



Fiscal & Economic

NEWSLETTER

Tax Base Diversification Plan for Lancaster, Texas

How does a jurisdiction cope with a loss of \$5 million annually to the General Fund? Lancaster, Texas, a suburban Dallas city of 20,000 faced this problem. The City hired TA to address this issue. TA's products included:

- Economic profile
- Economic development assessment
- Prototype land use cost-revenue assessment
- Revenue analysis
- Strategic plan

The economic development assessment made specific recommendations regarding actions the City should take to increase its tax base through appropriate employment generators. The prototype land use cost-revenue assessment provided an important understanding of the land uses that generate a net surplus or deficit to the City. A summary of these two products, which are an

integral part of the strategic plan, are presented on page 2.

(See LANCASTER, TEXAS, p. 2)

Fiscal Impact Evaluations Completed for Sun Prairie, Wisconsin

The City of Sun Prairie, with a population of over 21,000, has an eastern border with Madison, Wisconsin. A major question for City policy makers was whether growth paid for itself and what type of development futures the City should pursue. It is important to note that the City has since increased its property tax millage so that most of the deficits indicated in the study would be eliminated.

(See SUN PRAIRIE, p. 4)

The Fiscal Impact of Growth in the Twin Cities Metropolitan Area

This article is excerpted from "The Fiscal Impact of Growth on Cities – Twin Cities Metropolitan Area" prepared by the Metropolitan Council.

Compact development is a financial plus for cities, according to a first-of-its-kind regional fiscal impact study conducted for the Metropolitan Council. Compared with a more spread-out development pattern, compact development produces more net revenues in a city's general fund to pay for municipal operations and generates more savings in building infrastructure, such as sewers, water lines and streets.

TA conducted "a first-of-its-kind regional fiscal impact study"

The study examined the costs of serving new development or redevelopment and the revenues generated to calculate the net fiscal benefit. The costs examined by the study are "marginal costs"—that is, expenditures necessary to build new facilities and provide additional services to accommodate growth beyond existing municipal capacities. This approach reflects actual varia-

tions in the timing of development and in its geographic location, factors not incorporated in other methodologies. The revenues examined in the study include property taxes as well as one-time construction-related fees for permits, administrative charges and special assessments.

Net fiscal benefits were compared under two scenarios. One scenario assumed growth would occur in spread-out patterns that reflect current trends. The other projected a more compact pattern that reflected a higher number of housing units on the same amount of land. Both scenarios assume each community achieves its affordable housing goals set for itself under the Metropolitan Council's Livable Communities Program.

The study took a case-study approach, looking at eight communities around the region at different stages of development – two outlying suburbs with a considerable amount of vacant land (Cottage Grove and Shakopee); two matur-

(See METRO COUNCIL, p. 2)

IN THIS ISSUE

Does New Growth Pay for Itself?

This seemingly simple question has a very complex answer, as evidenced by the different fiscal results discussed in this newsletter. In short, whether new growth pays for itself or not is dependent on at least five major influences:

- State/local revenue structure
- Assessed values of new development
- Characteristics of new development (spatial/demographic)
- Levels of service
- Existing infrastructure capacity

For example, a TA study for eight communities in the Metropolitan Council area showed that new growth generates surpluses in most cases. A major reason is an aggressive revenue structure that includes regional tax base sharing.

There are at least 5 major influences on the cost of growth

In Lancaster, Texas, TA found the majority of land use categories generate deficits. A major reason for these results is the low tax rate, since the City's growth-related revenue structure is primarily dependent on property tax.

Another important factor is the characteristics of new growth development. The fiscal findings in the Metropolitan Council area indicate that compared with a more spread-out development pattern, compact development is better fiscally. A primary reason was the utilization of existing infrastructure capacity.

There are various methodologies and approaches to fiscal impact analysis. The different fiscal products prepared for Sun Prairie give some additional information pertaining to looking at full growth alternatives versus discreet land uses and utilizing a case study-marginal cost approach versus an average cost per-capita approach.

Paul S. Tischler

LANCASTER, TEXAS

(continued from p. 1)

Economic Development Assessment

The purpose of this assessment is to examine economic development issues in Lancaster and provide recommendations to help the City enhance its ability to attract and retain nonresidential development. Below are selected excerpts from the recommended actions.

Recommended Industry Clusters – There are five industry clusters that have been identified as good fits for Lancaster. The major reasons for selecting these clusters are growth, concentration, presence in the Metroplex, and compatibility with community goals. The following are suggested industry clusters for Lancaster:

- Business Support Services
- Health Care Services
- Manufacturing
- Retail
- Transportation

Lancaster’s Economic Infrastructure – Economic infrastructure can be defined as the foundation on which economic growth takes place. It includes such items as capital, markets, physical infrastructure, regulatory climate, taxation, and workforce.

The City has several positive attributes that make it attractive to potential businesses. These include the following:

- Located in a large, rapidly-growing metropolitan area.
- Abundance of developable land.
- Excellent transportation assets such as rail, an airport, and access to three interstates.

Unfortunately, the City also has several negative attributes including the following:

- The perceived image of public schools.
- The City’s major thoroughfares lack an attractive, cohesive appearance.
- The fiscal condition of the City’s budget raises questions of stability.

Economic Development Recommendations – The Lancaster Economic Development Corporation (LEDC) must take a lead in addressing the economic infrastructure needs of the City. LEDC should also provide leadership to help make decisions about the City’s future and the implementation of the 10 recommendations discussed in the report.

Prototype Land Use Cost-Revenue Assessment

Approach - The funds analyzed in the assessment are the General Operating Fund, Activity and Athletic Fund, 4B LRDC Operating Fund, GO Debt Service Fund, and the Street Capital Improvement Fund.

Only one residential and one nonresidential land use generate annual net revenues

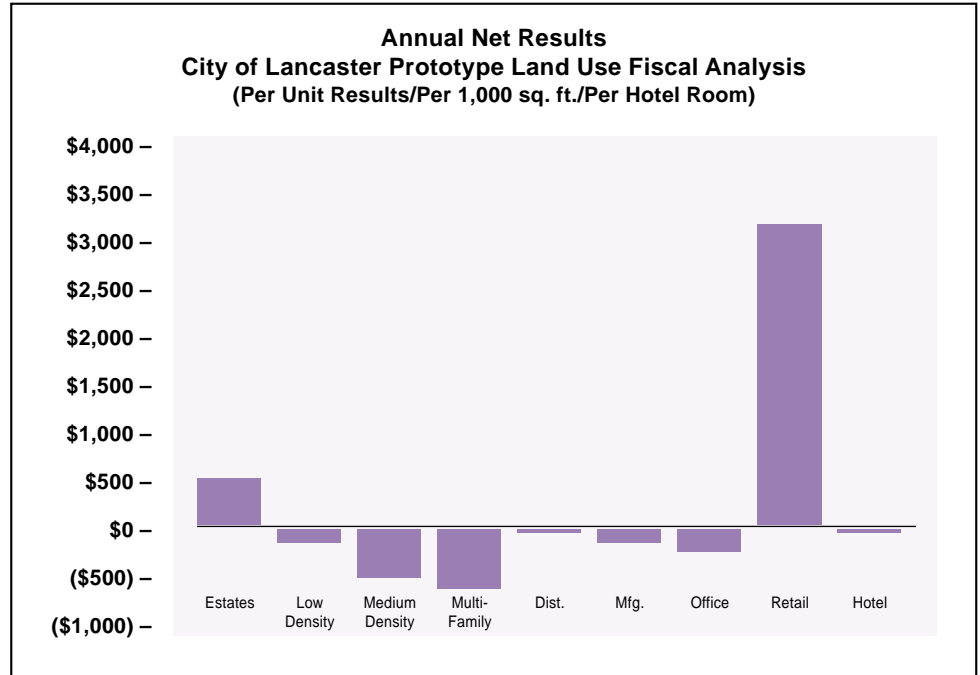
Results – Chart 1 shows that of the nine prototypes, one nonresidential and one residential category generate annual net revenues. The Retail

prototype generates the best results with annual net revenues of \$3,216 per 1,000 square feet. Of the residential prototypes, the Estate category generates the best results with annual net revenues of \$526 per unit. Chart 2 shows the results graphically.

CHART 1

	Residential (per unit)				Nonresidential (per 1,000 sq. ft./per hotel room)				
	Estates	Low Density	Med. Density	Multifamily	Ware./Dist.	Light Mfg.	Office	Retail	Hotel
Revenues	\$2,194	\$1,354	\$917	\$521	\$391	\$476	\$900	\$4,283	\$309
Costs	\$1,668	\$1,500	\$1,417	\$1,168	\$437	\$600	\$1,127	\$1,067	\$342
Net Result	\$526	(\$146)	(\$499)	(\$647)	(\$46)	(\$124)	(\$227)	(\$3,216)	(\$33)

CHART 2



METRO COUNCIL

(continued from p. 1)

ing suburbs (Coon Rapids and Apple Valley); two fully developed, first-ring suburbs (Roseville and Richfield); and the region’s two central cities (Minneapolis and St. Paul).

Although each community is unique, a number of common themes emerged from the study.

Fiscal Impacts –

- Compact development is less costly to provide with municipal infrastructure, such as streets, sewers and water lines, than spread-out development.
- The Minnesota fiscal system seems to be structured well to pay for growth.
- The existing system of paying for infrastructure costs (primarily enterprise funds), though financially self-supporting, passes the costs to

consumers in the price they pay for a new home.

- Tax-increment financing (TIF) works best for mature communities because the marginal cost to accommodate growth is small.

The marginal “approach reflects actual variations in the timing of development and its geographic location”

- Retail activity does not generally provide strong fiscal benefits, but it is nonetheless important for a balanced community.
- Multifamily housing can provide either a net revenue gain or a loss, depending on the property’s valuation.
- Property valuations and service costs for industrial and office space vary significantly, but generally the fiscal impacts are positive to neutral.

Impact Fees

TA has prepared over 500 impact fees, more than any other firm in the country. Highlighted below are two interesting impact fee assignments, one for a small community and the other for a state.

Selected Examples

Hailey, ID – Hailey, a City with a population of about 6,500, is near Sun Valley. TA calculated new growth's fair share of capital costs for water, sewer, transportation, police, fire, municipal facilities, parks and recreation, and libraries.

State of Delaware – In order to address the rising costs of sprawl, one of the major components of the adopted *Livable Delaware* program is State Legislation calling for the imposition of impact fees. Under this unique approach, the State wishes to charge impact fees on new development for State-funded infrastructure. TA has been hired to prepare impact fees for roads, schools, paratransit and police. The impact fee schedule will include different fee levels for development located in various investment strategy areas. No fees would be imposed in "community" and "developing" areas but fees would be graduated from designated "secondary development" to "environmentally sensitive" to "rural areas."

New Assignments

Listed alphabetically by state are some additional jurisdictions for which TA has completed impact fee assignments or is currently working on fees. The fee categories include utilities, schools and most other municipal infrastructure.

Bentonville, AR
Avondale, AZ
Camp Verde, AZ
Carefree, AZ
Flagstaff, AZ
Gilbert, AZ*
Glendale, AZ
Castle Rock, CO
Greeley, CO
Louisville, CO
Manatee County, FL
Pasco County, FL

Polk County, FL
Frederick County, MD
Hampstead, MD
Missoula, MT
Orange County, NC
Delaware, OH
Edmond, OK
E. Greenwich, RI
Summerville, SC
Clinton City, UT
Farmington, UT
Springville, UT

*Critique for Private Sector

Capital Improvement Programs

Hailey, ID – TA prepared the City's first capital improvements program (CIP) and developed software for the City to maintain the CIP in the future. The assignment evaluated both fiscally constrained and unconstrained CIPs.

TA prepared a CIP and developed a CIP software package

Fiscal Impact Analyses

Texas Municipal League (TML) – TA conducted prototype land use fiscal impact evaluations of various housing categories in two Texas cities for TML. Eight of the nine types of residential land uses generated net deficits. Among other things, these findings indicated the importance of attracting nonresidential land use activities with accompanying jobs and tax base to offset the demands for services and costs generated by residential development.

Peoria, AZ – TA was retained by this Phoenix area city to evaluate the fiscal impact of a proposed annexation of a mixed-use community, Lakeland Village. The City wished to know the fiscal implications of extending infrastructure and incurring front end operating expenses to help "seed" the development.

Delaware, OH – This city, within easy commuting distance to Columbus, is experiencing significant pressures for annexation. TA is evaluating the fiscal impacts of different development scenarios *within* the City as well as in different annexation subareas *outside* the City.

Sebastian, FL – Just north of Vero Beach on Florida's east coast, Sebastian has over 50% of the land within the City available for development. The City wishes to better understand what type of land use it should encourage from a fiscal impact perspective. TA is evaluating nine different prototype land uses in this assignment.

Fiscal Impact Models

Westminster, CO – TA is designing a fiscal model for this suburban Denver city for long-term fiscal planning. The City wants to ensure that the existing revenue stream can maintain levels of service once new development is at a minimal level, and one-time fees are minimal. The City also wants to evaluate the fiscal consequences of possible higher levels of service.

Bernalillo County, NM – TA was hired to design and implement a fiscal impact model reflecting the case study-marginal cost approach. This will enable the County to evaluate the future demands for services and fiscal consequences of different growth scenarios.



TISCHLER & ASSOCIATES, INC.

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Please send the following:

- 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 Smart Growth Network "Smart Growth & Fiscal Realities"
- Recent TA *Fiscal & Economic Newsletters*

Information About TA Consulting Services:

- Fiscal Impact Analyses
- Impact Fees
- Capital Improvement Programs
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- Fiscal and Economic Software

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SUN PRAIRIE

(continued from p. 1)

TA conducted a fiscal impact analysis of three growth scenarios between 2001 and 2020. The three scenarios, developed by the City, were: Trends, High Employment and Residential Mix.

In general, the Trends scenario is a projection based on historical data and current growth. The High Employment assumes a greater employment base, particularly in the office and industrial/flex sectors. The Residential Mix assumes more single family and less multifamily.

Results

Average Annual Results - Chart 1 shows the average annual net fiscal results from new growth for the General Fund. New growth generates long-term average annual net deficits to the City under all scenarios under most time periods.

Annual Results - Chart 2 shows the annual net results over the 20-year analysis period for the three scenarios. The High Employment scenario worsens slightly, primarily due to property tax losses going to TIF districts.

Higher road costs and TIF requirements affect the High Employment Scenario

Explanation of Scenario Results

- The Residential Mix scenario generates the smallest deficits and actually generates average annual net revenue during the second half of the analysis period because of the value of higher value single family housing units.
- The poorest result is generated by the High Employment scenario, which can be attributed in part to higher costs from required road improvements.
- Average annual net results are substantially worse in years 11-20 under the High Employment scenario because of the opening of a fire station and property taxes going to TIF districts.

CHART 1

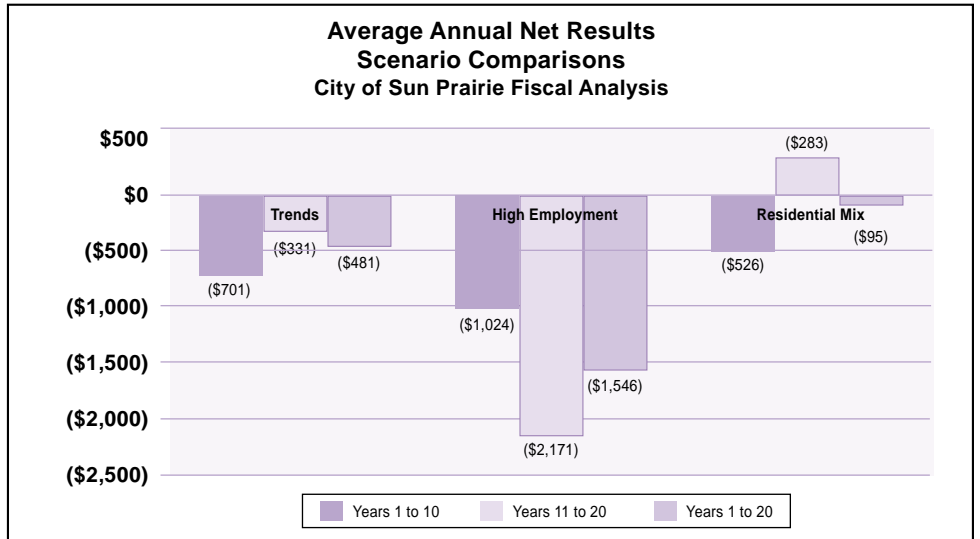
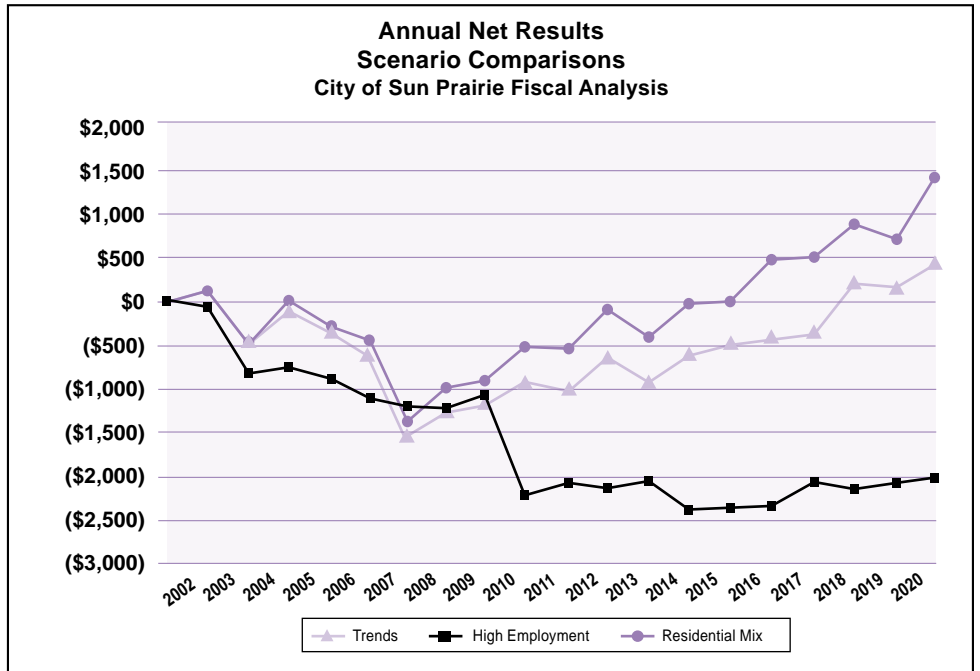


CHART 2



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- Fiscal Impact Analyses
- Impact Fees
- Capital Improvement Programs
- Revenue Strategies
- Market and Economic Analyses
- Growth Policy Studies
- Fiscal and Economic Software

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