

Fiscal Impact Analysis

475 Bedford Street

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FISCAL IMPACT ANALYSIS Proposed Laboratory/Office

475 Bedford Street

1.0 Introduction

Fougere Planning and Development, Inc. has been engaged by the Cresset Group to undertake this Fiscal Impact Analysis to review both estimated revenues and municipal costs that may arise from a proposal to construct a multi-story 195,000 square foot laboratory/office building at 475 Bedford Street. This 9 acre site is presently occupied by a closed health club that will be demolished. A structured parking garage, as well as ground level parking will be provided. In addition, 5,000 square feet of supportive retail space will be constructed.

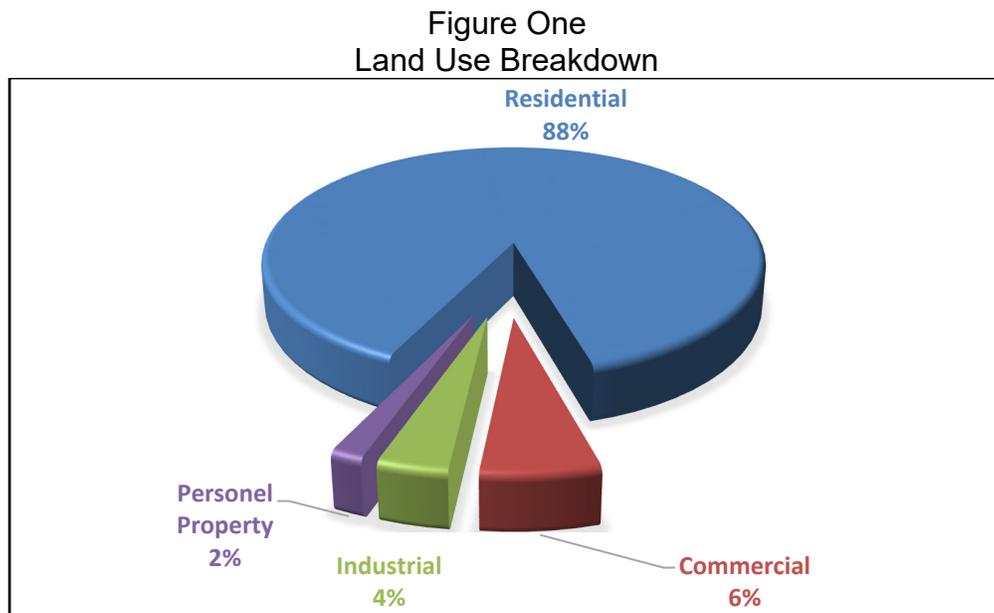
2.0 Local Trends

Population

Lexington's population has seen modest growth over the last 10 years, with new residential development attracting young families along with the sale of existing housing units. Census¹ figures report that from 2010 to 2020 Lexington's population increased from 31,394 to 33,456 representing a 9.7% growth rate over the 10-year census period. During this same timeframe school K – 12 enrollments have increased 14%, rising from 6,366 to 7,269, creating the need for extensive rehab and expansion of school space in the community.

Land Uses

Residential properties are the dominate land use in the community, accounting for 88.2% of the property valuation, followed by commercial properties at 6.2% and industrial uses at 3.7%, as shown in Figure One. There are only 44 industrial properties² within Lexington out of a total of 11,352 non-exempt parcels. These industrial properties have a total assessed value of \$436,413,405.



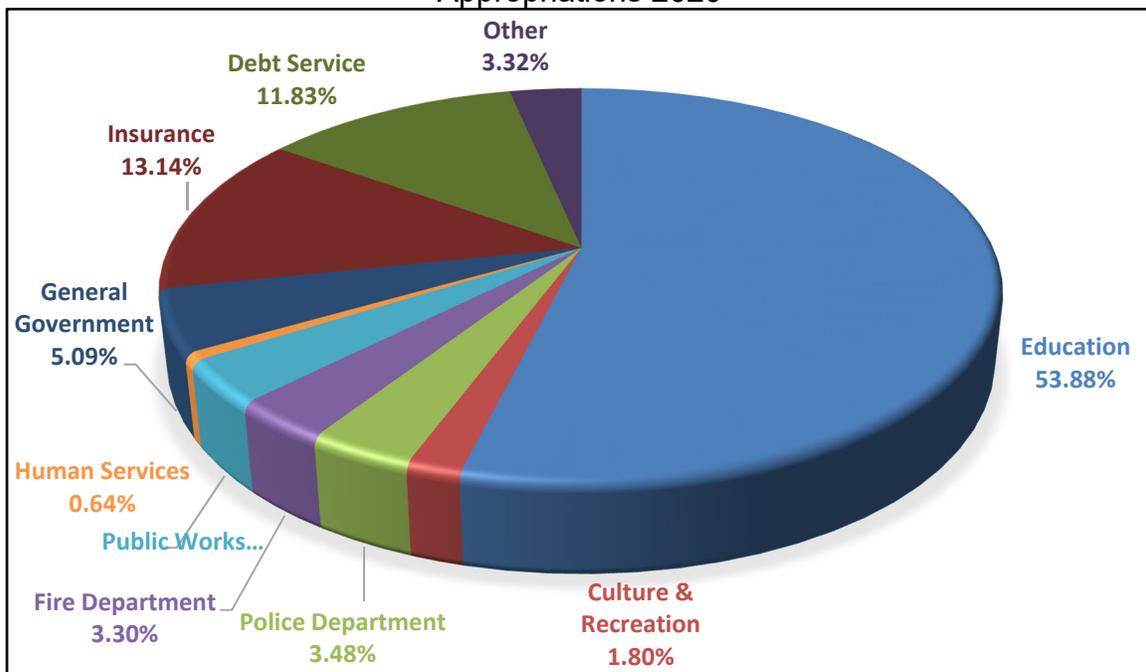
¹ 2000 Census figures and 2017 American Community Survey.

² Assessment Categories for FY20, 2020 Town Report page 43.

Budget History

Lexington's total operating budget for 2020 is \$220,811,872, with Education and Public Safety Departments having some of the largest budgets as outlined in Figure Two. The Education Department has seen the largest dollar increase over the last three years, increasing by 11.5%. Debt accounts for 11.3% of total costs with FY2022 forecasts estimated to be \$27,203,365. In FY2016 debt totaled \$15,280,234, a 78% increase over FY2022 forecasted costs. In order to address capacity issues at the High School, planning has begun to either renovate or construct a new building with estimated costs exceeding \$350 million.

Figure Two
Appropriations 2020



3.0 Fiscal Methodology

Generally, the definition of a fiscal impact analysis is "A projection of the direct, current, public costs and revenues associated with residential or nonresidential growth to the local jurisdiction(s) in which growth is taking place"³. There are a number of methodologies that are used to estimate fiscal impacts of proposed

³ Burchell, Listokin & Dophin.

development projects. The Per Capita Multiplier Method is the most often used analysis to determine municipal cost allocation. This method is the classic “average” costing method for projecting the impact of population growth on local spending patterns and is used to establish the costs of existing services for a new development. The basic premise of this method is that current revenue/cost ratios per person and per unit are a potential indicator of future revenue/cost impacts occasioned by growth. New capital expenditures required for provision of services to a development are not added to current costs; instead, the present debt service for previous improvements is included to represent ongoing capital projects. The advantage of this approach is its simplicity of implementation and its wide acceptance by both consultants and local officials. The downside of this approach is that the methodology calculates the “average” cost as being the expected cost, which is often not the case and costs are exaggerated - significantly in some instances. (For example, if one student is added to a school system, limited cost impacts will occur; however based on an “average” cost to educate one student the cost could be noted as \$18,000/year, which includes such costs as existing debt, building maintenance, administrative and other factors, all of which will be minimally impacted by the addition of one student. The “true cost” could be significantly less, especially in those communities with declining enrollment.)

The Marginal Cost Approach is an alternative methodology that can be used to estimate and measure developmental impacts based on actual costs that occur in the community. At this time, a “level of service” exists in Lexington to serve the community. This existing service level, for the most part, addresses the needs of the community through existing tax collections. As new development occurs, pressures are placed on some departments to address increased demands, while other departments experience negligible, if any impacts. In reviewing the potentially impacted town departments specifically, a truer picture of anticipated cost impacts can be determined.

Given the nature of the development project, it is our belief that the primary municipal impact will be limited to emergency service departments. As detailed below, these impacts will actually decrease, as the proposed use will have less of an impact of emergency services than the previous health club use. As such, a refined average costing approach will be used in this analysis.

The maintenance of all onsite parking areas will continue to be privately addressed, along with trash disposal. No school related impacts will occur. It should be noted that all revenues and costs are based upon today's dollars and assumes a full buildout of the proposed project.

4.0 Local Revenues

4.1 Property Tax Revenue

Local property taxes provide the bulk of General Fund Revenue⁴ for Lexington, with 2021 figures showing that 82.8% came from this revenue source, the remaining income being received from State Aid and Other Receipts. The 2021 Real Estate Tax Rate for industrial/commercial uses and Personal Property is \$27.97.

To arrive at an estimated value, five comparable lab office building assessments were chosen. Based on an average assessed value of \$355 per square foot, the proposed 195,000 square foot laboratory/office building is estimated to have an assessed value of \$69,173,850. In addition, 5,000 square feet of retail space will also be part of the development program. Based on the average Lexington commercial square foot value⁵, an estimated assessment of \$1,250,000 has been generated. As summarized in Table One, the properties will have an estimated total value of \$70,423,850 generating \$21,969,755 in annual property tax revenues. This new laboratory/office building will increase the assessed value⁶ of industrial space in Lexington by 13.8%.

⁴ Lexington FY2022 Recommended Budget & Fin. Plan, 2-22-2021.

⁵ Assessing Department.

⁶ FY21 Industrial value \$500,808,405 Tax Class. Report, Nov. 30, 2020.

Table One
Anticipated Yearly Property Tax Revenue

Site	Assessed Value	Square Footage	Value/Sq. Ft.
115 Hartwell Ave.	\$27,159,000	86,532	\$314
125 Spring Street	\$13,463,000	46,558	\$289
200 Shire Way	\$72,165,000	172,201	\$419
300 Shire Way	\$38,739,000	120,704	\$321
400 Shire Way	\$65,400,000	185,516	\$353
Average	\$216,926,000	611,511	\$355
Proposed Lab./Office	\$69,173,850	195,000	
Proposed Retail Space	\$1,250,000	5,000	\$250
Total Est. Value	\$70,423,850		
Property Taxes @ \$27.97			
Estimated Property Taxes	\$1,969,755		

The existing property is presently assessed for \$7,054,000 and generates \$197,300 in yearly property tax payments. The proposed development initiative will increase property assessment/taxes by 898%, substantially increasing revenues to the community.

4.2 Community Preservation Act Surcharge

Lexington has adopted the Community Preservation Act allowing the Town to impose a 3% surcharge on property taxes. Based upon the projected taxes outlined in Table Two, the estimated yearly CPA surcharge of \$59,093 has been estimated as outlined in Table Two.

Table Two
Community Preservation Surcharge

Property Taxes	% CPA Surcharge	Surcharge
\$1,751,471	3%	\$59,093

4.3 Personal Property Revenue

Taxes on personal property is also a source of revenue in the community, most recently⁷ generating \$6,508,068 based on a total valuation of \$232,680,320. Not all personal property is taxable, with many businesses qualifying for a tax exemption provided for by the Massachusetts Department of Revenue. Assessing Office records indicate that approximately 5.6 million square feet of industrial/commercial space presently exists within the community which translates into an average Personal Property assessed value of \$41.55 per square foot. Based upon discussions with Assessing Office Officials relative to laboratory space, it was suggested that 10% of this average square foot value (10% x \$41.55 = \$4.15) would be a reasonable estimate for future laboratory Personal Property asset value. Based upon these assumptions, an estimated \$22,634 in yearly personal property taxes may be generated as detailed in Table Three.

Table Three
Personal Property Taxes

Building Area	Per. Prop. Value	Estimated Taxes⁸
195,000 Sq. Ft. @ \$4.15	\$809,250	\$22,634

It should be noted that this revenue stream is not as stable as other taxing sources, personal property has rapid depreciation schedules which reduces its value over time. In addition, should equipment be labeled as “manufacturing”, no taxes would be collected.⁹

4.4 Estimated Yearly Project Revenues

The proposed development is estimated to generate \$2,051,482 in gross estimated local revenues from property tax, CPA Surcharge and Personal Property taxes as outlined in Table Four.

⁷ FY21 Tax Classification Packet.

⁸ Commercial/Industrial tax rate of \$27.97 applied.

⁹ The Director of Assessing noted that some laboratories have been able to claim this exemption.

Table Four
Estimated Yearly Revenue

Lab./Office Property Taxes	\$1,969,755
CPA 3%	\$59,093
Personal Property	\$22,634
Total Estimated Revenue	\$2,051,482

Additional one-time payment revenues will also be realized as part of the development, and these will be detailed further below.

5.0 Department Findings

Land uses can have a wide range of cost impacts on community services, from increases of students from residential development to increased police calls from a large commercial complex. Given the nature of the proposed use, replacing an existing gym/tennis club with a laboratory office building, we believe that impacts on municipal services (primarily emergency services) will decrease thereby reducing impacts and costs to the community. No new roads will be constructed, all onsite maintenance including snow plowing and lighting will remain private along with trash disposal. Water and sewer use and costs will be addressed through user fees.

5.1 Emergency Services

Both the Police and Fire Departments will continue to experience calls to the subject site, but demand for these services will actually decrease compared to past activity at the property. Table Five summarizes the average calls to these Departments over the last two years.

Table Five
Emergency Service Calls 2019 - 2020

	2019	2020	Avg.
Police Calls	13,092	13,749	13,421
Fire Calls	1700	1,682	1,691
EMS Calls	2405	2,340	2,373

To assess the degree of impact the proposed project would have on emergency service departments, calls for service to comparable laboratory buildings were analyzed¹⁰. Three years of emergency call data¹¹ from four sites totaling 546,503 square feet was obtained and averaged to determine the annual numbers of calls per square foot. These ratios were then totaled to derive an average call volume per square foot, which was then used to generate projected emergency calls for each Department. Call data from the previous health club was also obtained; data from small retail uses was gathered previously.

Extrapolating from the comparable call data and comparing emergency calls from the existing use shows that demand for service calls will decrease for both the Police and Fire Departments. Annual Police calls are projected to decrease from 42 to 14 and annual fire/ambulance calls are projected to decrease from 15 to 6 calls as detailed in Table Five.

Table Five
Estimated Emergency Calls

Project	Town	Sq. Ft.	Police Calls Three Years	Avg. Call Per Year	Avg. Call Per Unit	Projected Yearly Calls
33 Hayden Ave.	Lexington	198,000	24	6	0.00003	
45 - 55 Hayden Ave.	Lexington	180,407	43	10.75	0.00006	
65 Hayden Ave.	Lexington	66,000	27	6.75	0.00010	
113-115 Hartwell Ave.	Lexington	102,096	54	13.5	0.00013	
Totals		546,503		37	0.00007	
Proposed Office		195,000				13
Proposed Retail¹²		5,000			.000032	1
Closed Health Club	Lexington	71,040				42

¹⁰ This low emergency impact from office use is similar to data found when reviewing emergency calls from over 2 million square feet of office space in Cambridge. Considering the small retail area associated with this development, we included the retail space in the total building area.

¹¹ 2013-2016

¹² 24 months of emergency call data was obtained from the Lexington Police and Fire Departments to 162-175-185- 187- 242 Bedford Street containing 30,811 square feet of retail/office space. Police Department data showed **no** emergency related calls from the Bedford Street properties over the last 24 months. To be conservative, we have carried an estimate of 1 calls per year. The Fire Department reported 2 calls to these properties over 24 months.

Project	Town	Sq. Ft.	Fire Calls Three Years	Avg. Call Per Year	Avg. Call Per Unit	Projected Yearly Calls
33 Hayden Ave.	Lexington	198,000	4	1.333	0.00001	
45 - 55 Hayden Ave.	Lexington	180,407	2	0.667	0.00000	
65 Hayden Ave.	Lexington	66,000	9	3.000	0.00005	
113-115 Hartwell Ave.	Lexington	102,096	10	3.333	0.00003	
Totals		546,503		8.333	0.00002	
Proposed Office		195,000				3
Proposed Retail		5,000			.00035	1
Closed Health Club	Lexington	71,040				4
Project	Town	Sq. Ft.	Amb. Calls Three Years	Avg. Call Per Year	Avg. Call Per Unit	Projected Yearly Calls
33 Hayden Ave.	Lexington	198,000	2	0.667	0.00000	
45 - 55 Hayden Ave.	Lexington	180,407	3	1.000	0.00001	
65 Hayden Ave.	Lexington	66,000	2	0.667	0.00001	
113-115 Hartwell Ave.	Lexington	102,096	4	1.333	0.00001	
Totals		546,503		3.667	0.00001	
Proposed Office		195,000				1
Proposed Retail		5,000			.00035	1
Closed Health Club	Lexington	71,040				11

5.2 Police Department

The Police Department presently has a staff of 50 police officers, with 65 full time employees and 31 part-time. The FY2021 tax levy budget was \$7,515,658. Over the last two years the Department averaged of 13,421 calls as detailed above.

As a use presently occupies the subject site, police costs are presently included in the budget to address the 42 calls generated from the former health club. As noted above in Table Five, 14 annual police calls are estimated from the proposed new lab/retail use. To assign some cost as a result of this estimated demand for service, a number of options were reviewed including cost per call and cost per capita. Since calls for service provides a clear measure of impact on the Department, this approach was used and results in an estimated annual impact of **\$7,840** as outlined in Table Six. If this same methodology is applied to

the former use, the cost¹³ would be \$23,520. This cost estimate is not inferring the Police Budget will increase as a result of the proposed development, but assigns a “cost” to account for this new land use in the community.

Table Six
Police Department Impact

Department	FY 2021 Budget	Calls ¹⁴	Cost/call	Est. Calls	Annual Cost
Police	\$7,515,658	13,421	\$560	14	\$7,840

5.3 Fire Department

The Fire Department presently has a staff of 65 full time employees and 1 part-time. The FY2021 budget was \$6,139,559, which does not include EMS fees which offset portions of the budget. In 2020 ambulance fees totaled \$1,321,540 or an average of \$549 per call. Over the last two years, the Department responded to an average of 1,691 fire calls and 2,373 EMS calls.

As with the Police Department, to account for some impact from the proposed development a cost per call ratio was used to assign a “cost” for this new use and results in an estimated annual cost of **\$9,066** as detailed in Table Seven. The former health club carried a cost of \$22,665 using the same methodology¹⁵.

Table Seven
Fire Department Impact

Department	FY 2021 Budget	Calls Per Year	Cost/call	Est. Calls	Annual Cost
Fire	\$6,139,559	4,064	\$1,511	6	\$9,066

¹³ Health Club: 42 police calls @ \$560 a call.

¹⁴ Town Reports call data, Police and Fire Departments.

¹⁵ Health Club: 15 Fire calls @ \$1,511 a call.

6.0 Other Departments

In reviewing other Town departments, no other measurable impacts were seen. Building permit costs more than offset any inspection related costs in the Building Department. To be conservative, we will carry a miscellaneous cost of **\$10,000**.

Building Department

At this time, the construction of the proposed office/laboratory building is estimated to cost approximately \$138,000,000. The building permit fee is \$12/\$1,000 which equates to an estimated building permit fee of \$1,656,000.

7.0 Conclusion

The proposed 200,000 square foot laboratory/office & retail space is expected to generate \$2,051,482 in gross yearly revenues and will place few new demands for general governmental services while decreasing the demand on emergency service departments. Yearly net revenues are estimated to be \$2,024,576 as detailed in Table Eight.

The municipal costs outlined are estimates and should not infer that increases in municipal spending will be necessary to accommodate this new land use. Public officials, through appropriate budgetary processes, will make the determination as to appropriate levels of departmental spending necessary to address local needs.

Table Eight
Fiscal Impact Findings

Estimated Gross Revenues	\$2,051,482
Estimated Municipal Costs	
Police Department	-\$7,840
Fire Department	-\$9,066
Misl.	-\$10,000
Total Costs	-\$26,906
Net Positive Fiscal Impact	+\$2,024,576

Summary of Findings

- Gross yearly tax revenue will increase by \$2,051,482 a year, with net revenues estimated to be \$2,024,576.
- The proposed laboratory/office building will increase the total assessed value of industrial properties in the community by **13.8%**.

FY20 Industrial Assessed Value ¹⁶	\$500,808,405
Estimated Value	\$69,173,850
Percentage Increase	13.8%

- Property tax revenue from the proposed laboratory/office building will increase industrial property tax revenue by **13.8%**.

FY20 Industrial Property Taxes ¹⁷	\$14,007,599
Estimated Property Taxes	\$1,934,792
Percentage Increase	13.8%

- Measurable impacts to town departments will be limited to emergency services, which will experience a decrease in calls from this new use. Police calls are estimated to decrease from 42 annually to 14, while the Fire Department is expected to experience a decrease in call volume from 15 to 6 annually.
- Value of the subject site will rise from \$7,054,000 to \$70,423,850, increasing property tax revenue from \$197,300 to \$1,969,755.
- An estimated \$1,742,000 in new property tax revenue will be realized with this initiative, monies that will be available to address existing town needs or future investments such as the planned High School capital project.
- It is anticipated that building permit fees will total approximately \$1,656,000.

¹⁶ Exhibit D, FY20 Tax Classification Report, Nov. 30, 2020.

¹⁷ Exhibit D, FY20 Tax Classification Report, Nov. 30, 2020.

- Other economic benefits are projected as a result of the proposed addition of Class A laboratory/office space in the community, including additional meals taxes, the creation of temporary construction jobs along with expanding the local employment base when the building is occupied and general local economic growth associated with the new land use.

- Additional revenues are anticipated to the community relative to offsite mitigation measures, at this stage of review those proceeds have yet to be determined.