

Social and Economic Education for Development

Evaluating the Costs and Benefits of Urban Growth

Lori Garkovich

November, 1998

University of Kentucky
Service

Cooperative Extension

Introduction

During the 1990s, the story of hundreds of communities across Kentucky is one of significant population growth. Growth has been especially strong in counties adjacent to larger metropolitan areas (e.g., Spencer, Trimble, Garrard, Grant, Gallatin, Bracken), in smaller urban centers (e.g., Morehead, Bowling Green, Owensboro, Elizabethtown, Somerset, London), and the counties near these smaller urban centers (e.g., Larue, Lawrence, Lyon, Russell, Trigg). In these places, the visible evidence of growth are everywhere: in new homes going up where last year corn grew or cattle grazed, in schools yards, on the roads, as well as the number of shoppers in local stores and the new businesses in downtown or the new shopping centers.

If the story of this decade is about urban growth, it is one with many possible scripts. All the players in this story share a common assumption, an article of faith, if you will -- that the growth signaled by urban development brings other benefits to the community -- new residents, new consumers, new wealth -- and therefore produces more benefits than costs. But as we shall see, the impact of growth on a community is a complex question. Growth can bring many benefits to a community; it also has costs. What we see and how we evaluate the impact of growth depends on our perspective, what we choose to emphasize, and how our community responds to the changes that accompany growth. This is why there are many possible scripts with very different endings that

we can write about the story of urban growth. Today, communities across Kentucky are

struggling to clearly define who benefits, in what ways, and who pays, in what ways for community growth. This report examines some of the answers to these questions.

Setting the Stage: The Forces Underlying Urban Growth

Each year thousands of acres of agricultural land in the U.S. are converted to nonfarm uses. Kentucky is no different. Between 1982 and 1992, urbanization and suburbanization converted 368,000 acres of agricultural land to residential, commercial, and to a lesser extent, industrial uses, this is especially true for agricultural acreage near to urban areas. One third (127,000 acres) of this was classified as prime or unique farm land (American Farmland Trust, 1997).

What is driving this major shift in land use patterns? The transformation of farm land into urban uses is being driven by the cumulative decisions of individual land owners and the demand of prospective buyers. Population growth ultimately provides the major impetus for land use change and most urban conversions (60-75%) are for residential use. Typically, the majority of households buying new homes purchase homes on lots under a fifth of an acre. But about one in eight (12%) of new home sales are for half acre lots or larger. This larger residential lot is more common in less urbanized counties where the cost of land is lower. In the

past two decades, rural counties have converted larger tracts of land per household than did urban counties. Furthermore, counties with the highest rate of population growth used nearly three times the land per household as slower growing counties, suggesting that the pattern of land use in these places is more likely to be rural residential rather than subdivision growth.

Thus, there are many forces leading to urban growth. People have a strong desire to live in suburban and rural settings. Middle age, middle income families with one or two children are most likely to have a preference for suburban and rural housing as well as the financial resources to act on this desire. Moreover, as average household size has decreased over the last few decades more housing units must be built to serve the same number of people. The cost of land in less urbanized counties is lower, making it possible for people to act on these residential preference. Finally, because average household size is declining, even if new residents weren't moving into a community, there would be a need for more homes and apartments to accommodate peoples' housing needs.

Urban Growth: The Economic Balance Sheet

There are several different ways to think about the economic balance sheet of urban growth. What we choose to enter into the ledger sheet depends on how we look at the situation and what we value. To begin, let us consider a strict accounting of the taxes generated and the cost of services provided arising from urban growth. Then we will look at other ways of assessing the economic benefits and costs of growth.

The argument has often been made that residential growth generates new income for the community through higher property taxes. This is true. As land is converted from lower property tax value use (agricultural land) to higher property tax value use (residential, commercial, industrial land), communities do generate more income from property taxes. However, this only looks at one side of the balance sheet.

Property taxes are the primary source of local income to support a host of community services (e.g., police and fire protection, education) and

the construction and maintenance of local infrastructure (e.g., roads, water and sewage treatment plants, parks). These represent the expenditure side of the local government balance sheet. So, a fuller assessment of the ratio of taxes generated to the cost of services provided requires examining both the property tax revenues generated by new urban development as well as the expenditures required to support the services and infrastructure required by new development.

There are a growing number of fiscal analyses of the monetary costs and benefits of different types of land uses to local communities. These studies compare the property tax income generated by parcels of land with the costs of delivering a package of community services to the users of these parcels. While the specific dollar values vary, the conclusions of community-based economic studies in Pennsylvania, Massachusetts, Connecticut, New York, Florida, and California are the same: *Residential land uses cost more in government provided or subsidized services than they generate in property tax revenues and service fees, while agricultural land uses generate more in property tax revenues than they cost in services.*

More specifically, these studies indicate that for every one dollar of tax revenue generated by farm land, between 21 and 48 cents of community services must be provided. On the other hand, for every one dollar of tax revenue generated by new residential land, between \$1.05 and \$1.36 of community services must be provided. Like agricultural lands, commercial and industrial lands represent a net income flow for local communities, demanding between 18 and 44 cents of services for every one dollar of generated revenues. Thus, agricultural and commercial/industrial lands have a net positive monetary effect on a community's budget while residential lands have a net negative monetary effect.

What is the basis for this difference? While the new homes have substantially higher value than the farm land they displace, the property taxes and service fees generated by these new homes typically are not sufficient to cover the cost of the government-provided services demanded and

expected by the residents of these new homes. Studies indicate that the single largest service cost from residential growth is for the provision of educational services (e.g., transportation, classroom space, faculty and staff), and the next set of service costs are for water and sewage treatment. The cumulative effect of these service needs is what leads to the net monetary costs to a community when farmland is converted to residential uses.

Are there other ways to think about the economic impact of urban growth beyond this simple taxes generated to services provided analysis? Absolutely, and these other economic impacts illustrate why arriving at a firm conclusion on the economic outcomes of urban growth is so complex.

Communities with business license fees and occupational taxes capture additional revenues from commercial and industrial growth on top of the increased value from converting agricultural land to these urban uses. Urban growth also means new construction which pumps considerable dollars into the local economy. Residential growth also brings new consumers to the community, but their impact depends on whether they spend their consumer dollars locally or elsewhere. Finally, there are multiplier effects from the wages paid to local employees of new businesses, consumer dollars spent in the community, as well as purchases of goods and services within the community by new businesses. These other economic impacts (wages paid and consumer sales) from new commercial and retail businesses may be offset if existing businesses in the community experience losses.

A final issue related to the economic balance sheet for growth and its resulting land use changes is to ask: How do the economic costs and benefits apportion out between the public and private sectors of the community? Only the property taxes, business license fees and occupational taxes come to the public sector, all other economic benefits accrue to the private sector. Indeed, a fiscal analysis of agricultural land conversion in the San Joaquin Valley of California concluded that the economic benefits are short term, as new monies for construction, typically borrowed from outside the community flow in and stimulate multiplier effects within the private sector. However, once construction

ends, borrowed monies must be repaid, shifting the flow of these monies out of the community. Then, the new residents arrive and stimulate residential demand for government-provided services. The community is then left with the marginal costs of providing services to the new residents.

Thus, there are several different ways of evaluating the economic impacts of urban growth, each depends on what we choose to emphasize and how we evaluate the outcomes. For example, we might conclude that the public sector is most likely to experience net costs while the private sector is most likely to experience net benefits. Is this necessarily desirable or undesirable? It depends on your point of view. If I work for a local construction firm, I am pleased to have increased opportunities to work. But if I own a local business I may be wondering how I can survive because my customers now go to the new shopping mall. If I am the tax assessor, I am pleased by the increased revenues that come from growth. But if I manage the local water treatment plant, I may be wondering how I am going to meet the demand for more capacity on my current budget. The economic reality of urban growth is that public sector costs can become private sector costs, if to expand the capacity for water treatment we increase user fees. Similarly, private sector gains can become public sector gains, if to meet the demand from new customers the bank opens a new branch and hires new employees who pay occupational taxes.

Is it inevitable that the public sector will experience net economic costs from urban growth and its accompanying land use changes? Not necessarily. Our traditional method of financing community services is through property taxes and to a lesser extent, user fees. This method is based on all property owners and/or users paying for the average costs of the services. However, if urban growth leads to a need to expand capital facilities or service capacity (i.e., add new schools, hire new police officers, build more capacity in water or sewage treatment plants), these marginal costs are shared by all property owners and/or service users, leading to higher average rates. If these marginal costs were shifted to the residential, commercial, or industrial units whose

development necessitated the expansion of facilities or services to compensate for higher demand, then the monetary impact of urban growth on the public sector would be minimized. Development impact fees are one tool local governments can use to recapture some of the public costs of urban growth.

Urban Growth: The Social Balance Sheet

When smaller or rural communities experience a surge of urban growth, social and political changes often also occur. Studies of rapidly growing communities suggest that newcomers and long-term residents often differ in their values and norms, expectations for services, political participation, and styles of social interaction. Again there will be both benefits and costs to the community, and how we define these and evaluate them depend on our point of view.

Often the most visible social change is in terms of land uses within the community. Agricultural land owners discover that others value their land more for how many houses it can support than how many bushels of corn it can raise. For many farmers, especially those near retirement, this is a blessing, since their land represents a kind of pension investment. The opportunity to leave farming and live comfortably may not have been possible without the rising demand from urban growth.

On the other hand, residential growth, especially when it involves rural residential growth, can lead to conflict among farm and nonfarm neighbors. Nonfarm neighbors may not understand or appreciate the need for farmers to work when the weather allows it or crops demand it, and may not be willing to accept the sights, sounds, and smells that inevitably accompany farming. In some communities, farmers have found themselves at odds with nonfarm neighbors, leading on occasion, to calls to the police or legal claims that farmers' activities represent nuisances that diminish the residential land owners' value and enjoyment of their property. Or, farmers may face increased liability due to nearby nonfarm residences. Family pets that are not controlled may harass livestock, and many aspects of the farm (e.g., ponds, silos, equipment, livestock) represent

attractive nuisances that can lead nonfarm children, unfamiliar with the potential dangers, into costly accidents or even death. Growing communities may find themselves divided by questions as to how to balance peoples' expectations for an acceptable rural residential environment and the production activities of local farmers.

The land use changes that come with urban growth can also alter peoples' understanding of the nature of their community. Is this an agricultural community that is now losing the very qualities (farms and farm land) that defined it? Or, does this growth symbolize a community that is on the move toward a better future? In response to these changing perceptions of who we are as a people and a community, growing communities may find themselves in conflict over whether or not growth should continue. For communities with planning and zoning, this may lead to contentious public hearings on proposed developments and in communities that do not have planning and zoning, this may spark debates over whether or not to adopt it.

Newcomers represent an important infusion of valuable human resources to a community. Newcomers often tend to have higher educational attainment than long-term residents and bring with them new skills, new knowledge, new talents, and new perspectives. Local organizations and the community-at-large can profit from these human resources through the development of new projects (e.g., community theaters, swimming pools) or the expansion of current activities (e.g., youth sports teams, historical preservation) due to the involvement of newcomers.

Newcomers have higher levels of political participation than long-term residents. Newcomers are more likely to vote and enter local political races (especially for school board positions) at higher rates than long-term residents. This political participation may be the springboard for decisions about the services offered in the community, property tax rates, and a host of other aspects of community life, and as such, can either be the basis for strained relations between newcomers and long-term residents or, the basis for changes in the community that contribute to the quality of life for

all.

For example, urban growth can lead to discussions over what constitutes an adequate level of community services. Communities develop a services infrastructure in response to citizen demands, and new residents may alter the demand equation. Does the urban growth mean that our community will finally have a professional fire department or 911 emergency phone service? Or, does urban growth mean that now we must build a new fire station because otherwise the community's fire insurance rating will go down? Is it that the newcomers help a community reach a size that make certain services that everyone has always wanted possible or, that the newcomers have unreasonable expectations about the level of services that a community can provide? Again, how we evaluate the impact on citizens' discussions of the scope and quality of community services depends on our perspective.

Finally, as the size of a community's population increases due to new residential development, among long-term residents there often develops a sense that old ties to neighbors and friends, old patterns of social interaction are breaking down. The phrase, "I used to know everybody I met when I walked down the street and today I hardly know anyone," captures this uncomfortable sense of loss. Urban growth means new faces in churches, community organizations, and on town streets, and change is almost always uncomfortable. On the other hand, newcomers may experience a sense of social isolation because their friends and jobs are elsewhere, leaving little time to build new social ties within their new community.

How then do we weigh the social balance sheet of urban growth and its accompanying land use changes? Urban growth has the potential to stress existing community relationships and social definitions of place. Urban growth also has the potential to create opportunities for expanding the human resources available for strengthening local organizations and improving the quality of life. How the balance sheet sums up depends on the degree to which both newcomers and long-term residents recognize the potential costs and act to minimize them by

acknowledging their differences and using them as assets for community building rather than as points of social conflict.

Conclusions

Community growth and change can be a double-edged sword. Economically, there can be significant costs to the public sector even as there are significant gains for the private sector. Socially, growth can lead to fractures within the fabric of community relationships even as it introduces new actors with considerable resources into community projects.

Residents of growing communities need to recognize that there are many different ways to evaluate the impacts of urban growth. What we identify as a consequence of growth and whether we define it as positive or negative depends on our perspective. If the story of urban growth is one with many possible scripts, then it is possible to produce a story that reflects the vision and expectations of the community itself.

Citizens and local governments in growing communities need to plan for the consequences of growth and change if they are to reap the benefits and minimize the costs of growth. Citizens and local officials can begin by asking questions such as:

How can we best site residential growth to minimize potential conflicts between agricultural and residential land users?

How do we allocate the public services costs of growth so that current residents are not forced to bear a disproportionate share?

What can we do to integrate newcomers into the values, norms and social life of our community?

Successful communities are those which act to mitigate problems before they emerge. Planning for growth and change is one part of this process.

References

American Farmland Trust. 1992. *Does farmland protection pay? The cost of community services*

in three Massachusetts towns. Technical report to the Massachusetts Department of Food and Agriculture, June.

Frank, J.E. 1989. *The costs of alternative development patterns: A review of the Literature.* Washington, D.C.: The Urban Land Institute.

Kelsey, T.W. 1993. *The fiscal impacts of different land uses: The Pennsylvania Experience.* Cooperative Extension Service Mimeograph, College of Agricultural Sciences, Pennsylvania State University, University Park, PA.

Sorensen, A.; RP. Greene and K. Russ. 1997. *Farming on the Edge.* Washington, D.C.: American Farmland Trust, March.