A 10,000 ft look at Cost-Benefits for MIDS

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The Need for Cost-Benefit Analysis

- Cost-benefit analysis is a necessary tool that must be applied across the board in evaluating proposed regulations.

- When the analysis is performed and emphasized, the result is better protection of resources at a lower economic cost.

Cost-Benefit Basics

- A proposal where the benefits are expected to be greater than costs is likely to improve our lives.

- A proposal with greater anticipated costs that exceed projected benefits should be subject to more scrutiny to justify its purpose.

MIDS Benefits

- Higher clean water performance goal.
- Potential to add certainty, stability, and predictability in the development approval process.
- Ordinance package that provides streamlined & flexible approaches for developers & LGUs.

Figuring Out MIDS' Costs

- This example is intended to illustrate some of the issues at stake – more modeling is necessary from a cost-benefit sub-group.
- Assume:
  - that the new storm water requirements require a doubling of required land. From 4% to 8% (Per Woodland Cove, Minnetrista).
  - land entails 40% of project costs.
  - costs are marked up 35% for overhead/profit.
  - Then 4% times 40% = 1.6% increase in total costs.

Cost Scenario

- Assume
  - that the capital costs to increase total phosphorous removal from 64% to 81% increases the capital cost by 274%. (Minnesota Chapter of the American Public Works Association.)
  - If storm water infrastructure is 2% of total costs, then an 17% increase in total phosphorous will increase costs by 3.47%

Result

- Sum of 1.6% increase in total costs to account for additional land and 3.47% increase in total costs to account for TP removal = 5.07% increase in total costs.

- **Add markup equals increase in total lot price by 6.85%.**

- New homes generally sell for 4 x to 5x the lot price.

What the Increase Means

- An increase in lot price by 6.85%
  - If the lot price was $50,000 if it increased by 6.85% it would then be $53,425.
  - A home and lot package which would have been $225,000 would now be $240,412
  - An increase of $15,412
  - Monthly payments on a 30 year mortgage @ 6% would increase by $92.41
  - The NAHB model estimates that nationally a $1,000 increase in the home price leads to pricing out about 232,447 households out of the market for a median-priced new home.

No Simple Answers with Density

- Affordability can not be addressed simply by allowing more density.
  - Other demands for acreage include:
    - Parks
    - Open Space
    - Wetland Buffers
    - Tree Preservation
  - Making lots smaller doesn't often work. Need to meet market demand.

MIDS is One of Many Proposals

- Current regulatory proposals currently under consideration that would increase the cost of new housing, on top of the existing regulatory costs :
  - Fire Sprinkler Mandate – 5-25k/unit
  - Energy Code Req. Update – 3-7k/unit
  - Transportation Impact Fees – 1k/lot

Finding the Balance

- Currently 25% of the final price point of a new home is attributable to regulation. This is unsustainable by any measure and threatens our economic stability.

- The development community was an original supporter of MIDS, recognizing that the impetus for much of this is the Federal Clean Water Act and that Minnesota is required to comply. We need to find a balanced approach.

Cost-Benefits Working Group

- The purpose in this exercise is to introduce the issue & to remind everyone that in our effort to address one problem, we must be aware of the costs and broader contexts.

- The cost-benefits working group will take a closer look using MIDS modeled upon multiple actual projects – Residential-Redevelopment-Commercial-Industrial. Please join us.

Questions?