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# Fiscal & Economic Contribution of Lakefront Residential Development Potential Impact

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## The Center for Governmental Research

George Eastman, the visionary leader who created Eastman Kodak, founded the Rochester Bureau of Municipal Research in 1915 “to get things done for the community” and to serve as an “independent, non-partisan agency for keeping citizens informed.” Over 102 years the renamed Center for Governmental Research (CGR) broadened its focus from one city to all of NYS with additional projects in New Jersey, Maine, Massachusetts, Ohio and Pennsylvania.

CGR is a trusted source of economic and fiscal analysis, assessing economic impact of policy decisions, and tax and revenue implications of changes in land use or policy. Clients include Empire State Development Corporation; NYS Economic Development Council; Commission on Independent Colleges and Universities; NYS Department of Education; New York Power Authority; New York City’s Office of Management and Budget, County of Monroe Industrial Development Agency; and the City of Rochester’s departments of Neighborhood and Business Development, and Finance. CGR is a nonprofit organized under section 501(c) (3) of the Internal Revenue Code.

Dr. Gardner, Project Director, joined CGR in 1991 as Director of Economic Analysis. Previously he was Associate Professor of Economics at Potsdam College of the State University of New York., where he also founded the North Country Economic Research Center. His previous experience includes serving as senior economist for The Saratoga Associates from 1990-91. Dr. Gardner was CGR’s President from 2005-mid 2012.

Dr. Gardner has extensive experience assessing the economic and fiscal impacts of major developments, institutions or policy changes on communities, regions and the state. His analyses have addressed existing and proposed institutions, programs and physical developments in New York, Ohio, Pennsylvania and New Jersey.

### Acknowledgements

CGR thanks the members of Geneva Growth for their ideas and suggestions. City Manager Matt Horn was generous with his time and contributed his knowledge of the history of downtown development.

### Staff Team

Mike Silva supported the analysis of economic and fiscal impacts.

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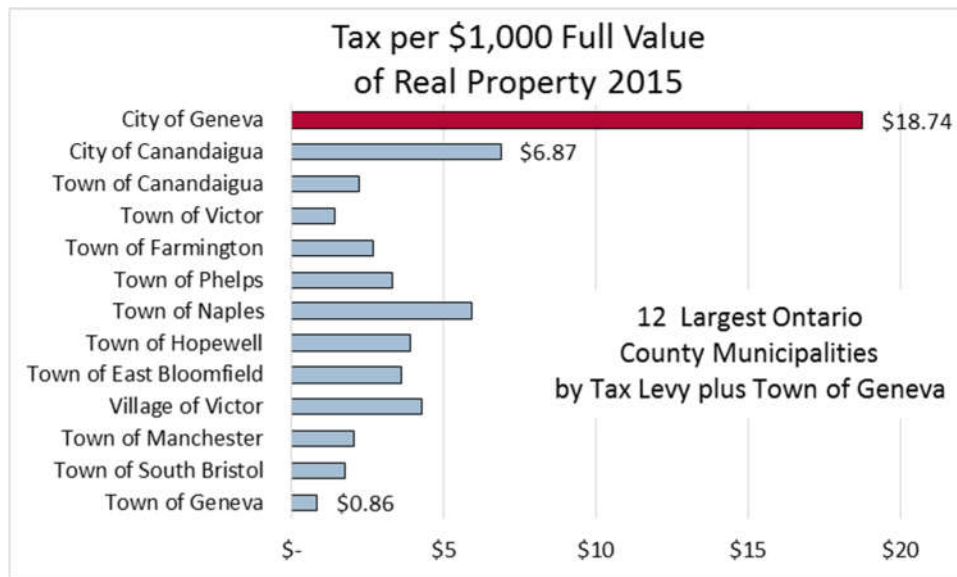
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## Geneva Rising

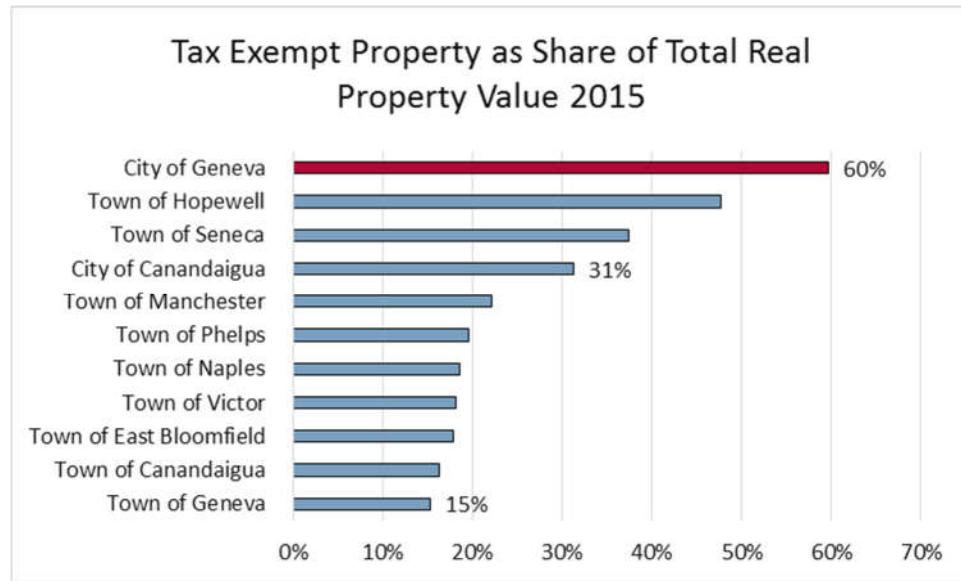
Winner of the Finger Lakes Downtown Revitalization Initiative, the City of Geneva is recognized for its bold planning and vigorous efforts at community revitalization. The downtown has been the recipient of \$19 million in redevelopment investment within the previous decade, which has supported an increase in downtown employment of 10%.

Two key assets anchor the continued revitalization of Geneva's downtown—a critical mass of historic structures, now increasingly filled by successful businesses, and the lakefront itself. The City has wisely preserved and enhanced access to the waterfront through proactive planning and strategic investment.

**Geneva Growth, Inc.** is a group of citizens who seek to encourage the continued development of the City, with a particular interest in improving the tax base, thus strengthening the City fiscally. Geneva is burdened with the highest tax rate in Ontario County, more than twice that of the next highest, the City of Canandaigua. This high rate very likely deters both prospective home buyers and new business development.



Additionally, the City of Geneva is burdened by a large number of tax exempt properties. At 60%, it faced the largest tax exempt share in the county in 2015, twice that of the City of Canandaigua and four times that of the Town of Geneva. See the chart on the next page.



Geneva Growth's principals also note that positive developments in the Downtown have yet to reverse more troubling statistics for the city as a whole. The poverty rate averaged 24% for 2011-15, well above the 10% reported for Ontario County and 15% for the City of Canandaigua. Although poverty rose in all three jurisdictions from 2006-2010, Geneva's rose much more, up 5 percentage points versus 1 point for Ontario County and 2 points for Canandaigua. Both Geneva and Canandaigua lost population over the period (1% and 2%, respectively).

## The Economic & Fiscal Potential of Proposed Lakefront Development

Geneva Growth supports the City's planners and the City Council in preserving access to the lakefront, one of the jewels of the Finger Lakes. The group engaged the Center for Governmental Research (CGR) to explore the benefit of limited residential development that preserves lakefront access, while taking advantage of the lakefront to build tax base and provide an opportunity for Geneva and other Finger Lakes residents who are seeking housing options not currently available in the City.

There is no site plan. No member of Geneva Growth's Board seeks to participate in or profit from the proposed development. Geneva Growth's charge to CGR is to model development of 250 units with an average market value of \$350,000 each.

The site in question is owned by the City of Geneva and is located just west of the Seneca Lake State Park. As envisioned, the development would occupy about 25 acres of the City of Geneva's roughly 60 acres of lakefront property and would establish a permanent 50 foot easement along the lakefront as a means of maintaining public access to the Seneca Lake shoreline. Geneva Growth suggests that building height be limited to three stories.



The benefits of the development include

- additional tax revenue for the City, as the current site is tax exempt;
- a new residential development alternative for residents of Geneva and the Finger Lakes;
- an increase in the downtown residential population and associated purchasing power, as spending would support the continued revival of downtown retail and service businesses;
- a potential catalytic effect on downtown expansion; and
- an increase in economic activity during the construction period.

Moreover, as the property has significant market value, the sale price could bring revenue to pursue other City objectives, particularly at the lakefront. Alternatively, a possible reduction in the sale price could be used as an incentive to ensure that the development meets city objectives not already embedded in the planning and zoning ordinances. The site has physical limitations that will be factored into any development proposal.

Service costs are likely to be minimal as the units are likely to be marketed to higher income "empty nester" families.

We consider the impact of the project in four sections: **First**, we explore the ongoing fiscal impact of the proposed development, particularly on the property tax, the single largest source of revenue for the City of Geneva. The impact of new spending on the state and local sales tax is also addressed. **Second**, CGR estimates the impact the new residents are likely to have on the retail and service marketplace, both directly and through a possible catalytic impact on downtown development. **Third**, we consider the probable impact on the cost of local public services. **Finally**, CGR estimates the economic impact of the construction period on the regional economy.

## Fiscal Impact of Proposed Development

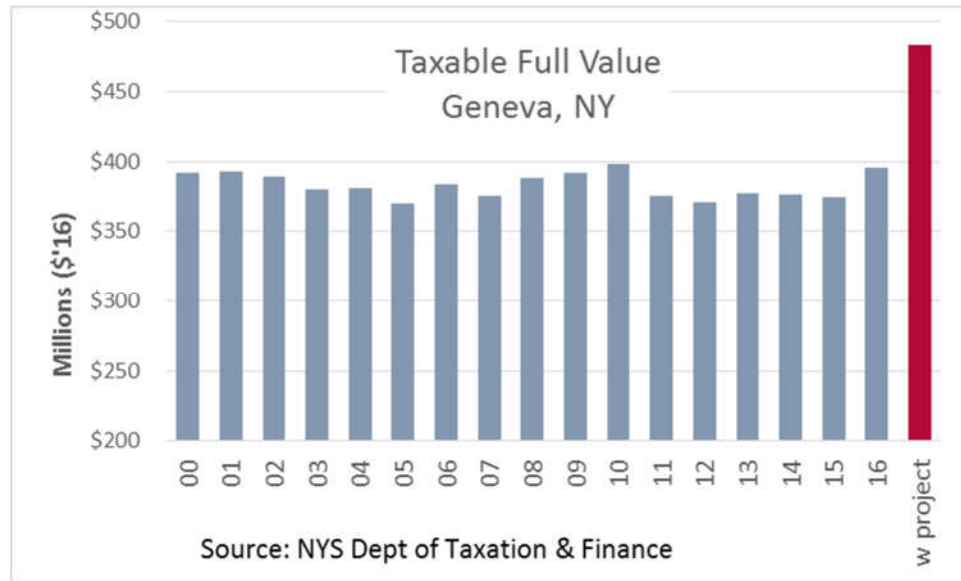
### The Property Tax

The property tax is the largest single source of revenue to the City of Geneva. The 2016 budget reports an expected \$6.7 million out of a total \$11.6 million in total taxes and fees. As noted above, the city's property tax rate is the highest in Ontario County, likely discouraging potential development.

The proposed townhome development would add an estimated \$87.5 million to the full assessed value of real property. At the current rate of taxation, this would add \$1.6 million annually to the city's total revenue, an increase of \$35 million in tax revenue to the City of Geneva, City of Geneva School District and Ontario County over a ten year period. Alternatively, it would permit these taxing entities to reduce the rate of taxation while still increasing total revenue and improving the competitiveness of other city property.

Taxing Entity	10 year discounted total (3%)
County	\$4.7
City	\$14.0
School District	\$16.3
TOTAL	\$35.0

This single project would increase taxable assessed value by more than a fifth (22%). Geneva's taxable assessed value has been stagnant for many years. Adjusted for inflation, the City's taxable assessed value, now \$396 million, peaked at \$398 million in 2010 and hit its lowest point, \$350 million, in 2005. See chart below.



## The Sales Tax

The household income of new residents is likely to be just under \$34 million. CGR estimates household income for residents of Ontario County living in homes valued at the target price by using the Census Bureau's American Community Survey individual transaction records (Public Use Microdata Sample\*). Taking the midpoint of these ranges and \$200,000 for the top range reported by the Census, we conservatively estimate median household income at about \$135,000 per year per dwelling.

		Household Income								
<i>The value in each cell is the number of households in Ontario County that satisfy the income/home value pairing.</i>		Less than \$10,000	\$10-15,000	\$15-25,000	\$25-35,000	\$35-50,000	\$50-75,000	\$75-100,000	\$100-150,000	Greater than \$150,000
<b>HOME VALUE (Totals)</b>	94,371	792	1,170	4,535	6,246	12,392	21,042	15,960	19,666	12,568
Between \$200,000 and \$299,999	17,345	16	91	245	685	1,758	2,596	2,220	6,434	3,300
<b>Between \$300,000 and \$499,999</b>	<b>9,895</b>	<b>0</b>	<b>64</b>	<b>156</b>	<b>228</b>	<b>806</b>	<b>1,192</b>	<b>766</b>	<b>2,729</b>	<b>3,954</b>
Between \$500,000 and \$749,999	2,190	19	139	4	150	138	353	236	405	746
Between \$750,000 and \$999,999	741	0	0	0	0	45	127	104	82	383
More than \$1,000,000	267	0	6	14	64	0	0	4	42	137

Consulting the federal Bureau of Labor Statistics' Consumer Expenditure Survey for this income classification, we estimate that actual *spending* by residents would be about \$23 million, a net present value of nearly \$200 million over 10 years (3% discount rate).

\* See <http://www.census.gov/programs-surveys/acs/data/pums.html> for more information.

State and local sales tax from this injection of new consumer demand (about \$10 million of which is likely to be sales taxable) will total an estimated \$0.8 million annually. As the business recipients of this new spending spend, in turn, on supplies and staffing, **the increase in state and local tax will likely total about \$1.0 million annually, \$8.3 million over 10 years (when discounted at 3%).**

The current sales tax sharing agreement between the City of Geneva and Ontario County caps Geneva's total, however. A more vibrant retail sector in Geneva would, nonetheless, strengthen the bargaining position of the City in any renegotiation.

Based on the current sales tax rates, Ontario County will gain 47% of the total spent within the county with the remainder going to the State of New York.

## The Impact of Added Purchasing Power on Retail & Service Marketplace

### Impact on Employment

The estimated \$23 million in annual spending will spur expanded employment by regional business firms. The total employment impact is estimated at about 140 jobs. Earnings for these new workers would total about \$6.3 million annually, summing to \$54 million over 10 years (discounted).

This new income will itself spur an increase in personal income tax of about \$0.3 million (a discounted 10 year sum of \$2.4 million). An increase in sales tax revenue is included above.

### Catalytic Impact on Retail & Service Sectors

As noted, about \$23 million annually is likely to be spent by residents of the new development, \$200 million over 10 years (discounted). Further analysis of the BLS Consumer Expenditure Survey for this income classification suggests that **annual spending** of interest to Geneva's business community includes an estimated

- \$2.8 million on food, split more-or-less evenly between "food at home" and "food away from home;"
- \$1.3 million on entertainment;
- \$0.8 million in apparel purchases;
- \$0.3 million in personal care products; and
- \$0.8 million on gifts of goods and services.

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Summed over 10 years (and discounted), these categories alone equal \$50 million in new spending.

The vitality of downtown businesses would be improved by an influx of new high end consumers, although the share of this new spending that will benefit Geneva businesses can't be estimated with any accuracy. Catalytic impacts are inherently unpredictable. Yet Geneva's downtown is on a positive trajectory. The pace will be improved by actions taken by the Downtown Revitalization Initiative and would be accelerated by the proposed lakefront development.

The real estate market would be strengthened, too. Although the NYS 5 & 20 corridor separates the site in question from the adjacent East Lakeview neighborhood, improved properties on the neighborhood's edge will enhance East Lakeview's stability and spur reinvestment in its housing stock. This impact would be reinforced if lakefront access from East Lakeview is improved (as is recommended in the City's Comprehensive Plan) and that this access is integrated into the proposed new development's design.

## Net Cost of Community Services

The net cost of community services is measured by weighing the burden of new development against the tax and fee revenue it is likely to contribute. The cost of services varies significantly by development type and occupant. The overall property tax rate will rise if a development demands more than the average in services but brings tax revenue equal to or less than the average. The tax rate will fall if the development demands fewer or less costly services and brings tax revenue that is equal to or greater than the average.

The townhomes proposed here would have more than twice the median home value reported by the U.S. Bureau of the Census (American Community Survey 2011-15). Unless the service in question was expected to be more expensive to provide, these homes would generally reduce the average property tax burden.

## Public Education

The most costly public service is public education. A multifamily building that attracts families with school aged children likely adds more to cost than to revenue. By contrast, a single family home occupied by families without school-aged children typically adds more to revenue than to cost.

The development proposed here is expected to target older buyers with higher incomes and few school-aged children thus can be expected to reduce the net cost of public education per household.

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## Public Works

An increase in street maintenance cost will be solely felt through increased travel volumes in the community as a whole as the project is located on SR 5&20. NYS is responsible for maintenance and plowing. Internal parking and driveways would be the responsibility of the owners.

The extension of sewer and water lines is typically the builder's responsibility. Assuming that both sewage and water treatment systems have excess capacity, additional volume should modestly reduce net cost for current users. Were the new buildings served with a 2" water line, each dwelling would pay \$400 per year for water. The fee for sewer would be \$774 for each household. Revenue from water and sewer would total nearly \$300,000 annually. Given the location and character of the development, it is reasonable to expect that the cost of adding these new users would be substantially less than revenue paid by new homeowners, particularly in early years when the distribution system is new.

## Public Safety

A higher median age is known to be associated with a lower crime rate. Public safety costs would likely be modest, freeing general property tax revenue to improve public services elsewhere in the City.

## Economic Impact of Construction

As noted above, the City of Geneva stands to receive a one-time fiscal windfall when the property is sold. Alternatively, the price of the property might be used as leverage with potential developers as a way of securing development benefits.

The cost of construction, including builder profit\*, would total \$87.5 million, assuming an average sales price per unit of \$350,000. CGR estimates that the employment impacts of such an expenditure are considerable—the direct and spillover impacts will total just under a thousand jobs (viewed as one year, full time positions). Payroll is likely to total \$44.5 million, 71% directly and the remainder from spillover impacts, such as job and payroll impacts on local suppliers of construction materials.

We cannot forecast the geographic distribution of the direct or indirect impacts nor whether residents of Geneva would be likely to gain either jobs or income from the project. The City of Geneva could take steps to encourage local firms to participate and to hire local workers for the positions.

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\* The National Association of Homebuilders reports that the gross profit margin for new home construction in 2016 was 18.9%.

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The fiscal impact of payroll generated by the construction activity—again, one time, not ongoing—would total nearly \$6 million.

- NYS income tax (from payroll earned directly and indirectly from the project) would be \$1.9 million.
- Sales tax revenue spurred by the spending of individuals employed either directly or indirectly by the project would total \$1.4 million in sales tax (both state and local).
- Sales tax on the construction materials—materials are assumed to be 40% of the total cost of construction—would be an additional \$2.6 million (\$1.2 million to Ontario County and \$1.4 million to NYS). Given the existing Ontario County sales tax agreement, Geneva’s total remains fixed in dollar terms regardless of the amount earned by Ontario County on sales within the city limits.

## Conclusion

Geneva Growth, Inc. engaged the Center for Governmental Research to assess the fiscal and economic implications of a 250 unit townhome development on city-owned lakefront property. CGR’s review finds the following:

- 250 single family homes selling in the mid-\$300,000 range is consistent with lakefront market conditions in other Finger Lakes communities and would add housing stock not currently available in the City of Geneva.
- Property tax revenue from the development, expected to have an assessed value of \$87.5 million, would be substantial. This would increase the taxable assessed value of the City of Geneva by 22%.
- At current property tax rates these properties would add an estimated \$3.5 million annually to City and City School District revenue, plus an additional half a million dollars to Ontario County. Over a 10 year period, this would total \$30 million to the City and City School District plus \$5 million to the county (discounted at a 3% rate). Alternatively, the additional tax base will allow a mix of tax rate reduction and new investment.
- An additional 500 residents can be expected to spend about \$23 million of their estimated \$34 million in income, \$200 million over 10 years (also discounted). Although it is impossible to estimate what share of this spending would occur locally, this new purchasing power would be attractive to Geneva downtown business and service firms.
- The \$23 million in spending on goods and services would spur the creation of about 140 jobs in the region with annual earnings of \$6.3 million (a discounted \$54

million over 10 years), with additional personal income tax of about \$0.3 million (a discounted \$2.4 million over a decade). Geneva would benefit disproportionately.

- Predicted retail spending by new residents plus spillover spending by new employment would spur about \$1 million in state and local sales tax revenue, a discounted total of \$8.3 million over 10 years.
- Given the nature of the likely buyers—“empty nesters” with above average household income—the impact on the cost of public services can be expected to be net positive. The existing sewer and water infrastructure has excess capacity. Adding users—and their payments for service—to the system will spread the fixed costs of the system more broadly and would allow the City to either lower rates or set aside more reserves for future maintenance. Although the Geneva City School District can expect to benefit from the increase in property tax base, the number of school children can be expected to rise little or not at all.
- Nearly \$90 million in new construction would also have an impact on the regional economy—including the equivalent of nearly 1,000 full time equivalent jobs and a one-time increase in payroll of more than \$44 million (71% directly and the remainder in spillover). New York State would receive nearly \$2 million in income tax and just over half of \$1.5 million in state and local sales tax, with the remainder earned principally by Ontario County. Sales tax on construction materials would add another \$2.6 million, split again between NYS and Ontario County.

Real Property	\$87.5m increase in assessed value, 22% of current	\$4m added revenue, current tax rates (\$35m over 10 years)	
New Residents & Purchasing Power	500 residents earning \$34m annually	\$23m spending on goods & services (\$200m over 10 years)	140 jobs with \$6.3m annual payroll (\$64m over 10 years)
Sales Tax Revenue: NYS & Ontario Cnty	\$1m annually (\$8.3 m over 10 years)	\$1.5m one time during construction	\$2.6m from construction materials
Construction Jobs	1,000 one year FTE jobs	\$44m in direct & spillover payroll	\$2m in NYS income tax

Well planned and executed, a townhome development on the lakefront can preserve lakefront access to Geneva’s citizens while making a positive contribution to the region’s fiscal stability and supporting an expansion of the retail and service sectors of the City of Geneva. This single project can make a substantial difference to the community and is consistent with ongoing efforts to stabilize and accelerate trends in the downtown. The increase in taxable real property, when combined with a highly visible investment in upscale housing, will pay dividends to Genevans for years to come.