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MEMORANDUM

TO: Ross Moldoff, Planning Director
Town of Salem, NH

FROM: RKG Associates, Inc.

DATE: September 19, 2017

SUBJECT: Review of Tuscan Village Fiscal Impact Analysis

This memorandum summarizes RKG's preliminary findings of our review of the Applied Economic Research (AER) analysis of the fiscal impacts associated with the planned development of the "Tuscan Village" project at the former Rockingham Racetrack in Salem. AER's summary report, entitled *Tuscan Village Phase I and II Fiscal and Service Impacts: Supplemental Analysis* is dated September 13, 2017. This report was preceded by two earlier reports which estimated the impacts for each phase, the findings of which are included by reference in this latest report.

RKG's scope of work included review of the data and methodology used by AER to develop its findings and to test key assumptions utilized in the analysis. RKG was not scoped to prepare an independent analysis of the impacts. RKG reviewed the preceding Phase I and II reports including draft versions, met with and corresponded with AER on several occasions, as well as met with and corresponded with Town officials including major department heads.

Our overall conclusion, based on our review of AER's work and our own analysis, is that the project will be fiscally positive, with municipal revenues exceeding municipal service costs. However, the overall net impact (revenues less costs) is likely to be different from what was estimated by AER, but not significantly so.

<u>Project Summary</u>

The Tuscan Village project has continued to evolve throughout the analysis, with land uses, layouts and total project size changing. AER's report includes the latest development program for the northern end of the property (Phase I) that contains 752,700 square feet (SF) on approximately 50 acres and which received preliminary approvals from the Salem Planning Board. The plan for Phase I has changed slightly since the 2016 report was issued, which looked at 350 residential units and 200,000 SF of retail. The 120-acre southerly portion which contains 2,051,500 SF of built space (for a total of 2,804,200 SF) and includes a variety of uses including retail, hospitality, residential and office. Gross square footage by use was provided along with a schematic of the layout. Specific uses such as the exact type or identity of tenants (excepting Market Basket as the grocery anchor in Phase I and the Tuscan brand market, restaurant and hotel in Phase II) was not provided, although the layout plan provides additional detail that was not broken out in the totals nor utilized by AER in its analysis. As a result, the estimation of revenues and costs has been done using general assumptions regarding value, employment and other factors used to determine fiscal impacts. *As specific users are identified, the results of this analysis may change.*

The following table lists the latest development program for Tuscan Village that was analyzed in the AER report. ***This table contains mathematical errors which could impact the outcome of the report.*** First, the north and south totals do not add up to the 2,575,200 shown in the Total column, but instead total 2,804,200, and the number of residential units do not add up (300 + 256 = 556 vs 536).[1]

Table 1 - Development Program

Development Program				
Square Feet				
	South per 6/5/2017 Plan	North: Per 9/5/2017 Plan	Total	Units
Anchor Retail	505,000	80,000	585,000	
Other Retail	505,500	80,700	586,200	
Other Retail Auto Dealership		38,000		
Office	204,000	-	204,000	
Hotel	125,000		125,000	
Tuscan Retail	38,000		38,000	
Subtotal: Nonresidential Square Feet	*1,377,500*	*198,700*	*1,538,200*	
Residential Multi Family-Units (300 Units South, 256 North)	483,000	266,000	749,000	536
Assisted Living (160 Units)	191,000			
Residential Townhouses (96 units)	-	288,000	288,000	96
Total Square Feet	2,051,500	752,700	2,575,200	632

Phase I (North) includes a grocery anchor store and other retail, along with some office space, an auto dealership and 256 multifamily residential apartments and 96 townhouse units. The layout plan identifies at least 2 restaurant tenants (and possibly a third fast food outlet) and a pad site for a bank branch. Construction of Phase I residential components (apartments and condominiums) are currently underway. Phase II (South) includes over 1 million square feet of retail space (including a single large nationally known anchor store), Tuscan-branded hotel and retail (thought to include a restaurant component), an assisted living facility, 300 multifamily units and parking for 4,950 cars. The site plan identifies a 60,000 SF cinema complex, 54,000 SF of office located on one level over the central retail "village center", two free-standing office buildings of 100,000 SF and 50,000 SF, 300 multifamily units located on three floors over retail, and a 184,000 SF, 160-unit assisted living facility. The site plan also includes 8,400 SF of free standing "pavilion food/retail" which are assumed to be kiosk-style outlets. Site and infrastructure improvements will require substantial investment both on and off the property, including nearby streets and utility systems.

AER's report also included a proposed timeline for completion of the project, with all project components completed and on-line by the end of 2020 (approximately 3½ years). No market study, presenting an analysis of supply, demand and absorption metrics, or other information was provided in support of this schedule, which in RKG's opinion, appears overly optimistic.

[1] It appears that the total square feet for the auto dealership and the assisted living components did not get carried over to the Total column.

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Methodology

The AER report (and the earlier Phase II report which supports it) used a variety of commonly accepted means to estimate the fiscal revenues and costs associated with the proposed project. The previous reports relied on an average cost approach to estimate municipal and educational service costs. The final report utilized a marginal cost approach after AER and RKG discussions regarding the relevancy and applicability of the two methods.

Typically, fiscal impact analysis looks at the incremental revenues and costs associated with any new development within a community. When the scale of development is relatively small, then an average cost approach is an appropriate methodology based on the assumption that past costs are the best indicator of future costs, and that any particular project will not result in any substantive changes in the way municipal services are delivered or funded. For other projects that may have a material impact on the delivery of services, a more detailed marginal cost approach is often preferred, where the estimated costs are based on analysis of actual Town department activities and capacities.

Municipal Revenues

The AER report included only property tax revenues in its analysis, which were estimated by multiplying the Town's tax rate by the estimated assessed value, using typical per square foot assessment values which AER derived from discussions with the Town assessor and from comparable projects located in Massachusetts and New Hampshire. No other revenues, such as from vehicle registration fees, fines or charges for services that the Town imposes on residents and businesses were included, other than mandated one-time impact fees and building permit fees. In RKG's experience, these other revenues typically range from $500 to over $1,000 per capita and with nearly 1,000 new residents anticipated to live in the 556 housing units, this could generate between $250,000 and $500,000 of additional revenue. Other revenues from the added business and employment base can also be reasonably anticipated. However, the increase in overall anticipated revenues, if included would be relatively small compared to the property taxes from the project.

The AER report estimated property tax revenues based on the anticipated assessed value per square foot (psf) for the various components, and which ranged from $120 psf for multifamily apartments to $350 for 'other' retail, based on assessment practices in Salem and comparable developments elsewhere. These estimated baseline values (particularly in the aggregate) appear to be reasonable based on RKG's experience, although individual components might vary up or down. RKG's analysis of the numbers presented in the report (as shown in Table 1) indicated that the multifamily units (ostensibly rental apartments and not condominiums) were large by typical market standards at 1,039 SF per unit for those in Phase I and 1,610 SF per unit for those in Phase II. The average per unit value works out to be $124,688 per unit for Phase I and $193,200 for Phase II. No explanation or rationale was provided for how these figures were derived or their variation.[2] RKG typically uses hard construction costs as a proxy for assessed value, and if applied here would indicates a somewhat higher valuation and resulting tax revenues. For the townhouse units in Phase

[2] A comparison with a sample of rental units in Salem in terms of average size could be helpful, or a market study indicating current development activity and rental SF per unit.

I, the unit size and assessed value works out to be 3,000 SF per unit and $555,000 per unit ($185 psf), which appears to RKG to be within reason, although larger than what is typical in the Salem market. Again, no market study was provided to indicate the appropriate unit size, prices, amenities and absorption of these units or the retail and office components of the project. In RKG's experience, such a market study provides a level comfort to the analysis by reflecting prevailing market conditions. Such a market study, while not necessarily critical to the fiscal impact analysis, would provide a better sense of when the Town's revenues and costs would occur.

Revenues applied to Educational service costs were derived by multiplying the total assessed valuation by the sum of the Town and State school tax rates ($10.42 and $2.39 respectively). This assumes, without notation or reference, that 100 percent of the taxes collected by the State of New Hampshire in Salem are returned in the form of direct payments or grants in aid. No additional analysis was included in the AER study to verify this assumption.

<u>Municipal Service Costs</u>

The AER analysis for the combined Phase I and II of Tuscan Village utilized a 'marginal/variable cost' approach, whereby certain portions of some departmental budgets were assumed to change with changes in either population or employment while other costs were not to change, such as debt service.[3] These were summarized on page 9 of the report and totaled $22,277,600 (representing the Town's variable costs) associated with providing Assessing, Planning, Police, Fire, and Municipal Services to development within the community. The addendum provided some additional detail but did not explain why these individual costs were considered variable while others (not described) were not. To determine the per capita factors for allocating costs, AER first split the total variable costs between the residential tax base and the commercial tax base according to assessment values (68% and 32% respectively). This is a standard fiscal impact methodology, although parcel counts and other factors are also sometimes utilized. The respective totals (residential/commercial) were then divided by the Town's 2016 population (28,752) and the number of employees in Salem (22,000) to derive the per capita cost for these selected municipal services. For the residential components, AER utilized a factor of 1.78 persons per unit (source cited is "Mayberry Impact Fee Analysis p. 30") to get a **per unit** cost of $940 (per year). For commercial uses, it calculated a **per employee** cost of $320. These factors are then multiplied by the estimated number of units (632) to get total residential costs of $594,080 and by the estimated employment of 3,250 to get total commercial costs of $1,040,000.

Commercial employment was calculated using a factor of 500 SF per employee for all uses other than office and hotel, and 250 SF per employee for office uses. Hotel employment of 50 was used with no explanation. Retail employment factors range widely, as indicated in AER Addendum #2, from under 200 SF to over 1,000 SF. Since the types and size of retail uses at Tuscan Village is shown in the Master Plan, AER chose instead to utilize a broad-brush average. Although RKG in general agrees with the average factor utilized, a more detailed analysis that included different factors for restaurants (fast food and table service), large format and smaller specialty retail stores, the cinema complex, and other uses shown in the Master Plan would provide much more useful and reliable estimates. The

[3] This assumption is valid only if all the capital costs associated with the Town's capacity to absorb a project are accounted for elsewhere, such as through impact fees.

office factor appears to be appropriate. The 50 employees assumed to work at the 175-room hotel (that includes meeting space and banquet service) is underestimated in RKG's opinion. Typical hotel employment factors range from 0.3 employees per key (room) for smaller limited service hotels to 1.0 for full service resort-style properties. For what is intended here, an employment factor of at least 0.5 should be utilized, resulting in 80 to 100 employees.

For the estimate of municipal service costs based on population, the AER report used a total of 632 housing units. This likely should be 656 to include the previously reported total of 556 multifamily (which were mistakenly reported as 536) and 96 townhouse units. Employment at the 160 assisted living units was not accounted for, and would likely add another 100+/- employees to the total.

Overall, while the estimates would change based on more detailed analysis and correction of math errors, the "bottom line" impact on the total variable municipal costs is not large.

Education Costs

The AER report indicated that, based on discussions with the School Department, the school system has the capacity to absorb the estimated 130 public school aged children that would live at Tuscan Village, and only the marginal costs for transportation and student support services would be impacted. These costs totaled $6,201,682 or $1,740 per student, resulting in a total cost of $226,200. The student generation factors were derived from work done for the town and are in line with RKG's recent experience in other communities.

Annual Net Fiscal Impact

The report concludes that the Tuscan Village project, as proposed, will be fiscally positive with municipal revenues exceeding municipal service costs by nearly $1.6 million annually. RKG concurs that this is a reasonable estimate, noting that any adjustments to the methodology or factors utilized would change the totals, but only marginally. Similarly, the impact on the Salem School District is very positive, generating over $6 million in net revenues. The report combines the two sources for a total positive fiscal impact to the Town of $7,647,720; however, this is not necessarily an accurate representation. Town revenues and expenses reflect changes to the General Fund, while School revenues and expenditures are accounted for completely separately and distinctly. In this case, the Salem School District will enjoy windfall net gains from Tuscan Village while the Town's General Fund will be modestly enhanced, if the project develops as envisioned and that economic and fiscal conditions do not change. The Town cannot, without special legislative action, utilize School Department revenues for General Fund expenditures, and vice versa.

Impact Fees

The AER analysis reports (page 14) total one time impact fees of $9,768,100 broken out by activity area (public safety, recreation, traffic and schools), including $3,821,300 from the residential development and $5,946,800 from the commercial, which were concurred with by Town staff, according to AER. This total was calculated using the erroneous total number of multifamily residential units (536 vs 556) and will be somewhat higher when corrected. Since these numbers are set by ordinance and are outside the scope of RKG's review, no further comment is provided other than to indicate that the AER analysis did not include any discussion of what the impact fees would be used for within the various departments into which they are earmarked. As noted earlier, if these impact fees are

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sufficient to cover all the capital costs necessary to support the proposed project, then the marginal cost analysis used to estimate the net fiscal impacts is appropriate. On the other hand, if additional capital costs are needed, this will likely change the Town's fixed costs and that impact should be analyzed and accounted for.

Building Permit Fees

The AER report estimated total building permit fees of $5,658,000 based on the Town's current fee schedule of $12 per thousand dollars of improvement value based on the previously estimated total net assessment value. Building and other permit fees are used to offset the costs of issuing permits and inspecting building projects. These fees are often included in the development agreement for complex properties since much of the actual permit-related activity is done by contracted third party experts and not Town employees. The AER report provided no explanation of how this process will be undertaken for Tuscan Village so RKG must take this amount at face value. These revenues will flow to the General Fund unless other arrangements are made through the development agreement.

Sewer and Water Access Fees

A more detailed explanation of how these estimates of $6.5 to $9.5 million were derived would be helpful. It is assumed by RKG that the Town's water and sewer departments are operated as independent Enterprise Funds so that all revenues and expenditures do not impact the General Fund.

Project Timing & Schedule

The AER report includes a timeline for completion of the project that starts immediately and ends in last quarter 2018. As stated earlier, it is RKG's opinion that this is a very aggressive program that may be hard to meet both from a construction perspective, as well as from a market perspective. No market analysis was provided to support the lease up or sale of the project components, or that reflected the timing of the development.

In discussions with AER, RKG suggested that such a schedule be done and carried through to include estimates of the timing of the municipal revenues and costs recounted in the report. Many of the revenues, being based on property taxes, will not flow into the General Fund until the project is completed and occupied. Similarly, some municipal service costs may be incurred immediately while others will lag. Understanding how this "cash flow" will occur is an important consideration for the Town, and is recommended, along with more detailed analysis of the impacts on individual departments as the project from construction through stabilized occupancy and operation.