

April 28, 2015

Emilie Cademartori, Town Planner  
Wenham Board of Appeals  
Wenham Town Hall  
138 Main Street  
Wenham, MA 01948

Reference: Recovery Centers of America Special Permit Application, 36 Essex Street

Dear Ms. Cademartori and Board Members:

RKG Associates, Inc., is pleased to provide this fiscal impact analysis of a proposed substance abuse treatment facility at 36 Essex Street (Penguin Hall). We have reviewed the proponent's application materials, Recovery Centers of America (RCA), met with Town department heads, attended several of the Board's public hearings on this project, conducted a literature review, examined the proponent's operating and real estate financials, and consulted with Wenham's town assessor in order to prepare an estimate of the project's impact on Wenham. We have also spent considerable time consulting with officials in other communities that already have substance abuse treatment facilities. In our opinion, RCA's project will have a moderately positive fiscal impact, as follows:

Municipal Service Costs:	\$149,800
Real Estate Tax Revenue:	\$327,200
Net Revenue:	\$177,400
Cost-Revenue Ratio:	0.46

The cost-revenue ratio means that for every \$1.00 in real estate tax revenue generated by RCA's development, the Town will spend 46 cents on municipal services. As discussed later in this report, the municipal service cost estimate shown above is a "middle ground" estimate. We have considered a few options for estimating municipal service costs for RCA's proposed facility because Wenham does not have a similar project today. As a result, there is no directly comparable experience from which to draw. The cost-revenue ratios for the fiscal impact methods we used range from 0.36 to 0.52, i.e., from 36 to 52 cents in service costs for every \$1.00 in tax revenue. In all three cases, the fiscal impact is positive.

### **PROJECT UNDERSTANDING**

RCA proposes to convert the 105,000 sq. ft. Penguin Hall estate into a 219-bed substance abuse treatment facility. The project is one of several that RCA hopes to develop, including one nearby in Danvers. According to the application materials we received for review, RCA plans to offer in-

patient, partial hospitalization, and outpatient services from the property at 63 Essex Street. In order for the project to materialize, RCA needs a Special Permit from the Board of Appeals and other local approvals as well as a license from the Massachusetts Department of Public Health. The DPH license application was unavailable for RKG's review. RCA has consistently stated to the Board of Appeals that its program will be a licensed substance abuse treatment center, not a licensed acute psychiatric facility.

There are differences between licensed inpatient substance abuse treatment programs and licensed inpatient acute psychiatric facilities. About eighteen months ago, RKG assisted another town with reviewing a proposed acute psychiatric facility that planned to offer substance abuse treatment services as well. In consultations with officials from other cities and towns at the time, we found that differences in clientele, programs, and funding sources can play a role in a treatment center's impact on the community. For the Penguin Hall review, we updated all of our previous research and added some facilities that we did not have an opportunity to review before. As a general comment, we have tried to account for differences in facility types, operations, and clientele in our research and review. Since many acute psychiatric facilities also offer substance abuse treatment, it can be difficult to make direct "one for one" comparisons. A list of the facilities for which we requested municipal service impact statistics and assessed value data can be found at the end of this report.

In-patient drug and alcohol treatment occurs both in licensed mental health centers and licensed substance abuse treatment centers. These health care facilities do not serve the same clientele, yet clearly there is some overlap. Though a somewhat oversimplified example, an individual needing both psychiatric and substance abuse treatment receives inpatient services at a licensed mental health facility, i.e., a general hospital with a psychiatric unit or a free-standing acute private hospital, because these facilities are licensed to provide psychiatric care. A substance abuse treatment center is not licensed to provide psychiatric care, and it cannot serve patients whose *primary* need is psychiatric services. An individual whose *primary* need is drug or alcohol treatment receives services from a licensed substance abuse treatment facility. While this individual may also have psychiatric issues, he may be admitted to a substance abuse treatment center for inpatient drug and alcohol treatment if the psychiatric issues are stable and inpatient psychiatric care is not required.

As we understand it, RCA plans to obtain a substance abuse treatment program license from the Department of Public Health (DPH). RCA representatives have said they do not plan to seek Bureau of Substance Abuse Services (BSAS) funding or accept Medicare/Medicaid patients for the Wenham facility, i.e., only patients with private insurance or other private resources will be admitted. We were surprised to hear this since drug and alcohol abuse is such a critical public health problem – as detailed in RCA's own application to the Board. RCA's application indicates that they expect to provide patients with a continuum of treatment services for at least ninety days, including inpatient and outpatient services. From comments made at Board hearings, we infer that RCA will offer both short-term and longer-term (over thirty days) of inpatient service delivery depending on the patient's needs and financial circumstances. The duration of inpatient services is unclear. Since most private insurance covers only detoxification and "stabilization," or roughly a

week of inpatient care, ongoing treatment and rehabilitation is often a private pay arrangement. From all that we have heard and read about this project, RCA's proposal for Wenham involves a comprehensive slate of services for a fairly exclusive population. As a result, some of the impacts that people fear – as expressed during the hearing process and in our discussions with Town staff – are much less likely to occur than if the facility served the broader public, including patients without insurance and patients referred (involuntary commitment) under G.L. c. 123, § 35.

### **UNDERSTANDING FISCAL IMPACT**

The term fiscal impact refers to the relationship between the amount of revenue generated by a given land use and its associated community service costs. The relationship is expressed as a ratio of municipal and school service costs to revenue, known simply as a “cost-revenue ratio.” A land use qualifies as “revenue positive” if it generates more revenue than the cost of the demands it places on municipal and school services, i.e., a low cost-revenue ratio. A “revenue neutral” land use represents the break-even point, and a “revenue negative” land use costs more in community services than the amount of revenue it produces. In our experience, five factors tend to influence the net fiscal impact of new growth:

- The population changes associated with a particular land use;
- Rate of new growth;
- Location of new growth;
- The existing land use pattern in the receiving city or town; and
- The existing fiscal condition of the receiving city or town.

### **Models and Assumptions**

Since local governments depend on property taxes to finance municipal and school services, fiscal impact studies have become a popular tool for development review. However, fiscal impact analysis is not confined to a single “tool” because practitioners have several models or methodologies from which to choose. A model is an organized, systematic way of analyzing data, making inferences, and drawing conclusions. All of the prevailing fiscal impact models have been field-tested and reviewed by academic and practicing peers, and from time to time new field tests lead to updated assumptions. For example, many of the demographic assumptions used by fiscal impact analysts thirty years ago have been modified to reflect national changes in household sizes and types.

Fiscal impact analysis focuses on General Fund revenue because the question ultimately addressed by any of these studies is whether a land use will have a positive or negative impact on the tax rate. To answer that question, a fiscal impact analyst has to rely on known factors – historic revenue and expenditure trends, existing conditions, and the demographic characteristics of a community – to predict the “unknown” outcome of a future land use change. On this note, most of the prevailing fiscal impact models share some common ingredients. For example:



- Near-term community service expenditures per capita may be used to forecast changes in spending as the local population grows if today's average cost per capita is adjusted to simulate the impacts of large and small amounts of new growth. A significant amount of population and household growth in a short period is more likely to cause accelerated growth in service costs. By contrast, a low or stable rate of population growth usually triggers little change in the overall rate of growth in service, measured on a per capita basis.
- Nearly all fiscal impact models assume that for a given nonresidential land use, the ratio of a development's assessed value to aggregate value of properties in the same use class (two "knowns") can be used to estimate the same development's proportional share of total community service costs (an "unknown"). To analyze the impact of RCA's proposal on the Town of Wenham, we have used this approach as well as some others and compared the results. We did this because Wenham does not currently have a facility like the one RCA has proposed, which could make the so-called proportional valuation method less useful. **At the risk of confusing the Board, we are presenting a range of cost impacts because we think it is the only fair way to describe this project: best- and worst-case scenarios.**

#### **Limitations**

Fiscal impact studies have limitations and for a variety of reasons, they should be used with caution. While fiscal impact estimates can help communities plan for change, they should not be the sole basis – or even the primary basis – for major public policy decisions. In our experience, the following conditions tend to affect the accuracy and utility of fiscal impact studies:

- No fiscal impact model adequately accounts for a municipality's fiscal condition, yet the real impacts of a project are largely determined by context: the demographic, economic and fiscal characteristics of the receiving community.
- Not all local government costs change as a direct result of population or employment growth, and some costs change in the absence of population growth – such as health insurance costs for municipal employees, energy costs for public buildings, and fuel costs for public safety and public works.
- Revenue ratio studies rely on present costs and revenues to describe the fiscal outcome of a development that is not yet built. However, changes in the economy, federalism, public policy, population demographics and technology result in a fluctuating fiscal position for most land uses.
- In isolation, cost-revenue ratios convey an incomplete picture of a development's fiscal outcome. A land use may seem advantageous because it produces a positive cost-to-revenue ratio, but the amount surplus revenue it generates (in dollars) may be strikingly low. In our experience, this kind of outcome is usually associated with low-intensity land uses, particularly low-intensity commercial uses.

## **APPROACH, ASSUMPTIONS, AND CONCLUSIONS**

### **Cost of Municipal Services**

RCA's proposal is a nonresidential land use – a substance abuse treatment center – and its impact has to be measured accordingly. For a proposed housing development, a fiscal impact analyst will look at the proposed housing type, develop assumptions about the households that will eventually live in the project, compare those households with the community's existing households, and determine whether existing demands on municipal and school services can be used as a reliable indicator of future demands from the development's residents. If not, the analyst has to find other ways to estimate the project's impact on the community.

The proposal for Penguin Hall presents a similar challenge because Wenham does not have an existing substance abuse treatment center that can be used as a guide. Accordingly, RKG contacted local officials in twelve communities with existing substance abuse treatment centers (most of which are in acute psychiatric facilities). We heard universally that the only discernible impact involves public safety personnel, and even at that, the impact seems to vary quite a bit. Although people assume that drug and alcohol treatment facilities must impose significant demands on public safety services, we find that in most cases, this is not true. Operations, management, clientele, and location all play a role in determining the actual impact on police and fire departments. In general, we found that in facilities with substance abuse treatment services:

- On average, the number of police department calls per bed per year is 0.80, and each call requires approximately 30 minutes of the responding officer's time. For a 219-bed facility in Wenham, this would mean 175 calls and approximately 88 hours of time per officer per year. (Double for a call requiring two officers, both of whom remain on the premises for the entire response period – which may not always be the case.)
- On average, the number of fire department calls per bed per year is 1.8. For departments that provide emergency medical response, the average call time is 90 minutes; in other cases, it is 25 minutes. For communities that provide fire protection services only, the average number of calls per bed per year is 0.60 and again, the average call time is 20 minutes. (Non-emergency medical calls usually involve a fire alarm or smoke detector.) In Wenham, a private ambulance company provides emergency medical transport. We assume the 20-minute time factor applies. For a 219-bed facility, the averages in our study would mean 131 calls and approximately 44 hours of time per call.

The averages for police and fire calls are slightly lower in facilities with substance abuse treatment-only licenses (not an acute psychiatric treatment license), e.g., Gosnold at Cataumet, McLean/Naukeag, or Spring Hill. To be conservative, we have used the average number of public safety calls and average response times from our entire list.

### **Impact on Police Department**

One way to estimate Wenham's future municipal service expenditures is to forecast the cost of increasing the Police Department's capacity. Based on our discussions with Town staff and personnel in other communities, it seems clear that the Wenham Police Department will absorb a

greater impact than any other operation. At present, the Wenham PD is operating at roughly 1990 levels despite the amount of population growth that has occurred in the town. The department typically has two patrol officers on duty per shift, a condition the Town has chosen to accept for many years. If RCA's project were located in the center of town, its impact would be different due to proximity to the police station. However, Penguin Hall is more remotely located (about three miles from the center of town) in an area with relatively little activity that would require routine police presence. Given the factors of distance on one hand and chronic understaffing on the other, there is no question in our minds that properly serving the RCA facility will strain the Wenham PD's capacity. An incident at 36 Essex Street could require both officers on duty to respond and stay on the premises for a half-hour or more. The issue has less to do with the frequency or seriousness of the calls than the very small size of the Wenham PD, and to some extent, the duration of the calls as well.

In a situation like this, a fiscal impact analyst has to determine whether the cost to increase capacity should be assigned entirely to one project or assigned pro rata, i.e., a portion to the new project and the balance spread across all taxpayers. Since the Wenham PD "runs light" by Town choice, it is very hard to say that RCA is entirely responsible for the cost to add police officers. The Police Chief has said he believes RCA's project will require Wenham to hire two additional full-time patrol officers, and after reviewing his call data we are inclined to agree. Throughout this review, we believe we have used the most conservative estimates possible, meaning that our analysis most likely exaggerates what Wenham will spend on municipal services if RCA's project goes forward. We have assumed that the cost of two new officers is \$85,000 per officer, including salaries, employee benefits, police academy training, and equipment and uniforms. The chief indicated that he would not need to purchase an additional cruiser, so we not included one in our calculations. **Thus, if one assumes that the entire cost of adding two full-time police officers should be assigned to RCA's development, the impact is approximately \$170,000.**

#### **Alternative Approach: Employee Anticipation**

Another option for estimating a nonresidential facility's impact is to apply what is known as the employee anticipation method. This fiscal impact model assumes that a new facility's employees will cause a change in service demands roughly equal to one-half resident per employee, multiplied by the community's average cost of municipal services per capita. The most recent fiscal year for which the Massachusetts Department of Revenue (DOR) has complete financial data for Wenham is FY 2013. RKG traced Wenham's total expenditures for three successive fiscal years and converted the total to an expenditure per capita, and multiplied the result by one-half of RCA's projection of 100 employees on the premises at any given time, adjusted by a cost multiplier of 1.05 (a "going-forward" inflation adjustment). **This method results in an increase in municipal services of \$149,700 attributable to RCA's facility. We have used this estimate as a "middle ground" cost.**

#### **Alternative Approach: Service Costs Per Sq. Ft.**

Another option for estimating a nonresidential facility's impact involves multiplying a facility's total floor area by a simple cost multiplier. Analysts often use this approach when there are no comparison properties in similar communities and very little is known about a proposed project. Cost-per-foot multipliers are published from time to time, and we have derived our own from

numerous fiscal impact case studies. There is no exactly comparable multiplier we are aware of for a substance abuse treatment facility, so to be conservative, we applied the highest nonresidential cost multiplier available in any published or unpublished literature: \$1.12 per sq. ft. **If we relied on this method in Wenham, the municipal service cost projection would be \$117,000.**

### **Tax Revenue**

RKG has communicated with Wenham's town assessor several times. Unfortunately, the assessor's office has not arrived at any conclusions about the potential value of Penguin Hall once RCA has made capital improvements and put the facility into operation as a substance abuse treatment center. One possible approach to determining the value generates a very high number – too high for the Town assessor or for RKG to use in a fiscal impact analysis today. We sympathize with the assessor's position. Until the facility is actually operating and RCA's net operating income is known, the value can only be estimated based on best available information.

We have reviewed some preliminary financial estimates from RCA, including estimated real estate taxes. Based on RCA's data and our own survey of assessed values and tax revenue for the other facilities in our study, we estimate that upon completion, with stabilization at 85 to 90 percent occupancy, RCA's treatment center will have an assessed value of \$20,133,700. With the Town's present tax rate of \$16.25 per thousand, the revenue would be \$327,200. This does not include personal property tax revenue, which neither we nor the Town assessor can estimate at the present time.

We are aware that competing appraisals have been submitted to the Board, arguing in one case that the proposed facility will have a negative impact on residential properties near Penguin Hall and in other cases that it will not. RKG has not been asked to peer review any of the appraisal reports, but we considered them because we were concerned that they might affect our net fiscal impact conclusions. We should point out to the Board that RKG recently worked for the Town of Falmouth and we are very familiar with the community. Gosnold's facility in Falmouth is located in an area that includes other significant health care services and other community service operations. It is not an isolated or free-standing center like that proposed for 36 Essex Street. We encourage the Board to question the appraisal that relies on paired sales in Falmouth and view the Woods Hole Road area independently, perhaps with aerial photographs that are readily available online.

If you have questions about our report, please contact me at [jbarrett@rkgassociates.com](mailto:jbarrett@rkgassociates.com) or 617-455-8641.

Sincerely,



Judi Barrett  
Director of Municipal Services



**FACILITIES REVIEWED FOR THIS REPORT**

<b>Facility Name</b>	<b>Town</b>
Arbour Quincy	Quincy
Arbour-Fuller Memorial	South Attleboro
Arbour-HRI	Brookline
Baldpate Hospital	Georgetown
Bournewood Hospital	Brookline
Gosnold at Cataumet*	Pocasset (Bourne)
Gosnold/Emerson House (Women Only)	Falmouth
Gosnold/Miller House (Men Only)	Falmouth
High Point Treatment Center (Plymouth)	Plymouth
McLean/Naukeag	Ashburnham
Pembroke Hospital	Pembroke
Spring Hill Recovery	Ashby
Walden Behavioral Care	Waltham
Westwood Lodge	Westwood

In RKG's opinion, this Gosnold facility is most comparable to RCA's proposed development in Wenham.

