

## Development: Will It Pay or Cost Your Community?

New development generates revenues as well as costs. One of the important factors communities should determine as they set land use policy is the fiscal impact of new development.

New revenues include:	New costs include:
<ul style="list-style-type: none"> <li>• Property taxes,</li> <li>• Income taxes,</li> <li>• Motor vehicle taxes,</li> <li>• Charges,</li> <li>• Fines, and</li> <li>• Fees.</li> </ul>	<ul style="list-style-type: none"> <li>• New roads,</li> <li>• Sewers,</li> <li>• Police &amp; fire protection,</li> <li>• Parks,</li> <li>• Additional teachers, and</li> <li>• New school buildings.</li> </ul>

Larry DeBoer, Purdue Extension Economist, explains, “Communities can determine the fiscal impact of new development by comparing these new revenues to these new costs.”

If new revenue exceeds new costs, the fiscal impact is positive, meaning the local government can more than meet new demand for services and perhaps reduce taxes for existing taxpayers. If new revenue falls short of new costs, however, the fiscal impact is negative, and the local government must raise taxes to meet new service demands.

According to DeBoer, “Much research from Indiana and the U.S. suggests that industrial and commercial development tends to have positive fiscal impacts,



while residential development has negative fiscal impacts.” He adds, “Agriculture ranks between commercial/industrial and residential development.”

### Fiscal Impact Study in Tippecanoe County

DeBoer, along with Lei Zhou, Purdue agricultural economics student, studied four housing developments with different characteristics in Tippecanoe County, Indiana, to discover the fiscal impacts of new development for the county and school corporation. The first housing development consisted of relatively expensive single-family homes with four or more bedrooms. The houses in the second development were mostly higher to medium-priced homes with three to four bedrooms. Lower to medium-priced homes with three to four bedrooms comprised the third development. And the fourth development was a mobile home park with 377 mobile homes and a few permanent structures.

Table 1 illustrates the total long-term impacts of the four housing developments on Tippecanoe County.

### Just One Piece of the Puzzle

DeBoer says, “Remember, a development’s fiscal impact is but one of the factors to consider when deciding land use policy.” Other factors include:

- What is the development’s full economic effect?
- What is the development’s environmental effect?
- Are there equity issues that should be considered?

“It is easy to imagine developments that create jobs and income yet have negative fiscal impacts or have harmful environmental effects yet have positive fiscal impacts,” DeBoer adds. Fiscal impact is important, but it is only one of the many factors communities must consider in setting land use policy.

Table 1. Fiscal Impact of Four Housing Developments on Tippecanoe County, Indiana

	Expensive Homes	Higher to Medium-Priced Homes	Lower to Medium-Priced Homes	Mobile Homes
No. of Units	36	52	66	377
Average Price	\$330,000	\$140,000	\$90,000	\$18,000
Fiscal Impact on County	\$90,000	\$8,045	-\$13,997	-\$120,449
Fiscal Impact on School Corp.	\$41,360	-\$8,128	-\$17,304	-\$48,954

