The Economic Impacts of Land Use Policies in Lexington, Kentucky

Prepared by the Center for Business and Economic Research
Gatton College of Business and Economics
University of Kentucky

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University of Kentucky

Dr. Christopher R. Bollinger, Director
Dr. William Hoyt
Dr. Michael W. Clark, Associate Director
Xiaozhou Ding

Executive Summary

Every five years, Lexington-Fayette Urban County Government's Planning Commission adopts a comprehensive plan detailing goals and objectives that guide the city's land use planning. Maintaining the city's urban service area and preserving its rural and agricultural areas are integral parts of this plan. Within the urban service area, land is zoned to permit various types of urban uses such as residential, commercial, and industrial use. Land outside the urban service area is subject to several land use policies designed to preserve the rural characteristics of these areas.

This report examines the effects of Lexington's land use policies and specifically its urban service area. The report has seven main findings:

1) Economists generally evaluate urban development and land use policies based on how they affect social welfare. Policy makers must balance the benefits of development to consumers including the value of housing and the value of consumer goods produced against the societal costs such as the loss of open spaces valued by residents. Local land use policies should be designed to address these costs. However, if land use policies are too restrictive, they can prevent socially beneficial development.

2) One measure of the social value of development is the difference in the price of land sales where the land can be used for development against sales where the land cannot be used. Our estimates suggest that the development value of an acre of land in Fayette County is approximately $30,000. Results from a 1997 study indicate that Lexington's households would be willing-to-pay approximately $19,100 to $21,800 in current dollars to preserve an acre of land used for horse farming. This is somewhat lower than the $30,000 development value estimated—suggesting that Lexington's land use policies might be too restrictive. However, both figures have limitations.

3) Lexington's land use policies do not appear to be currently causing housing prices to grow faster than prices for the state, nation, and comparison cities. One reason for this might be the availability of land in surrounding counties. As these areas grow and commuting costs increase, housing prices in Lexington may increase more quickly.

4) Lexington's land use policies are designed in part to preserve the rural areas of Fayette County that may be valued by Lexington's residents. Our analysis of housing prices near the urban service area's boundary suggests Lexington residents do value Fayette County's rural areas. We find that house buyers in Lexington paid 1.8 percent more for houses located within ¼ mile of the rural areas preserved by the urban service area. This represents a premium of approximately $3,700 on an average house costing $204,000 or $27 per month for a 15-year mortgage at 4 percent interest.

5) Lexington's land use policies have not significantly impeded the city's employment growth relative to the rest of its metropolitan statistical area and 18 other cities. Lexington's employment grew by 29,500 jobs, or 18 percent, from 2003 to 2014. The rest of the Lexington-Fayette KY MSA grew by 6,100 jobs, or nine percent, during this

period. Of the 18 comparison cities, only five experienced faster employment growth than Lexington.

6) Commuting patterns in Lexington and the 18 comparison cities suggest that while area residents are taking jobs located in Lexington, they are increasingly choosing to live in nearby counties. The number of jobs filled by workers commuting from outside Lexington increased from 64,000 in 2002 to 98,000 in 2014. The number of jobs outside Lexington that were filled by Lexington residents changed very little over this period—from 40,500 jobs in 2002 to 41,400 in 2014. Lexington's net commuting—the difference between those commuting to Lexington and those commuting from Lexington—increased by 141 percent from 2002 to 2014. This was significantly higher than any of the comparison cities.

7) Expanding Lexington's urban service area would affect both the city's revenues and its cost to provide services. While the net fiscal effect is uncertain, there appears to be little evidence to suggest that an expansion would significantly improve the city's fiscal situation. Nearly 70 percent of the additional recurring revenues would be needed to fund increased personnel and operating costs among the seven city divisions that would be most directly affected by an expansion: Police; Fire and Emergency; Waste Management; Water Quality; Traffic Engineering; Streets and Roads; and Parks and Recreation. Additional costs for infrastructure, corrections, social programs, and other services provided by the city could easily account for the remaining 30 percent of recurring revenues.