

January 18, 2017

Andrew Vorce, AICP
Planning and Land Use Services
Town of Nantucket
2 Fairgrounds Road
Nantucket, MA 02554

Reference: Review of Sandpiper Place, Meadows II Fiscal Impact Analysis

Dear Mr. Vorce:

RKG Associates, Inc. is pleased to assist the Planning Board and your office with reviewing the fiscal impact analysis (FIA) prepared by Richmond Great Point Development (RGPD) for the proposed Sandpiper Place and Meadows II developments. The developer's FIA was prepared in order to fulfill one of the conditions of the November 9, 2015 Memorandum of Agreement (MOA) between the Town of Nantucket and RGPD. Under Section I(7) of the MOA, the developer is required to submit a fiscal impact study and student projection report during the permitting process and to update the student projection report as the project builds out over time. The purpose of these reports is to help the Town plan for the impact of housing growth.

You have asked us to review and comment on RGPD's September 21, 2016 report, but our scope does not include preparing an independent FIA for the Town. With that in mind, we have several comments and suggestions for you to consider. Most of our comments have to do with the methodology for projecting the number of school-age children who will live in the proposed housing units. We hope our assessment is useful to you. Please don't hesitate to contact me if you have questions.

Sincerely,



Judi Barrett
Director of Municipal Services

I. FISCAL IMPACT DEFINED

Among the documents we received for review is a set of comments from town staff in a summary entitled "Town Administration Review/Findings," dated December 19, 2016. After reviewing these comments, comments from members of Town boards, and RGPD's report, we are persuaded that we should begin by defining what "fiscal impact" means because it seems that people may be using the term differently.

As applied to units of local government, *fiscal impact* is an estimate of how a proposed real estate project will affect a community's finances. We express the impact as a ratio of service costs to revenue, or cost-revenue ratio. The ultimate questions for any fiscal impact analysis is this: can the proposed development generate enough revenue to pay for itself? Is it likely to have a positive or negative impact on the tax rate? It is important to note that FIA focuses on *direct* cost and revenue impacts. It does not capture other (non-fiscal) types of development impacts or indirect or secondary impacts, including those which may involve a change in municipal costs and revenues.

Like other communities, Nantucket obtains revenue from a variety of sources, but not all of those sources have a direct impact on the tax rate. Accordingly, a fiscal impact analysis of new development focuses on General Fund revenues and expenditures. It usually excludes sources such as "pay as you go" enterprise funds, federal and state grants, or user fee revolving funds. A study of the impact of growth and change on these other revenues and the operations affected by them can certainly be done, but not within the scope of a fiscal impact analysis. An exception might be if inter-fund transfers play a large role in funding some municipal services, e.g., offsets for a portion of a town finance department's time to process payments to and from an enterprise fund.

There are a few other points we want to clarify:

- A fiscal impact analysis of a multi-phase development often involves a higher risk of inaccuracy than small or single-phase developments. Despite an analyst's best efforts, sometimes conditions change in ways that could not be foreseen when a large-scale project was originally reviewed.
- Fiscal impact studies usually report future costs and revenues in today's (current) dollars. Studies of large, multi-year developments and comparison projects, e.g., two alternative land use proposals for the same site or land use prototype studies, may report the net present value of net revenue (the difference between costs and revenues) by using a discount rate to capture the time value of money. It is not necessary to do this in the vast majority of FIAs, including an analysis of RGPD's proposal.

II. PROJECT DESCRIPTION

As we understand it, RGPD proposes to build 225 rental units (Meadows II) and 100 for-sale units (Sandpiper Place) on approximately 32 acres in the Mid-Island area. The entire site

consists of about 65 acres. We do not know what the developer's plans are for the remaining land or if any of it is buildable. Consistent with the developer's MOA with the Town, 25 percent of the apartments in Meadows II will be affordable for and restricted for occupancy by moderate-income households, i.e., households with income at or below 80 percent of the median family income for Nantucket County. (Note: the FY 2016 county-wide median family income in Nantucket is \$94,900.) This should make all of Meadows II eligible for the Chapter 40B Subsidized Housing Inventory. At Sandpiper Place, 25 percent of the homes will be affordably priced as well, but the income targets are different. Nineteen of the housing units at Sandpiper Place will be price-restricted for moderate-income homebuyers; the other six will be for households with annual income up to 175 percent of the Nantucket County AMI. Together, the 244 Chapter 40B-eligible units in RGPD's proposal would put Nantucket's Subsidized Housing Inventory substantially ahead of the 2.6 percent that existed when the Housing Production Plan was completed last year.

III. COMMENTS

A. Demographics and Public Schools

The assumptions one uses to forecast population and household growth, household size and composition, and the age make-up of a development's future residents all play an enormous role in an estimate of fiscal impact. Where possible, demographic assumptions need to be developed with an understanding of the market for the proposed residential products: the types and sizes of the housing units, the amenities they include, how they are priced, where they are located, and so on. Since Nantucket does not have any developments comparable to RGPD's proposals, it is difficult to arrive at a defensible approach to forecasting the number of people who will live in Sandpiper Place/Meadows II and specifically, the number of school-age children. As a result, we can appreciate why RGPD's report presents several scenarios and a range of net revenue outcomes.

RGPD's report could be helpful to the Town if it included some analysis of geographical mobility in Nantucket's current population, e.g., how many people recently moved, and from where, their incomes, and so on. Estimates to support this kind of analysis can be obtained from the American Community Survey (ACS). For example, we can glean from ACS estimates that about 48 percent of the Nantucket residents who moved into their present house at some point in the past year made an in-town move, i.e., they already lived on the island, so over half moved to Nantucket from an off-island location. Approximately 24 percent moved to Nantucket from somewhere else in Massachusetts, and the rest relocated from another part of the country or someplace abroad.¹ The Census Bureau's estimates do not substitute for a market study, but they suggest it is plausible to assume an almost even division of in-town and off-island moves.

Nantucket's year-round renters are not as mobile as its homeowners, but then again, they do not have many choices. We looked at a sample (albeit limited) of homeowner and renter demographics in other seasonal/resort communities in the U.S., mainly to see if we could find

¹ U.S. Bureau of the Census, American Community Survey Five-Year Estimates, 2011-2015, B07007.

places with some comparability to Nantucket. The difficulty in finding comparable communities will hinder attempts to forecast the size and composition of the households at Sandpiper Place and Meadows II until the projects are under construction and some initial occupancy characteristics can be measured. Still, there are some undeniable, noteworthy qualities in Nantucket compared with other resort towns. Its households tend to be a little larger, on average, especially its renter households. However, Nantucket also has a much larger percentage of over-occupied (overcrowded) rental units than any other vacation/resort community we looked at, and this overcrowding plays a part in the town's tendency toward a larger-than-average renter household size. We know from our work on the Workforce Housing Needs Analysis and Housing Production Plan that many of these overcrowded units are housing families with children. There is also quite a bit of house sharing in Nantucket, more than people may realize. This can be gleaned from census statistics that report the number of people in non-family households and the presence of subfamilies in owner-occupied housing units.

Unfortunately, we believe Meadows II will not do much to alleviate the problem of overcrowded units. This is because the affordable rents will be more than many of the island's hospitality and food service workers can pay. Meadows II will enable some higher-wage (nevertheless moderate-income) renters to find reliable year-round housing and eliminate the "shuffle," and we imagine that outcome alone would be an important social objective for Nantucket. Unless the Town (perhaps through the Affordable Housing Trust) can negotiate a "buy down" of some units and make them more deeply affordable, RGPD's developments will address some housing needs on Nantucket and not others – and the others left unaddressed will still be the most difficult to solve: low-wage workers whose employment earnings fall far short of the conventional definition of "workforce housing."

Recommendation: RGPD's report would be stronger if it included some household size and composition data from the applicant pool for the Meadows I units currently under construction as well as the lottery and homebuyer selection process for Sachem's Path. Though smaller than Sandpiper Place and Meadows II, these are current projects that are increasing the supply of affordably priced units on Nantucket. The data should at least be considered, especially with regard to school-age children.

School-Age Children. At the request of one of the state housing agencies, we just completed a study of school enrollments generated by recently built multifamily units in the Greater Boston area. The study had several purposes, not the least of which was to understand why the number of school students has increased so much in many apartment developments in Boston's wealthiest suburbs. As a result of this work, we have good, timely data on household population trends both close to Boston and around the state.

For average number of children per *household*, Nantucket (0.39) ranks 166 out of 351 cities and towns in Massachusetts, but for average number per *family* (0.67), its state rank is much higher, 72. The reason for the difference is that Nantucket has many *non-family* households, e.g., single people living alone, unrelated roommates, and so on: childless households, which comprise about 47 percent of all households on the island. This distinction is very important because

when a housing product is attractive to particular market segments, it will have a higher tendency to house them. On that note, we believe RGPD makes a valid point that the studio and one-bedroom units will not attract families with school-age children. Of course, the possibility exists that a family would temporarily rent a one-bedroom apartment while waiting to close on a house or condominium sale or to move into a larger rental somewhere else, but on its own, a studio or one-bedroom unit is very unlikely to generate school students. However, the two- and three-bedroom apartments at Meadows II and the for-sale units at Sandpiper Place will.

RGPD’s report does not have demographic data from other affordable or mixed-income housing in Nantucket, but meanwhile the Town has to be able to plan. Assuming that all of the units in Meadows II and Sandpiper Place are actually occupied by year-round households, it is reasonable to assume that people choosing these developments will be similar, overall, to Nantucket’s existing year-round residents. Accordingly, the 225 units at Meadows II could house approximately 44 school-age children, or about 0.20 per household (rounded), based on the following calculations:

Table 1. Meadows II		Multiplier	Notes
Total Units	225		
Families	108	48% * 225	48% of Nantucket renters are families
With Children	66	61% * 108	61% of renter families have children under 18
All Kids	59	66 * 0.90	Average children < 18 (0.90) per family
Est. School-Age Children	44	75% * 59	75% of children <18 are school-age children
Source: U.S. Census Bureau, American Community Survey (ACS) Five-Year Estimates, 2011-2015, Tables B25115, B09002, and RKG Associates, Inc.			

Applying similar assumptions to Sandpiper Place, we estimate that the proposed homeownership units could house approximately 30 students, or an average of 0.30 per household (rounded), as shown below.

Table 2. Sandpiper Place		Multiplier	Notes
Total Units	100		
Families	59	67% * 100	67% of Nantucket homeowners are families
With Children	35	59%	59% of owner families have children under 18
All Kids	38	35 * 1.10	Average children < 18 (1.10) per family
School-Age Children	30	78% * 38	78% of children <18 are school-age children
Source: U.S. Census Bureau, American Community Survey (ACS) Five-Year Estimates, 2011-2015, Tables B25115, B09002, and RKG Associates, Inc.			

Finally, assuming geographical mobility characteristics similar to island-wide conditions, about half of the children in RGPD’s new housing units could be existing residents of Nantucket and the other half would be in families that moved to Nantucket from off-island communities. Based on the documents we received for review, the Town does not have enough information to project the number of in-migrant households. In the absence of better

or verifiable numbers, the ACS geographical mobility tables can be used as a guide. As noted earlier, the estimates published by ACS suggest that approximately half the moves that occur in Nantucket in any given year are actually in-town relocations.

There is a significant unknown variable that must be considered: will all of the market-rate units be occupied by the owners as their domicile? It is not hard to imagine that some of Nantucket's larger employers would want to lease apartments in Meadows II for employer-assisted housing, whether for transient, seasonal, or year-round workers. If that happens, Meadows II may not house as many families as we have estimated in Table 1. One of the "lessons learned" from a study of renter demographics in recently built apartment developments in the Boston metro area is that marketing plays a critical role in the size and composition of renter households and the duration of their tenancy.

Recommendation: Ask RGPD to provide information about its plans for marketing the proposed new units. If RGPD already plans to lease some of the apartments to local employers for short-term employee housing or housing for seasonal workers, it will help the Town to know this so that municipal and school department heads can plan accordingly. In addition, leasing units for employer-assisted housing will likely increase the development's gross income (reduced loss for vacancies), and this in turn could have a favorable impact on the project's assessed value.

B. Municipal Service Costs

The report we received for review focuses on public safety services – police, fire, and emergency medical – and appears to assume that other Town services will not be affected by the project. While we agree that public safety will experience the greatest increase in demand of all municipal operations, the FIA should do more to account for the impact on public works, library services, and the inspectional services required by law for multifamily housing. In addition, the research we recently completed of Boston-area rental developments indicates that for multifamily housing, the impact on public safety needs to account both for *call volume* (calls per unit) and *call duration*.

C. Echo Effect

RGPD has tried to estimate what is commonly known as the "echo effect," i.e., when a family moves into a new housing unit, the one they vacated becomes available for another family to buy or rent. We do not know if RGPD did this on their own initiative or if the Town asked them to consider it. In general, we would simply note that a true echo effect analysis has to present "apples to apples" data in order to provide a fair comparison. Twenty years ago, it was fashionable for fiscal impact studies to try to capture the echo effect on schools from construction of age-restricted housing. It is rarely done today because there are too many unknowns. The analyst trying in good faith to forecast net change runs the risk of an unduly high or low estimate of growth in service costs.

Good examples of the hazards of echo-effect studies can be found in communities that traditionally had a large inventory of older multifamily dwellings and suddenly attracted new apartment developments over the past 10-12 years. An unforeseen impact of these developments was that owners of the older multifamily units began to make significant capital improvements in their properties because they were losing too many tenants to the new buildings. To compete, they had to offer a better product. As a result, while there was “echo” population and household growth, there was also an increase in the assessed value of and taxes paid by residential properties. If Nantucket wants to examine echo effects from RGPD’s proposal, it will be important to note that there may be cost *and* revenue issues to consider.

IV. REVENUE

We have limited comments on RGPD’s revenue projections:

- It is not clear whether RGPD’s revenue projections account in any way for the effect of the residential exemption. Nantucket uses the residential exemption to effectively transfer a share of the residential tax burden to residential properties owned by people whose domicile is located in another community. The residential exemption could reduce the tax revenue from some or many of the units at Sandpiper Place.
- We generally agree with the approach taken to estimate the assessed value of Meadows II and its associated property tax revenue. Comparables to back up the projected market-rate sale prices in Sandpiper Place would strengthen the report.
- Without a specific breakdown of local receipts that have been included in RGPD’s calculation of new revenue, it is difficult to say whether the projection makes sense. For a residential development, the safest (and most defensible) way to estimate local receipts is to limit the revenue source to motor vehicle excise taxes. It is the only unallocated local receipt in Schedule A that is directly affected by household growth.
- It is not clear to us how state aid (mainly Chapter 70) has been factored into the estimated revenues for this proposal.

V. OBSERVATIONS

We always try to remind local officials that a fiscal impact analysis should never be the sole - or even the primary - basis for making a major public policy decision. Several issues need to be considered regarding Meadows II and Sandpiper Place.

- **Competing Public Interests.** Some types of development provide social or environmental benefits that matter more to a community than new tax revenue. RGPD’s proposal exemplifies this challenge. We think there is little question that Meadows II will cost more in services than the total amount of revenue it generates, yet the project offers significant public benefits: affordable housing that is critically needed in Nantucket and the siting of multifamily housing in an area that is consistent with the Town’s master plan.
- **Local Policy Decisions.** FIA conclusions do not guarantee that a town will actually commit new revenues to the services that experience new demand. RGPD’s task is to identify and quantify their project’s net operating impact on municipal and school services, but clearly

the developer does not control decisions made by Nantucket town meeting. Local legislative bodies make appropriation choices based on local policies and priorities, not on estimates and projections reported by fiscal impact analysts.

- Causal Fallacies. In all communities, operating costs increase even without population and household growth. Some good examples are rapid acceleration in shared or “fixed” costs such as employee health insurance that occurred in the early 2000s, and the continued growth in public school budgets in communities that are experiencing declining school enrollments.