

**HOW SMART IS SMART GROWTH? :
THE ECONOMIC COSTS OF RURAL DEVELOPMENT**

Jeffrey H. Dorfman¹ and Nanette Nelson²

¹Department of Agricultural and Applied Economics, The University of Georgia
²Institute of Ecology, The University of Georgia

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Introduction

Drive through the outer suburbs of almost any city and one can see farmland and forest land being turned into houses, offices, industrial parks, and parking lots. Around the country, about one million acres of farmland per year are being developed for other uses. Local governments, especially in rural areas, often have difficulty financing their services and are constantly looking for ways to increase their financial health. Local government officials usually believe that the solution to their government's financial difficulties lies in development, through the associated increase in the property tax base. However, a growing body of empirical evidence shows that while commercial and industrial development can indeed improve the financial well being of a local government, residential development actually worsens it. The problem is that while residential development brings with it new tax (and fee) revenue, it also brings demand for local government services. The cost of providing these services exceeds the revenue generated by the new houses in every case that has been studied (for a survey, see American Farmland Trust). In this article we look at a method for evaluating the true net economic benefits of development to localities, present some empirical evidence, and discuss the implications of this evidence for agriculture and rural communities.

Cost of Community Service Studies

Cost of Community Service (COCS) studies involve a reorganization of a local government's (usually a county's) records in order to assign the revenues and costs of public services to different classes of land use or development such as residential, commercial, industrial, farm, forest and open lands. For example, the costs of a parks and recreation program would be classified as all benefiting residential development; the costs of roads would be allocated across all

types of development; local expenditures on the farm services agency would be assumed to be benefiting farm and forest land. The resulting totals for revenues generated and expenditures incurred can be presented as a ratio of expenditures-to-revenues for different land use types. The American Farmland Trust developed COCS studies to support use-assessment programs in the Northeast. Use-assessment programs were initiated to slow the loss of farmland and forestland and more equitably distribute property tax burdens. We followed the methods outlined in *Is Farmland Protection A Community Investment? How to Do a Cost of Community Service Study* (American Farmland Trust) to complete this study.

COCS studies look at average revenues and expenditures, not changes at the margin, and are thus not capable of precisely predicting the impact of future decisions. Still, they provide the benefit of hindsight, a budgetary baseline from which to make decisions about the future. They can also allow for informed decision-making on such policy topics as tax abatements for farm or forest land (or even for commercial/industrial development).

Review of COCS Studies from Around the Nation

Over 70 COCS studies have been completed by a variety of researchers around the country for cities and rural communities. The maximum, median, and minimum ratios of local government expenditures to revenues collected from these studies are shown in Table 1. The numbers clearly show the fallacy of depending on residential development as the road to a sound growth policy. In not a single instance did residential development generate sufficient revenue to cover its associated expenditures, *not in a single location*. Bedroom communities are not economically sustainable at tax rates that are likely to be levied. In fact, when a rural community with a large base of farm and forest land begins to convert that land into residential development, either as a planned growth strategy or due to market forces and a lack of growth control

measures, the local government is virtually guaranteed to head down a path of deteriorating financial stability and increasing local property tax rates.

Two New Studies in Georgia

Georgia is currently in the national spotlight for growth and development policies. Atlanta and its surrounding suburbs are the current favorite example of “sprawl” and the dangers of unbridled growth as witnessed by the traffic congestion, lower air and water quality, classrooms in trailers, loss of farm land, forest land and open space, and increasing property tax rates. In Georgia’s rural communities a major initiative is being launched by the state government to boost economic development and bring new development projects to these locations. While the main goal of this initiative is commercial and industrial growth, residential development will obviously follow if the initiative is successful. That residential development will not necessarily occur in the same county as the commercial/industrial development, so caution is in order.

The authors of this article conducted two COCS studies in Georgia counties that are a mix of rural and suburban areas. These are the first COCS studies performed in the main part of the Southeastern U.S. (Virginia and Texas are the closest places to Georgia in which COCS studies had been done). Three land use categories were defined for this study: residential, commercial/ industrial, and farm/forest/open space. Farm houses were included in residential category. This study does not include financial data for schools. The reason for ignoring school revenue and expenditures is that local government and school budgets are maintained separately, so school-related fiscal impacts are not of direct relevance to the local government decision makers. Since planning and development decisions are made by the local government, not the school boards, we decided to focus solely on their fiscal impacts.

Budgets, annual financial reports, and other supporting agency reports were obtained for fiscal year 1998 and 1999 for Habersham and Oconee Counties, Georgia. Revenues and expenditures for each county were allocated to land use categories based on the review of available records and interviews of local officials and service providers. The percentage of property tax revenue raised by each land use type was used in allocating a majority of revenues for which local officials could not offer more precise breakdowns (all sources of revenue are included in this analysis, not just property taxes). The Oconee County budget listed explicit sources of revenue; thus, more items could be precisely allocated. Expenditure percentages were primarily obtained through interviews. If a percentage breakdown for an expense could not be obtained from an individual or a record search then the percentages calculated for the property tax revenues were used. The revenues and expenditures were totaled for each land use category and expenditure-to-revenue ratios were calculated. The final results are displayed in Figure 1. The higher the bar, the more revenue is generated for each dollar of expenditures incurred.

Implications for Farm and Forest Land Preservation and Rural Communities

The main implication of COCS studies is that a local government that approves the conversion of farm or forest land to residential development is likely to face a worsening in its financial condition. While the lure of an increased property tax base is often attractive to a local government when it is considering a request to approve a new subdivision, they must realize that their expenditures will likely rise more than their revenues, resulting in a budget shortfall unless millage rates are increased. The imbalances discussed here are only exaggerated if schools are included; schools are very expensive and only very high-priced houses can come close to generating enough school-collected revenue to support even one child per household.

Further, COCS studies confirm that programs which reduce property tax burdens on farm and forest land as a mechanism to encourage farm and forest land preservation are equitable and serve only to bring the tax burden more in line with the cost of servicing that property.

The findings of COCS studies should be carefully evaluated in light of the changing character of these rural counties. COCS studies should not be used to promote one land use type over another without a careful and full understanding of their limitations. They use average revenues and expenditures and may not reflect the costs and revenue of a particular development project. They do, however, challenge the idea that rural counties must choose development to ensure economic stability. Farm and forest land may not generate an impressive looking tax base, but neither do they create a demand for expensive government services. In particular, rural communities must ensure that their development is balanced with enough commercial and industrial development to “support” residential development that does not generate enough local government revenues to cover the expenditures it requires.

References

American Farmland Trust, 1992. *Does Farmland Protection Pay? The Cost of Community Services in Three Massachusetts Towns*. The Massachusetts Department of Food and Agriculture.

American Farmland Trust, 1993. *Is Farmland Protection A Community Investment? How to Do a Cost of Community Services Study*. (Washington, DC: American Farmland Trust).

Table 1. COCS Study Expenditure-to-Revenue Ratios (in dollars) from Around the Nation

<u>County</u>	<u>Residential</u>	<u>Commercial /Industrial</u>	<u>Farm /Forest/Open Space</u>
Minimum	1: 0.47	1: 1.03	1: 1.06
Median	1: 0.87	1: 3.45	1: 2.70
Maximum	1: 0.98	1: 20.00	1: 50.00

Footnote: these figures are derived from 70 COCS studies that are compiled on the website of the American Farmland Trust (<http://www.farmlandinfo.org/fic/tas/tafs-cocs.html>).

Fig. 1. Georgia COCS Study Results

