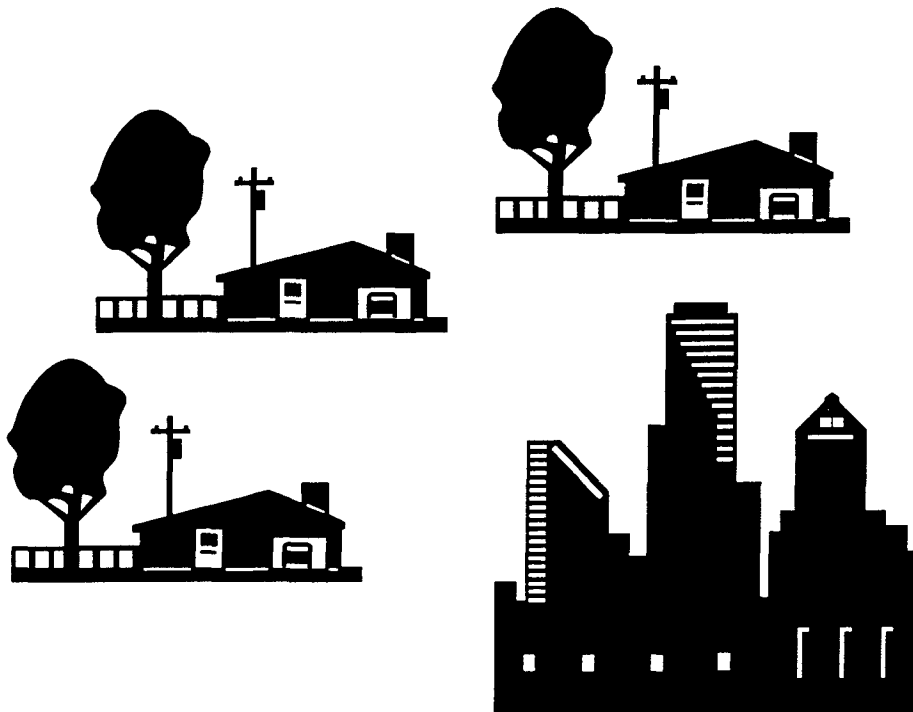

An Unlevel Playing Field

How Public Policies Favor Suburban Sprawl Over Downtown Development in Metropolitan Atlanta

Summary Report
By American Farmland Trust and
The Georgia Conservancy



The Competition for Land in America



The first in a series of reports from

American Farmland Trust

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About American Farmland Trust

American Farmland Trust is a private nonprofit organization founded in 1980 to protect our nation's farmland. AFT works to stop the loss of productive farmland and to promote farming practices that lead to a healthy environment. Its action-oriented programs include policy research and advocacy, public education and land conservation demonstration projects. William K. Reilly, Chairman of the Board. Ralph Grossi, President. For membership or program information, please call 202-331-7300 or visit AFT's web page at www.farmland.org.

About The Georgia Conservancy

Established in 1967, The Georgia Conservancy is a nonprofit organization of people dedicated to the responsible stewardship of Georgia's vital natural resources. Through education and advocacy, the Conservancy strives to balance the demands of social and economic progress with its commitment to protect the environment.

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January 1999

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Foreword

As the twentieth century comes to a close, America is engaged in an intensifying competition for land. Struggling cities compete with mushrooming suburbs; the suburbs compete with open space, farms and forests; agriculture and forestry compete with wildlife habitat and the last remaining places of solitude. Our population continues to grow. Automobiles, computers and other technologies enable us to spread out over the land, altering it as never before. Meanwhile, recoiling from this “progress,” many Americans increasingly resist changes in the land to protect their environment.

The Atlanta region typifies the competition that is taking place in metropolitan areas all across the country. The downtown core is losing people and businesses to the rapidly growing suburbs. Rural land is being wastefully consumed by subdivisions and strip malls while land in the city is being abandoned. This chain reaction of inefficient land use—commonly known as “sprawl”—is occurring in thousands of municipalities around the country. And it threatens to squeeze food and fiber production, decimate wildlife, bankrupt taxpayers and obliterate the uniqueness of every American community.

American Farmland Trust (AFT) is concerned about the impacts of sprawl, and the broader competition for land, on the nation’s farmland. More than half of all U.S. farm production, including three-quarters of the fruits and vegetables grown in this country, comes from land in metropolitan area counties. This land not only supplies us with fresh, high-quality, affordable food, it also provides open space for relief of urban congestion, habitat for wildlife, watersheds from which we drink, inspiring scenic vistas, and a reminder of an American heritage few of us want to lose. And yet, every year, another million acres of farmland is paved over.

Why is it happening? Indeed, why, if we abhor it, does urban sprawl continue to overwhelm not only farms, but also roads, schools and local budgets, while hollowing out our cities?

To find answers, AFT has sponsored a series of research projects to investigate the competition for land in America and how the choices being made by private landowners—affecting farms, cities and the environment—are being influenced by the policy decisions of government. This report on the competition between the city and suburbs in metropolitan Atlanta, the first in the Competition for Land series, was produced in partnership with The Georgia Conservancy, which shares AFT’s concern about sprawl and for more than 30 years has worked to promote economic development and growth management to ensure environmental integrity and economic stability. It summarizes a more detailed, technical research paper prepared by three economists from the University of Georgia and Georgia State University. To learn more about the technical paper or about the Competition for Land project, we invite you to visit AFT’s web site at www.farmland.org.

Edward Thompson, Jr.
American Farmland Trust
Senior Vice President for Public Policy

An Unlevel Playing Field: How Public Policies Favor Suburban Sprawl Over Downtown Development in Metropolitan Atlanta

Executive Summary

In metropolitan Atlanta, the city and suburbs are competing for new development and the economic opportunity that accompanies it. The suburbs are winning this competition and the result is sprawl and urban decay. This outcome is not simply a function of the free market. Government policy decisions have a pervasive influence on the market for land and its use. If we want to change land use patterns, we must change public policy.

Three economists from Georgia universities studied taxes and fees, development regulations and procedures, redevelopment incentives and transportation policies, all of which have a strong influence on land use in metro Atlanta. Based on an analysis of the internal rate of return of four hypothetical development projects at five urban and suburban locations, they concluded that public policies contribute to the greater profitability of all types of development at three suburban locations than at two locations within the City of Atlanta. The accuracy of these results is confirmed by how closely they mirror the kinds of development that are actually occurring in the region.

The cost of land, averaging 8 times higher in the city than in the suburbs, is the single most important factor favoring suburban development. Though its price is a function of market supply and demand, the demand for land for development on the suburban edge of the metro region has been greatly increased by the construction of highways. This policy decision has brought thousands of acres of remote rural land into competition with the city, while creating enormous wealth in the outskirts by increasing private land values by \$10,000 per acre.

Higher city rental rates offset the land cost advantage of the suburbs to some extent, particularly for apartments. Development requirements like parking spaces, as well as the longer period it takes to receive permission to build in the city, also play major roles in giving the suburbs a competitive advantage. Taxes and impact fees give a smaller but still significant advantage to the suburbs. On the other hand, the abatement of taxes in urban enterprise and empowerment zones in the city is an important counterweight to the advantage conferred on the suburbs by other policies. These trends were corroborated by a survey of local developers.

The researchers' analysis was reviewed by academic peers and discussed at a roundtable meeting of local private and public leaders. This report also contains a summary of their views. Based on the research and views of local leaders, this report recommends that consideration be given to a number of policy changes to level the playing field between the City of Atlanta and its suburbs and, thus, to curb sprawl and improve the quality of life in the entire metro Atlanta region:

- Augment tax incentives for enterprise zone development in the City of Atlanta, paying particular attention to attracting middle class housing to the downtown area. Accompany this with stronger "brownfield" development incentives and indemnities.
- Streamline the zoning and development approval processes in the city of Atlanta to reduce delays that add to developers' costs, while maintaining adequate public input.
- Examine current city specifications for developer-provided infrastructure and make changes to lower developers' costs while still meeting public needs. Pay particular attention to requirements for parking spaces, which are much more costly to provide downtown than in the suburbs.

- Consider a tax surcharge on downtown parking lots to encourage their development and lower overall city land costs. Study a two-tier property tax system like the one that has contributed to the revitalization of downtown Pittsburgh by encouraging development of vacant land.
- Recapture a portion of the windfall increase in suburban land values that has resulted from construction of highways and other infrastructure. Without this, the chances of revitalizing downtown and curbing the effects of sprawl on everyone in the region may be futile. Possibilities for windfall recapture include regional revenue-sharing like that adopted by Minneapolis-St. Paul, and a regional impact fee on new development that reflects the impact that sprawl has on the core of Atlanta and, hence, the entire metro region. Reinvest the proceeds in downtown Atlanta and perhaps older suburbs that may suffer the same competitive disadvantage because of public policy decisions.
- Ask suburban development to pay more of its full marginal cost for public services. Begin by changing the rules on impact fees to allow one jurisdiction to recover costs caused by development in another.
- Adopt a more regional approach to land use planning and decisionmaking. A promising opportunity for starting this may be the pending proposal to harness state transportation funding as an incentive.

All of these proposals are offered, not as a definitive policy agenda, but as a contribution to a more urgent and focused discussion on the future of land use trends and the quality of life in metropolitan Atlanta.

An Unequal Playing Field: How Public Policies Favor Suburban Sprawl Over Downtown Development in Metropolitan Atlanta

Introduction

In metropolitan Atlanta, the city and suburbs are competing for new development and the economic opportunity that accompanies it. The suburbs are winning this competition and the result is sprawl and urban decay. As this report helps explain, this outcome is not simply a function of the free market. Government policy decisions have a pervasive influence on the market for land, contributing to an unlevel playing field. If the region wishes to avoid the apparent consequences of its current growth pattern—more traffic congestion, worsening air and water pollution, a widening gap between haves and have-nots, and perhaps a diminished reputation as a good place to live and do business—state and local government leaders will have to change the policies that are driving it.

Government policy decisions have a pervasive influence on the market for land, contributing to an unlevel playing field.

This conclusion is based on a study of policies affecting metro Atlanta land use patterns conducted by local university economists under the sponsorship of The Georgia Conservancy and American Farmland Trust. The study is part of a larger effort by AFT to investigate how public policy affects the use of land and its environmental, social and economic consequences. The Georgia Conservancy invited AFT to study Atlanta as a case study of the competition between cities and suburbs occurring in virtually every U.S. metropolitan region.

How We Did the Study

The hypothesis of this study is that public policy decisions have a significant impact on patterns of land use by sending economic signals to private landowners. Government taxing, spending and regulatory decisions can encourage or discourage certain land uses by making them more or less profitable. Though not all economic or social forces are within government's control, the "free market" is much less free than conventional wisdom might suggest. The implication is that, if we want to change land use patterns, we must change public policy.

In metropolitan Atlanta, we tested this idea by asking three economists from local universities to identify public policies that influence the competition between city and suburban locations for new commercial and residential development; to describe and quantify the effects of selected policies on land values and the profitability of development; and to compare the results of their analysis with the impressions of developers and other regional stakeholders. Drs. John Bergstrom and Jeffrey Dorfman of the University of Georgia, and Dr. Keith Ihlanfeldt of Georgia State University reviewed the academic literature, interviewed officials, collected and analyzed land use data, and

polled local developers from April 1997 to November 1998. Their preliminary findings were reviewed and discussed by a group of local officials and leaders of civic, development and environmental organizations brought together by The Georgia Conservancy in December 1998.

This report summarizes the researchers' technical paper, *The Effects of Government Policies on the Location and Type of Development: A Case Study of the Greater Metropolitan Atlanta Area*, as well as the leaders' reactions to its findings. Despite its ambitious scope, this research was necessarily limited by time and funding. It does not examine federal policies in any detail, nor does it address significant issues like crime or schools. Therefore, it should not be considered comprehensive or the final word on the land use challenge facing the region. But it is, we hope, the start of a more urgent and focused discussion about public policy, land use and the future of metropolitan Atlanta.

Findings: Public Policies Give the Suburbs a Competitive Edge over Downtown Development

Overview of Trends

Our study examined several kinds of public policies: taxes and fees, development regulations and procedures, redevelopment incentives, and transportation. It is clear that they all exert a strong influence on land use in metro Atlanta, generally making suburban development more profitable and giving it a competitive advantage over development in the City of Atlanta.

Using economic analysis, our researchers examined the internal rate of return (profitability) of four hypothetical development projects in five alternative city and suburban locations. These sample projects were carefully and elaborately designed on paper in consultation with developers. The variables in each hypothetical were the costs and benefits of development as influenced by public policies and other factors. The results of this analysis are summarized in Table 1 below. Numbers in the table represent the potential return on investment, expressed as a percentage, that each project could be expected to generate in each location.

Table 1

Profitability of Development Projects in City and Suburban Locations in Metropolitan Atlanta					
	Atlanta CBD	Buckhead	Town Center	Alpharetta	Lawrenceville
Office Building	7.33	11.32	17.33	14.20	14.65
Industrial Park	(2.58)	(3.53)	6.01	6.92	6.18
Apartment Complex	6.15	7.68	9.90	10.03	9.46
Shopping Center	1.77	10.63	15.49	16.18	17.00

The major conclusion that can be drawn from this analysis is that the profit potential of all types of development is greater, in many cases considerably greater,

The profit potential of all types of development is greater, in many cases considerably greater, in the three suburban locations.

in the three suburban locations—Town Center (Cobb County), Alpharetta (Fulton County) and Lawrenceville (Gwinnett County)—than in the Atlanta central business district (“CBD”) and Buckhead, both within the jurisdiction of the City of Atlanta. This means that the suburbs enjoy a significant competitive advantage over the city in terms of attracting development.

The accuracy of this analysis is confirmed by how closely its results mirror the kind of development that is actually occurring in Atlanta and its suburbs. For example, one sees new office buildings (7.33% return) and some apartments (6.15%) in downtown Atlanta, but shopping (1.77%) is moving to the suburbs and industrial parks (minus 2.58%) have never been located there. In Buckhead, the higher return on shopping center development (10.63%) reflects its growing reputation as an upscale retail mecca.

Further analysis by our researchers demonstrates how specific policies and other factors contribute to these internal rates of return and to the competitive advantage enjoyed by the suburbs. Table 2 below illustrates the relative influences of these policies and other factors on development profitability.

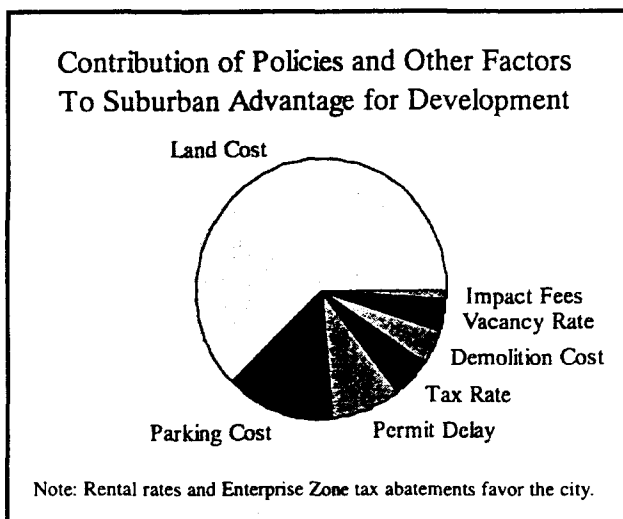
Table 2

Relative Influence of Policies and Other Factors on Development Profitability (Expressed as percentage of total difference in IRR between city and suburbs)									
Project Type	Land Cost	Demolition Cost	Rental Rate	Parking Cost	Tax Rate	Impact Fees	Tax Abatement	Permit Delay	Vacancy Rate
Office Building									
CBD v. Alpharetta	86.48	7.58	2.15	23.04	3.02	0.65	(14.22)	17.19	2.48
CBD v. Town Center	43.38	2.08	5.77	6.99	2.36	0.76	(7.92)	5.42	8.53
Buckhead v. Town Center	63.99	10.84	(37.88)	32.63	10.48	4.29	0.00	28.62	6.32
Industrial Park									
CBD v. Alpharetta	45.18	4.36	64.15	NA	2.45	0.56	(9.27)	4.58	3.59
CBD v. Lawrenceville	32.60	2.06	46.96	NA	4.03	0.77	(10.89)	(0.10)	2.47
Buckhead v. Town Center	43.38	4.30	46.36	NA	7.58	1.76	0.00	4.10	2.57
Apartment Complex									
CBD v. Alpharetta	190.98	8.31	(118.29)	NA	10.25	2.56	(25.79)	19.24	(3.58)
CBD v. Lawrenceville	148.75	3.21	(47.92)	NA	2.58	(1.26)	(22.52)	10.94	(2.48)
Buckhead v. Town Center	160.22	12.78	(150.08)	NA	29.69	4.53	0.00	31.31	0.00
Shopping Center									
CBD v. Alpharetta	85.23	5.74	8.86	NA	2.18	2.39	(6.57)	11.36	19.10
CBD v. Lawrenceville	57.95	0.98	9.15	NA	1.03	(0.58)	(11.68)	1.25	9.35
Buckhead v. Town Center	165.43	16.58	(205.68)	NA	13.10	7.82	0.00	30.09	19.95
Average	93.38	6.57	(31.35)	20.89	7.40	2.02	(9.07)	13.67	5.69

Each horizontal row on this table represents a comparison of a specific type of development at the two locations indicated in the far left column. For example, the first row compares an office building in Atlanta’s central business district (CBD) with one in Alpharetta. As Table 1 shows, in every case, development in the suburban location is more profitable than in the city. The numbers in Table 2 represent the percentage of the greater suburban profit potential that can be attributed to each of the policies and factors listed at the top of each column. The larger the number, the more influence that policy or factor has. Thus, 86.46 percent of the greater profitability of the Alpharetta office building is attributable to the higher cost of land in the city, 7.58 percent is attributable to the higher cost of demolishing existing structures in the city, etc. Numbers larger than 100 indicate that the specific factor, usually land cost, is more than equal to all other factors in its relative influence on profitability. Negative numbers (in parentheses) indicate that the specific factor favors development in the city rather than the suburban location. The main factors having this effect are tax abatements in urban enterprise zones and higher city rental rates.

In general, this analysis shows that land cost is the single most important factor favoring suburban development. Higher city rental rates offset this advantage to some extent, particularly for apartments. Development requirements like parking spaces—building above- or below-ground parking in the city costs far more than surface parking in the suburbs—and the longer period it takes to receive permission to build in the city also play major roles in giving the suburbs a competitive advantage. Taxes and impact fees give a smaller but still significant advantage to the suburbs. Figure 1 illustrates these general trends, based on the averages shown in Table 2. On the other hand, the abatement of taxes in urban enterprise and empowerment zones is an important counterweight to the advantage conferred on the suburbs by other policies. The specific policies that explain these trends are discussed in greater detail below.

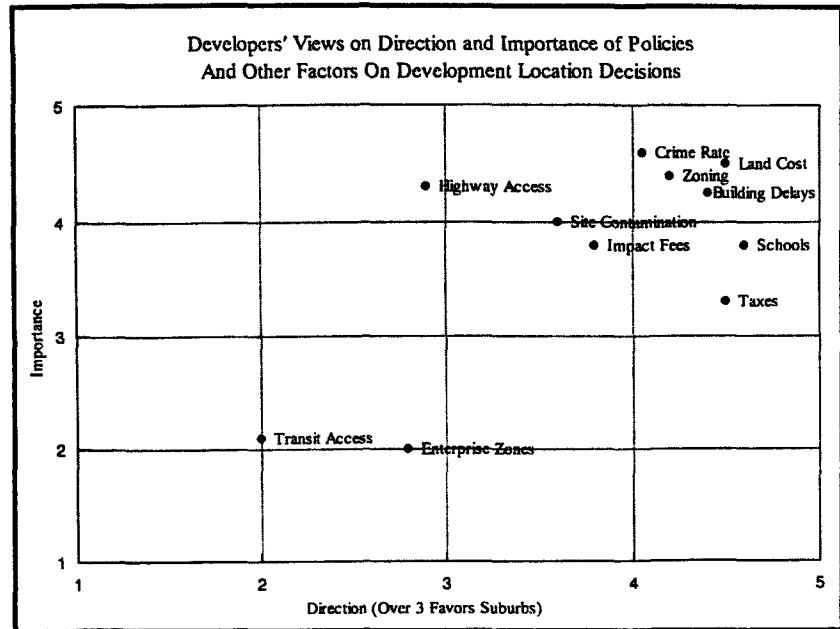
Figure 1



The abatement of taxes in urban enterprise and empowerment zones is an important counterweight to the advantage conferred on the suburbs by other policies.

A survey of developers conducted by our researchers corroborates the results of this analysis. A total of 33 developers in the metro Atlanta region returned a questionnaire that asked which factors most influenced their decision about where to locate new projects, and whether these factors favored city or suburban locations. The results are shown on Figure 2 below. Items appearing in the top right corner of the figure are very important to developers and strongly favor suburban locations. Those toward the bottom left are less important and favor development in the city.

Figure 2



The most important factor explaining the greater profitability of development in the suburbs is the cost of land, which is on average 8 times higher in the City of Atlanta than in the suburban areas studied.

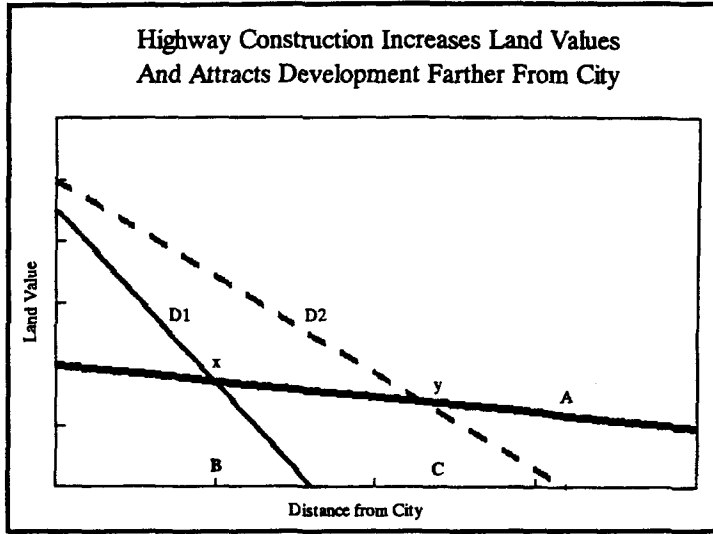
Explanation of Specific Policies and Other Factors

Land Costs

The most important factor explaining the greater profitability of development in the suburbs is the cost of land, which is on average 8 times higher in the City of Atlanta than in the suburban areas studied. This has enormous implications. Our researchers speculate that, if there is an insurmountable obstacle to curbing sprawl and ending urban decay in metro Atlanta, this could be it. They suggest that only a large government subsidy to those who develop in the city could level the playing field, observing that it is doubtful the City of Atlanta could afford such an expense.¹ However, their examination of how policy decisions have helped create the land price differential—or otherwise favor the suburbs—suggests that a change in policies could begin to reverse the trend toward urban decay and suburban sprawl in the region.

Though price is a function of market supply and demand, the supply of, and demand for land in both city and suburbs have been influenced by policy decisions. On the suburban edge of the metro region, the demand for land for development has been greatly increased by the construction of highways (Figure 3). This policy decision has brought thousands of acres of remote rural land into competition with the city. While demand for land was also increased by the accessibility that highways provide, land prices remain lower than in the city because the supply of land on the urban edge is so much greater.

Figure 3



This graph is an economist's view of the effect of highways on the use and value of land. The horizontal axis represents the distance from the city at which development is economically feasible. The vertical axis represents the value of land. The closer to the city, generally the higher the value of land. The thick line marked "A" represents the demand for land for agricultural purposes. This line is relatively flat because the highest and lowest values of agricultural land are not very far apart and do not vary dramatically as one approaches the city. The thin solid line marked "D1" represents the demand for land for development before the construction of a highway from the city. It is a fairly steep line because the demand for developable land drops quite rapidly the farther one goes from the city. The point at which it intersects line A, marked "x," corresponds to the distance from the city (point "B") at which agricultural uses of the land will give way to development because the value of the land for development exceeds its agricultural value. The dotted line marked "D2" represents the demand for developable land after a highway is built. Its construction increases the demand for developable land and, hence, its value - line D2 is higher than D1. This has the effect of moving intersection of the lines to the point marked "y," which increases the distance from the city at which development is economically feasible (point "C").

"Brownfields" or contaminated sites are quite prevalent there. Current policies do not appear to be sufficient to offset the cost of their clean up, nor to insulate developers against potential financial liability if they do choose to re-develop these sites.

In the city, the supply of buildable land has been constrained by a number of factors influenced by public policy. Though Atlanta has never been an industrial city, recent studies indicate that "brownfields" or contaminated sites are quite prevalent there.² Current policies do not appear to be sufficient to offset the cost of their clean up, nor to insulate developers against potential financial liability if they do choose to re-develop these sites.

Another supply constraint in the city is apparently the large number of vacant parcels of land now devoted to parking lots. Because taxes on undeveloped land are low, there is little incentive for owners to put these parcels on the market at less than the premium price that prime office space would command.

Taxes and Fees

Taxes on real estate and its development also contribute to the competitive edge of Atlanta's suburbs. The millage rate on real and personal property in the City of Atlanta is higher than in any suburban jurisdiction, resulting in higher

taxes on developed land in the city. Thus, development in the suburbs, where taxes are lower, tends to be more profitable.

For example, in Atlanta the tax rate is \$49.91 per \$1,000 of assessed property value, compared to only \$30.71 in Cobb County. This results in an effective tax rate of about 2 percent in the city and 1.2 percent in Cobb. (By state law, only 40 percent of property value may be taxed.) Homestead exemptions, which are higher in the City, reduce the gap for residential property to 1.3 and 1.0 percent respectively, but still maintain a substantial suburban advantage.³

The Georgia Conservation Use Tax Act of 1993 provides a considerable property tax break to owners of rural land who agree to keep it in farm or forestry use for at least 10 years. Only 30 percent of the assessed value of such land is taxed, and assessments are based on its non-developmental use, regardless of its true value. This has the effect of maintaining agricultural use of the land and is fair to farmers, but it also reduces the cost of holding suburban land for eventual development, an advantage not enjoyed by owners of property in the city.

Impact fees may be levied on development under the Georgia Development Impact Fee Act of 1990. However, the law restricts the collection and spending of such fees to special districts. Thus, fees cannot be collected in a jurisdiction impacted by development, e.g., congested roads or overcrowded schools, when development occurs in a neighboring jurisdiction. This occurs most often in the case of small developments that have a large cumulative impact.⁴ The resulting low fees represent a subsidy that encourages development. Because low-density suburban development generally costs more to service on a per capita basis than more compact development,⁵ this kind of development would appear to benefit most from the subsidy.

Development Regulations and Approval

Among the factors cited by developers as having the greatest influence on their choice of location are the regulations imposed on development and the time it takes to win approval for new development. In the City of Atlanta, requirements for everything from street grading and paving to sidewalk curbs and storm drains are more stringent than in suburban jurisdictions. Though this may be justified by long-term savings on maintenance, it does necessitate the use of more expensive materials and entails higher labor costs, reducing the profitability of development.⁶

Moreover, based on interviews with developers and others, our researchers estimated that it takes an average of one year longer to secure rezoning approval for new development in the city than in most Atlanta suburbs.⁷ This assumption was built into their calculations. It is caused by a rezoning process in the city that has more steps than in most suburbs, and that involves review by more agencies, including Neighborhood Planning Units, citizen committees established in the 1970s to assure local input into development decisions. The longer review process decreases the profitability of development because the longer it takes to build a project, the more it costs.

In the City of Atlanta, requirements for everything from street grading and paving to sidewalk curbs and storm drains are more stringent than in suburban jurisdictions.

Downtown Redevelopment Incentives

In response to the flight of development from Atlanta and the city's declining tax base, the state legislature was motivated to pass the Atlanta Urban Enterprise Zone Act of 1983. This offers developers of specifically designated properties a reduction in property taxes for 10 to 25 years, depending on the type of project. The benefit is substantial: developments in housing enterprise zones, for example, pay no taxes for the first five years, only 20 percent of what they otherwise would owe for the next two years, 40 percent the next year, etc. Impact fees are also waived in these redevelopment zones. The program has been fairly effective as a counterweight to policies favoring suburban development. Since 1986, it is estimated that this program has attracted private investment of more than \$500 million to the City of Atlanta.⁸

Two other government programs appear to have potential to reinforce enterprise zones and help level the playing field for development in metro Atlanta. In 1994, Atlanta became one of six cities to have been awarded an "empowerment zone" by the U.S. Department of Housing and Urban Development. Business developers in this 9-square mile area located next to the central business district—where 57 percent of the population lives below the poverty level—are eligible to receive tax-exempt state and local bond financing, increased deductions for depreciation and tax credits on wages paid to employees who live in the empowerment zone.⁹ The State of Georgia's job Tax Credit Program also gives employers in economically depressed areas a credit against state income tax for wages paid to new employees hired in areas like Atlanta's empowerment zone. Our researchers believe it is too early to form conclusions about the effectiveness of these programs.

Transportation Policy

Unquestionably, transportation policies have had a greater impact on the direction of metropolitan Atlanta's growth than any other. Taxpayer-funded highways have contributed to the shift in demand for development away from downtown to the suburbs by making cheaper land accessible.¹⁰ While conditions in the city may have "pushed" people away, highways exerted a powerful "pull" by influencing land costs, which our analysis shows to be by far the most important determining factor in development location.

In so doing, highway construction has created enormous wealth among private property owners into whose land values transportation improvements have been capitalized. To measure this effect, our researchers used actual land price data and very conservative assumptions to calculate the impact of highway construction in Gwinnett County. There, along a single, 24-mile stretch of Georgia Highway 316, land values within one mile of the road were increased \$350 million during the period coinciding with highway construction. That is almost \$15 million per linear mile of road and more than \$10,000 per acre of private land.¹¹ If this effect were extended beyond one mile from the highway, and were multiplied by the hundreds of highway miles along other interstate and circumferential highways in metro Atlanta, the wealth created on the suburban-rural edge would add up to a staggering sum.

Highway construction has created enormous wealth among private property owners into whose land values transportation improvements have been capitalized.

The unintended consequences of constructing highways farther and farther into the countryside include a fundamental restructuring of the land market.

Taxes do not pay the full marginal cost of suburban development, so it is being subsidized. If the subsidy were reduced, it would help level the playing field.

There has been much debate over highways in metropolitan Atlanta, most recently because worsening air quality may, under the Clean Air Act, interrupt the flow of federal highway funds to the region. One hotly debated issue is whether the state gasoline tax should remain dedicated solely to highway construction, or whether a portion of it should be used to finance mass transit to better serve more urbanized areas. Our research seems relevant to this debate. It tends to show that the unintended consequences of constructing highways farther and farther into the countryside include a fundamental restructuring of the land market. This restructuring has rendered downtown Atlanta far less competitive for development, contributing to its impoverishment, while creating enormous private wealth on the outskirts that has almost certainly led to unnecessary farmland loss.

Observations of Local Leaders

To lend further perspective to our research, we asked a group of local public and private sector leaders (listed in the Appendix) to review our report and to come together to discuss its contents and implications. The following summary of their discussion focuses on the issues they raised and solutions they proposed. It does not represent consensus or attribute remarks to individuals, but does attempt to capture viewpoints expressed by all participants.

Taxes and Fees

Additional tax abatements in the city would help attract development. But any proposal to further abate taxes in the city should be carefully conceived, so that it will attract the kind of development that is desired without giving away the store, so to speak. If the result of tax abatements isn't to attract development that otherwise would not locate downtown, it could increase the tax burden on others. And since each development project is unique, tax abatement rules must be flexible.

A two-tier tax system, similar to the one that has contributed to the revitalization of downtown Pittsburgh, should be looked at for Atlanta. This would tax unimproved land higher and buildings lower, encouraging development of vacant parcels now held off the market. An alternative, which would not require state enabling legislation, might be a surtax on parking lots. Yet another could be for the city to acquire the lots and make them available for development.

Taxes do not pay the full marginal cost of suburban development, so it is being subsidized. If the subsidy were reduced, it would help level the playing field by making downtown development more competitive. One way to do this might be regional revenue-sharing like that adopted in the Minneapolis-St. Paul region.

Development Regulations and Approval

Development regulations in the city should be reviewed to determine if they are technically justified. The development approval process should also be streamlined without abdicating responsibility. But simplifying the zoning

process in Atlanta will not be easy. To some extent, we probably have to accept the fact that the more urbanized an area becomes, the greater the need for regulation.

Is the city over-regulated or are the suburbs under-regulated? Suburban zoning ordinances need to be brought into conformity with their comprehensive plans. Right now, it is just about anything goes out there. Part of the problem is that many public officials are beholden for campaign contributions to developers. And developers just want to build traditional, single-family detached housing. But they are simply responding to a market that wants this kind of development. "Can I get it approved and sell it?" is their watchword.

**Is the city over-regulated
or are the suburbs
under-regulated?**

The tools for "smart growth" exist, but the political will to use them is lacking. Suburban officials do not want to antagonize constituents who are concerned that higher density development will increase traffic congestion and school overcrowding, and will attract lower income people. Racial stereotypes contribute to this fear. Part of the problem is that people don't realize that higher density communities can be attractive. They need to be educated about the advantages of new urban design in places like Kentlands in suburban Washington.

Suburban officials have a tough job. They are caught between anti-growth sentiment and private property rights advocacy. To do the right thing, they need the political support of a constituency that understands where sprawl is taking us.

Unless there is a certain consistency in development standards across the region, developers will migrate to the least common denominator. The state should set planning and zoning guidelines. Though incentives are the preferable way to achieve this, in Georgia we have a poor track record of relying only on incentives. If incentives don't work, we need a big stick.

The state should use highway funding as an incentive to encourage local governments to take a truly regional approach to smart growth. This could be the most important policy change we could make. Left alone, local governments will not change their approach to development nor cooperate with each other.

Downtown Redevelopment Incentives

The enterprise zones in downtown Atlanta should be expanded. They work. But there is some question whether industrial enterprise zone tax abatements have been worth it in terms of the public cost per job created.

Atlanta promotes high-rent office construction, but not middle class housing. In addition to reducing the regulatory burden in the city, we have to increase the demand for middle class housing. There is little demand for it now in downtown Atlanta because crime and taxes are higher, and schools and services are poorer. It is not enough simply to attract affluent singles to the city. Children are the "indicator species" of healthy communities.

Not only is the City of Atlanta competing with the suburbs, the older suburbs are competing with those that are newer and farther out. The latter competition is what is driving sprawl in the region at an exponential rate.

Unless something is done soon to correct the policy imbalance, the consequences may not only get progressively worse, they could become irreversible.

Transportation

It is the state's policy to support sprawl by building roads. Urban disinvestment in Atlanta simply cannot be slowed without addressing the issue of how highway spending subsidizes development on the fringes of the metro region. However, there is some evidence that, as traffic congestion worsens, more people will want to move into or closer to the city.

The transportation problem in metro Atlanta stems from an imbalance between housing and jobs. People do not live where they work and, therefore, have to commute long distances. This underscores the need to attract housing downtown. People attract jobs, not vice versa.

On Regionalism

When we talk about growth, it should not be "city versus the suburbs." We should think in terms of investing to revitalize and reconfigure existing developed areas, whether urban or suburban, rather than sprawling endlessly outward.

Not only is the City of Atlanta competing with the suburbs, the older suburbs are competing with those that are newer and farther out. The latter competition is what is driving sprawl in the region at an exponential rate. Solving the problems of the city will not solve this problem. We need to address it by encouraging existing suburban communities to accept higher density development, while convincing outlying areas that sprawl is not in their best interest.

Conclusions and Recommendations

The competition for new development between the City of Atlanta and its suburbs—and among the suburbs themselves—is a complex phenomenon. Our research has by no means taken its full measure. But what seems to emerge from it is the image of an unlevel playing field for economic growth, one that is decidedly tilted in favor of the newer and outer suburbs. Factors that are difficult for government to address, like race and income disparity, certainly affect this tilt. But public policies affecting the use of land clearly magnify rather than ameliorate the bias that is leading to the continued decline of the city and the uncontained spread of the suburbs, with all of the problems this entails. Moreover, our sense is that, unless something is done soon to correct the policy imbalance, the consequences may not only get progressively worse, they could become irreversible – like a ship that takes on water faster and faster until it is doomed to sink.

What, then, can be done to begin to level the playing field, to help make the city of Atlanta more competitive? The following suggestions, based on our research and the input of local leaders, are intended to stimulate further discussion.

- One of the most straightforward things that could be done is to augment the incentives for enterprise zones in the City of Atlanta. They now seem to be working, but are limited in their impact. In structuring the incentives,

attention should be paid to the costs and benefits, so that they attract new development rather than simply rearranging what is already there. Particular attention should be paid to attracting middle class housing to the city. Adopting stronger incentives and indemnities for "brownfield" development could also be a part of this package. Several ways of financing additional incentives are suggested below.

- Another change suggested by our research would be to streamline the rezoning and development approval process in downtown Atlanta, perhaps to provide "one-stop shopping." In doing so, care should be taken to assure adequate input from affected neighborhoods. Accompanying this should be at least a study of current specifications for developer-financed infrastructure (curbs, sewers, etc.) to determine to what extent changes may be warranted to lower developers' costs while still meeting public needs. A specific issue that seems to need examination is downtown parking requirements. In view of the much higher cost of providing them in the city, does it make sense to require as many parking spaces per square foot of office space in the city as in the suburbs? Would relatively fewer downtown parking spaces encourage more use of mass transit?
- To move more downtown land onto the market and reduce its cost, consideration should be given to a tax surcharge on downtown parking lots. An even more ambitious approach would be the adoption of a two-tier property tax system like that adopted by Pittsburgh. A higher tax on land than the tax on improvements in the city could be revenue-neutral, while promoting development of vacant parcels of land. Obviously, such a change would require thorough study before being implemented.
- Even more expansive policy changes may be needed to level the economic playing field between Atlanta and its suburbs. More than anything else, public investment in infrastructure like highways has made suburban land competitive, creating enormous private wealth on the urban fringe at the expense of a deteriorating core city. So long as this continues, the chances of revitalizing downtown would appear futile unless an attempt is made to recapture at least a portion of the windfall increase in land values on the fringe, and to reinvest it in downtown Atlanta and perhaps older suburbs that may suffer the same competitive advantage. One way to accomplish this might be regional revenue-sharing, such as has been adopted in the Minneapolis-St. Paul region to address the same kind of economic imbalance that appears to exist in Atlanta. Another could be a regional impact fee based on the distance of new development from those core areas where revitalization is needed. Such a fee would recognize that the impacts of sprawl are not limited to local school overcrowding or traffic congestion, but include, perhaps most dramatically and tragically, the deterioration of downtown Atlanta.
- Another step toward leveling the playing field would be to ask suburban development to pay more of its full marginal cost in terms of demand for public services. A first step in this direction could be to change the rules on

The chances of revitalizing downtown would appear futile unless an attempt is made to recapture at least a portion of the windfall increase in land values on the fringe.

impact fees to allow one jurisdiction to recover the costs caused by development in a neighboring jurisdiction.

- Finally, a more competitive balance between Atlanta and its suburbs would appear to be served by a more regional approach to land use planning and decisionmaking. Instead of competing with each other head to head, local interests would come together to pursue solutions in the interest of what is best for the entire Atlanta metro region. By any reckoning, this will be a tall order, given the parochialism that now seems to characterize land use decisionmaking in the region. But a promising opportunity for beginning this process might be the pending proposal to harness state transportation funding as an incentive. Since transportation investment is such a powerful influence on relative land costs, which are in turn the most important determinant of development location in metro Atlanta, this approach would seem entirely appropriate.

¹ Bergstrom, J., J. Dorfman and K. Ihlanfeldt, *The Effects of Government Policies on the Location and Type of Development: A Case Study of the Greater Metropolitan Atlanta Area*, American Farmland Trust, 1998 (hereafter BDI), at 68.

² BDI, at 18.

³ BDI, at 11.

⁴ BDI, at 9.

⁵ See, e.g., American Farmland Trust, *Density Related Public Costs* (1986).

⁶ BDI, at 20.

⁷ BDI, at 21.

⁸ BDI, at 23.

⁹ BDI, at 28.

¹⁰ BDI, at 52.

¹¹ BDI, at 51.

Appendix

Local Leaders Who Reviewed and Discussed the Report

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Doug Dillard, Esq., Attorney at law
Jerry Griffin, Association of County Commissioners of Georgia
Brian Hager, Atlanta Chapter of the Sierra Club
Ellen Keys, The Georgia Conservancy
James Kundell, Carl Vinson Institute of Government
Cullen Larson, Georgia Economic Developers Association
Gregg Logan, Robert Charles Lesser & Co. (development consultants)
Stephen Macauley, Developer
Hon. Claire Muller, Atlanta City Councilwoman
Joe Padeia, Greater Atlanta Homebuilders Association
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American Farmland Trust