



LDS Consulting Group, LLC 233 Needham Street, Newton, MA 02464

December 3, 2019

Fiscal Impact Analysis

Prepared For:

**1114 Beacon Street LLC
Mixed Income Development
1114 Beacon Street, Newton, MA**

Prepared By:

**Lynne D. Sweet, Principal
LDS Consulting Group, LLC
233 Needham Street
Newton, MA 02464
617-454-1144**

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Overview

1114 Beacon Street LLC of Natick, Massachusetts (the “Applicant”) is proposing to construct a mixed income development of 27 condominium units to be located at 1114 Beacon Street, Newton, Massachusetts (the “Proposal” or “Project”). The Proposal will set aside 5 of the total number of units for affordable housing purposes with three of the affordable units for households earning at or below 80% of Area Median Income (“AMI”) and two of the affordable units for households earning at or below 110% of AMI, consistent with the City of Newton Inclusionary Zoning Ordinance. Income for the affordable units will be based on the HUD Boston-Quincy-Cambridge, MA Market Area Median Income (which includes the City of Newton). Therefore, 22 units will be priced at market and 5 will be affordable.

The objective of this report is to identify the key fiscal characteristics of the Proposal in order to estimate its long-term fiscal impact in the City of Newton. Therefore, this report generates an estimate of the annual fiscal benefit expressed in current dollars. These findings are designed to provide the City of Newton with an understanding of how the Proposal may impact the local tax base over the long term.

The departmental costs used herein are intended to estimate the annual financial impact on municipal services. The cost estimates are not intended as budget recommendations for an individual department. This report recognizes that the application of current and future municipal revenues and levels of service is the purview of the local officials. Furthermore, the specific values used to generate the various municipal cost estimates should be considered as the current average annual cost. The estimated fiscal profile and individual cost/ revenue or components may fluctuate annually depending on future local, regional, or national economic conditions.

Projected public school student enrollments and associated marginal costs are a major component of any proposed residential development. This report generates an estimated education cost based on a projection of additional school age children using current data provided by the City of Newton School Department, independent research of similar real estate developments and the current cost per pupil provided by the Massachusetts Department of Education. Similar to non-school cost estimates, education costs are not designed as budgetary or policy recommendations. Rather, the enrollment and cost projections should be considered as information to be used in conjunction with other School Department studies, plans, and policies designed to meet future educational objectives and needs.

The education cost estimates used in this report are intended to provide an estimate of the long-term cost per student. In the near term, school costs, approximately one to three years after project approval, are most likely to be lower. However, this report takes the position that the measurement of education costs, like the Proposal in general, should be estimated over the long term and allocates school costs to the present time frame on the basis of estimated annual cost per student at stabilization.

- The Proposal will generate annual gross tax revenues of approximately \$298,873; a net fiscal benefit of approximately \$272,818 per year; and have an annual average municipal service cost to revenue ratio of .09x.
- The Project provides the City of Newton with the opportunity to provide affordable housing to meet its 10% target while generating an annual and sustainable net fiscal benefit.
- The Project will generate an estimated <1 additional student.
- The Proposal will generate approximately \$333,000 in building permit and associated fees payable during the permitting and construction period.
- The Proposal will add approximately \$1,019,038 to local retail expenditures and assist in supporting the existing commercial tax base.

Summary of Findings

Revenue Stream:

Based on our analysis, we have estimated that the Proposal will provide an annual new revenue stream to the City of Newton of \$280,873 and an annual service cost to the City of Newton of \$26,009 with a net new positive revenue of \$272,816.

Table 1
27 Units 1114 Beacon Street

Expenses	
School	\$6,679
Police	\$5,667
Fire	\$13,662
Total New Expenses	\$26,009
Revenue	
Excise Tax	\$9,528
Net New Real Estate Tax*	\$280,873
CPA Surcharge 3%	\$8,426
Total Revenue	\$298,827
Net Benefit	\$272,818

*Note we have subtracted out existing real estate taxes

Development Overview

The Subject site is 1114 Beacon Street which is a 54,486 square foot lot that currently has a vacant 11,624 square foot restaurant building. The Proposal seeks to create a 83,088 square foot, four story, condominium. It will offer a roof terrace and underbuilding parking.

The unit composition includes 22 market rate units and 5 affordable units to households as follows:

Table 2 Proposed Property Unit Mix

Bedrooms	Bath	Income Level	# Units
One	1	80% AMI	1
One	1	110% AMI	1
One	1	Market	4
Two	2	80% AMI	1
Two	2	110% AMI	1
Two	2	Market	16
Three	2	80% AMI	1
Three	2	Market	2
Total			27

Summary of Methodology

In considering the fiscal impacts of the Proposal, this report divides municipal service costs into two broad categories: general service costs (i.e. all non-education costs) and education costs. The non-education general service costs are generated from public safety-services (police and fire services). All departmental cost estimates discussed in this report were based on current fiscal year operating budgets (2018) and operational data provided by the City of Newton Finance, School, Police and Fire Departments.

With regard to the education costs, the Proposal’s annual student generation rate has been estimated by examining comparable monthly rents for other multi-family developments in Newton because monthly rental rates play a significant role in determining the number of school age children (“SAC”). Furthermore, we have reduced the student generation rate to a student per unit by unit type ratio. This allows us to compare different sized projects by matching apples to apples.

Education cost estimates are driven by an estimate of net additional school-aged children to be enrolled in the Newton Public School System. The basic formula for estimating the local education cost is: spending per pupil as reported by the Massachusetts Department of Education minus state Chapter 70 aid revenue source.

It should be noted that the service costs and revenue projections will vary from year to year based on the economy and occupancy.

General Service Cost Estimates

For general (i.e., non-educational) service costs, the report employs a combination of 2016 operating budget, among other things, and includes those service categories that will most likely exhibit a measurable additional cost due to the Proposal. In this case, the Police Department and Fire Department may be measurably impacted. The report combines the individual estimated departmental costs to generate a total general service cost estimate.

It should be noted that there are municipal operational budget categories that are not included in general service costs for purposes of determining the fiscal impact, such as existing debt payments, municipal services paid by enterprise accounts, or similar accounts, for water and sewer services. Furthermore, building department reviews and inspections are not included because they are paid directly to the City by fees charged to the Applicant. Because the Project is located on public ways, and all internal roadways will be privately maintained, we have not included costs for Public Works' responsibilities such as road maintenance and plowing of existing public roadways. In short, the measurable additional general service costs will be associated with police and fire service.

Existing Uses

The property is vacant land and vacant building. Currently, there are no existing service costs however, it is reasonable to assume that when it was a going concern as a restraint, there were services costs and sales revenues. Its current annual real estate tax is \$39,248.17.

Revenue Projection

Service costs represent only one part of the fiscal equation. In order to appropriately estimate the annual fiscal impact of the Proposal, the estimated annual revenue stream (total tax revenues accruing to the City must also be determined. Based on conversations with the City's Assessor this report has used a comparable value method based on existing developments with similar qualities and similar assessed valuation per unit.

One Time Fees:

In addition to revenue over time, there are one-time fees payable at receipt of building permits consisting of the following:

- One-time building permit fees are estimated to be approximately \$333,333. Based on new construction costs of \$16,650,000 and \$20/\$1,000.
- One-time application fees

In addition, the proposed development may generate more than \$1,019,038 in consumer spending in a one-mile radius, therefore providing additional meals and sale tax revenue (Esri, 2018).

Therefore, the Proposal will create a fiscally positive living opportunity in Newton. The following provides a summary of how we arrived at our findings:

General Service Costs

This report uses the City's FY2019 operating budget and in some instances, to estimate annual departmental costs associated with the Proposal and information provided by the applicable municipal departments.

To analyze service cost data, we examined information from four multi-family condominium developments in Newton (the “Properties”) as follows:

Table 3 – Properties

Development	Year Built	Total Units	One	Two	Three	Afford.
77 Court	2015/2016	36	3	28	5	25% @80%
35 Commonwealth Ave	2007	48	22	25	0	23% @80%
350 Boylston, Phase V	2003	22	0	21	1	0
336 Boylston, Phase II	2002	19	0	18	0	0

Since the Proposal is only 27 units, we looked at similar size developments with minimal amenities that are apartment flats with under building parking and were built after 2000.

Residential Service Costs – Police Department

Understanding the nature of calls for police services is the starting point of estimating annual police related costs associated with the Proposal. It is important to note that the majority of calls for police service in Newton and the region are not directly related to residential land uses or linked to a residential address. Office, retail, and industrial uses, plus public facilities, institutional uses, schools, recreational uses, City wide traffic management, directed patrols, and inter-community co-operation also create significant public safety demands and calls for service.

For the first part of our analysis, we examined police service calls generally and the costs associated with them, and then we narrowed this down to actual service calls to predominately market rate multi-family housing in Newton.

General Police Call Data

There are many different ways to evaluate police call data. We chose to estimate a per call cost, regardless of whether it was to a residence or a commercial property. In 2017, there were a total of 23,864 police calls. We examined the 2019 police budget as follows:

Table 4

Newton Police Department	2019 Budget
Budgeted Expenses	\$ 22,373,307
Less income	\$ 1,750,000
Net Expenses	\$ 20,623,307
Total Calls	23,864
\$ cost per call	\$ 864.20

Income was obtained from the office of finance (Rivkin, 2018).

Condominium specific police call data

To generate our cost estimate for the Proposal, we examined the number of police calls at the Properties. This information was taken from the City of Newton Police Department website.

This approach generates a cost estimate based on actual police service calls at comparable developments for the past three years. Table 4 below illustrates police call data for the Properties:

Table 5

Development	2015	2016	2017	3 Yr. Avg.	Per Unit
77 Court St	1	1	4	2.00	0.06
35 Commonwealth Ave	10	7	8	8.33	0.17
336 Boylston St	10	11	6	9.00	0.41
350 Boylston St	10	7	2	6.33	0.33

For the Properties, there was an average of 0.24 calls per unit per year. Applying the rate of 0.24 to the 27 proposed units generates an estimate of 7 calls per year.

Conclusion to Police Call Data at the Property

Assigning the **\$864 average cost to 7 calls** per year, this generates an annual additional police cost estimate of \$5,667. This is just .00002% of the overall net police expenses. We believe this is conservative since the prior use as a restaurant most likely generated police calls.

Residential Service Cost –Fire Department

We also obtained fire service runs for the Properties from Michael Bianchi of the City of Newton Fire Department as well as fire department personnel numbers (Bianchi, 2019)

Consistent with regional norms, due to significant improvements in fire safety and building codes in recent decades, fires are not a major percentage of fire department service calls for any community. This is due to new buildings having sprinklers and being hard wired with smoke detectors as well as fire doors, walls and other safety features not present in older properties. Therefore, the majority of fire service calls for newer structures are related to smoke scares, lock outs, fires in vehicles, false alarms, and car fires can be associated with multi-family development or residential development in general.

General Fire Service Calls

This report recognizes the fact that all fire service calls are not generated by residential land use, but our experience has indicated that it can be over 90% in any given year depending on the community. Accordingly, to be consistent with a conservative (high cost approach), this report will assign all of fire service calls to residential uses.

Like our police call analysis, we chose to estimate a per call cost, regardless of whether it was to a residence or a commercial property. In 2017, there were a total of 9,072 fire calls, the majority, like in most communities, were for medical related calls. This is due in large part to a growing aging population. We examined the 2019 fire budget as follows:

Table 6

Newton Fire Department	2019 Budget
Expenses	\$ 23,321,908
Less income from Inspections	\$ 400,000
Net Expenses	\$ 22,921,908
Total Runs	9,072
Avg Cost per Run	\$ 2,526.67

Income was obtained from the office of finance (Rivkin, 2018). Based on this information, we estimated an annual service cost per fire call in 2019 as \$2,526.

Specific Fire Service Calls

Development	2015	2016	2017	3 yr. Avg.	Per Unit
77 Court St	0	0	2	1	0.02
35 Commonwealth Ave	7	4	6	5	0.11
336 Boylston St	10	13	20	4	0.53
350 Boylston St	1	2	6	1	0.13
Total/Average	18	19	34	11	0.20

As indicated above, the comparable development analysis method generates a fire service call rate of **0.20 per unit per year**.

Accordingly, applying said average rate of 0.20 per unit to 27 proposed units generates an estimate of 5 fire service calls per year for the Proposal. At 5 additional annual calls to the site, the estimated fire service cost would be \$13,662 per year, this is less than .00005 of the overall net fire department expenses. We also note that 60% of the calls were medical related (i.e. not fire).

While we are not making any recommendations with regard to needed equipment and/or personnel given the relatively small impact the Proposal will have on the overall budget. In addition, much like most communities, the impact of medical calls lowers the amount of personnel on duty to respond to actual fire calls and/or request for mutual aid. We note that while the number of calls is increasing on a yearly basis, due to these factors, the fire department added 8 new full-time staff from 2017 to 2018 and increased its budget by over \$800,000.

Other General Service Costs

Water and sewer costs for the Proposal will be addressed via pay as you use fees established by the City of Newton. Similarly, building department costs will be covered by the required building permit fees. The additional population should not generate additional staffing requirements for general government services such as City Clerk, Treasurer, and for services

such as libraries or recreation. The roadways bordering the site will be maintained whether or not the Proposal proceeds; therefore, there is no measurable additional DPW cost.

Furthermore, budget items like current municipal debt are not applicable since they pre-date the Proposal. Accordingly, the municipal departments that will experience measurable additional costs in this instance are the Police and Fire Departments therefore we have not included any other general service costs.

Education Costs

Student Projection

We performed an analysis of student generation on the school aged children (“SAC”) rate for the Properties used in the public safety analyses above. Furthermore, rather than concentrate on the number of students per all units, we focused on the number of students per two and three bedroom units. This is because studio and one-bedroom units tend to generate few, if any, school age children. In addition to the number of two and three bedroom units, several other factors such as household income and the level of affordability need to be taken into consideration as well as the location of the property (i.e. urban, industrial, suburban).

The following are a list of factors that identify non-neighborhood residential locations. The key characteristics include operational isolation from traditional residential areas; visual and operational integration into commercial/industrial areas (mixed use); and primary access provided from nearby major highway or arterial. In this instance, we find that the proposal clearly fits the description of a non-neighborhood location.

- *Multi-family locations that are not physically or easily connected by pedestrian access to surrounding established residential neighborhoods, or are set off from traditional neighborhoods.*
- *Multi-family residences that provide minimal safe private recreation areas for children by design.*
- *Multi-family residences accessed primarily by elevators, usually buildings of 4 or more stories.*
- *Multi-family locations located in the midst of commercial strips, mixed use developments, commercial node enters, or locations that are visually and operationally a part of abutting commercial / industrial areas.*
- *Multi-family developments located on local high traffic ways or where primary access is via a highway interchange or a major collector roadway.*

The 4 one-bedroom units do not generate any measurable or sustainable level of school aged children. ***In general terms, only 22 of the proposed 27 units will generate school aged children and associated cost.*** Table 3 shows the number of bedrooms by bedroom type for the Developments and their income levels if they have affordability.

SAC Rate for Newton Properties

The table below shows the number of students currently enrolled in the Newton School system. The information was provided by Julie Kirrane, Director of Business and Planning, Newton Public Schools (Kirrance, 2019). It should be noted that none of these developments have three bedroom units.

Table 7

Development	# Students	Total 2+3 BR	Total Students Per 2+3 BR
77 Court	0	33	0.00
35 Commonwealth Ave	4	25	0.08
350 Boylston, Phase V	0	22	0.00
336 Boylston, Phase II	0	18	0.00

The Newton average for these developments is .02 students per two- and three-bedroom units. Therefore, at .02 per student, times 22 units according to the Proposal, equals potentially less than one new students.

Estimated Annual School Cost and Enrollment Patterns.

Based on information received from the Massachusetts Department of Education Actual Net Spending per Student (ANSS) for Newton FY 2018 is \$6,679.05 based on an enrollment of 12,857 students.

Table 8

City of Newton	2018
# Students	12857
Yearly Budget	\$ 108,662,422
State Aide Chp. 70	\$ 22,789,852
Total	\$ 85,872,570
CPS	\$ 6,679.05

Employing the above noted annual local cost estimate of \$6,679.05 per student, the projected annual estimate of 1 student for the Proposal produces an estimated annual school cost of \$6,679.05 (current dollars).

Total Service Costs

Table 9 below summarizes the estimated total annual municipal service costs associated with the Proposal.

Table 9

27 Units	
Expenses	
School	\$6,679.05
Police	\$5,667.64
Fire	\$13,662.52
Total New Expenses	\$26,009.22

Revenue Projection

The property currently generates \$39,248.17 in real estate taxes as a vacant restaurant building and land.

Estimated Real Estate Tax Revenue

For the purpose of generating a revenue estimate, we estimated real estate taxes based on an estimate of the potential sales revenue of the development, and discounted it to 90%. Typically assessed value can be no less than 90% of fair market value.

Table 10

Gross Sales/\$1,000	\$29,346.30
Gross Sales/\$1,000	\$29,346.30
2020 Tax Rate	\$10.44
RE Taxes	\$306,375
Less Current	\$25,502
Net New	\$280,873

Based on our calculations, the Proposal will generate net new real estate tax revenue in the amount of \$280,873. Since this property will not be coming on line for several years, this amount is our best estimate based on today’s market condition.

Since Newton has adopted the Community Preservation Act, we also applied 3% to the net new real estate tax revenue which generates an additional \$8,013 in revenue.

Estimated Excise Tax Revenue

In order to estimate the excise tax revenue for the Proposed development, we contacted the tax collector. Based on the 2017 excise tax revenue and the number of bills sent out per year, we estimated that each car generates approximately \$190.56 in excised tax revenue per year. Based on the number of parking spaces provided in the Proposal, 50, we estimate an annual excise tax revenue of \$8,528 (Dabuque, 2018).

Total Estimated Revenue

Based on the analysis of this section, Table 11 below summarizes the estimated annual revenue stream of the proposed Project less the existing taxes:

Table 11

Revenue	
Excise Tax	\$9,528.24
Net New Real Estate Tax	\$267,127.20
CPA Surcharge 3%	\$8,013.82
Total Revenue	\$284,669.26

This report finds that the Proposal will generate a strong positive fiscal profile. As noted in the conclusions section, the proposed Project will also generate substantial one-time fees.

Expenditures and Fiscal Impact

One important additional impact is the amount of household expenditures for goods and services that can be generated and captured within the local market, i.e., the level of new expenditures within the local market area. The Proposal, in effect, is in part a community economic development effort and its secondary fiscal impacts are addressed below.

Household spending is a key component of any economy, local or national. In many instances the discussion of household spending focuses on the percentage of disposable income available within the residential base of a community. While an important factor for economic activity, the introduction of new residential development provides an opportunity not only to capture additional disposable income but to increase other forms of expenditures within the community. For example, food purchases are not considered as disposable income but clearly a portion of any new households will purchase food from local convenience markets or supermarkets in Newton. Likewise, gasoline purchases are not considered as a part disposable income but clearly a percentage of new households will purchase gasoline from existing Newton stations. Accordingly, for the purposes of estimating the local economic benefit associated with the Proposal, this report addresses the anticipated level of *local expenditures* derived from the Proposal, including disposable income.

We estimate that the average income of the new market rate rental households associated with the Proposal will be approximately \$80,000. Assuming an average of 50% of available income expended on rent, roughly \$40,000 will be left for all other expenditures. Table 18 show the disposable income by age and net worth within a one-mile drive of the proposed Project based on 2018 ESRI data:

Table 12

1 Mile Drive Time				
Age	25-34	35-44	45-54	55-64
Average Disposable income	\$119,035	\$148,894	\$176,960	\$159,339
Average Net Worth	\$379,799	\$2,002,692	\$3,628,954	\$4,991,422

Table 13 shows an estimate of per household consumer spending on various categories within a one-mile drive of the proposed Project. If you assume 27 units, consumer spending could represent \$1,019,038 in the area, thereby generating additional meals and sales tax to the City of Newton.

Table 13

Average	
Food	\$22,132
Apparel	\$6,048
Computer	\$475
Entertainment	\$9,087
Per Year	\$37,742

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