

Fiscal Impacts Fiscal Capacity

Packet Synopsis

Fiscal impacts and **fiscal capacity** have two essentially different meanings for communities and land use planning.

Fiscal impact is assessing the costs and benefits to a community – city, township or county – of either a specific development proposal or alternate land uses in implementing community comprehensive land use plans. By preparing a **fiscal impact** analysis, the community is attempting to make a quantitative assessment (coming up with numbers) as to whether a particular proposed land use or development is financially advantageous to the community in the long run. Will the project or proposal pay for itself in terms of the revenue flows to the community? Will the community's expenditures for required new or additional services be recovered if the project goes forward? What are the best designated uses for various parcels of land in the comprehensive land use planning process? Obviously if the fiscal costs outweigh the fiscal benefits, the proposed project or development or land use should not go forward.

A **fiscal impact analysis** can be done for a residential subdivision or development; a commercial development, for example a shopping mall or office complex; or an industrial development. They can be quite simple or quite complex. Impact studies take into consideration secondary factors such as job growth, commuting patterns, congestion impacts, economic spin-offs to the local economy, cross-over effects such as how a new shopping mall development will impact the current "main street" or central business district tax base and property values and such. For a more complex the analyses, most communities will need to contract with an outside consultant.

Fiscal capacity is assessing a community's financial where-with-all to:

- Carry on its current activities and commitments.
- Assume new and then ongoing obligations for debt to finance capital infrastructure additions or improvements.
- Expand old or take on new programmatic services.

This assessment is based upon the community's current means – fiscal and political. A community bond rating by a financial rating agency such as Dun and Bradstreet or Moody's is an assessment by and for the financial market of the current fiscal ability of the community to pay for any or all of the above. These ratings are generally made or re-examined whenever a community goes to the capital markets to borrow money for its public purposes.

The contents of this packet have been selected with smaller communities in mind. Major cities and metropolitan counties generally are in need of more sophisticated analyses and thus generally hire this work out. The literature, especially in regards to **fiscal capacity**, is also not very extensive.

They are as follows:

Estimating Fiscal Impacts of Residential Developments in Smaller Communities. A “how to” and “step by step” manual by the Minnesota Extension Service to guide small communities preparing a fiscal impact analysis for residential developments. It takes the community through an 11 step process and asks “devil’s advocate” questions to get the user to think critically and more in depth in making the assessment. This paper is also available online at <http://www.apec.umn.edu/faculty/sjtaff/readings/impact.pdf>.

A very similar how to manual by Pennsylvania State University is available in PDF format at <http://cax.aers.psu.edu/residentialimpact/>.

Fact Sheet – Cost of Community Service Studies, American Farmland Trust, Washington, DC, September 2001. Presents a simple methodology developed by the American Farmland Trust (AFT) to determine the net fiscal contributions ratios of various land use alternatives to local budgets. A more specific methodology is being developed and the AFT will also provide technical assistance on a fee basis. At least three Minnesota communities have used their services.

Cost of Public Services Study. This Minnesota study by the Minnesota Department of Agriculture is a detailed 156 pages but a summary has been published and is enclosed. The full study can be obtained from the Department of Agriculture.

“Chapter 10, Local Government Finance” and “Local Fiscal Capacity”, *Government Finance Review*, February 2001. One of the few articles found on **fiscal capacity**, gives an exceptional overview of the many community factors and their interrelationships that determine a community’s **fiscal capacity**.

Rating Methodology, Analytical Framework for Water and Sewer System Rating, © 1999, Moody’s Investor Services, Inc., New York. This provides an example of a methodology used by Moody’s, the bond and financial instrument rating firm, and the various factors it considers in making its assessments. This particular example lists the various factors Moody’s considers in rating water and sewer bonding.

OTHER MATERIALS

Developments and Dollars, Siegel, Michael; Terris, Jutka; Benfield, Kaid, Natural Resources Defense Council. A scholarly paper in five chapters. It Chapter 5 presents a checklist of the elements of a good fiscal impact study. Available via downloading from <http://www.nrdc.org/cities/smartGrowth/dd/ddinx.asp>.

LEGAL NOTES

In **Minnesota Statutes Chapter 276A Tax Relief Area Distribution**, a methodology is stated for determining **fiscal capacity** for tax relief purposes. MS § 276A.01, Definitions, Subdivision 12. says :

"Fiscal capacity" of a municipality means its valuation, determined as of January 2 of any year, divided by its population, determined as of a date in the same year."

In MS § 276A.05 Computation of Area Wide Tax Base and its subdivision 3. Areawide Tax Base Distribution Index, the construction of this statewide index is mandated using the methodology described therein based upon municipal fiscal capacities as determined in this section. The statutory definition of **fiscal capacity** is a very narrow one.

The only mention of **fiscal impact** is found in **Minnesota Statutes Chapter 3 Legislature**. In MS § 3.986 Definition, subdivision 2. Local Fiscal Impact states:

"Local fiscal impact" means increased or decreased costs or revenues that a political subdivision would incur as a result of a law enacted after June 30, 1997, or rule proposed after December 31, 1999:

- (1) that mandates a new program, eliminates an existing mandated program, requires an increased level of service of an existing program, or permits a decreased level of service in an existing mandated program;
- (2) that implements or interprets federal law and, by its implementation or interpretation, increases or decreases program or service levels beyond the level required by the federal law;
- (3) that implements or interprets a statute or amendment adopted or enacted pursuant to the approval of a statewide ballot measure by the voters and, by its implementation or interpretation, increases or decreases program or service levels beyond the levels required by the ballot measure;
- (4) that removes an option previously available to political subdivisions, or adds an option previously unavailable to political subdivisions, thus requiring higher program or service levels or permitting lower program or service levels, or prohibits a specific activity and so forces political subdivisions to use a more costly alternative to provide a mandated program or service;
- (5) that requires that an existing program or service be provided in a shorter time period and thus increases the cost of the program or service, or permits an existing mandated program or service to be provided in a longer time period, thus permitting a decrease in the cost of the program or service;

(6) that adds new requirements to an existing optional program or service and thus increases the cost of the program or service because the political subdivisions have no reasonable alternative other than to continue the optional program;

(7) that affects local revenue collections by changes in property or sales and use tax exemptions;

(8) that requires costs previously incurred at local option that have subsequently been mandated by the state; or

(9) that requires payment of a new fee or increases the amount of an existing fee, or permits the elimination or decrease of an existing fee mandated by the state.

Again, this is a narrow definition and applies only to the legislature in enacting its laws affecting LGUs.

The **Local Planning Assistance Center at the Department of Administration** helps local governments with planning efforts, including comprehensive planning, zoning, hazard mitigation planning, GIS applications and development issues.

Upon request, this document will be made available in an alternate format, such as Braille, large print or audiotape. For TTY, contact Minnesota Relay Service at 800-627-3529 and ask for the Department of Administration.

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