

**STUDY SESSION
OF THE UNIVERSITY CITY COUNCIL**
5th Floor of City Hall
6801 Delmar
October 28, 2019

AGENDA

Requested by the City Manager

1. MEETING CALLED TO ORDER

The City Council Study Session was held in Council Chambers on the fifth floor of City Hall, on Monday, October 28, 2019. Mayor Terry Crow called the Study Session to order at 5:30 p.m.

In addition to the Mayor, the following members of Council were present:

Councilmember Steven McMahon
Councilmember Paulette Carr
Councilmember Jeffrey Hales
Councilmember Tim Cusick
Councilmember Stacy Clay
Councilmember Bwayne Smotherson

Also in attendance was City Manager, Gregory Rose; City Attorney, John F. Mulligan Jr., and Carson Bise, President of TischlerBise

2. CHANGES TO REGULAR COUNCIL AGENDA

Councilmember Carr requested that Item K (2); Economic Development Retail Sales Tax Board Recommendations, be reviewed on a line-by-line basis.

3. ECONOMIC AND FISCAL IMPACT STUDY

Mr. Rose stated Council expressed an interest in learning more about the fiscal and economic impacts Wash U has on the City. So with that in mind, he has invited Carson Bise of TischlerBise to provide Council with a presentation that explains what this type of study would encompass.

Mr. Bise stated he has been doing this type of work for twenty-nine years; has led the American Planning Association's Plan for Growth Task Force; he has been a Board member of the Growth and Infrastructure Consortium, and is the author of several books on this topic. So, after several discussions with Mr. Rose regarding Council's desire to learn more about Wash U's fiscal and economic impact on the City, he thought he would provide an overview of a fiscal and economic impact analysis, with an emphasis more on the fiscal side of things; fiscal analysis basics, and examples of how other communities have used this information.

TischlerBise

- National Practice working in 39 states
- National leader in fiscal and economic impact analysis, infrastructure financing evaluations, revenue strategies, and planning
- Fiscal Impact Evaluations (800+)
- Impact Fees (900+)
- Public and Private Sector Experience

The Planning Process Today

- Most local governments do not know the true cost of development decisions or if the current land use plan is fiscally sustainable

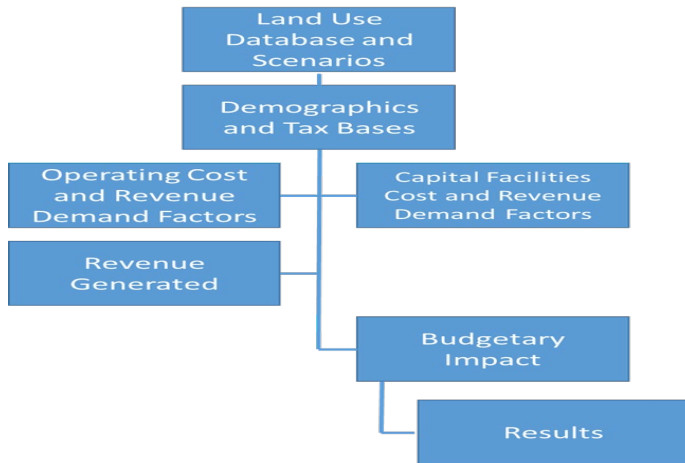
- Has/Is growth really paying for itself?
- Many communities are still feeling a "slight hangover" from the Great Recession

The National Leagues of Cities' publication that looks at revenue generation by local governments indicates that these revenues are still not at their pre-recession levels; which typically takes about three years.

- What is the market for certain uses?
- Should development be incentivized? If so, what types? What is the return on investment?
- Increased funding responsibilities on localities
- Decreasing state and federal funding
- How can localities make up the difference?

Elements of the Fiscal Equation

- Revenue Generated is referred to as the cash-flow to the public sector.



How is Fiscal Impact Different than Economic Impact?

Mr. Bise stated he cannot count the number of times he has encountered development communities who hold up a report that purports to say their development project will pay for itself. And what happens in a lot of these cases is that there is a blurring of the lines between fiscal impact and economic impact, so it's important to distinguish the differences.

- The economic impact is the private cash-flow to the private sector.
- A great deal of the cash-flow does not stay within jurisdictional lines, it's sometimes regional in nature and depending on the magnitude of the project it can be statewide in nature.

It's important to understand these cash-flows and whether or not there is a direct fiscal benefit to a local government. And a lot of that is dependent on your revenue structure.



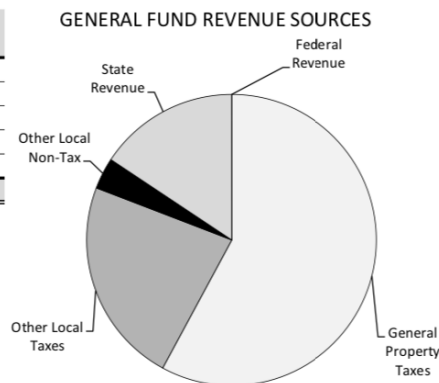
Mr. Bise stated a question he often gets asked, is what is the difference in what your company does and what our finance and budget folks do on a regular basis? There are two main differences:

- Your annual budgeting process is a fiscally constrained operation looking at past revenue trends to project certain revenues out into the future, which also must follow state revenue formulas for other types of revenue sources.
- A fiscal impact analysis does just the opposite. It looks at what it costs to maintain current levels of service across the board and projects that forward. Which is a huge assumption because most local governments are not maintaining levels of service across the board based on their fiscally constrained tightrope.

Fiscal Impact vs. Revenue Forecasting

- Municipal budgeting is primarily “revenue-driven”
 - Revenue forecast is used to establish spending targets
- Fiscal impact analysis is not revenue constrained
 - Forecast expenses needed to maintain current levels of service

Source	FY-20 Estimate	Component Share
General Property Taxes	\$ 348,907,916	57.90%
Other Local Taxes	\$ 138,147,102	22.92%
Other Local Non-Tax	\$ 21,058,169	3.49%
State Revenue	\$ 94,469,167	15.68%
Federal Revenue	\$ 35,000	0.01%
Total General Fund	\$ 602,617,354	100.00%



What Questions Can be Answered?

- Land use policies and development patterns
 - What is the relationship between development densities and infrastructure costs?
 - What is the optimum mix of land uses?
 - What is the relationship between the geographic location of new development and the cost?

- Leveraging public dollars for economic growth (incentives)
 - *How to invest limited funds to maximize return*
 - *Redevelopment*
 - *Tax increment financing*
- Timing on impacts
 - *Are we living off tomorrow's growth?*
- Annexation
- Demographic and economic change
 - *Boomers aging in place*
 - *Gen X is the largest group of homebuyers*
 - *Millennials are deferring home buying*
- Impact of behavioral trends
 - *New patterns in consumption*
 - *Traditional retail is dying*
 - *Shifting away from cars?*
 - *Walkable urbanism*

Methodologies

- Case study-marginal approach
 - *Reflects fiscal reality*
 - *Dependent on local levels of service*
 - *Available capacity triggers the staging of facilities*
 - *Reflects geographic differences*
- Average cost approach
 - *Focuses on per capita/employee*
 - *Doesn't consider available capacities*
 - *Masks timing*
 - *Uses average (current) costs*
 - *Budget in equilibrium*

Common Perceptions

- Residential development doesn't pay for itself
- Nonresidential development always generates net surpluses

Mr. Bise stated what he believes you will see as he goes through this presentation is that these perceptions are not that simple.

Drivers of Fiscal Equation

Revenue Structure

- What are your growth-related revenue sources?
- How are they distributed?

Characteristics of Development

- Income
- Persons per household
- Generation rates

Fiscal Impacts

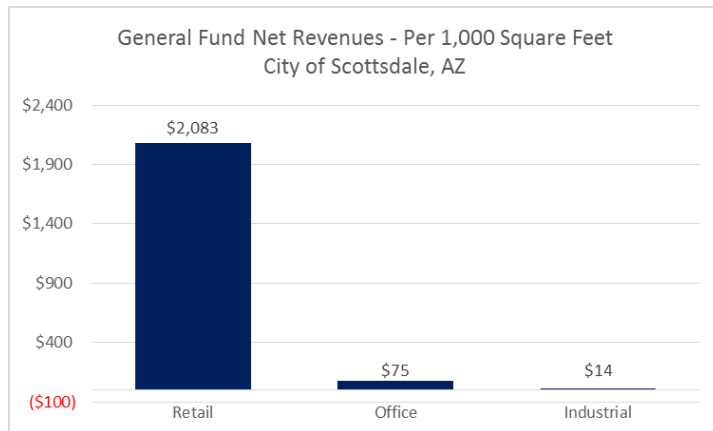
Infrastructure Capacity/Lifecycle

- Where are you in the lifecycle of a City
 - *A rapidly growing greenfield City*
 - *An aging inner-ring suburb*
 - *Downtown central city*

Levels of Service (Costs to Serve)

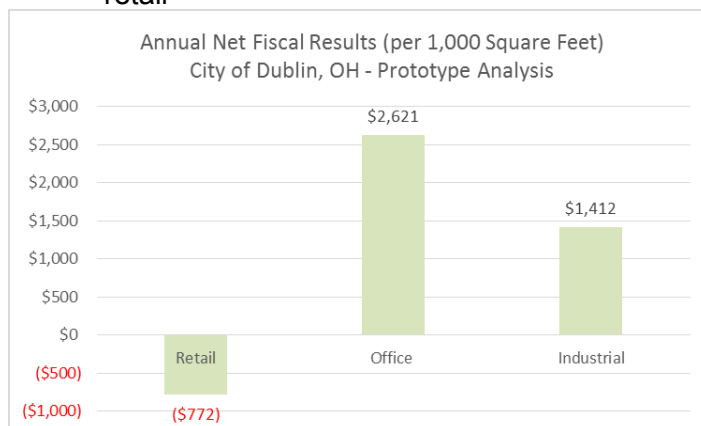
Revenue Structure as Driver - Arizona

- Locality with Point of Sale Sales Tax
- On a per thousand square foot basis retail generates substantially more benefits than office and industrial development



Revenue Structure as Driver - Ohio

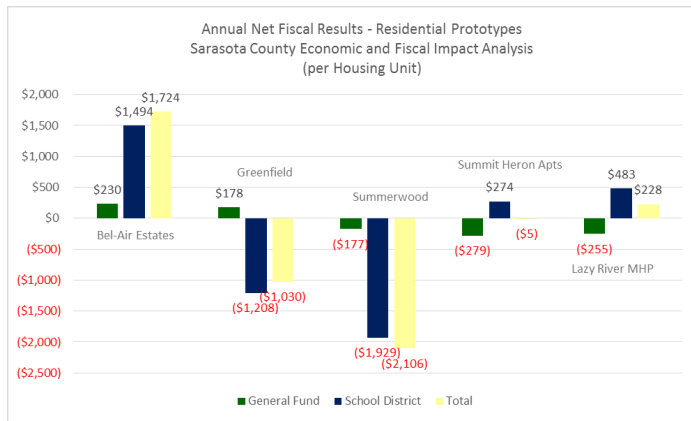
- Locality with Local Income Tax by place of Job Location
- Office and industrial development generates substantial surpluses compared to retail



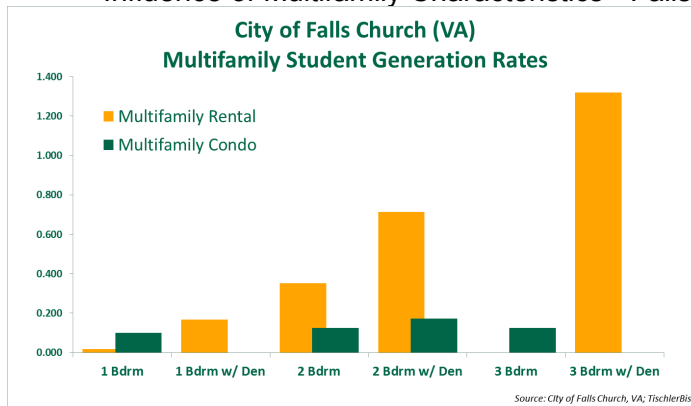
Demographic Characteristics as Driver - Sarasota County, Florida

- Influence of Single-Family Characteristics
 - *The influence of social economics is seen in Bel-Air Estates; primarily in empty-nesters; high assessed values*
 - *Greenfield and Summerwood are entry and mid-level units with younger families, lower assessed values, high numbers of people generation, and generates deficits*

You cannot say that one land use will generate a surplus or deficit because it depends on so many different factors.



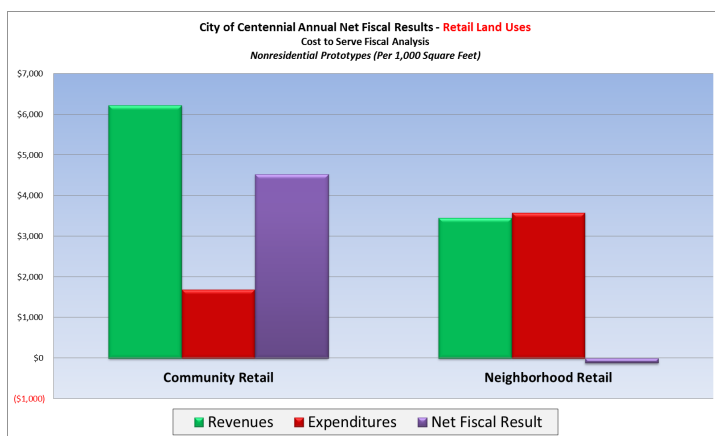
• Influence of Multifamily Characteristics - Falls Church VA



Changing Retail

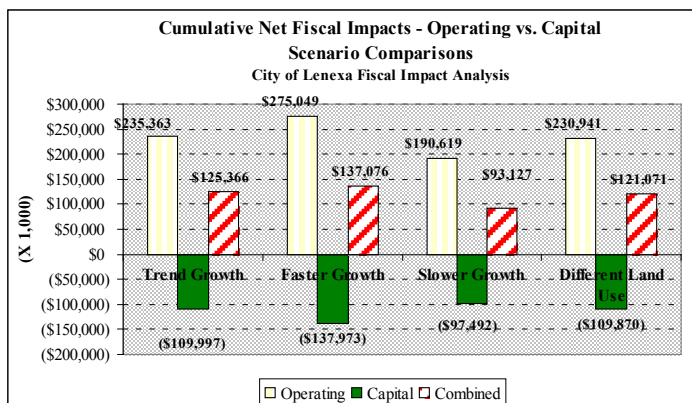
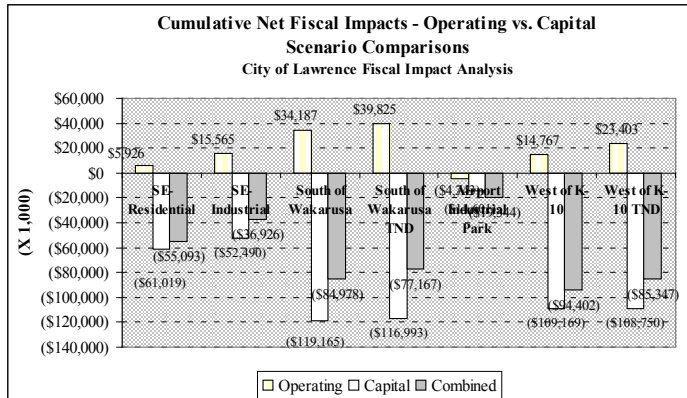
- What happens to revenue when retail space shifts to services

This is something a lot of communities are dealing with, particularly in sales tax based economies. The result; taxable sales per foot plunges over time.



- A tale of two cities
 - An example of infrastructure capacity in two cities located 45 minutes apart
 - Growth paid for itself in Lenexa, but not in Lawrence.
 - Lenexa is an older city where its footprint has already been laid.

- *Lawrence is growing on the fringes, having to rapidly expand its infrastructure footprint.*



Fiscal Impact Analysis in Practice

Project Analysis

- Most common type of fiscal impact analysis
- 1 or multiple proposed development programs in a limited geographic area over a specified period of time
- Analyzes the fiscal impact of a combination of proposed uses
- Usually prepared in conjunction with a development proposal, so incremental (does not evaluate impact of development in rest of jurisdiction)

The Dangers:

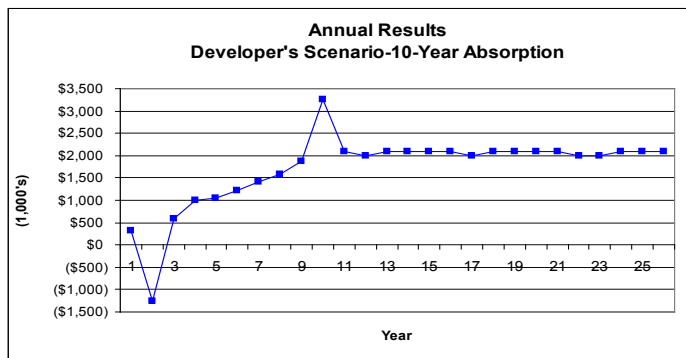
- Looking at development proposals from a very optimistic absorption schedule. When you look at things from a project level you want to look at different schedules to ensure you are well armed; what happens if there is a recession; what happens given the changing nature of retail, et cetera.
- Looking at things just on the project level where each development is in isolation, rather than what happens in total.

Draper, UT: SunCrest Development

- Built on a mountainside outside of the built environment of the City

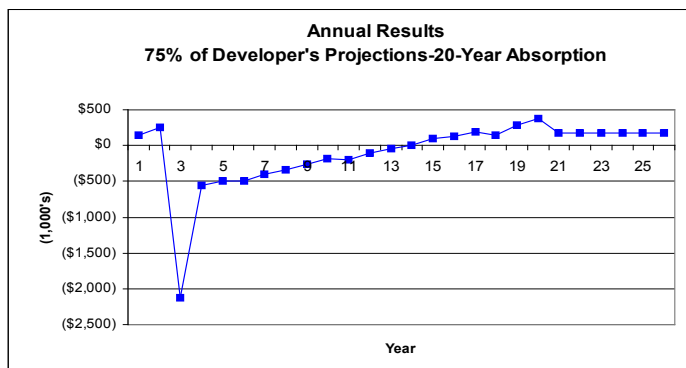
Developer's Scenario:

- Look what a great deal this is
- You have a deficit near one because we have to build a public safety annex up on the mountainside and after that, it's gravy for you all



Different Scenario:

- What happens over 20 years where you only get 75 percent of the absorption
- No surpluses are seen until roughly year fourteen

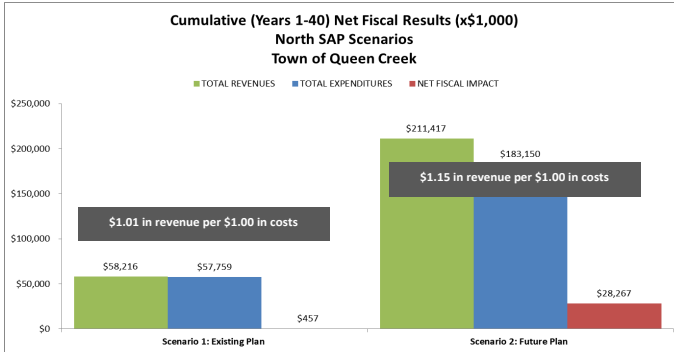
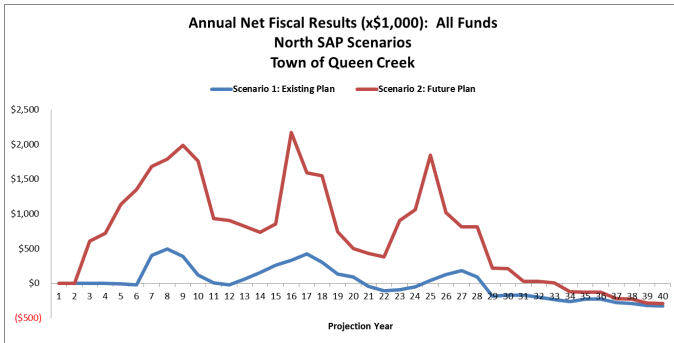


Area-wide Analysis

- Can be applied to a neighborhood, several contiguous neighborhoods, an entire city, county, or region
- Usually 10-20 year timeframe
- Common to evaluate multiple development scenarios with various land use mixes/patterns, paces of growth, or economic activity
- Largely performed in conjunction with the planning process to look at the economics of the visioning process

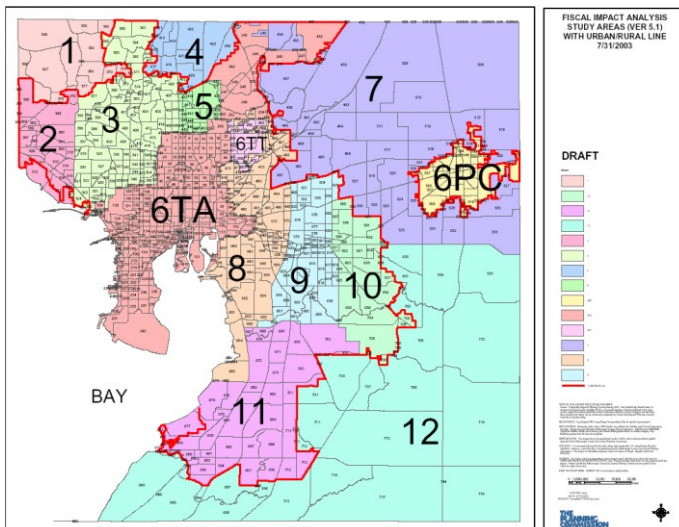
Small Area Plan Fiscal Analysis Findings

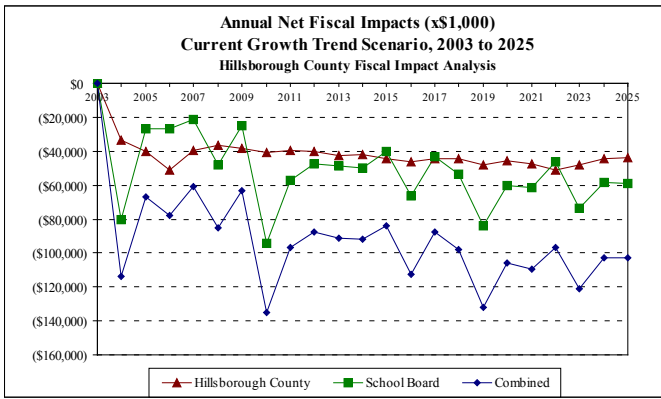
- The City was holding out for retail space, not understanding their place in the larger economy. The development community was pressuring the City to rezone certain areas because there was no market for retail.
- TischlerBise was hired to do a market and fiscal analysis which determined that the development community was right



Hillsborough County, FL

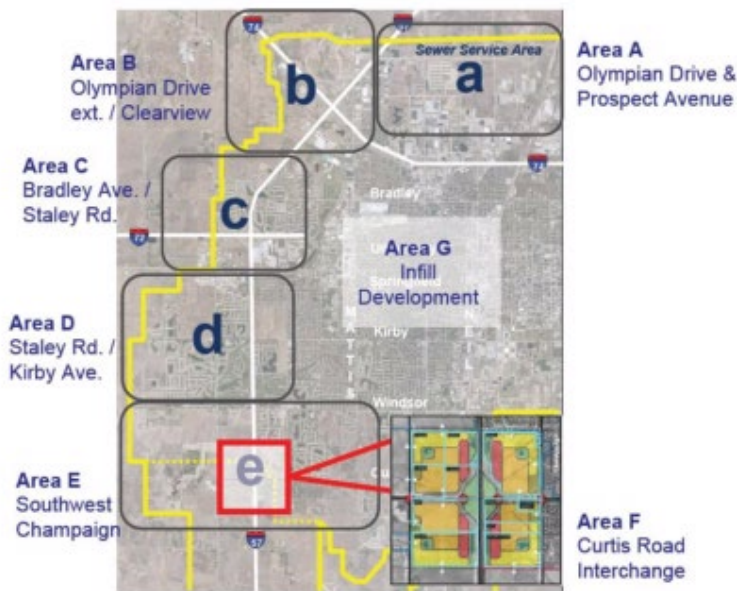
- You cannot treat development homogeneously. There are different areas of your city that have different styles of development, different assessed values, and different characters that should be reflected in a fiscal model so that you reflect the type of retail or office uses you have in sort of the main street type areas vs. the more suburban types of uses.
- This graph shows the impact of using marginal costing which is dependent on your infrastructure capacity as a city.



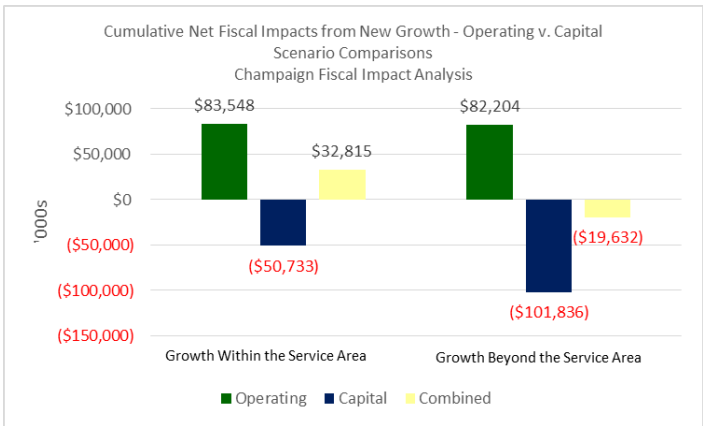
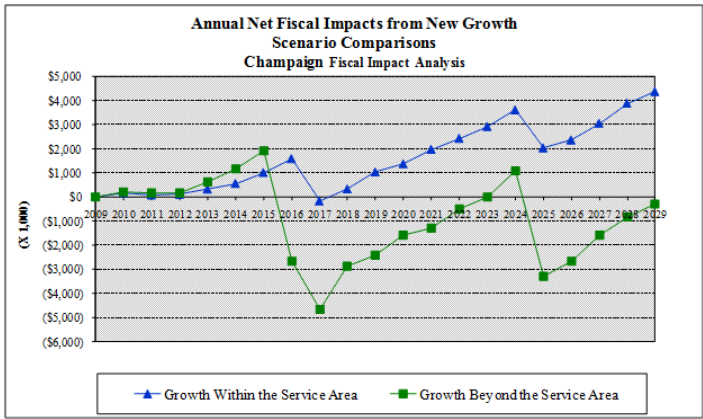


Champaign, IL

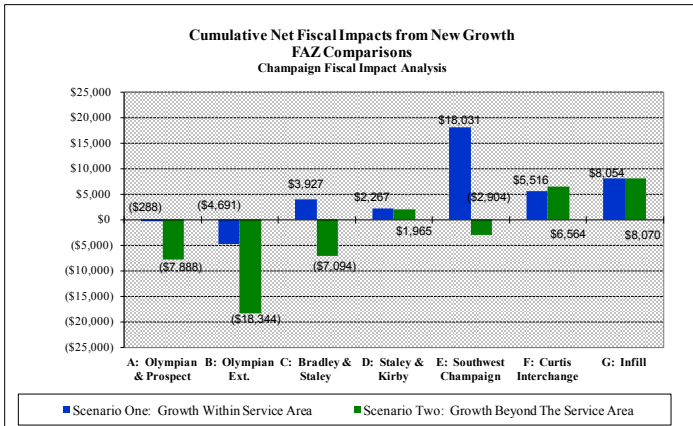
- A three-phased study to answer:
 1. What are the fiscal impacts of current land use?
 2. What are the fiscal impacts of future growth?
 3. What happens if you allow growth to occur outside of the urban sanitary sewer service boundary?
 4. How to raise revenue without raising taxes?
- TischlerBise dissected Champaign by subareas because each of these areas in the community had different characteristics.
- Growth within the service area was a much better fiscal option for the community



- Deficits are generated to the capital fund, but the operating fund is generating surpluses.
- The operating budget is the budget that is funded by a city's largest growth-related revenue sources
- It is much easier to fund capital deficits than it is operating deficits



- Results by subareas



Champaign Findings

- The City is severely constrained as to the amount of revenue available for support of capital improvements needed to serve new development
 - *The City should consider alternative financing sources such as impact fees for growth-related infrastructure, particularly for road projects*
 - *The implementation of a tiered impact fee program, that charges more for development further out, could assist the City in directing development in a phased manner*

Parting Thoughts

- Fiscal impact analysis is both a science and an art
 - *It is not uncommon to have differences in fiscal studies prepared by two groups. There is a lot of leeway given to the analyst in terms of methodology and assumptions. So, it needs to be well-vetted to ensure it passes the straight-face test.*
- A “one size fits all” approach leads to generalizations
 - *Each jurisdiction is unique*
 - *Results can indicate the opposite of reality*
- Fiscal impacts are only one part of the equation. Other things to think about:
 - *Affordable housing*
 - *Environmental policies*
 - *Transportation goals, et cetera*
 - *The idea is to look at things long-term to make sure that the land use plan is fiscally sustainable*
- The goal should be to educate constituency
- Garbage in, garbage out
 - *The analysis must include a clearly written rationale explaining methodology and assumptions*
- Focusing on the fiscal impacts at the expense of other impacts
 - *Environmental, social, economic, transportation*
 - *Fiscal zoning*
- Overlap of government entities
 - *What about the School District?*
- Beware of advocacy disguised as analysis!!!!

Councilmember Carr asked Mr. Bise what was meant by the comment related to King's Creek where he stated that instead of retail they were looking at an increased density that produced its own organic increase, and what might Council take away from that? Mr. Bise stated in Arizona the towns and cities rely heavily on sales tax. What is generated in the community stays in the community, so obviously, it is important for them to grow their sales tax base. But when you are a very low-density community that is not likely to capture a Best Buy or Home Depot, then the only way to continue to grow your sales tax revenue is by increasing your density. We encouraged mixed-use because that activity generates its own service and retail uses that serve its residents and still increases their tax base without having to rely on attracting big box stores. Councilmember Carr stated if you increase your density her assumption is that you would also be increasing retail services so that residents don't have to drive 25 miles? Mr. Bise stated that's right. And there are also the efficiencies that come with density. For instance, from a transportation perspective if the density is high enough and there are alternative modes available, you could have higher internal trip capture that reduces transportation and road maintenance costs.

Councilmember Carr stated when she looks at the problems specific to U City, she sees marginal increases as something U City would be more interested in. From her perspective, the University has changed what apparently was the City's goal up until around 2011. Council; which includes herself, was a bit overwhelmed and may not have understood the impacts of buzz words like Transportation District, walkable, bikeable, or sustainable. And quite frankly, some of us are still dealing with whether these were realistic changes. It seems as though the City's biggest fear; at least from her constituent's point of view, is the impact that a tax-exempt institution is imposing on this community. And while she thinks this presentation has just educated everyone on the importance of looking at fiscal impact as opposed to a gut feeling, there are some things she believes are almost intuitive. So her guess is that one remedy for increased taxes as a result of unpaid services is to look at fees or other things that would help equalize the City's revenue stream? Mr. Bise stated since he has not conducted an analysis, he does not have the answer to that question. But it is clear that the University does have an economic impact on this community.

His company has quite a bit of experience in university communities and has completed fiscal and economic analyses of those impacts in places like Chapel Hill, North Carolina, Virginia, Urbana, Evanston, and a few other places.

He stated if U City is getting no direct revenue from the University and they are not voluntarily making payments in lieu of taxes, then the economic impact needs to be cycled through the fiscal model. If they are not giving you direct revenue, you could be getting indirect revenue from their economic spinoff. And so the real questions when you run that through the fiscal model are, is that indirect revenue enough to offset those direct and indirect impacts? Councilmember Carr stated from her prejudiced and very biased point of view, she does not see a lot of indirect revenue. And how she sees this falling out is more as a provider/recipient as opposed to a more equitable situation.

Councilmember Clay asked Mr. Rose if this presentation was related to the Wash U Fiscal Impact Study that Council had expressed an interest in? Mr. Rose stated this is the first step towards educating the Mayor and Council on what a Fiscal Impact Study of Wash U would entail. Councilmember Clay stated although the information did provide a foundation, it was not specific to Council's actual desires with respect to the end product. So, is this simply the first of several presentations? Mr. Rose stated the intent was to provide Council with a very general overview of what this type of study would encompass, and then outline what he sees as being the next steps. So, if Council decides to move forward, this information will assist him with creating a scope of work and calendar outlining the timeframe for each stage. He stated at this point, Mr. Bise has not conducted any analysis of U City.

Mr. Bise stated you simply cannot make a blanket observation or assessment of what the outcome is going to be because it is dependent on so many different factors. For instance; what is the University's enrollment; how much of the enrollment lives on-campus versus off-campus; to what extent are there overlaps between the public safety function and the University. And those things vary from community to community.

Councilmember Cusick asked Mr. Rose if he could explain the relationship of the report prepared in November of 2018 by Mr. Bise's company and provided to Council on September 27th, to today's presentation? Mr. Rose stated the 2018 report was provided to give Council a general sense of the type of services TischlerBise provides. And if it is acceptable to the Mayor and Council, his intent is to develop a very specific scope of services and engage TischlerBise to perform the analysis.

Councilmember Smotherson asked if there was an anticipated timeframe for the completion of a study like this? Mr. Bise stated typically they take around three and a half months.

Mr. Rose stated if it is acceptable, he will move forward with creating a scope of service and calendar for Council's review and approval? *(Council provided both verbal and nonverbal consent to proceed.)*

4. ADJOURNMENT

Mayor Crow thanked Mr. Bise for his presentation and adjourned the meeting at 6:05 p.m.

LaRette Reese
City Clerk

