



Village of Caledonia, Wisconsin

Cost/Impact of Development Analysis

November 9, 2011

Introduction

In July 2011, the Village Board engaged Ehlers to study and evaluate the cost impact of development in the Village. The engagement was designed to look into the various cost impacts of residential, commercial and industrial development in the Village and how these developments will impact the overall operations of the Village.

Over the past several years the Village has evaluated development projects that would have minor impacts through major impacts and have included redevelopment and green field type developments. These developments have included mostly residential and commercial aspects with a certain level of industrial/manufacturing type development.

Much of the development pressure has been stifled by economic conditions, however the Village has been left with questions of: what type of development should be encouraged, is there a value that should be targeted to maintain the current level of services, should the Village encourage development at all, etc. Specifically, the Village is interested in analyzing the impact of various development types on the affordability of taxes in the community based on current service provision. The study will attempt to determine how various land development scenarios, i.e. residential (various types), commercial, business parks, industrial parks, impact the overall finances of the Village.

Executive Summary

To answer the question of what type of, if any, development should be encouraged in the Village of Caledonia, the question is answered with a question. While a community can direct to a certain type of development, the question remains, what type of development does the community want to encourage. This then leads to the question at the forefront of what the cost/benefit of certain types of development will be.

Currently, the average residential unit of the Village is valued at \$191,000 and has 2.57 residents. This includes single family homes in rural settings through apartment complexes in a more urban setting. The type of housing unit will dictate the level of services that will be required, as well as location. Anecdotally, there has not been a previous issue with the Village attracting residential development of this level.

The greatest impact to services in the Village is high density residential development, while the least impact is industrial development. As, or if, development occurs in the Village, consideration will need to be given as to location, type and density of development in order to gauge the direct impact that a particular development will have on Village services.

Under the assumptions that moving forward the majority of revenue will need to be generated off of the property tax levy, the conclusions that we arrive at are as follows:

- No Growth Position: result in a \$0.06 increase in the mill rate annually for every 1% increase in expenditures;

- Residential Growth Only: Average home value will need to be approximately \$287,000 to fund current operational standards;
- Proportional Development – Current: Average home value will need to be approximately \$245,000 to fund current operation standards;
- Proportional Development – Comparable: Average home value will need to be approximately \$198,000 to fund current operational standards.

The least cost development will utilize existing infrastructure to a maximum, while not overloading the existing infrastructure. As an example, continued intense development on the east side of the Village will not require additional utility or road infrastructure. However, as the population density increases on the east side, there will be an operational impact on the Fire Department that may cause the need for an additional truck to be staffed

The most costly development will require the extension of infrastructure to service the new development. As an example, the extension of services to the I-94/Hwy K interchange requires significant utility extension to service the area, resulting in a higher cost of development.

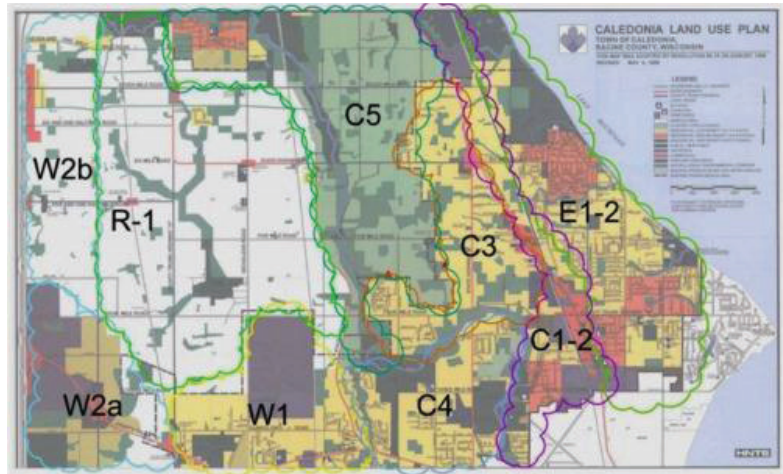
As the numbers are played out, to reduce the impact of service cost to the average residential taxpayer, the more non-residential development that occurs, the less of an impact there will be to the residential taxpayer. This must be tempered with location specific analysis to determine the impact of development pressure outside of current service areas.

The Village

The Village of Caledonia, Wisconsin is located in the northeast corner of Racine County encompassing 48.7 square miles including 3.2 square miles of river and lake areas. Positioned between Lake Michigan and Interstate Highway I-94, Caledonia is uniquely situated to provide a variety of living styles, commercial and manufacturing opportunities, and a wide variety of recreational activities.

The Village, originally incorporated in 2005 completed a comprehensive Land Use and Neighborhood Plan to guide development throughout the Village in 2006. At the time of the adoption of the plan, the Village was broken into a variety of neighborhoods that included:

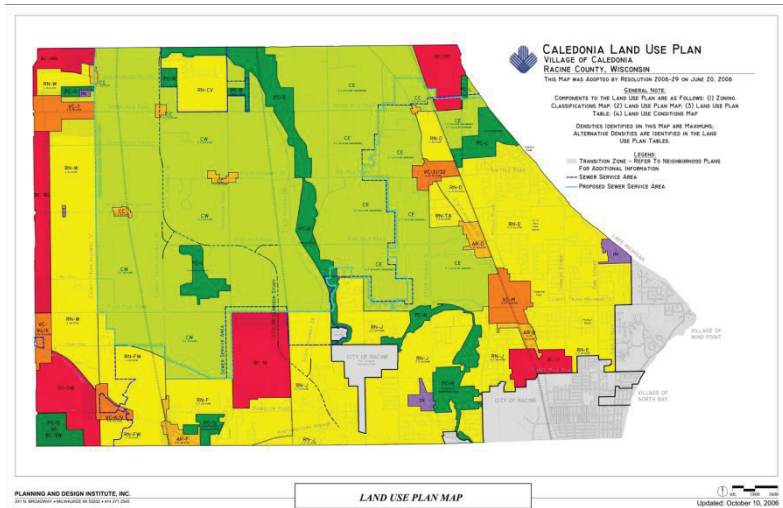
1. W2: I-94 Neighborhood
2. R1: Rural Area Neighborhood
3. C5: Country Neighborhood
4. C3: Tabor Woods Neighborhood
5. W1: Franksville Neighborhood
6. C4: Johnson Park Neighborhood
7. C1/C2: Douglas Avenue Neighborhood
8. E1/E2: East Side Neighborhood



Each Neighborhood plan was developed with the assistance of stakeholders within the specific areas.

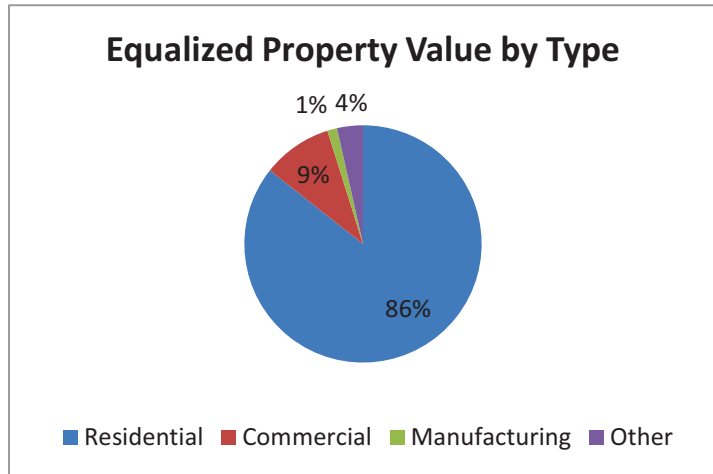
Overall, the Land Use Plan for the Village provides for significant rural development with the central part of the Village, with more intensive uses along the I-94 corridor and the Douglas Avenue corridor. The Comprehensive Land Use Plan is depicted to the right:

Specific details of the Neighborhood Plans and the overall Land Use Plan for the Village can be found at the Village’s website:



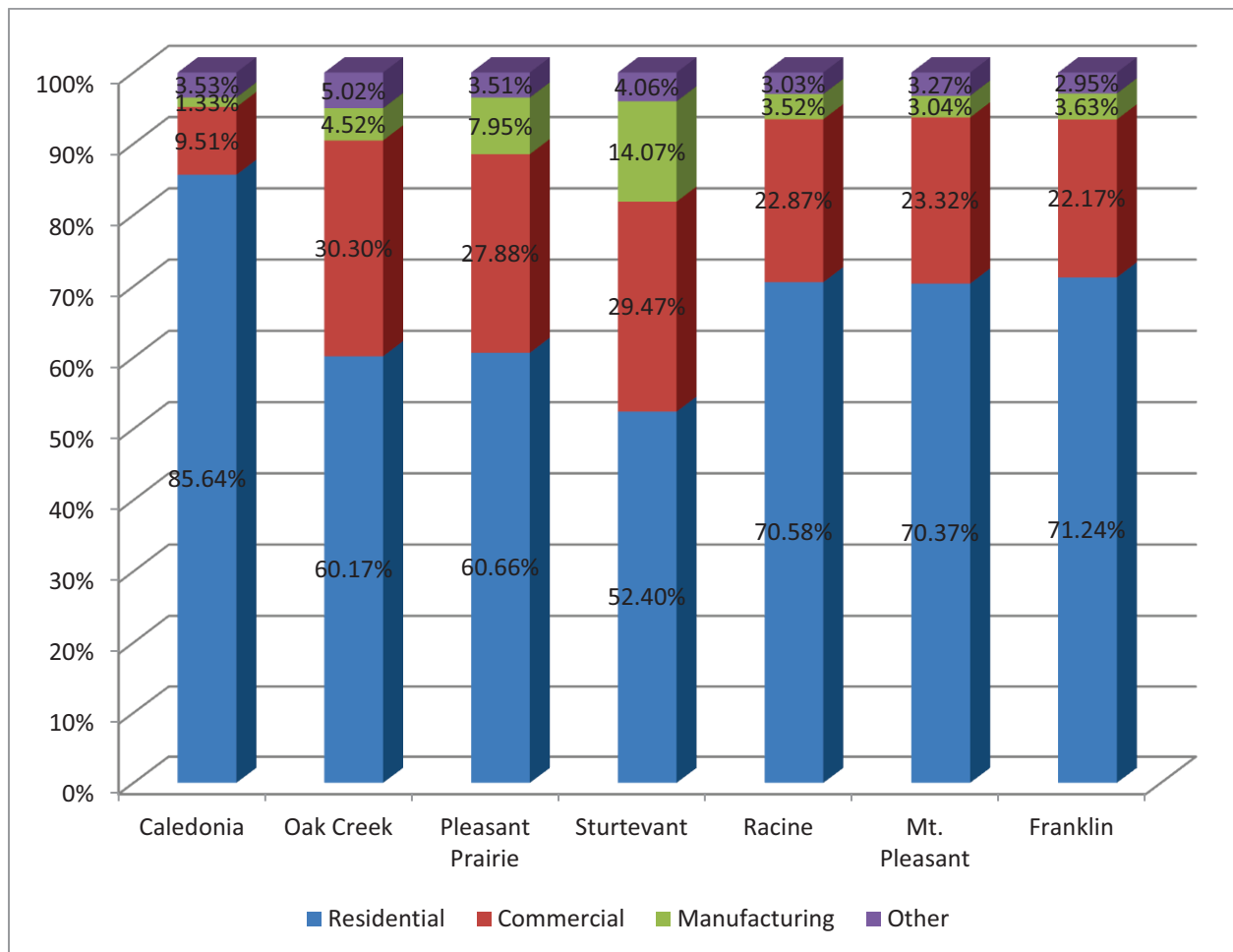
<http://www.caledoniawi.com/CalLandUsePlan.aspx>

The current make-up, from a property value perspective of the Village is depicted by the following pie chart. Total value of the Village as of January 1, 2011 was \$2.15 billion. Of the total value of the Village, 86% was residentially classified properties.



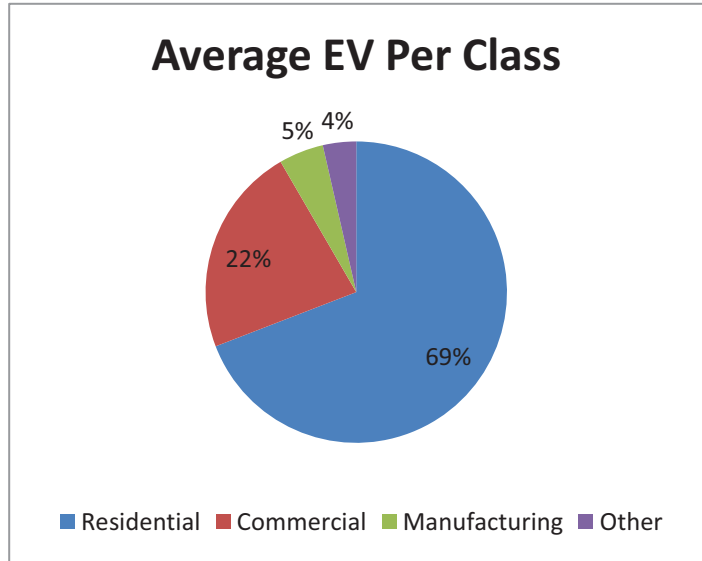
When comparing the property make-up of the Village to comparable communities, the following communities were selected: Oak Creek, Pleasant Prairie, Sturtevant, Racine, Mt. Pleasant and Franklin. On the ensuing page is a chart that depicts the various property make-up of each of the above communities.

Of the communities used to compare the Village, Caledonia relies most intensely on residential value to serve its current population. The comparable communities all have significantly greater amounts of commercial and industrial properties.

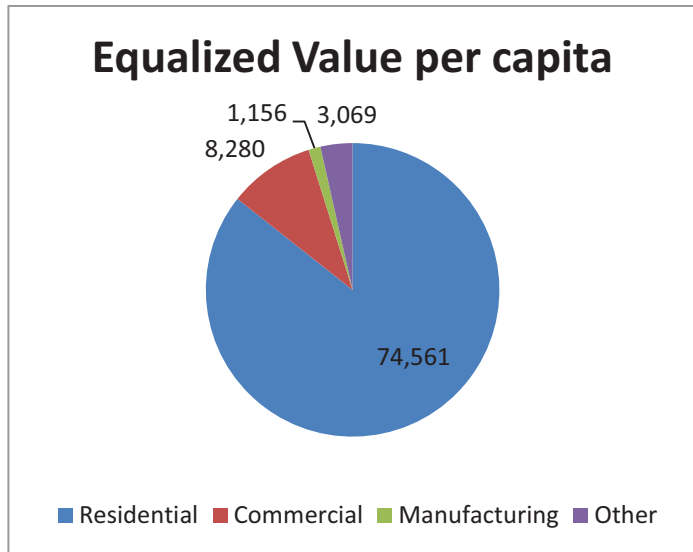


Averaging the above communities, the mix of property types is depicted to the right. The average of the comparable communities would result in a shift in value primarily from residential to commercial and industrial uses. Industrial would increase four-fold. Commercial would need to triple. The shift would result in a reduced reliance on residential property taxes.

Of the comparable communities, Franklin has the next lowest percentage of commercial development at 22%, while Mt. Pleasant has the next lowest percentage of industrial development at 3%.



With the current value of the Village, the per capita basis of property values is \$87,067. The breakout of the property value per capita by class is depicted by the pie chart to the right. The Village has a current 2010 census population of 24,705, in 9,629 occupied housing units. This results in an average residential unit having 2.57 persons residing, with an equated value of \$191,301. This the basis for defining an average value for a residential unit.



Village Operation – Raw Cost Data

The Village currently operates, not including most capital and debt service items, on a \$558.22 per capita basis. The above is broken down into the following categories:

• General Government	\$	76.97	13.79%
• Public Safety		328.60	58.87%
• Public Works		86.90	15.57%
• Health & Human Services		37.43	6.71%
• Parks & Leisure		7.85	1.41%
• Library (County Levy)		<u>20.47</u>	3.67%
Total	\$	558.22	

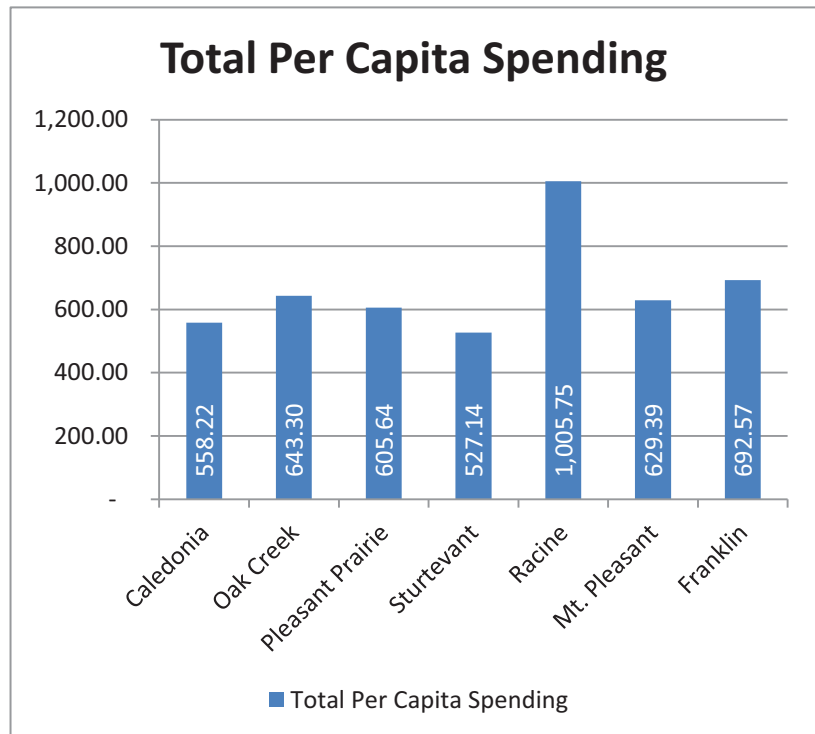
Expenditures can also be looked at from a cost to value ratio. The Village currently has a cost to value ratio of \$5.91 of general fund expenditures for every \$1,000 of equalized value. On a 1:1 cost to value ratio, the average house will generate \$1,130 of expenditures in Village services. With the current mill rate of the Village being \$4.99 (not including the County Library Tax), an average value home will generate \$955 of property taxes. The remaining cost basis must be made up through either other sources of revenue or development of property that does not have a 1:1 cost to expenditure basis.

However, as is noted through the staff interviews, the operations of the Village are not equal dollar to dollar for the type of property class (i.e. the cost of providing services to a residential property is not 1:1 ratio to the cost of providing services to an industrial property).

At the conclusion of 2011, the Village will have General Obligation Debt outstanding of \$22 million. The total amount represents 20% of the statutory debt authority of the Village. This debt profile is very manageable and would allow the Village to undertake development projects without significant impact to the overall debt profile. That being said, the cost basis for debt (who pays for it) is a question that is not answered in the raw number.

Cost of Service Basis

Based on 2010 data, the cost per capita for municipal operations for comparable communities is depicted to the right. The average cost per capita, controlling for Racine is \$609. With Caledonia at \$558, the Village is significantly below the per capita spending average. Annually, the Wisconsin Tax Payers Alliance publishes a report identifying expenditures, and the average for communities in Caledonia’s class (17,500 – 30,000 population) is \$849 per capita. It should be noted that the Alliance publication varies from the above numbers slightly due to how the Alliance calculates the spending and also a year’s differential (Alliance publication on runs through 2009).



Village Operations – Elected Officials and Staff Interviews:

As part of the study, various elected officials and staff of the Village were interviewed for specific perceptions on current Village service delivery. The general conclusions of the elected officials and staff

are that the Village is adequately meeting the needs of the current population as it pertains to service delivery. While the general conclusions are positive, there were several noted areas where either a) there is a village deficiency or b) development pressures will cause stress on current ability to serve the population.

Below is a summary by service area of the perceptions of those interviewed:

- General Government – There was general consensus amongst those interviewed that the current level of staffing was meeting the needs of the population. As the nighttime population of the Village grows, there will likely be additional administrative needs associated with handling the day to day operations of the Village.
- Finance Department – Staffing appears to be light compared to similar communities creating pressures in handling not only the Village’s finances but also those of the utilities.
- Police Department – Current staffing provides for 1.25 officers per 1,000 residents within the Village. While the current sworn officer make-up is handling calls, response time is an issue for the department due to staffing. Data is limited regarding staffing; however, in 2006 the average of the comparable communities was 1.6. At the time the data was reported, the Village reported 1.37 officers per 1,000 residents. Wisconsin municipalities average 2.0 officers per 1,000 residents (2006).
- Fire Department – While the current department is meeting basic standard response times to incidents, the frequency of calls will continue to impact the ability of the department to meet NFPA standards (6 minutes or less response time 80% of the time).
- Public Works Department – Currently meeting overall needs of community. Have not added personnel in 30+ years due to the addition of efficiencies in operations over that same time period. Facilities are in poor condition and are in need of expansion/modification.
- Health Department – While the department is meeting the majority of the needs of the Village, the department does not have any residual capacity to handle additional growth and development within the Village.
- Recreation – no interview conducted.
- Utilities – While the utilities are not in need of any equipment, staffing is an issue in terms of maintaining systems. The utilities are running on half the employees per the state’s average and are in a mode to only address items that break.

As indicated in the Introduction, the purpose of the study is to assist the Village in determining what type of growth should be encouraged. Throughout the interviews, the question was asked for the interviewee to opine on what type of development would have the greatest impact on Village services.

Residential – Low Density (Conservation type subdivisions)

While low density residential development does not significantly increase pressure on general government operations, policing services or the fire services, the impact of this type of development does impact the public works and utilities the greatest. Low density development increases costs to install and maintain infrastructure from a road and utility perspective.

The current Village Code respecting conservation subdivisions further hampers the ability of the public works and fire department to access development. The width of roads and their configuration have been identified as barriers for the two departments to be able to adequately maintain services in these areas due to the inability to move equipment in and out of an area. Further as it pertains directly to the Fire Department, if residences are located a significant distance from the public right of way, access can be very limited.

While not all areas of the Village are served by sanitary sewer or wastewater, the low density areas are more expensive to serve than high density areas. Due to the distance between connections, the cost of providing services to these areas goes up significantly. The sunk cost of installing distribution or collection mains is predominantly the same whether residential density is on a 1:5 acre ratio or a 3:1 acre ratio.

Residential – Medium Density (traditional urban subdivision)

Medium density residential development provides a mix of costs associated with the type of development. The increased population will have impacts on all facets of services that the Village provides, however, once a certain value per residential unit is met, operational costs will be covered.

Residential – High Density (multiple unit development)

High density development has the greatest impact on services that the Village provides. The type of high density development further may increase the draw on Village services. High density development impacts the police, fire and health departments to the greatest extent. The impact is somewhat mitigated by efficiency in the areas of public works and utilities (less roads and utility infrastructure needed). Within high density development, the greatest impact on services tends to be in the senior housing area due to the volume of emergency calls.

Commercial

While commercial development has an impact on services, the impact is relatively minor. Dependent upon whether the commercial development is “big box” or traditional “strip” commercial, will determine the impact. Big box type development typically will have greater draw on policing and emergency responses due to patronage volume. Commercial developments, other than food services, do not have a great impact on other Village services.

Industrial

Industrial development generally has the least service impact on the Village. Other than the general additional impact that industrial uses have on the roads that service the industrial areas, industrial development will have the least impact on police, fire, and general government operations.

Development Type & Location

During the interview of the Elected Officials, questions were asked regarding the perceptions of what type of development and where it should be located. Generally, the commentary received was positive in nature on that development should be allowed to occur in the Village. The million dollar question remains, what is the optimal type.

Opinions on the optimal type of development where somewhat varied from “liking the bedroom community concept with limited commercial development opportunities”, to “we need a fully balanced development plan that includes all areas of the Village.” While concerned with the center part of the Village, there was a general consensus that the center constituency should not dictate the overall development policy of the Village.

Areas that were identified in the interviews as requiring additional development analysis are as follows:

- I-94 Corridor
- Hwy 31
- Hwy 32
- Hwy K
- Franksville
- 4 Mile Rd
- Hwy 38

Several comments were made respecting the need to identify and concentrate development along specific transportation corridors. Further, there was a general consensus to avoid the central part of the Village for intensive development, including significant expansion of transportation corridors.

Costs of Development – Value Generation

Below are several scenarios of development and the impacts that they would have on Village services. In analyzing overall future development costs, our assumptions are based on an almost exclusive reliance on future property tax revenues to fund Village services as there will likely not be other revenues of the same proportion as exist today (exclusive of utilities).

Proportional Development – Current: In order to gauge the impact of development, the most basic assumption, all other things remaining equal, would be for every dollar of development, \$0.86 would be residential, \$0.10 would be commercial, \$0.01 would be manufacturing and \$0.04 would be other. Presuming all other revenue sources remained under the same mix, and then the current revenue structure would meet the needs of development.

If the current proportional development scenario were to continue, with a similar mix of development, then the average single family home (with 2.57 residents) would need to generate \$1,243 of property taxes for the Village. Utilizing the current mill rate of \$4.99, the average home would be need to be valued approximately \$245,800.

Proportional Development – Average Comparable: If the Village were to move to a mix of development that would parallel the average of the comparable communities, the mix of development would shift to 69% residential, with a mix of commercial/industrial at 27% and the remaining 4% being other categories.

If the Village were to develop along these lines, then the average single family home (with 2.57 residents) would need to generate \$990 of property taxes for the Village. Utilizing the current mill rate of \$4.99, the average home would need to be valued approximately \$198,000.

Residential Development Only: In the event the Village was to make a policy decision to maintain a bedroom community concept with extremely limited industrial or commercial development, the shift of property taxes would fall more squarely onto the residential property class. If the Village were to exclusively develop residential properties, the average single family home (with 2.57 residents) would need to generate \$1,432 of property taxes for the Village. Utilizing the current mill rate of \$4.99, the home would need to be valued approximately \$287,000.

No Development: In the event that the Village was to make a policy decision to allow no additional development in the community, then any increase in service cost would be placed on the existing taxpayers. Based on the 2010 General Fund Budget, a 1% increase would result in an additional \$122,000 of expenditures. Assuming that no other revenues would be available to offset the increases, an additional \$122,000 added to the general tax levy would result in an increase slightly less than \$0.06 per \$1,000 of equalized value. The compounding impact of a 1% increase with no additional value being generated would result in a \$0.59 increase in the tax rate, or approximately \$114 on an average home valued at \$191,000.

Other Considerations:

- Infrastructure – whether utilities, locating development outside of current service areas, or inadequate width of roadways will have an impact on the ability to maintain the development levels identified above.
 - I-94 Corridor: Presents significant utility barriers that will drive up development cost. As previously identified, it is likely that tax incremental finance districts will be necessary to address some of these costs. The uses of tax incremental financing districts do place a burden onto the other tax payers of the community for the provision of services.
 - Fire Department Response: Currently there are significant portions of the Village that fall out of response radii. As development occurs response times will dictate the need to relocate and/or build new fire stations to adequately serve the Village.
 - Conservation Subdivisions: The current configuration of conservation subdivisions creates barriers for both the public works and fire departments to access these subdivisions. Without modification to the current ordinance, these problems will persist and ultimately impact operational costs for the Village.
- Transportation Corridors – development concentrated away from acceptable transportation corridors will have an impact on the cost of development. If development is located in a manner

that would cause relocation and or creation of new transportation corridors, there will be added cost to the development.