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SMART GROWTH & FISCAL REALITIES (Excerpts)

by L. Carson Bise, II, AICP

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- Analyzing the Fiscal Impact of Development (excerpt from the MIS Report published by ICMA)
- Fiscal Impact Analysis: Reader Beware, Some Caveats (excerpt from The Growth Management Reporter newsletter)
- Impact Fees: Understand Them or Be Sorry (article from Land Development magazine)
- 20 Points to Know About Impact Fees (article from Planning magazine)
- Fiscal Impact Analysis in Local Comprehensive Planning (excerpt from Planner's Casebook newsletter published by the American Planning Association)
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Although smart growth has social, environmental, and other components, the general concept is to encourage development in areas having existing infrastructure capacity and to discourage "leapfrog," or sprawl, development patterns. The author's consulting assignments with Tischler & Associates, Inc. (TA), a nationally known fiscal, economic and planning consulting firm, have confirmed that smart growth is almost always a much more fiscally sustainable development pattern than traditional sprawl development. This fiscal viability is an important planning consideration, as a comprehensive plan is difficult to implement if it is not fiscally sustainable. This article discusses the general relationships among several factors that influence the fiscal sustainability of growth.

"... a comprehensive plan is difficult to implement if it is not fiscally sustainable."

A fiscal impact analysis determines costs and revenues attributable to new development. The analysis should reflect revenues, capital costs and associated operating expenses. This is in contrast to an economic impact analysis, which evaluates direct and indirect impacts on the overall economy; those impacts are typically new jobs, real disposable income and consumer spending.

Methodologies

The two most common methodologies utilized in fiscal impact analyses are the average cost-per capita method and case study-marginal cost method. The average cost-per capita approach is probably the more popular and more frequently used method for evaluating fiscal impacts. The reader should take caution, however, when using this approach: because it focuses on average cost per capita or employee, it doesn't consider the available capacities of existing capital facilities, and it masks the timing of additional facilities required to serve new growth. The case study-marginal cost method is the most realistic method for evaluating fiscal impacts. Under this approach, available capacities usually determine the staging of capital facilities and where variable, and semi-variable, costs can be reflected.

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Using a local government's fire department as an example, the differences between the average-cost and case study-marginal methods can be illustrated. The average cost method would divide the fire department budget by population, or both population and employment, to arrive at a level-of-service standard of \$X. This cost would be incurred regardless of where and when development occurred. The case study-marginal cost approach would evaluate the service response time and, based on discussions with fire personnel, ascertain whether a new station and/or apparatus was needed. If not, there would be no additional cost in constant dollars. If there were a need, then a new station or bay would be required for the additional apparatus, and there would be a cost for additional staff. Therefore, the timing of new development would be critical and would affect the city's capital needs and costs, operating expenses, and of course, any offsetting revenues.

Locational Differences, Costs

The demands for government services and capital facilities are closely related to developments' location relative to existing infrastructure. These locational differences relative to existing infrastructure can only be reflected using a case study-marginal cost methodology. Infill

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and new development that occur in areas already served by infrastructure are typically able to capitalize on infrastructure economies of scale, both capital and operational. This is an important factor given that much of a community's capital improvement plan is comprised of growth-related projects, resulting in less money for infrastructure replacement and maintenance needs. Often overlooked in the discussion of infrastructure needs are the associated operating costs, which are the largest costs incurred by capital facilities; annual operating costs typically account for approximately 80 percent of a jurisdictional budget.

Revenue Structure

Unlike costs, the physical development pattern typically has little impact on the local revenue structure, except for any variations in property taxes resulting from locational differences. Therefore, it is the composition of the local revenue structure that mainly affects the fiscal sustainability. For example, many western states rely heavily on sales tax collected at the point of sale as the primary local revenue source. With this revenue structure, additional retail development is attractive to many communities. However, additional retail development can happen at the

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expense of existing retail space, especially over the long-term. In addition, given the lower wages earned in retail and service jobs, new retail development can exacerbate affordable housing shortages in many communities.

In states with aggressive local revenue structures, such as Maryland, TA has found that new residential growth pays its own way in most counties because of higher revenues from property, income and transfer taxes, which are linked to the higher taxable values of new homes relative to the existing base. For buyers to afford these units their average household income will generally be higher as well, which affects local income tax. Although TA studies have found that future land use scenarios reflecting smart growth principles generate the best fiscal results in

Maryland, the local revenue structure aids the fiscal sustainability of a sprawl development pattern as well.

Annexation Considerations

Many cities perceive annexations as “cash cows” and choose to enhance the tax base in this fashion, rather than encourage redevelopment within the existing city. Annexations are attractive because of the potential for realizing instant revenues from property tax and in many instances, sales and income tax. This is particularly true when situs-based sales tax (point-of-sale) and/or point of employment income tax is at stake. Costs are only rarely considered because of the difficulty in ascertaining the likely increased demands for services and the resulting costs. These costs often include extension of new infrastructure, associated operations and maintenance costs, as well as unforeseen costs for such items as rehabilitation of substandard infrastructure. In many cases, costs would be less to encourage redevelopment within the existing city.

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For example, TA completed a fiscal analysis of growth, as well as the feasibility of several annexations, for Dublin, Ohio. Because Dublin is fortunate to have a favorable job-to-housing ratio that is expected to continue into the future, the analysis concluded that new growth within the city generates net revenues because of the income taxes from non-residential development. It also concluded that all combinations of annexation areas generate average annual net deficits because of the large amount of residential development and the need to extend infrastructure. The Dublin analysis raised interesting policy questions such as the city's willingness to subsidize some annexation in order to exercise its control over land uses.

Conclusion

By including a fiscal impact analysis as part of the planning process, the community and local government decision-makers can gain a better understanding of the fiscal realities of different development alternatives. With this knowledge, the fiscal impacts can be evaluated alongside non-fiscal issues such as environmental concerns, housing affordability, jobs/housing balance, and quality of life, in order to make decisions in the best interest of the particular community.



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