

POLICY BRIEF

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Another Case of Misguided Policy

In our previous *Policy Brief* (#47) we outlined the details of a law called the Neighborhood Improvement District (NID) Act, which passed the General Assembly in 2000. The act permits creation of an improvement district, funded by mandatory fees on residents, in targeted neighborhoods in Pennsylvania's municipalities.

To date, two NIDs have been created statewide, including one in the West End of the City of Pittsburgh. The Pittsburgh plan is a radical departure from the state's vision of what would be contained in a neighborhood improvement district. Rather than emphasizing sidewalk or street improvements or enhanced services, the plan will use the fees to create an insurance program to "stabilize home values" through the West End Home Assurance Value (WE-HAV) program.

Based on programs in other states, most notably Illinois, the WE-HAV district is comprised of twelve neighborhoods in the West End. Residential property owners in the district (8,100 in total) pay a mandatory \$20 a year tax to fund the program.

If the owners want to participate in the WE-HAV program, they must occupy the home (or a unit if it is a multi-tenant structure) for five years, keep it well maintained, and pay an up-front fee (from \$125 to \$200, depending on the number of units in the structure) for an appraisal of the property. The appraisal sets the baseline value and condition of the structure. After five years, participants who sell their home are guaranteed their appraisal price if the sale price is lower. For instance, if a 2003 appraisal for a WE-HAV participant is \$50,000 and the home sells for \$45,000 in 2008, the homeowner is paid \$5,000 from the fund.

There are questions about whether the NID law, as enacted, permits what is essentially an insurance program for home values. The broad deference of the law, as previously discussed, may side with the municipality with regards to what type of program can and cannot be created under the auspices of the NID law. But it is interesting to wonder why proponents of the WE-HAV program settled on this plan as opposed to the "brick and mortar" improvements and service-oriented programs mentioned in the law. There is also a question of whether the program will work. To date no independent analysis of any home assurance program has been undertaken.

The program has progressed, although it has been received with opposition and confusion from some owners in the district. Homeowners want to know what their fees will help accomplish. Documents from the WE-HAV Task Force state four goals they hope the implementation of the program will achieve:

- "Stabilize Neighborhood Property Values"
- "Increase Homeownership Levels"
- "Increase Homeowner Confidence in the Neighborhood"

- "Encourage Homeowners to Invest in Residential Improvements"

Obviously, some, perhaps most, owners will not participate: they will simply pay their \$20 annual fee. In fact, low participation may be the only factor that makes the plan viable. The program will raise \$160,000 a year and \$800,000 over a five-year period. Thus, the maximum available for the insurance program will be \$800,000, and probably a lot less since administrative expenses must be paid out of these funds. If the average participant-owned home sells for \$10,000 less than its appraisal after the five years, then only 80 owners could be fully covered by the fund.

So, in reality, the program won't stabilize all property values in all neighborhoods, but it will possibly prevent the loss of investment of those that participate, depending on the number of claims at the end of the term. Those most likely to participate will have more valuable homes, yet the taxes are based on a "one size fits all" approach.

In order to assure stable or rising home values, a neighborhood needs adequate demand for its housing stock. That, in turn, requires rising employment and income as well as a community that offers an attractive place to live with low crime rates, good schools, clean streets, and a non-crushing tax burden. The WE-HAV program cannot assure home values: it can only protect against losses caused by weak demand. A better public policy would be to address the underlying fundamentals rather than start a highly complex program that could have very undesirable, unintended consequences.

Just as taxpayer-funded stadiums have not produced the economic boom promised by their proponents, government-run home value assurance programs are misguided and inappropriate.

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