Integrating Physical, Economic, & Fiscal Considerations in Community Planning

by Brett Sheckler and Brian Murphy

Communities across the country are facing daunting challenges, grappling with fundamental issues of economic competitiveness and fiscal sustainability:

• *How do we preserve our community's economic strength in a competitive landscape?*

• *How do we ensure that local governments can continue to provide the foundational services like public safety and infrastructure that allow our communities to succeed?*

Cities, towns, and counties develop policies by envisioning what they want to look like in the future. Typically, these visioning processes concentrate on the physical environment – including man-made and natural features. What local planning processes often fail to do, however, is strategically address the other two realms that are crucial to success – our economic and fiscal environments.

In reality, the success of our communities relies on all three realms: (1) making the most of our *physical environment*; (2) ensuring *economic competitiveness*; and (3) promoting *fiscal sustainability*.[1]

These three realms are the underpinnings that make our cities, towns, and counties strong, and they are deeply intertwined. Each realm influences the others in multiple and multifaceted ways. In the end, our communities cannot succeed in any one realm if they fail to succeed in the other two.

Because of the complex interconnections, true success hinges on a community having a *holistic vision* of what success really looks like, and an *integrated strategy* to achieve it.

> WHAT LOCAL PLANNING PROCESSES OFTEN FAIL TO DO IS STRATEGICALLY ADDRESS ... OUR ECONOMIC AND FISCAL ENVIRONMENTS.

How is This Different From What Communities Do Today?

To one degree or another, most jurisdictions already have plans in place to address each of the three realms. They have a plan for their physical environment; they have a strategy for economic development; and, in one form or another, key policy makers have a fiscal strategy to make ends meet. The problem virtually every community faces is that these plans are often developed separately, and fail to adequately address the interconnectedness of the physical, economic, and fiscal realms.

In most every community we work, we see two common shortcomings:

1. Confounding effects among disparate plans; and

2. Community visions for the future that fail to meaningfully consider all three realms that underpin success.

In the most benign instances, confounding effects take the form of an element of one plan that does less than it could to support a strategy outlined in another. Less benign, and uncomfortably common, are instances where the strategies set out in one plan contradict and undermine – often unintentionally – strategies being pursued in another.

For example, we recently worked with a city whose economic development strategy hinged on an aggressive plan to revitalize its historic downtown and adjacent waterfront. The aim was to transform the downtown into an urban node of housing, retail, and other commercial uses.

The city had done many of the right things, but the crucial missing element was attracting multifamily development to the area in and around downtown. One reason: the city's land use regulations – driven by the city's comprehensive plan – had created a vast oversupply of land zoned for multifamily elsewhere in the community. As long as developers had plentiful (and low-cost) opportunities to develop multifamily across the city, the community was less likely to succeed in concentrating its (modest) multifamily demand downtown.

Another instance of confounding effects can be seen when a component of fiscal strategy undermines the community's broader efforts. One example: a small city needs to attract more households to allow a retail base to emerge, yet is charging high permit and impact fees that discourage residential development.

The confounding effect, here, stems from the disconnect between the city's fiscal plan and its economic development plan. Based on a too-narrow and erroneous understanding of their position, the city believed that new housing was a fiscal loser for the city; hence, it levied high fees on development. At the same time, the city's economic development strategy highlighted the need for more housing to get to a critical mass of support for retail development.

If its planning efforts were better integrated, elected officials and others would have noted the disconnect – and it would have forced them to think more deeply

1 A fiscally sustainable government, in our view, has three defining attributes: (1) it is in a position to ensure continuity of service over the long term, in good times and bad; (2) it provides citizens with an attractive "bargain," offering both current and potential residents an appealing combination of services and tax burdens; and (3) it holds the confidence of its constituency, allowing public officials to engage with citizens on an ongoing basis about the balance between taxes and services.

about their belief that housing was a fiscal loser.

The effect of the second common shortcoming – community visions that fail to meaningfully consider the physical, economic, and fiscal realms – is often more subtle, but in many ways even more damaging. For example, it is easy for community members to look at pictures of vibrant downtowns, extensive playfields, and other public and private amenities and say, "We want *that*. Let's put that in our plan." However, by failing to develop an integrated plan for success in the three core realms, the community may be guaranteeing that it will not be in a position to get "that."

A much more effective vision would identify how we want our communities to look and feel, *while at the same time* developing an integrated, realistic strategy for ensuring success. This includes acknowledging the role that hard trade-offs (and our individual contributions – including the taxes we pay) play in achieving the success we envision.

So How Do We Do It?

In this section, we want to provide a framework of the kind of planning process we are advocating. One caveat: for purposes of this short article we necessarily have to condense our description of what is a complex and interactive process. The key point, however, is that when a local government engages in long-range planning it needs to develop a vision and strategy that look at physical, economic, and fiscal elements in a holistic way, with integration built in from the very beginning of the process:

1. Physical Strategy: Outlining how the community will shape, and leverage, the community's physical environment;

2. Economic Strategy: Recognizing the community's position in the broader economic landscape and specifying how the community will act to bolster that position; and

3. Fiscal Strategy: Describing how the local government will pursue its charge of serving as the agent of constituents – how it will balance tax burdens and the delivery of foundational public services through its management of costs and revenues.

Since such a planning initiative is broad in scope, it would likely be initiated by the local governing body.

In practical terms, the first phase of the process should be focused on assessments that address each of the three realms. The second phase can focus on identifying tools and options – again, addressing all three realms. The third phase would articulate how the three elements will work to support one another to achieve agreed-upon goals.

A **physical strategy** requires cataloging the community's physical assets and structure, identifying existing and emerging needs, and determining what is both desired and possible given the needs and constraints that emerge when considering the economic and fiscal realms.

An **economic strategy** requires a broad market assessment, offering the community a picture of the surrounding economic landscape and an understanding of where their community sits in that landscape. What are its competitive advantages? What are its competitive disadvantages? What are its true opportunities and threats? And what are the potential ingredients for success (recognizing the needs and opportunities introduced by the physical and fiscal realms)?

A **fiscal strategy** includes four components:

1. A robust analysis of revenue and cost trends.[2]

2. An assessment of how actions in the physical and economic realms influence the community's fiscal position (and vice-versa). How do actions contemplated in the comprehensive plan or in pursuit of economic competitiveness influence government's fiscal position? And how can fiscal policies either bolster or impede the community's physical or economic efforts?

3. An investigation of available tools. What tools are available to proactively monitor and strategically manage revenue streams and cost components? For example, how can a city strategically distinguish stable revenue streams from one-time or potentially at-risk revenues?

4. An examination of potential strategies for putting those tools to work to bolster fiscal sustainability. How can local government put in place cost and revenue management strategies that reflect constituent perspectives – ensuring that it builds public confidence by operating in an efficient and cost-effective manner.

Planning Commissioners Have a Role

Many of the policies, strategies, and actions reflected in the comprehensive plan both influence and are influenced by community-wide goals and strategies for economic and fiscal success. It is important that these considerations are "on the table" while the plan is being developed, and that planning commissioners ask hard questions about the linkages between plan recommendations and their city or county's fiscal and economic strategies?

By posing questions, a commissioner can shine a light on the importance of a holistic perspective, and in short order, become an advocate for developing an integrated community vision and plan for achieving it. ◆

Brett Sheckler is an economist with expertise in finance, governance, and strategic planning. He has worked with local, state, and federal governments for more than a decade, and recently founded Integrated Economics in Seattle, Washington.

Brian Murphy is a senior policy analyst, strategic and business planner, and facilitator at Berk & Associates, also in Seattle. He leads the firm's Strategic Planning and Facilitation practice.

2 Some may read "robust" as a throwaway term, but our experience has shown us that too many cities fail to learn as much as they need to about their revenues and costs. For example, when we ask a city to analyze its sales tax revenue streams, the reply we often get is, "We already did that." Then we ask, "Well, do you know how much of your construction sales tax is coming from new construction and how much is coming from tenant improvements, renovations, and remodels?" And the answer, again too often, is, "No, we don't have a clue."