DIVIDING THE PIE: VALUES, SELF-INTEREST, AND NEW CHALLENGES FOR URBAN ADMINISTRATION IN A FRAGMENTED SYSTEM.

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ABSTRACT

A presently-unfolding case study is used to address present and growing challenges facing small to medium-sized cities in non-metropolitan areas. The framework incorporates fragmentation, value conflicts, and annexation to illuminate the struggle such communities face as they balance efficient public service delivery with divisive value conflicts that also drive fragmentation. Also at play is the distinction between self-interest and the public interest as would-be Leviathan governments make decisions in which the trade-offs between both short-term and long-term costs and benefits are not known or understood, and in which existing administrative capacity is inadequate to fill the knowledge gap.

INTRODUCTION

The public choice literature argues efficient public service delivery is derived from governments responding to citizen demands, and responsive citizens "voting with their feet" to select a city whose tax/service levels maximize their utility (Tiebout, 1956). The annexation literature contends that residents seek annexation into municipalities when their expected benefits are expected to outweigh the costs of becoming part of the municipality (Liner & McGregor, 1996). This essay combines the principles of Tiebout sorting and municipal annexation and then goes a step further by examining the role of non-economic values in a context where it is not the citizens afoot, but the governments. I liken the principle to that of a moving sidewalk where the ground moves under people as government boundaries are adapted. A case study is used to draw out the intricacies of the conundrum facing many small cities today as they compete to provide efficient services and protect their economic base (Liner & McGregor, 1996).

In attempting to understand urban growth and expansion researchers have focused primarily on large metropolitan areas. The problems of growth are better understood there, perhaps because they are so much more visible or because they impact so many citizens. Metropolitan areas have their share of problems, but smaller sized cities experience similar growing pains. Governments—and the officials charged with running them—face similar goals, objectives and challenges as they seek to advance their city or community's status and well-being. With sustained population growth, these smaller cities will eventually attain metropolitan status over time. So, instead of curing current problems, the question becomes one of how best to prevent the problems from developing. Economic development is extremely popular as a local electoral issue (Wolman & Spitzley, 1996). Growth is an objective that corresponds to the importance of economic development; new developments are indicators that a city is moving forward. In this context, small cities in nonmetropolitan areas face unique challenges and opportunities; there is ample unincorporated land available, and thus room for expansion. However, unincorporated places lack urban service infrastructure and their incorporation through annexation may prove to be costly.

The common arguments for annexation certainly hold true; incorporation of territory leads to better services and quality of life for residents, but it produces important political and administrative benefits for local governments as well. Governments have been characterized as Leviathan budget maximizers out to obtain grant funds through whatever means necessary (Quigley & Rubinfeld, 1986). That principle may also hold true for annexation, in that individual and corporate taxpayers are brought into the local tax base as a means of expanding local government tax coffers. These reasons notwithstanding, there are other potential explanations that have not been as carefully explored at the local level.

Meier (1994) characterizes morality policy as distributive in that states (or interest groups) attempt to distribute their morals and values to residents. States typically establish such policies and provide procedures through which local areas may opt to allow or disallow particular activities (for example, smoking in restaurants or the sale and consumption of alcohol). Where nearby small cities differ in values, value-based differences may be able to drive annexation efforts as a means of further distributing such values outside the legislative local-option election process.

This essay presents a case study, currently unfolding, where local value differences in concert with recent changes to state law have resulted in drastic annexation efforts to take in unincorporated territory. The result, though not yet certain, threatens an alternative set of values—those of residents in unincorporated areas who do not desire urban services and their corresponding tax rates, but whose position on particular morality issues may lead them to seek annexation by one or another competing cities. The format of the essay provides a brief review of the metropolitan fragmentation literature, develops a unique framework for applying it to nonmetropolitan areas, and then presents (from archival and media records) the case of Burnside, Kentucky, a town of fewer than 700 residents now poised for rapid and uncontrolled growth as a result of a recent decision to allow the sale of alcohol in restaurants.

FRAGMENTATION AND VOTER CHOICE

Post World War II reformers argued for government consolidation and reduction in the overall number of local governments on the basis of efficiency to be obtained through economies of scale, elimination of duplication, and equality of tax and spending structures (Park, 1997). Though several city-county consolidations have occurred in the U.S., the movement's efforts proved generally unsuccessful (Park, 1997). The new perspective—public choice theory—quickly gained ground and is the foundation of new efficiency arguments regarding the role of utility maximization in citizen location decisions (Tiebout, 1956). Unique communities with unique tax rates and public services (parks, schools, garbage collection, etc.), the argument goes, hold varying appeal for different individuals and families. Local policy discretion enables cities and communities within a metropolitan area to differentiate one from another, providing bundles of services particularly suited to their residents, and setting the stage for savvy residents to relocate to areas that maximize their utility (Tiebout, 1956). In other words, urban fragmentation produces choice in a marketplace of government services. As Park (1997) puts it:

> This perspective contends that a fragmented system of local government may function efficiently because many local governments compete with one another to provide better services and lower taxes. This competition provides choice to residents in terms of where they want to live and what services they want to receive. Local governments

> compete with one another mainly because local residents…locate in a community where service/tax bundles most closely match their preferences (p. 728).

However, the cost of relocation means that the real effects of government competition are realized with either new residents or movers within an area making locational choices (Teske, Schneider, Mintrom & Best, 1993).

Government competition within a metropolitan area makes possible the provision of various tax/service bundles simultaneously, thus maximizing resident families' utility. Competition does not necessarily mean that taxes would be kept low by citizen willingness to pay. In reality, taxes may not be low in real terms, but low relative to the government services received. That is to say governments should be more efficient in these settings. Competition is not always the simplest path to efficiency. Drawing on Peterson's (1981) typology of policy types, Park (1997) finds evidence that city-city competition is strong in the development policy domain, but that cooperation is a more viable descriptor of government interaction in public safety and education policy in metropolitan areas; findings are similar, though weaker, for city-county competition. Peterson's (1981) argument is that benefit/cost ratios should be improved as governments divert resources toward developmental policies and away from redistributive policies.

The context of the present study is not a metropolitan area; it is a nonmetropolitan area that is generally rural in character. However, fragmentation is observed in nonmetropolitan areas as well—particularly through the incorporation of small towns and through the promulgation of special districts to provide utilities and other services. More importantly, the fragmentation that develops today shapes the future of what will someday become an urban area in its own right. The focus on urban fragmentation is much like a cure—it is sought after the disease is discovered—whereas in the case of nonmetropolitan areas the medical approach to fragmentation would be akin to prevention. Proactive management of fragmentation is an issue that receives little attention because the problems have not yet attained saliency.

ANNEXATION

If fragmentation is the symptom, annexation must be construed as the disease, as it is the mechanism through which nonmetropolitan areas become metropolitan. Cities grow to provide municipal services to more demanding residents in densely-populated, high-development, areas. They are either incorporated anew, or they expand through annexations that result from cities competing to annex the highest-value fringe areas (Liner & McGregor, 1996). The degree of annexation is determined in part by cities seeking to protect their economic base (Liner & McGregor, 1996), but also in part by the institutional rules state governments impose to regulate city/county interaction through annexation (Liner, 1990; Sokolow, 1993).

Annexation of territory by a municipality may be decided by the municipality itself, by popular demand, by the courts, or by an independent third party (Liner, 1990). Cities that have municipally-determined annexation show the greatest rates of annexation: much greater than popularly-determined annexation cities (Liner & McGregor, 1996). States set the rules that govern their cities' annexation actions. Facer (2006) finds that laws designed to facilitate annexation do so, while laws designed to hinder annexation have their intended result as well. So, it is the state law—the rules of the game—that partially determine city annexation activity.

Sokolow (1993) shows how state law created significant constraints for county governments in California's Central Valley as cities pursued dramatic growth policies permitted them by lenient annexation policies. The loss of county (unincorporated) tax base to growing cities can produce powerful constraints and limitations on county governments. In Sokolow's (1993) cases, three affected counties were variously able to combat these negative effects by utilizing revenue sharing agreements with the problematic cities. While annexation can be troublesome for the inclusive county, it has promising benefits for the growing cities. Namely, increased annexation (interjurisdictional competition) results in increased government spending levels and higher government employee salaries (Gonzalez & Mehay, 1987). Gonzales and Mehay (1987) conclude that "significant perverse effects on fiscal efficiency may follow adoption of legal reforms that facilitate the ability of municipalities to extend their borders, or that restrain the formation of new municipalities" (p. 252).

Annexation comes with benefits as well as costs, but it is widely acknowledged that annexation disrupts efficient public service provision, and the state laws that govern annexation have a direct effect on the magnitude of its impact as they constrain or facilitate it. Annexation is pursued by cities to enhance or protect their tax base and by citizens seeking to maximize their utility (Liner & McGregor, 1996). To this point, utility has been considered from an economic standpoint—tax costs versus service benefits from the citizen perspective and tax benefits and service costs from the municipal perspective. Utility, though, may be broader. Liner and McGregor (1996) add that annexation will be sought when it promises to enhance residents' own sense of well-being and their future welfare. From this perspective, utility may also include social and moral concerns that are of significant, though nonmonetary, value to local residents. Local morality concerns recently came to the forefront in Kentucky when a new law was passed that liberalized the sale of alcohol in small cities. That legislative change sets the stage for the case study at hand.

THE NEW DISTRIBUTIVE ENVIRONMENT

In 2000 the Kentucky Legislature passed, and the Governor signed into law, Senate Bill 247, which liberalized the Commonwealth's alcoholic beverage law by allowing cities (of any size) in dry territory to hold local ballot referenda to approve the sale of alcoholic beverages in restaurants by the drink—a privilege previously reserved for large cities. (Dry territory refers to locales where the sale of alcohol is forbidden by law. The local option election under this statute only permits the sale of alcohol by the drink in restaurants that seat over 100 persons and that derive at least 70% of their revenue from the sale of food.) This structural change essentially moved the venue of policy debate and adoption to more favorable light by increasing the number, and decreasing the size, of eligible entities. That is to say, whereas there were a few large units of government eligible under the previous law, there are now many small entities with eligibility. Local option elections have been perennial issues in many dry Kentucky counties, but at the aggregate level, wet opposition forces were seldom able to overcome the dry status quo. The new law took effect July 14, 2000 (Batcheldor, 2000).

Besides the shift in venue, interest groups and advocacy coalitions have been able to overcome opposition by re-framing policy debate. As Meier (1994) points out, morality politics is "made to order for citizen participation in the policy process" (p. 7). Values, deeply-held core beliefs and the effect of religion have been instrumental in morality politics (Meier, 1994). Morality policy has typically remained within the purview of religious organizations, their representatives and members, and in a state like Kentucky where there is a high degree of religious participation, morality-based value arguments against alcohol have typically prevailed, often in concert with appeals to public safety and health values. As Meehan (2000) observes, "it is certainly true that there is a long religious tradition in America that sees a touch of Satan in a keg of demon rum" (p. A1). However, proponents of alcohol availability, generally consisting of local businesses (restaurants, in particular) and citizens groups, have variously moved the debate toward concerns over liberty (the availability of choice), and more recently, economic values associated with economic development and tourism. An example is the formation of an advocacy coalition of three economic development groups to support a 1998 Kentucky bill that would have opened wet-dry elections to cities of the third class (cities with populations between 8,000 and 19,999). (Associated Press 1998). This coalition argued that their community should "have the same rights and freedom of choice as do first-, second-, and fourth-class cities in Kentucky" (Associated Press 1998, p. B1).

Economic development is one of the predominant policy domains at the local level (Logan & Molotch, 1987). From planning activities, construction of industrial parks and other recruitment efforts, to infrastructure expansion and amenities development, most local government efforts focus on growth, quality of life enhancement, and developing the tax base on which government solvency depends. One can see the importance of economic development to local communities in the 2005 Kelo v. New London decision by the U.S Supreme Court which qualified a locality's use of eminent domain to permit private enterprise development to constitute the public interest (Kelo v. New London, 2005).

Tax export has become a popular method of generating government revenues and is a core component of many economic development strategies. This conceptual idea focuses on consumption taxes that are disproportionately borne by residents of other jurisdictions. Common examples include hotel and restaurant taxes, but there is evidence that states with lotteries are even able to export their taxes to neighboring states without state lottery programs (Davis, Filer & Moak, 1992). The argument in the value-distribution framework is that alcohol availability will lure restaurants, thereby providing new jobs and simultaneously acting as amenities sought after by residents and tourists who take into account both restaurant and alcohol availability when selecting leisure destinations. These changes increase property values (Dye, McMillen & Merriman, 2006; Holcombe & Lacombe, 2004), resulting in a silent tax increase, not to mention the effects of expected sales on sales tax revenues and revenue derived from "sin tax" on sales by alcohol-selling establishments. Tax revenues from these various sources enable local governments to improve service performance and delivery to residents, largely at the expense of non-residents and absentee corporate landlords. Referring to a local option election in Murray, Kentucky in 1987, one observer noted "It's better for Murray to get the business instead of people driving south to Tennessee" (Associated Press, 1987, p. B3). Particularly given the economic uncertainty and recession following the attacks of September 11, 2001, the economic arguments gained in saliency. Over time, arguments using the economic growth and enhancement framework have gained in prominence over arguments based on morality.

With the advent of the new law, a floodgate of local option attempts was opened. Numerous smaller cities initiated petitions to hold local option elections, and the result has been an increase in the number of places with approval to sell alcohol in restaurants. Twenty such places in the state have approved sales under the new provision in state law (Estep, 2006). Table 1 provides a sample of recent local option elections held subsequent to passage of SB 247.

Table 1: Sample of Recent Local Option Elections in Kentucky

2001	Somerset	Failed	(Tagami & Estep, 2001)
	Burnside	Failed	
2002	Danville	Passed	(Kocher, 2002)
	Mercer County	Failed	
	Junction City	Failed	
2003	Harrodsburg	Passed**	(Kocher & Mueller, 2003)
	Paintsville	Failed	
2004	London	Passed	(Hewlett, 2004)
	Williamstown	Passed	
	Franklin	Passed	
2004	Burnside	Passed	(Associated Press, 2004)
2006	Williamsburg	Failed	(Lockwood, 2006)

**This was the fourth vote in five years for Harrodsburg or Mercer County; margin of victory was 17 votes (1308-1291) (Kocher, 2003).

Though Senate Bill 247 was a major setback for anti-alcohol forces in Kentucky, they did not view it as a defeat. Senate Bill 88 was introduced in 2001 in an attempt to repeal the controversial expansion of local option to all cities; it passed the Senate State and Local Government Committee on a 6-5 vote (Cheves, 2001), but failed to attain sufficient votes in the full Senate (22-13 against) (Baniak, 2001).

In the way of theoretical development, the new distributive framework in place as a result of SB 247's passage provides new impetus for local government competition, annexation and significant disruptions to the status quo jurisdictional boundaries. Under the new law, when one government suddenly obtains something else it can provide—property value and the ability to sell alcohol—it attains an unfair advantage over its neighbors. Whereas annexation would once have been driven by a desire to pay higher taxes in exchange for government services, now it can be driven by economic interests and moral arguments. Whereas once tax/service ratios of annexation would have been balanced, under the new framework taxes outweigh services in both importance and provision. I use the case study of Burnside, KY, to demonstrate how the changes resulting from passage of SB 247 have had significant external consequences to the core issue in the policy—sale of alcohol within cities.

BURNSIDE: A CASE STUDY

May 18, 2004, 6:00 a.m.: Polls opened for the primary election in Pulaski County, Kentucky. Though third largest of Kentucky's 120 counties in geographic size, Pulaski is a nonmetropolitan county with a rural landscape interrupted by small towns and communities that dot the landscape surrounding the county seat, the City of Somerset. Kentuckians rarely see referenda or ballot initiatives, but this Tuesday morning is different—391 voters arrived at their polling places in the City of Burnside to exercise the local option afforded them by Senate Bill 247. They arrive already knowing the issue on the ballot and largely with preconceived intent to vote for or against the measure—to allow the sale of alcoholic beverages by restaurants in their city. For Burnside residents, faith played a substantial role: For opposition forces, closely aligned with churches and religious ideals, there was faith that the measure would fail as it had three years before (by only eight votes) (Associated Press, 2004). For proponents, faith was based in the hope that restaurants would come, as restaurants of eligible size were scarce within city limits at the time of the election. In fact there was only one restaurant of eligible size. Unlike Pineville, Kentucky, which had no restaurants with 100 seats at the time of their local option election in 2005 (Mueller, 2005), Burnside did have a restaurant building with a long history of operation under various names.

The story begins with relatively homogeneous (in socioeconomic, demographic, and political terms) Pulaski County, KY, its county seat, the City of Somerset, and several outlying small cities (Burnside, Nancy, Science Hill, Ferguson, and Eubank) that constitute the public service provision framework. Incorporated in 1890 (Burnside, KY, 2005), Burnside was relocated from its valley home of sixty years to an adjacent ridge top to make way for the impoundment of Lake Cumberland around 1950. Burnside, and Pulaski County generally, are home to a thriving tourist industry based on travel to Lake Cumberland—a U.S. Army Corps of Engineers lake with over 1,255 miles of shoreline. In a traditionally dry state such as Kentucky, ballot initiatives for the sale of alcohol are perennial issues because of highly motivated and mobilized local citizen and interest groups. In the subject county, voters have perpetually rejected such ballot measures. Both Burnside and Somerset rejected similar measures as recently as 2001 (Tagami & Estep, 2001). Recent changes to state law resulting from the passage of Senate Bill 247 in 2000 (codified as KRS 435) have allowed smaller cities—now cities of any size or class—to hold similar referenda on the sale of alcohol by the drink in eating establishments. Since that time, Kentucky's landscape has become particularly 'moist' as various small to medium sized cities have taken advantage of the new provision to hold local option elections (As noted above, 20 cities have availed themselves of this opportunity). In 2004, the local option to allow alcohol sales in restaurants was passed by a narrow margin (219 to 172) in the city of Burnside, KY, (2003 population 659), making it one of only two cities in a large swath of southern Kentucky where alcohol is available, and the only city situated on a 101 mile-long lake that stretches across several counties (Associated Press, 2004; Estep, 2006). The stage was set for conflict.

With its newly-granted authority to sell alcohol in restaurants, Burnside seemed intent on challenging the core values of the community by exploiting various opportunities to utilize their voter-granted licensing authority to permit alcohol sales. A key part of the proponents' argument for the ballot initiative hinged on the likelihood that alcohol sales would bolster the local tourism industry vis-à-vis other cities similarly situated on the lake, and that better restaurants would locate to the area providing better dining and service sector employment opportunities. The choice the City of Burnside faced was thus to recruit or grow new restaurants or annex existing ones from nearby territory. Kentucky law (Ky. Rev. Stat. § 81, 81A, 2006) governs annexation by cities, expressing key limitations on such actions including that parcels be contiguous. Burnside is home to one of the county's larger marinas and a state park, but the largest marina (Lee's Ford)—which plays host to thousands of tourists each year, and which has a restaurant on site, is a 14 mile drive around the lake from Burnside to the western end of the county. Moreover, the only 'fine dining' establishment in the county is located atop a bluff overlooking the lake in territory that was previously unincorporated.

As might be expected, Burnside officials (keen on the time frame of economic development outcomes as they interface with the local electoral cycle) opted to begin annexing territory, thus initializing the 'moving sidewalk' concept noted above. Their first hurdle was crossing Lake Cumberland, which previously served as the city's northernmost boundary, separating it from unincorporated Pulaski County territory and Somerset territory nearby to the north. With agreement from the U.S. Army Corps of Engineers, Burnside was able to annex across the lake, essentially taking in the U.S. Corp of Engineers property to attain the adjacency required by law. The annexation northward along U.S. Highway 27 toward Somerset incorporated the property on which the aforementioned fine dining establishment was situated. This annexation took in 79.92 acres (Burnside, KY, 2005). Local residents long suspected this expansion to be the ultimate goal of the alcohol initiative. What happened next came as a shock to all, however. Dismay ensued when Burnside announced plans to take in a single parcel over seven linear miles (14 miles by main roads) away, but adjacent to Lake Cumberland, and thus also meeting the adjacency requirement for annexation. That parcel, known as the Lee's Ford tract, includes the large marina and associated restaurant previously noted, and included more than 4,072 acres of territory (Burnside, KY, 2005)—what the Commonwealth Journal referred to as "a stunning annexation" (Neal, 2005). Most of that territory is in a narrow strip along 11 miles of Lake Cumberland shoreline (Estep, 2006; please note that linear distance, shoreline distance, and road distance are unique). Both restaurant establishments obtained licenses from Burnside and began selling alcohol as soon as the city was able to establish licensing infrastructure to manage the process. Lee's Ford became the only commercial marina on the lake where alcohol can legally be sold (Estep, 2006). The latter annexation sparked debate in the community because it violated what they believed the law protected them against—encroachment of alcohol into dry territory without an accompanying vote. As Estep (2006) points out, the annexation was controversial. "One key complaint was that it opened the door for alcohol sales in an area where residents had opposed going wet in the past" (Estep, 2006). In essence, 219 people (or only 47 voters if you consider the margin of victory) separated by seven linear miles of territory (or fourteen miles by road) were able to impose the sale of alcohol on rural residents who opposed it. Laying all of the credit or blame (depending on the reader's perspective) at Burnside's feet would be misdirection. As a retrospective New Year's Eve article in the Somerset Commonwealth Journal noted, "Properties on the outskirts of Burnside clamored to be annexed into the newly-wettened (sic) city. The owners of Lee's Ford Marina—way across the lake in the Nancy area—even found a way to annex themselves into the city so that alcohol could be sold at their establishment" (Neal, 2005).

This background sets the stage for both contentious legal debate and concern among county residents and local elected officials for their ability to self-determine. Somerset city leaders stand ready to annex vast amounts of territory to limit Burnside's reach. Newly-elected Somerset Mayor Eddie Girdler commented "We've got to convince people in subdivisions (outside the city) to become part of the city…whatever it takes…reduction in cost…providing services…we've got to come up with a package working with [Pulaski County] fiscal court" (Mardis, 2007). It is notable that voters in the city limits of Somerset have been fairly evenly divided on the alcohol issue. Thus, the status quo of governmental stature, tax base, and public services has been threatened, and city leaders are ready to respond to protect their governmental interests. Rural residents face annexation threats with a conflicted mixture of support (based on their socially conservative values) and opposition (based on their desire for a low-tax/low-service community). City of Somerset residents face somewhat opposite threats—the spreading of their tax dollars thinly over a larger urban territory lacking in infrastructure to support the annexation effort on one hand, while on the other hand, evenly divided in support of the alcohol movement, with some anxious to have it closer to the city, and others hoping to keep it beyond arm's reach from their homes and children. Burnside's rapid annexation effort has applied pressure on Somerset to expand its municipal limits. Burnside voters elected a new mayor—Chuck Fourman—who took office in 2007. Fourman previously served on the Burnside City Council, and supported the annexation drive. As the Commonwealth Journal noted in a January 2, 2007, article, annexation is still very much on Burnside's agenda (Wheeldon, 2007). Fourman has indicated that Burnside is looking at more annexation projects, and in fact they "hope to continue to be able to annex some new land into Burnside" (Wheeldon, 2007, p. A3). The threat of Somerset expansion concerns other smaller cities, further pressuring annexation, and leaving unincorporated county residents in fear of being gobbled-up by governments in the race to control the county and its wet-dry balance.

The problem can thus be stated very simply: annexation in the traditional sense would have occurred when it was financially feasible to do so—when demand for public services led to mutually-acceptable annexation (the residents obtained the services and paid taxes, and the city provided the services in a cost-effective manner). In such settings development of fringe areas around the cities provided the impetus for annexation to recapture the fleeing tax base (Liner & McGregor, 1996). Kentucky is classified as a municipal-determination annexation state, so annexation laws are more lenient and annexations are more common than in states where such changes are popularly-determined (Liner & McGregor, 1996). In the case of Burnside, it is not demand for better public services that is driving the annexation effort. Were that the case, residents would have sought annexation by neighboring Somerset, which offers a more compelling set of municipal services and which has greater service delivery capacity as a result of its size compared to relatively tiny Burnside. As Neal

(2007a) notes, Somerset was already servicing utilities in the unincorporated area Burnside most recently annexed. Moreover, it is not residents clamoring for public services, but property owners and businesses.

Annexation in the study context is driven not by public service and taxation concerns, but by economic interests and disagreement over social and moral values. The economic interests manifested by the apparent greed on the part of municipal government and self-interest of individuals and corporate investors/owners wishing to enhance their property values take advantage of morality policy that simultaneously affects property value. Earlier annexation studies have looked at the level of development as an important determinant (Liner & McGregor, 1996), but they are concerned mostly with residential development. The Burnside case portrays a government actively taking advantage of the state's lenient annexation rules to incorporate commercial areas. More importantly, annexation is the act that provides the enhanced value to the property because it permits the legal sale of alcohol where it was previously prohibited. This shifts the focus of annexation from developed land to both developed parcels and parcels with development potential. In the frame of economic development theory, this could easily be understood as a growth center exploiting the hinterland for its available resources. The restaurant at Lee's Ford Marina Resort represents a previously developed parcel. The restaurant realized an increase in sales of 60% as a result of the ability to sell alcohol, so the interest in annexation is well-founded (Estep, 2006).

It has often been said that people vote with their pocketbooks; if this is the case, many people maximize their utility by accepting annexation at the expense of their personal values. Burnside cannot be faulted for taking advantage of these personal decisions. It can, however, be faulted for annexing territory beyond its service-provision capacity, thereby lowering the general level of public services for residents of the original boundary and potentially exposing other cities to the same challenges as they compete for size and relevance. It can also be faulted for overplaying its hand by reaching far beyond its current territory for the sole purpose of selling, and reaping the revenue from the sale of, alcoholic beverages—exporting its morality values to surrounding areas. The former concern is scarcely mentioned—likely because previously unincorporated residents have little expectation or demand for public services. The latter is being addressed in the state court system.

Shortly following the annexation, two Burnside City Councilors, Conrad Bryant and Don Coggins, along with a group of concerned citizens, filed a lawsuit in Pulaski Circuit Court against Burnside alleging that the annexation betrayed the intent of Kentucky's annexation statutes (Wheeldon, 2007). In a motion filed by attorneys for the plaintiffs, the opponents argued that if Burnside was legally able to take in a narrow strip of land to reach Lee's Ford marina, it could theoretically annex all the way to the Gulf of Mexico (Estep, 2006). Circuit Judge Jeffrey Burdette struck down the annexation, finding the narrow corridor approach to be mere subterfuge, and finding the annexed property failed to meet the requirement that it be urban in character (Bryant v. City of Burnside 05-CI-01054). Nonetheless, the sale of alcohol continues while Burnside exercises its right to appeal. Burnside has appealed the ruling to the Kentucky Court of Appeals (City of Burnside v. Conrad Bryant 2006-CA-002048) where it remains under consideration at the time of this writing. A rejection of the appeal would likely only further fuel Burnside's annexation drive through contiguous land-based parcels, limiting, but not eliminating the fragmentation and expansion by cities into unincorporated areas of the County.

Annexation has long been a contentious topic in rural Kentucky. In 2003 Fleming-Neon city council voted to annex seven communities in order to increase revenues and change the classification of the city (Associated Press, 2003). In what appeared to be a concerted effort to prevent annexation by the City of Prestonsburg, the Highlands Regional Medical Center allowed a man and his wife to move into an apartment in the hospital's basement—making them the only two residents of the parcel, and hence the only two persons eligible to vote on the annexation; annexation would have meant the hospital's 584 employees would be required to pay the City's 1.5% payroll tax (Associated Press, 2006). Annexation means redistribution of taxes and services within a county, but in the case of Pulaski County and Burnside in particular, it now also means redistribution of the ability or inability to sell alcoholic beverages. To illuminate the effect that SB 247 had on annexation efforts, table 2 provides a synopsis of the number of annexations for the five cities seven years before, and seven years after, July 2004. Burnside began its first annexation effort in over twenty years after S.B. 247 passed (Kentucky Land Office). Somerset's annexation efforts were ongoing, but saw a significant increase post passage of SB 247. Neither Eubank nor Ferguson saw any annexations during either period. Science Hill annexed four parcels in 1998, but the purpose was innocent—to obtain open space on which to build a new school.

Table 2: Annexations by Pulaski Cities Before/After S.B. 247 Became Law (July, 2000)

	1993-1999	2000-2006
Burnside	0	3
Somerset	37	50
Science Hill	4	0 *
Eubank	0	0 **
Ferguson	0	0 ***

*Science Hill annexed these parcels to obtain space to build a new school, and it is on the opposite end of the county.
** Eubank is the furthest away and most rural in character.
***Ferguson is landlocked by Somerset on most sides, making annexation difficult.
Source: Kentucky Land Office

Both pros and cons have already been experienced by the two primary city participants—Burnside and Somerset—as a result of the annexation efforts. With tax revenue from alcohol sales (between $75,000 and $100,000 per year from the Lee's Ford Marina property alone), Burnside has been able to hire two new police officers and buy new playground equipment (Estep, 2006). The city is also purchasing an additional police cruiser—the expense of which is not going to be a problem due to the extra restaurant revenue coming in (Harris, 2007b). The City has faced problems as well—ranging from disputes surrounding the time restaurants are to close their doors at night (Harris, 2007c) to conflict over re-zoning affected by annexation's alteration of local growth plans and patterns (Harris, 2007a). New development in annexed territory has caused disputes between the cities regarding who should service local utilities. Sewer lines in the newly-annexed area north of the lake had previously been serviced by Somerset. Mayor Girdler noted that the situation is "complicated" and that it could be a "major developmental problem" (Neal, 2007a). Somerset City Engineer Alex Godsey observed that Somerset had been servicing sewer lines all the way to the bridge long before Burnside began annexing (Neal, 2007a). He also added that Burnside is considering annexing a subdivision and "If it's in Burnside, Somerset shouldn't have to put sewer to that area" (Neal, 2007a).

DISCUSSION

The traditional causes of urban fragmentation have been attributed to taxes and public service provision; fragmentation is brought about, in part, through annexation of territory into municipalities to meet local demand for public services. Attempts to understand fragmentation have shown that people do "vote with their feet" (Tiebout, 1956), but that such choices typically hold only when individuals are footloose. The arguments proffered to explain this phenomenon are typically based in economics, and usually on the basis of expected efficiency enhancements resulting from the ability to provide public services that maximize the utility of local residents. Burnside is maximizing the utility of some local residents but their arguments have focused in large part on the utility of tourists directly, and residents indirectly. The Tiebout hypothesis has not gone without challenge. Recent efforts have explored the failure of the hypothesis regarding concerns for equity (Howell-Moroney, 2006)—a value with which public policy has become increasingly concerned—and arguably the value at the center of the case presented here. This essay examines a unique setting in which various governmental actors are poised to dynamize the fragmentation of the county through rapid unplanned annexation of unincorporated territory, not to further efficiency or to better match public services to local demand, or even to enhance equity, but to enhance their budgets with tax-generating service establishments and to propagate the sale of alcohol in areas of the county where local values are diametrically opposed to doing so (Estep, 2006). In other words, people won't be voting with their feet—the governments will simply change the status of the land where they stand, and thus their status from non-residents to residents.

While subsequent votes can be held to reverse the 'wet' decision, they are not likely to prevail. One constraint is that local option elections can be held only once every three years (Neal & Wheeldon, 2007). Alcohol opponents and the interest groups representing them have already attempted to force just such a dry vote, but their initial petition did not include a sufficient number of verifiable names to force a called special election (Neal, 2007b). 87 signatures were needed but only 78 could be verified as Burnside residents; the forces have stated their intent to rapidly circulate another petition (Neal, 2007c). Given the slim chance that alcohol sales would be rescinded, Burnside would likely only be able to annex parcels where residents support alcohol sales or parcels on which no residents live due to the requirement for annexation to be voluntary. These characteristics bias the system in favor of the status quo, but activist supporters of alcohol sales could utilize this knowledge to drive future annexation efforts in other small cities. As the case plays out, these actions and decisions will determine the shape, scope, and condition of what will soon become a metropolitan landscape as economic growth continues.

Burnside now faces difficult challenges; small in population and government capacity, it must learn to provide services over a large territory, some of which may not be directly accessible (recall that Lee's Ford Marina is all the way around the lake). The situation provides new opportunities to consider intergovernmental contracts or collaboration, such as negotiated agreements for enhanced law enforcement at remote city parcels provided by the County Sheriff or state police, or joint service arrangements with Somerset on sewer projects. County residents may find themselves forced to identify with one city or another rather than the county, challenging a deep cultural identity common to Kentuckians. Moreover, the effects of these changes will mean increasing tax rates for a large population not particularly interested in obtaining urban services they do not already receive. Rapid annexation can lead to a tax/service imbalance. Cities seeking revenue from alcohol sales (like Burnside) or seeking to preserve tax base from such Leviathan cities (Somerset) are involved in a systematic power grab.

County consolidation presents one potential opportunity to remedy these concerns, in that a unified government would stifle annexation efforts and contain movements of urban boundaries. A weaker, yet more plausible, alternative is county-wide zoning regulations to limit the efficacy/impact of Burnside's annexation efforts. Both of these alternatives hold similar threats for residents of unincorporated areas—people who enjoy being able to do with their land as they please. Consolidation poses additional threats in the form of taxes and regulation of personal behavior that zoning most likely would not. Zoning and planning efforts hold merit for their potential to stifle annexation, but simultaneously reduce self-determination and potentially affect resale value of real property. In the end, the case presents a genuine dilemma for public service and public servants—a dilemma that will likely be decided through a combination of policy decisions at the city, county, and state level, through legal battles, and in the end, at the ballot box. In a time when elections are issue driven, the public good may suffer as a result of the challenges such divisive issues create.

Perhaps it is enough to simply observe that the economy is paramount, and we do what we must to serve it. In such settings external corporate owners often carry more sway than local voters. Absentee ownership of community assets continues to threaten community values (Berry, 1996)—a price many seem willing to pay for growth and development. What remains unsettled is who should ultimately control the community: its residents or its tourists and tourist-serving industries? And should those communities be allowed to distribute their economic value and their moral values through the process of annexation—an important concept not directly related to the distribution of moral values, but certainly capable of profound impact. In answering that question one should consider which alternative is the more sustainable one.

We have observed that the ability to distribute moral values and the economic value that goes with them has, indeed, driven cities in a single nonmetropolitan context to behave contrary to principles of sound government expansion. The results have certainly raised a number of eyebrows as cities seem both willing and capable of distributing such values by changing their size and shape. Fragmentation and Tiebout sorting, then, do not always function only through citizen movements and choices, but also through movements of governments themselves through annexation, and not without consequence. This case draws attention to the intersection of two opposing forces—protection of individual social/moral values and protection of municipal economic bases that have usurped public service delivery and taxation as the key determinants of local annexation efforts. So, in addition to state annexation laws, an additional policy focus for state government consideration is the impact wrought by changes to morality policies directed at local governments. Whether the effects of SB 247 are internal or external probably depends on the values of the bill's authors and supporters. If the purpose was to provide alcohol, the municipal competition and annexation are internal effects that are carrying out the policy's purpose—to make alcohol available in more places. If, on the other hand, the purpose was to provide greater local choice and self-determination in the home-rule tradition, the annexation is imposing unforeseen burdens on residents in unincorporated territory. In future legislative efforts to amend the rules of annexation or morality policy, one must clearly keep the other in mind.

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