Local Government Financing Capacity and Impact Potential

Transportation Infrastructure Financing Options

Columbia, Missouri

Prepared for
City of Columbia, Missouri

November 2004

Development Strategies®
CONSULTANTS IN REAL ESTATE, ECONOMIC, AND COMMUNITY DEVELOPMENT
10 S. Broadway • St. Louis, Missouri 63102-1743 • (314) 421-2800

Table of Contents

1.0 Introduction 1

2.0 Historical Growth Trends 1

2.1 Population 1
2.2 Employment 3
2.3 Personal Income 4

3.0 Existing Tax Capacity Analysis 5

3.1 Sales Tax Revenues 6
3.2 Property Tax Revenues 9
3.3 Excise Tax Capacity Analysis 10

4.0 Effects on Community Growth and Development 15

1.0 Introduction

The City of Columbia is considering a complex strategy to support local public financing for the construction new streets and roads as the city continues to grow and to support maintenance and upgrades of existing streets and roads. The pace of population and related land use growth and expansion in Columbia has outstripped the city's ability to finance necessary transportation infrastructure improvements under current budgeting and available revenue sources.

This report first summarizes key growth measures to illustrate that, indeed, Columbia and Boone County experienced above average rates of expansion during the 1990s and may be continuing that trend as the sluggish national economy of the early 2000s picks up steam in the next several years. The analysis then shifts to a specific look at three major tax sources for local infrastructure financing to determine the "capacity" of the city to absorb possible tax increases. These sources are:

- The sales tax because one financing option is to increase the tax rate on the local capital improvements sales tax.
- The property tax because a possible tax rate increase for the city is under consideration.
- A new excise tax that would be imposed on new development in the city to accumulate funds that would be used for transportation improvements to support that new development.

Because the excise tax would be a refinement of the existing "developer charge" of ten cents per square foot of building area in Columbia, the report concludes with analysis of the impacts of such taxes (and their cousins, impact fees) on the amount and rate of growth in the community. Of concern, of course, is that the imposition of a one-time, front-end tax on new development might slow development because of the higher costs involved, thereby slowing the economic expansion of Columbia which is, in many other respects, a desirable goal.

2.0 Historical Growth Trends

2.1 Population

Boone County was the eighth most populated county in Missouri in 2002 with 139,300 residents. This was up only one place since 1970 (32 years) when Boone was the ninth largest county with 81,100 residents. The move up in rank was due to shrinkage in Buchanan County (St. Joseph), which slipped from 8th in 1970 to 12th in 2002.[1]

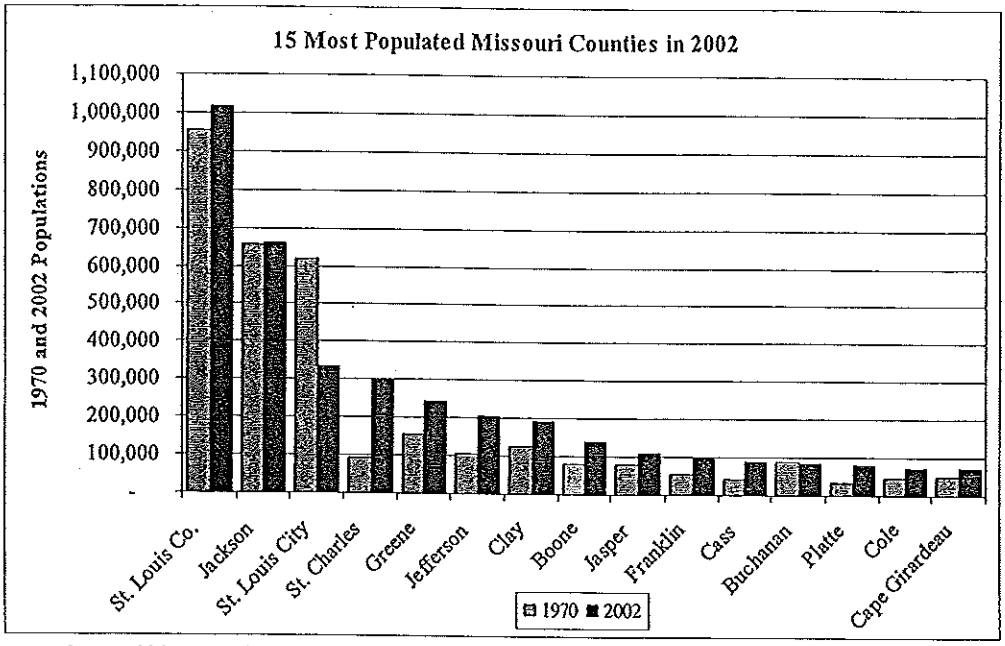
The largest county in the state is St. Louis County (just over a million people in 2002) followed by Jackson County (almost 660,000) and the City of St. Louis (an independent city with 336,000 residents in 2002).

Of the top 15 counties, only Buchanan County and St. Louis City lost population between 1970 and 2002. St. Louis lost almost half its 1970 population while Buchanan lost just 2.1%.

St. Charles County in the St. Louis metro area grew the fastest at 224% between 1970 and 2002. St.

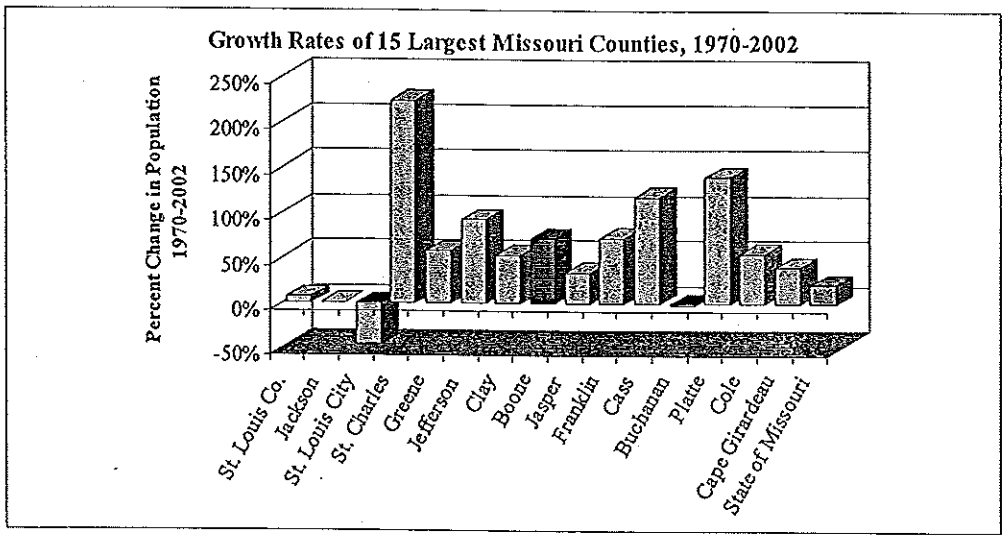
[1] Most of the information in this section on historic growth is based on data obtained from the *Regional Economic Information Systems (REIS)* of the U.S. Department of Commerce, Bureau of Economic Analysis. The present data base spans 1969 through 2002 but is a county system only. Thus, most of the following information focuses on Boone County as a whole. In 2002, by the way, Columbia made up 63.4% of the county's population, up from 61.2% in 1990.

Charles County had just over 303,000 residents in 2002, and increase of about 209,600 over the 32 years, increasing its rank from the 7th most populous county to 4th.



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, *Regional Economic Information System.*

Boone County's rate of population growth over those 32 years was 71.9%, more than three times the statewide average of 21.0%. Boone had the fifth fastest rate of increase among the 15 largest counties.



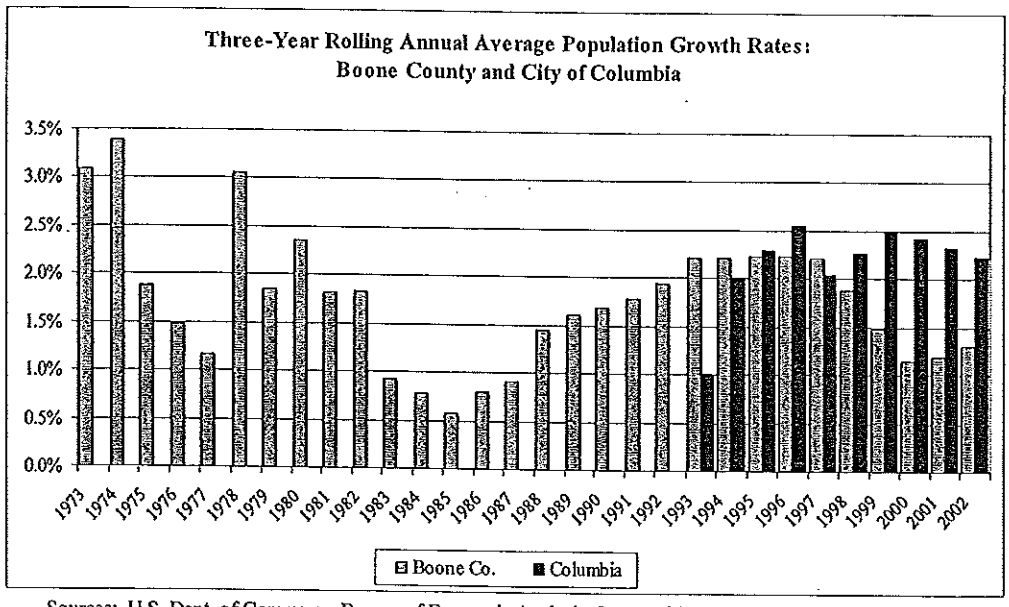
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, Regional Economic Information System.

As shown on the following graph, Boone County's population growth rate was somewhat erratic in the 1970s and early 1980s, but then began a steady increase in the rate of growth into the 1990s. The mid-

1990s experienced fairly steady annual average rates of growth, but these rates were much higher than in the previous decade and a half. In short, the county's population was increasing at an increasing rate and then at a relatively strong rate for several years.

While consistent data on Columbia's population does not go back as far as 1970, the city's rate of growth slightly lagged the overall county growth in the early 1990s, then exceeded the county. Since the late 1990s, the rate of growth for the county as a whole (which includes the city) has declined quite a bit, but the city's growth rate continues at a much higher level than the county.

This helps to explain the current pressures on financing of infrastructure to support this growth. The city's and the county's history had been one of slow growth for many years, but that rate slowly increased such that keeping up with the pace of population increases became progressively more difficult.

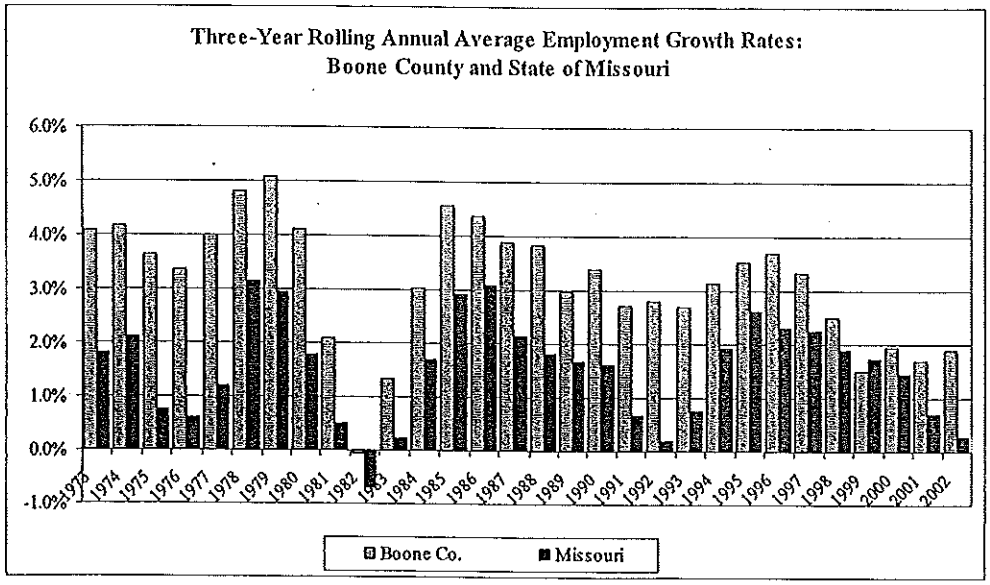


Sources: U.S. Dept. of Commerce, Bureau of Economic Analysis, *Regional Economic Information System.* and City of Columbia *1994-2003 Trends Manual* from the Department of Finance.

2.2 Employment

Another dimension of the pressure on infrastructure within the city and the county is the employment growth—that is, jobs located in the county. The next graph illustrates that the rate of job growth in Boone County exceeded that of the state in virtually every one of the past 30 years. Jobs in the county totaled 103,200 in 2002, up 62% from 1970, compared to a 58% growth in the state as a whole.

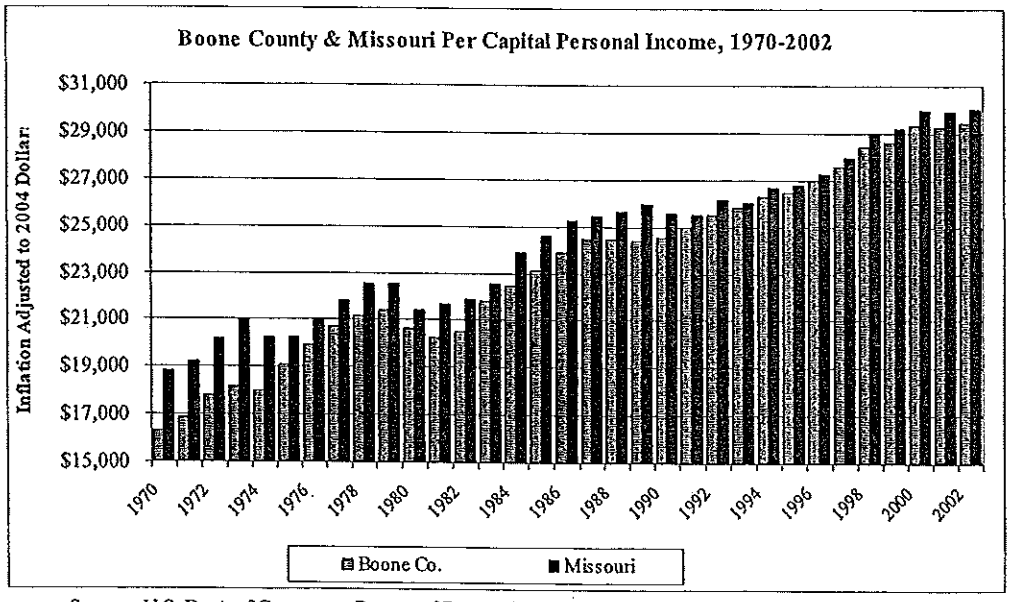
As a result, the ratio of jobs-to-population in Boone County increased from 0.49 in 1970 to 0.74 in 2000 while the ratio in the state increase from 0.47 in 1970 (almost the same as Boone County) to 0.61. Clearly, the county has become a much more important employment center, attracting a larger and larger workforce that lives outside the county. Thus, in addition to internal population pressures on the infrastructure, the county (and, by extension, the city) is having to cope with a great many non-resident workers.



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, *Regional Economic Information System.*

2.3 Personal Income

Meanwhile, real income also has been rising, as shown on the next graph. Real income is actual income adjusted for inflation and thus shows the change in buying power even after prices increase because of inflation. The graph shows constant 2004 dollars (i.e., all dollars are converted to 2004 values based on changes in the national Consumer Price Index, CPI-U).



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, Regional Economic Information System.

The actual dollar amounts on the graph are less important than two other factors:

(1) Average income in Boone County has long been slightly less than the state as a whole (though the mid-1990s showed quite a bit of equality), and

(2) real income has been rising quite steadily, thus increasing not only buying power but the tax base to afford a higher level of services.

Note that there are marked "dips" in the rate of change during recent national economic recessions: mid-1970s, early 1980s, and early 1990s. But the most recent recession of the early 2000s did not experience a dip so much as a leveling off.

Between population and employment growth and real personal income growth, the aggregate buying power and aggregate tax base of the county and the city have also been increasing. Affluence is stronger today than ever before. As the city and county consider alternative means for financing future infrastructure, it is well to keep in mind the historic changes that are putting more demand on existing infrastructure than ever before and the increased wealth that is present in the city and county.

3.0 Existing Tax Capacity Analysis

Separate analysis of the transportation infrastructure needs in Columbia over the next 25 years or so concludes that there are both current (i.e., existing) and future deficiencies in the road network and its quality to serve the Columbia area. To overcome these deficiencies, capital improvement costs have been projected and possible sources of additional financing to pay for these deficiencies have been identified. Key among those sources are three taxes discussed in this section:

1. The **city's capital improvements sales tax** which, today, is set at one-quarter percent of taxable retail sales taking place in the city (¼¢ per $1.00 of taxable sales). This tax is due to expire in late 2005 unless Columbia voters elect to extend it. Missouri state law enables communities to levy as much as a half-percent capital improvements sales tax (½¢) so, if Columbia voters elect to increase this tax, it could increase by as much as another ¼¢, but voters can also approve an option to increase by only another ⅛¢ to a total of ⅜¢. Or they can choose not to increase the tax at all—or even not to renew the tax.

2. The **city's portion of the property tax** which, today, is set at 41¢ per $100 of assessed valuation. The overall property tax is much larger (approximately $7.22 per $100 A.V. within much of the city where the city's library district is established) but the bulk of the proceeds are earmarked for other jurisdictions such as the library district and the school district. Voters can elect to increase the city government's share of the tax rate from the 41¢ to a sufficient level to support some or all of the transportation infrastructure deficiencies.

3. The **city's excise tax** which, today, is charged as a flat rate on all new development of ten cents (10¢) per square foot of floor area in new structures, residential or non-residential. This is a one-time only tax levied at the time of development. Under consideration is a change in the excise tax rate to a system focused entirely on raising money for capital improvements in the street network where the tax is based on the number of automobile trips generated by particular land uses during the afternoon peak travel hour. Again, it would be a one-time only charge. City voters can elect to change this tax to a level sufficient to support certain infrastructure improvements.

An overall goal of the Transportation Infrastructure Financing Options analysis is to determine how the added costs to pay for deficiencies might be apportioned among various sources, including these three taxes and other sources as identified separately. This report is directed only at the three taxes described above, however.

To inform the process of decision making toward possible changes in these three taxes, the "capacity" of Columbia tax payers to afford increased tax rates is addressed below. All three analyses compare the "burden" on Columbia residents' personal income to support an increase in taxes. That is, the analyses convert the tax revenue trends for all three sources in the City of Columbia (other taxing jurisdictions are excluded) into per capita measures and then are compared to per capita personal income. It is then pointed out whether the possible increase in tax rates would "burden" taxpayers at a rate that is consistent or not with trends in the past decade.

In general, increasing the capital improvements sales tax would raise the burden on local residents' incomes to a point above the historic average ratio of sales taxes per dollar of income. Likewise, increases in the city's share of the property tax would have a similar effect. These two major taxes—which make up 82% of all *tax* revenues in the city and some 55% of all city revenues—cannot be increased without raising them to per capita levels that are above recent averages.

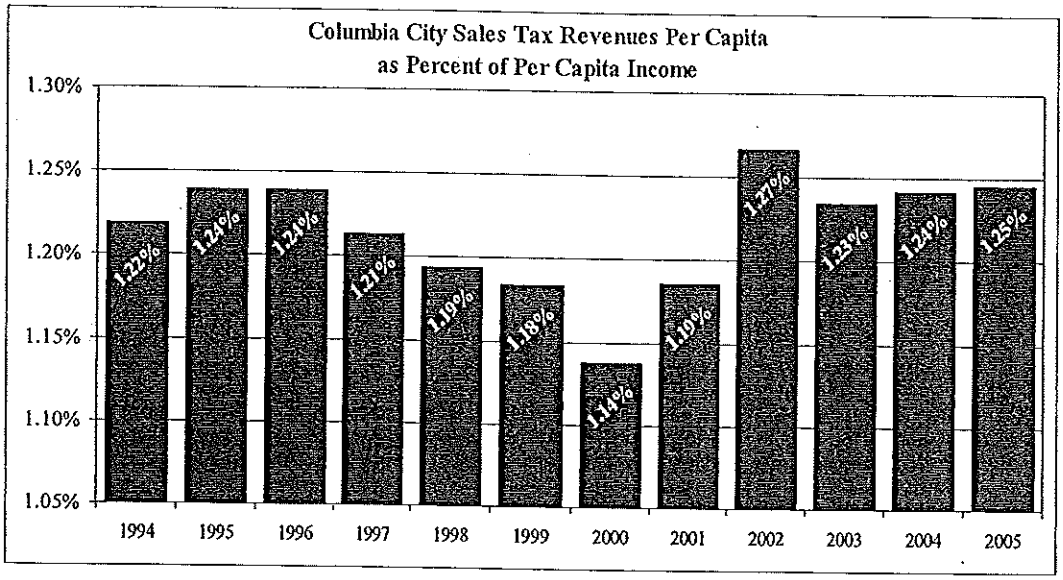
An expanded excise tax would not be a direct impact on residents' personal income but would have the effect of raising development costs higher than at present so that developers would attempt to raise prices or rents over current market averages in order to cover those added excise tax costs.

This is not to say that Columbians could not afford to pay more in local sales, property, and/or excise taxes. But doing so would effectively decrease their discretionary income (i.e., income after taxes) to below average proportions of their annual incomes.

For the analyses described on the following pages, tax and revenue data were obtained from the Columbia Finance Department. Personal income information was obtained from the U.S. Department of Commerce (Bureaus of the Census and Economic Analysis). Most dollar amounts discussed below are "nominal" figures, meaning they have not been adjusted for inflation. Those that were converted to "real" dollars were done so using the U.S. Department of Labor's Consumer Price Index (CPI). Development Strategies made adjustments and estimates to per capita income and the CPI for 2004 and 2005. DSI also estimated taxable retail sales based on review of the U.S. Department of Labor's *Consumer Expenditure Survey* (latest available is 2002) by comparing expenditures for various income categories to the 2000 Census breakdown of household income in Columbia. The Columbia Finance Department provided estimates of revenues for 2004 and projections for 2005.

3.1 Sales Tax Revenues

The city's Finance Department provided detail on sales tax revenues for the city (excluding other jurisdictions) for the time period of fiscal year (FY) 1994 through FY2005, which includes the current ¼¢ capital improvements sales tax. For FY 2003, sales tax revenues for the city commanded the equivalent of 1.23% of per capita income in the city, compared to an average between 1994 and 2003 of 1.22%--or slightly above average (see graph, below). FYs 2004 and 2005 are projected to attract an even higher percentage of personal income for sales tax revenues. Thus, it would appear that an increase in the local capital improvements sales tax would put a greater burden on the city's residents than what they have been accustomed to in the past.



Review of the U.S. Department of Labor's *Consumer Expenditure Survey* (latest available is for 2002) shows that about 30% of pre-tax income in communities with an income structure such as Columbia's goes toward taxable retail sales.[2] Per capita income in Columbia in 2003 is estimated to have been about $28,710, 30% of which is $8,610. At the city's present 2.0% sales tax rate (which includes the current ¼¢ capital improvements tax), each resident of Columbia would spend about $172 per year in sales taxes in the city. An added quarter cent sales tax on this amount would increase this amount to about $194 per year, or about $22.00 more than at present.[3]

If the added $22.00 is increased to reflect 2005 dollar values to reflect the projections of dollar value of transportation infrastructure deficiencies, the added sales tax "burden" per capita becomes $23.00. Applying this amount to the 2005 sales tax projections by the city would increase the percentage of per capita income supporting local sales tax revenues from 1.25% to 1.32%, above the average of the previous decade which was 1.22%.

While $23 per year would the expected added burden to the average a Columbia resident, the average sales tax revenue collections by the city currently average about $47 per person. The difference between the $23 and the $47 is almost certainly explained by two primary factors:

- It is estimated that at least 30 percent of sales taxes paid in Columbia are paid by non-residents, such as those living in the surrounding parts of Boone County or in other counties. With all the major college athletic events at the University of Missouri that attract fans from all over the state as an example, not to mention all the other conferences and conventions that take advantage of Columbia's central location, it is not difficult to understand how the local sales tax is so strongly supported by non-residents who visit the city when they buy taxable goods.

[2] This is an estimate by Development Strategies using retail line items in the Consumer Expenditure Survey.

[3] Indeed, the effect would technically not be this large because some retail sales tax dollars expended by Columbians is spent outside the city—in other counties, on vacations around the world, through Internet and catalog sales, etc. But the proportional analytical effects described here would be the same.

- Private businesses also pay sales taxes on a great many purchases. This "burden" is also not counted against the per capita costs of operating a household in the city.

The precise breakdown of "who pays the sales tax" in Columbia is unknown, but local residents—who are the local voters—would not be directly burdened for the entirety of the revenue potential from an increased capital improvements sales tax rate.

If an increased capital improvements sales tax is enacted in Columbia by the voters, the question arises, "How much of it would be paid by existing residents and how much by future new residents?"

- If the ¼¢ sales tax represents an additional $23 per person added to their cost of living, then the projected 2005 population of the city (90,967, according to the Columbia Department of Finance) would pay an additional $2,092,000 in sales taxes (90,967 residents x $23 per capita).
- Projections of growth assumed by the transportation planners for this study average 900 single family homes and 300 multifamily homes per year. Assuming a 2.5 percent vacancy rate for single family homes, a 5.0 percent vacancy rate for multifamily homes, 3.3 persons per household (pphh) for single family units, and 1.8 pphh for multifamily units, these projections would add an average of 3,400 new residents each year after 2005.
- At $23 per resident (in 2005 dollars), the newcomers would pay an added $78,000 in capital improvements sales taxes each year (3,400 x $23). But, of course, they will also be paying the existing ¼¢ capital improvements sales tax, so the "new" amount from the capital improvements sales tax would double (2 x ¼¢) to $156,000 in "new" money each year.
- In the first year of the larger tax, therefore, the city would collect, say, $2.1 million from residents who lived in the city the prior year and another $156,000 from newcomers. The newcomers, therefore, would contribute about 6.9 percent of *new* capital improvements sales tax revenues.
- The second year would double the amount of "new" taxes (to $312,000), because another 3,400 residents would have been added to the city, while "existing" taxes would remain the same ($2.1 million). In other words, the new people since the imposition of the tax would be contributing 12.9 percent of the capital improvements tax in the second year.
- In the third year, more newcomers would add another $156,000 to a total of $468,000, or about 18 percent of "new" money—again, while existing residents continue to generate $2.1 million per year). And so on as time passes.

This explanation, of course, excludes assumptions about non-resident and business tax payments. If they were to increase at the same rate as population, then the dollar amounts would be roughly double what are described above. And "new" dollars would show similar percentage improvements.

- But will population growth alone increase non-resident sales by the same amount? If, for example, a sellout at a Mizzou football game currently contributes strongly to these out of town tax revenues, adding more population will not increase the number of fans.
- Business taxes, however, might be expected to grow proportionally as employment and commercial activity accommodate the added labor force and buying power.

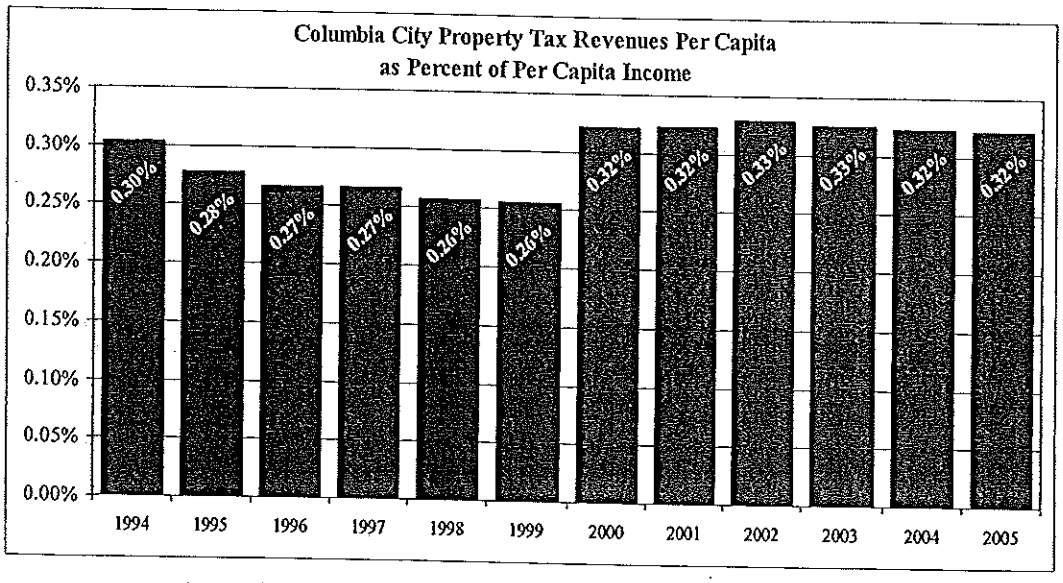
Moreover, these assumptions assume that the per capita sales within the city limits will remain constant. They may, in fact, go up or down significantly depending on demographic and housing changes within the current city limits.

The analysis of comparing sales tax revenues to per capita income over time is only accurate if the proportion between sales tax dollars paid by city residents and visitors remains constant. Over the past five years or so, the Columbia area has seen large stores like Walmart, Home Depot, and Lowes open in smaller communities surrounding Columbia, which undoubtedly slowed growth of tax revenues in the city as even Columbians shifted some of their spending to these big boxes. On the other hand, some of these "shifts" in spending might be made up with Columbia's recently exhibited ability to attract higher value stores that are opening within the city limits. The opening of the Bass Pro shop may also have a significant effect of attracting more sales tax dollars from non city residents.

In short, the assumptions used here—such as the $23 and $47 per capita averages—should be considered by policy makers as guides to future fiscal planning, not as firm constants. Columbia will need to make every effort to remain competitive in the retail sector to assure at least constancy, if not net tax revenue growth.

3.2 Property Tax Revenues

The previous two measures suggest that adding to the sales tax burden of Columbians would require that above average amounts of local income would have to be devoted to sales taxes. To increase prospective street and road funds, therefore, perhaps the property tax might be called on to absorb some of the necessary taxation.



In 2003, the city's property tax revenues[4] commanded some 0.33% of local per capita income. While property taxes are not necessarily as closely associated with income as sales taxes, income is still a good proxy for the ability of residents to pay such taxes. In this case, the 0.33% in 2003 was above the 1994-2003 average of 0.30%. Indeed, the city is projecting that property tax revenues as a portion of personal income will decrease only slightly in 2004 and 2005 to 0.32% each year—still above the 1994-2005 average which is also 0.30%.

This measure suggests that shifting some of the sales tax increase proposal to property taxes would also

[4] This excludes all other taxes by relevant taxing jurisdictions such as the county or the school district. But it includes the public library property taxes for the area of the city within the 1965 city limits which define the library district to this day.

burden local residents in ways they have not generally experienced in the past.

3.3 Excise Tax Capacity Analysis

Columbia officials are considering an excise tax for new development to help raise funds for transportation improvements that are needed to support this new development. The excise tax would, effectively, be charged to land developers when they obtain building permits. The exact amount of the tax would be based on a formula for the number of vehicular trips that are generated at the afternoon peak hour by that particular kind of land use.

The easiest means for understanding and comparing excise taxes is to consider the impact on the street system of new single family detached homes. The formula for determining excise taxes for single family homes indicates that they generate 1.01 vehicular trips during the peak time frame. Thus, for all intents and purposes, an excise tax of a certain dollar amount *per trip* means that single family homes effectively represent the "per trip" basis. Other land uses would have taxes based also on a per trip measure, but comparisons with other communities is made simpler by referring to growth in single family homes, not numbers of trips. The following analysis, therefore, focuses on single family home comparisons.

A national database of a sample of impact fees and excise taxes was obtained from the National Association of Realtors (NAR) for 130 cities in 25 states. The database includes fees and taxes for a wide range of public works including streets, schools, libraries, sewers, and the like. This analysis dealt only with the total amounts, however. Development Strategies added a few selected Census 2000 data items to the database in order to conduct some statistical analysis, described below. The cities, their total taxes/fees, and the Census data are shown on the table following this analysis.

Most of the cities tend to be relatively small and are located in outer suburban areas where most metropolitan growth takes place and where the pressures for added infrastructure are greatest. The data are utilized in this study are for the lowest fees charged per single family dwelling unit. While provided by the NAR, there were too few "high" numbers, so this analysis is based on the lowest fees charged—for which every city on the list has an entry. The average nationwide is $3,860 per single family unit.

At issue is whether Columbia might reasonably charge an excise tax of some amount and how this amount relates to, say, the value of housing. To evaluate that issue, the relative growth pressures for each city were estimated using a ratio of median housing value to median household income (using 2000 Census data). The reasoning is that a high value-to-income ratio indicates a community with relatively higher demand for housing and, therefore, higher pressure on growth and the need for infrastructure. The average ratio for the 130 cities is 3.30, while the ratio for Columbia is above average at 3.51, slightly above the national average. This suggests that the excise tax for Columbia could also be set above average, or at least as high as the average of all 130 cities.

Since the basis of the data is single family homes, the next analysis was to compare an index of the ratio between the data on excise taxes and impact fees charged to the median value of housing (again using the 2000 Census). A higher index means that the tax/fee charged is a higher proportion of housing value. The average index is 2.57. If Columbia set its ratio also at 2.57, the excise tax would come out at about $3,000. This is not quite the average of all cities, but certainly approaches it.

In short, Columbia's growth rate is slightly above average for cities charging excise taxes and impact fees. Thus, Columbia is a good candidate for considering and adopting an excise tax so that its street construction and maintenance can keep better pace with the rate of growth. The above analysis suggests that a reasonable excise tax is likely to be in the range of $3,000 to $3,800 per single family unit. While

the tax can certainly be set higher if political will allows, this range keeps Columbia well within the range of communities with similar housing value and growth rate characteristics.

As a point of information, almost all excise taxes (and their related development exactions) are attempted to be passed on to the ultimate home buyer (or commercial tenant, etc.) in the form of higher prices. Thus, the homebuyer, as an example, will likely include that amount in the borrowed funds for a mortgage, effectively spreading the cost of the tax over the life of the mortgage loan. This would add about $20 per month ($240 per year) to a mortgage that borrows $150,000 for 30 years at a seven percent interest rate.

Adding, say, a $3,000 excise tax to the cost of developing new homes in Columbia will, other things being equal, add $3,000 to price that a homebuilder needs to receive in order to recover costs. In the specific case of Columbia and Boone County, could this cause builders to prefer unincorporated areas to the city?

An approach to that answer is complicated, but must deal with the differentials in marginal costs to develop in the city vs. the county. Assuming all normal construction costs are the same (materials, labor, etc.), discussions with county planners suggests that, at present, it is perhaps a few hundred dollars per home cheaper to building in Columbia rather than in unincorporated areas. This difference has to do with variations in hookup fees for sewers and water and the like.

But there can be many added costs external to the home in unincorporated areas that are not reflected in the city. For instance, homes annexed into the city would be on the public sewer line. But unincorporated developers and builders are as likely to have to create their own sewer treatment systems, thus adding to the overall cost per home. On the other hand, developers suggest that improvements in technology for sewer treatment are pushing these costs lower per unit, so the added burden is decreasing over time.

Discussions with planners and developers reveal, primarily, that there is no clear consensus on the differential costs of building in one location or another. The county would prefer that most new development be included inside the city limits through annexation. This keeps the county from having to raise and devote resources to, say, manage subdivision regulations, leaving this task instead to municipal officials. Thus, close cooperation between city and county officials in the implementation of an excise tax can help to assure that the county encourages city growth and, thus, the collection of the tax to fund road improvements.

While the research literature on the topic of development exactions finds little evidence that growth is slowed because of those exactions, this doesn't exclude marginal effects. Almost certainly, based on economic theory, there will be potential homebuyers for whom the added tax/cost will prevent them from making the purchase (all other factors assumed to be equal) and there will be developers in unincorporated areas who will exploit the fact that the county does not impose such a tax in order to lure buyers to presumably less expensive housing. Available evidence to date, however, suggests that this "border differential" has been inadequately documented to draw specific conclusions about the amount of marginal effect on growth or the ability of certain households to purchase a property.

NATIONAL DATABASE OF CITIES IMPOSING EXCISE TAXES OR IMPACT FEES							
Sources: National Association of Realtors, 2003 for impact fee information. U.S. Census 2000 for population and housing information.							
State	Place	Sum of Fees and Taxes*	Population	Median Housing Value	Median Household Income	Median HH Income to Median Housing Value	INDEX of Median Housing Value to Total Tax/Fee
MO	Columbia		84,780	$118,500	$33,729		
MO	Boone County		135,454	$107,400	$37,485		
AZ	**Apache Junction**	$2,321	31,281	$98,400	$33,170	2.97	2.36
AZ	**Avondale**	$4,045	35,802	$129,200	$49,153	2.63	3.13
AZ	**Fountain Hills**	$10,369	20,199	$217,200	$61,619	3.52	4.77
AZ	**Gilbert**	$7,028	109,936	$157,300	$68,032	2.31	4.47
AZ	**Mesa**	$2,914	397,215	$122,100	$42,817	2.85	2.39
AZ	**Oro Valley**	$4,082	29,662	$177,400	$61,037	2.91	2.30
AZ	**Sedona**	$7,683	10,178	$253,700	$44,042	5.76	3.03
CA	Bakersfield	$4,914	247,385	$106,500	$39,982	2.66	4.61
CA	Calimesa	$3,303	7,371	$131,900	$37,849	3.48	2.50
CA	Ceres	$5,697	34,534	$119,900	$40,736	2.94	4.75
CA	Coronado	$2	24,226	$683,400	$66,544	10.27	
CA	El Centro	$2,154	37,801	$104,300	$33,161	3.15	2.07
CA	Escondido	$13,966	133,528	$192,600	$42,567	4.52	7.25
CA	Folsom	$13,147	51,912	$228,700	$73,175	3.13	5.75
CA	Garden Grove	$2,745	165,710	$199,700	$47,754	4.18	1.37
CA	Hesperia	$1,737	62,578	$95,900	$40,201	2.39	1.81
CA	Lemoore	$5,608	19,524	$110,900	$40,314	2.75	5.06
CA	Montclair	$2	33,119	$135,700	$40,797	3.33	
CA	Pismo Beach	$8,239	8,537	$313,100	$46,396	6.75	2.63
CA	Rancho Sta Margarita	$1,560	47,718	$280,700	$78,475	3.58	0.56
CA	Santa Maria	$7,809	77,113	$145,600	$36,541	3.98	5.36
CA	Signal Hill	$25,993	9,273	$202,600	$48,938	4.14	12.83
CA	Susanville	$840	13,574	$103,800	$35,675	2.91	0.81
CA	Truckee	$1,901	13,967	$247,800	$58,848	4.21	0.77
CA	Turlock	$3,147	55,488	$128,300	$39,050	3.29	2.45
CA	Upland	$7,902	68,427	$211,000	$48,734	4.33	3.75
CA	Victorville	$2,343	64,516	$98,700	$36,187	2.73	2.37
CA	Yucaipa	$14,179	41,299	$140,000	$39,144	3.58	10.13
CO	**Boulder**	$10,063	94,510	$304,700	$44,748	6.81	3.30
CO	**Breckenridge**	$3,200	2,366	$580,100	$43,938	13.20	0.55
CO	**Brighton**	$10,907	20,882	$146,500	$46,779	3.13	7.45
CO	**Colorado Springs**	$5,152	360,798	$147,100	$45,081	3.26	3.50
CO	**Grand Junction**	$725	42,225	$121,500	$33,152	3.66	0.60
CO	**Littleton**	$4,731	40,416	$192,200	$50,583	3.80	2.46
CO	**Longmont**	$14,250	71,303	$177,900	$51,174	3.48	8.01
CO	**Westminster**	$2,338	101,197	$170,400	$56,323	3.03	1.37
CO	**Windsor**	$11,587	10,138	$158,600	$54,976	2.88	7.31

Local Government Financing Capacity and Impact Potential

DE	Lewes	$1,750	2,902	$241,500	$48,707	4.96	0.72
FL	**Aventura**	$1,555	25,267	$225,900	$44,526	5.07	0.69
FL	**Cape Coral**	$4,137	102,206	$110,800	$43,410	2.55	3.73
FL	**Clearwater**	$3,212	107,925	$100,500	$36,494	2.75	3.20
FL	**Deltona**	$569	69,818	$82,200	$39,736	2.07	0.69
FL	**Green Cove Springs**	$1,387	5,534	$76,000	$33,487	2.27	1.82
FL	**Lakeland**	$2,639	78,162	$81,100	$33,119	2.45	3.25
FL	**Melbourne**	$3,658	71,371	$85,400	$34,571	2.47	4.28
FL	**Mount Dora**	$6,523	9,422	$110,700	$36,086	3.07	5.89
FL	**Ocala**	$1,359	45,622	$77,600	$30,888	2.51	1.75
FL	**Port St. Lucie**	$3,463	88,796	$88,700	$40,509	2.19	3.90
FL	**Royal Palm Beach**	$1,121	21,564	$114,900	$54,766	2.10	0.98
FL	**Tampa**	$2,445	303,512	$81,500	$34,415	2.37	3.00
FL	**Wellington**	$1,743	38,036	$164,800	$70,271	2.35	1.06
GA	Acworth	$500	13,494	$128,100	$50,918	2.52	0.39
GA	Hinesville	$1,000	30,534	$77,700	$35,013	2.22	1.29
GA	Peachtree	$1,193	31,896	$190,900	$76,458	2.50	0.62
GA	Roswell	$1,937	79,844	$207,700	$71,726	2.90	0.93
GA	Tyrone	$1,075	3,865	$149,500	$63,080	2.37	0.72
ID	**Jerome**	$6,900	7,634	$70,100	$30,074	2.33	9.84
ID	**McCall**	$7,315	2,175	$151,300	$36,250	4.17	4.83
ID	**Meridian**	$529	34,858	$121,200	$53,276	2.27	0.44
ID	**Mountain Home**	$2,441	11,458	$91,400	$37,307	2.45	2.67
ID	**Sandpoint**	$372	6,913	$111,100	$32,461	3.42	0.33
IL	Carpentersville	$2,365	30,287	$116,300	$54,526	2.13	2.03
IN	**Fishers**	$3,817	38,937	$161,500	$75,638	2.14	2.36
KS	Tonganoxie	$1,500	2,759	$93,700	$44,278	2.12	1.60
KS	Wichita	$1,440	343,997	$78,900	$39,939	1.98	1.83
ME	**Saco**	$2,465	16,822	$119,800	$45,105	2.66	2.06
MD	Centreville	$2,335	1,925	$123,800	$41,100	3.01	1.89
NV	**Sparks**	$2,897	66,532	$143,700	$45,745	3.14	2.02
NH	Bedford	$6,709	18,274	$218,300	$84,392	2.59	3.07
NH	Manchester	$1,822	107,006	$114,300	$40,774	2.80	1.59
NH	Bow	$7,683	7,138	$169,400	$79,329	2.14	4.54
NH	Windham	$2,500	10,709	$230,100	$94,794	2.43	1.09
NC	**Carrboro**	$4,407	16,704	$172,800	$33,527	5.15	2.55
OH	Lebanon	$4,290	16,848	$129,900	$46,856	2.77	3.30
OH	Oxford	$20	22,087	$139,400	$25,164	5.54	0.01
OH	Sidney	$580	20,264	$87,600	$38,663	2.27	0.66
OK	**Norman**	$850	95,693	$95,400	$36,713	2.60	0.89
OK	**Stillwater**	$493	38,968	$96,700	$25,432	3.80	0.51
OR	Cottage Grove	$864	8,537	$113,500	$30,442	3.73	0.76
OR	Fairview	$4,919	7,666	$184,900	$40,931	4.52	2.66
OR	Hermiston	$907	13,417	$99,700	$35,354	2.82	0.91
OR	Irrigon	$4,572	1,693	$87,100	$35,799	2.43	5.25
OR	Klamath Falls	$3,078	19,335	$86,600	$28,498	3.04	3.55
OR	La Grande	$525	12,253	$91,700	$31,576	2.90	0.57
OR	Molalla	$8,347	5,543	$146,900	$42,672	3.44	5.68
OR	Newberg	$4,280	18,113	$141,500	$44,206	3.20	3.02
OR	Redmond	$3,369	13,815	$111,800	$33,701	3.32	3.01

Local Government Financing Capacity and Impact Potential

OR	Salem	$6,478	136,694	$131,100	$38,881	3.37	4.94
OR	Tangent	$1,461	917	$153,000	$44,231	3.46	0.96
OR	Tigard	$8,280	41,261	$188,600	$51,581	3.66	4.39
OR	Veneta	$5,552	2,529	$128,200	$37,326	3.43	4.33
OR	Wilsonville	$10,237	13,905	$227,900	$52,515	4.34	4.49
RI	East Greenwich	$8,178	12,948	$244,900	$70,063	3.50	3.34
TN	White House	$1,245	7,241	$116,100	$51,649	2.25	1.07
TX	Boerne	$2,637	6,108	$114,500	$42,009	2.73	2.30
TX	Carrollton	$684	109,215	$125,900	$62,406	2.02	0.54
TX	Cibolo	$1,227	3,169	$127,400	$53,780	2.37	0.96
TX	Colleyville	$6,956	19,574	$267,100	$117,419	2.27	2.60
TX	McKinney	$1,700	54,384	$148,100	$63,366	2.34	1.15
TX	Marble Falls	$468	4,972	$84,600	$30,880	2.74	0.55
TX	Pflugerville	$1,684	16,366	$134,900	$71,985	1.87	1.25
TX	Plano	$1,708	222,301	$162,300	$78,722	2.06	1.05
TX	Saginaw	$1,838	12,397	$85,000	$55,549	1.53	2.16
UT	Holladay	$450	14,551	$273,100	$66,468	4.11	0.16
VT	Richmond	$980	4,090	$136,000	$57,750	2.35	0.72
VT	Shelburne	$1,658	6,944	$184,600	$68,091	2.71	0.90
VT	Burlington	$1,956	38,889	$131,200	$33,070	3.97	1.49
WA	Bainbridge	$4,390	20,308	$335,000	$70,110	4.78	1.31
WA	Carnation	$1,378	1,905	$198,400	$60,156	3.30	0.69
WA	Duvall	$6,435	4,647	$252,200	$71,300	3.54	2.55
WA	Federal Way	$2,710	83,233	$171,700	$49,278	3.48	1.58
WA	George	$2,530	510	$85,000	$21,181	4.01	2.98
WA	Gig Harbor	$10,437	6,593	$215,400	$43,456	4.96	4.85
WA	Kenmore	$3,308	18,540	$246,000	$61,756	3.98	1.34
WA	Kirkland	$1,578	44,986	$283,100	$60,332	4.69	0.56
WA	Lynden	$4,460	9,093	$157,400	$42,767	3.68	2.83
WA	Milton	$2,134	5,831	$161,100	$48,166	3.34	1.32
WA	Mount Vernon	$6,586	26,297	$142,000	$37,999	3.74	4.64
WA	North Bend	$1,571	4,893	$273,400	$61,534	4.44	0.57
WA	Pasco	$565	31,976	$93,000	$34,540	2.69	0.61
WA	Sedro-Woolley	$5,715	8,698	$123,400	$37,914	3.25	4.63
WA	Snohomish	$4,687	8,454	$179,500	$46,396	3.87	2.61
WI	Cedarburg	$2,282	10,775	$179,900	$56,431	3.19	1.27
WI	Cottage Grove	$1,490	3,962	$163,600	$66,628	2.46	0.91
WI	De Pere	$350	20,545	$122,100	$50,282	2.43	0.29
WI	Franklin	$983	29,556	$156,400	$64,315	2.43	0.63
WI	Grafton	$10,000	10,319	$145,800	$53,918	2.70	6.86
WI	Mayville	$200	4,891	$102,100	$42,393	2.41	0.20
WI	New Berlin	$493	38,362	$162,100	$67,576	2.40	0.30
WI	Oak Creek	$571	28,456	$139,100	$53,779	2.59	0.41
WI	Waunakee	$939	8,975	$175,300	$59,225	2.96	0.54

* Includes fees and taxes for streets, libraries, schools, parks, sewers, and other public works.

4.0 Effects on Community Growth and Development

Of concern to many communities that consider excise taxes or impact fees is the potential for such "added

costs" of development to discourage or slow down the growth process. This section summarizes a selection of professional literature that addresses that question. The crucial conclusion is that, in fact, excise taxes or impact fees (terms frequently lumped into "development exactions" in the literature when addressing this question) range from having a neutral effect to actually encouraging growth.

1. Downing, Paul and McCaleb, Thomas. "Chapter 3: The Economics of Development Exactions." Development Exactions. Ed. James E. Frank and Robert M. Rhodes. Chicago: American Planning Associations, 1987. 42-69.

   The authors of this chapter address the economics of development fees, believing that extractions, or fees, provide an adequate means for addressing the costs of new development when the level of the funding is equal to the actual cost which the growth imposes on the community. The authors believe, however, that existing formulas used to calculate the cost of growth do not properly meet the criteria for economic efficiency. In essence, the analysis suggests that most exactions are under-priced in terms of the added public costs that development causes.

   "To the extent that exactions reflect the true costs imposed by new development on the community, we treat them as prices to be paid for the public services provided to the new development rather than as prices paid for the right to develop." (43).

   "Based only on the estimates of density costs, property value differentials would have to be quite large for the additional tax revenues to cover the full costs without increasing tax rates. Furthermore, the adoption of use valuation for property taxes impedes the operation of the prepayment mechanism. On balance then, the property taxes paid by new development are unlikely to be sufficient to cover the cost of the public services provided." (50).

2. American Planning Association: Policy Guide on Impact Fees. Ratified by Board of Directors, Cincinnati, Ohio, October 1988. Revised and updated, San Diego, California, April 1997. Ratified by Board of Directors, San Diego, California, April 1997.

   The APA Board found that exactions do not appear to slow development but are necessary measures, in part, to meet the growing infrastructure needs of growing communities because of declines in revenue sharing programs from states and the federal government. Moreover, local governments seem to be using development exactions as a way to forestall increases in the general property tax—thus shifting more of the burden of new development onto that new development rather than spreading it over the entire community.

   "There has been little to demonstrate that the imposition of a fee system has stifled development. The fees supplement local government resources that otherwise have decreased because of diminished state and federal transfers of funds. Local governments have also used impact fees to delay, or as a substitute for, general property tax increases." (Findings, 1).

   The APA goes on to insist that local governments rely on a variety of tools to manage their growth, and that such tools as impact fees are but one approach. In this case, the APA also warns communities not to use such fees to stop growth—presumably by setting them so high that development could not afford to take place at all. Development Strategies found no evidence of this practice in other literature research.

"It is important that communities rely on zoning and other land use regulations, consistent with a comprehensive plan, to influence patterns of growth and to more accurately predict new infrastructure needs. However, in areas facing development moratoria because of lack of adequate public facilities, impact fees may be viewed not as growth stopping measures, but rather as growth facilitators. Impact fees should not be considered a panacea for funding of general capital improvements, nor should they be used to 'stop growth'. They can do neither." (Findings, 1)

Finally, of note is APA's recognition that impact fees cannot be used for maintenance and repair, just as Columbia concludes. Instead, they are useful in raising funds to pay for new infrastructure which, when incorporated into the existing infrastructure, then becomes part of the larger community tax base.

"...Since impact fees cannot be used to cover the staggering costs of maintaining and repairing the existing infrastructure, they can augment resources available or new infrastructure necessary to accommodate new growth, for which general revenue funding must be made available." (Policy 2, 2).

3. Nelson, Arthur and Moody, Mitch. Paying for Prosperity: Impact Fees and Job Growth. The Brookings Institution Center on Urban and Metropolitan Policy: Washington D.C., 2003.

The authors limit their definition of economic development to job growth and then proceed to describe research conducted to ascertain the link between impact fees and job growth, using Florida impact fees as the primary data source. The authors conclude that job growth is not negatively affected by impact fees and that the presence of impact fees actually makes it more possible for local governments to prepare infrastructure to attract and produce growth and to generate jobs.

"Academic literature suggests that the aggregate benefits of impact fees improve efficiency in the provision of infrastructure." (vi).

"While impact fees often do not reflect the full price of infrastructure improvements, fees do make the economic linkage between those paying for and those receiving benefits more direct, and so promote economic efficiency." (iv).

"In the absence of impacts fees, local governments may not have the revenue to accommodate growth. With impact fees, they gain necessary infrastructure—water, sewer, drainage, and road facilities—to open new parcels of land development." (vii).

"Impact fees do not slow job growth. In this study, we find, at minimum, that impact fees are not a drag on local economies. At most, impact fees are the grease that helps sustain job growth in the local economy." (vii).

"In practice, impact fees bridge the gap between the cost of new municipal infrastructure and available funds." (1).

"The fundamental purpose of impact fees is to generate revenue to build infrastructure serving new development... In the absence of impact fees, local governments may have difficulty raising the revenues necessary to accommodate growth, in terms of paying for new and costly

infrastructure." (7).

"From an economic development perspective, the availability of key infrastructure such as water, sewer, drainage, and roads to make land buildable is perhaps the important ingredient to increasing the supply of the land commensurate with development pressures." (7).

"...impact fees appeared to reduce the uncertainty and risk of development and are often used to leverage the use of other non-impact fee funds to expand infrastructure." (7).

"Our statistical analyses find a significant positive association between impact fees collected per building permit in one year and job growth over the next two years."

"...impact fees spent on infrastructure development are not a drag on local economies with respect to job growth but, instead can be beneficial to them. A conservative interpretation would at least claim that no discernable adverse economic impacts from impact fees could be found. A liberal interpretation of these model results would argue that the imposition of impact fees typically results in positive effects on local employment..." (15).

"Indeed, impact fees may be needed to sustain growth particularly if the alternative is an inability to expand infrastructure to meet the needs of new development." (15).

4. Theis, Joel R., and Giardina, Richard D. "Impact Fees: A Vote of Confidence for Economic Growth?" Published by Rick Giardina & Associates, Inc.

   This essay seeks to examine the effect that impact fees have on growth in America's best performing cities. They conclude that the reports' findings are reasonable. The authors use data points from both reports to show that, in those cities where impact fees are in place, growth is not hindered.

   "...Impact fees are a widely used infrastructure funding source that has been opposed by developers as a deterrent to economic growth."

   "Although there are many who oppose impact fees under the premise that they limit or restrict growth and economic development, there is little empirical or quantitative evidence to support this conclusion. In fact, there is some evidence that impact fees can act as a precursor or impetus to growth, especially if implemented appropriately and with careful consideration of their application."

   "In summary, with careful planning, impact fees can provide the funding source to maintain service levels in a growing community. As such, they can represent an affordable one-time entrance fee into a highly desirable place in which to live and conduct business... In this way, instead of being viewed as a deterrent to growth, impact fees may actually support growth."