

Ohio State University Fact Sheet

Community Development

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Costs of Community Services

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Land Use Series

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The term, costs of community services (COCS), usually refers to a growing body of literature which focuses upon how various types of land use affect local government taxation and spending. This body of literature generally summarizes studies that use fiscal impact analysis as their primary method of determining whether various forms of land use contribute to or detract from local government budgets.

During the period immediately following World War II, many communities sought to attract business, industrial, and residential growth for a number of reasons. Among these was that economic growth would raise the property tax base and generate increased revenues for local infrastructure, including schools, roads, and fire/police protection. During the 1980s however, many skeptics began to question whether economic development in rural areas "paid its own way" in terms of local taxation. When farmland, open space and woodlands are converted to residential development, for example, local tax revenues increase substantially, since property values increase. But the local government and school district are also required to provide added services to the new residents. Does the increased revenue balance the increased demand for services? That is the question the COCS studies set out to answer.

The COCS Ratio

It has become conventional in COCS studies to divide land use into three categories: residential, commercial/industrial, and farmland/open space. One of the most common procedures used is the calculation of a COCS ratio for each land use category. The ratio compares how many dollars worth of local government services are demanded per dollar collected. A ratio greater than 1.0 suggests that for every dollar of revenue collected from a given category of land, more than one dollar is spent in association with it.

Many of the early studies providing estimates of COCS ratios were either sponsored or conducted by the American Farmland Trust. But in recent years a great number of other researchers from a variety of backgrounds have undertaken such studies. The results seem to corroborate each other. Virtually all of the studies show that for residential land, the COCS ratio is substantially above 1. That is, residential land is a net drain on local government budgets. The average estimate ranges from about 1.15 to 1.50, which means that for every dollar collected in taxes and non-tax revenue, between \$1.15 and \$1.50 gets returned in the form of services by the local government and school district.

On the other hand, the COCS ratios for the other two land use categories are both substantially below 1. For commercial/industrial, the ratio usually ranges from 0.35 to 0.65, indicating that for every dollar collected, only about 35 to 65 cents worth of services are provided by the local government. For agriculture and open space, the ratios are only slightly smaller, usually ranging from 0.30 to 0.50.

The largest single expenditure category for communities, according to the studies, is the public school system, accounting for 60 to 70 percent of spending. Since open space and commercial development in themselves do not place any burden on the schools, it should not be surprising that their ratios are less than the residential category.

Several questions emerge from these results. These include the following: are these studies reliable, and why do the numbers vary?

The studies do appear to be reliable because of the way in which taxes and service expenditures are calculated and imputed. The methods used in the studies have been laid out clearly. Regarding the variation in COCS ratios, it should be noted that they do not vary in any profound manner. The studies are unanimous in showing that residential land use ratios are above 1 and that the other types of land uses are below 1. The primary reason that the ratios do have some variation is that all communities are not identical. If, for example, many homes in a community are in an extremely high price range, and occupied by "empty nesters," the COCS ratio should be expected to be relatively low. On the other hand, low or middle income property occupied by families with numerous children would produce a higher ratio. Some communities have gone beyond simply calculating a COCS ratio and have actually calculated the "break even" home value for their community. Not surprisingly, these values tend to be substantially higher than the median (average) home value.

Another Approach

Other researchers have attempted to measure the costs of growth simply by statistically measuring the relationship between population growth rates and per capita local government spending. Most of these results have shown that for very small growth rates (in the area of 1-2 percent per year), costs do not escalate rapidly. For communities with higher growth rates, however (above 3 percent per year) per capita spending begins to increase very dramatically.

The findings of the various types of studies on costs of services seem to be in agreement that, as farmland and open space are converted to residential development, local public per capita spending increases.

Criticisms of the COCS Literature

Initially, critics of the COCS studies argued that it may be difficult to generalize from these studies. This criticism has lost some credibility, however, because so many studies have been conducted in a wide range of communities nationally. The results seem to be unambiguous.

More recently, critics have developed the argument that only looking at the fiscal impacts on local governments and school districts is too limited in scope. They maintain that new residents do much more than simply pay taxes and demand services. Residents work, earn money, and spend much of it locally, and therefore contribute to the economic base of the community in a substantial way that is not captured in the COCS studies. The critics argue that future work should include these impacts.

But if COCS studies do not include these "multiplier" effects, it also must be said that they do not include non-economic costs to the community, such as the loss of scenic landscape, increased traffic congestion, and other variables associated with quality of life either.

Another argument against COCS studies is that they are based on a "cost theory of taxation" and do not consider how growth, even with increased taxation, increases the values of properties. The rival "benefit theory of taxation" states that as new taxes pay for better infrastructure such as schools and roads, property values (and thus the net worth of property owners) increase. Considerations such as this have not been measured within the context of COCS.

Implications

One of the most important implications of the COCS literature is that proponents of farmland and open space preservation now have an important economic argument on their side. Some proponents of economic development have argued that a system that allows land to go to the highest bidder provides the most efficient economic results. The COCS findings, however, indicate that residential development often brings costs to the community that are not fully borne by the new residents, but instead are distributed throughout the community. Local leaders should be aware that efforts to "promote growth" in their communities will have substantial impacts on revenues and expenditures. They should be able to estimate these impacts when planning for the future.

Two things emerge when reflecting on the COCS issue. The first is that residential development in any area invariably leads to increased per capita demand for publicly provided services, placing increased burdens on local infrastructure and public agencies. As a result, increases in local tax rates to provide additional services tend to follow

growth. Second is that members of each community should ask themselves the broader question, "How do we manage growth in our community, along with all of the impacts (both positive and negative) that it brings?"

References

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