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TECHNICAL MEMORANDUM

TO: Dascomb Road Zoning Task Force
Michael Morris, Chair
Town of Andover, MA

FROM: RKG Associates, Inc.

DATE: January 22, 2018

SUBJECT: Peer Review of Fiscal Impact of Proposed Dascomb Road Development in Andover, Massachusetts

Introduction

RKG Associates, Inc. (RKG) was retained on behalf of the Town of Andover to review the fiscal impact analysis submitted as part of The Lupoli Companies' application for a Special Permit for a proposed development at 148 Dascomb Road in Andover, Massachusetts. The purpose of this analysis is to assist the Dascomb Road Task Force and the Planning Board in their assessment of the impacts of the proposed mixed-use development. The applicant is also seeking, in parallel with the Special Permit, to establish a PUD that will allow for residential use to be included in the project. The PUD will require approval at a special Town Meeting.

The site is approximately 16.23 acres, and is bound by industrial properties to the south and west, Dascomb Road to the north, and I-93 to the east. Additionally, the property spans both Tewksbury and Andover. The location of the proposed development is in the southern portion of the Town of Andover, approximately 3.5 miles from the Town center. RKG's analysis was limited to peer reviewing the fiscal impact analysis submitted as part of the PUD proposal, testing the assumptions used for reasonableness, and developing an independent estimate of the fiscal impacts of the two development scenarios – with and without the housing component. In addition, RKG was asked to provide an initial analysis of the potential economic impacts of the proposed development on Andover's downtown retail businesses.

Economic
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The Planned Unit Development (PUD) proposed for 148 Dascomb Road includes 225 age-restricted (55+) residential units and a hotel in the mixed-use development program for the site submitted to the Planning Board for a Special Permit. The residential component will have both a market rate and affordable component.

Commercial uses in both scenarios include office, a grocery store, a variety of retail and restaurants, and a community center.

The second development scenario proposes a completely commercial development on the site, representing what is in front of the Planning Board for Special Permit. Instead of the residential development and hotel, the scenario envisions 435,000 sf. of commercial office space, additional retail and a larger fitness center. Table 1 below shows the mix of uses and respective square footages for each of the proposed scenarios.

Table 1. Proposed Development Programs

Lupoli Companies	**Square Footage**	
Use	**Mixed-Use (PUD)**	**Commercial (SP)**
Age-Restricted Residential Dwellings (225 Units, Age 55+)	260,000	N/A
Hotel (100 Rooms)	65,000	N/A
Office / Commercial	150,000	435,000
Retail	50,000	80,000
Restaurants	20,000	20,000
Grocery Store	35,000	35,000
Fitness Center	15,000	30,000
Public Meeting & Event Space / Indoor Theatre	5,000	N/A
Total Residential Square Footage	**260,000**	**N/A**
Total Commercial Square Footage	**340,000**	**600,000**

As part of the analysis RKG reviewed the initial fiscal impact analysis for the two scenarios that were submitted by the developer for completeness and reasonableness; and conducted an analysis to quantify the impact on town services under both scenarios.

Fiscal Impact Methodology

There are several approaches available for determining fiscal impacts; all based on the same general assumptions. First, current local operating costs and revenues are the best basis for determining future costs and revenues.

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Second, the proposed project is at full build-out and/or occupancy. This latter assumption allows a comparison of the financial effect of the entire project on municipal costs and revenues. While many projects are constructed over a multi-year period, municipal costs and revenues generally occur in equal proportions, therefore this steady-state approach does not detract from the appropriateness or accuracy of this method. An issue may arise however, if municipal costs are incurred ahead of the receipt of revenues such that there may be short-term impacts on a town's budget. It should also be noted that the fiscal impact analysis is only concerned with local public costs and expenditures.

Fiscal impact analysis, as applied in this memorandum, encompasses the identification and comparison of both municipal service costs related to the project, and the potential public revenues resulting from the development, most of which is generated from property tax payments. The focus is on the town's General Fund only.

Summary of Findings

The following summarizes the findings from this analysis. A more detailed analysis is presented throughout this memorandum.

Lupoli Fiscal Impact

A draft fiscal impact analysis, dated 10/31/17, was provided for RKG's review, followed by two final reports dated December 2017, one for each scenario (referred to as the PUD and SP Lupoli reports). The PUD report describes the mixed-use scenario that includes 55+ housing, along with other uses shown in Table 1 above, and the SP report is based on the All Commercial alternative. The PUD report concludes that the project, once fully developed, will generate nearly $3.2 million in annual revenues for the Town, result in nearly $1.4 million in additional municipal costs, and result in a positive net fiscal impact of $1.8 million annually. The PUD report also estimates one-time fee revenue to the Town of $1.9 million. The SP report estimates $3.3 million in annual revenues, $1.6 million in costs and one-time fee revenue of $1.8 million.

After examining the existing fiscal impact reports for both the PUD and all commercial development; RKG agrees that the project will have a net positive benefit for the Town of Andover. However, after reviewing the existing fiscal impact analysis, RKG has identified a few assumptions used in the original fiscal report which differ from our expectations and professional judgement.

Detailed Analysis

Revenues

This includes ongoing revenues to Andover as represented by property and other taxes and one-time receipts such as building permit and water/sewer fees (all expressed in constant 2017 dollars).

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Property Taxes

The primary source of ongoing revenues to Andover is represented by the property taxes resulting from the Project. In the fiscal analysis of the scenarios reviewed by RKG, the assessed values of the developed property both for residential and commercial uses (inclusive of land and building) at full build out and occupancy were applied to determine the tax revenue. For the residential component found in the mixed-use scenario, an assessment factor of $250,000 per unit was used (based on assessed valuations of other reasonably comparable developments in Andover). This appears to be a relatively conservative valuation given the local housing market conditions; however, this assumption is still within reason. The commercial component of the development utilized an assessment rate of $200 per square foot (also based on comparable examples), which while reasonable, will vary depending on the commercial use and achievable lease rates. Based on RKG's analysis of current construction costs (which range from $150 to over $200 per square foot, assessed values are likely to be somewhat higher than what is used in the Lupoli reports.

The property tax revenue projection assumes full build and 100% occupancy for the residential units and the commercial space. Typically, some space remains vacant which may or may not impact the overall valuation depending on how the Town's assessor values the property. Property is typically assessed using a comparable sales approach or an income approach, and the latter accounts for the offset to revenue from vacancies and operating costs, and capitalizes the net income using a market-derived cap rate. During construction and until the project reaches stabilized occupancy, assessors typically rely on the cost approach to value the property, resulting in a gradual build-up of assessed value, and property tax revenues.

Mixed Use Scenario (PUD)

Based on the development program outlined in the Mixed-Use Scenario, a total of 225 residential units and 340,000 SF of commercial space is envisioned. Applying the assessment metrics to determined valuation of the development results in the residential component being worth $56 million, while the commercial component would be valued at $68,000,000, for a total assessed value of approximately $124 million. Applying the Andover FY2016 tax rates to individual residential and commercial components results in an estimated property tax (buildings only and prior to any adjustments) of about $2.65 million per annum, with about $1.79 million generated by the commercial uses and $850,000 from the residential units.

This revenue projection assumes full build and 100% occupancy for the commercial space. Typically, some space remains vacant which may or may not impact the overall valuation depending on how the Town's assessor values the property. Property is assessed using a comparable sales approach, or an income approach, and the latter accounts for the offset to revenue from vacancies and operating costs, and capitalizes the net income using a market-derived cap rate.

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Commercial Scenario (Special Permit)

Based on the development program outlined in the Commercial Scenario, a total 600,000 SF of commercial space is envisioned. Applying the assessment metrics to determine the valuation of the development results in the commercial component would be valued at $120 million. This is based on the commercial estimated cost of $200 per SF. Applying the Andover FY2016 tax rates to the development results in an estimated property tax (buildings only and prior to any adjustments) of about $3.2 million per annum.

PUD Scenario	$2,650,000
Special Permit Scenario:	$3,175,000
Difference	($525,000)

The commercial assessment and the resulting property taxes will vary from the general estimates used in the Analysis, which applied a $200 per square foot value to all uses. This assumption was supported by comparable assessment data from other Andover properties. It is important to note that individual commercial uses will be assessed differently based on their net income and/or comparison to other existing like-kind uses. For example, a successful and busy first-class restaurant might be assessed at $400 to $500 per square foot, where a typical fast food franchise store might be valued at $150 or less. However, until the mix of uses is more clearly identified, the $200 per foot average factor is considered reasonable.

Assessment Timing

It is also important to point out that property taxes generated from the commercial component of the development assumes full build out and occupancy. The Analysis does not take into consideration the lease-up period, as no market study was provided. If the property takes longer than expected time to build and lease-up, then this will ultimately impact the timing of tax revenues generated from the property. Particularly in the case of large commercial office developments, securing a tenant is a long process, especially if an anchor tenant is not secured during the pre-development stages. As such, tax revenues may lag municipal service costs to some degree in the early years of the project.

Meals Tax

The Town of Andover has enacted a local option meals tax and collects revenues from meals purchased in Andover eateries. In both development scenarios, 20,000 square feet of restaurant space is envisioned; a total of six restaurant are proposed for the site. The analysis of the PUD option estimated restaurant revenues on an average sales basis, resulting in a total of $90,000 per year in meals tax, based on unsupported assumptions that three café-style restaurants would generate $1 million in taxable sales annually and three fine dining restaurants would generate $3 million each.

Breaking this approach down, the reports estimate that the restaurants, totaling 20,000 square feet, will generate $12 million in annual taxable sales, or $600 per square foot. RKG considers this to somewhat optimistic, without knowing the specific tenants, but reasonable. Any change in the revenue factor results in a relative small impact on total revenues.

Room Occupancy Tax

The Town of Andover has a local option Room Occupancy Tax for hotel guests. The local hotel tax is 6 percent on each hotel room occupied. As part of the fiscal analysis, in the mixed-use (PUD) scenario, there are plans for a 100-room hotel. Based on an average occupancy rates of 75% percent, at an average daily rate of $200 per room year-round; the Analysis estimated total collectable hotel room tax would be $328,500. This tax revenue would go directly into the general fund. RKG tested the occupancy assumptions at various rates and determined that the assumptions were reasonable.

The Room Occupancy Tax only applies in the Mixed-Use Scenario, the all commercial development scenario does not envision a hotel as part of the overall development.

Motor Vehicle Excise Tax

The Commonwealth of Massachusetts levies a vehicle excise tax that is pass onwards to the communities in which vehicles are registered. The vehicle registration levy is .25% on the vehicle's market value. Under the mixed-use scenario, the Analysis estimated that approximately $127,000 per annum will be collected from the residents of the age restricted development. The methodology used in reviewed fiscal impact reports relied on a factor of 1.5 vehicles per household. RKG believes that this assumption may be high, given the nature of an age-restricted housing development and the small household sizes associated with it. RKG tested a range between 1.1 to 1.2 vehicles per household, and found a negligible change in the total revenues collected. Additionally, the assumption used by the fiscal impact analysis relied on the average depreciated value for a vehicle at $15,000 to calculate the levy which appears reasonable.

The Motor Vehicle Excise Tax only applies in the Mixed-Use Scenario, as the commercial scenario does not envision any residential uses which would result in additional vehicle registrations. However, some of the commercial uses may register motor vehicles at their business address which would result in some additional revenue to the Town.

Other Revenues

The Lupoli reports did not include any other potential general fund revenues. It is likely, however, that small amounts of additional revenues will be generated by the project under both development scenarios from fines, fees and other sources. RKG estimates this could amount to $50,000 to $100,000 annually based on the population and employment at the project.

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Summary

In summary, as reported by the applicant, the proposed PUD is anticipated to generate total recurring annual revenues of approximately $3.198 million, mostly from property tax revenue ($2.653 million). Under the all commercial Special Permit scenario, property tax revenues would be $3.175 million plus meals taxes of $90,000 for a total of $3.265 million. Based on the assumptions used in the analysis of both scenarios, RKG considers these to be generally equivalent.

The major difference from a fiscal impact perspective is anticipated timing of the tax revenues. Although no market study was provided by the developer, it is RKG's opinion that the PUD scenario, led by the 55+ residential component, is more likely to be developed in the near term, given current market conditions, that the all commercial SP scenario. The large amount of office space in the SP scenario will likely take a longer period to build and lease. Most traditional financing sources for this scale of commercial real estate require a high degree of pre-leasing before committing to construction lending, so unless the developer has tenants in hand for all the space, it is more likely to be phased over a period of years. This will result in tax revenues being pushed out in time.

Existing Property Taxes

The Lupoli reports did not account for the current taxes on the property, which should be netted against the estimated future property taxes. Currently the property "as is" is assessed at $6.9 million and generates $183,000 in yearly property taxes. The property includes industrial space that is currently vacant. With new development, these revenues will go away and be replaced by the property taxes on the new space.

Building Permit Fees

The Lupoli reports estimated one-time building permit fees from the PUD project at $1.61 million, based on the estimated assessed value of the project, and $1.56 million for the SP project. In our judgement, the dollar value of building fees may be overstated because these fees are usually based on construction cost, and assessment values are generally higher than actual construction costs, particularly for new construction. Without having actual construction costs for either the PUD or the SB project scenarios, an accurate estimate of these fees cannot be definitively calculated. However, a reasonable assumption is that the hard construction costs for typical commercial or residential building average about 65% to 75% of the total value (cost), then these one-time fees will be proportionally less than reported in the reports.

RKG reviewed current construction costs in the Boston region, as published by Marshall & Swift, indicating that construction costs alone are likely to be approximately $200 per square foot (psf) – ranging from about $150 psf for retail stores, to $170 for residential, and to $200 for first class office space, hotels and restaurants. Therefore, RKG considers the average construction costs to be approximately $175 psf for estimating building permit fees resulting in building permit fees of approximately $1.4 million under both scenarios.

In theory, building permit fees are used cover the costs to the town for inspectional services and other activities necessary to ensure safe construction, and therefore do not result in any net revenue to the general fund. In practice, the fees may exceed the amounts paid out by the town with the balance flowing to the General Fund. However, until the specific requirements for the project's construction is known, these fees should not be considered as revenue.

Planning Board Fees

The Lupoli reports estimated planning board fees of $108,150 based on the Town's requirement of $100 per multifamily unit and $0.25 per square foot of commercial space (plus $500 and $150 for advertising) for the PUD scenario. Under the Special Permit scenario, these fees would total $150,650, or $42,500 greater than the PUD.

However, like building permit fees, these revenues are to cover the additional costs incurred by the Town because of this project, and are not typically available as net general fund revenues.

Utility Connection Fees

The Lupoli PUD report also calculated total water connection fees of $220,398 based on separate rates for commercial and residential. Under the SP scenario, the total water connection rates would be $139,000 using the same utilization factors (although only $80,000 was indicated in the SP report).

These fees do not go to the General Fund but are retained by the Water Department (a separate enterprise fund) to cover the costs resulting from this specific development, and therefore should not be included as a fiscal revenue (benefit) unless offset by the anticipated costs associated with the project.

Total Fees

The Lupoli reports indicated total one-time permitting fees (revenue) of $1.9 million for the PUD scenario and $1.8 million under the SP scenario. However, RKG does not consider these fees to be General Fund revenues and should not be included in the fiscal impact analysis, unless the direct costs for the services incurred by the Town and its departments are also included on the fiscal cost/municipal services side of the analysis.

Municipal Service Costs

The Lupoli reports estimated the cost of town services to support the proposed project using a per capita approach. The approach utilized was to analyze potential costs on a per resident basis, and a calculation of resident equivalents was made for the commercial components of the project, including employees working in the commercial spaces as partial residents living in the town based on the time spent in the community. While this approach is valid, it may in some cases overstate the general impact the development on town services. One reason is that employees at businesses in Andover, and particularly those employed on the edge of town most of whom may live in other communities, do not utilize all the services provided by the town on a regular basis. For example, an office worker at the proposed Dascomb Road site who lives in New Hampshire, commuting to work on I-93, probably rarely, if ever, uses many of the services provided by the town such as social services. However, when at work, that employee does benefit from (use) public safety services and uses public works services when driving on Andover streets.

The Lupoli reports calculated total employment at the PUD project at 1,067 and 2,399 for the SP project, using industry standard employment per square foot factors that RKG in general concurs with. They then assumed that employees would be on-site (as temporary Andover residents) 33% of the time (8 hours out of 24), and so assumed that every three employees were equivalent to one Andover resident. For the PUD, the 1,067 employees equaled 352 equivalent residents and added these to the 338 residents from the 225 housing units for a total population equivalent of 690. A total equivalent of 792 residents was calculated for the SP scenario.

The report then went through the town's 2016 annual financial report and came up with per capita costs for a variety of general fund and other services, and applied those costs to the calculated population at the project.

Table 2. Cost of Town Services

Town Services	Per capita factor	PUD projected cost based on 690 resident equivalents	SP projected cost based on 792 resident equivalents
General Government	$232	$160,080	$183,744
Community Services	$61	$42,090	$48,312
Municipal Maintenance	$326	$224,940	$258,192
Public Safety	$480	$331,200	$380,160
Library	$84	$57,960	$66,528
Insurances	$22	$15,180	$17,424
Health Insurance	$526	$362,940	$416,592
Retirement	$245	$169,050	$194,040
Total		**$1,363,440**	**$1,564,992**

The report did not apply the per capita approach to water and sewer, since these are funded directly from user fees, or the cost of education since the report concluded there would be no school age children resident in the 55+ age-restricted development (since it the developer intends to restrict occupancy by those younger than 18).

While acceptable as a methodology, the straight-line approach overestimates the actual cost to the town. As an alternative fiscal impact methodology, RKG utilized an allocation approach between commercial and residential development. RKG reviewed the Town of Andover's general fund expenditures (FY2016) and allocated these proportionately to residential and commercial uses, indexing these costs in proportion to Andover's assessment values by property type. For example, the residential assessment town-wide represents 84% of the total assessment (excluding personal property) and non-residential represents 16%. This marginal cost approach assumes that assessed value represents a reasonable proxy for the level of municipal services provided to residents and businesses in a community.

In this manner, if a "town cost" were $1.00, then $0.84 would be residential and $0.16 would be commercial. In addition, only those expenditures which are likely to vary with an incremental change in population or commercial development are considered (Police, Fire, and Public Works Spending). The other municipal service costs are considered "fixed" and will not vary significantly because of small changes in population or employment. Applying this approach results in an estimated municipal service cost of $4,771 per household and $91 per employee. Applying these to both the PUD and SP scenarios results in varying municipal service cost estimates to the town. Under the PUD scenario, the total cost to the town would be about $1.17 million; while under the SP scenario the cost would be $219,379. The difference in cost between the two scenarios is due to the residential component. The municipal service cost of the residential component (225 units) amounts to about $1.07 million. This approach also results in a total cost estimate that is lower than the $1.4 million used in the Lupoli report.

RKG reached out to both the Police Chief and Fire Chief regarding the impact of the proposed development on their service delivery.[1] Based on conversations with the Police Chief there would be a negligible impact on the existing resources needed or expended. In either scenario, the Police Chief described the need for one additional patrol car in the area for all shifts. The Police Chief said the impact of the project on his department would depend on what gets built. He indicated that under the Special Permit Development, the area would become busier and there would be more traffic given the increased commercial activity which would result in a greater need for utilizing existing department resources. The additional expenditures of police resources would not require new officers, but rather would need to dedicate an officer's time to that area. This would not result in having to hire a new officer, as they can shift work schedules around with existing staff.

[1] RKG tried to contact the Fire Chief but was unable speak interview him.

Project Net Benefit Summary

Tables 3 and 4 present a comparative analysis of both the Lupoli and RKG net fiscal impact analysis for both the PUD and SP scenarios. The tables show the variances between each development program as well as the methodological differences. As presented in Table 3, the net project benefit for Andover varies depending on the development program, with the PUD proposal contributing a slightly greater benefit. It is important to point out that the Lupoli methodology does not net against existing property tax revenues, and applies a straight-line approach for annual town expenditures.

Table 3. Lupoli Fiscal Analysis Summary			
	Lupoli Fiscal Analysis		
Revenues	**Mixed-Use (PUD)**	**Commercial (SP)**	**Variance**
Estimated Tax Revenues from Development	$2,653,155	$3,175,200	$522,045
Existing Tax Revenues	$0	$0	$0
Net New Property Tax Revenues	**$2,653,155**	**$3,175,200**	**$522,045**
Reoccurring Taxes	$545,062	$90,000	($455,062)
Total Annual Revenues	**$3,198,217**	**$3,265,200**	**$66,983**
One-Time Fees*	$1,943,798	$1,790,506	($153,292)
Annual Town Expenditures	$1,363,440	$1,564,992	$201,552
Net Project Benefit	**$1,834,777**	**$1,700,208**	**($134,569)**
* One-time fees are not counted towards yearly net project benefit as they go toward dedicated funds			

Table 4 presents the summary analysis of RKG's approach to calculating the net project benefit. Within RKG's approach the existing tax revenues were netted against the estimated new tax revenues from the project. Additionally, town expenditures were allocated based on a proportional method between residential and commercial development, while also taking into consideration the likely usage of town services that will result from the development. Based on the analysis, RKG estimates that the SP Scenario will realize the greatest net benefit to Andover, as the large commercial component will not result in significant marginal costs related to town services.

Table 4. RKG Fiscal Analysis Summary			
	RKG Fiscal Analysis		
Revenues	Mixed-Use (PUD)	Commercial (SP)	Variance
Estimated Tax Revenues	$2,653,155	$3,175,200	$522,045
Existing Tax Revenues	$185,536	$185,536	$0
Net New Tax Revenues	**$2,467,619**	**$2,989,664**	**$522,045**
Reoccurring Taxes	$545,062	$90,000	($455,062)
Total Annual Revenues	**$3,012,681**	**$3,079,664**	**$66,983**
One-Time Fees	$1,721,678	$1,700,978	($20,700)
Annual Town Expenditures	$1,171,119	$219,379	($951,740)
Net Project Benefit	**$1,841,561**	**$2,860,284**	**$1,018,723**
* One-time fees are not counted towards yearly net project benefit as they go toward dedicated funds			

While the All Commercial (SP) scenario results in a greater positive net fiscal impact, it is important to point out that the buildout and full realization of this project will likely take longer than the PUD project.

Additional Positive Economic Impacts

Based on the development of the project there are both direct and indirect economic impacts. And while quantifying these impacts was outside RKG's scope of services, it is relevant to mention some of the additional positive impacts that will result from the development at Dascomb Road. Regarding direct economic impacts, the project has potential spillover effects related to construction activity and associated jobs in Andover. In Andover, the average annual construction wage was $72,500 in 2017.[2] Even if a few construction jobs are held by Andover residents a direct benefit still goes to the town as spending of disposable income will occur. In addition, both residents and employees of the project, under either scenario, will bring additional spending to Andover, including downtown. In particular, over 55 households tend to have relatively high disposable incomes, a portion of which will likely be spent close to home, both at the venues planned for 146 Dascomb Road as well as elsewhere in the community.

The indirect impacts, the concept of a dollar re-circulating throughout the national, regional and local economies, will result in short-term spending of construction workers for meals, as well as the ongoing spending demand among new households for dining/drinking, will likely result in some additional revenues to Andover and may be realized, in part, at dining/drinking venues in the downtown.

[2] Massachusetts Executive Office of Labor and Workforce Development (EOLWD), 2017.