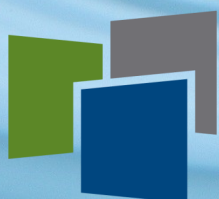


FISCAL IMPACT ANALYSIS

The Importance of Fiscal Impact Analysis
in Economic Development & Planning



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SECTION 1 FISCAL IMPACT ANALYSIS

INTRODUCTION

The purpose of this paper is to give municipalities and developers insight into using fiscal impact analysis to understand how new developments and land uses influence municipal revenues and expenditures. Fiscal impact analysis is an important tool that provides insight on how new developments and changes to land use can affect the fiscal condition of a taxing jurisdiction.

Change is inevitable and essential for a community. In some cases, development adds more to local government revenues than it does to local costs, which is defined as a positive fiscal impact. In other cases, municipalities may not capture sufficient revenue from the new development to cover additional costs. As a result, local governments may find increased economic activity leads to greater fiscal stress, or a negative fiscal impact.¹

Fiscal impact analysis is an essential tool in predicting the effects of development on municipal budgets, providing an inventory of regional infrastructure assets, forecasting budgetary needs, and generally reducing uncertainty in the municipal planning process.

WHAT, WHY & HOW?

1 What is a Fiscal Impact Analysis?

A fiscal impact analysis projects the net cash flow to the public sector (the local government, taxing jurisdiction and, in many cases, the school district) resulting from new development: residential, commercial, industrial, or other.²

In other words, it is a projection of how current public expenditures and revenues are impacted by economic development and land use decisions. There are a few limitations of fiscal impact analysis to be aware of:

- Fiscal impact analysis is constrained to examining the immediate public expenditures and revenues resulting from the development being examined.

This means that the analysis provides a way of estimating the financial impact of a development as if the project were in existence and in use today.

- Fiscal impact analysis deals only with public, or governmental, expenditures and revenues.

2 Why Perform a Fiscal Impact Analysis?

The purpose of fiscal impact analysis is to estimate the impact of a development or a land use change on expenditures and revenues of governmental units serving the development. There are several reasons why a fiscal impact analysis should be performed before development approval.

A NOTE ABOUT ECONOMIC IMPACT ANALYSIS

An economic impact analysis (or economic benefit analysis) measures how a particular project, event, or industry benefits the local economy.

Economic benefits are typically measured in terms of jobs, employee earnings, and sales, with the economic impact analysis calculating the spillover impacts (indirect and induced impacts) resulting from an initial economic change (direct impacts).

This type of analysis is typically used by communities to make decisions about how best to invest resources in order to meet economic development goals.

Fiscal impact analyses often go hand in hand with economic impact analyses, taking the assessment of the economic benefits of a project one step further by considering potential new costs to municipal budgets in addition to new revenue.

The analysis can help a jurisdiction determine:

- Land-use policy decisions
- Acceptable levels of service
- Plans for capital investments
- Long-term borrowing needs
- Level of financial assistance to offer

A fiscal impact analysis can be used to assess specific development projects or as a more general land use planning tool.

Development Projects

An assessment of the net fiscal impact of a specific development project allows for a realistic examination of the impact of the proposed project, helps in evaluating alternative proposals on a fiscal basis, aids communities in negotiations with developers, and helps in evaluating more general planning efforts and growth management strategies. The analysis helps local governments estimate the difference between the costs of providing services for a development and the revenues – taxes and user fees, for example – that will be collected due to the development. This includes annual operating expenses, such as increased water usage and additional staffing, and capital expenses associated with constructing or expanding facilities, such as new roads or a new wastewater facility.

The fiscal impact analysis summarizes the potential increase in the tax base and the fiscal surplus or deficit when new revenues are compared to new expenditures associated with a development.

Planning

Fiscal impact analyses are also used as a planning tool to project the fiscal consequences of alternative land use scenarios. The information provided by fiscal impact analyses helps local governments manage their fiscal health by anticipating and planning for future costs.

When using fiscal impact analysis to assess land use alternatives, one must consider how changes in land use impact demographics, service levels, and other factors that affect municipal expenditures and revenues. Generally, the change in the demand for public services that results from these factors will impact the municipal budget. These changes can be quantified, analyzed, and summarized using a fiscal impact analysis.



The four applications below indicate how fiscal analysis is an effective policy tool for long-range planning.³

1. Land-use Policies and Zoning

Fiscal impact analysis evaluates whether current land-use policies make economic sense. How does current zoning impact the future fiscal resources of the municipality? Will the residential-commercial-retail mix sustain a healthy municipal budget? A fiscal impact evaluation determines the costs and benefits of different land uses as well as their relation

to each other, and gives local government an indication of the sustainability of current or planned land use policies and zoning. There may be significant benefits from applying a fiscal impact analysis to a specific rezoning case, which can be helpful in government-developer negotiations.

2. Demographic Changes

Projected changes in population, housing, and employment will, over the course of ten or twenty years, have significant fiscal implications on the local economy. It is necessary to examine what those effects will be and whether service levels will remain the same or deteriorate under pressure from a changing population.

3. Planning for Infrastructure Improvements

A good fiscal impact analysis will forecast infrastructure needs to meet anticipated changes in a community. Any change in land use, population, or employment will have an impact on capital-intensive services, such as streets and utilities. By incorporating future demographic and economic projections, the fiscal impact analysis indicates the near- and longer-term demand for capital facilities, which is especially important as infrastructure replacement costs are one of the biggest fiscal burdens facing many local governments.

4. Municipal Financial Planning

There are a number of ways in which fiscal impact evaluations can address budget and finance questions. The analysis can help to raise budget and finance policy issues and suggest alternative approaches for addressing them. Applying a fiscal impact analysis to financial planning helps local governments forecast revenues and expenditures, have a long-term focus on budget planning, and project budget changes as service level demands change. An inventory of existing services and their cost to the local municipality can lead to more constructive discussions, since all parties will understand the fiscal consequences of changing the level of service.

3 Methodology – How to Perform a Fiscal Impact Analysis

There are three basic methodologies for fiscal impact studies. One method is simple per capita projections, which work well for small individual projects but fail to capture the differential costs of various kinds or levels of development. A second method is either an average costing or marginal costing approach, which allows for a more customized analysis of budget changes. A third method is econometric studies, in which models are developed to project costs and revenues from a single scenario or alternative scenarios over a period of twenty years or more.⁴

Between average costing and marginal costing, average costing is the more common approach. It attributes costs to new development or growth according to the average cost per unit of service multiplied by the number of units the growth is estimated to require. It does not take into account excess or deficient capacity, as does the marginal costing procedure. The average costing approach assumes that average costs of municipal services will remain stable in the future. Marginal costing relies on the demand and supply relationships for public services.

The most applicable method for smaller communities is normally a combination of per capita projections and average costing/marginal costing. This allows for simple per capita changes in budget items that are known to vary in response to factors like population, school-age children, or assessed value, while accommodating a more custom approach for budget items and departments that may be uniquely impacted by the new development (like fire, police, emergency services, and public works).

Although the collection and analysis of local data for a fiscal impact analysis may be cumbersome, it is worth the effort as the end result is most applicable to the local community.

SECTION 2 LAND USE CONSIDERATIONS

INTRODUCTION

Although the fiscal impact of various land use types varies widely from community to community, there are certain national insights which can be helpful for local taxing jurisdictions to understand. It cannot be stressed enough, however, that it is unwise to generalize the effects of land usage as it is not uncommon to have regional results that differ dramatically from national results.

The outcome depends both on the development that takes place and local community characteristics. The following section describes some of the national findings that have been documented in recent literature regarding how various land uses impact local fiscal resources.

RESIDENTIAL DEVELOPMENT

The main effects of residential development on local government are the revenues received through property taxes and the expenses associated with infrastructure services and school costs. Each new home produces additional property taxes and requires new infrastructure in terms of roads, sidewalks, water, and waste management as well as schooling for the children of new families. Thus, the impacts of residential development vary greatly depending on density, number of school-age children, and taxable property value per resident.



Typically, a healthy mix of housing types is in the best interest of the community. For example, the inclusion of higher-density housing ameliorates overall traffic and school impacts, while expensive homes on large lots provide additional tax revenues. At the same time, large single-family homes may also require more costly infrastructure. Senior housing does not have a negative fiscal effect on the school district, but may also require additional infrastructure (social and medical services, etc.).

There is no clear message on what types of development are most beneficial, as every community is different and must develop a plan which responds to its characteristics, market demand, and needs. Fiscal analysis, however, can provide input on the appropriate balance.⁵

Some of the key considerations for residential development are:

- **Density:** The greater the geographical spread of homes, the greater the cost for road, water and other infrastructure installation and maintenance (e.g., a greater mileage of roads needs to be paved).

- **Number of school-age children:** The demographic characteristics of new households impact municipal expenditures in terms of schooling. Multifamily homes typically have more children per square foot. Single-family homes and retirement communities have fewer.
- **Taxable property value:** Expensive homes will generate relatively higher property tax revenues for the community.

OFFICE & INDUSTRIAL USE

Both office and industrial uses typically generate a net positive fiscal gain for municipal governments. Among the development types, industrial and office space often demand the fewest services and generate the highest revenues. Private developers and businesses are often responsible for a large share of infrastructure development costs when building occurs, and upon buildout a fair amount of property taxes are generated.



Office space normally requires a limited amount of municipal services, and is more prone to attract high-wage jobs, thus drawing in families more likely to purchase properties of greater value. In recent years, the increase in popularity of coworking has provided an additional economic boon to communities through job generation and encouraging support for other businesses.

It is important to mention that municipalities sometimes offer industrial/office incentives (tax based, service cost sharing, etc.) to attract this type of economic activity into a region or community. These incentives obviously erode the revenue generated by the resulting development, but a fiscal impact analysis will help determine the appropriate level and impact of such incentives.

RETAIL

Retail land uses may generate high tax revenues for local governments, but fiscal analyses show that the cost of providing services to those uses may outweigh any benefits from tax revenues. Retail is one example where tax revenues may exceed those generated by other land uses, but not enough to outweigh the corresponding high costs.⁶

The fiscal gains to the community of retail developments are often clear: added property, sales, and income tax revenue. However, this type of new economic activity is associated with new jobs that may attract new families into the community. In areas where unemployment rates are



low and have been for several years, there is often a concern that the added jobs will result in in-migration because the local labor market is already tight. In-migration may further speed up population growth to the point where the area will not be able to maintain the same level of public services (infrastructure, schooling, etc.).

If the jobs are entry-level, they are likely to attract families with young children living in relatively modest housing, resulting in pressures on the schools without a comparable rise in tax revenues. Similar issues may occur in communities with a large number of second homes. The retail jobs created often do not come with incomes that can afford homes within these communities, resulting in new workforce and housing pressures.

The message to be derived from recent research is not to exclude retail from the development mix. Rather, there is a case to be made for developing retail uses that generate lower fiscal costs (such as fewer auto trips for example), attracting firms that offer better jobs at higher wages, and integrating retail with mixed-use development. A balanced mix of office, retail, and residential uses can cross-subsidize retail costs. It is important to mention that retail developments often enhance the quality of life for residents by providing services and can boost economic activity in a region by attracting other uses.

As with office and industrial use, municipalities often offer incentives to retail establishments as well. The type and size of this incentive must be taken into consideration when examining the gains.

OPEN SPACE

Open space land use, with its very limited demands on public services, often translates into a positive impact on the fiscal balance. Many case studies have shown that developing agricultural, forest, or idle land into industrial, commercial, and residential uses often has a net negative fiscal impact. Preserving open space should therefore be included as a positive effect on municipal budgets.



FINDING THE BALANCE⁷

Finding an appropriate balance of land usage is a difficult task for municipalities. The costs of development, which may be virtually identical from one site to another in a given area from the developer's standpoint, are likely to be very different in the eyes of local government depending on the location, the density, and the kinds of improvements (residential, commercial, industrial) that are being built.

The greatest task is for local governments to develop a revenue structure designed to recover some or all of the proportional costs of various developments. The first step in doing so is to identify the actual net effect these developments will impose on the community.

Normally the property tax system and other local revenue sources do not penalize low-density development or reward high-density development. There are currently no rewards for locating in areas

of excess capacity, such as for water treatment, sewage treatment, or public schools. At the same time there are no penalties for locating in areas that lead to increased traffic congestion, parking problems, and air pollution. Impact fees are one of the most useful tools to direct development into appropriate channels, but local governments are constrained in their use.

Regulatory tools can also be useful in directing development into less costly channels. But there can be very strong resistance to the use of zoning, land use planning, and other techniques as these restrictions can be seen as an infringement on property rights.

ADDITIONAL CONSIDERATIONS

The underlying fiscal structure of a community determines the types of fiscal impacts caused by development. Each community could be composed of a mix of state, county, township, and municipal jurisdictions, plus overlapping school, water, sewer, and other special districts. These entities impose a mix of property, sales, and income taxes that will yield varying fiscal impacts depending on the type of development.

For example, residential development generates property taxes and likely increases demand for education and sewer services, while retail development generates property and sales taxes but may create additional vehicular traffic that requires mitigation.

Typically, fiscal impact analyses provide an indication of development impacts on one or more taxing jurisdictions. This type of analysis helps the local jurisdiction assign the costs and benefits of development to departments within their budget. However, sometimes residents want to understand the impacts of development on all of the jurisdictions to whom they pay taxes and from whom they receive services.

For example, residents pay taxes to, and receive services from, their local jurisdiction (city or township), but also from their school district, county government, and other jurisdictions. Oftentimes, what is beneficial fiscally to local government is not beneficial to schools, and vice versa. Fiscal analyses can account for these multiple levels, but beyond the inclusion of schools, they can become much more complex and less targeted to the decisions that can be made by the individual jurisdiction.⁸



SECTION 3 CASE STUDIES

CASE STUDY 1 | POTENTIAL IMPACTS OF FUTURE DEVELOPMENT TYPES

To support the local development planning process a fiscal impact analysis per unit can be developed to help decision makers compare the potential impacts of various land use types.

To do so, fiscal impacts are calculated per 1,000 square feet (SF) of each potential commercial use and per unit of each potential residential unit type. An analysis of fiscal impacts per 1,000 SF or one unit can help illustrate how different underlying qualities of a development project (economic and demographic factors) can have substantially different impacts on the fiscal balance of a community.

This methodology was used by Camoin Associates to model the impact of five different use types on a town in Connecticut. Results show that for this town, office space has the highest fiscal impact while the impact of single-family homes is negative. The analysis was also converted to a per-acre basis to provide additional development insights.

Additional analyses can be layered on top of a basic fiscal impact per-unit analysis depending on the needs of the community. Examples include a sensitivity analysis of school-age children by residential unit type, or the development of equivalent economic factors for each use type to show how much development of another use type generates the same fiscal impact.

Net Fiscal Impact of Use Type, by Unit*			
Use Type	Total Expenses	Total Revenue	Net Fiscal Impact
Office	\$ 921	\$ 4,086	\$ 3,165
Retail	\$ 510	\$ 2,577	\$ 2,067
Multifamily Unit	\$ 2,442	\$ 3,558	\$ 1,115
Townhouse	\$ 3,578	\$ 4,363	\$ 785
Single Family Home	\$ 13,083	\$ 9,883	\$ (3,200)

Source: Camoin Associates

*Unit is equal to 1,000 SF of retail or office space, or 1 dwelling unit

Net Fiscal Impact of Use Type per Acre*			
Use Type	Net Fiscal Impact per SF or Unit	SF or Units per Acre	Net Fiscal Impact per Acre
Office	\$ 3,165	10,890	\$ 34,466
Multifamily Unit	\$ 1,115	22	\$ 24,539
Retail	\$ 2,067	10,890	\$ 22,507
Townhouse	\$ 785	10	\$ 7,853
Single Family Home	\$ (3,200)	2	\$ (6,400)

Source: Camoin Associates

*Floor Area Ratio (FAR) of 0.25 assumed for office and retail; 0.5 acre per single-family unit, 0.1 acre per townhouse unit, and 2,000 SF of lot per multifamily unit.

CASE STUDY 2 | SMALL TOWN LAND-USE PLANNING

Camoin Associates examined the potential for industrial development within a small New York town, identified constraints, and made recommendations focused on how the Town can foster new industrial development. By applying this analysis, the Town was made aware of several unknown threats and current constraints to the future development of industrial space as well as the divergence between the perceived and the actual factors which determine local market demand for industrial space. The analysis identified these major findings and recommendations:



Infrastructure

Traffic conditions needed to be addressed in the near term. An impact analysis determined that the Town would need to finance these improvements through a combination of development impact fees and state assistance.

Inventory of Available Industrial Sites

There was a shortage of industrial property that could meet current and future demand needs. Businesses looking to own and expand in the future would not be able to find an appropriate site in the Town. This was an important finding as the Town was under the impression that there were adequate future industrial sites available. Had the analysis not been done, the area would have suffered over time as industries chose to locate in other areas.

Zoning

The amount of land zoned for residential use had increased substantially along with residential growth pressures. This growth had outpaced the growth of commercial and industrial development within the Town and was expected to place an increasing fiscal burden on local school districts. Further, there was currently insufficient vacant and developable industrial or commercial land within the Town to maintain a healthy commercial/residential balance.

Perception

For a number of reasons, the Town was not viewed as “business friendly” by the development community. The Town needed to take steps to remedy this situation, including establishing a simplified, clearer, and shortened permit approval process. Using its analysis, Camoin Associates was able to provide the Town with a development plan that determined current threats and challenges to industrial space development in the town. This allowed the Town to make plans and implement strategies that would encourage a growth pattern in line with current market forces and would provide the municipality with better insight into its future budgetary and planning needs.

SECTION 4 CONCLUSIONS

In conclusion, economic and fiscal impact analysis of land use changes and proposed developments yields a number of primary guiding principles.

Strictly assessing the economic impact or benefit through a standard industry multiplier ignores the costs typically associated with proposed developments or land use policy decisions.

Real estate developers will often tout the economic benefits of a development proposal based on a “multiplier effect.” It is important to note that an economic impact assessment evaluates only a portion of the total impact of a development. What real estate developers typically ignore, or are unable to easily determine, are the costs associated with that development. Essentially, new residents and businesses do much more than simply pay taxes. While new residents contribute to the economic base of a community by working and earning and spending money locally, they also require services, some of which can be very costly (e.g., education). When looking at the long-term implications of growth, planners and public officials need to require developers to provide not only an economic impact study, but a fiscal assessment as well.

Fiscal impact analysis should be an essential tool in determining a pattern of community growth.

A good fiscal impact analysis carefully assesses the effects of new development and land use change on municipal budgets. This is an important tool that enables taxing jurisdictions to better understand how long-term development patterns may impact municipal revenues and expenditures.

While there are rules of thumb regarding the fiscal impact of land uses, outcomes will vary.

This paper established that there are some general findings indicative of the fiscal impact that different land uses and development types will have on a community. However, regional results can differ dramatically from national results. These general relationships cannot be directly applied to an individual community. Because the fiscal impact of various land use types and developments varies widely from community to community, it is imperative to address the unique situation of each community in order to accurately estimate the net fiscal effect.

The jurisdiction involved in permitting a new development may be affected differently than other taxing jurisdictions.

Another important consideration is that the entity that requests the fiscal impact study (often the jurisdiction with the authority to issue a permit) is not the only taxing jurisdiction impacted. For example, a school district will have no permitting authority for a development that may greatly affect the number of new school-age children. Each city, township, county, school district, and various other districts is structured differently and serves different functions to its constituents. These jurisdictions often overlap geographically or provide overlapping services, which must be considered when performing the analysis.

Transparency is important.

At times, municipalities offer businesses incentives to attract certain types of development. Fiscal analysis can provide insight into situations where these incentives could erode the revenue generated by the development.

Fiscal impact analysis helps planners find balance.

Economic development and planning are essentially a balancing act, weighing private and public interests and current and future costs and revenues. Establishing an appropriate mix of land uses is one of the most difficult tasks facing community leaders. Sustainable development requires that costs and benefits to society are carefully weighed against present and future needs.

More importantly it is essential for communities to realize that a mix of development types improves economic and fiscal health and resilience. Growth in any sector will occur with the support of a larger workforce, which inevitably will create additional residential development. The general findings of fiscal impacts on communities cannot be interpreted as a recommendation to avoid certain types of development. Rather fiscal impact analysis is a tool to better understand and plan for the ramifications of such developments on the municipal budget. Investments that are necessary for future growth may be costly (in terms of the fiscal budget) in the short run, but may provide for long-term growth and sustainability.



SECTION 5 REFERENCES

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