The Intersection Between Planning and the Municipal Budget

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Lincoln Institute of Land Policy
Working Paper

Lincoln Institute Product Code: WP07JH4

Abstract

The *Fiscal Dimensions of Planning* effort sponsored by the Lincoln Institute of Land Policy is intended to help practicing planners and students of planning understand the fiscal context and consequences of planning activities. To partially address this goal, a series of papers has been developed addressing several key fiscal concepts or tools that can be used to increase understanding by practicing planners or students of planning. This Working Paper is the first in the series of papers developed for the *Fiscal Dimensions of Planning* effort. The paper discusses how the practice of planning intersects with local government budgets using a conceptual framework of how various planning activities interact or affect local government budgets. The purpose of this framework is to illustrate the mind-set needed by planners as they go about their daily business of planning. This is followed by a more detailed discussion of the various activities undertaken by planers and a descriptive analysis of how these activities affect the local government budget. The paper concludes with a discussion of several special topics that need to be understood by planners as they attempt to incorporate the fiscal side of planning into their work, and, an overview of the broader *Fiscal Dimensions of Planning* effort.

About the Author

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I. Introduction and Overview

Planners today have a wide array of responsibilities that will ultimately shape the future of cities and regions for decades into the future. While some planning activities such as zoning administration seem mundane in comparison to more exotic planning activities such as economic development or downtown revitalization, the total bundle of activities undertaken by planners on a daily basis determine, at least in part, the way citizens live their lives, the way commerce conducts its business, and the way resources are utilized and enjoyed.

The practice of planning is often defined by what planners do. If this is so, then planning can generally be described as: plan making (both short- and long-term), managing development, management of natural resources and environmental protection, development and management of the transportation system, housing and community development, economic development, and provision of needed social and community services[1]. For most planners the technical requirements of the process or functional area in which they work can dominate their time and thinking. For example, the technical requirements of putting together a regional transportation plan can be challenging. Traffic flows need to match system requirements and multi-modal alternatives need to be considered. Each area or planning process has its own set of technical information to be understood and incorporated.

In many cases, planning activities also have a financial dimension that is not as well understood by planners. Activities undertaken by planners can affect in significant ways the revenues and expenditures of various local governments.

An extreme example can illustrate this point. Planners in one mid-western city were concerned about the decline of their downtown as a result of big-box development at the city's edge. The city had two defining conditions for purposes of this example: (1) extremely expensive redevelopment plans for the declining downtown, and (2) abundant recently annexed, undeveloped land at the city's edge. The planners were "creative." They constructed a tax increment financing (TIF) district that encompassed nearly half of the city's land area and included both the downtown and the undeveloped land at the city's edge. Using this type of TIF district, growth at the city's edge could be used to finance downtown redevelopment–the equivalent of using the disease to cure the ailing patient!

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[1] See *The Practice of Local Government Planning* (Hoch, Dalton and So 2000) for a discussion of many of the activities undertaken by planners.

The planners and elected officials were excited as the "new" downtown took shape. They were relieved as tax increments began flowing in from new edge development and as debt payments for the downtown redevelopment were made. There was happiness in "Happyville." This happiness was, unfortunately, short-lived. Residents and businesses in the new edge developments began complaining that parks were not being developed and the ones that were developed were not being maintained. Schools began to be over-crowded. Traffic associated with big-box development began congesting; traffic circulation improvements were badly needed. Unfortunately, virtually all of the new property tax growth generated by new edge development was being diverted to pay debt service for downtown redevelopment; little was left to pay for services and infrastructure associated with new development at the edge.

What happened to "Happyville?" In simple terms, planners failed to recognize that new development places significant demands on local governments for new spending. They also failed to appreciate the fact that the use of a financing tool such as tax increment financing had implications for how local government revenues are spent. In general, planners did not fully understand how the activities they undertook affected and were affected by the city's budget over time.

Unfortunately, the financial aspects of planning are often not well understood by many practicing planners. The belief is that finance and municipal budgets are areas other professionals do. Planners plan. Budgeteers budget. Fortunately, however, there is a growing sentiment that planners can improve the chances of seeing their plans and programs implemented if they better understand how municipal budgets and related financial mechanisms work (Lucy and Fisher 2000: 401).

The purpose of this paper is to begin a discussion of how the practice of planning intersects with local government budgets. A conceptual framework is presented that overviews how various planning activities and municipal budgets interact. The purpose of this framework is to illustrate the mind-set needed by planners as they go about their daily business of planning. This is followed by a more detailed discussion of the various activities undertaken by planners and a descriptive analysis of how these activities affect the local government budget. The paper concludes with a discussion of several special topics that need to be considered by planners as they attempt to incorporate the financial side of planning into their work, and an overview of the broader project from which this initial paper has been commissioned.

II. Conceptual Links Between Planning and Local Budgets

The connections between planning and the municipal budget are illustrated in Figure 1. Municipal operating budgets are generally made up of three broad parts: revenues, spending and debt[2]. Revenues represent the various financial resources available to local governments. Local governments generally rely upon the local property tax, intergovernmental aid and charges for local services for the majority of their revenues. Spending by local governments reflect the array of services and facilities provided by the various forms of local government and vary among types of government (e.g schools versus counties) and within types of government (e.g. big cities versus small cities). While it is difficult to generalize about local government spending patterns across all types of local governments, the following characteristics are generally true.

* Municipalities spend the largest share of their total resources for police and fire protection, followed by spending on education, transportation (roads, transit, etc.), sewerage treatment and solid waste management, social services, parks and recreation, and housing and community development (in decreasing order of importance).

* County governments spend the largest share of their total resources for social services and income maintenance, followed by spending for education, public safety and transportation (in descending order of importance).

Debt is the "shock absorber" that smoothes-out the need to raise large amounts of revenue in any given year to fund large spending outlays (e.g. new fire stations). In effect, the issuance of debt by local governments allows costly government expenditures to be paid in smaller amounts over an extended period of time.

Local government budgets must, in fact, meet the needs each year of both existing and new development. That is, spending in any given year must meet the needs of existing residents, businesses and visitors (and commuters) and the needs for new infrastructure to support new development. In most cases the majority of a local government's budget will be associated with meeting the needs of existing activities.

[2] See *An Introduction to* 3 *Local Government Budgets: A Guide for Planners* (Huddleston 2005) for a more complete discussion of municipal budgets and *Capital Improvement Budgeting and Finance* (Elmer 2005) for a discussion of the capital budget.

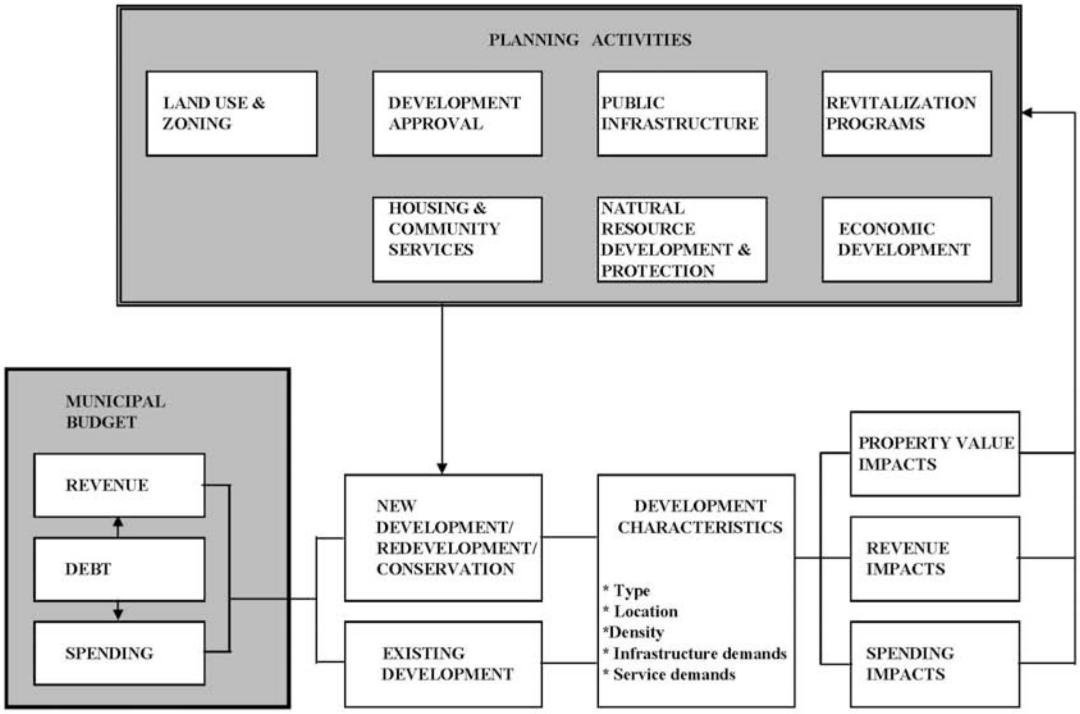

FIGURE 1. Conceptual Intersection between Planning Activities and Municipal Budgets

How Do Planners Interact with the Local Budget?

Planners and the plans they create and implement affect the municipal budget in direct and indirect ways. Based loosely upon descriptions contained in *The Practice of Local Government Planning* (Hoch, Dalton and So 2000), planning activities can be grouped into seven broad categories. These include:

* land use and zoning
* development approval
* provision of public infrastructure
* development and implementation of revitalization programs
* low-income housing planning and provision of social and community services
* development and protection of natural resources
* economic development[3]

[3]While these categories may not describe all activities undertaken by all planners in all situations, they provide a useful bundle of typical planning activities by which to demonstrate the intersection between planning and municipal budgets.

An example can be used to illustrate how planning activities interact with the municipal budget. The section that follows discusses financial aspects of each planning activity category in more detail.

Assume a community is considering the adoption of a comprehensive Master Plan. The plan identifies existing land uses and activities within the community and forecasts future population and economic growth for 20 years into the future. Areas for future development are identified, as are areas of critical natural resources that are in need of protection and conservation. The plan is presented in the form of text, tables and maps and contains a set of planning goals and objectives. Table 1 shows several land use goals and objectives that are contained in the proposed Master Plan[4].

How would the Master Plan, if adopted, affect the city's municipal budget and how could changes to the Plan produce different fiscal results for the city? The first goal shown in Table 1 refers to creating economically and environmentally sustainable development patterns. This will be accomplished by using existing infrastructure to meet new public service needs and requiring all new development to be served by a full range of public services. The two objectives will have off-settings effects on city spending. Lower costs per unit of development should be realized as economies of scale are experienced with existing public facilities. City spending will increase as new development is required to use the same bundle of public services as existing development.

The second land use goal shown in Table 1 pertains to adequate and varied housing for the community, with special attention to housing for the elderly. This goal will have major impacts on the future tax base of the city. Since the supply of developable land is fixed (with the exception of annexation), the type of structures and size of lots will affect property values. Property values, in turn, affect property tax revenues. It is important for planners to understand that once broad development parameters have been set for an area, the property value and property tax configuration has been largely determined far into the future.

[4] Other functional areas (such as transportation) and related goals and objectives are contained in the Comprehensive Plan. Selected goals and objectives from the Land Use section of the plan are used to illustrate the impact of planning activities on municipal budgets.

Table 1. Illustrative Fiscal Impacts of Comprehensive Master Plan: Selected Land Use Goals and Objectives

Selected Goal and Objectives	Potential Impact on Municipal Budget
GOAL 1: Create an economically and environmentally sustainable development pattern	
Objectives	
1. Use existing public facilities and services to serve new development whenever possible. 2. Require all new urban development within the Urban Service Area to be served with the full range of urban services .	• *Economies of scale should be realized for existing public services, reducing per unit costs.* • *New development will place demands on all services provided by City (sanitary sewer, storm water, municipal water, police, fire and EMS) causing City spending to increase.*
GOAL 2: Provide a variety of safe and affordable housing opportunities in the City.	
Objectives	
1. Encourage the design and construction of mixed neighborhoods that provide a range of housing types, densities and costs. 2. Provide a variety of housing for the elderly	• *Property values resulting from new development will vary depending on type of housing, density and amenities.* • *Property values for elderly housing tend to be lower per unit than other housing types. Social service spending will increase.*
GOAL 3: Encourage the development of efficient, well-planned and designed business and employment districts.	
Objectives	
1. Provide a generous supply of developable land for industrial, office and commercial land that can be easily served by city utilities and services. 2. Discourage the development of "big box" commercial areas 3. Maintain downtown as a commercial center with an emphasis on specialty retail, cultural facilities, services, and government and institutional land uses. 4. Provide sufficient public parking in the downtown business district.	. • *Industrial, office and commercial land uses all have different property values per acre and require a different bundle of public services and infrastructure* • *Big box commercial development can generate increased property growth in adjacent commercial areas and property value decreases in downtown commercial areas. Increased expenditures for transportation management can be anticipated.* • *New infrastructure costs can be avoided. Expenditures for traffic management and parking may be required. Most cultural and governmental structures and land uses are exempt from property taxation.* • *Most public parking facilities or surface lots are exempt from local property taxation. Tax increment financing is commonly used to finance new parking structures. Charges for public parking will increase.*

Goal 3 in Table 1 reflects fairly common land use goals and objectives related to commercial and industrial land uses. It is not uncommon, for example, to want to promote the economic vitality of downtowns and in some cases to restrict the type of development occurring at the edge of cities. Downtown development or redevelopment often involves the use of some form of public parking facilities. Commercial and industrial development has significant impacts on both a city's revenues and expenditures. Like different types of residential development, commercial and industrial development can produce a wide array of property value impacts. Such economic activities can also have significant impacts on municipal spending. Large shopping centers, for example, can require significant traffic management expenditures, while industrial development may require sophisticated fire protection equipment and major transportation system investments.

Ultimately, it is the characteristics of new development that will determine financial impacts for a municipal government. These characteristics can include: the type of development (e.g. residential versus commercial), the location of development (e.g. fringe versus downtown), the density of development (e.g. lots per acre), the types of infrastructure needed to support development (e.g. hazardous materials handling or transportation system requirements), and service level demands (e.g. level of police or fire protection), among other characteristics. It is the responsibility of planners to understand how various characteristics of development affect the costs and revenues associated with new development. As suggested in Figure 1, these same characteristics shape municipal spending and revenues into the future as new development becomes existing development.

Lastly, the previous discussion has focused on how plans and decisions made by planners affect the fiscal conditions of local governments. The upward arrow on the right side of Figure 1 is intended to illustrate that local fiscal conditions can also affect the activities of planners. Communities experiencing fiscal distress (characterized, for example, by high spending demands with limited resources available to finance planning and development activities) may need to use different approaches to community problems and opportunities than communities with fiscal surpluses. For example, some communities may have large amounts of outstanding debt and deteriorating credit ratings on their debt. Such communities may not be able to finance new development or infrastructure projects using general obligation debt. These communities would possibly need to use dedicated revenue debt (such as revenue bonds) or make heavy reliance on special assessments, user charges, or special districts.

III. Qualitative Assessment of Impacts of Planning Activities on Municipal Budgets

The previous section has attempted to illustrate how the activities of planners and municipal budgets interact in a general sense. This section offers a qualitative assessment of the specific fiscal impact relationships for specific activities undertaken by planners in typical situations.

As discussed earlier, planning activities can be generally grouped into seven broad categories: land use and zoning, development approval, provision of public infrastructure, development and administration of revitalization programs, low-income housing planning and provision of community services, development and protection of natural resources, and economic development. The potential impact of each of these categories of planning activities on municipal budgets is discussed below. Table 2 shows the seven categories of planning activities, with illustrations of the types of activities that are contained in each category. Each activity has been assigned a code for later identification. Table 3 summarizes a qualitative analysis that identifies the potential impacts of various planning activities on the municipal budget. In this table impacts are characterized as either major or moderate potential impact. Cells that are blank suggest planning activities that are thought to have little impact on the municipal budget.

Land Use Planning and Zoning

Description of Activities

Much planning involves development of plans that will guide the development of entire areas, or sub-areas such as neighborhoods or city edges. Such plans are not specific to individual development proposals that are being considered, but rather general development guidelines for the types of activities that should occur in the future and the general location of such development. Such plans are often shaped by zoning ordinances and urban service boundaries that currently exist, or, may require changes to these to implement concepts included in the comprehensive or area plans.

Assessment of Potential Impacts

Comprehensive and area plans set off a chain of events that will affect municipal budgets in future time periods. Land value, for example, is largely determined by the uses to which land is put. Comprehensive or area plans calling for more residential development in the future and less commercial or industrial development will produce a different property value configuration than does a plan with opposite recommendations. Differences in property values translate almost directly into different property tax revenues or revenue potential associated with anticipated land uses. Concomitantly, different land uses cause different municipal spending patterns to exist (Frank 1989; American Farmland Trust 1992; Real Estate Research Corporation 1974). Land zoned and developed for industrial purposes, for example, may result in higher municipal spending for fire protection and transportation, while land zoned and developed for residential uses may demand higher municipal spending for schools and recreational areas.

TABLE 3. Qualitative Assessment of the Intersection between Planning Activities and Municipal Budgets

	LAND USE & ZONING							DEVELOPMENT APPROVAL					PUBLIC INFRASTRUCTURE		
Planning Activity Code*	CP	NP	DDP	ANX	IBA	ZO	USA	LS	VCU	DX	GDP	SP	UTL	HWY	SF
REVENUES															
Property value/tax	■	❍	■	■	■	❍	■	■	❍		■	■	■	■	■
Sales tax	■	❍	■	❍	❍	❍	❍		❍		■	■	■	■	■
Local income tax	■	❍	■	❍	❍	❍	❍		❍		■	■	■	■	
User charges	❍	❍	■								❍	■	■	❍	■
Impact fees	■	❍	■			❍				■	■	■	■	❍	
Borrowed funds (debt)	■	❍	■				❍				■	■	■	■	■
SPENDING															
Police protection	■	❍	■	❍	❍	❍	❍	■	❍		■	■	■	■	■
Fire protection	■	❍	■	❍	❍	❍	❍	■	❍		■	■	■	■	■
Road construction	■	❍	■	❍	❍		❍	■		■	■	■	■	■	■
Road maintenance	■	❍	■	❍	❍		❍	■			■	■	❍	■	❍
Parking facilities	■	❍	■	❍				❍		■	■	■	■	■	■
Transit subsidies	■	❍	■	❍		❍	❍	❍			❍	❍	■	■	■
Water provision	■	❍	■	■	❍		■	■		■	■	❍	■	❍	■
Sewerage treatment	■	❍	■	■	❍		■	■		■	■	❍	■	❍	■
Parks & recreation	■	❍	■	❍	❍	❍	❍	■		■	■	■	■	❍	❍
Housing & comm. services	■	❍	■	❍		❍		❍			■	❍	❍	❍	
Schools	■	❍	■	■	❍	❍	■	■		■	■	■	■	■	

LEGEND: ■ Major potential impact
❍ Moderate potential impact

NOTE: *See Table 2 for definition of planning activity codes.

TABLE 3. Qualitative Assessment of the Intersection between Planning Activities and Municipal Budgets (continued)

	REVITALIZATION PROGRAMS				HOUSING & COMMUNITY SERVICES			NATURAL RESOURCE DEVEL. & PROTECTION			ECONOMIC DEVELOPMENT			
Planning Activity Code*	DWN	RF	BF	HP	HSG	SUB	TX	AGR	CAD	LCT	GL	TIF	THX	BID
REVENUES														
Property value/tax	■	■	■	❍	■		❍	■	■	■	❍	■	■	❍
Sales tax	■	■	❍								❍	❍	❍	■
Local income tax	❍	❍									❍	❍	❍	
User charges	❍	❍					❍							
Impact fees	❍	❍							❍					
Borrowed funds (debt)	■	■	■	❍	❍						❍	■		
SPENDING														
Police protection	■	■	❍		■	❍					❍	❍	❍	❍
Fire protection	■	■	■	❍	■	❍					❍	❍	❍	❍
Road construction	❍	■	❍									■		
Road maintenance	❍	❍	❍									❍		
Parking facilities	■	■	❍									■		
Transit subsidies	❍	❍			■	■						❍		
Water provision	❍	❍	❍		❍						❍	■	❍	
Sewerage treatment	❍	❍	❍		❍						❍	■	❍	
Parks & recreation		■	❍		❍				❍	❍		❍		❍
Housing & comm. services				❍	■	■						❍		
Schools	❍			❍	■	■						■		

LEGEND: ■ Major potential impact
❍ Moderate potential impact

NOTE: *See Table 2 for definition of planning activity codes.

Annexation of rural land into incorporated municipalities has similar effects on municipal budgets. Annexed land clearly adds property value to the tax base of a municipality and may affect municipal spending, depending on how the annexed land is developed (Edwards 1997). Intergovernmental boundary agreements are often developed among adjacent governments in an area to specify how land will be annexed and under what fiscal conditions. It is not uncommon, for example, for rural governments losing tax base via annexation to be compensated by annexing municipalities as a way of smoothing the fiscal transition for the rural government. These agreements can also specify the bundle and level of public services that will be provided by the respective governments.

Zoning ordinances primarily determine how land will be used and the characteristics of development or redevelopment that occurs (Heikkila 2000; DeGrove 1992). This ultimately determines the value at which land is valued for taxation purposes and the property taxes generated by that land. Zoning ordinances can also affect other revenues associated with various land uses, including sales taxes generated by commercial activities.

Urban service area designations define where development can occur and usually reflect the availability of existing public infrastructure or areas for planned future public infrastructure (Deakin 1989). Access to public improvements and *ex ante* approval to development are critical determinants of the value of land. Thus, designation within an urban service area has significant impacts on property values, and to a lesser extent other local revenues in the future. Similarly, there is some evidence that land included within growth boundaries is valued more highly than comparable land located outside of growth boundaries, thus, leading to increased tax base in cities included in the growth boundaries and lower tax base (than would otherwise be expected) in rural areas outside the growth boundaries (Deakin 1989; DeGrove and Metzger 1993). Land included in an urban service area or growth boundary also is associated with increased local spending, especially spending for infrastructure improvements. Ultimately, municipal spending for all local government services will increase as land in the urban service area or growth area is developed.

Development Approval

<u>Description of Activities</u>

Planners and plan commissions directly control the development of land through the development approval process. Working within the context of adopted comprehensive and area plans and related zoning ordinances, proposals for subdivision of land must be approved before development can begin. In addition to platting or other methods of land subdivision, proposed development often is required to submit and gain approval of general or site-specific development plans. These plans are prepared by the developer and reveal general and specific intentions and requirements of the developer. General development plans and site (improvement) plans are often negotiated between planners and developers prior to final plan approval and are often accompanied by development agreements between the city and the developer. It is at this stage of the planning and development process that specific (versus general) development patterns are determined. Factors such as density, type and location of development, circulation patterns and so forth are considered, negotiated and approved. In many cases it is also at this stage of the development process that impact fees or other exactions are determined.

Local governments also usually have a process for granting variances or conditional use permits for land uses that are not in conformance with adopted plans.

Assessment of Potential Impacts

The land subdivision process has direct impacts on the value of land. As the number of lots are determined for a given tract of land, development densities are determined. Single-family residential land, for example, may be platted so as to allow four residential units per acre (low density), or some higher number such as eight units per acre (high density). Land uses are also demarcated at the time of subdivision. For example, locations for single-family and multi-family housing, commercial areas, parks, conservation areas and so forth will be determined at the time of subdivision. Areas designated for multi-family, commercial and industrial uses will normally produce higher property values per acre than land designated for single-family housing. Land designated for parks, open space, storm water management, schools, churches and so forth will often be exempt from local property taxation.

Land subdivision sets off a chain of events that will ultimately affect virtually all local government expenditures. Development patterns established at the time of subdivision will, for example, determine police and fire protection services that will be needed as development occurs. It is not uncommon with multi-story commercial or mixed-use development to have special requirements placed on fire protection services. Municipal expenditure for major infrastructure is often affected after land is subdivided. Roads, water, sewerage treatment, and schools (in the case of residential development) will all be needed to serve subdivided land as it develops.

General development and site (improvement) plans have similar effects on local government budgets as does the process of land subdivision. Uses for specific parcels of land are determined at this stage, as are circulation patterns, infrastructure needs, and so forth. As with the process of land subdivision, property values, city revenues and city spending will largely be determined by the details of the specific development.

Provision of Public Infrastructure

Description of Activities

Public infrastructure refers generally to the facilities and improvements provided by local governments for the use and benefit of citizens and enterprise. Public infrastructure includes: water supply, sewerage treatment, roads and highways, ports, airports, transit systems, and in some cases, gas and electricity services and sports facilities.

Assessment of Potential Impacts

Infrastructure such as sewer, water and roads are the key to wealth creation via land development. Without these important government services, land would largely remain in its lowest use. Thus, it is not surprising that development of public infrastructure has direct impacts on property value and ultimately the total bundle of public revenues generated by land development (Speir and Stephenson 2002; Burchell 2002; and Burchell and Listokin 1995). Beyond the general impact of public infrastructure on local government revenues, there is evidence that location of certain types of public infrastructure such as road interchanges and transit stops can have special impacts on land and structure values as development concentrates to take advantage of the unique infrastructure features (Boarnet and Crane 1997; Boarnet and Crane 1998; and Cervero and Landis 1993).

Provision of public infrastructure has the obvious impact on municipal spending of usually requiring the issuance of municipal debt and corresponding debt service payments over time. Public infrastructure also normally has associated with it annual operating and maintenance expenditures which can be significant, especially in later years. Beyond these spending impacts, the provision of public infrastructure opens land to further development and, thus, is the stimulus for municipal spending for the normal bundle of urban public services.

Publicly provided sports facilities are a special type of public infrastructure and can range from public ice rinks in smaller or rural communities to large sports complexes in larger urban areas. Expenditures for large sport complexes can represent major investments for local governments and are often financed using specially created districts. In cases where new sports facilities are constructed in distressed areas there is some evidence that property values around the facility are improved (Hamilton and Kahn 1997; Lorince and Stanly 2004).

Development and Implementation of Revitalization Programs

Description of Activities

Local governments often are concerned about revitalization of selected areas within their boundaries. Revitalization efforts often focus on downtown or central business districts, deteriorating river fronts, contaminated and abandoned industrial areas (i.e. brownfields), obsolete and deteriorating commercial areas (i.e. grayfields), and areas of historic importance (Bartsch, Andress, Seitzman and Cooney 1991). These programs can involve the use of eminent domain to assemble and acquire land, major infrastructure improvement programs, and environmental mitigation and recovery efforts. It is common for revitalization programs to use a mix of financing resources to fund necessary expenditures, including the use of tax increment financing.

Assessment of Potential Impacts

Revitalization efforts, by definition, involve attempts to reverse declines in once vital economic trends. If successful, previously declining property values should start increasing over time, along with associated property tax revenues.

Revitalized greyfield areas would likely generate increased sales tax receipts in addition to increased property tax revenues and revitalization efforts involving new housing could, in addition, lead to income tax increases. Historic preservation often reverses declining property values for deteriorating historic structures and can lead to significant increases in property tax and sales tax receipts when entire areas are addressed.

Major revitalization efforts can involve extensive road re-routing and upgrading and, thus, can lead to significant municipal spending on transportation-related projects, including parking facilities. It is common for public safety expenditures to increase in revitalized areas as crime prevention and property protection become more important for people attracted to the areas and property experiencing value increases. Revitalization efforts also cause municipal governments to improve existing, and often antiquated water distribution and sewerage collection systems. Riverfront revitalization efforts often involve significant expenditures for park land acquisition and development.

Low-Income Housing Planning and Provision of Social and Community Services

Description of Activities

As Landis and LeGates state in *The Practice of Local Government Planning*, "Housing dominates all aspects of urban planning and policy...and [is] the dominant land use in almost every American village, town, and city" (Hoch, Dalton and So, 2000: 227). While federal and state governments provide the dominate share of resources used in meeting low-income housing assistance and related social and community services, local governments are primarily responsible for program planning and administration. Landis and LeGates describe six types of planning activities related to housing. These include: formulating and administering local land use policy and plans, formulating local housing plans, administering local housing authorities, administering and funding housing and community development programs, sponsoring affordable housing development, and providing housing-related social services (Landis and LeGates, 2000: 246-47). In addition, cities commonly provide zoning and public services for a broad spectrum of social institutions (such as churches and civic organizations) that provide social and cultural services to broad classes of local residents.

Assessment of Potential Impacts

Much of the revenue used to fund low-income housing and related programs is provided by federal and state governments. Local government revenues are most affected by these programs via their impact on local property values and property tax collections and the issuance of dedicated-revenue debt. Strategies for providing low-income housing have changed over time. Early post World War II housing programs tended to concentrate low-income households in selected, often tax-exempt areas. Later strategies stressed dispersed rent assistance programs and were less likely to remove property values from the tax base. Public-private partnerships in direct provision of low-income housing are becoming increasingly important and often involve the use of tax exempt land and structures. Commonly, public or quasi-public housing authorities issue dedicated-revenue debt, using mortgage payments to meet annual debt service requirements. Land and structures used for social institutions (such as churches) are commonly exempt from local property taxation.

The provision of low-income housing assistance is highly correlated with the provision of social service programs (such as public health, day care, etc.) (Crane and Takahashi 1998; Myers, Baer and Choi 1996). Municipal expenditures for public safety is also highly correlated with the provision of low-income housing assistance, especially when such assistance is concentrated. Low income families often rely heavily on public transportation and, thus, expenditures for transit subsidies are needed.

Development and Protection of Natural Resources

Description of Activities

There are a variety of planning activities intended to development or protect natural and environmental resources. Illustrated in Tables 2 and 3 are agricultural land preservation, designation of critical resource areas, and land conservancy efforts[5]. Efforts to preserve agricultural land resources can have direct or indirect approaches. Direct approaches attempt to prevent development of specific parcels of land or specific areas and include programs such as transfer or purchase of development rights and use of municipal or regional growth boundaries. Indirect approaches attempt to create incentives for farmland owners to not develop agricultural land into other uses and include, for example, state income tax credits for land in agricultural production or differential property value assessment for agricultural land. Critical area designation activities generally attempt to assess and demarcate areas with critical natural or biological resources and to prevent development in these areas through zoning, development restrictions, and so forth. Land conservation activities are the broader set of activities that are generally attempting to prevent or delay the development of any land and include the previously discussed agricultural land protection and special area designations activities. Such programs include direct purchase of land for conservancy, use of environmental easements, and transfer or purchase of development rights.

Assessment of Potential Impacts

The impacts of natural resource protection and development activities fall mainly on the revenue side of municipal budgets (Irwin 2002). Such activities commonly decrease the value of land directly involved in the various programs, sometimes exempting conservancy land from local property taxation. Offsetting decreases in property values for lands directly involved in conservation programs, however, is the positive impact on "amenity value" for adjacent properties (Marshall 2004). Land adjacent to scenic or conserved land is commonly valued more highly than comparable properties not adjacent to such features (Roe, Irwin and Morrow-Jones 2004).

Economic Development

Description of Activities

Economic development planning generally deals with retention of existing economic activities, attraction of new economic activities, development of new indigenous economic activities, convention and tourism promotion, and development of local resources and infrastructure (including workforce development). Local economic development planning activities include economic assessment and marketing efforts, provision of grants and loans for private sector activities, reductions or exemptions of local property taxation (e.g. tax holidays), creation of special districts such as business improvement districts or local enterprise zone, and so forth. It is common for tax increment financing to be used as part of economic development initiatives.

[5] Other activities that could be included in this category are storm water management and planning, watershed planning, utility planning, and so forth.

Assessment of Potential Impacts

One of the primary reasons to promote local economic development is expansion of the local property tax base. It is commonly believed that commercial and industrial development adds more to the local property tax base and other local revenues (e.g. sales and income taxes) than it costs in new public services. Property tax exemptions or reductions would, of course, have a negative impact on the overall tax base of a community. Planners should note, however, that a reduction in the property tax base of a municipality does not automatically translate into a reduction in property tax revenues for the city. Property tax reductions for economic activities may simply shift the burden of paying property taxes to other land and property owners (e.g. residents), without producing an overall decrease in the amount of property taxes collected.

The use of special districts has an interesting range of impacts on the local government budget. In theory, the use of tax increment financing, for example, does not affect the overall cost of development or redevelopment. If a project will cost $100 million if tax increment financing is used, it should cost the same $100 million if other financing methods are used instead. The use of tax increment financing does, however, affect who pays for new development or redevelopment. Tax increment financing uses the property (and in some cases sales) taxes of various local governments (such as schools, counties, etc.) to pay for municipal development expenditures, thus, producing a subsidy for municipal governments that use this financing tool (Weber 2003). Business improvement districts, on the other hand, are special districts that rely heavily on self-financing by economic activities included in the district, with little financing provided by the municipality. Business improvement districts normally lead to increases in local property and sales taxes associated with the district and do so with limited increases needed in municipal spending.

IV. Implications for Planners

The qualitative discussion above illustrates that the activities of planners have the potential to have small and large impacts on municipal budgets. While planners clearly understand the importance of the "substance" of the plans they make and the implementation programs they administer, they are less keenly aware that they are setting the fiscal course for their cities and regions for decades to come.

It is important that planners increase their understanding of how local budgets work and how their various activities affect the fiscal conditions of the cities and regions for whom they work. Arguably, planners and their various activities have larger impacts on local fiscal conditions than any other local government agency or elected official. It is clear that both the voting public and elected officials are increasingly concerned about the fiscal issues surrounding how their communities and regions are growing (or declining). At the same time, planners would not want to succumb to a "fiscal zoning" type of mentality where every planning action is seen only in the light of revenues that would be generated or expenditures incurred. Healthy communities are much more than low taxes and high services. The fiscal effects of any given planning action should be understood, but should also be considered in the context of other social dimensions, such as distributional equity, environmental sensitivity, historic and cultural sensitivity, and so forth. At the same time, however, sound fiscal planning combined with sound functional planning will make the prospects of sustainable physical and social planning much stronger in the long-run.

As planners increase their understanding of the fiscal side of planning, three concepts deserve special attention. These are:

(1) cumulative versus incremental impacts;
(2) complexity equals simplicity reorganized;
(3) the fiscal "action" may be in the economist's *ceteris paribus* conditions.

Cumulative Versus Incremental Impacts

Planners, especially those working in the development approval process, often view development proposals one project at a time. For example, a city may develop a neighborhood plan for a single area, or, may review a proposal for 50 new residential units. Any single development opportunity may by itself appear to have limited impacts on city government spending or revenues. Taken all together over the course of several years, however, individual development opportunities can have significant cumulative fiscal impacts. It is important that planners consider the cumulative effects of individual actions that they take.

Complexity Equals Simplicity Reorganized

To planners trained in substantive areas such as land use planning or environmental planning, "finance" may seem overly complex. It is something best left to "business types" or economists. In fact, the basics of planning-related finance is relatively simple. When complex financial aspects can be broken into their basic parts it is often relatively easy to understand how most financial systems work and how planning activities affect them.

For example, the property tax underlies the revenue side of most local government budgets. The property tax administration process is made up numerous actors (such as assessors, tax administration districts, and boards of appeal) and numerous concepts (such as highest and best use, assessment ratios, equalization, and so forth) that can be baffling when viewed in total. When the role of each of the actors and the meaning of each of the concepts, however, is separated out and understood, it is possible to fully understand how zoning decisions or subdivision proposals can affect the property tax into the future. It is also true that understanding the basics in one area of local government finance can make seemingly complex finance concepts more understandable. Tax increment financing, for example, is just a variation on the standard property tax administration process. Understanding the basic property tax administration process is 90 percent of understanding how tax increment financing works.

The important point for planners attempting to increase their understanding of local government finance is that seemingly complex financial mechanisms and concepts can usually be broken into more simple and understandable basic concepts. In most cases, complexity is just simple concepts that have been rearranged and connected.

Fiscal "Action" May Be in the *Ceteris Paribus* Conditions

While most complex financial mechanisms and concepts can be broken into simpler basic concepts, it is equally true that some simple concepts can be misleading. Economists are famous (perhaps infamous), for example, for noting how the effect of a policy will have a certain effect on a social value, "*ceteris paribus*." *Ceteris paribus* in this context means "holding everything else constant." In the practice of planning, unfortunately, almost no situation exists where everything else is remaining constant.

The case of state equalization aid is a good example of this. Most states send a significant amount of aid to local governments each year, often in the form of "equalization" aid. Such aid is intended to "equalize" the amount of resources available to local governments to fund needed public services across communities that have widely varying local tax bases. Equalization aid received by an individual community is typically determined by the amount of spending (or tax effort) by the local government and the tax base available to the local government. Communities with high spending and low tax base, for example, receive more aid from the state than communities with low spending and high tax base. The conventional wisdom concerning equalization aid programs is generally that they "reward" local government spending and "penalize" local tax base growth.

The existence of state equalization aids can confound fiscal impact analysis of local development options. Assume, for example, that a proposed development "A" will add $100,000 each year to a local government's spending and $1,000,000 to the tax base. If the community has a property tax rate of 0.01000, the development should produce annual increased revenues of $10,000, or a $90,000 per year fiscal *deficit*. A second proposed development, "B," will add a similar $100,000 to city spending each year, but will add $10,000,000 to the tax base and $100,000 in increased annual revenues. Development B appears to be neutral in terms of its impact on the city budget and superior to Development A, if only property tax impacts are taken into account.

This simple property tax analysis is "correct" as far as it goes, but produces an "incorrect" conclusion overall. The existence of equalization aid complicates this analysis and can change the overall conclusion concerning the fiscal impacts of the two development options. State aids to the city may increase to the city if Development A is undertaken, while state aids may decrease if Development B is undertaken. After all fiscal impacts are taken into account, the gap in fiscal impacts between the two development options may be smaller than first observed. In "strong" equalization aid programs, the gap may be completely removed, making the city indifferent between the two proposals in terms of their fiscal impacts.

The point of the example is to illustrate that while complex fiscal mechanisms and concepts can usually be broken into simpler concepts, all aspects must be considered to get a complete picture of the impact on local government budgets from the various activities of planners. Fiscal "action" often occurs where one element reacts to changes in another element. *Ceteris paribus* is a useful concept for understanding partial effects, but often does not well describe the planner's world.

V. Lincoln Institute Program on Planning and Local Budgets

Recognizing that planners have a significant role in shaping the fiscal futures of cities and regions, the Lincoln Institute of Land Policy has undertaken an effort to provide planning educators with training and related educational materials that can be used in whole or in part in graduate planning programs in the U.S. The broad goal of this project is to produce applied training materials in a broad range of fiscal-related areas that affect the mainstream of planning in the U.S.

The first phase of this project has commissioned training materials in the following areas.

A. **The Intersection between Planning and the Municipal Budget** (this paper).

B. **Overview of Local Government Budgets**

This component is comprised of three major efforts.

1. **Institutional and Legal Context for Local Government Budgets**

This paper lays the context for how local governments in the U.S. develop and use their budgets. It discusses the types of local governments that are found throughout the U.S. and the types of responsibilities each of these types of government assume. It covers the role of local governments in the broader federalist system that exists in the U.S. and discusses how powers of local government are created and how their activities are limited.

2. **An Introduction to Local Government Budgets: A Guide for Planners**

This paper discusses the general pattern of revenues and spending for the various types of local governments found in the U.S. It also discusses the process, actors and timing involved with developing the annual operating budget for local governments and special issues that affect this process.

3. **Capital Improvement Budgets**

This paper examines the capital improvement component of the annual budget in detail. It explains the process used in determining capital improvement needs and the various actors and steps involved in developing the capital improvement budget.

C. **Fiscal Impacts Analysis: Methods, Cases, and Intellectual Debate**

This paper discusses the broad goals and uses of fiscal impact analysis. It discusses the various approaches and specific applications commonly used by planners. It also describes various problems that are encountered in conducting fiscal impact analysis. Noting important assumptions and contexts, the paper also summarizes the current thinking concerning the relative fiscal impacts of various types of development.

D. **Lincoln County Data Set**

As part of the effort to provide planning educators with educational materials that can be used to illustrate important fiscal issues and concepts, the Lincoln County Data Set provides fiscal, demographic and economic data for a hypothetical county. The county is comprised of two cities and one unincorporated area that are all served by two school districts. Data is presented for two time periods so that trends can be incorporated into problems and illustrations. Immediate applications that can be made of the data set include:

(1) understanding property tax administration;
(2) property tax impacts of land development;
(3) property tax impacts of land conservation;
(4) property tax impacts of annexation;
(4) development and analysis of tax increment financing districts.

Subsequent revisions of the data set will allow other features to be included and analyzed. The second phase of the project will expand upon topics covered in the first phase and will add new topics. Possible topics for the second phase include:

* Variations in property tax administration and policy across the U.S.
* Tax increment financing
* Use of special assessments and other special districts
* Impacts of equalization aids on local government revenues
* Special case studies and problem sets
* Expansion of the Lincoln County Data Set.

VI. Summary and Mission

Planning and local budgets do intersect. Planners, in deed, have the potential to significantly impact the fiscal health of cities and regions today and into the future. The broad goal of the Lincoln Institute of Land Policy program on fiscal planning for planners is to increase the understanding of practicing planners in financial matters related to planning. This and related papers are an attempt to start this process. Hopefully, as the end of this effort planners across the country will be able to fully understand the fiscal momentum created by the actions they take and will be able to turn this knowledge into plans and programs that are financially sustainable far into the future.

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