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Minnesota AGRICULTURE ECONOMIST



Vacation Homes, Economic Development, and Local Government Policy in Rural Minnesota

Robert W. Snyder

Minnesota ranks fourth nationally in number of seasonal homes per capita, a reflection of nature's abundance and the importance of a way of life that more and more Minnesotans are finding irresistible. By 1970, there probably will be nearly 100,000 seasonal dwellings in the state. The great majority will be privately owned lakeshore cottages.

The economic impact of seasonal homes is substantial. In 1970, owners and guests will spend an estimated \$200 million in rural lake communities, an average of \$2,000 per unit. Two-thirds of this amount will be spent by cottage owners; their guests and visitors will spend the remaining third. This influx of dollars is believed to be responsible for a growing proportion of jobs and income for the residents of many northern Minnesota counties.¹

Many factors affect the ability of a particular community or area to attract seasonal home owners. Few of them can be controlled by local residents. One thing they *can* control is the number and quality of public services local government provides to absentee home owners.

A recent study measured seasonal residents' satisfaction with services and facilities in rural lake communities. The study also made tax base and public spending comparisons designed to answer questions about the capability of local units to provide more satisfactory services.

LAND USE AND DEVELOPMENT REGULATIONS

One aspect of local government services that can contribute substantially toward making an area attractive for vacation homes is the protection or improvement of the physical environment. Examples include control over highway billboards and street signs and lakeshore development standards that prevent lake water pollution.

Few areas have regulations of this

nature. Apparently, local people are opposed to them. But seasonal home owners feel differently, as shown in table 1. The respondents, all Twin Cities area residents owning vacation homes in Crow Wing County, favored all of the regulations listed by at least a two-to-one ratio. These included lake area and time zoning for water skiing, novel regulations in Minnesota, but ones that already have been well established by our "competitor," Wisconsin.

These data suggest that local government decisions do not reflect the interests of seasonal home owners, who, by Minnesota law, may not vote in local elections because they cannot meet residency requirements. In some instances, owners of less than one-fifth of the property in

a given jurisdiction make government decisions that sharply affect the value of the other four-fifths of the property belonging to locally disenfranchised seasonal residents. Such an apparent absurdity will continue to exist in Minnesota until statutory or constitutional reform occurs.

ARE VACATION HOME OWNERS DISSATISFIED?

Local decisions about public revenues and expenditures for public facilities, such as roads and schools, also affect seasonal home owner satisfaction. The classified property tax system used in Minnesota discriminates heavily against nonhomestead property, including seasonal homes, through the homestead exemption. By replacing a portion of the local tax levy on homestead property with sales tax revenues, the 1967 legislature actually increased the discrimination. Further, a large percentage of the tax on seasonal homes is used to finance local public schools, from which seasonal residents, who are being taxed heavily elsewhere for the same purposes, receive no benefits.

Seasonal home owners were asked to indicate how well satisfied they were with services and facilities in their seasonal home communities. Although the results, shown in table 2, demonstrate the high level of apathy toward public matters common to many citizens, the distinction between public and private services is clear. In terms of owner dissatisfaction, five of the top six items are or can be provided in the public sector, with local highway conditions topping the list. In contrast, except for television, respondents generally were pleased with services and facilities provided in the private sector.

DO FISCAL DISPARITIES EXIST?

Do local taxing and expenditure policies take advantage of vacation home owners to the benefit of local residents? To explore this question, a comparative study of public spending for county highways, town roads, and public schools was conducted. Two of these, county highways and town roads, serve seasonal as well as local residents. The third, pub-

Table 1. Attitudes toward adopting codes and zoning regulations in their seasonal home communities, 106 seasonal home owners, Crow Wing County, 1966

Code or regulation	(1)	(2)	Ratio	Indifferent
	Favoring	Opposing	(1 to 2)	
	percent	percent		percent
Commercial off-street parking requirements	45	2	22.5	53
Junkyard regulations	75	5	15.0	20
Subdivision regulations	57	5	11.4	38
Sewage disposal system codes	60	9	6.7	31
Land use zoning	51	11	4.6	38
Time zoning for water skiing	67	15	4.5	18
Lake area zoning for water skiing	65	16	4.1	19
Minimum frontage requirements	52	13	4.0	35
Minimum lot size zoning	49	25	2.0	26

¹For detailed information on owner characteristics and their expenditures, see "Seasonal Recreation Properties in Minnesota," Robert Snyder and Duane Adams, *Minnesota Farm Business Notes*, Number 495, May 1967.

Table 2. Comparative rating of services and facilities in their seasonal home communities, 106 seasonal home owners, Crow Wing County, 1966

Service or facility	(1)	(2)	Ratio (1 to 2)	Satisfied or indifferent
	Unhappy	Pleased		
	----- percent -----			
Highway conditions	27.0	28.0	96	45.0
Fire protection	19.4	7.8	249	72.8
Police protection	18.4	7.8	236	73.8
Policing of lake	16.5	9.7	170	73.8
TV availability	14.6	16.5	88	68.9
Junk and garbage pickup	7.8	3.0	260	89.2
Shopping places	6.8	29.1	23	64.1
Medical services	5.8	24.3	23	69.9
Electrical service	5.8	31.1	19	63.1
Highway marking	5.8	23.3	25	70.9

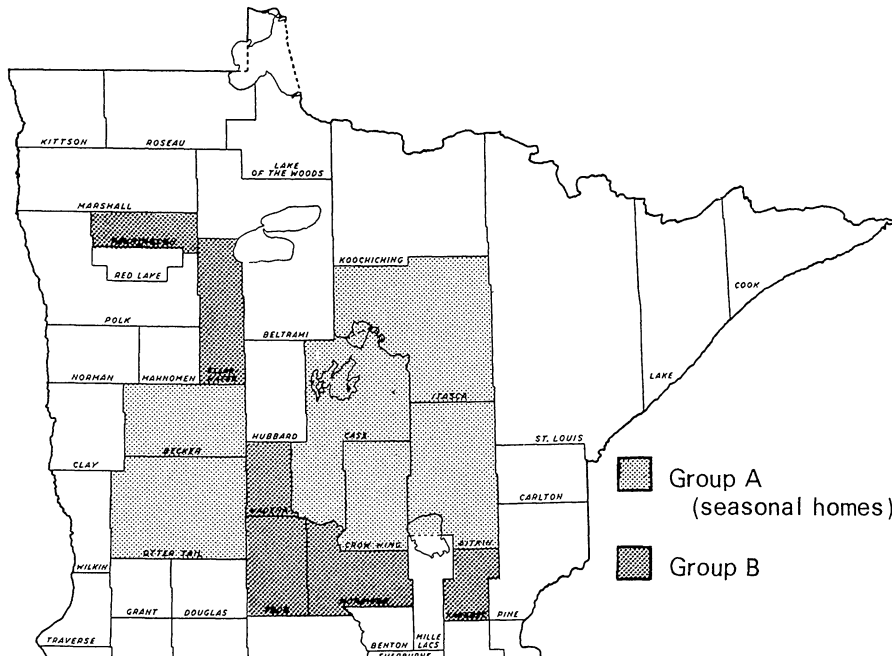


Figure 1. Location of counties studied.

lic schools, serves predominately local residents. Two groups of local government units were compared (figure 1). Group A included units in six northern Minnesota counties where at least 3,000 seasonal dwelling units per county had been enumerated by the 1960 census. Group B included units in six counties in the same region that were similar in many respects to group A except they had few or no seasonal homes. None of these counties is in a metropolitan area.

COUNTY PER CAPITA TAX BASE

In 1964, group A counties enjoyed a considerable advantage in per capita estimated market value and per capita assessed value of real and personal property subject to the property tax (figure 2). The advantage was greater for assessed value than for estimated market value. A large share of the difference was due directly to the value of seasonal homes. Since personal property was a larger pro-

portion of all property in group B counties, 1967 legislation removing much of the personal property from the tax rolls strengthened the advantageous fiscal position of counties in group A.

COUNTY HIGHWAYS

County highway finance comparisons are shown in figure 3. County highway systems include County State Aid Highways and county roads. County State Aid Highways are those designated to receive a share of the highway user tax receipts collected by the state. Such highways usually were paved in the 12 counties studied; county roads usually were not. Adjusted construction needs are an estimate of annual expenditures needed to bring County State Aid Highways up to a specified standard within a 25 year period. The amount of state aid (highway user tax receipts distributed to counties) that a county receives is determined by a formula in which construction needs

per mile and total eligible mileage are important considerations.

Group A counties do have a larger tax base per mile of county highway. The county highway tax levy per \$1,000 assessed value is about equal for the two groups. So group A counties raise more local tax revenues per mile. Even though a higher percentage of group A county highways are paved, adjusted construction needs in these counties are larger, reflecting higher levels of use due partly to seasonal homes. Group A counties receive more state aid per mile, resulting in part from higher construction needs and a higher proportion of County State Aid Highways. The high level of county expenditures per mile for group A indicates a willingness to tax local property for highway purposes. Whether or not these expenditures are on roads serving vacation home areas or other parts of the counties is unknown.

TOWNSHIP ROADS

More money is being spent for township roads in counties with seasonal homes than in counties where there are few seasonal homes (figure 4). This situation results from higher tax levies as well as from greater assessed values per mile of road in the former.² Since there is no state aid for township roads, the higher expenditure levels reflect a willingness to tax local property. One probable result is that more roads are graveled or paved in group A than in group B counties.

Despite the high expenditures for township roads in counties with seasonal homes, the attitudes of vacation home owners reflect dissatisfaction. Over 25 percent of the seasonal home owners surveyed said they were unhappy with road conditions (table 2). In fact, they indicated more dissatisfaction over this item than with any other considered. This result suggests the need for even larger expenditures on local access roads, usually township roads, in rural lake communities. Compared with group B, however, local township and rural village units in group A appear to lack the tax resources to raise expenditure levels to any appreciable extent (with the exception noted above). All of the data used in figure 4 are based on county averages, so they may not apply particularly to local township units where second homes are concentrated. Further study is required before definite conclusions about levels of ability-to-pay can be reached.

² The data appear inconsistent due to an unusually high assessed value per mile for townships in one county in group A, which distorted the average value upward. For four of the six counties in group A, assessed value per mile was below the average for all group B counties.

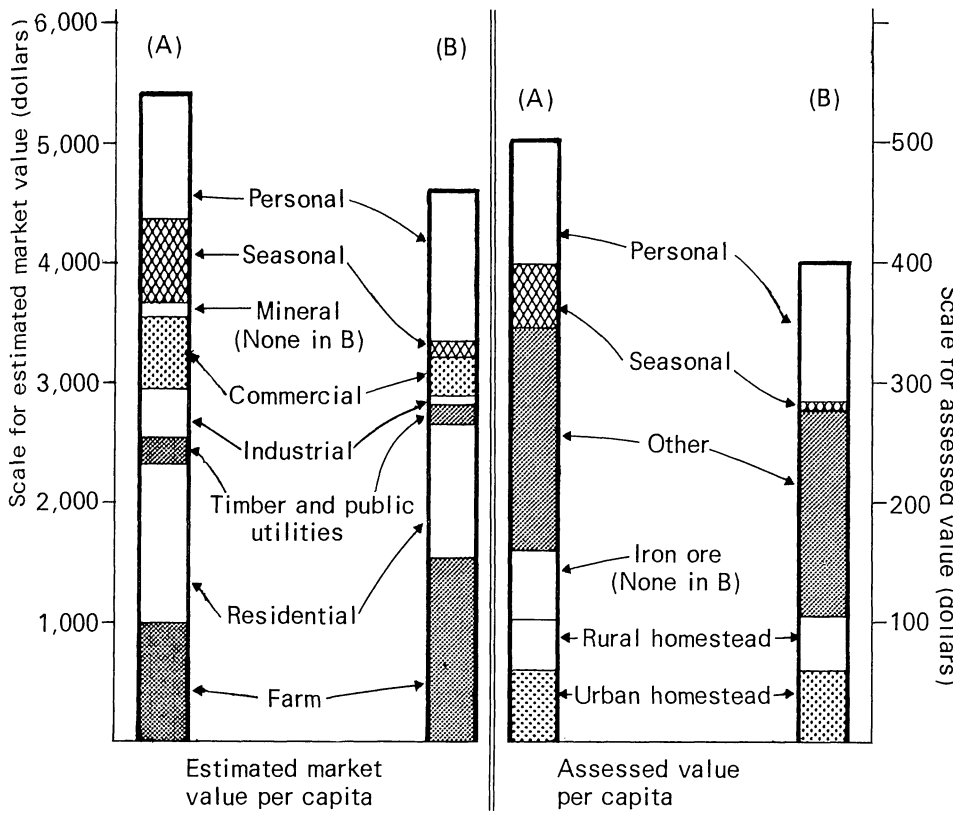


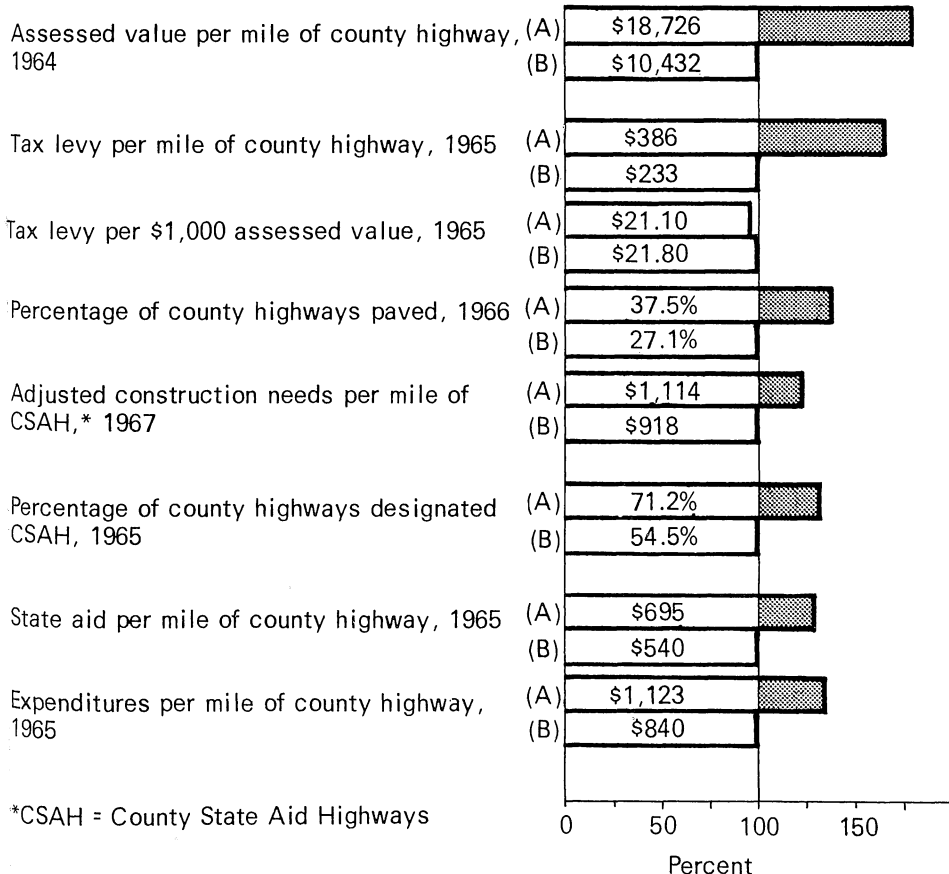
Figure 2. Per capita estimated market value and assessed value, two groups of selected Minnesota counties, 1964.

SCHOOL DISTRICTS

Interestingly, local residents of school districts in counties with large numbers of seasonal homes apparently do not take advantage of their greater tax base per pupil by spending more than other districts with smaller tax bases. In fact, the system for allocating state aid to local school districts eliminates a sizable share of the advantage of the affluent districts.

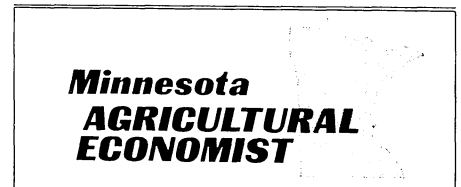
School district finance is extremely complicated. Only a few comparative measures are presented. Adjusted assessed value is set by the state Equalization Aid Review Commission using values from local assessors and results of sales-ratio studies to determine assessment levels. The number of resident pupils in average daily attendance is a quantitative measure of educational services that takes into account grade levels and actual attendance. Foundation aid is one of several forms of state aid and constitutes about 80 percent of the total. Much of the remainder is for pupil transportation. Adjusted maintenance expenditure is a measure of current expenditures that excludes transportation costs.

The property tax base (adjusted assessed value) per resident pupil enrolled in public schools is considerably higher for districts in group A counties (figure 5). Local taxes per pupil also are somewhat greater in group A counties. But expenditures per pupil are not higher in group A; they are roughly the same as in group B. To maintain this same level of expenditures, local taxes must be higher for districts in group A counties because foundation aid payments from the state are lower for them than for counties in group B. Foundation aid is based on a complex formula favoring districts that have a small property tax base per pupil. As the last item in figure 5 shows, taxes per \$1,000 adjusted assessed value actually are considerably lower in



*CSAH = County State Aid Highways

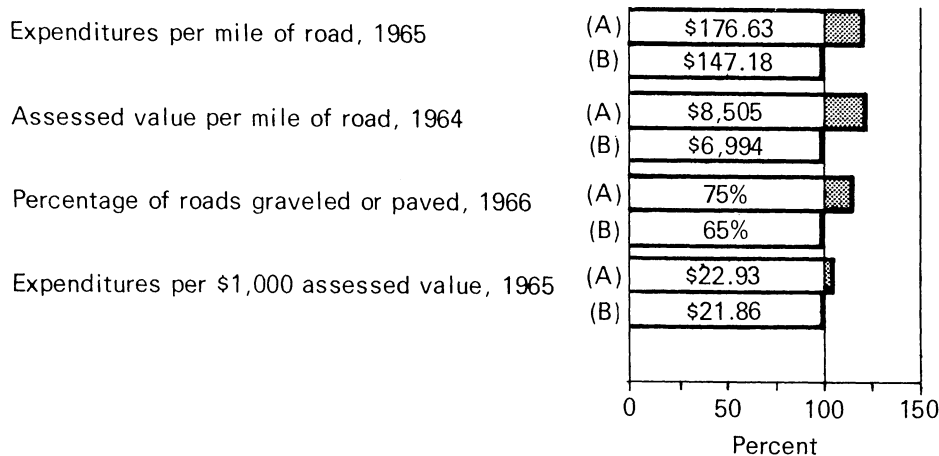
Figure 3. Comparative county highway data, two groups of selected Minnesota counties.



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group A, although taxes per pupil are higher.³

POLICY IMPLICATIONS

Many locally controllable factors affecting the growth in numbers of seasonal homes are closely related to decisions made by local government units in which second home owners have no franchise. The discrepancy is apparent from the virtual absence of regulations over physical development and resource use in seasonal home communities despite cottage owners' desire for them.

Vacation home owners are critical of public services and are thought to feel they are being treated unfairly through the property tax structure.

In comparing a group of counties with seasonal homes with a similar group lacking them, the tax base advantage of the former is clear. In the case of county highways, however, this larger tax base is utilized to meet the highway needs brought about by increased traffic. The present arrangement appears to be functioning reasonably well.

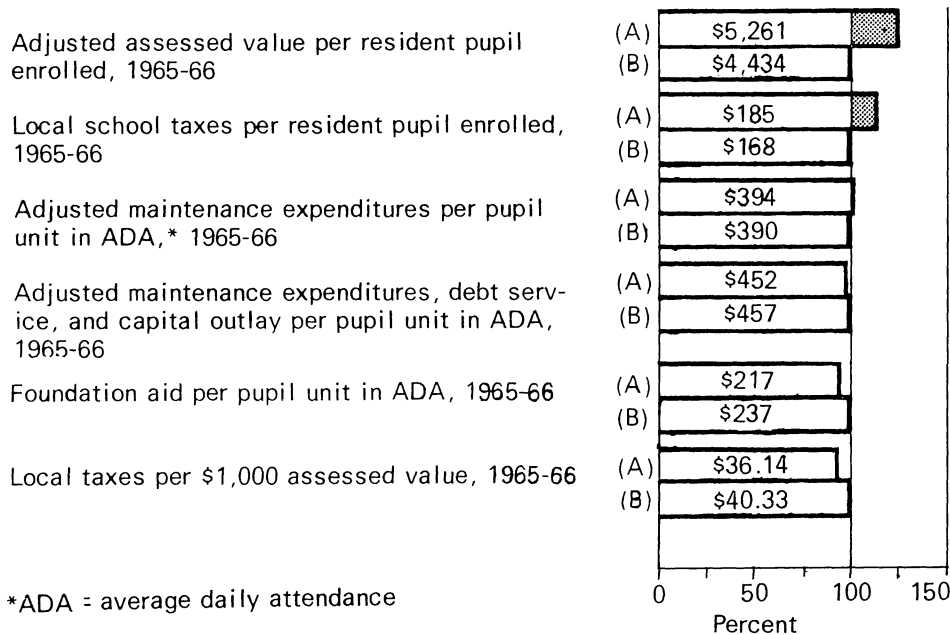
Some evidence suggests that townships in rural lake communities may not have an adequate tax base to satisfy town highway needs. Increasing state or county financial aid should receive thoughtful consideration as a policy alternative.⁴

School districts with seasonal homes have a property tax base advantage but are spending about the same amount as those without them. Since state aid payments to school districts are higher for districts with a smaller tax base, school taxes on vacation homes could be reduced without creating hardships for local property owners. ■

³ Taxes per \$1,000 adjusted assessed value should not be confused with the mill rate, which applies to taxable value.

⁴ The per capita state aid to townships authorized by 1967 legislation does little to solve this problem, since the resident population is small relative to public needs.

Figure 4. Comparative data for township and rural village roads, two groups of selected Minnesota counties. (Data are from organized townships, unorganized territory where "town" roads actually are maintained by the county, and rural villages. A rural village is all or part of a township that has been incorporated to take advantage of certain privileges but which is physically no different from other townships in the area.)



*ADA = average daily attendance

Figure 5. Comparative data for school districts, two groups of selected Minnesota counties. (Districts were eligible for this study only if they maintained both elementary and secondary schools and had 80 percent of their assessed value in one of the two groups. Data are from 30 districts in group A and 21 districts in group B.)

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