

Town of Harvard Devens Economic Analysis Team Report to Selectmen

November 3, 2015

Membership
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Introduction

This is the fifth report prepared by the Devens Economic Analysis Team (DEAT) on the economic condition at Devens. The reports have used actual property tax assessments along with modeled municipal expenses to analyze the economic viability of Harvard resuming jurisdiction over the portions of Devens that lie within its historic town boundaries. All of the income and expense analysis in this report relate only to that portion of Devens within the historic town boundaries.

Scope of Work

The Harvard Board of Selectmen charged the DEAT with analyzing Devens finances, analyzing the financial impact of current commercial tax policies at Devens, determining whether commercial and industrial development at Devens can benefit Harvard and the region, examining the financial impact of the educational agreement between Harvard and Mass Development for the education of students who live in Devens, defining regional opportunities for municipal services between Devens and the host communities, and identifying the financial impact of proposed changes to the Devens Reuse Plan, zoning, or by-laws.

History of DEAT Activities

In our Vicksburg Square Report (issued September 2011), we analyzed the financial impact of a proposal for housing at Vicksburg Square. The voters ultimately rejected this proposal.

We presented an update of our work to Annual Town Meeting in April 2012. We previewed the conclusions that would appear in our Annual Report for 2012, as noted in the next item.

In our Annual Report for 2012 (issued October 2012), we analyzed Devens finances and introduced a model for estimating municipal operating expenses. We also summarized the current state of municipal regionalization efforts and suggested several additional opportunities for further municipal regionalization. We compared the task of managing

the Devens Industrial Park to other nearby industrial parks, and noted that a small, 2-to-3 person staff could manage the day-to-day operations. We summarized the operation of Devens Utilities, described the competitive advantage and financial benefit that it provides to Devens, and recommended that the Towns ask Mass Development to conduct an open and transparent process for the disposition of Devens Utilities. We also summarized the operation of the Devens Department of Public Works.

In our Annual Report for 2013 (issued March 2014), we updated our model for estimating municipal operating expenses and noted that the projected operating deficit had remained fairly constant, despite the ongoing recession. For the first time, we estimated the revenues that could be expected from non-tax sources. We documented two fundamental questions that we had posted to MassDevelopment, on the need to have an open and transparent disposition process, and on the need to have clear criteria for declaring that its redevelopment work is finished.

This document is our Annual Report for 2014 (issued October 2015). We focus on Devens tax revenues and operating expenses, the impact of commercial development on tax revenues, and projects the impact of Devens finances on the a hypothetical resumption of jurisdiction of Harvard over its historic portions of Devens.

Summary of Current Financial Status

As shown in Exhibit B, the gap between income and expense of a recombined Harvard and Devens has diminished over the last 5 years. An operating deficit remains through FY 2015 assuming all property at Devens is taxed using the Harvard single tax rate. The split tax rate currently used at Devens eliminates the shortfall.

The data supplied with this report supports the premise that the economic viability of Devens is no longer an uncertainty. We have consistently used conservative assumptions in our models and thus have a high degree of confidence in this prediction. The only uncertainty is determining exactly when economic viability will happen, as the timing is dependent upon local, state, and national economic conditions.

Devens Property Assessments and Projected Deficit

Exhibit A shows the history of property assessments in Harvard and Devens since FY2010. The effects of the recession of 2008 begin to show up in declining property values by FY 2012. Despite several significant business downturns at Devens; most notably the bankruptcy of Evergreen Solar, the general decline in value was approximately 20%; less than the larger regional market, and values have been recovering for the past three years. Considering that this recession was the worst economic decline since the Great Depression, it is worth noting the resilience of the businesses at Devens, due, in part, to their diverse nature.

Potential for Economic Growth

This report discusses three areas of economic growth that have the realistic potential to bring the full 8 million square feet of development envisioned by the Reuse Plan. Those areas are:

- Development Sites for Sale – Exhibit C
- Development Sites Pending for Sale – Exhibit D
- Sold Sites with Planned Development Potential – Exhibit E

Three quarters of the development at Devens has occurred on land still recordable as being in the Town of Harvard, and all of the developments sites contained in the exhibits to this report are within the historic Harvard boundaries.

We believe that it is realistic to expect development to occur on many of the sites shown in Exhibits C, D, and E, all of which are appropriately zoned and most of which are pad ready. In fact, the DEC has already issued permits for significant development and construction is underway on at least three of those sites.

Effect of TIFs on Property Tax Receipts

In addition to the development potential shown in the exhibits, the maturing of the Bristol Myers Squibb tax agreement (known as a TIF, for Tax Increment Financing) adds significant value to the tax base each year for the next 14 years. As Exhibit C shows, beginning in FY 2015 (July 2014 to June 2015) the percentage of taxable building value begins to steadily increase. Over the next five years of the agreement, yearly tax revenues (based on Harvard's tax rate) will increase to \$750,000 and continue to grow until they reach over \$1.6 million dollars in FY 2029.

Devens Utilities

As for the capital budget, the DEAT has previously proposed (in our Report of March, 2014) the creation of a municipal super utility to manage electric power, natural gas distribution, fresh water and waste water, as well as storm water, and possibly telecommunications. This could serve to ensure that future funding is in place as the existing utility infrastructure depreciates. MassDevelopment has structured and operated its Utility Department in a manner as to make its transformation into a municipal utility feasible.

There are other significant municipal capital items that we have not studied, but which will need to be assessed as a part of any realistic analysis. These include the municipal buildings, roads, green spaces, recreation areas, and other public places. While many of these items are fairly new, and thus at an early stage in their usable lifecycle, nonetheless, a plan must be created to tackle renewal of them as they age.

Other Issues

All this is not to suggest that there are no other issues to be addressed. Some of those issues are not economic, most are a combination of social and cultural issues with an economic component. The work of the DEAT has always been limited to economic issues. The hope has been that the reports will serve to take the economic concerns off the table and in this way allow a more fruitful debate to take place on the merits of those other issues that affect “the character of the Town.”

FY2015 Projected Municipal Income and Expense

The analysis projects a deficit of approximately \$468,000 (Exhibit B) using the current Harvard single tax rate. While this is not an insignificant number, taken in the context the potential growth in assessed valuation that amount will continue to fall. Since the first properties began generating tax revenue, Devens has added an average of approximately \$12.3 million in value annually which would yield over \$200,000 in tax revenue using the current Harvard Tax rate. Nearly 75% of all current value at Devens is within the historic Harvard Town boundaries. An even higher percentage of future development is within the Harvard sector.

Together with the maturation of the TIFs that are in place, we believe it is reasonable to project that the operating deficit will continue decline over the next few years even with the conservative methodologies used throughout this report.

Analysis of Development Potential

All of the exhibits are sourced from the Devens Assessor’s records and various reports and public information prepared by MassDevelopment. While some of the source documents are several years old, updating them would likely produce more favorable economic projections, due to the recovery of the overall economy. Mass Development determined the development potential of each parcel using past experience and actual site characteristics. In every instance the development potential is less than that allowed by existing zoning; in some cases significantly less.

The follow conservative assessed values metrics have been used in every chart:

Land: \$75,000 per acre

Building Value: \$50.00 per square foot

Tax Rate: \$17.79 per thousand (Harvard’s current tax rate)

Parcels Currently on Market

Exhibit C shows 11 parcels of land deeded in Harvard which are currently being marketed by MassDevelopment. They range in size from 2 acres to over 22 acres and have the development potential of 1.3 million square feet.

Sites to be Prepared for Market

Exhibit D shows parcels that are not for sale, due to various reasons. They are zoned for development but are not ready for sale. The reasons may be strategic, related to infrastructure needs, or some sites may require other improvements to make them pad ready. The parcels, which may include existing buildings, range in size from 1.3 acres to 87.1 acres and represent over 1.5 million square feet of development.

Expansion on Sold Parcels

Exhibit E shows parcels that have already been sold and which include additional land planned for future expansion. The most notable example is the land sold to Bristol Myers Squibb which is presently undergoing such an expansion. The total expansion, some of which is underway but not yet assessed for taxation is over 1.6 million square feet.

Other Issues to be Studied Not Exclusively Economic

- Public Education
- Police and Fire Contracts
- Permitting/DEC
- Vicksburg Square
- Managing Open Space and Recreational assets
- Access
- Special Needs /Affordable Housing
- Split Tax Rat
- Impact on the nature of local government

Conclusion

With this report the DEAT has concluded its assigned task. Going forward the Selectmen should request an annual report from the Devens Assessor on changes to property valuations focused on new growth.

The analysis herein shows that Devens would be economically sustainable as part of the Town of Harvard should that be the preference of the Town, and that Devens has considerable additional economic potential. The report also shows that by extension

MassDevelopment has considerable work yet to be undertaken, primarily in the area of land sales and tasks associated with those land sales.

The DEAT hopes that there will be consensus on the larger economic issue based on these findings and further hopes that the Town will begin a comprehensive planning process, with assistance from professional planning consultants, that will address all other issues so that the Town can come together on a vision for the future of Devens.

Similarly, Ayer, Shirley and MassDevelopment, including Devens residents should plan for and reach consensus on what serves their individual best interests. Only then can everyone come together for meaningful deliberations on the final disposition of Devens.

While MassDevelopment has much to be done at Devens, someday they will be done and Harvard should be prepared.

Post Script

This year the MassDevelopment Board will meet at Devens in November. In 2013 when the Board came to Devens the DEAT on behalf of the town offered these comments:

- Given the importance of managing and maintaining the Utility systems at Devens successfully for the long term, MassDevelopment should only undertake changes in the current operation with complete public transparency.
- While the conclusion of the Devens redevelopment project is many years away, MassDevelopment should establish and make known its criteria for substantial completion.

Exhibit A

Assessed Values

	Harvard Valuation	Devens/ Harvard Valuation	Combined Valuation
FY2010	\$ 1,138,995,512	\$ 194,916,126	\$ 1,333,911,638
FY2011	\$ 1,082,829,559	\$ 214,916,126	\$ 1,297,745,685
FY2012	\$ 1,053,042,141	\$ 211,081,766	\$ 1,264,123,907
FY2013	\$ 1,056,647,413	\$ 170,140,878	\$ 1,226,788,291
FY2014	\$ 1,060,081,431	\$ 161,890,820	\$ 1,221,972,251
FY2015	\$ 1,063,093,393	\$ 182,101,118	\$ 1,245,194,511

Exhibit B

Municipal Budget

	Harvard (actual)	Harvard/ Devens (estimate)	Combined Budget	Projected Shortfall
FY2010	\$ 19,742,928	\$ 3,801,816	\$ 23,544,744	\$ 1,500,000
FY2011	\$ 19,922,263	\$ 4,286,197	\$ 24,208,460	\$ 1,100,000
FY2012	\$ 20,103,790	\$ 4,322,377	\$ 24,426,167	\$ 850,000
FY2013	\$ 20,710,819	\$ 4,582,658	\$ 25,293,477	\$ 863,683
FY2014	\$ 21,279,523	\$ 4,708,494	\$ 25,988,017	\$ 972,525
FY2015	\$ 21,963,828	\$ 4,859,910	\$ 26,823,738	\$ 468,545 *

* Devens Valuation	Tax Rates		Tax Revenue	
	Devens	Harvard	Devens	Harvard
Residential \$ 19,806,100	\$ 16.71	\$ 17.79	\$ 330,959.93	\$ 352,350.52
Commercial \$ 162,295,018	\$ 22.60	\$ 17.79	\$ 3,667,867.41	\$ 2,887,228.37
<u>\$ 182,101,118</u>			<u>\$ 3,998,827.34</u>	<u>\$ 3,239,578.89</u>

Additional Tax Revenue using the Current Devens Tax Rates \$ 759,248.45

Exhibit C

Development Sites for Sale - (Harvard)

Street #	Property Location	Description	Acres	Land Value ¹	Development Potential ² SF	Building Value ³	Total Value	Projected Property Tax ⁴
249	Barnum Road	CMTC	2.0	\$ 150,000	9,700	\$ 485,000	\$ 635,000	\$ 11,297
151	Barnum Road	Lot 1D	5.0	\$ 375,000	60,000	\$ 3,000,000	\$ 3,375,000	\$ 60,041
19	Buena Vista Street	Willard Field	2.0	\$ 150,000	30,000	\$ 1,500,000	\$ 1,650,000	\$ 29,354
10	Bulge Road	Davao	18.5	\$ 1,220,300	185,000	\$ 9,250,000	\$ 10,470,300	\$ 186,267
75	Jackson Road	Lot 14	11.0	\$ 942,400	150,000	\$ 7,500,000	\$ 8,442,400	\$ 150,190
45	Jackson Road	Lot 16	22.3	\$ 2,193,200	325,000	\$ 16,250,000	\$ 18,443,200	\$ 328,105
33	Lake George	MDFA - vacant	2.0	\$ 157,100	20,000	\$ 1,000,000	\$ 1,157,100	\$ 20,585
85	Patton Road	Lot 19	7.6	\$ 661,300	50,000	\$ 2,500,000	\$ 3,161,300	\$ 56,240
33	Saratoga Boulevard	Lot 1C	9.0	\$ 1,036,800	100,000	\$ 5,000,000	\$ 6,036,800	\$ 107,395
109	Sherman Avenue	Hornet Field	5.0	\$ 1,068,700	350,000	\$ 17,500,000	\$ 18,568,700	\$ 330,337
101	Sherman Avenue	Washington Hall	4.5	\$ 186,600	20,000	\$ 1,000,000	\$ 1,186,600	\$ 21,110
Totals			88.9	\$ 8,141,400	1,299,700	\$ 64,985,000	\$ 73,126,400	\$ 1,300,919

Footnotes

¹ Assessed Land Value: \$

² Development Potential:

75,000 Per acre or actual assessed value if available

Planned but not permitted future building area on developed/taxable parcels, and likely building area allowed by zoning and existing conditions

50 Per SF

17.79 Single rate, Town of Harvard

³ Assessed Building Value: \$

⁴ Tax Rate (FY 2015): \$

Other Notes:

42 Buena Vista Street, Vicksburg Square, 16.0 acres (split between Ayer and Harvard) is for sale but not included in this chart

Exhibit D

Development Sites - Pending (Harvard)

Street #	Property Location	Description	Acres	Land Value ¹	Development Potential ² SF	Building Value ³	Total Value	Projected Property Tax ⁴
	0 Balls Bluff Street	M DFA	2.8	\$ 240,200	52,500	\$ 2,625,000	\$ 2,865,200	\$ 50,972
	0 Buena Vista Street	Tennis Courts	3.2	\$ 400,000	90,000	\$ 4,500,000	\$ 4,900,000	\$ 87,171
	0 Buena Vista Street	M DFA - (76th Division to Balls Bluff)	10.7	\$ 926,600	80,000	\$ 4,000,000	\$ 4,926,600	\$ 87,644
	0 Grant Road	M DFA - (corner Jackson & Grant)	3.7	\$ 270,800	20,000	\$ 1,000,000	\$ 1,270,800	\$ 22,608
11	Grant Road	Former Sports Arena site	8.0	\$ 584,000	75,000	\$ 3,750,000	\$ 4,334,000	\$ 77,102
	0 Maple Street	Maple	14.0	\$ 1,022,000	225,500	\$ 11,275,000	\$ 12,297,000	\$ 218,764
	0 Oak Street	Lot 12 Oak	11.5	\$ 840,200	150,000	\$ 7,500,000	\$ 8,340,200	\$ 148,372
	0 Pine Street	M DFA - (adjacent to Comrex)	3.1	\$ 227,200	9,399	\$ 469,950	\$ 697,150	\$ 12,402
	0 Salerno Circle	Salerno Circle	87.1	\$ 6,360,800	750,000	\$ 37,500,000	\$ 43,860,800	\$ 780,284
	0 Sherman Avenue	M DFA - (Devens Drive)	1.3	\$ 111,400	28,800	\$ 1,440,000	\$ 1,551,400	\$ 27,599
93	Sherman Avenue	BOQ's	3.5	\$ 301,700	30,000	\$ 1,500,000	\$ 1,801,700	\$ 32,052
			148.9	\$ 11,284,900	1,511,199	\$ 75,559,950	\$ 86,844,850	\$ 1,544,970

Footnotes

- ¹ Assessed Land Value: \$ 75,000 Per acre or actual assessed value if available
- ² Development Potential: Planned but not permitted future building area on developed/taxable parcels, and likely building area allowed by zoning and existing conditions
- ³ Assessed Building Value: \$ 50 Per SF
- ⁴ Tax Rate (FY 2015): \$ 17.79 Single rate, Town of Harvard

Other Notes:

Exhibit E

Sold Sites with Expansion (Harvard)

Street #	Property Location	Description	Building SF		Expansion Value ²	Projected Property Tax
			Existing Building	Expansion Potential ¹		
58 Barnum Road		Cambrooke Foods	22,256	17,744	\$ 887,200	\$ 15,783
78 Barnum Road		Media News	59,852	10,000	\$ 500,000	\$ 8,895
53 Jackson Road		Xinetics (Walden Sports)	58,750	30,000	\$ 1,500,000	\$ 26,685
115 Jackson Road		Xinetics (Main Building)	32,236	105,000	\$ 5,250,000	\$ 93,398
0 Lake George		Clemente	0	40,000	\$ 2,000,000	\$ 35,580
18 Saratoga Boulevard		Waiteco	18,000	35,120	\$ 1,756,000	\$ 31,239
29 Saratoga Boulevard		Integra	28,440	25,000	\$ 1,250,000	\$ 22,238
36 Saratoga Boulevard		North American Logistics	162,000	110,000	\$ 5,500,000	\$ 97,845
45 Saratoga Boulevard		Ryerson	140,318	63,000	\$ 3,150,000	\$ 56,039
7 Jackson Road		Bionostics	43,977	59,000	\$ 2,950,000	\$ 52,481
38 Jackson Road		BMS	400,000	1,107,830	\$ 55,391,500	\$ 985,415
			965,829	1,602,694	\$ 80,134,700	\$ 1,425,596

Footnotes

¹ Expansion Potential:

Planned but not permitted future building area on developed/taxable parcels, and likely building area allowed by zoning and existing conditions

² Assessed Building Value: \$

50 Per SF

⁴ Tax Rate (FY 2015): \$

17.79 Single rate, Town of Harvard

Other Notes:

Exhibit F

Bristol Myers Squibb - TIF

Tax Year	Assessed Land Value	TIF Benefit on Buildings ¹	Taxable Building Value	Total Taxable Value	Property Tax ²	Annual Increase in Tax Revenue
2008		0%		-	-	-
2009	\$ 6,435,900	100%	\$ -	\$ 6,435,900	\$ 114,494.66	\$ 114,495
2010	\$ 6,435,900	100%	\$ -	\$ 6,435,900	\$ 114,494.66	-
2011	\$ 6,435,900	100%	\$ -	\$ 6,435,900	\$ 114,494.66	-
2012	\$ 6,435,900	100%	\$ -	\$ 6,435,900	\$ 114,494.66	-
2013	\$ 6,435,900	100%	\$ -	\$ 6,435,900	\$ 114,494.66	-
2014	\$ 6,435,900	100%	\$ -	\$ 6,435,900	\$ 114,494.66	-
2015	\$ 6,435,900	90%	\$ 8,636,100	\$ 15,072,000	\$ 268,130.88	\$ 153,636
2016	\$ 6,435,900	80%	\$ 17,272,200	\$ 23,708,100	\$ 421,767.10	\$ 153,636
2017	\$ 6,435,900	70%	\$ 25,908,300	\$ 32,344,200	\$ 575,403.32	\$ 153,636
2018	\$ 6,435,900	60%	\$ 34,544,400	\$ 40,980,300	\$ 729,039.54	\$ 153,636
2019	\$ 6,435,900	50%	\$ 43,180,500	\$ 49,616,400	\$ 882,675.76	\$ 153,636
2020	\$ 6,435,900	45%	\$ 47,498,550	\$ 53,934,450	\$ 959,493.87	\$ 76,818
2021	\$ 6,435,900	40%	\$ 51,816,600	\$ 58,252,500	\$ 1,036,311.98	\$ 76,818
2022	\$ 6,435,900	35%	\$ 56,134,650	\$ 62,570,550	\$ 1,113,130.08	\$ 76,818
2023	\$ 6,435,900	30%	\$ 60,452,700	\$ 66,888,600	\$ 1,189,948.19	\$ 76,818
2024	\$ 6,435,900	25%	\$ 64,770,750	\$ 71,206,650	\$ 1,266,766.30	\$ 76,818
2025	\$ 6,435,900	20%	\$ 69,088,800	\$ 75,524,700	\$ 1,343,584.41	\$ 76,818
2026	\$ 6,435,900	15%	\$ 73,406,850	\$ 79,842,750	\$ 1,420,402.52	\$ 76,818
2027	\$ 6,435,900	10%	\$ 77,724,900	\$ 84,160,800	\$ 1,497,220.63	\$ 76,818
2028	\$ 6,435,900	5%	\$ 82,042,950	\$ 88,478,850	\$ 1,574,038.74	\$ 76,818
2029	\$ 6,435,900	0%	\$ 86,361,000	\$ 92,796,900	\$ 1,650,856.85	\$ 76,818

Tax Exemptions apply to buildings only, land values are fully taxed.

Footnotes:

¹ Percentage of buildings exempt from property tax

² Tax Rate (FY 2015): \$ 17.79 Single rate, Town of Harvard

Other Notes:

All values are as of FY 2015

Exhibit G

Summary of Development Potential

	Acres	Land Value	Development Potential SF	Building Value	Total Value	Projected Property Tax
Development Sites for Sale	88.9	\$ 8,141,400	1,299,700	\$ 64,985,000	\$ 73,126,400	\$ 1,300,919
Development Sites Pending	148.9	\$ 11,284,900	1,511,199	\$ 75,559,950	\$ 86,844,850	\$ 1,544,970
Sold Sites with Expansion			1,602,694	\$ 80,134,700	\$ 80,134,700	\$ 1,425,596
Total Development Potential			4,413,593	\$ 220,679,650	\$ 240,105,950	\$ 4,271,485

Tax Increment Financing and Special Tax Agreements

October 2015

Company Name	Address	TIF/STA	Duration	Start Date	Investment	Sq Ft.	# New Full-time Jobs (Note 1)	# New Part-time Jobs (Note 2)	Total # Jobs (Note 3)
E. R. Squibb & Sons (Phase I)	38 Jackson Rd	TIF	20 years	7/1/2008	\$650,000,000	NS	350 FTE	NA	350 FTE
E. R. Squibb & Sons (Phase II)	38 Jackson Rd	TIF	13 years	7/1/2015	NS	NS	550 FTE	NA	550 FTE
Magnemotion	139 & 141 Barnum Rd	TIF	10 years	7/1/2009	\$7,000,000	48,500	41	NA	137
Ozark Automotive Distributors	15 Independence Dr	STA	4 years	10/1/2013	\$32,900,000	370,000	80	40	NS
SMC	18 Independence Dr	TIF	10 years	7/1/2016	\$14,000,000	200,000	100	NA	412

Note 1: This column lists the minimum number of new, full-time (or full-time equivalent), permanent jobs that the applicant has promised to create within a specified amount of time.

Note 2: This column lists the minimum number of new, part-time, permanent jobs that the applicant has promised to create within a specified amount of time.

Note 3: This column lists the total number of jobs that the applicant has promised to provide.

NOTE: The SMC TIF does not explicitly state the start date. I've made a reasonable assumption here.