

IN THIS ISSUE

Comparing utility shutoffs and mortgage foreclosures reveals much to learn for utility industry (part 3 of 3)

NOTE TO READERS

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**ASSESSMENT OF COST OF
DISCONNECTIONS FOR NONPAYMENT
SHOULD CONSIDER IMPACTS OF LOST
HOUSING VALUE**

When utilities seek to justify their use of involuntary disconnections for nonpayment, they generally focus exclusively on the short-term impact of whether a particular bill remains outstanding. A recent study by Fisher, Sheehan & Colton comparing utility shutoffs with mortgage foreclosures reveals that the utility industry approach does not capture the full economic costs of a utility service shutoff. Whether involving water service or energy (natural gas, electricity) service, longer-term costs should be considered as well.

A Brief Introductory Overview

FSC's comparison found that foreclosures cost everyone money. In assessing the returns to the industry based only on differing collection strategies, mortgage holders consider the Net Present Value (NPV) they will receive with and without mortgage interventions. Many industry stakeholders, however, recognize that "even if loss mitigation were granted whenever it was NPV-positive, the NPV test would still not take into account society's interest in preventing abandoned homes and the negative spillover effects that result from them."¹

¹ Patricia McCoy. (August 2013). *The Home Mortgage Foreclosure Crisis: Lessons Learned*. Joint Center for Housing Studies, at 34, 36. Harvard University, Cambridge (MA). (hereinafter, "Lessons Learned").

This issue considers the impacts relating to one specific example of those “spillover effects”: decreased housing values.

A Special Focus on Reduced Housing Values.

A special focus on the impacts that foreclosures have on surrounding housing values is merited, both because of the magnitude of the impact and because of the degree to which those impacts have been studied. The housing impacts arise in two ways. On the one hand, one of the most substantial external impacts involves the impact on the value of the home subject to foreclosure. On the other hand, there is the impact on the values of other homes in near proximity.

Impact on Homes Subject to Foreclosure.

The process of foreclosure generally involves the financial institution taking possession of the home and, at some subsequent date, selling the home to generate proceeds from which the outstanding obligations will be paid. This resale process has been found to have a negative impact on the value of the home that is the subject of the foreclosure. This negative impact will likely be substantial. On average, foreclosure discounts are estimated to be greater than 20% of home value. One study estimated a discount on the sale price of 27%.²

Multiple reasons exist why a home subject to foreclosure generates a sale price which values the home significantly below its market value.

² Sanjiv Das and Ray Meadows. (February 2011). Strategic Loan Modification: An Options-Based Response to Strategic Default, at 2. Santa Clara University, Santa Clara (CA). (hereinafter, “Strategic Loan Modifications”). See also, Daniel Hartley. (October 27, 2010). The Impact of Foreclosures on the Housing Market. Economic Commentary, at 1. Federal Reserve Bank of Cleveland, Cleveland (OH). (hereinafter, “Impact of Foreclosures on Housing Market”).

First, foreclosed homes often sell at a significant discount due to neglected maintenance. Once an owner realizes that he or she will not succeed in retaining an ownership interest in the home, that owner stops making any expenditures on routine maintenance.³ That process of disinvestment leads to a physical deterioration of the home, thus causing the home to be valued less at the time of resale. Second, financial institutions taking possession of a home through the foreclosure process often, if not generally, have no interest in retaining long-term possession of the home. There instead is an internal pressure to resell the home as quickly as possible, resulting in a “firesale” mark down if disposed quickly in an illiquid market.⁴ One researcher found that, in the U.S., this discount is estimated

³ Robert Wassmer (March 2011). The recent pervasive external effects of residential home foreclosure. *Housing Policy Debate* 21(2):247-265, at 252. (hereinafter “Pervasive External Effects”). (“A bank-owned home is more likely to suffer physical neglect before and after repossession.”); see also, Allan Mallach (June 2009). *Addressing Ohio’s Foreclosure Crisis: Taking the Next Steps*, at 3. Metropolitan Policy Program at Brookings Institution, Washington D.C. (hereinafter, “Ohio’s Foreclosure Crisis”). (“These effects do not come from foreclosure as such, in the sense of a legal procedure, but from the close relationship between foreclosure, disinvestment, abandonment, and vacancy in properties subject to foreclosure. . .”); see also, Joseph Andritzky December 2014). *Resolving Residential Mortgage Distress: Time to Modify?*, at 25 International Monetary Fund, Washington D.C. (hereinafter, *Resolving Mortgage Distress*).

⁴ W. Scott Frame. (2010). *Estimating the Effect of Mortgage Foreclosures on Nearby Property Values: A Critical Review of the Literature*, at 5. Economic Review. Federal Reserve Bank of Atlanta, Atlanta (GA). (“It has also been suggested that the foreclosure discount may be due, in part, to certain sellers being willing to accept a lower price in order to sell faster and avoid holding costs. . .”) (hereinafter, “Literature Review of Foreclosure Effects on Property Values”);

to amount to 28 percent.⁵ Third, a home that has faced foreclosure often faces a stigma in the marketplace. That “stigma” has been found, unto itself, to discount the sales price by five percent (5%).⁶ The result is that homes do not sell at market value.

Irrespective of the magnitude of the discount on a home’s resale price, the amount of the discount represents a cost that is not taken into account in the NPV decisionmaking regarding whether to pursue a foreclosure. The very process of foreclosure, in other words, not only displaces the household from living in the home, but it also artificially discounts the value of what is likely the largest asset held by the household. The external cost is not the total value of the home, but is the extent of the discount that can be attributed to the fact that the home has been foreclosed. The value of this discount involves dollars which simply disappear to the homeowner.

Impact on Neighboring Housing Values.

An even greater external economic cost arises from the impact that foreclosures have on the value of neighboring properties. As a general rule, it has been recognized that foreclosed properties have a negative impact upon neighboring home values.⁷ In synthesizing “the

empirical evidence measuring the effect of foreclosure on nearby property sales prices,” what is generally viewed as the pre-eminent assessment of the literature reports that “the evidence is consistent” that a reduction in surrounding home values occurs, although “estimates and interpretations vary.”⁸ The “universal findings” of relevant studies are that properties near foreclosed homes lose substantial value.⁹

This reduction in surrounding property value is substantial. One assessment in Chicago, perhaps the most cited of the various studies, found that “each new foreclosure within one-eighth mile of a home resulted in a 0.9 percent decline in the value of that home (i.e., having more foreclosures results in a greater decline in value). In low and moderate-income neighborhoods. . .the marginal drop in property value from one new foreclosure in [the] same radius was 1.8 percent.”¹⁰ Similarly, a second

Study, at 10. Homeownership Preservation Foundation, Minneapolis (MN). (hereinafter, “Municipal Cost of Foreclosure”).

⁸ Literature Review of Foreclosure Effects on Property Values, *supra*, at 1, 3; see also, Xian Bak and Geoffrey Hewings. (undated). Measuring Foreclosure Impact Mitigation: Evidence from the Neighborhood Stabilization Program in Chicago, at 2, 3. Regional Economics Applications Laboratory, University of Illinois, Urbana (IL). (“Many studies have identified the negative impact of foreclosures on nearby property values.” (with citations). See also, Impacts of Foreclosures on Families and Communities, *supra*, at 17. (“Considerable research has demonstrated that the outcomes predicted [in reduced values of surrounding properties] predicted. . .do in fact occur.”)

⁹ Yishen Liu and Anthony Yezer. (July 19, 2017). Can Differences Deceive? The Case of “Foreclosure Externalities,” at 9 - 10, 30.

¹⁰ G. Thomas Kingsley, Robin Smith and David Price. (May 2009). The Impacts of Foreclosures on Families and Communities, at 17. The Urban

⁵ Resolving Mortgage Distress, *supra*, at 24.

⁶ See, Roberto Quercia, Spencer Cowan and Ana Moreno. (February 2004). The Cost-Effectiveness of Community-Based Foreclosure Prevention. at 14, Joint Center for Housing Studies, Harvard University, Cambridge (MA). (hereinafter, “Community-Based Foreclosure Prevention”).

⁷ NeighborWorks America (September 2005). Effective Community-Based Strategies for Preventing Foreclosures, at 5, NeighborWorks America, Washington D.C. (citations omitted); see also, William Apgar, Mark Duda and Rochelle Nawrocki Gorey. (February 27, 2005). The Municipal Cost of Foreclosures: A Chicago Case

study found “a negative effect on values of 1.3 percent within a 300-foot radius of the home (i.e., a foreclosure probably in one of the nearest two to three properties), but a drop of only 0.6 percent for a one-eighth mile (660 feet) radius (i.e., a foreclosure probably in the next block).”¹¹ To provide context, one-eighth mile represents roughly one block. One quarter mile thus represents roughly two blocks.¹²

A study by Temple University found that, in Philadelphia, properties within 150 feet of an abandoned unit sold for \$7,627 less than those not located near abandoned units, with the effect tapering off to \$3,543 at distances of 300-450 feet, and the impact being negligible beyond 450 feet.¹³ Another study reported that “housing prices within 250 feet of a foreclosure are lowered by about 2 percent per foreclosure through the disamenity effect. . .”¹⁴

While the percentages may seem small, the overall dollar loss from any single foreclosure generating these losses can be quite substantial.¹⁵ One researcher applied the

Institute, Washington D.C. (hereinafter, “Impacts of Foreclosures on Families and Communities”).

¹¹ Id.; see also, Municipal Cost of Foreclosure, supra, at 2 (documents “indirect effects” on nearby property owners in the form of reduced property values or home equity of as much as an additional \$200,000).

¹² W. Scott Frame. (2010). Estimating the Effect of Mortgage Foreclosures on Nearby Property Values: A Critical Review of the Literature, at 6. Economic Review. Federal Reserve Bank of Atlanta, Atlanta (GA). (hereinafter, “Literature Review of Foreclosure Effects on Property Values”).

¹³ Municipal Cost of Foreclosure, supra, at 28, 54; see also, Collateral Damage, supra, at 23.

¹⁴ Impact of Foreclosures on Housing Market, supra, at 3. Foreclosures as a “disamenity” has been discussed in the January-February 2020 edition of FSC’s Law and Economics Insights newsletter

¹⁵ Emily Thaden and Greg Rosenberg. (October 2010). Outperforming the Market: Delinquency and Foreclosure Rates in Community Land Trusts, at 3.

Immergluck and Smith results to their particular community, finding that that study:

reports a reduction of 0.9 percent of value for all properties within one-eighth of a mile. Given that there are 31.4 acres in a radius of one-eighth of a mile and a reasonable density is 3 units per acre, this effect would extend [to] 94 properties. For example, if the average sales price were \$171,000, then the aggregate externality would be \$144,750 per foreclosed home.¹⁶

What the research shows, in other words, is that a concentrated rate of foreclosures “can put downward pressure on area property values and indirectly rob area homeowners of hundreds of thousands of dollars of home equity.”¹⁷ However calculated, it is evident that the total economic costs of a particular foreclosure would substantially exceed the insider costs (“insider costs” were discussed in the January-February 2020 FSC newsletter) once the reduction in property values is taken into account.

Several attributes of this reduction in surrounding home values make the impact even

Land Lines, Lincoln Institute of Land Policy, Cambridge (MA). (“The costs of foreclosure extend well beyond the households that lose their homes, impacting the immediate neighborhood and surrounding municipality. Studies in Columbus (Ohio), Chicago, and New York City have shown that foreclosed properties significant diminished nearby housing values, and that rates of depreciation were greater for lower-income than higher-income neighborhoods.”) (hereinafter, “Outperforming the Market”).

¹⁶ U.S. Department of Housing and Urban Development (March 2011). Regulatory Impact Analysis: Emergency Homeowners’ Loan Program, at 4. U.S. Department of Housing and Urban Development, Washington D.C. (hereinafter “Regulatory Impact Analysis”).

¹⁷ Municipal Cost of Foreclosure, supra, at 1.

more substantial. It is becoming increasingly clear that foreclosures tend to “cluster.”¹⁸ A Brookings Institution study of foreclosures in Columbus (OH), for example, documented areas of such foreclosure clustering. “These [clusters] are today most often the areas which have already been severely destabilized, or are at risk of future destabilization.”¹⁹

One cause identified for this clustering, known as the “contagion effect,” is that one foreclosure tends to lead to another and then to another.²⁰ “Analysis by Collins (2003) suggests that there is a ‘contagion’ effect, demonstrating that foreclosures in some Chicago neighborhoods have tended to cluster, positing that a number of geographically concentrated foreclosures may cause additional foreclosures in that area.”²¹ In fact, this contagion effect counsels that each

loan failure increases the likelihood of another.²² This “contagion effect” can “ripple through the local economy.”²³

Several factors contribute to the clustering and contagion effect. One factor increasing clustering involves the “expectation effect” foreshadowing negative changes in neighborhood quality associated with a foreclosure.²⁴ If neighborhood quality is expected to decline, the values of homes in the neighborhood also decline to reflect that expectation. A second factor increasing clustering is that as more homeowners default, the stigma associated with such default is lessened.²⁵ This enables additional homeowners to subsequently default.²⁶ Each additional five

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Emily Thaden and Greg Rosenberg. (October 2010). *Outperforming the Market: Delinquency and Foreclosure Rates in Community Land Trusts*, at 3. Land Lines, Lincoln Institute of Land Policy, Cambridge (MA). (hereinafter, “Outperforming the Market”). (“Foreclosures, which are associated with rises in vacant properties and crime, tend to cluster in low-income and minority neighborhoods.”)

¹⁹ Ohio’s Foreclosure Crisis, *supra*, at 4; Municipal Cost of Foreclosure, *supra*, at 2, 13; see also, Duda and Apgar (July 2004). *Mortgage Foreclosure Trends in Los Angeles: Patterns and Policy Issues* (foreclosures tend to cluster in low-income and/or minority neighborhoods with many of the “outsider” effects thus concentrated among the nation’s most vulnerable households).

²⁰ Municipal Cost of Foreclosure, *supra*, at 14.

²¹ Community-Based Strategies, *supra*, at 8; see also, William Apgar and Mark Duda. (May 11, 2005). *Collateral Damage: The Municipal Impact of Today’s Mortgage Foreclosure Boom*, at 5, Homeownership Preservation Foundation, Minneapolis (MN). (hereinafter, “Collateral Damage”) (references “contagion” of foreclosures).

²² Collateral Damage, *supra*, at 9 (citing, Collins, Michael (2003). *Chicago’s Home Ownership Preservation Challenge: Foreclosures*. Presentation to the Federal Reserve Bank of Chicago); see also, Municipal Cost of Foreclosure, *supra*, at 10 (the extent that one foreclosure makes subsequent foreclosures on nearby loans more likely is known as “foreclosure contagion”).

²³ Federal Housing Finance Agency. (July 25, 2016). *Guiding Principles for the Future of Loss Mitigation: How the Lessons Learned from the Financial Crisis Can Influence the Path Forward*, at 4. Federal Housing Finance Agency, Washington D.C. (hereinafter “Guiding Principles”).

²⁴ Literature Review of Foreclosure Effects on Property Values, *supra*, at 5 (citation omitted).

²⁵ Andrew Haughwout, Ebiere Okay and Joseph Tracy (August 2010). *Second Chances: Subprime Mortgage Modification and Re-Default*, at 21 -22, Federal Reserve Bank of New York (hereinafter “Second Chances”) , citing Fannie Mae Foundation (August 2010). *The Fannie Mae National Housing Survey* (borrowers who know someone who has experienced a foreclosure are more than twice as likely to seriously consider default as those who do not).

²⁶ “A growing concern is that the ‘stigma’ to a borrower from a default may be reduced in areas experiencing a severe shock to the local housing

distress sales per 10,000 households raises the re-default risk by 6.7 percent.

A final factor increasing clustering is called the “vortex effect.” When property values substantially decline, as indicated above will occur, “the long term consequences of these reductions in the property tax base are hard to calculate, but almost surely lead to negative multiplier effects. If the city is forced to reduce services, property values may fall even farther, unemployment in the public sector may rise, and a new cycle of foreclosures can kick into gear. This ‘vortex’ effect can be difficult to reverse.”²⁷

When mortgage foreclosures start to multiply, the adverse economic costs generated become

market. If several houses along a street are in foreclosure, then neighbors may not be surprised to hear about another neighbor defaulting on their mortgage, and may ascribe the decision to general problems in the housing market rather than any specific issues with their neighbor. In addition, neighbors who have defaulted themselves or who know someone who has defaulted may urge their friends to do the same if they are facing either payment problems or are in a negative equity situation. Uncertainty of what will happen to a borrower if he/she defaults may be reduced from conversations from friends or neighbors who have already gone through the process.” Andrew Haughwout, Ebier Okay and Joseph Tracy (August 2010). *Second Chances: Subprime Mortgage Modification and Re-Default*, at 21 -22, Federal Reserve Bank of New York (hereinafter “Second Chances”), citing Fannie Mae Foundation (August 2010). *The Fannie Mae National Housing Survey* (borrowers who know someone who has experienced a foreclosure are more than twice as likely to seriously consider default as those who do not).

²⁷Peter Rosenblatt and Katherine Newman. (March 7, 2011). *The Impact of Foreclosure Waves on the City of Baltimore*, at 11. Johns Hopkins University, Baltimore (MD).

greater and greater.²⁸ A single foreclosure in an “otherwise economically healthy neighborhood” is “certainly a negative factor” but as the number of foreclosures in a single area mount, the negative consequences are likely to increase disproportionately.²⁹ This is particularly true in low-income neighborhoods.³⁰

This occurs because the decline in nearby property values resulting from a foreclosure is additive. “While a 1 percent drop in housing prices may not seem terribly large, it can become hefty, since this effect increases with the number of foreclosures. If there were five foreclosures in the same vicinity, for instance, the discount would be around 5 percent.”³¹ One study in Philadelphia found that “foreclosures decrease nearby property values, and that the number of foreclosures influences the size of that decline. For example, within one year. . .while two foreclosures within an eighth of a mile reduce house values by 5 percent, 20

²⁸ *Impacts of Foreclosures on Families and Communities*, supra, at 4; see also, *Municipal Cost of Foreclosure*, supra, at 28 (“As the number of foreclosures in a single area mounts. . .the negative consequences increase rapidly.”).

²⁹ *Municipal Cost of Foreclosure*, supra, at 55; see also, Amy Ellen Schwartz, Ingrid Ellen, Ioan Voicu and Michael Schill (2003). *Estimating the External Effect of Subsidized Housing Investments on Property Values*. A paper prepared for the Federal Reserve System Conference on Sustainable Community Development; see also, *Second Chances*, supra, at 21 – 22.

³⁰ “In a weak market neighborhood, where property values may be going down already, even a small number of foreclosures are likely to accelerate the trend, and a higher density of them would do so yet more rapidly.” *Impacts of Foreclosures on Families and Communities*, supra, at 16.

³¹ *Id.*, at 1.

foreclosures reduce the value by about 18 percent.”³²

Applicability to Utility Disconnections

The discussion above unquestionably applies to utility disconnections, whether they involve water, natural gas or electricity. For example, Detroit, Michigan was one of the cities hardest hit by the nation’s foreclosure crisis. According to a Detroit Free Press analysis in 2015, “when tax foreclosures are included, more than 1 in 3 city properties have been foreclosed in the past 10 years.”³³ The newspaper reported that “Detroit has had more homes foreclosed in the past 10 years than the total number of houses in several suburbs — or all of Buffalo, New York.”³⁴

These foreclosures have led to widespread housing abandonment, which, in turn, have led to housing demolitions. Upon examining more than 65,000 properties that were foreclosed from 2005 to 2015, the Free Press found that “56 percent of mortgage foreclosures are now

blighted or abandoned. Of those 36,400 homes, at least 13,000 are slated for demolition. . .”³⁵

It is, however, not simply foreclosures that have befallen Detroit. Detroit also has garnered worldwide attention in recent years regarding the challenge of delivering affordable water service to residential customers.³⁶ As early as 2004, the high rate of water service disconnections gained the attention of the United Nations.³⁷ More than a decade later, the issues remained. In

³² Ned Prescott (September 1, 2008). Synopses of Selected Research on Housing, Mortgages, and Foreclosures, at 86, Homeownership and Mortgage Initiatives, Research Subcommittee, Federal Reserve System, Washington D.C. Indeed, there may even be a “tipping point” at which values reduce sharply. However, where, if at all, that point occurs has not been conclusively established. *Id.*, at 89.

³³ MacDonald and Kurth (June 3, 2015). “Foreclosures fuel Detroit blight, cost city \$500 million.” Detroit Free Press, <https://www.detroitnews.com/story/news/special-reports/2015/06/03/detroit-foreclosures-risky-mortgages-cost-taxpayers/27236605>.

³⁴ MacDonald and Kurth (June 24, 2015). “Volume of abandoned homes 'absolutely terrifying'”. Detroit Free Press, <https://www.detroitnews.com/story/news/special-reports/2015/05/14/detroit-abandoned-homes-volume-terrifying/27237787>.

³⁵ Foreclosures fuel Detroit blight, *supra* note 33. This assertion is consistent with 2018 research by the Detroit Free Press. The Free Press tracked 23 homes that were lost to tax foreclosure in 2012 and 2013. According to the Free Press, “While 78 percent of the properties appeared to be occupied in 2011, according to an analysis of Google Map images, 78 percent were either abandoned, demolished or burned down this spring when the Free Press visited the properties.” Gross (August 17, 2018). Detroit Real Estate Game Creates Chaos in Neighborhoods. <https://www.freep.com/story/news/local/michigan/detroit/2018/08/17/detroit-home-values-real-estate/921453002/> (hereinafter Detroit Real Estate Game).

³⁶ Catarina de Albuquerque, United Nations Special Rapporteur of the Human Rights Council on the Human Right to Safe Drinking Water and Sanitation, Report of the Special Rapporteur on the Human Right to Safe Drinking Water and Sanitation, Mission to the United States of America, Int’l Law Comm’n, ¶ 35, U.N. Doc. A/HRC/18/33, (July 4, 2011).

³⁷ UN News. “In Detroit, -backed water shut-offs ‘contrary to human rights,’ say UN experts,” 20 Oct 2004.

<https://news.un.org/en/story/2014/10/481542-detroit--backed-water-shut-offs-contrary-human-rights-say-un-experts> See also, Fried, Kate. “Groups Pressure United Nations to Restore Water Service in Detroit.” Food & Water Watch. June 18, 2014.

<http://www.foodandwaterwatch.org/news/groups-pressure-united-nations-restore-water-service-detroit>.

March 2018, the Detroit Free Press reported that nearly 17,500 Detroit water customers were subject to the potential disconnection of service.³⁸ Just like mortgage foreclosures, these water shutoffs frequently caused the affected households to lose their homes with a resulting abandonment of the housing structure.

And, as discussed above with respect to foreclosures, these disconnections tended to “cluster.” One study found clusters of between 51 and 88 shutoffs in nine Detroit Census Block groups in 2016, with more than 100 additional Census Block groups having clusters of between 27 and 51 shutoffs that same year. This study reported that “while some of the occupants of these houses are surviving on donated water and water sharing with neighbors, a still-untold number of those houses have been vacated or abandoned.”³⁹

Moreover, according to a study by Temple University’s Institute for Public Policy Studies, over five years, an average of 32 percent of the homes of residential electric customers in Philadelphia became abandoned within one year following

service termination of utility services for nonpayment.

The average percentage was found to be slightly lower for gas terminations: 22.4 percent. The IPPS study concluded: “The evidence linking utility terminations to abandonment is strong, consistent over a five year period and across two utilities, gas and electric. The evidence also suggests that the percentage of units which have experienced termination and become vacant increases over time.”⁴⁰

These results have been confirmed elsewhere. The most commonly cited reasons for homelessness in Colorado, for example, were loss of job and housing costs, followed by family/relationship breakup, and utility costs. Slightly more than half (53%) of the reported reasons were related to the cost of housing (housing costs, utility costs and eviction / foreclosure).⁴¹ In a survey of residents of homeless shelters in Kentucky, among the dominant housing-related reasons for homelessness, utility terminations were cited as the cause 7.9% of the time.⁴²

Nationwide, over a five year period, 14% of Energy Assistance recipients moved in with

³⁸ Kat Stafford (March 26, 2018). Controversial water shutoffs could hit 17,461 Detroit households, Detroit Free Press, <https://www.freep.com/story/news/local/michigan/detroit/2018/03/26/more-than-17-000-detroit-households-risk-water-shutoffs/452801002/>

³⁹ We the People of Detroit Research Collective (2016). Mapping the Water Crisis: The Dismantling of African-American Neighborhoods in Detroit, at 20 – 21, We the People of Detroit Research Collective: Detroit (MI); see also, Detroit Real Estate Game, supra note 35.

⁴⁰ Institute for Public Policy Studies, Temple University (June 1991). An Examination of the Relationship between Utility Terminations, Housing Abandonment, and Homelessness,.

⁴¹ Colorado Statewide Homeless Count, Summer 2006.

⁴² Northern Kentucky Coalition for the Homeless (with technical assistance by Applied Information Resources), Homelessness and Low-Cost Housing in Northern Kentucky: An Analysis and a Strategic Action Plan (July 1990).

friends or family due to the inability to pay energy bills; 6% were evicted from their home or apartment due to unpaid energy bills; 4% faced home mortgage foreclosure due to home energy bills.⁴³

Utility disconnection processes do not take into account society's interest in preventing abandoned homes and the negative spillover effects that result from them. One of the most substantial external impacts involves the impact on the value of the home subject to foreclosure. On the other hand, there is the impact on the values of other homes in near proximity.

What is generally viewed as the pre-eminent assessment measuring the effect of foreclosure on nearby property sales prices of the literature reports that "the evidence is consistent" that a reduction in surrounding home values occurs, although estimates and interpretations vary. The "universal findings" of relevant studies are that properties near foreclosed homes lose substantial value. The same would be true for utility disconnections.

One point of comparability between foreclosures and disconnections involves the principle of "contagion" discussed above. Analogizing to foreclosures, one cause identified for clustering, known as the "contagion effect," is that one foreclosure tends to lead to another and then to another. This contagion effect counsels that each disconnection increases the likelihood of

another. This "contagion effect" can ripple through the local economy.

Several factors contribute to the clustering and contagion effect. One factor increasing clustering involves the "expectation effect" foreshadowing negative changes in neighborhood quality associated with a foreclosure. One factor increasing clustering is that as more utility customers default, the stigma associated with such default is lessened. This enables additional customers to subsequently default and have service disconnected.

While the percentages of value lost may seem small, the overall dollar loss from any single foreclosure generating these losses can be quite substantial. This is even more true because the lost value is additive. There can be little question but that a concentrated rate of disconnections, in other words, can put downward pressure on area property values and indirectly rob area homeowners of hundreds of thousands of dollars of home equity.

Overall, the concerns expressed about the loss of housing values, both to the homeowner and to the homeowners in near proximity, as a result of mortgage foreclosures, should be considered with respect to the disconnection of utility service as well.

Summary

For a complete copy of the FSC paper "Responding to Water Unaffordability in Detroit: Lessons from the Mortgage Foreclosure Crisis," contact:

roger [at] fsconline.com

⁴³ National Energy Assistance Directors Association (November 2011). 2011 National Energy Assistance Survey: Final Report, APPRISE, Inc.: Princeton (NJ).

Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) provides economic, financial and regulatory consulting. The areas in which *FSC* has worked include energy law and economics, fair housing, affordable housing development, local planning and zoning, energy efficiency planning, community economic development, poverty and telecommunications policy, regulatory economics, and public welfare policy.