

The Cost of Growth In Oregon¹

1998 Report

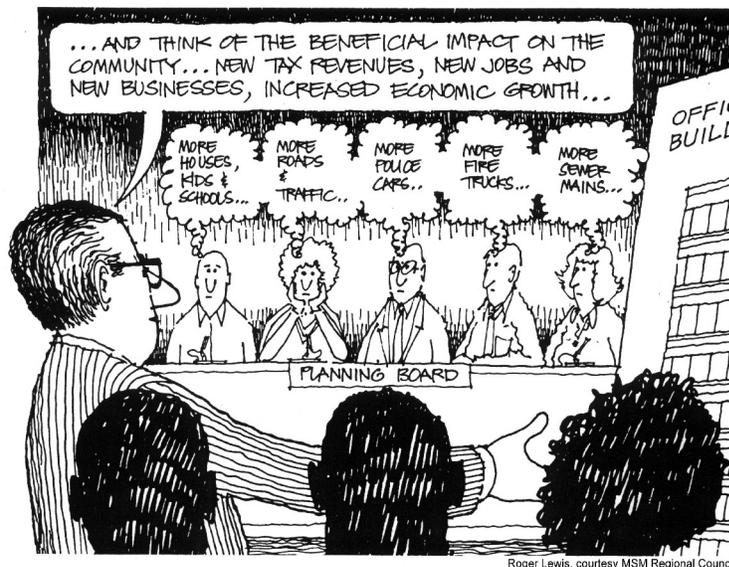
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Executive Summary

This study is an effort to provide a more complete understanding of the current costs of urban growth to Oregon communities. Rather than attempt to quantify all the costs and benefits of growth, the study focuses on the public-sector impacts that ultimately affect taxpayers. These public costs are usually distributed across the entire population of a community through property taxes or general obligation bonds, whereas the benefits of these investments accrue primarily to the new development.

Urban growth places heavy demands on local governments for the provision of new and expanded facilities and services. A review of the literature over the past 25 years on the fiscal impacts of growth shows that urban growth is far more likely to be a drain than a gain to the local treasury. The report shows that the most likely reason for this is the high cost of providing the basic facilities and infrastructure required by urban growth.



¹This study is a completely updated and expanded version of the original study, *The Real Cost of Growth in Oregon*, issued July 1996 and published in the journal *Population and Environment*, Vol. 18, No. 4, March 1997.

Growth-Related Capital Costs for Public Facilities/Infrastructure	Environmental Costs and Other Growth-Related Impacts
<ul style="list-style-type: none"> • <i>School Facilities (K-12)</i> • <i>Sanitary Sewer System</i> • <i>Storm Drainage System</i> • <i>Transportation System</i> • <i>Water Service Facilities</i> • <i>Parkland & Recreation Facilities</i> • <i>Fire Protection Facilities</i> • <i>Library Facilities</i> • Police Facilities • Corrections and Jail Facilities • Ambulance and EMS Facilities • Open Space • Solid Waste Disposal Facilities • General Government Facilities • <i>Electric Power Generation and Distribution</i> • Natural Gas Distribution System • Telephone System • Cable TV system 	<ul style="list-style-type: none"> • Decreased Air Quality • Decreased Water Quality • Increased Rates of Natural Resource Consumption • Lost Open Space and Resource Lands (farms, forests) • Lost Visual and Other Amenity Values • Lost Wildlife Habitat • Increased Noise • Lost Mobility Due to Traffic Congestion (delays and increased commute time) • Higher Cost of Housing • Higher Cost of Living • Increased Crime • Lost Sense of Community • Increased Regulation (loss of freedoms) • Costs to Future Generations

Notes on Methodology

There are 18 main cost categories for public facilities and infrastructure associated with urban growth. These are identified in the figure above along with the environmental and social costs. Nine of the 18 capital cost categories (shown in italics) were evaluated in the report, including: school facilities, sanitary sewerage, transportation facilities, water system facilities, parks and recreation facilities, stormwater drainage, fire protection facilities, and library facilities. The ninth category is the cost of “quasi-public” power generation and distribution facilities.

While the environmental and social costs of growth are significant, they are difficult to quantify in monetary terms. The economic values associated with environmental quality, natural amenities, livability and quality of life can be estimated using various methods. These less-tangible costs may actually have a greater impact on the community than the physical infrastructure costs reported here. While additional research in this area would undoubtedly be productive, even the most readily-quantifiable economic impacts of growth have yet to be adequately studied.

Two common increments of growth are used as the basis for the cost analysis: a typical new single family house, and an increase in the size of the local population. The house used here is a three-bedroom, single-family detached house typical of those being built today. The costs associated with this residential land use are based on the needs of a statistically-representative 3.1 occupants, including 0.67 school-age children. The house is constructed on a modest 6,000 square foot lot and is assumed to be part of a larger development in an urban area on previously undeveloped land with utilities nearby.

To simplify accounting, it is assumed that all infrastructure requirements are met with new facilities. If the needs of new development are met with existing excess capacity, the value of the

existing infrastructure can be estimated and assigned to the development in the same manner as new infrastructure. Also, not all of the public costs associated with growth will be paid by local taxpayers. Some public works projects receive Federal and state contributions.

Results

The total costs for the incremental capacity of the facilities required to serve new residential development amounts to approximately \$33,260 for a typical new, three-bedroom single-family house. (This total does not include the onsite, private-sector costs associated with residential development that are assumed to be paid directly by the developer, such as local streets, sidewalks, water and sewer lines.) This cost is representative and is not intended to be the actual cost for any particular municipality. It is also a partial cost, in the sense that there are additional facility costs, such as police stations, that were not included, as well as environmental and social costs that were not evaluated.

The costs are “net” costs in the sense that they represent the balance to the public sector (taxpayers) after any assessments have been deducted. Some cities, such as Eugene, charge development impacts fees (called system development charges, or SDCs in Oregon) to offset these costs. These impact fee payments, if any, should be deducted from the total costs reported in this study.

Growth Cost Summary New Single-Family House

Cost Item	Amount
School Facilities	\$11,809
Sanitary Sewerage	\$1,660
Transportation Facilities	\$4,430
Water System Facilities	\$2,729
Parks and Recreation Facilities	\$2,915
Stormwater Drainage	\$483
Fire Protection Facilities	\$298
Library Facilities	\$441
Electric Power Generation and Distribution Facilities	\$8,494
Total:	\$33,259

These same costs are also broken out on a per-capita basis to reflect the cost of local population growth. The per-capita cost of urban facilities is approximately \$16,300. This does not represent the cost for any particular individual, but rather the average cost of permanently increasing the size of the local population. (Note that per-capita costs do not correlate with the occupants of the new house due to differences in cost allocation procedures, as explained in the report.)

The city of Eugene charges development impact fees (system development charges) for five categories of public infrastructure totaling \$4,672 for a new single-family house. In addition, Eugene’s electric utility does not subsidize electric service connections to new homes, reducing the

cost to ratepayers by approximately \$1,000 for each new house. Both of these amounts (totaling \$5,672) should be deducted from the \$33,259 total cost to estimate a net public-sector cost of approximately \$27,587 for each new house that is built in the city. Assuming that between 1,000 and 1,500 new housing units are built in the city each year, the total public sector cost to accommodate new residential development would range from \$28 million to \$41 million per year. An estimate of statewide costs is \$400 to \$600 million annually.

At a net cost of \$27,587 per new house in Eugene, the cost to taxpayers (and electric utility ratepayers) for providing urban infrastructure to land developed at a density of six units per acre is \$165,500 per acre. By comparison, the cost for purchasing undeveloped land inside the Urban Growth Boundary in Eugene ranges from \$50,000 to more than \$100,000 per acre. At these land prices, public land acquisition would result in a sizable net savings to taxpayers (and ratepayers) when compared with the cost of providing urban facilities to new development.

Conclusions

When growth doesn't pay its own way, the use of public sector resources to fund growth can result in a net subsidy of growth by taxpayers. The subsidy tends to stimulate more growth by artificially lowering the private sector costs of land development.

The capital costs associated with providing public facilities and infrastructure to new development are substantial. Payment of these costs through broad-based taxes (or rates) results in a system that obliges established residents and businesses to subsidize new growth. Residents who are not benefitting from additional growth will find this subsidy to be inequitable. Once state and local governments have accurately identified and reported growth-related costs, the continued use of public resources to stimulate growth can be prioritized against other community needs.

The high costs of urban growth are unavoidable. The costs must be paid either directly through taxes or fees, or indirectly by diverting resources from other areas of government or tolerating declining levels of service as existing roads, schools and sewage plants become overburdened. Raising taxes to pay for growth can lead to anti-tax and anti-government sentiments from residents who aren't benefitting from these investments. Development impact fees represent an equitable means of funding growth that can maintain service levels without increasing tax rates.

There is generally a lack of good information about the costs of serving new development. With rapid growth occurring across the state, Oregon's public policy-makers have an urgent need for more and better information about the economic and fiscal impacts of this growth. □

*About the Author: Eben Fodor is a community planning consultant and does research and writing on growth and sustainability topics. His new book, **Better, Not Bigger – How To Take Control of Urban Growth and Improve Your Community**, is available from New Society Publishers (800-567-6772 or visit <http://www.newsociety.com/aut.html>). He holds a Master's degree in Urban and Regional Planning, a Master of Science degree in Environmental Studies from the University of Oregon and a B.S. degree in Mechanical Engineering from the University of Wisconsin.*

Copies of the full report can be obtained from Fodor & Associates, 394 East 32nd Ave., Eugene, OR 97405. The cost is \$20 per copy plus \$5 shipping and handling (payable to Fodor & Associates).

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