BARRETT
PLANNING GROUP LLC

October 7, 2019

Lee Newman
Planning Director
500 Dedham Avenue
Needham, MA 02492

Reference: Updated Fiscal Impact Analysis, Highway Commercial I Rezoning

Dear Lee,

Attached please find our report on the fiscal impact of the proposed Highway I Commercial District. As noted in the report, we find that development in the proposed district would lead to the following fiscal outcome for the Town:

1. At a maximum "as of right" buildout with a floor area ratio (FAR) of 1.0, development in the new district would provide $4,506,100 in tax revenue per year and create demands on municipal services of approximately $205,700 per year. For development at this level, the net revenue would be $4,300,400 ($4,506,100-$205,700), or a cost-revenue ratio of 0.046.

2. In addition, if development occurs under a special permit at 1.3 FAR, development in the new district would provide $5,857,900 in tax revenue per year and create demands on municipal services of approximately $245,300 per year, for a net of $5,612,600 ($5,857,900-$245,300). The cost-revenue ratio would be 0.042.

It is important to point that under existing conditions, the parcels located in the proposed district pay the Town about $445,200 in taxes per year. As a result, the gain in tax revenue alone will be 9 to 12 times what the Town receives today.

Sincerely,

Judith A. Barrett

Judi Barrett
Barrett Planning Group LLC

FISCAL IMPACT ANALYSIS: HIGHWAY COMMERCIAL I

INTRODUCTION

In September 2019, the Needham Planning Department retained Barrett Planning Group to review a proposed rezoning of land at Highland Avenue and Gould Street west of the Route 128 highway layout. If approved, the new district, Highway Commercial I, would apply to approximately 15 acres of land commonly referred to as the Muzi Ford/Channel 5 site. The Planning Department provided us with various background documents and asked us to estimate the fiscal impact of redevelopment under the proposed zoning. We also obtained data from other sources. Specifically, we reviewed the following information:

1. Proposed Highway Commercial I District (text and map), Article I, October STM
2. Planning Department, "Guide to Zoning Articles, Planning Board Public Hearing," September 17, 2019
3. Estimated Value Analysis, prepared for Devra Bailin, Economic Development Director, by Jeremy Freid (2019)
4. Property Assessment and Tax Information, compiled for Devra Bailin, Economic Development Director, by Chip Davis, Assessor (2019)
5. Buildout Analysis, prepared by John Connery for Needham Planning Department (2015)
6. Future Land Use Mix, prepared by John Connery for Needham Planning Department (2015)
7. Department of Revenue, Municipal Data Bank, Misc. Financial Data (Tax Rates, Assessed Values, Revenue Sources, General Fund Expenditures and Revenues, Tax Levy)
8. CoStar Office, Industrial, Retail Market Data and Trends, Newton-Brookline-Dover Submarkets

SUMMARY

The following chart compares the current assessed values and tax payments for the area included in our analysis to the estimated values and tax revenue of the same area, assuming the parcels are assembled and redeveloped under the proposed Highway Commercial I zoning.

TABLE 1. ASSESSED VALUE AND REVENUE CHANGE, PROPOSED HIGHWAY COMMERCIAL I

	Existing Conditions	If Redeveloped at 1.0 FAR under Proposed Zoning	Gain/Loss at 1.0 FAR Outcome	If Redeveloped at 1.3 FAR under Proposed Zoning	Gain/Loss at 1.3 FAR Outcome
Assessed Value	$17,396,400	$192,074,700	$174,678,300	$249,698,700	$232,302,300
Tax Revenue	$445,200	$4,506,100	$4,060,900	$5,857,900	$5,412,700

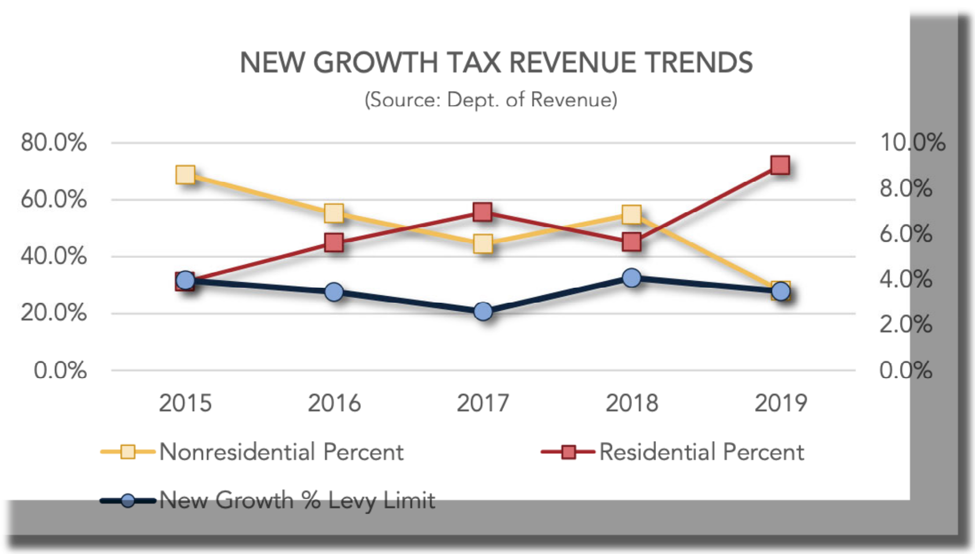
Sources: Needham Assessor, Barrett Planning Group LLC. Numbers may not total due to rounding.

APPROACH AND METHODOLOGY

Nonresidential development places different demands on municipal services depending on the class of use. For example, retail uses usually demand more from public safety personnel than any other municipal department, but industrial uses tend to require higher expenditures for public works. Food service establishments also require periodic inspections by the health department, and uses ranging from nursing homes and day care centers to performing arts centers require semiannual or more frequent inspections by health, fire, and building authorities. In some towns, nonresidential development of all types places demands on services traditionally thought of as "residential," e.g., public libraries. When a community invests in waterworks and sewer system upgrades, the benefits are often shared by residential and nonresidential ratepayers.

Recognizing that each class of use has both unique needs and needs common to all uses, fiscal impact analysts have developed models to identify, estimate, and assign service costs to various types of development. The most widely used model for estimating the cost to serve nonresidential land uses is known as *proportional valuation*. This two-part model embraces a long-standing fiscal impact principle: the cost of nonresidential municipal services can be inferred from the relationship between nonresidential real property values and the total value of real property in a community, adjusted for type of community and size of tax base. After establishing the approximate share of nonresidential expenditures under existing conditions, analysts can use a similar process to estimate the cost of services that will be used by new growth. We used this approach in a study of proposed zoning changes in Needham Center several years ago, as did a colleague who previously analyzed rezoning of the New England Business Center. Accordingly, we applied the principles of proportional valuation to estimate the impact of new development under the proposed Highway Commercial I zoning.

In Needham today, commercial, industrial and personal property taxes supply 22.7 percent of the town's tax levy, yet the combined value of these properties is 13 percent of the Town's total assessed valuation. The difference is explained by Needham's classified or split tax rate, which effectively shifts some of the tax burden away from residential property owners. As a result, investment in new commercial projects presents a potentially significant revenue benefit to Needham. Over the past several years, Needham has absorbed quite a bit of high-value commercial development that contributed a large share of each year's "new growth" revenue under Proposition 2 ½ - for several years, more than half of all new growth revenue.



Below are the two proportional valuation models we used to estimate the fiscal impact of the Highway Commercial I district, with one option built out at a floor area ratio (FAR) of 1.3 (which would require a special permit) and the other, 1.0 (as of right). An explanation of each model component can be found after the chart. All dollars are based on FY2018, the most recent year for which complete year-end financial data are available from the Department of Revenue. For purposes of this study, we assume the most likely tenant mix is office and retail. If future development reached the maximum attainable Highway Commercial I FAR of 1.75, the mix would probably favor more office space than retail, based on known market trends.

TABLE 2.
PROPORTIONAL VALUATION ANALYSIS: BUILDOUT OF HIGHWAY COMMERCIAL I, 1.3 FAR

Model Component	Input/Assumption	Identifier
General Fund Operating Budget (FY 2018)	$147,632,500	A
Less Education and Education-Related Expenditures	$99,161,200	B
Total Municipal Expenditures (A-B=C)	$48,471,300	C
Non-Residential Real Property Value	$1,095,164,500	D
Total Real Property Assessed Value	$9,942,091,300	E
Ratio Nonresidential to Total (D/E)	0.110	F
Non-Residential Parcels	422	G
Total Parcels	10,757	H
Average Value: Non-Residential Parcel (D/G)	$2,595,200	I
Average Value: All Parcels (E/H)	$924,200	J
Ratio	2.81	K
Refinement Coefficient	0.650	L
*Non-Residential Expenditures (C*F*L)*	$3,470,600	M
Residential Expenditures (A-M)	$144,161,900	N
New Project Value @ 1.3 FAR (See proforma summary)	$249,698,700	O
Ratio: New Project Value to Total Nonresidential (O/D)	0.23	P
Refinement Coefficient	0.31	Q
*New Service Costs (M*P*Q)*	$245,300	R
*Taxes (O/1000*23.46)*	$5,857,900	S
Revenue Ratio (R/S)	0.042	T

Under existing conditions, the real estate taxes for the site (as unassembled parcels) are approximately $445,200 (rounded). Under the proposed new zoning, the Town would receive as much as $12.15 for every $1.00 of existing tax revenue.

TABLE 3.
PROPORTIONAL VALUATION ANALYSIS: BUILDOUT OF HIGHWAY COMMERCIAL I, 1.0 FAR

Model Component	Input/Assumption	Identifier
General Fund Operating Budget (FY 2018)	$147,632,500	A
Less Education and Education-Related Expenditures	$99,161,200	B
Total Municipal Expenditures (A-B=C)	$48,471,300	C
Non-Residential Real Property Value	$1,095,164,500	D
Total Real Property Assessed Value	$9,942,091,300	E
Ratio Nonresidential to Total (D/E)	0.110	F
Non-Residential Parcels	422	G
Total Parcels	10,757	H
Average Value: Non-Residential Parcel (D/G)	$2,595,200	I
Average Value: All Parcels (E/H)	$924,200	J
Ratio	2.81	K
Refinement Coefficient	0.650	L
*Non-Residential Expenditures (C*F*L)*	$3,470,600	M
Residential Expenditures (A-M)	$144,161,900	N
New Project Value @ 1.0 FAR (See proforma summary)	$192,074,700	O
Ratio: New Project Value to Total Nonresidential (O/D)	1.33	P
Refinement Coefficient	0.26	Q
*New Service Costs (M*P*Q)*	$205,700	R
*Taxes (O/1000*23.46)*	$4,506,100	S
Revenue Ratio (R/S)	0.046	T

Comments

A proportional valuation study involves making some assumptions about the share of local government spending that is generated by residential demand and nonresidential demand. We assumed that about 70 percent of the Town's fixed or shared costs for items like liability insurance and employee health insurance are attributed to the schools, so the total for Education and Education-Related Expenditures (item B) is the sum of the total school budget plus an allocation of the Town's shared costs and debt service. Total Municipal Expenditures (item C) is the general fund budget minus the schools. This is the number that has to be divided and assigned to residential and nonresidential land uses.

It would be deceptively simple to say that proportional valuation means the proportion of assessed value is the correct multiplier to assign a share of spending on town services to commercial and industrial development. However, the architects of this model rightly saw that the percentage of assessed value alone could be misleading. As a result, we use **refinement coefficients** that help to reduce the distortions that may be caused by one large development. The refinement coefficients were developed by the Center for Urban Policy Research at Rutgers and they are widely used by fiscal impact analysts.

Assumptions

In consultation with the Planning Department, we estimated the value of redevelopment at the site using two buildout floor area options: 1.3 FAR (special permit) and 1.0 (as of right). Rent and capitalization rate assumptions are based on input from the Needham Assessor. The table below summarizes our approach. Note that a floor area ratio of up to 1.75 could be achieved in the proposed zoning district. To avoid presenting an overly optimistic view of fiscal impact, we opted to stay with 1.3 and 1.0.

At FAR 1.3

TABLE 4. ESTIMATED VALUE: OPTION 1 (WITH SPECIAL PERMIT)

Component	Input/Assumption	Identifier
Total Square Feet (B+C)	863,010	A
Office Sq. Ft.	709,171	B
Retail Sq. Ft.	153,839	C
Rent (Triple Net)	$35.00	D
*Gross Income (A*D)*	$30,205,400	E
Expenses @28%	$8,457,500	F
Vacancy @ 10%	$3,020,500	G
Net Operating Income (E-F-G)	$18,727,400	H
Capitalization Rate	7.5%	I
Market Value with Cap Rate @ 7.5% (H/I)	$249,698,700	J

At FAR 1.0

TABLE 5. ESTIMATED VALUE: OPTION 2 (BY RIGHT)

Component	Input/Assumption	Identifier
Total Square Feet (B+C)	663,854	A
Office Sq. Ft.	510,015	B
Retail Sq. Ft.	153,839	C
Rent (Triple Net)	$35.00	D
*Gross Income (A*D)*	$23,234,890	E
Expenses @28%	$6,505,800	F
Vacancy @ 10%	$2,323,500	G
Net Operating Income (E-F-G)	$14,405,600	H
Capitalization Rate	7.5%	I
Market Value with Cap Rate @ 7.5% (H/I)	$192,074,700	J