Calculating the Community Costs of Demolition

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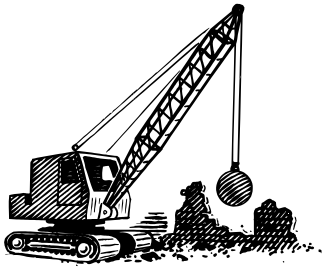
Our Plan:

- Define the problem
- Define the source of solution
- Figure out the measures
- Do the math

The Problem:

- Property owners sometimes tear down buildings for reasons preservation people can't fathom:
  - "But it's such a beautiful building!"
  - "Why on earth would they want a parking lot rather than that building?"
  - "Don't they understand what that will do to the neighborhood?"



The Problem:

- Property owners often think in terms of short-term gains rather than long-term investments – either they want to, or they have to.
- Property owners will make what they feel is the best decision for their self interest, based on what they have the power to do
- A bird in the hand….

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More of the Problem

- A property owners' decisions can create externalities that have impact on the larger community
- Most people who are not deeply embedded in historic preservation think of real estate in a pretty limited way –often primarily as a financial asset.

Who can do something?

- Elected officials particularly have to think this way, both for political reasons and because they are responsible for the community's financial health

Focus on Local Governments

- Why?
  - More power to influence private property decisions than anyone else
    - Sticks
    - Carrots
  - Increased popular awareness of the crunch on tax dollars.
    - *Elected officials are under a lot of pressure to manage tax dollars tightly.*

The solution:

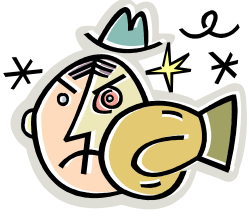
The more we can point out to elected officials the impact that decisions will have on their community's financial health, the more we are likely to persuade them that it is good public policy to work to prevent a demolition.

More practical reasons to focus on Local Governments

- Generally easier to calculate
  - Revenues
  - Costs
- No proprietary or purchased data
- No confidentiality concerns
- If you do a market analysis, a lot of times (although not always), it turns out that the property owner knew what they were doing
- Local governments carry a lot of the externalities of the decision

What's an externality?

- "An external effect, often unforeseen or unintended, accompanying a process or activity." (dictionary.com)
  - Externalities are impacts that are not directly experienced by the economic actor.
  - Cost (and benefits) that are experienced by others
    - Can be a few or millions.
  - *Externalities are usually NOT part of the economic decision-making equation pursued by the property owner!*



What kinds of externalities are we talking about?

- Costs:
  - Public safety
  - Infrastructure (roads, water, sewer)
  - Traffic
  - Parking demand
  - Property impacts (fences, lighting, etc.)

What kind of externalities are we talking about?

- Opportunity costs (lost revenues):
  - Lost property tax revenues
  - Lost income/earning tax revenues
  - Lost sales tax
  - Lost fees, licenses, fines etc
  - Lost customers
  - Lost destinations

Who incurs the externalities?

- Adjoining/nearby property owners
- Neighborhoods
- School Districts
- Cities/Villages/Boroughs/Towns
- Counties
- Residents
  - *Each will incur different externalities.*
  - *Who will they go to when the externalities hit them?*

So how do we figure out the fiscal impact of a building demolition?

- Revenues
  - actual
  - opportunity costs
- Costs
  - Public
  - Private (surrounding property owners)

The easy part first: estimating lost revenues from property taxes

- The parts:
  - Assessed value *(link)*
  - Property tax rate *(millage)*
  - Adjustments, deductions, rollback, caps, etc
- The formula:
  - *Assessed Value X Millage – Adjustments = Property tax obligation*

Estimating opportunity costs from lost income/earnings tax

- The parts:
  - Estimated number of employees
    - Actual (might be low) or
    - Potential based on *national/regional average per square feet*
  - Income/earnings tax rate
  - Estimated percent of *employees paying income taxes to locality* (may be receiving reciprocity or abatement)
- The formula:
  - *(Employees X income tax rate) / proportion paying to locality = income tax obligation*

Estimating opportunity costs from lost sales tax

- The parts:
  - Estimated sales
    - Actual (might be low) or
    - Based on typical local experience, or
    - *based on national/regional average per square feet*
  - Sales Tax rate
    - May differ from one county or city to next
    - May have different parts (part to state, part to county)
- The formula:
  - *Estimated sales X sales tax rate = sales tax obligation*

Other types of taxes:

- Business Establishment-type taxes
- Tax on profits
- Tax on personal property or inventory
- Tax on holdings
- Capital gains
- Etc., etc., etc…..

Estimating Costs:

- Not so easy…
  - Highly variable across local governments.
  - Depends on how you count.
  - They probably don't know themselves.
- If you are dealing with a demolition for a less intensive use, like a parking lot, or for a building that is about the same size and use as the one it is replacingthis may not be important
- If you are dealing with a demolition for a much intensive use, this may be important.

Typical types of costs:

- Public Safety
- Health and Welfare
- Public Service (Streets, water, sewer, etc.)
- Courts and Incarceration
- General Administration
- Building and Development

Ways to estimate costs:

- Per unit costs based on what local government can tell you (eg: road maintenance per square mile, course load per social worker)
- Per unit costs from comparable communities (*census of governments)*
- Proportional allocation of local budget.

Potential types of costs:

- Police/fire runs
- Traffic congestion/management
- Sewer/water/road infrastructure
  (note: this is often paid by the developer).
- Stormwater runoff
- Students in schools.

Potential costs

- General formula: average unit cost (per student, per lane mile of roadway, per fire run) X number of units *added as a result of proposed activity* =estimated public cost
  - This "public cost" may not include any improvements that the local government is paying for directly. This "public cost" measures the impact on *existing* services, and may indicate whether or not existing services can fill the need, or if the development will necessitate adding service capacity in the future.

So…you've done the math, now what?

- Share your findings
- Show your work
- Remember that it's an estimate, not a precise measure
- Use it as one of the tools in your toolbox – it's not the only one.

Questions?

Thank you!

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