What is Fiscal Impact Analysis?

Fiscal impact analysis is a tool that compares, for a given project or policy change, changes in governmental costs against changes in governmental revenues. For example, a major residential development project in Town A will mean new residents that require new services and facilities such as fire and police protection, libraries, schools, parks, and others. At the same time, Town A will receive new revenues from the project in the form of property tax revenues, local sales tax revenue, and other taxes and fees. A fiscal impact analysis compares the total expected costs to the total expected revenues to determine the net fiscal impact of the proposed development on Town A.

Typical revenues and costs in a fiscal impact analysis include (but are not limited to) the following:

- Property tax
- Sales tax
- Income tax
- Other local taxes
- Water and sewer fees
- One-time construction-related fees
- Impact fees
- Miscellaneous fees
- Increased staffing costs
- Water and sewer and other infrastructure costs
- Road maintenance costs
- Public school costs
- Police and fire protection costs
- New parks and recreation facilities
- Miscellaneous costs

There are several standard methodologies that can be employed in a fiscal impact analysis. The two general approaches to fiscal impact analysis are *average* costing and *marginal* costing:

- **Average Costing:** This method establishes an existing average cost per unit of service. So for example, to understand new road maintenance costs in Town A, this methodology would calculate the average cost per road-mile in the town currently. This average cost would then be multiplied by the number of new road miles added to the Town because of the development.

  Similar to the average costing approach is the "Proportional Evaluation Method" that uses the proportion of local property the development comprises (typically measured by assessed value.) For example, if the development in Town A increases the town's total assessed value by 1%, then under this method it is assumed that the town's costs and revenues will increase by 1%. This 1% factor is only applied to those costs and revenues likely to be affected by the Project.

- **Marginal Costing (Case Study):** The marginal approach addresses the Town's *capacity* to deliver services. For example, If Town A does not have the equipment or manpower to maintain the new roads, then additional costs will be incurred to purchase new equipment and hire additional staff. Conversely, a school district may have excess space due to historically declining enrollments, obviating the need to build new schools for an influx of new residents.

  This approach involves case studies and interviews with local officials and experts. It takes a more detailed look at the deficient (or excess) capacity to deliver services by getting more precise estimates of how different government bodies will be affected by a given development.