# FISCAL IMPACT ANALYSIS

| Revenues | Expenditures |
|---|---|
| 1. Own Source | 1. General Government |
| A. Taxes | 2. Public Safety |
| B. Charges | 3. Public Works |
| 2. Intergovernmental Transfers | 4. Health & Welfare |
| A. State | 5. Recreation & Culture |
| B. Federal | |
| | School District |

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School of Landscape Architecture and Urban Planning

# Fiscal Impact Analysis

UP 898 - Masters Research
Plan B Option
by
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# INTRODUCTION

Financial planning, in the wake of Proposition 13 and a growing public demand for more productive and efficient local government, has again become a matter of prime importance. Local government has long been criticized for its inability to coordinate its budgeting and accounting functions with those of performance measurement and evaluation. Nor has fiscal stability been insured by relating the costs of programs and services to the revenues produced by government action. In this regard, decisions involving land use have often been completely divorced from decisions related to municipal services. The topic of this paper concerns this decision relationship in focusing upon one aspect of local financial planning, the fiscal impact of community development.

Fiscal impact analysis involves the projection of direct and current public costs and revenues associated with land use developments within specific political jurisdictions. It concerns the cost and revenue implications of changes in local population and employment. Fiscal impact analysis differs from cost benefit analysis in that it considers only the tangible costs and revenues of particular developments. Nor is fiscal impact analysis a cost effectiveness technique which emphasizes the least cost approach among a range of development alternatives to realize a given community objective. Fiscal impact analysis is a cost-revenue method for determining the net governmental surplus or deficit associated with a specific development proposal.

This paper attempts to survey the field of current fiscal impact analysis techniques. It first examines the legal basis for fiscal impact considerations in local land use decision-making. Six analytical methods are then

reviewed in some detail. A case study is used to demonstrate both the problems associated with, and the benefits to be derived from the use of fiscal impact analysis. Finally, the role of fiscal impact analysis in establishing community development policies is explored in the closing section of the paper.

This work relies heavily on the Rutgers University sponsored The Fiscal Impact Handbook by Robert W. Burchell and David Listokin.

## LEGAL BASIS FOR FISCAL IMPACT CONSIDERATIONS

More than fifty years have passed since the U.S. Supreme Court recognized that zoning is a proper exercise of state police power. The exact limitations of that power have yet to be defined. A myriad of land use regulation techniques has emerged since the introduction of zoning. Among them are subdivision regulations, cluster developments, planned unit developments, and the more recent concept of transfer development rights. Yet, persistent questions remain about the extent to which these techniques may be used by regulatory agencies to control development. At the heart of the issue is the question of citizen rights versus the public interest. One aspect of the public interest involves maintaining governmental fiscal stability.

Growth pressure on the local tax base has raised public awareness and concern over the fiscal impact of community development in recent years. Historically, estimating the costs of future development has been of little more than passing interest to local government. Where fiscal impact studies have been conducted, they have most often been employed to assess the economic impact of land use alternatives or mixed-use residential development proposals. The analysis has been most often applied to combined residential-commercial proposals involving standard tract development patterns. The purpose for conducting fiscal impact studies has varied on a regional basis according to ongoing land use activities however. Redevelopment cost projections are most frequently found in the Northeast and North Central areas, while in the West, the economic implications of alternate land uses are most frequently studied. Annexation evaluations are most frequently found in the West, while emphasis on cost-revenue analysis for budgeting and planning purposes

is evident in the North Central region. Fiscal impact studies have been most often used in states which represent growth centers within their respective regions, e.g. New Jersey and California. The emergence of impact analysis has raised serious questions regarding the legal standing of such considerations as a foundation upon which to base local land use decisions. As the police power is delegated to local units of government through state enabling legislation, a review of that legislation is in order.

Police power application in land use regulation is inseparable from the comprehensive planning process authorized by state enabling legislation. The development of a comprehensive plan is the planning process by which a rational basis for future growth is provided. Most state enabling legislation respecting comprehensive planning specifies as one of its purposes "the promotion of efficiency and economy in land development".[1] Fiscal impact considerations are thus inferred to be an important factor in determining the nature of future growth. Analyzing the fiscal impact of land use alternatives thus appears to comply with the intent of state comprehensive planning enabling legislation.

The physical aspects of development and purpose for which land may be used are usually controlled by state zoning enabling legislation. Zoning is inherently based on the state's power to act so as to promote the public health, safety, and welfare. Fiscal impact considerations are legal

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[1] Twenty-seven states require the promotion of "efficiency and economy" in their comprehensive planning enabling statutes. Fourteen provide only that the plan include a proposal for the physical development of the community. Eleven require a plan for provision of public facilities in addition to the physical development plan.

only to the extent that they are judged to be a proper activity within the scope of the police power. In states where specific reference to protection of the tax base is made in the enabling legislation[1], judicial interpretation of the validity of fiscal impact considerations as part of the land use regulatory process is less in doubt. The Standard State Zoning Enabling Act states that promotion of the public health and general welfare includes the adequate provision of transportation, water, sewerage, park, school, and other public facility requirements. In most jurisdictions, the zoning power appears to be at least implicitly limited by the need for adequate public facilities. Zoning to ensure the provision of adequate public facilities or to protect the tax base would appear to be a reasonable interpretation of the intent of the state police power.[2]

Stronger legal arguments for considering the fiscal impact of developments in arriving at land use decisions can be made on the basis of subdivision regulations, planned unit development statutes, and annexation legislation. Subdivision controls explicitly include the right to require various public improvements be provided by the developer and dedicated to the local governmental unit for future use. Planned unit developments were created as a special use control mechanism to facilitate the more efficient use of land. Under special use permit procedures, the fiscal and environmental effects of proposed developments are evaluated as part of the permit application process. Fiscal impact considerations are mandatory in the majority of annexation regulations.

Sixteen states permit zoning decisions on the basis of

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[1]Georgia, Ohio, Utah, and Tennessee.

[2]This conclusion raises a serious social question. Do fiscal considerations, granting the analysis is accurate and made in good faith, justify land use regulations that are so weighted as to be exclusionary?

the adequacy of public facilities.[1] Federal courts have endorsed zoning on this basis. The concept was firmly established by a landmark case in the State of New York, Golden v. Planning Board of the Town of Ramapo. Zoning in Ramapo was tied to the town's eighteen year capital improvement program. Michigan is among those states having significant rulings against the use of fiscal impact considerations as a basis for land use control.

The legal support for fiscal impact considerations as a component of the public land use decision-making process appears to be growing with increased public concern over the fiscal impact of development. The validity of those considerations, as they affect land use decisions, may ultimately depend upon their acceptance as a planning endeavor.

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[1] Alabama, Georgia, Washington, New Hampshire, New York, Ohio, Tennessee, Kentucky, North Carolina, Mississippi, Minnesota, Kansas, Connecticut, Louisiana, Nebraska, and Maryland.

## FISCAL IMPACT ANALYSIS TECHNIQUES

Fiscal impact analysis is a cost-revenue analytic technique used to determine the net governmental surplus or deficit resulting from specific development proposals. Relatively simple ratio or multiplier techniques are used to project local revenues. The primary sources of local income are intergovernmental transfers, payments from state and federal sources, and "own source" revenues, including property, sales, and income taxes, charges and fees for services. The revenue projection techniques presented herein are used, universally, by each of the cost projection methods described below.

At least six techniques are available for projecting the impact of specific development proposals on government expenditures. Cost projection methods involve two basic approaches to public cost allocation. The growth/cost relationship is assumed to be linear in the average costing approach. Costs are assigned to development proposals on the basis of average service cost per unit. The marginal costing approach assumes that the cost of public services fluctuates in a cyclical, non-linear fashion with growth. Marginal costing requires a detailed analysis of the existing supply/demand relationships of public services. Unlike the average costing approach, marginal costing accounts for the site specific service requirements. Average costing, however, is by far the more common field application.[1] Three average costing methods are reviewed here, including the per capita multiplier, service standard, and proportional valuation techniques. The case study, comparable city, and employment anticipation methods are also covered as marginal costing approaches.

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[1]Robert W. Burchell and David Listokin, The Fiscal Impact Handbook; Rutgers Center for Urban Policy Research, New York; p. 260.

Revenue Projections

An important first step in forecasting revenues is to determine which revenue sources make a significant contribution to the total local income. There has been a steady trend toward diversification of local revenue sources and an increasing reliance on intergovernmental transfers. Burchell and Listokin point out that in view of the staggering number of revenue sources, the analyst needs to weed out those revenues that are relatively insensitive to growth and that are not worth detailed analysis.[1]

Intergovernmental transfers accounted for nearly 30 percent of municipal, and more than 44 percent of school district revenues in 1972. Those transfers include, at the federal level, direct federal grants, manpower grants, and grants for housing and community development. State level assistance includes grants and state levied, locally shared taxes. State government transfers are by far the more important source of income for local units of government. A complete listing of "common" sources of intergovernmental transfers is provided in the pages that follow.

Of the "own source" income, the property tax is the most heavily used tax type. Property taxes are also the largest component of locally generated income. School districts are heavily dependent on the property tax. Sales, income, per capita, business and occupation, and real estate transfer taxes provide relatively minor shares of local general revenue, in decreasing amounts respectively. Charges and miscellaneous revenues provided nearly 24 percent of all general revenues for municipalities in 1972. Local governmental units appear to be moving toward the increased use of this type of revenue source. The complete range of local revenue sources is also listed below.

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[1]Ibid, p 153.

TABLE 1. LOCAL REVENUE SOURCES (Own Source)

Property, Income, and Sales Taxes
1. Real Property Tax
2. Personal Property Tax
3. Income Tax
4. Sales Tax

Other Taxes
5. Property Transfer Tax
6. Occupation and Business Privilege Tax
7. Per Capita Tax
8. Transient Occupancy Tax

Miscellaneous Revenues
9. Interest Earnings
10. Fees and Permit Revenue
11. Fines, Forfeitures, and Penalty Revenue

User Charges
12. Recreation, Health and Property Services
13. Water, Sewerage, and Solid Wastes Charges

Source: The Fiscal Impact Handbook, Exhibit 9-1, p 180.

To project real property tax income, the expected assessed valuation is multiplied by the existing local millage rate. Gross rent or income figures can also be used to determine property value. A multiplier is applied to annual gross income/rent to provide an estimate of property value. The multiplier used is based on the type of unit proposed, i.e. garden apartments or shopping center, and the region of the country in which the analysis is being performed. An alternate technique involves multiplying the true or market value of the improved property times the state equalized tax rate and the number of units under consideration.

Income tax revenues are estimated using the ratio of family income to be provided by the development, to the total predevelopment family income times a factor representing the residential portion of local sales tax revenues. Projections for non-residential developments are made by estimating the total sales volume of commercial activity

on a per square foot basis, and then multiplying the result by the local sales tax rate.

User charges and miscellaneous revenues are projected on a ratio basis using average income concepts. The largest single source of miscellaneous revenues is earned interest on municipal investments.

TABLE 2. INTERGOVERNMENTAL TRANSFERS

State

1. Sales Tax Redistribution
2. Income Tax Redistribution
3. Motor Fuels Tax Redistribution
4. Cigarette and Alcohol Tax Redistribution
5. Business Income Tax Redistribution
6. Road and Road Lighting Aid
7. Public Utilities Franchise Tax Redistribution
8. Aid to Urban or Rural Areas
9. Homestead or Foregone Tax Rebate
10. Educational Basic Support (Flat Grants)
11. Educational Assistance via Variable Guarantees
12. Educational Categorical Aid
13. Elementary and Secondary Educational Act Subsidies

Federal

14. State/Local Fiscal Assistance Act
15. Comprehensive Employment Training Act
16. Public Works Employment Act
17. Community Development Block Grants
18. Educational Assistance in Federal Impact Areas

Source: The Fiscal Impact Handbook, Exhibit 9-1, p 180.

Intergovernmental revenues are more difficult to project as they are often based on complicated allocation formulas which are based upon fluctuating demographic characteristics beyond the control of local government. For example, state school aid is often granted through an inverse relationship with local wealth. Sales tax revenues are dependent on the locality's taxable retail sales. The impact of a new development is measured in terms of the purchase patterns and proportions of income spent by new residents. State allocations to localities

for roads and street lighting are based on the locality's weighted proportion of state road mileage and population.

The state provides three major types of financial assistance to education: basic support, categorical aid, and intergovernmental subsidies. Basic educational support is provided through flat grants based on the average daily pupil membership, number of classrooms, or number of teachers. Foundation grants are also available based upon an acceptable expenditure figure per student. Categorical aid programs are designed to meet special education needs, like those involving the handicapped. Subsidies are provided through the Elementary and Secondary Education Act for educationally disadvantaged and other special programs. Revenue projections are usually made on a current income per student basis.

## Expenditure Projections

### Per Capita Multiplier Method

Per capita multiplier is the most versatile and widely used average costing expenditure projection technique. Its popularity undoubtedly stems from the ease with which it can be applied. The kind of refined community data needed to conduct per capita multiplier analysis is becoming increasingly available. The method assumes that, over the long run, current operating costs per capita and per student represent the best estimate of future operating costs. It is also assumed that future service levels will be comparable to those demanded today, and that the influx of residents will not significantly alter overall demand expectations. The number of students and residents is assumed to vary with the type and size of proposed dwelling units. Finally, the distribution pattern of local government expenditures is assumed to unaltered by community growth.

The procedure projects annual operating and capital

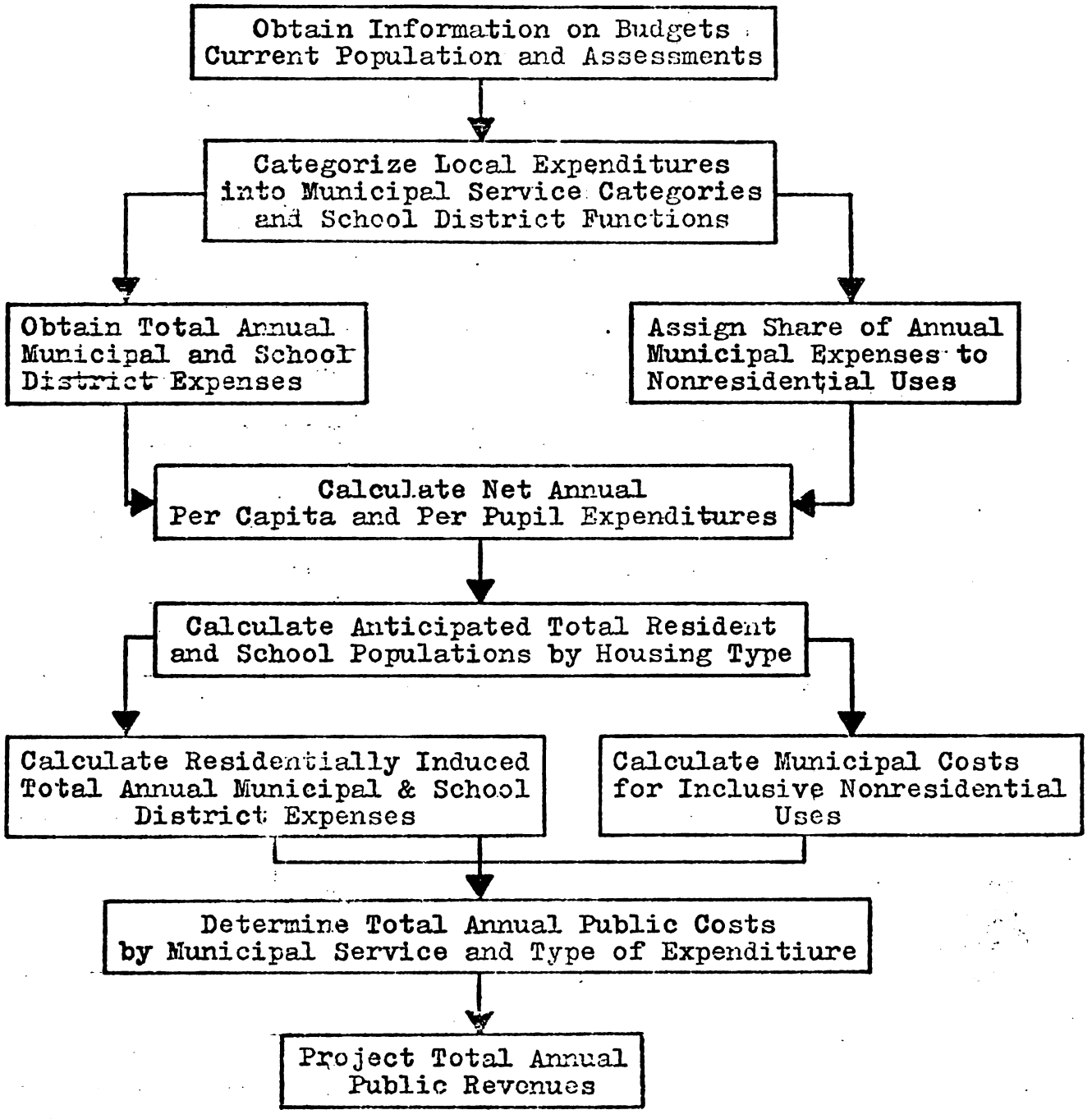


Figure 1. Per Capita Multiplier

increases in costs on the basis of detailed demographic information by housing type. A schematic diagram of the technique is shown above. Note that the annual expenses are calculated on a net annual per capita and per student basis. The Per Capita Multiplier costing technique is

most applicable to suburban metropolitan area municipalities or freestanding nonmetropolitan cities of between 10,000 and 50,000 people and a moderate growth rate. Current local expenditures per capita are multiplied times the estimated shift in population associated with the proposal under study. Costs for inclusive non-residential uses are calculated using the proportional valuation costing method described below. Revenues are calculated as previously discussed.

The Per Capita approach provides only long term, average impact costs. Perhaps its only drawback is its lack of richness in detail. The technique has been widely accepted, however, and will most likely continue to be a heavily used procedure.

## Case Study Method

The case study is the classic marginal costing expenditure projection technique. The method involves a detailed interview process with knowledgeable public officials and is accordingly more time consuming and expensive than other cost projection techniques. The procedure is particularly useful in communities having either considerable excess or deficient service capacities. The approach provides a detailed, short range view of the impact of growth on operating and capital expenditures by functional expense categories.

The case study approach is based on the assumption that future servicing costs are most accurately predicted by the marginal changes in the cost of those services. It assumes that the extent to which communities exhibit excess or deficient service capacities differs from one community to another, and that existing service capacity is a major factor in the cost of service extensions. Local service levels vice national criteria are assumed to more accurately represent the standards against which service excesses or deficiencies should be determined. Finally, service

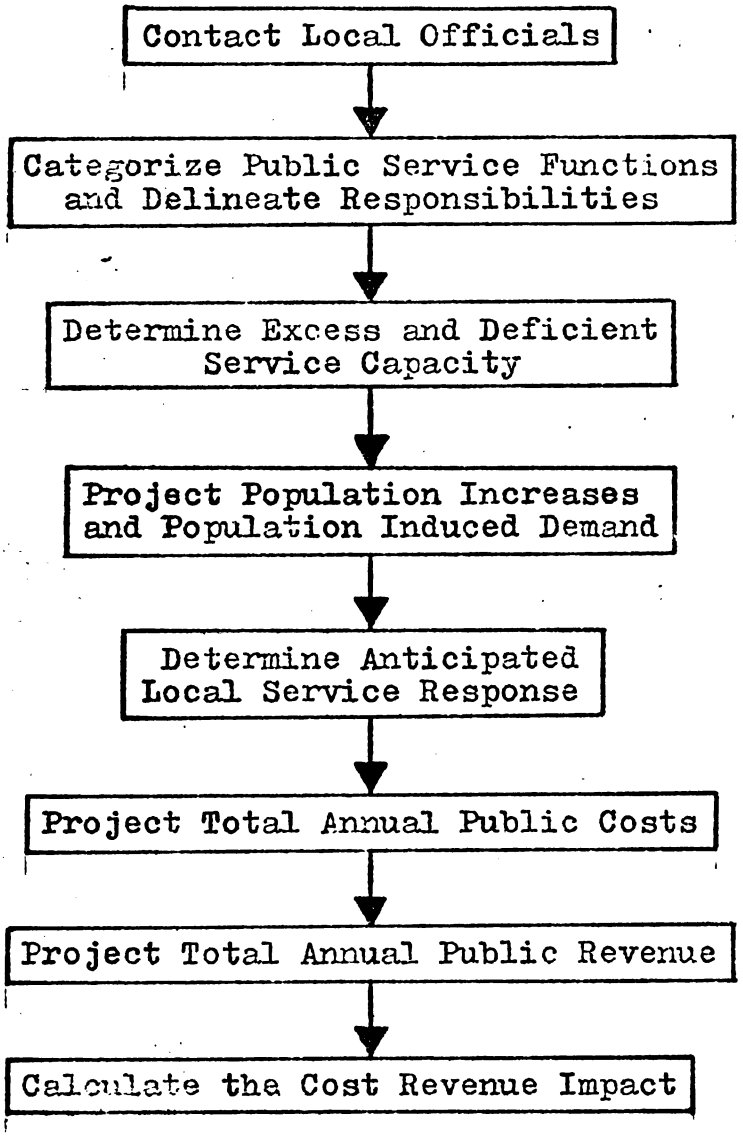


Figure 2. Case Study

department heads are assumed to know what they are talking about. A schematic of the case study approach is shown in Figure 2.

To determine service capacity status, excess or deficient, desired local service levels are first ascertained, e.g. one teacher per twenty-five students, or one uniformed police officer per 1000 residents. Current service levels are then analyzed and compared with the desired levels.

Population projections are computed using demographic multipliers, just as in the Per Capita Multiplier technique.

Regional public employee service levels and capital-to-operating expenditure ratios are used to generate the population induced service demand. A second round of interviews is then conducted to determine the anticipated local service response to increased demand.

The case study approach has been criticized for its dependence on the subjective views of public officials. This and the complexity and expense involved, have tended to limit the use of the case study method.

## Service Standard Method

The Service Standard Method represents another average costing technique. The expected impact of proposed developments or land uses on municipal and school district expenditures is estimated on the basis of average National employments levels, and an annual capital-to-operating expense ratio per service category. National standards are categorized by community size and geographic location. The approach is most applicable to mid-size, moderately growing communities where existing servive capacity nearly matches service demand.

The Service Standard Method assumes that, over the long run, existing manpower and capital facility service levels at comparable cities can be used to assign the additional costs induced by new development. Manpower and capital facility service levels are assumed to vary according to community size and geographic location. As with all average costing techniques, the procedure assumes that the best estimate of future service costs can be obtained by projecting current costs on a per unit basis.

A diagram of the Service Standard Method is provided in Figure 3. The number of additional employees required by the proposed development is determined by applying the expected population increase to national employment standards. Costs are then determined by multiplying the

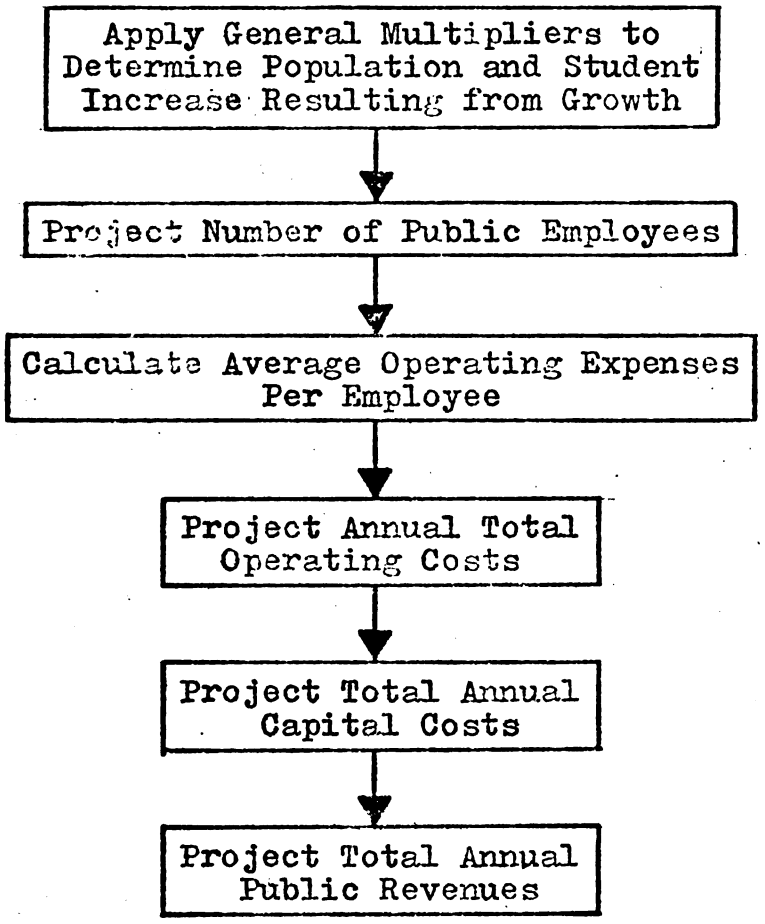


Figure 3. Service Standard

the increased number of employees by local operating salaries per service function. Capital costs are added by using a capital-to-operating expense ratio derived from Census statistics. Revenues are obtained in a similar manner for all fiscal impact prediction techniques.

The Service Standard method is easy to apply and easy to understand. Its major shortfall, however, is that it ignores local peculiarities that tend to distort the local service picture. Local wealth, traditional public service emphases, and the presence of service excesses or deficiencies will tend to void the basic assumptions upon which the method rests. The method has been somewhat limited in the past by the difficulty in obtaining and manipulating national standards for the various service categories of school and municipal expenditures.

## Comparable City Method

The Comparable City Method is a marginal costing expenditure techniques which relies on expenditure multipliers that vary by community size and growth rate. The technique is a recent development and has not, to date, been employed on a widespread basis, in standardized fashion. The procedure is primarily intended for situations in which large scale developments or municipal boundary changes are under consideration.

The method assumes that public service expenditures vary significantly with community size and growth rate. Expenditure multipliers developed on data contained in the 1972 U.S. Census of Governments are founded on this premise. The municipal expenditure pattern after growth is assumed to be the best indicator of future local expenditures.

The approach involves seven procedural steps. In the first, the magnitude of the population shift is estimated using the type and configuration of proposed housing units, and the same demographic multipliers employed in the Per Capita Multiplier Method. Next, expenditure multipliers are selected on the basis of community size and growth rate. Separate multipliers are used to project operating and capital expenditures. Multipliers are selected for both before and after growth conditions. The ratio of before to after multipliers per cost category yields the expected cost trend in those categories. For example, if the appropriate multiplier for public works before growth for operating expenditures is .86, and the after growth figure is .96, then the operating outlays for public works as a result of development would be expected to increase by (.96/.86) 11.6 percent. The third step of the procedure involves determining current average operating and capital expenditures per capita. This is done in each of the municipal and school cost categories used. Current per capita outlays are then multiplied by the expected cost

trends to calculate future average cost expenditures per capita. These figures are then multiplied by the post growth population statistics to determine the net costs attributable to the development. The last step in the process involves the calculation of revenues.

The Comparable City Method is more sophisticated than many of the other cost projection techniques. Its heavy reliance on expenditure multipliers may cast doubt on results produced. It is an attractive method from the cost perspective, and appears to make more sense in a theoretical light.

## Proportional Valuation Method

The last average costing technique to be reviewed here is the Proportional Valuation Method. The method is used to project the fiscal impact of commercial and industrial developments. The technique employs a two-step process. First, nonresidential uses are assigned a share of the total annual municipal costs. Then a proportion of these nonresidential costs are allocated to the proposed development.

The Proportional Valuation Method presupposes that municipal costs increase with the intensity of land use. A direct proportional relationship is modified to account for fluctuations in nonresidential property value relative to the average value of property within the community. The method treats commercial and industrial proposals in the same manner, assuming the impact from each to be sufficiently similar so as to be classified simply as nonresidential. Finally, the process assumes that non-residential development has but a negligible impact on school district operations.

The method is schematically shown in Figure 4. A share of municipal expenditures is assigned to local nonresidential uses by multiplying the total municipal expenditures by the

the proportion of nonresidential-to-total local real property values. The new development's share of future total expenditures is merely the ratio of the value of that development to the total value of local nonresidential uses. A refinement coefficient is used in both of the above calculations to correct for unusually high valued developments or for low valued average community property values. Projected annual nonresidential costs are then allocated to component service categories based on cost distribution experience. Typically, safety and public works account for nearly 90 percent of the projected nonresidential impact. Revenues are projected as before.

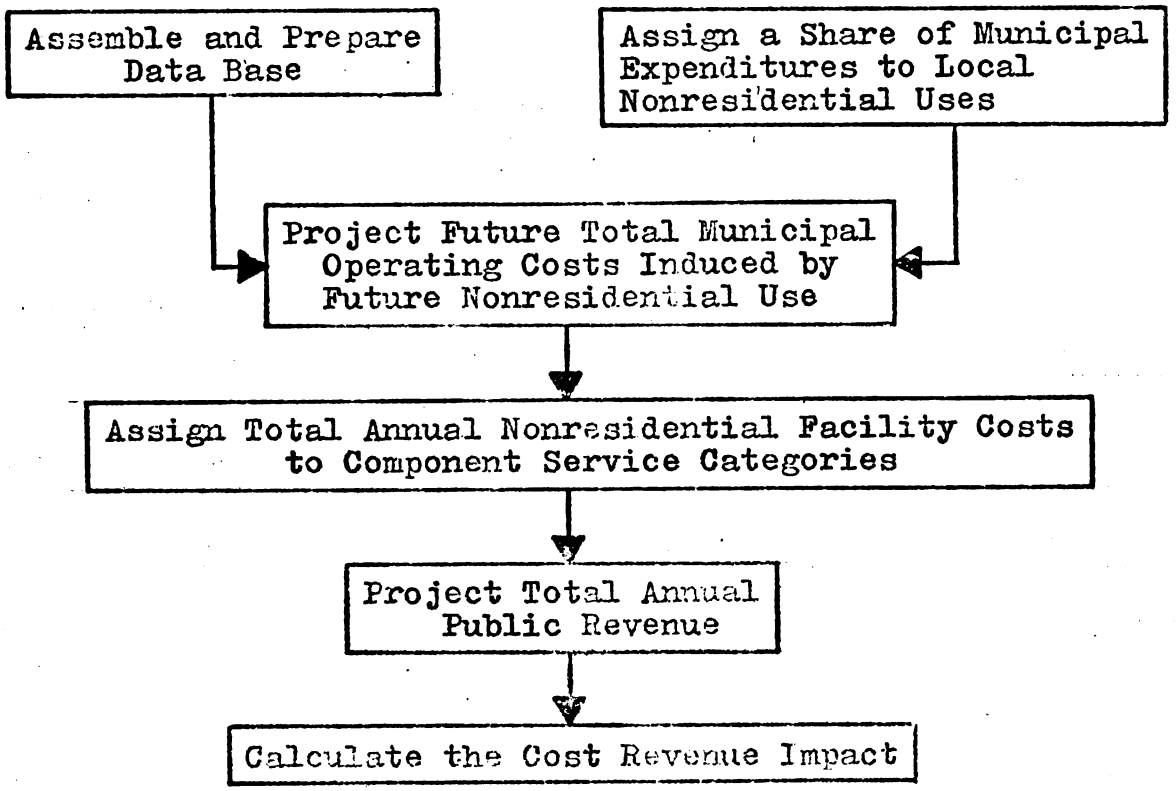


Figure 4. Proportional Valuation

Of the three nonresidential cost-revenue methods, Case Study, Proportional Valuation, and Employment Anti-

cipation, Proportional Valuation is perhaps the easiest to use. Both Proportional Valuation and Case Study techniques have been well accepted.

### Employment Anticipation Method

The Employment Anticipation Method is a newly developed marginal costing technique for forecasting the impact of nonresidential growth. The method is based on relationships between local commercial and industrial employment levels and per capita municipal costs. It predicts changes in municipal expenditures based on anticipated changes in local employment using multivariate regression analysis. The method was developed in 1976 at the Institute for Urban Studies at Charlotte, North Carolina.

The approach is founded on three assumptions. It is assumed that the magnitude of local expenditures is directly affected by the level of commercial/industrial employment, and that this relationship can be adequately described by multivariate analysis. The impact of growth induced employment is assumed to vary with community population and the nature of growth, positive or declining.

The procedure relies upon developer estimates or employee-per-square-foot estimates to obtain the number of employees to be added by the nonresidential development. Given the nature of local growth and current population, a percentage increase in municipal service costs per employee, by service category, is found by reference to the appropriate multiplier table in The Fiscal Impact Handbook. The percentage increase in costs, attributable to the new employees, is then multiplied by the existing municipal per capita expenditures by service category to obtain dollar increases, per capita, per service. These per capita increases are next used to determine the total annual increase in service costs associated with the new nonresidential facility. As with all other fiscal impact projection techniques,

the final step in the analysis is a comparison of projected total costs with projected total revenues which yields a cost-revenue surplus or deficit.

Although the method uses a more direct approach toward estimating the impact of nonresidential growth by expressing future service costs as a function of employees, it is not a straightforward analytical technique. An understanding of multivariate analysis is require for anything more than an entry level application. As a practical fiscal impact analysis tool, the method is unproven and untried.

## GREENVILLE FISCAL IMPACT APPLICATION

Developer Earl LaBelle announced his intention to promote the development of a community shopping center just west of Greenville at a city council meeting on March 20, 1979. As the author was involved in another class project which required field investigation in Greenville area, the issue was quickly seized as a convenient, non-academic application of fiscal impact analysis. The city is faced with an annexation issue involving the development. The builder is suggesting a 20 store shopping center and long-range plans for 100 middle income apartment units on the 63 acre site. The proposal is a significant one for the 8000 member community located some 40 miles northwest of Grand Rapids. This study, however, will focus on the most immediate impact of the development proposal - the impact of a 20 store community shopping center on municipal operations. Neither school district nor county impact will be evaluated. Nor will the potential impact of Mr. LaBelle's residential plan be investigated.

### Selection of Analytic Technique

The objectives of this case study are twofold. The first is related to the educational value to be derived from such an exercise. The second is to secure a gross estimate of the impact of the proposed development on municipal services. It was decided early on, due to the political sensitivity of the proposal, that the results of the analysis would not be made readily available to interested groups in Greenville. The first task of the analysis is to select the most appropriate fiscal impact technique. The development represents an area of approximately 2.5 percent of the current land area of the city. The site is bordered by farmland to the west and north, commercial strip development along M57 to the south, and

moderate to high income residential property to the east and southeast. Greenville's existing service capacity, for purposes of the analysis is assumed to be at or near capacity. The community has been growing at a modest, but stable rate according to U.S. Census reports. It would appear to fall into the "suburb" category for technique selection purposes.

Given the above information, an average costing technique appears suitable for application. As the proposal involves nonresidential development, the proportional valuation method will be used to evaluate fiscal impact. Had residential development been under consideration, the per capita multiplier technique could have been employed.

Data Requirements

The proportional valuation procedure relies upon three sources of information concerning the nature of development, information about the community's tax base and structure, and municipal budget information. Development information was obtained through an article appearing in the Greenville Daily News on March 21, 1979. It is partially reproduced in Appendix 2. Information regarding the community tax base and millage rate was obtained from the Assessor's Office. The City Manager provided a copy of Greenville's budget for the current fiscal year. Refinement coefficients and cost allocation multipliers were derived from The Fiscal Impact Handbook, as indicated in Appendix 1.

Assumptions

To review the assumptions identified in an earlier section pertaining to the proportional valuation method, the technique assumes that: (1) municipal costs increase with the intensity of land use; (2) refinement coefficients must be used to adjust the direct proportional relationship between nonresidential property value and local average property value in connection with the level of municipal services provided; and that (3) nonresidential developments

affect school district costs to an insignificant degree. During the course of the analysis, the vulnerability of the coefficient, cost allocation, and project valuation assumptions was disturbingly apparent.

Discussion of Resultant Fiscal Impact

Fiscal impact worksheets are contained in Appendix 1. The results of the analysis are tabulated below:

Greenville Fiscal Impact
Proposed 100,000 SF Community Shopping Center
by Proportional Valuation Method

| | |
|---|---|
| Total Projected Costs . . . . . | $ 33,034 |
| Total Projected Revenues . . . . . | $ 30,160 |
| Net Municipal Deficit resulting from development . . | $ 2,874 |

The proposed development does not generate a significant deficit in direct cost-revenue terms, providing the assumptions made are valid. It should be noted that the analysis does not address the devastating impact the development would probably have on the viability of the central business district.

From an education perspective, the technique does not inspire overwhelming confidence in regard to accuracy. Proportional valuation does, however, provide insight into the probable areas of fiscal impact of such a development, and the scope of that impact. If plans for the development materialize, the author would recommend that the city conduct a more detailed analysis of the development issue, using perhaps the case study approach.

## COMMUNITY GROWTH AND LOCAL FISCAL POLICY

Economy and efficiency have long been basic objectives of planning and land use regulations. Fiscal impact analysis might be used to furthur these goals. Fiscal impact considerations are becoming increasingly accepted as valid considerations in the development of community growth policies. The Ramapo case in New York, in which the validity of a zoning ordinance for residential development based on the availability of public facilities was approved, and a similar case in Petaluma, California, in which development was tied to a capital facilities phasing plan, highlight this trend. It seems that the relevant question is to what degree can fiscal considerations and the financial stability of local government be an overriding factor in the community decision to limit growth.

Fiscal impact analysis has most often been used to assess the economic impact of mixed use residential development proposals and land uses. About sixty percent of the fiscal impact analyses have been conducted in states where case law limits their use. Attempts to refuse certain types of residential development because they did not generate a cost-revenue surplus have met with court ordered restrictions. In the case of National Land and Investment v. Easttown Township in Pennsylvania, the court held unconstitutional a four acre minimum, single family residential lot requirement based on fiscal considerations. Fiscal zoning has been ruled to be an exclusionary zoning practice here in Michigan. Nor has the concept of controlling growth by withholding public utilities to outlying areas received court support.

It occurs to me that the fiscal impact of land use decisions on local financial stability is a vitally relevant local consideration. Government alone has been able to

ignore this aspect of land use planning. Fiscal impact ought not to be the sole consideration in formulating community growth policies, but with the advent of reliable and standardized projection techniques, it should be a part of the decision making process.

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APPENDIX 1

FISCAL IMPACT ANALYSIS, GREENVILLE, MICHIGAN

Fiscal Impact of Proposed 100,000 SF Community Shopping Center by Proportional Valuation Method

Contents

Greenville Basic Data

Fiscal Impact of Proposed 100,000 SF Community Shopping Center by Proportional Valuation Method

| | |
|---|---|
| 1. Municipal annual operating expenditures, including debt service | $ 2,964,100 |
| 2. Total local equalized real property value | $41,706,200 |
| 3. Total number of land parcels | 3,588 |
| 4. Total nonresidential equalized property value | $13,858,300 |
| 5. Total number of nonresidential land parcels | 153 |
| 6. Average equalized real property value per parcel | $ 11,624 |
| 7. Average nonresidential equalized real property value per parcel | $ 90,577 |
| 8. Real property (market value) of 100,000 SF shopping center | $ 2,000,000 |
| 9. Equalized real property value average nonresidential parcel to average local parcel | 7.8 |
| 10. Real property value of facility to average nonresidential real property value | 22.1 |

Sources:

1. Greenville Budgets for FY78-79, p 44.
2. Derived from Greenville Tax Assessor's Report of Assessment Roll Changes and Classification
3. From actual count of parcels using city plat map.
4. From Greenville Tax Assessor's Report of Assessment Roll Changes and Classifications
5. Based upon list of commercial establishments found in Williams & Works Community Development and Future Land Use Plan for Greenville, and list of indistrial facilities by the Greenville Chamber of Commerce.
8. Estimated on basis of comparable facility in North Central Region listed in The Fiscal Impact Handbook.

Greenville Fiscal Impact
Computation Sheet for Cost Tabulation

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Local Nonresidential Use Cost Projection

Total existing municipal expenditures attributable to nonresidential uses = $ 817,486

= 2,964,100 (13,858,300/41,706,200)(.83)[1] = $ 817,486

Incoming Nonresidential Use Cost Projection

Municipal costs allocated to the incoming nonresidential facility = $ 33,034

= 817,486 (2,000,000/13,858,300)(.28)[2] = $ 33,034

Incoming Nonresidential Use Cost Distribution

| | Distribution of Total Costs | |
|---|---|---|
| | Percent[3] | Dollars |
| General Government | 6% | $ 1,982 |
| Public Safety | 75% | $ 24,775 |
| Public Works | 15% | $ 4,955 |
| Health & Welfare | 2% | $ 661 |
| Recreation & Culture | 2% | $ 661 |
| Total | 100% | $ 33,034 |

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Notes:

[1]Total municipal expenditures = $2,964,100

Proportion of nonresidential/total real property value = (13,858,300/41,706,200)

.83 = refinement coefficient from Exhibit 6-3, The Fiscal Impact Handbook.

[2]Proportion of facility to total nonresidential property value = (2,000,000/13,858,300)

.28 = refinement coefficient from Exhibit 6-3.

[3]Typical cost allocation per Exhibit 6-4.

Greenville Fiscal Impact
Computation Sheet for Revenue Tabulation

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| | |
|---|---|
| **Municipal Own Source Revenues** | |
| Taxes | |
| 1. Real Property $ 2,000,000 (14.080)[1] = | $ 28,160 |
| 2. Other | 0 |
| Charges/Miscellaneous | |
| 1. User Charges (Sanitation) $ 100 (20 stores)[2] = | $ 2,000 |
| Total Municipal Own Source Revenues | $ 30,160 |
| **Intergovernmental Transfers** | |
| State | |
| 1. Sales Tax (none collected for city) | 0 |
| Federal | |
| 1. Federal Programs (none applicable) | 0 |
| Total Intergovernmental Transfers | 0 |
| **Total Revenues** | $ 30,160 |

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Notes:

[1] Greenville current city millage rate (on 50% of market value = assessed value = state equalized value) = 14.080
This figure does not include school district or Montcalm County millage rates which are 28,550 and 7.264/$1000 assessed value, respectively. Information from Greenville Tax Assessor's Office.

[2] Exhibit 10-1, The Fiscal Impact Handbook, note 15, p 228.

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# REPORT OF ASSESSMENT ROLL CHANGES AND CLASSIFICATION

(Assessing officers are required to report the total assessed value for each class of property and the assessment roll changes for each class of property for County and State Equalization)

COUNTY MONTCALM CITY OR TOWNSHIP GREENVILLE

| | REAL PROPERTY | 1978 Board of Review | Loss | + or (-) Adjustment | New | 1979 Board of Review |
|---|---|---|---|---|---|---|
| 101 | Agricultural | 35,800 | 0 | 6,700 | 500 | 43,0 |
| 201 | Commercial | 5,939,100 | 19,600 | 63,000 | 117,600 | 6,110,1 |
| 301 | Industrial | 8,120,200 | * 630,500 | 34,400 | 224,100 | 7,748,2 |
| 401 | Residential | 24,387,900 | 319,800 | 2,903,400 | 818,000 | 27,789,5 |
| 501 | Timber - Cutover | 13,900 | 0 | 1,500 | 0 | 15,4 |
| 800 | TOTAL REAL | 38,506,900 | * 969,900 | 3,009,000 | 1,160,200 | 41,706,2 |

| | PERSONAL PROPERTY | 1978 Board of Review | Loss | + or (-) Adjustment | New | 1979 Board of Review |
|---|---|---|---|---|---|---|
| 151 | Agricultural | 0 | 0 | 0 | 0 | 0 |
| 251 | Commercial | 2,137,200 | 231,200 | 3,400 | 649,500 | 2,558,9 |
| 351 | Industrial | 5,881,400 | * 53,900 | 0 | 482,000 | 6,310,5 |
| 451 | Residential | 0 | 0 | 0 | 0 | 0 |
| 551 | Utility | 1,567,100 | 0 | 0 | 86,100 | 1,653,2 |
| 850 | TOTAL PERSONAL | 9,585,700 | * 285,100 | 3,400 | 1,218,600 | 10,522,6 |

*Includes loss due to Act 98, Industrial Facilities Tax Exemption with 1979 values entered in 1979 Industrial Facilities Tax Roll.

SIGNED _____ (Assessing Officer) (Certificate Numb

ORIGINAL--TO STATE TAX COMMISSION. (To be mailed by the Assessor immediately upon adjournment of the Board of Review)

FIRST COPY-TO COUNTY EQUALIZATION DEPARTMENT. (To be reviewed and approved by the County Equalization Department. If the report is found to be in error by the County Equalization Department, the errors should be corrected and a corrected copy should be sent to the State Tax Commission.)

SECOND COPY-RETAINED BY ASSESSING OFFICER

Any assessing officer who, subsequent to filing the ORIGINAL and the FIRST COPY,

APPENDIX 2

Abstract from the Greenville, Belding, & Montcalm County Daily News; Wednesday, March 21, 1979:

"Greenville Developer Proposes Annexing for Shopping Center"

"What began as a city council discussion about annexing school property and 40 acres of privately-owned land near the American Legion turned into an appeal by downtown merchants to limit commercial expansion on west M57, where a developer says he plans construction of a shopping center and apartments this year.

Builder Earl LaBelle announced plans for the development at the council meeting Tuesday night. But surrounding LaBelle was a vocal group of downtown retailers urging the city to support downtown development instead of commercial expansion in other areas of the city.

The development is planned for property that extends one-eighth mile from the west city limits on M57.

LaBelle told The Daily News he has purchased, or plans to purchase, 63 acres on which a shopping center and apartment units would be constructed.

On 27 acres of the property, La Belle said he is working with Murray Enterprises, a national developer, to construct the shopping center. Murray Enterprises also plans some apartments for that acreage he said.

The Daily News was not able to contact Murray Enterprises today.

LaBelle said he has long-range plans for about 100 middle-income apartment units and perhaps commercial development.

Claiming that the shopping center would serve 50,000 people in outlying areas, LaBelle said it would consist of two large anchor stores, a national restaurant chain, and about 20 stores. LaBelle said ha would oversee construction while Murray Enterprises would recruit stores.

He added that arcgitectural drawings and retail commitments were not yet firm. He said an official announcement of plans would come soon.

LaBelle has requested the city to annex the area because water and sewer construction costs would be lower. If the area is not annexed, LaBelle would request the council to extend water and sewer outside the city limits, which would be much more costly.

But if the council refused to install water and sewer in that area, the shopping center could be blocked by the public health department because of wastewater regulations, city manager Al Davis speculated. . . "