

The Fiscal Implications of Expanding the Fort Pierce Community Redevelopment Area

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Overview

The City of Fort Pierce, Florida, is currently considering an expansion of the city's Community Redevelopment Area (CRA). As shown in Figure 1, the proposed expansion includes areas of the city to the north and south of the existing CRA. In the following, we report the findings of the first of two tasks examining the potential fiscal and developmental impacts that would attend the proposed CRA expansion. Here we estimate the revenue that would be dedicated to CRA uses within the context of city budget conditions. The second task will assess the potential uses of tax increment revenue that would accrue to the Community Redevelopment Agency if the city adopts the proposed CRA expansion.

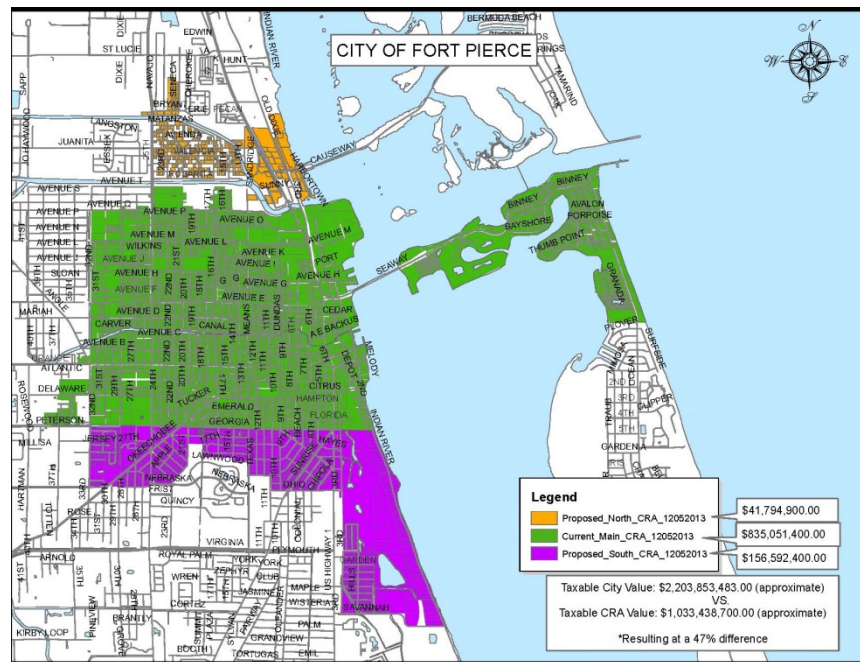


Figure 1: Fort Pierce CRA Areas

Source: City of Fort Pierce

Real Estate Market Conditions

Fort Pierce city leaders are very much aware of the severe impacts on local property valuation wrought by the housing market crash and economic recession of 2007-2008. Figure 2 shows the rise and fall of the Zillow Home Value Index© for Fort Pierce from 2004 through the end of 2013. Based on this data, the home value index rose over 70% in about 18-months beginning in January 2004, and then began a steep decline bottoming out in fall of 2012. The good news is the data suggest that the housing market is finally beginning to recover. To be clear, the Zillow index is dramatically impacted by the particular houses that are on the market at any given time, and therefore do not represent actual values for all properties. However, the pattern of valuation is illustrative.

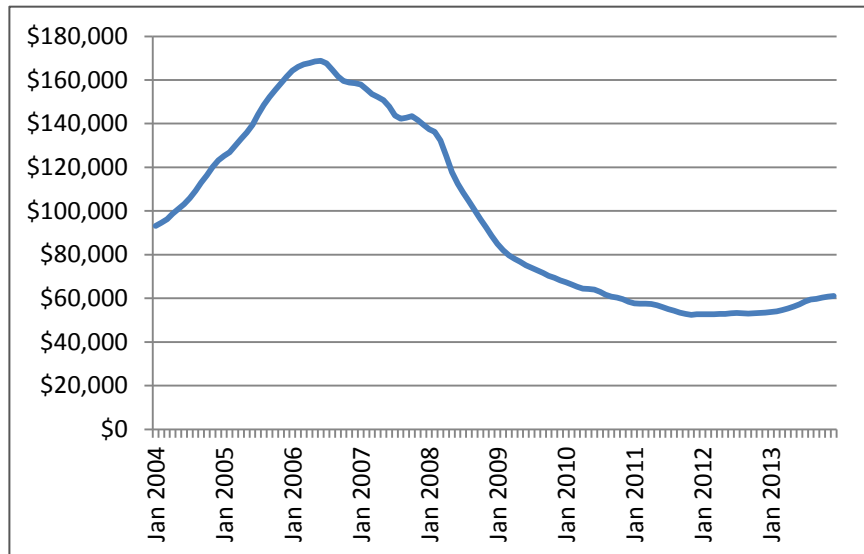


Figure 2 : Zillow Home Value Index, City of Fort Pierce

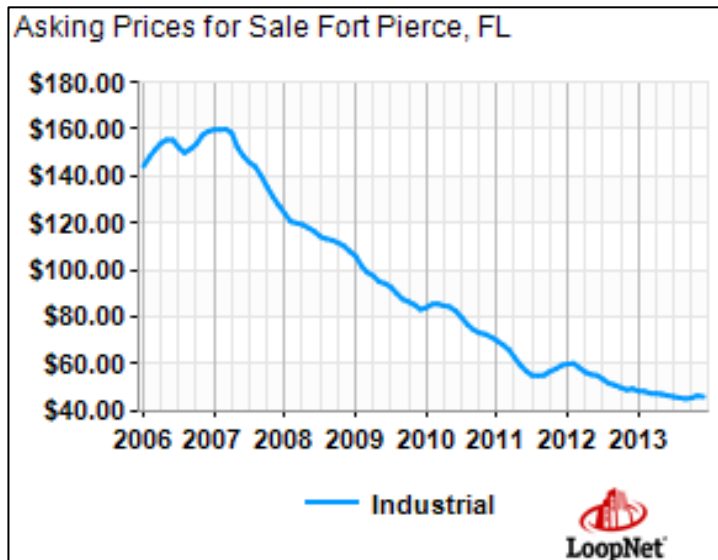


Figure 3: Industrial Real Estate Prices Per Square Foot

This dramatic reduction in residential property values also appears in estimated values for industrial properties according to internet real estate market site LoopNet (see Figure 3). The net result of these real estate market perturbations has been the loss of millions of dollars in property tax revenue to the City of Fort Pierce. As shown in Table 1, property tax valuations and revenues grew handsomely pre-recession, but current revenues remain about \$6 million below the Fiscal Year 2007-2008 peak.

Table 1: Taxable Property Values and Tax Levies, City of Fort Pierce

Fiscal Year	Taxable Value	Millage Rate	Taxes Levied
2004-05	\$ 1,522,849,627	7.8305	\$ 11,924,674
2005-06	\$ 1,827,074,820	6.9823	\$ 12,757,185
2006-07	\$ 2,733,746,997	5.9823	\$ 16,354,095
2007-08	\$ 3,062,235,349	5.4674	\$ 16,742,466
2008-09	\$ 2,810,584,343	5.4674	\$ 15,366,589
2009-10	\$ 2,292,750,602	5.4674	\$ 12,535,385
2010-11	\$ 2,091,842,939	5.4674	\$ 11,436,942
2011-12	\$ 1,950,013,641	5.4674	\$ 10,661,505
2012-13	\$ 1,879,203,274	5.7131	\$ 10,736,076
2013-14	\$ 1,865,378,645	6.6050	\$ 12,320,826

Source: City of Fort Pierce

Based on data provided by the St. Lucie County Property Appraiser's Office, the same pattern of value decline occurred for properties included in the proposed expansion of the CRA. Table 2 provides these data. In both the north and south expansion areas, taxable property values are dramatically lower than the peak year of 2007.

Table 2: Taxable Values, Proposed CRA Expansion Areas

Tax Year	New Area North		New Area South	
	Property Count	Taxable Value	Property Count	Taxable Value
2006	338	\$ 66,075,570	1,575	\$ 148,754,778
2007	339	\$ 70,293,688	1,575	\$ 156,738,144
2008	339	\$ 62,996,614	1,576	\$ 138,131,528
2009	339	\$ 46,961,299	1,576	\$ 113,064,988
2010	339	\$ 41,180,160	1,576	\$ 97,242,388
2011	339	\$ 37,346,430	1,576	\$ 92,947,862
2012	339	\$ 34,122,813	1,576	\$ 88,811,719
2013	339	\$ 32,553,266	1,577	\$ 89,148,802

Source: St Lucie County Property Appraiser's Office

Data Analysis

The St. Lucie County Property Appraiser's District graciously provided detailed data to the research team for each property located in one of the proposed CRA expansion areas. This included total values, exemptions, and taxable property values. However, in performing our review we discovered that the data provided reflected county exemptions and county taxable values. We therefore engaged in property by property examinations of city taxable values based on the following approach. Of the 339 properties in the north expansion area, we examined 124 that showed substantial taxable property value exemptions, such as homestead, over-65, disability, and veteran disability. We estimate that city taxable values in the north area are 5% higher than corresponding county taxable values. Examining the many hundreds of properties that qualify for one or more valuation exemptions in the south expansion area is beyond the scope of this analysis. Therefore, we randomly selected 200 properties and compared city and county taxable values finding that city taxable valuations average 11.9% higher than county

taxable valuations on those properties with significant levels of exemptions. We applied this percentage increase to the valuations of all relevant properties. Table 3 summarizes our review of these property valuation data, as well as reporting the valuation shown for the existing CRA. Combined, the proposed north and south CRA expansion areas would include almost \$153 million in current taxable property values. While individually the proposed CRA expansion areas only represent 1.9% and 5.9% of gross taxable property value in the City of Fort Pierce, when added to the property included in the current Main CRA, the city would be dedicating almost one-third (31.2%) of all property tax revenues to the CRAs (see Table 4).

Table 3: Property Values by Area

Area	Total Value	County Taxable Value	City Taxable Value*
Proposed North CRA	\$ 41,794,900	\$ 34,443,066	\$ 36,165,219
Proposed South CRA	\$ 156,592,400	\$ 102,811,265	\$ 109,905,242
Total of Proposed Areas	\$ 198,387,300	\$ 137,254,331	\$ 146,070,462
Current Main CRA	\$ 835,051,400	\$ 435,702,810	\$ 435,702,810
Total	\$ 1,033,438,700	\$ 572,957,141	\$ 581,773,272

* We did not adjust the reported valuation for the Main CRA. Sources: St. Lucie County Appraiser's District, authors' estimates

Table 4: Community Reinvestment Area Values

	Taxable Valuation	%
Gross Taxable (city)	\$ 1,865,378,645	
Current Main CRA	\$ 435,702,810	23.4%
Proposed North CRA	\$ 36,165,219	1.9%
Proposed South CRA	\$ 109,905,242	5.9%
Total CRA	\$ 588,676,768	31.2%

Projecting the potential revenue that would be generated in the proposed CRA expansion areas for future years is highly challenging. Applying most any statistical forecasting method to the data over the past several years would foresee continuing declines in property values. As noted earlier, there are early indications that the Fort Pierce property market may be starting a rebound. It is possible that there could be a strong rebound in local housing values. However, a cursory examination of the city's housing stock would suggest the potential for rising values, but not necessarily a sharp increase. To provide city leaders with data to inform their decision making, we recommend an assumption of a modest 3% average annual increase in total taxable property values for assessing the fiscal impacts of the proposed CRA expansion areas. Table 5 and Table 6, representing the City of Fort Pierce and St. Lucie County, respectively, show our projections of revenue that would be generated for the proposed CRA expansion areas using the following assumptions:

- 3% annual property value increase (does not include new development),
- 95% of marginal value increase assigned to the CRA,
- millage rate of 6.6050 for the City of Fort Pierce,
- millage rate of 2.9221 for St. Lucie County (full county participation).

Total new CRA revenue over the 2015-2025 study period would be \$1.6 million (NPV \$1.3 million) from the city and \$835,000 (NPV \$680,000) from the county.

Table 5: CRA Revenue Estimates, City of Fort Pierce Only

Fiscal Year	Proposed North Area				Proposed South Area				Total CRA Revenue
	Taxable Value	Value Margin	Margin To CRA	CRA Revenue	Taxable Value	Value Margin	Margin To CRA	CRA Revenue	
2014	\$ 36,165,219				\$ 109,905,242				
2015	\$ 37,250,176	\$ 1,084,957	\$ 1,030,709	\$ 6,808	\$ 113,202,400	\$ 3,297,157	\$ 3,132,299	\$ 20,689	\$ 27,497
2016	\$ 38,367,681	\$ 2,202,462	\$ 2,092,339	\$ 13,820	\$ 116,598,472	\$ 6,693,229	\$ 6,358,568	\$ 41,998	\$ 55,818
2017	\$ 39,518,712	\$ 3,353,492	\$ 3,185,818	\$ 21,042	\$ 120,096,426	\$ 10,191,183	\$ 9,681,624	\$ 63,947	\$ 84,989
2018	\$ 40,704,273	\$ 4,539,054	\$ 4,312,101	\$ 28,481	\$ 123,699,318	\$ 13,794,076	\$ 13,104,372	\$ 86,554	\$ 115,036
2019	\$ 41,925,401	\$ 5,760,182	\$ 5,472,173	\$ 36,144	\$ 127,410,298	\$ 17,505,056	\$ 16,629,803	\$ 109,840	\$ 145,984
2020	\$ 43,183,163	\$ 7,017,944	\$ 6,667,047	\$ 44,036	\$ 131,232,607	\$ 21,327,365	\$ 20,260,996	\$ 133,824	\$ 177,860
2021	\$ 44,478,658	\$ 8,313,439	\$ 7,897,767	\$ 52,165	\$ 135,169,585	\$ 25,264,343	\$ 24,001,126	\$ 158,527	\$ 210,692
2022	\$ 45,813,018	\$ 9,647,798	\$ 9,165,409	\$ 60,538	\$ 139,224,673	\$ 29,319,430	\$ 27,853,459	\$ 183,972	\$ 244,510
2023	\$ 47,187,408	\$ 11,022,189	\$ 10,471,080	\$ 69,161	\$ 143,401,413	\$ 33,496,171	\$ 31,821,362	\$ 210,180	\$ 279,342
2024	\$ 48,603,031	\$ 12,437,811	\$ 11,815,921	\$ 78,044	\$ 147,703,455	\$ 37,798,213	\$ 35,908,302	\$ 237,174	\$ 315,218
2025	\$ 50,061,121	\$ 13,895,902	\$ 13,201,107	\$ 87,193	\$ 152,134,559	\$ 42,229,317	\$ 40,117,851	\$ 264,978	\$ 352,172
			TOTAL	\$ 497,432			TOTALS	\$ 1,511,685	\$ 2,009,117
Net Present Value of Total Revenues 2015-2025 (Disc. Rate 2.72%):									\$ 1,634,923

Sources: St. Lucie County Property Appraiser's District, City of Fort Pierce, authors' estimates.

Table 6: CRA Revenue Estimates, St. Lucie County Only

Fiscal Year	Proposed North Area				Proposed South Area				Total CRA Revenue
	Taxable Value	Value Margin	Margin To CRA	CRA Revenue	Taxable Value	Value Margin	Margin To CRA	CRA Revenue	
2014	\$ 34,443,066				\$ 102,811,265				
2015	\$ 35,476,358	\$ 1,033,292	\$ 981,627	\$ 2,868	\$ 105,895,603	\$ 3,084,338	\$ 2,930,121	\$ 8,562	\$ 11,431
2016	\$ 36,540,649	\$ 2,097,583	\$ 1,992,704	\$ 5,823	\$ 109,072,471	\$ 6,261,206	\$ 5,948,146	\$ 17,381	\$ 23,204
2017	\$ 37,636,868	\$ 3,193,802	\$ 3,034,112	\$ 8,866	\$ 112,344,645	\$ 9,533,380	\$ 9,056,711	\$ 26,465	\$ 35,331
2018	\$ 38,765,974	\$ 4,322,908	\$ 4,106,763	\$ 12,000	\$ 115,714,985	\$ 12,903,720	\$ 12,258,534	\$ 35,821	\$ 47,821
2019	\$ 39,928,953	\$ 5,485,887	\$ 5,211,593	\$ 15,229	\$ 119,186,434	\$ 16,375,169	\$ 15,556,411	\$ 45,457	\$ 60,686
2020	\$ 41,126,822	\$ 6,683,756	\$ 6,349,568	\$ 18,554	\$ 122,762,027	\$ 19,950,762	\$ 18,953,224	\$ 55,383	\$ 73,937
2021	\$ 42,360,627	\$ 7,917,561	\$ 7,521,683	\$ 21,979	\$ 126,444,888	\$ 23,633,623	\$ 22,451,942	\$ 65,607	\$ 87,586
2022	\$ 43,631,446	\$ 9,188,380	\$ 8,728,961	\$ 25,507	\$ 130,238,235	\$ 27,426,970	\$ 26,055,621	\$ 76,137	\$ 101,644
2023	\$ 44,940,389	\$ 10,497,323	\$ 9,972,457	\$ 29,141	\$ 134,145,382	\$ 31,334,117	\$ 29,767,411	\$ 86,983	\$ 116,124
2024	\$ 46,288,601	\$ 11,845,535	\$ 11,253,258	\$ 32,883	\$ 138,169,743	\$ 35,358,478	\$ 33,590,554	\$ 98,155	\$ 131,038
2025	\$ 47,677,259	\$ 13,234,193	\$ 12,572,483	\$ 36,738	\$ 142,314,835	\$ 39,503,570	\$ 37,528,392	\$ 109,662	\$ 146,400
			TOTAL	\$ 209,588			TOTALS	\$ 625,613	\$ 835,201
Net Present Value of Total Revenues 2015-2025 (Disc. Rate 2.72%):									\$ 679,647

Sources: St. Lucie County Property Appraiser's District, City of Fort Pierce, authors' estimates.

Considerations

Task 2 of this research assignment will consider what could be done with the revenues dedicated to the CRA if the City of Fort Pierce decides to accept the proposal for expanding the existing CRA. Our analysis will broadly consider the degree to which the expanded CRA could encourage economic growth and development. Therefore, we offer no conclusions or recommendations at this time. However, we can offer issues for consideration highlighted by the findings of the analysis in this task.

- Proponents of CRAs and other development districts that rely on tax increment financing often say that the subject taxing jurisdiction loses no revenue. However, the leaders of the taxing jurisdiction give up a measure of control over the use of the dedicated tax increment revenues.
- Based on our review of budget records, FPRA has been running budget deficits. Covering these shortfalls could require city leaders to make hard choices regarding services, deferred maintenance, reduced infrastructure investment, and a restricted ability to compete effectively for industrial site locations and other economic development efforts.
- Tax increment financing programs are not indexed for inflation. While 5% of the marginal increase in tax revenues for CRA properties would continue to flow to city general funds, the net effect could still be the city losing ground to operating cost inflation.
- Local property markets have a long way to go to get “back to even.” If our assumption of 3% average property value growth were to prove true, it could take 30 years for the valuations of existing properties to reach their 2007 peak again, without considering inflation.
- While the research team is not aware of any “rule of thumb” regarding an appropriate proportion of local taxable values dedicated to CRA programs, having almost one-third of total taxable values in a CRA is very high.
- The proposed CRA expansion areas seem to cover mostly residential properties. In the research team’s experience, CRA programs designed to promote economic growth and support the expansion of the local tax base are more usually focused on commercial properties.