Approved: February 8, 2001
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 11:00 a.m. on February 6, 2001, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Dr. Mark G. Dotzour, Director of Research and Chief Economist, Texas A & M University

Others attending: See attached list.

The minutes of the February 1, 2001, meeting were approved.

Senator Corbin introduced Dr. Mark G. Dotzour, Director of Research and Chief Economist at Texas A & M University. The Kansas Building Industry Association requested that Mr. Dotzour brief both the House Taxation Committee and the Senate Assessment and Taxation Committee on developments in city and county excise taxes as background information on **SB 91,** which would enact the city and county development activity excise tax act. Copies of Dr. Dotzour's biography were distributed to committee members. As indicated in his biography, he is originally from Kansas. (Attachment 1)

Dr. Dotzour's presentation was titled, "The Fiscal Impact of Development." Instead of handing out written testimony, Dr. Dotzour projected slides outlining his presentation. Copies of the script for each slide were distributed to committee members. (Attachment 2) He began by noting that this is a very complex issue about whether or not growth pays for itself, and if it does not, should a tax be put on it. He explained that his goal was to help committee members get enough information so that they could sort out different points of view. He commented that few people have knowledge of the subject and many important decisions are being made with virtually no information. In a nut shell, he said the issue is, "Does development pay? If it doesn't, put a tax on it, but be aware of the repercussions when you do." Dr. Dotzour went on to say that the question is, "Whether or not subdivisions pay enough revenue to offset the cost to the city."

Dr. Dotzour explained that, as he began research six years ago on whether or not new development pays its way, he found that Altshuler and Gomez-Ibanez from Harvard JFK School of Government are two eminent researchers in this field. He quoted from their book as shown on the slides. He discussed the following quote in detail: "Fiscal impact analysts confront several formidable methodological problems whose solutions are far from obvious and may depend on local circumstances." He said the key words are "may depend on local circumstances." He commented that the bottom line is that tax revenue streams are completely different from state to state, and the city policies about who pays for what are completely different from city to city. He emphasized that what is being done at the local level is the only factor that should be considered when debating the issue of development. To illustrate his point, he noted that, while researching the subject, officials of the City of Wichita indicated to him that "Everybody knows that growth does not pay its way. The DuPage County Study proved that." Dr. Dotzour explained that Chicago is in DuPage County, and he was able to get a copy of the study from the City of Chicago. He noted that Dr. Ed Mills, a professor of real estate at Northwestern University, made the following statement about the study: "Its conclusion that commercial development is a major cause of tax increases is not supported by the statistical analysis, and is not correct." Dr. Jose Gomez-Ibanez's response to Professor Mills' critique was, "It would be fairly easy to rerun the DuPage analysis with a better equation specification. I'll bet the results would be very different."

Dr. Dotzour concluded that the bottom line regarding the opinion that new growth does not pay its way is based on information that is not very relevant.

Dr. Dotzour explained that in his study he attempted to find a method "to turn a political arm wrestling match into a business decision." He followed with a discussion of his research goals which included (1) identifying all revenues that homeowners in new subdivisions pay to the city government, (2) estimating the annual cost of government services that are provided to the average household in the community, and (3) estimating the cost of capital improvements per household that a city must provide to new subdivisions. He then discussed the reasons different individuals care about new development. He continued by discussing the revenue paid by the developer, the homebuilder, and the home buyer. He contended that "new development is a good deal for communities. It's not the bad deal that cities make it out to be." To illustrate his point, he pointed out the cost of city services in three different subdivisions in Lawrence, Kansas, one with homes worth $126,000 (New Area A), one with homes worth $197,000 (New Area B), and one with homes worth $402,000 (New Area C). He compared those costs with what the average household in Lawrence pays for the same services. The estimated amount paid by the average household in Lawrence was $601. He noted that homeowners in the subdivision with $126,000 homes paid less than that amount while homeowners in the subdivision with $402,000 homes paid more.

Dr. Dotzer said that key issue is how the city pays for its portion of the capital improvements and discussed the $700 actually spent in Lawrence for capital improvements per household. He went on to say that the one-time sales tax on building materials paid by the homebuilder for each new home, which is paid to the city general fund, is totally ignored in all discussions about impact fees and excise tax on new development. He explained that property taxes paid the city are also used for capital costs and that the debt service fund is included in property taxes paid to the city by individuals. Noting that the debt service fund is the portion of property taxes which pays the principal and interest on city bonds, he compared the portions paid into the debt service fund in Lawrence subdivision areas A, B, and C. He followed with a comparison of the actual cost versus the ability to pay for capital improvements in the three areas.

In conclusion, he quoted a statement from the Harvard study as follows: "...generalizations must be heavily qualified, because cost and revenue allocation involve difficult methodological problems and costs greatly depend on specific local circumstances." In Dr. Dotzour's opinion, residents of new areas that have paid impact fees are not likely to very excited about voting for a bond issue to expand a new school or convention center that serves existing residents. In this regard, he quoted a University of North Carolina study as follows: "Neither developers nor landowners will bear the major burden of paying impact fees, rather consumers will pay the fees in the long run in the form of higher prices." He noted that, according to the Harvard study, "Impact fees have generally been set very low to start, so as to minimize the likelihood of litigation by developers." He noted that California impact fees increased by 511 percent from 1975 to 1983, and Florida tripled from 1985 to 1991. He said, "Homebuilders and developers are concerned about any tax on development because, once you let the monster get the foot in the door, that monster has a tendency to grow really fast in a big fashion." He qouted the following from the Harvard study: "Communities in the vanguard of exaction utilization (taxes on development) tend to be among those least concerned about attracting investment." He said this is an important statement and observed, "Every time you put a tax on living, you make it harder for people to afford to live in your community or your state. Every time you put a tax on commercial development, you make it more costly put an industrial facility or an office building in your state or community, and it puts you at a disadvantage to compete in the global market for jobs."

As a point of interest, Dr. Dotzour included his final slide to illustrate that rapid growth does not always result in an increase in taxes. He explained that the statistics shown concern one of the fastest growing counties in Texas, Montgomery County, which is an area north of Houston. He emphasized that there was no fiscal impact on schools in that area. He said, "I have yet to see one fact one the table from anybody, anywhere about the fiscal impact of schools." He urged committee members, "When somebody says to you growth always causes tax rates to go up, ask them, show me the data."

The meeting was adjourned at 11:35 a.m.

The next meeting is scheduled for February 7, 2001.

SENATE ASSESSMENT AND TAXATION COMMITTEE
GUEST LIST

DATE: February 6, 2001

NAME	REPRESENTING
Janet Stubbs	KBIA
David Reynolds	KBIA & Apple Tree Homes, Inc. - Lawrence
Julie Hein	Hein & Weir
Doug Smith	Pinegar-Smith Company
Natalie Bright	WIBA / KOPE
STAN PARSONS	KC HBA
KAREN FRANCE	Ks. ASS'N OF REALTORS
BILL YANEK	" "
Chris Wilson	KBIA
Ann Durkes	DOB
Erik Sartorius	K.C. Regional Assoc. of Realtors

BIOGRAPHY
Dr. Mark G Dotzour

Dr. Mark G. Dotzour *(pronounced Dot sir)* is the Chief Economist and Director of Research for the Real Estate Center at Texas A&M University in College Station, Texas. He earned his Ph.D. in the Department of Finance at the University of Texas at Austin in 1987 and served as Associate Professor of Real Estate and Finance at Wichita State University for 10 years. As a professor, he published 20 articles in journals such as The Journal of Real Estate Research, The Appraisal Journal, and The Journal of Property Management. He received the John Wiley and Sons Award for the best article in the Journal of Real Estate Research in 1990.

Dotzour taught Land Economics at Comenius University in Bratislava, Slovakia in 1993 and also served as a visiting research scholar at Lincoln University in Christchurch, New Zealand in 1993. He has presented his research findings to audiences Europe, Australia and New Zealand..

Prior to his academic career, he was president of Gleneagles Development, Inc., developing residential subdivisions in Wichita, Kansas. He also served as president of Dotzour Inc., Realtors, which was a residential brokerage firm in Wichita, Kansas, earning his CRB designation in 1982.

He has been at the Real Estate Center since August, 1997. Since then, he has published 31 articles in magazines including, Tierra Grande, Texas Realtor, Journal of Real Estate Research, and Land Development and given over 140 presentations. He is a regular speaker at the Texas Association of Realtors state conventions, was the keynote speaker at the Amarillo Chamber of Commerce Economic Summit, a presenter at the Woodlands Chamber of Commerce Economic Summit and a presenter at the national convention of the National Association of Homebuilders.

His research findings and comments have been published in the Wall Street Journal seven times in recent years. His current research interests include: 1) the use of impact fees on new development, 2) how NAFTA is effecting Texas real estate, 3) the impact of REITs, and 4) other residential and commercial real estate issues. As Chief Economist, he is currently doing market research to monitor real estate conditions in 27 major cities in Texas. For fun, he is trying to rebuild his golf game that he gave up twenty years ago to raise a family.

Mark G. Dotzour
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Senate Assessment & Taxation
2-6-01
Attachment 1

The Fiscal Impact of New Development

Dr. Mark G. Dotzour
College Station, Texas
(979) 690-8095

The Big Picture

Do new subdivisions produce enough revenue to the city to offset the costs of providing them with municipal services?

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"The predominant view today is that new development rarely generates local tax payments sufficient to pay its own way."

Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"According to the new conventional wisdom, growth rarely produces sufficient revenue to compensate … for its associated public costs."

Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"No systematic canvasses are available of the results of fiscal impact studies; they are rarely published or widely distributed."

Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"Fiscal impact analysts confront several formidable methodological problems whose solutions are far from obvious and may depend on local circumstances."

Regulation for Revenue, 1993.

Senate Assessment + Taxation
2-6-01
Attachment 2

The Validity
of the "DuPage County Study"

"Its conclusion that commercial development is a major cause of tax increases is not supported by the statistical analysis, and is not correct."

Dr. Edwin Mills
Gary Rosenberg Distinguished Professor of Real Estate
Kellogg Graduate School of Management
Northwestern University

The Validity
of the "DuPage County Study"

"Thank you for sending me Professor Mills critique. He has covered all the points I would have made."

"It would be fairly easy to rerun the DuPage analysis with a better equation specification. I'll bet the results would be very different."

Dr. Jose A. Gomez-Ibanez, Professor of Urban Planning and Public Policy
John F. Kennedy School of Government
Harvard University

Research Goal #1

Identify all revenues that homeowners in new subdivisions pay to the city government

Research Goal #2

Estimate the annual cost of government services that are provided to the average household in the community.

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"Most fiscal studies in the 1970's showed that all development, except low income housing paid its own way......because it focused only on operating costs and ignored capital costs of new expansion."

Regulation for Revenue, 1993.

Research Goal #3

Estimate the cost of capital improvements (per household) that a city must provide to new subdivisions.

Who Cares About This?

- Taxpayers in the community
- City managers and elected council
- Homebuilders, developers, Realtors
- Affordable housing proponents
- Business leaders
- Economic development officials

City revenue paid by the developer of a new subdivision.

- Impact fees
- Zoning application fees
- Platting fees

City revenue paid by the homebuilders on each new house.

- Building permit
- Plumbing permit and inspection
- Electrical permit and inspection
- HVAC permit and inspection
- Sales tax on building materials

Annual revenue paid by new homeowners to the City General Fund.

- Property tax
- Local sales tax
- Franchise fees
- User fees

Lawrence, KS

Annual Revenue to the General Fund from houses in new subdivisions

New Area A ($126K)	*$ 594*
New Area B ($197K)	*$ 763*
New Area C ($402K)	*$1,256*
Average household in Lawrence	*$ 601*

Lawrence, Kansas study completed in October, 2000

Services paid from the General Fund
(maintenance and operations for)

- Police
- Fire
- EMS
- Parks
- Libraries
- Municipal Court
- Many other services

How does the city pay for their portion of the capital improvements?

- Issuing bonds
- P&I paid from the Debt Service Fund
- Revenue comes from property taxes

Capital improvements actually spent

(per household in Lawrence study)

• Police substation	$ 109
• Fire substation	$ 186
• Local access streets	$ 0
• Collector streets	$ 0
• Arterial street improvements	$ *
• Stormwater drainage	$ 0
• Branch library	$ 0
• Neighborhood and regional parks	$ 404
• Total Improvements per household	$ 700

One-time sales tax paid by the homebuilder for each new home to the City General Fund

New Area A ($126K)	*$ 694*
New Area B ($197K)	*$ 1,085*
New Area C ($402K)	*$2,214*

Lawrence, Kansas study completed in October, 2000

Property Taxes Paid to the City From A home in Area A

(Average value of $126,000)

General Fund:	*$163*
Library Fund:	*$ 38*
Public Transportation Fund	*$ 44*
Recreation Fund	*$ 13*
Debt Service Fund:	*$ 97*

For Example: A home in Area A

(Average value of $126,000)

The portion paid into Debt Service Fund:	*$ 97*
would pay debt service on a municipal bond in the amount of	*$1,162**

* 20 year bond at 5.5% interest

For Example: A home in Area B

(Average value of $197,000)

The portion paid into Debt Service Fund:	*$ 152*
would pay debt service on a municipal bond in the amount of	*$1,816**

* 20 year bond at 5.5% interest

For Example: A home in Area C
(Average value of $402,000)

The portion paid into Debt Service Fund:	*$ 310*
would pay debt service on a municipal bond in the amount of	*$3,706**

* 20 year bond at 5.5% interest

Actual Cost vs. Ability to Pay
(for capital improvements)

Area	*Bond Supported*	*Identified Costs*
A ($126K)	*$1,162*	*700*
B ($197K)	*$1,816*	*700*
C ($402K)	*$3,706*	*700*

Actual Cost vs. Ability to Pay
(for capital improvements)

Area	*Sales Tax From Builder*	*Bond Supported*	*Identified Costs*
A ($126K)	*$ 694*	*$1,162*	*$700*
B ($197K)	*$1,085*	*$1,816*	*$700*
C ($402K)	*$2,214*	*$3,706*	*$700*

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"....generalizations must be heavily qualified, because cost and revenue allocation involve difficult methodological problems and costs greatly depend on specific local circumstances."

Regulation for Revenue, 1993.

Stegman.........University of NC

"Residents of new areas that have paid...impact fees are less likely to vote for bond issues or other referenda to finance maintenance, expansion or /renovation of existing facilities that serve existing residents.

Urban Land (April, 1987)

Huffman, Nelson, Smith and Stegman

"neither developers nor landowners will bear the major burden of paying impact fees, rather consumers....will pay the fees in the long run in the form of higher prices.

Journal of Am. Planning Assn. (Winter, 19 88)

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"Impact fees have generally been set very low to start, so as to minimize the likelihood of litigation by developers."

Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"A study showed that California impact fees increased by 511% from 1975-83. Another study showed fees in Florida tripled from 1985-91."

Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"...developers and owners of undeveloped land always will prefer exactions to growth moratoriums."

Regulation for Revenue, 1993.

Altshuler and Gomez-Ibanez
Harvard- JFK School of Govt

"Communities in the vanguard of exaction utilization tend to be among those least concerned attracting investment."

Regulation for Revenue, 1993.

COMBINED TAX RATES

	1997	1998	1999	2000
Montgomery County	$0.48970	[illegible]	[illegible]	$0.47470
Conroe I.S.D.	1.70550	1.75050	1.69050	1.70250
City of Shenandoah	0.79560	0.76380	0.72510	0.61630
City of Oak Ridge North	1.14650	1.12960	1.06000	0.99500
Woodlands MUDs.(avg.)	0.60200	0.58900	0.54000	0.52600
Mont. Hospital District	0.07850	0.07850	0.07850	0.13780
The Woodlands Assn	0.59000	0.59000	0.59000	0.57000
Woodlands Comm. Assoc.	0.50000	0.50000	0.50000	0.48000

The Woodlands Operating Company, L.P.