

# The Border Line and the Bottom Line

BY BETTY JOYCE NASH

Swift Creek has resisted annexation by its neighbor, the Town of Cary, N.C., for more than 20 years. Anti-annexation advocates say they want to keep development at bay and protect the community's groundwater supply.

"Cary is nibbling away at Swift Creek," says Tom Vass, president of the Middle Creek Swift Creek Community Alliance Inc. "Cary's concept of progress is to put shopping centers on every surface," Vass complains, adding that the runoff pollutes groundwater, affecting residents' wells.

The ongoing dispute over Cary's effort to annex Swift Creek highlights similar battles throughout the nation. Annexation brings up a host of emotional and economic issues: people who live in suburbs and use city amenities for free; continued decline of urban tax base; problems of monopoly as cities become bigger providers of services with less competition; and people's loss of choice when forced annexation overrules preferences.

## State Laws Shape Annexation Behavior

Annexation is a time-honored way for cities to protect tax base, credit rating, and economic vitality. Some states let cities annex without residents' permission, especially if residents of land to be annexed already use — or want — city-provided services such as water and sewer.

But some states don't allow cities to annex. Cities that are surrounded by already-incorporated areas — preventing expansion — are hard-pressed to amass revenue to provide decent services and maintain aging infrastructure.

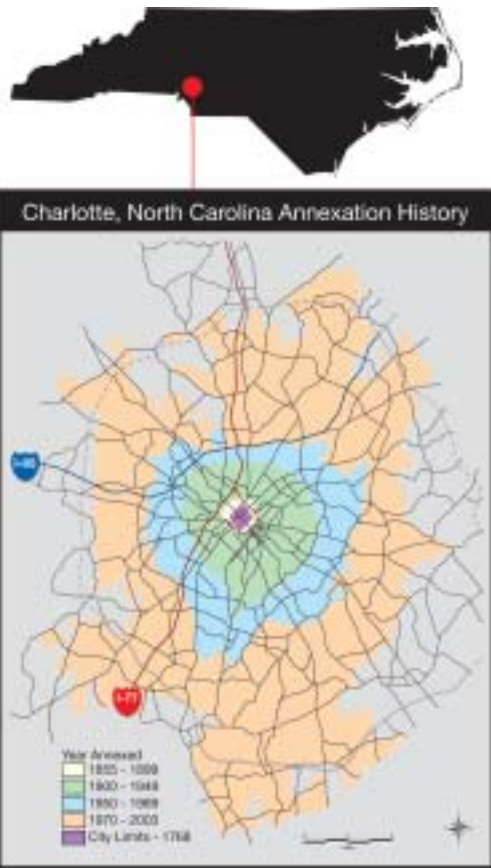
Middle-class people in the last half century have exited cities, siphoning off tax base and civic energy. Growing

cities have flourished through ever-expanding boundaries. The 50 top annexation-happy cities tripled their municipal area between 1960 and 1990.

Charlotte serves as an example. Its land mass has more than tripled since 1970, from 71.5 square miles to its current 268 square miles, thanks to North Carolina's liberal annexation laws. Those laws are among the loosest in the nation.

While the history and evolution of state annexation statutes are murky, they fall into several distinct categories. People, cities, a judge, or a legislative body can decide how annexation proceeds. In the Fifth District states of Maryland, West Virginia, and South Carolina,

## The Economics of Municipal Annexation



*Charlotte, N.C. has grown geographically from about 71 square miles in 1970 to some 268 square miles today. North Carolina's annexation laws are among the most liberal in the United States.*

SOURCE: Charlotte-Mecklenburg Planning Commission

residents of the proposed annexation area get to vote on the issue.

In Virginia, cities can't annex at all, and a circuit court panel decides on towns' boundary changes. North Carolina lets cities, once certain conditions are met, absorb unincorporated urban areas without permission from the affected residents. And in the District of Columbia, which originally was created by the ceding of land from Maryland and Virginia, the issue of annexation is moot. (See sidebar on the origins of the District of Columbia.)

Naturally, when people get to decide whether to be annexed, as they do in 26 states, they usually nix the idea. Almost no one wants to pay the higher taxes associated with living inside city limits— or be told where to live.

### Annexation Economics

Few laws dictated annexation behavior until the 20th century, says David Lawrence, an attorney who is an expert on the issue at the Institute of Government at the University of North Carolina at Chapel Hill.

"There were many cities incorporated in colonial times that kept their same boundaries for decades," he says. "When they did want to annex, it tended to be ad hoc, where they'd go to the

legislature to get specific authority." Annexation petitions multiplied and entire contingents, for and against, would migrate to the state capital seeking special legislation. In 1947 the North Carolina legislature authorized cities to annex, but also allowed the people being annexed to force a referendum. The legislature established a commission to study the issue, and 12 years later passed the law that is used today.

"[It's] based explicitly on the notion that people who live in a nearby city are there because the city is there and they share the benefits the city creates by being a cultural and economic center," Lawrence says. The rationale is that the whole metro area is a single community and the area to be annexed, as a tiny part of the metro area, shouldn't have veto power. "There have never been many states that let cities annex like that." Most states, evident by the number that require a popular vote before annexation, adhere to the idea that people ought to have a say so.

That's a popular notion in North Carolina, too, and one of the reasons why its annexation laws recurrently come under attack, Lawrence notes. North Carolina's annexation-friendly laws are continually questioned by people who live in territory within range of a growing city. Annexation dis-

putes are ongoing in Cary, Fayetteville, Goldsboro, and Winston-Salem.

The idea that people who live in suburbs benefit from economic activity that characterizes the city is widely accepted. The region couldn't exist without its hub, the city. That creates an economic problem of "free riders," people who use a city's goods — its streets, parks, cultural institutions, and the unquantifiable benefits of city life in general — without paying.

"If I happen to live outside the city limits and commute into downtown Charlotte, in effect what I'm doing is taking advantage of services provided by the city without paying for those services," says Jonathan Wells, capital facilities program manager of the Charlotte-Mecklenberg Planning Commission. "If I go out to the park and eat lunch out there, that park is paid for by the city." Suburbanites, however, patronize businesses and add to the city's tax base as well as provide labor.

Another problem with forced annexation is absence of choice and voice. Vass has lived in Swift Creek, 10 miles south of Cary, since 1978, and has seen bits of Swift Creek pulled into the town over time. Cary has grown from about 10.6 square miles in 1981 to about 45 square miles by 2002. Vass picked out where and how he

### Inside the Beltway

The location of the nation's capital was a point of contention for some 25 years, floating from Pennsylvania to New Jersey, among other locales, until 1790 when a deal was struck between Alexander Hamilton and Thomas Jefferson. In exchange for federal assumption of largely northern state debts, the capital would be placed below the Mason-Dixon Line, along the Potomac River, on land given to the federal government by the two slave-holding states of Maryland and Virginia.

Initially, the area authorized for the new city was 100 miles square. The first commissioners named the city Washington, after the nation's first president, and decided to call the entire area the District of Columbia, after Christopher Columbus. The area also included the cities of Georgetown and Alexandria. In 1846, the area that's now Alexandria and Arlington County was ceded back to Virginia, shrinking the federal district by one-third, about 32 square miles. Apparently, Alexandria merchants had expected to win big through capital connections, but the economic activity never materialized because of disputes over the canal and competition with

the port of Georgetown. Also, the slave trade was booming in Alexandria, and dissociation from congressional authority allowed that trade to continue until it was outlawed.

The District is surrounded by mostly flourishing suburbs. But like other old urban centers, Washington D.C. has a higher poverty rate than the national average, 17.6 percent compared to 12.1 percent. In the early 1990s, the District faced financial woes that brought on management by a federal financial control board. With some 30 percent of its property owned or occupied by the federal government, that's a big revenue drain come tax time. However, D.C. levies a complex array of sales taxes to help offset "free rider" problems. For example, restaurant meals, rental cars and telephone calling cards come with a 10 percent sales tax. Commercial parking costs an extra 12 percent in local taxes, and like many other big cities, D.C. charges hotel guests a hefty tax of 14.5 percent.

Residents of the capital city can vote in presidential elections, determining who will receive D.C.'s three electoral votes. But they do not have formal representation in Congress. — BETTY JOYCE NASH

wanted to live, and yet may become part of an area that differs from his choice. What irritates Vass most is the idea that the people most affected don't have a say.

In that vein, economists Gaines Liner and Rob McGregor of the University of North Carolina at Charlotte report: "Since many people are living in unincorporated municipal fringe areas specifically to avoid paying higher city taxes, annexation effectively thwarts the preferences these residents have revealed in their choice of where to live." Further, they note that resources in the city could go to pay for service to newly annexed areas, leaving inner city residents worse off.

But Liner and McGregor also suggest there could be an optimal level of annexation at which per-capita taxes and spending are minimized. Liner and McGregor used data from 450 municipalities with populations of at least 25,000 over the decade between 1970 and 1980. For the lowest growth in per-capita spending and taxes over 10 years, a city would need to add land area from 78 percent to 93 percent of its area. The authors note that the approach does not take into account that the optimal annexation rate might not be the same for large and small municipalities.

"If you don't annex at all, costs per capita tend to be high," Liner says. "Annex some and they tend to come down. More annexation than none tends to reduce per-capita cost. To have the lowest increase, you have to annex quite a bit."

At some point, though, inefficiencies in service provision may develop as a city keeps getting bigger, and in that case, per-capita taxes and spending will begin to increase with annexation, the authors note.

### The Politics of Annexation

After World War II, annexation activity proliferated. New suburbanites sought services they'd become accustomed to when they flocked to the city before, during, and immediately following the war. In the decade between 1950 and 1960, about 90 percent of the nation's cities grew through annexation.

Annexation laws are partly linked to the power of rural areas in the first half of the 20th century as well as to the power delegated to local governments by the states. In Virginia, where the Jeffersonian idea of the gentleman farmer held sway, cities were thought of as dens of iniquity where the poor country boy went to get fleeced, jokes Ted McCormack. He is associate director for Virginia's Commission on Local Government, the body charged with overseeing boundary line changes in the state.

"Thomas Jefferson always referred to cities as fetid sewers," McCormack says. "They were centers of gambling, prostitution, illegal trade, and so forth."

Virginia's unique system, where cities exist separately from counties, exacerbates the divide between suburb and city. The people who possessed political power were in a position to protect rural counties until one-man, one-vote court decisions in the 1960s gave city populations more representation.

Virginia's unique political geography has meant that annexation is much more contested than it would be in North Carolina or anywhere else because whatever a city gains in territory or tax base, the county loses, according to John Moeser. He is a professor of urban studies and planning at Virginia Commonwealth University and co-author of *Politics of Annexation: Oligarchic Power in a Southern City*.

In 1970, Richmond annexed 23 square miles and 47,000 people of Chesterfield County in what would become, in Moeser's words, "the most celebrated municipal annexation in history." The annexation seemed sensible on its face, as the suburban area had obvious ties to the city. Yet the action was rife with political intrigue and the politics of the day.

The negotiations for annexation had been conducted secretly for five years beforehand by people who wanted to retain a white majority on the city council, according to Moeser's book. A civil-rights activist sued, protesting that the annexation violated the 1965 Civil Rights Act by diluting black voting strength. Richmond City Council elections from 1970 to 1977 were suspended. The annexation was upheld by the U.S. Supreme Court, which mandated a ward-based voting system. The 1977 ward elections gave black people their first council majority and Richmond its first black mayor.

Today, many cities in Virginia, as in other parts of the nation, are left with old industrial sites, aging infrastructure, and a population with lower incomes than people who live in the suburbs. Nationwide, suburban median income is 67 percent higher than central city median income, according to Bruce Katz and Katherine Allen of the Brookings Center on Urban and Metropolitan Policy. Today, Richmond encompasses 62 square miles, while neighboring Chesterfield and Henrico counties smear out over 400 square miles and 200 square miles, respectively.

"The suburbs do not want the problems of the city," Moeser says. "The upshot is you've got cities in Virginia — Petersburg, Richmond — experiencing enormous fiscal stress with a declining tax base, jobs eroding, cities struggling." **RF**

### READINGS

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