Municipal Fiscal Impact Model

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Why a Fiscal Impact Model?

Purpose is to answer the question:

What is the impact of development on the government’s bottom line?

Allows comparison of different development scenarios (land uses, densities, market values) in terms of fiscal impacts on government and school district finances.
What Is Out There

- Large scale – focus on regional impacts
- Project-specific
- Complex
- Use national inputs
- Limited in scope – residential vs. commercial, local government vs. schools
- Consultant-created models – limited customization, expensive
Goal of This Fiscal Impact Model

- Create transparency (not a “black box”)
- Make it easy to use and understand
- Provide immediate feedback
- Make it customizable for individual communities
- Include both residential and non-residential
- Include schools
- Encourage dialogue
History of the Fiscal Impact Model

- **2001** – Northwest Corridor study (Hennepin Co. and U of MN Design Center for American Urban Landscape)
  - FIMs for six communities along NW Corridor route
- **2005** – “Edge Project” (CURA – U of MN)
  - assisted 11 communities in western Hennepin County
- **2008** – Saint Paul FIM (Hennepin Co. partnership, FTA funding to share model)
  - Updates to model
  - Analysis of Ford site redevelopment, etc.
- **2010** – Fiscal impact analysis survey (CURA)
  - FIMs not used, most commonly because no staff trained to use
  - Interest in using with assistance from U of M, Met Cncl, DEED
- **2011** – Saint Paul FIM update and capital cost research (CURA)
- **2012 to ?**
  - St. Paul: yearly updates/utilization
  - CURA: Dissemination, training/technical support, data provision
How is “success” measured?  

- City must balance a range of factors in evaluating a redevelopment’s success
- One measure of success: the effects of (re)development on the City’s “bottom line”
  - Does a development “pay for itself”? (have a net zero fiscal impact or pass a “do no harm” test)
  - Could a development’s positive fiscal impact pay for other public goods? (e.g., public amenities, service provision, other “community benefits”)
  - Does a development’s positive fiscal impact justify the use of TIF or other public subsidy?
- Is a development justified on other grounds, even if it has a net negative fiscal impact?
How Does the Model Work? – Assumptions

1. Any development impacts revenues and expenditures

2. Revenues and expenditures related to the number of:
   - Residents
   - Workers
   - Students

3. Multipliers used to project the number of residents, children, and workers created by new development
How Does This Work? – Property Taxes

- A $190,000 home would pay $2,310 in city/school property taxes
- A $600,000 commercial building would pay $2,640 in city/school property taxes
- Includes ONLY those to City & School District (~55% of property taxes paid), not those paid to the County, watershed district, Met Council, etc.
How Does This Work? - Multipliers

Each single-family home would generate 2.50 residents (including .90 children). *We’ll round up to 3 residents (1 child)*

A 10,000-square-foot office building would generate 31 employees
How Does This Work? – Demand for Service

- 3 residents would demand $3,996 of local government services
- 31 employees would demand $18,755 of local government services
- 1 child would demand $11,600 of school services
How Does This Work? – Increased Revenue

- 3 residents would generate $3,465 of non-property tax local govt revenues
- 31 employees would generate $16,244 of non-property tax local govt revenues
- 1 child would generate $9,852 of school revenue (mostly from State)
Challenges / Limitations of FIM

- The model estimates operating costs only
- The model does not include capital infrastructure costs or other capital costs
  - Capital costs are site-specific and variable based on development scale, location, and current service provision
  - Small infill projects may require no capital investment, while large-scale projects may need new roads, sidewalks, sewer lines, streetlights, etc.
  - Increased demand for services may also trigger capital costs for new municipal buildings, equipment, or staff
- Capital/infrastructure needs are “lumpy”
  - What are the “demand units” for service provision?
  - What are the “trigger points” for departments most impacted by new development?
Running the FIM – Inputting site data

- Acreage of development site
- Market value assumption
  - Per-unit market value
  - Per-square-foot commercial/industrial market value
- Building lot size, density, and floor area ratio (FAR) assumptions for development category
Model Demonstration: St. Paul FIM, v. 2011
Analysis of one Central Corridor site – 3 development concepts and land uses*

The site: 2700 University Avenue

1. Medium Industrial
2. Large Office Development
3. Market-rate Rental Apartments

*Development concept assumptions are ever-changing. Industrial is not permitted under T4 zoning. Updated 4.30.12
Findings:

Two of the three proposals analyzed have a higher market value than existing site

<table>
<thead>
<tr>
<th>Development Type</th>
<th>2700 University</th>
<th>2700 University</th>
<th>2700 University</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Industrial Development</td>
<td>$1,670,769</td>
<td>$10,860,000</td>
<td>$17,803,279</td>
</tr>
<tr>
<td>Large Office Development</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Mid to High Rise Apartments</td>
<td>$</td>
<td>$</td>
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</tr>
</tbody>
</table>

Estimated Total Market Value

- Residential: $1,670,769
- Commercial: $1,670,769
- Residential: $-1,112,223 to $-276,838
- Commercial: $5,779,700 to $11,209,700
- Residential: $10,987,159 to $19,888,798

A range of market values

The site’s existing market value may not support industrial redevelopment

Preliminary findings
Findings:

Property tax potential is large for office and market-rate rental housing

<table>
<thead>
<tr>
<th>Development Type</th>
<th>Estimated Property Tax</th>
<th>High Estimate</th>
<th>Low Estimate</th>
<th>City portion</th>
<th>School District portion</th>
<th>Estimated Value Added per Year to Property Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium Industrial Development</td>
<td>$28,930</td>
<td>$36,204</td>
<td>$21,656</td>
<td>$7,981</td>
<td>$8,573</td>
<td>$-68,134 to $-53,586</td>
</tr>
<tr>
<td>Large Office Development</td>
<td>$188,589</td>
<td>$235,873</td>
<td>$141,306</td>
<td>$52,039</td>
<td>$55,849</td>
<td>$51,516 to $146,083</td>
</tr>
<tr>
<td>Mid to High Rise Apartments</td>
<td>$270,353</td>
<td>$337,941</td>
<td>$202,764</td>
<td>$81,136</td>
<td>$88,295</td>
<td>$112,974 to $248,151</td>
</tr>
</tbody>
</table>

City portion of property taxes

Less property taxes than today

Preliminary findings
### Findings:

City benefits by additional jobs and housing units

<table>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>New Residents</td>
<td>0</td>
<td>0</td>
<td>300</td>
</tr>
<tr>
<td>New Employees</td>
<td>56</td>
<td>394</td>
<td>0</td>
</tr>
</tbody>
</table>

- 2700 University
- Medium Industrial Development
- Large Office Development
- Mid to High Rise Apartments

Preliminary findings
## Findings:

### As a proportion of the City’s general fund, small impacts...

<table>
<thead>
<tr>
<th>Location</th>
<th>Medium Industrial Development</th>
<th>Large Office Development</th>
<th>Mid to High Rise Apartments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Revenues</td>
<td>$29,193</td>
<td>$206,359</td>
<td>$345,943</td>
</tr>
<tr>
<td>Estimated City Property Tax Impact</td>
<td>$7,981</td>
<td>$52,039</td>
<td>$81,136</td>
</tr>
<tr>
<td>Estimated Expenditures</td>
<td>$33,669</td>
<td>$238,001</td>
<td>$398,988</td>
</tr>
<tr>
<td>Net Impact to Local Government</td>
<td>$3,505</td>
<td>$20,397</td>
<td>$28,091</td>
</tr>
<tr>
<td>Estimated Value Added to Local Government</td>
<td>$-31,240 to $-27,224</td>
<td>$-25,390 to $711</td>
<td>$-24,930 to $15,639</td>
</tr>
<tr>
<td>Fiscal Impact as % of General Fund Budget</td>
<td>0.0015199746%</td>
<td>0.0088463824%</td>
<td>0.0121835428%</td>
</tr>
</tbody>
</table>

**Net Impact to Local Government = Revenues + Property Tax – Expenditures**

**Estimated Value Added to Local Government = Fiscal impact post-development MINUS Fiscal impact pre-development**

**Possible interpretation:** Housing and office scenarios appear to break even fiscally while industrial development is a fiscal negative at this site.

**NOTE:** Property Taxes include those to Local Government & School District only, not those to County, watershed district, Met Council, etc.
Regional Capital-Cost Research

- Interviewed municipal staff (fire, police, parks and rec, public works) about capital costs of development
- Outcome: capital cost worksheet
  - Helps municipalities anticipate whether development would induce capital costs
  - Includes example service standards for most departments
  - Can facilitate cross-department dialogue
Possible Evolution or Enhancements to FIM

1. **City-specific, city-type, or regional-average model?**

2. **Scale:** Site-level analysis versus corridor-wide analysis?

3. **Sensitivity analysis:** Impact of % properties vs. % market values vs. % property taxes paid?

4. **Schools:** Omit school district piece to simplify model?

5. **Capital cost add-on tool:** Public Works, Police, Fire, and Parks categories, with check boxes to indicate Low, Medium or High impact?

6. **Urban design add-on:** What does redevelopment look like?

7. **Spatial element:** Integrate with GIS-based visioning tools like Envision Tomorrow or CommunityViz?

8. **Transition to a Web application?**
Short-Term Ideas for Advancing the Project

1. Offer training program for using the model

2. Facilitate use of model in pilot cities through FIM team/U of MN
   - Provide training/technical assistance using U of MN GRAs ($$)
   - Facilitate engagement process (among staff or with elected officials, developers, public)
   - Requires commitment of city staff time
     - Assist with local data collection/provision
     - Identify developments (actual or potential) and run FIM analysis
   - Requires funding (McKnight proposal)
     - Partner organizations to advise project (ULI/RCM, LMC, Metro Cities)
     - Communities committed to active implementation
     - Testing of policy and investment decision-making
     - SW Transit Corridor, Northstar Corridor
Short-Term Ideas for Advancing the Project

3. Disseminate model through organizations that work with local governments
   - Provide training/technical assistance
   - Develop/facilitate engagement process
   - Who is best positioned to deliver on a regional basis?
     - Met Council, Metro Cities, League of Minnesota Cities. . .others?

4. Convene and support a technical work group/user group
   - Exchange experiences using the FIM
   - Continue discussions about how to incorporate capital costs
   - Explore potential for centralized data provision
   - Determine type of model to use regionally
   - Advise creation of training program/engagement process
Thank you!

Questions?