

TECHNICAL MEMORANDUM

TO: Paul Materazzo
Director of Planning
Community Development & Planning
36 Bartlett Street
Andover, MA 01810

FROM: RKG Associates, Inc.

DATE: December 4, 2018

SUBJECT: Peer Review of Dascomb Road Project Fiscal Impact Analysis

Introduction

RKG Associates, Inc. (RKG) was retained on behalf of the Town of Andover to peer review the revised fiscal impact analysis¹ submitted as part of the Lupoli Companies' proposed development of 146 Dascomb Road (*Figure 1*), hereinafter referred to as the Applicant Plan.

The revised development reflects an all-commercial use with some slightly changed elements from the previous analysis, such as less proposed office square feet (SF). Refer to *Figure 2* for a conceptual site layout of the proposed development.



Figure 1 – Dascomb Road Development Site

The site² is approximately 16.24 acres and is bounded by industrial properties to the south and west, Dascomb Road to the north, and I-93 to the east. Additionally, the property spans both Tewksbury and Andover. The location of the proposed development is in the southern portion of the Town of Andover, approximately 3.5 miles from the Town center.

While RKG concurs with the findings from the Applicant Plan - that there will be net positive benefits for the Town from both a fiscal and economic (jobs) impact perspective - there are several observations (or caveats) worth noting:

¹ Dascomb Road Project Fiscal Impact Analysis 146 Dascomb Road – Andover, Massachusetts, All-Commercial Plan, dated June 2018.

² Identified as tax parcel 203-0-2, with an FY2018 assessment value of \$6,937,500.

- The Applicant Plan does not offer any detailed market research or analysis, other than several selected comparable properties for estimating assessment values. As such, the Applicant Plan does not present an analysis of tenant mix, phasing or stabilization.³
- The Applicant Plan does not include a review of area hospitality properties to estimate room rates and occupancy for the proposed 100-key hotel. Without greater discussion of the economic viability of the proposed hotel property, RKG considers the Applicant Plan may be somewhat aggressive.
- Similarly, the comparable properties presented in the Applicant Plan concludes that an across the board value, \$200/SF, reflects the estimated assessed value. However,
 - the Applicant Plan presents a variety of per SF assessment values including an approximate \$111/SF for a grocery in Andover, with no rationalization of the choice used.
 - RKG suggests that construction value, on a per SF basis, may better serve as proxy for assessment value and be building type/use specific.
- The Applicant Plan reflects FY2017 tax rates which RKG has updated in this peer review to FY2018.

Conclusions

RKG's peer review of the Applicant Plan concurs that the proposed Dascomb Road project will result in a net positive fiscal impact for the Town of Andover. However, the following tables and discussions, reflecting the caveats, present a marginally less positive impact.

General Comparisons – As indicated, the Applicant Plan utilizes a value of \$200/SF, regardless of type of development, for the 146 Dascomb Road project. RKG offers a different approach, reflecting our experience with costs specific to uses (*Table 1*).

³ Although RKG understands that these have been recently requested of the Applicant.

Table 1 – Comparison of Estimated Values

Comparison of Estimated Assessment Values (1)	Proposed SF	Applicant		RKG Estimates (2)	
		\$/SF	Value	\$/SF	Value
Hotel (100-keys)	66,000	\$ 200	\$ 13,200,000	\$ 200	\$ 13,200,000
Office	293,000	\$ 200	\$ 58,600,000	\$ 200	\$ 58,600,000
Community Retail	80,000	\$ 200	\$ 16,000,000	\$ 150	\$ 12,000,000
Café/Casual Restaurant	10,000	\$ 200	\$ 2,000,000	\$ 200	\$ 2,000,000
Fine Dining Restaurant	10,000	\$ 200	\$ 2,000,000	\$ 200	\$ 2,000,000
Grocery	35,000	\$ 200	\$ 7,000,000	\$ 150	\$ 5,250,000
Fitness Center	30,000	\$ 200	\$ 6,000,000	\$ 165	\$ 4,950,000
Total or Average	524,000	\$ 200	\$ 104,800,000	\$ 181	\$ 98,000,000

Source : Applicant and RKG Associates, Inc. (2018)

- (1) Comparable values as proxy for Project value
(2) From RKG assignments elsewhere in Massachusetts

RKG’s estimate of value, at \$98 million, is \$6.8 million less than that of the Applicant, a difference of 6.5 percent. As a result, the RKG estimate of property taxes (prior to any adjustments) is \$2.71 million compared to \$2.89 million from the Applicant Plan (both reflecting the FY2018 tax rate). Once adjusted for the existing (FY2018) “as is” taxes, of approximately \$191,500, the RKG estimated taxes (prior to Town costs) is \$2.51 million as compared with \$2.70 million from the Applicant Plan.

In estimating Town service costs, the Applicant Plan references a prior RKG peer review⁴ and indicates an estimated cost per employee of \$91. RKG does not take issue with this but has subsequently updated this estimate (*Table 2*) noting an estimated cost of approximately \$279/employee, noting:

- FY2107 departmental expenditures were noted and those considered variable, meaning they could fluctuate with an increase in employment and/or new housing, were highlighted.
- Non-residential properties in Andover account for approximately 16 percent (rounded) of the total FY2018 assessment value (excluding personal property).
- Applying this 16 percent to the department costs and dividing by estimated local employment results in a per employee cost of \$279 (rounded).

⁴ Memorandum dated January 22, 2018.

Table 2 – Variable Town Service Costs

Estimation of Town Service Costs (variable)	2017 Budget	% Non-Residential	Variable Per Employee
General Government	\$10,434,224	\$1,654,556	\$88.56
Public Works	\$6,848,705	\$1,086,000	\$58.13
Culture and Recreation	\$4,909,774	\$0	
Other Public Safety	\$1,033,906	\$163,947	\$8.78
Police	\$7,323,178	\$1,161,237	\$62.15
Fire	\$7,224,064	\$1,145,520	\$61.31
Human Services	\$946,158	\$0	
School	\$76,721,520	\$0	
Fixed	\$10,578,730	\$1,677,470	
Interagency	\$598,991	\$94,982	
Other	\$11,916	\$1,890	\$0.10
Debt	\$13,702,083	\$2,172,740	
Total	\$140,333,249	\$9,158,340	\$279.03

Source : Massachusetts Department of Revenue and RKG Associates, Inc. (2018)

Applying this Town service cost to the Applicant Plan’s estimated 1,792 employees results in a Town service cost of \$499,900 (rounded). RKG’s experience with other projects throughout Massachusetts presents somewhat different estimates of total employment, as based on metrics for the average SF per employee (*Table 3*), resulting in an estimated 1,839 employees and associated Town costs of \$513,200 (rounded), an increase of nearly three percent compared to that presented in the Applicant Plan (as revised for per employee costs).

Table 3 – Comparison of Estimated Employment and Town Costs

Comparison of Estimated Assessment Values (1)	Proposed SF	Applicant (2)			RKG Estimates (3)		
		SF/Emp	EMP	Costs	SF/Emp	EMP	Costs
Hotel (100-keys)	66,000	2,000	33	\$ 9,208	2,000	33	\$ 9,208
Office	293,000	221	1,326	\$ 369,938	250	1,172	\$ 327,025
Community Retail	80,000	383	209	\$ 58,283	350	229	\$ 63,779
Café/Casual Restaurant	10,000	100	100	\$ 27,903	125	80	\$ 22,323
Fine Dining Restaurant	10,000	134	75	\$ 20,823	125	80	\$ 22,323
Grocery	35,000	938	37	\$ 10,412	200	175	\$ 48,831
Fitness Center	30,000	2,500	12	\$ 3,348	425	71	\$ 19,696
Total or Average	524,000	897	1,792	\$ 499,916	496	1,839	\$ 513,184

Source : Applicant and RKG Associates, Inc. (2018)

- (1) Comparable values as proxy for Project value
- (2) Applicant costs updated by RKG to reflect \$279/employee
- (3) From RKG assignments elsewhere in Massachusetts

Reconciliation – The net fiscal benefits (property taxes only) are \$2.20 million from the Applicant Plan (with the adjustments as noted) and \$2.00 million under RKG’s alternative (*Table 4*). The variance is \$201,000 (rounded) and both estimates are positive.

Table 4 – Reconciliation of Impacts

Comparison of NET Fiscal Impacts	Applicant (1) (2)	RKG Estimates	App vs RKG
	Estimate	Estimate	
Total SF of Project	524,000	524,000	-
Estimated Assessed Value	\$ 104,800,000	\$ 98,000,000	\$ 6,800,000
Property Taxes (FY2018) /1	\$ 2,893,528	\$ 2,705,780	\$ 187,748
<i>less</i> existing "as is" tax (FY2018)	\$ (191,500)	\$ (191,500)	\$ -
subtotal	\$ 2,702,028	\$ 2,514,280	\$ 187,748
<i>less</i> Town service costs /2	\$ (499,916)	\$ (513,184)	\$ 13,268
NET Fiscal Impact	\$ 2,202,112	\$ 2,001,096	\$ 201,016

Source : Applicant and RKG Associates, Inc. (2018)

(1) Applicant analysis updated by RKG to reflect FY2018 commercial tax rate

(2) Applicant analysis updated by RKG to reflect per employee cost \$279

Comparison of Other Revenues

RKG also considered the estimated ongoing local room occupancy tax (at six percent) from the proposed 100-key hotel, as well as the local option meals tax from the proposed 20,000 SF of restaurant development, noting the following:

- **Local Room Occupancy Tax** - The Applicant Plan indicates a 100-key hotel, with an average daily rate of \$200 at 75 percent occupancy, however, no market comparisons or analyses are offered.
- RKG sampled several hospitality properties (*Table 5*) in the Andover area (date of sample August 9, 2018), noting that the average asking room rate was \$143.
 - RKG also estimated that the occupancy rate may be closer to 65 percent, an industry standard indicating capacity for additional development.

Under the assumptions in the Applicant Plan, the estimated local room occupancy tax is \$328,500. Under the RKG assumptions the estimated local room occupancy tax is approximately \$203,750, a difference of almost \$125,000 from the Applicant Plan.

Table 5 – Area Hotel Rate Survey

Selected Hotel Comparisons	Rate (9 Aug 2018)	Key Count
Double Tree by Hilton	\$ 143	293
La Quinta Inn & Suites	\$ 129	168
Homewood Suites by Hilton	\$ 189	82
Sonesta ES Suites	\$ 139	133
Springhill Suites	\$ 119	136
Residence Inn	\$ 119	120
Courtyard	\$ 164	146
Average	\$ 143	154

Source : RKG Associates, Inc. (2018)

- **Local Option Meals Tax** – The Applicant Plan indicates three (3) café/casual restaurants averaging \$1 million/per in annual sales. Assuming that these three

restaurants are one-half of the proposed 20,000 SF of total restaurant use, this suggests average sales of \$300/SF for each of the restaurants and resulting annual local option meals tax (at 0.75 percent) of \$22,500. Without greater detail on possible restaurant tenants, hours of operation and so on, RKG considers this to be a generally reasonable estimate.

The Applicant Plan also indicates three (3) fine dining restaurants with annual sales of \$3 million each, or approximately \$900/SF assuming that these equate to 10,000 SF and result in \$67,500 annually in local option meals tax. Again, without greater detail on these restaurants it is difficult for RKG to offer a market driven alternative estimate. Nonetheless, the \$900/SF may be aggressive and RKG suggests that the Town of Andover consider the possibility that sales may be more in the range of \$600/SF, and if so, would equate to an estimated \$45,000 annually in local option meals tax receipts.

Other Impacts - This analysis offers a peer review of the fiscal impacts of the proposed developed, as revised. The ongoing discussion of whether the proposed development will result in any potential competitive impacts on downtown Andover businesses is ongoing and RKG continues to work with the Town to garner input from the existing business base.

In general, RKG considers the project to be quite separate from the retail and other economic activities that occur in downtown Andover. The site's location adjacent to I-93 positions it as more of a regional office and retail destination, attracting workers and shoppers from a broad geography defined in large part by drive-times. As a result, the retail and restaurant tenants at the site are likely to be more "chain" style that are attracted there based on the traffic counts on I-93. Downtown Andover, on the other hand, primarily consists of smaller, unique, and locally owned specialty retailers and restaurants that offer high levels of customer service within a distinct and multi-destination, walkable village center. However, until specific retail and restaurant tenants are identified, and a survey of village center/downtown businesses and retailers is completed, more specific impact estimates are not possible.

Recommendations – In light of this peer review, RKG offers the following recommendations for the Town's consideration:

- Request of the Applicant a copy of the market study, or other research, which indicates there is unmet demand for the types of uses proposed.
 - Specifically, and to the extent possible, a roster of potential tenants would be helpful in assessing potential impacts to downtown businesses, restaurant types in particular.
- Similarly, an estimate of the phasing and stabilization of the proposed development would assist in assessing the timing of the fiscal impacts (revenues and costs).



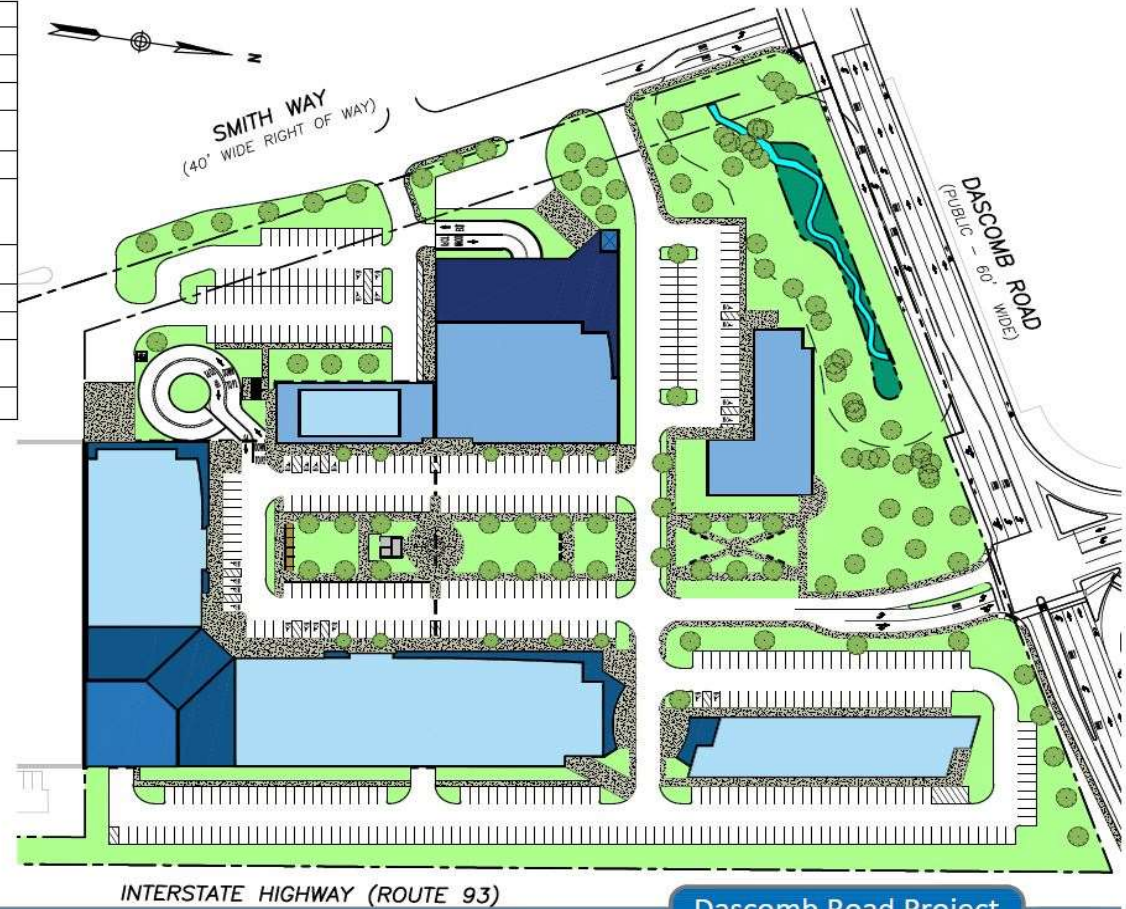
- There is no discussion among the Applicant's comparables regarding the hospitality property and resulting occupancy rates and room rates.
- In addition, estimates of the likely construction costs should be provided as a check and reference against the utilization of comparable property assessed values.



PARKING TABLE			
PROPOSED USE	AREA	PARKING REQ'D	SPACES
OFFICE	293,000 SF	1/300 SF	977
RETAIL	80,000 SF	1/250 SF	320
RESTAURANT	20,000 SF 200 SEATS, 60 EMP	1/2 SEATS + 1.5/2 EMP	145
GROCERY STORE	35,000 SF	1/300 SF	117
HOTEL	66,000 SF, 100 ROOMS, 200 PPL FUNCTION SPACE	1/ROOM + 1/4 OCCUPANTS FOR FUNCTION SPACE	150
FITNESS	30,000 SF OCCUP	MAX OCCUPANTS/4	38
TOTAL	524,000 SF		1,747
PROPOSED PARKING		1,760 SPACES	
REQ'D ACCESSIBLE PARKING		IF >1,001 SPACES, 20 PLUS 100 OVER EACH 1,000 (1 VAN PER 8 ACCESSIBLE) 28 SPACES (4 VAN SPACES)	
PROP ACCESSIBLE PARKING		32 SPACES	

ZONING TABLE		
ZONING DISTRICT	INDUSTRIAL D2 (ID2)	
PROPOSED USE	SEE PARKING TABLE	
PROPOSED USE ALLOWABLE BY	BY SPECIAL PERMIT / ZBA (HOTEL)	
DIMENSIONAL REQUIREMENTS	REQUIRED	PROVIDED
LOT AREA	N/A	707,000 SF
LOT FRONTAGE/WIDTH	50 FT	430.5 FT
FRONT YARD SETBACK	50 FT	64 FT
REAR YARD SETBACK	40 FT	0 FT*
SIDE YARD SETBACK	40 FT	40 FT
MAXIMUM BUILDING HEIGHT	50 FT/4 STORIES	50 FT/4 STORIES
MAXIMUM BUILDING COVERAGE	30%	30%

WETLAND SETBACK TABLE		
	REQUIRED	PROVIDED
BUILDINGS	50 FT	50 FT
PARKING LOT (>4 VEHICLES)	50 FT	50 FT



Scale: 1" = 100'
June 26, 2018

Dascomb Road Project

Masterplan
Site Plan
Andover, MA

Figure 2 – Preliminary Conceptual Site Layout for 146 Dascomb Road in Andover, MA