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LAW:Making Friends and Influencing Regulators

Measuring Community Impacts of Development Projects

As urban densities increase, many developers are experiencing heightened government scrutiny, and occasionally strident neighborhood opposition, for their projects. Projects that require some form of public participation or subsidy are frequently delayed or even derailed, sometimes even when the local officials agree that the project would be good for the community but they simply can't overcome neighborhood opposition.

Measuring the positive community impacts of a development project and articulating these impacts in objective terms can provide local officials with a solid place to stand when they try to stand up for a project that faces neighborhood opposition. But what are community impacts? How should they be presented? How can they be determined? These questions have been somewhat unsettled in the past. The science is blending with the art, and while economic impacts are usually complex with many variables, credible standards have emerged that allow for an apples-to-apples conversation.

Community impacts are different from the more traditional measures of fiscal impacts, which have long been used by local governments to evaluate the costs of development and compare the costs of alternative development proposals. Community impacts not only take fiscal impacts into account, they also measure the benefits of development proposals.

What are Community Impacts?

Community impacts fall into three categories: direct, indirect and induced. Direct impact is the economic result of the initiating, or primary, economic activity. In the case of a development project, direct impacts are those that occur both during construction and operations. They include the wages and taxes related to the construction jobs, and the employees in the project during operations. In addition, the construction expenses that remain within a jurisdiction should be measured by allocating percentages of the materials and similar costs that are attributable to local vendor relationships.

Direct impacts during operations include wages; property and other taxes; service contracts such as HVAC, landscaping, waste disposal, advertising and the like; and retail expenditures with vendors in the jurisdiction.

Indirect and induced impacts are the secondary forces set in motion by the direct impact that work their way through the local economy. Indirect and induced effects are the subsequent series of jobs and earnings that are created as the initial direct earnings filter through the economy. Examples are the incomes of new restaurants established to serve

the new residents who came for jobs at the project.

The economic impact multiplier is a number that represents this iterative process, in a single figure. The multiplier will be different depending on the type of development. It is typically far higher, for instance, for a manufacturing business than it is for a retail business. Establishing the economic impact multiplier is a complex process that requires relatively high sophistication, and takes into account a statistical analysis called the location quotient technique. This process includes an analysis of the businesses within the area that sell their goods or services outside the jurisdiction, and those that trade within the jurisdiction, compared with national averages for key indicia of economic characteristics. For retailers, the multiplier may be in the range of 2.5 to 4. For manufacturing businesses, it may be as high as 30 or more.

Land Use and Public Financing Implications

In the Multnomah/Clark County metropolitan area of Northern Oregon and Southern Washington, the shortage of industrial lands is a growing and serious problem. While retail, residential and some commercial uses bring higher land values and immediate returns of property taxes, the economic impact multiplier of a manufacturing business may be 10 times higher than a retail business. This means the community realizes far higher benefits from allowing light and heavy industrial users, though they are typically very difficult to site. Industrial users are difficult to site in part because of small parcelization, and the scarcity of appropriately zoned properties served by infrastructure. One of the results of urban growth restrictions is to subdivide parcels, allowing increasingly dense development. Most industrial users require large, flat sites. As the urban growth boundaries are adjusted to allow for additional industrial lands, they frequently take in rural areas that are not served by adequate infrastructure to support the industrial user. The solution for this is government participation in financing the infrastructure, but that support is difficult to obtain over neighbors' objections to high traffic, noise and other characteristics that may accompany industrial uses.

An effective, credible impacts study can help elected officials demonstrate the desirability of a particular use, and defend their decision to allow it over neighborhood objections. In addition, the credible impacts study may demonstrate that a public investment in infrastructure is an economically sound decision—even though it may be a big number—because of the long-term benefits a project will bring to the community.

Methodology and Resources

Fiscal impacts and community impacts should both be taken into account. Fiscal impacts are a projection of the direct, current public costs and revenues associated with residential or nonresidential growth to the local jurisdiction in which the growth is taking place. In other words, they are a measurement of the increased burden to the local government's resources that results directly from the proposed development. Community impacts are measurements of the direct, indirect and induced economic effects of the proposed development on the community as a whole, including benefits to members of the community.

Measuring fiscal impacts requires examining costs and revenues from the perspective of local government. It does not consider private costs of public actions, such as systems development charges or local improvement districts. Costs include the salaries, overhead, facilities and related expenses of supporting local government services at the level appropriate to accommodate the new development, including costs paid to private vendors and service providers. Revenues include increased taxes, as well as intergovernmental funds such as federal school funds made available because of increased population in the schools. Both must be directly tied to the development activity and measured in current terms. A typical methodology for measuring fiscal impacts from a residential development is the per-capita multiplier method. This method utilizes demographic information by housing type, and the per capita cost of delivering police, fire and school services, among others. The analyst uses companion methodology to separate the costs related to nonresidential uses, then determines an average per capita cost attributable to the increased number of residences proposed in the project. While this is a simplified statement of a fairly complex analysis, the general methodology is well-accepted.

Community impacts methodology is not as well-established, and because direct, indirect and induced impacts are measured, it has a higher number of variables and is more subject to debate. However, effective evaluation of community impacts is clearly very important for local governments. In response to this need, Fannie Mae and the Federal Reserve partnered to create the FedFIT program, which stands for Federal Fiscal Impact Tool. This product is available online, as are several other credible software tools. The Pennsylvania Land Use site offers one, as does the Indiana Local Government Information Page, through the Purdue University cooperative extension service. The National Association of Home Builders and the State of Florida have also developed software tools that are available on the Web. Many private consultants provide analysis. The author's law firm provides FedFIT reports as a service to its clients.

The FedFIT program includes a detailed database of economic, tax, employment and other data for each county in the U.S. This is critical to a competent analysis for many reasons, including the need to establish the multiplier effect by taking local economic factors and exporting business characteristics into account. The FedFIT program is free and available for download on the Internet, though managing inputs and producing reports does take some training and time. Because the program was developed as an economic development service for local governments, the results produced with FedFIT are more likely to be accepted at face value than results produced by programs that were created by industry or advocacy groups.

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