

REQUEST FOR BOARD ACTION

HENDERSON COUNTY BOARD OF COMMISSIONERS

Meeting Date: February 4, 2008

Subject: Presentation of the Cost of Community Services Study for Henderson County

Attachments: 1. Cost of Community Services Study

SUMMARY OF REQUEST:

The 2007-2011 Strategic Plan identified the creation of a cost of community services study as a goal for Henderson County. The study aims to point out the cost of delivering county services to the various types of development in Henderson County. The Planning Department used the services of Dr. Mitch Renkow, N.C. State University Professor, to conduct the study. Dr. Renkow is a professor in the Department of Agriculture and Resource Economics. His specialties include local public finance, economic development, and regional economics. Dr. Renkow has completed several of these studies for other local governments in North Carolina using established methodology.

Dr. Renkow will present the findings of the study to the Board and will answer questions about the findings.

BOARD ACTION REQUESTED:

No action is required as the study is for informational purposes to better inform the Board and the public of the impact of different land uses on county services.

Suggested Motion:

None suggested.

**THE COST OF COMMUNITY SERVICES
IN HENDERSON COUNTY**

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Acknowledgements

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Sam Laughter, Inspections Department

Terry Layne, Emergency Medical Services

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Ed Parker, Information Technology

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THE COST OF COMMUNITY SERVICES IN HENDERSON COUNTY

Introduction

In rural counties located near fast-growing urban areas, there is considerable debate over the desirable mix of land uses and the role that local government can and should play in affecting the rate at which new land uses supplant traditional ones. Henderson County is typical of such counties. The continuing economic growth in nearby counties, along with residential development pressures originating in the county's popularity as a destination for retirees and owners of second homes, have created unprecedented demands for residential and commercial development.

On the one hand, this situation has been welcomed by many because it has created significant economic development opportunities for the county's citizens and a significant increase in the county's revenue base. On the other hand, many of the county's citizens worry that the rapid pace of these changes will alter the rural character of Henderson County in ways that are undesirable. Moreover, there is concern that the increased local government expenditures on community services needed to accommodate accelerated residential and commercial development may exceed the contribution of that development to the county's revenue base.

One important element of public debate over appropriate land use policies is whether or not increased county government expenditures on community services needed to accommodate residential and commercial development exceed the contribution of that development to the county's revenue stream. This report presents the findings of a research project aimed at addressing this specific issue. The research quantifies the contribution to local government revenues of various types of land uses (residential, commercial/industrial,¹ and agricultural), and the demands on local government financial resources of those same land uses. This "snapshot" of current revenues and expenditures allows an assessment of the costs and benefits of different land uses from the perspective of local government finance.

The analysis presented here employs a methodology established by the American Farmland Trust, one that has been used in numerous Cost of Community Services (COCS)

¹ For simplicity, the term "commercial" will denote both commercial and industrial land uses for the remainder of this report. Likewise, "agricultural" will refer to farm and forest land uses.

studies throughout the U.S. Like those studies, the current research was motivated by two questions: (1) Do the property taxes and other revenues generated by residential land uses exceed the amount of publicly-provided services supplied to them? (2) Does the fact that farm and forest lands are taxed on the basis of their Present Use Value – instead of their potential value in residential or commercial uses – mean that they are contributing less in tax revenues than the value of publicly provided services they receive?

As has been found in other COCS studies, the answers to these questions are “no” for Henderson County. The residential sector contributes only 86¢ to the county’s coffers for each dollar’s worth of services that it receives. Commercial and industrial land uses are the largest net contributors to the public purse, contributing \$2.52 in revenues for each dollar of publicly provided services that they receive. Despite being taxed on the basis of current land uses, property in agricultural land uses is found to be a net contributor to the local budget, generating \$1.03 in revenues for every dollar of public services that it receives.

At the outset, it is important to recognize two important limitations of analyses such as the one presented here. First, COCS studies highlight the relative demands of various land uses on local fiscal resources *given the current pattern of development*. As such, one should be cautious in extrapolating from the results of studies such as this in order to gauge the impact of future patterns of development on local public finance. Nonetheless, the results of studies such as this are useful in informing debates over such issues as whether or not alternative types of land uses are likely to contribute more in tax dollars than they demand in the way of services.

Second, the current study in no way deals with the *social* value of each of these forms of development – i.e., their contribution (positive or negative) to the well-being of the county’s citizens. Rather it focuses on the more narrow issue of whether or not these land uses “pay their own way” with regard to county revenues and expenditures. It is important to bear in mind that there is nothing sacred about an exact balance between revenues and expenditures associated with a particular land use, even when balancing the local budget is an overriding priority. Indeed, one of the primary functions of a local government is to redistribute local financial resources such that services desired by citizens are supplied, *even when those services cannot pay for themselves*. Determining the optimal distribution of those resources is a public policy issue to be resolved in the political arena. A study such as this fits into the process wherein such

issues are resolved by shedding light on the relative costs and benefits of the specific distribution of financial resources implicit in the existing pattern of development.

Methodology

The basic approach used in this research was quite simple. Working from the most recent available county financial data, revenues and expenditures were allocated among three specific land use categories: (a) residential; (b) commercial; and (c) agricultural. This process was carried out in conjunction with a series of telephone interviews and email exchanges with a variety of local officials knowledgeable about the workings of specific departments.

Once revenues and expenditures were allocated to specific land use categories, the ratio of revenues to expenditures was computed for each. A revenue-expenditure ratio greater than 1.00 indicates that that sector's contribution to the public purse exceeds its demands for public funds. Conversely, a revenue-expenditure ratio less than 1.00 indicates that the sector's demand for publicly financed services exceeds its contribution to the local budget.

The basis for the current analysis is the actual expenditures recorded for the 2006-2007 fiscal year reported by the Henderson County Finance Department . As noted above, the allocation of these data to specific sectors was done in consultation with a variety of local officials (listed in the Acknowledgements). These individuals were best equipped to assess the extent to which the various land uses partake of the services provided by their departments. Where feasible, expenditures were allocated to land use categories using available data on staff salaries and/or activities records.

Often, existing records were not amenable to being broken out into various land use categories. In many of these cases, we relied on a local official's best guess of how their department's efforts were allocated. Where the relevant officials were unable to make such a guess, one of two allocation schemes was used. For services that exclusively benefit households (as opposed to commercial establishments)² – for example, public schools and library services –

² Note that the quality of “residential” services such as public schools may well have a positive influence on business formation, particularly the attractiveness of the county to firms considering relocation. These “spillover” effects are ignored here, however, because the information needs for quantifying them lie well beyond the scope of this research.

100% of expenditures were allocated to the residential sector.³ For departments whose activities benefited both residences and businesses (including agricultural businesses), expenditures were allocated based on the proportion of total property value accounted for by each land use category. This “default” breakdown of assessed property valuation for 2007 was 82.8% residential, 15.9% commercial, and 1.3% agricultural. The expenditures of most of the county’s general administration departments were allocated in this manner.

Revenues were handled in a manner similar to expenditures. Property tax revenues were allocated to specific land use categories based on the 2007 property assessments. Taxes and other revenue sources that are linked directly to commercial activities – for example, Article 39 sales taxes⁴ and cable TV franchise fees – were allocated exclusively to the commercial sector. Revenues from sources associated exclusively with households (such as animal control revenues) were allocated to the residential sector. Revenues raised by specific county government departments from fees charged for services or from inter-governmental transfers were allocated in direct proportion to the allocation of expenditures by those departments, unless respondents indicated otherwise (e.g., revenues collected by the Environmental Health department were allocated somewhat differently than that department’s expenditure). Any remaining revenues that could not be directly allocated in these ways were allocated according to the proportion of total property value accounted for by each land use category.

Results

A detailed breakdown of revenues sources is found in Appendix Table 1. Total county general fund revenues for 2006-2007 were \$107.6 million. About 49.7% of this money came from ad valorem property taxes, while another 21.1% came from sales taxes.

Table 1 summarizes the overall breakdown of county expenditures for the 2006-2007 fiscal year. More detailed information is found in Appendix Table 2. Education and human

³ Henderson County separates the farm business from the farm residence, assessing the property value of farm residences in the same manner as any other residences. For this reason, farm residences were included in the residential land use category throughout the analysis.

⁴ The state distributes Article 39 sales tax revenues back to counties on a point-of-sale basis. Article 40 and 42 sales taxes are distributed back to counties based on county population; revenues from these sources were allocated to residential land uses. Article 44 sales taxes are distributed to counties in part on the basis of point of sale and in part on the basis of county population; accordingly, these were allocated to residential and commercial land uses on a 50-50 basis.

services⁵ departments – accounted for nearly two-thirds of the total budget. Because all school expenditures, and nearly all of the activities of the human services departments are exclusive to the residential sector, the large “footprint” of these two departments in county government has a dominant impact on the results of this study.

Table 2 summarizes revenues and expenditures by land use category. Expenditures exceeded revenues for the residential land use category, while revenues exceeded expenditures for the commercial and agricultural land use categories. The computed revenue/expenditure ratios quantify the extent to which each of the three land use categories is either a net contributor or a net drain on Henderson County’s financial resources. For comparative purposes, the bottom of the table provides the results from some 103 other Cost of Community Services studies that have been conducted throughout the U.S., as well as five studies that were conducted in Chatham, Wake, Alamance, and Orange Counties over the course of the past decade.

The revenue/expenditure ratio for the residential land use category is 0.86; this implies that for each dollar in property tax and other revenues generated by residential land uses, the county spends \$1.16 to provide services supporting those land uses. In other words, the residential sector is on balance a net user of local public finances. On the other hand, the other two land use categories are net contributors to local fiscal resources. The revenue/expenditure ratio of 1.03 for agriculture implies that revenues exceed expenditures for this land use category by a small amount. The commercial land use category stands out as having the highest revenue/expenditure ratio (2.52). This result indicates that the county spends only 40¢ on services benefiting commercial and industrial establishments for every public dollar generated by those establishments.

Finally, Table 3 presents an analysis which computes the residential property value needed to generate an exact balance between average revenues contributed by current housing units and the average value of public services consumed by households. This “breakeven” house price was computed assuming that any new household would consume the average amount of services reflected in the 2006-2007 budget – i.e., that they would possess the average number of school kids, consume an average amount of public health and social services, etc. The computation further assumes that any new household would contribute the average amount of

⁵ Human services include both the public health and social services departments.

non-property tax revenues generated by existing residential properties, and takes as a benchmark the current property tax rate of 46.2¢ per \$100. Based on these assumptions, the breakeven property value is computed to be slightly greater than \$257,000.⁶

Discussion

The results presented above provide answers to the two questions posed at the beginning of this report. As regards the public services provided by Henderson County, commercial and industrial land uses emerge as being the largest net contributor to local financial resources. In contrast, the value of public services provided to residential land uses exceed the property taxes and other revenues that they contribute to the county budget. This finding contrasts with claims that are sometimes made that residential development is a boon to county finances due to its expansion of the property tax base. It would appear that the very large footprint of the education and human services expenditures in the overall county budget plays a dominant role in explaining this phenomenon. Finally, agricultural lands more than pay their own way. This is true despite these properties being taxed on the basis of their current use (as opposed to their potential use were they to be transformed into commercial or residential uses).

Qualitatively, these findings for Henderson County are consistent with the findings of nearly every Cost of Community Services study that has been carried out in other communities throughout the U.S. The degree of cross-subsidization of the residential sector – in particular, the extent to which the Henderson County’s commercial sector pays for services provided to its residential sector – is somewhat lower than the median in other studies that have been conducted nationally. Closer to home, the relative balance of revenues and expenditures for the residential and commercial land use categories is qualitatively similar to that which was found in comparable studies conducted in Chatham, Wake, Alamance , and Orange Counties.

As was stressed at the outset, some degree of subsidization of certain land uses by other land uses is to be expected in virtually every community. The distribution of revenues and expenditures among various land uses in Henderson County that has been computed here is based on current land use patterns in the county. Determining whether or not this distribution is

⁶ Note that at the previous property tax rate of 56.5¢ per \$100 the breakeven property value falls to \$210, 217.

appropriate – either now or in the future – is an issue that can only be resolved in the local political arena.

Finally, it is noteworthy that the revenue/expenditure ratio for agriculture in Henderson County is substantially closer to an exact balance than is usually found in these studies. This may reflect a relatively smaller number of farming operations in Henderson vis-à-vis other locations, such that while these operations do not demand much in the way of public services neither do they contribute much in the way of revenues.

Table 1. Henderson County Expenditures for 2006-2007

Item	Expenditure	%
Human Services ^a	32,894,689	32.2%
Education	31,051,412	30.4%
Public Safety	19,153,446	18.8%
General Government	13,309,546	13.0%
Culture and Recreation	3,580,086	3.5%
Economic & Physical Development	1,716,438	1.7%
Environmental Protection	428,471	0.4%
Total	\$102,134,088	100%

a. Human services include both the Social Services and Public Health departments.

Source: *Henderson County Annual Operating Budget 2006-2007*

Table 2. Revenues vs. Expenditures in Henderson County

	Residential	Commercial	Agricultural
Expenditures^a	\$97,945,912 (91.0%)	\$8,893,310 (8.3%)	\$783,787 (0.7%)
Revenues	\$84,404,030 (78.44%)	\$22,414,555 (20.81%)	\$804,424 (0.75%)
Revenues/Expenditures ratio^b	0.86	2.52	1.03
Revenue/Expenditure ratios from national studies^c			
Minimum	0.47	0.96	1.01
Median	0.87	3.57	2.78
Maximum	0.99	20.00	50.00
Revenue/Expenditure ratios from local studies			
Chatham County (1998)	0.90	2.13	1.09
Wake County (2001)	0.65	5.63	2.12
Alamance County (2006)	0.68	4.29	1.69
Orange County (2006)	0.76	4.21	1.38
Chatham County (2007)	0.87	3.01	1.72

a. Includes the \$5.49 million budget surplus transferred to the following year's general fund (allocated among land use categories in proportion to other expenditures).

b. This ratio measures the amount of county revenue contributed by a given land use sector for each dollar in public services used by that sector.

c. These figures are derived from 103 Cost of Community Services summarized on the American Farmland Trust website (http://farmlandinfo.org/documents/27757/FS_COCS_8-04.pdf).

Table 3. Breakeven Analysis for Residential Property Value in Henderson County

(1) Property tax rate (\$ per \$100)	0.462
(2) Residential Non-Property Tax Revenue Contribution in 2006/2007	\$40,159,566
(3) Total residential expenditures in 2006/2007	\$97,945,912
(4) Total Expenditures needing to be paid for by property taxes [(3) - (2)]	\$57,786,346
(5) Number of residential properties in the county	48,653
(6) Per household expenditures needing to be paid for by property taxes [(4) ÷ (5)]	\$1,188
Breakeven property value [(6) ÷ (1)]	\$257,083

Appendix Table 1. Henderson County Revenues by Land Use Category for 2006-2007

	Total	Residential	Commercial	Agricultural	Breakdown
Taxes	78,072,140	58,031,616	19,345,509	695,015	
Ad Valorem Taxes	53,435,343	44,244,464	8,496,220	694,659	default
Local Option Sales Tax					
<i>Article 39</i>	8,686,122	0	8,686,122	0	0-100-0
<i>Article 40</i>	4,947,106	4,947,106	0	0	100-0-0
<i>Article 42</i>	4,905,388	4,905,388	0	0	100-0-0
<i>Article 44</i>	4,122,839	2,061,420	2,061,420	0	50-50-0
Excise Taxes	1,947,993	1,850,593	97,400	0	95-5-0
Payments in lieu of taxes	27,349	22,645	4,348	356	default
Intergovernmental	14,609,525	14,578,037	29,108	2,380	
County Schools	1,257,412	1,257,412	0	0	100-0-0
Court Facilities	183,069	151,581	29,108	2,380	default
DSS	11,941,692	11,941,692	0	0	100-0-0
DSS - Smartstart	493,271	493,271	0	0	100-0-0
Juvenile Justice	205,952	205,952	0	0	100-0-0
Library	327,267	327,267	0	0	100-0-0
NC Fast Grant	21,945	21,945	0	0	100-0-0
Smartstart	36,824	36,824	0	0	100-0-0
Rural Operating Assistance Program	142,093	142,093	0	0	100-0-0

Appendix Table 1. Henderson County Revenues by Land Use Category for 2006-2007 (continued)

	Total	Residential	Commercial	Agricultural	Breakdown
Sales and Service	8,415,284	6,878,516	1,469,096	67,672	
Animal Control	36,001	36,001	0	0	100-0-0
Detention Center	343,381	284,319	54,598	4,464	default
Code Enforcement	39,910	28,097	11,813	0	70.4-29.6-0
Emergency Management	70,357	58,256	11,187	915	default
EMS	2,325,999	1,395,599	930,400	0	60-40-0
Environmental Health	515,471	463,924	51,547	0	90-10-0
Fire Services	4,455	312	4,099	45	7-92-1
General Public Health	358,230	358,230	0	0	100-0-0
Home and Community Care	731,253	731,253	0	0	100-0-0
Public Health Programs	1,951,241	1,951,241	0	0	100-0-0
Recreation	278,988	278,988	0	0	100-0-0
Sheriff	1,228,645	798,619	405,453	24,573	65-33-2
Soil and Water	47,095	9,419	0	37,676	20-0-80
Veterans Services	2,000	2,000	0	0	100-0-0
Youth Programs	482,258	482,258	0	0	100-0-0
Fees and Permits	2,899,131	2,151,675	747,456	0	0
Beer and Wine Licenses	35	0	35	0	0-100-0
Inspections	1,536,195	1,256,608	279,587	0	81.8-18.2-0
Register of Deeds	942,176	895,067	47,109	0	95-5-0
Utility Franchise Fees	420,725	0	420,725	0	0-100-0

Appendix Table 1. Henderson County Revenues by Land Use Category for 2006-2007 (continued)

	Total	Residential	Commercial	Agricultural	Breakdown^a
Miscellaneous	2,857,192	2,371,679	448,626	36,887	
Criminal Justice Partnership Program	106,536	88,212	16,939	1,385	default
Land Records	1,266	1,203	63	0	95-5-0
Non-Departmental	2,636,704	2,183,191	419,236	34,277	default
Property Addressing	750	621	119	10	default
Sale of Fixed Assets	31,804	26,334	5,057	413	default
Planning	80,132	72,119	7,212	801	90-9-1
					100%
General Revenues	769,737	392,507	374,759	2,470	
ABC Revenues	306,225	0	306,225	0	0-100-0
Elections Revenues	3,372	2,792	536	44	default
Gross Receipts Rental	38,319	0	38,319	0	0-100-0
Indirect Cost Revenues	421,821	389,715	29,679	2,427	92.4-7.0-0.6
					100%
Total Revenues	107,623,009	84,404,030	22,414,555	804,424	
		(78.4%)	(20.8%)	(0.7%)	

a. Percentage breakdown by land use category (residential-commercial-agricultural). Default percentages were based on 2007 assessed property valuation (residential - 82.8%; commercial - 15.9%; agricultural - 1.3%).

Appendix Table 2. Henderson County Expenditures by Land Use Category for 2006-2007

	Total	Residential	Commercial	Agricultural	Breakdown^a
General Government	11,114,894	9,422,776	1,569,710	122,409	
Administrative Services	299,101	247,656	47,557	3,888	default
Assessor	1,140,022	943,938	181,263	14,820	default
Central Services	2,348,732	1,944,750	373,448	30,534	default
County Manager	302,699	250,635	48,129	3,935	default
Court Facilities	163,981	135,776	26,073	2,132	default
Dues and Non-Profits	326,766	313,161	12,576	1,028	95.8-3.9-0.3
Elections	857,337	709,875	136,317	11,145	default
Finance	566,999	469,475	90,153	7,371	default
Garage	724,303	599,723	115,164	9,416	default
Governing Body	339,113	280,786	53,919	4,408	default
Human Resources	372,390	308,339	59,210	4,841	default
Information Technology	1,003,530	830,923	159,561	13,046	default
Legal	509,695	422,027	81,042	6,626	default
Non-Departmental	142,056	117,622	22,587	1,847	default
Register of Deeds	1,451,181	1,378,622	72,559	0	95-5-0
Tax Collector	566,989	469,467	90,151	7,371	default
Culture and Recreation	3,580,086	3,580,086	0	0	
Library	2,697,715	2,697,715	0	0	100-0-0
Recreation	882,371	882,371	0	0	100-0-0
Economic & Physical Development	1,716,438	1,213,211	381,656	121,571	
Code Enforcement Services	309,240	217,705	91,535	0	70.4-29.6-0
Cooperative Extension	389,773	261,148	11,693	116,932	67-3-30
Economic Development	220,000	0	220,000	0	0-100-0
Land Records	333,522	316,846	16,676	0	95-5-0
Planning	463,903	417,513	41,751	4,639	90-9-1

Appendix Table 2. Henderson County Expenditures by Land Use Category for 2006-2007 (continued)

	Total	Residential	Commercial	Agricultural	Breakdown
Public Safety	19,153,446	13,042,632	5,852,353	258,461	
Animal Control	534,800	534,800	0	0	100-0-0
Building Services	966,393	680,341	286,052	0	70.4-29.6-0
Criminal Justice Partnership Program	128,066	106,039	20,362	1,665	default
Detention Facility	3,354,864	2,777,827	533,423	43,613	default
Emergency Management	223,737	185,254	35,574	2,909	default
Emergency Medical Services	3,146,010	1,887,606	1,258,404	0	60-40-0
Fire Services	292,691	20,488	269,276	2,927	7-92-1
Project Management	23,728	19,647	3,773	308	default
Property Addressing	118,360	98,002	18,819	1,539	default
Rescue Squad	89,800	53,880	35,920	0	60-40-0
Sheriff	10,274,997	6,678,748	3,390,749	205,500	65-33-2
Human Services	31,719,520	31,446,950	272,570	0	
DSS - Federal and State Programs	11,414,533	11,414,533	0	0	100-0-0
DSS - General Assistance	50,313	50,313	0	0	100-0-0
DSS - Smartstart	494,243	494,243	0	0	100-0-0
Environmental Health	981,029	735,772	245,257	0	75-25-0
General Public Health	2,392,565	2,392,565	0	0	100-0-0
Home and Community Care	731,253	731,253	0	0	100-0-0
Juvenile Justice Programs	204,452	204,452	0	0	100-0-0
Mental Health	1,094,324	1,094,324	0	0	100-0-0
NC Fast	17,036	17,036	0	0	100-0-0
Public Health Programs	2,731,276	2,703,963	27,313	0	99-1-0
Rural Operating Assistance	127,611	127,611	0	0	100-0-0
Social Services	10,860,073	10,860,073	0	0	100-0-0
Veteran Services	20,569	20,569	0	0	100-0-0
Youth Programs	600,243	600,243	0	0	100-0-0

Appendix Table 2. Henderson County Expenditures by Land Use Category for 2006-2007 (continued)

	Total	Residential	Commercial	Agricultural	Breakdown
Education	22,038,249	22,038,249	0	0	
Blue Ridge Community College	2,019,122	2,019,122	0	0	100-0-0
County Schools	20,019,127	20,019,127	0	0	100-0-0
Environmental Protection	428,471	201,128	14,501	212,842	
Forestry Services	43,629	2,181	0	41,448	5-0-95
Soil and Water Conservation	214,243	42,849	0	171,394	20-0-80
Utilities	170,599	156,098	14,501	0	91.5-8.5-0
Debt Service	12,382,984	12,005,504	348,950	28,530	97-2.8-0.2
Total Current Expenditures	102,134,088	92,950,536	8,439,739	743,813	
Transfers out (General Fund Surplus)	5,488,921	4,995,376	453,571	39,974	91.0-8.3-0.7
Total Expenditures	\$107,623,009	\$97,945,912	\$8,893,310	\$783,787	
		(91.0%)	(8.3%)	(0.7%)	

a. Percentage breakdown by land use category (residential-commercial-agricultural). Default percentages were based on 2007 assessed property valuation (residential - 82.8%; commercial - 15.9%; agricultural - 1.3%).