Fiscal Impact Analysis of Haywood County Growth Scenarios

Prepared for:

Haywood County, Tennessee

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EXECUTIVE SUMMARY

TischlerBise, as a subcontractor to LRK, prepared this fiscal impact analysis of growth and development scenarios in Haywood County formulated by LRK in coordination with TischlerBise and the Chesapeake Group. This report provides findings and detail on the Fiscal Impact Analysis. In general, a fiscal impact analysis determines whether revenues generated by development are sufficient to cover the resulting costs from that development for service and facility demands under current levels of service. It is intended to be used to help guide policy decisions regarding levels of service and revenue enhancements. It should not be viewed as a budget-forecasting document or a definitive roadmap depicting a future course of action. A fiscal analysis essentially looks at revenues and expenditures separately. It does not project expenditures based on revenues available—unlike the annual budget process where a budget is balanced with the resources available.

TischlerBise evaluated four different land use scenarios for their net fiscal impact on the County's General, Solid Waste, Highway, General Purpose School, and Debt Service Funds. The quantitative assumptions of these scenarios are shown in Figure 1 below. These scenarios were developed in conjunction with LRK and County staff and are based on existing conditions in Haywood County, as well as recent and projected trends. Each of the four scenarios has unique characteristics, allowing the County to understand the fiscal impacts and implications of various development-related variables over time. All of these scenarios feature the same quantities of each type of development modelled over the time period discussed, but they differ in the spatial distribution of this development.

Potential Growth Scenarios

As shown in Figure 1, TischlerBise evaluated four different land use scenarios, which are discussed in this section. An obvious development scenario is the base case, or current characteristics of growth continuing. Therefore, a *Business as Usual* scenario was developed using current distribution trends – with a majority of new growth occurring in unincorporated parts of the County.

Some parties, such as incorporated cities and towns, may be interested in fiscal results should growth occur more evenly between areas within current municipal boundaries and unincorporated areas, either through an intervention strategy or through natural market forces. Therefore, a *Minimally Guided Dispersed Development* scenario was developed, reflecting increases in municipal share of housing units, population, nonresidential square feet, and jobs, along with corresponding decreases in unincorporated parts of the county.

The *Community Focused and Clustered Countryside* scenario reflects a further increased share of residential and nonresidential growth within current municipal borders as well as more concentrated, or clustered, rural residential development. The *Cluster* housing development type modelled in this analysis, seeing its greatest quantity under this scenario, represents housing in concentrated areas of the unincorporated county and minimized development in other unincorporated areas.

The scenario differing the most from *Business As Usual* is the *Community Concentration and Countryside Conservation* scenario. This scenario assumes most residential and nonresidential growth will occur within current municipal borders. As far as the County and municipalities may have priorities of rural land preservation or efficiency of service and infrastructure provision, this scenario simulates addressing them most aggressively.

Figure 1. Summary of four Growth Scenarios

	BUSINESS AS USUAL	MINIMALLY GUIDED DISPERSED DEVELOPMENT	COMMUNITY FOCUSED AND CLUSTERED COUNTRYSIDE	COMMUNITY CONCENTRATION AND COUNTRYSIDE CONSERVATION
RESIDENTIAL DEVELOPMENT	*[20-Year Net New Growth]*	*[20-Year Net New Growth]*	*[20-Year Net New Growth]*	*[20-Year Net New Growth]*
HOUSING UNITS-MUNICIPALITY	2,014	2,350	3,021	4,028
HOUSING UNITS-ADJACENT	1,343	1,343	1,007	1,007
HOUSING UNITS-4-WAYS/RURAL	0	336	672	1,007
HOUSING UNITS-CLUSTER	0	671	1,007	336
HOUSING UNITS-RURAL	3,357	2,014	1,007	336
TOTAL HOUSING UNITS	**6,714**	**6,714**	**6,714**	**6,714**
CITY POPULATION	4,314	5,034	6,471	8,629
UNINCORPORATED AREA POPULATION	10,068	9,348	7,911	5,754
	14,382	**14,382**	**14,382**	**14,382**
PUBLIC SCHOOL STUDENTS	**2,069**	**2,069**	**2,069**	**2,069**
NONRESIDENTIAL DEVELOPMENT				
COMMERCIAL SF-CITY	387,000	451,500	580,500	774,000
TOTAL CITY SF	**387,000**	**451,500**	**580,500**	**774,000**
COMMERCIAL-ADJACENT	258,000	258,000	193,500	193,500
COMMERCIAL-COUNTRYSIDE	0	193,500	322,500	258,000
COMMERCIAL-RURAL	645,000	387,000	193,500	64,500
INDUSTRIAL	3,000,000	3,000,000	3,000,000	3,000,000
TOTAL UNINCORPORATED SF	**3,903,000**	**3,838,500**	**3,709,500**	**3,516,000**
TOTAL NONRESIDENTIAL SF	**4,290,000**	**4,290,000**	**4,290,000**	**4,290,000**
CITY JOBS	**968**	**1,129**	**1,451**	**1,935**
UNINCORPORATED AREA JOBS	**6,967**	**6,806**	**6,483**	**6,000**
TOTAL JOBS	**7,935**	**7,935**	**7,935**	**7,935**

Source: Haywood County and LRK
Employment converted to square footage using ITE employment multipliers

Assumptions and Methodology

A fiscal impact analysis determines whether revenues generated by new growth are sufficient to cover the resulting costs for service and facility demands placed on the County. It is based on cost and revenue assumptions that reflect a community's current level of service. TischlerBise analyzed the fiscal impacts of four alternative development scenarios based on current countywide levels of service and any additional known infrastructure or service needs. A projection timeline of 20 years is used to show long-term trends.

The fiscal impact analysis conducted by TischlerBise incorporates a marginal cost approach. The assumptions outlined below are utilized along with the development projections to determine the potential fiscal impact to the County over the 20-year projection period. Calculations are performed using a customized fiscal impact model designed specifically for this assignment.

For this analysis, only costs to serve new growth are included. Both operating and capital costs are modeled. Some costs are not expected to be impacted by demographic changes and may be fixed in this analysis. For example, this is true for some functions included under the County budget. Other general items to note in the analysis:

- Operating costs are generally projected on a marginal basis where possible with demand factors specific to the service being modeled. Personnel costs are modeled to reflect the fact that some types of positions (e.g., directors) are fixed and would not increase regardless of growth.
- Capital costs are based on level of service standards and interviews with department personnel.
- Major capital expenditures are assumed to be pay-go; reflecting the true costs to serve growth, regardless of whether the resources are available to cover the costs.

LEVELS OF SERVICE

Cost projections are based on the "snapshot approach" in which it is assumed the current level of service, as funded in the County's 2022-2023 budget, will continue through the projection period. Current demand base data was used to calculate unit costs and service level thresholds. Examples of demand base data include population, dwelling units, employment by industry type, and jobs. In summary, the "snapshot" approach does not attempt to speculate about how levels of service, costs, revenues, and other factors will change over 20 years. Instead, it evaluates the fiscal impact to the City as it currently conducts business under the present budget.

Revenues are projected assuming that the current revenue structure and tax rates, as defined by the 2022-2023 budget, will not change during the analysis period. Of particular note are the following:

- County property tax is modeled based on the cumulative assessed (taxable) value of projected residential growth.
- Sales tax is projected based on an analysis of retail demand that apportions a share of retail demand on households versus "brick and mortar" retail space.

INFLATION RATE

The rate of inflation is assumed to be zero throughout the projection period, and cost and revenue projections are in constant 2023 dollars. This assumption is in accord with current budget data and avoids the difficulty of forecasting as well as interpreting results expressed in inflated dollars. In general, including inflation is complicated and unpredictable. This is particularly the case given that some costs, such as salaries, increase at different rates than other operating and capital costs such as contractual and building construction costs. These costs, in turn, almost always increase in variation to the appreciation of real estate. Using constant 2023 dollars reinforces the snapshot approach and avoids these problems.

Summary of Fiscal Impact Results

COMBINED FUNDS

This discussion presents the combined results for the General Fund, Solid Waste Fund, Highway Fund, General Purpose School Fund, and Debt Service Fund. The analysis factors in all variable revenues generated by future growth/development. All operating and capital costs attributable to future development are included in the analysis.

Figure 2. Cumulative Net Fiscal Impact Results: Combined Funds

Cumulative Fiscal Results by Fund - Scenario Comparisons
Haywood County Fiscal Impact Analysis

Category	SCENARIO			
	BUSINESS AS USUAL	MINIMALLY GUIDED DISPERSED DEVELOPMENT	COMMUNITY FOCUSED AND CLUSTERED COUNTRYSIDE	COMMUNITY CONCENTRATION AND COUNTRYSIDE CONSERVATION
General Fund				
Revenues	$200,049	$220,313	$237,117	$251,373
Expenditures	$222,840	$214,554	$197,659	$173,167
GENERAL FUND NET FISCAL IMPACT	**($22,791)**	**$5,759**	**$39,458**	**$78,207**
Solid Waste Fund				
Revenue	$10,919	$10,923	$10,915	$16,368
Expenditures	$16,760	$16,765	$16,753	$16,791
SOLID WASTE FUND NET FISCAL IMPACT	**($5,841)**	**($5,843)**	**($5,838)**	**($424)**
Highway Fund				
Revenue	$12,280	$13,842	$15,186	$16,368
Expenditures	$31,350	$30,706	$30,356	$28,565
HIGHWAY FUND NET FISCAL IMPACT	**($19,070)**	**($16,864)**	**($15,170)**	**($12,197)**
General Purpose School Fund				
Revenue	$266,542	$279,224	$290,137	$299,697
Expenditures	$241,251	$241,251	$241,220	$241,251
GENERAL PURPOSE SCHOOL FUND NET FISCAL IMPACT	**$25,291**	**$37,973**	**$48,917**	**$58,447**
General Debt Service Fund				
Revenue	$16,319	$19,332	$21,932	$24,196
Expenditures	$174,703	$173,324	$170,094	$166,335
GENERAL DEBT SERVICE FUND NET FISCAL IMPACT	**($158,384)**	**($153,992)**	**($148,162)**	**($142,140)**
GRAND TOTAL				
TOTAL REVENUE	$506,109	$543,635	$575,286	$608,002
GRAND TOTAL EXPENDITURES	$686,904	$676,601	$656,081	$626,109
GRAND TOTAL NET FISCAL IMPACT	**($180,796)**	**($132,966)**	**($80,795)**	**($18,107)**
AVERAGE ANNUAL NET IMPACT	**($9,040)**	**($6,648)**	**($4,040)**	**($905)**

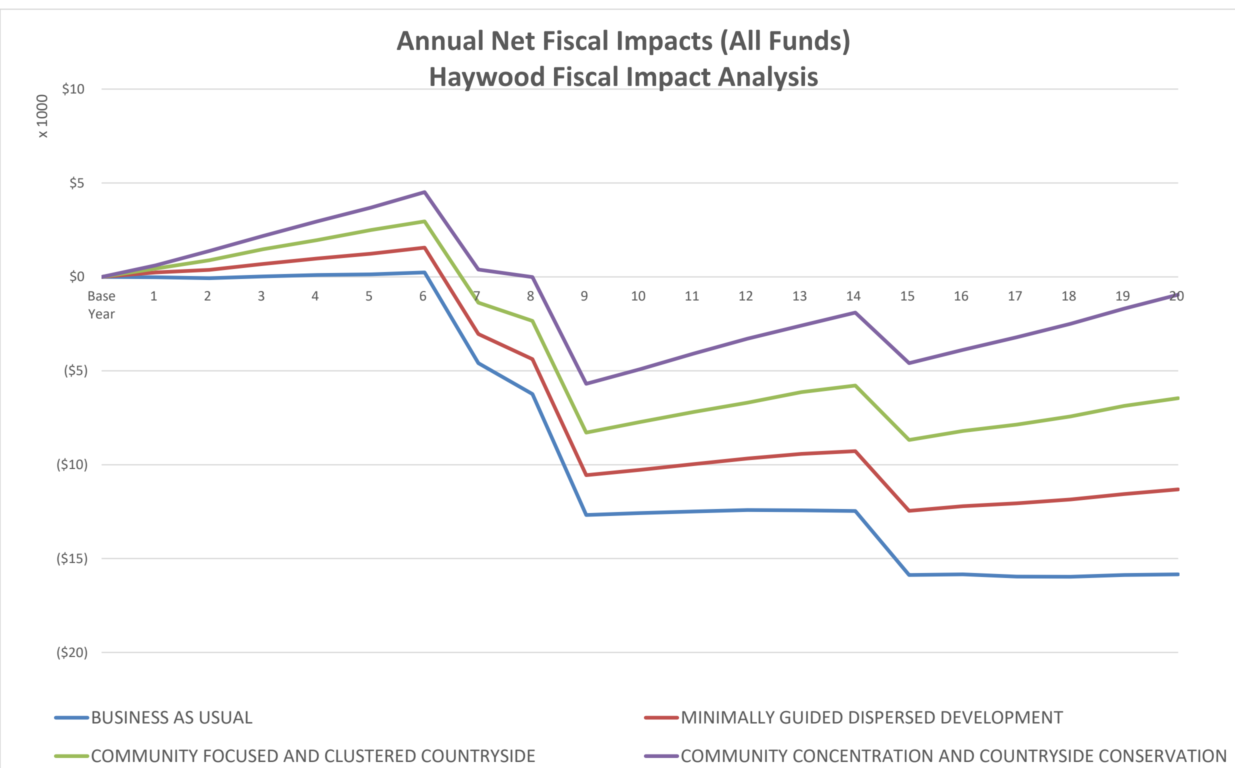
In terms of all Funds combined, all four proposed growth scenarios are fiscally negative to the County. Comparing available resources to projected costs reveals sufficient revenues to cover the projected expenditures for each of the scenarios except for Business as Usual for the General Fund and each of the scenarios for the General Purpose School Fund, while costs exceed revenues for the Solid Waste Fund and Highway Fund. The following bullet points highlight the fiscal results for each scenario.

- The 20-year cumulative net fiscal impact for the Business as Usual scenario is a $180,796 cumulative deficit, with an average annual net deficit of $9,040.
- The cumulative net fiscal impact for the Minimally Guided Dispersed Development scenario is a $132,966 cumulative deficit, with an average annual net deficit of $6,648.
- The cumulative net fiscal impact for the Community Focused and Clustered Countryside scenario is a $80,795 cumulative deficit, with an average annual net deficit of $4,040.
- The cumulative net fiscal impact for the Community Concentration and Countryside Conservation scenario is a $18,107 cumulative deficit, with an average annual net deficit of $905.

Figure 3 below show the annual net fiscal results to the County for the four scenarios over the 20-year development period. By showing annual results, the magnitude, rate of change, and timeline of deficits and revenues can be observed over time. The “bumpy” nature of the annual results during particular years represents the opening of capital facilities and/or major operating costs being incurred.

Net fiscal results are **revenues minus costs in each year**, including operating and capital costs. Data points above the $0 line represent annual surpluses; points below the $0 line represent annual deficits. Surpluses in any one year are not carried forward to the next year.

Figure 3: Annual Net Fiscal Impact Results (x$1,000): Combined Funds



Summary of Results

The following bullet points highlight the key findings from our fiscal impact analysis of Haywood County’s growth scenarios.

- The Community Concentration and Countryside Conservation and Community Focused/Clustered Countryside scenarios generate the best fiscal results.
    - The County benefits from development concentrated in the municipalities (lower costs).
- All four scenarios generate positive fiscal results to the General Fund and General Purpose School Fund.
    - Average annual surpluses range from 1% to 15% of current General Purpose School Fund revenue.
- Net deficits are generated in the Highway/Public Fund.

  - Although property tax is generated, gas tax from the State is a revenue source that is relatively flat and non-growth related.
- Net deficits are generated in the Solid Waste Fund.
  - This is not surprising given expenditures exceed revenue in the current Fiscal Year Budget.
- The positive overall General Fund fiscal results in three of the four scenarios are not surprising given the amount of nonresidential development assumed as part of all four scenarios.
  - Current jobs to housing ratio is 0.31.
  - The four scenarios assume a jobs to housing ratio of 1.82.
- By directing growth to the municipalities and areas adjacent, the County received the following fiscal benefits.
  - General Fund costs are less due to lower law enforcement costs, as patrol functions are typically limited to the unincorporated County.
  - Highway Fund/Public Works Fund costs are less due to lower road maintenance costs.
- It is very likely that new residents to the County will expect/demand higher levels of service than the County currently provides, which will increase County costs.
- Another consideration when reviewing the preliminary fiscal results is that no transportation capital costs have been factored.
  - The County has historically not been in the road building business, so there is no level of service to model.
  - There will likely be a need for significant road improvements in and around Brownsville in particular to accommodate the amount of nonresidential development potential and residential densities in Community Focused and Community Concentrated scenario.
- School costs in the fiscal analysis are likely understated.
  - The demographic characteristics of families moving to the County will likely be different, resulting in more school age children per household.
- Property tax revenue in all scenarios is likely understated, as is local option sales tax.
  - The housing products and development patterns advocated in the scenarios represent a substantial variation over what exists in the County today.
- A fiscal impact analysis is not the same as local governmental budgeting.
  - Regardless of the findings of the fiscal impact analysis, the County and cities will continue to develop a service plan, budget for those services, and identify necessary capital improvements based on the revenues available
- Fiscal issues are just one area for a locality to consider when making land use decisions or setting policy.
  - Environmental, economic, transportation, affordable housing and equity benefits must also be considerations.