

**The Cost of Community Services in
Three Central Iowa Cities**

Prepared in the Office of State Representative Ed Fallon

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Respectfully submitted,

Ed Fallon

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Abstract

The American Farmland Trust (AFT), a private, nonprofit conservation organization, has developed an inexpensive and consistent way to evaluate existing contributions of municipal land uses. Called a Cost of Community Services (COCS) study, this evaluation technique has been used around the country to provide community financial data separated into land-use groupings. This data can then be used to determine which types of development produce financial gains and losses, as well as prompt discussion about guiding community development. Through COCS studies done around the country AFT has found that although residential development does increase the local tax base, it does not pay for the services it receives. Across the country, all of the 83 communities in 20 states studied as of September 2001 have paid more for residential services than they received from residential revenues. Commercial and industrial land uses have been found to offset more of this deficit by producing a new financial gain. In addition, while privately owned farm and open lands do not raise nearly as much gross income as developed land, the services required are minimal enough that they also project a net gain in the tax base.

This COCS was undertaken to determine the ratio of revenues to expenditures for services provided in three central Iowa communities, as a possible cross section of what one might expect to find across the state. The results show, on average, that while residential development costs \$1.13 for every dollar that it brings in, commercial costs \$0.65 and farmland costs \$0.91 for every dollar of revenue. While we anticipate that similar research elsewhere in the state would find similar results, we were not prepared to draw such a conclusion at this time.

**Average Land-Use Ratios for Altoona, Indianola and Waukee
(Taxes Generated : Taxes Spent)**

Residential
\$1 : 1.13

Commercial/Industrial
\$1 : 0.65

Farm & Open Land
\$1 : 0.91

Introduction

Over the past few years, Iowans increasingly have been concerned with rapid urban growth. Iowans have always cared strongly about the direction their communities take and the level of services provided. This report takes a close look at the financial impacts of three main land-use categories in three Des Moines-area communities.

Typical studies on the impact of urban growth often include fiscal impact analyses, cost benefit analyses, or similar assessments of fiscal impacts. These studies tend to focus on the municipal service costs of different types of development or the potential changes in the tax base and tax rates due to growth. Normally, however, these studies ignore the fiscal contribution of different land uses. Because of assumptions that all development is equal and that undeveloped land contributes little economic value in its own right, there are rarely studies of what types of development produce costs and benefits.

Because of this discrepancy and the extreme cost of completing a fiscal impact analysis, American Farmland Trust developed the Cost of Community Services (COCS) study as an inexpensive way to appraise financial relationships on a land-use basis. A COCS study is a useful way of examining a city's financial records to find out how much a community is spending to provide services to each different land use. They provide a picture of land-use relationships based on current costs and revenues. Finally, COCS studies often provide enough information to prompt discussion of the role of different land uses in the planning process.

The three cities studied for this report were chosen on the basis of their differences in size and relationship to the Des Moines metro area. Altoona, located five miles east of Des Moines, had a 1995 population of 7,796. Indianola is situated about fifteen miles south of Des Moines and had a 1995 population of 12,339. Finally, Waukee, ten miles to the west of Des Moines, was chosen as a smaller town of 3,411. All three of the communities are an important part of the metro area and provide a fair cross-section of municipalities throughout the metro area.

This report is organized into four main sections: Methodology, City Financial Data, Findings and Discussion. The methodology section explains the research steps and how city financial data was reorganized to reflect the land use categories defined by the study. The City Financial Data section presents the financial data collected from each of the cities. In the Findings section, the reorganized financial data is explained and compared. Finally, in the Discussion, the findings are reviewed and implications are explored.

Methodology

There are five main steps to completing a COCS study. The initial step is to identify and classify municipal land uses. Choices depend largely on the mix of land uses and the availability of data. Consultation of community data and previous COCS studies lead to the classification of three general land-use categories for this report: residential, commercial/industrial, and farmland.

The second step was to collect all relevant financial data from the participating cities. Ideally, city, county and school district information would all be used to determine the full fiscal impact of the different land uses. However, because of the extreme extent of such a study and the time and money limitations present, county and school district information were excluded to more thoroughly examine city impacts. **Please note that if this report were to analyze county and school district costs of providing community services, residential development would almost certainly show an even greater cost burden to local taxpayers.**

Two main sources of financial information were used. First, complete city budgets were collected from each of the three communities. Next, city property tax information was collected from the Polk, Dallas, and Warren county auditors in order to determine the property tax revenue of each land use. Each community's city clerk was usually able to provide more detailed information regarding any particular expenses or revenues within the city budget.

Five Steps of a Cost of Community Services Study

- 1. Define land-use categories**
- 2. Collect relevant financial data**
- 3. Allocate revenues of land use**
- 4. Allocate expenditures by land use**
- 5. Analyze data and calculate ratios**

The third step in this COCS study involved grouping revenues and allocating them by land use. With property taxes this is done by multiplying the total city taxable

valuation for each land use by the city's tax levy for that land use. All other sources of revenue are divided based on the land use that provides that type of revenue. For example, if 68% of building permit fees come from residential developments, 31% from commercial/industrial, and 1% from farms within the city, then the building permit fees category would be divided accordingly.

Certain categories of revenue were not divisible by these means. If all attempts to divide revenue categories were unsuccessful, such as miscellaneous categories, then the percentage of property tax income provided by each land use was used as a fallback percentage for that category. This method was only used in select categories and maintains the integrity of the study.

The fourth step in this COCS study process was to group expenditures and allocate them by land use. This was done in the same manner as the revenues. Each expense was examined to determine which land use received the benefits and to determine proportions if necessary. Interviews with city officials and examination of larger trends proved the best way to divide expenses accurately. Fallback percentages were once again used for the few categories that were not divisible by land use.

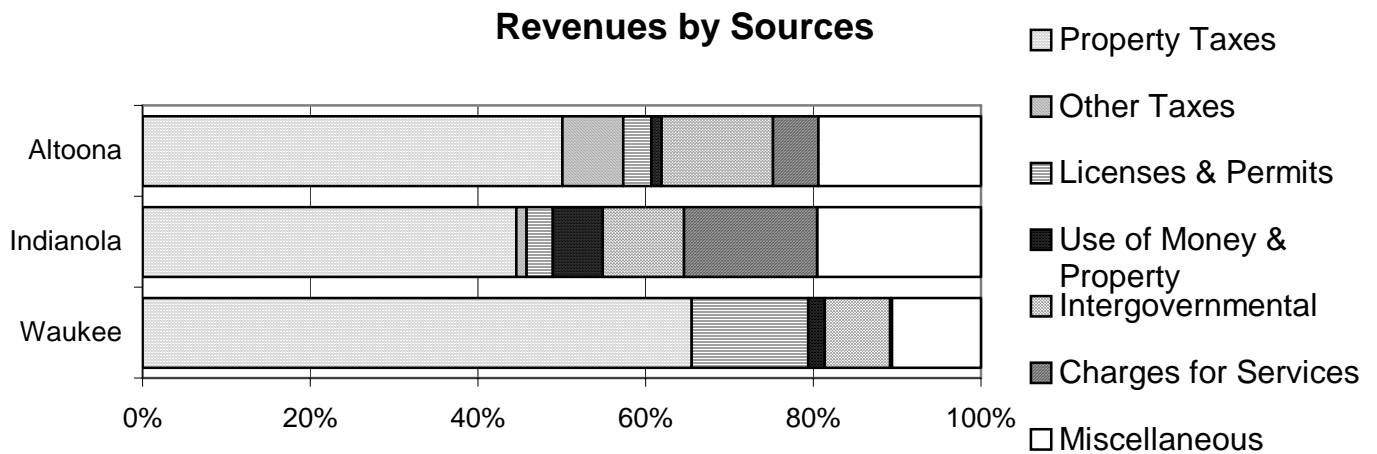
The final step in the process was to compute the ratios of revenue to expense. These ratios were the final result of this research and show the financial position that each land use plays in its community. These results are presented in the Findings section and examined in the Discussion section.

City Financial Data

The three cities in this study are all suburbs of Des Moines. As such, they are subject to the population and economic fluctuations of the surrounding area. In addition, the cities must maintain comparable tax rates in order to remain competitive for both residents and industry. These factors put limits on the type and amount of revenues as well as expenditures.

As the largest of the three communities, Indianola has the most options for revenue sources and therefore relies the least on property taxes. The city makes up a comparatively large portion of its total revenues (35%) through charges for services and miscellaneous sources, including donations, fines, fees, etc. Indianola also receives the largest amount of income from city-owned money and property. This information is shown on the chart below.

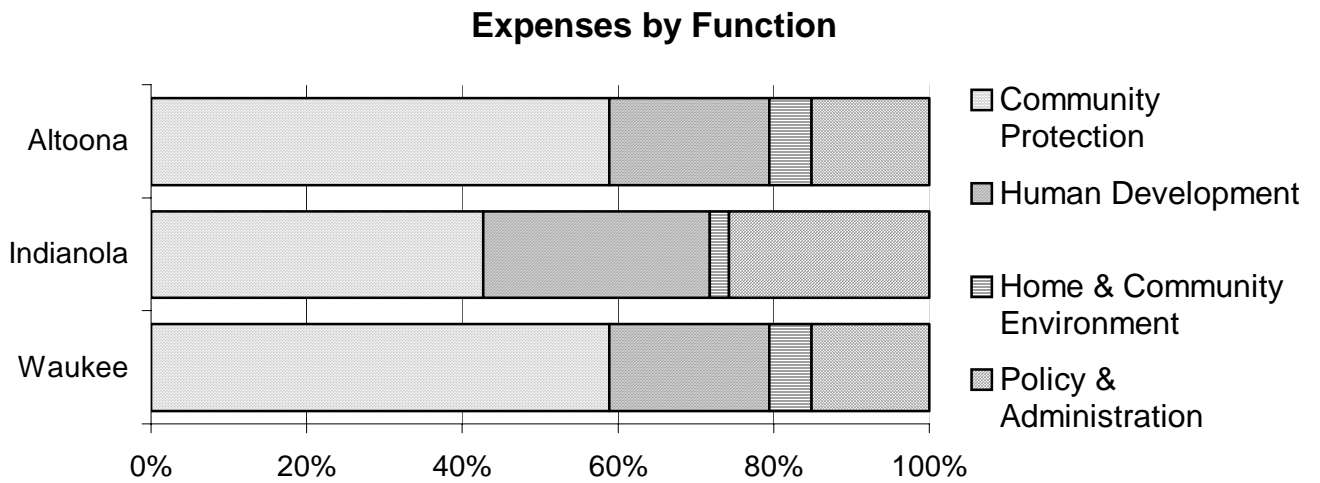
Altoona is the medium-size town in this study, and as such is the middle town in most revenue categories. The notable exceptions, of course, are intergovernmental revenue (12%) and other city taxes (8%). These categories are the result of Altoona's unique position as a tourist destination (Prairie Meadows Racetrack and Casino). The intergovernmental revenue is made up of shared state revenue and various grants, while the other city taxes are hotel and motel taxes.



The most notable aspects of Waukee’s revenue is the large percentage made up by licenses and permits. The largest share of this money comes in the form of permit fees and dedications and is the result of development and growth in the Waukee area.

The expenses of the three cities are broken down by function in the graph below. The four categories are based directly on the actual city budgets. Community Protection includes such things as police and fire protection, ambulance service, street lighting and animal control. Human Development involves amenities provided by the city such as a library, parks, a swimming pool, recreation services, etc. The Home and Community Environment category includes the entire spectrum of public works services. Finally, Policy and Administration covers the remainder of the expenses including the city hall budget and all of the salaries therein.

A feature of interest in this chart is that the larger the city the bigger the human development portion of the budget, and the smaller the community protection portion.



The following two pages contain Tables 1 and 2 which show the summary of revenues and expenditures, respectively, for the three cities. This summary shows each city’s general revenue and expenditure categories divided into the three different land uses. In addition, beneath the total for each city the percentage of total revenues and expenditures for each land use is given for reference. Complete financial data is given in the Appendix.

Table 1: Summary of Revenues, FYE 1997

City of Altoona	Residential	Commercial & Industrial	Farmland	Totals
Property Taxes	\$933,042	\$1,075,655	\$4,774	\$2,013,471
Other City Taxes		290,000		290,000
Licenses & Permits	105,500	30,418		135,918
Use of Money and Property	50,000			50,000
Intergovernmental	531,216		2,335	533,551
Charges for Services	138,575	77,410	1,015	217,000
Miscellaneous	381,500	395,500	3,007	780,007
Totals	\$2,139,833	\$1,868,983	\$11,131	\$4,019,947
Percent of Total	53.23%	46.49%	0.28%	100%

City of Indianola	Residential	Commercial & Industrial	Farmland	Totals
Property Taxes	\$1,105,927	\$602,210	\$5,363	1,713,500
Other City Taxes		47,127		47,127
Licenses & Permits	96,500	25,229		121,729
Use of Money and Property	227,333			227,333
Intergovernmental	338,182	28,485	7,719	374,386
Charges for Services	585,872	13,650	9,350	608,872
Special Assessments	30,875	9,500	203	40,578
Miscellaneous	236,926	473,832		710,758
Totals	\$2,621,615	\$1,200,033	\$22,635	3,844,283
Percent of Total	68.20%	31.22%	0.59%	100%

City of Waukee	Residential	Commercial & Industrial	Farmland	Totals
Property Taxes	\$577,737	\$181,046	\$8,499	\$767,282
Licenses & Permits	140,278	22,610		162,888
Use of Money and Property	23,156			23,156
Intergovernmental	71,066	19,815	680	91,561
Charges for Services	3,135			3,135
Miscellaneous	93,347	29,252	1,373	123,972
Totals	\$908,719	\$252,723	\$10,552	\$1,171,994
Percent of Total	77.54%	21.56%	0.90%	100%

Table 2: Summary of Expenditures, FYE 1997

City of Altoona	Residential	Commercial & Industrial	Farmland	Totals
Community Protection	\$1,006,891	\$763,324	\$5,640	\$1,775,855
Human Development	1,071,629			1,071,629
Home Community	312,672	63,200	2,715	378,587
Policy & Administration	233,023	272,282	1,266	506,571
Totals	\$2,624,215	\$1,098,806	\$9,621	\$3,732,642
Percent of Total	70.30%	29.44%	0.26%	100%

City of Indianola	Residential	Commercial & Industrial	Farmland	Totals
Community Protection	\$962,122	\$605,486	\$13,341	\$1,580,949
Human Development	1,076,178			1,076,178
Home Community	76,300	14,556		90,856
Policy & Administration	697,968	248,196	8,124	954,288
Totals	\$2,812,568	\$868,238	\$21,465	\$3,702,271
Percent of Total	75.97%	23.45%	0.58%	100%

City of Waukee	Residential	Commercial & Industrial	Farmland	Totals
Community Protection	\$518,789	\$167,157	\$6,735	\$692,681
Human Development	241,201			241,201
Home Community	54,239	9,560	632	64,431
Policy & Administration	149,303	26,840	1,650	177,793
Totals	\$963,532	\$203,557	\$9,017	\$1,176,106
Percent of Total	81.93%	17.31%	0.77%	100%

Findings

This COCS study found that in Altoona, Indianola and Waukee services provided to residential land uses consistently cost more than the revenue generated by the same category. The deficit produced by residential land was offset in each community by the surplus of revenues from commercial, industrial and farmland uses.

In Altoona, residential property accounted for 53 percent of the city’s revenues while requiring 68.5 percent of the expenditures. Residential property in Indianola raised 68 percent of total revenues, but residential services used almost 76 percent of all money spent. Waukee’s percentage of residential earnings was the highest at 77.5 percent. However, even this was surpassed by 82 percent of all expenditures benefiting residential land.

In all three cities, farmland played only a small part in total revenues and expenditures. But in each, it paid much more in taxes than it cost in services. Commercial and industrial land also turned out to be net earners in each of the three cities. These trends are shown in the ratios on the chart at the bottom of the page. This chart shows the dollar-to-dollar ratio of revenues to expenditures.

Summary of Revenues and Expenditures by Land Use Category				
	Revenues	Expenditures	Balance	Ratio
City of Altoona				
Residential	2,139,833	2,624,215	(484,382)	1 : 1.23
Commercial & Industrial	1,868,983	1,098,806	770,177	1 : 0.59
Farmland	11,131	9,621	1,510	1 : 0.86
City of Indianola				
Residential	2,621,615	2,812,568	(190,953)	1 : 1.07
Commercial & Industrial	1,200,033	868,238	331,795	1 : 0.72
Farmland	22,635	21,465	1,170	1 : 0.95
City of Waukee				
Residential	908,719	963,532	(54,813)	1 : 1.06
Commercial & Industrial	252,723	203,557	49,166	1 : 0.81
Farmland	10,552	9,017	1,535	1 : 0.85

Discussion

This study is intended to offer a new perspective on the costs and benefits of different land uses. It provides fairly easy to understand data on costs and revenues and compares them. There are several factors, however, that need to be considered along with the results of the study.

First, with any fiscal impact study there is some degree of subjectivity, and a COCS study is no exception. In the third and fourth steps of the process revenues and expenditures are divided into their component land uses. While every attempt is made to find enough information to divide the categories correctly, at some point assumptions are made that might vary from person to person. These may have little or no effect on the outcome, but it is important to be aware of their existence.

Also, because the time and resources of this study were limited, city data was focused on at the expense of county and school district data. This most likely had the effect of diluting the results. Theoretically, with all of the data from all three sources in place, the ratios should increase in distance from one. This means that residential revenue/expenditure disparities should go up and commercial/industrial and farmland disparities should go down. Unfortunately, without a much more extensive study this data is beyond our reach at present.

Furthermore, the cities chosen represent differences in population and position in the Des Moines metro area. However, not all different types of communities could be studied given the limited amount of time. Communities with little or no farmland, or with strikingly different characteristics than those chosen might produce different results. The ratios produced should be used as examples and consideration should be given to how they are applied. That said, this study's findings are consistent with the findings in other states.

It is important to remember that this study does not make recommendations regarding growth in any particular community. Residential, commercial and industrial growth are often vital parts of a city's existence. Instead, the intent of this COCS study is to show which types of land use are net financial earners and which cost money. The

study should encourage communities to discuss costs and benefits before accepting all development as inherently beneficial without considering the effects.

The following list of statements includes some of the conclusions that can be drawn from the study after considering the data and the study's limitations.

- Residential development consumes more tax dollars in services than it produces in revenue.
- Commercial and industrial development produces a net financial gain.
- Farmland, while playing only a small part in total revenues and expenditures, also produces a net financial gain.
- Generally speaking, a balance of at least residential, commercial and industrial land uses is critical for a healthy community.
- This information applies to counties as well as cities.

These conclusions from the numbers and ratios presented in the Findings section show us how well each of the different land uses supports itself in the Des Moines area. From here it is up to individuals, city officials and lawmakers to decide how to interpret these numbers and what courses of action to take to guide and control development in the future.

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