

Point-of-Sale Ordinance: Santa Rosa Economic Ideas and Impacts

Santa Rosa, CA

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Introduction

- Point-of-Sale ordinance acts like a tax on home sales
 - Forces seller to be energy (and maybe water) compliant before sale
 - Prices rise to cover seller cost
 - Reduce demand for homes: lower incomes, profits for seller
 - Increased demand for efficiency products and services outweighed by decreased demand concerning impacts
- Voluntary program or tax incentives for homes has more efficacy

Ordinance Idea in Brief

- Seller faces mandates costs
- Unknown thresholds: all homes will face at least an efficiency “audit”
- Meant to raise tax revenue and reduce energy use: assumes market for home sales unaffected
- If age determined: 93.7% of SR homes built before 1998 (Austin Study assumed 10 years old the line)
- Like a tax: distorts buying and selling decisions

“Like” a Tax

- If costs fall on seller, reduces number of homes to go up for sale
 - Extra cost will keep some sellers in home on margin
- Will any home ever be compliant?
- Some of that tax will be passed on to buyer: higher costs (reduces demand)
- Ordinance assumes that few substitutes to buying a home
 - Few substitutes \Rightarrow buyer will pay most of the tax
- What if that assumption is wrong?

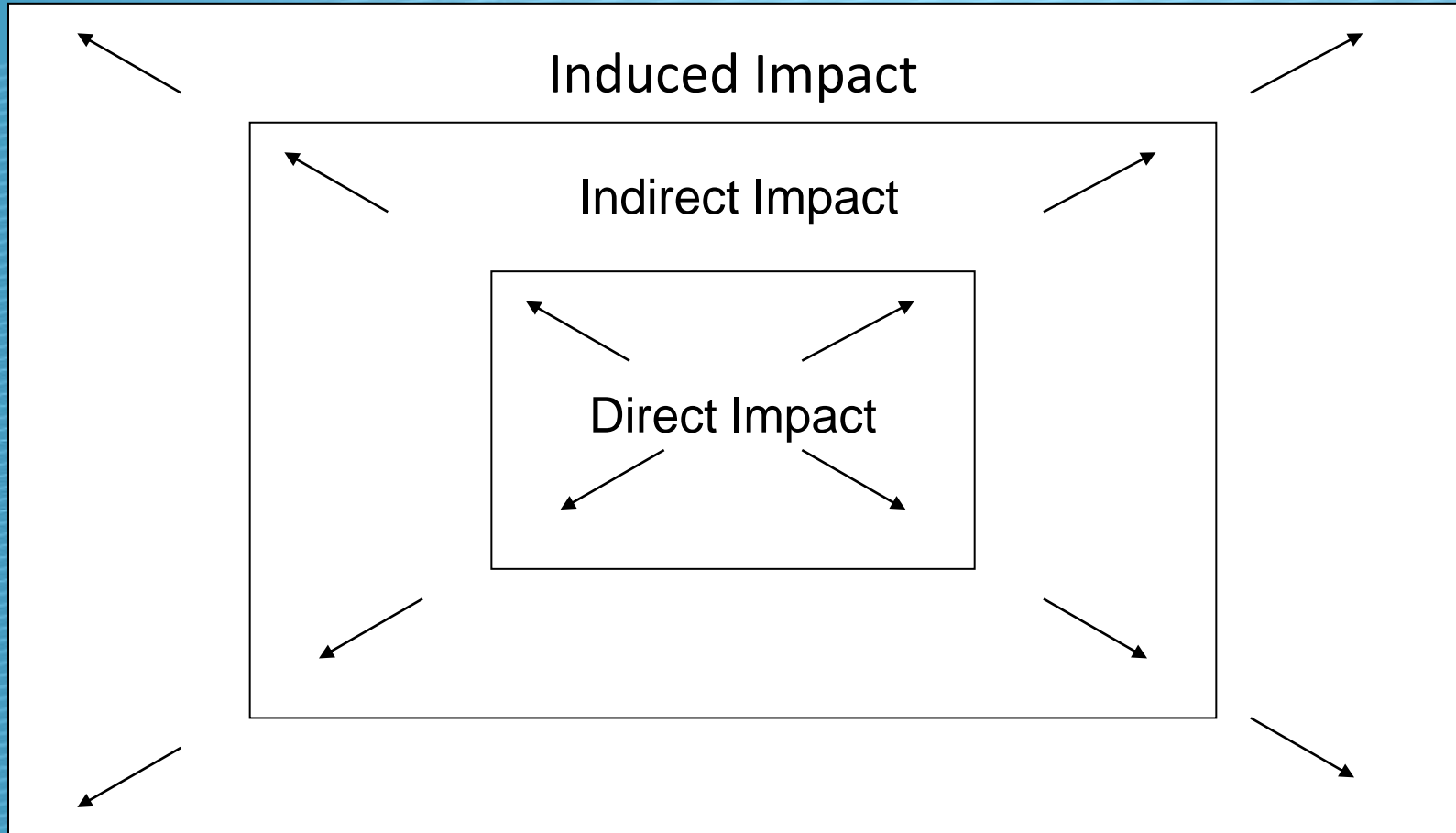
Effects on Real Estate Market

- All homes will face a cost, not just older homes
- Additional transaction costs: % lost to economy
- Days on market will rise: just like a home inspection
- Revenues will fall to sellers
- Market volume will fall, perhaps permanently

Economic Impacts

- Direct impacts in three areas, somewhat mitigating
 - Loss of revenue to seller
 - Loss of revenue to real estate industry
 - Gain of sales of services and products by local merchants (if local)
 - Sum is total impact
- Function of both reduction in home sale volume and change in price
- Broader impacts due to less economic activity

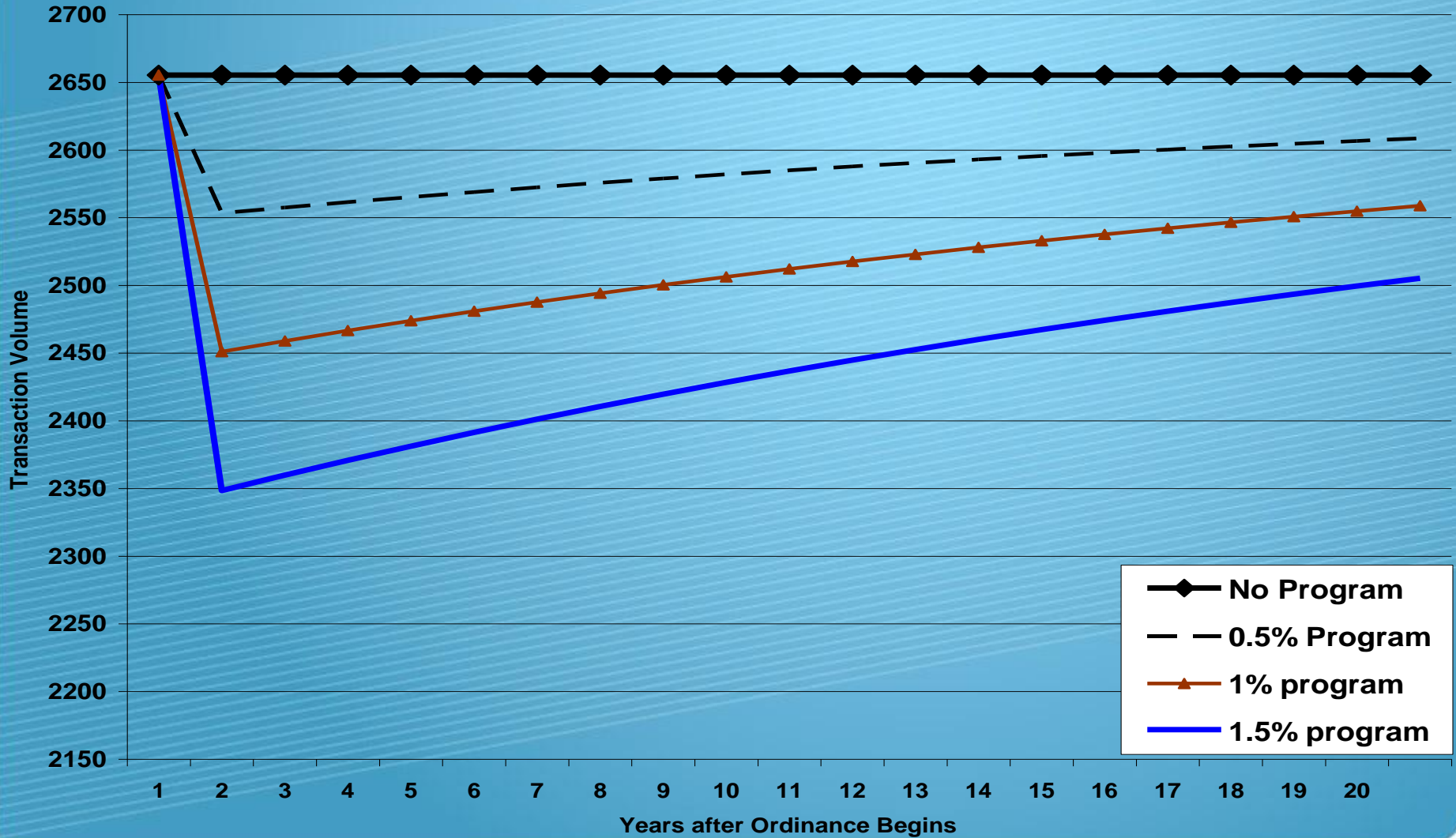
Economic Impact Idea



Methodology

- Estimate price sensitivity of housing market to a tax
 - Statistical exercise using historical data
- Estimate reduction in price
 - Comes from the above
- Estimate reduction in volume
 - Comes from the above
- Estimate the number of homes that would need to be made compliant and cost (assume all due to audit)
 - Range of 0.5% - 1.5% of selling cost as compliance cost
- Do the algebra

Est. Annual Transactions With and Without ordinance, 20 Year Est



Estimate Value of Transactions Lost under Different Cost Scenarios

Thousands of \$

Program cost as % of sales price	No Ord	Year 1	Year 2	Year 3
0.5%	\$0	\$32,312	\$31,968	\$31,687
1.0%	\$0	\$71,234	\$71,104	\$71,096
1.5%	\$0	\$110,523	\$109,719	\$109,084

Summary of Estimated Economic Impacts 1.0% of Home Price to make home compliant

	Year 1	Year 2	Year 3	Total/Avg
Net Impacts				
Output (\$000)	\$(16,621)	\$(14,005)	\$(11,695)	\$(42,320)
New Jobs	(117)	(102)	(88)	(102)
Taxes (\$000)	\$(2,124)	\$(1,984)	\$(1,761)	\$(5,869)

Conclusions

- Ordinance imposes costs on any house that goes up for sale
 - An efficiency audit and then possible repairs and renovations.
- Estimates suggest that Santa Rosa loses average of:
 - 102 jobs;
 - \$42 million in net from business revenues per year; and
 - More than \$5.8 million in local and state tax revenues per year.

Policy Recommendations

- A volunteer program provides positive incentives for upgrades
 - A mandated program creates permanent, net negative economic impacts
- A voluntary program creates jobs and revenues for businesses installing and selling energy-efficiency upgrade equipment just like a mandated program
 - If mandate is perpetual, real estate market experience slower transactions perpetually.
 - The definition of energy efficiency is a moving target