Fiscal Impact Analysis of Multiple Growth Scenarios

Executive Summary

Prepared for:
Lawrence, Kansas

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Prepared by:

City of Lawrence

TischlerBise
Fiscal, Economic & Planning Consultants
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I. EXECUTIVE SUMMARY

A. Background

TischlerBise, Inc. is under contract with the City of Lawrence to evaluate the fiscal impact of development four different subareas. This fiscal impact analysis determines whether revenues generated by new growth are sufficient to cover the resulting costs to the City. Three of the four subareas assume two different growth scenarios. By comparing multiple land use scenarios within a subarea, the City will have a better understanding of what different land use mixes and forms have on the City’s bottom line.

As a first step in this analysis, TischlerBise evaluated levels of service as well as determined cost and revenue assumptions. These assumptions are based on our on-site interviews and subsequent discussions with department heads, their representatives, and other related personnel in addition to a detailed analysis of Lawrence’s adopted FY2007 Budget. A number of these assumptions are included and discussed in this document.

The revenue and cost projections are based on the assumption that in most cases the current level of spending, as provided in the FY07 budget, will continue over time. The current level of spending is referred to as the current level-of-service in this type of analysis. The intent of this analysis is to include all tax-supported funds. Enterprise funds (i.e., self-funded operations) and internal services funds are not included in this analysis since revenues generated from fees are assumed to cover costs to provide those services. In addition, current 2007 dollars are used throughout.

B. Growth Areas and Scenarios

Four geographic subareas were evaluated as part of this fiscal impact analysis. The amount of development assumed in each is based on land use plans prepared by City staff for purposes of this evaluation. Each is summarized below:

- Area west of K-10 – Two scenarios, one reflecting suburban style development versus a more new urbanism slant.
- Area south of Wakarusa River – Two scenarios, one reflecting suburban style development versus a more new urbanism slant.
- Area southeast east of O'Connell – Two scenarios, one reflecting predominantly residential development versus predominantly industrial.
- Airport area – One scenario reflecting business park development.

A summary comparison of pertinent demand factors (e.g., population, housing units, etc.) for each of the subareas and scenarios is shown in Figure 1 below. The growth scenarios are discussed in more detail in Section III of this report.

Figure 1: Growth Area and Scenario Net Increases

<table>
<thead>
<tr>
<th>SCENARIO</th>
<th>SE Area Residential</th>
<th>SE Area Industrial</th>
<th>South of Wakarusa</th>
<th>South of TND</th>
<th>West of K-10</th>
<th>West of TND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>12,474</td>
<td>4,721</td>
<td>33,962</td>
<td>33,816</td>
<td>0</td>
<td>32,783</td>
</tr>
<tr>
<td>Housing Units</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Low Density</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>570</td>
</tr>
<tr>
<td>Low Density</td>
<td>2,996</td>
<td>1,240</td>
<td>10,330</td>
<td>8,927</td>
<td>0</td>
<td>8,947</td>
</tr>
<tr>
<td>Medium Density</td>
<td>1,420</td>
<td>500</td>
<td>1,400</td>
<td>874</td>
<td>0</td>
<td>1,280</td>
</tr>
<tr>
<td>High Density</td>
<td>864</td>
<td>216</td>
<td>1,526</td>
<td>691</td>
<td>0</td>
<td>2,678</td>
</tr>
<tr>
<td>TND Low Density</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>586</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TND Medium Density</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,271</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TND High Density</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>966</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Live/Work Units</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>57</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mixed Use MF</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>60</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Units</td>
<td>5,280</td>
<td>1,956</td>
<td>13,589</td>
<td>13,748</td>
<td>0</td>
<td>13,475</td>
</tr>
</tbody>
</table>

| Nonresidential Building Area | | | | | | | |
| Office | 1,522,460 | 0 | 497,891 | 457,380 | 0 | 267,894 | 568,458 |
| Office/Warehouse | 1,188,317 | 6,957,403 | 0 | 0 | 1,747,976 | 542,217 | 293,246 |
| Industrial | 1,485,396 | 1,485,396 | 0 | 0 | 0 | 0 | 0 |
| Commercial | 250,470 | 250,470 | 901,692 | 901,692 | 120,226 | 400,752 | 400,752 |
| Institutional | 210,830 | 210,830 | 346,302 | 376,358 | 376,358 | 372,438 | 496,584 |
| Mixed Use Commercial | 0 | 0 | 0 | 110,207 | 0 | 0 | 98,184 |
| Total Square Footage | 3,287,473 | 8,904,100 | 1,745,885 | 1,845,637 | 2,244,560 | 1,583,301 | 1,857,224 |

C. Fiscal Impact Results

The fiscal impact results are shown in a number of different ways. First, annual net results are discussed and show the fiscal impacts from one year to the next. Average annual results are then shown over different time intervals to provide an easy way to compare multiple scenarios and summarize the general fiscal impacts over time. Finally, cumulative results are shown reflecting total revenues, expenditures, and net fiscal results over the 20-year development timeframe.
1. Annual Net Fiscal Impacts

Figure 2 below shows the annual net fiscal impacts to the City for each subarea/scenario over the 20-year development period. By showing the results annually, the magnitude, rate of change, and timeline of deficits and surpluses can be observed over time. Data points above the $0 line represent annual surpluses; points below the $0 line represent annual deficits. The “bumpy” nature of the annual results during particular years represents the opening of capital facilities and/or major operating costs being incurred.

As shown in Figure 2, all subareas/scenarios produce annual net deficits to the City throughout most years of the 20-year development period. Some of the subareas/scenarios generate fiscal surpluses in the initial year(s) (i.e. Southeast Area-Industrial scenario and Airport Industrial Park). The worst fiscal results are in Year 20, due to the compounding nature of debt service payments, primarily for roads.

Figure 2:

2. Average Annual Net Fiscal Impacts

The chart below shows the average annual net fiscal impact (revenues minus expenditures) over the 20-year development period for each subarea/scenario. The fiscal results are shown for
three time periods: 1) Years 1-10, 2) Years 11-20, and 3) Years 1-20 and include both operating and capital impacts. *All results are those accruing from new growth only, and do not include costs and revenues from the existing population and employment base of the City.* As Figure 3 below indicates, new growth generates average annual net *deficits* to the City in all three time periods.

As shown in Figure 3, average annual net deficits are generated over all time periods. Over the 20-year time frame, the Airport Industrial Park Area produces the smallest net deficit. Average annual net deficits are higher in the last ten years of development in all Areas. This is due to the compounding nature of debt service payments as well as the number of facilities that are required in later half of the analysis period, as well as the fact the revenues are insufficient to cover the required costs. Average annual net deficits over the 20-year period range from a low of $967,000 for the Airport Industrial Park Area to a high of over $4.7 million for the West of K-10 Area.

**Figure 3:**

![Average Annual Net Fiscal Impacts Scenario Comparisons City of Lawrence Fiscal Impact Analysis](image)

3. **Cumulative Net Fiscal Impacts**

Figure 4 below shows the cumulative net fiscal impacts to Lawrence for the operating budget, capital budget as well as the combined net impact. The cumulative impact is the total amount of money lost or gained over the 20-year analysis period.
While all subareas/scenarios generate cumulative net combined deficits, the overall net deficits are a result of deficits to the capital funds, as the net surpluses are generated to the operating budgets in all but one case (Airport Industrial Park).

Figure 4:

D. Discussion of the Results

Each of the subareas/scenarios generates net deficits throughout the 20-year analysis period, with the deficits following a generally increasing trend over time. As discussed further below, capital costs are the primary reason for the magnitude of net deficits. In summary:

- This analysis reflects the cash flow to the City. Depicting cash flow captures the actual annual cost to the City during the projection period, which includes the assumption (in keeping with current policy) that most capital costs are debt financed. This enables policymakers and City staff to further discuss financing options and tradeoffs regarding pay-as-you-go versus debt financing as it relates to operating and capital needs.

- It is important to note that this analysis is based on maintaining existing levels of service as defined by the FY07 Budget and does not measure the cost of correcting
what some may define as deficiencies in current service levels. The cost of correcting any perceived service level deficiencies would significantly increase the net deficits outlined in this analysis.

- The fiscal impact results are quite similar for both scenarios evaluated for the West of K-10 Area and the South of Wakarusa River Area. One reason is that the two scenarios evaluated in each Area assume similar amounts of population, housing and nonresidential building area increases over the 20-year analysis period.

- The Airport Industrial Park generates the best fiscal results, a cumulative net deficit of $19.3 million, or average annual net deficits of $967,000. One reason this Area generates the lowest deficits is that no residential development is assumed. Although all of the development assumed in this Area is nonresidential, approximately 376,000 square feet is assumed to be institutional uses, from which the City receives no property tax. There is also only 120,000 square feet of retail space assumed, so the majority of revenue received is from the 1.7 million square feet of office/warehouse space. The revenue received is not enough to offset the costs of primarily having to construct a fire station to serve this Area, as well as the road capacity needs.

- Arterial road capacity projects represent the largest capital expense over the 20-year development period for both scenarios. Arterial road construction was projected using a marginal approach, based on the average capacity of arterial streets and vehicle miles of travel generated from new growth.

- Fire General Government and Fire represent the largest growth-related operating expenses for Lawrence.

- Net deficits are larger in the second half of the analysis period primarily due to the compounding nature of debt service payments for growth related capital improvements, as well as the number of capital facilities required in the last half of the analysis period.

- The majority of growth-related revenue accruing to the City is property tax and sales tax.
E. Analysis Highlights

The following major conclusions can be drawn from this analysis:

- **The average annual net deficits generated in all subareas/scenarios indicate the City’s present revenue structure cannot provide current levels of service to new development without finding new revenue sources or raising existing rates.**

- **Unlike the fiscal findings from most communities, new growth generates net surpluses to the Operating Budget in Lawrence in all but one case.** This is because the City’s revenue structure is equally as reliant on sales tax as it is on property tax. Sales tax is a more broad-based revenue source than property tax.

- **The City is severely constrained as to the amount of revenue available for support of capital improvements needed to serve new development.** The City’s primary source for funding capital infrastructure is General Obligation bonds, which are financed over a period of 20 years and paid back through property tax. The only other sizeable source of capital funding is an annual transfer made from the General Fund to the Capital Improvements Project Fund. However, most of these funds go simply to maintain City facilities and equipment. The amount of this transfer is also driven by what the City can afford in a given year and often comes in as a lower priority than ongoing operations funding. Because the current revenue sources available to the City to fund capital improvements to serve new development are so limited, the City should consider alternative financing sources such as impact fees for growth-related infrastructure, particularly for roads, fire, police and parks and recreation.

- **The analysis does show that the City benefits from encouraging traditional neighborhood development (TND) reflecting New Urbanism principles.** The TND scenarios assumed in the South of Wakarusa River and West of K-10 Areas generate deficits that are 10% lower than the Suburban alternatives evaluated for each area. These fiscal results would have been even better if a greater amount of the development in each Area was assumed to be TND neighborhoods. For example, only 21% of the residential development assumed in the South of Wakarusa River Area and 29% of the residential development assumed in the West of K-10 Area utilized TND principles.

- **The results for the Airport Industrial Park Area and the Southeast Area-Industrial Option show that the City benefits from encouraging additional nonresidential development, especially in the office, business park and industrial categories.** As shown in the Cost of Land Use Fiscal Analysis prepared earlier for the City by
TischlerBise, the costs to serve these land uses are relatively low compared to residential land uses.

- From a land use policy perspective, it is important to acknowledge that fiscal issues are only one concern. Environmental, housing affordability, jobs/housing balance, traffic and other issues must also be taken into consideration when making final assessments on what is best for the City.
The Planning Department is working with TischlerBise to provide growth scenarios for future Lawrence growth areas. This is for a Cost of Growth Study that TischlerBise has been contracted to perform for the City.

This memo covers two of the scenarios that are needed by TischlerBise. These two scenarios are suburban projections for growth west of K-10 and south of the Wakarusa River. Staff is still working on Traditional Neighborhood Design (TND) scenarios for those two areas, a predominantly residential scenario and a predominantly industrial scenario for the Southeast Area, and a scenario for an industrial development near the airport.

**West of K-10**
The draft growth scenario for West of K-10 was developed using a combination of adopted policy, existing conditions, and projections based on past build-out patterns in west Lawrence. The map provides a conceptual full-build out land use option for the area west of K-10. **The map's purpose is to assist with a cost of growth study and should not be construed as formal land use policy for the area.**

Table 1 breaks down the potential land uses by acreage. There is an identified school site at N1500 Rd and E 800 Rd that is part of the public/institutional acreage. The commercial calculations are based on an existing commercial site at the southeast corner of the area. What is not included in the acreage for commercial land use are the other identified commercial centers on the map. These commercial centers are identified in Horizon 2020 as future Neighborhood Commercial Centers. The maximum allowed commercial square footage of Neighborhood Commercial Centers is 125,000 square feet.

Also not reflected in the table is an acreage calculation for parks and open space. Staff was hesitant to show future parkland on this growth scenario map. Research by staff has shown that developed sanitary sewer basins in Lawrence typically have 10-15% of parks and open space. That percentage could be used to derive an acreage calculation for Parks and Open Space.
MEMORANDUM

To: Dave Corliss, Assistant City Manager  
City of Lawrence, Kansas

From: L. Carson Bise II, AICP, Vice President  
TischlerBise

Date: February 8, 2006

Subject: Status Report on Fiscal Impact Study

This memorandum summarizes the status of the fiscal impact analysis TischlerBise is conducting for the City of Lawrence. As you are aware, we have been in a holding pattern on the Phase I Cost of Land Uses Analysis since the beginning of November, while we worked with the County on obtaining assessment information for each of the land use prototypes. We have recently resolved the situation regarding the assessment data. However, due to the delay in obtaining this information the firm has had to commit to other projects and time commitments, so I will not be able to physically begin working on the Phase I Cost of Land Use Study report until the end of February. Once I begin work, I anticipate a two week turnaround.

In an effort to get the project back on track, there is information pertaining to the Phase II Fiscal Analysis of Growth Scenarios that City staff can begin assimilating. It was agreed upon during our conference call with City Council in early November that the Phase II analysis would incorporate the following growth alternatives:

- Area west of K-10 – Two scenarios, one reflecting suburban style development versus a more new urbanism slant.

- Area south of Wakarusa – Two scenarios, one reflecting suburban style development versus a more new urbanism slant.
- Area east of O'Connell – Two scenarios, one reflecting predominantly residential development versus predominantly industrial.

- Airport area – One scenario reflecting business park development.

For each of these subareas and for each scenario, the buildout potential will need to be determined for each type of land use to be included, as well as the likely absorption schedule. Any legwork that can be completed prior to the conclusion of the Phase I Cost of Land Uses Study would certainly help matters.

Let me know if you have any questions concerning this memorandum.