

TECHNICAL MEMORANDUM

TO: Christopher J. Kelly
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FROM: RKG Associates, Inc.

DATE: February 6, 2020

SUBJECT: Fiscal Impact Analysis - Proposed Development – Melrose, MA

Introduction

RKG Associates, Inc. (RKG) was retained by Insight Partners, Inc. (IP) to prepare a fiscal impact analysis of a proposed residential development of an existing parcel¹ of land at 99 Washington Street in order to assist IP in their planning and permitting process with the City. The project will reposition a former two-story furniture “mill-style” building into a three-story building consisting of 141 multi-family residential units. The total proposed residential square footage (SF) of the redevelopment is estimated at 111,912 SF. The proposed development will include a mix of studio, one-, and two-bedroom units with 19 units designated as affordable. The unit mix is presented in Table 1.



Figure 1 - Oak Grove Mill (rendering)

Table 1 – 99 Washington Street – Oak Grove Mill

Proposed Melrose, MA Project - 99 Washington Street				
Unit Mix	Market	Count	AVG SF	SF
Studio	11.3%	16	549	8,779
1 BR	44.0%	62	683	42,331
2 BR	31.2%	44	1,037	45,620
subtotal	86.5%	122	793	96,729
Unit Mix	Affordable	Count	AVG SF	SF
Studio	1.4%	2	549	1,097
1 BR	7.1%	10	683	6,828
2 BR	5.0%	7	1,037	7,258
subtotal	13.5%	19	799	15,183
TOTAL	100.0%	141	794	111,912

Source: IP and RKG (2020)

¹ Identified as tax parcel B2 0 16-18 with an approximate 3.18-acres and an existing 100,000± SF of built space (mill style and out-building), zoned Industrial A but covered under the City’s Smart Growth Overlay District.

Summary of Findings

The following summarizes the findings from this analysis. Details of the analysis are presented throughout this memorandum.

Fiscal Impacts - Under the inputs and assumptions in this analysis, the proposed project (buildings only) will pay an estimated \$331,500 in annual property taxes to Melrose. This is based on the City's FY 2020 tax rate and does not include any adjustments for service costs. For this analysis, RKG held current land assessments and associated taxes constant, although values are likely to go up over time. RKG estimates that the annual costs associated with providing municipal services to the development are \$135,360. These include the residential share of such variable expenses as fire, police and public works.²

Further, RKG estimates the Oak Grove Mill project could yield an additional 13 new students³ in the Melrose Public Schools which would result in an estimated cost of \$93,587. This is based on an FY 2018 estimate of a variable education cost per student of \$7,199, as presented by the Massachusetts Department of Elementary and Secondary Education. RKG's school age children estimate was based on data provided by the City of Melrose's Planning Department which included over 1,200 apartment units in buildings across the city. The data provided did not breakdown the number of school age children by unit type or pricing. The resulting student generation multiplier from this data source was 0.095 school age children per unit which RKG applied to the Oak Grove Mill project. It is worth noting that the proposed project does not include any 3-bedroom units and will have smaller unit sizes on average than the comparable properties provided by the City. These factors may contribute to a lower school age child ratio than what RKG applied to this project.

Lastly, the estimated loss of property taxes contributed from the existing buildings is \$7,038, as calculated by applying the FY 2020 commercial tax rate of \$18.58/\$1,000 to a building value of \$378,800.

As shown in Table 2, reconciling the property taxes and estimated costs result in an annual net positive fiscal impact to the City of Melrose from the Oak Grove Mill development of \$95,515. RKG also developed an estimate of likely vehicle excise taxes amounting to \$26,072. ***Combined, the ongoing net property tax receipts coupled with the excise tax receipts results in a positive impact of \$121,587.***

² RKG applied an efficiency factor of 25 percent to the City's Public Works budget which adjusts for much of the on-site maintenance and costs for the Oak Grove Mill that will be expenses directly borne by the development. These include items like snow removal, trash collection, and any upgrades to infrastructure that may occur during the redevelopment process.

³ This assumes that any new students resulting from Oak Grove Mill are evenly distributed across PK through 12 grade levels and does not include any additional students that may require special education needs, which could otherwise add to the estimated costs.

In addition to on-going tax revenues, **estimated one-time building permit and other fees total \$868,703**. This breaks down as follows:

- Building Permit Fees at \$484,050.
- Electrical Fees at \$21,315.
- Plumbing Fees at \$42,965.
- Contribution to the Open Space Fund at \$155,100.
- Infiltration and inflow at \$148,548.
- Zoning reviews and fees of \$16,100.
- Other fees at \$625.

Table 2 – Estimated Net Fiscal Impacts and One-Time Impacts

Melrose, MA - Proposed Development - Oak Grove Mill - Summary Impacts	Melrose, MA
Fiscal Impacts	
Estimated taxes (FY 2020 - building only)	\$ 331,500
<i>less associated costs:</i>	
residential	\$ (135,360)
less education costs	\$ (93,587)
less existing "as is" taxes (FY 2020 - building only)	\$ (7,038)
NET (annual and ongoing)	\$ 95,515
ESTIMATED Excise Tax Receipts	\$ 26,072
One-Time Fees	
construction related	\$ 548,330
selected other	\$ 304,273
zoning reviews and fees	\$ 16,100
Total of One-Time Fees	\$ 868,703

Source : IP and RKG Associates, Inc. (2020)

In addition to the estimated and measurable fiscal impacts, as presented, the redevelopment of the former mill property may also result in other benefits to the community, although non-monetary, including:

- The restoration and repurposing of a former mill property which preserves many of the historically architectural elements.
- Providing 19 deed-restricted affordable housing units as part of the development project. Correspondence with representatives from IP indicated this is Melrose’s first multi-family residential project to provide 15% of units as affordable.
- Inclusion of landscaping and open space treatments to complement the residential quality of the project, property, and the general area.
- Correspondence with representatives of IP indicated that *“the improvements will reduce the amount of water runoff by replacing over 20% of the paved and gravel areas with landscaping. Additionally, over 30% of the paved areas on the site will*

employ permeable asphalt or porous pavers to further reduce the water runoff from the site.”

- The City has enacted a local option meals tax and collects revenues from meals purchased in Melrose eateries. The 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 Melrose.



Figure 2 – Oak Grove Mill (rendering)

- In general, the introduction of new households in Melrose will also increase the overall consumer demand and purchasing power in the City although it is speculative to estimate what percentage may be “captured” by existing merchants.

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.

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. It should also be noted that fiscal impact analysis is only concerned with local public costs and expenditures. All state aid, grants, one-time sources of revenue have been removed from the calculation.

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.

REVENUES

This includes ongoing revenues to Melrose as represented by property taxes calculated using the FY 2020 tax rate, estimated excise tax receipts and one-time receipts such as building permit and electric/plumbing fees, as examples.



Property Taxes - The primary source of ongoing revenues to Melrose is represented by the property taxes resulting from the proposed project. In this analysis, the construction costs of \$30.0 million is used as a proxy for the assessed value of the fully built development. This construction cost value was provided to RKG by the developer. In our experience this is a reasonable first approach noting that such estimates of valuation and resulting taxes are subject to revision as the property attains stabilized occupancy and lease terms are known. The estimated construction costs of \$30.0 million reflect a cost of approximately \$270/SF which is generally consistent with RKG's experience on other projects, particularly noting that IP's development plans include an expansion to add a third floor and may also bear the expense of adding elevator(s) and costs otherwise associated with converting a mill use to a residential use. Applying the Melrose FY 2020 tax rates⁴ to the residential component results in an estimated property tax (building only, prior to any adjustments) of \$331,500.

Vehicle Excise Taxes – These represent the individual taxes that are paid on registered automotive vehicles. The count of vehicles that may be owned by the eventual residents at the Oak Grove Mill are unknown. However, in FY 2019 the reported excise tax billings from the City of Melrose Assessor accounted for approximately \$3.8 million which calculates to an average of \$185 per registered vehicle.⁵ Assuming one registered vehicle per apartment at the Oak Grove Mill results in an estimated \$26,072 in excise taxes.

RKG cautions that this is a preliminary estimate subject to revision depending on the actual number of vehicles registered to Oak Grove Mill residents, as well as the age and value of their vehicle(s), potentially increasing with newer vehicles and potentially decreasing with aging vehicles.

One Time Fees and Permits - There will be substantial one-time fees and permits associated with the development of the Oak Grove Mill into a residential use. These include building permits and fees, electrical and plumbing fees, as well as zoning applications and reviews. In this analysis RKG utilized fee and payment schedule estimates provided by the developer and are summarized in Table 3. The developer estimates these to total \$868,700 (rounded). These fees and permits typically cover the permitting and inspection activities on the part of the municipality and do not reflect an ongoing revenue stream.

⁴ Residential rate of \$11.05 per \$1,000 and commercial rate of \$18.58 per \$1,000.

⁵ FY 2015 registered vehicles (online from Massachusetts EOWLD) count of 20,551.

Table 3 – Estimated One Time Permits and Fees – Oak Grove Mill

One-Time Fees and Permitting Costs - Oak Grove Mill (preliminary)		\$	868,703
Construction Related		\$	548,330
	Building Permit(s)	\$	484,050
	Electrical	\$	21,315
	Plumbing	\$	42,965
Selected Other		\$	304,273
	Open Space Fund	\$	155,100
	Infiltration and Inflow (per BR)	\$	148,548
	Other	\$	625
Zoning Reviews and Fees		\$	16,100

Source: IP (2020)

EXPENSES

Expenses represent the ongoing “cost” to Melrose to provide municipal services to the proposed project and to provide school/education services to any new students at the development. Typically, such costs are indexed or benchmarked to housing units (residential basis); to employment (commercial basis); and, to students (education basis).

Municipal Service Costs – RKG reviewed Melrose’s general fund expenditures (FY 2019)⁶ allocating these to residential and commercial uses by indexing these costs in proportion to Melrose’s assessment values by property type. For example, the residential assessment citywide represents approximately 97 percent of the total assessment while commercial/industrial represents 3 percent. In this manner, if a “city cost” were \$1.00, then \$0.97 would be residential and \$0.03 would be commercial. Only those expenditures which would typically vary with an increase in population or commercial square footage were considered. This approach indicates an estimated municipal service cost of \$960 per housing unit, as shown in Table 4. Personal property tax was not included in this analysis.

Applying these costs to the proposed project’s 141 residential units shows an estimated annual municipal service cost of \$135,360. As described in the Summary section, RKG applied an efficiency factor of 25% to the City’s Public Works budget to reflect the assumption that Oak Grove Mill will be responsible for costs associated with on-site maintenance such as snow plowing, trash removal and the like. Thereby, we are only allocating 25 percent of the estimated Public Works costs that would otherwise be incurred by the City for residential development.

⁶ As provided by the Massachusetts Division of Local Services – Municipal Databank/Local Aid section.

Table 4 – Allocation of Variable City Service Costs

Melrose, MA - General Fund Expenditures FY 2019	Residential
Variable Costs	
<i>Police</i>	\$ 4,817,674
<i>Fire</i>	\$ 4,413,372
<i>Public Works /1</i>	\$ 2,194,902
Total	\$ 11,425,948
	<i># of housing units</i> 11,896
Expenditure	
<i>per Household</i>	\$ 960
ESTIMATED City Service Costs	\$ (135,360)

Source : MA Division of Local Services, EOWLD, Melrose, MA and RKG (2020)

/1 Assumes that much of the on-site costs are borne by the development.

Education Costs – The estimated net fiscal impacts also need to reflect an adjustment for education costs that may occur from new students in the public-school system arising from the new residential development. RKG applied student multipliers that reflect an average number of school age children per apartment unit regardless of unit size and bedroom mix.⁷ The data presented to RKG revealed a sample of 335 units in buildings constructed before 2008 which house a total of 32 school age children, and 883 units in buildings constructed after 2008 which house a total of 84 school age children. These result in student multipliers of 0.096 and 0.095, respectively. RKG used the 0.095 multiplier as it is reflective of newer construction and more relevant to the Oak Grove Mill project. RKG’s analysis resulted in an estimated 13 new school age children to the City of Melrose Public Schools. RKG also assumes that these students would be evenly distributed across all grade levels.

It is worth noting that the proposed Oak Grove Mill project does not include any 3-bedroom units and has a smaller average unit size than many of the comparable apartment buildings provided to RKG by the City. These factors may lead to fewer children than RKG’s estimate of 13, but to be cautious we used the upper bounds for our analysis.

RKG reviewed the student costs for Melrose, as reported by the Massachusetts Department of Elementary and Secondary Education for FY 2018. Total General Fund per pupil expenditures were identified at a little over \$12,300 for both in and out of district expenses. Recognizing that a single new student does not result in the full per pupil expenditure amount, RKG calculated a *variable per pupil expenditure* using the line items in Table 5. That variable per pupil expenditure amount is \$7,199 per student. Applying

⁷ Data on school age children provided to RKG Associates by the City of Melrose’s Planning Department on January 29, 2020, reflecting school enrollment PK-12, for the school year 2018/2019.

this latter per pupil cost against the estimated 13 school age children results in an estimated annual education cost of \$93,587.

Table 5 – Estimated Variable Costs for Education Costs

Melrose, MA - General Fund Expenditures FY 2018 - Education		Variable
	<i>Instructional Leadership</i>	\$ 3,112,007
	<i>Teachers</i>	\$ 17,766,751
	<i>Other Teaching Services</i>	\$ 4,056,773
	<i>Inst Materials/Equip/Technical</i>	\$ 800,755
	<i>Pupil Services</i>	\$ 4,499,563
Subtotal		\$ 30,235,849
	<i>Out of District</i>	
TOTAL		
Students		
	<i>in District</i> 3,905	
	<i>out of District</i> 295	
Estimated \$/total students		\$ 7,199
ESTIMATED Students Costs		\$ (93,587)

Source : MA Dept. of Elementary and Secondary Education and RKG (2020)

“As Is” – Based on records from the Melrose Assessor’s office through Patriot Properties, the proposed project parcel is currently assessed at a total of \$2.32 million for both land and buildings which results in total property taxes of \$43,050. In this analysis, the current property taxes from the existing building equal \$7,038. This loss of existing property taxes from the buildings was netted out from the Oak Grove Mill property tax estimate to avoid double counting of property taxes.

Table 6 – FY 2020 Assessment and Property Taxes “As Is”

"As Is"		Assessments/Taxes FY 2020		
Parcel	Address	Land	Bldgs.	Total
B2 0 16-18	99 Washington Street			
Assessment		\$ 1,938,100	\$ 378,800	\$ 2,316,900
Property Taxes		\$ 36,010	\$ 7,038	\$ 43,048

Source : Patriot Properties, Melrose MA Assessor and RKG Associates, Inc. (2020)