

**RMP Component:** Financial Component  
**Technical Report:** Fiscal Impact Analysis – Financial Analysis  
**Memorandum Title:** Financial Analysis Approach and Methodology  
**Status:** Preliminary Draft  
**Date:** July 17, 2006

## **EXECUTIVE SUMMARY**

This technical memorandum provides an explanation and overview of the approach and methodology used to project the fiscal and infrastructure impacts of the Highlands Regional Master Plan. As required in the Highlands Water Protection and Planning Act (Highlands Act), the Regional Master Plan (RMP) is to include a financial component to examine and address the financial implications of the development and implementation of the RMP. The financial component and the smart growth component of the RMP are being developed in close coordination and at times share data and methodologies. The financial component will provide a wide array of meaningful data and provide baseline economic indices to examine the implementation of the RMP.

## **LEGAL REQUIREMENTS FOR INCLUSION IN THE REGIONAL MASTER PLAN**

Section 11.a.(2) of the Highlands Act charges the Council with developing *A financial component; together with a cash flow timetable which:*

- a. details the cost of implementing the regional master plan, including, but not limited to, property tax stabilization measures, watershed moratorium offset aid, planning grants and other State aid for local government units, capital requirements for any development transfer bank, payments in lieu-of-taxes, acquisition, within five years and within 10 years after the date of enactment of this act, of fee simple or other interests in lands for preservation or recreation and conservation purposes, compensation guarantees, general administrative costs, and any anticipated extraordinary or continuing costs and*
- b. details the source of revenue for covering such costs, including, but not limited to, grants, donations, and loans from local, State, and federal departments, agencies, and other governmental entities, and from the private sector.*

To achieve the above mandate, the financial component consists of two main elements; the Cash Flow Timetable and the Financial Analysis.

## **FINANACIAL ANALYSIS APPROACH AND METHODS**

The fiscal impact analysis and the related build out analysis are being developed by the Highlands Council with the assistance of the Center for Urban Policy Research (CURP) and The Center for Neighborhood and Brownfields Redevelopment (NCNBR) at Rutgers University. The build out analysis output will serve as input data for the fiscal impact model that will calculate the costs and revenues associated with the different land use scenarios within the Highlands Region. The Fiscal Impact Analysis methodology will be applied to four build out scenarios being developed in support of the Regional Master Plan:

- a. **Municipal Zoning:** The first model run will utilize the land use and current zoning information and densities and will represent the impacts of a full build out.
- b. **Policy Density:** The second model run will utilize the same land use data as the first scenario, but apply residential and non-residential densities in accordance with State Plan Planning Areas and Centers.
- c. **Highlands Land Capacity Baseline:** The third model run will utilize the available land and municipal zoning data developed in the first two scenarios, but adjusted to reflect legislated, physical capacity and other constraints on land use developed by the Highlands Council.
- d. **Highlands Growth Capacity Baseline:** The fourth scenario will utilize the available land and municipal zoning data developed in the Land Capacity Baseline, but adjusted to reflect densities and mixed land uses that would be associated with potential growth and redevelopment areas.

Each model run will consider the following:

1. **Fiscal Impact Analysis** – The Fiscal Impact Analysis (FIA) will utilize an Econometric Model and Fiscal Impact Model to measure costs, revenues, and net fiscal impacts. This analysis will be calculated for each of the build-out scenarios. The data will be expressed for each municipality and county within the Highlands Region.

- a. Expenditures
  - i. The Econometric Model (R/ECON) considers local operating expenditures. From this total, the County portion is subtracted, leaving the municipal operating amount. The R/ECON Model will be calibrated to be performed for the 88 municipalities within the Highlands Region.
  - ii. The Fiscal Impact Model considers municipal and school total (operating and capital) expenditures. From this amount, the entire school portion is removed, as well as the municipal capital expenditure, leaving municipal operating expenses.
  - iii. With the above adjustments, items i. and ii. are parallel and the Fiscal Impact Model expenditures (ii) can be calibrated to the municipal outlays from the Econometric Model (i). Results are to be reported on a municipal per capita basis in accordance with the build-out scenarios.
- b. Revenues
  - i. The Econometric Model considers the following revenues: (a) Municipal property tax, (b) school property tax, and (c) state aid to local governments
  - ii. The Fiscal Impact Model considers all the revenues encompassed by the Econometric Model as well as (a) federal aid and (b) local non-property taxes and other income (i.e., interest earnings, fees, fines, reserves, and so on). Items (a) and (b) will be subtracted, leaving revenue from the municipal and school property taxes – the same revenues encompassed by the Econometric Model.
  - iii. With the above adjustments, items i and ii are parallel and the revenues from the Fiscal Impact Model (ii) can be calibrated to the revenues from the Econometric Model (i). Results are to be reported on a municipal per capita basis in accordance with the build-out scenarios.
- c. Project Fiscal Impact

2. **Infrastructure Impacts** - The Infrastructure Impacts (I.I.) will address the following:

- Transportation – roads, bridges, public transportation
- Commerce – economic development, farmland retention, energy,

telecommunications

- Public Safety – jails, justice (courts), institutions (medical, psychiatric, other)
- Education – public education (schools), higher education (colleges)
- Health – public health institutions, water supply, waste water disposal, solid waste management
- Recreation – parks/playgrounds, arts/libraries, historic resources
- Environment – storm water management, shore/river protection, open space, air pollution

These seven substantive areas will constitute the core of the I.I.. The results of the I.I. will be calculated at the municipal level, county level, and aggregated for the entire Highlands Region. Current and prospective infrastructure needs will be examined both qualitatively and quantitatively. Parts (a.) and (b.) below discuss the aspects that will be evaluated.

a. Current Infrastructure Needs

- i. Current infrastructure needs in public infrastructure investments, with respect to the seven elements mentioned above will be determined. Data gaps will be identified and evaluated.
- ii. Current infrastructure needs with respect to municipal, county and regional capital facilities will be determined.

b. Prospective Infrastructure Needs

- i. Future infrastructure need is calculated using multiple iterative processes. Costs will be expressed per new resident and per new employee using numerical multipliers. The evaluation will include:
  - Projections of population for varying time periods and circumstance; and
  - An infrastructure needs assessment assuming impacts likely to occur under the four different build-out scenarios.

Preliminary findings shall include determination and evaluation of major differences, in terms of infrastructure needs, between the different build out scenarios.

3. **Deliverables** - The production for the Economic Assessment as it relates to employment, population, households, personal income, and property values will be

furnished for all four iterations outlined in the build-out analysis on a municipal per capita basis. In addition, fiscal impacts will be calculated. This will include costs, revenues, and net fiscal impact by municipality, county, and Highlands Region.