

DRAFT
PHASE 2 REPORT:
FISCAL IMPACT ANALYSIS
OF EXISTING LAND USES
CITY OF GRASS VALLEY

September 3, 2004
(Revised 9/14/04)

Prepared for
City of Grass Valley

Prepared by
Applied Development Economics
2029 University Avenue • Berkeley, California 94704 • (510) 548-5912
1029 J Street, Suite 310 • Sacramento, California 95814 • (916) 441-0323
www.adeusa.com

CONTENTS

Executive Summary.....	i
Introduction.....	1
Fiscal Impact Model.....	3
Fiscal Impacts By Land Use Type.....	13
Fiscal Impacts Of Future Land Uses.....	17
Conclusion.....	20
Appendix: Budget Adjustments.....	21

FIGURES

1. Per Capita Revenue/Expenditure Comparison.....	i
2. Net Fiscal Impact of Land Uses per Residential Unit or 1,000 SF of Non-residential Space.....	ii
3. Grass Valley Tax Area Code Boundaries	8

TABLES

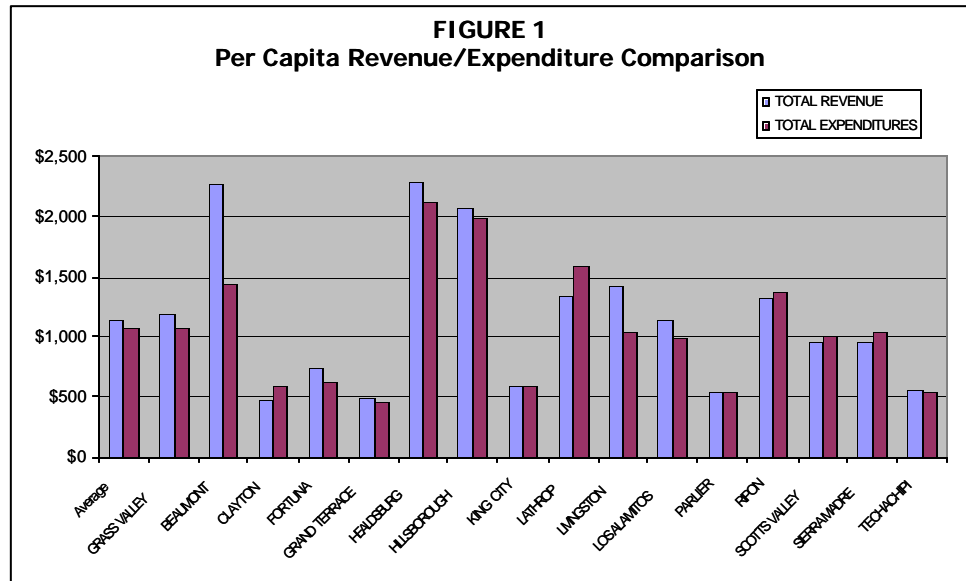
1 Existing Land Uses In Grass Valley, 2004	3
2 Grass Valley City General Fund Budget, 2003-2004.....	5
3 Distribution of Assessed Value by Land Use.....	7
4 Estimated Sales Tax Distribution	9
5 General Fund Revenue/Cost Per Capita Factors.....	11
6. Per Capita Revenue/Expenditure Comparison.....	12
7 Vacant and Residential Fiscal Impacts.....	14
8 Non-Residential Fiscal Impacts.....	16

EXECUTIVE SUMMARY

This report addresses the fiscal impact of existing land uses in the City of Grass Valley. It is the second of three planned reports for the SDA Annexation study. The Baseline Report, published in July 2004, describes recent trends in population, housing and employment growth in Grass Valley and the surrounding region. It discusses the potential for future growth and the land supply currently available in Grass Valley to support future development. The final report in the series will evaluate the economic and fiscal impacts of the proposed SDA annexations.

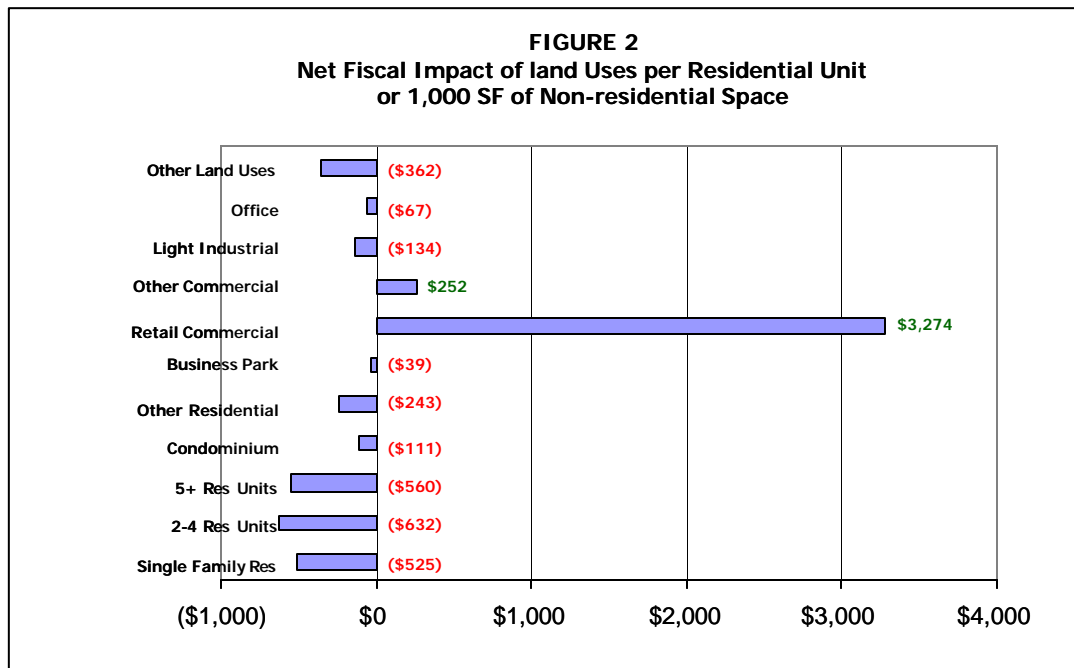
BUDGET SETTING

In the recently adopted city budget for 2004/2005, it is noted that, “The City remains financially sound with a general fund reserve of \$4 million critical for cash flow, emergencies, economic downturns, capital replacement and infrastructure needs.” As with all California cities, Grass Valley has had to cope with the effects of the state budget crises and the resulting shift of property tax and other revenues. But through sound budget practices it has been able to plan for the increasing costs of services. Analysis in this report demonstrates that Grass Valley’s level of spending for services is very comparable to other cities its size in California (Figure 1).



FISCAL IMPACT ANALYSIS

The fiscal analysis estimates the public revenues created by each type of land use, as well as the service costs associated with the various development types. As shown in Figure 2, residential uses tend to require more in service costs than they generate in revenues. This is very typical of most local jurisdictions in California. Due to the dampening effects of Proposition 13 on assessed values and property tax revenues, only higher priced housing generates enough revenue to fully fund the cost of public services. In Grass Valley, condominiums and single-family units provide a better fiscal impact than do apartments.



It is also important to note that household spending generates about 20 percent of the retail sales taxes for the City. This revenue is allocated to the retail commercial land uses because that better reflects the point of sale mechanism through which the City receives sales tax revenues. However, if these revenues were allocated to the residential land uses, it would reduce their negative fiscal impact by nearly 30 percent.

For non-residential uses, the sales tax drives the results as well. Retail and commercial uses that generate sales tax are a

net benefit for the City while other land uses do not quite pay for services they require. In Grass Valley, the Baseline Report estimated that 80 percent of the retail sales are made by non-residents, underscoring the City's position as a regional retail center.

The fiscal analysis is but one indicator of economic benefits from employment-generating land uses. Businesses located in business parks, industrial and office developments tend to offer jobs that pay higher incomes than do retail and visitor-serving jobs. These higher paying jobs support increased residential values and increased retail sales. Therefore, the results of the fiscal analysis should not be taken to mean that residential uses or job-generating uses are undesirable. Rather, the mix of commercial and other uses is simply an indication of the land use balance needed to maintain a sound fiscal foundation to provide services to residents and businesses alike.

Moreover, the City can mitigate the fiscal impacts of development by providing for a mix of housing at all income ranges, by establishing design standards that reduce the impacts on public services, and by requiring special assessments to fund service costs for which public revenues are insufficient.

ANALYSIS OF FUTURE LAND USES

The Phase 3 report will include a fiscal analysis of the proposed annexations to Grass Valley. That analysis will evaluate the costs of extending city services beyond the current city boundaries, including consideration of how much of the growth could be accommodated by existing service capacities. In addition, the City has adopted a tax sharing agreement with Nevada County for the property included in the annexation areas. Thus, the property tax revenues that the new development generates for the City will be different than that generated by existing development. Finally, the higher property values and more current design features of the development would be expected to increase revenues and reduce costs on a per unit basis in comparison to existing development. The analysis will determine if these effects would be offset by the need to expand City service departments to serve the larger geographic area.

INTRODUCTION

This report discusses how various land uses and business types contribute to the revenues and costs for city government. This work represents the first step in developing a fiscal impact model that will eventually be used to analyze four potential annexations in the City of Grass Valley. The study is the second report of a three-part study to evaluate the economic impacts of the proposed annexations. The first report, entitled Baseline Report, addressed the market trends for population, housing and employment growth in Grass Valley and the surrounding region. It included discussion of the jobs/housing balance in the area and the retail market in Grass Valley. The final report in the series will evaluate the economic and fiscal impacts of the proposed annexations, using the Baseline Report and the present Phase 2 report as a context.

The first part of the present report discusses how existing land uses within the city limits affect city revenues and costs. The second section of the report discusses how this information will be used and modified to address the potential impacts of proposed developments on property currently outside the city boundaries.

City government uses a variety of revenue sources to fund the operation of local services and the construction of public facilities. Some of these revenue sources are more affected by the land use mix in the City than are others. For example, property taxes and sales taxes are directly related to the type of property and the business mix in the City. On the other hand, the City's receipt of federal Community Development Block Grant funds is affected by the socioeconomic characteristics of the City but is not a function of the land use mix.

Also, the Grass Valley City Council has the ability to set certain tax rates and fees, such as the business license tax rate or building permit fees. However, the Council has only limited authority to set other tax rates, such as the property tax or the sales tax, or to apply additional taxes or fees, without the consent of a simple majority or a supermajority

of electors responding in an election. In considering the effect of existing and future land uses on the City budget, it is important to sort out the types of revenue and costs that are most pertinent.

In general, it is most important to isolate the effect of development on revenues which the City has less ability to raise, such as general taxes, than on direct charges for services which can be increased to meet rising costs as necessary. Consequently, the analysis is focused more on services funded by general tax revenues, such as the property tax and the sales tax among others, than on services funded by direct charges such as the water and sewer enterprise funds, building permit and plan check fees, or other fees charged directly to customers at City Hall. At this point, our assumption is that fees charged for specific services are adequate to cover the costs of those services.¹

At this stage in the process, the fiscal analysis addresses the effect of land use, including related population and business activity, on municipal operating costs and revenues. In the present report, such costs are primarily estimated on an average basis with only a brief discussion of the marginal costs to serve future development. As we move forward with a projection of the effects of potential future land uses, it will be important to consider the existing capacity in the city's service system and determine whether or not the incremental, or marginal, cost of serving new development is the same as the average cost of serving existing development. That analysis will likely depend to some degree on the location of the proposed new development in addition to the type of land use.

¹ A more in-depth study of City operations would be necessary to verify this assumption. However, if it is not the case, it is within the authority of the City Council to adjust the fee schedules.

FISCAL IMPACT MODEL

This chapter begins with an overview of land uses in Grass Valley, followed by a discussion of the City budget to help clarify some of the distinctions between costs and revenues raised above.

EXISTING LAND USES

The Phase 1 Baseline Report provides an inventory and analysis of existing land uses in Grass Valley. Those land uses have been programmed into the fiscal model as shown in Table 1. The assessed value figures have been estimated by matching County Assessor land use data files to the City's land use data used in the Baseline Report.

TABLE 1
Existing Land Uses In Grass Valley, 2004

Land Use	Units	Population
Residential		
Single Family Res	2,660	6,332
2 - 4 Res Units	743	1,473
5+ Res Units	1,439	2,850
Condominium	256	527
Other Res	692	818
Total Residential	5,790	12,000
Non-Residential	Sq.Ft.	Employment
Business Park	805,860	1,334
Retail Commercial	1,058,769	1,787
Other Commercial	698,790	1,738
Light Industrial	384,112	1,172
Office	475,152	1,112
Other Land Uses	449,104	2,501
Total Non-Residential	3,065,927	9,644

BUDGET OVERVIEW

The total actual expenditures according to the Fiscal Year 2002-2003 Audited Financial Statement for the City of Grass Valley are \$15,535,452—of which about 51 percent are for the General Fund and the remainder are for capital improvement projects, enterprise funds such as water and sewer services, redevelopment, and other special revenue funds.² Estimated General Fund expenditures for the 2002-

² Fiscal year 20002-2003 is the most recent period for which audited revenue and cost data are available.

2003 fiscal year are \$7,989,178 while revenues are \$7,645,297, augmented by \$696,533 in transfers from other funds. The top two revenue categories – General Sales Tax (\$3,881,370) and Property Tax (\$1,436,406) – account for nearly 70 percent of General Fund revenues. On the expenditure side, Police (\$2,685,702), Fire (\$1,162,943), and General Government (\$1,364,770) account for about 65 percent of all service costs.

BUDGET ADJUSTMENTS

In developing the fiscal impact model, some adjustments were made to the original budget figures, as shown in Table 2, in order to account for budget items that are not annually recurring (the detailed adjustments are listed in the Appendix). On the revenue side, these include intergovernmental grants (e.g. police grants), fees for zoning and building activities, and construction-related permits. On the cost side, the value of development-related fees and permits are deducted from the budgets of the planning and building departments. These adjustments are made for development-related costs and revenues because they typically occur at the building, planning and construction phase and do not represent an ongoing cost of government services once the buildings are completed. Similarly, other outside sources of funds that are not related to land use activity are deducted, as well as all capital project costs.

The total General Fund Budget after adjustments (i.e. net revenue) is \$7,319,047 for 2002-03, and adjusted General Fund expenditures are \$6,879,292.

REVENUE AND COST CALCULATIONS BY LAND USE

MAJOR REVENUES

The two major revenue categories of property tax and sales tax were allocated among the various land uses based on actual records of assessed value and tax receipts. In addition, transient occupancy tax is generated exclusively by lodging facilities. Other revenues are allocated on a per capita basis as discussed below.

TABLE 2
Grass Valley General Fund Budget, 2002-2003

REVENUES	BUDGET	ADJUSTMENTS	NET BASIS
GENERAL FUND			
Property Tax (Sec & Unsec)	\$1,436,406		\$1,436,406
General Sales Tax	3,881,370		3,881,370
Hotel-Motel Trans Tax	196,450		196,450
PG&E Franchise Tax	83,779		83,779
Solid Waste Franchise	36,079		36,079
Cable TV Franchise	94,501		94,501
Business License Tax	143,459		143,459
Motor Vehicle Lic Fees	720,569		720,569
Planning Fees	63,987	63,987	0
Fire Services Fees	60,712	42,753	17,959
Eng./ PW Fees	42,115	34,785	7,330
Animal Shelter Fees	37,044	27,000	10,044
Police Fees	158,440	84,574	73,866
Parks Fees	68,973	3,749	65,224
Misc Revenue	151,161	72,672	78,489
Water Fund	112,000		112,000
Sewer Fund	144,000		144,000
Interest Earnings	214,522		214,522
General Fund Subtotal	7,645,567	379,520	7,316,047
Gas Tax (to Gen. Fund)	3,000		3,000
SUBTOTAL	7,648,567	379,520	7,319,047
EXPENDITURES			
General Government	1,364,770		1,364,770
Police (incl Training)	2,685,702	259,070	2,426,632
Animal Control	172,676	27,000	145,676
Fire	1,162,943	42,753	1,120,190
Community Development	440,424	63,987	376,437
Streets	499,980	29,000	470,980
Engineering	217,200	34,785	182,415
Other Public Works	319,456	155	319,301
Parks & Rec (excl Maintenance)	157,062	3,479	153,583
Parks Maintenance	331,768	12,460	319,308
SUBTOTAL	7,351,981	472,689	6,879,292
TOTAL NET	\$296,586	(\$143,169)	\$439,755

Source: City of Grass Valley Fiscal Year 2002/2003 Audited Financial Statement.

PROPERTY TAX

The City receives a portion of every property tax dollar paid by property owners within the city's boundaries. In the core of the city this proportion is as high 27 percent, but in more

recently annexed areas the City’s share is about 12 percent.³ In between these extremes, the proportions decrease as the distance from the core increases (see Figure 1 and the chart below). The City has adopted a tax sharing agreement with Nevada County that provides for both property tax and sales tax sharing for future annexation areas.

Tax Allocation Code	Map Color	City Tax Percentage
1072	dark green	27
1000	blue	26
1006	purple	22
1073	yellow	20
1056	red	19
1054	light green	14
1051	turquoise	13
1061	orange	12

For the present analysis, the distribution of property tax revenue across the various land uses was based on an analysis of assessed valuation (AV) data obtained from the Nevada County. This data set includes over 3,500 records with detailed parcel information such as owner name and address, site address, valuation, and a set of land use codes used by the Nevada County Assessor. The analysis involved sorting the data by land use and, in some cases, site address in order to calculate the total assessed valuation by land use. The results of this analysis are summarized in Table 3 below.

Residential properties generate about two-thirds of the property tax for the City, followed by retail commercial at about 10 percent of the total.

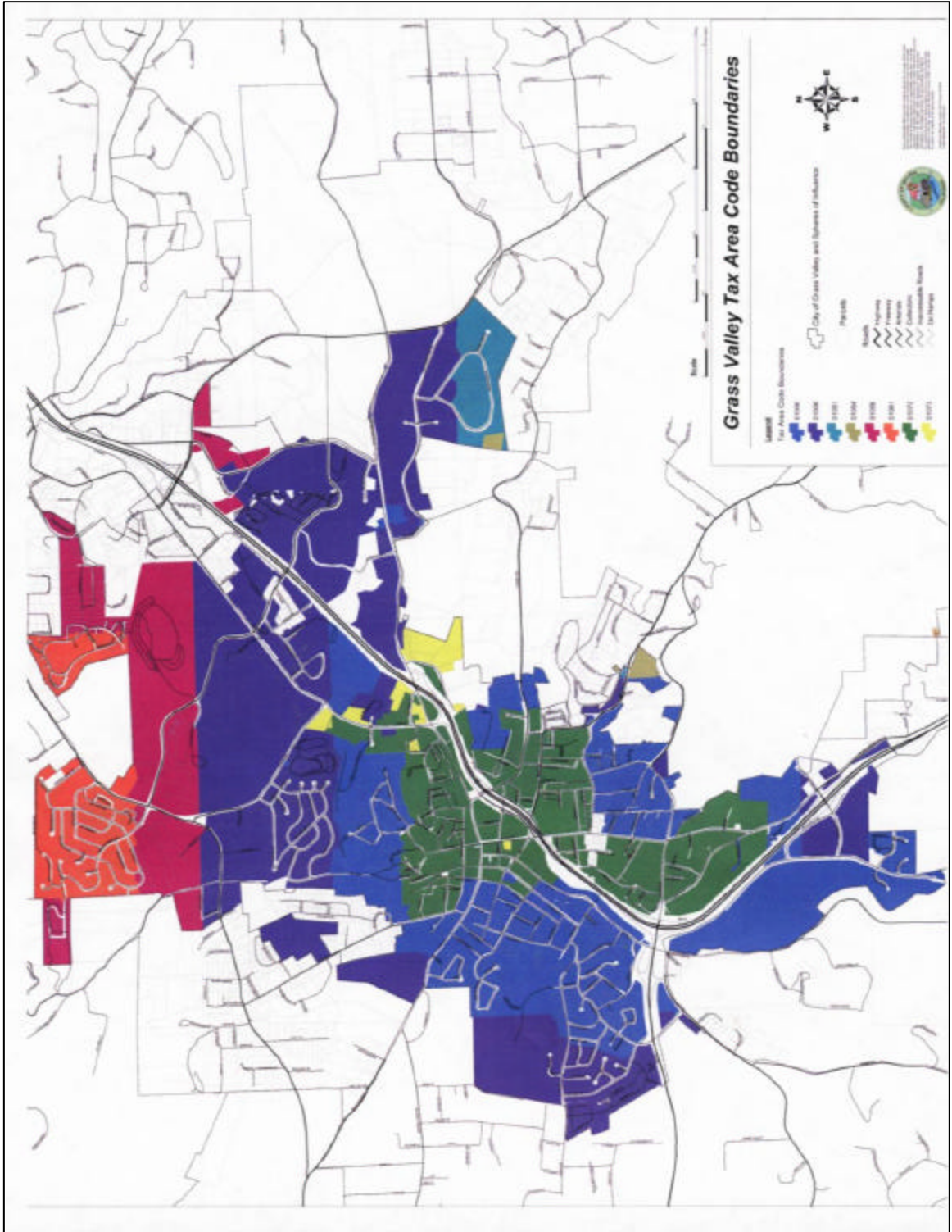
³ The amount of tax the City receives is reduced by about three percent for the State Educational Revenue Augmentation Fund (ERAF).

TABLE 3
Distribution of Assessed Value by Land Use

Land Use	Assessed Value	Percent
Vacant	\$63,160,754	6.9%
Residential		
Single Family Res	\$400,179,973	43.8%
2 - 4 Res Units	\$3,553,435	0.4%
5+ Res Units	\$69,821,174	7.6%
Condominium	\$87,577,658	9.6%
Other Res	\$58,377,357	6.4%
Total Residential	\$619,509,597	67.7%
Non-Residential		
Business Park	\$42,736,780	4.7%
Retail Commercial	\$91,078,996	10.0%
Other Commercial	\$18,625,440	2.0%
Light Industrial	\$21,876,148	2.4%
Office	\$40,592,888	4.4%
Other Land Uses	\$16,831,209	1.8%
Total Non-Residential	\$231,741,461	25.3%
TOTAL	\$914,411,812	100.0%

Source: ADE, Inc., based on property records provided by the Nevada County Assessor.

FIGURE 3
Grass Valley Tax Area Code Boundaries



GENERAL SALES TAX

The City receives one percent of every dollar spent within the city's boundaries on taxable products. An additional .25 percent sales tax is collected by the Nevada County Transportation Commission for use on transit and para-transit services. Taxable transactions occur not only at retail stores, but at industrial and distribution establishments as well. ADE obtained records of current sales tax receipts for major tax accounts in the City. The database included about 80 percent of total sales tax receipts. Table 4 indicates the land use distribution of the sales tax revenues, proportioned to the full sales tax revenue received for the 2002-2003 fiscal year.

TABLE 4
Estimated Sales Tax Distribution

Land Use	Sales Tax	Percent
Business Park	\$15,720	0.4%
Retail Commercial	3,532,509	91.0%
Other Commercial	289,383	7.5%
Light Industrial	15,289	0.4%
Office	0	0.0%
Other	28,468	0.7%
Total	\$3,881,369	100.0%

Source: ADE, Inc., based on records provided by HdL, Inc.

Over 90 percent of Grass Valley's sales tax revenue is derived from retail establishments, and 7.5 percent are from taxable transactions at other commercial businesses. The remaining few percent is divided into the other categories as above.

The retail leakage analysis in the Baseline Report indicates that Grass Valley is a regional retail center, attracting sales from well beyond its own resident population. The figures in the report suggest that 75 to 80 percent of taxable retail sales are generated by non-residents of Grass Valley.

TRANSIENT OCCUPANCY TAX (TOT) – HOTEL/MOTEL TRANS TAX

The TOT, also known as the Hotel/Motel Trans Tax, accrues to the City at the rate of 10 percent of room charges. For the 2002-2003 budget year, this is amounted to \$196,450.

PER CAPITA COSTS AND REVENUES

In cases where specific information about the land use origin of certain revenues or costs could not be determined, we developed unit cost and revenue factors to apply to each land use. In the fiscal analysis, the resident population is generally given three times the weight of the employment base, on the basis that the resident population requires 24 hour services while jobs occupy eight-hour shifts per day. This results in a 75/25 percentage split between population and employment for a number of revenue and cost categories.

However, for some services the balance of service demands is different than this, as shown in Table 5. Our research in other communities has shown that businesses generate a higher proportion of demand for electrical services and other utilities. Businesses also generate 100 percent of the business license tax (although an undetermined amount may come from home-based businesses). In addition, retail businesses tend to generate up to three times as much demand for police services as do other businesses, due to the higher potential for shop lifting, burglary, robbery and related crimes.

On the other hand, state subventions such as the motor vehicle in lieu fee and the gas tax are allocated to cities based on formulas largely driven by the residential population. Certain other services—such as animal control, parks and recreation—are not affected much by the business community. In Grass Valley, however, it is estimated that 80 percent of the usage of recreation programs is by non-residents, although this is much lower for park usage per se.

Visitors play an important role in other services as well. It is estimated that tourists add 3,000 to 5,000 to the city population on most weekends. We estimate that this results in as much as 7.5 percent of police services devoted to traffic incidents and other calls for service related to tourists. Tourist travel in and through the city also affects emergency medical services, but these are largely provided by private ambulance services that are not reflected in the City budget. Thus, the revenue cost allocations for residential and non-residential uses shown in Table 5 vary according to the estimated incidence on each revenue or service category.

TABLE 5
General Fund Revenue/Cost Per Capita Factors

Revenue Category	Residential		Non-Residential		Visitor Percentage
	Revenue/ Cost Allocation	Per Capita Revenue/ Cost Factor	Revenue/ Cost Allocation	Per Capita Revenue/ Cost Factor	
PG&E Franchise Tax	24%	\$1.68	76%	\$6.60	
Solid Waste Franchise	24%	\$0.72	76%	\$2.84	
Cable TV Franchise	59%	\$4.65	41%	\$4.02	
Business License Tax	0%	\$0.00	100%	\$14.88	
Motor Vehicle Lic Fees	100%	\$60.05	0%	\$0.00	
Fire Services Fees	5%	\$0.07	95%	\$1.77	
Eng./ PW Fees	75%	\$0.46	25%	\$0.19	
Animal Shelter Fees	100%	\$0.84	0%	\$0.00	
Police Fees	75%	\$4.62	25%	\$1.91	
Parks Fees	20%	\$1.09	0%	\$0.00	80%
Misc Revenue	75%	\$4.91	25%	\$2.03	
Water Fund	75%	\$7.00	25%	\$2.90	
Sewer Fund	60%	\$7.20	40%	\$5.97	
Gas Tax (to Gen. Fund)	100%	\$0.25	0%	\$0.00	
Cost Category					
General Government	75%	\$85.30	25%	\$35.38	
Police (incl Training)	67.5%	\$136.50	25%	\$62.91	7.5%
Animal Control	100%	\$12.14	0%	\$0.00	
Fire	90%	\$78.22	10%	\$10.81	
Community Development	75%	\$23.53	25%	\$9.76	
Streets	75%	\$29.44	25%	\$12.21	
Engineering	75%	\$11.40	25%	\$4.73	
Other Public Works	60%	\$15.97	40%	\$13.24	
Parks & Rec (excl Maintenance)	20%	\$2.56	0%	\$0.00	80%
Parks Maintenance	90%	\$23.95	0%	\$0.00	10%

Source: ADE, Inc., based on analysis of Grass Valley 2003-2004 Budget. Per capita factors based on total population of 12,000 and a total employment base of 9,644.

For its size, Grass Valley provides a very reasonable level of service for its residents. Table 6 compares the City to all the other cities in California that range from 10,000 to 12,000 in population. The table shows the per capita revenue and cost figures, and Grass Valley is very close to the average for this group of cities. It ranks second in public safety expenditures per capita, reflecting the full service police department of the city.

TABLE 6
Per Capita Revenue/Expenditure Comparison (FY 2001 – 2002)

ITEM		GRASS VALLEY	BEAUMONT	CLAYTON	FORTUNA	GRAND TERRACE	HEALDSBURG	HILLSBOROUGH	KING CITY
POPULATION		12,007	12,205	10,978	10,742	11,915	11,522	10,975	11,236
	Average								
TOTAL REVENUE	\$1,147	\$1,184	\$2,263	\$470	\$745	\$489	\$2,289	\$2,069	\$600
EXPENDITURES									
General Government	\$144	\$123	\$96	\$297	\$36	\$85	\$154	\$264	\$168
Public Safety	\$258	\$355	\$301	\$126	\$138	\$109	\$352	\$829	\$187
Transportation	\$148	\$53	\$79	\$120	\$62	\$63	\$254	\$168	\$85
Community Development	\$121	\$137	\$734	\$33	\$55	\$25	\$5	\$101	\$53
Health	\$147	\$285	\$159	\$4	\$145	\$74	\$151	\$235	\$46
Culture and Leisure	\$82	\$42	\$59	\$16	\$66	\$103	\$68	\$50	\$61
Public Utilities	\$166	\$86	\$0	\$0	\$128	\$0	\$1,144	\$343	\$0
Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$1,065	\$1,082	\$1,429	\$597	\$630	\$459	\$2,127	\$1,990	\$601

		LATHROP	LIVINGSTON	LOS ALAMITOS	PARLIER	RIPON	SCOTTS VALLEY	SIERRA MADRE	TECHACHIPI
		11,586	10,830	11,718	12,058	11,155	11,600	10,855	11,101
	Average								
TOTAL REVENUE	\$1,147	\$1,344	\$1,422	\$1,130	\$532	\$1,326	\$967	\$961	\$565
EXPENDITURES									
General Government	\$144	\$172	\$89	\$127	\$87	\$214	\$186	\$120	\$80
Public Safety	\$258	\$227	\$200	\$310	\$107	\$214	\$278	\$274	\$125
Transportation	\$148	\$366	\$58	\$306	\$15	\$370	\$113	\$186	\$69
Community Development	\$121	\$87	\$20	\$64	\$88	\$314	\$76	\$48	\$101
Health	\$147	\$121	\$453	\$0	\$159	\$64	\$235	\$104	\$114
Culture and Leisure	\$82	\$130	\$116	\$188	\$22	\$104	\$119	\$154	\$9
Public Utilities	\$166	\$486	\$107	\$0	\$52	\$92	\$0	\$163	\$48
Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$1,065	\$1,589	\$1,042	\$995	\$531	\$1,371	\$1,007	\$1,049	\$546

Source: ADE, Inc. based on State Controller's Office reports.

FISCAL IMPACTS BY LAND USE TYPE

The fiscal model calculates the revenues and costs for each major land use type under study in the Baseline Report. The analysis indicates that the retail commercial sector is very important to Grass Valley, generating \$3.5 million in net revenue while most other land uses generate a negative fiscal impact. The strength of the retail businesses is in drawing spending power from outside the community, boosting the economic power of the city's economy.

RESIDENTIAL

Residential land uses generate a negative fiscal impact (Table 7), although it should be recognized that households in the City generate nearly \$800,000 of the sales tax allocated to the retail commercial sector.⁴ This represents nearly 30 percent of the combined fiscal shortfall of the residential land uses, but does not eliminate the negative balance.

The critical dynamic operating here is the relationship between the value of the residential units and the size of the population they house. High value units generate more property tax and also higher incomes, which tends to increase sales taxes. On the other hand, if larger units house larger households, the higher population tends to increase city service demands on a per unit basis, although the socioeconomic level of the households also plays a role here. In Grass Valley, condominiums do relatively well because they tend to have higher assessed values and lower household sizes. Detached single-family units do better than apartments because of the higher real estate values, despite the fact that their household sizes tend to be larger. The average single family unit assessed value in Grass Valley is about \$150,000. If the unit values were twice as high, and household-generated sales tax were allocated to the residential units, single family units would have a neutral fiscal impact.

⁴ ADE, Inc., *Grass Valley Phase 1 Baseline Report*, July 15, 2004, p. 16.

**TABLE 7
Vacant and Residential Fiscal Impacts**

	Vacant	Single Family Res	2 - 4 Res Units	5+ Res Units	Condo-minium	Other Res
REVENUES						
Property Tax (Sec & Unsec)	\$99,216	\$628,624	\$5,582	\$109,679	\$137,572	\$91,702
General Sales Tax		0	0	0	0	0
Hotel-Motel Trans Tax						
PG&E Franchise Tax		10,610	2,469	4,775	883	1,370
Solid Waste Franchise		4,569	1,063	2,056	380	590
Cable TV Franchise		29,422	6,845	13,241	2,449	3,798
Business License Tax		0	0	0	0	0
Motor Vehicle Lic Fees		380,238	88,469	171,124	31,648	49,091
Fire Services Fees		474	110	213	39	61
Eng./ PW Fees		2,901	675	1,306	241	375
Animal Shelter Fees		5,300	1,233	2,385	441	684
Police Fees		29,234	6,802	13,156	2,433	3,774
Parks Fees		6,884	1,602	3,098	573	889
Misc Revenue		31,063	7,227	13,980	2,585	4,010
Water Fund		44,326	10,313	19,949	3,689	5,723
Sewer Fund		45,593	10,608	20,519	3,795	5,886
Interest Earnings	2,996	36,863	4,329	11,359	5,642	5,078
General Fund Subtotal	102,212	1,256,100	147,327	386,840	192,372	173,031
Gas Tax (to Gen. Fund)		1,583	368	712	132	204
SUBTOTAL	102,212	1,256,684	147,696	387,552	192,504	173,255
EXPENDITURES						
General Government		540,133	125,671	243,083	44,956	69,734
Police (incl Training)		864,346	201,105	388,993	71,941	111,591
Animal Control		76,872	17,886	34,596	6,398	9,925
Fire	77,293	495,295	115,239	222,904	41,224	63,945
Community Development		148,982	34,663	67,048	12,400	19,234
Streets		186,399	43,369	83,888	15,514	24,065
Engineering		72,194	16,797	32,490	6,009	9,321
Other Public Works		101,095	23,522	45,497	8,414	13,052
Parks & Rec (excl Maintenance)		16,209	3,771	7,295	1,349	2,093
Parks Maintenance		151,646	35,283	68,247	12,622	19,578
SUBTOTAL	77,293	2,653,171	617,306	1,194,042	220,829	342,538
NET (COST)/REVENUE	\$24,919	(\$1,395,487)	(\$469,610)	(\$806,490)	(\$28,323)	(\$169,303)
NET (COST)/REVENUE PER UNIT		(\$525)	(\$632)	(\$560)	(\$111)	(\$243)

NON-RESIDENTIAL

The sales tax is the primary indicator of fiscal benefit by land use for Grass Valley. Retail and other commercial uses that generate significant sales taxes show a positive fiscal impact for the City while other business types do not (Table 8). It is important to recognize, however, that fiscal benefit is not the only indicator of economic vitality. Industrial, business park and office uses tend to provide jobs with higher incomes that support the residential market and the household expenditures that drive the retail sector. In general, a higher ratio of jobs to housing in the community tends to be associated with stronger fiscal indicators. The Baseline Report indicates that Grass Valley has a ratio of 1.7 jobs per housing unit. This is a very healthy balance, given that the state as a whole has only 1.1 jobs per unit. The State Housing and Community Development Department has set a goal of 1.5 jobs per unit for communities statewide, so Grass Valley already exceeds this threshold. This has helped the City maintain a healthy fiscal balance. Nonetheless, the fiscal analysis underscores the fact that the strong commercial sector has the most direct beneficial impact on the City's budget.

**TABLE 8
Non-Residential Fiscal Impacts**

	Business Park	Retail Commercial	Other Commercial	Light Industrial	Office	Other Land Uses	Non-residents
REVENUES							
Property Tax (Sec & Unsec)	\$67,133	\$143,072	\$29,258	\$34,364	\$63,765	\$26,439	
General Sales Tax	15,720	3,532,509	289,383	15,289	0	28,468	[75% of retail]
Hotel-Motel Trans Tax							196,450
PG&E Franchise Tax	8,807	11,798	11,475	7,738	7,342	16,512	
Solid Waste Franchise	3,793	5,081	4,942	3,332	3,162	7,111	
Cable TV Franchise	5,359	7,179	6,983	4,709	4,468	10,048	
Business License Tax	19,844	26,582	25,854	17,434	16,542	37,204	
Motor Vehicle Lic Fees	0	0	0	0	0	0	
Fire Services Fees	2,360	3,161	3,075	2,073	1,967	4,424	
Eng./ PW Fees	253	340	330	223	211	475	
Animal Shelter Fees	0	0	0	0	0	0	
Police Fees	2,554	3,422	3,328	2,244	2,129	4,789	
Parks Fees	0	0	0	0	0	0	52,179
Misc Revenue	2,714	3,636	3,536	2,385	2,263	5,089	
Water Fund	3,873	5,188	5,046	3,403	3,229	7,261	
Sewer Fund	7,967	10,673	10,380	7,000	6,642	14,938	
Interest Earnings	4,239	113,311	11,884	3,025	3,373	4,914	7,507
General Fund Subtotal	144,618	3,865,953	405,473	103,219	115,091	167,672	256,137
Gas Tax (to Gen. Fund)	0	0	0	0	0	0	0
SUBTOTAL	144,618	3,865,953	405,473	103,219	115,091	167,672	256,137
EXPENDITURES							
General Government	47,195	63,222	61,488	41,464	39,341	88,482	
Police (incl Training)	61,226	246,050	79,768	53,791	51,037	117,787	181,997
Animal Control	0	0	0	0	0	0	
Fire	14,426	19,325	18,795	12,674	12,025	27,046	
Community Development	13,018	17,438	16,960	11,437	10,851	24,406	
Streets	16,287	21,818	21,219	14,309	13,577	30,535	
Engineering	6,308	8,450	8,219	5,542	5,167	11,827	
Other Public Works	17,667	23,666	23,017	15,521	14,727	33,122	
Parks & Rec (excl Maintenance)	0	0	0	0	0	0	122,866
Parks Maintenance	0	0	0	0	0	0	31,931
SUBTOTAL	176,126	399,969	229,466	154,738	146,816	330,204	336,795
NET (COST)/REVENUE	(31,508)	3,465,984	176,007	(51,519)	(31,725)	(162,532)	(80,658)
NET (COST)/REVENUE PER 1,000 SQ.FT.	(\$39)	\$3,274	\$252	(\$134)	(\$67)	(\$362)	Plus \$2.7 million in sales tax

FISCAL IMPACTS OF FUTURE LAND USES

The analysis of existing land uses presented in the preceding sections, indicates the average long term impact of each land use type. However, the impacts of future land uses may be somewhat different for several reasons. In the short term, new development would generally have higher assessed values, as new residential and commercial uses command higher prices than older existing buildings. This is exacerbated by the limitations on annual escalations of property assessments imposed by Proposition 13, making the existing assessed values of developed property throughout California much lower than market values.

Secondly, the cost analysis of existing land uses reflects the existing average cost providing those services within the existing city limits. If much of the future development in Grass Valley occurs on property that is currently outside the City limits, the marginal cost of providing services to these developments may be higher. Over the long term they may be similar to the costs shown in this analysis, but initially additional service expansions may be necessary with associated higher costs. It may also be possible that in some cases existing service capacities are sufficient to serve at least the initial stages of the new development without increasing service capacity. This will be part of our evaluation of the proposed SDAs.

In addition, the design of the new developments could have an impact on average service costs. More compact forms of development have been shown to reduce average costs for police, fire, street maintenance and other costs that are affected by response distances or the quantity of pavement or facilities to be maintained.

Evidence of the fiscal benefits of planned growth, characterized by compact development patterns emanating from existing urban centers, over leapfrog, or sprawl, development patterns dates back more than a quarter of a century. In 1975, a RAND study funded by the National Science Foundation projected that the capital costs for scattered development would be more than five times higher

than the costs to serve the same amount of growth in a compact land use pattern (Burchell and Listokin, 1996). Research of this kind led to the establishment of the LAFCO process in California to regulate the efficient provision of services and avoid leapfrog development patterns.

More recently, groups as diverse as the National Association of Home Builders (NAHB), the California Building Industry Association, the Sierra Club, and the American Farmland Trust have promulgated planning principals intended to achieve “Smart Growth” forms of development that would reduce housing prices, reduce the fiscal impact of housing, reduce land consumption, reduce the waste of natural resources including energy and water as well as reduce the impacts of development on air and water quality. As presented by the NAHB, Smart Growth means efficient land use techniques, “An important part of Smart Growth is using land more efficiently and preserving environmentally-sensitive land. These goals can be achieved through more compact development. Building more compactly also helps reduce infrastructure costs, provides more opportunities for pedestrian access, allows for densities that can be served efficiently by mass transit, and provides more affordable housing.” (See NAHB.)

Studies documenting the fiscal benefits of compact development forms have addressed the issue in all parts of the country from Florida to New Jersey to Illinois and California. In Florida, a large-scale study encompassed detailed case studies of the actual costs (and revenues) incurred by several completed residential and non-residential projects throughout the state. The projects were chosen as being representative of five different development patterns ranging from “scattered” to “compact.” The study determined that infrastructure costs for single family detached units were 30 percent lower for compact developments compared to those that were scattered, linear, or satellite developments (Burchell and Listokin, 1996).

A statewide study in New Jersey determined that compact development patterns would save 24 percent in road costs, nearly 8 percent savings in water and sewer costs, and more than 3 percent savings in the cost of schools. On a statewide

level, these savings would amount to \$699 million in road costs, \$561 million in utility costs, and \$173 million in the cost for schools. These savings extend also to the annual operating and maintenance costs for municipal services and schools, saving about \$400 million per year statewide over more scattered forms of development. In addition, the New Jersey study estimated the compact growth approach would reduce average housing costs by about six percent (Duncan).

These results are even more dramatic for rural residential densities. A study by James Frank for the Urban Land Institute in Washington D.C., reviewed the national literature conducted over roughly a four-decade period. Frank determined that, in equivalent dollar terms, infrastructure costs for developments at 1 du per 4 acres are twice as high as those for developments at 1 du per 1 acre, and they are 70 percent higher than those for housing on one-third acre lots (Frank).

A more recent study in the Chicago area measured police and fire response times in carefully controlled comparisons of existing compact and sprawling development in proximity to each other. The fire department took an average of almost three times longer to reach new sprawling development as it did to reach development closer to existing communities. The difference in response times for most police calls were even more pronounced, as much as six times longer for sprawling developments in some cases (Esseks, Harvey and Kimberly, 1999).

Finally, regarding the analysis of the proposed annexations in Grass Valley, the timing and location of the developments may affect the efficiency of extending services to them. The Phase 3 fiscal analysis will account for the phasing as reflected in the market projections in the Baseline Report.

CONCLUSION

The fiscal analysis demonstrates that the land use mix in the City plays an important role in its fiscal health. In order to provide an adequate level of services and quality of life in its residential neighborhoods, it is important to maintain a vibrant commercial sector and a strong job base. As the City grows outward, the challenge will be to maintain a positive balance of residential, commercial and employment-generating land uses. Often, cities see a preponderance of residential development as peripheral areas develop. It is critical to grow the job base along with future residential development.

In addition to the land use mix, there are a number of other ways to mitigate the fiscal impact of residential uses. The report discusses the fact that higher value units are more fiscally beneficial than lower value units. Clearly, the City needs to provide a range of housing types and prices to serve its local workforce, many of whom are employed in lower-paying retail and visitor-serving businesses. However, ensuring a mix of housing units at all market levels will help provide a strong tax revenue flow.

The report also discusses the benefits of good design for residential development, in terms of reducing the service capacity needed to serve outlying developments. Proximity to commercial centers and job centers, as well as efficient use of land and infrastructure can reduce the operating costs of public services as well as the construction costs of public facilities.

In cases where service costs cannot be mitigated by other means, the City can require the establishment of special service districts, either as Community Facilities Districts capable of imposing special taxes, or in terms of assessment or Landscape and Lighting districts that can fund either the construction or maintenance of certain public infrastructure or common facilities. As the proposed annexation areas are evaluated, the City may wish to consider these sorts of financing mechanisms to augment the public revenues otherwise generated by the new developments.

APPENDIX: BUDGET ADJUSTMENTS

Revenue Adjustments	
Planning Dept. fees	63,987
Fire Dept.	42,753
Plan Check fees	6,942
Station #2 rental	26,955
Station #1 usage	4,737
City Hall rental	2,769
Station #4 rental	1,350
Eng. Dept.	34,785
PW/Inspection	24,074
Encroachment fee	4,585
Map check fee	3,858
Misc. rev.	2,268
Animal Shelter - Nev. City	27,000
Police Dept.	84,574
Grants	42,973
Booking fee reimb.	41,601
Public Works	4,155
State highway monies	4,000
City Hall room rental	155
Parks Dept.	3,479
Sierra College	3,479
Miscellaneous	72,672
SMA Park Funds	16,775
Sale of fixed assets	54,775
State diesel fuel tax refund	122
Misc. State Rev.	1,000
Additional Expense Adjustments	
Police - Police Grant Fund	174,496
Streets - Traffic Safety Fund	25,000
Parks - Whis. ES Maint. Fund	10,000
Parks - Elizabeth Daniels Fund	2,460