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Fiscal Impact Analysis 40B Residential Development Needham Crossing Needham, Massachusetts

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1.0 Preface

This report is designed to identify the key fiscal factors and the long term fiscal profile associated with a proposed Local Initiative Petition (LIP) 40B rental development to be located on a portion of the former General Dynamics site within Needham Crossing in Needham Massachusetts. Normandy Real Estate Partners of Boston Massachusetts is proposing to construct 390 luxury rental units comprised of 49 studio apartments, 153 one bedroom apartments, 149 two bedroom apartments, and 39 three bedroom apartments (the Proposal). Consistent with the regulations of MGL 40B all unit types will include a 25% affordable housing component.

Table 1 below provides a more detailed perspective of the Proposal for fiscal analysis purposes.

Table 1.-Proposed Development Program

Residential Type	Market Rate	Affordable Rate	Total
Studio	37	12	49
One Bedroom	115	38	153
Two Bedroom	111	38	149
Three Bedroom	29	10	39
Total	292	98	390

As shown in Table 1 above, the unit mix is strongly oriented towards non-family units with 90% of the units being studio, one, and two bedroom units, and 52% of all units are studio and one bedroom units that will not generate any school aged children. The Proposal is primarily intended to provide rental housing opportunities in a mixed use setting for Needham residents and employees accessing nearby Route 128/I-95 employment corridor.

2.0 Summary of Methodology

In considering the fiscal impacts of the Proposal, this report divides municipal service costs into two broad categories: (i) education costs and (ii) general service costs (i.e. all non-education costs). As noted in the body of this report, the measurable general service costs generated by the Proposal are primarily related to public safety-related costs (police and fire services) and some level of health department costs. Education costs have been applied based on an examination of a student generation rates derived from comparable 40B rental developments in Needham and similar 40B developments in surrounding communities.

Education costs are driven by an estimate of net additional school-aged children to be enrolled in the Needham Public School System. The equation for determining the education cost estimate is (1) the actual net school spending per pupil (ANSS), as reported by the Massachusetts Department of Education for 2015, minus and (2) state aid (MGL Chapter 70), which is an annual revenue source. Actual Net School Spending (ANSS) includes all funds expended by the School Committee via the municipal budget, grants, and other funds as well as certain town expenditures including employee benefits but excluding certain types of expenditures such as transportation, adult education, and long-term debt. As such, ANSS provides an inclusive school cost estimate per net new student. Its use assumes that each new student will generate a specific fixed cost. Generally, this methodology provides a conservative (high) estimate of school costs, since it assumes that each new student would generate a marginal cost increase equal to the current average cost per student.

The equation for determining the Town's educational costs takes into account the fact that school costs are partially offset (paid for) by Chapter 70 school aid from the Commonwealth. In order to provide an estimate of the fiscal impact of potential new school children from the Proposal at stabilization, this report assigns a Chapter 70 aid based on the current aid per student level. While it is not a prediction of future Chapter 70 aid to Needham, we believe it is a reasonable basis on which to estimate the long term role of Chapter 70 aid. As reported by the Massachusetts Department of Elementary and Secondary Education on its web site "Chapter 70 Trends" as of January 2015, Needham's Chapter 70 state aid is \$1,547, a relatively small percentage of the Town's ANSS of approximately \$14,367. Since state aid is a non-local revenue source it is deducted from total ANSS in order to estimate the ANSS directly supported by the local tax base.

2.2 General Service Cost Estimates

For all other germane municipal service costs i.e. general service costs, the report employs the FY2014 operating budget of the Town of Needham and includes those service categories that will most likely exhibit a measurable additional cost due to the Proposal. In this case, the Police Department, Fire Department and Health Department are considered as impacted departments with the public safety departments representing the large majority of likely additional general service costs. The departmental estimated costs are combined in the report to provide a total general service cost estimate. The departmental costs shown in this report are not presented as suggested municipal budget increases, we understand and respect that any decision on levels and types of municipal services service is the purview of the elected officials and town meeting.

It should be noted that there are municipal operational budget categories that are properly not included in general service costs for purposes of determining the fiscal impacts, such as existing debt payments, municipal services paid by enterprise or similar accounts for water and sewer services and building department reviews and inspections which are paid for directly by fees charged to the developer. In addition, Public Works' responsibilities such as road maintenance and plowing of existing public roadways abutting the Proposal area will not change as a result of the Proposal. In short, the measurable potential additional general service costs will be primarily associated with police and fire services, including ambulance service, and potentially some level of health department costs.

2.3 Revenue Projection

Service costs represent only one part of the fiscal equation. To appropriately estimate the annual fiscal impact of the Proposal, the estimated annual revenue stream (income to the Town generated as a result of the Proposal) must also be determined. This report employs two methods. For the one and two bedroom component of the project the report applies the assessed values of the nearby Charles River Landing plus a 5% increase to reflect the value of new construction. For the three bedroom component the stabilized income method consistent with current practices in Needham have been applied.

Added to the projected property tax at stabilization is an estimate of excise tax associated with the residential component of the Proposal. Therefore, the real estate property tax at project stabilization plus the excise tax comprise the estimated annual revenue stream of the Proposal.

2.4 Fiscal Profile

The report compares the estimated total municipal service costs (both general service costs and education costs) to estimated total annual revenue to arrive at an estimated annual cost-to-revenue ratio, or annual fiscal profile. The findings are also expressed in terms of current dollars gained or lost annually commencing at stabilization.

As noted earlier, the objective is to provide Needham with an understanding of the long-term fiscal implications of the Proposal. Accordingly, the most important finding presented in this report is the estimated cost-to-revenue ratio at stabilization since this finding reflects the Proposal's long term fiscal profile. While the cost to revenue ratio will likely vary slightly from year to year due to background regional or national economic trends, it is the best measure of the long term projected fiscal performance of the Proposal.

3.0 Summary of Findings

- With an estimated annual revenue stream of \$1,146,000 and an estimated total annual service cost of \$1,063,000, the Proposal generates a positive annual cost-to-revenue ratio of approximately 0.92.
- Given the nature of the Proposal the moderately positive fiscal profile or cost to revenue ratio will be sustainable for the long term with the exception of periods of regional or national economic distress where it is likely to move towards revenue neutrality.
- At stabilization, the estimated annual fiscal benefit of the Proposal at stabilization is estimated at \$83,000 (current dollars).
- The total assessed value of the Proposal is estimated at \$97,362,000 (current dollars) at project stabilization.
- One time building permit fees are estimated to be approximately \$400,000 payable at receipt of building permits.
- The estimated annual number of additional students is estimated at 65 students. Full enrollment is anticipated to be achieved by the 2020/21 school year or one year thereafter. Of the new students, approximately 40 will enroll in various elementary grades; the balance in various middle and high school grades.

4.0. General Service Costs

To assess the general service costs associated with the Proposal, this report uses values reported the Town's FY2015 operating budget.

Residential Service Costs- Police Department

Data provided from the Police Department in January of 2015 for the years 2011 to 2014 indicated the total annual call volume of approximately 35,000 calls per year all types. It is important to note that a significant portion of the police service calls are *not* directly related to residential land uses. Office, retail, industrial and uses plus public facilities, institutional uses, recreation uses, and town wide traffic management create significant public safety service demands. In this instance, data sampling by the Needham Police Department indicates that approximately 27% of all service calls emanate from residential land uses. i.e. 9,400 service calls.

More specifically, data provided by the Needham Police Department for the nearby Charles River Landing (CRL) development indicates that in 2013 CRL generated the highest amount of calls in recent years i.e. 187 calls (the lowest year was 2010 with 90 calls). Given the 354 units in CRL and applying the high rate of 187 calls per year we can derive a call rate 0.53 per unit.

Similar to the fluctuations in service call rates for a particular multi-family development such as CRL, it is important to note there is no accurate way to consistently indicate the cost of a police response to a dwelling unit. Assuming a one to one relationship of call volume to cost is most likely not accurate, since the nature of the call is unknowable. As stated, Needham Police Department data estimates that 27% of all service calls are generated from residential addresses. This report recognizes that the residential service call rate most likely does not have a one for one relationship to the police budget. Accordingly, to be cautious in the Town's favor and recognize that annual costs may be higher than the average on any given year this report assumes that 27% of the service calls is equivalent to 40% of overall police service cost, essentially a 150% cost to residential call rate.

Accordingly, 40% of the current police budget of \$6,013,261 generates a cost estimate of \$2,405,000 for residential service calls. Given a call rate of 0.53 per unit, the 390 proposed units would generate as many as 206 calls. The estimated 206 additional calls represent an increase of approximately 2.2% over the current annual call total i.e. 206 divided by 9,400 residential related calls.

Further, a 2.2 % increase over the estimated residential service cost of \$2,405,000 generates an annual cost estimate of \$52,910 (\$53,000) in annual service cost (current dollars).

See Table 2 below for a summary of estimated police service cost.

Service Cost - Police Department

Department	FY 2014 Budget	Residential Cost Factor 40%	Number of New Calls	Percent Increase (2)	Estimated Annual Cost
Police Dept. (1)	\$6,013,261	\$2,405,000	206	2.2%	\$52,910 (\$53,000)

(1) Includes Public Safety Dispatch Budget

(2) 206 calls divided by 9,400 total calls

Residential Service Cost –Fire Department

Data provided in January of 2015, the Needham Fire Department indicates that total number of Fire Department service runs in 2014 was 3,559 of which 2,598 or 73% were responses to residential locations. Accordingly, with approximately 11,100 dwelling units in Town's Fire Department averaged 0.23 runs per dwelling unit in 2014. Applying this ratio we can anticipate 90 additional fire department runs (all types) to be generated by the Proposal.

The 2015 Fire Department Budget is \$7,218,973, applying the same ratios as noted above we can estimate that \$5,413,855 of the current budget can be assigned to 2,598 residential service calls. As noted, the Proposal will generate approximately 90 new service calls or an increase of 3.4%. Given the existing residential related service cost, the 90 additional runs equates to a cost increase service cost of approximately \$189,000.

It is likely that the cost estimate based on a per dwelling unit approach, as noted above, is conservative (high) because the population per unit of the proposal will considerably lower than the average dwelling unit in Needham. Applying a per capita method, the \$5,269,850 portion of the Fire Department budget generates a per capita cost is approximately \$179 per person per year. Assuming a population of approximately 625 people in the Proposal (1.6 per unit average) the per capita method yields accost of \$111,875 per year.

To reflect the considerably smaller population per unit, this report will employ the average of the two methods discussed above i.e. and carry a cost estimate of approximately \$151,000 per year.

Ambulance Service.

Needham has an advanced life care service rating for its ambulance services. In general terms this allows Needham to secure insurance reimbursements for ambulance service calls. However, in reality, an unknown number of insurance calls in any one given year are provided to non-insured individuals and the Town absorbs said costs.

All ambulance service runs totaled 3,559 in 2014 of which 1,559 were related to residential addresses. Given the 11,100 residential ambulance service calls equates to the fire service call per residence or 0.14 calls per dwelling unit. Using this value we can estimate an additional 55 ambulance service calls or an increase of 3.5% related to the addition of 390 new dwelling units.

For 2014 the Fire Department has estimated that the applicable 1,559 residential service calls had an associated cost of \$2,028 per call. As noted, the cost for ambulance service is an insurance reimbursable item. However, not all calls are covered by insurance and it is difficult to estimate the number of future uninsured calls. At the present time approximately 94% of Massachusetts residents have some form health insurance coverage and given the anticipated income profiles of the new residents it is highly likely that at least 94% will have insurance coverage. However, using the state averages, up to 6% of the anticipated 55 additional calls or 3 calls may not be covered by insurance. Accordingly, the Town may need to absorb approximately \$6,000 of additional ambulance service cost from the 390 new units.

Adding the ambulance service cost with the estimated fire service cost generates a combined estimate for fire department services of \$157,000 per year.

Health Department

A multi-family development with a common room/meeting room facilities, pools and health club facilities will require additional Health Department inspections. While most inspections require a fee, the number for health inspections that may be generated by the new residents calling for service is unknown and these calls for service will occasionally generate health department costs. While a development the scale of the base scenario will have on site management and all residents will be interviewed prior to lease signing it is possible that the Health Department may see additional health related service calls from individual residents.

The Health Department FY 2015 budget is \$577,215 and while the department also services commercial uses, for the purposes of this report, all health department costs will be assigned to residential dwellings. Given approximately 11,100 dwelling units in Needham, the Health Department cost per dwelling is estimated at \$52 per dwelling unit. While annual required Health department inspections are on a fee for inspection basis for items such as swimming pools and health club facilities, there is no way to estimate the number of calls for inspections that may be generated by individual residents seeking Health Department action i.e. no fees apply. Most likely said requests will be minimal but to cover that contingency this report applies the health Department's average cost per dwelling unit to the proposed 390 units and generates an estimated \$20,300 in additional annual health department costs. Again, similar to police and fire service costs this cost estimate could vary significantly in either direction given future circumstances, but in general terms the Health Department costs are not a significant of service cost for this or similar developments.

Other General Service Costs

Water and sewer costs will be addressed via enterprise accounts for said services established by the Town of Needham. Similarly, Building Department costs will be covered by the required permit fees. The additional population should not require additional staffing for general government services such as Town Clerk, Treasurer, and Selectman; or for services such as libraries or recreation. Further, budget items like current municipal debt are not applicable since they pre-date the Proposal. Accordingly, municipal departments that will experience measurable additional costs are Police, Fire and the Health Department.

Total General Service Costs

Table 4 below summarizes the total estimated annual general service costs (current dollars) associated with the Proposal with an understanding that in any given year costs could be higher or lower depending on public safety events.

Table 3. Estimated Total General Service Costs

Department	Annual Cost
Police	\$ 53,000
Fire / Ambulance	\$157,000
Health Dept.	\$ 20,300
Total	\$230,300

5.0 Education Costs

5.1 Student Projections

For this report, school student generation rates will be estimated by unit type; specifically, one bedroom market and affordable, two bedroom market and affordable and three bedroom market and affordable.

One Bedroom units

For the purposes of this report studio and one bedroom units will conform to the regional norm and not generate any measurable number of school aged children (SAC).

Two Bedroom Units

Two bedroom units, while not considered a typical family oriented unit type; do generate school aged children in a consistent and measurable fashion. The nearby 354 unit Charles River Landing (CRL) has a gross student generation rate of only 0.067 per unit due to the fact that 70% of all units are one bedroom units. However, when applying the total number of students (currently 24) to only the 106 two bedroom component we derive a rate of 0.226 students per unit. This ratio is a good two bedroom comparable to the base scenario since it is essentially a nearby development that also includes a 25% affordable component and will likely have a similar rent schedule.

Three Bedroom Units

Newer larger scale multi-family developments with a three bedroom component including a 25% affordable factor are relatively rare and in most cases student identification cannot be related to unit type due to reasons of privacy laws. However, based on my experience three bedroom market rate units have a regional average of as 0.65 students per unit; essentially mimicking the student per single/two family rate found in the region i.e. a range of 0.40 to 0.75. As a point of comparison the estimated current single/two family rate in Needham is 0.70 and is at the high end of the regional experience.

Importantly, we have found that the affordable student generation rates are at least two times the student generation rate of its market rate comparable. Accordingly, in this instance a student generation rate of 1.3 for affordable three bedroom units is applied. Note that said three bedroom rate is significantly higher than town wide single family rate of 0.70.

Table 4 below illustrates student generation estimates by unit type for the Proposal.

Table 4. Student Generation by Unit Type

Type and Number of Units	Number of Units	Student Generation Rate	Number of Students
Studio, mkt.	37	0.00	0
Studio, aff.	12	0.00	0
One bedroom, mkt.	115	0.00	0
One bedroom aff.	38	0.00	0
Two bedroom (1)	149	0.226 (1)	33
Three bedroom mkt.	29	0.65	19
Three bedroom, aff.	10	1.30	13
Total	390	0.166	65

(1) This line item represents the Charles River Landing composite two bedroom student rate i.e. market and affordable units used in this report.

As shown above the base scenario would, on average, generate 65 students per year. In operational terms the number of students in any future year would most likely fluctuate between 57 and 74.

Given regional norms approximately 60% of the additional students can be anticipated to enroll in the various elementary grades i.e. 40 students. The balance of the additional students will enroll in the various middle and high school grades.

5.2 Estimated Annual School Cost and Enrollment Patterns.

The Town of Needham has a FY15 estimated actual net school spending (ANSS) of approximately \$14,367 student pupil. Of that amount, \$1,547 is state Chapter 70 education aid; a revenue source. Therefore, the Town’s tax base supports \$12,820 per student. Applying the \$12,820 cost to the estimated 65 students generates an annual school cost estimate of approximately \$833,000 (current dollars).

5.3 Total Service Cost

Assuming per pupil education costs of \$833,000; and general service costs of \$230,300 the total annual municipal service costs is estimated at \$1,063,300 (\$1,063,000). (current dollars).

See Table 5 below for a summary of total service costs.

Table 5, Summary of Municipal Service Cost

Proposal	General Service Costs	Education Costs	Total Service Costs
390 Rental Homes	\$230,300	\$833,000	\$1,063,300 (\$1,063,000)

6.0 Revenue Projection

As noted in Section 2 the revenue projection relies on the current income method practices of Needham for some of the units i.e. studio and three bedroom and the use of the nearby Charles River Landing for the one and two bedroom units.

Studio Apartments

For the 37 market rate studios and 12 affordable studios with their respective average rents of \$2,015 \$1,065, this report applied an income method of assessment with the following values: a 10% vacancy factor, a 25% operation and maintenance deduction and a cap rate of 9%. The resulting estimated assessed values are \$6,705,000 for the market units and \$1,155,000 for the affordable units.

One and Two Bedroom Apartments

The revenue estimate of the one and two bedroom component of this report relies on the current composite valuation of the one and two bedroom units at the nearby Charles River Landing (CRL); a nearby comparable development with a 25% affordable component, similar to the Proposal. However, since the Proposal at stabilization will be a new construction and that new construction is generally assessed 5% to 10% higher than older construction, this analysis will use the current composite assessed value for one and two bedroom units at Charles River landing plus a 5% increase. As referenced, this report uses the Charles River Landing assessed values to estimate the values of the 231 market rate one and two bedroom units and the 77 affordable one and two bedroom units. Based on current data the CHL aggregate one and two bedroom market rate assessed value is \$279,105 per market unit and the affordable units at \$107,250. Applying these values and a 5% new construction factor to the unit count noted above yields an estimated value of \$66,232,000 for the 226 market rate units and \$8,559,000 for the 76 affordable one and two bedroom units for total of \$74,781,000.

Three Bedroom Apartments

CRL does not have a comparable three bedroom component. Therefore for this portion of the revenue estimate this report applies Needham’s current income method to the estimated rents of the 40 three bedroom units. Specifically, the income method with the following values has been applied; a 10% vacancy factor, a 25% operation and maintenance deduction and a cap rate of 9%, along with three bedroom rents estimated at \$4,100 per market rate unit and \$1,391 for the 10 affordable units. This approach generates an assessed value of \$11,059,000 for the three bedroom market units and \$1,252,000 for the three bedroom affordable component.

Table 6 below summarizes the assessed values of each component and provides a total assessed value estimate at stabilization in current dollars.

Table 6. Assessed Value Estimates by Component

Component	Assessed Value
37 studios market rate	\$ 6,705,000
12 studios affordable rate	\$ 1,555,000
226 one and two bedroom market rate units (1)	\$66,232,000
76 one and two bedroom affordable units (1)	\$ 8,559,000
29 three bedroom market rate units	\$11,059,000
10 three bedroom affordable units	\$ 1,252,000
Club house and amenities	\$ 2,000,000
Total	\$ 97,362,000

(1) Based on CHL current aggregate assessed values

Given the current residential tax rate of \$11.29 the estimated assessed value of \$97,362,000 will generate approximately \$1,099,000 in property taxes (current dollars at stabilization). Further, assuming there will be approximately 500 registered vehicles on site and an average excise tax of \$100 per vehicle result in an additional \$50,000 in annual revenues. The property tax and excise tax combined generate an estimated annual revenue stream of \$1,146,000.

Table 7. Summary Annual Revenue Stream

Proposal	Assessed Value (1)	Annual Property Tax	Annual Excise Tax	Annual Revenue Stream (1)
400 Rental Homes	\$97,362,000	\$1,099,000	\$50,000	\$1,146,000

(1) At stabilization (current dollars)

7.0 Estimated Fiscal Profile

With the annual revenue stream estimated at \$1,146,000 at stabilization (current dollars) and total annual service cost of approximately \$1,076,000 the proposal will have a cost-to-revenue ratio of approximately 0.93 and generate an annual fiscal benefit of \$129,000. See Table 8 below.

Table 8. Summary of Fiscal Profile

Proposal	Annual Revenue	Annual Cost	Cost to Revenue Ratio	Annual Benefit (loss)
390 Residences	\$1,146,000	\$1,063,000	0.92	\$83,000

The report finds that the base scenario generates long term cost to revenue ratio of 0.92. In most years the Proposal will maintain a moderately positive fiscal profile. However, if demand and rents weaken the Proposal will likely move to revenue neutrality.

8.0 One Time Fees

Given the current requirement of a construction related permit fee of \$1.00 per square foot this report estimates that one time building permit fees paid to the general fund will be approximately \$400,000. This sum, after deducting Building Department construction monitoring costs, the associated permit fees will likely generate a significant one time fiscal benefit for Needham.