

To: Steven Ball, Principal
Town & Country Planning, LLC

From: Julie Herlands, AICP, Vice President, *TischlerBise*

Date: June 7, 2019

RE: **TischlerBise Review of Hill Top House Hotel, Fiscal Impact and Valuation Assessment Data (Material transmittal date of May 15, 2019)**

Executive Summary

TischlerBise has been retained by the Corporation of Harpers Ferry, West Virginia, to assist with review of fiscal documentation related to the Hill Top House Hotel Project. The Hill Top House Hotel project is “a proposed high-end hotel in Harpers Ferry, West Virginia, with approximately 129 rooms in the main hotel, lodge, and ancillary buildings.”¹

Key findings from the review are as follows:

- The main report submitted to the Town is an Economic Impact Study rather than a Fiscal Impact Study.
- The specific data assumptions on which the economic impact and revenue analysis are based are not detailed in the written reports.
- The economic impact analysis describes economic benefits to the Town as well as the State as a whole. In other words, some of the economic benefits identified would not be captured directly by the Town but instead accrue to broader geographic areas, dependent on where workers reside and the location of the supply chain for hotel goods and services.
- The documents also include an analysis of future revenue potential from the Hotel, which reflects potential revenue streams to multiple levels of government in addition to the Town.
 - Based on tax data provided in the documents, the value of the hotel is estimated between \$90 and 117 million. Other soft costs may raise the total investment.

¹ “Quantifying the state and local economic impacts of the proposed Hill Top House Hotel Project” prepared by EY Quantitative Economics and Statistics (QUEST), May 2019, p. 1.

- The study does not include a comparable analysis of the **costs** to provide services (e.g., Police, Fire/EMS, Street Maintenance) or additional capital improvements needed as a result of the development—at any of the levels of government identified. In addition, the Town’s administrative levels of service may be impacted as well.
- The use of Tax Increment Financing (TIF) is briefly mentioned in the documentation. If TIF were to be used, less revenue would be available to the Town for general purposes.
- Given the omission of costs and the assumption of full property tax revenues (despite the potential use of TIF), projected revenue available to the Town from the Hotel development is likely overstated. Furthermore, Hotel Occupancy Tax revenues are estimated to be three times higher per room than that of the Greenbrier’s Hotel Occupancy Tax revenues.
- That said, given the scale and value of the Hotel development project and the current budget of the Town, the fiscal impact is likely going to be positive for the Town. However, the supporting documentation does not provide sufficient information at this time to reach that conclusion.
- Regarding the Street Appraisal, the approach and assumptions appear reasonable to determine a baseline value. However, the assumptions regarding additional adjustments for public use/easements are not articulated.

Background

TischlerBise has been retained by the Corporation of Harpers Ferry, West Virginia, to assist with review of fiscal documentation related to the Hill Top House Hotel Project.

The Hill Top House Hotel project is “a proposed high-end hotel in Harpers Ferry, West Virginia, with approximately 129 rooms in the main hotel, lodge, and ancillary buildings.”²

TischlerBise’s scope of work is as follows:

Task 1. Review the hotel project's plan and proposed valuation of vacant street right of ways to buy or lease or have easements from the Town to be used in the development. Provide written guidance to the Town Council on potential value for their consideration.

Task 2. Evaluate the applicant's fiscal impact report when submitted for professional accuracy and sufficiency and make recommendations on changes or findings of such.

This is a high-level review of the reports with commentary on methodologies, approach, assumptions, and findings. It is not to include validation of data assumptions or calculations. Rather, the review identifies where there are weaknesses/strengths in methodologies, approaches, and assumptions given industry standards and TischlerBise expertise as well as any apparent errors. A brief memo will be provided.

Both reviews are included in the memo herein.

Documents Provided

Documents received by TischlerBise are:

1. A letter from Laurel Zemianski of SWaN Investors to Mayor Wayne Bishop and Town Council Members dated May 13, 2019.
2. One-page fiscal impact summary document from Hill Top House Hotel addressed to the Harpers Ferry Residents
3. “Quantifying the state and local economic impacts of the proposed Hill Top House Hotel Project” prepared by EY Quantitative Economics and Statistics (QUEST), May 2019. Hereinafter referred to as the EY Report.
4. A document titled “Appraisal Report” of various public right of ways related to the hotel project prepared by Professional Appraisal Corporation, dated March 19, 2019.

Limitations

The discussion and findings herein are limited to the review of the above documents as well as consultation with pertinent budget and financial documents as cited in this memo. The author of this memo makes no warranties for any inaccurate information provided in the applicant’s documents or other documents consulted. This analysis is also limited to the scope as detailed above. It does not consider other factors that may or may not be relevant to larger planning goals and objectives or Town development priorities such as environmental, social, cultural, or historical elements.

² EY Report, p. 1.

Fiscal Impact Review

The Corporation of Harpers Ferry should be commended on requesting an impact analysis of the proposed project.

The two documents related to this portion of the analysis are:

- One-page fiscal impact summary document from Hill Top House Hotel addressed to the Harpers Ferry Residents
- “Quantifying the state and local economic impacts of the proposed Hill Top House Hotel Project” prepared by EY Quantitative Economics and Statistics (QUEST), May 2019. Hereinafter referred to as the “EY Report.”

The key findings regarding the Fiscal Impact Analysis are:

1. The EY Report is primarily an economic impact analysis with a revenue analysis. The economic impact analysis describes economic benefits primarily to the Town and State.³
2. The revenue analysis provided reflects potential revenue to multiple levels of government—Town, State, School District.
3. There is no comparable analysis of the **costs** to provide services or additional capital improvements as a result of the development—at any of the levels of government identified.
4. The assumptions on which the economic impact and revenue analysis are based are not detailed in the written reports.

To provide context for TischlerBise’s review, a brief description of the two types of studies mentioned above is provided:

In general, a **fiscal impact evaluation** analyzes cash flow (revenue generation and operating and capital costs) to a jurisdiction associated with the provision of public services and facilities to serve new development—residential, commercial, industrial, or other land use. A fiscal impact analysis is different than an **economic impact analysis**, which evaluates the economic benefits to a community in terms of jobs, income, and economic output. Economic impacts have varying degrees of direct financial benefit to a locality, depending mainly on local revenue structure.

Fiscal impact analysis enables local governments to estimate the difference between the costs of providing services and capital improvements to development and the taxes, user fees, and other revenues that will be collected by the government as a result of new development. It can be used to evaluate the level of subsidy for or contribution of an individual project (such as a request for rezoning), analyze changes in land-use policies (such as increasing or decreasing allowable densities for development), assist in determining the appropriate balance of land uses (residential, retail, industrial), or identify fiscal impacts related to a proposed annexation.

³ It should be noted that the EY Report states that “EY was commissioned by SWaN Hill Top, LLC . . . to estimate the potential economic benefits related to the construction and operation of the Hill Top House Hotel Project. . . .” (p.1). It should be noted that the description of services in the EY Report does not reference a fiscal impact analysis.

Review of Revenue Findings

In general, assumptions on which the analysis are based are not provided in the written reports.

The one-page Fiscal Impact Summary identifies the following “**fiscal impacts**” and notes that it is based on the EY Report:

- “\$1.8 million during the 2-year construction period.
- \$1.0 million annually, including \$582,100 in sales tax and hotel/motel occupancy taxes, \$205,000 in annual property taxes and \$216,200 in other local taxes.”

The “Fiscal Impact Summary” also notes that “[a] TIF [Tax Increment Financing] would require that a portion of the local property tax revenue be used to service the TIF bond over a defined period of time.”

It is likely that the fiscal impact summary overstates the revenues potentially available to Harpers Ferry.

One-Time Revenues

First, regarding **one-time revenue** from the construction phase:

- The EY Report identifies \$900,000 in revenue directly to the Town per year over the construction period for a total of \$1.8 million over two years. The EY Report indicates that this revenue is primarily from Business and Occupation (B&O) Tax. The assumptions on which this projection is based are not articulated.
- The highest recent estimated amount of B&O Tax in Harpers Ferry was approximately \$130,000 in FY02. Per the *2012 Harpers Ferry Baseline Report*, this was from construction of Route 340 Bridge Reconstruction.⁴ The total reported cost of this project was approximately \$6.5 million. The B&O Tax rate for contracting is \$2 per \$100, or 2 percent.
- Given the current tax rate of \$2 per \$100 (2 percent) and the estimate of \$1.8 million generated from B&O Tax from the Hill Top Hotel Project, the estimated cost of the project is \$90 million. This is consistent with supplemental/anecdotal information provided to the Consultants but as noted above, is not specifically articulated in the EY Report.

⁴ The Harpers Ferry Vision Steering Committee, *Town of Harpers Ferry, West Virginia, Baseline Report for the 2012 Visioning Process*.

Ongoing Revenues

Table 4 of the EY Report is titled, “Total local tax impacts from ongoing hotel operations related to direct, indirect, and induced economic impacts and remitted on behalf of Hotel visitors, by tax type, *Real 2019 dollars*.” The table projects a total “local tax impact” of approximately \$1 million. See the top portion of Figure 1.

- Of this amount, \$409,100 is from “Direct taxes paid by the hotel.” This is direct revenue to the Town from Hotel operations. This amount would reflect an increase of 25 percent over the Town’s current budget. However, the assumptions used to derive this figure are not provided. Additionally, this reflects gross revenue prior to any assumption on additional costs. Further discussion is provided below.
- The EY Report also projects an additional \$594,200 from “Taxes paid by hotel employees, indirect & induced effects, and remitted on visitor purchases.”
 - Indirect impacts are economic impacts as a result of the hotel’s suppliers purchasing goods and services of their own. Capturing of this indirect effect would require these goods and services to be provided by Town businesses.
 - Induced effects are a results of additional household spending. The assumption in the study is that the wages paid by the Hotel and its suppliers would increase spending by Town residents. Given the current population and number of housing units in the Town, additional information is needed on the assumptions that lead to this result and particularly the assumption that the benefits would be retained within Town limits.⁵
 - Assumptions about visitor spending also are not articulated. Sales and use tax revenues projected annually from visitors are shown as \$241,200, which equates to visitor spending of \$24 million annually. It is not known given the information presented whether the assumptions on which this projection is based are reasonable.

⁵ The EY Report indicates that IMPLAN is used to estimate economic impacts. This is a standard modeling tool to conduct these types of analyses. However, the lowest geographic level available from IMPLAN is typically the county level (unless data by ZIP codes is obtained), and the EY Report indicates the analysis was done for Jefferson County and the State of West Virginia (pp. 13-14). However, the EY Report indicates that “[r]esults for Harpers Ferry were estimated as a share of the county-wide indirect and induced estimates from the IMPLAN model of Jefferson County. County results were allocated to Harpers Ferry based on the town’s historical share of employment within each sector in the indirect and induced impact.” (p. 14). Specific assumptions pertaining to this approach, however, are not provided in the report.

Figure 1. Projected Tax Impacts from EY Report

Table 4. Total local tax impacts from ongoing hotel operations related to direct, indirect, and induced economic impacts and remitted on behalf of Hotel visitors, by tax type

Real 2019 dollars

	Direct taxes paid by the hotel	Taxes paid by hotel employees, indirect & induced effects, and remitted on visitor purchases	Total local tax impact
Harpers Ferry taxes			
Property taxes	\$201,100	\$3,900	\$205,000
Sales & use taxes			
Sales & use taxes, paid by businesses & residents	\$600	\$300	\$900
Sales & use taxes, paid by visitors		\$241,200	\$241,200
Other local taxes, including B&O	\$207,400	\$8,800	\$216,200
Hotel/Motel Occupancy Tax, Harpers Ferry portion		\$340,000	\$340,000
Total Harpers Ferry taxes	\$409,100	\$594,200	\$1,003,300
Other local taxes			
Jefferson County + School District	\$2,204,000	\$51,400	\$2,255,400
Other local taxes, statewide	--	\$76,000	\$76,000
Hotel/Motel Occupancy Tax, local tourism board portion*		\$340,000	\$340,000
Total local taxes, statewide	\$2,613,100	\$1,061,600	\$3,674,700

*Jefferson County Convention & Visitors Bureau

Note: Figures may not appear to sum due to rounding.

Source: EY analysis and data compiled by Interstate Hotels & Resorts and other hotel development and management industry specialists retained by SWaN.

Property Tax Revenue

- Property tax projected directly to the Town are shown at \$201,100 per year. The other property tax revenue is indirectly generated and may or may not be revenue received by the Town.
- Assumptions are not provided including the assumed stabilized assessed valuation or tax rate assumed. It is assumed that the current Corporation property tax rate is used for a Class IV property (\$.2860 per \$100), therefore the assessed value of the property is assumed at just over \$70 million. Property is assessed at 60 percent of market value in West Virginia, resulting in a market value of approximately \$117 million (reflecting a value that is 30 percent higher than the construction cost assumed (see B&O Tax estimate section)). Supporting documentation on this valuation assumption is not provided in the documents. The EY Report indicates that the valuation assumptions were provided by Interstate Hotels & Resorts; however, the actual valuation assumption is not provided. The value may be reasonable, however, without providing comparable properties and/or additional background, it is difficult to validate.

Regarding the potential use of Tax Increment Financing (TIF) in the one-page letter:

- The property tax revenue that is identified as being available to service debt (the tax increment) is also counted as revenue available to the Town. If this tax increment were to be

pledged to retire debt, it would not be available for general operating purposes for the agreed upon period of time.

- No infrastructure costs are identified to analyze the level of tax increment requested/required to support debt for project-related infrastructure.
- The provided reports only provide a brief mention of a proposed use of TIF financing with no supporting details. Additional information is needed to evaluate the use of TIF by the Town.

Sales Tax and Hotel Occupancy Tax Revenue

- Sales and use taxes and hotel occupancy tax revenues are shown at a total of \$582,000 annually (\$900+\$241,200+\$340,000).
- The assumptions on which the projections are based are not articulated, particularly the revenue available per room (“revpar”) once the hotel is operational as well as the level of visitor spending assumed during full operations of the hotel. Revenue available per room is a set of assumptions on average hotel rates and average occupancy to determine an annual taxable revenue stream. These assumptions are key to the projection of hotel occupancy tax revenue and are not provided.
- For comparison purposes, total **statewide** local hotel/motel occupancy tax projected in 2017 is \$26.4 million.⁶ The assumption here is that the Hill Top House Hotel will increase **statewide local hotel tax revenue by approximately 2.5 percent**.
- For additional high-level comparison purposes, we looked at Hotel Occupancy Tax revenue from another luxury hotel in the State.
 - The Greenbrier Hotel, in Greenbrier County, WV, has 710 rooms (including suites and guest/estate homes) with 10 lobbies, 40 meeting rooms, and a conference center facility. Hotel Occupancy Tax revenue to Greenbrier County for FY2018 is \$1.25 million. For comparison purposes, this equates to approximately \$1,760 per room.
 - The EY Report projects an annual total of \$680,000 Hotel Occupancy Tax revenue (split between the Town and local tourism board/CVB) for 129 rooms. This equates to approximately \$5,300 per room (or three times per room compared to the example above). Without additional data on room rates and occupancy assumptions, it is difficult to determine if these assumptions are reasonable.

⁶ Dean Runyon Associates, *West Virginia Travel Impacts, 2000-2017p*, September 2018.

Discussion of Costs to the Town⁷

While the one-page letter indicates a summary of “fiscal impacts” and cites the EY Report, neither document projects operating or capital costs for Town services necessary to serve the hotel development. Any new development in a jurisdiction will have an impact on services—manifesting itself in actual net new expenditures by the jurisdiction, a shifting of resources from existing development to new development, or absorption of existing capacity. Regardless of actual **expenditure** by a locality, there is an **impact**. This applies to both operating and capital costs.

The absence of assumed costs overstates the revenues potentially available to the Town from the project. In particular, the one-page letter provides a bar chart with gross revenues layered on top of the Town’s current budget. What is not indicated in the chart is that the Town’s budget reflects both revenues received and costs incurred.

Harpers Ferry services likely to be affected by the Hill Top House Hotel Development are:

1. Police
2. Fire/EMS
3. Street Maintenance
4. Support Services

Police Services

- Police services in the Town of Harpers Ferry are primarily provided by the Town’s police department. Mutual aid is provided by the Jefferson County Sheriff’s Office and the National Park Service. However, the Town police department is the first responder for incidents inside the Town limits.
- The revenue projected from visitors to the Hill Top House Hotel in the fiscal impact documentation indicate a sizable influx of visitors. With that increase in visitors comes additional vehicle trips, traffic and parking violations, vehicle accidents, suspicious and criminal activity, citizen complaints, and medical emergencies.
- It is possible that the Town of Harpers Ferry has sufficient capacity in its Police personnel. It is also possible that it does not. Furthermore, additional police officers may also require additional police vehicles, thus adding to an initial cost as well as ongoing regular replacement of the vehicles. Additional analysis of the impact to the Town of increased calls for service from the development is warranted.

⁷ This section is a limited review of Town services and infrastructure and is not meant to be a full cost of services analysis. This is beyond TischlerBise’s scope of services for this assignment.

Fire/EMS Services

- Fire/EMS services are currently provided by the Friendship Fire Company, a volunteer company providing services to both Harpers Ferry and Bolivar. The company has 1 full-time career professional during daytime hours for medical emergencies. Friendship Fire Company volunteer EMS staff is supported by career staff from the Jefferson County Emergency Service Agency. Friendship Company provides and receives mutual aid to neighboring jurisdictions.
- The arrival of a full-service hotel at the value indicated in the supporting documents likely indicate a need for additional full-time career staff. The revenue projected from visitors in the supporting documentation indicate a sizable influx of visitors, and with that come vehicle trips, vehicle accidents, false alarms, fires, and medical emergencies. Adding to the career staff may be necessary. In addition, new vehicles or apparatus (e.g., a ladder truck) may be needed to serve the hotel development.

Street Maintenance:

- The Town's obligation for street maintenance due to the hotel development will depend on final ownership of the streets at the site.
- However, additional vehicle trips on the Town's current road system will affect the existing street network and potentially add to maintenance costs.
- The Town currently spends \$130,000 per year for the Street Department, which includes ongoing street maintenance plus an additional \$20,000 per year for snow removal. Again, with the influx of visitors to the Town, it is assumed that this level of expenditure would need to increase to maintain current levels of service.

Support Services

- These expenditures are likely to be minimal given current operations in the Town. However, the increase in direct services as identified above will affect indirect/support services provided by the Town. If Town services continue at currently funded levels after the hotel is operational, levels of service for existing Town residents and businesses may decrease.

Utilities

- It is our understanding that the Town is building a new water system to serve the Town and Hotel.
- While utilities are typically enterprise funds—with rates and fees covering cost impacts—in a relatively small jurisdiction such as Harpers Ferry, the development or expansion of a water system is likely to need to be funded from sources other than rates and fees. This may include

capacity fees, developer contributions, grants, or low-interest loans. Regardless of the debt financing mechanism, debt service payments will occur.

- This cost is not discussed in the documentation provided regarding the fiscal and economic impacts of the Hill Top House Hotel.

Discussion of Economic Impact Findings

The EY Report uses IMPLAN economic modeling software to project the economic impact from the hotel development. Use of IMPLAN is a standard approach for an economic impact analysis. The report identifies the jurisdiction (i.e., Town, State of West Virginia) for which benefits are quantified, which is an important feature.

However, the assumptions used as inputs to the IMPLAN model are not articulated in the documentation. Furthermore, additional assumptions on the amount of economic benefits captured locally, i.e., within the Town of Harpers Ferry, are not sourced. The assumptions may be reasonable, however, without detail, it is difficult to determine.

Additionally, the EY Report indicates that: “the economic impacts presented in this study (including employment and labor income) reflect the work location. These are jobs that will be based in West Virginia and could be filled by residents or non-residents.”⁸ Therefore, the assumptions about direct, indirect, and especially induced demand may not reflect additional local spending by households, if those households are located elsewhere in the State. Therefore, the additional tax revenue (particularly sales tax revenue) projected in the study may not accrue to the Town of Harpers Ferry but elsewhere in the state.

⁸ EY Report, p. 14.

Review of Street Appraisal

TischlerBise reviewed the document titled “Appraisal Report” of various public right of ways related to the hotel project prepared by Professional Appraisal Corporation, dated March 19, 2019.

The Appraisal Report articulates the available methodologies to determine the value of the right of ways under consideration. The three methodologies described are: cost approach, sales comparison approach, and income approach. The study indicates that the sales comparison approach is the most appropriate methodology for this valuation. TischlerBise concurs.

The comparable sales identified in the study were expanded beyond the Town of Harpers Ferry due to (a) few commercial property sales and (b) lack of comparable uses (hotel). The comparable property list ultimately included three properties in a new commercial area in Morgantown, WV, and three sales of properties “in more competitive settings to the south of I-79.”⁹

Adjustments were made to the above sale values for:

- Time (increase in value for all six properties to reflect market conditions)
- Location (decrease for the Morgantown properties to account for a “superior location” due to the presence of West Virginia University and WVU Healthcare¹⁰)
- Development (decrease for five of the six properties due to finished state of comparable properties as pad sites).

TischlerBise assumes the valuation data obtained and shown in the Appraisal Report is accurate based on the data sources available to the author. We also assume that the comparable properties were procured in good faith and are adequate representations of comparable properties to the right of ways in question. Under these assumptions, we believe the adjustments made to the comparable sales (indicated above) are reasonable and the resulting valuation is reasonable at \$300,000 per acre.

The value is further adjusted to account for public use/easements. Four of the seven segments are discounted by 50 percent to reflect this future use. While the Appraisal Report indicates that the “property owner will own and maintain these areas they will be encumbered by a right of way easement for the public to access the Overlook.”¹¹ It is not clear why a reduction of 50 percent is used. Furthermore, while the street value may be affected by the provision of easements, the value of the Hotel property is likely to economically benefit from permanent access to the Overlook.

Other items to consider regarding street assumptions: the full documentation does not mention the costs for improvements or the likely entity to pay for the improvements and ongoing maintenance. This may be relevant to negotiations regarding ownership arrangements and costs.

⁹ Professional Appraisal Corporation, *Appraisal Report*, March 19, 2019, p. 65-66

¹⁰ Ibid, p. 66

¹¹ Ibid, p. 67.