

ILRC FACTSHEET: COST OF COMMUNITY SERVICES DATA AND THE LOCAL PLANNING PROCESS

Cost of Community Services (“COCS”) studies are a case study approach used to determine the fiscal contribution of existing land uses on local government budgets. These studies do not prescribe a course of action, but simply provide an assessment of a community’s fiscal situation with regard to different types of land use.¹ COCS studies are a snapshot in time of costs versus revenues for each type of land use. They provide a baseline of current information to help local officials and citizens make informed land use and policy decisions. COCS studies are helpful in understanding the relationships between residential and commercial growth, agricultural land use and the community’s bottom line.² This data is critical when planning for the future balance and placement of growth in a community.

METHODOLOGY

In a COCS study, researchers compare the local government service costs, or expenditures, or appropriations, to revenues collected to pay for those costs. Generally, researchers use three sectors for the comparisons: residential, agricultural and business. Residential development includes all housing, such as rentals. Agricultural land includes farm and forest lands and other open spaces. Business development includes commercial, industrial and utility uses.

COCS studies findings are displayed as a set of ratios that compare annual revenues to annual expenditures for a community’s unique mix of land uses. The ratio tells whether each group “gets what they pay for.” If the ratio of the costs of services to revenues paid is greater than one, it implies that these taxpayers receive more in service value than they pay (or impose

more costs on local governments than they support). If the ratio is less than one, it implies that taxpayers pay for more than they receive.

COMPREHENSIVE PLANNING AND COCS DATA

COCS studies provide valuable information for local governments to use in planning for future growth. There is a high price to pay for unplanned growth. Scattered development and sprawl can cause traffic congestion, air and water pollution, loss of open space and increased demand for costly public services. By anticipating impacts of growth through understanding demand for services in relation to tax revenue generated, informed decisions can be made with regard to balancing land uses.

Almost all COCS studies show the residential sector with ratios greater than one, and the agricultural and business sectors with ratios less than one. Although there are many factors on the revenue and expenditure side that can impact the ratios, there is an extensive amount of evidence that communities that proactively plan for growth have lower residential COCS ratios.³ Examples of proactive planning for growth include ordinance standards to manage rural residential development and non-regulatory techniques such as placement of sewer and transportation infrastructure.⁴

An assessment of the fiscal contribution of existing land uses is an important tool that can be used along with other data in the comprehensive planning process to achieve the following objectives:

¹ Kotval, Z. and J. Mullin, *Fiscal Impact Analysis: Methods, Cases, and Intellectual Debate* (Working Paper). 2006, Lincoln Institute of Land Policy: Cambridge, MA 02138-3400, USA.

² Farmland Information Center, *Fact Sheet Cost of Community Services*, American Farmland Trust (Aug. 2007).

³ Kotval, Z. and J. Mullin, *Fiscal Impact Analysis: Methods, Cases, and Intellectual Debate* (Working Paper). 2006, Lincoln Institute of Land Policy: Cambridge, MA 02138-3400, USA. p. 27.

⁴ Kelly, E., *Managing Community Growth*, 2nd Ed. 2004, Praeger; Westport, CT. p. 77.

- Encourage new development of all types to take place in areas which it will be most economical to provide required services;
- Maintain a healthy mix of land uses, which provide places for people to live, work and play; and
- Preserve and protect those lands essential to the long term success of fiscally beneficial agriculture.

The COCS data should be utilized in the context of a comprehensive planning process that also considers: local demographic and economic trends; the availability and condition of public facilities necessary to serve new development; the topographic and ecological character of the jurisdiction; activities of other governmental agencies that influence local growth, ranging from INDOT to local school corporations; and quality-of-life data, as well as the community's aspirations and concerns.

LIMITATIONS OF COCS STUDIES

COCS results measure the revenue payments and the costs of services received of existing taxpayers. They offer the benefit of hindsight to see the fiscal effect of development patterns to date. The results are not sufficient for measuring the effect on local budgets of an additional specific development. This is because the ratios indicate the total, rather than marginal, costs of development patterns to date. Evaluating the marginal cost requires a different kind of analysis, called a fiscal impact analysis, which projects public costs and revenues for a specific development. The balance of revenues and expenditures for a specific development may be different than that of the land class as a whole. The marginal fiscal impact will depend on factors such as existing infrastructure and the location of the development. For example, the cost of a residential development may be high if it requires new infrastructure or it may be fiscally

beneficial if it diffuses the cost of existing infrastructure.

It is also important to note that the purpose of a COCS study is to focus exclusively on payment of taxes and receipt of government services. The ratios will not reflect the economic multiplier effect for each type of land use. For example, it will not include the economic multiplier effect of residential taxpayers through their patronage of local businesses. In addition, the ratios do not reflect the interdependence of land uses, such as the fact that residential development creates demand for new businesses in a community.

For more information, please visit the Indiana Land Resources Council website at <http://www.in.gov/isda/2545.htm>

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