To: Bernalillo County Planning Commission

From: Kelly O'Donnell, PhD

Re: Santolina economic and fiscal impact analyses

Date: November 15, 2014

Dear Members of the Planning Commission,

I have reviewed the economic and fiscal impact analyses submitted with the Santolina Level A Master Plan, and find that although both analyses are methodologically sound, they each contain unrealistic assumptions about the population and economies of the middle Rio Grande Valley and consequently overestimate the project's net benefits. When these assumptions are replaced by more accurate ones, estimated net benefits decrease by 56 percent, the jobs to housing ratio falls from 2:1 to .6:1, and the likelihood that the project will meet the "no net expense" is greatly reduced. It is important to note, however, that the Level A Master Plan doesn't provide enough information about key aspects of the development to determine with any certainty whether or not it will impose net expense on the County. Similarly, the Plan contains far too little specificity of commercial development at Santolina to make a truly informed assessment of potential economic benefits or costs. This lack of detail is troubling because it suggests that, despite asserting throughout the Master Plan that job creation and economic development are among the development's highest priorities, the developer has devoted very little thought to this critical aspect of the project and, as a result, may not comprehend how challenging it will be to fulfill the job creation promises made in the Master Plan.

Key Findings

Adjusting the economic impact estimate to reflect more recent data and more accurate assumptions reduces economic impact by 69 percent

- *New Jobs are reduced from 115,906 in the developer's estimate to 35,699*
- *Employee Wages are reduced from $4.9 billion in the developer's estimate to $1.5 billion*
- *Output is reduced from $10.9 billion in the developer's estimate to $3.4 billion*

Adjusting the fiscal impact estimates to reflect more recent data and accurate assumptions reduces net benefits by 40 percent, from $22.3 million to $13.4 million:

- *Recurring County General Fund (CGF) Revenue declines by 56 percent, from $51.1 million in the developer's estimate to $22.7 million*
- *Non-Recurring CGF Revenue[1] declines by 25 percent, from $ 47.7 million in the developer's estimate to $35.7 million*

[1] This analysis, like the fiscal impact analysis submitted by the developer, focuses on recurring rather than one-time (non-recurring) impacts on the County's general fund. By far the largest source of non-recurring revenue is the gross receipts tax on construction services, which, even under the pared down commercial development scenario modeled in this report, remain substantial.

- *Costs to the CGF decline by 68 percent, from $28.8 million in the developer's estimate to $9.4 million. It is important to note that costs to the CGF include only basic county services. No costs for County infrastructure or infrastructure maintenance in Santolina or the areas immediately adjacent are included in this analysis.*
- *The Jobs-to-Housing Ratio is reduced from 2:1 in the developer's estimate to .6:1*

Both the economic and fiscal impact analyses provided by the developer use widely accepted, robust methodologies to arrive at their conclusions, and, given the limited and somewhat inaccurate data they had to work with, the consultants have arrived at reasonable conclusions; but the results of any economic model are only as good as the assumptions upon which they are based, and many of the assumptions provided to the consultants by the developer do not accurately reflect the County's current or probable future economic realities.

Most significantly, the Level A Master Plan anticipates high rates of population growth and job creation in western Bernalillo County over the next 20 to 50 years. In reality, however, New Mexico is experiencing net out-migration of working age adults, due, in large part, to an economy that cannot sustain enough good jobs to keep them here. In addition, New Mexico's population is aging faster than those of many other states and its working age population is rapidly shrinking. The UNM Bureau of Business and Economic Research (BBER) predicts that by 2030, roughly half of the state's population will be over 65 and under 18.

Based, in large part, on the erroneous expectation of strong population growth[2] the Level A Master Plan predicts that businesses at Santolina will create 75,000 new jobs over the next 40 to 50 years and 25,000 new jobs by 2035. In contrast, employment growth forecasts by population experts at BBER and the Mid Region Council of Governments (MRCOG), project the creation of only 7,700 new jobs in the area encompassing Santolina by 2035.[3]

The Albuquerque MSA's recovery from the recession severely lags that of the nation, and the area's economic weaknesses are systemic, not temporary, suggesting further population declines and continued anemic job growth. Job growth, strong for the past four decades, is now among the nation's lowest and Albuquerque's employment-to-population ratio has fallen from 61 percent in 2008 to 54 percent in 2013.[4] New Mexico commercial real estate sales are recovering from the recession at a rate of 6 percent per year, less than one half the national rate.

A major driver of job losses and out-migration is the region's heavy reliance on government employment. With federal employment down significantly and further spending cuts likely, job

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[2] P 22 Revised Santolina Level A Master Plan, December 2014

[3] Mid Region Council of Governments 2035 Regional Forecast. http://www.mrcog-nm.gov/region-a-people/regional-forecast. Accessed November 16, 2014.

[4] University of New Mexico Bureau of Business and Economic Research. New Mexico Economy: Recent Developments and Outlook Annual NM Economic Outlook Conference January 16, 2014

losses will continue well into the future. In fact, Bernalillo County's population growth rate is expected to keep sliding and reach about 0.8 percent from 2035 to 2040.[5]

Based on the projection of 75,000 new jobs at full build out and 25,000 new jobs by 2035, Santolina's Level A Master Plan forecasts a 2:1 jobs- to-housing ratio (double the County's current ratio), but, if the MRCOG/BBER jobs forecast is accurate and residential development at Santolina proceeds as planned, the development's jobs-to-housing ratio will be closer to .6:1, a ratio considerably lower than that of the County overall and one very likely to worsen rather than relieve traffic congestion on the already over-burdened east-west corridor.

Santolina Jobs to Housing Ratios: Original and Adjusted

	Original		Adjusted	
		Jobs:Housing Ratio		Jobs:Housing Ratio
Jobs	75,006	**2**	23,102	**0.6**
Housing	37,930		37,930	

Further distorting the developer's estimates of economic and fiscal impact is the implicit assumption that all Santolina residents are migrants from outside Bernalillo County and all businesses that locate at Santolina are newly formed or have been recruited from outside the area. These assumptions are inconsistent with actual economic conditions, population projections and the development's lack of an economic development plan. When the assumptions of massive in-migration of employers and residents are replaced by more accurate ones, estimates of regional output, earnings, employment, and jobs-housing balance are reduced by an average of two thirds.

The developer's economic impact analysis uses "input-output" modeling to estimate the jobs, income and economic output that would result from Santolina at full build out. Input-output models simulate the linkages between industrial sectors, households and institutions within an economy and are used to measure how an external event (an economic "shock") generates changes throughout an economy's many interdependent sectors. When a shock is positive, as, for example, when an out-of-state corporation opens a manufacturing facility or the federal government expands a military base, any additional business activity gained as a result of the shock must be measured net of displacement of previously-existing activities. Positive net economic impacts (net increases in jobs, income, and economic productivity) occur if the value of the new economic activity exceeds the value of the displaced activity. In the case of Santolina, positive economic impact will be proportional to the number of jobs that would not have existed in Bernalillo County were it not for Santolina. The jobs at Santolina that reflect a true increase in the overall number of jobs in the County are referred to as "net new", those that are relocated to Santolina from elsewhere in Bernalillo County are "displaced". Only "net new" activity confers significant economic benefit. Displaced jobs do not generate positive economic impacts.

[5] New Mexico Economic Development Department, UNM County Population Projections 2010-2014.

Residential development typically occurs in areas of strong employment growth. In rapidly expanding economies with excess demand for housing and commercial real estate, it is reasonable to assume that a large percentage of economic activity at a new development is "net new". However, if the economy is not producing jobs and development decisions are instead driven by good land opportunities, most economic activity at the site will be the result of displacement and thus will not confer economic benefits to the regional economy. Albuquerque's commercial vacancy rates – 20 percent for office space, 12 percent for retail and 10 percent for industrial space – indicate excess supply, not surplus demand.

Analysis of 2013 Census data[6] for western Bernalillo County shows that 67 percent of residents who moved within the past 12 months relocated from somewhere else in Bernalillo County, suggesting that, all else being equal, about 33 percent of the residents and economic activity at Santolina are expected to be "net new" to Bernalillo County. Further analysis of Census data shows that the vast majority of the remaining in-migrants to Bernalillo County come from Sandoval and other surrounding counties, thus the percentage of Santolina residents that are net new to the middle Rio Grande valley will be closer to 20 percent.

Santolina Economic Impacts: Original and Adjusted

Recurring Impacts	**Direct**		**Indirect**		**Total**	
	Original	Adjusted	Original	Adjusted	Original	Adjusted
Employees	75,006	23,102	40,900	12,597	115,906	35,699
Employee Wages ($ millions)	$3,177	$978	$1,754	$540	$4,931	$1,519
Overall Output ($ millions)	$6,408	$1,974	$4,523	$1,393	$10,931	$3,367

Improbable "net new" assumptions also inflate the fiscal impact estimate. Fiscal impact is the difference between the tax revenue generated by a project and the increased cost to government of public services provided as a result of the project. Tax revenue that would have been generated by economic activity elsewhere in the economy were it not generated at Santolina is considered displaced.

Three categories of County general fund tax revenue will be generated at Santolina: (1) property tax, (2) gross receipts tax and (3) other miscellaneous tax, fee and investment revenues. The developer's fiscal impact estimate assumes that over 95 percent of tax revenue is net new and that 75 percent of taxable transactions by Santolina residents and employees occur within Santolina and thus the unincorporated area of Bernalillo County.

Property tax projections depend on the increase or decrease in property values arising from the development. Developing the site, or even just acquiring the water rights necessary to develop the site, will almost certainly increase its value and, if and when vertical construction commences, be

[6] American Community Survey, 2011-13 data.

reflected in higher property tax revenue.[7] However, to the extent that Santolina draws residents from the more urbanized areas of Bernalillo County, fuels housing surpluses and increases commercial vacancy rates, it will depress property values county-wide, offsetting revenue gains from development at Santolina. The extent of this impact is extremely difficult to predict, and an estimate is not attempted here, but every 1 percent decrease in net taxable property values costs Bernalillo County over $1.3 million dollars a year in lost property tax revenue.[8]

In the developer's fiscal impact estimate, expected commercial property tax revenue from the development is driven by the expectation of 25,000 new jobs by 2035 and 75,000 new jobs overall. Using jobs as a proxy for economic activity and adjusting anticipated economic activity downward by the ratio of the 7,700 jobs projected by BBER and MRCOG to the 25,000 jobs in the developer's estimate (7,700/25,000), reduces projected non-residential CGF property tax revenue from $13.6 to $4.2 million. Assuming, as the Master Plan does, that the County will provide economic development incentives to attract companies to the site,[9] and assuming that these incentives are provided in the form of Industrial Revenue Bonds received by 50 percent of new employers, reduces CGF commercial property tax revenue by an additional 50 percent, to $2.1 million.[10] The adjusted estimate assumes that residential development, and thus CGF residential property tax revenue, remains unchanged, yielding an adjusted total property tax revenue estimate of $16.1 million.

Gross receipts tax projections are broken into one-time revenues and recurring revenues. One-time revenues result from construction activity. Recurring gross receipts tax revenue depends on the extent to which development at Santolina generates truly new taxable sales (ones that would not have occurred without the development) or is simply the result of relocating taxable sales from one area of the County to another. This too depends on whether the occupants of Santolina come from inside or outside Bernalillo County. The developer's fiscal impact estimate assumes that 90 percent of Santolina's recurring gross receipts taxes are "net new". Assuming that 33 percent of Santolina residents and businesses come from outside Bernalillo County reduces "net new" gross receipts taxable commerce and thus recurring gross receipts tax revenue from 90 percent to 33 percent.

Gross receipts tax revenue is also determined by the extent to which gross receipts taxable purchases by residents and workers occur within Santolina. Currently, the fiscal impact analysis assumes that 75 percent of such expenditures occur within Santolina. Given the project's staggered phasing and the current concentration of commerce in the incorporated areas, the gross receipts capture rate is likely to be closer to 50 percent.

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[7] Santolina's property will remain classified Agricultural (A-1) and taxed at approximately $3 per acre. Property tax status will change to residential (R-1) or commercial (C-1) when construction of structures begins.

[8] Bernalillo County 2014 Tax Rate Certificate

[9] See P 41, Revised Santolina Master Plan December 2014 "It is anticipated that Bernalillo County will work collaboratively with WALH, Albuquerque Economic Development and other economic development agencies to provide and/or establish incentives to help attract employers to the west I-40 corridor".

[10] Because IRB project property is owned by a governmental entity during the bond term, the project property is exempt from property taxation during the term of the bonds

Adjusting the recurring general fund gross receipts tax estimate to reflect more accurate assumptions about in-migration and gross receipts tax capture, reduces the estimate of recurring gross receipts tax revenue by a total of 71 percent, from $19.8 million to $5.8 million.

County General Fund Fiscal Impact Estimates: Original and Adjusted

	Original	Adjusted	Percent Difference
Property Tax	$27,646,192	$16,119,024	-42%
Gross Receipts Tax	$19,843,784	$5,828,119	-71%
Other fees and taxes	$3,622,084	$788,890	-78%
Total CGF Revenue	$51,112,060	$22,736,034	-56%
County Service Costs	$28,849,158	-$9,354,348	-68%
Net County Benefits	$22,262,902	$13,381,686	-40%

The developer's cost estimate ($28.8 million) includes County services for a population of 130,432. Estimates of County costs do not include any new infrastructure, infrastructure maintenance, or costs related to the acquisition of open space, even though the Master Plan seems to anticipate that the County will purchase, develop and maintain open space at the site. It is also important to note that water and transportation related to development are not considered.

It is important to note that not all infrastructure costs resulting from Santolina will be incurred within the boundaries of the development. Providing water to areas of the west side outside the existing water area will entail higher expenditures for storage, pumping, and transmission in four of the City's trunk line areas. The Albuquerque Planned Growth Strategy notes that providing service outside of the existing water area to higher elevations west of the escarpment will require over $100 million in new water infrastructure. Large-scale west side development will also increase maintenance costs for existing transportation infrastructure and necessitate costly expansions and improvements in roadways and public transportation.

A development the size of Santolina will also require the construction of several new schools. Most of the students at the new Santolina schools would otherwise have attended other APS schools, some of which already have excess capacity. Further migration to the urban fringe will require massive investment in new schools while at the same time exacerbating the under-utilization of existing schools resulting in a highly inefficient redistribution of scarce educational resources.

In the adjusted estimate, County costs for public services are $9.4 million, a reduction of 68 percent from the original estimate because two thirds of Santolina residents and workers are assumed to have relocated from elsewhere in the County and therefore the cost of serving them is already embedded in the County's budget.

The economies of the cities and counties of the middle Rio Grande valley are overlapping and highly interdependent. Consequently, a fiscal impact analysis focused solely on Bernalillo County provides an incomplete picture of the development's full fiscal impact. As noted previously, two thirds of Santolina's businesses and homeowners are expected to have come from elsewhere in Bernalillo County, primarily Albuquerque. Another 20 percent of residents are likely to have relocated from neighboring communities outside Bernalillo County, many from Rio Rancho. The relocation of a business from the incorporated part of Bernalillo County to the unincorporated part of the County will have a small positive impact on the County's revenue[11] and a relatively large negative impact on the City's because most County imposed taxes are levied in both the incorporated and unincorporated areas, while City imposed taxes are collected only within City limits. Unlike counties, New Mexico cities receive the majority of revenue from gross receipts taxes and thus the loss of gross receipts taxable transactions are more costly to cities than they are to counties.

Cities also bear the cost of businesses divestiture from the urban core. Reduced density in urban areas diminishes the return on investments in city infrastructure and lessens the efficiency with which city services can be delivered. A full analysis of the fiscal impact of Santolina on neighboring municipalities is outside the scope of this analysis, but including this very important component of the bigger picture would significantly reduce net benefits.

Quantifying the opportunity cost of development at Santolina is a very complex endeavor and beyond the scope of this analysis, but the value of the economic opportunities foregone in approving development at Santolina is very likely the project's highest single cost. By contributing to the supply of housing and commercial property at a time when population is declining and good jobs are increasingly scarce, development at Santolina could preclude other, potentially less costly and more beneficial developments, including mixed use and infill projects that have high jobs-to-housing ratios simply because they are located close to the County's existing employment centers.

Development at Santolina will further stifle economic development throughout the middle Rio Grande region by heightening concerns about the adequacy of the area's current and future supply of water. Uncertainty about the long term cost and availability of water is already the single most serious challenge to economic growth in both the County and the region. Development on the scale envisioned at Santolina will be a tremendous drain on an already tenuous water supply and the increased pressure on this critical and scarce commodity will not go unnoticed by companies seeking to locate a new facility or expand production. Increasingly, corporate site selection decisions are being impacted by certainty about an area's current and future supply of water. Economic development organizations in other states are using a relative abundance of water to market their communities. In a recent survey, 80 percent of U.S. companies reported that water availability has become an issue for their business and 63 percent said water issues would affect their future location decisions.[12]

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[11] The gross receipts tax imposed by the county within city limits is 1/8th of a cent lower than the GRT it imposes in the unincorporated area

[12] Bridging Concern with Action: Are US Companies Prepared for the Coming Water Shortage? Pacific Institute and Vox Global, 2014. http://pacinst.org/wp-content/uploads/sites/21/2014/04/bridging-concern-with-action.pdf. Accessed on November 16, 2014.

Water scarcity exacerbated by lscale west side development will also negatively impact community oriented economic development, including the local agriculture and food production industries that today hold tremendous promise as culturally relevant and sustainable drivers of prosperity, improved health and quality of life in economically disadvantaged, semi-rural communities such as those of the South Valley.

In conclusion, both the economic and fiscal impact analyses provided by Santolina's developer indicate a high ratio of benefit to costs for Bernalillo County if the project is allowed to proceed; but the validity of these forecasts depends almost entirely on the accuracy of the developer's projections concerning commercial development at the site and assumptions about the share of Santolina's commercial activity (including residential housing sales) that will be displaced from other areas of the County. Without any basis in market data, these projections are, at best, unsupported conjecture. The methods used to calculate economic and fiscal impact are sound and well accepted; but economic models are only as good as the data they contain, and there is ample evidence that the Santolina economic and fiscal impact analyses are based upon a number of weak assumptions about population growth in the middle Rio Grande valley and the very nature of the region's economic development and job creation. When these assumptions are replaced by more realistic ones, estimates of Santolina's net benefit and the likelihood of its meeting the "no net expense" criteria are dramatically reduced.

Sincerely,

Kelly O'Donnell PhD
Economist and former Deputy Cabinet Secretary of the New Mexico Economic Development Department, past Chair of the New Mexico Spaceport Authority and former Superintendent of New Mexico Regulation and Licensing Department.

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