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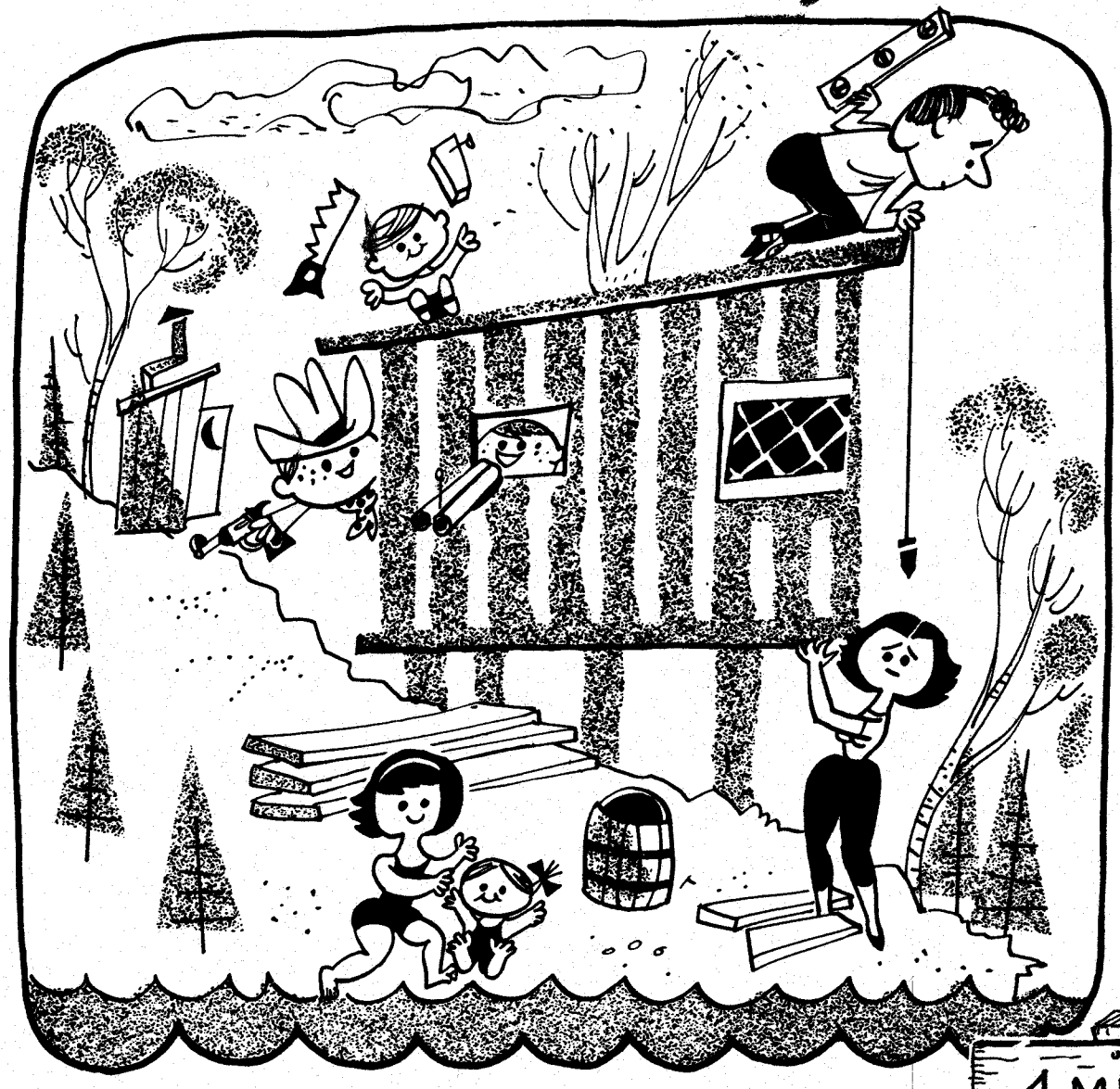
A CASE STUDY



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Local Tax Impact of Recreational Subdivisions
A Case Study

by

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Rising incomes, better transportation facilities, more leisure time, and increasing congestion in our central cities are generating a demand for rural settings for primary and secondary homes. As a result, subdivisions are developing throughout the rural areas of Oregon. Both in-state and out-of-state investors are subjecting land owners (especially owners of land near streams, rivers, lakes or reservoirs) to considerable pressure to develop their land for home sites. This pressure is extended to planning bodies responsible for approving, modifying, or rejecting proposals for this type of development. Considering Oregon's present development rate and the increasing pressure on land resources and public revenues, priorities must be defined and policies initiated that provide adequate guidelines for natural resource development. The reclamation of land once committed to intensified uses (subdivisions, industrial developments, roads, etc.) is prohibitive.

Decision makers often do not have at hand a system to correctly assess the benefits and costs, both economic and social, of a particular proposal. This study demonstrates a method of examining the effects of a subdivision on local government financing and property tax rates under conditions existing in 1970-71 tax year.

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General Description of Subdivision

An existing subdivision in central Oregon was selected to illustrate the effects of three levels of development on local revenue and tax rates. It was one of several subdivisions in the area offering small parcels of rural, unimproved land along or near a river. This type of development is commonly referred to as "recreational" or "rural-residential".

Local taxing bodies serving this subdivision include the county government, an intermediate education district, a local grade and high school district, and a community college district. The potential for special service districts, and even city government, exists but these were not introduced in the analysis.

Basic data for 1970-71 were obtained from the developer, the county commissioners, the county assessor's office, the road department, the superintendent of schools, the public utility companies, and a title insurance company. Data for the subdivision included:

1. Area of the subdivision.
2. Number of land parcels.
3. Number of parcels with improvements.
4. Assessed value of land.
5. Assessed value of improvements.
6. Number of in-state and out-of-state owners.
7. Number of improvements occupied year-round.
8. Number of children enrolled in school.
9. Number of registered voters.

Other data included:

1. Assessed values and tax rates for each unit of government servicing the subdivision.
2. The total property tax levy for each unit of government.
3. Number of school children (ADM)* in local school district.

4. Number of school children (ADM)* in the Intermediate Education District (IED).
5. Number of tax lots in county.
6. Number of voters in county.

* (ADM) average daily membership.

Stage of Development - 1970-71

The subdivision was a rather large one totaling 1,300 acres, divided into 1,850 parcels or lots. Most of the lots had been sold at least once but only 67 had been improved. Of these, it was estimated that 26 were being used as year-round dwellings. These households were creating an educational load of 23 elementary and secondary students and 3 community college enrollees.

Table 1. General Description of Subdivision, School Load, Voting Potential

Item	Situation
Acres in subdivision	1,300 acres
Number of parcels	1,850 lots
Level of subdivision development	4 percent
Community college enrollment from subdivision	3 students
Total CC enrollment	688 students
ADM's from subdivision	23 students
School districts ADM's	4,895 students
Total county tax lots	30,500 lots
Total number of registered voters	13,773 voters
Subdivision registered voters	52 voters 1/

1/ Estimate based on year-round occupancy of dwellings (26).

Non-residents of Oregon owned more than 90 percent of the lots but were responsible for only 38 percent of the improvements, Table 2. Thus about

six out of each seven dollars of property taxes were levied on out-of-state residents to be used to pay for local public services.

Table 2. Assessed Value and Ownership Patterns of Subdivision

Item	Assessed value [1]	Revenue generated from property taxes [2]
	$(000)	$(000)
Total assessed value	3,643	82
From in-state sources	510	13
From out-of-state sources.	3,132	69
Total assessed value of improvements	412	9
From in-state sources	257	6
From out-of-state sources.	155	3
Total assessed value of land	3,231	73
From in-state sources	253	7
From out-of-state sources.	2,978	66

[1] Source for assessed valuation and owners location from county assessor's office.

[2] Totals derived by applying net effective tax rate to assessed value. This amounts to a tax of $22.59 per thousand dollars of appraised value.

The estimated amount of property tax revenue required for local government services provided to the subdivision in 1970-71 was $25,255. This estimate was derived as follows:

1. County requirements:

   Property assessment, public records, tax collections, foreclosure, and surveying were allocated according to ratio of subdivision tax lots to county tax lots.

Special school funds in the general fund were allocated according to the ratio of subdivision school children (ADM) to county school children (total ADM).

All other general fund services were assigned by the ratio of subdivision registered voters to county registered voters.

2. Community College requirements were the estimated number of subdivision community college enrollees multiplied by the average levy per enrollee.

An evaluation of the local finance situation in the 1970-71 tax year indicates that local taxpayers were net gainers to the extent of $57,050. The addition of the subdivision added value to the tax rolls and made a decrease in the tax rate possible. A tax rate throughout the county of $22.31 per thousand dollars of appraised value would have met the additional costs resulting from the subdivision without reducing the revenue available to local government.

The question now becomes--does this benefit-cost relationship continue with further development of the subdivision?

An Alternative — 50 Percent Development

The analysis indicates that an extension of 1970-71 improvements on 50 percent of the lots would have increased the total assessed value to $8,918,000. With no change in local government budgets and property tax levies, the effective tax rate in the county would have been reduced to $22.05 per thousand dollars of appraised value. The new appraised value and tax rate would have increased the subdivision's share of the property tax to $196,651. However, the property tax required to support the larger development in the subdivision would have increased to an estimated $289,482, Table 3.

Thus, instead of a surplus of property tax revenue, there now would be a shortage of some $92,831. That is, owners outside the subdivision would be helping to pay subdivision costs and would be receiving less county and school services than they would have without the development.

It would take a tax rate of $23.88 throughout the county to maintain an undiminished level of services. For the subdivision to have been self-sufficient, (to cover its full share of the costs) the tax rate on subdivision property necessarily would have been $32.50 per thousand.

At this point, suppliers and receivers or users of local government services, especially schools, would be affected adversely, and pressures for increasing budgets would be expected. Also, pressures within the subdivision for water, sewers, and other services are likely to be felt by the county government, even if local or special service districts eventually are formed.

Table 3. Assessed Value, Revenue and Requirements, 50 Percent Development [1/]

Item	Dollar estimates for 50 percent development
Total assessed value	
Land	$3,231,000
Improvements	5,687,000
Total	$8,918,000
Tax levied on:	
Land	$ 71,250
Improvements	125,401
Total	$ 196,651
Tax levied for:	
County government	$ 18,907
Public schools	166,061
Community college	11,683
Total	$ 196,651
Property tax requirements for:	
County government	$ 33,193
Public schools	237,179
Community college	19,110
Total	$ 289,482
Surplus (shortage) for:	
County government	($14,286)
Public schools	(71,118)
Community college	(7,427)
Total	($92,831)

1/ This table was calculated by extending the 1970-71 situation (4 percent development) to 50 percent.

A Second Alternative — 100 Percent Development

Extending the 1970-71 improvements to all of the subdivision would increase the county assessed value to $14,605,000 from the subdivision. With no change in local government budgets and property tax levies, the effective county tax rate would have been reduced to $21.49, and the subdivision's share of the tax levy would have been increased to $313,873. Again however, the property tax required to service the subdivision would increase, now to $607,621, Table 4.

Table 4. Assessed Value, Revenue and Requirements, 100 Percent Development 1/

Item	Dollar estimates for 100 percent development
Total assessed value	
Land	$ 3,231,000
Improvements	11,374,000
Total	$14,605,000
Tax levied on:	
Land	$ 69,441
Improvements	244,432
Total	$ 313,873
Tax levied for:	
County government	$ 30,380
Public schools	264,652
Community college	18,841
Total	$ 313,873
Property tax requirements for:	
County government	$ 59,551
Public schools	474,360
Community college	73,710
Total	$ 607,621
Surplus (shortage) for:	
County government	($ 29,171)
Public schools	(209,708)
Community college	(54,869)
Total	($293,748)

1/ This table was calculated by extending the 1970-71 situation (4 percent development) to 100 percent.

Now the subdivision requirements would exceed the tax generated by $293,748. The per capita and per student supply of local government services would be reduced significantly. To meet subdivision requirements without reducing the quantity and quality of services provided outside the subdivision would require a tax rate of $26.27 for the county. For the subdivision to meet all its tax requirements internally the rate within the subdivision would have to be $41.60.

Table 5 provides a comparison of the estimated impact of the various levels of development considered in this study. Basically, this type of subdivision subsidizes other property taxpayers in the early stages of development. Subsequent development reverses the situation. Analysis "before the fact" thus may prove to be of considerable benefit to local decision makers.

Table 5. Net Impact of Levels of Development on Local Public Finance

Item	Level of Development		
	4%	50%	100%
Revenue surplus (shortage)			
County government	$ 1,366	($14,286)	($ 29,171)
Public schools	52,377	(71,118)	(209,708)
Community college	3,197	(7,427)	(54,869)
Total	$57,050	($92,831)	($293,748)
Effective tax rate required			
To service subdivision [1]	$22.51	$23.88	$26.27
To meet subdivision requirements [2]	6.93	32.46	41.60

[1] Without changing revenue available to other local government.

[2] Without changing other local government tax rates, appraised values, or services.

Implications

This study has evaluated cost-revenue relationships resulting from the establishment of a recreational subdivision. The methodology used offers a straightforward process by which one impact of land development may be evaluated.

This evaluation raises questions that are important to local people and governments concerning land use decisions. How much is it going to cost local government to service the subdivision and its residents? Who will have to pay this cost? How much revenue will the subdivision generate? With increased development, how much will revenue increase compared with the increased costs incurred by the county, city, school districts or other local taxing jurisdictions? Will these cost changes be reflected in changes in the quantity and/or quality of the public services? If the early years of operation provide a windfall to other property owners, when, if ever, will costs of services surpass revenue gained in later years of residential development?

Presently, the case study subdivision is generating $57,000 more than its service costs. Also, a corresponding increase in local non-governmental spending may occur because of this development. Such items as building materials, food, entertainment, and other miscellaneous items from the service industry may be purchased locally. It may be that some land owners now have the opportunity to sell land not otherwise as productively utilized. The subdivision also is providing the community with an increased tax base.

However, other considerations are important too. Lots purchased by out-of-state people may never be improved and thus will stand idle. This would tend to limit the potential increase in property value and may diminish the aesthetic appeal of the area. Absentee ownership sometimes leads to a corresponding tax delinquency rate that limits local government resources. Increased development eventually may cause substantial problems

in sewer disposal and water quality. This is especially crucial where subdivisions are located around or adjacent to bodies of water. Further, the formation of districts for sewer, water, roads, and other miscellaneous services may be difficult because of the absentee ownership phenomena. These items, compounded with police protection, educational costs, and other services could place severe strains on local government finances.

From the preceding illustrations, certain specific questions begin to emerge that require policy decisions. What are the overall, long range goals of the community? Is the proposed development compatible with these goals? Are the physical characteristics of the proposed site appropriate? Who provides the roads, water systems, sewerage systems? What standards are required for these facilities? What housing standards are in force? Who really should pay the cost of education? And many others.

Local communities are being challenged by both state and federal government to guide and control the direction of this type of land use. The community impacts, either harmful or beneficial, resulting from these subdivisions can be managed. They may be modified through adoption of adequate land use planning measures and related codes and regulations; through changes in the system of taxation; through public expenditure decisions and other methods. Properly controlled, contributions to the economy in the area may outweigh the increased costs. It is up to the local government and citizens to evaluate the role of these developments in their communities.