

TischlerBise Fiscal & Economic

NEWSLETTER

5 Reasons Not to Reduce or Waive Impact Fees in an Economic Downturn

Many elected officials are considering or being pressured by outside groups (e.g., home builders) to either waive, reduce or enact moratoriums related to impact fees, claiming that it will act as a means of stimulating new development and new economic activity. Some local governments around the country have already suspended or eliminated their impact fees in an attempt to encourage development. To date there is no evidence of the efficacy of this action.

...there is little evidence that suggests eliminating or suspending impact fees encourages new development activity.

When considering the multitude of factors that comprise the cost of development, impact fees are a relatively minor cost component (usually 1 to 5%). The ability to obtain favorable financing, depressed market conditions, excess inventories of existing developments, and the cost of labor and materials have a much greater influence on the total cost of development.

Another point to consider is the impact local government spending has on the economy. According to a recent publication prepared for ICMA by the Alliance for Innovation entitled "Navigating the Fiscal Crisis: Tested Strategies for Local Leaders," nearly all the economics literature reviewed estimates that cutting local government expenditures hurts local economic recovery more than raising taxes. The positive

effect of local government spending is particularly strong for facilities and services that have a direct relationship to business and industry (i.e., roads, bridges, water, sewer and other basic infrastructure).

There are five reasons not to reduce, waive or eliminate impact fees:

1. A suspension or elimination of impact fees raises a general question of fairness and equal treatment between those who recently paid the full fee amounts and those who will now not pay the fees. Case law requires that impact fee payers receive a "benefit." An important consideration is how the previous payers of the full fee amount receive their "benefit" if a community is not able to fully fund the growth-related capital improvements upon which the fees are based. Communities could face the choice of having to subsidize new development with General Fund dollars or refunding millions of dollars to previous fee payers in order to avoid equal protection challenges.
2. Impact fees are an important component of "economic stimulus." Investments in infrastructure are being touted in both Washington, DC and State capitals around the country as stimulating the economy and creating much needed jobs. Since impact fees can only be used for growth-related infrastructure, the suspension or elimination of development fees and the loss of subsequent infrastructure investments by local governments would

appear to be contradictory to this effort to restore the economy.

3. The demand for additional infrastructure capacity from new development does not disappear if impact fees are reduced. Suspending or eliminating fees will require communities to subsidize the impacts of new development with other revenues (most likely from the General Fund). The alternative is declining levels-of-service as

(See 5 REASONS, p. 2)

IN THIS ISSUE

Fiscal Solutions for Today's Economy

This issue of our Fiscal & Economic Newsletter provides relevant information on two hot topics many local governments are facing: 1) What the new administration's American Recovery and Reinvestment Act of 2009 means in terms of funding infrastructure needs, and 2) whether or not to bow to pressure from outside groups to waive, reduce or suspend impact fees in an effort to stimulate growth. As discussed in this newsletter, local governments now more than ever need to continue to fund infrastructure and find new revenue sources despite the federal government's investment.

To assist with these efforts, this newsletter highlights three TischlerBise services. First, impact fees can help provide the infrastructure needed to stimulate growth and economic development. Second, our infrastructure funding plans can assist local governments to determine their infrastructure "funding gaps" and identify potential funding scenarios to solve for this gap. Finally, the current economic downturn has magnified revenue structure problems for many jurisdictions that were previously viewed as minor. TischlerBise can perform a "fiscal stress test" for your jurisdiction and assess the factors putting your community's fiscal health at risk and then prescribe the right treatment for recovery.

Utility Rate Studies Now Provided by TischlerBise

TischlerBise is pleased to announce the addition of a new line of service for Utility Rate Studies. For over 20 years the firm has been using its expertise in planning, financial analysis and infrastructure to develop impact fees as well as capacity charges for utility systems across the country. In many assignments, TischlerBise has been tasked with determining the adequacy of utility rates, as well as forecasting demand and the future cost of operations.

"The announcement of an official new line of service in utility systems recognizes the extensive utility work we have done in the past," said Carson

Bise, President of TischlerBise. "More importantly, the new service responds to the growing need for well-crafted rate structures that reflect business goals inherent with any enterprise fund operation, while being sensitive to a community's land use planning objectives. These two perspectives of financial self-sufficiency and smart land use planning are often in conflict with one another. With our unparalleled experience preparing utility impact fees and capacity charges, TischlerBise is poised to be your one-stop-shop for all financing needs."

What the Stimulus Package Really Means for Local Government Infrastructure

As the economy weathers one of its worst recessions in several decades, the Federal government has responded with the American Recovery and Reinvestment Act of 2009, which includes the investment of billions of dollars in key infrastructure improvement projects. Figure 1 indicates how the approximately \$787 billion will be spent, which includes \$111 billion dedicated to infrastructure and science projects.

Governmental entities are still going to have to rely on impact fees and other financing sources to fund capital needs.

Where is the money going? First, most of the infrastructure money (\$46.7 billion) will go to transportation projects. Second, based on what has transpired to date, most of the transportation funding will go to State-level projects, bridge replacements and road repairs. Finally, States are taking radically different approaches. For example, Kansas is using most of its stimulus money on a few big marquee projects to expand capacity at several State highways, while Maryland has adopted a fix-it-first policy, and plans to use its money to repair dozens of roads and bridges instead of building new ones.

So what does this mean for local governments?

- Most communities will continue to have a substantial infrastructure backlog that remains unfunded;
- The stimulus package will most likely not fund many capacity-related infrastructure projects;
- Once the economy turns around, the responsibility to fund growth-related infrastructure will still rest with local governments.

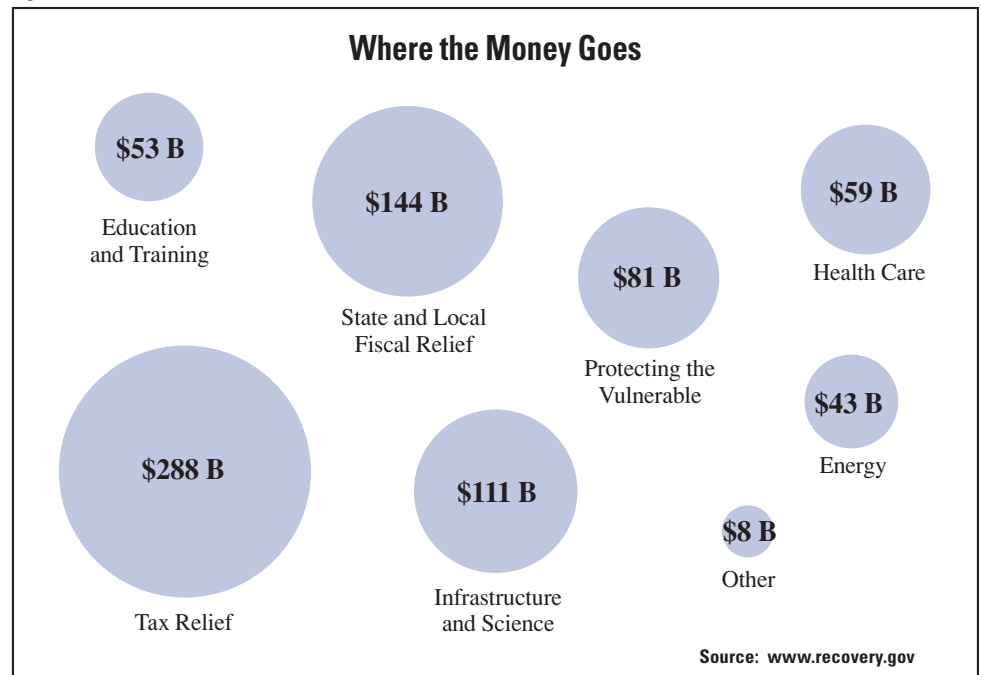
In other words, the stimulus package means “business as usual” for most local governments. Governmental entities are still going to have to rely on impact fees and other financing sources to fund capital needs. With tightening budgets, it’s more important than ever to maximize resources and explore alternative infrastructure funding sources and mechanisms.

5 REASONS

(continued from p. 1)

- existing infrastructure networks become more burdened with additional demand.
- Having sufficient infrastructure capacity is a competitive advantage that enhances the economic development potential of a community.
- Finally, as stated previously, there is little evidence that suggests eliminating or suspending impact fees encourages new development activity.

Figure 1



TischlerBise Provides Fiscal Stress Test for Local Governments

Many of our local government clients are feeling substantial fiscal pressure due to the current economic downturn. For many, this downturn has magnified revenue structure problems

This fiscal stress test evaluates your jurisdiction's ability to finance its services and facilities on a continuing basis.

that were previously viewed as a minor malady into full fledged cardiac arrest! TischlerBise can perform a “fiscal stress test” for your jurisdiction and assess the factors putting your community’s fiscal health at risk, and then prescribe the right treatment for recovery.

This fiscal stress test evaluates your jurisdiction’s ability to finance its services and facilities on a continuing basis. More specifically the ability to:

- Maintain existing service levels
- Withstand local, regional and national economic disruption
- Meet the demands of natural growth, decline and change

Using a series of measurements, TischlerBise can diagnose your community’s

fiscal viability in terms of its being: 1) sustainable, 2) marginal, or 3) unsustainable. The measurements used include (but are not limited to):

- Use of one-time revenue to fund ongoing operating expenses
- Reliance on one primary, growth-related revenue source
- Comparison of budgeted revenue to actual revenue
- Dedicated capital revenue sources other than General Fund transfers
- User fees and program revenue as a percentage of total revenue
- Intergovernmental revenue as a percentage of total revenue

The results of this “stress test” can be used to engage local decision makers on priorities and remedies to combat fiscal stress. Another way to monitor the fiscal health of your community is through the implementation of a long-term financial model. This type of model can be used as an early-warning system to assist with recognizing and predicting the influences of the economy under different scenarios on costs and revenues. TischlerBise has developed many of these models for communities, in fact, more than any other firm. Contact TischlerBise to schedule your fiscal stress test today – before it’s too late.

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

Impact Fee Assignments:
<p>Bentonville, Arkansas Glendale, Arizona Holbrook, Arizona Pinal County, Arizona Sierra Vista, Arizona Temecula, California Montezuma County, Colorado Pitkin County, Colorado Brunswick, Maryland Chatham County, North Carolina Stafford County, Virginia</p>
Infrastructure Finance/ Revenue Strategy Assignments:
<p>Columbus, Georgia Anne Arundel County, Maryland</p>
Fiscal Impact Assignments:
<p>Sahuarita, Arizona Napa County, California New Castle County, Delaware Champaign, Illinois Lincoln County, Nevada Greenville, South Carolina Falls Church, Virginia Pulaski, Virginia</p>
Utility Rate Studies
<p>Pinedale, Wyoming</p>

Speaking Engagements

2008 National Impact Fee Roundtable

- Carson Bise, AICP, presented on: "Impact Fee Basics" and "Fiscal Impact Round Up: Trends in Fiscal Impact Analysis."
- Chris Cullinan presented on "Interest Expense as a Cost Component in Impact Fees" and "Alternative Impact Fee Calculations?"

2008 International City/County Management Association National Conference

- Due to the attendance and positive response from the 2006 and 2007 Conferences, Carson Bise, AICP, and Chris Cullinan conducted a Solutions Track session entitled "Dealing with the Costs of Growth: From Soup to Nuts."

2008 North Carolina Chapter of the American Planning Association State Conference

- Carson Bise, AICP, participated in a session entitled "Facilities-Based Growth Management" with Tyson Smith, AICP, Esq.

2008 South Carolina Chapter of the American Planning Association State Conference

- Carson Bise and Tyson Smith, AICP, Esq., conducted a session entitled "Using Public Facility Costs and Capacity in Planning."
- Carson Bise and Tyson Smith, AICP, Esq., conducted a session entitled "The Past, Present (and Future) of Impact Fees in South Carolina."

Publications

- Carson Bise, AICP, recently authored an ICMA IQ Report entitled "Fiscal Impact Analysis: How Today's Decisions Affect Tomorrow's Budget." This publication is available online from the ICMA Press at bookstore.icma.org. Excerpts from this publication are available at www.tischlerbise.com.

Professional Organizations

- Julie Herlands was recently elected to a second term as Secretary/Treasurer of the Economic Development Division of the American Planning Association.
- Carson Bise, AICP, was recently elected to a second term on the Board of Directors of the National Impact Fee Roundtable.

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"

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Information about TischlerBise

Consulting Services:

- Fiscal Impact Analyses
- Impact Fees
- Utility Rate Studies
- Capital Improvement Programs
- Revenue Strategies
- Fiscal Software

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 Title _____ Agency _____ Telephone _____
 Email _____
 Street _____
 City _____ State _____ Zip _____

OFFERING ...

- Fiscal Impact Analyses
- Impact Fees
- Utility Rate Studies
- Capital Improvement Programs
- Revenue Strategies
- Fiscal Software

(800) 424-4318

TischlerBise Infrastructure Funding Plans

As our previous article on the federal government’s stimulus package indicates, most communities will continue to have substantial infrastructure funding needs. TischlerBise’s Infrastructure Funding Plans can help your jurisdiction finance infrastructure in a number of ways. First, we can prepare a cost-effective “white paper” that evaluates alternative revenue sources and/or financing mechanisms that make the most

sense for your jurisdiction to fund the Capital Improvements Plan. The focus would be on revenue sources that are broad-based. Second, we can prepare a funding plan that 1) estimates capital needs over a defined period; 2) estimates dedicated capital revenue over the same time period in order to determine the “funding gap”; and 3) identifies 2-3 potential funding scenarios to illustrate how a jurisdiction can potentially

offset the “funding gap.” An example from a study TischlerBise prepared for Beaufort County, South Carolina is shown below in Figure 2.

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Southern Beaufort County, SC, Potential Infrastructure Funding Scenario

Figure 2

	TYPE OF INFRASTRUCTURE					
	ROADS	SCHOOLS	PARKS	FIRE	EMS	LIBRARY
GROSS CURRENT FUNDING NEEDS						
	\$253,924,000	\$135,090,000	\$56,279,330	\$7,150,000	\$600,000	\$21,002,667
LESS CURRENT FUNDING SOURCES						
Impact Fees	\$38,885,529	\$0	\$13,458,312	\$7,500,000	\$0	\$25,262,221
Unspent STIP Funds	\$15,000,000	\$0	\$0	\$0	\$0	\$0
New STIP Funds	\$15,000,000	\$0	\$0	\$0	\$0	\$0
Rural/Critical Lands			\$5,000,000			
EQUALS ESTIMATE OF FUNDING GAP						
NET FUNDING NEEDS	(\$185,038,471)	(\$135,090,000)	(\$37,821,018)	\$350,000	(\$600,000)	\$4,259,554
POTENTIAL FUNDING OPTIONS TO MEET FUNDING NEEDS						
Revision to Existing Impact Fees	\$45,000,000 (\$1,200 per du)		\$10,000,000 (\$840 per du)	N/A		
Implementation of New Impact Fee				N/A	\$600,000 (\$20 per du)	
Local Option Sales Tax	\$140,038,471 (15 years)		\$27,821,018 (15 years)	N/A		\$5,019,158 (15 years)
Bond Issue (backed by Property Tax)		\$135,090,000 (\$9.94 m/yr)		N/A		