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Smart Growth: Implications for Agriculture in Urban Fringe Areas

The last two decades have witnessed increased state-level involvement in growth management to counter the negative impacts of land development. Recently, several states have begun shifting from state-imposed requirements for local compliance with state planning goals toward incentive-based, voluntary mechanisms known as “smart growth” strategies. Although still in their infancy, smart growth strategies are becoming increasingly widespread, with implications for agriculture in urban fringe areas.

Local governments have been delegated authority for land use planning and zoning in all 50 states, and historically have relied upon zoning regulations and subdivision requirements that date back to the 1920’s to manage the character and density of new development. During the 1970’s, local and state governments in rapidly urbanizing areas recognized that these traditional techniques for controlling land use were inadequate in influencing the character of growth—namely, in preventing “sprawl” development. Local officials also learned that a popular land use tool, assessing farmland at its use value for property tax purposes, was contributing little to slowing losses of farmland to developed uses. Need for more effective

techniques spurred state interest in adopting new approaches.

What is Smart Growth?

“Smart growth” is a catch-all phrase to describe a number of land use policies to influence the pattern and density of new development. Smart growth principles favor:

- locating new development in center cities and older suburbs rather than in fringe areas;
- supporting mass transit and pedestrian-friendly development;
- encouraging mixed-use development (e.g., housing, retail, industrial); and
- preserving farmland, open space, and environmental resources.

Smart growth directs development to designated areas (cities and older suburbs) through incentives and disincentives, without actually prohibiting development outside them or threatening individual property rights.

States implementing smart growth strategies look at overall growth and attempt to marshal the state’s resources to direct growth. Smart growth strategies generally

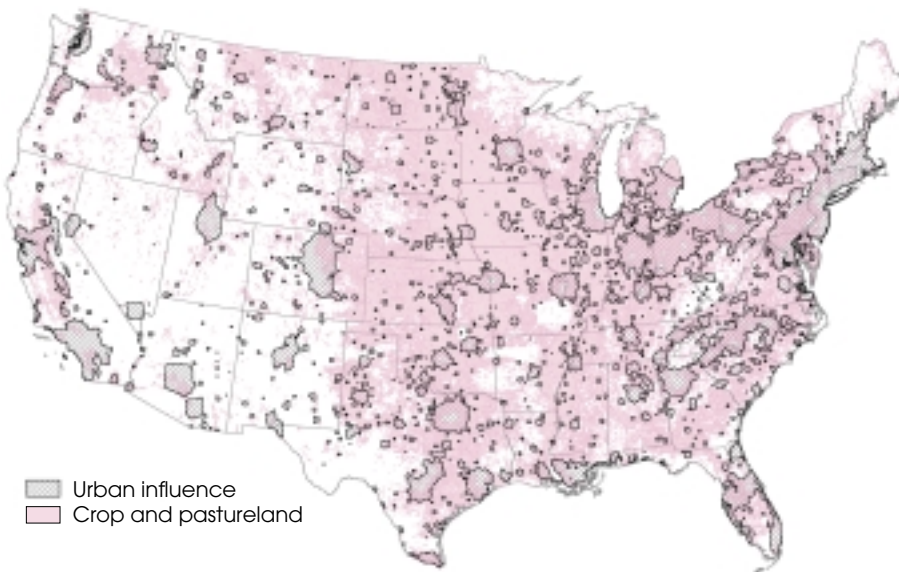
receive a broad spectrum of support because they include incentives for voluntary adoption and usually involve a variety of stakeholders in the planning process (e.g., multiple levels of government, nongovernment organizations, and special interest groups).

Specific smart growth strategies vary by location but often share common elements. Three strategies in particular could have important implications for local agriculture: concentrating growth in selected areas, coordination of transportation infrastructure to support growth, and permanently preserving farmland.

A centerpiece of smart growth legislation is the designation of urban growth boundaries or growth areas. States will typically remove state-level financial incentives (including Federal incentives controlled by the state) that directly or indirectly encourage development outside growth areas and will instead concentrate these incentives within growth areas. Incentives include state funding for infrastructure, economic development, housing, and other programs. At the same time, states will remove barriers that hinder higher density development within existing urbanized areas. Although states may specify minimum requirements for designating growth areas (e.g., only areas currently or expected to be served by water and sewer systems within a given number of years may qualify), it is local governments that define the actual boundaries, particularly where future developments are planned.

States coordinate transportation investments with development by prioritizing funding for transportation infrastructure within designated urban growth areas. States also favor investments in upgrades to existing transportation routes and in funding for mass transit alternatives to reduce the need for automobile travel rather than investments that contribute to new roads. Also, minimizing the number of ramps for access to highways that connect growth areas helps reduce pressure to develop land adjacent to an expanded road system. Similarly, the Federal government coordinates infrastructure investment with state and local government to minimize adverse development impacts.

Crop and Pastureland Is Subject to Urban Influence in Much of the Eastern U.S.



Areas of urban influence are identified using the USDA/ERS index of urban influence based on proximity to a population center and its size.
Source: U.S. Geological Survey LUDA database and 1990 Census of Population.
Economic Research Service, USDA

Establishing programs to preserve farmland and environmental resources complements urban growth areas and is expected to help maintain a viable local farm economy. These programs separate the right to develop land from the right to own and use land. Landowners may voluntarily agree to sell their development rights 1) to the government through a purchase of development rights (PDR) program (permanently retiring the development rights), or 2) to developers through a transfer of development rights (TDR) program (allowing developers to build on other land in certain county-designated areas at higher densities than allowed by the underlying zoning).

When development rights are sold through a PDR or TDR program, landowners retain ownership and use of the land, but are restricted from developing it or using it for nonfarm commercial activity. Even though the land remains private and is not accessible to the public, residents of urbanizing areas are in large part willing to support spending for these programs because farmland provides scenic views, open space, and environmental amenities.

Agriculture in Metropolitan Areas

Farmland owners most likely to experience the effects of smart growth legislation are those in close proximity to existing population centers or planned growth areas. Combining Census of Population data on population density and daily commuting patterns with a measure of urban influence developed by USDA's Economic Research Service (ERS), ERS researchers identified regions subject to the pressures of urbanization. Urban influence increases with proximity of the land to populated areas and with the size of the population. Areas within the regions may be subject to low, medium, or high degrees of urban influence. Of 3,077 U.S. counties, 1,062 have land subject to some degree of urban influence. Many of these counties also contain significant amounts of crop and pastureland.

Farms in metro areas are an increasingly important component of U.S. agriculture in terms of their numbers. A Metropolitan Statistical Area (MSA), as defined by the Office of Management and Budget, includes a core county (or counties) that either 1) contains a city of 50,000 or more

people, or 2) contains an urbanized area of 50,000 or more and total area population of at least 100,000. Additional contiguous counties are included in the MSA if they are economically integrated with the core county or counties.

Data from the 1997 Census of Agriculture indicate that one-third of all farms are located in metro areas and that they control 39 percent of farm assets. Agriculture in metro areas includes a relatively large group of farmers who operate small-scale farms and earn a large share of household income from off-farm sources; a smaller group of farmers who are more focused on high-value production (e.g., fresh fruits and vegetables); and a residual group of larger scale livestock and crop farmers. Metro area farms tend to be smaller, on average, than farms in rural areas, and most U.S. farmland operated in 1997—82 percent—was located outside metropolitan areas.

Implications for Agriculture

Farmland owners in urbanizing areas are making land use and production decisions against the backdrop of a changing landscape and economic environment. In urban fringe areas, significant population growth can arise from immigration or from relocation from cities. Coupled with rising incomes and land values, population growth can lead to rapid increases in demand for developable land. This can also increase demand for agricultural products to meet urban needs (e.g., nursery or greenhouse products and locally grown fresh produce). A farmer may adapt to the pressure by switching to higher value production enterprises or may sell the farm for development as the costs of forgoing this opportunity rise. Because farm real estate dominates total farm assets and land values are a factor in land use changes, one of the greatest impacts of smart growth policies on local agriculture will be the effects on farmland values.

In understanding the effect of smart growth policies on agriculture in states that have adopted or plan to adopt smart growth strategies, an underlying question is "How do the new or proposed smart growth policies differ from existing policies?" This is particularly important since

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land use authority remains vested in local, not state, governments. If smart growth policies are primarily a repackaging of existing policies, or if incentives to adopt new strategies are insufficient, responses of developers, landowners, and local governments may be minimal.

For example, if removing state funding for projects outside growth areas results in little additional cost to developers, they have little incentive to redirect their development plans. In this case, local farmland owners may experience little change in the high rate of appreciation of land values, pressures to convert land, and incentives to switch enterprises. However, if the relative cost of building outside the boundaries is large enough to deter projects there, developers are more likely to focus their demand for land inside growth areas. This might be accomplished through additional local impact fees imposed to offset infrastructure costs associated with new development outside growth areas.

Assuming smart growth policies represent a significant departure from the status quo, effects on farming operations will depend partly on their location relative to growth areas. Outside growth areas, as development becomes relatively more expensive due to the redirecting of state infrastructure funding, demand for developable land is likely to decline. This in turn is likely to dampen the growth of agricultural land values, to slow the conversion of agricultural land outside growth areas, and to minimize additional (but not existing) road congestion on secondary roads as well as problems stemming from proximity to nonfarm neighbors (e.g., trespassing and nuisance complaints). Conversely, agricultural land values within growth areas are likely to rise more rapidly—and the conversion dates to occur sooner—in response to the increased demand for developable land.

In addition to changing the relative cost of developing outside vs. within growth areas, smart growth policies have the potential to affect agricultural land values by altering developers' and farmland owners' expectations about where local governments are likely to approve new development. Any change in local government policies in response to smart growth legis-

lation could affect perceptions about the ease (or difficulty) of obtaining variances or zoning changes to allow more development within or outside growth areas. Landowners and developers will also form expectations—reflected in land values—about the location of local government projects that occur without state funding and that stimulate demand for housing, commercial, or industrial uses.

Establishing growth areas may benefit the local agricultural economy if landowners outside the boundaries keep land in a productive agricultural use and can gain added income by marketing their output to the urbanized areas. However, not all farmland owners will welcome policies that reduce development pressures—e.g., farmers who view their investment in land and its appreciation in value over time as their “retirement fund.” These farmers may not benefit financially from smart growth policies unless their land is located within an existing or planned growth area.

Despite smart growth policies, substantial development can still occur at lower densities in outlying rural areas, where allocations of state funding for housing programs are historically minimal. To address this problem, governments may rely on farmland preservation programs to counter losses of local farmland and open space. The American Farmland Trust reports that 19 states already have state-level farmland preservation programs in place and that 11 of these also have locally sponsored programs. Some of these programs have existed since the 1970's, permanently preserving hundreds or thousands of acres annually.

The most significant effect of these preservation programs on local agriculture is that by restricting development on enrolled parcels, preserved land remains available for farming uses. Also, the use of ranking or bonus schemes in PDR programs gives governments some ability to influence which types of farms and agricultural land are preserved first. This targeting is possible when interest in selling development rights is high and governments operating PDR programs have limited budgets. For example, prioritizing development rights purchases on land that is most threatened with development may

focus preservation on farms specializing in high-value enterprises or small-scale, part-time operations; prioritizing PDR purchases on parcels with important processing facilities or prime soils for row crops may focus on acreage in larger crop and livestock operations.

Because the sale of development rights essentially removes the development potential from enrolled parcels, preservation program administrators expect that land values of these parcels will be lower than land values of unrestricted parcels. This is expected to benefit the local farm economy because it can reduce land acquisition costs for new farm entrants.

However, buyers of preserved land who are part-time farmers with substantial nonfarm income and sufficient financial resources may outbid full-time farmers for the land, beyond its farm use value. A study of preserved farmland values in Maryland suggests the downward price effect may not be as significant as hoped. Programs that specify a minimum acreage requirement may limit upward price pressures (e.g., requiring parcels to be at least 100 acres) if they do not also permit subdivision into smaller (e.g., 25-acre) parcels.

Farmland preservation programs also have important implications for landowners. Current landowners who might otherwise sell the entire farm for development now have the option to sell only the development rights through a PDR or TDR program and to sell the land itself in a separate transaction—minus the development potential. For landowners who stay in farming, the ability to liquidate part of their investment in farm real estate, i.e., the development rights, provides a means for paying down farm debt or financing farm operations. It can also ease estate planning and transferring assets to future generations by allowing landowners to liquidate and/or distribute part of the real estate asset and lower the estate tax bill.

Although farmland preservation programs are generally designed to preserve land into perpetuity, enabling legislation often contains an escape clause. For example, a farm may be withdrawn from the program after a specified number of years if the land can no longer be profitably farmed.

Examples of Smart Growth Policies

Urban growth boundaries. Oregon pioneered this strategy in the 1970's to discourage urban sprawl. Oregon's statewide plan mandated the designation of urban growth boundaries within which urban development would take place. Although this policy has not entirely curtailed development outside the boundaries, Oregon is recognized as the most successful in separating rural and urban uses geographically. In Washington state, cities and counties exceeding a certain size or experiencing rapid population increases are required to designate urban growth areas.

Designation of priority funding areas. Maryland requires counties to designate priority areas for receiving state funds. Eligibility is limited to areas meeting guidelines for residential densities, for intended use, and for availability of plans for sewer and water systems.

Coordinating transportation systems and development. In 1998, Tennessee passed a law directing that funding under the Federal Transportation Equity Act for the 21st Century (TEA-21) be reserved exclusively for localities that have growth plans identifying urban growth boundaries for cities, planned growth areas, and rural areas.

Farmland/environmental resource preservation. Maryland is one of several states with a well-established state-level farmland preservation program. In addition, Maryland's 1997 smart growth initiative included the Rural Legacy Program. The program has identified 23 areas where it is focusing

efforts to preserve large, contiguous blocks of parcels and strategic areas that contain multiple resources of value such as prime farmland and wildlife habitat. Through this program, the state partners with local governments and land trusts (public and private nonprofit) to purchase development rights (called easements) from willing landowners.

Multijurisdictional planning. Wisconsin gives state funding priority to local governments that address the needs of adjacent communities in their development plans instead of just pursuing their own interests.

Brownfields redevelopment. In 1998, New Jersey enacted the Brownfield and Contaminated Site Remediation Act which, in addition to limiting liability for redevelopers, provides financial incentives for remediation and redevelopment of "brownfields"—i.e., areas contaminated with toxic materials. Other states and localities have also developed brownfield programs to facilitate revitalization and redevelopment of land and resources in targeted urban areas.

Neighborhood business development. Consistent with state planning goals, a task force in South Providence, Rhode Island, adopted a program that provides state-funded assistance to new small businesses locating in one of its 10 state-designated enterprise zones. Maryland's program provides income tax credits as incentives for small businesses to locate in its priority funding areas.

While this may appear to reduce the financial risk of owning restricted-use land for current and future landowners, withdrawal may not be an economically advantageous option if the landowner is required to repay the value of the development rights based on current appraisals.

Permanent preservation of farmland also affects the market value of adjacent land. Some evidence suggests that homebuyers are willing to pay more to live in close proximity to open space, so it is possible that permanent preservation could attract development. This could invite conflict between farmers and nonfarm neighbors that program administrators hope to avoid. The answer to this dilemma may be additional development policies in rural areas, such as requiring clustering of houses and strong right-to-farm laws (e.g., to protect farmers from nuisance suits), which could be coupled with preservation programs.

States with pre-existing land preservation programs have used new programs established as a part of a smart growth legislative package to further direct preservation efforts to parcels with unique characteristics or in particular locations. States may also partner with the Federal and local governments or land trusts to preserve large blocks of land instead of just individual farms. These programs can result in lands being preserved for agriculture and, if the landowners agree, providing additional restrictions on use that preserve wildlife habitat, ecosystems, or other unique resources.

Smart growth policies have the potential to direct some development toward designated growth areas and to preserve farmland and other environmental resources. However, smart growth policies could represent a "mixed bag" for some landowners.

Clearly defined growth areas could reduce development pressures on farmland and

growth in farmland values outside the boundaries. This could benefit local agriculture by slowing the rate of farmland conversion. But farmland owners outside growth area boundaries may not gain from policies that slow a rise in land values. Nevertheless, an ability to sell development rights would give them an alternative for increasing liquidity (e.g., for servicing debt) without having to sell housing lots or the entire farm.

Farmland preservation programs may benefit the local agricultural economy more directly, but the effects will depend on program eligibility criteria and targeting mechanisms used to prioritize purchases of development rights. The impacts of growth boundaries as well as farmland preservation programs will depend largely on whether farmland remains in an active agricultural use. **AO**

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