

The Local Government Fiscal Impacts of Land Uses in Hall County:

Revenue and Expenditure Streams by Land Use Category

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May 2004

The funding for this study was provided by Hall County and data were collected with the cooperation of Hall County officials and staff.

About Dorfman Consulting

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The Local Government Fiscal Impacts of Land Uses in Hall County

Hall County is located in Northeast Georgia. It is a county with rural, suburban, and urban areas, centered on the city of Gainesville, the county seat. Hall County has a total population of 139,277 according to the 2000 Census. Hall County is both a stand-alone county with its own economic base and regional draws (such as the Northeast Georgia Medical Center), and a booming suburban residential location for workers commuting to jobs in Gwinnett County, Atlanta at large, and other nearby cities such as Athens. Hall County is surrounded by nine other counties and is a shopping and employment center for six or seven of those. Employment growth in Hall, Gwinnett, and other surrounding counties is creating demand for residential development in Hall County. Population growth averaged a very rapid 3.8% per year from 1990 to 2000 (for total population growth of 46%). This follows population growth of 26% over the decade of the 1980s. About 26,000 people live in Gainesville, with another 6,500 in the five other cities in the county (Clermont, Flowery Branch, Gillsville, Lula, and Oakwood), and the remaining 107,000 residents in unincorporated Hall County. The median household income was \$44,908 in 1999 which is slightly above the state average. In fact, Hall County's economic and social indicators are better than the state averages in virtually every category. Hall County also has a large agricultural base, mainly focused on poultry production and processing; Gainesville (and Hall County) is sometimes referred to as the poultry capital of the world.

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 the services that come with this development and are constantly looking for ways to improve their financial health. Local government officials often believe that one solution to their government's financial difficulties lies through development, by increasing 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 worsens it. 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 studied (American Farmland Trust).

Georgia is in the national spotlight for growth and development policies. The state government in Georgia has launched a major initiative (One Georgia) to boost economic development in rural communities 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; however, will not necessarily occur in the same county as the commercial/industrial development, so caution is in order. Hall County could end up with lots of residential growth and little employment growth if it serves as the bedroom community for commercial/industrial development in surrounding rural counties and for booming Gwinnett County on its southwest. At the same time the state is pushing rural growth, the Atlanta Regional Commission (which does not include Hall County) is working to improve growth-related planning and slow sprawl and its associated negative impacts in the greater Atlanta region which includes Hall County. This report provides a snapshot of Hall County in which an allocation of the county's budget numbers reveals the economic service costs and revenue streams of three major land uses and provides a snapshot of the county's overall financial health. After describing the method of analysis, the results will be presented.

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 government 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, a county's expenditures on the Department of Family and Children Services program would be classified as all benefiting residential development; the costs of roads would be allocated across all types of development; and expenditures on the Forestry Commission would likely be allocated to farm and forestland. The resulting totals for revenues generated and expenditures incurred can be presented as a ratio of expenditures-to-revenues for different land use types. This report generally follows the methods outlined by the American Farmland and Trust in their report entitled, *Is Farmland Protection A Community Investment? How to Do a Cost of Community Service Study* 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 forestland (or even for commercial/industrial development). Further, reasonable estimates and simulations can generally be made from these averages as to the likely marginal cost of development and the impact on a local government's financial situation of land use changes.

Review of COCS Studies from Around the Nation and In Georgia

About 90 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 revenues-to-expenditures collected from these studies are shown in Table 1. These ratios are for the county government and local school systems combined. The median row states that for every dollar the county generates from the residential category, it spends \$1.15 in services. The commercial/industrial and farm/forestland categories show that, on average, the government receives more than it spends and therefore, these land uses create a surplus. The numbers 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. For results only on studies completed in Georgia, refer to the appendix.

Table 1. A National Summary of COCS Study Results

Revenue: Expenditures			
County	Residential	Comm./Ind.	Farm/Forest
Minimum	1 : 2.11	1 : 1.04	1 : 0.99
Median	1 : 1.15	1 : 0.27	1 : 0.36
Maximum	1 : 1.02	1 : 0.05	1 : 0.02

Footnote: these figures are for 83 COCS studies compiled by the American Farmland Trust (http://www.farmlandinfo.org/fic/tas/COCS_9-01.pdf).

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 forestland begins to convert that land into residential development, either as a planned growth strategy or due to market forces or a lack of growth control measures, the local government and/or school system is virtually guaranteed to experience deteriorating financial stability and increasing local property tax rates.

Hall County

Three land use categories were defined for this study: residential, commercial/ industrial, and farm/forest/open space. The residential category was also subdivided to allow a separate depiction of the fiscal impacts of manufactured housing. Financial information was obtained from Hall County and the Hall County and Gainesville City School Systems. For Hall County, the data are for the year ended June 30, 2003; for the schools, the data are for the 2001-2002 school year. The revenues and expenditures in the budgets were allocated to the land use categories based on the review of available records and interviews with local officials and service providers (farmhouses were included in residential category.) Revenues and expenditures were totaled for each land use category and revenues-to-expenditures ratios were calculated. In calculating the ratios, an adjustment was performed to account for revenue generated from sources outside the county (which amounted to 11.5% of the total revenues); this adjustment recognizes that all expenditures are partially funded from these outside sources and provides a fairer depiction of the fiscal surplus or shortfall from a land use category by subtracting the percentage of expenditures that are covered with revenue from outside sources. The final results are displayed and tabulated in Figures 1 and 2 below. Figure 1 represents the county government only with schools excluded. Figure 2 shows how the results change when schools are included. The figures are presented as dollars of revenue per dollar of expenditure; numbers greater than one signify land uses generating more in revenue than they are receiving in service expenditures.

Analysis of the revenue-to-expenditure ratios in Hall County reveal two common results: residential development provides less in revenue than it requires in service expenditures (with or without schools included) and farm and forest lands provide a fiscal surplus by paying in more revenue than they receive back in services. The residential development in Hall County is much closer to break-even than in most locations studied to date. This is likely due to the high average home value in Hall County (average appraised value of about \$125,000 including manufactured housing and \$147,000 for site built alone). High home values mean more property tax revenue and almost one-third of all county revenue is generated by property taxes. Within the residential category, separate results have been included for manufactured housing. (Note that manufactured housing also is included in the general residential housing category.) As shown in Figures 1 and 2, manufactured housing creates a much larger fiscal deficit for the county and schools than residential development in general. This is due to the lower appraised values, leading to lower property tax payments (just under \$16,000 on average). Surprisingly, the commercial/industrial category produces a slight fiscal shortfall for the county government, although once schools are included businesses are providing a revenue surplus overall. The reason for this unusual result is likely the white-collar nature of much of Hall County's commercial base which means the businesses do not provide a particularly large property tax base for the county. In fact, only 21% of the tax digest is commercial/industrial property.

Figure 1.

**Revenues per \$1 of Expenditures by Land Use
(County Government Only)**

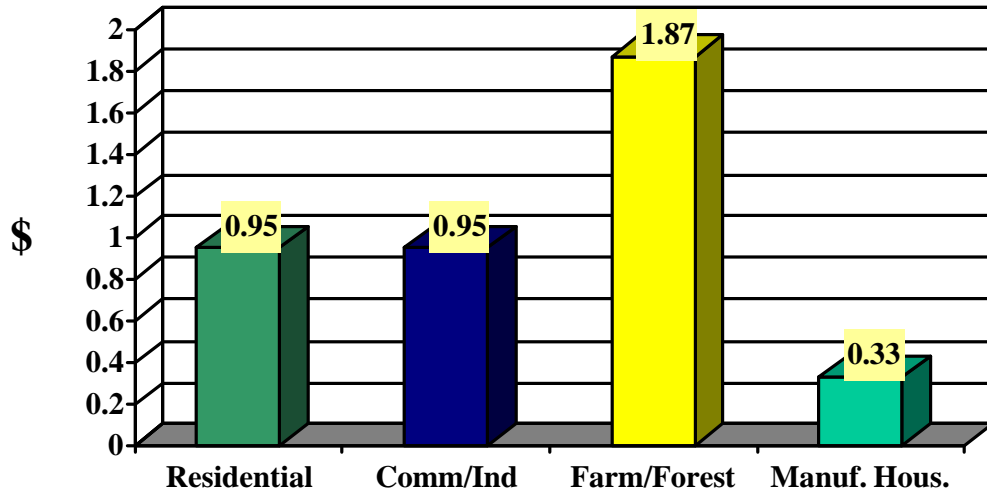
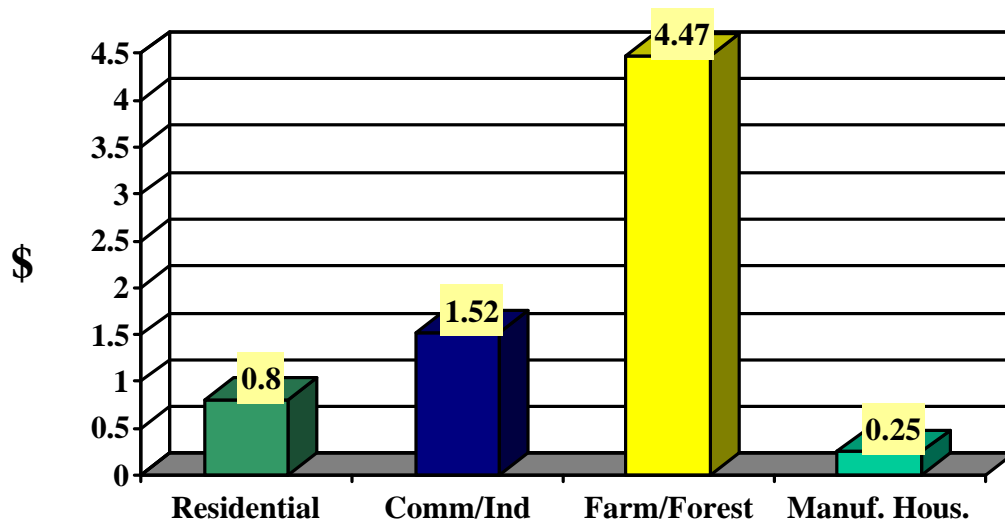


Figure 2.

**Revenues per \$1 of Expenditures by Land Use
(County Government Plus Schools)**



Break-even Home Values

The cost of service and revenue generation numbers that lie behind the ratios reported above can also be used to calculate the home value necessary for a county or school board to break-even. If one assumes that service cost is fairly constant across houses relative to the home value, such computations are straightforward. Further, this is not an unreasonable assumption as local government service costs will vary with house location, lot size, and (for schools) with number of kids, but are not particularly correlated with home value. Given this assumption, the county government's average service cost per house was calculated, as was the revenue from all residential sources other than property tax from houses. For these purposes, property taxes paid on personal property such as cars are considered non-property tax revenue. These calculations are complicated somewhat in Hall County by the presence of two fire districts and the City of Gainesville which does not receive all county services (county engineering, planning, road maintenance, and fire departments do not provide services to Gainesville and the sheriff's department provides much more limited services than to the rest of the county). To the extent possible, non-property tax revenue and service cost data were adjusted to compensate for these jurisdictional differences.

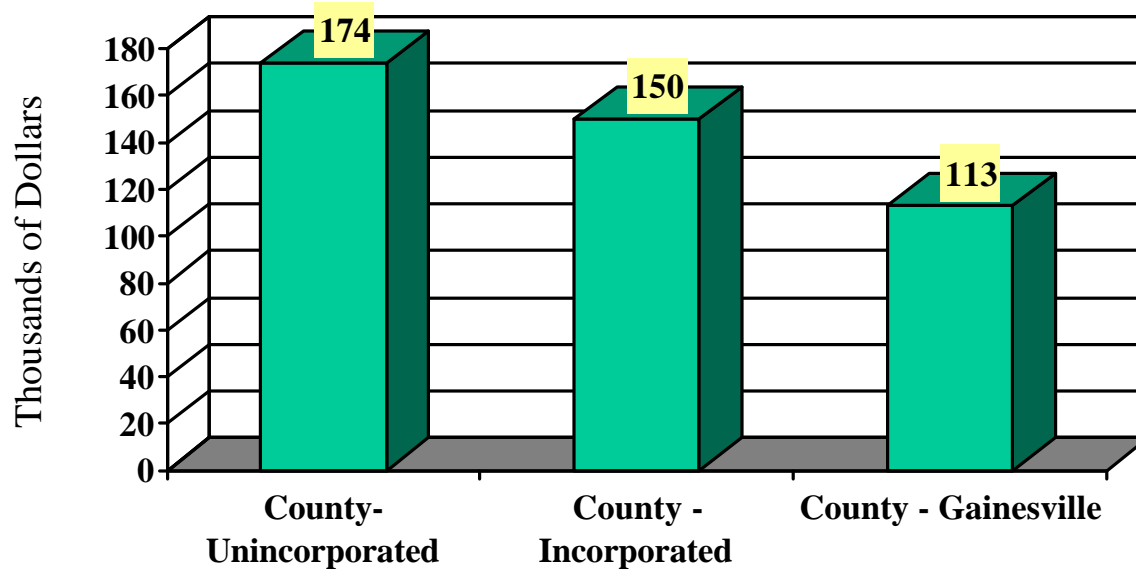
Having computed these figures, one arrives at a value for average service cost minus non-property tax revenue per residential unit. Then, one can use the county millage rate and homestead exemption (\$2000) to find the home value where revenue will exactly equal service cost; we call this the break-even home value. For schools, the average per pupil cost from local tax money is computed (state and federal money is excluded) and then the school millage rate and exemptions allow the computation of a break-even home value needed to generate sufficient local revenue to cover the locally-generated expenditures for whatever number of children per household is expected or is being modeled. Figure 3 shows the breakeven home values for Hall County to be \$174,400 in the unincorporated area, \$150,000 in the incorporated areas not including Gainesville, and \$113,200 in Gainesville. Recalling that the average appraised house value is approximately \$125,000 across all county residences and \$147,000 when manufactured housing is excluded, these break-even values suggest that the county government should find no large fiscal impacts from the majority of future residential growth. Judging from recent years, new residential developments in Hall County will likely be near or above these break-even values when averaged across all new building.

While the county government may have little to worry about in terms of future residential development, they are just one government entity in the county. From the county and Gainesville City school systems perspective, the results are quite different. Break-even values for school systems are computed using the local spending portion of school expenditures, thereby netting out the portion of the budget received from state and federal sources. If a home contains just one child attending the public county schools, the break-even home value is \$334,400 from the point of view of the county school system's budget (see Figure 4). Thus, the county government will be earning a fiscal surplus off a house with a single child long before the schools. With two kids in school, the break-even home price increases to \$663,900. Using 2000 census data, a home in Hall County is likely to have about three quarters of a child of public school age. The break-even value for homes from the school system point of view using this average of 0.75 pupils per household is \$252,100. The values for the Gainesville City Schools are even higher due to their higher local spending per pupil (\$3,668 versus \$1,912).

Thus, in most cases public education of children must be subsidized by taxes paid from other land use classes along with school taxes paid by homeowners without children in the public school system. These subsidies are accomplished because owners of businesses, farms, and forest lands pay school property taxes at the same millage rate as residential property owners even though they send no children to school.

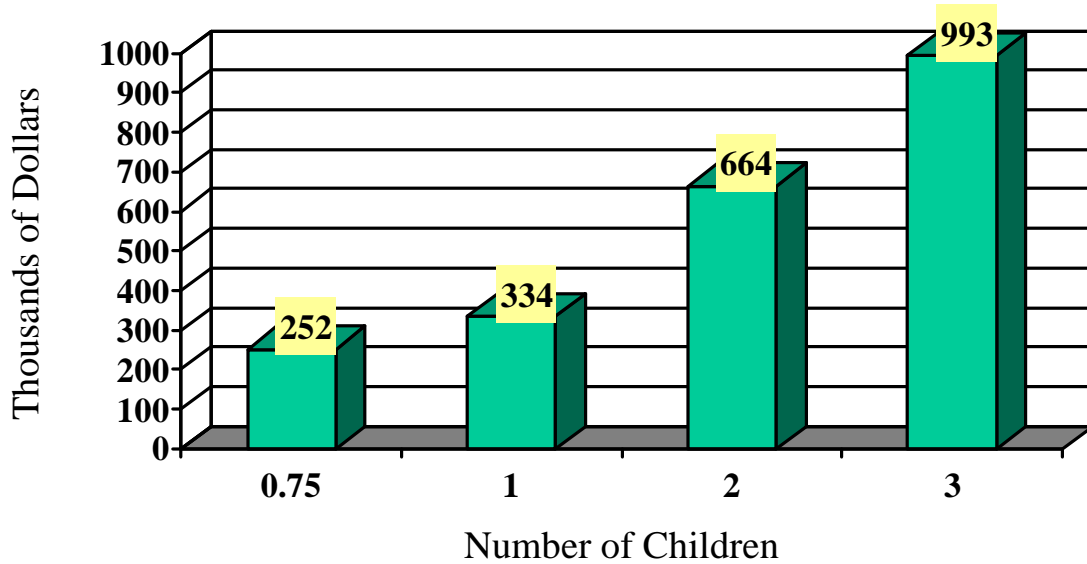
The main insight from these numbers is that school expenses are the main service burden from residential development. Yet, with no direct control over growth and land use policies, schools are required by law to accept all children who move into their jurisdictions. Thus, a county or city government can approve development that is fiscally sustainable from its perspective while guaranteeing financial hardship or bankruptcy for the local school system.

Figure 3. Hall County Breakeven Home Values



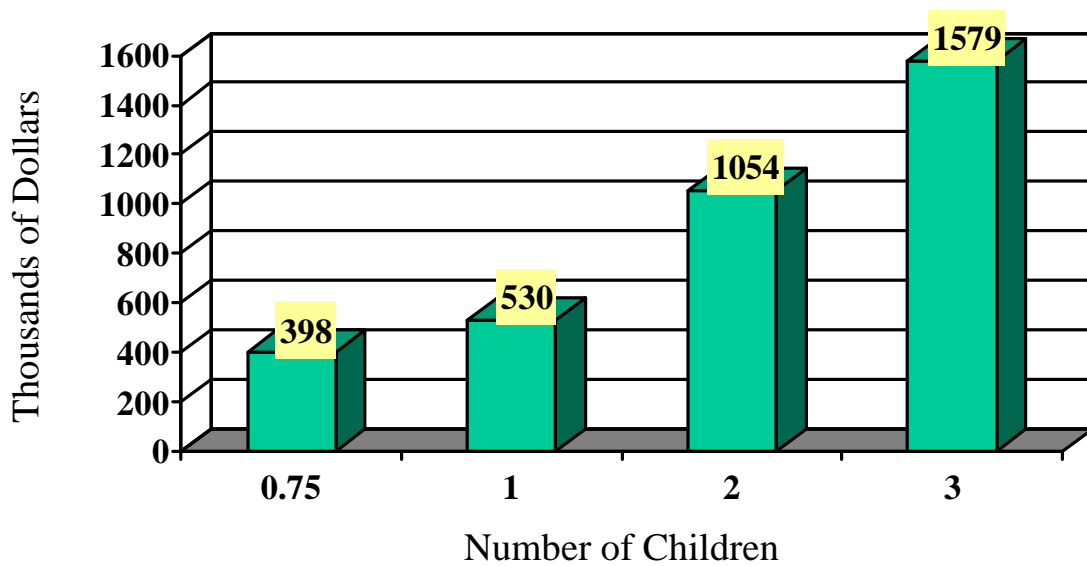
*All values to the nearest \$1000. Values do not account for dedicated capital fund revenues and expenditures.

Figure 4. Breakeven Home Values for the Hall County School System



*All values to the nearest \$1000. Values do not account for dedicated capital fund revenues and expenditures.

Figure 5. Breakeven Home Values for the Gainesville City School System



*All values to the nearest \$1000. Values do not account for dedicated capital fund revenues and expenditures.

How Much Does Farm Preservation Cost?

There has been an ongoing debate over the equity of state and local government programs that provide tax relief for farm and forestland. These programs provide tax relief by assessing the land at its “current use” in place of its “highest and best use.” These programs help to slow development and preserve farm/forestland and green space.

In Georgia, agricultural lands are eligible for enrollment in the Conservation Use Valuation Assessment (CUVA) or the Agricultural Preferential (AG PREF) program to receive these tax incentives. Under conservation use, land is not only assessed in its current use but also multiplied by 30% instead of 40% to arrive at its appraised value for taxation purposes. In return, landowners must agree to keep the land in its current use for 10 years or be subject to financial penalties. Hall County only has land enrolled in the conservation use program, which is surprising. Assumedly, farmers with poultry houses on their property find it easier to commit to a 10 year contract than many crop farmers since the investment in chicken houses is already a long-term commitment.

A major underlying question, however, is: How much of a tax burden is shifted to homeowners to make up for this loss in revenue? This question can be answered in Hall County by empirical investigation of the tax digest and the results of this study. Table 2 below was compiled from the Hall County Tax Digest Consolidated Summaries and shows the loss in revenue for Hall County as a result of the conservation use program.

Table 2. Lost Revenue in Hall County from Agricultural Assessment Programs

Government Program	Parcel Count	Value Eliminated	State Tax Loss	County Tax Loss	School Tax Loss	Total Tax Loss
CUVA	1831	\$166,665,188	\$41,666	\$1,082,440	\$2,427,488	\$3,551,594

To compute the impact of these tax incentive programs, the reduction in the tax digest (the sum total of property value in the county) due to these programs is added back into the tax digest. This yields a hypothetical tax digest as if these programs did not exist. Then a millage rate is computed to produce the same revenue as collected currently by the local government and school combined. This produces a slightly lower millage rate that property owners would pay if these tax incentive programs did not exist (and government chose to remain revenue neutral to this change in the digest). The difference between this lower, hypothetical rate and the actual millage rate (0.90 mills) allows computation of the fiscal impact of these tax programs for any specified property value. Table 3 shows the amount of additional property tax (both county and school) a homeowner in the unincorporated area of the county pays because of the existence of these programs that benefit agricultural landowners. The numbers are computed for various home prices and a standard homestead exemption. For example, the owner of a \$100,000 house pays an additional \$34.16 a year in property taxes to offset the cost of the preferential assessment programs. These tax increases are not trivial, but they are not enormous either. The

additional taxes represent a 4% increase in property taxes. Further, given the large role of agriculture in Hall County, a fair number of these homeowners will also be farmland owners, their relatives, or employees of an agriculturally related enterprise.

Table 3. Homeowner Tax Increases as a Result of Farmland Assessment Programs

House Value	\$50,000	\$100,000	\$150,000	\$200,000	\$300,000
Additional Tax	\$16.18	\$34.16	\$52.14	\$70.11	\$106.07

Implications for Governments and Farm/Forest Land Preservation Efforts

The main implication of COCS studies is that a local government that approves the conversion of farm or forestland 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, local government officials must realize that their expenditures will likely rise more than their revenues, resulting in a budget shortfall unless millage rates are increased. In Hall County, the conversion of farmland to houses will worsen the financial condition of the county government somewhat, but will have an especially large and negative impact on the school system’s finances. Schools are very expensive and only very high-priced homes can come close to generating enough school-collected revenue to support even one child per household.

Further, this study confirms the results of other COCS studies 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. Farm and forestland may not generate an impressive looking tax base, but neither do they create a large demand for government services.

The findings of this study should be carefully evaluated in light of the changing character of a growing county such as Hall County. Cost of service 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. Further, in Hall County it is difficult to correctly adjust all service costs and revenue streams for the various sub-jurisdictions (such as fire districts), making the break-even home values somewhat less accurate than the county-wide revenue-to-expenditure ratios. The results do, however, make clear that further residential development may produce a serious financial crisis for the school systems unless new residential units have a very high average value.

While Hall County also suffers a small fiscal shortfall on the commercial/industrial category, the county almost surely collects a surplus on much of the non-retail commercial (that is, office development) and on industrial land uses due to the lower service costs and higher average property values of such businesses. Thus, Hall County should strive to increase future

commercial and particularly industrial development to “support” residential development that does not generate enough local government revenues to cover the expenditures it requires. Such an economic development strategy is particularly beneficial to the school systems which enjoy very large surpluses from business activity. Overall, Hall County appears to be in good financial shape and on or near a path to economically sustainable development in their community.

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).

Appendix - Results From Other Studies in Georgia

Figure A1.

**Revenues per \$1 in Expenditures by Land Use
(County Government Only)**

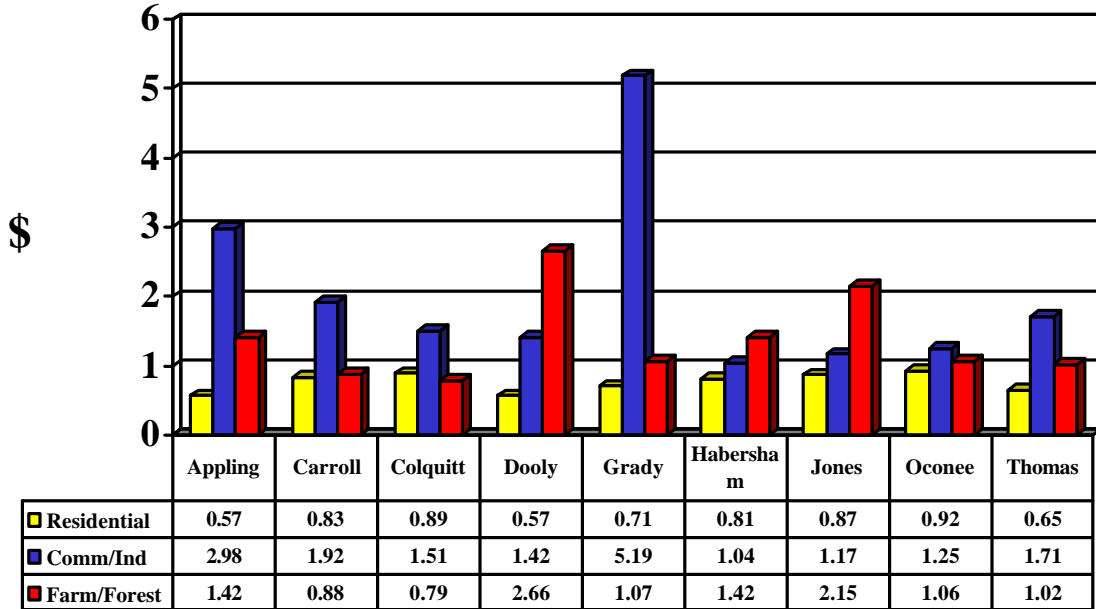
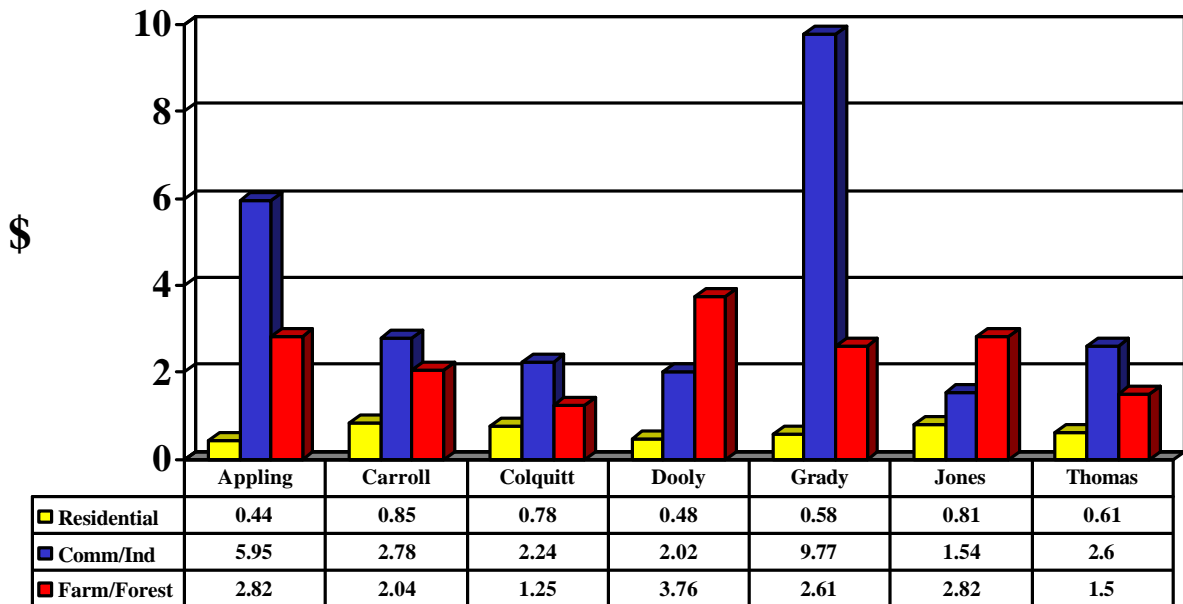


Figure A2.

**Revenues per \$1 in Expenditures by Land Use
(County Government Plus Schools)**



Appendix – Focus on Comparable or Nearby Counties

Figure A3. Revenues per \$1 in Expenditures by Land Use (County Government Only)

