

# TischlerBise Fiscal & Economic

## NEWSLETTER

### Should Your Community Incentivize New Development?

In an attempt to take advantage of the current economic climate, we believe developers are going to increasingly request economic/tax

*Should the town rebate 50 percent of sales and construction tax?*

incentives from local governments in order to facilitate development projects. Given the flat

or declining revenue situation most local governments are experiencing, many may be tempted to grant incentives in order to gain needed revenue. Local governments should keep in mind that there is also a cost associated with these development proposals, which should be considered before agreeing to any economic incentives or tax rebates. A case study in Sahuarita, Arizona, indicates why it is imperative that an independent (not the developer) conduct a fiscal impact analysis. (See NEW DEVELOPMENT, p. 2)

Figure 1. Summary of Rancho Sahuarita Town Center Development Program

Project Component	Housing Units	Square Feet	Hotel Rooms
Multifamily Units	560	646,500	
Light Industrial / Flex Space		201,000	
Medical Office		145,100	
Hotel / Lodging		145,800	390
Entertainment District		133,500	
Power Center		789,500	
Office		131,000	
Neighborhood Retail		327,300	
Mixed Use		167,400	
<b>TOTAL</b>	<b>560</b>	<b>2,687,100</b>	<b>390</b>

### How User Fees Can Help Cover General Fund Shortfalls

The worst financial crisis in our nation's history since the Great Depression has had a significant negative impact on local government/agency revenue generation. The impact has been so significant that a recent National League of Cities survey found that 9 out of every 10 local government finance officers surveyed reported that their

*Increased user fees are paid by those directly benefitting*

agencies are less able to meet fiscal needs in 2009 than in the previous year (Research Brief on America's Cities, National League of Cities, September 2009). To make matters worse, respondents project that 2010 will be worse due to further declines in property, sales and income tax

receipts, deferred or reduced impact fees, and growing voter discontent for new taxes.

#### How Are Agencies Responding to the Crisis?

Many are cutting expenditures where feasible, including hiring freezes, salary reductions, furloughs, and deferring capital projects. Projects under construction may have funds appropriated for them but O&M requirements for these projects and other services are not funded. Given the resistance to tax increases due to the current economic situation, the most common responses to enhance local coffers are increases in user fee levels and implementation of new user fees. According to the NLC survey, 45 percent of respondents increased their community's fee levels while 27 percent

(See USER FEES, p. 4)

### IN THIS ISSUE

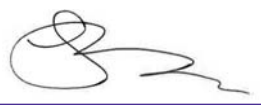
#### Revenue Enhancement and Fiscal Solutions for Today's Economy

This issue of our Fiscal & Economic Newsletter focuses on two topics that should be of great interest to local government leaders and decision-makers: 1) how to increase General Fund revenue without raising real estate and sales tax rates, and 2) whether local governments should agree to incentivize new development in order to increase their tax bases.

*How do you raise revenue without raising taxes?*

The first article discusses the importance of conducting a complete fiscal impact analysis when considering incentives for new development. As the article indicates, it is important that the local government understand not only the direct impact of the project but also the project's impacts relative to past and future development decisions. The second article discusses user fees, which are becoming an increasingly popular way for local governments to offset declines in property and sales tax receipts. The article discusses policy issues related to user fees and the need for a long-term perspective. Finally, the third article discusses the need for utility rate structures to adequately capture the indirect and central services costs provided from the General Fund. Failure to do so could result in substantial dollars being left on the table that otherwise would flow into the General Fund as revenue.

As the economy struggles to recover, local governments are faced with two main choices to balance budgets—cut services or increase revenues. We hope this newsletter provides useful and timely options to increase revenues without broad tax increases.



## NEW DEVELOPMENT

(continued from p. 1)

oper's) fiscal impact analysis be prepared for these requests.

In Sahuarita, TischlerBise recently completed a fiscal evaluation of the proposed Rancho Sahuarita Town Center development, which would more than double the Town's nonresidential development base. A key component of this development proposal was its request for the Town to rebate 50 percent of the sales and construction tax revenue (sales tax is the main revenue source for Arizona cities and towns) over a 25 to 30-year period (depending on scenario) to pay for site-related infrastructure. A summary of the development proposal is shown in Figure 1 on page 1.

### Fiscal Findings

As shown in Figure 2, the Rancho Sahuarita Town Center generates cumulative net surpluses to the General Fund, despite the fact that the Town foregoes 50 percent of the sales and privilege taxes generated by the project. However, as Figure 2 indicates these surplus revenues will be needed to make the Highway User Fund and Capital Fund whole, as cumulative net deficits are incurred by these Funds over the 25-year and 30-year analysis periods.

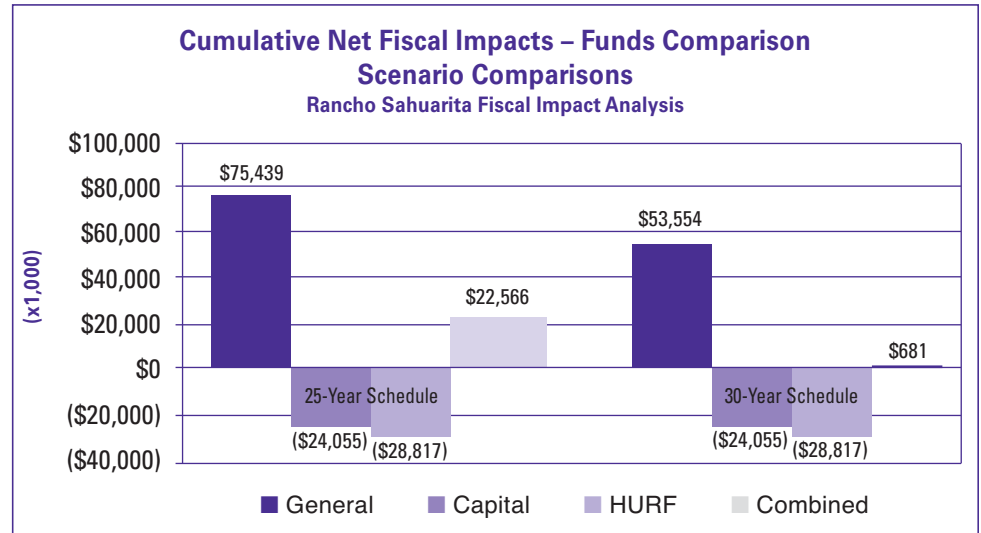
### Conclusions

Although our analysis indicated that the project generates net surpluses, it was our opinion that the Town should not enter into the 50 percent tax-sharing agreement as originally proposed, for the following reasons:

- The Town derives little revenue from residential development because the Town has no property tax. Therefore, the Town needs every cent of sales tax generated from this development proposal to offset the cost of existing and future residential development (including 7,000 housing units in the first phase of Rancho Sahuarita, which were not part of this analysis).
- It is likely the Town will experience demand for higher levels of service as a result of Rancho Sahuarita and future developments; such demand would exacerbate the net deficits projected in the Highway User and Capital Funds and decrease the net surpluses for the General Fund.
- It is important to note that as part of an earlier development agreement, the Town has waived its right to implement any future development fees in the Rancho Sahuarita development, thus further inhibiting the Town's ability to make its Capital Fund whole.

In summary, it is important that when being asked to incentivize new development, the local

Figure 2. Cumulative Net Fiscal Results – Fund Comparison (x\$1,000)



government understand not only the direct impact of the project, but also the project's impacts relative to past and future development decisions. For example, the fiscal analysis submitted on behalf of the developer evaluated the Rancho Sahuarita Town Center project in a vacuum. On the surface, the proposed tax rebate

looks like a good deal to the Town. However, the TischlerBise analysis evaluates the development proposal in the context of the Town's total fiscal situation. Look before you leap. Contact TischlerBise the next time you are asked to incentivize new development.

## Are Your Utility Rates Fully Recovering Your General Fund Support Services?

Does your agency provide utility services such as water, wastewater and refuse collection? If so, it is likely that your General Fund departments provide indirect and central services support to your utility operations. Labor costs and other resource expenses supporting your utilities can be recovered through your utility rates. This support may include agency administration, accounting and finance, purchasing, information technology, and motor pools.

### *Many utilities do not reimburse the General Fund sufficiently*

In these tough economic times, we recommend a review of your rate structure to ensure service charges are recovering the maximum justifiable amount for indirect and central service support of utility operations. In many of the utility rate studies TischlerBise conducts, we find that most agencies are not capturing the full cost of these central services support to

reimburse the General Fund through their utility rates. Similar to the administration of state and federal programs, grants, and/or loans, a central service or indirect cost allocation plan provides the requisite data and cost layers to include in your utility rates. This formal approach justifies the level of funding required to reimburse your agency's General Fund for support costs provided to the utility.

What if your agency does not have an indirect cost plan or your cost plan has not been updated recently? Not to worry. The relationship between utility rates and the cost layers of central services and indirect support can be quantified in a number of ways in the absence of a formal cost plan. The key is to base your findings on reasonable approaches and present results in a utility rate report or similar technical documentation. Taking these steps will ensure your utility rates fully recover all costs associated with service delivery and that your General Fund is not subsidizing utility operations. Contact TischlerBise for more information or advice.

## TischlerBise News

Listed below are some of our new assignments since our last Fiscal & Economic Newsletter

### Impact Fee Assignments:

Casa Grande, Arizona  
 Maricopa, Arizona  
 Dewey-Humboldt, Arizona  
 Hermosa Beach, California  
 Tulare, California  
 New Castle County, Delaware

### User Fees Assignments

Soledad, California  
 Pinal County, Arizona

### Utility Rate Assignments:

Flagstaff, Arizona  
 Fountain Valley, California  
 Hermosa Beach, California  
 Laguna Beach County Water District,  
 California  
 Westminster, California

### Fiscal Impact Assignments

Shreveport, Louisiana  
 Harrisonburg, Virginia  
 Rockingham County, Virginia

### Speaking Engagements:

#### 2009 International City/County Management Association National Conference

- Carson Bise, AICP and Brian Jewett conducted a Solutions Track session entitled "Infrastructure Financing: If You're Not Shovel Ready, How Do You Fund the Gap?"

#### 2009 American Planning Association National Conference

- Carson Bise, AICP and Julie Herlands presented at Training Workshop entitled "Fiscal Impact Assessment."
- Carson Bise, AICP participated in a session entitled "Finding Business in a Down Economy."
- Dwayne Guthrie, AICP, Ph.D and Julie Herlands conducted a session entitled "Infrastructure Financing: Funding the Gap."

#### Professional Organizations

- Brian Jewett was recently appointed to the American Water Works Association's Rates and Charges Committee
- Carson Bise, AICP recently Chaired the American Planning Association's Paying for Growth Task Force.

## Brian Jewett Hired to Lead New California Office

TischlerBise is pleased to announce the addition of Brian Jewett to our team. Mr. Jewett will head our new office in Temecula, California. In addition to his role as Vice President of our firm, Mr. Jewett's background and experience will significantly augment TischlerBise's expertise as it relates to revenue generation and enhancement for public service funding. In addition to impact fees, fiscal impact analysis and infrastructure financing strategies, TischlerBise is now better able to assist our clients with revenue enhancement and public facility funding through the following services:

- Utility financial planning and rate studies
- User fee/cost of service analyses
- Cost allocation plan development
- Special tax and assessment funding alternatives

Prior to joining TischlerBise, Mr. Jewett was a Vice President with a national financial and economic consulting firm. During this time, Mr. Jewett developed and led the firm's 20+ member consulting practice with expertise areas in utility rate and user fee studies, special district formations, and public facilities financing.

**TischlerBise**  
COST OF GROWTH SERVICES

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#### Please send the following:

- Recent Fiscal & Economic Newsletters
- Reprint "20 Points to Know About Impact Fees"
- Reprint "Impact Fees – Understand Them or Be Sorry"
- Excerpts from: ICMA IQ Report "Introduction to Infrastructure Financing"
- Excerpts from ICMA IQ Report "Fiscal Impact Analysis: How Today's Decisions Affect Tomorrow's Budget"

#### Information about TischlerBise Consulting Services:

- Fiscal impact analysis
- Impact fees
- Utility rate studies
- Infrastructure financing strategies
- User fees/cost of service studies
- Cost allocation plans
- Fiscal software

Name \_\_\_\_\_

Title \_\_\_\_\_ Agency \_\_\_\_\_ Telephone \_\_\_\_\_

Email \_\_\_\_\_

Street \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

4701 Sangamore Road, Suite S240  
 Bethesda, MD 20816  
 (800) 424-4318 • Fax (301) 320-4860  
[info@tischlerbise.com](mailto:info@tischlerbise.com)  
[www.tischlerbise.com](http://www.tischlerbise.com)  
 Also: Temecula, CA

4701 Sangamore Road • Suite S240 • Bethesda, MD 20816

43460 Ridge Park Drive, Suite 200W • Temecula, CA 92590

[www.tischlerbise.com](http://www.tischlerbise.com)

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## OFFERING ...

- Fiscal impact analysis
- Impact fees
- Utility rate studies
- Infrastructure financing strategies
- User fees/cost of service studies
- Cost allocation plans
- Fiscal software

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### USER FEES

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increased the number of fees charged to service users (see Figure 3).

#### How User Fees Can Help Your Agency

User fees promote economic efficiency because they are exactions related to the costs of providing a public service that directly benefits the fee payer. User fees are typically not subject to voter approval and they are viewed by the public as more acceptable than taxes or debt financing. New and increased user fees can help your community in the following ways:

- Existing revenue streams can be updated to match current service delivery costs
- Fees can fund O&M gaps created by declining taxes, impact fees and other funds
- Fees can be aligned with community policies and goals
- New fees can be created to cover costs for services provided where fees did not previously exist
- A fee study can define the actual cost of providing services which may enhance community understanding

#### How to Develop a Sustainable User Fee Program

At TischlerBise, we develop user fee programs with a long-term perspective. Before beginning a user fee program, we recommend that an agency establish policy goals for the user fee program. At a minimum, the policy should identify the appropriate cost layers to be recovered through the fees and the level of cost recovery for each department

fee program. Our user fee models identify these cost layers to include:

- Direct department labor
- Indirect department and support department labor
- Department overhead
- Central service support (often an agency's indirect cost allocation plan can identify central service support levels or they can be calculated as part of the fee analysis)

Often, an agency will choose not to recover the full cost of providing fee generating services as a matter of policy. For example, fees for water heater permitting activity or recreation programs are set at less than full cost recovery to encourage

participation in these services. The TischlerBise user fee model will quantify the fiscal gaps for these programs and services so that agency officials can make informed policy decisions about the benefits and desired funding of services and programs.

User fees will continue to play an important role in your agency's long-term financial plan. During the next two years, most local government agencies will still feel the affect of the national fiscal crisis as taxes and other local revenue sources will lag national economic indicators. To meet this challenge, a comprehensive user fee program developed by TischlerBise can yield results that meet your agency's financial and community goals.

Figure 3. National League of Cities Funding Survey

