

SMART DEVELOPMENT:

*An Analysis of 10
Common Myths About
Development*

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INTRODUCTION

Development and healthy ecosystems are both vital to our well-being. Development provides the infrastructure for communities: houses, buildings, roads, services, and parks. It also provides us with living spaces where we can place our belongings, gather with loved ones, and rest. Meanwhile, natural ecosystems make our lives possible by providing air, water, food, and materials. Natural

ecosystems also maintain a stable climate, act as a storehouse of biodiversity (native plants and animals), shield us from the sun's harmful ultraviolet rays, collect and filter the water we drink, protect us from floods and storms, renew the soil that sustains life, cleanse pollutants from the air we breathe, and surround us with the beauty important to our quality of life.

Because the well-being of Washington residents depends significantly on natural services, the skills and ingenuity of property developers are needed to assist in redesigning developments to preserve natural services.

This route is the one that maximizes welfare for Puget Sound's taxpayers and citizens. Good development helps build healthy communities, protects natural services, and contributes to economic progress. Good land use is also economically efficient by ensuring good design and preventing disasters, which are often costly and difficult to mend. In contrast, poor development weakens communities, drives vast social and ecological costs, and causes economic decline. Our quality of life depends on good land use rules.

However, sometimes land use policies that promote healthy communities, natural systems and economies are delayed by misunderstandings, misperceptions, and miscommunications.

Beginning in 2004, cities and counties throughout Washington State will be considering amendments to their Growth Management Plans, critical areas ordinances, stormwater regulations, and other important land use provisions. In considering these issues, exploring misperceptions from different points of view is essential. This report examines and presents information to address 10 common misperceptions about development and land use.

MYTH #1: IMPACT FEES ARE TOO HIGH AND EXCEED THE COSTS DEVELOPMENT CAUSES THE COMMUNITY.

THE FACTS: Far from being too high, impact fees are often too low. Studies suggest that the cost of new development is tens of thousands of dollars higher than current impact fees.

Summary

Evidence indicates that impact fees in Washington counties are not too high, but rather often too low. Impact fees in Pierce County, for example, averaged \$2,500 per single-family household in 2003 (Mayers 2003). In contrast, the actual costs of new developments in Western Washington are orders of magnitude higher than that. A 2000 study by Fodor and Associates analyzed government data on infrastructure costs and found that the average cost to the community of a new subdivision development in Washington State was approximately \$83,000 per new single-family house (Fodor and Associates 2000). Because impact fees do not cover the actual costs for road, sewer, school, and other costs generated by new housing developments, current taxpayers make up the difference. The community subsidizes this development through higher taxes or reduced public services.

In depth

Impact fees are used to increase market efficiency and fund the infrastructure needed to accommodate new growth. By these standards, impact fees in Washington counties are not too high, but rather are too low.

A study conducted in 2000 by Fodor and Associates used data from Washington State cities and counties to determine the cost of serving new residential developments. Based on government capital project cost data, the study found that typical residential growth in Western Washington creates a capital cost burden to the local community of approximately \$83,000 per new single-family house (Fodor and Associates 2000). The statewide range was from \$32,416 to \$83,216. In other states, studies have determined the

cost of each new single-family house to be in the range of \$15,000 - \$50,000 (Fodor 1999).

The Washington State figure ranges higher because the Washington State study included two studies conducted by transportation engineers to estimate the costs associated with maintaining existing service levels in the face of high growth (Fodor 2004). In contrast, the studies in other states reflected only the transportation infrastructure investments that communities actually decided to fund, which were less than what was needed to maintain existing service levels in the face of growth (Fodor 2004). Thus, the high-end estimate in the Washington State study may reflect more closely the actual costs of growth in a high growth location that lacked a well-developed transportation system. The costs associated with falling service levels are real, and include longer travel times, higher gasoline expenditures, and vehicle wear and tear. In addition, these studies all underestimate the true cost of sprawl by not including the loss of ecological services.

Impact fees in most Washington counties are much lower than the costs of growth, typically ranging from a few thousand dollars up to \$10,000 at most (Mayers 2003; Wyland 2003).

Though the presence of impact fees helps to increase market efficiency as compared to zero impact fees, current impact fees are too low to bring about full market efficiency. According to basic economics, the market will not function efficiently unless the costs caused by each activity are paid by the person or business generating the costs (Gregory and Ruffin 2001). If costs are instead shifted to the community, we cannot be sure that the market is functioning for social betterment. If the true costs of a development are not reflected in the price of that development, the market will function inefficiently. In this situation, the market will produce more housing in locations on the edges of the urban growth area (entailing high infrastructure costs) than the amount the market would produce if the true costs of growth in high cost fringe locations were taken into account. This situation creates a subsidy

for poor growth policies, increasing costs (and taxes) for the community, and eroding public services for all. Because 85 percent of the homes available for purchase are part of the existing housing stock (Fodor 1999) and infill development sites are available, significant options to avoid these outcomes are available.

To give a concrete example of the impacts of under funding public facilities needed to accommodate growth on the fringe, it costs Pierce County school districts approximately \$4,000 to provide school space for the average family in a new house (Pierce County 2004). However, school impact fees are only \$1,700 (Pierce County 2004). As a result, Bethel School District in Southeast Pierce County is overcrowded and increasingly impoverished. The district spans across the urban growth area and into the rural area. Despite building 17 schools in the last 30 years, the school district and the children served by it have endured double shifting, year-round schools, fields of portable classrooms and continuous overcrowding (Modeen 2004).

In recognition of these dynamics, impact fees in California are significantly higher than in Washington. The impact fees in Placer County, California total \$2.20 per square foot in construction, and as of March 2004, impact fees for a large 3,800 square foot house totaled \$21,000 while school impact fees alone were over \$8,000 (Reyneveld 2004).

The public supports the notion that those who create costs through growth in high costs areas without existing public facilities should pay for them. A 1996 survey of voters in five Oregon counties asked whether voters would favor or oppose legislation that allows local governments to charge development fees to pay for more of the costs of services and infrastructure created by new development. Seventy-five percent of the voters favored the measure and 18 percent opposed it (Fodor 1999). Asked whether current residents of an area or developers and new homebuyers should pay for the cost of services resulting from new development, 9 percent of the voters said current residents should pay, 66 percent

said developers and new homebuyers should pay, and 24 percent said current residents, developers and new homebuyers should pay (Fodor 1999).

In addition, there is no risk that impact fees will be raised too high as state law makes it illegal to charge impact fees that exceed the cost of providing transportation facilities, schools, parks, and fire facilities (RCW 82.02.050).

In sum, data suggest that impact fees in Washington State are not too high but too low. Insufficient impact fees mean growth in areas without existing public facilities and services is subsidized by the community at large through higher taxes or reduced quality of services (overcrowded schools, roads, etc.).



Lynn Betts, USDA Natural Resources Conservation Service

MYTH #2: GROWTH REGULATIONS WILL NOT FOSTER OR ATTRACT NEW BUSINESSES AND JOBS.

THE FACTS: Studies consistently indicate that protecting environmental quality helps communities attract new businesses and jobs.

Summary

Studies indicate that environmental quality plays an important positive role in shaping business decisions to locate. Recent data also show that smart growth policies generate high quality construction jobs as well as, or better than, policies that encourage over development on the urban fringe.

In depth

An extensive 50 state economic comparison conducted by Stephen Meyer, an MIT professor, found no relationship between the strength of environmental policies and economic performance (Meyer 1995). Meyer also noted that industry forecasts of economic disaster from environmental laws have not proven accurate. According to Meyer, a key reason for the lack of relationship between environmental regulation and economic performance was that the economic costs of environmental regulation are quite small, and are dwarfed by other business cost factors such as taxes, wages, benefits, and interest rates. He concluded that:

Consequently, those who hope to improve their state's business climate, economic competitiveness, and employment picture by rolling back environmental statutes are misinformed and are in for great disappointment. The evidence is compelling that this strategy will not produce any meaningful economic gains, while imposing real environmental losses (Meyer 1995).

Numerous additional macroeconomic studies have also documented the economy-wide impact of environmental regulation

to be negligible or slightly positive (resulting in an overall increase in jobs)(U.S. EPA 1996).

In fact, increasing evidence indicates that economic development can be harmed by poor environmental quality. In a recent consensus letter, dozens of economists including Nobel Laureates Kenneth Arrow and Robert Solow indicated that environmental quality today plays a central role in the capacity of a region to attract workers and firms. The economists stated that:

Those who believe environmental degradation is an unavoidable price to pay for economic prosperity in the West are wrong. Across most of the West, a community's ability to retain and attract workers and firms now drives its prosperity... if a community's natural environment is degraded, it has greater difficulty retaining and attracting workers and firms (Whitelaw 2003).

A 2003 study by Salvesen and Renski indicated that quality of life is an increasingly important factor in firm location decisions, especially in knowledge-based industries such as biotechnology, computers, entertainment and telecommunications (Salvesen and Renski 2003). Another survey found that high technology firms rank environmental quality higher than any other factor in location decisions (Hirschhorn 2000).

We can see concrete evidence of these dynamics by looking at Washington State. Puget Sound communities with comparatively strong regulations have not seen businesses flee, but rather in many cases have attracted employers and jobs. For example, Redmond has seen a growth in businesses and living wage jobs, such as those provided by Microsoft and Nintendo, as compared to communities with weaker regulations.

Additional evidence of the relationship between growth regulations and the economy indicates that smart growth policies generate quality jobs as well as, or better than, sprawl. A 2003 study showed

that in Oregon, which has cities with urban growth boundaries, job growth in construction has exceeded the national rate by a ratio of more than 4 to 1 over the past 15 years (Good Jobs First 2003a). Analysis of 155 urban areas nationally found construction activity per new resident is more than \$100,000 higher in areas with growth regulations than without (Good Jobs First 2003a).

The positive job impacts associated with smart growth policies help to explain increasing support by organized labor for smart growth policies. For example, at its 2001 annual convention, the AFL-CIO passed a resolution denouncing sprawl (Good Jobs First 2003b). In addition, the San Diego-Imperial Counties Labor Council recently supported an urban growth boundary ballot initiative with strong backing from its Building Trades affiliates (Good Jobs First 2003b).

In sum, evidence indicates that communities choosing to regulate growth to protect environmental quality are likely to benefit their economic futures. In contrast, communities that fail to protect their ecological capital may be eroding their economic futures.

MYTH #3: LOW-IMPACT DEVELOPMENT REQUIREMENTS ARE TOO COSTLY AND LEAD TO PROJECT INFEASIBILITY.

THE FACTS: According to the U.S. government and the home building industry, low-impact development can lower overall builder development costs.

Summary

Low impact development (LID) uses site design techniques to create a hydrologically-functional landscape. This, in turn, reduces the need to build infrastructure to convey stormwater runoff away from a property. According to the National Association of Home Builders Research Center, LID can decrease the costs of development by reducing infrastructure construction and stormwater management costs.

In depth

According to the Low-Impact Development Center, LID “is a new low cost effective alternative storm water control technology,” which “focuses on how the developed area of a site is planned and designed to minimize hydrological impacts” (Low-Impact Development Center 2004). LID represents a shift in philosophy as compared to conventional, infrastructure-intensive, end of pipe treatment.

According to a report prepared by the National Association of Home Builders (NAHB) Research Center for the Department of Housing and Urban Development, LID storm water management systems can reduce development costs through the reduction or elimination of conventional storm water conveyance and collection systems. LID systems can reduce the need for paving, construction of curbs and gutters, piping, inlet structures, and storm water ponds by treating water at its source (NAHB Research Center 2003).

Builders and developers can attain significant cost savings by using LID strategies, as well as increasing project marketability (NAHB Research Center 2003b). Specifically, LID decreases costs by reducing land clearing and grading costs, infrastructure costs and storm water management costs. More than \$70,000 per mile can be saved due to decreased street infrastructure costs alone (NAHB Research Center 2003b). LID strategies also increase project marketability because communities designed to maximize open spaces and conserve mature vegetation are extremely marketable and command higher lot prices, while most homeowners perceive LID practices as additional builder landscaping (NAHB Research Center 2003b).

For example, in a development in suburban Maryland, LID strategies eliminated the need for stormwater ponds, saving the developer approximately \$300,000, allowed for the gain of six additional lots and their associated revenues, and reduced finished lot cost by approximately \$4,000 (NAHB Research Center 2003c).

Studies indicate that benefits of LID techniques can be expected to be similar in Washington State. Kensington Estates is a development in Pierce County containing 103 single-family homes. The development was planned utilizing infrastructure-intensive end of pipe storm water approaches. An analysis was carried out to redesign the site using LID practices. The analysis indicated that the redesigned LID site would preserve 62 percent of the site in open space, maintain the project density of 103 lots, reduce the size of storm pond structures and eliminate catchments and piped storm conveyances (NAHB Research Center 2003b). Overall, the LID redesign was estimated to translate into construction cost savings of over 20 percent (NAHB Research Center 2003b).

Other financial benefits associated with LID include reduced wetland impacts and associated fees, multiple regulatory credits for environmental protection, potential for reduced taxes and fees, and reduced infrastructure maintenance costs (Low-Impact Development Center 2004).

The total cost of LID is also lower when the full costs of development are considered. The full costs include the costs to the developer as well as the costs borne by neighbors, communities, and government agencies. Traditional development approaches often start with a site that naturally handles water runoff but which after development can create significant problems for neighbors and government agencies. These problems include flooding of downstream neighbors, the need to mitigate storm water impacts, and harm to sewer and septic tanks. Economic efficiency requires that those who benefit financially from a market activity pay for the full costs of their activities rather than shifting those costs to others.

New knowledge and insights bring new choices -- new ideas about how to do things better. Past development practices have cleared all native vegetation, graded lots flat, and paved without any consideration for hydrology, resulting in increased costs for storm water conveyance. LID involves a design tailored to the site conditions including water run-off, native vegetation and topography.

This new approach can provide clear benefits both to the bottom line and to the community.

MYTH #4: IT IS TOO COSTLY TO SAVE TREES WHEN BUILDING DEVELOPMENTS.

THE FACTS: The presence of trees can increase the value of a property by 10-30 percent.

Summary

Like other low-impact development approaches, tree retention requires altering traditional development practices. In past decades, many developers prepared sites for development by clearing the site of all trees, thus depleting the benefits (called natural or ecological services) that trees provided to the community. Today we know that while maneuvering around trees may require more attention during development, it can yield a final lot price increase of 10-30 percent, while protecting valuable ecological services.



Terri Hathaway

In depth

Traditional development practices involved clearing a site of all trees before developing. This approach came at significant cost to ecological capital. Mature trees improve the aesthetic character of a yard and region, lend shade, frame buildings, create habitat, break winds, and provide an appearance of maturity to the landscape (USDA Forest Service 1993). In addition, a single mature tree removes between 120-140 pounds of pollutants from the air and reduces storm water runoff (Scenic America 2004). A street lined with 32 foot tall trees can reduce runoff by almost 327 gallons, allowing cities to install smaller and less expensive storm water management systems (Scenic America 2004). Trees also reduce noise pollution. Studies suggest that belts of trees 100 feet wide and 45 feet long can cut highway noise in half (Alaska Department of Natural Resources 1999). Studies show lowest bird diversity in areas with minimal tree cover and greatest diversity in areas of high tree cover and large trees (Melles et al. 2003). Thus, development practices that remove all trees decrease ecological services available to the local community. Newly planted seedlings will take decades to generate the ecological services offered by mature trees.

In the South Puget Sound region, areas with high vegetation and tree canopy coverage have declined by 37 percent by 1996, while areas with little or no canopy coverage have increased from 25 percent of the region to 57 percent (Taylor 2003). As a result, significant ecological services have been lost.

But updating practices to retain ecological services doesn't have to be a painful step. Developers who revise their practices to save trees stand to benefit financially as well. Numerous studies document the fact that developed lots with trees sell for significantly more than lots without. Petit, Bassert and Kollin summarize data indicating that the sale price of developed lots with trees is 20-30 percent higher (Petit et al. 1998). A number of studies have shown that real estate agents and homebuyers assign between 10 and 23 percent of the value of a residence to the trees on the property

(USDA Forest Service 1993). A survey by Bank of America Mortgage found 84 percent of real estate agents surveyed believe that lots that are naturally wooded are around 20 percent more saleable than lots that are not (Fisette and Ryan 2002). Researchers at the National Association of Home Builders found that 89 percent of homeowners polled wanted as many trees as possible left on their house lots in the building process (Fisette and Ryan 2002).

Tree retention, and other LID practices, involve doing things differently and benefiting from evolving knowledge, technology and norms. With a constructive and up to date approach, tree retention can generate gains for all parties.

MYTH #5: PRESERVING WETLANDS AND MAINTAINING BUFFERS AROUND THEM IS TOO COSTLY RELATIVE TO THE VALUE OF SAVING THEM.

THE FACTS: Wetlands provide flood protection and other ecological services worth tens of thousands of dollars per acre.

Summary

A third of the wetlands in Washington state have already been filled or destroyed. The remaining wetlands provide crucial habitat value as well as many other ecological services. If additional wetlands are lost, taxpayers may incur significant liabilities to replace particular wetland ecological services, such as flood control and waste filtration. The high value provided by these ecological services, a portion of which is quantifiable in dollar value, fully justifies the costs of saving them.

In depth

Pre-settlement, Washington was host to more than 1.3 million acres of wetlands. Current estimates show that just 900,000 acres remain—a 33 percent loss (Washington State Department of Ecology 2000). Wetlands provide many valuable ecological

services such as ground water recharge, improvement of water quality, nutrient cycling, habitat for aquatic, terrestrial and avian species, refugia, biomass production, flood control, and stabilization of sediment (Woodward and Wui 2001). Wetlands are especially important for habitat, with 43 percent of federally listed threatened and endangered species relying directly or indirectly on wetlands for their survival (U.S. EPA 2003).



U.S. Bureau of Reclamation

When wetlands are lost, taxpayers incur real dollar costs to replace the services that they provided. For example, a Washington State study on the value of flood protection provided by wetlands in Renton and Lynnwood found that Lynnwood wetlands yielded a flood protection benefit in the range of \$7,800/acre and \$51,000/acre, and wetlands in Renton yielded a flood protection benefit in the range of \$41,300/acre to \$48,200/acre (Leschine et al. 1997). Similarly, a draft study conducted in Portland indicates that creation of a wetland to prevent flooding in a frequently flooded area

of Southeast Portland would prevent flood damage amounting to more than \$500,000 per flood. This figure is based on actual damages to local homeowners in previous floods in this area (Rojas-Burke 2004).

Other regions in the country have documented other aspects of the ecological services provided by wetlands. A 1990 study found that the Congaree Bottomland Hardwood Swamp in South Carolina removed the same amount of pollutants as the equivalent of a \$5 million waste water treatment plant (U.S. EPA 2003). A study in Georgia revealed that a 2,500-acre wetland saves taxpayers \$1 million in water pollution abatement costs (U.S. EPA 2003). While the exact dollar values provided by comparable service may differ in Western Washington, clearly the ecological service of waste filtration has significant value here as well.

Wetlands also serve aesthetic and other functions for residents of the Northwest. Property values are one indicator of the aesthetic and recreational services provided by wetlands. In Portland, one study found that the closer a residential property is to wetlands, the higher the property value. For every 1,000 feet of additional proximity to wetlands, residential property values increased by \$436 (Mahan et al. 2000).

In sum, the wetlands remaining in Washington State provide valuable ecological services. These ecological services, provided for free and in perpetuity, are lost when wetlands are damaged or over-developed. When the ecological services provided by wetlands are lost, taxpayers must pay both today and in the future. Some of the functions provided by wetlands, such as the habitat function, are irreplaceable at any level of dollar investment.

MYTH #6: GROWTH REGULATIONS MEAN A BUILDABLE LAND SHORTAGE.

THE FACTS: The Growth Management Act (GMA) requires all counties fully planning under the GMA to include enough land in the urban growth areas to meet needs for housing, employment, and public uses. The counties fully planning under the GMA are the counties that face most significant growth pressures: Clark, King, Kitsap, Pierce, Snohomish, and Thurston. Analyses conducted by these counties have demonstrated that there is adequate land within each county to meet all projected growth needs for a 20-year planning period.

Summary

Starting in 2002, the Washington Growth Management Act requires an analysis every five years to ensure adequate land within the Urban Growth Boundaries of large, rapidly growing Western Washington counties to meet projected housing and job needs. These “buildable lands” counties are Clark, King, Kitsap, Pierce, Snohomish, and Thurston Counties. Each of these counties has completed a buildable lands analysis, and each of these analyses indicates sufficient land to meet projected needs. This is not surprising given that other comparable urban centers, such as Portland and Vancouver, B.C., have growth patterns several times as dense as that of the greater Seattle-Tacoma area.

In depth

Washington State’s Growth Management Act (GMA) requires that all cities and counties provide land sufficient to meet housing and job needs for the next 20 years. In addition, the GMA requires Clark, King, Kitsap, Pierce, Snohomish, and Thurston counties to prepare regular buildable lands analyses (RCW 36.70A.215). Under this requirement, data are to be evaluated every five years to determine if sufficient suitable land is available to accommodate State of Washington Office of Financial Management population projections, including a review of commercial, industrial and housing needs for the remaining portion of the 20 year planning period

established in the most recently adopted comprehensive plan.

The first round of buildable lands analyses was required to be completed by September 1, 2002. Each county’s buildable lands analysis documented sufficient land within the county’s urban growth area to meet projected housing and job needs (Clark County 2002, King County 2002, Kitsap County 2002, Pierce County 2002, Snohomish County 2002, Thurston County 2002). The next round of buildable lands analyses is due on September 1, 2007.

The adequacy of buildable lands within Urban Growth Boundaries to meet 20-year projected growth needs is not a surprise. According to Northwest Environment Watch (NEW):

If the region increases average urban and suburban densities just slightly more, the Seattle-Tacoma area will accommodate all the projected population rise through the year 2025 without increasing the overall area of urban or suburban zones at all – yet the metropolitan area would still not be as compact as greater Vancouver (B.C.) today (Northwest Environmental Watch 2002).

In addition, the Growth Management Act requires regular reviews of the urban growth area (every 10 years or more). This requirement, in combination with the buildable lands analysis requirement, will ensure counties will have an adequate amount of buildable land over future decades.

MYTH #7: REGULATIONS RAISE DEVELOPERS’ COSTS TO THE POINT WHERE THEY WILL NOT BE ABLE TO CONTINUE BUILDING, LEADING TO HOUSING SHORTAGES.

THE FACTS: Recent record-breaking housing starts and basic market principles show that regulations never have and will not cause developers to stop building.

Summary

When Washington State had only one million people, we had little need for environmental regulation directed toward managing growth. As our population approaches six million, our elbows are closer together. Greater regulation ensures that the costs of growth are borne by those who benefit and that critical ecological services, once plentiful but now scarce, are protected.

However, increased environmental regulations have not dampened housing development in Washington State or elsewhere. National housing starts hit record levels in 2003. Housing starts were on the upswing even in the comparatively depressed Washington State economy.

Market conditions are ever changing. Basic market principles of supply and demand dictate that developers who adjust to new market conditions, such as changing regulations, will keep building to meet demand and make a healthy profit. In contrast, developers who cannot abide by new conditions or rules will not be competitive and will lose market share.

In depth

According to the Washington Association of Realtors, housing sales and new home construction both reached record levels nationally in 2003, while new housing starts rose to their highest levels in decades (Washington Association of Realtors 2003). The National Association of Builders issued a similar press release, stating that:

In a phenomenal year for the nation's housing industry, home builders stepped up production in November, surpassing the 2 million-unit mark for the first time since February of 1984 ... Low mortgage interest rates and solid increases in home values have been fueling demand for both single-family homes and condominiums in multifamily buildings (National Association of Home Builders 2003).

These record housing starts coincide with increased development regulations by local governments over the past several decades in almost all regions of the country.

Even in Washington State, which continued in an economic slump as compared to much of the country, housing starts also increased (Simonson 2003).

This does not mean that increased regulations are without increased costs to developers or homeowners; however, increased environmental regulations are necessary because the costs of development to neighbors, communities and the environment have also increased. Regulations also provide significant economic benefits to all of us.



Kristen Wilson

The first person to fill an acre in a large flood plain does no noticeable damage to others. However, as filling proceeds, it exacts tremendous costs in flooding of downstream neighbors, flood prevention engineering costs paid by other taxpayers, habitat loss, and endangered salmon and other species. Improving environmental regulations ensures that development does not shift costs onto neighbors, taxpayers or future generations.

As stated above in the summary, basic market principles of demand and supply dictate that developers who adjust to new market conditions, such as changing regulations, will keep building to meet demand and make a healthy profit. In contrast, developers who cannot abide by new conditions or rules will not be competitive and will lose market share.

MYTH #8: GROWTH-MANAGEMENT REGULATIONS PREVENT DEVELOPERS FROM PRODUCING AFFORDABLE HOUSING.

THE FACTS: Well-thought out growth management programs, like Washington's Growth Management Act, encourage housing affordable to all income groups. Housing affordability problems result from market failure. They need to be addressed through proactive public programs.

Summary

Improved efforts are needed to address housing affordability in some counties of Washington State, where housing is currently not affordable for households in lower income brackets. Any effective effort to improve housing affordability will have to focus on the real causes of the housing affordability problem.

Extensive evidence shows urban growth boundaries and other environmental protections are not the cause of housing affordability problems. In fact, the Growth Management Act is a tool to help address affordable housing problems because it requires local governments to provide for adequate, affordable housing and

requires that growth occur first where infrastructure is nearby, which results in lower costs.

In depth

To discuss housing affordability, it's important to begin with the definition of housing affordability and an overview of data on housing affordability in Washington.

According to the U.S. Department of Housing and Urban Development definition, housing costs should consume no more than 30 percent of a household's budget (Snohomish County Department of Planning and Development Services 2003). This definition of affordable housing assumes that a renter household does not spend more than 30 percent of its income on housing costs, including utilities. For homeowners, an affordable mortgage payment is defined as 25 percent of household income, which allows 5 percent of income for other costs such as taxes, insurance, utilities and maintenance (King County Office of Regional Policy and Planning 2000).

Housing affordability is a real problem for first-time buyers in some Washington counties as well as for low-income renters.

Data tabulated quarterly by Washington Center for Real Estate Research ("Center") indicates that overall housing affordability in Washington State is actually fairly high. Commenting on data from the most recent quarter, the Center states:

The Housing Affordability Index, which measures the ability of a middle income family...to afford to purchase a median price home using a 30-year mortgage at prevailing interest rates...increased modestly by 134.4, meaning the typical family could afford to purchase a home priced 34 percent higher than the median. Housing was again rated as affordable in every county in the state except San Juan during the quarter (Washington Center for Real Estate Research 2004).

Affordability for first-time homebuyers was significantly lower with an affordability index of 78.4 (Washington Center for Real Estate Research 2004). Thus, housing affordability for first-time buyers is a significant issue in many Washington State counties and is in need of improvement. Several facts provide important context for this statistic, however.

The first is that typical first-time buyers are buyers with 80 percent of median household income (King County Countywide Planning Policies Benchmark Program 2003). By definition, this category of buyers would struggle somewhat to afford a median-priced home.

The second is that this difficulty in affording a first-time home is part of a long-term trend. For example, in King County in 1990, before the Growth Management Act went into effect, the cost of a median priced home was nearly twice the price a first-time homebuyer could afford. In 2003, the gap had narrowed relative to income to a (still high) cost of 35 percent above the first-time buyer's affordable price (King County Countywide Planning Policies Benchmark Program 2003).

The third fact to consider is that Washington State is experiencing rapid growth in homeownership, with 2 out of 3 households owning the homes they live in (King County Countywide Planning Policies Benchmark Program 2003). Homeownership in the Seattle/Bellevue/Everett area is almost as high, at 64% (King County Countywide Planning Policies Benchmark Program 2003).

Some counties also suffer from a serious problem of affordability for lower income renters. In King County, for instance, there are insufficient affordable rental units available to households earning 40 percent of median income and below, with a particular problem for households earning less than 30 percent of median income (\$20,000) (King County Countywide Planning Policies Benchmark Program 2003). For this group, consisting of 74,300 renter households in King County in 2003, about 4,200 affordable market-rate units were available (King County Countywide Planning Policies

Benchmark Program 2003). This deficit is partly addressed through about 30,000 units of subsidized housing (King County Countywide Planning Policies Benchmark Program 2003), but a significant gap remains, leaving many households in precarious situations. Estimates of the total homeless population in King County increased from 6,500 in 2000 to 7,980 in 2002 (King County Countywide Planning Policies Benchmark Program 2003). Other counties report similar statistics. For example, in Snohomish County, households earning 30 percent of median income or less had almost no private, affordable market rental or ownership units available to them (Snohomish County Department of Planning and Development Services 2003).

In sum, there is a housing affordability problem in Washington State. The problem primarily affects first-time homebuyers in rapidly growing counties, including King, Pierce, Thurston, Snohomish, and San Juan, as well as renter households earning less than 30 percent of median income.

Extensive evidence shows that urban growth boundaries are not the cause of housing affordability problems.

Significant evidence indicates that urban growth boundaries do not cause affordable housing problems.

A study in Portland found that Portland's Urban Growth Boundary did not decrease the affordability of housing and that economic cycles were responsible for housing price shifts (Goodstein 2000). The prestigious Brookings Institution came to the same conclusion after a full review of the literature on urban growth boundaries and affordable housing (Brookings Institution 2002).

Perhaps the most persuasive evidence that urban growth boundaries are not linked to housing price increases comes from King and Snohomish Counties. After adopting its Urban Growth Boundary (UGB) in 1995, King County in 2000 analyzed housing price data for a relationship between the UGB and housing prices

(King County Office of Regional Policy and Planning 2000). It did not find one. Instead, the analysis revealed that as of 2000, the price of land on the urban side of the UGB had increased about four percent per year in real dollars since 1982, a rate of increase in price “typical of what has happened to urban land historically and across the nation” (King County Office of Regional Policy and Planning 2000).

The cost of a standard housing lot on the urban side of the UGB in King County accounted for nine percent of the cost of a new home in 1999 just as it did in 1982 (King County Office of Regional Policy and Planning 2000). As a proportion of the cost of all existing homes, the cost of land had stayed about the same—it was 11 percent in 1982 and 12 percent in 1999 (King County Office of Regional Policy and Planning 2000). In addition, the prices of housing increased much faster during the late 1980s than the second half of the 1990s. In real (adjusted for inflation) dollars, the average price of existing homes rose five percent per year during the 1980s compared to two percent per year in the 1990s. The real price of new homes increased three times as rapidly, rising six percent per year in the 1980s compared to two percent per year in the 1990s (King county Office of Regional Policy and Planning 2000). As compared to other cities, many of which did not have UGBs, Seattle housing prices did not increase faster. According to King County:

During the past decade, the Seattle-Bellevue Everett Metropolitan Area has experienced a slower increase in housing prices than any other major metropolitan region in the West, with the exception of San Diego. It has also experienced a better balance between income and housing price growth than any western region except for San Francisco and San Diego. San Francisco, San Jose, Phoenix, Salt Lake City, and Denver, all experienced rates of income growth similar to Seattle during the 1990s but their housing prices grew at a faster rate. In Phoenix, Salt Lake City, Denver and Portland, the rate that housing prices

increased in comparison to median income was much higher. Those cities also had high annual population growth. The growth in nearly all these metropolitan regions corresponds to the compound effect of their rapidly growing median incomes and their above average rates of population growth. Most of these metropolitan areas that experienced faster rates of growth in housing prices don’t have urban growth boundaries or geographic constraints (King County Office of Regional Policy and Planning 2000).

Data analyzed by the Snohomish County Department of Planning and Development Services revealed a similar lack of relationship between housing affordability and growth management:

Analysis of historical housing sales prices in Snohomish County does not show a link between the implementation of the Growth Management Act and increases in housing sale prices. Instead there is a strong relationship between net migration of population into the County and rates of change in housing prices. This finding suggests that when net in-migration to the county is high, the demand for housing rises, and this demand drives up housing prices ... The data does not show a positive relationship between GMA and increases in housing prices. The largest decade rate of housing value increase over the last 50 years occurred between 1970 and 1980 when values increased by 224.5%. This compares to a 54.5% increase in housing value between 1990 and 2000 ... The period between 1990 and 2000, when the Growth Management Act and Urban Growth Areas were implemented, saw the smallest rate of housing value increase since the 1950s (Snohomish County Department of Planning and Development Services 2003).

Two studies attempted to draw a link between the urban growth boundaries and housing affordability, as detailed in a 1000 Friends of Washington brief (Trohimovich 2002).

The first study, conducted by The Reason Public Policy Institute, compared high-growth urban counties, such as King and Pierce, fully planning under the Growth Management Act (GMA) to slow-growth rural counties, such as Clark and San Juan, not using full planning practices under the GMA. The study drew the faulty conclusion that urban growth boundaries drive up housing prices. In fact, the primary factor for driving up housing costs in King and Pierce Counties as opposed to rural counties was growth, not planning requirements. For example, between 1990 and 2000, the population of the fast-growing counties increased by 993,686 while the population of the slow-growing counties increased by 33,743 (Trohimovich 2002). Had nearly a million people moved into Clark and San Juan Counties, housing costs would most certainly have risen. The study blamed the solution—growth management—for the problem, growth.

In addition, the study did not account for the significant increases in home size and quality that occurred in many Washington counties in the 1990s. An analysis of housing costs by King County indicated that during the 1990s the average single-family home grew by 300 square feet and included significant additional amenities, like high-end kitchens. The analysis determined that the increased size and improved amenities increased housing prices (Trohimovich 2002). It also failed to account for the public costs of development, such as those discussed under Myth #1 relating to impact fees.

A second study is *Growth Management: A Clark County Housing Affordability Study*. This study concluded that prices of existing homes in Clark County increased by 16 percent since 1995 due to the urban growth area and other measures and that new housing prices also reflected this effect. The main flaw in this study is that Clark County began implementing the GMA before 1995 (Trohimovich 2002). For instance, it adopted transportation impact fees starting in 1990, critical areas regulations in 1992, and an interim growth area in 1993. In addition, the study also did not account for employment and income growth. As a result, the 1000 Friends of Washington brief concluded that changes in existing

housing prices occurring after 1995 could not be ascribed to the GMA (Trohimovich 2002).

In sum, no credible data establish a link between housing affordability and urban growth boundaries in Washington State.

What is the cause of the affordable housing problem and what can be done about it?

Affordable housing problems are due to several factors.

First, rapid growth pressures—typically the result of an expanding economy generating jobs and drawing new residents—are closely linked to increased housing prices (Fodor 1999; Brookings Institution 2002).

A second key factor that drives up housing prices, thus in some cases affecting affordability, is demand for larger and higher quality houses.

Because there is a demand for bigger and better houses by the 40% of the population earning 120% of median income and above, the building industry has responded with homes that are of “custom” or “estate” quality, have a higher average square footage than a decade ago, and include more amenities (more bathrooms, garage space, appliances). In other words, the more “house” people can afford, the more construction costs and sale prices will escalate to produce that quality of home (King County Office of Regional Policy and Planning 2000).

A third related problem is that builders are often drawn toward building for the higher end of the market due to the greater profit, as compared to the profitability of building economy homes (Fodor 1999). A study of housing costs in Oregon sponsored by the Oregon Building Industry Association and others found that builders were choosing to construct more expensive homes (1000 Friends of

Oregon 2000). Dynamics such as these may mean that fewer affordable economy homes are constructed.

A fourth contributor to the housing affordability problem is the sub-living wage salary earned by many full-time workers. Housing affordability is measured in terms of what the median household can afford and is thus significantly impacted by local income levels (Fodor 1999). The present national erosion of manufacturing jobs and increase in lower paying retail and service jobs therefore contributes to the affordability problem, along with a state unemployment rate that continues to range above the national average (Washington State Employment Security Department 2004) and a highly regressive state tax system (Asia Pacific Environmental Exchange 2003). During the 1990s, the greatest economic boom in our state's history, the poorest nine percent of the population became poorer and were forced to work more hours to make ends meet (Evans School of Public Affairs 2001).

A final key factor responsible for housing affordability problems is that the private market is generally not able to provide units at a cost affordable to households that earn 30 percent of median income and below (Snohomish County Department of Planning and Development Services 2003).

The demolition of existing low-income housing in Seattle in areas experiencing high growth can exacerbate this problem. Apartment buildings with lower-rent units are often at risk of being demolished to make way for larger buildings with much higher-priced apartments. Even when some units are designated as "affordable," the units may still be priced significantly above the former rent or the market rate in the neighborhood.

Affordable housing solutions

For all of the above reasons, the market alone cannot provide sufficient affordable housing. As a result, proactive policies are

needed to meet affordable housing needs (Brookings Institution 2002).

The Growth Management Act (GMA) advances such proactive policies by placing governments under affirmative, binding obligations to provide affordable housing to all income groups. Before the GMA, no such obligation existed.

Specifically, among other requirements, the GMA requires counties and cities to adopt a housing element that includes goals, policies, objectives and mandatory provisions to preserve, improve and develop housing, including single-family residences. The element must identify sufficient land for housing including assisted housing, housing for low-income families, manufactured housing, multifamily housing, and group homes and foster care families. The element must also provide for the existing and projected housing needs of all economic segments of the community (RCW 36.70A.070(2)). Failure to comply with these obligations can be appealed to the appropriate Growth Management Hearing Board, which has legal power to enforce its decisions. In essence, the GMA requires governments to implement proactive affordable housing and provides citizens an opportunity to hold local governments to these responsibilities.

State and federal funds are also important to help meet the affordable housing needs of those making 30 percent of median income or less. Important affordable housing programs in need of additional funding include the Washington State Housing Trust Fund, and federal programs such as Section 8 and the Low Income Housing Tax Credits program (Washington Low Income Housing Network 2003). In addition, to ensure that demolition of low income units does not outpace construction of new low income units, governments could require one for one replacement of lost units at rents below a certain threshold and enact right of first refusal laws that allow residents the opportunity to buy their buildings before they are sold to developers who would demolish them or convert them into high-rent units.

Another important means of increasing housing affordability is to advocate for economic policies and employer practices that increase living wage jobs. The most effective policies for increasing housing affordability involve providing high wage jobs, increasing real wages for the lowest wage earners, improving credit and keeping interest rates low.

In sum, Washington State does have a housing affordability problem but it is not caused by the GMA. In fact, the GMA is a tool to help address the problem.



Puget Ridge Cohousing

MYTH #9: ENVIRONMENTAL REGULATIONS AND REQUIREMENTS VIOLATE PRIVATE PROPERTY RIGHTS.

THE FACTS: The Supreme Court has ruled that a regulation results in a taking only when the regulation removes all or substantially all of a property's value. "Taking" is short hand for a government action that obligates the government to pay compensation to a property owner.

Summary

Despite the claims of takings advocates, growth management and development regulations are fully consistent with the U.S. Constitution.

Takings advocates assert far-reaching rights for private property while tending to underplay the interests of impacted neighbors, as well as societal contributions to the value of private property holdings.

In depth

The Fifth Amendment to the U.S. Constitution provides that private property shall not be taken for public use without just compensation. Thus, for example, if the government uses its powers of eminent domain to take a person's property to obtain a right of way for a road, the government must pay the property owner for the property. In addition, if a regulation eliminates *all or substantially all of a property's value*, a taking has occurred and compensation is required (Georgetown Environmental Law & Policy Institute 2004).

However, for more than 200 years, the Supreme Court has consistently held that when a government regulation to protect public safety, health, or other public interest incidentally affects property values, no taking has occurred and no compensation is required. The risk that the law may change, increasing or decreasing property value, is an ordinary risk of doing business. This approach balances the rights of a private property owner against the rights of other affected property owners, as well as the

public health, safety and welfare. This deeply rooted tradition is at the heart of our system of governance. It continues to be reaffirmed (see for example the Supreme Court's 2002 decision in *Tahoe Sierra Preservation Council v. Tahoe Regional Planning Agency*).

While some advocates in the takings movement wish that the Supreme Court would classify environmental regulations generally as takings, this approach is contrary to our Constitution and has been rejected by the courts.

The great bulk of land use and environmental regulations are thus fully constitutional. These regulations typically include special provisions to prevent takings, such as reasonable use exceptions that ensure that all properties have some economic use. The changes takings advocates suggest would strengthen certain private property rights while weakening the rights of neighbors, other members of society, and future generations, and undermining the capacity of government to regulate in the public interest.

A few additional considerations are also worth keeping in mind in discussions about private property rights.

First, in some cases, anger directed by takings advocates against the government is misplaced. Consider a landowner who is upset about not being able to build on his or her flood plain property. Filling in the flood plain will result in flooding downstream property owners. Just as the land owner does not have the right to poison the groundwater beneath their property, and other people's wells, the property owner does not have the right to take an action that floods out the neighbors downstream. Today, many individuals are increasingly recognizing their interrelationships with others who share the same watershed. This lays the groundwork for finding ways to work together to resolve drainage issues fairly.

Second, it is worth being aware of "givings" — the contribution made by society to a landowner's property value. Public infrastructure provided by taxpayers and investments by neighboring property

owners are often responsible for increased property values of private parcels. For example, undeveloped land distant from public infrastructure and private investment typically has a very low market value. While the value contributed by a building is generated by the landowner's contribution, the value of the land located in a commerce center is generated largely by society's contribution. One way to recognize the value of societal contributions to the value of land is to tax land and buildings at different rates. One example of such a mechanism is the split rate tax used in some counties and cities of Pennsylvania (Hartzok 1998). These taxes can be used to decrease sprawl and increase equity (Hartzok 1998).

Third, as we increasingly recognize the great value created by flows of services generated by ecosystems, society may decide to think further about questions related to ownership of the ecological services generated by a piece of property. Because healthy ecosystems are self-organizing, ecosystems left undisrupted produce benefits in perpetuity. We already recognize some limits on the ability of landowners to destroy ecological services. For instance, landowners may not pollute the groundwater below their property. Such issues are important for a number of reasons, including the fact that future generations are not able to bid in today's market or otherwise take actions to preserve a share of ecological services for themselves.

In summary, the great bulk of land use and environmental regulations are fully constitutional.

MYTH #10: GROWTH MANAGEMENT HEARING BOARDS MAKE POOR LEGAL DECISIONS.

THE FACTS: Growth management hearing boards ensure that GMA disputes are resolved by those with significant relevant expertise. Almost all growth management hearing board decisions are upheld by higher courts.

Summary

Parties with disputes regarding implementation of the Growth Management Act bring their disputes before one of three Growth Management Hearing Boards, rather than filing a case in a Washington Superior Court. These boards resolve GMA disputes more rapidly, with less cost and a higher level of expertise, than would be possible if GMA cases were originated in the Superior Court system.

In depth

In 1991, a year after passing the Growth Management Act, the Washington State Legislature formed Growth Management Hearings Boards. In light of the overburdened court system, these boards were created so that land use disputes could be resolved in a timely manner.

Three Growth Management Hearings Boards exist in Washington, including the Central Puget Sound Growth Management Hearings Board, the Western Washington Growth Management Hearings Board, and the Eastern Washington Growth Management Hearings Board (Washington State Growth Management Hearing Boards 2004). These boards function as quasi-judicial panels and hear claims that a local government or state agency has not complied with the requirements of the GMA, or of a related law, such as the Shoreline Management Act (SMA) and the State Environmental Policy Act (SEPA). If a case is filed, the board will determine whether the challenged government action complied with the relevant provisions of the GMA and other applicable laws. Three individuals appointed by the Governor serve on each board. By law, the board must include at least one attorney and one former local elected official. In addition, all board members must be qualified by training or experience in land use matters and live within the region for which his or her board has jurisdiction. No more than two board members may reside in the same county, nor be members of the same political party (RCW 36.70A.260).

Some individuals critical of the GMA argue that the growth management hearing boards should be abolished (Trohimovich 2002). This, however, would channel GMA cases into the Superior Court system, resulting in significant delay in resolution. In addition, it would mean that judges who may lack significant expertise in land use matters would resolve cases, instead of GMA experts. Legal scholars who have thoroughly reviewed the functioning and history of the GMA agree with this perspective. In a 1996 University of Washington Law Review article, Derek Woolston concluded that:

The boards are vital to the successful implementation of the GMA. They alleviate the burden on the superior court system, provide a timely means of dispute resolution, and offer a high level of expertise in land use management. The large number of petitions heard by the Boards and the constant backlog of cases in superior court demonstrates the need for a separate GMA dispute resolution system. Moreover, Board members must be experts in the field of land use planning, thus resulting in a better understanding of the issues. Presumably, fewer parties would appeal local government actions directly to the superior courts due to the high litigation costs, thus disputes may go unresolved, conflicts may escalate and the GMA may be much less effective at managing urban sprawl (Woolston 1996).

An additional indication of the quality of the Growth Management Hearings Boards' decision-making process is the low rate at which their decisions are reversed. In cases when a board's decision is appealed to Superior Court, the courts almost always uphold the boards' decisions. The Growth Management Hearing Board decisions have been upheld in their entirety 94.7 percent of the time (Trohimovich 2002). In many of the remands, the boards' decisions were upheld in part (Trohimovich 2002).

A peer review team recently reviewed the practices of the Western Washington Growth Management Hearings Board. They concluded that:

It is the conclusion of the Peer review Team that after more than a decade of conducting hearings and issuing decisions, the Western Washington Growth Management Hearings Board is accomplishing its mandate in a fair and efficient manner (Western Washington Growth Management Hearings Board Peer Review Team 2002).

In sum, the Growth Management Hearing Boards system provides a means of ensuring timely resolution of GMA disputes by individuals with significant relevant expertise.

CONCLUSION

Our quality of life depends on good land use practices, growth management, and critical areas protection. Better development is both essential and attainable. Processes now unfolding give citizens, public officials, and developers many opportunities to support development approaches that build healthy communities, contribute to economic progress, increase affordable housing supplies, and strengthen ecological sustainability.

FURTHER RESOURCES

Ecological Economics

Two centuries of incomplete economic decision-making has eroded ecological systems that all humans depend on for life. The economic rules we use today were first described around 1790 by Adam Smith. In 1790, the population of the Earth was around 700 million people. The industrial revolution was just beginning. Natural capital was abundant and the science of ecology did not yet exist. Economics sought to address the problem of the scarcity of human-produced capital.

Today, the population of the Earth exceeds six billion people. Science has given us an improved appreciation of our dependence on natural systems. Human-produced capital (e.g., fishing boats) is relatively abundant while natural capital (e.g., fish in the sea) is becoming increasingly scarce. To a large degree, however, our economic system is still operating to solve the problems of the 1790s.

To address the need for updated economic tools, a group of economists and other thinkers founded the discipline of ecological economics. Ecological economics integrates multiple disciplines to create more sophisticated, accurate and useful economic tools better suited to address modern challenges, such as ensuring a high quality of life for all people and protecting the ecological systems we all depend on.

Ecological economics is a brand of market economics. Ecological economists believe that markets perform many roles well. On the other hand, however, markets also have certain blind spots. Ecological economists are developing tools that help address these blind spots. One blind spot is the failure of markets to value natural and social capital. Another blind spot is the inability of markets to adequately address problems with maldistribution and unfairness. Markets fail, for instance, in the area of affordable housing.

In the transition from an “empty” to a “full” world, humanity is discovering that the economy does not expand into a vacuum but instead expands at the expense of ecological services crucial to human well-being. Since the root goal of economics is to provide human welfare, the ecological economic measure of efficiency recognizes that human welfare is provided by both ecological services and human-made capital. This definition reflects the trade off between services gained and services lost as the economy grows.

Ecological economics argues that we should seek to derive as much value as possible out of the combination of human-produced and natural capital. As we go about meeting human needs, we should also recognize the valuable contributions to humankind from natural systems and make sure we retain these important services.

For more information on ecological economics, see the APEX website (www.a-p-e-x.org). APEX also provides skillshares on ecological economics, which range in length from thirty minutes to two weeks.

For more information on how you can promote sound development practices in your community, please contact:

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