

MAINE STATE LEGISLATURE

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**The Economic Impact of Affordable Rental Housing
in Four Maine Communities**

2005 Update

For: Southern Maine Affordable Rental Housing Coalition

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Executive Summary

This is an update of a 2004 study of the economic costs and benefits to Maine municipalities of providing affordable rental housing. The reason for the update is to incorporate the changes of the new state school funding law into the analysis.

The analysis tests the impacts of affordable housing projects in Bridgton, South Berwick, Norway, and Freeport. The findings of the new analysis are similar to the prior one:

Finding 1: The four affordable rental housing developments generate between \$2,200 and \$6,000 per unit in municipal revenue through property tax collections, excise fee payments, state school funding aid, and state revenue sharing payments.

Finding 2: The four affordable rental housing developments generate between \$1,800 and \$7,500 per unit in municipal costs for municipal and school services. Costs include road maintenance, police and fire, general administration, and student-related expenses.

Finding 3: Strictly from a property tax perspective, affordable rental housing is a net plus in all towns except those that have fast-growing school populations and low state aid. This is the study's key finding. Only one of the four communities under study had a net municipal revenue deficit from the project. That town, Freeport, has a fast-growing school population and very low state aid. However, Freeport's school population is projected to decline in future years – at which point, according to this analysis, the affordable rental housing may be a net revenue benefit in Freeport as well.

Finding 4: Direct, indirect, and induced construction benefits account for nearly \$160,000 per apartment in one-time economic activity within the county. Housing construction is a key industry in Maine, and provides good-paying jobs with high skills. Affordable rental housing supports that industry, to the tune of \$160,000 net benefit per unit.

Finding 5: Every year, each affordable apartment accounts for \$40,000 of direct, indirect, and induced economic activity within the county. The maintenance of apartment developments, plus the spending of residents within the development, contributes on average about \$40,000 per apartment per year to the local economy. In Freeport, the contribution was \$1.3 million a year in total, an important factor in strengthening the local retail economy.

Finding 6: Most adults in affordable apartments work in essential jobs in small business, health, and education. Residents of affordable housing contribute to the backbone of the local workforce, and increase the desirability of the community as a location for new economic development.

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I. Background

Purpose of Report

The purpose of this report is to analyze the economic costs and benefits to Maine cities and towns of affordable rental housing.

Background of Research

There is a housing crisis in southern and coastal Maine. The facts are well known, but deserve repeating:

1. New houses are not keeping pace with new jobs.

The growth of jobs in southern Maine has increased at a much faster rate than the number of new housing units, especially new apartments. From 1991 to 2001, 23,300 jobs were created in Greater Portland and 15,000 new housing units, of which only 3,000 were rental units. Unless more housing is built, southern Maine will face a workforce shortage, and that in turn will put the brakes to future economic development in Maine's most economically vital region.

2. The cost of apartments is increasing at a fast pace.

The increase in new jobs and few new apartments has decreased vacancy rates and increased rental costs in southern Maine. From 1999 to 2003, the monthly rent for an average two bedroom apartment in the Greater Portland area rose from \$800 to \$990, a 24% increase, well over the increase in per capita incomes.

3. Many households in southern Maine cannot afford rental housing.

A worker must earn three times Maine's minimum wage of \$6.25 per hour, or about \$39,000 per year, to afford a two bedroom unit in the Greater Portland region. There are about 58% of renter households in Greater Portland that can't afford the average two bedroom apartment.

4. Lack of housing in metropolitan areas is leading to sprawl.

The imbalance of job growth and housing growth leads to increased sprawl as more households move farther away from job centers to find available and affordable housing. In 1990, 2,943, or 3%, of the workers in the Greater Portland area were traveling an hour or more to work. By 2000, 5,571, or 5%, of the workers in the Greater Portland area were traveling an hour or more to work, an increase of 2,628 workers or 89% more workers.

In the long run, unless housing production is increased, future economic development will be threatened by a shortage of workers.

The housing shortage is caused by many factors: the cost of materials, the cost of roads and infrastructure, available land, and inadequate income. But one factor is not only critical, but within the power of Maine's public policy to affect – that is the reluctance of southern and coastal Maine communities to approve new affordable multifamily rental developments. To prevent affordable housing from being built in their communities, some towns pass large lot zoning laws; others require road frontages; others require many parking spaces; others charge large impact fees; and many simply delay giving approval until the developer gives up.

The major reason for this behavior is the common belief that affordable rental housing is “bad economically” for the community. There is a widespread belief that affordable housing is a burden on other property tax payers.

But is this true? There has been surprisingly little study of this assumption in Maine, and that which has been done tends to contradict the prevailing belief (see Section IV of this report). This is the first study to examine the issue in detail.

Southern Maine Affordable Rental Housing Coalition

This study has been conducted by Planning Decisions, Inc., an independent Maine research company with twenty-five years experience working with municipalities and developers. The study is sponsored by the Southern Maine Affordable Rental Housing Coalition (SMARHC), a diverse group of organizations dedicated to increasing the supply of affordable rental housing in southern Maine. The Coalition's membership includes: Avesta, Bath Housing Authority, Brunswick Housing Authority, City of Portland, City of Westbrook, Curtis Thaxter Stevens Broder & Micoeau LLC, Freeport Housing Trust, Maine Affordable Housing Network, Maine Developmental Disabilities Council, Northern New England Housing Investment Fund, Portland Housing Authority, Portland West, Preble Street Resource Center, People's Regional Opportunities Programs, Sanford Housing Authority, South Portland Housing Authority, Southern Maine Agency on Aging, Support and Recovery Services, Tedford Shelter, The Housing Partnership, The Szanton Company, Town of Cumberland, United Way of Greater Portland, United Way of York County, Maine, Westbrook Housing Authority, York County Community Action, York County Initiative to End Homelessness, York County Shelters, and York Housing Authority.

II. Research findings

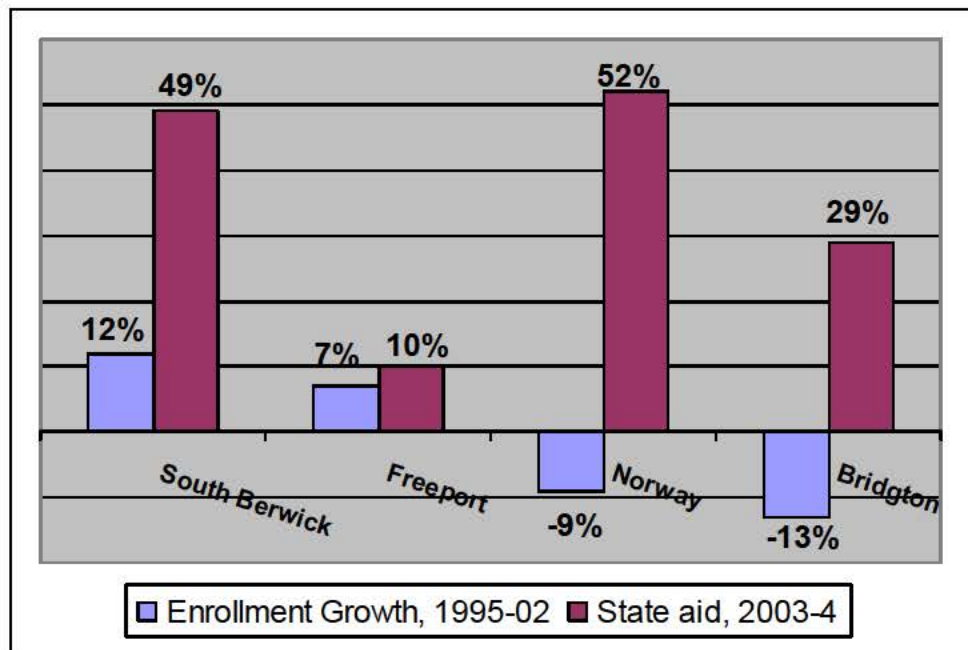
The research examines the economic effects of a recent affordable rental housing development in four different Maine communities. Each community was chosen for its distinctive profile of state aid and student growth.

Figure 1: Communities and Developments Examined

	Decline in Students	Growth in Students
High State Aid	Norway – <i>Cottage Street Apartments</i>	South Berwick – <i>Norton Street</i>
Low State Aid	Bridgton – <i>Sandy Creek Apartments</i>	Freeport – <i>Village View</i>

The four communities are Norway, South Berwick, Bridgton, and Freeport. Two have growing school enrollment, two do not. Two have relatively high state aid, two do not. Among the four, each of the possible combinations of growing or declining students, and high or low state aid, is represented.

Figure 2: Enrollment Growth and State Aid for Communities



The reason for varying the communities according to school factors is simple. Schools are the primary cost drivers for local property taxes in Maine. Sixty-one cents of every dollar of property taxes collected go to local education.

The effect of new housing development on school costs varies in different circumstances. A community with a growing school population finds increased development expensive; each new student presses the system to look at new teachers, new construction, etc. On the other hand, a community with a declining school population does not run into these capacity problems; and may, on the other hand, find that the increased state education aid that is attached to each new student may more than offset the additional costs. This in turn raises a second important consideration, namely, how much state aid a town or city receives. If only 5% of school costs are covered by state aid, then an increase in students will not generate much state money; conversely, in a high receiver community, even a few new students will generate considerable state aid. To assess these factors, the analysis looks at the four distinct community circumstances to see how the school cost and funding situation plays out.

There are also other municipal costs and revenues involved in housing development impact. Although they are not as significant as school costs, they can add up, and this analysis considers them all. On the benefit side, new residents and projects generate revenues in several ways:

- Obviously – new property tax payments
- New payments of excise taxes for automobiles
- Additional state aid from revenue sharing (due to higher population)

On the other hand, there are also additional costs besides school costs:

- Municipal expenses for general government, public safety, public works, recreation, and capital infrastructure
- Additional county taxes (due to higher valuation)

Each of these revenues and costs are also accounted for in the analysis (see Appendix A for exact methodology).

Each of the “affordable” rental housing projects selected for this study were recently funded under the Low Income Housing Tax Credit Program. This is currently the major affordable rental housing production program in Maine (and the U.S.). In such developments tenant incomes vary widely, although all are below the community median. Most households are in the \$15,000 to \$30,000 range, and, as the analysis which follows demonstrates, most have working members. All of the projects selected rent to families with children. All pay property taxes.

Besides looking at the property tax issue, this study also steps back and considers economic benefit from a broader perspective. The construction of new housing is a major economic sector in Maine, employing thousands of people in good-paying jobs. The direct and indirect benefits of the construction of each project are estimated. In addition, there are two annual economic benefits to each project. First, each year a building manager spends money in the community to mow the grass, plow the snow, do the accounting and legal work, provide equipment and supplies. Second, each family in the apartment project spends money at local stores on gas, food, and other essentials. These are also calculated as part of the larger picture of the economic benefit.

Finally, by providing people who can work in the local economy, rental projects contribute to maintaining healthy businesses and a good business climate, and in the study we list the jobs that tenants hold

On the following pages is an analysis of how each of these factors plays out over the four communities selected.

High State Aid/Growing Students

Norton Street in South Berwick, Maine



Norton Street is one block from Main Street in South Berwick. Norton Street has undergone a major change in the past few years. In 1998, the Housing Partnership began a neighborhood revitalization on five Norton Street buildings containing 20 apartments. Eleven 2-bedroom, seven 3-bedroom, and two 4-bedroom units.

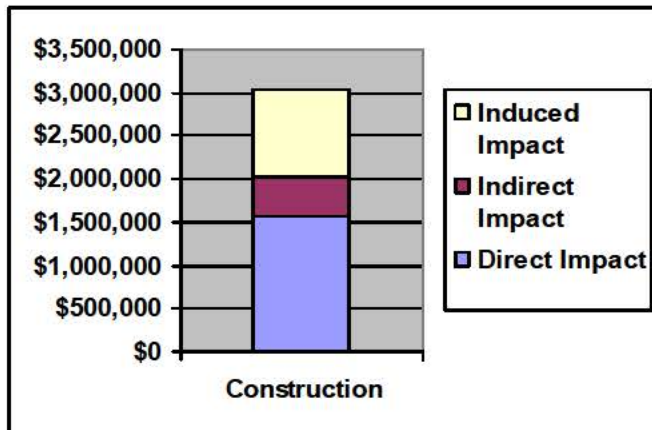
The 59 residents include 35 children age 18 and younger, 32 of which currently attend the public schools. The majority of the households are single-parents, and the majority of the adults are employed.

	Number	Percent
Residents	59	100%
Adults age 19-64	22	37%
Elderly age 65 & older	2	3%
Children age 18 & younger	35	59%
Households	20	100%
Average household size	2.95	n/a
Two-parent households	2	10%
Single-parent households	14	70%
Single living alone	4	20%
Children in public school system	32	91%
Employed Adults	16	73%
Employed Adults working in South Berwick & Berwick	5	31%

Comments from Local Officials

- *The redevelopment of Norton Street was not an isolated project but a small part of a much larger plan. Renovating the properties enabled the Town to keep the “affordable” nature of the area and maintain a variety of housing in the Town.*
- *There has been no noticeable increase in police calls.*
- *Norton Street was fully occupied prior to the renovation, so it may not have increased population or the number of school children.*

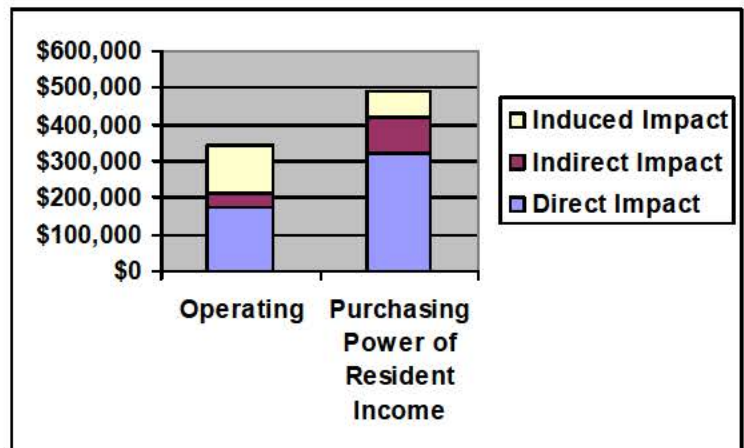
Economic Benefits to York County



The rehab and construction of Norton Street resulted in \$3 million in economic benefits to York County.

Source: Planning Decisions, Inc. estimates based on IMPLAN model.

Every year the administration and maintenance of the buildings, as well as the income of the residents brings an estimated \$800,000 to the area economy.



Source: Planning Decisions, Inc. estimates based on IMPLAN model.

Providing Local Workforce

Five adults are employed in South Berwick and Berwick including a:

- caterer
- daycare provider
- medical assistant
- flagger
- nurse's assistant

Benefits/Costs for the Town of South Berwick

Revenues and costs for the Town are based on the Fiscal Year 2006.

Revenues

Property Taxes	\$20,257
Average Excise Tax	\$1,547
Revenue Sharing	\$4,398
State School Subsidy	\$94,238
<i>Total</i>	<i>\$120,439</i>

Norton Street creates about \$120,000 in annual revenues for the municipal government.

The total annual cost of Norton Street is about \$69,000.

Costs

Town Services	\$11,317
Student Costs	\$58,157
<i>Total</i>	<i>\$69,474</i>

The development of Norton Street creates an annual net gain of about \$51,000 for the Town of South Berwick.

Low State Aid/Growing Students

Village View in Freeport, Maine



Village View is located just off of Summer Street, within walking distance of Freeport Village. It has 6 townhouse buildings containing 30 apartments. One 1-bedroom, nine 2-bedroom, and twenty 3-bedroom units.

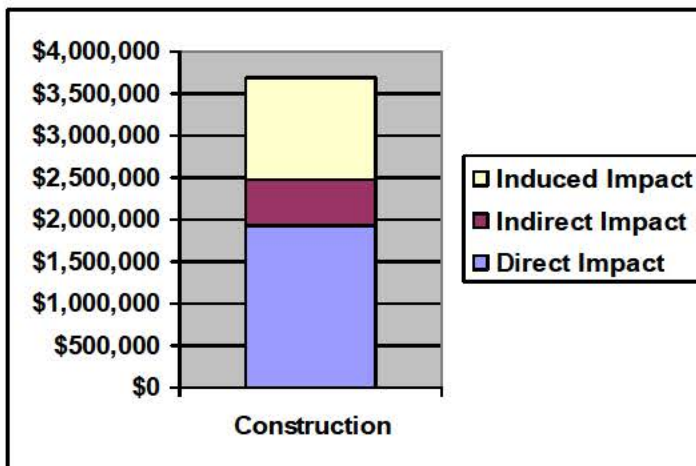
The 72 residents include 33 children age 18 and younger. The majority of the households are single-parent households, and roughly fifty percent of the adults are employed

	Number	Percent
Residents	72	100%
Adults age 19-64	39	54%
Children age 18 & younger	33	46%
Households	30	100%
Average household size	2.4	n/a
Two-parent households	7	23%
Single-parent households	21	70%
Single living alone	2	7%
Households - prior Freeport residents	9	30%
Children currently in public school system	33	100%
Children - previously enrolled in Freeport Schools & currently enrolled	10	30%
Employed Adults	19	49%
Employed Adults working in Freeport	5	26%

Comments from Local Officials

- *Village View has undergone a lot of changes since its opening in 1997 and is now considered a nice, quiet desirable place to live.*
- *According to the Police Chief, Village View has no serious problems.*
- *Village View does not have a huge impact on the school system because even though there are a lot of children they are dispersed throughout the grades.*

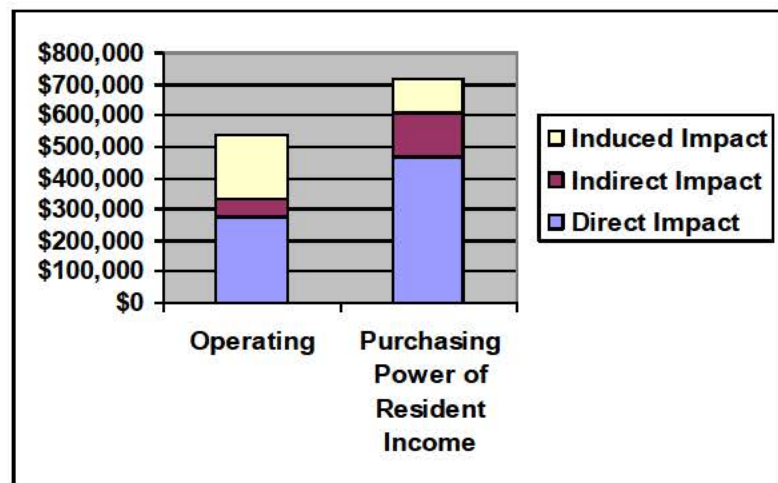
Economic Benefits to Cumberland County



The construction of Village View resulted in nearly \$3.7 million in economic benefits to Cumberland County.

Source: Planning Decisions, Inc. estimates based on IMPLAN model.

Every year the administration and maintenance of the buildings, as well as the income of the residents brings about \$1.3 million to the area economy.



Source: Planning Decisions, Inc. estimates based on IMPLAN model.

Providing Local Workforce

Five adults are employed in Freeport including a:

- nurse's assistant
- customer service representative
- sales associate
- crew person
- waiter

Benefits/Costs for the Town of Freeport

Revenues and costs for the Town are based on the Fiscal Year of 2006.

Revenues

Property Taxes	\$32,200
Average Excise Tax	\$2,385
Revenue Sharing	\$5,790
State School Subsidy	\$24,495
<i>Total</i>	<i>\$64,870</i>

Village View creates about \$65,000 in annual revenues to the municipal government.

The total annual cost of Village View is about \$225,000.

Costs

Town Services	\$22,264
Student Costs	\$202,827
<i>Total</i>	<i>\$225,091</i>

The development of Village View creates an annual net loss of about \$160,000 for the Town of Freeport.

High State Aid/Declining Students

Cottage Street Apartments in Norway, Maine



Cottage Street Apartments are located within walking distance to downtown Norway. The buildings were designed with western Maine architecture in mind. The family apartments include two 2-bedroom and sixteen 3-bedroom units.

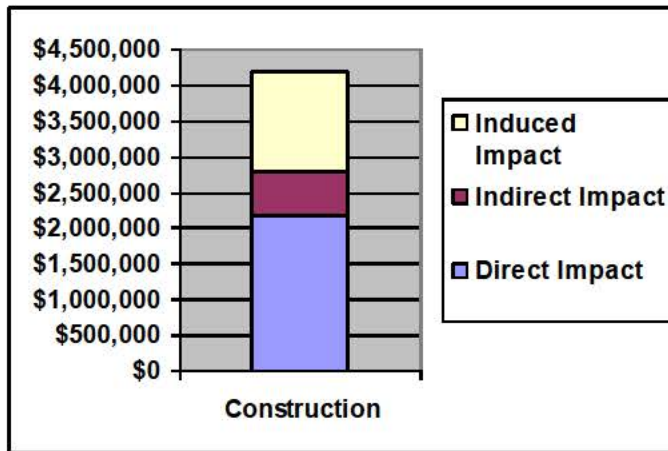
The 56 residents include 34 children age 18 and younger, of which 14 (30%) are younger than school-age. The majority of the households are single-parent households, and almost half of the adults are employed.

	Number	Percent
Residents	56	100%
Adults age 19-64	22	39%
Children age 18 & younger	34	61%
Households	18	100%
Average household size	3.1	n/a
Two-parent households	4	22%
Single-parent households	14	78%
Households - prior Norway residents	7	39%
Children currently in public school system	20	59%
Children - previously enrolled in Norway Schools & currently enrolled	6	30%
Employed Adults	10	45%
Employed Adults working in Norway	3	30%

Comments from Local Officials

- *More than half of our town residents are low to moderate income and a lot of them could qualify to live there. Our residents need good housing. Cottage Street Apartments looks good, is located near the town center, pays taxes, and replaced an old flea market area that was a detriment to Town.*
- *According to the Police Chief, Community Concepts is very pro-active in taking care of any problems that occur at Cottage Street Apartments. They have had some problem tenants, but they took action and were evicted.*

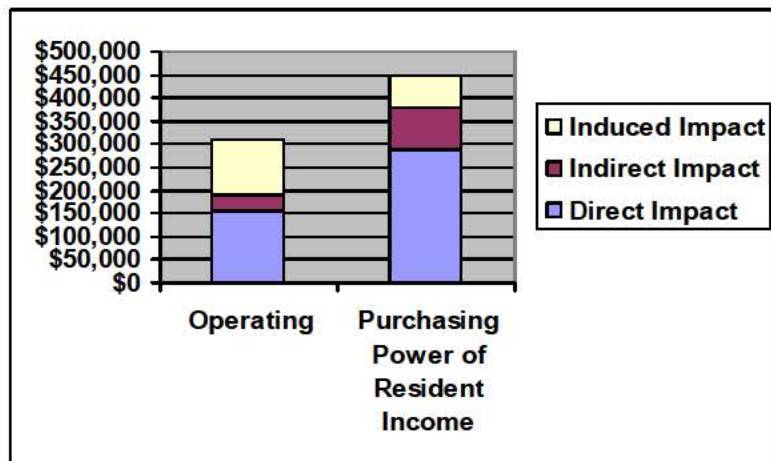
Economic Benefits to Oxford County



The construction of the Cottage Street apartments resulted in slightly more than \$4 million in economic benefit to Oxford County.

Source: Planning Decisions, Inc. estimates based on IMPLAN model.

Every year the administration and maintenance of the buildings, as well as the income of the residents brings about \$755,000 to the area economy.



Source: Planning Decisions, Inc. estimates based on IMPLAN model.

Providing Local Workforce

Three of the adult residents at Cottage Street apartments are employed in Norway as a:

- housekeeper;
- instructional aid; and
- in distribution

Benefits/Costs for the Town of Norway

Revenues and costs for the Town are based on the Fiscal Year 2006.

Revenues

Property Taxes	\$16,820
Average Excise Tax	\$1,353
Revenue Sharing	\$4,920
State School Subsidy	\$61,195
<i>Total</i>	<i>\$84,288</i>

Cottage Street apartments creates over \$84,000 in annual revenues to the municipal government.

The total annual cost of Cottage Street is about \$32,000.

Costs

Town Services	\$7,147
Student Costs	\$24,790
<i>Total</i>	<i>\$31,937</i>

The development of Cottage Street creates an annual net gain of about \$52,000.

Low State Aid/Declining Students

Sandy Creek Apartments in Bridgton, Maine



Sandy Creek is located on Swamp Road in Bridgton, 2 miles from downtown Bridgton. It has 4 single-story duplex buildings and 3 4-unit buildings, for a total of 20 apartments. Three 1-bedrooms, seven 2-bedrooms, and ten 3-bedroom units.

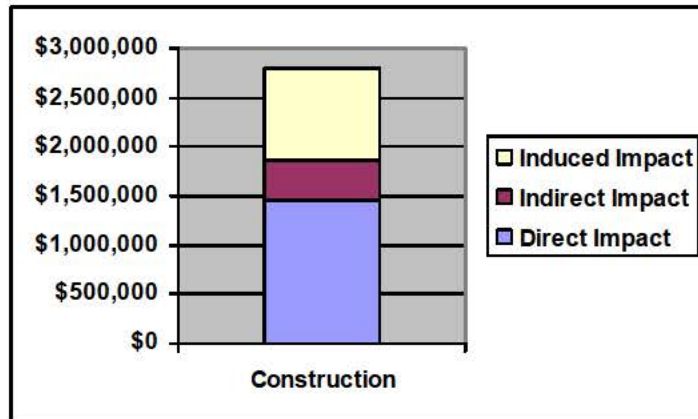
The 46 residents include 20 children age 18 and younger, 17 of which currently attend the public schools. About one-third of the adults are employed. Additionally, two of the adults are full-time students.

	Number	Percent
Residents	46	100%
Adults age 19-64	20	43%
Elderly age 65 & older	1	2%
Children age 18 & younger	25	54%
Households	20	100%
Average household size	2.3	n/a
Households - prior Bridgton residents	9	45%
Children currently in public school system	17	68%
Children - previously enrolled in Bridgton Schools & currently enrolled	8	47%
Employed Adults	7	35%
Employed Adults working in Bridgton	5	71%

Comments from Local Officials

- *Avesta is a good landlord that likes to be involved and proactive. They value community building.*
- *According to the Police Chief there is a higher rate of calls for Sandy Creek Apartments in large part because you have a larger number of people clustered in a small area. People get on each others nerves. The number of calls escalates in the summer.*

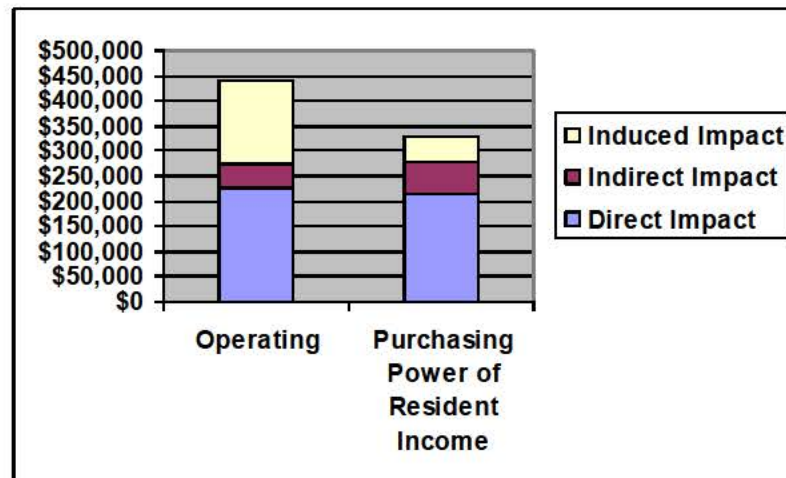
Economic Benefits to Cumberland County



The construction of Sandy Creek resulted in nearly \$2.8 million in economic benefits to Cumberland County.

Source: Planning Decisions, Inc. estimates based on IMPLAN model.

Every year the administration and maintenance of the buildings, as well as the income of the residents brings about \$770,000 to the area economy.



Source: Planning Decisions, Inc. estimates based on IMPLAN model.

Providing Local Workforce

The majority of the employed adults residing at Sandy Creek work in Bridgton including:

- restaurant staff
- cashiers
- nurse's assistant
- gym instructor

Benefits/Costs for the Town of Bridgton

Revenues and costs for the Town are based on the Fiscal Year 2006.

Revenues

Property Taxes	\$16,891
Average Excise Tax	\$1,499
Revenue Sharing	\$3,453
State School Subsidy	\$27,586
<i>Total</i>	<i>\$49,429</i>

Sandy Creek creates over \$49,400 in annual revenues to the municipal government.

The total annual cost of Sandy Creek is \$48,000.

Costs

Town Services	\$8,010
Student Costs	\$40,050
<i>Total</i>	<i>\$48,060</i>

The development of Sandy Creek creates an annual net gain of about \$1,400 for the Town of Bridgton.

III. Overview of Results

Stepping back from the individual towns, what does the research show?

Finding 1: The four affordable rental housing developments generate anywhere from \$2,200 to \$6,000 per unit in municipal revenue.

On a per unit basis, state school aid is the largest single item, and it is also the most variable. Those towns with low state reimbursement rates (see Freeport and Bridgton in Figure 3 below) get the least in state aid.

Figure 3: Municipal Revenues from Affordable Rental Housing Developments

	South Berwick	Freeport	Norway	Bridgton
<i>State Aid</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>
<i>Student Growth</i>	<i>Increased</i>	<i>Increased</i>	<i>Decreased</i>	<i>Decreased</i>
Units	20	30	18	20
Property taxes	\$20,257	\$32,200	\$16,820	\$16,891
<i>Per unit</i>	<i>\$1,013</i>	<i>\$1,073</i>	<i>\$934</i>	<i>\$845</i>
Excise taxes	\$1,547	\$2,385	\$1,353	\$1,499
<i>Per unit</i>	<i>\$77</i>	<i>\$80</i>	<i>\$75</i>	<i>\$75</i>
Revenue Sharing	\$4,398	\$5,790	\$4,920	\$3,453
<i>Per Unit</i>	<i>\$220</i>	<i>\$193</i>	<i>\$273</i>	<i>\$173</i>
State aid	\$94,238	\$24,495	\$61,195	\$27,586
<i>Per unit</i>	<i>\$4,712</i>	<i>\$817</i>	<i>\$3,399</i>	<i>\$1,379</i>
Total revenue	\$120,439	\$64,870	\$84,288	\$49,429
<i>Per unit</i>	<i>\$6,022</i>	<i>\$2,162</i>	<i>\$4,683</i>	<i>\$2,472</i>

Finding 2: The four affordable rental housing developments generate anywhere from \$1,800 to \$7,500 per unit in municipal costs.

Surprisingly, the range in expenses per town is even wider than that of revenues. Part of the reason is that student costs in towns with declining student enrollments are estimated to be much lower than that in growing towns. But there is also a considerable range in per unit expenses for general government – from \$400 to \$740; and even in student expenses in growing towns – from \$2,900 to \$6,800 (see Figure 4 below).

Figure 4: Municipal Costs from Affordable Rental Housing Developments

	South Berwick	Freeport	Norway	Bridgton
<i>State Aid</i>	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>
<i>Student Growth</i>	<i>Increased</i>	<i>Increased</i>	<i>Decreased</i>	<i>Decreased</i>
Town Services	\$11,317	\$22,264	\$7,147	\$8,010
<i>Per Unit</i>	\$566	\$742	\$397	\$401
Student Costs	\$58,157	\$202,827	\$24,790	\$40,050
<i>Per Unit</i>	\$2,908	\$6,761	\$1,377	\$2,003
Total Costs	\$69,474	\$225,091	\$31,937	\$48,060
<i>Per Unit</i>	\$3,474	\$7,503	\$1,774	\$2,403
Difference	\$50,965	-\$160,221	\$52,351	\$1,369
Difference Per Unit	\$2,548	-\$5,341	\$2,908	\$68

Finding 3: Looking at projects strictly on a property tax cost-benefit basis, affordable rental housing is a net plus in all towns except those that have fast-growing school populations and low state aid.

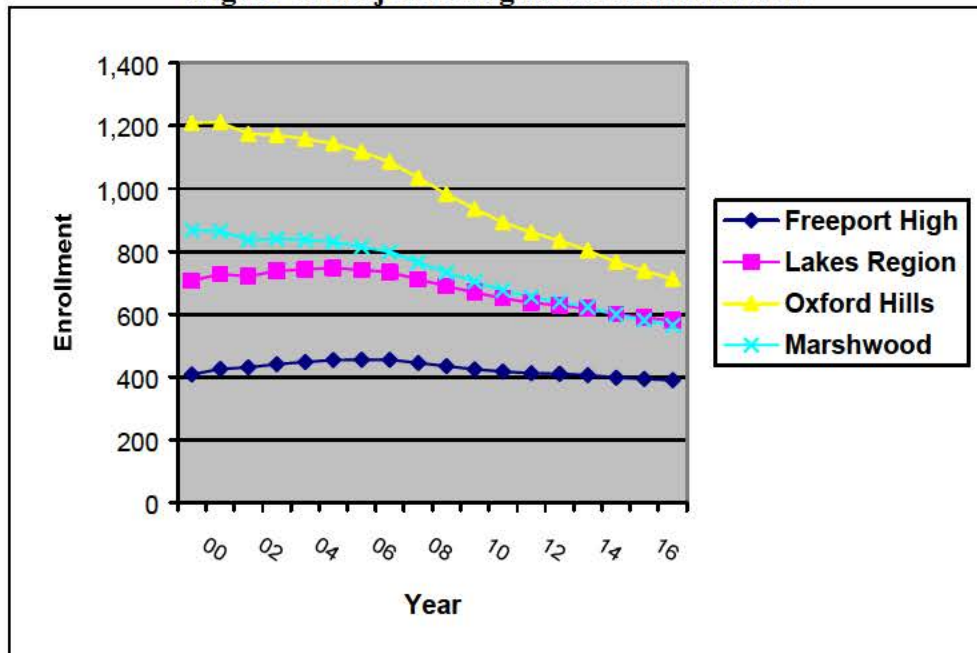
As Figure 4 shows, state school funding makes affordable family rental housing a net property tax gainer in high state aid communities (South Berwick and Norway), regardless of student growth rates. In communities with a low student growth rate (Bridgton), affordable rental projects are a break even or a slight net plus even if there isn't much state aid present.

Only in Freeport, a community with high student growth, low state aid, and relatively high municipal costs (due in part to commercial development), is affordable rental

housing a net property tax negative.

However, it should be noted that in future years, there will be few schools with growing populations such as Freeport has experienced in the last five years. Figure 5 below contains Maine State Planning Office projections for public school enrollment in the high schools serving the four communities in this study. All show declining enrollment, including the two communities that had growing enrollments in the past (Freeport and South Berwick). Statewide, there will be excess capacity in school districts far more than there will be capacity shortfalls in the coming decade.

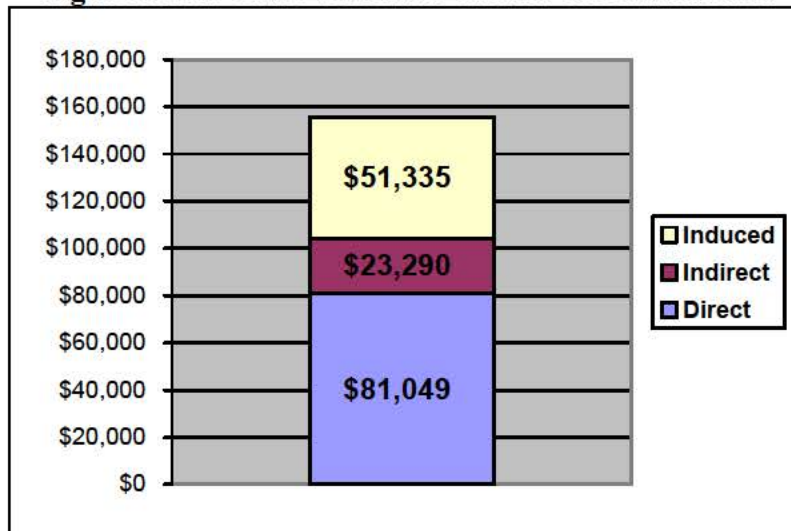
Figure 5: Projected High School Enrollments



Finding 4: Direct, indirect, and induced construction benefits account for nearly \$160,000 per apartment of one-time economic activity within the county of the project.

The total one-time economic benefit for the projects under study ranged from \$2.8 million to \$4.7 million. These benefits include direct payments to contractors and laborers. The indirect impacts are the dollars that the contractor spends on supplies and materials. Finally, the induced impacts are the household purchases of groceries, services, and other day-to-day items paid for with the income gained by direct and indirect expenditures. This same three-part impact can be seen in the subsequent analysis of annual spending by project administrators and tenant households.

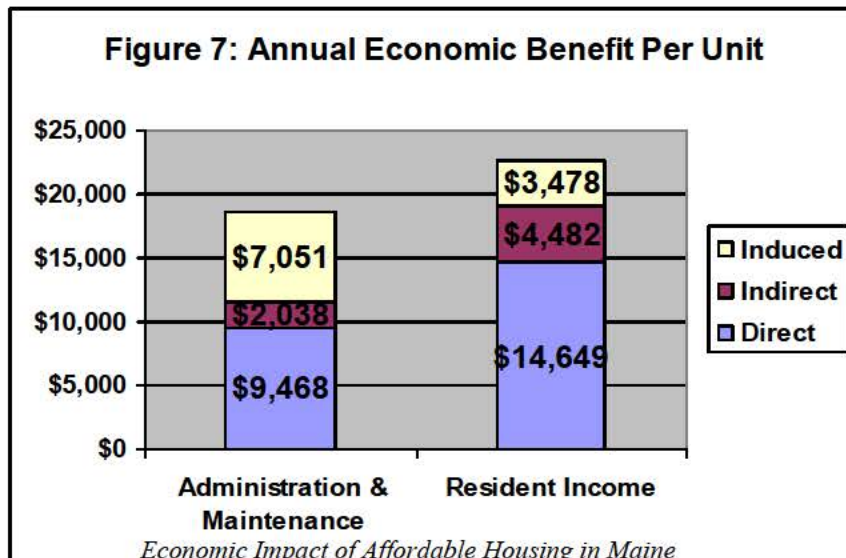
Figure 6: Per Unit Economic Benefits of Construction



***Finding 5:** Every year, each affordable apartment accounts for \$40,000 of direct, indirect, and induced economic activity within the county.*

Unlike construction, apartment maintenance and resident spending goes on for the life of the development. The administration and maintenance of each unit in a development contributes about \$19,000. Each family contributes about \$22,600. For the projects under study, the annual economic contribution varied from \$770,000 to \$1.3 million. The largest benefit, \$1.3 million in annual spending, was in Freeport. So the most expensive project in property tax terms is also doing the most to help local merchants.

Figure 7: Annual Economic Benefit Per Unit



*Economic Impact of Affordable Housing in Maine
2005 Update*

Finding 6: Most adults in affordable apartments work in essential jobs in small business, health, and education

In total, half of the adults in the four affordable housing developments in this study had jobs. The occupations of residents living and working in their communities include:

- caterer
- daycare provider
- medical assistant (2)
- road construction worker
- nurse's assistant (3)
- customer service representative
- sales associate
- crew person
- restaurant waiter or staff (2)
- housekeeper
- instructional aide
- warehouse worker
- cashier
- gym instructor

These are jobs that serve children and the sick, tourists and local small businesses. They are essential to a successful tourist economy in places like Freeport and Bridgton. They are essential to any economy where locally-owned small businesses are important.

In summary: Affordable housing generates, in most circumstances, more local revenues than it costs; provides a \$160,000 one-time per-unit benefit from construction and an ongoing \$40,000 per-unit benefit per year; and provides workers for local small businesses, health institutions, and schools.

IV. Related research on housing impacts

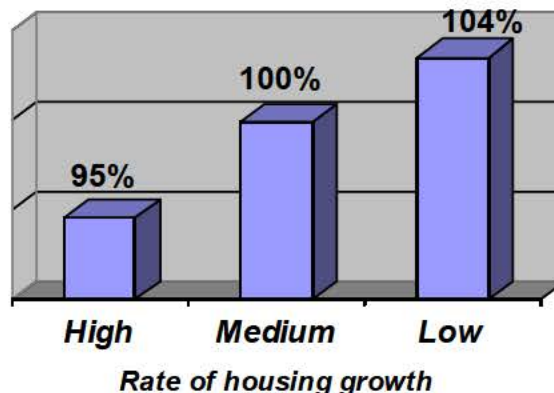
This study is just one of several that have been done in New England on housing cost impacts in the past. The following is a summary of that research, most of which supports the case study findings in the previous section.

Past research finding 1: Slow-growing towns pay higher property taxes than fast-growing towns

A study by Planning Decisions, Inc. of the property tax growth in 34 communities in southern Maine found that per-house property tax increases were lowest in the communities that grew the most.

In communities with average growth rates during the period, property taxes per housing unit doubled (increased 100%). For higher growth rate communities, the increase was 95% -- still high, but lower than average. And for lower growth communities, the rate of increase was 104%, higher than average.

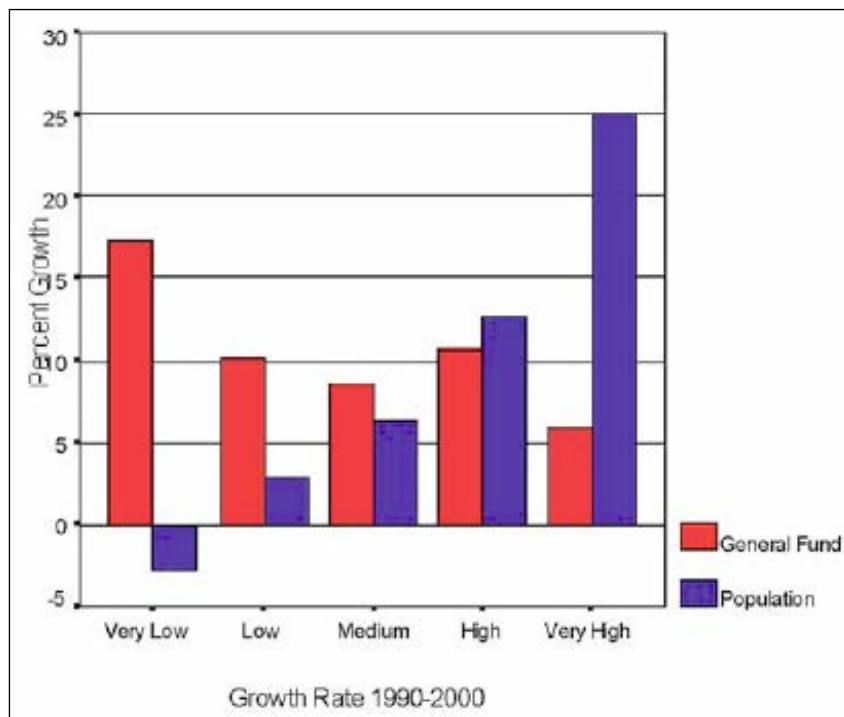
Figure 8: Property Tax Increase per housing unit, southern Maine communities, 1985-95



These findings have been confirmed in Massachusetts in a study of all 351 municipalities and property tax increases per capita between 1990 and 2000. The study found the highest rate of per house property tax costs in the lowest growth communities (see Figure 9 below).

Figure 9: Median General Fund Expenditure Growth Per Capita by Median Population Growth

Source: *the Fiscal Impact of New Housing Development in Massachusetts*, University of Massachusetts, Donahue Institute, 2003



“Very low” growth communities tend to be service centers, or older urban centers. Generally they are not just low-growth, they are losing population – and at the same time they have a fixed infrastructure of schools and roads that was built for a population far larger a generation ago. That is why per capita increases are highest there.

As for the remaining communities, the data would seem to indicate

that there is a basic level of fixed costs of fire, schools, public works, and so forth, that doesn’t vary that much; and that therefore the more people there are, the more the costs can be shared across the board. Put another way, a certain level of growth is a healthy factor that can help keep property taxes lower than they would otherwise be.

Past Research Finding 2: Sprawl development costs more than in-town development for taxpayers

It is not true, however, that all new housing has the same influence on municipal costs. Research done by Planning Decisions, Inc. for the Maine State Planning Office report The Cost of Sprawl, found that development far from town centers cost more to service than development near built-up areas. For example, Kennebunk reported that when a large subdivision was built 25 minutes away from the town center, a new patrol had to be added to serve the area. A new patrol cost at that time \$175,000 for a cruiser and four officers. Likewise, the Town of Scarborough had the same experience.^a The lesson here

^a Frank O’Hara, The Cost of Sprawl, page 9, Maine State Planning Office, 1997.
<http://www.state.me.us/spo/landuse/docs/CostofSprawl.pdf>

is that the *location* of new development affects municipal costs more than the *rent level* of new development.

In the case of the four projects under study, three are right next to Main Streets. Therefore they have an imperceptible effect on police routes, bus routes, plowing schedules, billing procedures, and so forth.

Research finding 3: New housing brings economic benefits as well as costs

As we have found in this study, the Donahue Center at the University of Massachusetts found in a larger study in Massachusetts. They found that for 100 single family homes in a suburban location in Massachusetts, the benefits of construction provided nearly \$12 million in income and over 200 jobs, and that the spending of residents pumped over \$3 million into the local economy each year.

Figure 10: Economic Benefits of 100 Suburban Homes in Massachusetts

"The Economic Impact of Housing," Kotval and Mullin, University of Massachusetts, 1998
<http://www.donahue.umassp.edu/publications/housing/7-economic.html>

	Income	Taxes/fees	Jobs
Construction phase	\$11,892,000	\$1,479,000	230
Ongoing spending	\$3,340,000	\$1,185,000	80

In short, research elsewhere in Maine and New England supports the general finding of these four case studies. ***Affordable housing is always beneficial to the community and its economy, and in most cases it pays its way in property taxes as well.***

Appendix A: Methodology

A. Estimates of direct and indirect economic benefits

Figures on the construction of the project were obtained from the developers, then run through the IMPLAN model by Planning Decisions staff. The data provides output on a county basis (the municipal level is not available, simply because spending patterns are not so constrained). The IMPLAN model is a national model with great flexibility in its ability to adapt to small geographic areas; for more detail see the web site www.implan.com.

Figures on annual benefits were based on annual budgets of each project, and total household income in each project, with both factors again run through the IMPLAN model.

B. Estimates of municipal revenue

Affordable rental housing developments generate funds for municipalities in four ways. First, they pay property taxes. Second, tenants pay excise fees on their vehicles that go directly into town coffers. Third, the presence of added population and property valuation can increase funds from State revenue sharing. And fourth, to the extent that there are students in the school from housing, state funding formulas increase State aid.

Property Taxes

All four affordable rental housing developments pay local annual property taxes, which ranges from \$16,800 to \$32,000 depending on the assessed value of the property and the municipal tax rate. The exact figures are used in this analysis.

Excise Taxes

Individuals that own a vehicle are required to register it with the local municipality and pay annual excise tax based on the vehicles valuation. One way to estimate excise tax for a development is to divide the amount collected by the number of households to get an average household excise tax by household. Because of the lower than area median household incomes in an affordable rental housing development these averages usually do not work. Therefore, Planning Decisions calculated the average excise tax for a \$15,000 vehicle over a period of seven years and multiplied this by the net number of

vehicles in each development. The net number of vehicles is the total number of vehicles in a development minus the number vehicles from households that were residents of the town prior to moving to the development. For Norton Street in South Berwick, Planning Decisions estimated the number of vehicles based on the number of vehicles per household in the other three developments.

State Revenue Sharing

Distribution of the 5.1% of the State's total sales and income tax revenue is based on a municipal's population multiplied by collected taxes and divided by the adjusted State valuation. Therefore, each housing development which increases the municipal's population and valuation could have the effect of increasing the municipal's share of the State's funds to be distributed. Each affordable rental housing development in this study accounts for a small percent of the amount of revenue the municipality receives.

State Aid for Education

Distribution of State subsidy funds for each school district is based on a State formula which takes into consideration the costs of providing essential programs and services to the students of each school department, district, and union. The local contribution (and alternately the state contribution) is determined by a mill rate expectation. For fiscal year 2005-06, the expectation was that a town could contribute 8.26 mills of the 2004 state certified valuation for the town in which the school resided. In cases where the school is a district or union and has several member towns, each town's contribution is based on the mill rate expectation or the percentage of students multiplied by the total calculated allocation, which ever is the lesser of the two. Generally, new students mean more funding from the State. We took the State contribution for each school district in the study and divided it by the number of students in the district to arrive at an average subsidy per student. We then multiplied this average by the net number of students from the development. A number of the students at each development were already enrolled in the local school system prior to moving to the development because they were already living in the town. These students were not included in the calculation because they were already bringing State funding to the school district.

C. Estimates of costs

There are different cost drivers for different municipal services. For schools, the driver is new students. For recreation services, the driver is new population and households. For general government, it is a combination of households and other properties. For county taxes, it is a question of value.

Planning Decisions evaluated the budgets of each of the communities in this study, and assigned cost drivers to each. The project was then held to be “responsible” for its proportion of the local budget as calculated by its percentage of the households or parcels or values in the community, depending upon the factor. Similar to the excise tax calculations, when the number of households in a development is used for the calculation it is the net number of households being used. The assumption is that the households that were already living in the town prior to moving to the development were not new costs for the town.

To be more specific, in each case we calculated specific municipality expenses based on per taxpayer, per household, and per \$1,000 of property valuation. For example if a town spends \$1,000,000 on general government expenses and has 2,000 households then the per household expense is \$500. In other words, \$500 in property taxes would need to be collected from every household to support general government. The same calculations can be done on a per taxpayer, and per \$1,000 of property valuation. These averages are then used to calculate the cost of providing municipal services to the development. The chart below lists the different costs associated with providing municipal services and the method used to calculate the cost of each development.

For school enrollment, only new children moving to town from the outside were considered new costs. In order to account for the different impacts of new students in a growing vs. declining population district, per student costs in the declining situation were considered to be only one-half of average costs.

More specifically, in each school budget a per student cost was calculated, then multiplied by the net number of students from each development. As in the state aid calculations, the students living at the development that were previously enrolled in the local school system were not included. For the two towns that had declining student populations, Norway and Bridgton, the cost of educating the new students from the development was assumed to be less than the average because of excess capacity.

Cost Drivers in Analysis

	Household	Parcel	Value	Per student
General Government	50%	50%		
Public Safety	50%	50%		
Public works		100%		
Debt		100%		
Recreation	100%			
County tax			100%	
Student costs				100% for growing enrollment districts; 50% for declining