LAND USE ANALYSIS

ACHIEVING FISCAL BALANCE THROUGH LAND USE PLANNING: THE 25% COMMERCIAL/INDUSTRIAL – 75% OTHER REAL ESTATE TAX ASSESSMENT RATIO

Local governments rely on the revenue collected from real estate taxes to fund their general operation. Therefore, the revenue-generating potential for properties receives strong consideration during land use and development decisions. In many circumstances, a site's ability to generate revenue, and an applicant's capability to adequately mitigate negative fiscal impacts, are driving factors behind the development approval process.

Prompted in part by fiscal concerns, local governments plan for and ultimately zone large tracts of land for commercial and industrial use, to ensure there is adequate land available for current and future demand. This practice of using land use policies, such as a Comprehensive Plan, and the zoning ordinance to achieve fiscal objectives rather than purely land-use objectives is commonly referred to as 'fiscal zoning'. Under the fiscal zoning approach, local governments discourage proposed developments that have the potential to create a net financial burden on the county and will instead encourage development that promises a net financial gain. Fiscal considerations are a significant element of land use planning.

The County has successfully utilized the Comprehensive Plan to designate areas of the County for future commercial and industrial (C/I) land use opportunities since the early 1970s. Over the years this practice has helped reserve appropriate areas of land for vital tax generating uses. Through the policies of the Comprehensive Plan, areas designated for C/I land uses can be implemented through the rezoning process, which then allows the property owner to develop the site. Once the C/I use has been constructed, the County is then able to bring in additional tax revenues from the site. Through the support and encouragement of C/I uses, the County over the past decade has successfully maintained a relatively low real estate tax rate while continuing to provide a high quality of public services to its citizens.

The Frederick County Comprehensive Plan strives to incorporate a more comprehensive analysis of the C/I land uses and their contribution towards the county's fiscal health into its overall community planning effort. The importance of the C/I land use has elevated in recent years as the Country strives to overcome the challenging economic times. In an effort to plan for the county's prosperous future, the Comprehensive Plan has planned for sufficient acreage for C/I land use opportunities necessary to generate tax revenue to offset the county's costs for providing public services to residential land uses, which although necessary to accommodate population growth, on average does not pay for itself.

It is the County's goal to create a plan that balances land uses and their associated tax contributions to ensure that they offset the cost of provided public services. This goal should be achieved by utilizing the land use plan to assist the County in achieving a real estate tax assessment ratio of 25 percent C/I to 75 percent other land uses such as residential. Ultimately, the land use plan should be designed to plan for adequate revenue opportunities to ensure that the County can provide its citizens with desired public services while maintaining the ability to keep a low tax rate.

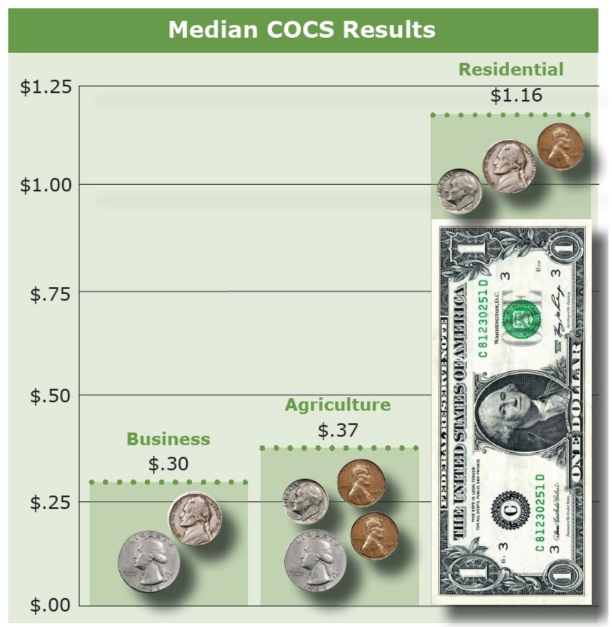
ANALYSIS

Evaluation of Costs of Community Services (COCS) by land use

A Cost of Community Services (COCS) study is one of the simplest forms of fiscal analysis available to local government. The COCS methodology was pioneered by the American Farmland Trust in the mid-1980s. It is based loosely on fiscal impact methodology, which attempts to gauge the net fiscal impact of different types of new development on a community. COCS studies require systematically assigning revenue and expenditures to particular land uses. It then computes the ratio of total expenditures required by land use to total revenues generated by land use.

When examining the COCS results, if the ratio is less than one then the land use generates more revenue than it requires in expenditures and provides a local fiscal surplus. If the ratio is greater than one, then the land use requires more in the value of services than the revenue it generates creating a fiscal deficit. COCS studies usually find that commercial/industrial and agriculture/open spaces ratios are much less than one and residential ratios are higher than one. The American Farmland Trust conducted a COCS study for Frederick County in 2003.

The American Farmland Trust (2010) computed median ratios of 1.16, 0.35, and 0.29 respectively for 152 community studies. An examination of six studies conducted in the last 20 years within Virginia indicates an average of 1.18, 0.40, and .35, respectively.



Median cost to provide public services for each dollar of revenue raised.

Summary of Virginia COCS Studies

Local Government	Year	Ratios: Residential	Ratios: Comm./Ind.	Ratios: Ag./Open Space	Source
Augusta County	1997	1:1.22	1:0.20	1:0.80	Valley Conservation Council
Bedford County	2005	1:1:07	1:0.40	1:0.25	American Farmland Trust
Clarke County	1994	1:1.26	1:0.21	1:0.15	Piedmont Environmental Council
Culpeper County	2003	1:1.22	1:0.41	1:0.32	American Farmland Trust
Frederick County	2003	1:1.19	1:0.23	1:0.33	American Farmland Trust
Northampton County	1999	1:1:13	1:0.97	1:0.23	American Farmland Trust

Source: American Farmland Trust

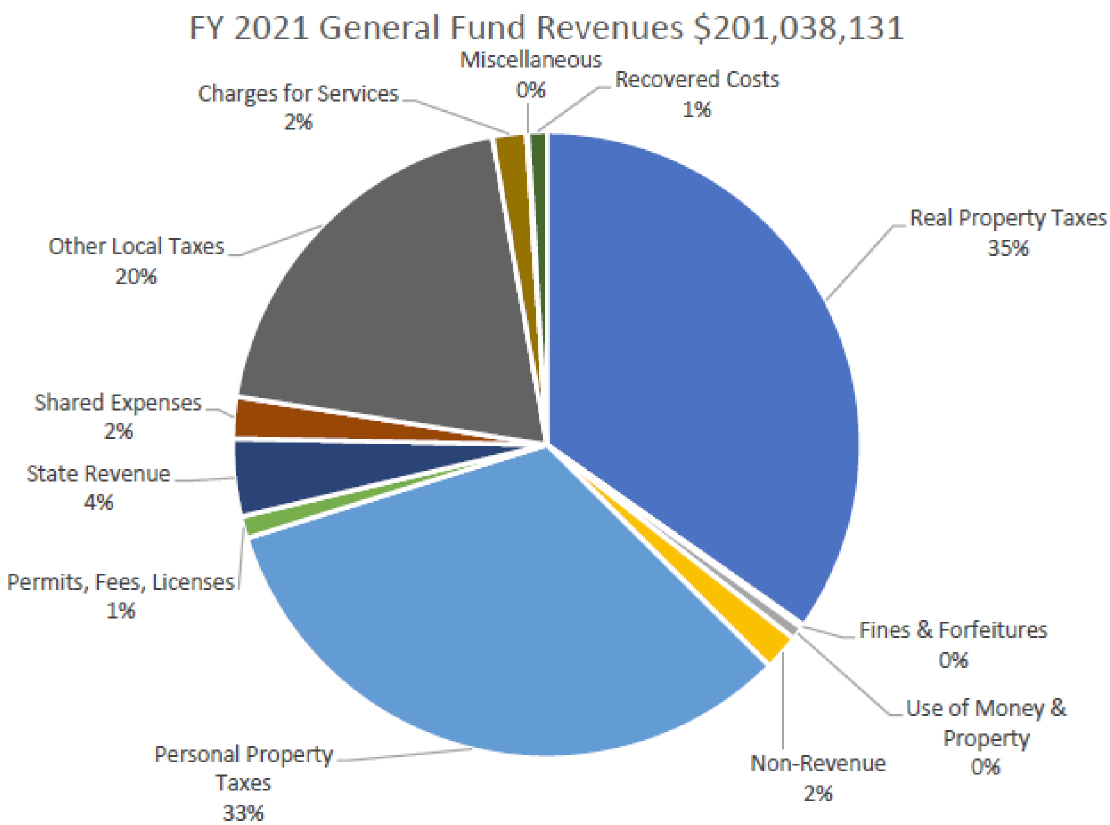
**Source: American Farmland Trust, 2016 Cost of Community Services Studies*

Capital Impacts Model

To project the capital impacts that would be associated with residential developments, Frederick County utilizes a Capital Impacts Model. This model is designed to evaluate the anticipated need for capital facilities based on growth and to determine the cost of those capital facilities to the County. The model also determines the cost to the County for mitigating the infrastructure impacts associated with rezoning's and identifies if a reasonable cash proffer can be collected for a development due to the presence of "excess capacity" or not. The Capital Impacts Model is updated annually.

Evaluation of County Tax Revenue and Expenditures

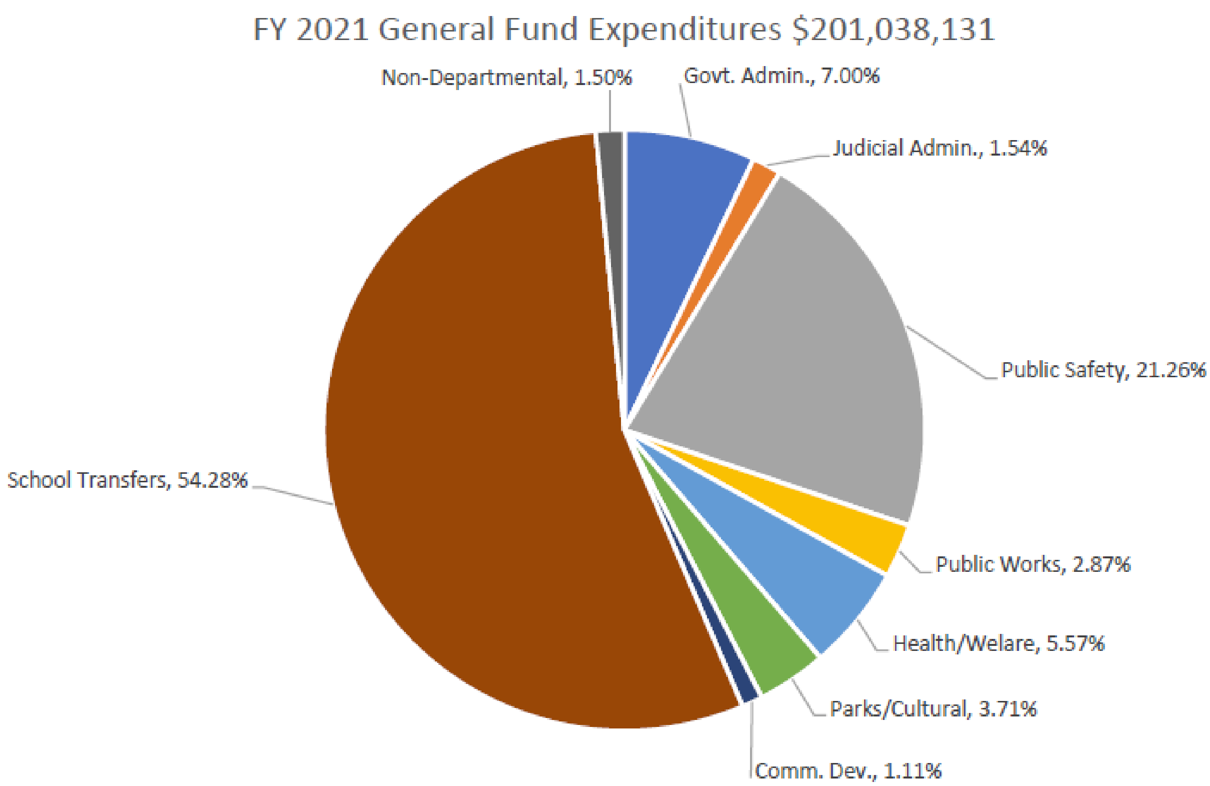
Utilizing figures for the County's FY 2020-2021 Budget – Total County Revenues, one gains a better understanding from where funds are derived, and where those funds are then spent. Real Estate taxes represent approximately 35 percent of the County's general fund revenue, this is consistent with the past few years. This real estate tax revenue is derived from various land uses: residential, commercial, industrial, and agricultural.



In 2020 C/I land uses brought in almost $14 million in real estate taxes, or 20 percent of the total real estate tax revenue. It should be noted that C/I use only occupy 4 percent of the County's total land area and contribute $1,330 per acre in real estate taxes.

In addition to real estate taxes, C/I land uses are also significant contributors to personal property, local sales, meals and lodging, business license, and other local taxes. C/I land uses are vital contributors to the local tax revenue and ultimately contribute almost half of the County's total tax revenue.

At the other end of the spectrum, in 2020 residential land uses brought in $49 million in real estate taxes, or 72 percent of the total real estate tax revenue. Residential land uses make up 26 percent of the County's total land area and contributes an average of $707 per acre in real estate taxes.



This review of the County's tax revenues and expenditures clearly illustrates that while residential land use contribute the majority of the real estate taxes collected by the County, the costs for covering services provided to those residents far exceeds their contributions.

Through solid land use and financial planning, the County has maintained a stable, relatively low real estate tax rate for the past decade while continuing to provide top notch services to its residents. Utilizing the benefits of C/I, an increase in C/I land uses would offer the County an even greater ability to provide services or cover the increasing costs of services.

Target: Plan for C/I to Represent 25 Percent of Real Estate Assessments

Based on the 2020 tax revenues, 20 percent of the total real estate property assessments came from C/I uses and accounted for almost half of the total County revenue, while accounting for less than 4 percent of the total land area in the County. While land values will certainly fluctuate with the ebb and flow of the economy, C/I values will continue to be significant contributors to the county's tax base and more importantly, C/I tax contributions will offset the residential land use cost for services.

The Comprehensive Plan strives to achieve a balance of land uses to achieve the target policy of ensuring that 25 percent of the projected assessments will be from C/I land uses. The Plan also incorporates opportunities for mixed use developments and single-family residential uses. The policy of directing residential growth into the UDA also promotes a more efficient use of land and community services, ultimately offering additional cost savings to the county. Opportunities for mixed use developments offer additional revenues to address the demands for services generated by the residential uses. These projects include an appropriate mix of commercial, office, and residential development. They provide an efficient development pattern that can foster economic development, provide diversity in land use, and reduce the number and the length of automobile trips. These mixed uses projects are encouraged in appropriate locations in the Comprehensive Plan.

CONCLUSION

The land use designations and policies contained within the Comprehensive Plan accommodate the goal of providing 25 percent C/I land uses to 75 percent Other land uses. Maintaining a healthy C/I ratio will help the County maintain its current tax rates while continuing to enhance the services provided the residents.

To reinforce a sound policy basis that balances land use planning and fiscal policies, the ratio of 25/75 between C/I and other land uses in terms of available land areas and taxable value of the land uses shall be the established benchmark. This policy shall dictate that at least 25 percent of the taxable land value (land plus improvement value) in the County should contain C/I land uses, and conversely that no more than 75 percent of the taxable land area should be for uses other than C/I land. By achieving this policy goal, the County will ensure that taxable land values equate to the projected expenditures.