The Relationship between Commercial Development and Municipal Costs
(REVISED 12/12/11)

One of the defining questions in the debate over whether large-scale commercial growth is a benefit or a detriment to the town of Hinesburg is the question of whether, on balance, such development can be seen as a net contributor to municipal tax collections, or whether it produces an increased tax burden on the remainder of the town’s residential, industrial and commercial properties.

While every town is different, insight into this question can be drawn from the experiences of the town of Williston., Beginning in the late 1990’s Williston experienced substantial commercial growth fueled by its proximity to Burlington and an enviable transportation network which includes direct access to I-89. Following the build-out, Williston now hosts large retailers such as Walmart, Home Depot and Best Buy among others and two major grocery chains. From the late 1990s to the present date, the estimated property value of commercial development has swelled 300%, rising from approximately $150 million prior to the build-out to approximately $450 million today, representing a significant portion of the Williston grand list.

A study commissioned by the Town of Williston in 2002 and performed by Edward Del Duca and Associates of Grand Junction, Colorado[1] concluded that the cost of additional town services driven by large-scale commercial development **would** exceed**ed** the property tax revenue associated with the development and that under the property tax and fee structure then in place the town **would** receive**d** little benefit from large retail and other regional land uses while absorbing their impacts. The study goes on to state that the findings are supportive of a local sales tax that had been recently adopted.

Commercial property in Williston now contributes to municipal tax revenue both through property taxes and a 1% local sales tax. While the full $450 million of commercial property contributes to the property tax stream, the Williston Town Assessor estimates that only about one third of the commercial grand list is generating sales tax revenue while the remainder of the commercial tax base is non-**sales** tax-generating due to either the type of goods being sold or because it is commercial office space, etc.. None the less, the sales tax typically contributes $2.2 million annually to the Town of Williston to defray municipal expenses. With the sales tax in place, indications are that the additional costs of large-scale retail development have been mitigated. In discussions with several Williston town officials the words used were “It’s been a wash”. As a figure of merit, the local sales tax revenue required by Williston to achieve balance between the costs of commercial development and tax revenues can be converted into a property tax rate increase that would be necessary to replace the sales tax.

$PT_{increase}$ = Property Tax increase to replace sales tax = local sales tax revenue / grand list
$PT_{increase}$ = ($2.2 million / $1,600 million) = $0.1375 / $100 of assessed value.

Given this calculation, Williston would have to raise their municipal property tax rate by just under $0.14 / $100 of assessed value in order pay for the services required by large scale commercial development in the town if the sales tax was not in place. Conversations with Williston officials indicated that the figure is slightly larger than this calculation and is estimated as $0.17 / $100 of assessed value.

Using the $300 Million in commercial build-out which occurred in Williston between 1998 and the present as the basis for the additional municipal cost and the $2.2 million in sales tax revenue as the added cost of the commercial development, we can estimate the average net cost per $1 million of large scale commercial development which is not mitigated by property tax

Net cost = Sales Tax Revenue($ million) / Commercial Grand List Adder ($ million)
Net cost = $2.2/300
Net cost = $7,333 For Every $1 Million in Commercial Development

Therefore, based on the Williston experience, each $1 million in commercial development drives $7,333 in additional municipal costs beyond what is collected in property taxes.
While the above computation provides insight into the costs of commercial development it must be tempered by contemplating a number of assumptions made in the **Lot 15 Committee** analysis as well as some additional information gleaned from Williston's experience

- The computation assumes that only commercial development which has occurred since the start of the build-out contributes to the additional municipal costs and that different types of newer commercial development contribute equally to this cost. Changing this calculation to include all previous and new development would reduce the figure 33% ($4888 / $ 1 million). Changing this calculation to assume only development which generates sales tax revenue drives costs would increase the figure 200% ($14,666 / $1 million)
- The calculation provides an average. Any single development may result in costs which are either greater or less than this estimate due to the type of development as well as quantization or stepping of the town's municipal cost structure
- There is not enough data to assess whether different types of commercial development such as retail, office space, etc, drive costs disproportionately. The analysis does not differentiate between different types of commercial build-out.
- Williston's experience is that the increase in municipal costs does not coincide with the onset of development, but matures in the five years following the development.
- Commercial development in the absence of a sales tax may have a net positive impact on municipal tax rates and budgets in the short term, while police, fire and emergency service budgets as well as increased town administrative costs erode the benefit in the mid to long term.

. If we apply the average net cost calculated using Williston's experience, we can project the future costs to the Town of Hinesburg associated with large-scale retail development

Net cost = ($7,333 / $1 Million) * Development Value

A $3 million commercial development would create an additional $22,000 in municipal costs beyond the property tax revenue associated with the project. It has previously been calculated and reported by the Lot #15 committee that for every $10,000 that the town of Hinesburg spends, it will need to raise the municipal tax assessment by $0.0195 / $100 of assessment or $1.95 for every $100,000 of assessed property value, therefore, given these calculations, a $3 million commercial development could drive an increase in the tax assessment of $0.0429 / $100 of assessed value or $4.29 / $100,000 of assessed property value in the mid to long term. While the quantitative analysis may under or over predict the actual cost to Hinesburg's tax payers, the general conclusion that large scale commercial development drives municipal costs in excess of the increased property tax revenue it provides is supported by the Williston experience and **predicted confirmed** by an independent study.

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[1]"Williston Cost of Development Study, Final Revisions" Edward Del Duca and Associates, April 12, 2002