Overview
Fiscal impact analysis can be conducted to assess the impact of proposed development projects. Fiscal impact analysis provides a critical, objective link between land use planning and local budgeting. According to an original thought leader on the topic, Robert Burchell (1978), fiscal impact analysis is a “projection of the direct, current and public costs and revenues associated with residential or non-residential growth to the local jurisdiction(s) in which the growth is taking place.”

In practice, fiscal impact analysis is the estimation of the net financial impact on a government’s budget from a specific project. It provides decision makers with an understanding of how public sector budgets may be impacted, and if approving the project is likely to result in an efficient and wise use of taxpayer dollars. Fiscal impact analysis can also point to situations where it may be advisable to make tax revenue adjustments to accommodate the project.

A specific development project can bring positive, negative, or neutral impacts. If the project is found to have a net positive fiscal impact, the local decision makers could choose to provide subsidies, allocate additional revenues for desired services, or reduce taxes. If the analysis produces a net negative fiscal impact, taxes may need to be raised, the distribution of services adjusted, or the project could be rejected. According to the Lincoln Institute, “In an abstract sense, fiscal impact analysis tends to remove myths and helps to minimize the emotionalism that can accompany public debate.”

Different land uses can produce different fiscal impacts. Generally, high-density commercial or residential development produces net positive fiscal impacts. These types of projects include research and office parks, industrial developments, high-rise apartments, and condominiums. On the other hand, retail and less-dense residential developments typically produce a net negative fiscal impact.

Types of Revenue Sources:
- State sales tax
- State income tax
- Property tax
- Water and sewer fees
- One-time charges
- Motor vehicle tax

Types of Costs:
- Education
- Fire protection
- Emergency services
- Road maintenance
- Libraries
- Public parks
- Storm water
- Sewer
- Police protection
Some projects can have mixed impacts – for example, negative municipal service impacts and positive education system impacts. In North Carolina, the provision of services is often divided between counties (which typically operate public school systems and furnish social services) and municipalities (which might provide police and fire protection and also furnish utilities). Thus, a proposed project located within a city could have significantly different fiscal impacts on the affected city and county. The direction and degree of impacts of a given project are the unknowns which drive decision makers to produce fiscal impact analyses.

For the affected government entity, revenues and costs can have both one-time and recurring elements. Revenues can include one-time capital sources such as impact fees, utility hook-up charges, and special assessments; as well as annual taxes and fees. Government expenditures could include new, one-time costs – such as a required expansion to a water or sewage treatment facility – as well as ongoing operating expenses.

Fiscal impact analysis has several limitations. The analysis is usually based on current conditions, assuming that typical costs in today's climate will be similar to those in the future. Indirect impacts are usually not considered, such as the indirect impact of a project on neighboring property values or local businesses. Fiscal impact analysis also only focuses on the costs and benefits to the public sector and does not include impact to private interests that may be affected positively or negatively. Other impacts - to the environment, traffic patterns, or community character - are also not included in these analyses.

Different Methods
Calculations for determining tax revenue impacts are usually well documented; the real crux of the analysis is determining the potential costs. The differing methods of fiscal impact analysis are split between two costing methodologies, average costing and marginal costing.

Average Costing
This method relies on average costs per unit of service, or proportions to estimated costs. This method is most effective when the increase in demand for services is within the current capacity of municipal service providers.

Marginal Costing
Marginal costing methods incorporate an evaluation of the municipality's current capacity. If municipal services are already operating near capacity, then a new project may require capital costs for additional infrastructure. New capital costs could mean new road or school construction. These marginal methods are often more detailed and require additional research and interviews.
Types of Fiscal Impact Analysis

Sub-Types of Average Costing

1. Per Capita
This method is often used for projects with residential land uses. Costs are based on average costs per person which are then multiplied by the expected number of new residents as a result of the project. This costing method is the most widely used, as the calculations are generally straightforward. This method does not take capacity of service providers into account. For example, using this method the costs to a school system would be calculated by using the metrics of the average number of children per household and the cost of educational services per child.

2. Service Standard
The service standard method utilizes public data from US Census of Governments for average manpower required per 1000 people for municipal service occupations. The method also uses an estimate of capital-to-expenditure ratios that measure required investments to operate municipal functions. The manpower ratio is a metric of salary, benefits, and equipment needed for each public employee. Data from the US Census of Governments may not be specific enough to the local region as the metrics could be from the state or national level. This method assumes that services are already close to capacity levels and thus will require additional personnel.

3. Proportional Valuation
This method is the most popular for non-residential land use projects. Under this analysis, the size of property as a relation to the municipality’s size is used to determine expenditures. This assumes a linear relationship between land and municipal costs that may not be accurate. For example, the cost to provide services can vary greatly depending on the specific location of a project, and its proximity to existing infrastructure. Data required for these calculations is usually easy to find and the analysis is simple to conduct.

Sub-Types of Marginal Costing

1. Case Study
The case study method is often the most detailed and thorough style of fiscal impact analysis. This method is effective for residential and non-residential land-uses. Researchers using this analysis
conduct interviews with local officials and experts to understand how the project will numerically impact the public sector. This method accounts for local capacity of municipal services. The case study technique can be time consuming and the costliest type of analysis. Researchers should exercise caution as there may be some biases from local officials that could distort numbers.

2. **Comparable City**
This method uses a comparable city or municipality with similar population and growth rate that has estimates on municipal expenditures for a similar development project. Using a comparable city can be helpful when there is no precedent in the local community for the proposed type of project. If quality data is already available then this type of analysis can be done relatively quickly and efficiently. This model assumes that results in one area will be similar to outcomes in another. In practice, this assumption may not be accurate.

3. **Employment Anticipation**
The final method is effective for non-residential land uses. The analysis develops a prediction of the number of new employees that will be added to the area and the economy. For example, a new industrial park is predicted to bring on 1,000 new employees. This value is then multiplied by per capita municipal service costs for each new employee. The employment anticipation method is a more detailed analysis than the proportional technique for non-residential land uses.

**Guidance**
The key to a fiscal impact analysis is that the output of the model is highly dependent on the inputs – particularly on the assumptions used to predict costs. For any entity that is preparing for a fiscal impact analysis the focus should be on accumulating the most accurate data. For each method, there is usually an ideal situation for which the method is best suited. The method used should depend on the land use(s) associated with the project and whether the capacity of municipal services needs to be considered. Also, the resources dedicated to the project should be considered. A case study method would likely be the most accurate analysis, but may not be feasible under budgetary constraints. In that case, a per capita method may be more suitable. Municipalities can best assist researchers by providing high quality metrics based on local conditions. Other important factors impacting the analysis that municipalities can provide guidance on are a) the lifespan of the project, and b) the discount rate to be used to estimate the present value of costs and revenues.

Fiscal impact analysis can help local governments to make fiscally sound land use decisions on a case-by-case basis. In addition, appreciating the value of fiscal impact analysis can lead governments to think more in terms of their long-term fiscal sustainability. Understanding the impact of various development projects on both operating budgets and capital expenditure needs (including debt financing for capital projects) will aid governments in seeing the entire picture of providing services and budgeting accordingly.