THE GROWTH MANAGEMENT REPORTER

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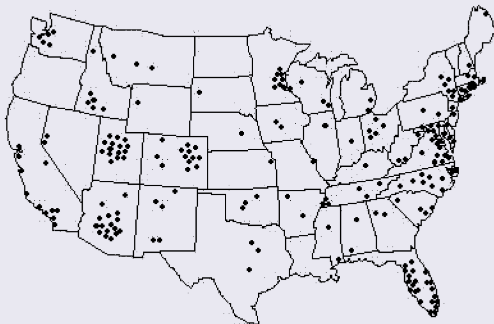
As illustrated in the map below, TA has worked throughout the country conducting the types of analyses and performing the various services listed above.



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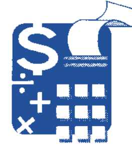

Fiscal Impact Analysis, Reader Beware: Some Caveats

By Paul S. Tischler

Since comprehensive plans need to have fiscal reality to be implemented, this article discusses some important assumptions which can dramatically affect the fiscal impact (net surpluses or deficits) of development on the public sector.

METHODOLOGICAL APPROACH

One very important assumption is obviously the methodological approach. The two main approaches are the average cost-per capita approach and the case study-marginal cost approach. Fire service is a simple comparison. The per capita approach might divide the total fire budget by population and obtain a per capita amount. The fiscal impact would be the same regardless of the location and timing of housing. The case study-marginal cost approach involves more extensive on-site interviews. New population residing

Comprehensive Plans should have fiscal reality to be implemented.

in new housing in a contiguous or infill situation could have no marginal cost impact on fire facilities. However, the same housing in a leapfrog situation could necessitate a new fire station and the associated operating expenses. This is a more accurate portrayal than the per capita approach. When Howard County, Maryland, located between Baltimore and Washington, began drafting its new General Plan, TA was retained to evaluate a number of different land use scenarios. TA used the case study-marginal cost approach. The County was divided into five geographic areas to reflect different demographic characteristics, capital facility capacities and other considerations.

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Subsequently, the Maryland Office of Planning (OP) proposed statewide land use categories for local governments, as part of growth management legislation. Their proposal utilized a statewide fiscal analysis using an average cost approach.

The case study-marginal cost approach is likely to reflect greater fiscal reality than the average cost-per capita approach.

As compared to Howard's General Plan*, OP projections assumed fewer large-lot, single-family dwelling units in the rural western part of the County. Conversely, OP assumed more townhouse, multifamily and higher density single-family units in the more urbanized eastern County. This was consistent with the proposed state growth management system, which sought to encourage higher density land uses for both residential and nonresidential development.

Subsequently, TA compared the fiscal results to Howard County using OP's projections, versus the projections from the General Plan. The fiscal results generated by the two sets of projections were very different. Although costs to the County were greater under the General Plan projections, revenues were also higher. The General Plan projections resulted in net revenues over $178 million greater than under the OP projections for the 20 years. These results are contrary to what was suggested in the OP analysis study using the average cost-per capita approach.

DEMOGRAPHIC CAVEATS

One of the most important OP assumptions regarded household size. The OP projections decreased the supply of single family detached units in Howard County, and increased the supply of townhouses. In reality, with a limited supply of single-family units, consumers would become interested in buying larger than average townhouses. Homebuilders would then begin to supply such units. The average household size for townhouse units probably would increase.

*The General Plan won the American Planning Association national award for best comprehensive plan. The General Plan and TA's fiscal analysis were also featured in the first AICP Planner's Casebook.

OP, however, assumed that the larger families typically found in single-family dwellings would move outside Howard County to other jurisdictions with better supplies of units. They also assumed that the increased number of townhouse units in Howard would continue to have the smaller household size usually associated with such units. The result was lower projected population, fewer schoolchildren, and lower costs using the OP assumptions.

Constraints on the housing market will affect household size, market values of new units, and other key demographic variables essential to fiscal analysis.

The caveat here is that constraints on the housing market will affect household size, market values of new units, and other key demographic variables essential to fiscal analysis.

MARKET AND INCOME CAVEATS

The OP assumptions limited the supply of housing but did not assume increased market values of units. In reality, with a limited supply but steady demand, market values for all types of units would increase. Households unable to buy single-family units would pay more for larger townhouses. Households unable to buy townhouses would pay more for multi-family units. Assuming higher market values, average household income by type of unit would also increase. Increased household income will affect local revenues, such as Maryland's local income tax ("piggybacked" on the State income tax).

Within the Countywide housing market, subareas might be affected differently by changes in density. For example, if one subarea received a concentration of townhouse and multi-family units, market values in that subarea might decrease. Such variations are more likely to be captured in a case study-marginal cost fiscal analysis than in an average cost-per capita study.

FISCAL IMPACTS VERSUS "COSTS OF GROWTH"

A number of studies have focused on the "costs" of growth. Beginning with "The Costs of Sprawl" in 1974, these studies have shown that lower density development will generate greater costs for infra-

structure. While that may be generally true, there are some notable exceptions. For example, the OP statewide study assumes that the cost of adding to infrastructure in suburban counties will be less than extending infrastructure to exurban and rural counties. In reality, the results could be the opposite. For example, to expand utilities and roads in an urbanized setting could be prohibitively costly. Two examples of this are installing entire new utility lines in an urbanized area

The capacity and ability of existing infrastructure to expand is addressed in a case study-marginal cost fiscal analysis.

which does not have existing capacity, and adding a significant number of trips to roads which cannot be expanded because of a lack of right of way. The capacity and ability of existing infrastructure to expand is addressed in a case study-marginal cost fiscal analysis.

In addition to capital costs, there are two other parts of the fiscal impact equation. One is operating costs. In general, operating costs will vary as a function of demographic characteristics such as number of residents and schoolchildren. Operating costs associated with capital facilities may also be higher in the case of an expansion of existing infrastructure. A new facility may be more efficient and therefore less expensive to operate. Again, a case study fiscal analysis should capture this difference in operating costs.

The third part of the fiscal impact equation is revenues. Because lower density single-family housing has the highest market values, this type of development generates higher property tax revenues to local government. One-time fees such as transfer taxes are also higher. Finally, higher market values are associated

Even though lower density development may have greater costs, it may have higher net revenues…

with higher household incomes. This results in higher revenues from income taxes, sales taxes, and other local revenues. Therefore, even though lower density development may require greater infrastructure and other costs, its higher revenues may result in more favorable fiscal results than higher density residential development.

For nonresidential development, higher value office and related activities still tend to be located in the more

…these factors are likely to result in more quality nonresidential development locating in lower density areas.

dense areas of a jurisdiction. However, this may change due to a number of factors such as telecommuting, desire to reduce travel time to work, efforts to improve

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air quality, need to be near childcare, and time pressures on families with two working parents. These factors are likely to result in an increased tendency for quality nonresidential development to locate in lower density areas. This will tend to increase nonresidential market values in the lower density areas, resulting in more positive fiscal impacts there.

CONCLUSIONS

The above discussion has highlighted the difference between calculating only costs and calculating the net fiscal impacts of new development (revenues minus costs). Another important caveat is the need to understand key demographic assumptions; the analyst should make sure that these assumptions are reasonable and reflect reality.

Finally, the Howard County example shows the importance of realistic assumptions to the bottom line fiscal results. Readers of fiscal studies should seek to understand the detail supporting summary findings.

The reader should note that TA does not advocate "sprawl" at the expense of open space. In fact, we completed a study for the Lancaster County, Pennsylvania Planning Commission, in which we found that open space provided greater fiscal benefits than residential development.

We do advocate a thorough fiscal analysis to compare land use alternatives. For example, jurisdictions should evaluate the fiscal impact of different comprehensive plan alternatives *prior* to developing the plan. This will enable planners to determine if land use, staging and location assumptions generate net revenues or net costs to the jurisdiction. In other words, fiscal impact analysis of comprehensive plan alternatives should be evaluated at the beginning, not at the end of the plan process.

Fiscal impact analysis of comprehensive plan alternatives should be evaluated at the beginning, not the end of the plan process.

Fiscal analysis early in the planning process can also address objectives such as increasing levels of service for cultural and recreation facilities. Costs for more libraries, higher park standards, or more open space, can be estimated and discussed in public forums. TA believes that informed discussion can result in less polarized debate and more rational decisions in order to achieve such objectives.

A reprint from: *The Growth Management Reporter* "Fiscal Impact Analysis, Reader Beware: Some Caveats'

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