

EVALUATING THE TRUE COST OF DEVELOPMENT

ATFC Annual Meeting
October 18, 2014

Liz Allison
Belmont, MA

PURPOSE

Show that a town finance committee can develop a model of the costs of a new development that provides:

1. Accurate estimates of development costs, and
2. A framework for town decision making....

.....better than an outside consulting firm .

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REQUIREMENTS FOR TOWN FINCOMM MODEL

- o Understanding of economic concept of **“long run variable costs”**
- o Courageous school superintendent who is “team player”
- o Detailed understanding of town budget
- o Help as needed from Town Assessor, Town Treasurer

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COMPARISON OF FISCAL IMPACT

	FinCom m	Developer
Costs		
Municipal	\$153,312	\$153,018
School	\$381,885	\$130,932
Total	\$ 535,197	\$283,950


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BACKGROUND

Town



Project



**CHISHAM VALLEY PROJECT
FINANCIAL IMPACT REPORT**

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Developer's analysis
See <http://www.belmont-ma.gov/sites/belmontma/files/file/file/financialanalysis100912.pdf>

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- ### KEY TOWN FACTS
- Population: 24,729 (Census updated)
 - Number of households: 9465 (Census, TT)
 - School enrollment: 4063
 - FY 2015 budget: \$95 million
 - Tax rate/\$1000: \$13.33
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KEY PROJECT FACTS

- 115 residential units (approx 127K sq ft)
 - 51 one BR
 - 64 two bedroom
 - Rents \$2000 - \$3000

- Retail: 37,500 sq. ft. @\$35/sq

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KEY CONCERNS (WITH DEVELOPER'S "FINANCIAL IMPACT REPORT")

- Questions re conclusion: big revenue increases
very small increases in town expenses
- Used information from very different communities
- Not easy to read

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STEPS IN TOWN FINCOMM ANALYSIS

1. Identify town departments where long run variable costs will materially increase
2. If School, agree on calculation of long run variable costs
3. If School, collect information on # of student by size of unit for comparable properties
4. With other town departments, agree on calculation of long run variable costs
5. Calculate!

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LONG RUN VARIABLE COSTS BY DEPARTMENT

Material	Not material
School	<i>Community Development</i>
Police	<i>General government</i>
Fire	<i>Recreation</i>
DPW	<i>COA</i>
Library	

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SCHOOL COSTS

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LONG RUN VARIABLE COSTS: SCHOOL

Operating budget	\$ 43,068,492		
<i>minus</i>			
"Leadership and administration"(1)	\$ 2,912,509		
<i>equals</i>			
LR variable operating costs	\$ 40,155,983		
<i>Plus</i>			
Capital costs (2)	\$ 3,121,577		
Minuteman Vocational	\$ 939,999		
Additional administrative costs	\$ 113,272		
Total LR variable costs	\$ 44,330,831		
<i>Enrollment</i>	4,063		
LR variable cost per student, paid by public	\$ 10,911		

* plus \$278 per AH student

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FORECASTING STUDENT ENROLLMENT

Identify similar developments in Town
(Assessor)

Obtain enrollment information (SD)

Calculate average student per apartment/
home by number of bedrooms

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WORKSHEET: STUDENTS BY ADDRESS

BELMONT PUBLIC SCHOOLS			
Students Residing in Comperable Developments			
Grade	Home Address	Development	BR
10	Complex 1, #35	Concord Village	1
12	Complex 1, #35	Concord Village	2
9	Complex 1 #12	Concord Village	1
11	Complex 1 #12	Concord Village	1
1	Complex 1 #1	Concord Village	2
2	Complex 1 #36	Concord Village	2
10	Complex 1 #24	Concord Village	2
4	10 Complex 2 #1004	Lone Tree Hill	1
6	10 Complex 2 #1005	Lone Tree Hill	2
3	10 Complex 2 #1005	Lone Tree Hill	2
8	10 Complex 2 #1006	Lone Tree Hill	2
12	12 Complex 2 #1201	Lone Tree Hill	3
7	12 Complex 2 #1201	Lone Tree Hill	3
8	12 Complex 2 #1202	Lone Tree Hill	2

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FORECAST: NEW STUDENTS, TOWN DATA

Students per unit	Market rate	Affordable
1 bedroom	.06	.20
2 bedroom	.44	.84
Forecast: 41 additional students		

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FORECAST OF NEW STUDENTS, DEVELOPER DATA

Students per unit	Market rate	Affordable
1 bedroom	.01	.13
2 bedroom	.12	.50

Forecast: 12 – 13 additional students

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MUNICIPAL COSTS

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ADJUSTMENTS TO OPERATING BUDGET TO ESTIMATE LONG RUN VARIABLE COSTS

Police	Fire	DPW	Library
<i>minus</i>	<i>minus</i>	<i>minus</i>	<i>minus</i>
- Admin	- Admin	- Admin	- Admin
- Dispatch		- Forestry	- Tech service
		- Grounds	
		- Cemetery	
		- Snow	
	<i>plus</i>		
	Debt payments		

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LONG RUN VARIABLE COST,
SAMPLE CALCULATION (\$000)

Police operating budget	\$6,520
<i>Minus</i>	
<i>Police administration</i>	\$ 424
<i>Dispatch</i>	\$ 886
Long run variable cost	\$5,230
Cost per household	\$ 553

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LONG RUN VARIABLE COSTS: MUNICIPAL

<i>Department</i>	<i>Per Household</i>	<i>Total</i>
Fire	\$605	\$69,631
Police	\$553	\$63,545
Library	\$148	\$17,016
DPW	NR	\$ 3,120
Total		\$153,312

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COMPARISON OF FISCAL IMPACT

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KEY ASSUMPTIONS, COST CALCULATIONS

- Town budget numbers (not actual) should be used as basis for calculation
- Debt & interest payments are reasonable proxy for capital costs (depreciation)
- Municipal costs are per household driven
- School costs are per student driven

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ADVANTAGES OF FINCOMM FORECASTS

- More transparent (much)
- More accurate forecasts: experience from backcasting (see Lexington story)
- Better guidance for developers
- Free (except for FinComm time)

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LEXINGTON EXPERIENCE

"Projections don't match reality for Avalon at Lexington Hills"
 Seven years after Town Meeting signed off on Avalon at Lexington Hills housing development, the taxable property value is lower and the education costs higher than originally estimated.
 Michael Phillips for Wicked Local

By Michael Phillips/Staff Writer
 Posted Mar. 25, 2011 @ 12:01 pm
 Updated Mar. 25, 2011 @ 4:54 PM

"In 2004, when the Avalon at Lexington Hills housing complex was being debated at Town Meeting, a fiscal impact analysis predicted the development would generate about \$76 million in taxable value from 410 new apartments — a quarter of which would be affordable. The analysis, prepared by consultant *Comery Associates* for the developer, also projected Avalon would contribute between 67 and 125 new students to Lexington's public schools.

Seven years later, projections do not match reality. The property value of *Concord Avalon* on the former Metropolitan State Hospital site, is assessed at just over \$53 million, about 70 percent of the value predicted in 2004. In addition, although the scope of the development was reduced to 350 apartments, the 166 children currently enrolled in Lexington schools from those apartments are more than expected. Therefore, the taxable property value is lower and the education costs higher than originally estimated. Disturbed by these differences, Precinct 3 Town Meeting member Patrick Mehr plans to put forward a motion during today's discussion at Town Meeting to establish a five-member study group "to conduct a retrospective review of the accuracy of fiscal impact projections." Obviously something went wrong, Mehr said. The idea of revenue neutrality — the amount paid by the developer in taxes and supplemental funds should equal what it costs the town to educate the complex's children — is the heart of Mehr's argument. According to the Comery Associates analysis, Avalon "has a positive revenue profile under all cost assumptions." The report concludes if the number of new students generated by Avalon remains between 67 and 125, the development would have a positive fiscal impact ranging from \$138,000 to \$422,000 per year. There was also a bulge built into the deal brokered between the town and the developer. For every public school student over 111 coming from Avalon, the developer would provide roughly \$7,100, the incremental cost of educating that student. In the agreement, total compensation to the town is limited to \$750,000 within 10 years. That cap was reached in the current fiscal year, with the town only able to collect about \$311,000 of the \$500,000 associated with the 25 additional students coming from Avalon."

- Note: The Belmont model predicted 177 children...much closer

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KEY ASSUMPTIONS: REVENUE ANALYSIS

- Net revenue number provided by Assessors – uses current use as basis for comparison
- Excise tax calculation
 - Cars/unit
 - Average excise tax provided by Town Treasurer
- No change in state aid

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LIMITATIONS: FISCAL/ECONOMIC IMPACT AREN'T EVERYTHING – OTHERS NEED TO EXAMINE

- Traffic
- Density
- Open space
- Storm water management
- Character of town
- Fiscal impact ←
- Economic impact ←

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FISCAL IMPACT: ONE TIME REVENUE (\$000)

One time	
Asset exchange (municipal parking lot)	\$850
Building permits	\$450
Total	\$1,300

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FISCAL IMPACT: ONGOING REVENUE

Net property tax	\$530,000
Local receipts	33,580
Other avail. funds	-
Total	\$611,830

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ECONOMIC IMPACT

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ECONOMIC IMPACT

Table 8. Region of residence: Average annual expenditures and characteristics, Consumer Expenditure Survey, 2011

Item	Northwest	Case #/: % local spending	Local \$
Number of consumer units (in thousands)	22,538		
Average annual expenditures	\$54,547		
Food	\$6,799		
Food at home	\$4,099	50%	\$2,050
Food away from home	\$2,700	30%	\$810
Alcoholic beverages	\$491	60%	\$295
Apparel and services	\$1,905		\$0
Men and boys	\$445	0%	\$0
Men, 16 and over	\$355		\$0
Boys, 2 to 15	\$90		\$0
Women and girls	\$776	10%	\$78
Women, 16 and over	\$638		\$0
Girls, 2 to 15	\$137		\$0
Children under 2	\$74		\$0
Footwear	\$331		\$0
Other apparel products and services	\$279		\$0

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