Financial Impact of Blight on the Tri-COG Communities
Executive Summary

Steel Valley Council of Governments
Turtle Creek Valley Council of Governments
Twin Rivers Council of Governments
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TRI-COG COLLABORATIVE – BOARD OF DIRECTORS

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Delta Development Group, Inc. (Delta) was retained by the Steel Valley Council of Governments (SVCOG), the Turtle Creek Valley Council of Governments (TCVCOG), and the Twin Rivers Council of Governments (TRCOG) to analyze the financial impact of blight on their 41 member communities. Blighted and vacant properties undermine the value of real estate within a community, cost municipalities significant dollars to maintain, and erode the local tax base because of the tax delinquency often associated with blighted properties. As a result, the Tri-COG Collaborative hopes to use the study, in part, to develop consensus among various stakeholders regarding the magnitude of the impact of blight and to develop meaningful ways to address the issue of vacant and blighted properties.

Specifically, the following study addresses the direct costs and indirect costs of vacant and blighted parcels including: 1) the direct costs related to municipal services, 2) the direct loss of tax revenues, and 3) the indirect costs associated with blight including a resultant decrease in property values for those properties located in close proximity to a blighted property. It also quantifies the potential to repurpose blighted or vacant sites and generate new development and new tax revenues for the Tri-COG communities.

The study area is the geographical boundaries of the three COGs as it relates to their service areas and member communities. For purposes of this study, the term "Tri-COG Communities" shall mean the 41 member communities of the three COGs. Among the three COGs, there are a total of 20,077 vacant lots and 7,158 lots with blighted structures (defined as structures with a poor, very poor, or unsound condition rating). The vacant and blighted lots are scattered throughout the Tri-COG Communities and the majority are privately owned. The following is a summary of some of the key financial implications of these blighted and vacant properties.

KEY FINDINGS

Blight has a devastating effect on the Tri-COG Communities. Blighted and vacant properties damage the fabric of the community, cost significant dollars to maintain, and erode the local tax base because of the tax delinquency often associated with blighted properties. Even more compelling is the fact that blight prevents private reinvestment in the neighborhoods because it undermines the values of real estate making market driven redevelopment unlikely.

This study reveals that the costs of blight on an annual basis are staggering and that

viewed in the long term they present an overwhelming challenge for communities. The study found that:

- The direct cost to municipal services is **$10,720,302.**
- The direct cost related to the loss of tax revenue is **$8,637,875.**
- The indirect costs associated with a loss in property value are estimated at between **$218 million and $247 million.**
- The indirect costs associated with the loss of real estate taxes due to a decline in property value is estimated to be between **$8,574,723 and $9,718,019.**

In addition, the loss associated with the lack of economic development and reinvestment is **$11,812,644 in construction impacts (one-time) and another $8,284,294 annually for ongoing impacts.**

The following is a breakdown of the identified impacts of blight and vacant properties on the Tri-COG Communities.

Overall, the economic impacts of blight and vacant properties results in a total impact to the Tri-COG Communities of over $19.3 million in direct costs, with an estimated loss in property value of between $218 and $247 million. Repurposed sites would generate an additional $11.8 million in one-time construction fiscal impacts and $8.2 million in recurring fiscal impacts.

DIRECT COSTS – MUNICIPAL SERVICES

Code Enforcement: Code enforcement costs are derived from a review of the typical services that are provided including field inspections, complaints, elimination of rodents and vermin, high grass and weeds, junk cars, and unsafe structures. The calculation is partially based on a survey of the code enforcement personnel. Costs are **estimated at $595,350** annually for the Tri-COG communities.

Public Safety: In order to estimate the incremental increase in costs associated with fire and police services as a result of the presence of blighted properties, a complete list of 9-1-1 calls from 2012 was analyzed and those calls that are associated with a blighted property were isolated. Next, with input from the Tri-COG Collaborative, a blight buffer was determined, which includes all parcels within 150 feet of a parcel with a building that was defined as blighted. The combined incremental cost for annual calls is estimated at **$6,400,296 for police service and $2,378,525 for fire service.**

Public Works: The total number of lots and vacant structures maintained by public works departments for health and safety purposes is based on a survey of local municipalities and an understanding of local public works operations. The annual cost is estimated at about $727,195 for the Tri-COG communities.

Demolition of Blighted Structures: Demolition costs are tracked by each of the COGs and can vary based on the size of the structure, site conditions, and site accessibility. Total demolition costs over the past five years (2008 to 2012) were $2,908,782 and annual demolition costs for the Tri-COG communities' averages $618,936. Once a property is demolished, there are costs associated with the maintenance of the vacant lot and the repurposing of it for future productive use.

DIRECT COSTS – LOSS OF TAX REVENUE

Real Estate Taxes: A major source of lost revenue associated with blighted parcels is tax delinquency. In 2011, there were 3,191 parcels in 38 of the Tri-COG communities that were both blighted and tax delinquent. Delinquent taxes at the municipal, school district, and county level associated with blighted properties resulted in an annual **loss of $2,758,137.** Delinquent taxes from vacant lots resulted in an additional **$2,256,222 in uncollected taxes**.

While some of these revenues may ultimately be recovered, this represents a significant amount of lost revenues for the Tri-COG communities. It should be noted that this includes only those parcels that were tax delinquent in 2011. In many cases, properties are tax delinquent for several years, accruing interest and penalty charges as they remain chronically delinquent.

Earned Income Taxes: When structures are demolished and residents leave the area, significant earned income taxes (EIT) are lost. The loss of EIT revenue was estimated in two ways: 1) a calculation based on the demolitions of structures in recent years and 2) a calculation related to structures that are vacant and/or abandoned.

First, Delta reviewed the Tri-COG records regarding the number of demolitions for the Tri-COG communities for the past five years from 2008 through 2012. The methodology then applied the local income tax rate to the median household income for each municipality. Using this analysis, the total amount of lost EIT attributable to structures that have been demolished in the past 5 years is **$820,323 annually.**

Second, the 2011 census data was used to determine the number of vacant housing units in each municipality. Although the total vacant housing units was 15,308, this number was adjusted to account for vacancies that occur due to natural transition and units that are for rent, for sale, or seasonal. The adjusted number of vacant housing units in the Tri-COG communities was 6,786 vacant units. By applying the same median household Income to the vacant housing units and then applying the local tax rates, it is estimated that the loss to municipalities and school districts for vacant units in the Tri-COG communities **is estimated to be $2,552,475 annually**.

Costs Associated with Collecting Delinquent Taxes: In addition to the loss of tax revenue, there is a cost associated with the collection of delinquent taxes. Using a 5.5% cost for the collection of delinquent taxes, the total cost for collection of 2011 delinquent taxes is estimated to be $140,674 if 100% of the taxes are collected in one year. However, because 100% collection is unrealistic, it was assumed that only about 50%

of delinquent taxes are collected in any given year and that at least three (3) years of taxes are addressed by the tax collector in each calendar year. Based on these assumptions, it is estimated that **$250,718 is spent** for tax delinquent collections in any given year.

INDIRECT COSTS – IMPACT ON PROPERTY VALUES

The indirect cost of blighted properties on neighboring parcels has been well documented. There appears to be a link between proximity to a blighted property and a resultant decrease in property value. A 2010 Philadelphia Study found that property located up to 200 feet from a vacant parcel decreased in value by between 8.6% and 16.5%. A 2008 Federal Reserve Bank of Cleveland study found that a foreclosed home within a neighborhood can decrease home prices by 0.9% to 8.7%. Similarly, a 2011 Federal Reserve Bank of Cleveland study that looked at properties in Cuyahoga County, Ohio, found that a foreclosed, vacant, and tax-delinquent property reduces neighboring property values by as much as 10%.

In order to measure the potential impact of blighted properties on neighboring properties within the Tri-COG communities, Delta first defined the area of impact as those properties that are located within 150 feet of a blighted property. The analysis resulted in 28,478 total properties with a combined fair market value of $1.5 billion. It is estimated that the negative impact on adjoining property values is between 15% and 17%, with an estimated decrease in property value of between **$218** million and $247 million. The result is an estimated loss of real estate tax revenue of between **$8.4 million and $9.7 million** annually.

REPURPOSING AND NEW RESIDENTIAL DEVELOPMENT

It is also important to consider the potential benefits that will accrue to the region as new development occurs on what is now vacant land, thereby encouraging new rounds of residential development and inducing new rounds of spending in the area. For purposes of this study, it was assumed that new home construction is most likely to occur in those areas where existing home values exceed the cost of new home construction.

There are four municipalities in the Tri-COG communities that meet the threshold test of average home value exceeding average new construction costs: Churchill, Edgewood, Monroeville, and Plum (detailed home values by municipality are reflected in Appendix C). For each of these four municipalities, it was assumed that new residential construction

would occur on lots where demolition had occurred or on residential vacant lots appropriately sized for new construction (assumed to be between 4,000 and 20,000 square feet). There are 704 lots in the four municipalities that fit these criteria; it is conservatively estimated that these units would be constructed over a ten-year time frame, or about 70 units annually.

New residential development within the four municipalities highlighted will generate economic (jobs) and fiscal (tax revenues) impacts both during construction and also after the new units are occupied.

CONSTRUCTION IMPACTS

The economic impacts attributable to the construction of new housing units is significant due to the total development costs of about $118 million (an average residential cost of approximately $112 per square foot is assumed; this cost includes a base cost of $95 per square foot with an additional 15% for land costs and contingencies). The development of these housing units results in estimated labor costs of approximately $47.2 million, or a total of about 1,118 full-time-equivalent jobs. State-earned income tax revenues attributable to construction employment total approximately $1.3 million. The assumed local resident income tax of 1.0% adds an additional $424,885 in local income tax revenues.

A significant portion of tax revenues from construction are attributable to the purchase of construction materials, which is estimated to generate a total of $3.9 million in total sales tax revenues.

RECURRING IMPACTS

The recipients of the real estate tax levies from development, and the amounts that would accrue to each entity, have also been calculated. Total annual real estate tax revenues of approximately $3.5 million are estimated for the four municipalities as a result of new construction on residential vacant lots. These are recurring impacts and reflect build-out of all 704 lots.

In Allegheny County, real estate sales are subject to both a state and local realty transfer tax, which is based on a percentage of the total sales price. Annual realty transfer tax revenues attributable to new housing development is estimated at about $2.7 million. Again, this reflects build-out of all housing units.

The new residential units built in the four municipalities would

also attract new residents and local income tax revenues. Annual net new resident income tax revenues are estimated at about $166,692 once all of the new housing units are constructed.

COMMERCIAL SPACE REINVESTMENT

In order to estimate reinvestment with respect to commercial properties, Delta reviewed employment growth projections for the next 10 years, as prepared by the Southwestern Pennsylvania Commission (SPC). New demand for office space was projected based on the total number of new service jobs projected for those communities with a critical mass of new employees (assumed as more than 250 new employees over the next 10 years). A total of about 845,253 square feet of new commercial space is projected over the next 10 years based on these projections.

A total of 1,201 one-time construction jobs are forecast as a result of construction of new commercial space. In turn, this is forecast to generate $1.4 million in state income tax revenues and $456,437 in local resident income tax revenues. A total of $4.3 million in sales tax revenues from the purchase of construction materials is forecast. It is estimated that once the commercial space is built out, the new office space will generate about $4.7 million in new real estate tax revenues.

Table 1 summarizes the direct, indirect, and reinvestment impacts associated with the vacant and blighted properties in the Tri-COG communities.

TABLE 1 – TOTAL IMPACTS ASSOCIATED WITH VACANT PARCELS AND BLIGHTED STRUCTURES

DIRECT COSTS		
Impact on Municipal Services:		
	Code Enforcement	$595,350
	Police	$6,400,296
	Fire	$2,378,525
	Public Works	$727,195
	Demolition	$618,936
	Total Municipal Services	**$10,720,302**
Loss Of Tax Revenue:		
	RE Taxes - Due to Blight	$2,758,137
	RE Taxes - Due to Vacant Lots	$2,256,222
	EIT- Due to Vacant Structures	$2,552,475
	EIT - Due to Vacant Lots	$820,323
	Tax Collection	$250,718
	Total Loss of Tax Revenues	**$8,637,875**
	TOTAL ANNUAL DIRECT COSTS	**$19,358,177**
INDIRECT COSTS		
Impact on Property Values:		
	Loss of Property Value at 15%	$218,556,773
	Loss of Real Estate Tax Due to Loss of Property Value	$8,574,719
	TOTAL ANNUAL INDIRECT COSTS	**$227,131,492**
Loss of Economic Benefit		
	Annual	
	Real Estate Tax	$8,117,602
	New Resident EIT	$166,692
	TOTAL LOSS OF ECONOMIC BENEFIT	**$8,284,294**
TOTAL DIRECT AND INDIRECT IMPACTS		**$254,773,963**