

## Memorandum

To: Town of Medfield and State Hospital Reuse Committee

From: Karl Seidman

Re: Review of Fiscal Impact Analysis by Fougere Planning and Development, Inc.

Date: June 17, 2022

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This memo summarizes the results from my review of the Draft Fiscal Impact Analysis report prepared by Fougere Planning and Development, Inc. for Trinity Acquisitions, LLC dated May 16, 2022. My review included:

- Reviewing the original and revised drafts of the Fiscal Impact Analysis
- Review of the Trinity Acquisitions LLC's income and expense proforma for the proposed project
- Interviews with the Assistant Town Administrator, Town Planner and Reuse Committee Chairs
- Interviews with the Town Assessor and School superintendent
- Collecting and reviewing data to assess the tax revenue estimates
- Reviewing the town's pipeline of future housing development to assess the potential cumulative impact of the State Hospital Reuse in conjunction with other Multifamily housing development on school enrollment.

In summary, the Fiscal Impact Analysis provides a sound and reasonable assessment of the proposed project's direct impact on town revenues and expenses. The analysis applies town assessment practices and a conservative estimate of project net income to estimate future tax revenues. It also draws on appropriate town staff estimates of the projects' marginal impact on town services, comparative data from multifamily housing development to estimate school-age children and service impacts, and current town budgets and operating cost data to estimate cost impacts.

One cost impact that is not considered is how the Medfield State Hospital reuse project, in combination with three other apartment complexes recently completed or under construction, may affect impact school facility needs. Preliminary estimates of the combined impact on school enrollment from all four projects is an additional 101 to 106 students. While this is not a large impact on school enrollment, the school system's capacity to absorb these new students will depend on their grade level. According to the school superintendent, if most of the new students are in the lower elementary schools, there may be an impact on the capacity of school facilities will to accommodate them especially at the Memorial School.

A more detailed discussion of the review of revenue and cost estimates follows.

### ***Tax Revenue Estimates***

Property Taxes. The Fougere analysis projects expected property tax and motor vehicle excise tax revenue. The property tax estimate applies Medfield's current tax rate of \$17.42 per thousand dollars of assessed valuation (AV) to an estimated AV of \$68,995,647 to yield annual tax revenues of \$1,201,904, applying a 44% expense ratio to Trinity's projected income after vacancy and a 7.8% cap

rate—the current rate used by Medfield’s Assessors. This valuation is a sound and potentially conservative estimate based on current assessment practices. Based on my calculations, using Trinity Acquisitions’ revenue estimates<sup>1</sup>, a 5% vacancy rate for all units (rather than 3% for affordable units), a 39% expense and reserve ratio (cited by the Town Assessor as the basis for calculating AV) and 7.8% cap rate, I arrived at an AV estimate of \$74,155,975 and property taxes of \$1,291,797.

It is important to recognize that market cap rates are tied to interest rates and investor return requirements and may change by the time the project is completed and its final assessed value determined. If the current inflation continues and is accompanied by higher interest rates, cap rates will increase with higher interest rates and the assessed valuation will be lower. For example, if the cap rate increases to 9%, the AV and property tax revenue would decrease by 13.3%

**Motor Vehicle Excise (MVE) Taxes.** The fiscal impact analysis projects \$117,920 in annual MVE tax revenue assuming 1.6 vehicles per household and an average vehicle value of \$8,839. These estimates are reasonable with the vehicle value figure based on the town’s average valuation as of April 2020. While there are 2.6 vehicles per housing unit in Medfield overall, the 1.6 ratio is appropriate for the reuse project given that 60% of the planned housing units are studio and 1 BR units.

**Meals Tax.** Medfield has adopted the .75% local option meals tax and will receive some additional tax revenue from local dining by new residents at the state hospital development. This impact will be modest in the range of \$9,000 to \$13,000 based on per household meals tax revenue in 2021 and 2019, respectively.

### ***Service Cost Estimates***

**Non-School Cost Impacts.** The fiscal impact analysis identified the main town departments that will be impacted by the state hospital, including Police, Fire, Outreach, Council on Aging (COA) and the Department of Public Works (DPW). For each department, the additional service needs from the new development was estimated based on either comparable data for service calls per housing unit from a large sample of apartment developments (Police and Fire) or the expected demographic mix of residents at the state hospital project (Outreach and COA). DPW costs were based on the additional linear feet of new roadways that will need to be maintained at the site after reuse. An average unit cost (e.g., per service call for Police and Fire, per capita for Outreach and COA, and per linear foot for DPW) from each departments’ budget was then applied to the new service need to estimate added town costs. The estimated cost impacts for the Police and Fire Departments were reviewed with the respective department heads to confirm their reasonableness. A provision for other cost impacts also was included at \$100/unit. The combined estimated increase in town costs across these departments and the general allowance is \$218.503.

The methodology used to estimate these cost impacts is sound and the resulting figures appear reasonable.

**School Costs Impacts.** School costs are the largest component of Medfield’s budget and the reuse project ‘s most significant cost impact will likely result from its impact on school costs through increased student enrollment. The study projects that the state hospital reuse project will increase school

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<sup>1</sup> I found the projected rents in Trinity’s Acquisitions’ proforma consistent with rents currently listed for Medfield apartments.

enrollment by 61 to 66 students, using data on the number of school age children (SAC) from two different databases of apartment developments. These projections seem reasonable and reflect the large number of studio and 1 BR units at the proposed project. Based on information from the school superintendent, this added enrollment is expected to increase annual costs for student transportation, special education and additional teachers by \$535,840.

Since the state hospital project is one of several new housing developments in Medfield, it is possible that the combined impact of new school enrollment from these multiple developments may generate additional fiscal impacts. Table 1 summarizes the unit mix for three additional family housing developments<sup>2</sup> – one completed in 2021, one partially complete and a third that is under construction. These three projects will add another 141 units, 48% of which are 3 BR and 4 BR units. Since Chapel Hill Landing and Medfield Meadows are largely occupied, the SAC ratios for occupied units at these projects were used to estimate the impact of the two projects on school enrollment when fully occupied. A lower SAC ratio was applied to the Aura-Legion project, as it will have a large share of one bedroom units. Based on these ratios, the three housing developments are estimated to generate 45 additional school students (see Table 2). These ratios and the resulting estimate may underestimate the final impact on school enrollment to the extent that the families that have moved into Chapel Hill Landing and Medfield Meadows have additional children over time.

**Table 1. Medfield Multifamily Projects, Recently Completed and Under Construction, May 2022**

| Development Name               | Status                    | Total Units | Studio | 1BR       | 2BR       | 3BR       | 4BR       |
|--------------------------------|---------------------------|-------------|--------|-----------|-----------|-----------|-----------|
| Chapel Hill Landing            | Partially complete - 2022 | 49          | -      | -         | -         | 14        | 35        |
| Aura – Legion                  | Under construction - 2022 | 56          | -      | 31        | 18        | 6         | -         |
| Medfield Meadows               | Complete – 2021           | 36          | -      | 5         | 18        | 13        | -         |
| <b>Total New Housing Units</b> |                           | <b>141</b>  |        | <b>36</b> | <b>36</b> | <b>33</b> | <b>35</b> |

Consequently, the combined impact of Medfield State Hospital and the three other projects is estimated to increase school enrollment by 101 to 106 students. While this is a modest impact on school enrollment and accommodate in existing school facilities, the school system's capacity to absorb these new students will depend on their grade level when the full impact is reached. According to the school superintendent, if most of the new students are in the lower elementary schools, there may be capacity issues. This is especially the case for the Memorial School where the school is currently limiting programs due to lack of space.

**Table 2. Estimated Student Enrollment at Additional Multifamily Developments**

|                            | Current Occupied Housing Units | SAC | SAC Ratio | Estimated SAC at Full Occupancy |
|----------------------------|--------------------------------|-----|-----------|---------------------------------|
| Chapel Hill Landing        | 44                             | 18  | .41       | 20                              |
| Aura – Legion <sup>3</sup> | NA                             | NA  | .20       | 11                              |
| Medfield Meadows           | 31                             | 12  | .39       | 14                              |

<sup>2</sup> Two senior potential housing developments are not included since they will not generate new student enrollment.

<sup>3</sup> A lower SAC ratio is used for Aura-Legion due to its large share of 1 BR units

|       |  |  |  |  |    |
|-------|--|--|--|--|----|
| Total |  |  |  |  | 45 |
|-------|--|--|--|--|----|

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Given the potential for an impact on school facilities, the town should monitor new school enrollments as the state hospital leases up and perhaps survey new residents on their plans for having children to better assess and plan for any impact on school facilities.

Since there is a projected net positive fiscal impact from the state hospital reuse project in the range of \$565,481 to \$768,681, this may provide sufficient revenue to cover future facility impacts should the arise, particularly if the capital costs are bonded and financed over five years or longer.