City of Santa Rosa – Economic Development Division

Final Report: Downtown Infill Housing Economic and Fiscal Impact Study

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Objective Overview

Objective 5 of the Santa Rosa Economic Development Strategic Plan Implementation Plan directed staff to evaluate the economic and fiscal impact of downtown infill housing. The goal was to understand both the revenue generation, and the infrastructure and service delivery implications associated with downtown residential growth.

The City's original foundational analysis was informed by a 2015 "value-per-acre" study conducted by Urban3, in collaboration with ArchiLOGIX and the Urban Community Partnership. More recently, a supplemental study was conducted in 2023 by Economic & Planning Systems (EPS) to provide a more quantitative economic and fiscal impact assessment.

The following summarizes findings, analysis, and final recommendations based on both studies and staff review.

Summary of Urban3 Study (2015)

Purpose:
The Urban3 study sought to examine land use productivity across Santa Rosa and Sonoma County using the value-per-acre metric—a method of assessing economic return on land by dividing property value by land area.

Key Findings:

- Traditional, walkable, mixed-use downtown development generates 3 to 8 times more value per acre than suburban, car-dependent development patterns.
- These denser developments require less infrastructure to service and result in higher net revenues.
- Downtown housing increases resident spending, boosts retail tax receipts, and raises overall assessed property values.

- The core recommendation promoted urban-centered infill development in areas with existing infrastructure as a fiscally beneficial strategy for the City.

Staff Observations and Evaluation:

- The study is now outdated (10 years old) and does not reflect current economic, demographic, or development conditions.
- The analysis was largely hypothetical, based on scenarios rather than real projects.
- No meaningful cost or infrastructure/service expenditure analysis was included.
- While the value-per-acre concept remains valid, it does not provide sufficient detail to inform project-level decisions today.

Summary of EPS Study (2023)

Purpose:
The EPS report was commissioned as an add-on to the Urban3 analysis to provide a quantitative assessment of potential benefits from infill housing downtown, focusing on:

- Fiscal impacts to the General Fund.
- Economic activity from resident spending and operations.
- Citywide job creation potential.

Methods:

- Collaborated with City staff and stakeholders.
- Utilized IMPLAN® to estimate economic multipliers and labor impacts.
- Modeled fiscal and economic impacts of hypothetical new housing development scenarios.

Key Findings mirrored those in the Urban3 study.

Staff Observations and Evaluation:

1. Use of IMPLAN®:
    - IMPLAN is a reputable tool for estimating indirect and induced impacts. Numbers derived from it are credible—but remain hypothetical.
2. Employment Distribution Assumptions:
    - EPS allocated jobs across existing sectors proportionate to existing employment, a method that does not account for current labor market demand or sector-specific capacity.
3. Revenue Estimates:

- Appears to include one-time fees and assessments, but the model does not clearly distinguish ongoing revenues vs. year-one impacts.

4. Service Impact Calculations:
    - Based on per-capita cost modeling, using a straight division of new residents across the General Fund.
    - While simple and transparent, this method lacks nuance and fails to reflect actual operational, capital, or infrastructure burdens created by development.
    - Capital infrastructure costs (water, sewer, roads, etc.) do not appear to be included.
5. Overall Conclusion:
    - The EPS study is well-intentioned and thoughtfully structured, but remains conjectural and built on high-level assumptions.
    - EPS themselves acknowledged the uncertainty in their report:
      "Actual fiscal impacts will depend on a variety of factors that cannot be predicted with certainty."

Conclusions and Recommendations

After reviewing both the Urban3 and EPS reports, the following conclusions are drawn:

- Both studies provide general support for the notion that infill housing has net positive fiscal and economic benefits, especially when compared to sprawl development.
- However, both are based largely on theoretical or modeled outcomes and are insufficiently grounded in real-world, project-specific data.
- The cost side—including long-term service and infrastructure needs—is oversimplified in both studies and cannot reliably inform decisions for specific developments.

Recommended Path Forward:

Rather than continue investing in generalized modeling, the City should pursue one or more of the following practical, data-driven approaches:

1. Case Study Review of Past Developments in Santa Rosa:
   Evaluate completed downtown infill housing projects to determine actual impacts on infrastructure, General Fund services, and revenue over time.
2. Benchmarking Against Similar Cities:
   Study outcomes in comparable markets (size, demographics, development patterns) to identify patterns in fiscal and service impacts tied to infill housing.
3. Project-by-Project Analysis:
   Conduct economic and fiscal impact assessments for actual proposed developments,

accounting for site-specific characteristics, infrastructure availability, and service needs. This enables real-time insights that support planning, negotiations, and budgeting.

4. Retain Value-Per-Acre as a Guiding Principle:
   Continue using the value-per-acre concept as a strategic lens in evaluating the economic productivity of land, but not as a stand-alone metric for investment decisions.

Final Recommendation

The original intent of Objective 5—to understand the fiscal and economic impact of infill housing—has been addressed through both commissioned studies and a more detailed internal analysis of their findings.

Staff recommends concluding this objective and marking it complete, with the caveat that future evaluations of downtown housing impacts be conducted on a case-by-case basis. This approach ensures that decision-making is tied to tangible, real-world data and conditions, rather than hypothetical models alone.

The City of Santa Rosa will be best served by grounding its future development assessments in specificity, aligning its economic development strategy with both fiscal responsibility and real-time responsiveness.

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