Weighing the Costs and Benefits of Innovative Redevelopment

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- Fiscal impact analysis
- Economic impact analysis
- Impact fees
- Real estate and market feasibility
- Revenue enhancement options
Lecture Overview

- Understanding fiscal impact versus economic impact
- Methodologies
- Elements of the fiscal equation
- Infill/redevelopment challenges
- Case examples
- Final thoughts
Disconnects

- Number of entitled lots
- Not understanding the market dynamics
- Lack of cohesive brand
- Land economics
- Outdated land development code
- Utility policies
- Need for intervention strategies
- Disconnect between Community’s expressed goals related to ROI and current policies
Sprawl has given us what we want!

- Allows for unlimited use of the automobile
- Reduces suburban-to-suburban travel times
- Provides physical distance from urban problems (perceived or real)
- Perception of continuous increase in property values
Fiscal Impact Analysis

- Cash flow to the public sector
  - Are the revenues generated by new growth enough to cover the resulting service and facility demands?
- Reflects operating expenses and capital costs (debt service and pay-go)
- All revenues
- Revenue minus expenditures = net surplus or net deficit
Economic Impact Analysis

- Reflects overall economy of the community
- Residential
  - Primary factors are the construction phase and consumer spending
- Nonresidential
  - Primary factors are job creation and real disposable income
- Doesn’t follow jurisdictional lines; data limitations
  - Large portion of economic output flows out of jurisdiction, region, and possibly State
- Resident spending for mortgages, car payments, insurance probably are not sources of sales tax for local government
Fiscal Impact Analysis vs. Revenue Forecasting

- Municipal budgeting is primarily “revenue driven”
  - Revenue forecast is used to establish spending target
- Fiscal impact analysis is not revenue constrained
  - Forecast expenses needed to maintain current LOS
Observations

- Most local governments do not know the true cost of development decisions
- Most local governments do not know if the current land use plan is fiscally sustainable
- Fiscal analysis is rarely required
- Lack of formal standards
- Considerable variation in methodologies employed
- Costs can change over time
- Seldom reflect geographic differences
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
Influencing Factors

- Revenue structure
  - Sources
  - Distribution formulas
- Levels of service
- Infrastructure lifecycle
  - Existing capacities
- Characteristics of new development
  - Demographic
  - Socioeconomic
Infill/Redevelopment Market is Growing

- Between 2010 and 2011, the nation’s major cities grew faster than their combined suburbs for the first time since the 1920’s
- 2.8 million acres of greyfields will become available in the next 15 years
  - If one quarter of these are redeveloped into mixed use centers, it has the potential to supply half the housing needed by 2030
- The most dramatic and prevalent retrofits tend to be on dead/abandoned mall sites
  - In Denver alone, 8 of the region’s 13 malls have undergone or announced plans for retrofitting
- More than a dozen WalMart’s have been converted to churches
Suburban Infill/Redevelopment Drivers

- Shrinking percentages of households with children
- Growing market for multifamily units in suburban locations
  - Generation Y is a driver
- Desire to live closer to employment opportunities and urban cultural amenities
- Aging population
- Transit investments
- Local government growth policies designed to limit sprawl and utilize existing infrastructure capacity
Suburban Redevelopment Challenges

- Limited public sector fiscal capacity to provide infill and redevelopment supportive investments
  - Unlike urban counterparts, have not traditionally received federal, state or county level aid

- Prevailing local market dynamics that favor greenfield development
  - Infill/redevelopment projects often don’t “pencil out” without some form of subsidy

- Obtaining traditional financing can be a challenge
  - Lending institutions often view redevelopment areas as a higher risk proposition over projects in a proven suburban context
Suburban Redevelopment Challenges

- A large number of potential retrofit sites are not on transit lines
  - A ULI examination of 80 retrofit reveals the arrival of a rail system to be one of the strongest triggers of large-scale suburban redevelopment

- “NIMBYism”
  - Convincing existing residents of the need for change

- Greenfield/Infill relationship
  - Continued development in greenfield areas will absorb market demand that would otherwise be targeted go infill/redevelopment areas
Suburban Redevelopment Challenges

- Redevelopment often requires significant infrastructure investments
- Technical capacity gap
  - Local developers often lack redevelopment experience
  - Local governments often lack technical expertise to deal redevelopment issues
CASE STUDY EXAMPLES
Fresno, California, Infill Strategy

- Disinvestment and declining property values have put financial stress on the City
  - Contributed to a rise in concentrated poverty and crime
- Local market dynamic has favored greenfield development
- Tapping into Downtown development potential will require significant infrastructure investment
  - Street and landscaping improvements
  - Introducing bus and rapid transit
  - Opening up Fulton Mall to vehicular traffic
  - Ageing water and sewer pipes need replacement
Fresno, California, Infill Strategy

- Focus geographically
  - Near terms actions must focus on smaller geographic areas where there are opportunities for concurrent public/private investments

- Generate public financing for infrastructure and services to support infill/redevelopment
  - Develop list of prioritized projects and identified funding methods will help the City in the bond market

- Close funding gap for development
  - Perhaps the greatest obstacle for redevelopment is the gap between the cost to develop and the current market for rent and sales prices
Fresno, California, Infill Strategy

- Share risk and reward through partnerships
  - Residents, major employers, educational institutions, hospitals, and utility companies are stakeholders who stand to gain from redevelopment and infill

- Change perceptions
  - Aesthetic improvements
  - Code enforcement
  - Create neighborhood brands
Dublin, Ohio, Bridge Street Corridor

- Retooling of a suburban downtown to compete in a shifting marketplace
- Companies making decisions about where to locate care about where their workers want to live
- Net increase of 8,067 housing units
  - (7,223 are multifamily)
- 5.1 million square feet of nonresidential space
  - 3.28 million of office
1,000 acres

No existing “urban fabric” beyond historic district

Disconnected suburban street and development pattern
From vision and conceptual plan to development of capacity program
…… and a development phasing program
Target housing unit mix for the Bridge Street Study Area, next 5–7 years.

<table>
<thead>
<tr>
<th></th>
<th>NUMBER</th>
<th>UNIT TYPE</th>
<th>MARKET-ENTRY BASE RENTS/PRICES</th>
<th>UNIT SIZES</th>
<th>RENT/PRICE PER SQ. FT.</th>
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<td>Multifamily RENTAL</td>
<td>807</td>
<td>Lofts/Apartments</td>
<td>$675 to $1,950 per month</td>
<td>550 to</td>
<td>$1.17 to $1.25</td>
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<td>53.8% of total</td>
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<td>1,600 sf</td>
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<td>Multifamily OWNERSHIP</td>
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<td>Lofts/Apartments</td>
<td>$125,000 to $345,000</td>
<td>700 to</td>
<td>$177 to $197</td>
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<td>28.3% of total</td>
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<td>1,750 sf</td>
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<td>SINGLE-FAMILY ATTACHED</td>
<td>175</td>
<td>Rowhouses/Live-Work</td>
<td>$190,000 to $325,000</td>
<td>1,050 to</td>
<td>$171 to $181</td>
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<tr>
<td>OWNERSHIP</td>
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<td></td>
<td>1,900 sf</td>
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<td>11.7% of total</td>
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<td>SINGLE-FAMILY URBAN</td>
<td>93</td>
<td>Urban Houses</td>
<td>$235,000 to $375,000</td>
<td>1,350 to</td>
<td>$170 to $174</td>
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<td>DETACHED OWNERSHIP</td>
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<td>6.2% of total</td>
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<td><strong>TOTAL:</strong></td>
<td><strong>1,500 dwelling units</strong></td>
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Dublin, Ohio, Bridge Street Corridor

- Benefits from economies of scale from existing infrastructure capacity
Dublin, Ohio, Bridge Street Corridor

- Development District results by scenario
Dublin, Ohio, Bridge Street Corridor

- TIF analysis by scenario

![Graph showing TIF financed infrastructure costs compared to property tax revenue increment.](image)
Dublin, Ohio, Bridge Street Corridor

- Without TIF, existing development base would have to subsidize Bridge Street Corridor infrastructure plan.
Implementation

- Reassess near term development opportunities and prioritize TIF district candidates
- Explore alternative funding mechanisms
- Engage property owners – take advantage of market conditions
- Establish development funding policies to clearly communicate expectations to the private sector
- Prioritize capital improvements to leverage City resources and catalyze private investment
Conclusions

- Must understand the market conditions and what must be done by public sector
- Marginal costing is critical
  - Average costing leads to generalizations
  - Must measure the cost of intervention strategies
  - Results can indicate the opposite of reality (e.g., smart growth advocacy)
- Garbage in, garbage out
  - Analysis must include a clearly written rationale explaining methodology and assumptions
- Focusing on the fiscal impacts at the expense of other impacts
  - Environmental, social, economic, transportation