Paul B. Siegel, Frank O. Leuthold, and Judith I. Stallmann

Planned Retirement/Recreation Communities Are Among Development Strategies Open to Amenity-Rich Rural Areas

Planned retirement/recreation communities are one way for rural areas with attractive amenities to develop their economies. These communities can benefit rural areas by providing new employment and income opportunities and by generating more local government revenues than costs. Tellico Village, TN, is an example of a planned community that added substantially to local government revenues through property taxes, but generated relatively few new jobs in the county.

DURING the 1980's, many rural areas in the United States faced declining employment, income stagnation, and outmigration of residents. Rural counties that were attractive for recreation, retirement, and related amenities contrasted sharply with the overall trend, gaining new residents and jobs (Cook and Mizer). Many researchers have promoted the inmigration of retirees as an economic development strategy for rural areas with attractive resources (Summers and Hirschl; Glasgow; Reeder and Glasgow; Reeder, Hopper, and Thompson; Fagan and Longino; and Miller and others). And, many rural areas have focused development efforts on attracting retirees and recreationists.

Inmigrating retirees may move into existing housing, build new homes in established residential neighborhoods, or be attracted to a planned residential community catering to them (Stallmann and Jones). Some planned residential communities are designed for older retirees and provide special health care for them. Other planned retirement/recreation communities target younger, healthier retirees. These communities are usually situated in resort settings centered around geographical and/or cultural amenities that attract retirees and recreationists.

Retirement/recreation communities affect the host area through changes in income and employment and changes in local government revenues and costs. The economic effects result from activities such as construction of infrastructure, home construction, lot and home sales, operation and maintenance of the community, and expenditures by residents and visitors that provide jobs and income for area residents. The fiscal effects result from changes in local government revenues from property and sales taxes and changes in costs for providing public goods and services to residents of the new communities.

This article focuses on planned residential developments that specifically target the newly retired and those approaching retirement age. Such developments also attract younger families for vacations, second homes, and permanent residences. This market niche, which is an "upscale" type of residential development, might not be accessible to many rural areas. An impact analysis for Tellico Village, a retirement/recreation community in Tennessee, highlights some of the economic and fiscal issues. The case study is place specific, but the methods used to estimate the retirement/recreation community's effect on the county can be applied to other planned communities.

Background on Planned Retirement/Recreation Communities

Since World War II, many retirees have moved to urban or suburban areas of Florida and California. However, according to the American Resort and Residential Development Association, the first planned retirement/recreation community is thought to be

---

Paul Siegel is a rural development economist with The World Bank, Frank Leuthold is a professor of rural sociology in the Department of Agricultural Economics and Rural Sociology at the University of Tennessee, Knoxville, and Judith Stallman is an associate professor and extension economist in the Department of Agricultural Economics at Texas A&M University, College Station.

Cherokee Village, opened in 1955 in the rural Ozark Mountains of north central Arkansas. Planned retirement/recreation communities are located in rural areas in other Sunbelt States such as Arizona, the Carolinas, Oklahoma, Nevada, Tennessee, and Texas. While the number of these planned communities is not known, in 1991, the University of South Carolina identified 128 developers of retirement communities in that State alone (Reeder, Hopper, and Thompson).

The retirees who reside in planned communities generally migrate from urban areas in the North, and are attracted by milder climate, less expensive housing, lower local taxes, less congestion, and the favorable amenity aspects of lakes, coastlines, and mountains. The typical amenity-seeking new retiree is married, well educated, has ample financial resources, and is in good health.

Economic and Fiscal Effects of Planned Retirement/Recreation Communities

A planned retirement/recreation community stimulates new economic and fiscal activity in a given area when it attracts new spending by inmigrants and visitors. The construction of infrastructure and homes, lot and home sales, administration, operation and maintenance of the community, and expenditures by residents and visitors generate new economic activity. Inmigrating retirees bring income from outside the area in the form of Social Security payments, pensions, annuities, and savings into the community. Some retirees also generate income from part- and full-time employment in their new community. And, visitors to the community also bring in dollars from outside the area. The spending by retirees and visitors flows through the local economy as purchases of goods and services from firms and individuals located in the area. This infusion of external funds into the local community can be viewed as a form of exports. Thus, a planned retirement/recreation community can be considered a type of light industry in terms of its economic and fiscal effects.

Studies of the economic effects of inmigrating retirees have focused on both the quantity and quality of newly created jobs. Many studies find that most of the jobs are retail and service related and tend to pay lower wages than jobs in manufacturing or higher skill services. However, any rural development strategy that depends on spending by households, such as recreation and tourism, is subject to this criticism.

In fact, household spending by residents of a planned residential community generates a wide range of employment opportunities, from low- to high-paying jobs. The problem facing many rural areas is their inability to capture many of the expenditures that create higher paying jobs because of their limited economic bases. That is, the types of businesses from which people purchase higher priced goods and services are not generally located in small rural communities, so those purchases and the higher wage jobs they support are lost to larger communities. The ability or inability to attract new businesses, and the type of businesses attracted, is a major determinant in the economic effects of a particular planned retirement/recreation community.

In addition, retirees in planned communities generate fiscal effects. For local governments the fiscal benefits received from property taxes, sales taxes, and other revenues are weighed against the costs of infrastructure and services for the planned community. A retirement/recreation community can potentially contribute a sizable share of revenues for local governments, depending on the characteristics of the inmigrating retirees and on the area's existing economic and fiscal structure.

Some researchers have speculated about possible negative fiscal effects of inmigrating retirees, such as increased local government costs for infrastructure, utilities, and health care and decreased revenues for schools and roads. Detailed analysis, however, shows that local governments face little in the way of additional health costs for retirees, according to current arrangements at the Federal, State, and local levels of government. Infrastructure and utilities costs depend on the use of existing capacity. If rural areas have unused infrastructure capacity, new residents would actually reduce the per unit costs of services for local residents.

Retirees are more likely to vote than other age groups, and some authors have argued that inmigrating retirees might vote against funding for education and roads favored by the longer term and younger residents. Alternately, inmigrating retirees can increase the local tax base and, because they are generally well educated, may support increased funding for schools. Inmigrating retirees are also often active volunteers in organizations that improve the level of local services, including education.

Background on Tellico Village, Tennessee

The planned retirement/recreation community we have studied in depth is Tellico Village in Loudon County, Tennessee. Tellico Lake, about 25 miles southwest of Knoxville, Tennessee, was created when the Tennessee Valley Authority (TVA) built Tellico Dam in the late 1970's. In 1985, Arkansas-based Cooper Communities Inc. won the option from TVA to buy about 4,600 acres of Tellico Lake shoreline property and develop a residential community on it. Cooper Communities Inc. also developed Cherokee Village, as noted above, possibly the first planned retirement/recreation community in the country. It also has developed other communities in Arkansas and South Carolina, and recently purchased land outside Branson, Missouri.

Beginning in 1986, Cooper Communities Inc. built the infrastructure (including roads, water systems, and sewer systems), recreational facilities (including a golf course, yacht club, and recreation center), and a majority of the homes in Tellico Village. Cooper Communities Inc. created a property owners association to operate and maintain Tellico Village's infrastructure, recreational facilities, and other public services. While Tellico Village is not incorporated, the property owners association adopts and enforces building regulations, issues building permits, and collects and spends revenues, much like a municipality. The property owners association's budget is financed by monthly property assessment fees collected from all property owners. In addition, a homeowners association was established by resident property owners to advise the property owners association, but it has no specific authority for operation of the Village.

The age structure of Tellico Village residents is skewed toward older groups. In 1990, the school age population (ages 5 to 17) in Tellico Village was only 6 percent, compared with the Loudon County proportion of 18 percent. At the other end of the age distribution, about half of Tellico Village residents were over age 55 compared with about a fourth of Loudon County residents. Based on 1990 Census data, the average household income of Tellico Village residents was about $60,000, twice the Loudon County average household income. Home values also differed widely—the median home value was $185,000 in Tellico Village, compared with $50,000 in Loudon County.

Economic Effects of Tellico Village on Loudon County

We use Tellico Village as an example of how planned retirement/recreation communities can affect their surrounding areas. USDA's Forest Service's IMPLAN input-output model was used to estimate the economic effects of Tellico Village on Loudon County. (See "Measuring Economic Effects with IMPLAN" for details on the modeling procedure.)

Unlike some retirement/recreation communities that are located in remote rural areas, Tellico Village is near a major city, Knoxville. In fact, the economic ties between Loudon and Knox Counties increased during the 1980's to the point that Loudon County was added to the Knoxville metro area in 1990. While Tellico Village's development was not a major factor in Loudon County's change to metro status, the community's proximity to Knoxville affects its economic and fiscal effects on Loudon County. Commercial activity in Tellico Village is limited to a gas station, a convenience store, a bank, and recreational facilities, such as the golf course and yacht club that residents pay to join.

Commercial activity in Loudon County is limited as well. Less than 40 percent of Tellico Village residents' household consumption expenditures are made in Loudon County, although this percentage varies by type of purchase. A large share of their expenditures for groceries and automotive operation and maintenance are made in Loudon County, while most of their expenditures for clothing, health services, entertainment, and food eaten away from home are made in Knox or other neighboring counties.

Some residents of Tellico Village commute to jobs outside Loudon County, and some residents of neighboring counties are property owners in Tellico Village to gain use of recreational facilities and to build second homes. In fact, a recent promotional advertisement refers to Tellico Village as "Knoxville's recreational community." This proximity of Tellico Village to Knoxville can have both positive and negative economic and fiscal effects on Loudon County. On the negative side, Loudon County loses more than half of Tellico Village residents' expenditures. On the positive side, Loudon County gains from the income Tellico Village residents bring in by commuting to outside jobs and from property taxes paid by non-Loudon County residents who own Tellico Village property.

We estimated that economic activity associated with Tellico Village generated about $34.7 million of direct expenditures in 1991 (table 1). Of total direct expenditures, only $11.7 million, 34 percent, was spent in Loudon County. In turn, those expenditures generated $3.7 million in income and 172 jobs in Loudon County. The jobs were estimated to provide an average income of $21,300, compared with the countywide average of about $20,000 per job. Excluding the 38 Cooper Communities Inc. administration and sales employees, the average income per job was estimated to be $17,800. Thus, many of the higher paying jobs are linked to the marketing of Tellico Village lots and homes, jobs which may gradually be phased out.

Additionally, we estimated that the indirect and induced rounds of spending caused by the direct expenditures generated $664,000 in income and 40 jobs in Loudon County, with an average income of $16,600 per job. The lower average income per job reflects a high proportion of lower paying retail sales jobs generated by these later rounds of expenditures.

Summing the rounds of expenditures results in Tellico Village's economic effects on Loudon County in 1991 being 212 jobs with an average income of $20,400 per job (table 2). While this number of jobs seems large, it represents a modest economic impact on Loudon County which had about 15,000 employed persons in 1991.

Fiscal Effects of Tellico Village on Loudon County

Loudon County is the primary local government unit receiving revenues from Tellico Village's economic activities and residents and extending public services to Tellico Village residents. To analyze fiscal effects of Tellico

Table 1

Direct economic effects of Tellico Village on Loudon County in 1991

Tellico Village's businesses and households spent $11.7 million in Loudon County, directly generating an estimated 172 new jobs and $3.7 million more income

Item	Expenditures: Total	Expenditures: Spent in Loudon County	Direct effect on Loudon County: Income	Direct effect on Loudon County: Employment	Estimated annual income per new job
	Dollars	Dollars	Dollars	FTE jobs	Dollars
Total Tellico Village	34,660,000	11,728,320	3,661,320	172	21,300
CCI wages	2,105,000	1,278,320	1,278,320	38	33,640
CCI nonwage expenditures	1,186,000	474,200	38,000	2	19,000
CCI promotional visits	990,000	204,700	90,000	5	18,000
CCI infrastructure	680,000	85,000	36,000	2	18,000
POA wages	1,194,000	640,000	612,000	34	18,000
POA nonwage expenditures	1,784,000	202,700	19,000	1	19,000
Home construction	8,721,000	2,183,400	948,000	50	18,960
Household expenditures	18,000,000	6,660,000	640,000	40	16,000

Note: FTE is full-time equivalent, CCI is Cooper Communities Inc., and POA is Property Owners Association of Tellico Village.
Source: Authors' estimates, see "Measuring Economic Effects with IMPLAN," p.13, for methods.

Table 2

Total economic impacts of Tellico Village on Loudon County in 1991

Adding indirect and induced effects to the direct effects increases the amount of income and the number of jobs created in Loudon County somewhat, but lowers the average income per job

Item	Total effect on Loudon County: Income	Total effect on Loudon County: Employment	Estimated annual income per new job
	Dollars	FTE jobs	Dollars
Total Tellico Village	4,325,320	212.0	20,400
CCI wages	1,350,320	42.5	31,770
CCI nonwage expenditures	47,000	2.5	18,800
CCI promotional visits	106,000	6.0	17,700
CCI infrastructure	54,000	3.0	18,000
POA wages	652,000	36.5	17,800
POA nonwage expenditures	28,000	1.5	18,700
Home construction	1,128,000	60.0	18,800
Household expenditures	960,000	60.0	16,000

Note: FTE is full-time equivalent, CCI is Cooper Communities Inc., and POA is Property Owners Association of Tellico Village.
Source: Authors' estimates, see "Measuring Economic Effects with IMPLAN," p. 13, for methods.

Village, we obtained information on tax revenues from Tellico Village and its residents received by local governments in Loudon County and the costs of services those governments provide to Tellico Village residents. We used a comparison of revenues and costs to determine Tellico Village's net fiscal effect on Loudon County's local governments.

Direct and secondary fiscal effects on Loudon County local governments were calculated. Direct fiscal effects were defined as those generated by Tellico Village property owners and residents, by Cooper Communities Inc., and by the property owners association. Secondary fiscal effects were defined as those generated by Loudon County residents who were non-Tellico Village residents and were employed in economic activities associated with Tellico Village. Total fiscal effects are the sum of direct and secondary fiscal impacts.

Before Cooper Communities Inc. bought the land from TVA, Loudon County received no property tax payments on the land now occupied by Tellico Village. The county property tax payable by Tellico Village in 1992 was estimated to be $1,021,000 (table 3). Tellico Village's share of Loudon County's property tax base was about 12 percent, whereas its share of the county's population was estimated to be only 3.5 percent. Additional local revenue was obtained through local sales and hotel taxes on expenditures made by Tellico residents and visitors within Loudon County. These contributions from taxable expenditures totaled $124,800, a small amount relative to the property tax revenues.

Services provided to Tellico Village residents by Loudon County's local governments include education, sheriff patrol and jail, industrial development, health and welfare, public safety, fire and ambulance, library, county government personnel, county building maintenance, court system, and other miscellaneous services. For education, we estimated per student costs of $1,560 for the 56 Tellico Village children attending Loudon County public schools, totaling $87,400 for the 1992 fiscal year. For the other services, we apportioned government costs to Tellico Village on the basis of Tellico Village's share of Loudon County's population. In 1992, Loudon County did not incur costs to provide infrastructure such as roads and utilities within Tellico Village. As noted above, the Village maintains that infrastructure through fees collected from property owners.

Total direct costs of providing local government services to Tellico Village residents in 1992 were $266,400. Subtracting direct costs from direct revenues leaves an estimated surplus of $879,400 for the 1992 fiscal year. This substantial fiscal surplus generated by the community is tempered slightly by the secondary effect Tellico Village had on Loudon County.

The secondary fiscal effect results from new jobs generated by Tellico Village being taken by residents of Loudon County. We estimated that the new jobs were taken by residents from households with Loudon County's average socioeconomic characteristics. We estimated that the households of these employees generated $73,900 in property taxes and $28,500 in local sales taxes, totaling $102,400 in government revenues. However, education for children in these households would cost an estimated $101,300 locally and nonschool services would cost another $62,400, totaling $163,700. Total local service costs exceeded the tax revenues, resulting in a deficit of $61,300 for Loudon County local governments.

Table 3

Fiscal effect of Tellico Village on Loudon County governments in 1992

Tellico Village generated much more revenue than costs, netting an estimated surplus of $818,100 for Loudon County governments

Item	Direct	Secondary	Total
		Dollars	
Revenues	1,145,800	102,400	1,248,200
Property taxes	1,021,000	73,900	1,094,900
Sales and hotel taxes	124,800	28,500	153,300
Costs	266,400	163,700	430,100
School ($1,560/child)	87,400	101,300	188,700
Nonschool (prorated)	179,000	62,400	241,400
Net fiscal effect	879,400	-61,300	818,100

Notes: School costs were estimated at $1,560 per child. Nonschool costs were prorated by population (number of Tellico Village residents as a share of total Loundon County population) for direct effects and number of persons in households with a Tellico Village employee, living in Loudon County but not in Tellico Village, as a share of total Loundon County population for secondary effects.

Source: Authors' estimates.

The total net fiscal effect on Loudon County local governments was estimated to be $818,100, about two-thirds of total revenues contributed by Tellico Village in 1992. The positive direct effects far outweighed the small negative secondary effects and produced a substantial positive fiscal impact overall. Loudon County officials cite Tellico Village as a major reason for the county maintaining constant property and local sales tax rates since 1986. Only 8 of Tennessee's 95 counties held their property and local option sales tax rates constant over this period. Our estimates of Tellico Village's fiscal effects support their conclusion.

Conclusion

The fiscal effects of Tellico Village were very positive for several reasons. Many high-valued residential lots without homes in Tellico Village provided tax revenues but required no local services. The mean value of homes in Tellico Village is much higher than the mean for Loudon county homes, providing much more property tax revenue than average. Few children in Tellico Village households kept educational costs down. And, with few new Loudon county jobs generated by Tellico Village, the negative fiscal effects of adding more moderate income households with more children (that is, households that generate more educational costs than tax revenues) were minimal.

The economic effect of Tellico Village on Loudon County was relatively modest at least in part because of the leakage of economic activity, mostly to neighboring Knox County. Unlike some similar communities located in more remote rural areas, Tellico Village's proximity to Knoxville pulls expenditures away from Loudon County. Economic development specialists often advocate policies to reduce leakages as a means of increasing economic growth and development. Some of the economic activity currently lost to neighboring counties may be captured by Loudon County in the future if it can attract new businesses. However, this analysis indicates that positive economic effects may lead to negative fiscal effects on local governments. That is, new jobs and subsequent inmigration of residents may have negative fiscal effects if inmigrants' socioeconomic characteristics only mirror existing Loudon County averages.

Measuring Economic Effects with IMPLAN

Input-output models are the most frequently used analytical framework for economic impact analysis. To assess Tellico Village's effects on Loudon County, we used the Forest Service's IMpact PLANning (IMPLAN) input-output model. IMPLAN consists of a socioeconomic database disaggregated to the county level that allows analysts to model detailed intersectoral production and household consumption relationships. It contains information on interindustry and intersector transactions for estimating the direct, indirect, and induced employment and income effects stemming from changes in particular industries, in this case, the employment and income changes in Loudon County caused by expenditures by businesses and households in Tellico Village.

The direct effect is the change in the number of jobs (amount of income) in Loudon County caused by Tellico Village spending. The indirect effect is the change in the number of jobs (amount of income) in related industries, such as suppliers to the businesses selling directly to Tellico Village businesses or households. The induced effect is the change in the number of jobs (amount of income) caused by the ensuing changes in household income generated from the direct and indirect effects. For example, additional workers in businesses selling directly to Tellico Village businesses and households and additional workers in related industries purchase more goods and services from the rest of the economy inducing other industries to increase their employment.

Most of the employment, income, and expenditures data on Tellico Village we entered in the model were provided by Cooper Communities Inc., the Tellico Village property owners association, and a survey we conducted at a Tellico Village home owners association meeting in June 1992. Additional data were gathered from Bureau of the Census and Bureau of Labor Statistics publications.

Attraction of retirees has been promoted as a way for some rural areas to develop their economies. As our Tellico Village example illustrates, assessments of planned retirement/recreation communities as a rural development strategy include changes in income and employment and changes in local government revenues and costs. The contributions of recreation/retirement communities to local development will vary from place to place based on numerous factors. Thus, rural areas assessing such a development strategy will undoubtedly find that the types of jobs to be generated for residents, the types of local services that need to be provided, and the tax revenues that will be generated by inmigrating community residents and inmigrating labor will differ from our Tellico Village findings.

Also, short- and longrun economic and fiscal effects may vary. For example, decisions on who pays for the construction of infrastructure, notably roads, and on who pays for operation and maintenance can shift the fiscal balance over time. These dynamic factors make assessing the effects of planned retirement/recreation communities challenging.

Positive effects of planned retirement/recreation communities appear to be based on the ability to attract individuals who are wealthier, older, and have fewer school-age children than established residents. These communities are a relatively "up-scale" type of residential development that may not be easily developed in rural areas that are geographically isolated from major metro areas that provide vital social, medical, and consumer services.

Finally, although inmigration of retirees has benefited many rural areas, the future may be quite different from the past (Hoppe; Stallmann and Siegel). Changes in demographics, income, wealth, and living preferences may affect the willingness and ability of retirees to migrate to retirement/recreation communities. For example, during the 1990's, the number of new retirees should decline because of low birth rates during the 1930's. Possible changes in Social Security benefits, the age at which persons may retire, and medicare benefits could affect retirees' income, the timing of their retirement, and the share of income they spend on medical services. The real value of housing assets, which increased rapidly during the 1980's, has tended to decrease during the 1990's. Also, babyboomers born after World War II do not have the same ties to rural areas as their parents' and grandparents' generations have. These uncertainties make planners' and policymakers' assessments of retirement/recreation as rural development tools even more difficult.

For Additional Reading

P. J. Cook and K. L. Mizer, *The Revised ERS County Typology: An Overview*, RDRR 89, USDA-ERS, Dec. 1994.

M. Fagan and C. F. Longino, "Migrating Retirees: A Source for Economic Development," *Economic Development Quarterly*. Vol. 7, No. 1, 1993, pp. 98-106.

N. Glasgow, "Attracting Retirees as a Community Development Option," *Journal of the Community Development Society*, Vol. 21, 1990, pp. 102-14.

R. A. Hoppe, *The Role of the Elderly's Income in Rural Development*, RDRR 80, USDA-ERS, Jan. 1991.

W. Miller and others, *Retirement In-Migration Study: Attractive Features, Economic and Social Impacts*, SRDC-184A, Southern Rural Development Center, Mississippi State, MS, Aug. 1994.

R. J. Reeder and N. L. Glasgow, "Nonmetro Retirement Counties' Strengths and Weaknesses," *Rural Development Perspectives*, Vol. 6, No. 2, Feb.-May 1990, pp. 12-17.

R. J. Reeder, R. Hopper, and C. Thompson, "Rural Retiree Attraction: Recent Trends and Strategies," paper presented at the 11th Conference on the Small City and Regional Community, University of Wisconsin-Stevens Point, Oct. 21, 1994.

P. B. Siegel and F. O. Leuthold, "Economic and Fiscal Impacts of a Retirement/Recreation Community: Tellico Village, Tennessee," *Journal of Agricultural and Applied Economics*, Vol. 25, No. 2, Dec. 1993, pp. 134-47.

J. I. Stallmann and P. B. Siegel, "Attracting Retirees as an Economic Development Strategy: Looking Into the Future," *Economic Development Quarterly*, Vol. 9, No. 4, Nov. 1995, pp. 372-82.

J. I. Stallmann and L. L. Jones, "A Typology of Retirement Places: A Community Analysis," *Journal of the Community Development Society*, Vol. 26, No. 1, 1995, pp. 3-14.

G. F. Summers and T. A. Hirschl, "Retirees as a Growth Industry," *Rural Development Perspectives*, Vol. 1, No. 2, Feb. 1985, pp. 13-16.