

Growth & Infrastructure Consortium

Fiscal Impact in Reverse: When Housing Leaves a Community

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Growth & Infrastructure Consortium National Conference

Denver, Colorado

October 12-14, 2016

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Fiscal Impact in Reverse

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Fiscal Impact

1. Revenues (taxes) minus costs (or services)
2. Municipality/school district
3. Housing arriving – Municipality slightly negative; school district significant negative; overall very negative (SF home, 4 b.r., \$550K)

FISCAL IMPACT ANALYSIS



Fiscal Impact – Overall

1. Per Capita method (more mathematical)
2. Case Study – (detailed information on spending/resources)
3. Revenue – value X property tax rate
4. Costs (people/children) X cost/unit
5. Result – revenue minus costs = + or -

Fiscal Impacts of Land Development



Fiscal Impact – Leaving Development

- 1. Leaving is caused by overall decline or disaster**
- 2. Fiscal impact is in reverse**
- 3. Revenues – not taxes (money) dollars/lost; instead people/children (money) lost**
- 4. Costs – not people/costs (money) lost; instead taxes (money) lost**



What Changes

- 1. Reverse is different – costs are taxes; revenues are lost people/children**
- 2. Municipality positive; S.D. is significantly positive**
- 3. Overall is very positive**
- 4. You get positive from original negative**



When Use FIA in Reverse

- 1. Housing leaves**
- 2. Housing gets money from people leaving**
- 3. Do not mirror the results of arriving**
- 4. Results are positive because people leave**



How Fiscal Impact Was Done: Development Coming In

- 1. Revenues (in) – property tax + other revenues**
- 2. Costs (in) – people X costs/person + other costs**



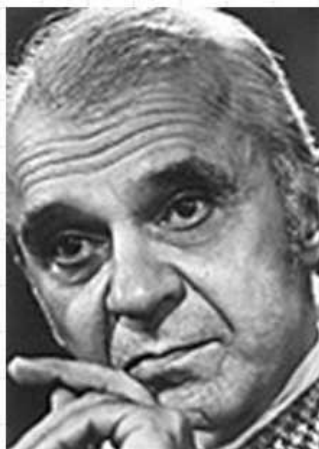
Now It Is Revised: **Development Leaving**

- 1. Revenues (out) – \$ people X costs/person**
- 2. Costs (out) – \$ from property taxes**



Why the Reverse:

1. Reflects reality
2. Happens at local level
3. Revenues – take longer – services stay longer
4. Costs – right away – taxes are lost immediate



◆ Wassily Leontief

b. 1906



◆ Nobel Prize, 1973

...for the development of the input output method and for its application to important economic problems.

$$x = (I - A)^{-1} y$$



Why Is it Important?

- 1. This actually happens on leaving**
- 2. We have been doing it wrong**
- 3. This new way gives right answer**
- 4. The result of leaving is positive; not negative**
- 5. Mun./S.D. are better-off; not worse off**

Data Assumptions (New Jersey)

S.F. (4BR), 2 People, 3 Children

Municipality

Revenues	.008000(tx)	\$ 550,000	\$ 4,400
Costs	5(people)	\$ 950	\$ 4,750

School District

Revenues	.018546(tx)	\$ 550,000	\$ 10,200
Costs	3(children)	\$ 13,000	\$ 39,000

Originally Wrong Way (Same Arriving)

Jurisdiction	Revenues (-)	Costs	Fiscal Impact
Municipal	(+) \$4,400	(+) \$4,750	(-) \$350
S. D.	(+) \$10,200	(+) \$39,000	(-) \$28,800
Total	(+) \$14,600	(+) \$43,750	(-) \$29,150
	(dollars)	(dollars)	(result)
	(Money)	(People)	

New Now Correct Way

Jurisdiction	Revenues	(-) Costs	Fiscal Impact
Municipal	(+) \$4,750	(+) \$4,400	(+) \$350
S. D.	(+) \$39,000	(+) \$10,200	(+) \$28,800
Total	(+) \$43,750	(+) \$14,600	(+) \$29,150
	(dollars)	(dollars)	(result)
	(People)	(Money)	

In Conclusion

- 1. When housing leaves (at the end)**
- 2. Municipality gets a little (positive)**
- 3. School district gets a lot (positive)**
- 4. Overall do very well (positive)**
- 5. Correct result is more positive than original negative result**

Implications of this Method

- 1. Loss of housing is reversed**
- 2. The loss of housing is actually positive**
- 3. This is because of the reset method**
- 4. This is what should be shown**
- 5. This is an important result**
- 6. This is obvious but it is being done wrong in the field.**

Caveats

- 1. Some analysts may do it right**
- 2. Most do it the wrong way**
- 3. If development is negative originally arriving; it is positive when it is leaving.**
- 4. Revenues (people/children) take longer; cost (taxes) go faster**
- 5. But this happened originally**
- 6. Others will talk about secondary revenues/costs impacts**

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Conducting a Reverse Fiscal Impact Analysis

Carson Bise, AICP



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“Reverse” Fiscal Examples

- Minneapolis, MN
- St. Paul, MN
- Somerville, MA
- Little Rock, AR
- Raleigh, NC
- Wyoming & McDowell Counties, WV

Methodologies

✧ Case study-marginal approach

- Reflects fiscal reality
- Dependent on local levels of service
- Available capacity triggers the staging of facilities
- Reflects geographic differences

✧ Average cost approach

- Focuses on per capita/employee
- Doesn't consider available capacities
- Masks timing
- Uses average (current) costs
- Budget in equilibrium

When Development Leaves

✧ Revenue

- Ongoing taxes (likely decreasing)
- Cost savings

✧ Costs

- Lost revenue
- Ongoing operating costs (some will decrease) and debt service

✧ Either way, costs are likely more than revenue

When Development Leaves

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Costs Not Impacted by Population/Employment Loss

- ✧ Fire
- ✧ Police
- ✧ Public Works (roads/stormwater)
- ✧ Code Enforcement
- ✧ Many fixed School-related costs
- ✧ Many General Government functions (relatively minor costs)
- ✧ Existing debt service
- ✧ Utilities

What About Cost of Disinvestment?

- ✧ Little Rock, AR (1992)
 - Looked at suburban growth vs central city
- ✧ Continued Disinvestment Scenario (loss of 4,160 households)
 - Lost property tax and other revenue
 - Need for 29 Neighborhood Alert Centers
 - 43 new housing inspectors
 - 72 community oriented police officers
 - Animal control
- ✧ Loss of \$5.6 million annually by 2000

Stopping the Bleeding has a Cost Too

- ✧ Minneapolis and St. Paul (1999)
 - Both Cities losing population and employment
 - Significant use of TIF needed to help stabilize neighborhoods
- ✧ Shreveport, LA (2012)
 - Cheaper to continue sprawling development pattern on the fringes
 - Deteriorating transportation and utility infrastructure downtown
 - Requires significant investment to bring up to standard

Somerville, MA

✧ Union Square/Boynton Yards (2016)

- Road/Streetscape upgrades: \$25 million for Union Square
- Road/Streetscape upgrades: \$18.8 million for Boynton Yards
- Utility upgrades: \$35 million for Union Square
- Utility upgrades: \$21.2 million for Boynton Yards
- New Fire Station: \$21 million

Downtown Las Vegas

- ❖ Lack of existing investment implies the need to incentivize growth in the future
- ❖ Affordability and lack of diversity are issues
 - Vacancy rates are 300% more than that of Clark County
- ❖ Land assemblage issues
 - City has a policy of not using eminent domain
 - Prevailing wage requirements for City money
- ❖ Only 375 housing starts in Downtown since 2008
- ❖ Safety is an issue
- ❖ Expensive relative to competing product

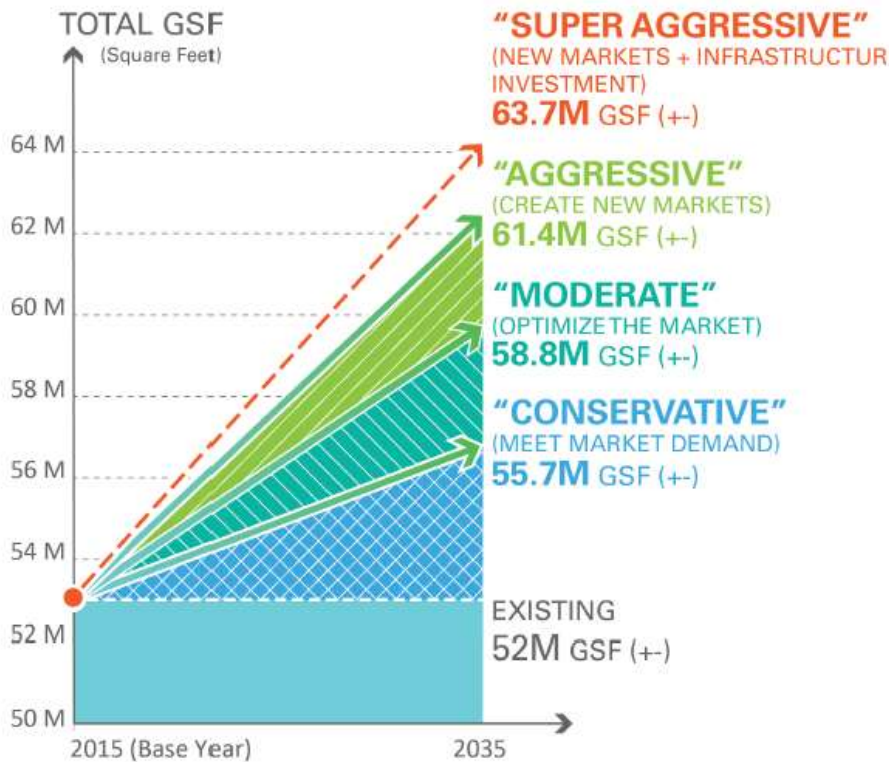
\$ US dollars planned for Downtown redevelopment in 2014



Downtown Las Vegas Market Demand

PREFERRED SCENARIO: SUPER AGGRESSIVE

DEVELOPMENT PROJECTIONS



TOTAL	
11.7 M SF	
	RESIDENTIAL 6.8M SF (6,400 Units*)
	RETAIL & RELATED 739K SF
	HOTEL & GAMING 515K SF
	OFFICE 2.1M SF
	INSTITUTIONAL 1.2M SF
	INDUSTRIAL / FLEX 339K SF

* ASSUME THE AVERAGE SIZE OF ONE HOUSING UNIT RANGES FROM 800 SQ. FT. TO 1,200 SQ. FT. BASED ON THE SPECIFIC HOUSING TYPES

Downtown Las Vegas Intervention

- ✧ Implement an aggressive Downtown housing strategy
- ✧ Residential housing incentives
- ✧ Establish a Local Entrepreneurship Program
- ✧ Establish an Economic Development Capital Fund
- ✧ City assemblage of property
- ✧ Buying down the cost of land

Questions and Answers

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Fiscal Impacts and the Poor

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Fiscal Impact & Tax Reform

- 1. Most, if not all, states have provided “Tax Reform” by restricting or otherwise limiting property taxes.**
- 2. Its great when state legislatures can satisfy citizen demands for “tax reform” by reforming someone else’s taxes; local governments.**

- 3. A recent (2016) study in Palm Beach County found that the “break even” value of residential was \$278,442, and that this unit would soon go negative due to assessment limitations.**
- 4. The net affect of most tax reform efforts is to make new development, especially residential development, less fiscally attractive.**

- 5. What this means is that somehow getting rid of units in Palm Beach County at less than \$280,000 – which would be most units – would be fiscally positive.**

But economically devastating.

- 6. A 2014 study in New Jersey (Meadowlands) found local governments fighting over who would not get residential development.**

- 7. Yet we extol the need for affordable and workforce housing, while, at the same time, making such units fiscally unattractive.**
- 8. Today many towns and cities are losing population. Decreased population leads to an increased supply of vacant housing, which, in turn, lessens all housing prices.**
- 9. This is wonderful for affordability, but devastating for local economies.**

- 10. It also lessens the need for new construction, one of the larger employers.**
- 11. Traditional Fiscal Impact Analysis basically asked the question, check out what you are hoping for, because you just might get it.**
- 12. This is true when development is negative.**
- 13. But never forget the wisdom from the Chinese . . .**

The symbol of crisis is . . .

危機
危機

Opportunity

機

Danger

危机

13. Hopefully well done fiscal impact analyses, either positive or reverse, will help guide policymakers, and perhaps even some state legislators.