



MUNICIPAL COMPLEX FINANCIAL UPDATE
JULY 2020

In our [last comprehensive financial update issued in February of this year](#), “Phase 1” of this project (the building construction and new parking lot) was expected to be completed in July of this year, while “Phase 2” (demolition of our current buildings, plus construction of our new parking lot, curbing, plantings, lighting, etc.) was anticipated to be complete in the Fall.

By this Spring, particularly after COVID-19 hit, it was clear those time frames were not going to be met. After many extensive, at least weekly, conversations with the developer (Epic), project manager (Mast) – plus their principals – along with our architect (Arcari & Iovino), Township officials, redevelopment attorney, and our building department to drill down on realistic durations of the next phases of construction, we now have revised firm dates in which the developer plans to turn the municipal building and new parking lots over to the Township for our collective use:

Phase 1 should be substantially complete by October 23 and Phase 2 by December 30, with interim progress milestones of Second floor completion by August 31 and first floor completion by September 17. These dates are barring any additional unforeseen conditions or site issues.

The Township Council vowed to not approve any more change orders without revised, achievable completion dates. We had to be sure our Township inspectors, engineers, Mast, EPIC, architect, project subcontractors and others were all in agreement as to a realistic completion timeframe, given conditions and progress to date. Up until now, “TBD” was used on change orders, in order to ensure progress continued on the site while at the same time reserving all Township rights to enforce penalty payments for late work.

At the July 21 Township Council meeting, the Council will consider two key pieces of legislation relating to the municipal complex, with the priority being to finish the building this year, and

provide a quality building to house our Township offices, Library, Police Department, recreation facilities and senior citizen facilities that the community can be proud of:

1. A resolution amending the Redevelopment Agreement for the municipal complex, with the abovementioned completion dates. This amendment also:
 - a. Caps Epic's Delay Claim damages - meaning Epic cannot try to get more than that from the Township during any potential future litigation (see below for more info on cap).
 - b. Tightens up penalties; establishes a new, stipulated liquidated damages amount of \$1,650 per day in the event Epic misses either completion time frame (Phase 1 and Phase 2) for unexcused reasons, which more than covers all related professional costs associated with these delays.
 - c. Says the Township is not responsible for any costs relating to demobilization / remobilization during winter months, if applicable.
2. A bond ordinance authorizing the Township to access **up to** \$3.5 million to finish the project.

Based on current financial expectations and in-depth analysis that we outline below, an additional \$3.5 million bond ordinance for the Municipal Complex will NOT CAUSE ANY increased tax impact on residents from this year forward if certain PILOT funds are realized.

A recap of what this project and cost include:

1. Demolition/abatement of the old salt dome and miscellaneous structures and the construction of a new 72-foot diameter salt dome and related site improvements.
3. Construction of a new 60,975 +/- square foot, three-level Municipal Complex which includes, but is not limited to, a new police station with sally port (a secure, controlled area through which police officers can bring suspects or other visitors via car), library, community center, senior citizen office and meeting space and multi-purpose room, Office of Emergency Management Office, administration offices and associated off-street parking facilities. Some of these entities/departments need to comply with state regulations, which drive up construction costs. Plus, the Library has unique furniture and equipment needs, such as strong shelving. (Many municipal buildings do not include the library and police station.)
4. Construction of a new Recreation Center complete with a weight and exercise studio, and rooms for children's programs.
5. Abatement and demolition of the existing municipal building and structures.
6. Construction of a new commuter parking lot and streetscape improvements.

Redevelopment Agreement Amendment Details

The Amendment documents five (5) key objectives.

1. Bifurcates the Project time period into **two distinct periods for purposes of prior delay claims** and liquidated damages – Time Period One, commencing on the date of the original Redevelopment Agreement (July 11, 2018) and ending on the date of execution of the Amendment (anticipated to be July 22, 2020), and Time Period Two, commencing on July 22, 2020 and ending on the date of completion of the Project. The Amendment acknowledges both that (i) Epic believes it has a Delay Claim resulting from events taking place during Time Period One and (ii) that the Township believes it has a claim to liquidated damages for delays incurred during Time Period One, both of which will be evaluated in due time pursuant to the terms of the original Redevelopment Agreement. *Importantly, the Amendment caps Epic’s Time Period One Delay Claim damages to an amount not-to-exceed \$908,272.77 - meaning, Epic cannot try to get more than \$908,272.77 from the Township during any potential future litigation resulting from such Delay Claim.*
2. **Establishes new completion dates** for the Project – October 23, 2020 for the new Municipal Building and December 30, 2020 for the demolition of the old Municipal Building and construction of a new parking lot.
3. **Establishes a new, stipulated liquidated damages amount** of \$1,650 per day in the event Epic misses either the October 23, 2020 or December 30, 2020 dates for unexcused reasons. *This amount more than covers the cost of Township professionals staying on the job during these unexcused time delays.*
4. **Tightens the interaction time** between the Township and Epic on things like future Delay Claims, potential change orders, requests for information and other similar items likely to arise between now and Project completion. We will continue to hold weekly meetings amongst the principals of the Township, Epic, Mast and Arcari + Iovino to ensure that these response times are honored.
5. Establishes that **the Township will not be responsible for any costs** associated with demobilization and remobilization of the Project on account of adverse winter weather resulting from delays caused by Epic.

Bond Ordinance Details

The Bond Ordinance appropriates up to \$3.5 million more towards the cost of the Project - if needed - making the total amount appropriated \$35.5 million. The ordinance also authorizes the issuance of not-to-exceed \$3.5 million in short-term bond anticipation notes and long-term general obligation bonds. It is important to note that the Township has flexibility to determine when and how much of this additional debt is issued. In other words, *if at Project completion it turns out that the Township only needed to spend an additional \$1.5 million, then it would only issue \$1.5 million in debt and cancel the remaining \$2 million.*

The Bond Ordinance is based on the Project completion budget prepared by Mast as of June 19, 2020. The budget projects total project costs at \$34.5 million.

Tax Impact

Our financial advisors, NW Financial Group Inc. (“NW”), prepared the attached tax impact analysis, which illustrates the tax impact to the average assessed value homeowner in the Township on account of the additional \$3.5 million in project costs and potential debt. Per this analysis, **there is no increase in municipal taxes in 2020 or in any future years necessary to pay for the project.** The total tax increase resulting from the project was incurred in 2018 and 2019.

In other words, the years in which net debt service on the project are highest - 2018 and 2019 - have already happened.

The highest net debt service payment is \$297,288, occurring in 2019. In 2019, the average assessed value homeowner paid \$40.55 in municipal taxes to provide for this debt service amount. In every year thereafter, net debt service is less than it was in 2019, resulting in the average assessed value homeowner paying less than it did in 2019, notwithstanding that the Project cost is being increased by \$3.5 million in 2020 and financed in 2020 and beyond.

There are a few assumptions here worth highlighting:

1. Assumption: that the Township will issue 2 more series of short-term notes, one in December 2020 and one in July 2021, each at interest rates of 2.50%. The Township sold short-term notes in late June 2020 at a borrowing rate of 0.45% (a much better rate than the forecasted 2.50%).
2. Assumption: that the Township issues long-term bonds in 2022 at an interest rate of 4.00%. Comparable bond sales are in the 2.50% range as of today. During a June 23 BAN sale, the Township received a premium of \$389,015.74 on one BAN of \$24.04 million, net interest of 0.382%, with an actual rate of 2%. A second BAN of \$10.5M had a net interest of 0.446%, with actual interest of 0.50% with a premium of \$3,780.00.
3. That the PILOTs/municipal taxes from the following developments come through as planned. See more on PILOTs below...

The PILOTS

This additional \$3.5 million bond ordinance has no additional tax impact to residents, and the Township can pay off the entire debt beginning in 2023, as long as all of the PILOTs come through. As of July 2020, every single redevelopment project is moving ahead.

Under a PILOT agreement, a redevelopment project is exempt from paying traditional real estate taxes on the project, once completed. Instead, the owner of the redevelopment project is required to make a payment-in-lieu-of-taxes (PILOT). This allows a municipality to receive sufficient tax revenue necessary to pay for the increased costs of municipal services (fire, police, roads, etc.) that may result from the project. The municipality receives 95% of every PILOT dollar paid under a PILOT Agreement. By contrast, in Berkeley Heights, the Township only receives approximately 18% of each conventional tax dollar paid (without a PILOT). It is

important to note that the PILOT only begins upon **completion** of construction. Prior to that point, the redeveloper is always paying full conventional taxes on the property and improvements.

PILOT money from four (4) of the redevelopment projects and municipal tax revenues from one of the redevelopment projects was planned to help offset the debt service on the Municipal Complex project. They are as follows:

1. Stratton House (old King's property, original plan) - PILOT
2. Berkeley Terrace Berkeley (old Berkeley Theater property) - PILOT
3. Woodcrest at Berkeley Heights (100 Locust) - PILOT
4. Mill Creek (91 Lone Pine, near Chemtrade) – PILOT
5. Hamilton Avenue (Toll Brothers) – Conventional Taxes (*Toll will also pay the Township approximately \$10.5 million upon closing of the property, which is expected at the end of 2020, early 2021, depending on DEP approvals. That \$10.5 million will go directly to paying off muni complex debt.*)

[\(Click here for status updates on all redevelopment project\)](#)

In addition, the Township will have additional revenue coming from the following sources to help pay off the complex debt *which were not originally planned* to help offset the debt service:

6. Connell - Conventional Taxes
7. Berkeley Florist - PILOT
8. Mondelli Property - PILOT
9. Old hotel site (behind Delicious Heights)

In addition, the Township is conservatively not assuming any increases in PILOT or tax revenue over 30 years. However, all of the Township PILOTS are based on a percentage of redevelopment project revenues; meaning as the redevelopment projects increase rentals and other revenues over time, the Township's PILOT revenue increases as well.

The [document labeled "Berkeley Heights Municipal Complex Tax Impact Analysis"](#) accounts for all of the debt previously issued and to be issued in order to fund the full potential \$35.5M cost of the Municipal Complex, and the \$1.8M cost to acquire the Hamilton Avenue property. The analysis also conservatively does not anticipate the above PILOTS/taxes beginning in full until 2023.

Plus, beginning in 2023, the five redevelopment projects should not only pay for the entire cost of the Municipal Complex Bonds, but also produce additional revenue to the Township for its general use, ranging from \$65k in 2023 to \$243k in 2038 and \$201k for the next 14 years thereafter.

“What if any of the PILOTS do not come in? How does that affect the impact to taxpayers?”

In short, it would depend on which PILOT doesn’t come online, combined with which PILOTS not included in our analysis do come online instead. For example, PILOTS for the Mondelli project, Berkeley Florist, and old hotel lot behind Delicious Heights were not planned to help pay off the muni debt. But if a PILOT for, say, Mill Creek didn’t come in, any one of those unanticipated PILOTS could be used to offset that. **As of July 2020, all developers are moving full-steam ahead on all PILOT and conventional tax projects and are anxious to complete or start their buildings.** [Please see our redevelopment updates for all projects here.](#)

Here is some background that has led up to where we are today on this project...

Background

The project has encountered numerous unforeseen conditions, including but not limited to unsuitable soils, environmental concerns, and additional site work which only became necessary after commencement. As a result, the project is behind the schedule; [see our extensive February 2020 update here.](#)

[View the Change Order Cost Overrun Summary Here](#) *(as of July 2020)*

Because the project is delayed, the contracts or not-to-exceed limits for some of the other professionals on the job also need to be extended. These costs are now included in the overall project budget. These include:

- **MAST Construction Services, Inc.** – Our project management company was originally slated to provide six months of pre-construction services beginning in September 2017. But these professionals ended up taking on a much larger role – earlier – at the onset of the project than originally planned, during the “Pre-Construction Design and Development” Phase. In late 2017, it was determined that MAST’s expertise also would be necessary to manage the final design and construction of the new salt dome, as well as coordinating the bidding process for choosing a Redeveloper for the project. These processes added five more months to MAST’s Pre-Construction services that were not originally budgeted. MAST’s contract now needs to be extended through October 2020, when the building construction (Phase 1) will be completed.
- **Arcari + Iovino** – Our architects; the majority of their time is currently related to the Redeveloper and general construction of the building. They are in touch with MAST

daily, coordinating with them regarding any issues or concerns at the site. Their work scales down significantly after building completion.

- **Langan Engineering** – The environmental consulting company was brought in to deal with the asbestos, hydrocarbons, petroleum-tainted soil, and asphalt millings discovered underground. Since their involvement was greater than anticipated given these unforeseen conditions, additional funds were needed to be budgeted to support their work.
- **Harbor Consultants** – The site-civil engineer for the project, Harbor is responsible for all engineering outside of the building. As of the Fall of 2019, they have only been brought in on an as-needed basis. Their limited services may be needed again once Phase 2 and the demolition of the existing structures begins.

Cutting Costs

In response to the project delays, almost \$1 million in unanticipated soils costs, and the resulting need to extend some of our professional contracts, we have taken measures to cut costs on this project. They include:

- Our construction managers, MAST, make all efforts to negotiate down every necessary change order required by the project or put forth by Epic. Through negotiation, stringent analysis of submitted change orders, and referring back to the Redeveloper Agreement to allow for some change orders to end up as EPIC's contingency items, MAST has saved the Township approximately \$1.3 million ([See the *change order overview here.*](#))
- Summer 2020 - About 2,000 cubic yards (about 3,000 tons) in wet soil was moved to the current Town Hall parking lot to dry out so that it can later be used as backfill for the new building. This process, instead of paying to export the soil and import new dirt, could save the Township at least \$250,000.
- About 3,000 cubic yards of unsuitable soils will be exported offsite by a third party to save money on labor costs that would be incurred if EPIC's subcontractor removed it.
- The DPW moved certain items on and off site to reduce costs.
- Eliminated non-essential plumbing in staff areas on the Lower Level in favor of using other areas and equipment in the building.
- The DPW will help us install additional cabinets, a sink, refrigerator, and counter space in the food pantry, to be used primarily by our seniors.

- We scaled back on the IT budget by about \$700,000 and moved some of those funds over to pay for the soils; our team was able to negotiate IT/AV proposals down significantly from the original proposals submitted earlier this year.
- IT/AV - We are seeking an additional vendor to install numerous pieces of equipment after the building is open at a reduced rate, instead of installing everything at once.
- We cut more than \$100,000 in new furniture expenses, and are taking some of our current furniture with us to use.
- We have greatly reduced the on-call participation of our site-civil engineering firm, when able.
- We are looking for ways to involve our in-house professionals, or other contractors that may be less expensive, to do certain completion activities later in the project after the new municipal building is open.
- We eliminated \$100,000 in antennas when we moved to Union County Dispatch.

[Click here to view the "Summary of Municipal Complex Debt"](#) - an updated tax impact analysis showing the tax impact of the Municipal Complex project as of today, with the passage of the \$3.5 million bond ordinance.