

# THE NEW HOMESTEAD INITIATIVE

## Greater Beatrice/Gage County Region

### Introduction & Background

In the late 1970s and early 1980s Nebraska experienced its worst agricultural related economic recession since the Great Depression. Following this recession, Nebraska, including rural Nebraska, experienced one of its strongest and most sustained economic expansions. Employment growth, particularly in the manufacturing and travel industries, quickly filled up surplus available housing. The ensuing housing shortage has become a major constraint on the ability of communities to grow and prosper. This problem is particularly acute in rural trade center communities like Beatrice where the cost of new housing is greater than the ability of new workers to pay for it.

The following analysis examines this challenge and provides a strategy for building new "beginner" housing in Beatrice, Nebraska and the associated economic impacts of implementing such a strategy.

### The Future of this Region

Gage County has lost over 5,000 residents (net) between 1950 and 1990 representing nearly a 20 percent decline in its population base. Beatrice over this same period grew by only 541 residents or just under five percent. It is clear that the future of Beatrice is directly tied to the success of its rural hinterlands and vice versa.

When compared to Nebraska (or the country), it is clear that Beatrice and Gage County is declining its relative share of Nebraska's socio-economic and political life.

Table 1 \* Historical Population Trends for Selected Places.

Year	Beatrice	Nebraska	Gage Co.	Gage/NE
1950	11,813	1,325,510	28,052	0.02
1960	12,132	1,411,330	26,818	0.02
1970	12,389	1,485,333	25,731	0.02
1980	12,891	1,569,825	24,456	0.02
1990	12,354	1,578,385	22,794	0.01
1996	12,464	1,604,000	22,799	0.01
50-60	0.03	0.06	-0.04	---
60-70	0.02	0.05	-0.04	---
70-80	0.04	0.06	-0.05	---
80-90	-0.04	0.01	-0.07	---
90-96	0.01	0.02	0.00	---
50-96	0.06	0.21	-0.19	---

Source: U.S. Census Bureau and the UNL Bureau of Business Research.

## Impact Modelling Findings

- o The current size of the Gage County economy is roughly three-quarters of a billion dollars (based on 1994 data -- most current available).
- o This economy provides nearly 13,000 full time equivalent jobs.
- o The construction of 125 "beginner" homes over a five year period would increase economic output by over \$13 million creating 274 job-years of employment.
- o The addition of 85 new households to the community would expand the economy by over \$4million annually or nearly \$21 million over the five year construction cycle.
- o These new workers, now in the community because of available housing, would increase the annual employment base by and additional 91 workers.
- o Overall, this development strategy and program would expand the Gage County economy by over five percent.

Table 2 \* Economic Output Impacts

Sector	Base Economy	New Homes	New Workers (3)	Changed Economy	% Change
Agriculture	\$95,728,027	\$272,953	\$109,880	\$382,833.00	0.00
Mining	5,617,858	1,285	15,945	17,230.00	0.00
Construction	51,430,351	8,752,267	651,285	9,403,552.00	0.18
Manufacturing	161,488,663	328,240	845,345	1,173,585.00	0.01
TCU (1)	43,755,573	246,727	721,745	968,472.00	0.02
Wholesale Trade	19,539,539	206,918	265,596	472,514.00	0.02
Retail Trade	61,250,854	1,327,806	4,601,130	5,928,936.00	0.10
FIRE (2)	87,217,125	1,108,401	5,877,765	6,986,166.00	0.08
Services	118,421,890	726,926	5,653,475	6,380,401.00	0.05
Government	85,472,321	157,640	2,174,935	2,332,575.00	0.03
<b>Total</b>	<b>\$729,829,145</b>	<b>\$13,135,172</b>	<b>\$20,916,960</b>	<b>\$34,052,132.00</b>	<b>0.05</b>

(1) TCU = Transportation, Communications & Utilities.

(2) FIRE = Finance, Insurance & Real Estate.

(3) Cumulative impact over five years.

**IMPLICATIONS.** In order for the market to build the necessary housing to provide homes for the workers Beatrice needs, wage rates would have to rise significantly. In Beatrice's industries, wages would to rise from just over \$10 per hour to nearly \$13.50 hour. In Beatrice's other businesses, wage rates would have to rise from \$7.21 per hour to over \$9.50 per hour. Such increases (over 34%) would adversely effect the ability of Beatrice's industries and businesses to remain competitive.

Table 3 \* Employment Impacts

Sector	Base Economy	New Homes	New Workers	Changed Economy	% Change
Agriculture	1,573	9	0	9.00	0.01
Mining	18	0	0	0.00	0.00
Construction	696	179	2	181.00	0.26
Manufacturing	1,193	4	1	5.00	0.00
TCU	263	2	1	3.00	0.01
Wholesale Trade	256	3	1	4.00	0.02
Retail Trade	2,298	49	35	84.00	0.04
FIRE	528	7	7	14.00	0.03
Services	3,284	18	31	49.00	0.01
Government	2,352	1	9	10.00	0.00
<b>Total</b>	<b>12,597</b>	<b>274</b>	<b>91</b>	<b>365.00</b>	<b>0.03</b>

(1) TCU = Transportation, Communications & Utilities.

(2) FIRE = Finance, Insurance & Real Estate.

## Local Tax Impacts

The following local tax impacts are estimated based on this analysis. Summary results are located on the next page.

Table 4 \* Local Tax Revenue Impacts

Local Subdivision	Property Taxes	Sales Taxes	Total
City of Beatrice	\$37,900	\$60,000	\$97,900.00
Beatrice Fire District	2,400	0	2,400.00
Southeast Community College	8,700	0	8,700.00
Beatrice Public Schools	161,000	0	161,000.00
ESU #5	2,100	0	2,100.00
Lower Big Blue NRD	3,600	0	3,600.00
Beatrice Airport Authority	4,800	0	4,800.00
Gage County Historical Society	300	0	300.00
Gage County Agricultural Society	900	0	900.00
Gage County	44,900	0	44,900.00
<b>Total</b>	<b>\$266,600.00</b>	<b>\$60,000.00</b>	<b>\$326,600.00</b>

- o The addition of \$12.5 million to the residential valuation of Gage County, and in particular the City of Beatrice, will increase property tax revenues county-wide for all political subdivisions by \$266,600 annually.
- o The major political subdivisions of this tax base expansion are:
  - Beatrice Public Schools \$161,000
  - Gage County \$44,900
  - City of Beatrice \$37,900
- o The addition of new households into the community will generate additional sales tax revenues for the City of Beatrice. We estimate that sales tax revenues will increase by \$60,000 annually. However, a portion of this sales tax is dedicated to property tax relief. The City could only employ roughly \$50,000 in support of a housing program.
- o Overall, the City of Beatrice will realize nearly \$90,000 in additional tax revenues due to this development.

**IMPLICATIONS.** The City of Beatrice, based on the likely net increase in tax revenues, could afford to invest up to nearly \$90,000 annually in infrastructure improvements associated with the "beginner" home subdivisions without creating a burden on existing taxpayers.

## Proposed Development Strategy

It is proposed that the community of Beatrice embark on a three part housing development strategy. The purpose of this strategy to provide affordable home ownership for households providing workers for Beatrice's industries and businesses.

The three solutions:

- A. Construction of Beginner Homes in Beatrice.
- B. Construction of Beginner Homes in Area Communities.
- C. Transition Housing Construction for Retirees Freeing Up Existing Homes.

Only Solution A is currently addressed in this analysis. Solutions B and C will be development subsequently.

## Housing Needs

Over the next five years and estimated 350 new housing units are needed in the greater Beatrice region. Failure to provide this housing would likely constrain the retention and attraction of workers necessary to support the community's expanding economy.

The Beatrice Housing Market Study estimates that at least 350 new housing units are need (plus the need for 60 new homes associated with MBA Poultry & the Tecumseh Prison -- less 25 homes being currently built per year through normal market workings or 125 homes over the period), leaving a gap of 285 units. Building these 285 units will likely require public/private assistance.

**IMPLICATIONS.** Beatrice's employers would have to spend over \$1 million more each year to provide compensation rates for workers necessary to build the proposed 125 new units of housing. This cost would occur year after year driving up the cost of doing business in Beatrice. Of course the cost would be larger, since higher wage rates would apply to all workers -- not just those buying new homes.

Conversely, the cost of an employer/lender assistance program would be much lower. A one time cost of \$500,000. If the household stays and works in Beatrice -- the assistance would be forgiven. However, if the household sells the home within five years and moves -- the assistance fund would be repaid with interest.

### The Housing Finance Gap

The typical working household in the Beatrice area has a gross annual income of about \$36,000 (worker #1 earns roughly \$21,000 or \$10.10/hour & worker #2 earns \$15,000 or \$7.21/hour). Such a household can typically finance upwards to \$75,000 for a home purchase. However, current building market conditions require up to \$100,000 and more for new home construction creating a \$25,000 financing gap.

Cost of New Housing	\$100,000/Home
Affordability Gap	\$25,000
Assumes	\$36,000 Annual Gross Income
Monthly Gross Income	\$3,000
Available for Housing @ 25%	\$750.00/Month
Less Taxes & Insurance	\$220.00/Month
Income Available for Financing	\$530.00/Month
Mortgage Eligibility	\$75,000 for Home Purchase
(assumes 30 year mortgage at 7.5% amortization rate)	

### Proposed Housing Finance Solution

If home ownership is to be afforded to working families in the Beatrice area, then there is a need to help these families solve the \$25,000/home financing gap. The following proposed solution has been developed to meet this \$25,000 financing gap:

Solution Option	Value	Description
Land Buydown	\$5,000	Based on efforts to buy larger tracts of land at lower per lot costs. Also efforts to design subdivisions to accommodate smaller yet desirable lot sizes.
Infrastructure	\$8,000	Use of tax increment financing, general obligation bonds, general funds, and in-kind city services to provide necessary infrastructure (streets, sidewalks, utilities, etc.) to lots within the new subdivisions.
Low-Cost Financing	\$8,000	Based on lenders utilizing USDA Rural Development and Nebraska Investment Finance Authority programs to reduce down payment and interest rates (1% point difference allows buyer to buy an \$83,000 mortgage rather than a \$75,000 mortgage -- the difference is \$8,000).
Employer/Lender Assistance Program	\$4,000	Utilization of an employer/lender downpayment program being developed.
<b>Total</b>	<b>\$25,000</b>	-----

## Communication Program

## Targets

At least target audiences have been identified for this analysis necessary to build an effective public/private partnership to build the proposed 125 units of "beginner" housing:

- o Major Employers & Lenders
- o Local Governments
- o General Business Community

## Major Employers & Lenders

Major employers and local lenders are proposed to be asked to capitalize a "downpayment assistance program." Table Five summarizes the major employers in Beatrice and the percent of their workforce commuting from outside the local area to work in Beatrice. Overall wage rates would have to rise dramatically (from 25 to 50%) to generate adequate incomes necessary to build new housing through existing markets. Such wage rate increases would cost employers from over \$500,000 to \$1,000,000 annually per 100 workers. Failure to provide necessary housing will directly limit the ability of Beatrice to attract workers constraining growth. The potential exists to undermine the growth inertia realized by the community over the past decade.

Provision of "beginner" housing could provide a highly cost-effective inducement strategy to recruit necessary works at the margin without the need for dramatic across-the-board wage increases.

Table 5 \* Major Employers in Beatrice

Major Employers	Workers	% Commute	# Commute
American Tool	260	.50	130.00
Community Hospital/Parkview Center	400	.30	120.00
Beatrice City Schools	275	.18	49.50
State Development Center	840	.30	252.00
Good Samaritan Center	130	.20	26.00
Exmark Manufacturing	170	.75	127.50
Hoover Group	250	.50	125.00
Store Kraft Manufacturing	350	.40	140.00
Southeast Community College	115	.60	69.00
NEAPCO, Inc.	223		0.00
Martin Luther Home	300		0.00
<b>Total</b>	<b>3,313.00</b>	<b>0.31</b>	<b>1,039.00</b>

Source: Beatrice Housing Study.

## Local Governments

<under development>

## General Business Community

<under development>

## Working Committee

This strategy has been developed by the Nebraska Rural Development Commission at the request of U.S. Senator Robert Kerrey and USDA Rural Development State Director Jim Otto. Cooperators assisting in this analysis include:

- o William Scully, Scully Estates, Beatrice.
- o Cliff Kumm, USDA Rural Development, Beatrice.
- o Jamie Renshaw, Beatrice Concrete, Beatrice.

A special thanks are extended to Cliff Kumm for the analysis and research support he had provide. Modelling support has been provided by Laura Connington, Staff Economist with the Government Assistance Project (sponsored by the Nebraska Rural Development Commission through the Nebraska Community Foundation).

Assistance and support for this analysis is being provided by the following groups:

- o Steve Peregrine, Fannie Mae, Lincoln.
- o Jim Caruso, Nebraska Finance Investment Authority, Lincoln.
- o Jenne Rodriguez, Nebraska Department of Economic Development, Lincoln.
- o Danielle Hill, Nebraska Association of CHDO's, Lincoln.
- o Jim Otto, USDA Rural Development, Lincoln.

## Attachments

A \* Request for Assistance from U.S. Senator Kerrey.

B \* Scenario Setup.

## For More Information....

Don Macke, Executive Director  
Nebraska Rural Development Commission  
1200 N Street \* Suite 610 \* Lincoln, NE 68508-2022  
Voice 402.471.6002 \* Fax 402=471=8690 \* Email dmacke@mail.state.ne.us

Attachmnet B \* Scenario Impacts

## Impact #1 \* New Housing Construction

**ACTION.** Double new home construction over the next five years (2000 through 2004) resulting in 125 new "beginner" homes (or 25 new homes per year over the period) at an estimated total cost of \$100,000 per new home. This would generate \$12.5 million in new economic activity over the period.

### SECTORS IMPACTED:

#### Investment

Economic Activity	Sector Impacted	Impact Value
Lot Purchase (\$10,000)	48	1,250,000
Site Preparation (\$5,000)	48	625,000
Infrastructure - streets, curbs, water, etc. (\$10,000)	48	1,250,000
Construction of Structures (\$62,500)	48	7,812,500
Outfitting of Structures (\$5,000)	48	625,000
Landscaping (\$2,500)	27	312,500
Financing, Insurance, Etc.	456	625,000
<b>Total (\$100,000)</b>	---	<b>\$12,500,000.00</b>

#### Paying for the Investment

Economic Activity	Sector Impacted	Impact Value
Purchaser through Mortgage (\$75,000) [a]		\$9,375,000
Land Buydown via Local Gifts (\$5,000) [b]		625,000
Area Infrastructure via City (\$8,000) [c]		1,000,000
Low-Cost Financing (\$8,000) [d]		1,000,000
Downpayment Assistance via Local Gifts (\$4,000) [e]		500,000
<b>Total (\$100,000)</b>		<b>\$12,500,000.00</b>

[a] It is assumed that 90% of the mortgage capital will come from outside of the community representing a net capital inflow of \$8,437,500.

[b] It is assumed that 100% of the Land Buydown Program financing will come from local contributions.

[c] It is assumed that 100% of the city related infrastructure improvements would come from local tax sources.

[d] It is assumed that 100% of the low-cost financing assistance will come from outside of the community representing a net investment flow of \$1,000,000.

[e] It is assumed that 100% of the Downpayment Assistance Program financing will come through local gifts.

**We estimate that 75% of the investment required to build the 125 new "beginner" homes would come from outside of the community and represent new capital investment.**

## Impact #2 \* New Household Spending

**ACTION.** Because the are is in a housing short and labor short situation, we are assuming the following: 1/3 of the homes would be filled by existing families within the community  
 1/3 of the homes would be filled by persons now commuting to the community  
 1/3 of the homes would be filled by new households moving into the community

With this assumption on who would fill these homes -- the community would realize through this development 83 new households living within the community and at least 150 new workers for the laborforce.

These 83 new households (assuming average gross household income of \$35,000) would generate \$2,905,000 in new households spending. The following chart estimates the economic sectors impacted by these new households within the community.

**New Household Impacts**

Economic Activity	Sector Impacted	Impact Value
House Financing, etc. (25%)	456-462	\$726,250
Retail Trade (25%)	448-455	726,250
Services (25%)	463-494	726,250
Local Taxes (10%)	495	290,500
Spending Outside of the Community & State & Federal Taxes (15%)	----	435,750
<b>Total (\$35,000)</b>		<b>\$2,905,000.00</b>

Note. Because of the tight labor market within the community, we are assuming that there is no net loss due to the relocation of households within the community.

\*\*\* End of Report \*\*\*

DWM2:RDC99:GAGE:2-22-99