Article 8 AC Oral Remarks – 19 November 2012

Madam Moderator

Is the Town likely to be better off financially if it approves the TIF agreement or if it votes it down?

- Or - should we opt for door #3?

The committee has considered general principles with regard to granting a TIF. There is little desire to create a precedent leading to an expectation of obtaining a TIF for commercial expansion within Lexington. The committee feels that granting a TIF should be done cautiously, in a manner that balances the broad interests of commercial property owners, residential property owners, and those of enabling or accelerating commercial development. In the current request, the majority of the committee believes that the amount of the requested TIF accomplishes this – it results in no loss of revenue relative to our reasonable expectation for development of the property and it provides an incentive for Vistaprint, a company that imposes a relatively low burden on town services, to remain in town.

How did we arrive at our position?

In the analysis covered in our report, we consider potential benefits to the town under several scenarios:

We considered both hypothetical property tax revenue as well as incremental net benefit to the Town.

A quick comment on these numbers – they *should not* be interpreted as specific revenue expectations. We use the numbers to compare scenarios – not to make assertions about the actual value of the TIF in absolute $.

With respect to incremental net benefit, we consider the effects of density of value of personal property, the timing of mitigation payments due in any construction scenario, and the incremental costs to the town of accelerating municipal services. These numbers are calculated as deltas from the status quo – no construction and no change in occupancy and are not the total expected benefit.

We published 5 scenarios:

1) TIF is turned down, but Vistaprint stays with construction and occupancy proceeding on the proposed schedule.
2) **TIF is approved, construction and occupancy proceed on the proposed schedule.**
3) TIF is turned down, Hobbs Brook proceeds with a longer construction schedule, occupancy is delayed by 2 years.
4) **TIF is turned down, Hobbs Brook proceeds with a longer construction schedule, occupancy is delayed by 3 years.**
5) TIF is turned down, Vistaprint leaves at the end of its current lease and no new construction occurs on the site.

As should be expected, the Town receives the greatest revenue if construction proceeds without a TIF on the accelerated schedule to meet Vistaprint's rapid growth requirements (scenario 1). The TIF agreement was constructed so that the property tax revenue received by the Town during the lifetime of the TIF (scenario 2) would be roughly the same as if there were no TIF and Hobbs Brook built the facility on a slower construction schedule and with a 3-year delay in occupancy (scenario 4). If Hobbs Brook were to build out the facility with only a 2-

year delay (scenario 3), we would expect revenue to the Town to be mid-way between the no-TIF and TIF based scenarios. The worst case scenario in terms of revenue would be if no new construction occurred (scenario 5).

It is impossible to predict with certainty when Ledgemont 3 will be developed. Even if the TIF agreement is approved, Vistaprint remains in negotiations with another property owner in another community and may find that the difference in total costs for existing property elsewhere relative to the total costs for new construction at Ledgemont 3 is too large to warrant expansion in Lexington. Similarly, it is impossible to know when Hobbs Brook may choose to develop the site in the absence of Vistaprint's desire to expand. Nonetheless, the location is highly desirable and was acquired by Hobbs Brook with the knowledge that Vistaprint was looking for expansion space elsewhere.

Should Vistaprint choose to relocate to another community at the end of its current lease in 2017, as assumed in scenario 5, there is a risk that the current property at 95 Hayden Avenue may remain vacant for an extended period of time. While this will have limited short-term effect on the property's assessment, it may serve to reduce the region's occupancy rate and may reduce the roughly $1,000,000 in local commercial spending associated with Vistaprint's employees and its domestic and international visitors. This spending on local hotels, restaurants, and services improves the local economy and contributes to local meal and hotel occupancy tax receipts for the town. Given the desirability of the property, however, we see a protracted vacancy as a relatively low-probability event and discount its broad effects.

We believe that scenario 3 (a 2-year delay without the TIF) is possible and that scenario 4 (a 3-year delay without the TIF) is reasonably likely. As a result, we view that the revenue associated with scenario 4 should be the minimum expected by the Town with respect to any TIF to be granted. The proposed TIF agreement satisfies that limit and provides a slightly better return when calculated as a net present value.

So, what about door #3?

On the TMMA discussion list, it was observed that we omitted scenarios that assumed development of the property for lab use – a higher value use than class A office space.

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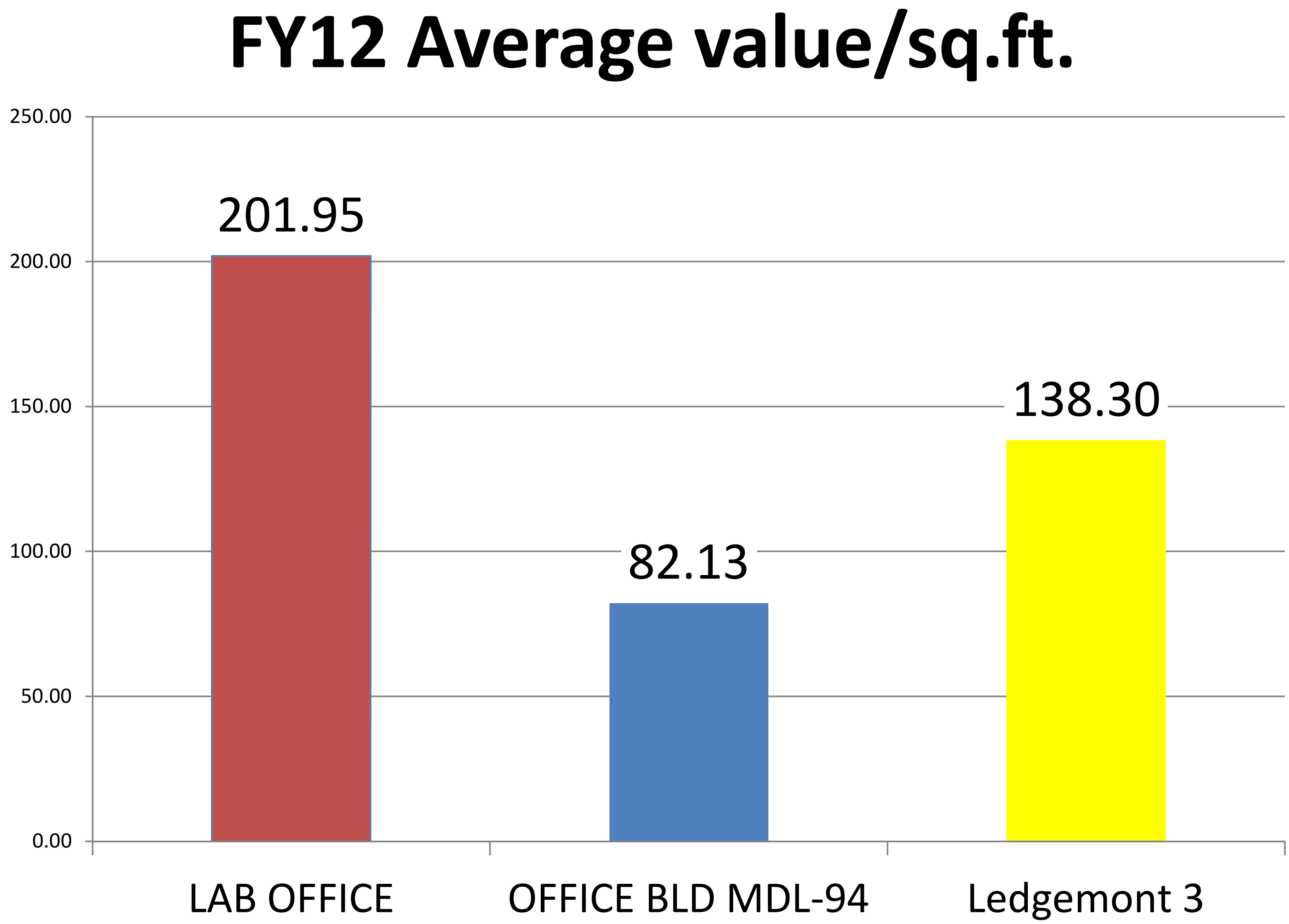
We've subsequently run preliminary analyses of two scenarios corresponding to our 2-year and 3-year occupancy delay followed by lab use of the new space. These compare favorably to all other scenarios including retaining Vistaprint without a TIF.

While these scenarios do produce greater potential revenue for the town (about 20-30% more than the TIF), they also have more risk by increasing the concentration of lab-based occupancy in the area and are more likely to require identifying a tenant prior to construction.

After additional review, the committee remains comfortable with its recommendation to approve Article 8

by a vote of 5-2.


FY12 Average value/sq.ft.
250.00
200.00
150.00
100.00
50.00
0.00
201.95
82.13
138.30
LAB OFFICE
OFFICE BLD MDL-94
Ledgemont 3

# FY12 value/sq.ft.