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# The Elements of Fiscal Impact Analysis

Presented to  
Coyote Valley Specific Plan Task Force

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# Fiscal Impact Analysis 101

# Purpose of Fiscal Impact Analysis

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- Determine if taxes generated by development equal or exceed cost of municipal services
- Identify financing or other measures to ensure positive fiscal balance
- Addresses ongoing annual service costs, not capital expenditures
- Not a budget forecast

# San Jose General Fund Budget 2005-2006

Item	2005-06 Adopted General Fund	Percent of Total Revenues/Costs
<b>Revenues</b>		
Fund Balance	\$158,909,180	19%
Property Tax	\$143,996,000	17%
Sales Tax	\$135,243,000	16%
Transient Occupancy Tax	\$6,450,000	1%
Franchise Fees	\$33,138,000	4%
Utility Users Tax	\$67,844,000	8%
License and Permits	\$72,269,830	9%
Fines, Forfeitures, and Penalties	\$12,695,000	2%
Revenue from Money and Property	\$6,217,454	1%
Revenue from Local, State and Federal Government	\$62,674,994	7%
Department Charges	\$27,366,083	3%
Other Revenues	\$19,562,861	2%
Transfers and Reimbursements	<u>\$95,321,831</u>	11%
Subtotal Revenues	\$841,688,233	100%
<b>Expenditures</b>		
General Government	\$52,807,479	6%
Finance	\$10,469,049	1%
Economic Development	\$4,720,908	1%
Redevelopment Agency	\$1,414,425	0.2%
Fire	\$125,606,600	15%
Police	\$237,774,929	28%
Capital Maintenance (General Service, Public Works, Transportation)	\$56,843,470	7%
Community Services (Environmental, Library, Parks, Planning)	\$109,644,859	13%
Non-Departmental	<u>\$242,406,514</u>	29%
Subtotal Expenditures	\$841,688,233	100%

Source: City of San Jose

# Elements of Fiscal Analysis

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- Forecast Service Costs
  - Case study, or average approach
  - CVSP Fiscal: start with service plans, extensive staff involvement
  - Actual service costs in part policy driven
- Forecast Tax Revenues
  - Variety of methodologies, depending on revenue source
  - Population, employment, development value drivers

# Key Factors affecting Fiscal Balance

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- Home Prices
- Household Demographics (size, income)
- Retail Expenditures and Capture Rate
- Proportion of Property Tax received
- Allocation of tax revenues (e.g., San Jose C&C)
- Use of existing Service Capacity
- Affordable Housing Requirements
- State Fiscal Policy
  - Vehicle License Tax
  - ERAF

And in the beginning...  
there was Proposition 13

# Proposition 13

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- Property tax rate fixed at 1 percent
- City's share of property tax fixed as proportion of 1 percent
- Assessed value increases limited to 2 percent, unless turnover
- Special taxes requires two-thirds vote

# Impacts of Proposition 13

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- Fiscal crisis in cities
- Property tax tool more limited: new revenue sources
- Fiscalization of land use
  - pursuit of retail centers, other nonresidential

# Bay Area Trends

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- Diminishing land availability leads to increased land values
- Scarcity of housing results in high housing prices
- Economic Growth and Quality of Life attract new households
- Expansion of lending options increases number of buyers

# Implications for Housing

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- More valuable housing
- More dense product types
- More infill development
- More mixed-use development
- More use of existing infrastructure and service capacity

Let's do the numbers

# Infill Development



# Typical South Bay Infill Project

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Based on 4 studies in 3 cities in South Bay:

- Product Types: small-lot single-family detached, townhomes, and condominiums
- No. of Units: 50 to 250 units
- Affordable housing requirements: 12.5 to 15%
- Market rate price points: \$650,000 to \$1.25 million
- Weighted average price points: \$600,000 to \$1.1 million

# South Bay Infill Project (cont'd)

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Based on 4 studies in 3 cities in South Bay:

- Average Household Income by Project - \$120,000 to \$235,000
- Retail Exp – 25 to 30 percent of income
- Retail capture – 40 to 80 percent
- City Property Tax Share – 4 to 13 percent

# Example: 2.5 pers/hhld; \$750,000

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## Typical Costs

- Overall GF Cost - \$700 per Capita
- Variable GF Cost per Capita - \$535

## Revenues

- Property Tax (10% share) - \$300 per capita
- Sales Tax (25% of inc.; 60% capture) - \$80 per capita
- Property Tax in-lieu of Motor Vehicle License - \$75 per capita
- Other Revenues – \$130 per capita

**Net Surplus: \$50 per capita/ \$125 per unit**

# Example: 2.5 pers/hhld; \$600,000

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## Typical Costs

- Overall GF Cost - \$700 per Capita
- Variable GF Cost per Capita - \$535

## Revenues

- Property Tax (10% share) - \$240 per capita
- Sales Tax (25% of inc.; 60% capture) - \$65 per capita
- Property Tax in-lieu of Motor Vehicle License - \$75 per capita
- Other Revenues – \$125 per capita

**Net Deficit: - \$30 per capita/ - \$75 per unit**

## Example (2.5 pers/hhld; \$660,000)

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### Typical Costs

- Overall GF Cost - \$700 per Capita
- Variable GF Cost per Capita - \$535

### Revenues

- Property Tax (10% share) - \$265 per capita
- Sales Tax (25% of inc.; 60% capture) - \$70 per capita
- Property Tax in-lieu of Motor Vehicle License - \$75 per capita
- Other Revenues – \$125 per capita

**Net Surplus: \$0 per capita/ \$0 per unit**

## Price Distribution vs. Weighted Average

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- Santa Clara Co. median home price: \$650,000
- Example price distribution
  - Market Rate
    - High (20%) : \$925,000
    - Medium (45%) : \$700,000
    - Low (20%) : \$550,000
  - Affordable (15% at 80% AMI) : \$250,000
  - Weighted Average (100%): \$650,000

# San Francisco High-rise Condominiums

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## Annual General Fund Revenues

Property Taxes	\$15,290,000
Property Transfer Taxes	<u>\$2,550,000</u>
TOTAL	\$17,840,000

## Annual General Fund Costs

Fire Department	(\$1,465,000)
Police	(\$793,000)
Emergency Communications	(\$187,000)
Department of Public Works	(\$227,000)
Department of Public Health	(\$3,272,000)
Muni	\$0
Recreation and Parks Commission	<u>(\$441,000)</u>
TOTAL	(\$6,385,000)

NET ANNUAL IMPACT TO GENERAL FUND \$11,455,000

# Greenfield Development

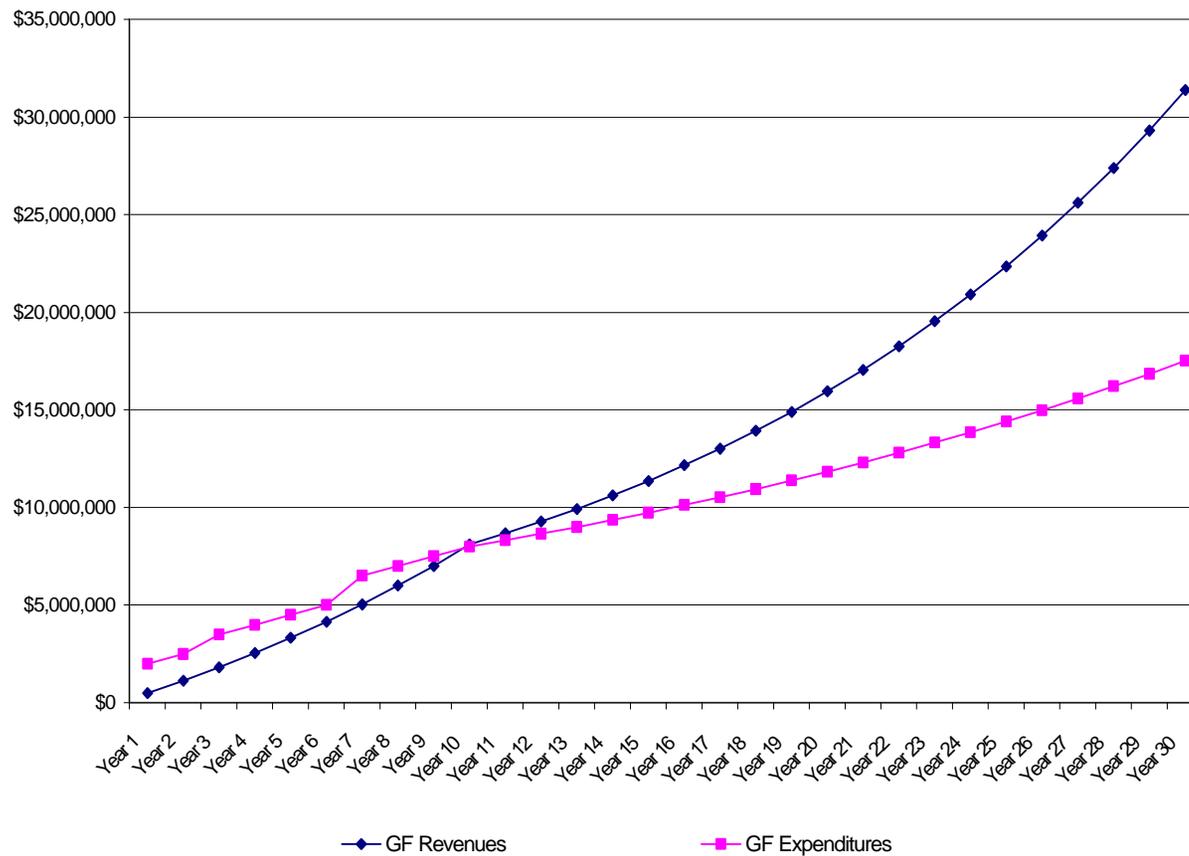


# Fiscal Dynamics of Greenfield Development

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- Requires mostly new public facilities and service units
- Less ability to utilize existing service capacities
- May have different service standards than established areas of City
- Services go in early, tax base grows over time
- Ability to create strong tax base with all new development, active markets, higher densities, mixed-use
- Ability to implement mitigation measures

# Growth of Tax Base Versus Service Costs (illustrative)



# Sustaining Fiscal Viability

# Key Variables in Fiscal Sustainability

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Surplus could erode over time.

Depends on:

- Rate of Home Price Appreciation
- Rate of Property Turnover
- Rate of Inflation

# Fiscal Mitigation Measures

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- Financing
  - Landscape and Lighting Districts
  - Other Maintenance Districts
  - Mello-Roos CFDs
  - Homeowner Association Fees
  - Developer Endowments
- Land Use
  - Infill/Refill
  - Higher Density
  - Mixed-Use