A Reprint from *Tierra Grande*, the Real Estate Center Journal

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Residential development is an integral part of a growing, dynamic community. New growth creates additional revenue for the local city government from taxes and fees paid by the original land developer, homebuilders and homeowners in the new subdivisions. This new revenue, however, does not come without cost to the city because it is obligated to provide municipal services to the new areas. More costs are incurred when the city must make capital improvements to the urban infrastructure to connect the new subdivisions to existing facilities or create suburban branch facilities.

A fundamental question has been asked for the past three decades. Does residential development "pay its own way?" There are two issues here. First, does a typical house in a new residential subdivision generate sufficient revenue to the city to pay for the annual cost of municipal services? This includes police and fire protection, parks and recreation, libraries and municipal courts. The second issue is whether new homes generate enough revenue to pay for the city-financed capital improvements that serve the new subdivision. These improvements include new parks, police and fire substations, and some street and drainage improvements.

This question is important, not only to Texas cities, but all American cities. If new subdivisions do not pay their own way, then the costs of providing services and capital improvements to them is borne by existing community residents through higher taxes. Conventional wisdom among urban planners has long speculated that new subdivisions do not pay their own way and that a method must be devised to recover the city's "costs" in providing services and capital improvements to new subdivisions.

A different view, however, is held by some in the development and homebuilding community. They are acutely aware of taxes and fees levied by municipalities on new homes. They realize that a large portion of the capital improvements needed to support new subdivisions are paid for by the developers

and not the city. This view holds that developers and homebuilders pay for most of the costs of installing streets, sewer, water and drainage improvements, and that new homeowners pay substantial tax revenues each year for the services they demand.

Despite the public debate, few studies provide empirical proof to support either position. Real Estate Center research was undertaken to provide some new facts into the public arena so that debate on this issue can be on a more informed basis. Five recently-completed San Antonio and five new Tyler subdivisions were studied. Revenues from typical homes in these new subdivisions were compared with the costs incurred by the municipality to provide needed services.

Typical Subdivisions Studied

In San Antonio, an attempt was made to identify and quantify all revenues paid into the city in the form of taxes, fees and permits by the developer, homebuilders and homeowners in each subdivision. Similarly, an attempt was made to identify and quantify all costs incurred by the city to provide the necessary infrastructure and public services to the subdivisions. The fiscal impact of the subdivisions was measured by comparing the revenue produced by an average household in each new subdivision to the amount paid by the average household in the entire city.

These subdivisions represent "typical" subdivision developments in a wide price range across San Antonio in recent years. Care was taken to select from a diverse group of new subdivisions so that conclusions derived from the case study analysis of each area could reliably be generalized and applied to all new subdivisions in the community.

Capital Improvements: Who Pays?

One-time capital improvements provide public utilities and infrastructure to each new subdivision. These costs are incurred to connect the new subdivision to the existing municipal facilities, including the sewer and water system, storm water drainage system and the arterial road network. Many of these capital improvements are paid for by the developer during the subdivision process or the homebuilder during home construction.

Some people are surprised to find that most of these capital expenses are paid for **entirely** by the developer. Other capital projects may be funded with state or federal funding. The city government pays for the remaining capital costs.

These city-funded capital improvements include police substations, fire stations, branch libraries, neighborhood parks, arterial street improvements and storm water drainage projects. Such improvements, which are not paid for with federal funds or state grants, represent costs to existing taxpayers when a new subdivision is created. Table 1 includes the major capital expenditures required to support new residential development and who typically pays them in San Antonio.

New Subdivision Revenue

New residential subdivisions create two categories of significant city revenue to pay for on-going municipal services and infrastructure capital improvements. These include annual tax revenues from the new subdivision households and one-time revenues collected during the development process.

Annual tax revenues are applied to municipal services. These city services are provided to new subdivisions and to all community households and are known as general fund expenditures. These include salaries and operating expenses for administration, municipal court, city hall, police, fire, inspections, roadways and streets, health services, parks and libraries, welfare and other services. Each household provides the city general fund with revenue from local sales tax, franchise fees and general property taxes.

Annual tax revenues. Collected from each household, these annual revenues flow into two city accounts that are significant to fiscal impact analysis, the general fund and the debt service fund.

The debt service fund accounts for the payment of principal and interest on a city's bonded indebtedness. When households in a new subdivision begin to pay property taxes, new income is created for the debt service fund. This income can be used to pay the principal and interest on additional bonds. New bonds are used to finance capital improvements needed to connect the new area to existing public infrastructure and to

Table 1. San Antonio Subdivision Capital Improvements Who Typically Pays for What?

	Developer Pays	City Pays	Both Pay
Water			
Design and engineering	X		
Service connection to lots	X		
Main supply lines within subdivision	X		
Oversized supply lines			X
Extension of water lines	X		
Pumping stations	Impact fee		
Water storage facilities	Impact fee		
Treatment facilities	Impact fee		
Supply wells	Impact fee		
Supply source	Impact fee		
Sewer			
Design and engineering	X		
Distribution pipes within subdivision	X		
Lift stations	X		
Extension lines to existing network	X		
Oversized lines and lift stations		X	
Interceptor lines	Impact fee		
Treatment facilities	Impact fee		
Storm Water Drainage			
Design and engineering	X		
Improvements within subdivision	X		
Connections to existing channels	X		
Improvements under major streets and highways		X	
Streets			
Design and engineering	X		
Subdivision access streets	X		
Larger collector streets in subdivision	X		
Widening arterial perimeter streets	X		

Table 2. Comparison of General Fund Revenues

Subdivision	General Fund Revenue Paid by Average New Household in Each Subdivision	General Fund Revenue Paid by Average Existing Household in San Antonio	Surplus General Fund Revenue per New Household
Guilbeau Park	$589	$487	$102
Northwest Crossing	993	487	506
Hollow at Inwood	1,538	487	1,051
Bluff Creek	1,017	487	530
Brookside	664	487	177

pay for other capital improvements, including police and fire substations, parks and libraries, drainage projects and street improvements.

Local sales tax. For example, in fiscal year 1994-95, the San Antonio sales tax rate was 7.75 percent. One percent of the local sales tax revenue went to the city general fund. The remainder went to the state and to the local transit authority.

Franchise tax. Franchise taxes are like a sales tax on utility bills. Although the franchise fee revenue is collected directly from utility companies, each customer pays it.

General property taxes. San Antonio collects a substantial portion of its annual revenues from general property taxes. Part of the

Table 3. Comparison of General Fund Revenues Derived From Households in Five Subdivisions With Average Tyler Household

Subdivision	General Fund Revenue Paid by Average New Household	General Fund Revenue Paid by Average Existing Household	Surplus General Fund Revenue per Household
Hollytree	$1,637	$496	$1,141
Ashmore	1,001	496	505
The Woods	997	496	501
Baker Heights	1,194	496	698
Shiloh West	865	496	369

Note: *Based on 1994-95 general fund tax rate*

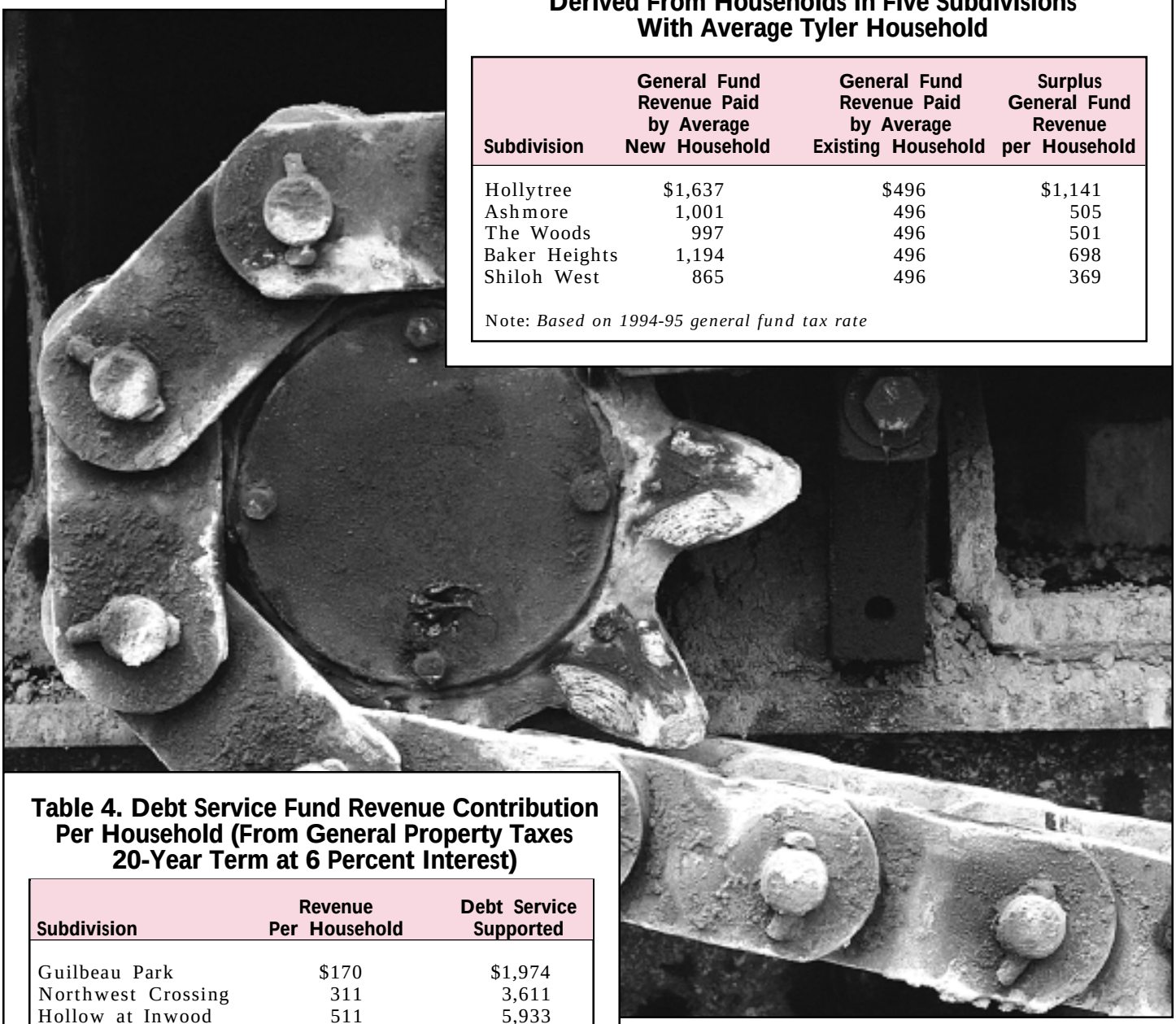

Table 4. Debt Service Fund Revenue Contribution Per Household (From General Property Taxes 20-Year Term at 6 Percent Interest)

Subdivision	Revenue Per Household	Debt Service Supported
Guilbeau Park	$170	$1,974
Northwest Crossing	311	3,611
Hollow at Inwood	511	5,933
Bluff Creek	296	3,437
Brookside	$170	$1,974

property tax goes to the city general fund and part goes into the debt service fund.

One-time revenues are collected from the developer and the subdivision homebuilders. These revenues include:

Paid by the developer

- Zoning application fees
- Fees for platting the subdivision

Paid by the homebuilder

- Sales tax on building materials
- Building permit
- Plumbing permit and inspection fee
- Electrical permit and inspection fee

Platting and zoning application fees. New subdivisions often incur two application fees: first to get the land properly zoned and, second, to plat the land for residential development. Revenues from these application fees accrue to the city's general fund.

Sales tax on building materials. The sales tax a builder pays for the materials on an individual home is proprietary information. However, the 1 percent portion of the sales tax collected by the city general fund is estimated to be .22 percent of the sales price of a new home.

Building permit and inspection fees. Funds generated from building, plumbing and electrical permits, as well as inspection fees, go into the general fund. These revenues are designed to match the costs the city incurs to provide inspection services.

Fiscal Impact of Five New Subdivisions

The fiscal impact of each new subdivision was measured by comparing the revenues generated by an average household in each subdivision with the city's actual cost to provide capital improvements and regular government services.

To examine the fiscal impact of new development on San Antonio, three separate city funds must be analyzed. New subdivision development has a fiscal impact on each one. These funds are the general fund, debt service fund and San Antonio water system budget. Three separate impact studies are required because these funds are autonomous, and revenues received in one account cannot be transferred to pay for activities funded in another.

Fiscal Impact on General Fund

To determine the net fiscal impact of a new subdivision on the general fund, the following premises were developed.

Premise one. The average existing San Antonio household pays about $487 annually into the general fund, which purchases an average level of governmental services from the city.

Premise two. Each household created in a new subdivision within the city limits requires the same level of city services.

Premise three. Each new household also creates a stream of revenue for the general fund, including revenues from property taxes, sales tax, franchise fees, user fees, fines, penalties and permits. Any additional revenue a household generates in excess of the city-wide average of $487 is available to provide enhanced services and improvements that benefit the rest of the community.

Table 2 illustrates the comparison of general fund revenue paid by an average new household versus the revenue paid by the average existing San Antonio household.

The conclusion supported by this data is that households in all five of the new subdivisions considered in this study pay considerably more into the general fund than the average San Antonio household. For a comparison of revenues generated by new subdivisions in Tyler, Texas, see Table 3.

Fiscal Impact on Debt Service Fund

Analysis of the fiscal impact of new subdivisions on the debt service fund was based on four premises (Table 4).

Premise one. Each new household must pay for its pro-rata portion of the infrastructure required to create the new subdivision and connect it to the existing infrastructure of the community.

Premise two. Many of these capital improvements are paid for directly by the developer, the homebuilder or the new homeowner.

Premise three. Some of these necessary capital improvements are paid for by bonded indebtedness of the city (or agencies owned or controlled by the city) in the form of general obligation bonds or revenue bonds. These bonds are often amortized over a term of ten-to-20 years. Such capital improvements include new police substations, fire stations, parks, branch libraries, additions to sewer treatment facilities, water supply, storage and transmission.

Premise four. Approximately 38 percent of general property tax revenue goes into the debt service fund, and the remaining 62 percent goes into the general fund. If the revenues from new households are sufficient to amortize a level of debt that exceeds the capital improvement costs, then the subdivision is "paying its way" and is not a taxpayer burden. If not, then debt service funding supported by existing households that could be used for improvements citywide must be diverted to provide the improvements needed to support the new subdivision.

Capital Improvements from Debt Service Fund

Analyzing the debt service fund requires the cost of capital improvements that benefit the subdivisions studied be compared with the revenues produced by them. San Antonio city officials were asked to identify any capital improvements made (or planned in the near future) to support the five subdivisions.

The results show clearly that, as of the date of this study, the lots in four of five subdivisions have not been a net "cost" to the city. Annual revenues contributed to the debt service fund support a bonded indebtedness far in excess of the capital improvements made so far to benefit these areas.

The Brookside subdivision, adjacent to an air force base, is the one exception because the developer was not required to pay the cost of widening the arterial street that supports the subdivision nor to pay for the sewer and water improvements that were a part of that capital improvement project. For a more detailed analysis, see *The Fiscal Impact of New Residential Subdivisions on the City of San Antonio, Texas*, technical report 1209. A similar report for Tyler, Texas, is number 1204.

This study indicates that the amount of new borrowing capability created by the revenue from four of the five subdivisions exceeds the actual amount spent for capital improvements to support them. However, the fifth subdivision required capital costs slightly in excess of its ability to pay because the city paid for major arterial improvements.

Assuming new subdivisions consume the same level of municipal services as the rest of the households in the community, then each of the five subdivisions has a positive fiscal impact on the city's general fund account.

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REAL ESTATE CENTER

Tierra Grande (ISSN 1070-0234), formerly *Real Estate Center Journal*, is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115.

Subscriptions are free to Texas real estate licensees. Other subscribers, $30 per year, including 12 issues of *Trends*.