

REPORT MEMORANDUM

TO: Gregory T. Federspiel
Town Administrator
Manchester-by-the-Sea
Town Hall, 10 Central Street
Manchester-by-the-Sea, MA 01944

DATE: January 11, 2021

SUBJECT: The Sanctuary – Fiscal Impact Peer Review

Purpose

RKG Associates, Inc. (RKG) was retained by the Town of Manchester by the Sea to complete an independent peer review of the fiscal impact analysis (Report) submitted for the proposed residential development, The Sanctuary, prepared by Fougere Planning & Development, Inc. on behalf of the developer/applicant, SLV School Street, LLC.¹

RKG's review includes the following summary findings, followed by additional detail on the input assumptions along with a separate analysis that offers alternative inputs, assumptions and findings.

Project Overview

As proposed, The Sanctuary is a 157-unit rental residential complex encompassing 192,948 square feet (SF) on a 23.2-acre site in the Town of Manchester by the Sea.² As RKG understands, this project is a "friendly" 40B development that includes a 25.0 percent affordable component (39 units) with the remainder as market rate (118 units). The project also includes below grade parking for 226 vehicles. The proposed project is a mix of one, two and three-bedroom units.

Summary Findings

The Report concludes that the net positive fiscal impact from The Sanctuary would be a \$132,232 (assuming a "high" education cost), compared to RKG's estimated net positive fiscal impact of \$131,977 (presented in Table 2). The major differences being the inclusion of potential students from the affordable one-bedroom plus units in the RKG alternative as well as a differing average cost per student.

The Town requested that RKG develop a similar fiscal impact for a hypothetical project of 120 units, which results in an estimated net positive fiscal impact of \$103,169 (Table 3).

Cautionary note – The variance between the net fiscal impacts as presented in the Report and the RKG reconciliation largely reflect the differing assumptions relative to the number of students (the RKG alternative includes an estimate of students from the affordable one-bedroom plus units) and the average cost per student, \$14,428 in the Report and \$11,314 in the RKG alternative. Additionally, as noted later, the estimated valuation of The Sanctuary presented in the Report, at approximately \$281,600 per unit, is towards the

¹ *Fiscal Impact Analysis – The Sanctuary at Manchester by the Sea*, prepared by Fougere Planning + Development, Inc., dated September 9, 2020.

² Identified as tax parcel 43/0/18, located on School Street and zoned Land-C (Patriot Properties).

high end of RKG's experiences elsewhere, but is not unrealistic for modern multi-storied residential properties. As the estimated valuation of The Sanctuary forms the basis for estimating property taxes, any deviations in this value will impact the final estimated net fiscal impacts.

Until the Town assessor has stabilized a valuation for The Sanctuary and the actual number of new students is considered, the estimated net positive fiscal impacts from the Report and the RKG reconciliation offer a reasonable expectation of these impacts. While a "final" net fiscal impact could be negative, depending on the aforementioned, RKG considers that overall, the project will be positive.

Report Review

The Report concludes that The Sanctuary, as proposed, will result in a net positive fiscal benefit to the Town of Manchester-by-the-Sea ranging from \$344,072 to \$132,232 depending on whether "low" or "high" education costs are considered.³

- **Value** - the Report indicates that the estimated assessment value of The Sanctuary is \$44,211,000 based on a review of area market conditions and preliminary rent levels.
 - RKG notes that it would be helpful for the Report to identify the market area comparables used in the analysis as well as a table of the proposed rent structure by unit, by type and bedroom mix. As is, this estimation of value results in an approximate value of \$281,600 per unit which is at the high end of other comparable projects familiar to RKG, although not unreasonable, and it has been used in this reconciliation.
- **Revenues** – the Report estimates that unadjusted gross property tax receipts total \$517,268.⁴ The Report also estimates approximately \$98,000 in vehicle excise tax receipts as well as \$7,759 in surcharge revenue from the Community Preservation Act (CPA) receipts.⁵ The Report concludes that the total estimated gross revenue is \$623,017.⁶
 - While RKG concurs that the "math" in estimating the revenues may be appropriate (and perhaps subject to revision if the estimated assessment value were different) the inclusion of all of these revenues as part of the Town's general funds, and thereby applicable in paying for municipal expenses, is not entirely correct. As RKG understands, the CPA surcharge is a dedicated fund and not applicable for calculation as part of a Town's ongoing general fund account.
 - The excise taxes are typically considered as a separate line item of "other revenues" but that it is an ongoing general fund receipt to the Town.

³ page 12 of the Report.

⁴ FY 2020 tax rate of \$11.70 per \$1,000.

⁵ A surcharge of 1.5 percent on total property taxes paid.

⁶ page 5 of the Report – **this excludes** an estimated annual reimbursement of \$6,544 for EMS services as noted in the Report.

- RKG notes that the Report does not appear to make an allowance for existing tax revenue, represented by the property “as is” which is assessed at approximately \$1.3 million with property taxes totaling \$15,032.⁷

Conclusion – Excluding CHA revenues and netting the existing taxes reduces the net fiscal impact in the Report by \$22,791 from \$321,281 to \$109,801 depending on whether the “low” or “high” education costs respectively, are considered. Noting that there would also be annual receipts of \$98,000 from excise taxes (as in the Report). This is prior to any consideration of possible alternative “costs” of the project, as considered by RKG, and which may differ from those presented in the Report, if applicable.

- **Town Expenses** – the Report considers that the primary “cost” of the proposed project, resulting of the increase in population and households, will be realized by the Fire and Police Departments (Education will be discussed elsewhere in this memorandum). The Report further notes that all trash and snow removal costs will be borne by The Sanctuary and did not included any possible costs to the Department of Public Works, but for a general cost of \$10,000/annum.
 - **Police Department** – the Report presents a cost to the Police Department developed from an estimated increase in annual call activity (at 59 calls) and from discussions with Police Chief Todd Fitzgerald.⁸ At an average cost of \$473/call, the estimated costs to the Police Department total \$27,907 as noted in the Report.
 - RKG notes that the estimated annual call volume was developed from a sample of 1,174 rental units from 14 different complexes, none of which are located in Manchester by the Sea.⁹ The average call volume from this sample was 0.337/unit - resulting in an estimated 59 calls for The Sanctuary (157 units X 0.377).
 - To what extent these 14 complexes included affordable housing was not specified (although implied in Table 11 – page 10 of the Report).
 - **Fire/EMS Department** – the Report presents a cost to the Fire Department developed from an estimated increase in annual call activity (at 27 calls in total with 11 for Fire and 16 for EMS) and from discussions with Fire Chief Jason Cleary.¹⁰ At an average cost of \$1,096/call, the estimated costs to the Fire Department total \$29,592 as noted in the Report.
 - RKG notes that the estimated annual call volume was developed from a sample of 2,917 rental units from 13 different complexes, none of which are located in Manchester by the Sea.¹¹ The average call volume from this sample was 0.173/unit (or 0.068 for Fire and

⁷ This specifically assumes that the estimated value of \$44,211,000 from the Report is inclusive of a land value and if so it is appropriate to deduct the “as is” tax receipts resulting from the estimated land value (per Patriot Properties) of \$1,284,800.

⁸ page 6 of the Report.

⁹ page 6 of the Report.

¹⁰ page 13 – Appendix in the Report.

¹¹ page 14 – Appendix in the Report (Lynnfield Commons was included in the Police call sample, but not in the Fire/EMS call sample).

0.105 for EMS) - resulting in an estimated 27 calls for The Sanctuary (157 units X 0.173).

- To what extent these 13 complexes included affordable housing was not specified (although implied in Table 11 – page 10 of the Report).
- The Report further noted that reimbursed ambulance call income for the Town was approximately \$409/call or in the case of The Sanctuary \$6,544 (\$409 X 157 units X 0.105/calls per unit). As a result, the net cost to Fire/EMS was estimated at \$23,048.¹²

Conclusion – As noted previously, while the Report does not make an allowance for potential costs specific to the Department of Public Works, an unspecified general cost of \$10,000/annum is included (*please note the summary conversation RKG had with DPW Director Dam - in the Appendix*). Under these inputs and assumptions, the estimated total municipal costs resulting from The Sanctuary are \$60,955¹³ (which is net of the assumed EMS reimbursement of \$6,544). RKG conducted interviews with Town Department Chiefs and other representatives (as summarized in the Appendix of this memorandum).

- **Education Costs** – the Report estimates The Sanctuary could result in the addition of 30 students to the school system¹⁴ as developed from a sample of nine apartment complexes (none of which are in Manchester by the Sea)¹⁵ including a total of 2,631 units with nearly 53.0 percent (1,394 units) as two- and three-bedroom units.¹⁶ The reports states that the sample is from a “database of over, 2,600 40B apartments” and RKG assumes that all have a 25.0 percent affordability component although this is unverified and not specific to bedroom mix of affordable units.

This sample of 1,394 units has 534 students indicating a school age children (SAC) metric of 0.383 students per unit (blended for two- and three-bedroom units).¹⁷ Applying this metric to The Sanctuary results in an estimated 30 students (77 units X 0.383 SAC/unit).

- **“Low” Education Costs** - the Report indicates that discussions with Superintendent Pam Beaudoin and the Director of Finance Avi Urbas did not raise specific capacity concerns, although if the potential students are primarily elementary age this may necessitate the hiring of an additional teacher (\$110,000 annually). Further, if the potential students included students with special education needs, the average cost per such student was estimated to be \$18,000 annually. The Report estimates that perhaps six of the 30 students may have special education needs for a cost of \$108,000. Under these inputs and assumptions student costs are estimated to total \$218,000.¹⁸

¹² page 7 of the Report.

¹³ page 12 of the Report.

¹⁴ page 9 of the Report.

¹⁵ page 10 of the Report – Table 11.

¹⁶ By comparison, The Sanctuary, as proposed, will have 77 units (49.0 percent) as two- and three-bedroom units.

¹⁷ page 10 of the Report – Table 11.

¹⁸ page 10 of the Report.

- **“High” Education Costs** - the Report indicates that the gross per student cost is \$14,428.¹⁹ Applying this factor to the estimated 30 students results in a cost of \$429,840.

RKG Alternative and Reconciliation

By in large, RKG concurs with many of the inputs and assumptions as presented in the Report and has utilized them in an alternative fiscal impact analysis, noting the following issues:

- The Report indicates an estimated assessed valuation of The Sanctuary at \$44,211,000 based on a review of area market conditions and preliminary rent levels. It would be helpful for the Report to identify the market area comparables used in the analysis as well as a table of the proposed rent structure by unit, by type and bedroom mix. As is, this estimation of value results in an approximate value of \$281,600 per unit which is at the high end of other comparable projects familiar to RKG although not unreasonable and it has been used in this reconciliation.

However, the Report also includes the CPA tax receipts as part of the ongoing general fund revenues, while RKG believes these to be a dedicated tax and as a result has not included them in the reconciliation.

- The Report developed estimates of public safety service costs as derived from an increase in call activity resulting from the new households and residents. The Report further indicates that discussions were held with representative Department personnel regarding these estimates. RKG concurs that there are several acceptable methodologies in estimating municipal costs and that an increase in call activity is applicable and has applied the Report’s costs in the reconciliation.
- The Report offers a “high” estimate of education at \$14,428 per student noting that this is a gross cost. RKG typically considers only variable costs, or those likely to increase with an increase in enrollment and has estimated this at \$11,314 (Table 1) which RKG has utilized in the reconciliation.
- The Report indicates that The Sanctuary could result in the addition of 30 students to the school system as developed from a sample of nine apartment complexes including 1,394 units with 534 students indicating a school age children (SAC) metric of 0.383 students per unit (blended for two- and three-bedroom units). The Report applies this SAC metric to only the two- and three-bedroom units indicating that it is unlikely that one-bedroom units will result in additional school age children.

While RKG generally concurs, The Sanctuary, as proposed, will have some affordable one-bedroom-plus units which may result in some additional school age children. Discussions with representatives of the School Department concurred and as a result RKG has included an estimate (SAC) for the affordable one-bedroom-plus units.

¹⁹ page 11 of the Report.

Table 1 – Estimated Variable Students Costs

Manchester-by-the-Sea, MA - General Fund Expenditures FY 2019 - Education		Variable General Fund
	<i>Instructional Leadership</i>	\$ 1,576,943
	<i>Teachers</i>	\$ 10,614,760
	<i>Other Teaching Services</i>	\$ 1,506,854
	<i>Inst Materials/Equip/Technical</i>	\$ 471,271
	<i>Pupil Services</i>	\$ 1,381,877
	<i>Transportation Services</i>	\$ 468,672
	<i>proportional share of Out of District</i>	\$ 26,459
Subtotal		\$ 16,046,836
TOTAL		
	<i>Students in District</i> 1,385	
	<i>Students out of District</i> 33	
Estimated variable \$ / student		\$ 11,314

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

- In terms of the SAC metric (0.383 students per unit) used in the Report, discussions with School Department representative considered this to be a reasonable estimate, in light of no conflicting “local” metrics. However, concerns were raised that a SAC multiplier for the affordable one-bedroom plus units should be included. Considering RKG’s information from other communities elsewhere in the state, a SAC of 0.49 students per affordable one-bedroom plus units has been applied resulting in an additional six students (12 units X 0.49 SAC/unit), or 36 in total.

As a result, potential students costs in the Report range from \$218,000 (direct cost approach) to \$429,840 (per student cost) with both based on an assumption of 30 additional students. The estimated education costs in the RKG alternative, at \$407,304, is based on an average cost of \$11,314 per student and reflects an estimated additional 36 students.

Table 2 – The Sanctuary – Fiscal Impact Reconciliation

The Sanctuary at Manchester-by-the-Sea - Fiscal Impact Reconciliation	from the Report (1)	RKG alternative (2)	RKG vs Report
Fiscal Impacts			
<i>Estimated valuation of The Sanctuary</i>	\$ 44,211,000	\$ 44,211,000	\$ -
<i>Estimated property taxes (FY 2020)</i>	\$ 517,268	\$ 517,268	\$ -
<i>Estimated Excise Tax Receipts</i>	\$ 98,000	\$ 98,000	\$ -
<i>CPA tax receipts</i>	\$ 7,759	\$ -	\$ (7,759)
<i>less municipal service costs (residential)</i>	\$ (60,955)	\$ (60,955)	\$ -
<i>Police</i>	\$ (27,907)	\$ (27,907)	\$ -
<i>Fire / EMS (net)</i>	\$ (23,048)	\$ (23,048)	\$ -
<i>Other</i>	\$ (10,000)	\$ (10,000)	\$ -
<i>less "as is" taxes (FY 2020)</i>	\$ -	\$ (15,032)	\$ (15,032)
<i>less estimated Education costs</i>	\$ (429,840)	\$ (407,304)	\$ 22,536
NET (annual and ongoing)	\$ 132,232	\$ 131,977	\$ (255)

Source : Fougere Planning + Development and RKG (2020)

(1) The Report applies an average cost per student of \$14,428.

(2) The RKG alternative applies an average cost per student of \$11,314.

Alternative Development Option

The Town requested that RKG develop a hypothetical fiscal impact analysis for a smaller 120-unit project. In developing this, RKG considered that all existing metrics would be proportional to the unit count. For example, the estimated costs for police services are \$27,907 or \$178 per unit. The costs for police services for a 120-unit complex would then be \$21,330. Further, assuming that the mix of a hypothetical 120-unit complex mirrors that for the 157 units at The Sanctuary, the estimated students (with the affordable one-bedroom plus component) is 27 students. The results of the fiscal impact analysis for a hypothetical 120-unit complex (Table 3) indicate an estimated net positive fiscal impact of \$103,169.

Table 3 – Hypothetical 120-unit Development

The Sanctuary at Manchester-by-the-Sea - Fiscal Impact Reconciliation	Hypothetical 120-units (2)
Fiscal Impacts	
<i>Estimated valuation of The Sanctuary</i>	\$ 33,791,847
<i>Estimated property taxes (FY 2020)</i>	\$ 395,365
<i>Estimated Excise Tax Receipts</i>	\$ 74,904
<i>CPA tax receipts</i>	\$ -
<i>less municipal service costs (residential)</i>	\$ (46,590)
<i>Police</i>	\$ (21,330)
<i>Fire / EMS (net)</i>	\$ (17,616)
<i>Other</i>	\$ (7,643)
<i>less "as is" taxes (FY 2020)</i>	\$ (15,032)
<i>less estimated Education costs</i>	\$ (305,478)
NET (annual and ongoing)	\$ 103,169

Source : Fougere Planning + Development and RKG (2020)

(1) The Report applies an average cost per student of \$14,428.

(2) The RKG alternative applies an average cost per student of \$11,314.

Appendix

The following summarize RKG’s conversations with Town Department Chiefs and other representatives.

- **Chief Jason Cleary (Fire/EMS)** – Chief Cleary indicated that his department has 14 full-time (on call or off-duty) fire personnel, with a shift consisting of three on-duty per shift in addition to himself (or another officer), while the preferred shift consists of five personnel.²⁰ The department runs four shifts. The Chief stated that with or without The Sanctuary his department required eight additional personnel. Chief Cleary noted that annual cost (salary and benefits only) for a fire fighter was \$100,000. He also noted that his department will likely have to replace a ladder truck within the next two to five years at an estimated cost of \$1.2 million. Chief Cleary notes that this is a routine replacement, not directly necessitated by the proposed The Sanctuary development, but potentially hastened by it citing that a

²⁰ This is in keeping with National Fire Protection Association (NFPA) standards.

multi-storied project (with a garage) the scope and density of The Sanctuary is not currently present in the Town.

Chief Cleary had spoken with representatives of Fougere Planning + Development regarding the proposed 40B project and indicated that the use of a “cost per call”, with the potential EMS reimbursement, was a reasonable measure, but did not reflect the broader costs associated with a call response or how it may impact his department’s ability to provide services. For example, a response to The Sanctuary would most likely consume his entire department and affect their capacity to serve other calls, if they arise, throughout the Town. In such a scenario, additional off-duty personnel would need to be called in, if available, or mutual assistance from neighboring communities would be required.

Chief Cleary also noted that if a medical aid call were required, it could potentially tie up two ambulance personnel for an hour (estimated travel time to and from Beverly Hospital) leaving the department short-staffed. While the Chief realizes that this could be the case in any such medical aid call he expressed concern over the possibility of increased activity from an additional 157 residential units in Town. He also considered that the physical location of The Sanctuary is somewhat removed from the core development in the Town.

Chief Clearly stated that possible impacts to his department could be partially mitigated from a state-of-the-art development, fully sprinklered, with alarms, proper and accessible hydrant locations and potentially improved access. In summary, Chief Clearly did not suggest that The Sanctuary, in and of itself, would necessarily place a burden on his department’s capacity to provide services, but rather add to, and heighten, existing shortfalls and concerns.

- **Chief Todd Fitzgerald (Police)** – Chief Fitzgerald noted that his department was short three personnel at the time of his discussions with representatives of Fougere Planning + Development but has subsequently hired two additional personnel and has one out on disability. His department currently consists of 27 persons, with 14 full-time (including the one on disability), approximately six reserve personnel and then part-time and staff support personnel.²¹ Annual salary and benefits for a police officer are approximately \$100,000 and the cost of a replacement cruiser is around \$55,000 (typically replacing a vehicle after four years in service).

While the Chief believes that the Report estimate of approximately 3,740 calls for service in 2019 for his department may be low, and if so, this may reduce the calculated cost per call (at approximately \$475) he also notes that the estimated annual 59 calls for service, originating from The Sanctuary may similarly be low. Chief Fitzgerald reached out to Department Chiefs in Cohasset, Boxborough and Bedford, all with similarly sized departments and 40B developments, and found that annual activity increased by an average of 150 calls in each community after the stabilization of their 40B project. The Chief considers that the call volume impact in his community may mirror that in those communities, but also noted that none of the Department Chiefs with whom he spoke stated that the 40B project in their community necessitated additional staffing.

²¹ The department is accredited through the Massachusetts Municipal Association and currently meets their standards per Chief Fitzgerald.

Chief Fitzgerald expressed some concern over the potential increase in call activity resulting from The Sanctuary could stretch his department thin at times, but also noted that not all calls are the same length of time in duration (for example serving papers could be a five-minute call or less). In summary, the Chief notes that his department’s call volume, in absolute, is likely to increase but may not, in and of itself, require additional staffing. He also indicated that possible impacts to his department could be partially offset by proper on-site management at The Sanctuary.

- **Pam Beaudoin (Regional School Superintendent) and Avi Urbas (Director of Finance)** – both indicated that the school has the capacity for an additional 30+ students if there was not a heavy concentration of these students in one or two grade levels. They also considered that the Report estimate of \$14,428 per student cost may be high, but preferred to “err conservatively, meaning not to understate potential impacts. Concerns were raised that it may be possible that a student (or students) from The Sanctuary may result in out-of-district costs, at \$60,000 to \$85,000 per student annually. As such, further reinforcing the notion to “err conservatively”. Also, concerns were expressed regarding the potential for students as a result of affordable one-bedroom plus units, citing the overall quality of the school system as a positive and potential tenant characteristics such as a single-parent household.
- **Charles Dam (DPW Director)** – Director Dam indicated that if The Sanctuary were to be responsible for all trash removal, snow plowing and other on-site maintenance as indicated in the Report, then impacts on his department would be minimal, if at all. The allocation of \$10,000 for “other costs” in the Report appears adequate to Director Dam for potential incidental costs that may result for his department.

However, other issues were mentioned by Director Dam particularly as they may relate to water and sewer services. While the Report states that “*the site will be serviced by public water and onsite septic*”²² Director Dam is uncertain whether this means that each unit will have its own meter resulting in some additional billing and administrative efforts from his staff to process another 157 billings, or will billings be for a single entity which is The Sanctuary. Director Dam offered that his preference would be for his department to “bill the property” rather than 157 separate tenants. If individually metered and billed there is some revenue to the department as the cost of a meter is approximately \$200. In either event the Director assumes that The Sanctuary will bear the costs of extending water lines, the costs of metering and will offer his department some allowance for completing a review of the proposed extensions and associated costs.

Additionally, if The Sanctuary eventually opts for tying in to the sewer system, rather than onsite septic, additional expenses will be incurred for extending the line, assumed to be borne by The Sanctuary. Also, if onsite septic is dismissed, the Director indicated that his department would need information on projected usage in order to determine how it may affect the Town’s current capacities. Director Dam assumes that The Sanctuary would pay for all costs of extension, connection fees and provide allowances for engineering reviews on the part of his department.

²² page 1 of the Report.