
Foreclosures and the Impact on Municipalities and Communities

National US survey reveals how local governments are managing with increased foreclosure related complaints



Author's Note

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Sponsor

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Municipalities – The Other Victim in the Foreclosure Crisis

A wave of home foreclosures unseen since the Great Depression has afflicted the nation for the past several years as economically hard-hit homeowners defaulted on mortgages. The numbers are staggering and across the US there are millions of foreclosed homes and unfortunately the crisis is not over.

RealtyTrac, online marketplace for foreclosures, reported in October 2009 that 937,840 properties foreclosed in the Q3 2009, a 5 percent increase from the previous quarter and an increase of nearly 23 percent from Q3 2008.

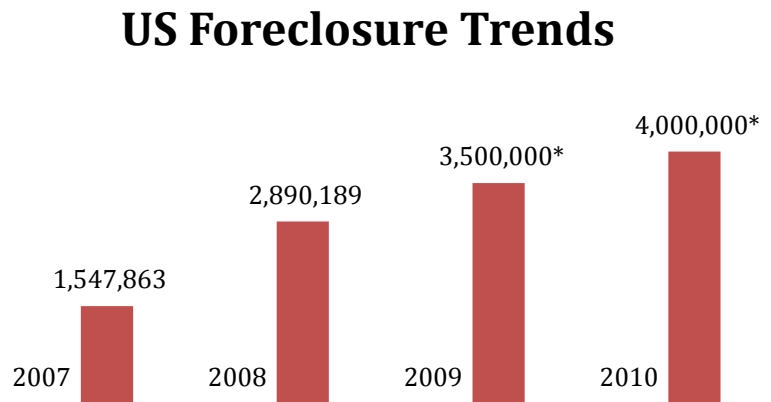


Figure 1: US Foreclosure Trends (source: [RealtyTrac](#)) note 2009 and 2010 YTD are estimates)

Experts see “foreclosure activity peaking until sometime in 2010, and we probably won't be down to normal levels of foreclosure inventory until sometime in 2013.” (Source: [Time.com](#))

Foreclosures are impacting individuals, homeowners, renters, and entire communities. A recent survey (outlined in the next few pages) revealed that this massive foreclosure wave is significantly impacting municipalities.

The survey conducted by market research company [Mustel Group](#) and sponsored by [BasicGov](#) (Mustel/BasicGov Survey) found that foreclosures led to increases in citizen complaints and with limited resources local governments are finding ways to deal with these impacts. The Mustel/BasicGov survey included 150 code enforcement officers, city managers, and mayors by web or through telephone interviews. Approximately half the interviews were conducted with cities with a population of less than 50,000 and half with populations of 50,000 or greater.

Increase in Citizen Complaints Related To Foreclosures

The survey found that over the past year citizen complaints related to foreclosures has increased in 79% of the cities surveyed.

Most frequent complaints are:

- 87% overgrown yards;
- 61% property damage – broken windows, gates, etc.; and
- 47% garbage dumping.

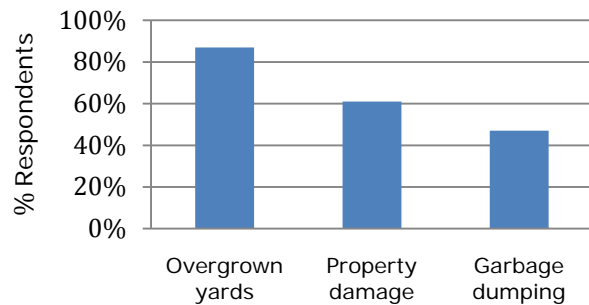


Figure 2: Most common complaints.

The Cost of Foreclosure for Cities and Communities – Economic and Social

Entire communities are impacted by foreclosures with falling property values and reduced city/town revenues. One foreclosure can impose up to \$34,000 in direct costs on local government agencies, including inspections, court actions, police and fire department efforts, potential demolition, unpaid water and sewage, and trash removal. Additionally one foreclosure can result in as much as an additional \$220,000 in reduced property value and home equity for nearby homes.

(Source: William C. Apgar, Mark Duda, and Rochelle Nawrocki Gorey, "The Municipal Cost of Foreclosures: A Chicago Case Study")

Communities are contending with the increasingly dishevelled appearance of their neighbourhood caused by vacant homes (unkempt yards, garbage dumping, squatters, vandals) creates a multi-level impact economically, socially and psychologically. In a PBS broadcast, Dante Chinni, head of the Patchwork Nation Project, which measures life in several representative counties throughout the



Image 1: Vacant homes and property often become neglected, lowering neighbouring property values.

US, stated, "Foreclosures are bad ... when you start seeing homes going for sale on your street, or foreclosures, or houses being foreclosed on, it really affects psychologically, the economy of the area. People stop spending money – that has trickle effects that go into unemployment."

Measures at City/Town Halls to Deal with Foreclosure Related Complaints

In the Mustel/BasicGov survey, 150 US cities/towns that responded have these measures in place to deal with foreclosures despite the fact that 88% do not plan to hire more code enforcement officers:

- 79% currently use software to manage code enforcement process (combination of in-house and web-based types – see breakdown below)
- 44% have a code enforcement policy in place to deal with foreclosures;
- 41% clearly know who is responsible for property maintenance; and
- 39% have a foreclosure ordinance policy or process that hold banks responsible for keeping homes tidy.

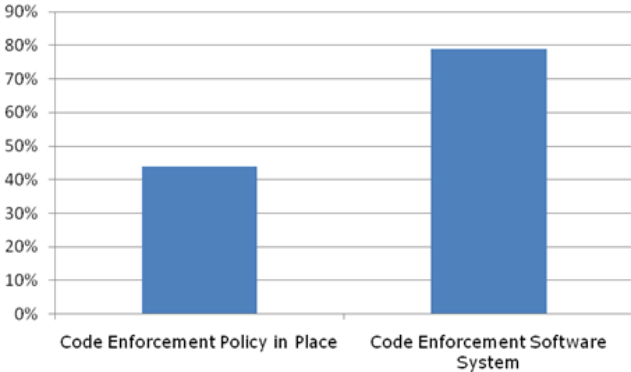


Figure 3: Percentage of municipalities with code enforcement policy or code enforcement software in place.

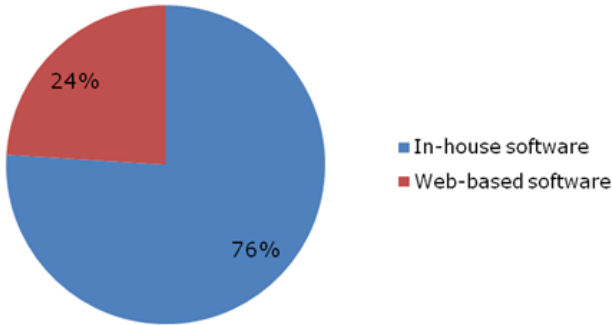


Figure 4: Percentage of municipalities that use in house software vs. web-based (SaaS) software.

Software Helping Municipalities but Perception that Cost is a Deterrent

The Mustel/BasicGov survey asked the 79% software users how to further improve their efficiencies. The results were:

- Online tracking of complaints with automated workflow (58%)
- Better reporting (44%)

Among the non-software users surveyed:

- 46% said software could help improve efficiencies; and
- 61% believed cost a deterrent to obtaining software to manage complaints.

The survey shows that there is a perception that software for local government is costly. This is likely due to the fact that a large majority of the respondents utilize in-house (enterprise) software. The reality now is that web-based software is in fact much more affordable. For this reason web-based software, also known as cloud computing or Software as a Service (SaaS), is being adopted in many levels of government. A prime example of this trend is the City of LA utilizing Google for internal mail and document management.

This type of software is accessed over the Internet and employs a subscription model, so costs far less than traditional IT code enforcement solutions.

On-Premise Software vs. Cloud Computing Comparison

IT Solution	Acquisition Cost	Time to Implement	Cost of Upgrades	Customer Training & Support
In-House Software	High: Includes hardware, IT support and infrastructure \$45K - \$250K+ per yr	Long: months or longer	High: Cost of license upgrades and maintenance	Typically requires extensive on-site training at cost; additional fees for support
Cloud Computing, SaaS, Web-Based Software	Low: Five to ten times less expensive than on-premise \$119 per user per year (includes training, upgrades and on-going support) See www.basicgov.com	Short: days to weeks	None: Upgrades included with monthly service fees	Simple web-based interface is easy to learn; support included with subscription

Conclusion

For the past year municipalities have seen a swell of citizen complaints regarding a result of these foreclosures – vacancy and abandonment of homes when they cannot be resold. As a result, many are looking to larger governments for a mixture of solutions (better regulation, increase in funding). However, these are large regulatory changes that will take some time to institute.

In the meantime, municipalities have a sense of urgency to fix the economic and social impacts of foreclosures on their communities. The Mustel/BasicGov survey revealed that they are finding ways to deal with the impact of foreclosures despite their limited resources by using code enforcement policies, assigning responsibilities and implementing technology to improve processes and efficiencies.

If you would like a copy of the Mustel/BasicGov survey results, please email susan.kirk@basicgov.com.