

MEMORANDUM

TO: Charles Blanchard, Palmer Town Manager
FROM: Craig Seymour
DATE: July 15, 2013
SUBJECT: Review of MTGA Socioeconomic Analysis

This memorandum summarizes RKG's review and comments regarding the *Analysis of the Socio-economic and Fiscal Impacts of the Proposed Mohegan Sun Massachusetts Casino on the Town of Palmer*, prepared by Community Opportunities Group Inc. (COG) for Beals & Thomas, Inc. on behalf of the Mohegan Tribal Gaming Authority (MTGA), dated July 2, 2013. RKG Associates met with the proponent's consultants on several occasions to review and comment on preliminary findings and to provide feedback on the methodologies utilized to reach the conclusions stated in the final report. The findings of these reports and other studies being undertaken of the impacts on utilities and infrastructure, will support the Host Community Agreement (HCA) between MTGA and the Town, as called for under the state's gaming legislation.

Overview

The COG report provides a large amount of data regarding economic conditions in the Town and the region surrounding Palmer as a framework for the impact conclusions that are made. The report includes substantial background information, including an extensive literature review potential socioeconomic impacts in other jurisdictions with casinos. It also estimates the fiscal impacts to the Commonwealth relative to the taxes and other revenues generated by the casino. The report does not provide as much detailed information (or the impacts of) regarding the ancillary development associated with the resort casino, namely the retail and waterpark features, due in part to the fact that the final development program was not available until recently. However, the analysis of the economic impacts associated with this ancillary development is sufficient.

Rather than give a detailed, page-by-page analysis of the COG report, this review focuses on the major areas where impacts are anticipated and provides RKG's opinion of the report's conclusions, and adds our own estimates of impacts where there are differences of opinion. Our review also focuses, for the most part, on the Town of Palmer only.

Economic Impacts

Employment

The entire project is forecast to employ a total of 3,156 full-time equivalent jobs between the casino complex (1,980 jobs) and the retail/waterpark/cinema complex (1,176 jobs). These jobs range from top management to maintenance and clerical positions, requiring widely varying levels of skills and experience, and with annual salaries (before fringe benefits) ranging from \$41,100 for the casino complex and \$25,700 for the ancillary development. With fringe benefits, total compensation for the casino jobs is anticipated to average \$61,000. Total wages were estimated at over \$111 million per year.

These 3,156 direct jobs at the resort facility will also support an additional 912 full time jobs and \$61 million in wages throughout the local economy, as the employees spend their wages on goods and services. These jobs represent a 63 percent increase over Palmer's current employment base of just over 5,000.

The development of the project will result in an estimated 3,937 person-years of employment over the relatively short, 27 month construction period, based on an average construction wage of nearly \$52,000. The \$204 million in direct construction wages will support an additional 2,945 indirect or induced jobs with \$124 million in payroll in the local economy.

The report concludes that there is sufficient capacity within the regional labor market to fill these positions without resulting in a significant in-migration of workers, citing a regional (12 surrounding communities) labor force of 153,076 with 12,672 unemployed persons. *RKG generally concurs with this finding.* However, because of the unique skills required by the casino operations, extensive training will be required in order for current residents in the region to take advantage of these higher paying jobs.

The report does not provide comment on the impact of construction employment on the Town or region. The requirement for nearly 2,000 construction workers over a roughly two year period may result in temporary in-migration of construction workers, most likely from other parts of the state and the New England region.

Housing

Because of the availability of workers within commuting distance from Palmer, the report concludes that there will not be a significant impact on the local housing market. In other words, workers will continue to live where they now reside and will commute to the project. *RKG generally concurs with this finding.* However, the availability of reasonably priced housing in Palmer will, over time, result in a greater demand for both existing and new homes, thereby enhancing home prices and values. This is expected to be a gradual change and will not result in any sudden impacts to home prices or the supply of homes (both single and multi-family) or building sites.

The influx of construction workers may result in a demand for apartments in Palmer and surrounding communities, with a resulting potential for increased rent levels. This is likely to be temporary, once operations begin. No analysis was done of the supply of rental housing in the Town or region in order to determine impacts. However, RKG believes that there is sufficient availability of short-term housing between the Worcester and Springfield metropolitan areas, both considered to be within commuting distance, to absorb the increase in demand for apartments during the construction period.

The housing market in Palmer should be closely monitored in order to ensure that any unanticipated changes - such as a sudden increase in rents, increased occupancy in units, or conversion of homes to rental units (such as accessory apartments) - can be effectively dealt with by the Town's zoning and building enforcement efforts.

Impact on Businesses

The COG report indicates, in general terms, that there will be a positive impact on local and regional businesses, based on the experience of Mohegan's Connecticut operations, estimating that up to \$30 million per year goods and services will be purchased 'locally'. In addition, employees and visitors to the resort casino will also spend money within the region. The report does not quantify this spending or specifically discuss the impact on Palmer businesses.

It is RKG's opinion that a relatively small amount of out-sourcing will go to Palmer businesses, due primarily to lack of many such businesses in the Town (the Town has only 476 business establishments, which represents 4.5 percent of businesses in the region, and compared to 1,371 in Chicopee and 6,044 in Springfield,). If anything, new businesses may be established in Palmer to provide these services, thereby increasing employment opportunities for residents and enhancing the local economy. The impact of employee and visitor spending could be significant. In particular, general spending by residents employed at the resort casino will result in higher sales at retail establishments and service providers in the town. Visitors may also positively impact spending through the purchase of convenience items and gasoline, as well as potentially visiting local restaurants and other retail or services. Although the objective of the resort casino (and the ancillary activity) is to capture visitors spending, some "leakage" is likely to occur. The COG report does not attempt to quantify this, nor does the literature review provide any more specific guidance on this subject. The report does acknowledge that the project may result in some business reductions, as existing expendable income by local residents and visitors to Palmer is captured by the new venues. This is very difficult to quantify until the project is up and operating and specific data is available from actual experience of businesses in town.

The Town needs to take a pro-active role in monitoring and supporting Palmer's business community. As a small town, it is often difficult to compete with larger communities to retain or enhance business development. The proposed casino resort provides an opportunity for the Town to assist local businesses increase revenues

through sales to the project, help local businesses capture a greater share of the indirect spending, facilitate the location of new businesses to Palmer, coordinate training programs for businesses and employees, and encourage entrepreneurs and start-up businesses. This will require the establishment of a business and economic development function within Town government with professional staffing and sufficient resources to provide a range of services to the business community.

In order to better capture a share of the direct and indirect spending that the casino resort will bring, Palmer needs to be more competitive in attracting and retaining visitors. Downtown Palmer and the centers of the other three Villages that make up the Town are in need of both aesthetic and infrastructure improvements. For example, portions of Palmer's Main Street were improved with period street lighting and new sidewalks. Additional streetscape and building façade improvements would go far in making the town more attractive to visitors, thereby encouraging new businesses to locate there and increase revenues at existing businesses. This can be accomplished through grants, revolving loan funds, local business promotions and other programs that can be developed and administered by the Town.

Social Impacts

The COG report provides limited information on the existing social conditions of the Town and does not acknowledge any social impacts on the Town as a result of the project. In comparing Palmer to other communities in the region, it notes that for many of the statistical measures, the Town is about average; however it is noted that the violent crime rate was above average and that Palmer's participation in the Temporary Aid to Need Families and WIC programs were above the regional average. The report also notes:

"The low rates of educational attainment in Palmer and most of the region contribute to the population's limited earning power and depressed household incomes. In Palmer, where the median household income is \$50,638 (2010), almost half the town's residents have low or moderate incomes (LMI). In addition, a larger percentage of children, homeowners, renters, and families in Palmer live in poverty than the state overall."

As the report alludes to, Palmer is a relatively poor community that has real social problems. Unreported conditions include an above-average number of veterans who seek financial assistance from the Town. While perhaps average or slightly above average statistically compared to the region (which includes the cities of Springfield and Chicopee), the Town incurs real costs in dealing with these issues. The sudden development of a resort casino with thousands of employees and bringing millions of visitors a year to the Town will have a real, if undefined and unquantifiable, impact on the "social fabric" of the community.

Because the true social consequences of the project on the Town may not be seen for a period of time, the town must be prepared to deal with a variety of potential issues. These might range from an increase in violent crime or domestic abuse to overcrowding to increased welfare and assistance costs. The Town has very limited capacity to provide enhanced monitoring of social conditions or to provide better services to more people.

Strengthening the Town's "social infrastructure" and capabilities will be essential to deal with these impacts.

Municipal Government

Although the COG report spends a great deal of effort analyzing potential State revenues flowing from the resort casino, this review focuses on the reported local municipal revenues and expenditures impacting the Town and the independent water and fire districts that serve its residents.

Revenues

The Mohegan Sun Massachusetts casino and its ancillary development is expected to generate revenue for the Town from taxes and fees. These were estimated in the COG report based upon assumptions regarding the property's value for assessment purposes and Palmer's existing tax rates and fee schedules.

Assessed value for taxing purposes is based on market value. For a unique property such as a casino, the cost approach is often utilized as a proxy for market value. Using data provided by MTGA, COG estimated that the total cost to build the facility would be approximately \$678 million. This is less than the total project costs of \$800 million or more reported by the press, and may include costs which would not be considered as real property or costs which were not included in the estimates provided to COG. The *taxable* value of the resort properties was estimated at \$463 million, recognizing that several cost items found in a construction budget would be excluded from the tax base calculation. COG then multiplied this base assessment value by the Town's current tax rate of \$16.69 per thousand to get an annual property tax revenue of \$7.7 million. Similarly, applying the Palmer Water/Fire District #1 tax rate of \$1.24 generates \$574,000 in annual tax revenues.

Applying the current tax rate to anticipated future assessed value is an accepted methodology for estimating fiscal impacts. However, the base used by COG does not include Personal Property, which is taxable by local communities in Massachusetts, or land value. Personal property, in the form of Furniture, Fixtures and Equipment (FF&E) for the casino and the retail/hotel/waterpark components, was estimated to cost \$99.7 million. A portion of this, including the casino's slot machines and other equipment, would likely be taxable at the local level. In addition, although leased, the land would be taxable (either to MTGA or the owner) and might be valued as high as \$30 to \$50 million.

Overall, RKG believes that the COG report underestimates the total taxable value of the resort casino and that tax revenues could potentially be higher, perhaps on the order of \$10 million to the Town and \$750,000 to the District, based on current tax rates and including the value of personal property and land.

The Town of Palmer uses a single tax rate that blends both commercial/industrial and residential property values. Under Massachusetts law, towns can opt for a "split" tax rate which increases the burden on commercial, industrial and personal property and

reduces it for residential taxpayers. According to the Palmer tax assessor, the maximum rate that could be charged for non-residential property (based on 2103 assessments and tax levy) is \$25.03 per thousand. The Town could vote to go to a split rate in order to capture additional tax revenue from the resort casino. It is important to point out that all of the other communities vying for a Class 1 casino license in the Commonwealth use a split rate. If the Town decided to use this approach, then the estimated tax revenue from the project would be on the order of \$15 million.

There is little reason for the Town not to adopt a split tax rate, other than the impact on other commercial and industrial taxpayers which can be mitigated through the assessment process. RKG recommends that the Town pursue this course of action.

The COG analysis does not attempt to estimate future tax rates, which RKG acknowledges as extremely difficult. Tax rates are determined by dividing the amount that the Town is required to be raised by taxes (the tax levy) into the assessed property tax base. Predicting future budgets, including decisions by the Town Council on how monies will be spent, is not possible. Adding substantially to the tax base, which the development of the resort casino do, will lower the tax rate assuming that the tax levy remains relatively constant. Thus, once the project is completed, the tax rate could go down, resulting in less tax revenue than predicted in COG analysis.

The addition of the resort casino to the Town's tax base will have a negative impact on the amount of state aid received for education (Chapter 70) and Unrestricted General Government (UGGA). This because the formulas used by the State to determine the amount of aid a town receives are partly based on property wealth as well as income in the community. The COG analysis indicates that the Town could lose up to \$3.3 million per year in Chapter 70 aid and UGGA after a few years. This potential loss should be mitigated within the HCA.

There is a high degree of uncertainty in forecasting future property tax revenues under traditional taxing procedures. This suggests that a fixed annual payment, or payment in lieu of taxes (PILOT), as potentially allowed under state law, would benefit the Town by reducing this uncertainty.

Other revenues that the project will generate for the Town include building permit and other inspection fees, which COG estimated at \$915,000. Building inspections during the construction process will likely require additional resources than what is available through the Town's building department, including specialized outside professional contractors and additional internal staff.

Expenditures

The COG report describes several areas in which the Town of Palmer and the Water/Fire District will incur additional costs to provide services during construction and during on-going operations. These are discussed below along with RKG's

comments on the need for additional mitigation to offset these expenditures, in the order presented in the COG report.

Building Department – the report acknowledges that “the Town does not have the internal capacity or staff to accommodate a project with a development budget of more than \$678 million.” It estimates that the Town will require up to five additional contracted personnel at a total cost of approximately \$1.5 million. The report recommends that a building permit fee be negotiated to cover these costs. It also indicates that on-going renovations and construction at the facility will require additional staff capacity and recommends an additional half-time inspector.

Even with contract staff assisting with building inspection, permits and related functions during construction, it is RKG’s opinion that the Town will need to augment its full-time staff by at least one full-time building inspector and a part-time clerk to maintain the paperwork necessary to meet legal requirements. These positions would continue on after construction is complete and the resort is operational. In addition, due to the amount of food service and hotel development, a full time health inspector will also be necessary.

Fire District – the COG report states that “the development of a resort casino in Palmer is expected to have limited impact on the Fire District on an on-going basis”, based on analysis of comparable communities with casinos, and that the additional taxes paid by the project will be sufficient to cover any additional costs that may be incurred. It further recommends that a half-time fire inspector would be needed during construction.

The Palmer Fire District #1 is an on-call (volunteer) department with only 3 full-time employees (Chief and two officers), supported by mutual aid agreement with other volunteer departments in the other Districts. The development of an \$800+ million multi-use development with over 3,000 employees and millions of visitors per year, millions of square feet of space in types of structures that do not currently exist in Palmer, will require a full-time professional fire department. In addition, specialized equipment will be required to provide the highest level of public safety services to the project, along with regular on-going training. In discussions with the Chief and others, RKG estimates that the District should be upgraded with a minimum of 15 personnel at a cost of approximately \$1.3 million annually, plus up-front costs of approximately \$1.5 million for new equipment, including replacement of the District’s 17-year-old ladder truck with one that can reach all areas of the new development, equipment for fighting fires in enclosed spaces, along with training for all firefighters, including those in other districts.

Emergency Medical Services – Ambulance and emergency medical services (EMS) in Palmer is provided by the Palmer Ambulance Service, Inc., a private non-profit community organization. The existing ambulance service currently has a single paramedic-equipped emergency vehicle and 3 older ambulances used exclusively for transporting patients in the region. The Town provides dispatch services to the

organization in concert with police and fire services. The COG report indicates that casinos frequently generate additional demand for EMS calls, yet states that any new demand from the resort casino (2-3 calls per day) can be handled by the existing capacity of the company.

The development of the resort casino, including during construction, will require an additional paramedic-equipped vehicle and full-time (24/7) crew in order to continue to provide services to the community and the resort, as well as an addition to the organization's garage facility to house these expanded services. This is estimated to cost on the order of \$675,000 annually for operations plus a one-time cost of \$650,000 for vehicle, equipment and expanded facilities.

Police – The COG reports indicates that there will be no impact to the Palmer police department in the short-term, other than an increase in traffic details, and long term there may be a potential need for one new officer per shift, or a total of 5 new staff positions (at an estimated cost of \$360,000 annually). The report discusses how the State Police, under state law, will be responsible for policing the casino floor, with local police responsible for all other activities. Although the casino itself and the associated hotel will create additional demand for local police services (the Palmer Police Department will still be involved with booking, transportation, holding of suspects, etc.), when combined with the ancillary development (waterpark, cinema, retail), the Town will face substantial new demand for public safety services on a 24/7 basis.

Based on discussions with the Town and the Police Chief, RKG believes that the Palmer Police Department will need fourteen new full-time officers plus four additional dispatchers, along with required training and equipment including two new vehicles. The estimated cost of these required service enhancements are on the order of \$1.5 million per year plus approximately \$300,000 up front for equipment and initial training.

Health Department - The COG report recommends the addition of a half-time health inspector to deal with the inspection of the multiple food service establishments that will included in the resort casino.

The addition of a major regional waterpark, hotel and cinema complex, in addition to the casino, will require the services of an additional full-time health inspector for the Town.

Water and Sewer Service -

The COG report states that since the resort casino will acquire water and sewer services on a fee-for-service basis from the Palmer Water/Fire District #1 and the Town, there will be no fiscal impacts.

The development of the resort casino will require major investments by the developer and the Water District on the order of \$13 million in order to supply sufficient water

quantity and pressures. A separate report detailing the needs and design of the new systems was prepared by Beals & Thomas, Inc. (BTI) for the developer and peer reviewed on behalf of the Town and District by Tighe & Bond, Inc. (TBI). The project will utilize much of the remaining supply capacity of the District, requiring it to improve an existing connection with the Town of Munson's water supply for emergency/back-up purposes. The development will also increase the storage capacity of the District's system in the vicinity of the project.

The Town's sewer system and waste water treatment plant will experience a substantial increase in volumes transported and treated as a result of the development. The proposed design includes several downstream improvements that will allow for not only the demands generated by the resort casino but also future growth in that part of the Town. This includes replacement of older pipes and interceptors, improvements to and modernization of pumping stations as well as long-term improvements to the waste water treatment facility to meet current and future regulatory requirements.

Overall, the improvements to the District water system and the Town's sewer and wastewater treatment systems will improve services to all users of these utilities. No analysis of the impact on user fees was included, and should be completed.

Department of Public Works – The COG report, based on traffic analyses carried out by the developer's consultants (BTI and Vanasse & Associates) indicate that 87 percent of the 20,000+ daily vehicle trips generated by the resort casino will utilize the Massachusetts Turnpike and will not impact local streets and highways. It concludes that there will be no impact on the Town's Department Public Works (DPW). Access to the resort is still under design and consideration by the Massachusetts Department of Transportation, which must approve any changes to state highways. Four design solutions were recently presented by MTGA and are under state review. The developer's traffic reports have been peer reviewed on behalf of the Town by Howard/Stein Hudson, Inc. (HSH).

Although much of the traffic going to and from the development will utilize the turnpike, there will still be a significant increase in local traffic and a subsequent impact on the Town's ability to maintain and improve the streets and roads under its jurisdiction. There will also be a significant impact on several intersections surrounding the project site, which were identified in the traffic reports and for which HSH has recommended potential improvements.

The Town's public works department is seriously under-staffed, partly as a result in cutbacks in funding over the past several years. The current levels of maintenance and operations are at a minimum and the condition of the town's roads and streets continue to deteriorate as result. The addition of 2,500 to 3,000+ additional vehicle trips will accelerate this deterioration. In discussions with the Town, RKG recommends that the department requires at a minimum four new full-time staff at an estimated cost of \$225,000 per year. In addition, the Town's DPW facility is in



terrible condition, and was recommended for replacement several years ago. A recent feasibility study for a new facility estimated that cost at \$6.4 million.

The improvements to 10 local interchanges will also be required, ranging from simple re-striping of lanes and new signage, to complete reconstruction to handle the anticipated increased traffic volume. The cost has been estimated to average approximately \$250,000 per intersection for a total of \$2.5 million.

Other Impacts – The COG report is silent on other possible impacts to the Town and its Districts which should be addressed in the HCA. These include community and economic development impacts along with general “social” impacts.

The successful development of a resort casino complex in Palmer is expected to bring millions of visitors a year, many of whom may decide to visit the Town and its villages, as well as thousands of new employees, many of whom may decide to live in Palmer. This will undoubtable impact the “character” and the “social fabric” of the Town. In order to adapt to these as yet undefined changes, the Town needs to have the resources in place to proactively plan for and deal with both opportunities and issues that will arise. As described in the Impact on Businesses and Social Impact sections above, the Town has many needs that can and should be addressed through the HCA, including some that are not known at this time but will likely arise in the future.

Conclusion

The Mohegan Sun Massachusetts resort will be positive for the Town of Palmer. However, with such a major project will come increased burdens on municipal government and on the infrastructure that serves residents. The HCA provides the opportunity to mitigate negative impacts and to create a solid foundation for future growth.

The social and economic impact analysis undertaken by COG for MTGA identifies several potential areas of concern, but underestimates many of the true impacts that the project will have on the Town. This memo has tried to identify and quantify to the extent possible, some of these concerns and the Town’s requirements to serve as the host community.

