

**Annexation Study:
The City of Lake Charles**

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An Analysis of Annexations Proposed by the City of Lake Charles

EXECUTIVE SUMMARY

This study was commissioned by the City of Lake Charles to analyze the potential economic consequences of annexation of areas south and northeast of the city. It examines the experience of other cities with annexation and assesses the costs and benefits to Lake Charles of annexing the proposed areas. The general conclusion is that due to differences in infrastructure, the cost to the city of annexing areas developed under parish governance is likely to exceed any tangible benefits to the city. However, for most residents the cost to annex is offset by the value of benefits received, such as lower sales taxes and a better fire insurance rating. Services needed in those areas should be met through service contracts between the city and the parish, with annexation an option only after these areas are in compliance with city standards. Calcasieu Parish could minimize the future cost of annexation for unincorporated areas that will be developed if it adopted development standards similar to those areas adjacent to existing municipalities. Such standards would address issues like sewer, water, drainage and right-of-ways before development proceeds. If the city wants to expand, it is more feasible to annex relatively undeveloped areas and extend water and/or sewer to those areas so that it will be developed properly with city utilities.

While the decision by the City of Lake Charles may not be to initiate annexation in developed areas, it is still possible for residents to request annexation of their neighborhoods through petition. Those residents desiring the benefits of annexation would receive the benefit of specific services immediately, such as added law enforcement, fire protection, street lighting, reduced sales tax, but would have to wait for other more costly services, such as sewer services, until the cost of such services could be feasibly provided for in the City's capital budget.

The study was conducted by Dr. Michael Kurth, Head of the Department of Accounting, Finance and Economics at McNeese State University and Dr. Daryl Burckel, professor of accounting at McNeese State University. They are solely responsible for the design, content and conclusions of the study.

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I. INTRODUCTION

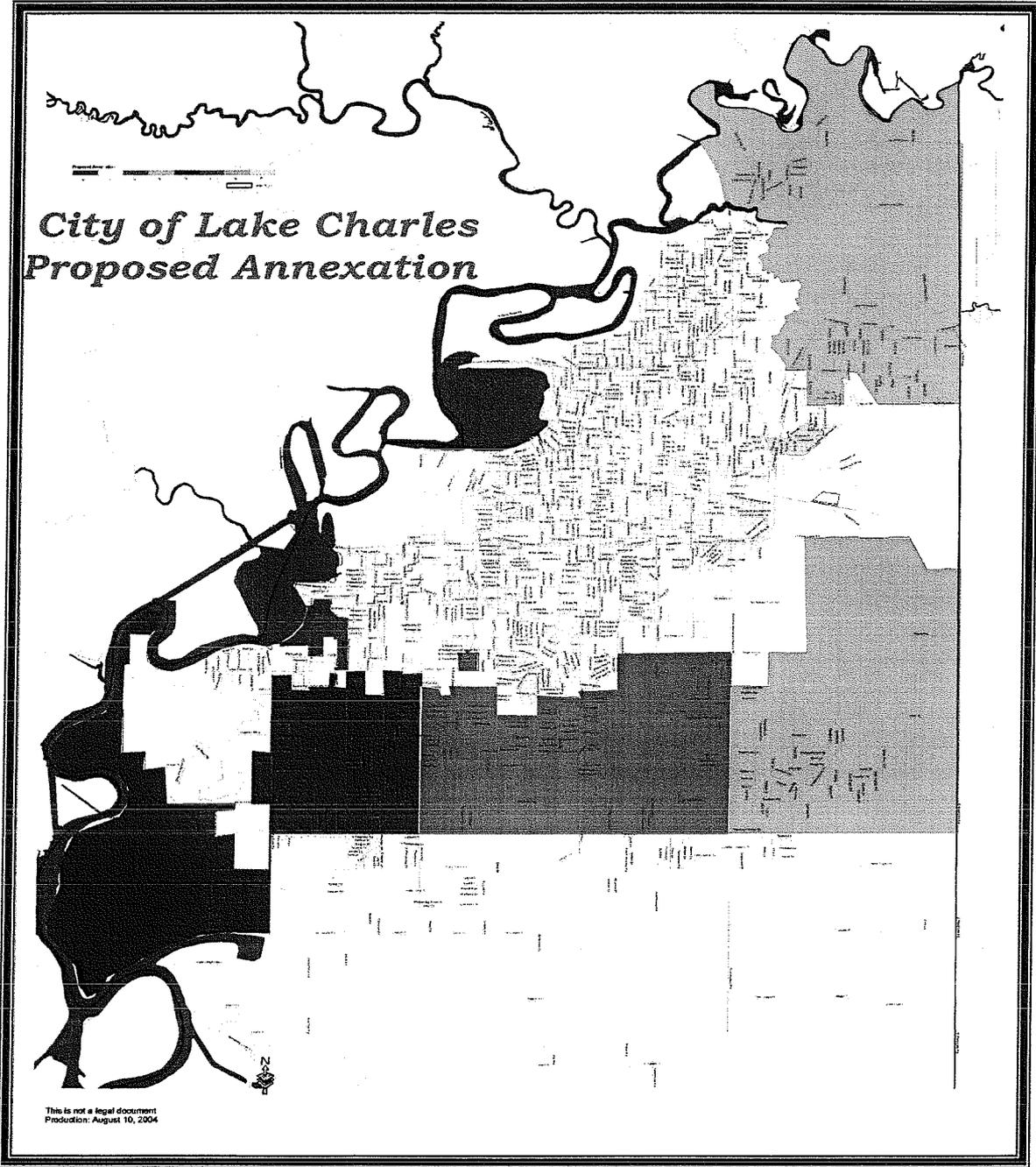
The City of Lake Charles recently announced plans to annex unincorporated areas of Ward 3 as well as several “doughnuts”—small, unincorporated areas within the city limits (see the map on page 4). Much of the area directly south of the city is residential and was developed under parish rules and regulations, whereas the areas east and southwest of the city are largely undeveloped. This study uses original data as well as the experience of other cities to determine the probable effects of annexing these areas, including the cost and benefits to the City of Lake Charles.

Section II outlines the differences between parish services and municipal services, examines the experience of other cities with annexation, especially regarding areas that were already developed as opposed to areas that were undeveloped. Section III considers the potential benefits to the city from annexing these areas, including the impact on home values, business activity, tax base, and economic development. Section IV examines the planning aspects of annexation and considers urban sprawl while Section V assesses the potential cost of annexation, including the cost of providing municipal services to the areas in question and the possible political ramifications. Section VI contains our conclusions and recommendations.

In general, we believe the cost of annexing areas that are already developed is likely to exceed the potential benefits for the city. If the city wants to expand, it should focus on extending municipal services to undeveloped areas with the understanding that these areas will be annexed once development is completed. The service needs of areas that developed under parish governance should be met through service contracts between the city and the parish until and unless those areas meet city standards. Moreover, we recommend that the city and parish engage in joint planning for future urban development in order to avoid problems such as those currently faced by south Lake Charles, Moss Bluff and other communities in Southwest Louisiana.

MAP 1

PROPOSED ANNEXATIONS BY THE CITY OF LAKE CHARLES



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II. Annexation and Municipal Growth

A. The Purpose of Annexation

Annexation is the means by which municipalities extend their boundaries to include previously unincorporated areas. The process of annexation differs from state to state. Some states allow cities to annex areas without the consent of residents of the area being annexed, while some require a local referendum and others require approval of the state legislature. Moreover, in some states, cities are separate entities from counties, while in others they are jurisdictions within counties. Thus, municipal experience with annexation varies widely, though there are some commonalities.

In the first half of the twentieth century cities tended to focus on annexing populated areas rather than undeveloped rural areas, as they saw annexation as a means of gaining population and tax revenue, expanding their service base and thereby playing a more important role in state or even national politics. But by the nineteen-sixties, many of the cities that obtained rapid population growth through annexation began to encounter problems. They had become so large they were no longer able to efficiently provide public services such as police and fire protection, sanitation, and education to their residents and city-dwellers began to flee to smaller suburban communities where government could deliver the public services they wanted more efficiently. This frequently triggered financial crises for the core city and, as can be seen in Table 1, many of the cities that had grown most rapidly in the first half of the century actually lost population in the second half of the century.

Newer cities such as Los Angeles, Houston, Phoenix, San Diego, San Antonio, San Jose, and Fort Worth sprang up and a new growth paradigm based on urban planning emerged. Rather than annexing areas that were already developed, these cities focused on annexing undeveloped land where they could provide infrastructure such as road and sewers at low cost, which in turn attracted residents and businesses to these areas.

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Table 1

Growth of Major US Cities: 1900–1960 and 1960-2004

	Growth of US Cities: 1900 – 1960 and 1960 - 2004					
	POPULATION			POPULATION GROWTH		
	1900	1960	2004	1900-1960	1960-2004	
New York	3,437	7,781	8,101	126%	4%	
Chicago	1,698	3,550	2,862	109%	-19%	
Philadelphia	1,293	2,002	1,400	55%	-30%	
St. Louis	575	750	332	30%	-56%	
Boston	560	697	569	24%	-18%	
Baltimore	508	939	636	85%	-32%	
Cleveland	381	876	458	130%	-48%	
Buffalo	352	532	285	51%	-46%	
San Fransico	342	740	744	116%	1%	
Cincinatti	325	320	317	-2%	-1%	
Pittsburg	321	604	325	88%	-46%	
New Orleans	287	627	462	118%	-26%	
Detroit	285	1,670	900	486%	-46%	
Milwaukee	285	741	583	160%	-21%	
Los Angeles	102	2,479	3,845	2330%	55%	
Houston	45	938	2,012	1984%	114%	
San Diego	18	573	1,263	3083%	120%	
San Antonio	53	587	1,236	1008%	111%	
Dallas	43	679	1,210	1479%	78%	
Seattle	81	557	571	588%	3%	

Today, annexation has become an integral part of the urban planning process, a means of avoiding the problems of “urban sprawl” that develop when suburban communities spring up with little regulation and planning. As an instrument for growth management, annexation has two important roles: (1) as an economic development tool, annexation provides for the orderly provision of physical infrastructure and other services necessary to develop the tax base for the city, the region, and the State, and (2) as a land development tool, annexation prevents the establishment of incompatible development patterns by extending land use and other regulatory controls intended to protect existing and future land uses.”¹

¹ The 2005 Comprehensive Plan of the City of Fort Worth, Texas.

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B. Intergovernmental Contracting

As the focus of annexation shifted from adding population to urban planning and economic development, the notion that the provision of municipal services should be defined by the political boundaries of the city also fell by the wayside. Today, municipalities frequently cross political boundaries when providing or obtaining services. This is done through *intergovernmental contracting*.

The primary purpose of an intergovernmental contract is to take advantage of what economists call *economies of scope* and *economies of scale*. Economies of scope exist when the average cost of providing services decreases as the mix of services is expanded. For example, a maintenance facility for police vehicles may also be used for public transit vehicles or school buses. Economies of scale exist when the average cost of providing services decreases as the volume of services increases. An example of this would be a rapid transit system that is prohibitively costly for a small city to operate yet it is economically viable for a large city to extend its rapid transit system into the smaller city.

In the private sector, firms lose profit if they exceed their economies of scope and scale. For example, as a market expands, supermarkets usually open more stores of the same size offering the same mix of goods rather than build one large store that tries to be everything to everybody. Governments need to learn this lesson. The appropriate scope and scale of public services seldom coincides with political or jurisdictional boundaries, yet some public administrators are of the mindset that they cannot cross these boundaries to obtain or provide services.

When economies of scope and scale are less than the size of a political jurisdiction, economic efficiency requires that multiple sub-jurisdictions be established, such as the water districts that currently exist within Calcasieu Parish. On the other hand, when economies of scope and scale exceed a political jurisdiction, then either the boundaries need to be expanded or service contracts need to be extended to areas outside the

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boundaries. Service contracts may also be entered into with private firms, though the rationale for doing so is generally to eliminate inefficiencies associated with politics and patronage.

The bottom line is that communities do not have to opt for either all municipal services or all county (parish) services. Through contracting, they can choose a mix of service providers that best fits their needs. For example, a suburban community may contract to tie into a municipal sewer system, yet provide its own police and fire protection. Achieving this requires cooperation among political jurisdictions, but not necessarily consolidation of the jurisdictions.

III. The Costs and Benefits of Annexation

A. Municipal vs. Parish Services

A key issue in annexation is the replacement of county (parish) services and regulations with municipal services and regulations. County (parish) governments specialize in providing public services to rural areas whereas city governments specialize in serving more densely populated urban areas. There are significant differences in these two types of services and their method of delivery. Septic systems and volunteer fire departments may suffice in rural areas, whereas urban areas require sewer systems and full time firefighters with specialized equipment and quicker response times. Thus, when an area is annexed and brought into a city's service domain, the *type* or public services they are provided is likely to change.

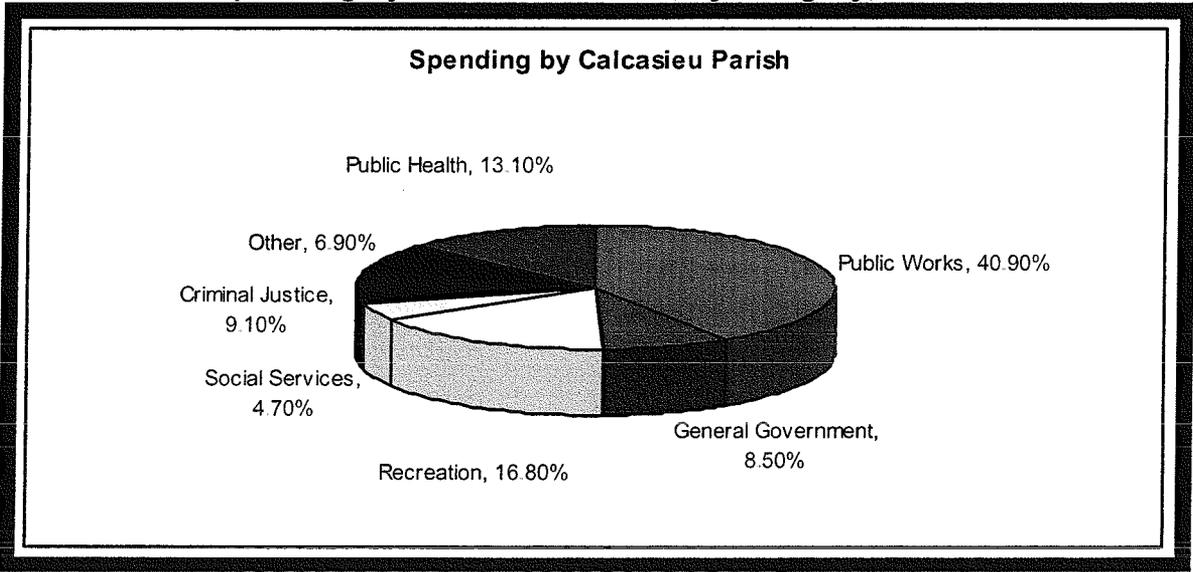
Not only do the types of services provided by the city and parish differ, but the proportion of governmental resources devoted to these functions also varies greatly. For example, Calcasieu Parish devotes 40.9% of its budget to public works, whereas the City of Lake Charles devotes 16% of its budget to these services. The proportion of the city

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and parish budgets spent on various services is shown in graphs 1 and 2 on the following page and the per capita spending by type of service is shown in table 2. The Calcasieu Parish chart includes all spending, including capital projects. The chart for Lake Charles excludes capital projects and other specific funds. Table 3 shows the different revenue sources of the City of Lake Charles and Calcasieu Parish.

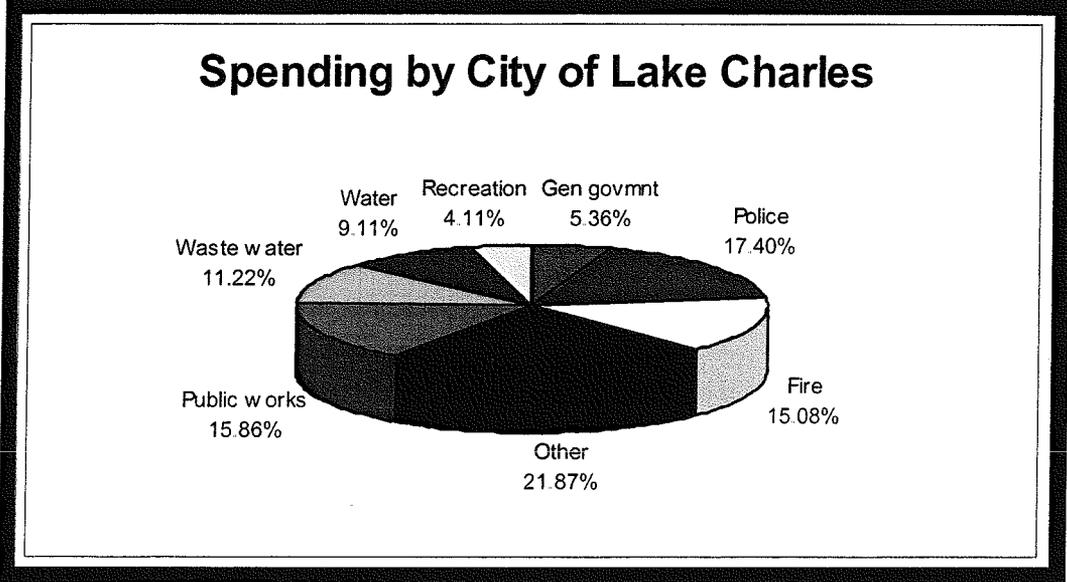
Graph 1

Spending by Calcasieu Parish, by category, 2007



Graph 2

Spending by City of Lake Charles, by category, 2007



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Table 2

**Services Provided by the City of Lake Charles
Compared to Services Provided by Calcasieu Parish, 2007**

	Population	
	<u>Parish*</u>	<u>City</u>
	122,200	71,800
<u>Fire Protection</u>		
Per capita expenditure		\$171
Budget Amount		\$12,277,295
<u>Police Protection</u>		
Per capita expenditure		\$197
Budget Amount		\$14,165,971
<u>Public Works</u>		
Per capita expenditure	\$353	\$210
Budget Amount	\$43,144,451	\$15,062,578
<u>Solid Waste</u>		
Per capita expenditure	\$40	\$60
Budget Amount	\$4,839,371	\$4,272,242
<u>Waste Water</u>		
Per capita expenditure		\$140
Budget Amount		\$10,033,930
<u>Water</u>		
Per capita expenditure		\$103
Budget Amount		\$7,414,675
<u>Recreation</u>		
Per capita expenditure	\$150	\$70
Budget Amount	\$18,343,175	\$4,994,231
<u>Transit</u>		
Per capita expenditure	\$6	\$21
Budget Amount	\$765,399	\$1,542,129
<u>Emergency Services</u>		
Per capita expenditure	\$7	
Budget Amount	\$867,344	
<u>Public Health</u>		
Per capita expenditure	\$30	
Budget Amount	\$5,907,969	
<u>Animal Control</u>		
Per capita expenditure	\$11	\$3
Budget Amount	\$1,310,468	\$385,468
* Parish population is total less city population		

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Table 3

Specific Source of Revenue: City of Lake Charles and Calcasieu Parish, 2007

Population	Parish 122,200	Lake Charles 71,800
<u>State Revenue</u>		
Per capita revenue	\$13	\$0
Amount Budgeted	\$1,590,500	\$0
<u>Local Tax Revenue</u>		
<u>Sales Tax</u>		
Per capita revenue	\$254	\$441
Amount Budgeted	\$31,069,775	\$31,659,000
<u>Property Tax</u>		
Per capita revenue	\$385	\$79
Amount Budgeted	\$46,988,240	\$5,701,660
<u>Gaming Revenue</u>		
Per capita revenue	\$122	\$70
Amount Budgeted	\$14,959,921	\$5,025,000
<u>User Fees & Charges</u>		
Per capita revenue	\$100	\$133
Amount Budgeted	\$12,274,479	\$9,521,550

B. Property Values

It would be impossible to construct a meaningful matrix showing the costs and benefits of annexation because the types and amounts of services provided by the parish and the city are different, their cost is spread differently over the population,² and their level of provision will depend on the choices voters make *after* annexation occurs.

² In 2003 an Annexation Committee commissioned by the City of Lake Charles City issued a report providing a detailed estimate of the cost of annexation for homeowners in south Lake Charles.

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However, by looking at property values inside and outside of the city we can get a good approximation of the net benefits from inclusion in the municipality. When one buys property, they assume the tax liability attached to the property as well as the entitlement to the public services associated with the property. Thus, if buyers and owners of property judge the value of municipal services to be greater than the tax liability attached to the property, then the value of the property should increase after annexation. On the other hand, if they believe the tax liability to be greater than the value of municipal services, the value of the property should decline after annexation.

To examine how inclusion within Lake Charles affects property values we obtained information on housing values inside and outside the city from the Parish Tax Assessor, Richard Cole. We selected 300 homes in five different border areas where we judged the homes to be of similar age and construction; the primary difference being that some were inside and some were outside of the city. The results are shown in Table 4. According to these data, property inside the city is valued approximately 10% higher than similar property outside the city limits, although the gains appear greater for higher-valued homes than for moderately priced homes. We assume that this increase in value represents the net gain to homeowners of city services, after paying their city taxes.

Table 4

**Home Values in the City of Lake Charles and
in Unincorporated Areas of South Lake Charles**

	South Lake Charles	Inside City Limits
<u>House Values</u>		
\$150,000 - \$180,000	\$80.0 - \$92.43	\$70.14 - \$91.45
\$180,000 - \$220,000	\$65.95 - \$96.01	\$90.10 - \$98.88
\$220,000 - \$250,000	\$77.20 - \$90.33	\$88.12 - \$107.83
\$250,000 - \$300,000	\$88.82 - \$94.70	\$98.41 - \$113.28

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To explore this further we pared our sample down to 140 homes selected to maintain balance across geographic areas. We then used multiple regression analysis to estimate the effects on price of size and structure (with or without a garage) as well as location inside or outside the city limits. They indicate the average value of a home was \$76.32 per square foot, plus \$18,474 for a garage and \$23,024 for the lot. Thus, the average 2,000 square foot home in our sample would sell for \$194,138 while the average 3,000 square foot home would sell for \$270,458. Our results also show a *negative* value of \$1,996 associated with being inside the city limits which does not produces statistically different results.

Our interpretation of this result is that for most homeowners the benefits of municipal services offset any increase in taxes they may experience as city residents, although owners of higher priced homes will probably see an increase in their property value. But there are a couple of caveats that go along with this. One is that to capitalize on any increased property value that results from annexation, one must sell their property. Those who do not intend to sell their property in the near future will find themselves paying higher taxes today, with only the promise of higher value if and when they sell their property at some point in the future. This could present a hardship for homeowners who are retired or living on a fixed income. One option would be for them to obtain a home equity loan based on the increased value of their property, but older residents in particular are may be loath to apply this strategy. Another caveat is that the increased property value belongs to the property owner, who may not even reside in the area that is annexed. Renters, for example, could end up paying higher rents due to higher property taxes with the increased value belonging to their landlord. In both cases, however, the residents receive municipal services in return for their higher taxes or higher rent; it is only the increased value they are unable to capture.

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C. Business Regulation and Taxes

Business owners are likely to view annexation differently than do home owners because their needs are different and they are taxed differently. Moreover, local governments can and do regulate a wide array of business activities ranging from massage parlors and liquor stores to restaurants and nursing homes by imposing laws that effect businesses in general, such as Sunday closings, noise limits, signage, environmental constraints, and construction codes. Table 5 outlines some of the major differences between business regulations in the City of Lake Charles and Calcasieu Parish.

These business laws and regulations can act as barriers to entry, creating an uneven playing field and protecting certain businesses from competition. For example, if local merchants do not want to compete with national chains such as Wal-Mart, they may support local laws and regulations with which national chains have difficulty complying. This can affect where businesses choose to locate and the difference can sometimes be quite dramatic, as when bars cluster outside the city limits to avoid noise ordinances.

Table 5
Major Regulatory Differences Between
Calcasieu Parish and the City of Lake Charles

Business Ordinance	City	Parish
1 Class A alcohol permits - Sunday Closing	Yes	Local Option
2 Special Construction Trade Licensing	Yes	No
3 Lot cleaning, grass cutting standards	Citywide	Subdivisions Only
4 New Streets, subdivisions	More Stringent	Less Stringent
5 Zoning	More Restrictive	Less Restrictive

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In general, well-financed national chains and retail businesses value municipal services such as paved roads and easements, sewer systems, police and fire protection, and they prefer regulation and zoning that forces other businesses to meet their standards. On the other hand, small, under-capitalized businesses or businesses or commercial businesses that do not rely on public trade such as warehouses and construction yards are likely to prefer a rural environment with few neighbors and regulations.

Annexation means moving from one regulatory regime to another. But those businesses that chose to locate in unincorporated areas likely did so for a reason; at least in part, they are there *because* those areas are not incorporated and have fewer regulations. Thus, changing regulatory regimes in an area that is already developed may benefit businesses that choose to locate there in the future, but is likely to harm businesses that are already located there by imposing a new set of rules on them. This often results in “grandfather clauses” that allow established business to operating under prior regulations, often to the detriment of newer businesses that locate in the area. This suggests that the optimal strategy for fostering business growth may be to annex undeveloped land, thus avoiding the compliance costs for existing businesses while providing the infrastructure necessary to attract new businesses.

IV. Annexation, Planning and Growth

A. Urban Sprawl

“Urban sprawl” refers to growth that occurs when people and businesses locate outside a municipal jurisdiction to take advantage of lax regulation and low taxes, while free riding on municipal services such as roads, parks and recreational facilities. These suburban and exurban communities often exhibit little planning or foresight and they usually develop problems down the road when their infrastructure becomes inadequate for their population density.

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There are several examples of urban sprawl in Calcasieu Parish, such as the area south of Lake Charles and the community of Moss Bluff located north of the city. Both have reached the point where their population density requires sewer systems rather than septic tanks, but such a system has been made substantially more costly because sewer lines would have to be run through established neighborhoods. Moreover, under Louisiana's tax structure, "bedroom communities" such as these generally lack the tax base to finance infrastructure projects such as sewer systems themselves.

Many states have devised means for combating urban sprawl. Washington, for example, requires all of its cities to develop twenty-year population growth projections and to designate expansion zones where growth will fall under municipal regulation. Texas allows its cities to designate unincorporated areas as growth zones into which it can extend municipal regulations for up to five years. Louisiana, however, has no strategy or provision to combat urban sprawl, which is one reason for the problems addressed by this study.

Once urban sprawl has occurred, it can be very difficult to cure. Cities are obligated to provide the same public services to all residents within their boundaries. Thus, if a municipality annexes an urban sprawl area, it becomes responsible for fire and police protection and immediately responsible for bringing that area up to municipal standards. Residents of the sprawl community may see this as a solution because it spreads the cost of compliance over all the residents of the city, but existing residents of the city are likely to question the benefits *they* receive for the higher taxes they will pay. Moreover, if a city adopts such a practice, all future development is likely to be sub-standard as people anticipate that when their area becomes a big enough problem, the city will step in and subsidize their infrastructure needs.

Annexation is not a cure for the ills of urban sprawl, but rather a means to prevent urban sprawl from occurring. The purpose of pro-active annexation is to avoid problems by anticipating future growth and providing the necessary infrastructure at a stage where it can be done efficiently and economically. Then, as businesses and residents move into

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the area, they shoulder the cost of their infrastructure rather than imposing this burden on residents of the city.

B. Economic Development

We examined the claim that increasing the population of a city through annexation will foster economic growth. We call this the “bigger dot theory.” For example, it has been suggested that if the population of Lake Charles were to exceed 100,000 it would be considered a major city, and this prominence would make it more attractive to national chains. While this is not implausible, we have been unable to find any evidence that city size plays a significant causal role in economic development. Rather, we believe, economic growth causes population growth.

Urban areas in the US are generally known by the metropolitan statistical area (MSA) names assigned by the US Office of Management and Budget (OMB). The general concept of an MSA is that of a core area containing 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. Under the 2000 standards, the name assigned to an MSA is the name of the principle city, with up to two additional cities named if they meet certain criteria.³ Thus, the metropolitan area of Miami has 5 million people whereas the *City of Miami* has a population of only 380,000, and Atlanta has 4.2 million people whereas the *City of Atlanta* has a population of 420,000.

To test the theory that size affects growth we looked at SMAs across the United States with populations ranging from 120,000 to 240,000 (the Lake Charles SMA has a population of 180,000). First, we compared the growth rates and city size of 48 SMAs similar to Lake Charles and found no evidence that faster growing metropolitan areas contained larger cities than slower growing metropolitan areas (see Tables 6-A and 6-B).

³ Additional information about this process is available at <http://www.census.gov/population/www/estimates/aboutmetro.html>

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Next we compared the percent living in the core city of 120 SMAs to the growth rate of the SMA (Lake Charles contains 40% of its SMA population, almost exactly the national median). Again, there we found no evidence that a larger core city is associated with more rapid growth. The most striking difference between the two groups was that the faster growing SMAs have lower population densities, suggesting they include less developed land and perhaps more room to grow.

Table 6-A
Characteristics of the Fastest Growing SMAs, 1980-2000

Metropolitan Area	Percent Growth	Total Population	Core City Population	MSA Density	CC Density	CC/MSA Density
Laredo, Tx	45.0	193	94.8	54.6	2249	41.2
Las Cruces, NM	25.7	170	44.5	44.2	1425	32.2
Bellingham, Wa	25.5	160	39.3	72.8	2623	36.0
Richland, Wa	23.1	184	27.5	62.1	1121	18.1
Santa Fe, NM	21.8	142	48.6	69.4	1667	24.0
Medford, Or	20.1	175	34.1	61.4	2910	47.4
*Clarksville, Tn	18.8	201	49.2	156.7	1090	7.0
Sioux Falls, SD	18.1	164	71.0	115.8	2202	19.0
Panama City, Fl	16.5	147	26.9	191.5	1776	9.3
Columbia, Mo	15.8	130	61.8	187.2	1591	8.5
Charlottesville, Va	15.1	151	24.3	124.6	4373	35.1
Bloomington, Il	12.6	145	41.8	119	2880	24.2
Ashville, NC	12.5	215	30.7	191.1	1684	8.8
Merced, Ca	12.5	200	30.2	101.7	3210	31.6
Billings, Mt	12.2	127	73.1	47.7	2666	55.9
Redding, Ca	11.9	164	48.5	43.1	1384	32.1
Elkhart, In	11.8	174	24.8	368.1	2424	6.6
Amarillo, Tx	11.3	208	82.4	114.1	1931	16.9
Pueblo, Co	11.3	136	75.8	55.6	2264	40.7
Athens, GA	11.2	140	63.7	234.3	851	3.6
*Fort Smith, Ar	11.2	195	38.3	106.5	1595	15.0
Joplin, Mo	11.2	149	30.0	116.2	1449	12.5
Fargo, ND	11.0	170	51.8	59.2	2390	40.4
St. Cloud, Mn	10.3	164	31.5	92	1957	21.3
Rocky Mount, NC	10.2	147	39.5	139.2	1570	11.3
Average	16.3	166	47.4	117.1	2051	23.9

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Table 6-B

Characteristics of the Slowest Growing SMAs, 1980-2000

Metropolitan Area	Population Growth	Total Population	Core City Population	MSA Density	CC Density	CC/MSA Density
Burlington, Vt	9.7	165	23.1	151.8	3668	24.2
Cedar Rapids, Ia	9.6	184	62.6	253.2	1913	7.6
Gainesville, Fl	9.3	198	46.5	226.8	1980	8.7
Decatur, Al	9.0	143	38.1	196.8	1009	5.1
Lafayette, In	8.5	175	28.0	189.6	2850	15.0
Longview, Tx	8.1	209	36.1	118.3	1340	11.3
Lynchburg, Va	7.7	208	30.6	115.8	1321	11.4
Springfield, Il	7.6	204	57.8	172.5	2064	12.0
Lake Charles, La	7.4	180	40.0	167	1785	10.7
Chico-Paradise, Ca	7.2	195	26.6	118.4	2164	18.3
Houma, La	6.4	194	16.7	81.7	2313	28.3
Eau Claire, Wi	5.0	144	41.7	87.1	2036	23.4
Jackson, Mi	5.0	157	22.4	219.8	3271	14.9
Florence, Al	4.2	136	28.5	108.6	1456	13.4
Dothan, Al	3.3	135	43.2	117.6	666	5.7
Monroe, La	3.2	146	35.5	240.7	1850	7.7
Jamestown, Ny	3.1	137	23.5	131	3525	26.9
Lubbock, Tx	2.4	227	83.4	256.4	1736	6.8
Mansfield, Oh	1.5	176	29.1	194.4	1650	8.5
Roanoke, Va	1.4	227	41.0	268.7	2212	8.2
Lima, Oh	-0.2	154	27.7	192	3131	16.3
Champaign-Urbana, Il	-1.6	170	38.3	168.9	3971	23.5
Alexandria, LA	-3.6	126	36.3	95.6	1775	18.6
Average	5.0	173	37.2	168.4	2160	14.2

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V. The Costs of Annexation

A. Cost

In Louisiana, cities are required to provide the same services to all residents; if an area is annexed by a city, the city immediately becomes responsible for providing a full array of services—sewers, roads, park, police and fire protection—regardless of the revenue collected from residents of that area. Thus, before voters can make a reasoned decision about annexing an area, they must have a reasonable estimate of what it will cost them to provide municipal services to that area.

The city's finance department estimates that providing water and sewers in the areas of proposed annexation will require an initial capital outlay of approximately \$210 million and operating expenditures of approximately \$2,440,500 per year. The estimated cost of providing other municipal services in the areas proposed for annexation is provided in Table 7, below.

Table 7
Estimated Cost of Providing
Municipal Services to Areas Proposed for Annexation

Service	Initial Capital Expenditure	Annual Operating Costs
Police	\$640,000	\$1,296,000
Fire	\$900,000	\$360,000
Streets	\$965,988	\$338,500
Trash	\$732,138	\$263,000
Garbage	\$971,867	\$158,000
Recreation	\$3,375,000	\$25,000
Total	\$7,584,993	\$2,440,500

There may be other revenue and/or benefits that should be considered, including possible increases in other taxes, such as the sales tax, and the affect annexation might

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have on future economic development and growth. But these are less tangible, more speculative, and more difficult to estimate. The city must also consider the potential of providing these services to residents of these areas through service contracts as well as the return it might get from investing in infrastructure in less developed areas adjacent to its boundaries. For example, it is also estimated that providing water and sewer to strategically selected undeveloped areas where future growth could occur would require an initial capital outlay of \$70 million. The potential for fostering economic development in these areas may be just as great as or greater than in the areas proposed for annexation.

B. Political Considerations

Annexation goes beyond simply providing services and collecting taxes: when a city annexes an area the residents become voters and they enter into and change the body politic of the city. Because residents of South Lake Charles are predominantly white, annexing this area would dilute representation of minorities and could involve oversight and review by the US Department of Justice. These issues would be avoided by annexing undeveloped land.

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VI. Conclusions and Recommendations

We do believe annexation is related to economic growth, but it is urban planning combined with *pro-active annexation* that leads to healthy cities and economic development, and not simply annexation to increase the size of a city's population. The costs of providing the applicable services without water and sewer are significant and would be prohibitive if all services were provided. Providing sewer and water infrastructure in populated areas is unfortunately cost prohibitive. Annexation therefore should be used as a tool to bring undeveloped property into the city limits in order to plan growth. With this in mind, the City's strategy should be to strategically annex areas in order to guide development where the necessary services will be provided on a more cost effective basis.

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