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A new approach to fiscal impact studies - by Lynne Sweet

August 04, 2017 - Owners Developers & Managers

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When a large multifamily residential development is proposed, in certain instances, it may make sense to estimate its long term fiscal impact on the municipality. A fiscal impact analysis can be an important planning tool for both the municipality and for the developer. For the municipality, it will allow them to understand the various costs and sources of revenue in order to plan for any potential impacts to programs and staffing. For a developer, it will help them estimate one-time costs associated with development and on- going costs such as real estate taxes.

The request for a fiscal impact analysis often comes during a special permit hearing process or a M.G.L Chapter 40B Zoning Board of Appeal hearing process. While appropriate to consider during a special permit process, it cannot be used as a deciding factor on a Chapter 40B process, but instead, as in informative planning tool.

Perhaps the most complicated and controversial item analyzed during a fiscal impact process is education costs and the impact the project will have on the local school system. A town's education costs can be estimated based on a projection of additional school age children (SAC) the proposed project will generate. LDS has found that looking at number of school age children compared to number of units, on its own, is not an accurate predictor of school age children.

LDS prepared a Fiscal Impact Analysis report for The Gutierrez Company of Burlington, Mass. in connection with Gutierrez' efforts to construct The Residences at Westford West (the proposal). The proposal was for a mixed income development of 282 rental apartments in Westford. The plans were for 25% of the units to be designated affordable to households earning at or below 80% of AMI, consistent with Mass. General Laws Chapter 40B (40B).

In the report, LDS provided an innovative approach to estimating a project's annual student generation rate. This is due to LDS's strong market research background on all things housing. The report demonstrates the significant role a project's affordability levels by household income play in determining the number of SAC.

For example:

• LDS reduced the student generation rate to a student per unit type ratio in order to compare different sized projects by matching apples to apples.

• LDS identified the most comparable properties to the proposal by examining a number of variables, including level of affordability (e.g. 50% of area median income (AMI) versus 80% AMI, demographics, the quality of their school district, and unit mix/size.

• LDS looked at the number of mobile vouchers in the existing affordable properties.

• LDS also left out fully affordable properties and age restricted properties.

This approach allowed LDS to pick the most on point competition by which to estimate school age children.

Important Variables to Consider

In its fiscal impact report for the Proposal, LDS estimated the net additional education and general service costs through an analysis of data on comparable developments. To provide the most accurate estimates, it is then crucial to first consider a number of factors to most precisely identify and select the most comparable developments.

Education cost estimates are driven by estimates of net additional SAC to be enrolled in a school system. Accurately predicting the number of new SAC a multifamily residential project will generate and add to the school system is complicated and requires the consideration of numerous variables. It is also difficult to project more than a few years in advance, which is the constraint for educators.

Some of the variables LDS considers when estimating SAC are listed and explained below:

Unit mix of the property – Rather than concentrate on the number of students per all units, LDS focused on the number of students per two and three bedroom units. This is because one bedroom units tend to generate few, if any, school age children.

Affordability level – Factoring affordability into SAC estimates involves a consideration for the number of affordable units by unit size, monthly rents charged at comparable properties, the level of affordability, and the number of units occupied by rental voucher holders (if any). Lower Area Median Income (AMI) restrictions often leads to more children in higher cost communities because those households have fewer home choices.

Amenities – the amenities a development offers to its residents can be a be a useful indicator to gauge its attractiveness to different household types. For example, is the first thing you see a playground or does the property have a fire pit and grill area? It is age targeted or age restricted?

Location of the property – urban, industrial, suburban. On a major roadway, in a transit yard or next to balls fields and an elementary school?

Development Type – Single family homes, apartment flats or townhouses?

Socio-economic indicators – Examining indicators of a community's wealth and the quality of its school system is important when comparing properties in different towns or regions around the state. Doing so can be used to project how attractive a project's location may be to families with children.

Trends – It is important to understand the current and projected demographic and economic trends in the area in order to assess a project's impact. For example, over the past two decades, has the number of school age children been decreasing?

Furthermore, it is important to emphasize that the data must be current in order for estimates to be reliable. It is crucial that SAC estimates be relatively accurate so that the school system can anticipate the nature and level of public school impacts and budget to accommodate these changing demands. LDS provides both base case and a worst-case projections for SAC generation and additional education costs to assist communities and developers in understanding the fiscal impacts of SAC.

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