How Development Impacts the Community's Budget

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

What you will learn:

The financial considerations of development on your community's budget

Upfront vs future costs of development

The importance of planning now for future development

How to best prepare for and benefit from development in your community

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1919 West Stadium Boulevard, Suite 4
Ann Arbor, Michigan, 48103
734.913.2000 | www.planningmi.org
info@planningmi.org
Photo Credit: Anil Mohabir

In a perfect world, all forms of new development would spur investment, advance the goals of your community, and result in the growth of your local tax base. This growth would then generate increased tax revenue for the local unit of government, provide additional funds to cover governmental expenses, pay for that community project, and limit the need for increased tax collection from established residents and businesses.

While the above scenario can occur, it takes careful planning and foresight to achieve it. Both sides of the equation must be carefully considered and managed. Projecting tax revenues is one part of it, but understanding what that development will really cost your community long term is more difficult to determine.

Consider the Big Picture

The true costs of development, and the resulting impacts on the bottom line of a community's budget, may often be hidden or, at least, not immediately apparent. As businesses are established and new homes built, the physical infrastructure needs of a community increase. Roads may need to be extended, water, sanitary sewer and storm water systems may require additional investment, refuse and recycling collection increase, and softer infrastructure such as parks and recreation may need to expand in response to greater demand and use. Each of these services may require substantial up front capital investment. In addition, they usually carry long term financial obligations, which over time can substantially outpace the initial investment costs.

The first focus that communities rightfully turn their attention to is their ability to pay for those development costs immediately due - as development is about to take place. The construction of a road, the

State laws that may also apply:

Michigan Planning Enabling Act, Public Act 33 of 2008

Michigan Zoning Enabling Act, Public Act 110 of 2006

Home Rule City Act, Public Act 279 of 1909

Home Rule Village Act, Public Act 278 of 1909

General Law Village Act, Public Act 3 of 1895

Charter Township Act, Public Act 359 of 1947

Township Ordinances Act, Public Act 246 of 1945

Brownfield Redevelopment Financing Act, Public Act 381 of 1996

Recodified Tax Increment Financing Act, Public Act 57 of 2018

State Housing Development Authority Act, Public Act 346 of 1966

extension of utilities, or other hard infrastructure needs are examples of these direct costs. The immediacy of these demands force a community to carefully examine their ability to fund necessary improvements as approvals are considered. They may also force a community to work in partnership with the developer, determining who ultimately will bear such costs.

The argument can be made that developers should pay for the new infrastructure needs arising directly from their developments, such as roads, utilities, sidewalks and street lighting. Careful deliberation and decision making on the part of the local governing body is needed at this stage to ensure that the developer pays their fair share, and that the short-term burden of development costs is not shifted to the taxpayer. The expertise and advice of professional planners, engineers, legal counsel, and others can be invaluable to the governing body at this time in the process.

The financial impacts of development, however, do not end when construction is completed. Too often, consideration of a proposed development does not fully realize the long-term, ongoing costs that will follow. Roads, sidewalks, street lights, and utilities require both maintenance and periodic replacements. Parks often require weekly attention, equipment replacement and, in some cases, staffing to program them for efficient and fair use by your community. Additionally, new development increases the demand on what might already be strained services such as police, fire and ambulance. These ongoing costs often far exceed the initial establishment costs, and could over time impair the future operating budgets of a community.

Assessing the Costs of Development – Fiscal Impact Analysis

Fiscal impact studies, at their heart, are an objective way to measure whether or not a proposed development is paying its way. By projecting revenue that is anticipated to be generated by a development, and comparing that against all predicted costs to a community, local government leaders are provided with an estimated net impact on their budgets. Using this, communities may then objectively assess whether the revenues expected from new growth will be enough, or not, to cover the financial demands it places on the community.

As with any tool, Fiscal Impact Analysis is not right for all circumstances and it may not evaluate all impacts of new development on a community. For example, the multiplier effects of job creation may not be appropriately captured in such a study. Additionally, the non-fiscal impacts of development, such as the provision of affordable housing or the rehabilitation of a blighted property in a highly visible location, do not always lend themselves to this form of analysis. Local knowledge and priorities in such cases weigh in equally with any fiscal impact analysis. Simply put, sometimes the benefit is important enough to justify the cost - as long as that cost is known upfront.

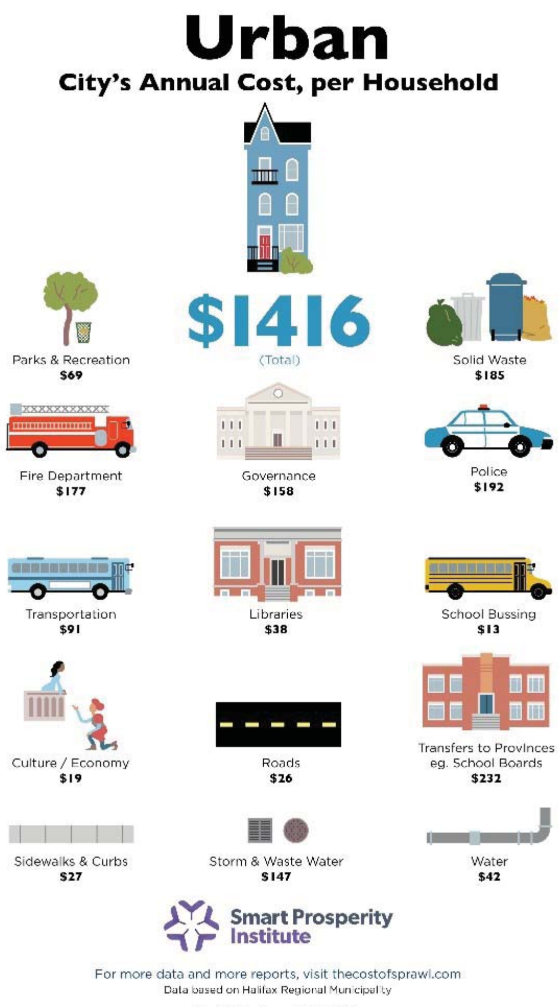
What is a Community to Do?

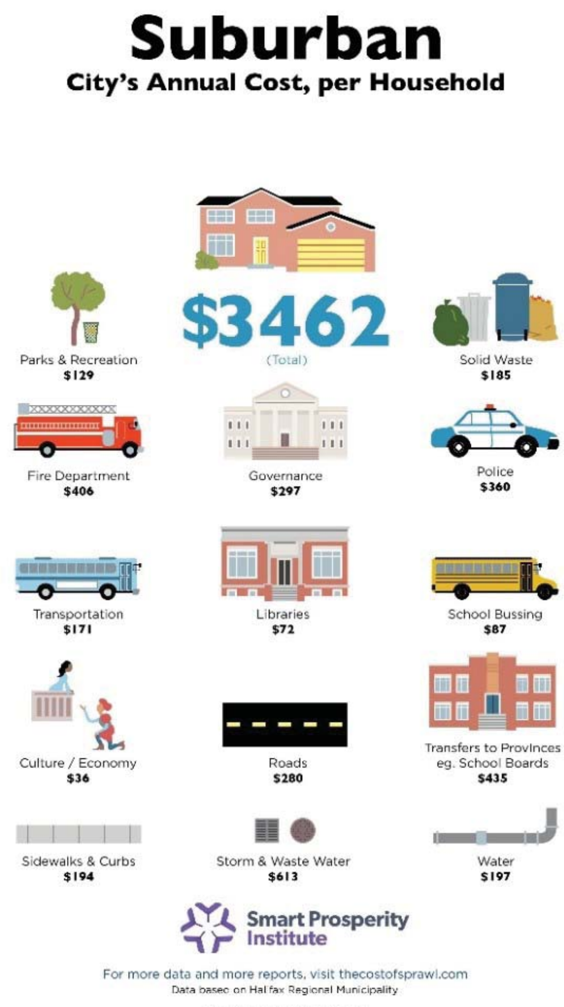
Consider the Costs of Sprawl

> "Many older sprawling subdivisions are now entering critical periods of infrastructure maintenance, at a time when governments are even less able to cope with these soaring costs. As energy prices rise, so to do operating and maintenance costs – placing even more stresses on financially strapped governments."
> --*The Unbearable Costs of Sprawl, Sprawl Retrofit Initiative*, The Congress for New Urbanism

There is increasing awareness that the historic spread out patterns of growth practiced in many communities cannot be sustained. We can see the problems of such growth patterns in our own daily lives, as we face longer commutes, witness available land being swallowed up in the name of growth and progress, and see valuable community resources such as farm land, open space and natural areas disappear. Financially, we are experiencing the strains on public facilities that are overburdened by high demand, inadequately maintained, and the pressures that result on community budgets. Utilizing existing infrastructure to their fullest capabilities and developing vacant or underutilized parcels in harmony with surrounding land uses, instead of new outward expansions past already developed areas, is required.

The high cost of sprawling development, and comparatively weak financial return for local government, is not a uniquely American phenomenon. The graphic below, prepared by our Canadian neighbors, provides an illustration of studies completed in Halifax but are applicable across Michigan and the United States:





Resources:

American Planning Association – Residential Infill Development

The Congress for New Urbanism, “The Unbearable Costs of Sprawl” by Sprawl Retrofit Initiative

Strongtowns, *When Apartment Dwellers Subsidize Suburban Homeowners* by Daniel Herriges

Michigan Economic Development Corporation, Community Development Programs

This is Smart Growth by the Smart Growth Network

Michigan Infrastructure Council

The Michigan Association of Planning offers a Capital Improvement Planning workshop as well as mini-workshops on a variety of topics including tax increment financing, housing, and asset management

Plan for Infill Development

According to the American Planning Association, “residential infill development refers to the development of new housing on vacant or underutilized land in previously developed areas. The term encompasses everything from a single new dwelling in an established neighborhood to multifamily residences in strategic locations to an entirely new residential neighborhood on a remnant or previously developed parcel. For built-out communities, residential infill is the only option to satisfy demand for additional housing. For communities with room to grow outward, residential infill represents an opportunity to use land, infrastructure, and services more efficiently.” The same principles apply for commercial or industrial uses.

Infill strategies often require cooperative partnerships to achieve success. Governmental bodies and developers are a start, but the involvement of the banking community, non-profit organizations and others are often necessary to reach desirable outcomes. The benefits achieved by building cost-effective, sustainable infill development will far exceed the alternative of continuing costs and financial obligations arising from sprawl development and the continued underutilization of other available public infrastructure.

Allow for Density in Appropriate Locations

“The dirty little secret which nearly every municipal government in America must grapple with is that single-family homes are usually a money loser from the local government’s point of view. Especially if they’re on larger lots in automobile-oriented neighborhoods, the services and infrastructure they demand will likely cost more, in the long run, than the tax revenue these properties bring in.”
-- Daniel Herriges, *When Apartment Dwellers Subsidize Suburban Homeowners*

This doesn’t mean that communities shouldn’t plan for and allow single family residential development. Single family dwellings are still a popular housing choice and there remains high demand in an active market for them. But communities must also plan appropriately for all forms of residential development, including duplexes, townhouse, stacked housing units, apartments, and mixed use districts. Denser residential housing will generate higher taxes per acre than single family dwellings. Accommodating a mix of new residential development in harmony with the character of your community and the goals of the master plan along with well-planned commercial, institutional and industrial land uses better utilize costly infrastructure, while also ensuring long term economic sustainability.

Proactively Plan

Deliberately undertaking long range planning allows a local unit of government to maximize its chances of realizing desirable forms of development. With broad community input and support, the development of a master plan enables communities to take control of their future and establish a clear vision for that future that includes a community's goals, objectives and aspirations. With that vision in hand, land use regulations such as zoning and economic development tools can be employed in a thoughtful, proactive way.

Utilize Incentives, Judiciously

A variety of incentive options are available to most local units of governments. Through programs such as tax increment financing, brownfields, payment–in-lieu-of-taxes, Smartzones and others, local units of government are afforded a wide variety of tools to help incentivize developers to invest in their communities.

Incentives, though, must be evaluated before using. It does little good to attract new development to your community if the economic benefits of that new development are only handed back to the developer through such incentives. Careful analysis can determine the effectiveness of one or more of these tools, as well as the best long term strategy for your community.

Explore Smart Growth Practices

"Smart growth" covers a range of development and conservation strategies that help protect our health and natural environment and make our communities more attractive, economically stronger, and more socially diverse.
--*United States Environmental Protection Agency*

Decisions made relative to development impact many aspects of people's lives, including local government budgets. What developments we permit, and how we permit them to happen, can have profound effects on the homes that people live in, the neighborhoods around them, the employment opportunities offered in their communities, and the taxes they will have to pay to maintain it all. Smart Growth principles are one approach to maximize the benefits of new development, and redevelopment, in our communities.

When communities choose to employ the principles and strategies of smart growth, and when public tax dollars are invested wisely, communities can get the best of both worlds – the development you want and the development you can afford.

Summary

Long thought of as beneficial to the future of our communities and to the budgets of local governments, largely unfettered development has far too frequently proven to be an attractive achievement in the short term, but fiscally draining over the long term if not thoughtfully planned and managed. Through financial incentives, developers have been enticed to build new housing, commercial storefronts and industrial facilities that bring with them the promise of economic progress, but too often delivered little to no lasting economic benefit to communities. Absent long term financial planning, many of these communities are now facing hardships associated with ongoing maintenance and replacements costs from developments built long ago.

Through thoughtful land use planning, measured use of financial incentives, redevelopment of vacant or underutilized land, and more robust utilization of existing infrastructure, new development can inject significant revenues into local government budgets. Increases in densities and reductions in long term infrastructure liabilities can maintain these economic benefits over many years, allowing communities to both plan and budget for necessary future expenditures. Rather than crumbling away under heavy financial hardships, communities and the infrastructure that supports them can be adequately maintained in a sustainable way.

This tear sheet was developed by the Michigan Associaion of Planning (MAP) for the Michigan Economic Development Corporation (MEDC). The Michigan Association of Planning is a 501 c 3 organization, dedicated to promoting sound community planning that benefits the residents of Michigan. MAP was established in 1945 to achieve a desired quality of life through comprehensive community planning that includes opportunities for a variety of lifestyles and housing, employment, commercial activities, and cultural and recreational amenities.

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