

Myths and Facts Regarding the Costs of Growth in Washington

Background



"No-growth" advocates have fixated on the notion that "growth does not pay for itself." Their contention widely misses the mark. Growth, obviously, does pay for itself. As Dr. Richard Morrill so succinctly put it, "if urban development did not pay for itself eventually, we would not have 200 million people thriving in our cities."¹ Over time, growth generates economic activity, reflected in increased employment, investment, retail sales, government revenues, and charitable giving, creating the types of communities people want to live in. In short, the cumulative, long-term effects of sustained growth are seen in thriving metropolitan communities – the kind of communities that define the Puget Sound region today.

The opponents of growth erect arbitrary boundaries of time and space, when they try to measure the benefits of growth. Residential growth, they will contend, contributes little but cost to a community, selectively ignoring the fact that the economic contributions of commercial and industrial businesses rely on an adequate labor force and willing consumers. A proper consideration of the costs of growth must reflect the substantial contributions of growth, widely distributed.

And when they attempt to quantify the cost of growth, the opponents frequently distort data to buttress their arguments. Such has been the case with a recent study prepared for a group called the Columbia Public Interest Policy Institute and conducted by Fodor and Associates. The research was partially funded by a grant through the offices of former King County Councilmember Brian Derdowski.

According to the Fodor report, *The Cost of Growth in Washington State*, a new single-family house in Washington, in the year 2000, created capital costs totaling \$83,216. (Actually, Fodor suggests the number understates the full cost.)

Ridiculous.

As we demonstrate in the following pages, even using the standards Fodor sets for himself, a more realistic estimate would be in the \$17,000 – 20,000 range for the gamut of services affected by residential growth (transportation, schools, sewer and water, library). These one-time costs are more than offset by the revenues generated from the construction and sale of a typical residential home in the Central Puget Sound region.



The Washington Research Council has calculated that the construction and sale of an actual – and representative – house in Kirkland, which sold for \$250,000, resulted in tax and fee collections of nearly \$25,000. The revenues flow to both state and local government through sales taxes, real estate excise taxes, building permits, property taxes, impact fees, and business taxes.

Although the sale by a builder of a completed house to a consumer is not subject to the sales tax, the builder's purchase of construction materials and payments to contractors are taxed. In all, these taxes amounted to \$10,391.

In addition, when the property is sold, the seller pays \$4,865 in real estate taxes. As well, the business and occupations tax paid by the contractor adds, in this case, \$555.

In the 18 months the builder held the lot, he paid \$430 in property taxes. The builder also paid a series of impact fees: \$966 for roads, \$612 for parks, and \$3,861 for water/sewer connection charges. Finally, building permits added \$3,150.

In all, then, the total paid in taxes and fees amounted to \$24,830.

It could have been higher. Kirkland does not charge a school impact fee, as do some communities. These fees can impose substantial additional costs on new housing, reaching as high as \$6,131 in one King County community.

The \$24,830 in taxes and fees generated by the construction and sale of the Kirkland example flowed to various levels of government. The state collected \$11,844, primarily from the sales tax, and the city of Kirkland, \$7,875, primarily through property taxes, the real estate excise tax, and impact fees. The balance was distributed to Metro Transit, Sound Transit, the school district, and the county.

So, taxes and fees amounted to about ten percent of the sale price.

Of course, the \$25,000 collected at the down-stroke represents just the beginning of the tax-and-fee revenue stream generated by new residential development. The new homeowner will pay annual property taxes of about \$2,700. When the home is resold, typically in about seven years, there will be additional transactional taxes and fees.

The family purchasing the new home will be economically involved in a variety of activities, shopping, working, and perhaps operating a business. As contributing members of the community, the new homeowners support local retailers, sustain local service businesses and, of course, pay taxes and fees.

An average King County family earning \$100,000 pays sales, utility and excise taxes of about \$3,920 annually, in addition to the property tax.

All of this more than offsets the "cost" of residential housing, even accepting the dubious argument that housing must directly pay for itself.

Beyond that, the definition of "growth-related" costs used by Fodor is arbitrary, including factors unrelated to growth, such as improvements to recreational facilities and roadways that provide substantial benefit to existing residents. In many cases, these improvements could not have been made without the increased revenues generated by population growth and economic development.

Transportation



myth:

Each new single-family house imposes a cost to the community of \$56,000.

FACT:



The estimate is drawn from a single suburban community in King County. It is unrepresentative of the state. And, in fact, the estimate represents a serious distortion of the planning document from which it is drawn. A more careful reading of the report might have justified a cost impact of about \$7,700, but even

that figure – an 85 percent reduction from Fodor’s estimate – most likely overstates the transportation impact of new residential construction.

For the “no growth” contingent, much rides on the exaggerated figure. The \$56,000 estimate represents two-thirds of the total cost of growth estimated by Fodor. And, more than any other factor, the selection of this estimate compels any fair-minded reader to recognize *The Cost of Growth in Washington State* for what it is: an irresponsible, inaccurate analysis designed to exaggerate of the cost of growth.

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Calculating the transportation impacts attributable to a new single-family house (as he attempts to do) is, to be sure, exceedingly difficult. Any responsible calculation would have to take into account regional factors, including the physical condition of existing roadways, commute patterns, transit alternatives, and congestion levels.

He had two estimates to work with: One, from the new city of Sammamish, for \$56,000, and a second from Spokane, for \$5,200. He chose the Sammamish figure, dismissively stating that the difference between the two estimates “warrants further study which is beyond the scope of this project.”

It would also have been inconvenient.

The City of Sammamish incorporated in 1999 in an area that had seen tremendous population growth in the 1980s and 1990s without adequate upgrades to its roadways. Widespread dissatisfaction with the road network was a major factor in the decision to incorporate.

One of the new city's first acts was to commission a transportation plan. The vast majority of the costs identified in this plan relate to bringing the existing rural roadways up to urban standards, improvements that would have been necessary regardless of additional population growth. Fodor, however, treats most of these improvements as mitigation for future development. In short, the costs of transportation improvement used by Fodor extend well beyond anything that can be reasonably attributed solely (or even primarily) to upcoming residential growth in Sammamish.

If new residents are charged simply for their proportionate share of the new lane miles – essentially, just the capacity additions necessitated by growth – the cost would be about \$7,700, close to the Spokane estimate.

As the Spokane example demonstrates, the costs will vary greatly. But in no way does the Fodor report come close to justifying the outrageously exaggerated cost of \$56,000 per single-family house.

School Facilities



myth:

Each
single-family
residence generates
an additional school
capital cost
of \$9,815.

FACT:



As Fodor concedes, "School facility costs can vary widely from one area to the next depending on factors such as local land costs, and design and construction standards of the local school district." In other words, if you build extravagant schools on expensive land, the "cost" of growth will be much higher than if you opt for less lavish facilities on land purchased long ago. He might also

acknowledge that many schools have capacity that is underutilized. On its face, the attempt to create a capital cost estimate for single-family homes is fraught with challenges.

In Washington, education is constitutionally the “paramount duty of the state,” and state government contributes funds for school construction. That is consistent with a policy consensus that finds that “the benefits of educational services are presumed to accrue not just to those receiving the services, but to everyone.”² Therefore, policy makers should distribute the costs of education community-wide, rather than rely on selective taxes and fees (e.g., impact fees) to pay for a collective good.

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In recent years, the legislature and the voters have acted to increase state funding for school construction, again recognizing the general responsibility for the provision of adequate facilities. As well, much school construction in recent years has involved replacement of inadequate facilities, not the provision of new buildings as a result of enrollment growth (in fact, for most of the

state, enrollment has reached a plateau). Enrollment shifts within communities, as a result of changing residential patterns – often unrelated to absolute population growth or in migration – may also increase the pressure to build new schools.

Clearly, the \$9,815 estimate is arbitrary, unrepresentative, and an improper attribution of school capital costs to single-family residential housing.

Electric Power Generation



myth:

Each new single-family house adds \$8,127 in capital costs for electric power generation and distribution

FACT:



Including this estimate further indicates the lengths to which the author and sponsor of this research will go to exaggerate the costs of growth. Although many Washingtonians receive their power from municipal utilities and PUDs,

these costs are properly considered as private sector responsibilities. (Oddly, Fodor seems unaware of Washington's unusual reliance on public power. He writes, "energy facilities are ... typically owned and operated by a private utility company." True in Oregon, where his firm is based; substantially less so in Washington.)

Utility expenses, however, should not be incorporated as a cost of growth. This makes as much sense of saying the price of groceries will increase because a new store is built to serve new residents.

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Despite the fact that these figures have no bearing on the cost of growth as typically understood, they should be examined. The estimates are particularly shaky, as they are based primarily on Oregon data and reflecting the marketplace as it existed before the recent crisis. In particular, the costs of new generation should drop as regulatory pressures ease.

Further, with regard to regulated utilities, the costs of expansion are not immediately passed on to consumers. Rather, they are added to the utility's capital base and any rate effect is spread over a considerable length of time.

Parks & Recreation



myth:

Each new single-family residence generates a capital impact of \$6,000 for parks and recreation facilities.

FACT:



At best, the actual cost is about half that, and is highly influenced by community preferences and land costs.

Fodor bases his estimate on just six communities, and his result is driven by just one of these: Bellingham.

In the last decade Bellingham has made a strong commitment to expand its parks and recreational facilities, holding two special elections to fund the purchase of open space lands. Among the new facilities is an aquatic center featuring an eight-lane pool, described as one of the fastest in the state, and the state's first indoor water slide. The city has

also built a golf course. The magnitude of these investment goes well beyond simply accommodating growth. Indeed, the new parklands and recreational facilities represent enhancements to the community that were affordable, in part, because of growth.

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Looking to the other 5 cities (Bellevue, Kennewick, Kirkland, Spokane, and Yakima) Fodor's data indicate an average cost of \$2,992 to meet city standards of parkland per house. Fodor reports that park facilities cost \$490 per new house in Kirkland, but provides no estimate of facilities costs for the other four cities. Combining the five-city land cost and the Kirkland facility cost provides an estimate of \$3,482 to provide parks and recreational facilities for a new house.

Sewage Treatment



myth:



A single-family residence generates a capital cost of \$1,930 for sewage treatment.

FACT:



The real cost is likely to be about half that.

Fodor looked at seven recently completed plants, and calculated the cost of serving the residential capacity required by a single-family home. The estimates span a wide range. Even in calculating the average cost, Fodor adopts a measure that overweights the higher cost, low capacity systems. The actual average cost per house served for the seven systems analyzed is \$1,252.

The Fodor sample of cities consists primarily of smaller communities. The greatest growth is in the urban area, and by looking at plans for King County's proposed North treatment plant a more reliable estimate of about \$960 can be derived.

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Library Facilities



myth:

Each new single-family residence creates a capital cost of \$665 for libraries.

FACT:



The estimate is arbitrary, and again repeats the pattern of erring on the side of cost magnification. Fodor looks exclusively at two libraries built by King County in recent years, in Issaquah and Sammamish.

As with parks facilities, there is no clear service standard for local libraries, and the choice of amenities and building design can significantly affect costs. Setting those considerations aside and working entirely with the Fodor assumptions, simple calculation errors are found to inflate the cost impacts of a residential unit.

Arguably, growth allowed library service to be extended to the plateau, a benefit to existing residents made possible by increased population and economic development.

Fodor assumes that the service area for the two libraries matches the boundaries of the Issaquah school district. While Fodor properly allocates to the area a share of the King County library service center, he fails to recognize that the school district serves only about half of Sammamish's residences. Correcting for this error results in a cost per current residence of just \$504. In addition,

allowing that these libraries were sized to accommodate foreseeable population growth, the cost per residence over time will drop to about \$400.

Finally, had there not been significant growth in the Sammamish plateau, the library would not have been built in the first place. Arguably, growth allowed library service to be extended to the plateau, a benefit to existing residents made possible by increased population and economic development.

Water Systems



myth:

A single-family house
adds capital costs of
\$348 for water
services.

FACT:



Actual costs, using the latest information, are likely to be about one-third as high as Fodor claims.

His estimate is based on three disparate data points, so different as to make constructing an average cost a meaningless exercise. Unfortunately, Fodor chose to go ahead and do it anyway. The communities are Seattle (\$288 per house), Kalama (\$276 per house) and South Bend (\$482 per house).

Fodor then compounds the error by greatly overstating the costs in two of the three cases.

The actual cost for Kalama turns out to be \$184, which Fodor inflated by fifty percent because the city is using an unconventional technology and "city officials estimated that a conventional filtration plant would cost 50 percent more." Once again, given a choice, Fodor opts for the most expensive option.

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Fodor overstated the cost for Seattle by more than 200 percent. He based his calculation on Seattle Public Utilities' new water filtration plant on the Tolt River. This plant has the capacity to treat 120 million gallons of water per day. However, Fodor assumed that the plant would treat only 45 million gallons. Accounting for the actual

capacity (and some plant costs that Fodor omitted) the actual cost for Seattle is \$123.

The Tolt plant serves a number of King County's growing suburbs as well as residents of the city of Seattle. It is more representative of the cost of serving urban growth than either the Kalama or South Bend

plants. Further, water consumption has been decreasing for more than a decade, likely resulting in further cost reductions and the ability to serve growth with less expansion in treatment capacity.

1 Dr. Richard Morrill, Professor Emeritus, *"The Economics of Growth Management,"* address to the Seattle Economists Club, October 11, 2000.

2 Rethinking School Impact Fees, Washington Research Council, February 1995