
ECONOMIC BRIEF NO. 10

The Economics of Municipal Annexation

This series of economic briefs explores fundamental concepts in economics and community and economic development.

Few things stir up people's anger more than municipal annexation. That's because annexation usually has pocketbook implications.

It is often possible for property owners near a city or town to realize many of the benefits provided by taxpayers of a municipality without having to pay municipal taxes themselves. They may shop or work in the town, benefiting from street maintenance, police protection, street lights, and parking spaces, causing traffic congestion and leaving litter behind. They

municipalities is a way of life in much of South Carolina. Since suburban residents generally are more affluent than those living inside cities and towns, lower income city and town dwellers end up subsidizing the affluent.

Sometimes, free-riders may realize net economic benefits from annexation. Annexation can lead to lower fire insurance premiums for businesses and residents if the city has better fire service. Often, annexation is the only way to get sewer services. Persistent, costly ex-

periences with malfunctioning septic tanks can cause residents additional service delivery costs (since the military provides most services on the bases). Yet even with less free-riding and an expanded tax base, annexation does not always produce net economic benefits for municipalities.

Often there are considerable front-end costs in extending services to newly annexed areas, such as expanding sewer lines or building a new fire station. More police, fire fighters, patrol cars and fire trucks may be needed, and more money will have to be spent on fuel as police cars and garbage trucks service bigger areas. Unless the assessed tax value of the property annexed is relatively high per square mile, the annexation can end up costing more than it produces in immediate tax revenues.

Throughout history, cities and towns have played critical roles in economic development. If the taxing jurisdictions of municipalities are overly limited by restrictive annexation laws and free-riding persists, South Carolina's future economic development will be threatened. Orderly, rational annexation is a necessity. But unless municipal officials can offer pocketbook benefits that induce suburbanites to give up their free ride, political support for annexation law reform is likely to be difficult to muster.

Living in unincorporated suburbs and free-riding on nearby municipalities is a way of life in much of South Carolina.

make no significant contribution to the cost of operating the city, but living near a well-run municipality is likely to have a favorable effect on their property values.

Economists call this behavior *free-riding*. Human beings like riding free and will fight like cats when threats to their free rides appear. Annexation is such a threat, so it is difficult to achieve if (as in South Carolina) it requires that those in affected areas give their consent in some way.

Living in unincorporated suburbs and free-riding on nearby

of outlying areas to accept annexation as the lesser of evils.

Understandably, municipal officials, because they are pro-annexation, would like to put an end to or at least limit free-riding upon their taxpayers. Not only do they hope for more property tax revenue, but annexation by increasing population entitles a city or town to more state-shared revenue. North Charleston, Sumter, and Columbia were able to annex military bases, substantially increasing their populations and, thus, their state kickbacks without incurring much in the way of