Echo Bay, New Rochelle

Economic Overview & Key Questions
Glossary of Terms

• SEQRA: The State of New York passed the State Environmental Quality Review Act in order to establish a process to systematically consider environmental factors in the planning stages of actions that are directly undertaken by local, regional and state agencies.

• DEIS: Draft Environment Impact Statement. This is a document prepared by Forest City Ratner, and approved by the City Council.

• MOU: Memorandum of Understanding. This is an agreement between the City of New Rochelle and Forest City that outlines the broad terms of the proposed agreement.

• FMV: Fair Market Value

• Debt Service Cost: The cost of repaying a loan, or a bond. Debt Service Costs includes principle and interest payments over the term of the loan.

• Beechwood: The proposed site of the new DPW (Department of Public Works) City Yard.

• Off-Balance Sheet Financing: A form of financing in which large capital expenditures are kept off of a company's balance sheet through various classification methods.
How is this Project Beneficial to New Rochelle?

The following pages detail the information and financials that The City has made available to the Public through the DEIS, MOU and other related documents. While many errors have been identified in the DEIS and the validity of the numbers may be suspect, the financial analysis contained within this analysis nevertheless uses the numbers from the DEIS.

This project has been dramatically downsized from the Forest City’s original bid. Currently, and using the numbers provided in the DEIS, the economics result in substantially more costs to New Rochelle than financial benefits.
One-Time Revenue

REVENUE

- $2.5 Million from Forest City to defray $25 - $30 Million cost of relocating City Yard [source: DEIS, MOU]

- $2.5 Million to defray costs of acquiring additional properties (adjacent to current City Yard) [source: DEIS, MOU]

- $1.5 Million NYS Grant for Public Infrastructure projects (payable to FC) [source: DEIS, MOU]

- $1.0 Million in Building Permits & Fees [source: DEIS]

- $0 Proceeds from sale of City Yard to Forest City [source: MOU]

  - FMV of Land based on current zoning and condition of site (estimated at $5.5 million, source: Economic Impact Analysis, January 2012)

  - Less Credit against Forest City’s cost to develop infrastructure & remediate site (Total cost is assumed to be greater than $5.5 million as Economic Impact Analysis estimates remediation at $3 million and total construction spend at $57 million. Source: Economic Impact Analysis, January 2012)

$7,500,000
Echo Bay Economic Overview & Unanswered Questions

One-Time Expenses

EXPENSES

- $5.0 Million to acquire new city yard property [Source: City Archives]
- $2.5 Million estimate of costs to acquire properties adjacent to current City Yard [source: DEIS, MOU]
- $1.5 million in Grant Money remitted to Forest City [Source: MOU]
- $5.5 Million estimate of Land "sold" to Forest City [source: Economic Impact Analysis, 2012; Note: $5.5 million estimate is based on current zoning as opposed to proposed zoning]
- Unknown: Cost to remediate new Beechwood City Yard property. [Study not completed]

($14,500,000+)
Net Loss at Project Inception

$7,500,000 - $14,500,000 = ($7,000,000)

+ unknown cost to remediate Beechwood

(Note: This loss was calculated using assumptions and terms in DEIS and MOU. Had 3rd party estimates of waterfront property been used in calculations, this loss would be substantially higher.)
Echo Bay Economic Overview & Unanswered Questions

City Yard is separate!

The City has repeatedly argued that City Yard is a separate project. To demonstrate that the project is still not economically viable whether or not City Yard costs are included, we will back out the $5 million in land purchase and the $2.5 million in revenue FC is paying us to defray the cost of moving City Yard. We still incur a loss of:

($4,500,000)
In reviewing the numbers within the DEIS, we found multiple inconsistencies and errors. A significant one, pictured below, attempts to compare the cost of the project (in the first year) with the revenue (average over 27 years).

These projections use costs applicable to 2013 (and do not account for inflation, etc.) and compare them to the average revenue over a 27 year period (accounting for inflation and growth). Furthermore, the 27 year average is erroneously calculated as the sum of 27 years of revenue averaged over a 26 year period.

Bottom line, it significantly misrepresents the true economic picture.
Projected Annual Tax Revenue (2016)

$121K City Tax
$10K Library Tax
$445K School Tax
$186K Refuse/Park/Utility Fee

$762,000 Annual Revenue

[Source: DEIS]
Projected Annual Expenses (2016)

$434K Municipal Costs
$385K Education Costs

$819,000 Annual Expense

[Source: DEIS]
Projected Net Annual Loss (2016)

$57,000 Annual loss

After $7 million upfront loss

and

before Debt Service Costs!
Objection!

Someone is undoubtedly going to object, saying that the DEIS projects revenues will increase 2.5% per year, while expenses increase only 1.5% per year. So after a few years, these numbers turn profitable.

As we all know, our taxes go up 7-10% per year. Presumably because expenses are increasing every year. While historical performance may not be an indicator of future performance, are these assumptions really valid?
Utilizing growth assumptions in DEIS, we calculate the following:

Average Annual Revenue
- Municipal $216,000
- School $522,000
- Refuse $239,000

Average Annual Expense
- Municipal $549,000
- School $487,000

Net Income / (Loss)
- ($1,180,000) loss over 20 year period
Where did the numbers in the DEIS come from?

The numbers were prepared by Forest City.

Q: Did The City Council validate the numbers?
A: No. They voted that the DEIS fulfilled the requisite SEQRA process. They did not opine on the accuracy of the numbers.

(Whose job is that? I don’t know…good question!)
Now let’s add in Debt Service

We need to borrow $25 million to move City Yard. This equates to a cost of:
$1.67 Million Per Year (for 20 years)

(If the City is going to try to count the $2.5 Million as "Revenue" from Forest City, it's only fair to count the expense that the $2.5M is defraying. You can’t count only one side of the coin.)

Total Debt Service Cost: ($33,400,000)
Objection!

The City is going to say we need to move City Yard anyway.

There is nothing that supports that position:
- City Documents state reason to move City Yard is to foster Echo Bay Development
- October 2012 Memo from DPW Commissioner Tergis indicates that repair is possible
- OSHA, a federal agency, conducts regular inspections of The DPW City Yard; there are no open violations.

but back to the numbers....
Now, let's add in Sales Tax

Some Very Generous Assumptions in DEIS
• Exceeds sales generated from Retailers in Every Category!
• Assumes it doesn’t cannibalize existing retail sales

Nevertheless, let’s use the DEIS assumption of $425/SqFt:

$345,000 Average Annual Sales Tax Revenue
Here’s the 20 Year Summary

One-Time Revenue: $7.5 Million

One-Time Expenses: $14.5 Million

= NET OUT OF POCKET COSTS: $7 MILLION + open ended liabilities

Recurring Annual Average Revenue (based on 20 year period, including sales tax revenue and growth projections in DEIS): $1.3 Million

Recurring Annual Average Expenses (based on 20 year period, including debt service costs and growth projections in DEIS): $2.7 Million

= AVERAGE ANNUAL RECURRING NET LOSS: $1.4 Million

TOTAL NET ECONOMIC LOSS: $35,000,000+
$35,000,000

How can we afford that?

Why would we do that?
Do we really need more residential?

New Rochelle Population & Schools: 1960 - 2010

- Population
- Schools

Echo Bay Economic Overview & Unanswered Questions
Can we repair City Yard?

Mayor Bramson maintains that City Yard can’t be repaired and needs to be moved. Yet, the site has no open violations after recent inspection by OSHA.

In a memo to City Manager Strome from DPW commissioner Tergis, the commissioner indicated that repairs would be possible. Yet, no estimate of repairs has ever been assembled. Why has the City only compared options of moving or tear-down/rebuild when repair is an option?

The only study that looked at repairing the existing City Yard was paid for by Forest City!
Original Proposal

Originally, Forest City was dredging the sound—opening up the waterfront—building luxury condos, etc. Despite an 80% reduction in retail space, no dredging, no hotels, condos or community center, how can the City argue that it’s still a good deal?
Isn’t dredging essential?

The original plan included dredging of the bay so that low tide wouldn’t result in smelly mud flats. Isn’t dredging essential for a vibrant waterfront? Why has that been removed from the project?
City Yard Expenses

Why is the City accounting for $2.5 million from Forest City to defray the cost of moving City Yard, but then stating that we not count the $25 - $30 million as an expense?
Going Up?

Will my taxes go up as result of the $35-$40 Million expense associated with this project?

If Forest City’s projections are incorrect, will my taxes go up even more?
Why are we adding Debt?

Why are we adding debt when Moody’s already has a negative outlook on our credit rating?

MOODY’S INVESTOR SERVICE OUTLOOK

The negative outlook recognizes the city's reduced level of financial flexibility following consecutive operating fund balance reductions and our expectation that the city will remain challenged to restore reserve levels consistent with the Aa3 rating category in the near term.

What could make the rating go up (remove the negative outlook):

- Structurally balanced budgets resulting in positive financial operations
- Implementation of additional revenue sources

What could make the rating go down:

- Any operating loss in fiscal 2012
- Continued trend of operating deficits
- Significant increases in debt levels
Off-Balance Sheet Financing

Recently, the City Manager indicated that the City’s credit rating may force him to finance this deal off of the balance sheet? (as Moody’s would likely downgrade New Rochelle’s rating if we added additional debt.)

This kind of financial engineering sounds like we can’t afford it. Off-balance sheet financing was what Enron and Greece employed too.
Why are we different?

The Atlantic Yards project was delayed for several years and NYC is losing $40 million while Forest City is making $700 million. How can we be assured that we won’t lose a fortune too?

What is Forest City projecting to earn as a result of this deal?
New Developers, New Ideas

Interest rates are at historic lows and a variety of investors are looking to put money to work in commercial real estate. Financing is cheap. Why, given the current economic conditions, is the City resistant to finding a new developer with ideas that are:

1) are more financially viable for New Rochelle
2) are more aesthetically pleasing?
The Petition

The petition uses public information to raise issues and express concerns. Numerous emails and calls were sent to petition signers stating that the petition has mischaracterized this project. How is it mischaracterized? Please provide specifics.
Best Case Scenario

The assumptions in the DEIS represent a best case scenario. Is there an alternative worst-case scenario analysis? How does the City determine that the benefits outweigh the risks?
Luxury Rentals

I’ve heard it said that these will be luxury rentals. As these apartments will compete with the breathtaking views offered by the Trump and Avalon buildings, and given that the Echo Bay development abuts mud-flats, overlooks a sewage treatment plant, and is a mile walk to the train, what makes you think they will be luxury rentals?
Additional Questions

1. The 2010 Census indicates that our population is at an all-time high. Why is the City saying that we need more residential?

2. Why are you asking us to count the $2.5 million from Forest City to defray property acquisition costs (for property adjacent to Echo Bay), but you are not counting any property acquisition costs as an expense? Are the owners willing to sell or will we need to exercise eminent domain like the City Council just approved to acquire land that the Beechwood site?

3. Why should we prioritize the relocation of City Yard ahead of providing for our schools, our Fire and Police departments, our roads, our library, etc?

4. Why have you repeatedly provided Forest City Exclusivity since 2007?

5. Did the City reach out to others before renewing their exclusivity agreement?

6. Why do you think no other developers will come to the table?