



## MEMORANDUM

**To:** CMAP Economic Development Committee

**From:** CMAP Staff

**Date:** January 2, 2014

**Re:** Analysis of the Fiscal and Economic Impacts of Local Development Decisions

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Shortly after the approval of GO TO 2040 in October 2010, CMAP assembled a Regional Tax Policy Task Force, an advisory group consisting of representatives from local and state government, business, civic organizations, and academia. Throughout 2011, this group deliberated on a range of state and local tax policies affecting the economic competitiveness of northeastern Illinois. An issue discussed by the Task Force was the balance of fiscal and economic impacts generated by non-residential land uses. In its discussion of the Task Force's report, the CMAP Board directed staff to continue to analyze the local and regional impacts of local land use decisions, with an emphasis on analyses that include specific information and cooperation from local municipalities.

It is important for the region to have the best information possible about how our fiscal policies drive land use decisions as well as the resulting impacts on the regional economy, jobs, and principles of livability as addressed in GO TO 2040. To better understand the dynamics of local and regional development impacts, this analysis assesses the outcomes of a set of 31 development case studies in 10 communities. Additionally, a Technical Advisory Group (TAG) comprised of municipal administration and financial staff, county transportation staff, school district staff, and academic and advocacy representatives was created to provide local and technical expertise. The TAG met throughout the analysis process to provide feedback on methodology, results, and the draft report. The draft report was also submitted to case study communities for review. At this time, discussions with case study communities are still underway. The attached executive summary provides the key findings from this analysis.

**ACTION REQUESTED:** Discussion



CMAP



# Fiscal and Economic Impact Analysis of Local Development Decisions

DRAFT EXECUTIVE SUMMARY

January 2014

## Executive Summary

Local governments are a core strength of the region and have the ability to make land use decisions that are both locally and regionally beneficial. Development decisions made at the municipal level have far-reaching effects on the long-term fiscal and economic condition of the region. It is therefore important for the region to have the best information possible about how local fiscal policies drive land use decisions as well as the resulting impacts on the regional economy, jobs, and the livability principles addressed in GO TO 2040, the region's comprehensive regional plan.

This report builds on prior Chicago Metropolitan Agency for Planning (CMAP) analysis of local fiscal and regional economic impacts. After approval of GO TO 2040 in October 2010, CMAP assembled the Regional Tax Policy Task Force, an advisory group consisting of representatives from local and state government, business, civic organizations, and academia. Among other issues, the Task Force discussed the balance of fiscal and economic impacts generated by non-residential land uses, focusing on an analysis of the fiscal and economic impacts of prototypical non-residential land uses that was completed prior to GO TO 2040. In its discussion of the Task Force report, the CMAP Board directed staff to continue to study the local and regional impacts of local land use decisions, emphasizing analyses that include specific information and cooperation from local municipalities.<sup>1</sup>

This CMAP report focuses on municipal land use decisions and municipal fiscal impacts across 31 case studies, with an additional assessment of regional economic and market impacts. Each case study is set within a unique context of local market conditions, municipal revenue and expenditure policies, and infrastructure capacity and expansion needs -- all of which influence overall municipal fiscal impact. While some order-of-magnitude trends are present across these case studies, the individual results will not apply to all jurisdictions. Impacts on other districts, such as schools or transportation providers, may also be very different than the municipal impacts assessed here. However, under current market and policy conditions, CMAP has identified several clear trends regarding fiscal impact practice, key revenue sources, and infrastructure and service costs, as summarized below.

**Residential case study developments can have slightly negative or low municipal fiscal impacts, but high-density, infill residential and mixed-use development can generate very positive fiscal returns.** Negative and low fiscal impacts occur due to the cost to maintain new lane miles, the cost of emergency calls for some multifamily developments, and a combination of lower density, values and property tax rates for some developments. Higher density residential developments generally have more positive returns, and, when in higher property tax communities, are among the highest of the case study set. Additionally, older communities with excess infrastructure capacity generally experience more positive fiscal impacts because

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<sup>1</sup> The advisory report of the Regional Tax Policy Task Force is available at <http://cmap.is/1fhK02P>.



they experience fewer costs generated by development and maintenance of infrastructure and services.

Residential developments as a whole have a higher fiscal impact if their ability to support retail development is considered. Because Illinois allocates sales tax based on point of sale, sales taxes are often not estimated in fiscal impact analyses for residential developments. However, household purchases support retail sales from local retail developments and, when evaluated in fiscal impact analyses, provide a more complete picture of the fiscal of residential developments. This is particularly true for sales-tax dependent communities with low property tax rates.

**Office and industrial case study developments generally have low to moderate positive fiscal impacts, with costs very dependent upon infrastructure and service impacts. These land uses have a higher potential range of regional economic impacts, with actual impacts driven by tenant types.** Industrial developments generally have low to moderate costs, revenues and fiscal impacts. Office development has higher revenues, driven by property taxes, but costs are more variable and tenant-driven. Expenses in both office and industrial case studies are most influenced by the short and long term cost of infrastructure. Industrial case study communities indicated that trucks cause heavy wear and tear on roadways and incur higher costs for the municipality if the designated truck routes are local roads. For office, medical office tenants can generate costly emergency service calls, while higher traffic levels from more typical office tenants increase transportation network costs.

In terms of economic impact, office developments support the highest levels of employment in the region as well as the highest wages, both by a large margin. Industrial developments have the highest potential to support regional employment, with economic multipliers ranging from four to ten times higher than other development types. However, the tenants in the industrial case studies are largely in the lower-impact warehouse and distribution sectors rather than manufacturing. As a result, wage and employment impacts of the industrial tenants were only slightly higher than those found in the retail case studies.

**Due to sales tax revenues, retail case study developments often generate the highest fiscal benefits for municipalities on a per-acre basis, while economic benefits were lower.** Retail case studies generated an average of 90 percent of their revenues from sales taxes, with sales taxes often exceeding the total revenues from all revenue sources in other case studies. Municipal retail expenses were driven by emergency service, transportation, and infrastructure costs. While retail fiscal impacts are driven by high sales tax revenues, retail depends upon other land uses to provide customers. Without a sufficient customer base from nearby households or employees, retail may not produce the hoped-for fiscal return.

In contrast to its local fiscal benefits, retail provides lower economic benefits. Potential jobs supported in the CMAP region are lowest for the retail case studies, and actual employment supported is substantially lower than office. Similarly, wages for retail development were generally lower, with the exception of auto dealerships.



**Mature case study communities with underutilized infrastructure and a prevalence of infill development generally experience higher net benefits from new development.** Maintenance and repair of transportation and other infrastructure is a major expense category for the municipalities, and accurate assessment of these costs is critical for understanding a development's fiscal impact. The communities with development primarily located in already-developed areas often can depend upon capacity in existing infrastructure and services, leading to higher net fiscal benefits.

In contrast, the capacity-constrained case study communities bear the burden of costs to expand services and infrastructure as new development occurs, significantly decreasing the fiscal benefits they receive from new development. Case study municipalities work to address these costs through strategies such as user fees, special taxing districts, and up-front development impact fees. Furthermore, municipalities do not expect each individual development to recover its expenses, but instead pursue a mix of land uses to achieve fiscal balance and meet community goals. However, municipalities often need to seek additional revenue sources to replace road, water and other infrastructure over the long term.

Furthermore, municipalities in the interview set tend to take a near-term approach to assessing capital cost impacts. These communities often have carefully-considered procedures in place to ensure that a new development pays for its initial and near-term infrastructure costs, but then struggle with long-term reconstruction and replacement needs as well as the cumulative costs generated by many new developments over time. Many communities assume that long-term costs will be estimated in the capital improvement plan process and paid for through general funds and/or bond initiatives. However, this approach does not guarantee that the costs of maintaining and upgrading infrastructure will be sufficiently funded over the long term.

**Individual local development decisions can cumulatively lead to overbuilding in regional submarkets or the region as a whole.** While a certain level of vacancy allows for normal business turnover, clusters of persistently high vacancies can indicate overbuilding. This drives down rental rates, minimizes returns to investors, can lead to decreased investment in properties, and provides minimal or negative returns to municipalities and other stakeholders who must still provide a minimum level of service to vacant properties.

Local land use decisions can negatively impact subregional and regional markets for a particular land use. For example, because retail has the potential to provide a strong fiscal benefit to communities, they may prioritize this type of land use and allow development of excess capacity. Similarly, office vacancy in the region has been persistently high since 2001. While some localized markets have experienced major new development and lower vacancies, there is a region-wide excess supply of office development.

These types of market dynamics are not always correctly assessed by private developers and municipalities at the local level, leading to development of underutilized retail, office, and/or



industrial space. This creates negative fiscal and economic consequences over the long term, regardless of potential near-term fiscal and economic benefits.

**Municipal land use decisions affect the fiscal condition of other jurisdictions.** A number of overlapping jurisdictions like parks, fire, and school districts are very dependent upon property tax revenues. As such, they tend to experience more negative net fiscal impacts from some residential uses and depend upon an overall balanced mix of land uses to support services. However, the case study results indicate that higher density or higher value residential can provide net positive fiscal impacts for these districts. This analysis shows that actual residents and schoolchildren generated by a development are a driving factor, and those totals can be quite different from what is estimated by stock formulas.

Transportation networks are particularly impacted by development, and transportation services are provided by a number of regional actors. In particular, traffic from non-residential developments can be highly dependent upon state roads and, to a lesser extent, county and tollway facilities. These jurisdictions do experience revenues from property, motor fuel and sales taxes, and generally request impact fees and right of way to address near-term impacts. However, these jurisdictions can experience negative externalities if revenues do not support costs or if a cumulative volume of new development generates the need for accelerated expansion and replacement of existing facilities. Better coordination of these development impacts across jurisdictions can improve the region's fiscal outcomes.





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The Chicago Metropolitan Agency for Planning (CMAP) is the region's official comprehensive planning organization. Its GO TO 2040 planning campaign is helping the region's seven counties and 284 communities to implement strategies that address transportation, housing, economic development, open space, the environment, and other quality of life issues.