

March 3, 2011

Mayor Joseph A. Curtatone
City of Somerville
93 Highland Ave.
Somerville MA 02143

Re: Fiscal Impacts of Phase I of Assembly Row

Dear Mr. Mayor:

W-ZHA LLC ("W-ZHA") is pleased to present this analysis of the fiscal impacts that may arise as a result of Phase I of the proposed Assembly Row project ("the Project").

This project, as proposed by Federal Realty Investment Trust, will include 400 apartment units and 287,000 gross square feet of commercial space, which will include streetfront retail space as well as a cinema (approximately 50,000 square feet) and fitness club (approximately 45,000 square feet).

Approach and Limitations:

This document is intended to provide guidance to the City of Somerville in understanding the level of net benefits (costs) that the Project may generate. In preparing this analysis, W-ZHA's approach involved the following:

- W-ZHA calculated the general magnitude of likely increases in population, households, school-aged children, and public road-miles.
- W-ZHA conducted an analysis of the City's most recent (FY 2011) budget. In this analysis, W-ZHA noted the general magnitude of various department budgets, and their major fixed and variable costs. W-ZHA also noted historical fluctuations that have occurred over recent years.
- W-ZHA, along with City staff, contacted City of Somerville department representatives. These discussions focused on the current operating capacities of each department's resources and the Project's potential impacts on department operations.
- Based on these discussions, and on additional judgments, W-ZHA then estimated the cost increases that might accrue.



LIMITATIONS:

- The foregoing describes a general, “broad-brush” approach. The analysis does incorporate consideration of individual budget line items, but a specific consideration of each line item would exceed the scope of this analysis.
- It should be noted that the Project represents a major investment in formerly underutilized and (in many instances) derelict properties, some of which may have previously imposed unusual burdens on City departments. The overall Assembly Row development, including this Project, has eliminated these properties. As this has occurred, the development has most likely reduced public expenses in ways that will not be captured in the approach applied herein.

SUMMARY

The overall finding of this analysis is that, in the first full year of stabilized operations, the Project will contribute an annual net operating gain¹ of approximately \$2.12 million².

I. Revenues

Underlying this analysis is the assumption that the local market will absorb the project without causing the displacement and relocation (out of Somerville) of other entities; project tenants will represent net new additions to the Somerville community.

Applying prevailing assessment policies and procedures, the City has projected real estate property tax revenues attributable to the Project at \$2,069,139 for its first full year of stabilized operations.

In addition to real estate tax revenues, Somerville revenues will include vehicle excise taxes. These can be projected based on assumptions of 1.5 vehicles per rental apartment unit, with an average assessed value (based on State depreciation formulas) of \$6,000 per vehicle. Applying these assumptions, the table below projects annual vehicle excise tax revenue at \$225/unit for the apartment component, for an annual total of approximately \$85,500.

Combining the various revenue streams projected in the above discussions, total annual net revenues accruing to the City of Somerville amount to approximately \$2.15 million.

¹ This projected “operating” gain refers to City operating costs and operating revenues, apart from public debt service obligations associated with the Project.

² This is stated in current-year dollars. It is also stated in current-year values; additional tax revenues generated by future property value appreciation is not considered herein.

TABLE 1

Projected Revenue Increase	
Real Estate Taxes	\$2,069,139
Vehicle Excise Taxes	\$85,500
Total	\$2,154,639

This projected revenue increase represents a conservative figure, for it does not include:

- Increases in revenues attributable to likely increases in fines, fees, licenses, permits, etc.
- Other property taxes, excise taxes and other revenues derived from future developments (including a 160-200 room hotel, which will generate meal and lodging excise taxes) that will be located on the new streets that will be constructed as part of the Project.
- Likely increases in property values in parts of Somerville lying outside the designated District Incremental Tax district.

II. Expenses

In theory, new residents, workers, students and public infrastructure increase the community's public service burdens. This section analyzes and projects potential new costs to the City that may be attributed to the Project.

SOMERVILLE BUDGET ANALYSIS

The current (FY '11) operating budget for the City of Somerville amounts to approximately \$166 million. Of this total, public education consumes the largest share, at 29.5 percent. The next-largest cost categories include pension and fringe benefits (26.4 percent), public safety (18.9 percent) and public works (11.6 percent).

TABLE 2

Summary of Somerville FY 2011 Budget

Department	Amount	Share
General Government	\$10,464,309	6.3%
Public Safety	\$31,263,136	18.9%
DPW	\$19,230,496	11.6%
Public Schools	\$48,965,643	29.5%
Culture/Recreation	\$1,945,089	1.2%
Pension and Fringe	\$43,824,929	26.4%
Debt Service	\$9,158,057	5.5%
Other	\$903,812	0.5%
TOTALS	\$165,755,471	100.0%

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PROJECT-RELATED GROWTH

The Project is expected to expand the Somerville community as follows:

TABLE 3

New Community Inputs

	Current	Increase	% Increase
	<u>Current</u>	<u>#</u>	<u>%</u>
Population ¹	75,880	760	1.0%
Households ²	31,122	380	1.2%
Jobs	21,451	430	2.0%
Public School Children	4,855	44	0.9%
Public Road miles	106.2	0.8	0.8%

¹ Based on an assumption of 2 persons/occupied dwelling unit.

² Based on 95 percent occupancy of the 400-unit development.



CITY DEPARTMENTS' CAPACITIES AND NEW EXPENSES

In theory, in order to maintain current levels of service, the increases in the preceding table would incur new public expenses. In reality, however, such increases would actually incur new expenses only if the City and its various departments were operating at full capacity. If City departments are not operating at full capacity, additional burdens would simply be absorbed by the departments' existing resources. Thus, by analogy, if a factory operating at full capacity receives new orders, it must add workers or additional physical resources. If the factory has additional capacity, however, it can increase production without bearing additional expense.

City staff and W-ZHA conferred with various City department representatives to determine whether their departments were operating at full capacity, or if not, whether they would be able to absorb new demand created by the Project without incurring new expenses. The general findings of these discussions included the following:

- **General Government:** Costs for elected officials, administrative positions, and other such items are for the most part fixed, and would not have to increase in response to the Project.
- **Public Safety:** Both police and fire departments indicated that the Project would not incur the need for new staff or substantial new resources in order to maintain their current levels of service. While some supply costs would have to increase, such costs – combined -- amounted to less than \$1,000,³ and have been omitted as "*de minimis*" (see below).

"DE MINIMIS" IMPACTS

It should be noted as an initial matter that many theoretical cost increases will not exceed a de minimis level (e.g., less than \$1,000).

One example of a de minimis impact involves medical and public safety supplies for fire department use. In the fire department budget, these two line items amount to \$29,100. Given the anticipated increase in households (adjusted upward to consider additional new jobs in the City), the need for such supplies could increase by a factor of 1.6 percent. This cost increase would amount to \$469.

This analysis omits such impacts. The reason for such omission is that such increases fall well below the budget fluctuations that are caused by a myriad number of other factors unrelated to the Project or any other development. As shown in the following table, such fluctuations – increases as well as decreases – do not necessarily correspond to changes in road-miles, school-children, dwelling units, or other such developments. While new growth will in theory incur new costs, the magnitude of such costs is minor in light of the cost fluctuations that will be driven by other factors.

³ This also includes an expense allowance for Board of Health supplies.

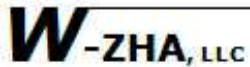


TABLE 4

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total	\$155,928,635	\$163,654,541	\$169,138,035	\$165,097,540	\$160,272,078	\$165,755,471
Police	\$10,549,983	\$10,807,737	\$11,232,377	\$12,849,658	\$12,739,427	\$13,008,538
Fire	\$10,955,376	\$10,511,073	\$11,728,201	\$12,337,829	\$12,409,428	\$12,412,098
School	\$45,000,000	\$45,985,700	\$46,785,700	\$48,785,700	\$47,704,034	\$48,965,643
DPW	\$17,148,899	\$18,035,873	\$19,214,410	\$20,320,113	\$19,826,084	\$19,230,496
School Enrollment	5,136	5,054	4,954	4,934	4,951	n/a
Road-miles	106	106	106	106	106	106

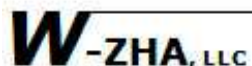
EXPENSE INCREASES: DEPARTMENT OF PUBLIC WORKS

As a result of the additional public roads on the Project's three blocks, the Department of Public Works is likely to incur additional expenses involving costs for street (and street infrastructure) maintenance and snow clearance. These costs will increase in proportion to the Project's 0.8 miles of additional public roads, which represents a 0.75 percent increase over the City's 106 existing road-miles.

As shown below, budget items for snow removal (which in reality varies in accordance with winter weather), highway personnel and highway maintenance would each increase by 0.8 percent. Collectively, these amount to roughly \$22,000 in additional expenses.

TABLE 5

Projected Public Works Expense Impacts			
Public Works	<u>Current</u>	<u>Factor</u>	<u>Amount</u>
Administration	\$1,215,892		
Electrical	\$398,992		
Engineering	\$84,773		
Highway	\$690,300	0.8%	\$5,210
Personnel	\$1,729,243	0.8%	\$13,051
Sanitation	\$3,957,000		
Building & Grounds	\$8,457,187		
School Custodians	\$2,109,806		
Snow Removal	\$500,000	0.8%	\$3,774
<u>Weights & Measures</u>	<u>\$87,303</u>		
Subtotal Public Works and Bldg. Mgt.	\$19,230,496		\$22,034



PUBLIC SCHOOLS

The market targeted for the Project's apartment units focuses on one- and two-person households, and does not include families living with school-aged children. Despite this, the total supply of 400 dwelling units would inevitably contain some school-aged children.

In projecting the number of school-aged children in the project's dwelling units, this analysis draws upon analyses of the issue prepared by the National Association of Home Builders (NAHB), the National Multi-Housing Council (NMHC), and *Housing the Commonwealth's School-Age Children*, a report prepared in 2003 for the (Massachusetts) Citizens' Housing and Planning Association.

These sources provide national, state and local data for various types of multi-family housing. Data for more than 4,200 apartment units in 7 Eastern Massachusetts communities show a ratio of 12.7 school-age children per 100 apartment dwelling units. This figure is consistent with the NAHB's ratio of 13 school-age children per 100 rental units (in structures containing more than 20 units). While data also indicate that the ratio is substantially lower for new buildings, this analysis applies the 12.7/100 du ratio.

After calculating these increases in school-age children, the analysis then diminishes these figures by a "private-school factor" representing households' propensity to enroll children in private schools: the national average among school-age children is 12.6 percent (NAHB).

Applying these ratios, this analysis projects that the additional 400 units would increase Somerville's public school enrollment by a total of 44 students. This would represent a 0.9 percent increase in the City's current school enrollment of 4,855 students.⁴

In projecting cost impacts, school representatives indicate that the schools are currently not at full capacity, and would be able to absorb more than 44 students without hiring additional staff.

There would be incremental costs increases, however, for various supplies. Applying prevailing per-student supply allowances, as well as other supply costs relating to programs such as art, music, technology and physical education, the department currently allocates roughly \$180 per student.⁵ Applying this factor to the 44-student increase, school department costs would likely increase by roughly \$15,500, as shown below.⁶

⁴ It should be noted that Somerville's public school enrollments have been declining; enrollment in 2006 was estimated at 5,300. Thus, the projected student increases – and accompanying costs -- attributable to the Project may be offset by ongoing declines in enrollment.

⁵ This figure is most likely high, as the allocation includes some fixed costs (e.g., library license fee).

⁶ These figures rest on an assumption that the 44 new students would enroll in standard curricula and would not incur "special needs" expenses. Such expenses are dependent on the unique circumstances of each "special needs" student; a responsible projection of new expenses for potential special needs students would not be practical for the purposes of this analysis.

TABLE 6

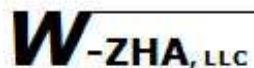
Projected Public School Operating Cost Impact			
	Unit Cost	Students	Increase Amount
Supplies/HS student	\$350	13	\$4,620
Elementary/Jr. HS Staff	\$96	31	\$2,957
Other supplies <u>(art, music, technology, health/phys ed, other)</u>	\$180	44	\$7,920
Total expense impact			\$15,497

TOTAL EXPENSE INCREASE

The above constitute the primary expense increases that the Project is likely to incur. Overall, total projected annual operating expenses for the City of Somerville would increase by approximately \$37,500 as a result of the Project.

TABLE 7

Summary of Projected Expense Increases	
<u>Department</u>	<u>Increase</u>
DPW	\$22,034
<u>Public Schools</u>	<u>\$15,497</u>
Total	\$37,531



III. Summary of Net Local Fiscal Impacts

Subtracting the \$37,500 in projected expense increases from the \$2.15 million in projected net new revenues, the net operating impact of this first phase of the Assembly Row project, in its first full year of stabilized operations is projected as an annual gain of approximately \$2.12 million.

If you have any questions or need clarification regarding the findings herein, please do not hesitate to contact me.

Respectfully Submitted,

A handwritten signature in blue ink that reads "Richard A. Paik". The signature is written in a cursive style and is placed on a light blue rectangular background.

Richard Paik
Vice President
W-ZHA, LLC
221 Essex Street, Suite 51
Salem, MA 01970