Handouts

Handout #1.    Please go to this website to view the handout:
   http://www.bea.doc.gov/bea/regional/rims
       (you need to view the PDF version)

Handout #2    FISCAL IMPACT ANALYSIS

DEFINITION OF FISCAL IMPACT ANALYSIS
Fiscal Impact analysis, as used here, is:

A projection of the direct, current, public costs and revenues associated with residential or nonresidential growth to the local jurisdiction(s) in which this growth is taking place. Certain terms in this definition must be clearly understood. The following paragraphs discuss them in detail.

Fiscal impact analysis, as explained in this Guide, considers direct impact. It projects only the primary costs that will be incurred and the immediate revenues that will be generated. Direct or primary costs include, for example, salaries for instructors to teach new students generated by a large subdivision, or for policemen to control traffic at a new shopping center. Direct or primary revenues include property and sales taxes and inter-governmental monies generated as a consequence of the specific growth increment. Indirect impacts are not treated due to: (1) the near impossibility of predicting accurately the secondary consequences of growth; and (2) the recurring potential for double counting when primary and secondary impacts are veiwed simultaneously. In the first case, will a shopping center increase real property values of adjacent parcels or does the presence of an immediate market enhance the value of the shopping center? In the second, should property tax revenues from an off-site nonresidential development, which in part is supported by a residential development, be considered the primary impact of the nonresidential development or the secondary impact of the residential development? This Guide considers no differential property value loss or gain relative to proximate development due to property or sales tax increases of a nonresidential facility benefitting from the nearby population. In the first case, it is assumed that the "contagion effects" of land uses in the long run will net to zero. In the second, the revenue contributions of any land use are considered only when that land use's primary fiscal impact is under scrutiny.

Fiscal impact analysis examines current costs and revenues. It tallies the financial effects of a planned unit development, urban renewal complex, new town, shopping center, etc. by considering the costs and revenues such facilities would generate if they were completed and operating today. This approach recognizes that development or redevelopment often requires several years and that inflation will increase costs and revenues over time. It also assumes, however, that the rising costs of providing public services will be matched by an essentially comparable increase in revenues - that the relative relationship of costs and revenues will change little over time.

Fiscal impact analysis is concerned with public (governmental) costs and revenues. It does not consider private costs of public actions, i.e., the costs passed on to developers or consumers through local land use regulations or building, health, and fire codes. Thus, special assessments on real property or the value of land dedications required of developers are considered private revenues. Private services provided by homes associations and community trusts are also considered private expenditures.

Tallying and comparing costs and revenues is a significant part of fiscal impact analysis. Costs include operating expenditures (salaries, statutory and material costs) and capital outlays, either directly incurred by a public jurisdiction or paid to others as a result of a specific development. Revenues comprise all monies a government receives from external sources as a result of the development or redevelopment. Revenues counted in a fiscal impact analysis include municipal and school district own source (local) contributions (taxes, charges, and miscellaneous revenue) and state and Federal intergovernmental transfers.

Fiscal impact analysis is further concerned with the cost and revenue implications derived from population and/or employment change. These changes are broadly defined as residential and/or nonresidential entrance into or departure from a community. The fiscal impact analysis may be a prediction or a post hoc evaluation and may evaluate population and/or employment change in either the private or public sectors (i.e., a builder attempting to develop a mixed use planned unit development or a local authority seeking municipal approval for a public housing project or a civic center).

Finally, costs are projected to only the local jurisdictions in which the population or employment change is taking place. In most instances, the local jurisdiction is the town, township, borough, or parish for municipal costs and the school district(s) for primary and secondary school district expenditures. Fiscal impact analysis, as defined here, does not consider services administered by and revenues flowing to utilities, special districts, county governments, regional authorities, and states.

Emphasizing projections of exclusively local costs reflects user demand. Local governments - either municipal or school district-provide most services to residential and non-residential properties. Police and fire protection, road maintenance and repair, education, etc., represent types of local government services. Local property owners must often share the cost of these services. Impacts on the cost are of vital interest to the local population; fiscal impact analyses volunteered by developers or required by local ordinances are the result. Services provided by special districts are usually paid for with user charges. They typically do not affect the local population directly. County government services in areas where local governments also provide services to property frequently involve major road construction or repair and institution or agency maintenance. The effect of change in their expenditures (related to a particular growth increment) on local residents is usually relatively small and not of vital concern.

PER CAPITA MULTIPLIER METHOD

Background

The Per Capita Multiplier Method is the classic average costing approach for projecting the impact of population change on local municipal and school district costs and revenues. Due to its simplicity and ease of operation, the method has been applied to almost every type of fiscal impact situation.

The Per Capita Multiplier Method relies on detailed demographic information by housing type (total household size and number of school-age children) and the average cost, per person and per pupil, of municipal and school district operating expenses (including the amortization of capital expenditures) to project an annual (operating/capital) cost assignable to a particular population change. Using the Proportional Valuation Method, the technique begins by sifting off the local costs assigned to nonresidential uses. Then it expresses all local municipal costs per person and school district costs per pupil. These per capita and per pupil costs, multiplied by an estimate of the population shift resulting from growth (partitioned by pupils and adults) are the incremental costs assigned to the specific growth generator.

To illustrate, assume that a midwestern municipality is attempting to analyze the local fiscal impact of I 00 garden apartments (80 percent-one bedroom, 20 percent-two bedroom). Units in the proposed development will probably rent for an average of $250 and $300 monthly and are estimated to be valued at $15,000 and $21,000 per unit, respectively. Demographic profiles of garden apartments for the area indicate that an average 1.686 residents and 0.036 school-age children may be expected to reside in one bedroom units and 2.685 residents and 0.232 school-age children in two bedroom units. Information obtained from the city manager and superintendent of schools tabulates current total municipal operating costs per person at $250 annually and total school district costs per pupil at $1,500 annually. The development is assigned $33,720 (80 units x 1.686 persons per unit x $250 per person) in municipal costs and $4,320 (80 units x 0.036 children per unit x $1,500 per child) in school district costs for the local fiscal impact of one-bedroom units, and $13,425 in municipal costs (20 x 2.685 x $250), and $6,960 in school district costs (20 x 0.232 x $1,500) for two-bedroom units. The total cost to the municipality and school district for operations and capital additions for the 100 unit garden apartment development is thus estimated at approximately $58,000 annually ($33,720 + $4,320 + $13,425 + $6,960).

Assumptions

A basic assumption of the Per Capita Multiplier Method is that over the long run, current average operating costs per capita and per student are the best estimates of future operating costs occasioned by growth. A second assumption is that current local service levels are the most accurate indicators of future service levels and that they will continue on the same scale in the future. A further premise is that the current composition of the population occasioning costs and the population contributing to future costs are sufficiently similar that the above scenario will remain unaltered.

A fourth and final premise is that the current distribution of expenditures among the various sectors of municipal service will remain constant in the short run and will serve as the primary indicator of the way in which additional expenditures will be subsequently allocated.

Advantages

Simplicity/Low Cost The Per Capita Multiplier Method is similar to the Comparable City and Service Standard Methods in terms of ease of implementation.
Acceptability The Per Capita Multiplier Method is the most widely accepted fiscal impact procedure available, particularly for the private planning consultant.

Disadvantages

Richness of Detail Probably the single greatest disadvantage of this method is the detail to which results are available. Its most accurate indication of costs is only to the level of municipal and school district services.

SERVICE STANDARD METHOD

The Service Standard Method is an average costing method which uses averages of manpower and capital facility service levels, obtained from the U.S. Census of Governments, for municipalities and school districts of similar size and geographic location. The Service Standard Method determines the total number of additional employees by service function (financial administration, general control, police, fire, highways, sewer-age, sanitation, water supply, parks and recreation, and libraries) that will be required as the result of growth. The analyst determines the local operating cost for additional personnel adding local operating outlays (salary, statutory and equipment expenditures) per employee by service function (e.g., $14,500 per policeman, $13,900 per firemen) to an annual expenditure for capital facilities specific to the service function. The annual capital expenditure is obtained through the use of capital-to-operating service ratios derived from Census information, and applied to the local total operating cost per employee.

To illustrate, a Northeastern city of 33,000 residents will grow to 38,000 as a result of a new 1,600-unit single-family subdivision. Using service ratios of 2.33 policemen and 1.88 firemen per 1,000 population (for Northeastern municipalities of 25,000 - 49,999), if the community follows average service patterns specific to its population size and location a service demand for 11.7 policemen (2.33 x 5.0) and 9.4 firemen (1.88 x 5.0) will be created locally as a result of the development. At the previously stated local average operating cost per policeman (S14,500) and fireman ($13,900), the operating cost assignable to the development for just these two functional areas is $300,310 ($169,650 [$14,500 x l.7] + $130,660 [$13,900 x 9.4]). Using a 0.025 capital-to-operating ratio (Northeastern municipalities of 25,000 - 49,999 population) for police capital expenditures and applying this to the product of the number of policemen to be added locally, the average local operations cost per policeman will add $4,241 (S 169,650 x 0.025); a 0.005 capital-to-operations ratio for fire protection capital expenditures, similarly applied to the product of the additional firemen, and the average local operations cost per

firemen will add an additional $653 ($130,660 x 0.005). The total assign-able cost (operating plus capital debt service) to the growth increment for these two functions is $305,204. This procedure is repeated for each functional area listed above to ascertain total costs assignable.

Assumptions

A fundamental assumption of the Service Standard approach is that, over the long run average existing service levels for both manpower and capital facilities of comparable cities can be used to assign costs to future development.

Another premise of the technique is that service levels for both manpower and capital facilities vary according to the community's population. A further assumption is that after population size, geographic location also affects public service levels.

Data Requirements

The basic data needed to implement the Service Standard Method consist of multi-pliers for household size and school-age population for different types of housing; population estimates. for municipalities, and school districts; public employee service standards by service category; average operating costs per employee, and annual capital-to-operating expenditure ratios by service category.