

Fiscal Impact Studies

11.438 Economic Development Planning

Jeff Levine, AICP

Fiscal Impacts vs. Economic Impacts

| Fiscal Impacts | Economic Impacts |
|---------------------------------------|--|
| Accrue to the host community | Accrue to the regional economy |
| Estimate of net revenue | Estimate of net economic activity |
| Gross revenue based in taxes and fees | Gross activity based in wages and spending |
| Gross expenditures in services | Gross expenditures from economic drain |
| Internally Focused | Externally Focused |
| Usually static timeframe | Often longer timeframe |

Fiscal Impacts: Revenues

- Property Taxes
- Local Option Taxes
- Fees (may be excluded)
- Intergovernmental Transfers
- State-specific Sources

Fiscal Impact Analysis
Dascomb Road Project

Revenue Summary

| | |
|-----------------------------------|------------------------|
| One-Time Permitting Fees (\$1.2M) | Excluded from Analysis |
| Annual Real Estate Tax Revenue | \$2,773,008 |
| Annual Meals Tax Revenue | \$90,000 |
| Annual Room Occupancy Tax Revenue | \$328,500 |
| TOTAL ANNUAL TAX REVENUE | \$3,191,508 |

© Town of Andover, MA. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Fiscal Impacts: Expenditures

- Can be *average* or *marginal*
- May include tax incentives (TIF CEA's)
- General government services
- School costs
- State-specific Sources

FISCAL SUMMARY

Table 12 summarizes the fiscal impact from the proposed development showing gross revenues of \$2,181,398, municipal costs of \$445,144 and a yearly gross positive fiscal impact of \$1,736,254. Waterfront West will increase the tax base of Newburyport by 3.6% and increase property tax revenue by 4.4%¹⁴, with only a 1.7% increase in the City's population.

Fougere Planning is not suggesting that budgets should be increased to offset the noted costs, but these findings should be viewed as potential costs and future budget increases will be addressed by Town officials.

Table 12
Estimated Annual Fiscal Impact

| | |
|---|---------------------|
| Gross Rev. Taxes, Excise Taxes, CRA & Hotel | \$2,181,398 |
| Estimated Municipal Costs | |
| Police | -\$100,000 |
| Fire | -\$100,000 |
| Other Departments | -\$10,000 |
| Schools | -\$235,144 |
| Total Costs | -\$445,144 |
| Net Annual Positive Fiscal Impact | +\$1,736,254 |

© City of Newburyport. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Net Fiscal Impacts

- Often shown as a one year total
- Major variables:
 - School costs
 - Children/HH
 - Police/Fire
 - Estimated Valuation
 - Assessed vs. Value

FISCAL SUMMARY

Table 12 summarizes the fiscal impact from the proposed development showing gross revenues of \$2,181,398, municipal costs of \$445,144 and a yearly gross positive fiscal impact of \$1,736,254. Waterfront West will increase the tax base of Newburyport by 3.6% and increase property tax revenue by 4.4%¹⁴, with only a 1.7% increase in the City's population.

Fougere Planning is not suggesting that budgets should be increased to offset the noted costs, but these findings should be viewed as potential costs and future budget increases will be addressed by Town officials.

Table 12
Estimated Annual Fiscal Impact

| | |
|---|---------------------|
| Gross Rev. Taxes, Excise Taxes, CRA & Hotel | \$2,181,398 |
| Estimated Municipal Costs | |
| Police | -\$100,000 |
| Fire | -\$100,000 |
| Other Departments | -\$10,000 |
| Schools | -\$235,144 |
| Total Costs | -\$445,144 |
| Net Annual Positive Fiscal Impact | +\$1,736,254 |

© City of Newburyport. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Who Does Them?

- Developer will often conduct one to preempt critiques
- Developer will sometimes be asked to do one
- Municipality may do one to be informed on a land use policy decision
- There may be more than one study, or a peer review of the developer's study

Peer Review

- Cost effective way to hone numbers from developer's fiscal impact analysis
- Start with their baseline and critique assumptions and values
- Peer review consultant has incentive to challenge high benefits and low costs
- Occasionally will challenge an assumption (such as school age kids per HH) that makes a major difference

Northland Development- Newton

- Major redevelopment of area off Needham Street:
 - 822 units
 - 185,200 sf. retail
 - 180,000 rehabbed office
- March referendum
- Approval upheld

© Northland Development LLC. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.





Map data © Google. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.



© Northland Development LLC. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Northland's Fiscal Impact Analysis: Revenue

**Table Two
Estimated Yearly Property Taxes**

| Program | Square Feet | Est. Sq. Ft. Value | Est. Assess. Value | | |
|------------------------------------|--------------------|-------------------------------|-------------------------------|-----------------------------|--------------------|
| Retail - small | 155,200 | \$265 | \$41,128,000 | | |
| Retail - medium | 30,000 | \$245 | \$7,350,000 | | |
| Total Retail Sq. Ft. | 185,200 | | | | |
| Office | | | | | |
| Renovated - Oak Street | 180,000 | \$180 | \$32,400,000 | | |
| Total Value Non-Residential | | | \$80,878,000 | Taxes @ \$20.62 | \$1,667,704 |
| | | | | | |
| Housing | | | | | |
| Studio - Three Bedroom | 822 Units | \$320,000 / Unit | \$263,040,000 | Taxes @ \$10.82 | \$2,846,093 |
| | | | | Total Est. Taxes | \$4,513,797 |

B) Community Preservation Surcharge

The City of Newton has adopted the Community Preservation Act allowing the community to impose a 1% surcharge on property taxes. Based upon the projected taxes previously outlined in Table Two, Table Three shows an estimated CPA surcharge of \$45,138.

Northland's Fiscal Impact Analysis: Revenues (2)

**Table Three
Community Preservation Surcharge**

| Property Taxes | % CPA Surcharge | Surcharge |
|----------------|-----------------|-----------|
| \$4,513,797 | 1% | \$45,138 |

**Table Five
Estimated Restaurant Tax Revenue**

| Restaurant Tax Estimate | |
|--------------------------------|------------------|
| Large Restaurant (10k Avg.) | 30,000/SF |
| Small Restaurant (3k Avg.) | 20,000/SF |
| Total | 50,000 |
| | |
| Large Restaurant Gross Revenue | \$600/SF |
| Small Restaurant Gross Revenue | \$400/SF |
| Total Gross Revenue | \$26,000,000 |
| Tax Revenue To Newton | \$195,000 |

**Table Four
Motor Vehicle Excise Tax**

| # Cars ⁸ | Value | Total Value |
|--------------------------------------|----------|------------------|
| 797 | \$18,000 | \$14,346,000 |
| \$7,173,000/1,000 (50% reduction) | | \$7,173 |
| \$25 x \$7,123 | | \$178,075 |

**Table Six
Estimated Yearly Revenue**

| | |
|-------------------------------------|--------------------|
| Commercial/Residential Property Tax | \$4,513,797 |
| CPA Surcharge | \$45,138 |
| Excise Taxes | \$178,075 |
| Local Meal Taxes | \$195,000 |
| Personnel Property Taxes | \$30,589 |
| Total Revenue | \$4,962,599 |

© Northland Development LLC. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Northland's Fiscal Impact Analysis: Expenditures (Schools)

Table Ten
Estimated School Age Children – Local Data

| Type | Units | SAC Ratios | Total SAC |
|---|------------|------------|------------|
| Studio Market | 70 | 0.000 | 0.000 |
| Studio Affordable | 12 | 0.000 | 0.000 |
| 1 Bed Market | 315 | 0.000 | 0.000 |
| 1 Bed Affordable | 56 | 0.000 | 0.000 |
| 2 Bed Market | 279 | 0.192 | 53.568 |
| 2 Bed Affordable | 49 | 0.918 | 44.982 |
| 3 Bed Market | 35 | 0.735 | 25.725 |
| 3 Bed Affordable | 6 | 2.563 | 15.378 |
| Total | 822 | | 140 |
| Total Includes 14% Private School | | | -20 |
| Total Estimated Public School Children | | | 120 |

Table Thirteen
Estimated School Costs

| Total SAC | Cost/Student | Total Cost |
|------------|-----------------|--------------------|
| 120 | \$14,383 | \$1,725,960 |

Table Fourteen
Alternative School Cost Approach

| Cost Element | Cost | # | Total |
|------------------------|----------|-------------|--------------------|
| Teachers ¹⁷ | \$75,000 | 5 | \$375,000 |
| Special Ed. | \$22,620 | 24 Students | \$542,880 |
| Busing | \$93,000 | 3 | \$279,000 |
| Supplies | \$101 | 120 | \$12,120 |
| | | | \$1,209,000 |

© Northland Development LLC. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Northland's Fiscal Impact Analysis: Expenditures and Net Revenue

Table Eighteen
Estimated Annual Fiscal Impact

| | COSTS | REVENUE |
|--|----------------------------|------------------------------------|
| | | \$ |
| Gross Rev. Taxes, CPA, Meals, Excise & Personnel Property Taxes | | \$4,962,599 |
| Estimated Municipal Costs | | |
| Police | \$56,502 | |
| Fire | \$100,000 | |
| Health | \$85,728 | |
| Other Departments | \$25,000 | |
| School Costs | \$1,209,000 to \$1,725,960 | |
| Total Costs | \$1,476,230 to \$1,993,190 | |
| Net Annual Positive Fiscal Impact | | +\$2,969,409 to \$3,486,369 |
| Net Increase in New Revenue (LESS existing tax revenue of \$990,898 per year) | | +\$1,978,511 to \$2,495,471 |

© Northland Development LLC. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Northland's Fiscal Impact Analysis: Peer Review

Table 1 – Comparative Fiscal Impact Analysis – Fougere Memo and RKG Alternative

| | SF or Units | Estimated Values and Taxes | | |
|--|----------------|----------------------------|----------------------|---------------------|
| | | Fougere Memo | RKG Alternative | RKG vs Fougere |
| Commercial | | | | |
| Small Retail | 155,200 | \$ 41,128,000 | \$ 45,721,126 | \$ 4,593,126 |
| Large Retail | 30,000 | \$ 7,350,000 | \$ 8,837,847 | \$ 1,487,847 |
| Office | 180,000 | \$ 32,400,000 | \$ 27,729,412 | \$ (4,670,588) |
| subtotal | 365,200 | \$ 80,878,000 | \$ 82,288,385 | \$ 1,410,385 |
| Commercial Taxes | | \$ 1,667,704 | \$ 1,696,787 | \$ 29,082 |
| Residential | 822 | \$ 263,040,000 | \$ 239,273,410 | \$ (23,766,590) |
| Residential Taxes | | \$ 2,846,093 | \$ 2,588,938 | \$ (257,155) |
| Total Property Tax | | \$ 4,513,797 | \$ 4,285,725 | \$ (228,073) |
| Other Taxes | | | | |
| Excise Tax | | \$ 178,075 | \$ 178,075 | \$ - |
| Local Meals Tax | | \$ 195,000 | \$ 195,000 | \$ - |
| Personal Property | | \$ 30,589 | \$ 30,589 | \$ - |
| CPA Surcharge /1 | | \$ 45,138 | \$ 42,857 | \$ (2,281) |
| TOTAL TAXES | | \$ 4,962,599 | \$ 4,732,246 | \$ (230,353) |
| Municipal Costs | | | | |
| Police | | \$ (56,502) | \$ (56,502) | \$ - |
| Fire | | \$ (100,000) | \$ (100,000) | \$ - |
| Health | | \$ (85,728) | \$ (85,728) | \$ - |
| Other | | \$ (25,000) | \$ (25,000) | \$ - |
| Total Municipal Costs | | \$ (267,230) | \$ (267,230) | \$ - |
| "As Is" Taxes | | \$ (990,898) | \$ (990,898) | \$ - |
| NET TAXES (prior to Education) /1 | | \$ 3,704,471 | \$ 3,431,261 | \$ (273,211) |
| Students /2 | | 120 | 142 | 22 |
| Education Costs | | | | |
| Low Estimate /3 | | \$ (1,725,960) | \$ (2,042,386) | \$ (316,426) |
| NET FISCAL (low education) | | \$ 1,978,511 | \$ 1,388,875 | \$ (589,637) |
| High Estimate /4 | | \$ (2,289,840) | \$ (2,709,644) | \$ (419,804) |
| NET FISCAL (high education) | | \$ 1,414,631 | \$ 721,617 | \$ (693,015) |

Source : Fougere and RKG (2018)

/1 CPA Surcharge not a revenue to General Fund and are excluded from RKG (NET) Alternative(s)

/2 RKG reflects revisions from Newton Public Schools

/3 FY 2017 cost per pupil of \$14,383

/4 FY 2017 cost per pupil of \$19,082

© City of Newton, MA. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Fiscal Impact Analysis: Inherent Bias

- Incentivizes developments that minimize fiscal costs and maximize fiscal benefits
- Incentivizes small housing units
- Introduces bias in the markets towards fiscally positive uses
- This is not entirely irrational or “bad” but should be considered when looking at FIA’s

Benefits

- Sets the framework for specific developments in the context of larger municipal finance
- Allows communities to plan for impacts (positive and negative) in their future budgets and CIP's
- Creates a conversation about numbers, assumptions and facts related to a development

Building a Broader Conversation: City-wide Fiscal Impact Studies

- Moving the conversation back from one project to an entire growth scenario
- Can be conducted in the context of a Comprehensive Plan or Economic Development Strategy for a community
- Remain rare:
 - Cost
 - Lack of priority
 - Difficult to Predict Factors

Montpelier, VT (2005)

Scenario One – Status Quo

The first scenario tested by the model was the projected growth as currently assumed. Status quo means that all existing trends remain the same. This status quo growth is projected to result in a decrease in resident and school age populations, an increase in jobs and an increase in housing units.

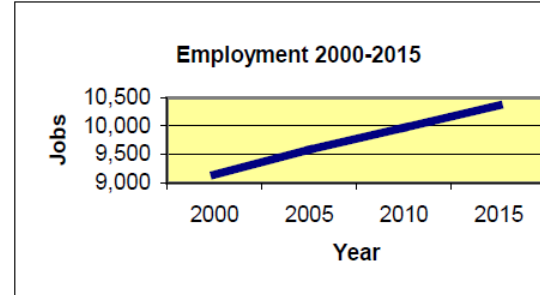
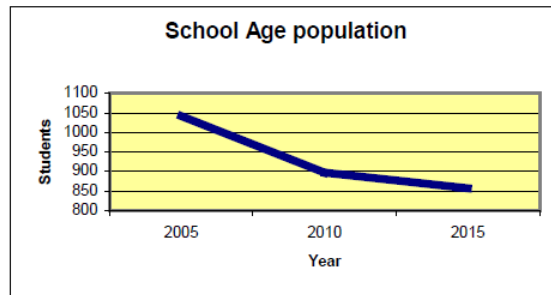
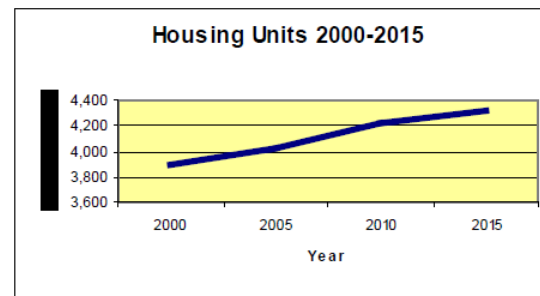
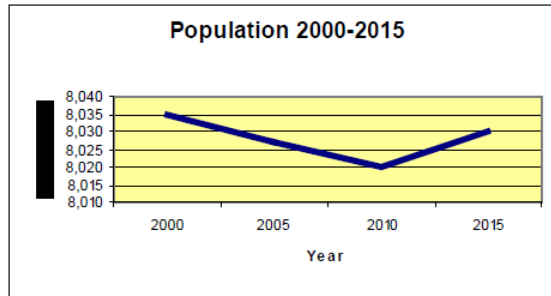


Table 15: Net Revenues from Scenario One

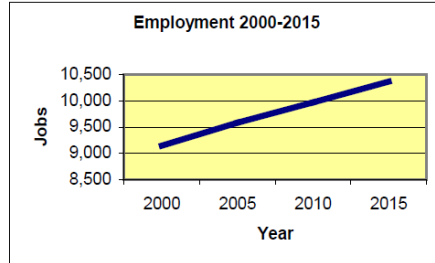
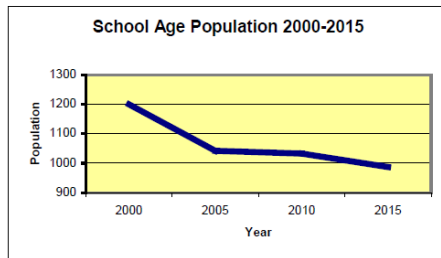
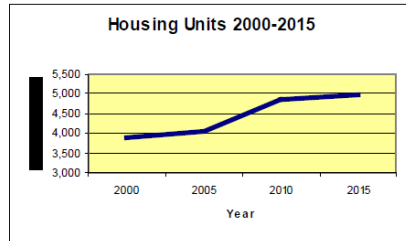
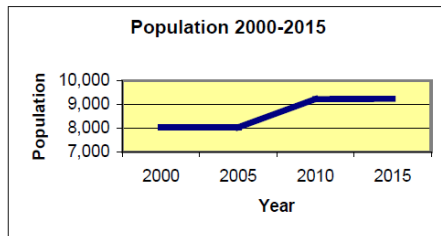
| Fiscal Impact Summary | Status Quo |
|---------------------------|-------------------|
| Net Revenue w/out schools | \$ 83,770.99 |
| Net Revenue w/ schools | \$ (5,408,690.46) |

© City of Montpelier, VT. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Montpelier, VT (2005)

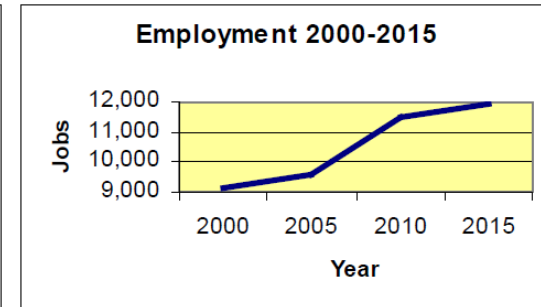
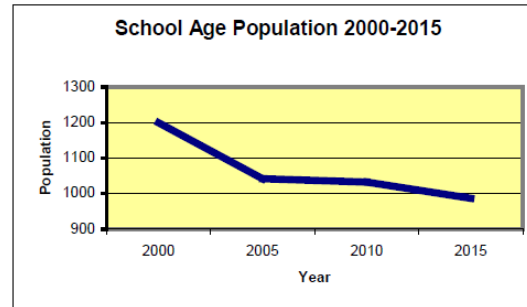
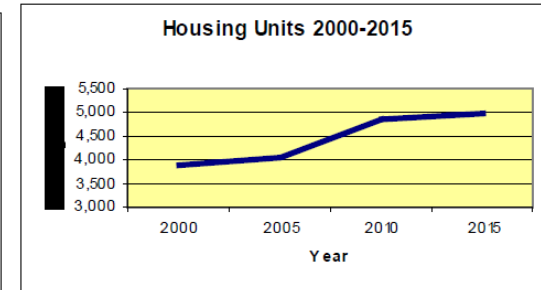
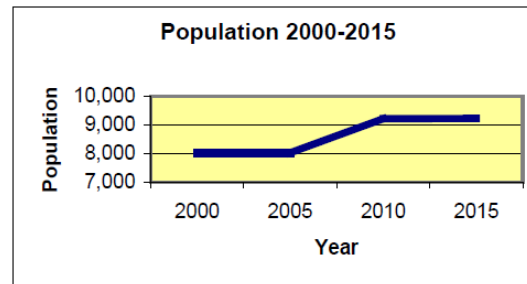
Scenario Two – 15% Population Growth

The main impetus for this study was to determine if the City of Montpelier would be making poor long-term fiscal decisions if it was to advocate for increasing the population of the city. This model analyzes exactly that. Scenario Two enters into the model a hypothetical 15% increase in population from what the status quo projects.



Scenario 2: 15% Increase in Employment and Population

Scenario 2 impacts the general fund with all of the same cost and revenues as Scenario 1 plus the impacts of 15% more employment within the City.



| Fiscal Impact Summary | Scenario 1 |
|---------------------------|-------------------|
| Net Revenue w/out schools | \$ 181,618.34 |
| Net Revenue w/ schools | \$ (4,937,550.25) |

| Fiscal Impact Summary | Scenario 2 |
|---------------------------|-------------------|
| Net Revenue w/out schools | \$ 1,220,448.78 |
| Net Revenue w/ schools | \$ (3,898,679.81) |

© City of Montpelier, VT. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <https://ocw.mit.edu/help/faq-fair-use/>.

Other Alternatives: “Cost of Community Services”

FARMLAND INFORMATION CENTER

COST OF COMMUNITY SERVICES STUDIES

Cost of Community Services (COCS) studies are a case study approach used to determine the fiscal contribution of existing local land uses. A subset of the much larger field of fiscal analysis, COCS studies have emerged as an inexpensive and reliable tool to measure direct fiscal relationships. Their particular niche is to evaluate working and open lands on equal ground with residential, commercial and industrial land uses.

COCS studies are a snapshot in time of costs versus revenues for each type of land use. They do not predict future costs or revenues or the impact of future growth. They do provide a baseline of current information to help local officials and citizens make informed land use and policy decisions.

Methodology

In a COCS study, researchers organize financial records to assign the cost of municipal services to working and open lands, as well as to residential, commercial and industrial development. Researchers meet with local sponsors to define the scope of the project and identify land use categories to study. For example, working lands may include farm, forest and/or ranch lands. Residential development includes all housing, including rentals, but if there is a migrant agricultural work force, temporary housing for these workers would be considered part of agricultural land use. Often in rural communities, commercial and industrial land uses are combined. COCS studies findings are displayed as a set of ratios that compare annual revenues to annual expenditures for a community's unique mix of land uses.

COCS studies involve three basic steps:

1. Collect data on local revenues and expenditures.
2. Group revenues and expenditures and allocate them to the community's major land use categories.
3. Analyze the data and calculate revenue-to-expenditure ratios for each land use category.

The process is straightforward, but ensuring reliable figures requires local oversight. The most complicated task is interpreting existing records to reflect COCS land use categories. Allocating revenues and expenses requires a significant amount of research, including extensive interviews with financial officers and public administrators.

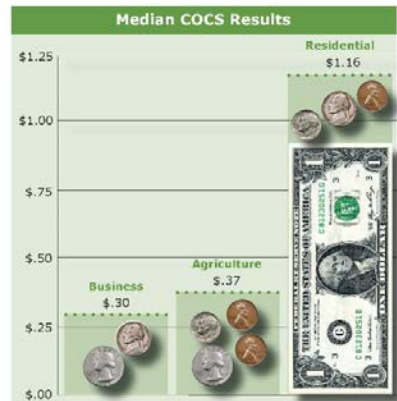
History

Communities often evaluate the impact of growth on local budgets by conducting or commissioning fiscal impact analyses. Fiscal impact studies project public costs and revenues from different land development patterns. They generally show that residential development is a net fiscal loss for communities and recommend commercial and industrial development as a strategy to balance local budgets.

Rural towns and counties that would benefit from fiscal impact analysis may not have the expertise or resources to conduct a study. Also, fiscal impact analyses rarely consider the contribution of working and other open lands, which is very important to rural economies.

American Farmland Trust (AFT) developed COCS studies in the mid-1980s to provide communities with a straightforward and inexpensive way to measure the contribution of agricultural lands to the local tax base. Since then, COCS studies have been conducted in at least 151 communities in the United States.

CONTINUED ON PAGE 6



Median cost to provide public services for each dollar of revenue raised.

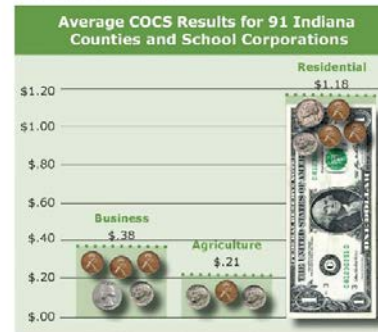
American Farmland Trust
www.farmland.org

(800) 370-4879
www.farmlandinfo.org
@farmlandinfo

USDA
Natural Resources Conservation Service
www.nrcs.usda.gov

FARMLAND INFORMATION CENTER

CONTINUED FROM PAGE 1



Average cost, using standard assumptions, to provide public services for each dollar of revenue raised. The full study, including alternate assumptions, is posted on the FIC website.

Functions and Purposes

Communities pay a high price for unplanned growth. Scattered development frequently causes traffic congestion, air and water pollution, loss of open space and increased demand for costly public services. This is why it is important for citizens and local leaders to understand the relationships between residential and commercial growth, agricultural land use, conservation and their community's bottom line.

COCS studies help address three misperceptions that are commonly made in rural or suburban communities facing growth pressures:

1. Open lands—including productive farms and forests—are an interim land use that should be developed to their "highest and best use."
2. Agricultural land gets an unfair tax break when it is assessed at its current use value for farming or ranching instead of at its potential use value for residential or commercial development.
3. Residential development will lower property taxes by increasing the tax base.

While it is true that an acre of land with a new house generates more total revenue than an acre of hay or corn, this tells us little about a community's bottom line. In areas

where agriculture or forestry are major industries, it is especially important to consider the real property tax contribution of privately owned working lands. Working and other open lands may generate less revenue than residential, commercial or industrial properties, but they require little public infrastructure and few services.

COCS studies conducted over the last 30 years show working lands generate more public revenues than they receive back in public services. Their impact on community coffers is similar to that of other commercial and industrial land uses. On average, because residential land uses do not cover their costs, they must be subsidized by other community land uses. Converting agricultural land to residential land use should not be seen as a way to balance local budgets.

The findings of COCS studies are consistent with those of conventional fiscal impact analyses, which document the high cost of residential development and recommend commercial and industrial development to help balance local budgets. What is unique about COCS studies is that they show that agricultural land is similar to other commercial and industrial uses. In nearly every community studied, farmland has generated a fiscal surplus to help offset the shortfall created by residential demand for public services. This is true even when the land is assessed at its current, agricultural use. However as more communities invest in agriculture this tendency may change. For example, if a community creates a purchase of agricultural conservation easement program, the local government may spend more on working and open lands than these lands generate in revenue.

Communities need reliable information to help them see the full picture of their land uses. COCS studies are an inexpensive way to evaluate the net contribution of working and open lands. They can help local leaders discard the notion that natural resources must be converted to other uses to ensure fiscal stability. They also dispel the myths that residential development leads to lower taxes, that differential assessment programs give landowners an "unfair" tax break and that farmland is an interim land use just waiting around for development.

One type of land use is not intrinsically better than another, and COCS studies are not meant to judge the overall public good or long-term merits of any land use or taxing structure. It is up to communities to balance goals such as maintaining affordable housing, creating jobs and conserving land. With good planning, these goals can complement rather than compete with each other. COCS studies give communities another tool to make decisions about their futures.

© September 2016

For more information on COCS, see the COCS publications on the Farmland Information Center (FIC) website. The FIC is a clearinghouse for information about farmland protection and stewardship. The FIC is a public/private partnership between the USDA Natural Resources Conservation Service and American Farmland Trust.

American Farmland Trust
www.farmland.org

(800) 370-4879
www.farmlandinfo.org
@farmlandinfo

USDA
Natural Resources Conservation Service
www.nrcs.usda.gov

Fiscal Impact Studies Reflections

- Who benefits? Who pays?
- What is the value of non-fiscal benefits and costs?
- How tuned are your inputs to the differences in land uses?
- May indicate structural flaws in public finance systems (for example, if developments don't pay their own way, is the tax rate too low?)

MIT OpenCourseWare

<https://ocw.mit.edu/>

11.438 Economic Development Planning

Spring 2020

For information about citing these materials or our Terms of Use, visit: <https://ocw.mit.edu/terms>.