	<u>Revenue</u>
Specialty Grocery Store (Sales-\$926/sf.)	38,000 sq. feet	\$394,000
Wholesale Beer Taxes		50,000
Small Retailers (Sales-\$300/sf.)	77,000 sq. feet	259,000
Restaurants (Sales-\$500/sf.)	35,000 sq. feet	196,000
Business/Liquor Taxes		50,000
Liquor Store (if authorized by referendum)		<u>75,000</u>
TOTAL ANNUAL REVENUES		\$1,024,000

TRADITIONAL RETAIL - EXAMPLE THREE

<u>Retail Type</u>	<u>Size</u>	<u>Revenue</u>
"Big Box" Store (Sales-\$415/sf.)	100,000 sq. feet	\$465,000
Wholesale Beer Taxes		50,000
Small Retailers (Sales-\$300/sf.)	40,000 sq. feet	134,000
Restaurants (Sales-\$500/sf.)	35,000 sq. feet	196,000
Business/Liquor Taxes		50,000
Liquor Store (if authorized by referendum)		<u>75,000</u>
TOTAL ANNUAL REVENUES		\$970,000

While the actual combinations of businesses and the businesses themselves are unknown at this point, an additional word of caution is in order. There are no assurances that a larger 125,000 square foot “big box” retailer as reflected in example one would be willing to locate there or specialty grocery store with a significantly larger number of small retailers as reflected in example two. For example, if a more traditional 60,000 grocery store located there with less space for small retailers and no liquor store, the total revenue to the City could drop to \$810,000 annually.

TRADITIONAL RETAIL - EXAMPLE FOUR

<u>Retail Type</u>	<u>Size</u>	<u>Revenue</u>
Grocery Store (Sales-\$489/sf.)	60,000 sq. feet	\$329,000
Wholesale Beer Taxes		50,000
Small Retailers (Sales-\$300/sf.)	55,000 sq. feet	185,000
Restaurants (Sales-\$500/sf.)	35,000 sq. feet	196,000
Business/Liquor Taxes		<u>50,000</u>
TOTAL ANNUAL REVENUES		\$810,000

Given the uncertainty, it may be more reasonable at this point to estimate, for budget purposes, total annual revenue for the City from a traditional shopping center at full build-out in the range of **\$810,000**.

Oak Hill would also receive, under the current fee schedule, one-time building permit fees estimated at \$50,000 based on an estimated cost of \$10 million for building improvements; However, the net revenue would be less because the City would likely incur a one-time additional cost for third party construction plans review and inspection services that may be required for the more complex type of commercial construction.

Note there will be some competition for potential retailers that would consider locating at the Oak Hill site from recent and potential activity nearby in Brentwood. The Brentwood Planning Commission recently approved 40,000 square feet in new small retail/restaurant space along the entrance road leading from Franklin Road to the Mooreland Mansion in the Synergy Office Park. Additional competition is possible should the City of Brentwood rezone the 11 acres, the former Murray Ohio Headquarters site now owned by HG Hill Realty, from office use only to office/retail uses. HG Hill Realty clearly has the capability to carry out a retail project successfully on the Murray site but a “commercial to commercial” rezoning is not automatically guaranteed to happen in Brentwood today.

If new retail development moves forward in Brentwood, this does not mean that an additional retail project cannot move forward in Oak Hill but it will be yet another “challenge” to add to the earlier list. What the potential Oak Hill site at Old Hickory Blvd and Franklin Road has going for it over other development sites to the south is the prime location and ease of access from Interstate 65.

Mixed-Use Development – A more dramatic and potentially exciting approach for future development at the northwest corner of Old Hickory Blvd at Franklin Road would be the construction of pedestrian oriented, mixed use commercial project on the site. Such “Town Center” developments typically have a greater number of small high-end retailers (maybe a smaller grocery store but no big-box stores) plus office space, higher quality restaurants, hotel, theater, and residential units. Each use tends to support the others economically and allows for the total required parking spaces for all land uses to be less due to the shared arrangement, taking into account the various times of the day for peak parking.

The amount of potential building floor space on the same 15-20 acre site can be significantly greater because of the use of structured parking garages. For example, a similar size project proposed recently several blocks away in Brentwood had 750,000 square feet of building space plus parking structures with 1,800 spaces. It is important to note that only 248,000 square feet of the total space was dedicated to “sales tax” generating businesses (small stores, theater, and restaurants) plus income from a 120-room business hotel. The rest of the space was allocated for office use and residential units. Such development makes financial sense in Brentwood because of the property tax revenues and additional income generated to the City’s Water Services Department.

Total traffic generation from this type of development would be higher than from the smaller traditional shopping center option. Subject to review and recommendations from a qualified, licensed traffic engineer, this demand could be handled within accepted levels of services and other traffic criteria. The peak traffic times for each land use would vary during day, which would help overall traffic flow in and out of the area. More extensive off-site road and signal improvements would likely be required including right-of-way acquisition (i.e. – the purchase of several

homes and lots) and construction of an ingress/egress road for the site from Hillview Drive South. This would allow for two signalized access points into and out of the site from both Old Hickory Blvd and Franklin Road. Acquisition of the property for the new public entrance road could easily add \$1-\$2 million to the cost of the project.

An additional item for extensive technical review is to determine whether or not there is sufficient sanitary sewer capacity in the area to cost effectively handle the demand from a comprehensive mixed-use development that includes residential units, hotel rooms, office, more restaurants, and more retail space.

While condominiums or apartment type housing is a typical component needed to make a mixed-use project successful, policies that attempt to place restrictions on the renting of units may hurt the financial viability of the entire project. It would also be extremely difficult from a legal standpoint to mandate owner occupied housing units only. This is no different than trying to prohibit a homeowner in a subdivision from “renting” their single family home to another family. One way to partially address these concerns would be to require the legal creation of a condominium structure to facilitate the sale of units (as the market dictates) and require a larger minimum square footage for each residential unit. Assuming this is economic viable, it would likely reduce the overall total number of dwelling units in the project and could facilitate larger sized condominium units targeted to residents wishing to downsize from their single family home.

Assuming such a development project is able to move forward, the City of Oak Hill would generate the following local tax revenues from a mixed-use, Town Center type project. Note the sales generated in such a development are typically higher than in a traditional shopping center.

MIXED USE DEVELOPMENT - EXAMPLE

<u>Retail Type</u>	<u>Size</u>	<u>Revenue</u>
Specialty Grocery Store (Sales-\$926/sf.)	38,000 sq. feet	\$394,000
Wholesale Beer Taxes		50,000
Small Retailers (Sales-\$350/sf.)	165,000 sq. feet	647,000
Restaurants (Sales-\$700/sf.)	45,000 sq. feet	353,000

Hotel – Sales Taxes (\$150 night/75% occ.)	120 Rooms	55,000
Business/Liquor Taxes		75,000
Liquor Store (if authorized by referendum)		75,000
State Shared Taxes–Per Capita (300 residents)		<u>33,000</u>
TOTAL ANNUAL REVENUES		\$1,682,000

Note that if a residential component is included with 200 dwelling units averaging 1,000 square feet (200,000 total square feet or more than 25% of the total space in the development) with an average of 1.5 persons living in each unit (300 additional residents), the City would generate, subject to a special census count, an additional **\$33,000** in State Shared Taxes annually distributed to cities on a population basis.

While this type of project may appear to be the obvious choice for the City from a tax generation standpoint, the project may be so costly with upfront capital investment that it cannot move forward from an economic viability standpoint. A significant challenge for any developer of a mixed-used development of this magnitude is obtaining financing for the project knowing that it may take several years to construct, fully lease the space, and build-out the various components of the project. For example, the parking garage space for 1,800 spaces alone could easily cost \$27 million. Certainty in the world of development can change very quickly in 3-4 years. It would be a more risky venture to undertake than a traditional shopping center. It would require a developer with significant “deep pockets” and the ability to obtain investors that are willing to take a greater risk on the rate of return for their investment over a longer period.

Unfortunately, reducing the scope of the project to include only the tax benefitting retail space, restaurants, and hotel does not eliminate the initial capital investment and risk. There would still be a requirement to construct a parking garage to handle at least 500 spaces out of the 1,360 required parking spaces at a cost of \$7.3 million. Without office and residential development, it eliminates the ability to recover some of the capital cost of the shared parking garages that are used at different peak periods during the day. Plus the cost of parking garage would have to be recovered from higher market rents for the retail, restaurant, and hotel space, further challenging the economic viability of the project.

Traditional Office Development - Without a property tax in Oak Hill, there is limited economic incentive to encourage traditional office park development in the City today. Office development only makes sense if it is configured as a limited part of a mixed-use development and positioned in a way that supports nearby retail sales. Traditional office use would likely be detrimental to the City's revenue potential to the degree this use takes away the prime acreage available for commercial retail projects and the associated local sales tax collections.

Should a relatively small property tax be required in the future in Oak Hill, there would be some revenue benefit from having traditional office development. For example, a typical 4-story office building (100,000 square feet) similar to the type of development across Old Hickory Blvd in Brentwood valued at \$190 per square foot, would generate about \$13,000 annually in property taxes under a \$.17 tax rate. A \$.35 tax rate would generate \$26,600 annually.

In a typical unified office park development with surface parking, about 15,000+ square feet of office space can be built on each acre of land. Therefore a 100,000 square foot office building would require about 6.66 acres. Internal roads in the office park would require additional land. Accordingly, a unified office complex inside the Oak Hill city limits having 600,000 square feet of space would require 40 acres plus additional land for internal streets, drainage features, amenities, etc.

This amount of land would likely require any office development to occur in the far western section of Oak Hill, fronting Old Hickory Blvd, north of the West Park Drive intersection. The 56 acres located there within the Oak Hill city limits would also be better suited for traditional office development from a land use standpoint given the desire of most retailers to be closer to the Interstate 65 interchange and Franklin Road area. When the relatively flat acreage is combined with the adjoining vacant property inside Metro Nashville's jurisdiction, a 138-acre unified office development is possible.

If the City instituted a \$.17 City property tax rate, an additional **\$77,500** in revenue could be generated annually (600,000 square feet X \$190 per square foot X 40% (assessment) X \$.0017); **\$159,600** would be generated annually with a \$.35 tax rate.

Besides the limited revenue potential, there are three additional concerns with the location and placement of office development:

1. Without a significant retail component in Oak Hill, most of the new local sales taxes generated from employees in the office buildings would end up in Brentwood.
2. The existing peak AM and PM traffic problems already generated in the area from office development in Brentwood would be compounded by significant

new office development across the street in Oak Hill. The peak traffic times for retail development tend to vary more during the day and occur at night and on weekends when there is additional capacity in the road network to handle the traffic.

3. It could be costly to provide adequate public sewer for any intensive development in the western end of Oak Hill should there be capacity limitations in Brentwood. This could require the pumping of sewerage east and upgrading existing gravity lines that flow into the Seven Mile creek basin for treatment at the Central Treatment plant in Nashville. This is a complex issue so additional engineering analysis would be needed to find a cost effective approach for service.

THE USE OF TAX INCENTIVE PROGRAMS

There are practical limitations to the City of Oak Hill's ability to use tax incentives to encourage or facilitate commercial development. First, it is illegal for the City to loan taxpayers money to private developers, extend the full faith and credit of the City in support of a development project, etc. However, there are mechanisms under State law for cities to encourage development projects, investment, employment, etc.

In a more traditional setting where a City has a significant property tax rate, it is possible for the City to use the Industrial Development Board (IDB) section under State law to create a legal mechanism for the IDB to technically "own" the new commercial property and, as a tax-exempt entity, negotiate "Payments in Lieu of Taxes" or a PILOT with the owner/lessee. Typically, a city and/or county, as an incentive to attract a new employer or business to the community, negotiates a lower than normal property tax amount for the commercial property for a certain number of years. This arrangement is increasingly being used by Metro Nashville as an incentive to attract new corporate office building investment and employment opportunities in Davidson County by waiving or reducing county property taxes for up to 15 years.

Metro Nashville and communities in Williamson County have historically not used PILOT's to secure new retail investment because such investment will typically come to this area without the need for incentives. In addition, the wages for the newly created retail jobs are lower than in corporate offices and do not generate the same economic multiplier benefit to the community compared to the corporate relocation of employees into the City.

Without a City property tax rate in place, there is little or no opportunity for Oak Hill to use a traditional PILOT program to create incentives to attract new commercial investment. While a developer may try to argue that significant land and site development costs will be incurred with development of the targeted retail tract located at the northwest corner of Old Hickory Blvd and Franklin Road and therefore warrants financial assistance for the City, there is really little opportunity to undertake this approach.

If anything, the City should consider using the PILOT program under state law to gain additional revenue for the City (over and beyond local sales tax collections) to help fund municipal services. Accordingly, the City should consider the following:

- Encourage the use of a PILOT structure for any commercial development project approved by the City. While the City cannot structure the agreement to reduce Metro Nashville property taxes, (without the Metro Council's approval), it could require the project to pay to the City an "in lieu of property tax payment" annually. The amount could be based on a certain tax rate for a certain number of years and calculated based on the latest assessed

value of the property as determined by the Davidson County Property Assessor. According to Mark Mamantov, attorney with Bass Berry and Sims, the length of the PILOT agreement could be for up to 20 years and could be structured to allow the PILOT “tax rate” to increase if Oak Hill were to impose a higher, City-wide property tax rate in the future. Since City involvement will likely be needed to acquire property and dedicate right of way for construction of a public entrance street to serve the development, there will be tool in place for the City to use in obtaining the cooperation of the developer to enter into a PILOT agreement.

- Potential In-lieu of tax payment - From a revenue generation standpoint, if the taxable investment on the targeted retail site is equivalent to the appraised value on the tax rolls for the “Shoppes of Brentwood Hills” located on the east side of Interstate 65, the City could generate an additional \$25,760 in “in-lieu of property tax payments” annually with an effective \$.35 tax rate or \$36,800 annually with a \$.50 tax rate. Either amount would not be so significant as to cause a financial burden or a deterrent for the project moving forward. Payments would be made annually and would be less burdensome to a developer than upfront impact fees, which are permitted and used extensively across Williamson County.
- Should the PILOT option be pursued and to facilitate the process to the benefit of all parties, the City should also consider the creation of a City Industrial Development Board. As a fallback, the City could work with the Davidson County Industrial Development Board but the review and approval process may take longer to carry out given the unusual nature of this approach plus less City control of the outcome.
- A variation of the PILOT option would be to create a Central Business Improvement District (CBID) incorporating the development project and establishing a property tax rate exclusive to this area. No PILOT arrangement would be required. Typically, the additional property tax revenue collected from the area is “reinvested” back into the area with a higher level of services than provided elsewhere in the City. However, a portion of the new revenue could be used to cover “overhead and administrative” costs incurred at the City. In addition, if a \$.50 property tax rate was established within the CBID area, the generated funds could also be used for enhanced landscaping and upkeep of the most visible areas of the site that abut the arterial streets at the southern entrance into Oak Hill. Funding could also be used to maintain and enhance the buffer areas separating nearby residential property from the commercial development, trail improvements leading to Radnor Lake, etc.

SUMMARY

Given the current market for new commercial development and the growth in population and office development in the Southern Davidson/Northern Williamson County area, it is in the best interest for the City of Oak Hill to move expeditiously to determine how to address the projected major loss of 1/3 of the City's annual General Fund revenue from the elimination of the Halls Income Tax.

If the decision is made to seek alternative revenues through new commercial development rather than by taxing or assessing new fees on the residents, the City has about five (5) years to have the new commercial development in place, generating new tax income for the City. However, it could easily take three (3) years of hard work by the City dealing with all the challenges to development before ground is broken for a new project.

While moving forward with approval of the first commercial development in Oak Hill will not be easy, it is recommended that the City limit its focus to a single, targeted area and type of commercial development that:

1. Generates the most amount of new revenue to the City with the least amount of land having to be rezoned for commercial development.
2. Provides a desirable location for commercial development because of high visibility and access from several arterial roads and the Interstate.
3. Allows for the least amount of impact on residents in the community when completed with a sufficient permanent buffer between the commercial development and nearby residences.
4. Is a realistic, financially viable development project for this market that can be attractive in appearance and carried out successfully.
5. The additional traffic generated by the project can be handled effectively and meet accepted levels of service through proper vehicle access to the site and geometric/signalization improvements on the abutting streets.
6. The property can be acquired privately from a minimum number of owners with the City's involvement limited to the acquisition of right-of-way for roads and other essential public improvements.
7. Can be adequately served by existing sanitary sewer lines and is not dependent on one jurisdiction for service.

Taking this framework into account, the tract located at the northwest corner of Old Hickory Blvd and Franklin Road is the most realistic area in Oak Hill to target new commercial development in the next five years. A mixed-use, Town Center type development at this location would be unique and exciting, but it may be very difficult to achieve given the complexity of the project and additional site development cost. A more realistic and achievable commercial development option for the site would be a traditional shopping center. With appropriate development and design standards incorporated into the zoning ordinance, this type of development can be visually attractive in its arrangement of buildings and appearance.

While this location will have challenges from a site development standpoint and in the assembling of land from at least three property owners, it is the only tract at this time that is worthy of the investment of City's limited time and resources to facilitate an attractive commercial development that will generate sufficient new replacement income for the City.

Assuming the City Commission agrees to move forward with efforts secure alternative revenue sources, the City will need to move forward first with the creation of new commercial zoning district. The drafting and review of the technical and development standards should include citizen and developer input. Once the new zoning district is in place, the City will be in a position to respond to any rezoning request and development proposal that may be submitted to the City for consideration using the framework provided in this report.

ATTACHMENTS

OAK HILL - PROPERTY TAX ANALYSIS

Oak Hill What a 1 Cent Tax Rate Generates	Replacement of Halls Tax 17 Cent Tax Rate	Replacement of Halls Tax + Growth 35 Cent Tax Rate	Brentwood/Williamson County Taxes Compare Same Home
\$288,354,231	\$288,354,231	\$288,354,231	
<u>\$0.01</u>	<u>\$0.17</u>	<u>\$0.35</u>	
\$28,835	\$490,202	\$1,009,240	
	\$249	\$514	\$646
	\$5,929	\$5,929	\$3,317
	\$6,179	\$6,443	\$3,963

Total Assessed Value - Taxable Property

X Tax Rate (per \$100 assessed value)

Property Tax Generated at Various Rates

Property Tax Impact to Residential Dwellings

Average Appraised Home Value on Tax Rolls - Oak Hill \$587,053

Average Assessed Value on Tax Rolls (25% of Appraised) \$146,763

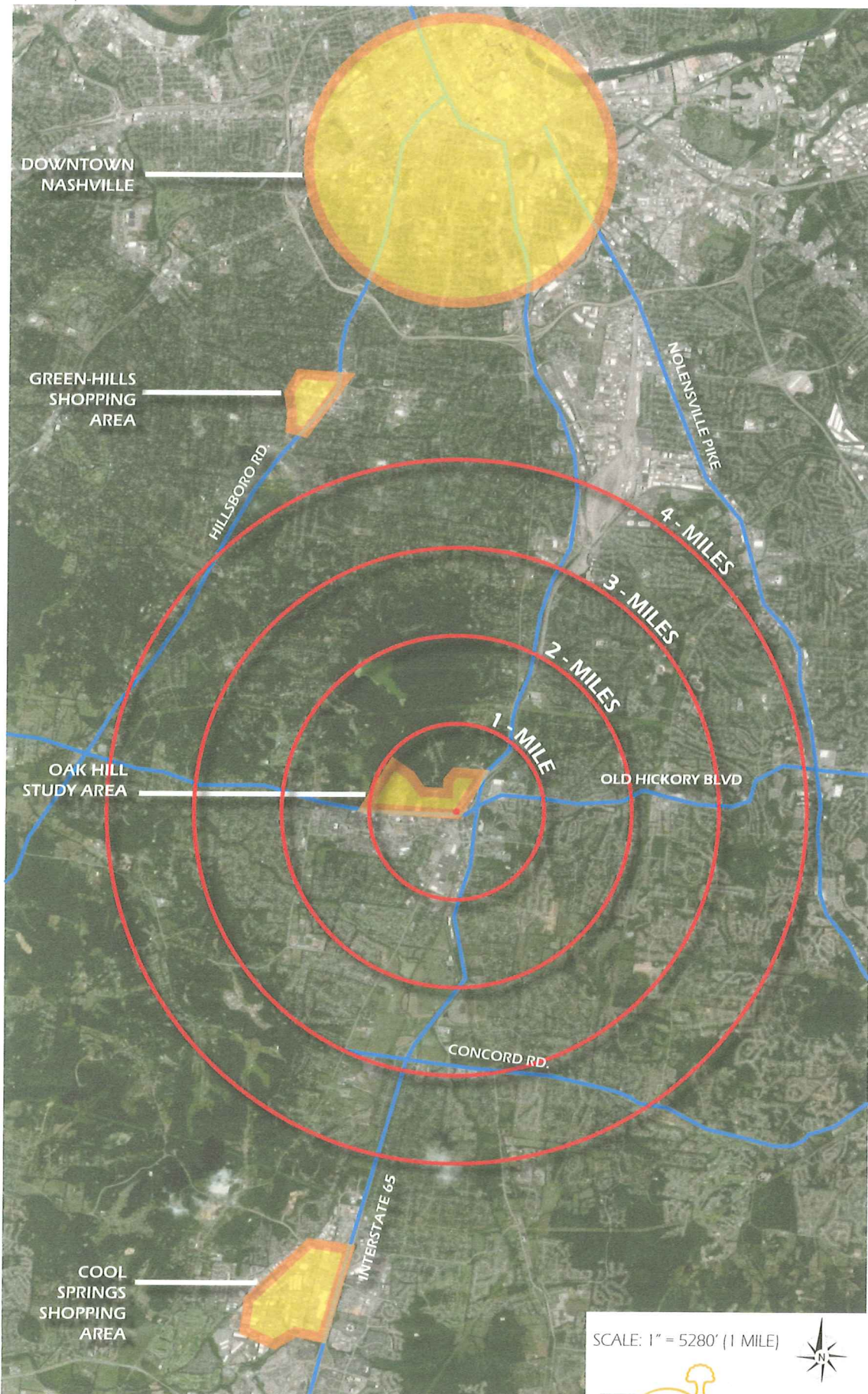
Potential Oak Hill Annual Property Tax Bill at Various Rates and the Brentwood bill at \$.44 per \$100 assessed value

Add Metro Nashville or Williamson Co. Annual Property Tax Bill (\$4.04 tax rate per \$100 assessed in Davidson Co., \$2.26 in Williamson Co.)

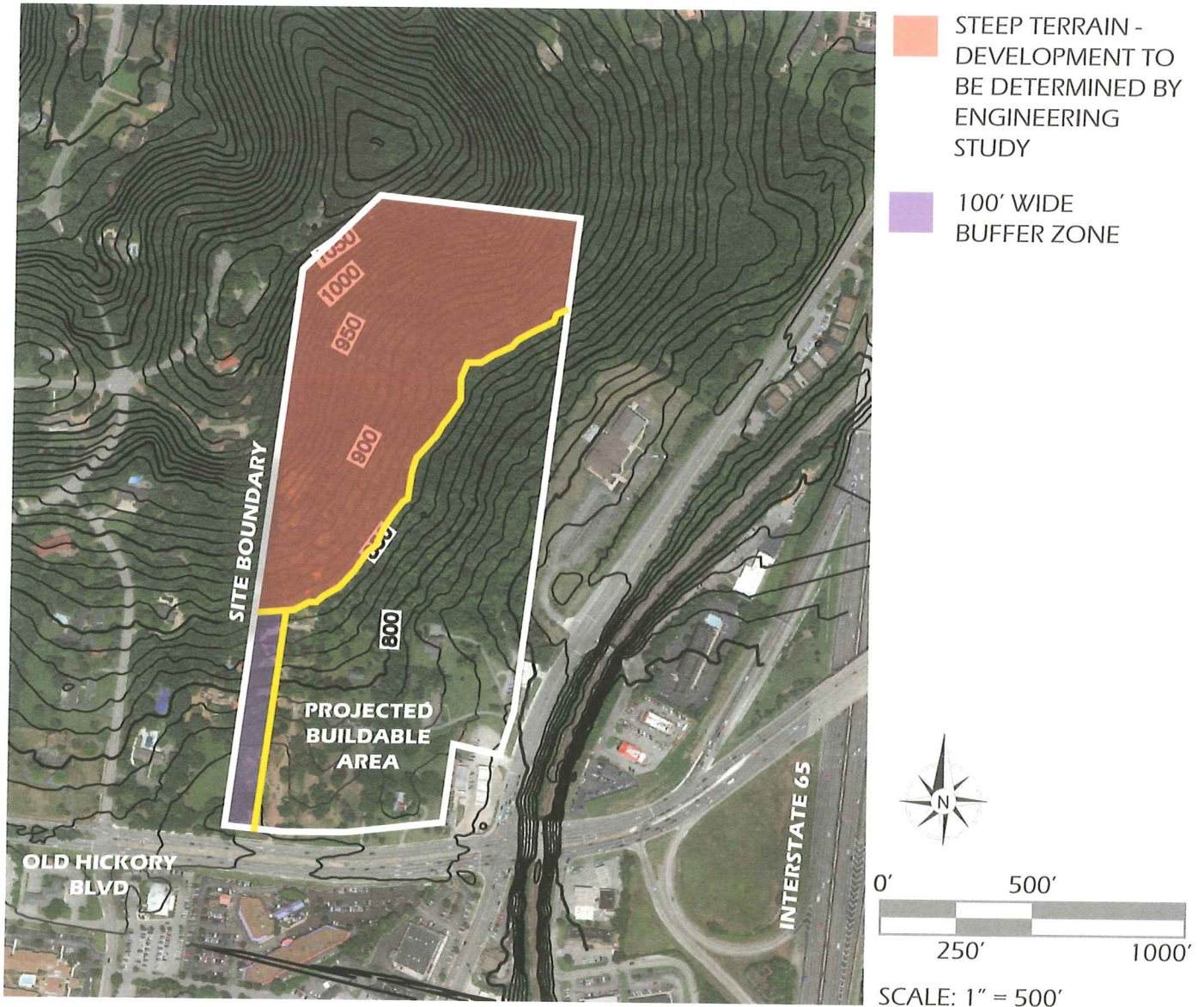
Potential Total Combined Property Tax Bill

Additional Property Taxes That Would be Paid in Oak Hill
Annually Compared Same Valued Home in Brentwood/
Williamson County

\$2,216 \$2,480



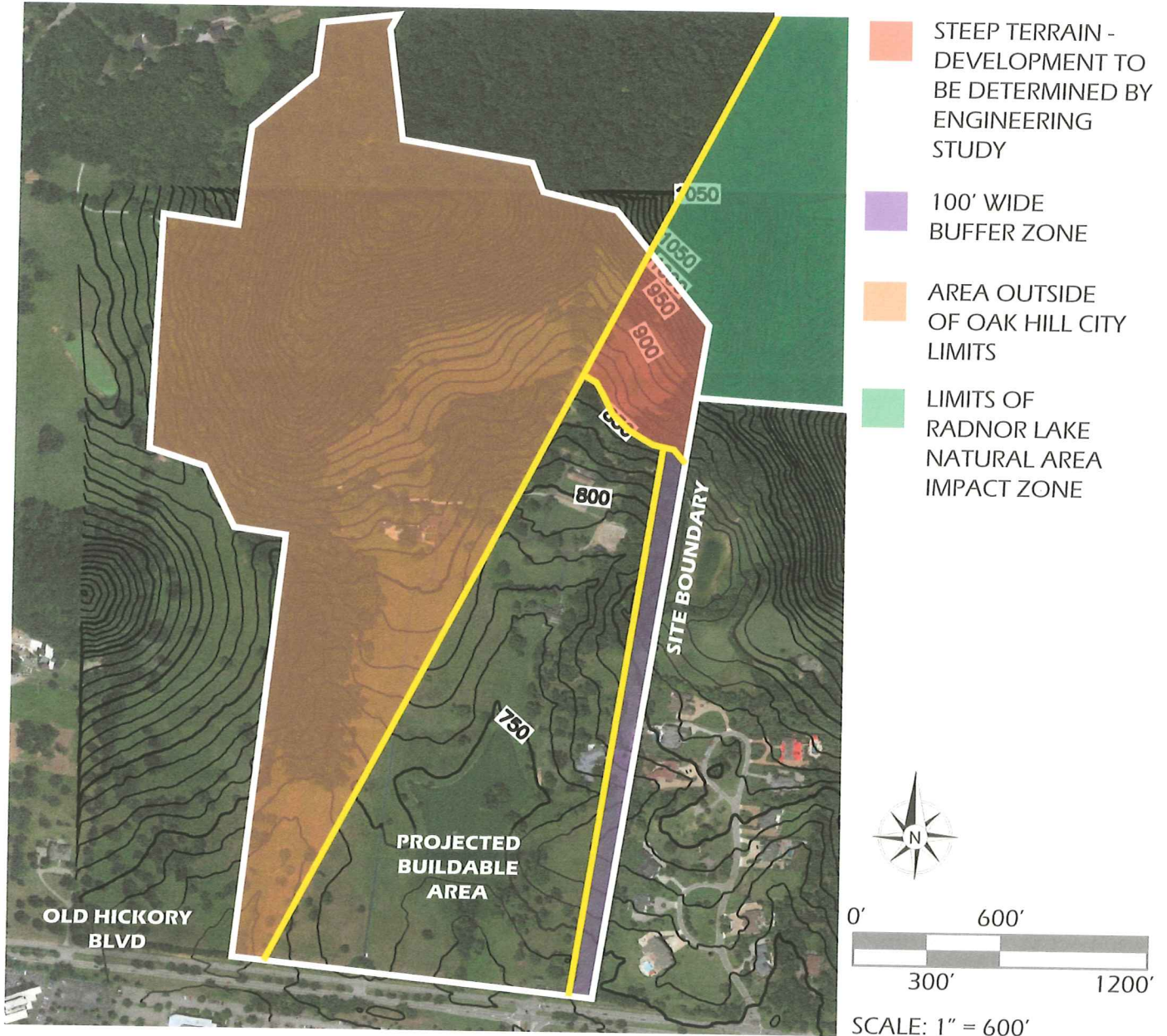
OAK HILL VICINITY MAP



SITE STATISTICS			
	SQUARE FEET (SF)	ACREAGE (AC)	DESCRIPTION
TOTAL AREA OF SITE	1,758,427	40.37	Area of the entire site.
PROJECTED BUILDABLE AREA	1,000,325	22.96	Area of the site less the area above elevation 850.
BUFFER AREA	72,184	1.66	Area within the buffers surrounding the perimeter.
APPROX. ROADWAY / GRADING / RETAINING WALL AREA	174,240	4.00	Area of proposed access roads, grading, and retaining walls within the site.
REMAINING AREA	753,901	17.31	Buildable Area Less the Buffer / Roadway / Grading / Wall Area

OAK HILL STUDY AREA
EASTERN SITE





SITE STATISTICS			
	SQUARE FEET (SF)	ACREAGE (AC)	DESCRIPTION
TOTAL AREA OF SITE	6,023,465	138.28	Area of the entire site.
AREA WITHIN OAK HILL CITY LIMITS	2,442,367	56.07	Area of the site within Oak Hill's City Limit boundary line.
PROJECTED BUILDABLE AREA	2,201,962	50.55	Area of the site within Oak Hill City Limit boundary line less the area above elevation 850.
BUFFER AREA	222,248	5.10	Area within the buffers surrounding the perimeter.
APPROX. ROADWAY / GRADING / RETAINING WALL AREA	87,120	2.00	Area of proposed access roads, grading, and retaining walls within the site.
REMAINING AREA	1,892,594	43.45	Buildable Area Less the Buffer / Roadway / Grading / Wall Area

OAK HILL STUDY AREA
WESTERN SITE

