

Financial impacts

By Ward Peck
Staff Writer

A recent report that was prepared to study the financial impacts of the Maine Energy Recovery Company's downtown trash incinerator in Biddeford concludes that the downtown areas would need to achieve an 11 percent growth rate in sales value and a 7.5 percent increase in assessed value for 12 years to counteract the financial impacts of closing the facility.

The report, paid for by area banks and lending institutions, was prepared by Planing Decisions, a South Portland-based marketing and consulting firm.

Much of the information in the 33-page report was based upon the experiences of three other Maine communities and compared them to what Biddeford and Saco might expect.

Those communities, Westbrook, Rockland and Lewiston have experienced growth after shutting or rehabilitating offensive or objectionable downtown entities.

The ultimate question posed by the survey— what might be the fiscal impact of early closure of MERC? is not actually addressed.

In its place is a different question, unstated. The report's conclusion addresses the question, What rates of growth would downtown Biddeford-Saco need to achieve in order to have a zero fiscal impact 10 years after closure? The answer is 4.8 percent growth in assessed value and 7.2 percent growth in property sales value for 12 years if the cities are not required to buy out the facility (unlikely). An 11.2 percent growth rate in sales value and 7.5 percent growth in assessed value for 12 years if the cities must pay \$30 million for a guaranteed early closure in 2007.

Since any negotiated settlement is likely to result in a buy out price closer to \$30 million than to zero, the higher growth rate seems to be the more responsible hypothesis.

The study's authors ask and then answer, "Are these growth rates achievable? Given the examples of other Maine cities, they are not out of the question."

The answer to that question, however, could be viewed as misleading.

The hypothesis makes certain assumptions that may not pan out. The experiences in Westbrook, Lewiston and Rockland all occurred in the past, under well-known economic conditions that are well documented and generally favorable.

If, as the study assumes, MERC closes in 2007 and current economic conditions persist, housing and office space is still in demand, and the cities are able to negotiate a 5 percent interest bond, then the cities could be able to achieve a zero net fiscal impact of zero by 2017.

However, if the settlement calls for the plant's closure in 2015, it is very likely economic conditions will be vastly different.

To take another hypothetical scenario, the cities negotiate a settlement that calls for a closure in 2015, but a buyout payment of \$30 million is made in 2006. At that time, gasoline prices have risen to \$3 per gallon, interest rates have skyrocketed to double digits and housing demand has plummeted as area businesses lay off workers.

How would that affect the analysis? Which is more likely?

At a public presentation of the report, held at Saco City Hall, Councilor Roland Michaud said he believed break-even in 10 years was possible, even at the 11 percent growth rate. Michaud noted that the real estate market is cyclical, with prices expanding and contracting over time, with a general upward trend overall.

However, the report's analysis does not allow for cyclical growth to break even in 10 years. In order to achieve the goal, the cities must maintain high growth without interruption.

Other assumptions could be challenged as well, such as the increased cost of tipping fees and the price of a new waste transfer station.

Councilor Ed McDonough wanted to know the real effect of closure on Saco's taxpayers, like how much their taxes would increase, something the report did not address.

Councilor Arthur Tardiff, referring to Biddeford's downtown, said investors avoided the area before MERC. "The risk is investment doesn't occur is MERC is gone."

Mayor Mark Johnston disputed this notion, saying there were developments before MERC and development has frozen since 1986.

The study's lead author, Charles Lawton said the study was not intended to explore every variable that could effect the formulae. "The purpose of the study as to set a framework for evaluating risk."

The purpose of the study, Lawton said, was not to say, 'This is what will happen if you close MERC,' rather, it was intended to give policy makers an idea of what kind of investment would be needed to minimize the negative effect of closure.

Lawton set that framework by first tackling three other question.

The first question— what are the benefits of MERC? seems fairly easy to answer for the report's authors. Jobs (85 full-time employees), economic stimulus (\$4.6 million in products and services purchased by the company), taxes (\$1.4 million per year), low tipping fees (\$200,000 saved per year in Biddeford and Saco) and charitable contributions (\$33,000 in 2003) are identified as the most important benefits the facility brings to its host communities.

The second question— is there evidence of an economic impact area comparable to the plant's physical impact area? was not possible to answer definitively without further study, the report concluded. However, it did offer evidence to support such an argument.

To define the plant's physical impact area, the study's authors used odor dispersal models provided by MERC as well as mapping odor complaint calls to the cities' police departments.

From this data, four impact areas were defined, with Area A, the highest impact area, with the most smoke and odor, and Area D the lowest. The areas generally move from high to low impact based on proximity to the plant in a cloverleaf pattern.

Area A was defined as four distinct neighborhoods; one in the vicinity around the Saco Shaw's complex, one straddling the river near Irving Street in Saco, one due south of Biddeford's downtown and one extending from Factory Island toward Biddeford Pool to Clifford Street.

Area B includes all the areas between these plots, including most of both downtowns and extended southwest toward Clarendon Street in Biddeford, southeast down Pool Road to Lafayette Street, northeast toward Thornton Academy, and northwest toward the Saco Armory.

Area C extends from Zone B southwest to Southgate Avenue, Southeast toward Decary Road, northeast toward the I-395 interchange and northwest to Skyline Drive.

Area D includes all outlying areas.

The study focused on Zones A and B as constituting the Biddeford-Saco downtown.

Based on this map, it was found that in studying property sales in different zones, "...there is a clear pattern of increasing building values per square foot of living space across Zones A, B and C", according to the report. The report found no difference between values of homes in Zones C and D.

The report finds the answer to the question inconclusive. "...at least for single-family homes, there does appear to be a locational impact on property values...It is impossible from this evidence, however to isolate MERC as the sole or even major reason for this differential." The report goes on to mention other factors, such as, traffic crime and distances to amenities and services. The authors recommend a more in-depth study to answer the question more conclusively.

Speaking at the public meeting, Johnston said he had first hand experience about the depressing effects of MERC. Johnston recalled touring Saco Island with a prospective developer who lost interest once he became aware that the odor was coming from a nearby trash incinerator. Johnston also said, a "quality" tenant in one of his apartment buildings moved out because he could no longer tolerate the odor.

"The evidence of MERC's effect on property values is real," Johnston said.

The third question—is there evidence from other cities where removal of some objectionable facility was followed by increased investment and rising property values— is a resounding yes.

In the case of Westbrook, that element was the South African Pulp and Paper Industries (SAPPI) pulp mill.

In Rockland, the offending element was a series of fish processing plants along the waterfront. The odors created by these facilities were considered extremely onerous on the area's development potential.

The undesirable element in the case of Lewiston was a "vast complex of old textile mill buildings, many of which were abandoned," ac-

According to the report. These buildings gave the area a blighted character, providing a disincentive to new development.

In each of the three examples, the report compares the number of sales and the value per square foot of each sale in the years before and after the offending element was removed.

Of the three, Westbrook provides the most dramatic example. The value of property sales doubled from \$1 million in 1997 to \$2.3 million in 1998.

The significance of 1998 in the Westbrook example presents an interesting parallel for what may occur in Biddeford and Saco. While the company did not announce closure of the pulp mill until June of 1999, Sappi had announced its intention to sell its Maine landholdings in June of 1998. The reports' authors imply that real estate developers speculated about the mill's future based on this news.

In the case of MERC, if a settlement between the company and the two cities' is reached with a negotiated early closure date, development could increase well before the plant is taken off line.

From 1998 through the present, development in Westbrook has maintained its brisk pace. The value of downtown sales peaked in 2002 at \$6.1 million. The price of a square foot of real estate in downtown Westbrook in 2003 was \$73, up from \$41 in 1999.

The experiences in Rockland and Lewiston demonstrate real, albeit less dramatic improvements.

The report states the last fish processing plant closed in Rockland in 1998. In that year, the average value of a square-foot of real estate was \$56. By 2002, that value had risen to \$97. It is interesting to note that the price has dropped substantially to \$63 last year. In 1990, while the plants were in operation, the value was \$88. However, these numbers are hard to compare year to year since the number of properties sold are small— one in 1991, zero in 1993 and 10 in 2002— and fluctuate wildly—six in 2001, 10 in 2002 and three in 2003. Values may be de-

pendent on the quality and location of specific buildings rather than demonstrable trends, although the report does not state this.

MBNA recently announced it was closing a facility it opened in Rockland following the fish plant closures.

Lewiston's development has shown consistent growth in the four years since it embarked upon its redevelopment project, although values were and remain significantly lower than Rockland, Westbrook, Biddeford and Saco. The number of properties sold rose from six in 2000 to 74 in 2004. The six properties sold in 2000 for a total of \$500,000. The 74 properties sold in 2004 for a total of \$11 million. In that time value per square foot of property sold has increased from \$17 to \$26.

Michaud said he believed Westbrook's experience was the one most similar to Biddeford-Saco and described its experience as "dramatic," "significant," and "enormous"

Lawton emphasized, in the study and at the public hearing that closure of MERC will need to occur in conjunction with a detailed and coherent revitalization plan.

He noted that in each of the above cases significant public and private investment was made in addition to the removal of the offending properties.

Lawton said the study issued was only the first part of the economic study. The second part, which may be requested after a settlement is achieved, would be a more detailed and specific plan of what types of investment the cities would need to make to achieve its growth goals.

Any additional public investment needed to help grow property values was not included in the phase one analysis, since it is unknown how much and from what sources that investment would come from, Lawton said.