

Fiscal Impact Analysis Feasibility Study

Prepared for:



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Prepared by:



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EXECUTIVE SUMMARY

NATURE OF THE ASSIGNMENT

Faced with budgetary constraints and other growth-related issues, the City of Lawrence is considering having a fiscal impact analysis prepared. However, before embarking on such an analysis, the City retained TischlerBise to conduct a fiscal impact analysis feasibility study. This feasibility study is intended to provide direction and recommendations as to what type of analysis should be conducted given the City's situation. Paul Tischler and Carson Bise met with City staff and various elected/appointed officials to conduct a brainstorming session which, among other topics, discussed various planning and fiscal issues facing the City and possible ways of evaluating the fiscal impacts of growth. The firm has reviewed information provided by the City and has prepared this feasibility report. The next step of this Phase I assignment is to present the findings, answer questions and then make any appropriate revisions to the work scope for a Phase II work effort. These conclusions are based on our national experience, having conducted over 400 fiscal impact analyses around the country, more than any other firm.

SUMMARY OF FINDINGS

The City is continuing to grow and also continuing to experience revenue constraints. As noted further in the report, it appears levels of service are not being maintained. This is based on discussions with City staff and elected/appointed officials and a review of other relevant information. TischlerBise concurs with the findings of the City of Lawrence Public Improvement Task Force that a cost of growth study is needed. We suggest that two types of fiscal impact studies be performed to provide different types of information that can be utilized by elected/appointed officials. These are summarized below.

The first is the Cost of Land Use Analysis approach in which various land use categories (approximately 10 land uses) are analyzed to determine whether they generate net deficits or surpluses to the City. This snapshot approach is easy to understand in terms of looking at the necessary mix of land use types necessary to achieve fiscal neutrality.

The second major type of analysis, Fiscal Analysis of Growth Alternatives, evaluates different citywide scenarios over a 20-year period in order to provide an understanding the annual and cumulative effects of all development together. The difference in this analysis is that the case study-marginal approach is used versus the average approach in the Cost of Land Use Analysis. The specific approaches, tasks and applications are discussed in the body of the report.

One work task that remains unchanged from our original proposal is the Phase III work product, which is the development of Revenue/Implementation Strategies. The fiscal impact analysis work

products discussed above will have established the context in which the demand for City services and infrastructure is occurring. It will also project the likely shortfall to fund this demand. This will ensure a complete understanding of the current situation and provide a level base from which all stakeholders can begin the discussion and understanding of financing options.



EVALUATION OF LAWRENCE SITUATION

NATURE OF ASSIGNMENT

Paul Tischler and Carson Bise met with City staff and various elected/appointed officials to discuss fiscal impact issues facing the City, approaches to answering these issues, data needs, tradeoffs between approaches, and other related issues. The City provided subsequent information regarding likely land use categories to incorporate in an analysis, as well as potential development scenarios to evaluate.

The two most commonly used fiscal impact methodologies are the average cost and the case study-marginal approach. The average cost approach is the most popular and frequently used method for evaluating fiscal impacts. A common type of analysis using this approach is a *cost of land use fiscal analysis*. In this type of analysis the characteristics of various residential (i.e. single family, townhouse, apartment) and nonresidential (i.e. 1,000 square feet of retail, industrial, office) “prototypes” are defined and a “snapshot” approach is used to determine the annual costs and revenues for each prototype to understand the generalized impacts each land use independently has on a local government’s budget. The factors used to define these prototypes typically include persons per household, employment density, vehicle trips, assessed value, etc. Since this approach focuses on the average cost, it doesn’t consider the available capacities of existing capital facilities. In addition, it masks spatial relationships and the timing of additional facilities required to serve new growth. These are important considerations, especially when determining the number and type of facilities necessary to serve new growth, as well as the adequacy of the City’s revenue structure to finance and operate these facilities.

In contrast to the average cost approach is the case study-marginal approach. This approach has the greatest accuracy in forecasting short to mid-term impacts of growth and policy decisions. Utilizing the Fire Department as an example, the average cost approach would divide the expenditure for fire services by population and possibly employment to arrive at a figure, say \$21 per person. This cost would occur regardless of any spatial distribution. The case study-marginal approach would reflect whether the Fire Department required additional space and apparatus to meet level of service times and responses. If new growth were primarily infill versus leap-frog development, the cost differential could be significant since in the former case there would be no additional cost for capital and associated personnel while in the latter case there might be a need for a new station with associated apparatus and personnel. A series of sensitivity evaluations would allow the client to understand whether any or all of proposed plans make sense from the perspective of timing and phasing. Under this approach, TischlerBise would prepare a *growth alternatives fiscal impact analysis* of one or more growth scenarios are evaluated for their fiscal impact on the City.

FISCAL ISSUES FACING LAWRENCE

The City's 2000 population, according to the U. S. Census, was 80,098, an increase of over 22% from 1990. The City continues to increase in population, increasing by about 10% over the last five years. However, there are signs of fiscal stress. There is not enough money to maintain City streets and there is some debt financing of street-related maintenance activities. The need for additional parks can not keep pace with the demands of growth. A sign of fiscal stress is that the City uses some of the one-time revenues from the sales and use tax for operating needs, not capital needs. As noted by the City Manager in his June 24, 2004, budget transmittal letter, "The General Fund revenue has been impacted the past couple of years, as noted in previous budget documents, by the loss of state revenue sharing and static sales tax and interest revenue....As our infrastructure grows and ages and the costs to maintain it increase, we will continue to be challenged to stay within the constraints of our resources in the future." To the extent that existing residents subsidize new growth, this situation will be exacerbated.

RECOMMENDED FISCAL-RELATED WORK ACTIVITIES

As discussed previously, TischlerBise had a half day meeting with members of City staff and elected/appointed officials to talk about growth and budgetary issues facing the City. A primary reason for this session was to solicit input to determine exactly what types of questions the City would like to have answered as part of a fiscal impact analysis. From the "brainstorming" session, there was a consensus on the need to better understand land use decisions and policies from a fiscal impact perspective. A fiscal impact may be defined as the cash flow to the public sector. It includes all revenues and operating expenses, as well as capital costs. This valuable input helped TischlerBise determine what type of fiscal impact analysis will be most beneficial given the City's present/future situation. We have evaluated the discussion and issues raised by the group and have determined that a Cost of Land Use Analysis and a Fiscal Analysis of Growth Alternatives are both relevant studies given the City's present situation.

COST OF LAND USE ANALYSIS

There were a series of comments about better understanding how specific types of land use affect the City from a fiscal perspective. For example, is multifamily housing better than certain types of single family housing? How much does it matter fiscally if the multifamily housing is owner-occupied versus rental? What is the fiscal difference between retail and office space and/or industrial-flex space? Is there an ascertainable difference between different single family densities from a fiscal perspective?

There are six residential categories that appear to be well suited to serving as proxies for answering the above questions. These are the single family categories of RS-A; RS-E; RS-1; RS-2; the duplex residential category of RMD and the multi-family category of RM-2. This category would be calculated from the perspective of condominium and rental. The major variables would relate to household size, assessed value and front foot of streets to maintain.

There are three nonresidential categories recommended for inclusion in the analysis. These are office, retail and light industrial. Major variables would pertain to employees per 1,000 square feet, trips per thousand square feet; assessed value, and public safety calls for service.

The answer on how much of a surplus or deficit one of the above land uses yields to the City would be reflected in this Cost of Land Use Study. The major limitation of the study approach is that it is a snapshot in time and generally focuses on an average cost approach. One-time revenue and capital costs are amortized to smooth one year results. However, this is the best way to look at separate land uses on a per unit basis.

FISCAL ANALYSIS OF GROWTH ALTERNATIVES

There is also an interest in better understanding the total effect of possible growth alternatives. These alternatives would be defined in terms of the ten land uses used in the COLU and forecasted over a 20 year time frame. The case study-marginal approach, further discussed below, would be emphasized.

The three alternatives recommended are a base case, or trends; higher residential, reflecting more multi-family units in place of single family; and higher employment, more jobs than trends but the same housing. The higher employment alternative would assume less out-commuting and more in commuting. The annual, average annual and cumulative results would show the total demand for services reflecting these land use mixes and the resulting fiscal implications.

Based on our onsite meeting, it may be very educational for the alternatives to be reflected in four geographic subareas. These four areas could be west of K-10; south of Wakarusa; east of O'Connell and the airport area. By allocating the growth to these subareas, it would force City staff to consider possible land use changes on a smaller geographic area. It would also allow TischlerBise to reflect capacity demands for relevant capital infrastructure and associated operating expenses by geographic area where appropriate.

As noted above, the COLU will allow all interested parties to easily understand the generalized impacts each of the 10 land uses has on the City's budget. As such it does not consider the timing of additional facilities and masks spatial (geographic) relationships. On the other hand the case study-marginal approach, which will be used in the Fiscal Analysis of Growth Alternatives work effort, will provide much better information and understanding to the City in forecasting the impacts of growth and policy decisions over the 20 year time period. Insert fire example-page 6 of Lawrence proposal.

SUGGESTED WORK SCOPE

Based on the above discussion, we recommend that the Cost of Land Use Analyses and Fiscal Analysis of Growth Alternatives be conducted, in that order. The time period for the Cost of Land Use Analysis would be about three months and the completion of the Fiscal Analysis of Growth Alternatives would be about two months later. The specific tasks of each activity are described below. This work effort will comprehensively address the fiscal impacts of development as recommended by the City of Lawrence Public Improvement Task Force. We suggest that evaluating

specific revenue remedies, a work effort recommended by the Task Force, await the findings of the fiscal studies.

COST OF LAND USE ANALYSIS

Task 1. Review Up to Ten (10) Land Use Categories to Calculate

TischlerBise will review up to ten land use categories suggested by the Client and suggest any changes.

Task 2. Assign Cost and Revenues by Land Use Prototype

Based on interviews with City service providers, we will assign costs and revenues to each land use prototype based on factors such as household size, vehicle trip generation rates and employment density.

Task 3. Calculate Results

Based on the above tasks TischlerBise will calculate the fiscal impact results by prototype land use.

Task 4. Prepare Fiscal Report on Up to Ten Land Use Types

A succinct fiscal impact report will be prepared discussing the full cost allocation for each prototype land use. The report will discuss the average share of capital costs, operating expenses and revenues by land use type. The residential results will be presented on a per unit basis and the nonresidential on a per 1,000 square foot basis. There will be graphs as well as tables showing the net surplus or deficit for each of the land use categories. This should be beneficial in understanding the appropriate mixes of different types of land use. The table of contents may be as follows:

- Executive Summary
- Average Annual Results by Prototype
- Fiscal Implications
- Annual Revenue by Prototype
- Annual Costs by Prototype
- Cost and Revenue Assumptions

A draft report will be provided to the client for review. After mutually agreed changes are made, a final report will be sent.

Task 5. Presentation of Cost of Land Use Fiscal Analysis

TischlerBise will present the findings of the cost of land use fiscal analysis report.

FISCAL ANALYSIS OF GROWTH ALTERNATIVES

Task 1: Assist in Defining Scenarios and Review of Population, Households and Employment Forecast

To assist the City in defining scenarios, TischlerBise will conduct a "brainstorming" session during the afternoon of day one and on the morning of day two. The intent is to agree on the land use categories, scenarios, timeframe and other relevant topics. The population, household and employment projections should be made to the year 2015 or 2025. After the City completes the scenario projections and prepares the accompanying narrative, the firm will prepare a memorandum reflecting the comments on projections for each scenario.

Task 2: Conduct Level of Service and Cost and Revenue Factor Interviews

In this task we will conduct onsite interviews with City personnel. The purpose of these onsite interviews is to provide TischlerBise with an understanding of the department structure and scope of operations, discuss facility-related variable costs and other operating expenses, as well as discuss and agree upon methodologies for forecasting future demand for services and facilities. The demand sources for the various services and facilities will vary by activity and department. The firm will supplement this task with our extensive national experience conducting fiscal impact analyses. This experience allows us to facilitate meaningful conversations with service providers and identify cost drivers for specific services that can vary due to the unique characteristics of a jurisdiction.

In discussing capital facility needs with the City, we are likely to utilize one of two approaches. One approach will be direct entry of capital facility information, if it is known through the CIP that the facility will be constructed and will partially or fully serve new growth. A second is for the fiscal impact model designed for this assignment to calculate the need for new capital facilities as a function of the existing available capacity.

Task 3: Prepare Level of Service and Cost and Revenue Factor Memorandum

Information obtained during the previous task will be prepared in a Level of Service, Cost and Revenue Factor Memorandum. This memorandum will show the different cost components for the various service providers, including both facility and non-facility related operating expenses, methodologies for forecasting future capital facility needs and associated operating expenses. The memorandum will also contain a separate chapter showing revenue sources and associated projection methodologies.

Task 4: Design Fiscal Impact Model

Based on the methodologies and factors contained in the Level of Service Memorandum prepared in the previous task, TischlerBise will develop the fiscal model for this assignment.

Task 5: Prepare Fiscal Impact Report

TischlerBise will prepare a draft fiscal impact report that describes in succinct fashion the fiscal findings for the different scenarios that are discussed. It is anticipated the report will have the following categories.

- Executive Summary
- Cumulative Fiscal Results By Alternative
- Annual Fiscal Results By Alternative
- Average Annual Fiscal Impact Results By Alternative
- Major Revenue Findings
- Major Capital Cost Findings
- Major Operating Expense Findings

The fiscal report will be a stand-alone document, which will be clearly understood by all interested parties. The analysis will address each scenario. The fiscal impact report will present all of the major findings and the reasons for the results. This will include issues regarding differences between the scenarios, staging, and other issues. After Client review, the final report will be issued.

Task 6: Presentation of Fiscal Impact Report

TischlerBise will present the findings of the fiscal impact report. (Additional meetings will be conducted on a per diem basis.)

COST

The cost for the Cost of Land Use Analysis totals \$38,400. The cost for a Fiscal Analysis of Growth Alternatives is \$66,700. The cost for the Revenue/Implementation Strategies remains unchanged from our original proposal at \$34,700. All costs include travel and other out-of-pocket expenses.

