

UNC Health Eastowne

Financial Impact Analysis

May 23, 2023

Prepared by Business Management Department

The proposed development comprises six parcels totaling just over 50 acres, and consists of six, six-story medical office buildings and three to four associated parking structures. There is currently a medical office building and a parking structure, both completed in 2019, located on one of the parcels. This analysis estimates the service costs of the larger phase of the UNC Health Eastowne project and the impact on the Town's finances.

Cost of Services

Staff identified comparable sites to estimate calls for service and property value and applied median workforce and FY23 budgets to project service costs for general government and enterprise functions. All estimates shown below are based on current dollars and full build-out. These calculations show the total and per building costs, both with and without and N-20 parking garage. Subsequent sections detail how staff arrived at the estimate.

Total Annual Costs	Eastowne w/o N-20		Eastowne with N-20	
Cost Categories	Total	Avg/Building	Total	Avg/Building
Governmental Costs				
Police/Fire/PW	\$238,941	\$39,823	\$268,302	\$44,717
Overhead: Police/Fire/PW	\$22,642	\$3,774	\$24,986	\$4,164
Subtotal: Police/Fire/PW	\$261,583	\$43,597	\$293,287	\$48,881
Other (P&R, Library, etc.)	\$40,257	\$6,709	\$40,257	\$6,709
Overhead: Other	\$48,288	\$8,048	\$53,286	\$8,881
Total General Fund	\$350,128	\$58,355	\$386,830	\$64,472
Enterprise Costs/Revenues				
Transit	\$37,002	\$6,167	\$38,481	\$6,414
Stormwater Utility	\$54,378	\$9,063	\$54,378	\$9,063
Total Enterprise Costs/Revenues	\$91,381	\$15,230	\$92,860	\$15,477
Total Annual Costs	\$441,509	\$73,585	\$479,689	\$79,948

* Estimate of Transit costs/revenues are based on valuation at full build-out and current Transit Fund tax rate. Full Transit costs are unknown (see Transit section below for more information).

Certain assumptions needed to be made about the factors that drive the cost of Town services to estimate these service costs. In some cases, such as Parks and Recreation and Library services, costs are highly correlated with the size of the population being served and these costs can be estimated on a per-capita basis. For other functions, a less direct method of projecting cost is used. For instance, Police protection services are based on estimated calls for service, which can be highly variable depending on several factors. While we have attempted to capture the cost of extending services, ultimately what the

Town spends on providing services and what services levels are provided are decisions made by the Town Council.

Enterprise fund costs are shown as an offset to revenues. That is, it is assumed that due to the self-funding nature of Enterprise functions that the incremental cost of providing services to this project will be offset by enterprise revenue paid by the development. Actual costs will depend on future decisions regarding the method and level of service delivery.

As mentioned previously, the calculated amounts above represent estimated service costs at full buildout using FY23 costs. The chart below projects the impact of inflation on average governmental cost per building (i.e., dividing the total cost by six) over the course of the development. The chart assumes 4% inflation in Year 2, dropping by .25% each subsequent year until a historical average of 2.5% is reached in Year 6.

	Year 1	Year 4	Year 8	Year 12	Year 16	Year 20	Year 24
<i>Governmental Costs per Building (without N-20)</i>							
Subtotal: Police/Fire/PW	\$43,597	\$48,688	\$54,532	\$60,193	\$66,442	\$73,340	\$80,953
Total General Fund	\$58,355	\$65,169	\$72,991	\$80,569	\$88,933	\$98,165	\$108,356
<i>Governmental Costs per Building (with N-20)</i>							
Subtotal: Police/Fire/PW	\$48,881	\$54,589	\$61,142	\$67,489	\$74,495	\$82,229	\$90,765
Total General Fund	\$64,472	\$72,000	\$80,642	\$89,014	\$98,255	\$108,455	\$119,714

Governmental Costs - Detail

Police

UNC Health Police Department typically provides police protection services to UNC Health facilities. If a 911 call is received at a location under the jurisdiction of UNC Hospital Police, the Orange County Communications Center will take one of three actions: (1) transfer the call to UNC Hospital Police for their response; (2) in the case of an emergency, dispatch a Chapel Hill Police Department (CHPD) officer to secure the scene until UNC Hospital Police respond or UNC Police is on scene requesting assistance from CHPD; (3) People report incidents at the police department or in a different location than at the occurrence of the Eastowne property.

In review of the CAD calls received (911 calls to Orange County Communications), CHPD responded to an approximate average of 8 calls per year in 1 of the 3 scenarios presented above. The proposed development would remain under UNC Hospital jurisdiction, and CHPD would only respond if given one of the above scenarios as an assisting agency. The proposed development (including N-20) is estimated to bring an additional 36 calls per year, based on the added square footage.

Based on CHPD's FY23 budget and call volume, staff estimates each call costs \$415. This Eastowne project thus has an estimated total cost of \$14,948 with the N-20 parking garage and \$12,456 without the N-20 parking garage.

Fire

UNC pays for fire protection (not EMS response) for all state-owned facilities in the town. The current payment from UNC is just over \$1.1 million per year. Any details about the fees the state pays, how it is

calculated, or the rate being charged, are all handled at the state legislature level and are outside the control of the Town.

MOB 1 (100 Eastowne Dr.) had 23 calls in the area of that address in the last year. 17 were EMS, four were fire (fire alarm, elevator rescue, etc.), and two were crashes on the nearest road but were not affiliated with the buildings themselves. As fire protective services is covered by the state payment, the values in the table above represent just the cost to respond to EMS service calls. Staff used 17 EMS calls of consequence per year as a baseline.

Chapel Hill Fire Department (CHFD) will be responding to service calls more often in the short term, as it is common for fire alarms, vehicle fires, fuel leaks, etc. to occur during construction. However, annual estimates presume full buildout. Staff's projection is based on linear growth per square foot, which may vary significantly depending on usage and occupancy. For example, call volume for an adult primary care office is fairly low, but call volume for a chemo or dialysis center is much higher.

Based on the square footage of MOB 1 and the additional square feet added through the project's buildings and parking garages, staff estimates an estimated 94 additional calls (76 EMS, 18 fire) if N-20 is included, and 80 additional calls (65 EMS, 15 fire). Based on CHFD's FY23 budget and call volume, staff estimates each call costs \$2,443. This Eastowne project thus has an estimated total cost of \$185,646 with the N-20 parking garage and \$158,776 without the N-20 parking garage (EMS calls only). If calls for fire protective services are included, this increases by \$36,641 (without the N-20 garage) to \$43,969 (with the N-20 garage), for a total of \$195,416 to \$229,614.

Public Works (PW)

The Eastowne development will conduct its own solid waste disposal, resulting in no costs to the Town related to Public Works Solid Waste. As the roads within the development will be private, there will be no additional one-time costs for Street Maintenance.

The UNC Health Eastowne project will add 1.1M square feet of medical office buildings, primarily used for outpatient services. Outpatient health centers typically have one worker for every 453 square feet, per commercial building usage data from the Energy Information Administration (EIA). Staff estimates the entire Eastowne development (including MOB 1) will have 2,776 employees, a projected increase of 2,206 over the number currently estimated on-site. The additional road wear from vehicles driven by these employees (as well as patients and visitors) is estimated to cost Street Maintenance a total of at least \$67,709 annually, an average of \$11,285 per building.

Overhead: Police/Fire/PW

This cost category calculates the administrative, capital, and debt costs associated with provided police, fire, and public works services. This includes departments such as the Manager's Office, Communications and Public Affairs, Town Attorney, Technology Solutions, and Business Management. As CHPD, CHFD, and Chapel Hill Public Works Department represent 32% of the Town's total budget (including General Fund, Transit, Debt Service, Stormwater, etc.), the total budget of the departments representing overhead was multiplied by 32% to arrive at this overhead cost.

Other (Parks and Recreation, Library, etc.)

Prior fiscal analyses for commercial projects estimated 5-10% of employees to use Library and Parks and Recreation services. Staff applied a conservative estimate of 5% of new Eastowne employees (110).

Using per-capita costs, staff arrived at an estimate of \$11,422 in additional service costs for Parks and Recreation, and \$6,095 for Library services. Costs were also estimated for other related annual service functions, such as ongoing planning and inspections and general government overhead costs. The Planning Department and the Building and Development Services Department employ a cost recovery model for determining fees, and thus this analysis does not include one-time revenues and costs related to permitting or inspections.

Enterprise Costs/Revenues – Detail

Revenues are divided by how the Town will use them, differentiating between general government revenues and enterprise revenues (Transit & Stormwater). General government revenues are available to support the core services of the Town while enterprise revenues can only be used to support the operations of the functions for which they are collected.

Transit

There is currently one route serving Eastowne that was not designed to serve a development the size of Eastowne. For context, the estimated impacts to transit service in the draft Traffic Impact Assessment (TIA) are equivalent to Transit's highest ridership routes. This has been reduced in the revised TIA, but it's likely Transit will still need to make service improvements. At a minimum, the frequency of service to the Eastowne stop would need to be increased, and other routes may need to be realigned to provide transfer opportunities.

Service improvements are ongoing operating costs that need to be accounted for each year in the budget. To accurately assess impacts on future transit service, the Transit Department would need at least the additional information:

- Estimated transit trip generation for development phases, up to full buildout
- Travel patterns for estimated transit trips (i.e., origins and destinations of transit riders, park and ride potential, regional connections)
- Trip type (i.e., employees, patients, students, etc.)

The magnitude of impacts on the transit system will determine the need for conversations or supplemental agreements with UNC Health and/or regional transit service providers related to direct billed service options and/or transit infrastructure upgrades.

The developer has committed to providing two additional transit shelters on Eastowne Road (estimated at approximately \$25,000/shelter + amenities) and dedicating land along the frontage of US 15-501, for a future BRT station. The Transit Department is not anticipating making any additional infrastructure improvements in this location at this time.

Staff estimated the taxable value of the development (in current dollars, including MOB 1) to be \$59.7M (without the N-20 parking garage) to \$62.1M (with the N-20 parking garage). Based on the current Transit Fund tax rate of 6.2 per \$100 assessed value, this Eastowne project is estimated to bring in \$37,002 (without N-20 parking) to \$38,481 (with N-20 parking) at full buildout to offset ongoing Transit costs. Assuming valuation increases match projected inflation rates and assuming no changes in the transit tax rates, total transit taxes would equal at least \$68,708 in Year 24.

Stormwater

The applicant estimates the total impervious surface area (ISA) to be 1,555,092 square feet¹, or 1,555 equivalent rate units (ERU). Using today's rate of \$34.97 per ERU, the annual stormwater fee would be \$54,378.35 at full buildout. The most recent tax bills for the six parcels showed a current total stormwater fee of \$14,548; therefore, at full buildout using current ERU rates, UNC Health would be paying an additional \$39,831 annually. Assuming fee increases match projected inflation rates and assuming no future changes in ISA, total stormwater fees would equal \$100,972 in Year 24.

Revenues

Certain assumptions were made concerning future property values and sales to estimate revenues. These estimates were based on currently available information and therefore are subject to change as conditions change over time. All estimates described below are based on full build-out. Efforts have been made to err on the side of caution, that is, to be conservative in projecting these revenues. Based on the nature of this development, this analysis assumes no sales tax revenue.

¹ It is unclear whether this ISA number includes the N-20 parking garage or not.