

# Fiscal & Economic

## NEWSLETTER

### Fiscal Impact of Growth and Annexation Completed for Germantown, Tennessee

Many elected officials and policy makers assume annexation is generally good for a community because of higher revenues. Frequently, however, this is not the case because the costs can be greater than the incremental revenues. This is particularly true if the annexation area is primarily residential and/or the levels of service within the annexed area are lower than what is currently offered by the jurisdiction.

Germantown, with a population of 39,000 and contiguous to Memphis to its east, hired TA to analyze the fiscal impact of four different land use scenarios within the current municipal limits as well as two different subareas outside the current municipal limits. Within these two potential annexation subareas, two to four different land use areas were evaluated.

#### Existing City Scenarios.

The net results for the four scenarios within the City show net revenues. In order of positive results, the two Higher Nonresidential were most favorable, followed by Higher Density and Trends.

#### Annexation.

Two annexation areas, Subareas 1 and 2, were evaluated. Both scenarios in Subarea 1 generate average annual net deficits in both the short- and long-term. The Faster Absorption scenario produces smaller deficits because capital related costs are similar for both scenarios, but revenues increase earlier under Faster Absorption.

#### *One annexation area results in deficits and the other generates net revenues*

The primary reason annual average net deficits are greater in the short-term for both scenarios are the start up costs for police and the debt service payments for the onetime road upgrades necessitated by annexation. The average annual long-term deficits are a (...continued on page 4)

### Fiscal Equity Evaluation Prepared for Clovis, California

TA was hired by the City of Clovis to prepare a fiscal equity study "to determine whether Fresno County receives as much in discretionary revenue from the City as it provides to the City in countywide services". A major reason why TA was hired was

#### *Does the City generate net revenues to the County?*

that the County issued a "net county cost analysis" prepared by another consultant which indicated that the City was being subsidized by Fresno County. All of the data used by TA was from the consultant study prepared for the County.

A comparison of the findings to the County General Fund between the two studies is shown below.

Jurisdiction	Fresno County Study	TA Study
Clovis	(\$1,795,375)	\$5,507,754

As the above table indicates, there is a significant difference between the two studies. The County study failed to allocate a major source of discretionary revenue (state aid revenue) against Countywide service costs. By not including this revenue, the County's analysis is biased from the start since *less than* 100% of the revenues are applied against 100% of the costs. (...continued on page 4)

### Knox County, Tennessee has Fiscal Evaluations Completed

Knox County has a population of about 375,000 persons, of which approximately 170,000 reside in the City of Knoxville. TA was retained by the County to evaluate the fiscal impact of five scenarios on various County Funds. These scenarios are as follows:

- Current Trends
- Higher Retail
- Slower Growth
- Higher Employment
- Higher Multifamily
- (...continued on page 2)

### IN THIS ISSUE

#### Impact Fees and Excise Taxes

The increasing need for new revenue sources by communities is an important reason why impact fees are pursued. As impact fees become more prevalent and as they become higher, the private sector is becoming more interested in the reasonableness of the fees. Some of the reasons for this are discussed in two impact fee articles written by Paul Tischler and available for free (see coupon on page 3).

#### *New growth should not pay for infrastructure which is unlikely to be built due to a lack of other funds to supplement impact fees*

One of the more important points regarding impact fees is the need to meet the rough proportionality of costs and demands. New growth should not have to pay for a higher level of service than that which exists unless there are revenue sources earmarked for raising the existing level of service for existing residents. Also, new growth should not pay for infrastructure, which is unlikely to be built due to a lack of other funds to supplement impact fees.

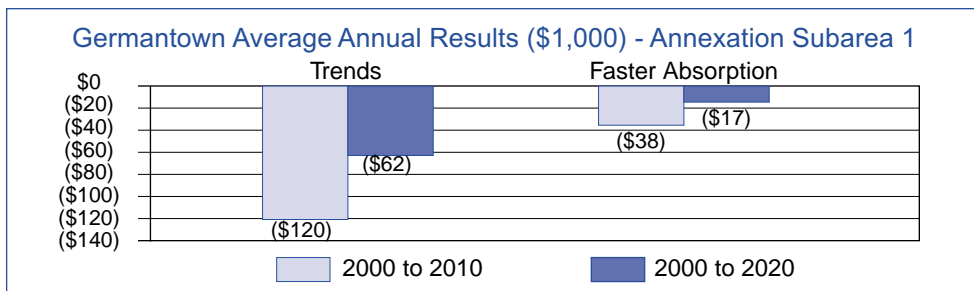
Although over 95% of TA's impact fee work is for the public sector, and none of these has been challenged, TA has served as an expert witness for the private sector. This includes homebuilders groups in Beavercreek, OH (a traffic impact fee) and West Des Moines, IA (a park and recreation fee). The courts ruled in favor of the homebuilders in both cases. Flaws existed in the methodology and data assumptions.

For those communities that have the option, excise taxes are a more flexible revenue mechanism. That is because as a tax it does not require the precise methodology, data analysis or restrictions of funds that are required for impact fees.

#### *For those communities that have the option, excise taxes are a more flexible revenue mechanism*

On page 3 there is a listing of many of TA's impact fee clients, some of whom are private sector. This list provides an indication of those communities and states that have these mechanisms.

*Paul S. Tischler*



Knox County (...continued from page 1)

**Methodology.**

To reflect fiscal reality, the methodology utilized was the case study-marginal cost approach. This approach, which TA uses in virtually all of its studies, is more sophisticated than the per capita-average cost approach. As such, the results are more meaningful and readily accepted by local officials.

**Results.**

As shown in the graph below, the five scenarios generate near-term average annual net deficits to the General Fund ranging from \$490,000 to \$1.5 million.

*The five scenarios generate near-term average annual net deficits to the General Fund*

Average Annual Results (\$1,000's)  
From New Growth — Current Trends Scenario

Fund	1999 to 2010	1999 to 2020
General Fund	(\$1.35)	(\$0.96)
General Purpose School Fund	(\$5.36)	(\$8.60)
School Construction Fund	\$3.80	\$7.57
General Debt Fund	(\$12.16)	(\$12.86)
Recreation Construction Fund	(\$0.25)	(\$0.45)
Solid Waste Fund	\$0.13	\$0.23
Library Fund	(\$1.02)	(\$0.91)
Highway Fund	(\$0.18)	(\$0.34)
<b>Total</b>	<b>(\$16.38)</b>	<b>(\$16.32)</b>

Transfers to Other Funds (\$1,000's)

Fund	22 -Year Total	Average Annual
General Purpose School Fund	\$189,210	\$8,600
School Construction Fund	\$1,037	\$47
General Debt Fund	\$283,010	\$12,864
Recreation Construction Fund	\$9,972	\$453
Solid Waste Fund	\$0	\$0
Library Fund	\$20,114	\$914
Highway Fund	\$7,597	\$345
<b>Total</b>	<b>\$510,940</b>	<b>\$23,225</b>

● The results for the General Debt Fund suggest that the County may want to consider alternative revenue sources, such as impact fees, to assist with funding new growth's fair share of capital facility needs.

**Conclusions.**

Based on the analysis, the County is not in a position to provide current levels of service to new development under the present revenue structure without finding new revenue sources or raising existing rates.

*Based on the analysis, the County is not in a position to provide current levels of service to new development under the present revenue structure*

Over the 22-year analysis period, only the Higher Retail scenario generates net revenues over \$100,000 annually, due to situs-based sales taxes.

In addition, there are deficits incurred in other funds over the 22-year analysis period. Under the Current Trends scenario, the average annual net deficit for all funds is over \$16.3 million. This is illustrated in the table on this page.

● The Higher Retail scenario produces the best results because of the additional 1.5 million square feet of retail space assumed under this scenario.

● Over the 22-year analysis, the Higher Multifamily scenario produces the second best results. Although essentially the same number of housing units is constructed under Current Trends, multifamily units generate less costs than lower density, single family detached housing on a per unit basis for services such as law enforcement, health, and parks and recreation. These lower costs are greater than the loss in property taxes due to lower values.

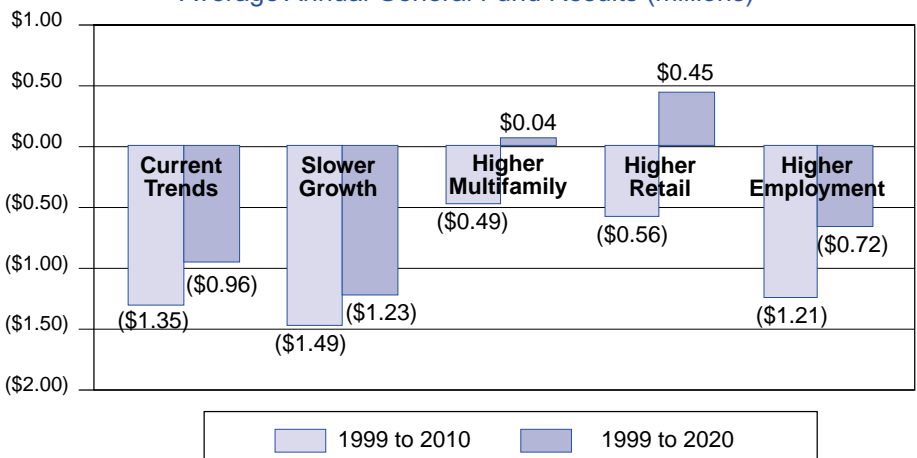
● The Higher Employment scenario produces the third best results because of the over 1.1 million square feet of additional nonresidential space assumed under this scenario.

● The Current Trends scenario is the second to worst scenario generating average annual deficits approximating \$1 million. This indicates that the County's existing revenue structure should be evaluated.

● The Slower Growth scenario produces the largest deficits because the revenues (primarily property tax and local option sales tax) are not enough to cover the operating costs associated with new capital facilities that are built.

Otherwise, the existing development base will have to subsidize new growth, or existing levels of service will have to be decreased. For example, the General Fund would need to transfer almost \$511 million, or \$23 million annually, over the 22-year analysis period to balance the various county funds under current trends. This is shown in the table on this page.

Average Annual General Fund Results (millions)



## Impact Fees

TA has prepared over 400 impact fees for jurisdictions around the country, more than any other firm. None of TA's public sector fees have been challenged. A partial listing of TA impact fee clients (on behalf of the public or private sector) includes the following (from west to east):

- |                                          |                                   |
|------------------------------------------|-----------------------------------|
| Chino Hills, CA                          | New Berlin, WI                    |
| Post Falls, ID                           | Beavercreek, OH                   |
| Avondale, AZ                             | Delaware, OH                      |
| Casa Grande, AZ                          | Stillwater, OK                    |
| Glendale, AZ                             | Bentonville, AR                   |
| Goodyear, AZ                             | Barnstable Twnshp., MA            |
| Peoria, AZ                               | Mashpee Twnshp., MA               |
| Queen Creek, AZ                          | Clifton Park, NY                  |
| Scottsdale, AZ                           | Lower Markham Twnshp., PA         |
| Show Low, AZ                             | Jefferson Co., WVA                |
| Surprise, AZ                             | Anne Arundel Co., MD              |
| Tolleson, AZ                             | Carroll Co., MD                   |
| American Fork, UT                        | Cecil Co., MD                     |
| Clearfield, UT                           | Charles Co., MD                   |
| Clinton City, UT                         | Frederick Co., MD                 |
| Draper, UT                               | Queen Anne's Co., MD              |
| Farmington, UT                           | Washington Co., MD                |
| Hyde Park, UT                            | Westminster, MD                   |
| Kaysville, UT                            | Worcester Co., MD                 |
| North Logan, UT                          | New Castle Co., DE                |
| Pleasant Grove, UT                       | Appoquinimink School District, DE |
| Salt Lake Co., UT                        | Chesapeake, VA                    |
| Salt Lake Co. Sewer Imp. Dist. No. 1, UT | Chesterfield Co., VA              |
| Spanish Fork, UT                         | Isle of Wight, VA                 |
| Wellsville, UT                           | Suffolk, VA                       |
| Woods Cross, UT                          | Chatham Co., NC                   |
| Boulder, CO                              | Greenville, NC                    |
| Castle Rock, CO                          | Nags Head, NC                     |
| Erie, CO                                 | Orange Co., NC                    |
| Johnstown, CO                            | Horry Co., SC                     |
| Albuquerque, NM                          | Deerfield Beach, FL               |
| Las Cruces, NM                           | Lee Co. School District, FL       |
| Billings, MT                             | Manatee Co., FL                   |
| Bozeman, MT                              | Pasco Co. School District         |
| West Des Moines, IA                      | Polk Co., FL                      |
| Village of Hudson, WI                    | Sarasota Co., FL                  |
| Eau Claire, WI                           | Tarpon Springs, FL                |

## Fiscal Model Implementations

Since our last TA Fiscal & Economic Newsletter, we have designed and implemented fiscal models for each of the following jurisdictions:

- Albuquerque, NM
- Calvert Co., MD
- Carroll Co., MD

## Fiscal Impact Assignments

Since our last TA Fiscal & Economic Newsletter, we have prepared or are preparing fiscal impact reports of growth scenarios and/or specific land uses for the following clients:

- |                   |                     |
|-------------------|---------------------|
| Apple Valley, MN  | Draper, UT          |
| Coon Rapids, MN   | Hernando Co., FL    |
| Cottage Grove, MN | Holly Springs, NC   |
| Richfield, MN     | Howard Co., MD      |
| Roseville, MN     | Mashpee Commons, MA |
| Shakopee, MN      | Sarasota, FL        |
| Anchorage, AK     | Stafford Co., VA    |

## Speaking Engagements

Paul Tischler and Carson Bise were featured speakers at the American Planning Association National Conference. Paul's topic was "Fiscal Impact Analysis Approaches". Carson Bise spoke on "Annexation and Economic Development".

In addition, Paul and Carson spoke at the New Mexico Infrastructure Financing Conference regarding the topics of fiscal impact approaches and applications as well as measuring operating costs associated with infrastructure.

Paul Tischler also spoke at the International City/County Management Association (ICMA) Conference in Portland, Oregon. The session, entitled "How to Provide Adequate Infrastructure During Times of Growth," focused on issues such as impact fees, fiscal impact analyses and capital improvement plans.



## 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"
- Recent TA *Fiscal & Economic Newsletters*

**Information About TA Consulting Services:**

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## Introduction to Infrastructure Financing

The International City/County Management Association (ICMA) provides IQ Service Reports of selected topics. Paul Tischler and Dwayne Guthrie of TA prepared an IQ Service Report "Introduction to Infrastructure Financing." The table of contents includes the following:

### Infrastructure Funding Considerations

- Seven Common Revenue Sources
- Property Tax
- Local Option Sales Tax
- Income Tax
- Special Purpose Tax
- Gas Tax
- Excise Tax
- Real Estate Transfer Tax

### Bonds

### Specific Purpose Revenues and Financing Mechanisms

- User Charges
- Stormwater and Transportation Utilities
- Congestion Pricing and Tolls
- Lease-Purchase Contracts and Certificates of Participation (COPs)
- Special Assessment Districts
- Business Improvement Districts (BIDs)
- Special Taxing Districts
- Utility Districts
- Tax Increment Financing (TIF)

### Partnering

- Privatization or Public-Private Partnership
- Jurisdictional Revenue Sharing

### Developer Contributions

- Exactions
- Impact Fees

### State Sources

- Bond Banks
- Revolving Loan Funds
- Growth Management Rewards

Contact TA for a free four-page reprint of excerpts. The full report can be obtained from ICMA by calling (800)745-8780.

In many of its assignments, TA suggests various revenue mechanisms that may be pursued as a result of a fiscal impact or impact fee report.

### Germantown (...continued from page 1)

direct result from debt service payments for the necessary road upgrades, park development and other capital items.

In Subarea 2, all four scenarios related to the amount of development as a function of the total maximum development. As the chart below indicates, the more development, the better the fiscal results. This is primarily because revenues are more variable than the onetime capital costs and annual operating costs. For example, the short-term deficits in the 25% absorption scenario occur because the revenues generated do not cover the annexation start-up costs for police.

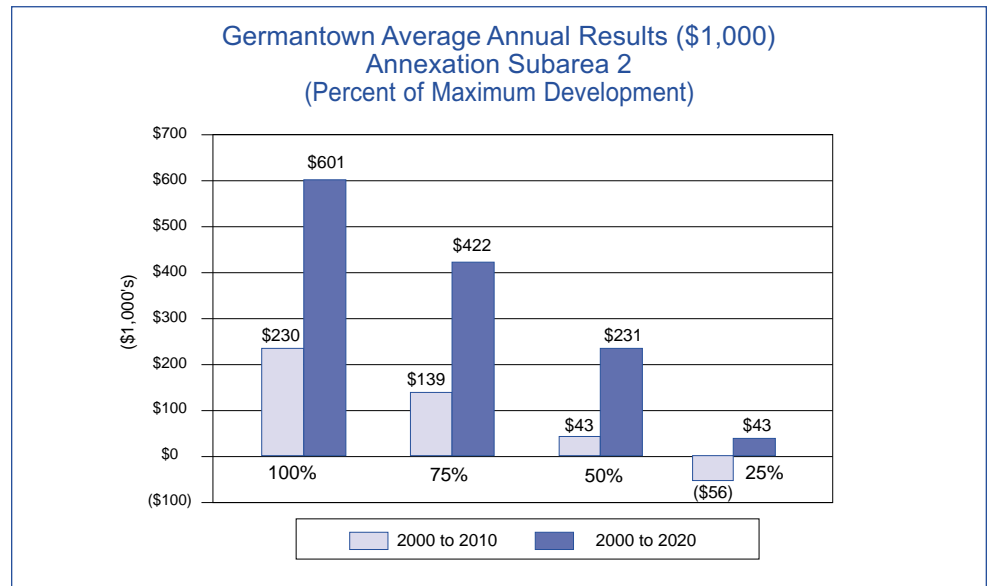
### Clovis (...continued from page 1)

By simply applying 100% of the revenues against 100% of the costs contained in the Fresno County study, Clovis generates a surplus of tax revenues to the County compared to the cost of the countywide services provided to the City and its residents.

*Clovis is generating a surplus of tax revenues to the County compared to the cost of the countywide services provided to the City and its residents*

Since Clovis generates more in discretionary revenues than it receives in countywide services, the City is supporting the provision of services to the rest of the County. TA's study also indicates the unincorporated County generates deficits to the County for the same services while Clovis generates net revenues.

The study has been used by the City to confirm that the policy of directing growth to adjacent cities and communities within Fresno County is good public policy.



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