FISHKIND
& ASSOCIATES

February 20, 2006

Conferees
Fiscal Impact Estimating Conference
Office of Economic & Demographic Research
111 West Madison Street, Suite 574
Tallahassee, FL 32399-6588

RE: Economic Impacts of the Proposed Florida Hometown Democracy Amendment

Dear Conferees:

In this letter I share with you my analysis of the economic impacts of the proposed Florida Hometown Democracy Amendment ("Amendment"). My studies demonstrate that the proposed Amendment would have serious negative economic impacts on Florida. The Amendment would: (a) depress development and real estate related activities; (b) reduce state and local revenues; (c) cause taxes to be higher; and (d) compromise Florida's economic environment and its attractiveness.

As you know, the Amendment would require a referendum in order to approve changes to a local government comprehensive land use plan adopted pursuant to Chapter 163, F.S. ("Plan"). The referendum would be in addition to current regulations governing plan adoption or amendment. The referendum is expected to occur with the next succeeding general election, or the referendum could be held as a special election.

According to proponents' website: *"Florida's Hometown Democracy Amendment simply replaces county or city commission votes to adopt or change a comprehensive plan with votes by the citizens in a referendum election to be held at the same time as the general election. No special elections will be necessary. If a community so desires, a referendum could even be held by mail. Florida's Hometown Democracy Amendment gives greater stability and certainty to comprehensive plans by locking in existing land use categories and giving the keys to the voters."*

There is a conflict between the language quoted above from the website and the language used in the petition itself. The petition states that the referendum comes after all other standard requirements for approval of amendments to Plans or approval of the Plans themselves. Thus, the referendum does not substitute for the required approval, first, by the appropriate city or county commission.

The proponents' website also provides this analysis of costs and benefits associated with their amendment. *"Landowners and developers are not entitled under the law to plan amendments, and can almost always begin construction under existing land use plans. However, if a developer wants to obtain a plan amendment before construction is started, then additional time and risk might result in some increased transactional costs. The market will help guide how much of these costs would be passed on to the consumer. Existing residents should carefully consider the costs and benefits of plan changes since new development rarely pays its own share of added costs for infrastructure and municipal services. Existing residents should also take heed that housing prices inevitably go up as the amount of available land for development decreases. As long as population increases in Florida continue, housing prices will increase. Residents have a choice: either they can preserve existing open space or they can allow build-out of all private open space (think Dade & Broward). Either way, prices will go up."*

This analysis is faulty, incomplete and unreliable. The Amendment will harm Florida's economy in important and quantifiable ways. First, it is completely fallacious to conclude that " . . . .new development rarely pays its own share of added costs for infrastructure and municipal services." Our studies demonstrate that new development typically not only pays fully for its own share of added infrastructure and service costs, but often provides significant fiscal surpluses for local governments.

Our studies of the costs and revenues associated with changes to Plans are made using the Fiscal Impact Analysis Model ("FIAM"). FIAM was developed by Fishkind and Associates, Inc. under contract to the Florida Department of Community Affairs ("DCA"). DCA has adopted FIAM as the safe harbor method by which DCA will accept the demonstrations that Plans, amendments to Plans, and the capital improvement elements of Plans, are all financially feasible as required under Chapter 163.3164(32).

We have conducted over 100 fiscal and economic impact analyses using FIAM. It is certainly true that all new growth does not pay for 100% of the infrastructure and services needed to maintain levels of service ("LOS"), as required under adopted Plans. However, most new developments pay for their own costs and generate surpluses. This is due to a variety of factors including the following.

- Most new development is sold at prices that are well above the existing averages for most communities.

- Most jurisdictions have imposed impact fees that capture a significant portion of the additional capital costs created by new development.

- Many new projects are planned unit developments, developments of regional impact, or other larger projects that are subject to a wide array of development requirements, both monetary and non monetary.

Some of the best documented cases concerning the fiscal impacts of new development are where local governments have entered into revenue sharing agreements with a development based upon its fiscal impacts. The performance under the interlocal agreement between Celebration Community Development District and Osceola County is particularly instructive. Therein, the development of Celebration has generated a well documented fiscal surplus to Osceola County over many years. The documentation and measurement are much the same as that incorporated within FIAM.

Our studies also have demonstrated repeatedly that existing development typically does not pay its own share of the costs necessary to provide governmental services and infrastructure. Using FIAM we have shown that for many jurisdictions in Florida the existing base of development cannot be provided with current LOS for facilities and services at current tax rates. To show this, locally calibrated FIAM models were developed and then scenarios run assuming that no new growth of any type would occur. Under these circumstances it is rare in our experience to find a jurisdiction where existing development can fund the services needed to maintain LOS at current tax rates and with their current structure of costs and revenues. Recent examples of our studies in that regard include St. Johns County, Sarasota County, and Charlotte County.

There are a variety of reasons why this is the case including the following:

- The impact of save-our-homes which limits the increases in assessment on homesteaded property to 3% or the rate of inflation whichever is less.

- Over dependence on residential property taxes making local budgets vulnerable to slowdowns in construction and development.

- Rising costs for utilities, pensions, insurance and benefits which are not capped at 3% or the rate of inflation.

- Rising costs for maintenance of capital facilities.

- Historic tendency of most local governments to cut millage rates during construction boom periods compromising their ability to fund services and facilities when the inevitable construction boom wanes.

Second, since it is the case that existing development is often not paying for the full complement of services and facilities it uses, restricting new development will inevitably cause either taxes to increase or LOS to deteriorate. These impacts will be significant. These negative impacts will multiply overtime as costs rise faster than revenues flowing from existing development with the existing revenue structures of most local governments in Florida.

Third, the Amendment will cause a significant increase in the cost of amending Plans with consequential and negative impacts on development activity in general and on economic development in particular. It is already time consuming and expensive for a private property owner to petition to change a Plan. The requirement for a referendum will certainly extend the time needed to amend a Plan.

The proponents claim that there will be no additional cost involved since the referendum can be scheduled for the next general election. By this they must mean no additional cost to the local government to hold the referendum. However, the time needed to alter a Plan may be extended for up to 24 additional months.

Simply by extending the time needed to alter a Plan, the Amendment will significantly increase costs to the private sector. Interest costs alone will total in the hundreds of millions of dollars.

Alternatively, the proponents indicate that a special election could be scheduled, and perhaps it could be conducted by mail. Even so, there will be costs involved and time will elapse. These will be borne by the private sector as well.

In addition, subjecting land use decisions to referenda will cause dramatic increases in costs expended for the campaigns associated with the referenda. In light of costs reported for recent campaigns associated with referenda, it is probable that total costs will exceed $25,000,000 per year for campaigns associated with the referenda.

All of these additional costs, for the campaigns and for the additional interest charges, will have the effect of raising land costs and inhibiting development activity. While the precise volume of reduced activity is hard to gauge, the direction of the impact is clear. The reduction in development activity will not only impact local governments, it will also have a substantial effect on state government as well. There is an obvious and well understood connection between real estate booms and booms in state government revenues. The budget experience of our state over the last few years amply demonstrates this relationship. The construction boom has produced huge increases in sales taxes and in documentary tax revenues for the state. To the extent that the Amendment slows activity compared to its baseline, state revenues will be directly reduced.

By making Plans much more difficult to change, the Amendment will cause land prices to increase. Higher land costs will make Florida’s economy less competitive. Furthermore, higher land prices will exacerbate Florida’s existing difficulties with workforce and with affordable housing.

Finally, the Amendment will harm Florida's economic and business environment. Adding additional regulatory burdens detracts from an area's attractiveness for economic development and business expansion. In the case of the Amendment the situation is particularly acute in light of the cost and uncertainty created by the referendum process.

I know that these are difficult issues. I hope that these thoughts are constructive. Please feel free to contact me directly should you need additional information or have questions. I recognize that the time available to you to determine the economic and fiscal impacts of the Amendment is short, so I will make myself and the resources of our firm available to you should you so ask.

Sincerely,

Henry H. Fishkind

Digitally signed by Henry H. Fishkind
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Henry H. Fishkind, Ph.D.
President