



Local Leader's Guide to Fiscal Impact Analysis

Who should read this guide?

City Managers
Chief Financial Officers
Budget Directors
Economic Development Directors
Nonprofit Organization Directors
Community Advocates

What you will learn:

- Definition of fiscal impact analysis and why you should make it a part of your planning and decision-making process (p. 2)
- How fiscal impact analysis works, types of projects it can support and what outputs are produced (p. 3)
- Pitfalls, best practices and key questions to ask with interpreting a fiscal impact study (p. 4)

What is Fiscal Impact Analysis?

Fiscal impact analysis is a process to measure how local-government revenues and service costs will change because of a public or private capital investment or a change in government policy. It tells the user the net effect on local finances by subtracting costs associated with the project from new revenues generated because of the project. Examples of changes often studied with fiscal impact analysis:

- Construction or renovation of commercial or residential real estate
- Business expansions or closures
- Public works investments (facilities, infrastructure)
- Changes in city department operations (staff, equipment)
- Fees and tax rates
- Land use changes (rezoning, annexations and build-outs)

Why use fiscal impact analysis?

Adding a fiscal impact process to a community's overall planning and decision making cycles brings many benefits:

- Knowing the budget and revenue consequences of development projects to determine whether the project merits public support
- Discover potential infrastructure constraints or service bottle necks
- Revealing the timing of project costs and benefits so budget and revenue forecasts and planning can be adjusted
- Determining if a project meets land use goals and will deliver the return for the land
- Building a organizational culture that is open to, and learns from analysis and cost-benefit thinking so short and long-terms decisions are more effective
- Improve citizen and elected official confidence that public resources are being well managed
- Educates all community stakeholders on how organizational fiscal sustainability is related to local economic health

How does fiscal impact analysis work?

A fiscal impact study usually uses a spreadsheet model. It may be custom built for a single major project or designed to study several routine projects. There are several pieces to these models:

- Historical data - budget, revenue and economic variables
- Formulas - connecting local budget and revenue to economic variables
- Baseline forecast - showing situation without the project
- Project description - Construction and operating aspects of the project
- Project forecast - representing the effects of the project
- Output - a net benefit calculation and additional details in charts and tables

Typical models often include detailed results on:

- Government general fund spending (police, fire, general government, etc.)
- Enterprise fund activity (utilities, sanitation, aviation, tourism)
- Revenue (property, sales, income and hotel tax, franchise and other fees)
- Infrastructure and debt service
- Local economy jobs, income, households and visitors

The process typically involves several steps:

1. Collect data and describe the project in terms that the model can understand (budget, revenue and economic dimensions)
2. Load data in the model and set various assumptions and parameters
3. Review the results, double check and perform sensitivity analysis to test the stability of the results
4. Evaluate the results and discuss with stakeholders.

There are many assumptions and decisions made in building and running a fiscal impact model. This means consumers (and sometimes the operators) of these models are at risk of being misled by the results. The checklist on page 4 can help any user of fiscal impact analysis understand the quality and pitfalls of these powerful tools.

Fiscal Impact Model Pitfalls and Best Practice Checklist

Fiscal impact analysis is data-driven. It also relies on many assumptions. The assumptions can be more important to the results than the underlying data. Here are some questions any user (operator or consumer) of these models can ask to improve their confidence in the results. These questions also can inform how users should interpret how meaningful the results are.

Key Questions

1. Does the model include enough years of historical data to account for how local government finances respond to economic booms and busts?
2. Does the model use reasonable spending, revenue and economic growth rates?
3. Does the model show net new local spending? It should subtract spending that was already going to existing businesses.
4. Will local residents really get the new jobs being forecast? Existing residents must have transportation access and have the desired skills to realistically benefit.
5. Does the model assume enough existing infrastructure and service capacity to support the project? This is more likely with redevelopment / infill projects.
6. Does the model have a long-enough forecast? Costs and benefits may happen at different points in time. Sometimes they are spread over decades.

A final remark is that impact models are most valuable when a community has a long-term planning framework. Then, impact analysis can help evaluate options and individual projects in light of the big-picture results the community wants to achieve.

How Axianomics can help.

Staff at Axianomics have built fiscal impact models for over 20 years at the state and local level. Our tools are as sophisticated as they come. We test our analysis with the kinds of common sense questions that we encourage you to ask of any model. We can provide you:

- Case studies and reports for key major projects or policy changes
- A custom model that we maintain and run for you
- A custom model that we train you to use
- Presentations to boards or the community on building a fiscal impact culture

Let us know how to help: www.axianomics.com/contact/ or call at 214-280-7765.