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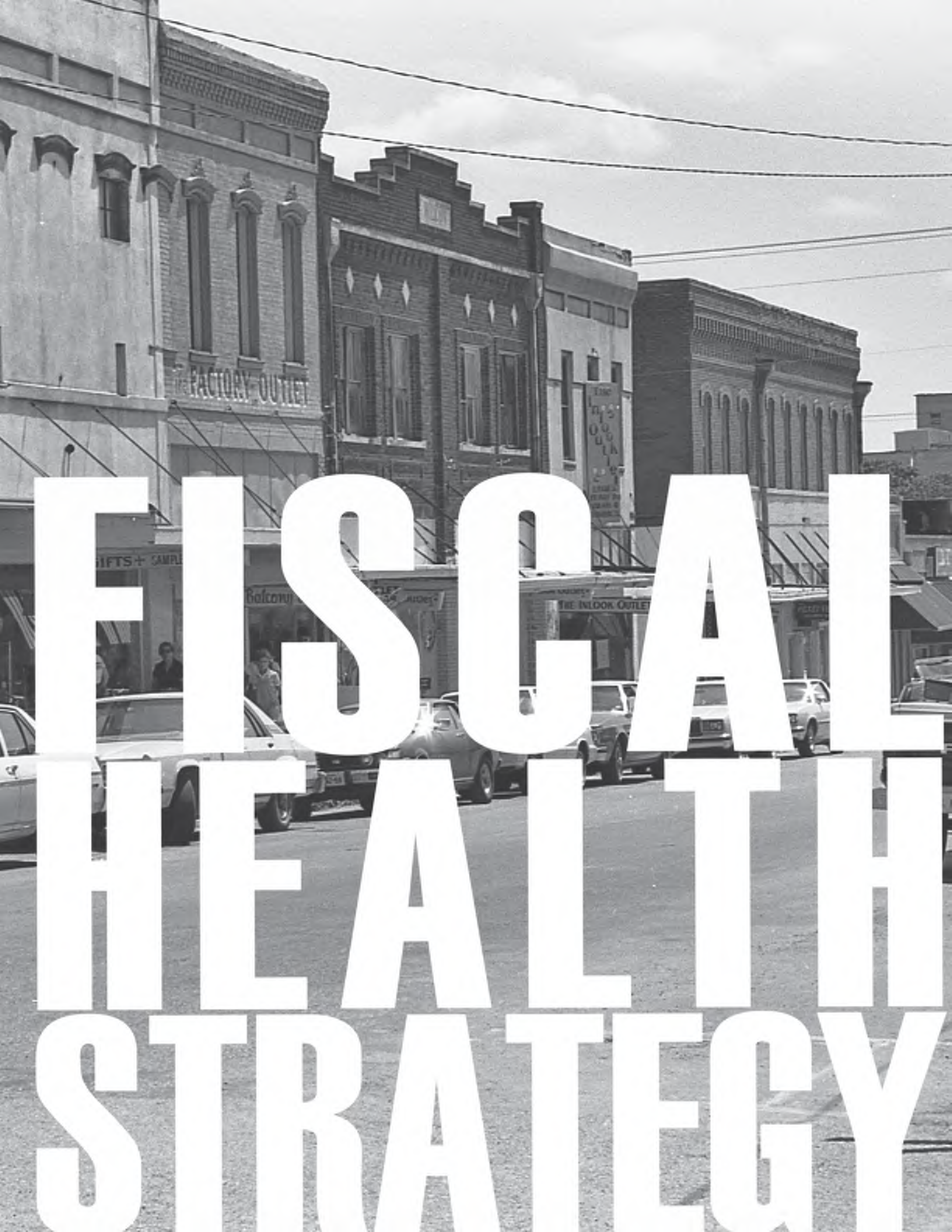

FISCAL HEALTH STRATEGY

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Intended Outcomes

Promote a stable and resilient fiscal health strategy for McKinney by:

1. Understanding the fiscal impacts of land use decisions;
2. Encouraging a harmonious balance between revenue-producing and service cost-producing product types (or placetypes);
3. Incorporating fiscal considerations into near- and long-term capital investment planning;
4. Maintaining market awareness regarding the timing and absorption among land uses and the corresponding impact on city service costs; and
5. Establishing policies and practices which support ongoing monitoring of, and refinements to, the city's fiscal model to ensure that it remains relevant in the context of changing market conditions.

Overview

A community's fiscal environment can be described as a three-legged stool, where the harmonious balance between nonresidential development, municipal services and amenities, and residential development forms the foundation of a healthy system. The first leg of the stool -- nonresidential development -- provides the majority of revenues (property, sales and use taxes) that support the cost associated with providing municipal services. Municipal services and amenities -- the second leg of the stool – are the things that attract residents and maintain their quality of life. This includes things like, roadway and utility infrastructure, parks, libraries, etc. The third leg -- residential development -- generates the spending and employees that support nonresidential businesses and the community overall. In order for a community to operate in a fiscally sound manner, there must be a harmonious balance between these 3 legs, especially through changing economic cycles. Too much reliance on any single revenue stream could put a community's long term fiscal health at risk.

Over the past decade, community planning efforts have increasingly considered the impacts of land use mix on public sector operating revenues and expenditures. Consideration of these fiscal implications ensures that the community vision is grounded in market and economic reality, and the City's future fiscal health is maintained. However, because large-scale community planning efforts require a long-term perspective, oftentimes 20 years or more, it is difficult to achieve precision in estimating municipal revenues and expenditures over the community's expected buildout. As McKinney continues to evolve as a community, the City recognizes the need for additional revenue-generating, nonresidential development to offset the costs of providing a high level of service and amenities to its residents.

In carrying out the ONE McKinney 2040 Comprehensive Plan Update Initiative, an analysis of potential long-term fiscal operating impacts was completed at a macro level to determine the Plan's ability to generate stability between fiscal revenues and expenditures. The analysis considered a 22-year market cycle (2018 to 2040) and not the City's ultimate buildout. Considering new development growth only, it focused on operating revenues and expenditures to the City and how they would be affected by the market-supported level of development over that period.

Methodology

General assumptions used in the fiscal analysis included:

- The City's current budget (2017-18) reflects a reasonable balance between revenues and expenditures.
- Future revenues (taxes and fees) are based on current (2018) market values for various development types (housing, retail, office, industrial, other).
- Future expenditures are based on current (2017-18) service costs per capita, including residents and employees.

The fiscal impact analysis consisted of the following components:

- Development Program resulting from the 20-year growth projections
- Buildout of residential (single family and multifamily) and non-residential (retail, office and industrial) land uses
- Mix of land uses
- Overall balance between residential and nonresidential development
- Development timing and absorption of uses (relates to market factors)
- Location and direction of development
- Efficiency of infrastructure to support development
- Value of new development (on a per unit or per square foot basis)
- Considers fiscal operating revenues/expenses only (general fund)
- Fiscal Revenue Estimates
- Tax revenues (property, sales, use)
- Franchise fees
- Licenses and permits
- Fees and charges
- Fines and forfeitures
- Other revenues
- Service Cost Estimates
- Calculated on a per capita basis, including both residents and employees
- Net Fiscal Surplus/Deficit
- Difference between anticipated fiscal revenues and service costs

In completing the fiscal analysis, the following information was obtained and analyzed:

- Market, economic and fiscal information from City Staff;
- Secondary research related to the real estate development industry; and
- Data regarding local market conditions from area property managers, brokers, appraisers and other real estate professionals.

Figure 6.1 summarizes the level of development that the City of McKinney could capture over the next 22 years within the surrounding Trade Areas identified for various land use types.

Figure 6.1. Potential City of McKinney Market Absorption

LAND USE TYPE	Trade Area Demand (22-yr)	Preferred Scenario Market Share	Estimated Absorption
Residential (Units):			
Low-Density	116,100	22	22,500
Medium-Density	38,700	25	9,700
High-Density	48,500	20	9,700
Residential Total	**203,300**	**22**	**44,900**
Non-Residential (Sq Ft):			
Retail/Service	13,300,000	50	6,650,000
Office/Employment	57,000,000	35	19,950,000
Non-Residential Total	**70,300,000**	**38**	**26,600,000**

Source: Ricker|Cunningham.

As shown, The City is well-positioned to compete for market share with attainable capture rates ranging from 20% to 50% depending on the land use/product type. McKinney's anticipated residential market share is similar to its historical share of growth in the Trade Area, although it is expected that the City could capture a higher share of housing products that represent alternatives to single family detached units. McKinney's position as an emerging regional center for both shopping and employment will support higher than typical market shares for retail, office and industrial space.

Summary

Given this level of market absorption captured by the City of McKinney over the next 22 years, quantitative fiscal impacts to the City were then calculated, based on the following inputs:

Population and Employment Estimates

Population based on average household size by land use type
Employment based on square feet per employee by land use type

Revenue Estimates

Based on development value by land use type (property tax)
Sales tax based on dollars per square foot in taxable retail sales
Other revenues = licenses/permits, charges and fines, etc.

Service Cost Estimates

Service population = residents and employees
Employees assumed to have 1/3 impact of residents
Additional adjustment for employees who live in McKinney (to avoid double-counting)

Considering new development growth only, the anticipated 22-year land use mix appears to generate a fiscal surplus for the City in terms of operating revenues (Figure 6.2) and expenditures (Figure 6.3).

Figure 6.2. Potential Annual Fiscal Revenues

PRODUCT TYPE	ADDED TAXABLE VALUE @ 2040	ADDED PROPERTY TAX REVENUE
Residential (Units):		
Low-Density	$10,200,000,000	$55,100,298
Medium-Density	$2,910,000,000	$15,719,791
High-Density	$1,455,000,000	$7,859,895
Non-Residential (Sq Ft):		
Retail/Service	$1,330,000,000	$7,184,647
Employment (Office/Industrial)	$3,491,250,000	$18,859,698
	Property Tax*	$104,724,329
	Sales Tax**	$16,625,000
	Total Tax Revenues	$121,349,329
	Other Revenues***	$14,714,648
	Total Revenues	$136,063,977

*Based on City .540199 property tax rate.
**Based on estimated retail sales of $250 per square foot and 1% sales tax rate.
***Based on 2017-2018 general fund revenues from permits, fees, licenses, fines, etc. -- per capita of $168.

Source: Ricker|Cunningham.

Figure 6.3 Potential Annual Fiscal Expenditures

PRODUCT TYPE	ADDED RESIDENTS /EMPLOYEES	ADDED ANNUAL SERVICE COSTS*
Residents	120,150	$105,597,101
Retail Employees	4,117	$3,618,045
Office/Industrial Employees	8,645	$7,597,894
	Total Service Costs	$116,813,039
	Total Revenues	$136,063,944
	Total Surplus/Deficit	$19,250,937
	% Surplus/Deficit	16%

*Based on 2017-2018 general fund expenditures per capita of $879 (includes debt service).

Note: Service cost impacts of employees estimated at 1/3 of residents.

Source: Ricker|Cunningham.

In summary, the Plan's more compact development pattern, with higher density uses in targeted investment areas, should result in a more attractive value-to-cost relationship for the City. It represents a balanced mix of revenue-generating and cost-producing land uses designed to maintain the City's long-term fiscal health. Lastly, this analysis can be utilized as a tool to measure impacts from development/redevelopment projects as they come forward. In this way, the City will be able to "benchmark" revenue and expenditure impacts on a periodic basis.