

## **New Horizons: Group Home<sup>1</sup>**

New Horizons is a non-profit organization that sponsors group homes for individuals with medical and social problems. It has two separate projects underway. One project is a group home for lepers and the other is a group home for recovering drug addicts and alcoholics.

The group home for lepers will provide long-term care. Leprosy is a non-contagious disease characterized by the wasting away of body parts. Through the centuries it has been wrongly believed that leprosy is contagious. For this reason lepers were shunned and often confined to isolated communities.

The group home for substance dependent individuals is an intermediate care facility. It is meant to serve those who are in transition between confined care and independent living. Residents leave the facility during the day for employment and return to the facility in the evening. Their behavior is monitored by resident assistants. If a resident violates rules mandated by New Horizons, he or she is returned to confined care.

New Horizons would like to locate each of these group homes in the suburban community of Pleasantville. It has obtained two sites on which it would like to build these facilities. However, before it can begin construction it must first obtain a zoning variance from the Pleasantville City Commission (PCC). Except for a few small businesses, the entire city is currently restricted to single family homes.

Local citizens opposed to the group homes have formed the Pleasantville Action Committee (PAC). It has hired an economist who is an expert in regional planning to lobby against the zoning variance. The economist has completed a study indicating that each of the group homes would lower property values in the surrounding neighborhood by about \$1 million. Those properties closest to the group homes will experience most of the loss in property value.

The decline in property values associated with the home for lepers would be largely a result of the unfounded and mistaken belief that leprosy is contagious. The decline in property values associated with the home for recovering drug addicts and alcoholics may have some basis in real factors. Authorities agree that the surrounding neighborhood might experience a slight increase in criminal activities.

The economist's study also indicates that alternative sites for the group homes would lead to less of a decline in property values. For example, if the homes were located in the economically depressed areas of Pleasantville, the property values might only drop by \$200,000 for each group home. Moreover, if the group homes were located in a rural area outside of the city limits there would be no decline in the value of contingent property.

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<sup>1</sup> This is based on a case discussing an Aids Home by Robert Cooter and Thomas Ulen

If New Horizons has to locate in a different area, it would lose \$100,000 in preconstruction costs it has already spent (\$50,000 on each home.) The organization prefers the present sites over the alternative sites mentioned by the economist. The current sites have convenient access to medical treatment and employment. Moreover, physical therapists believe that integrating patients into a local community is an important part of the rehabilitative process. This would be more difficult in either an economically depressed area or a rural setting.

The Pleasantville City Commission must decide on whether New Horizons receives a zoning variance. The PCC is a totally independent government entity unhampered by judicial decisions, constitutional restrictions or legislative statutes. You are to assume that the primary objective of the PCC is to promote Kaldor-Hicks economic efficiency.

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## Questions

1. What facts must the PCC consider before it can arrive at a decision that promotes efficiency? Is there a particular methodology the PCC should apply?
2. When weighing the benefits and costs of the group homes, does it matter that there is no scientific basis for fear and the resulting decline in property values associated with the home for lepers?
3. Suppose New Horizon could be assured a zoning variance if it obtained the consent of PAC. Is there the opportunity for a private solution to this problem through a Coasian bargain with PAC? What type of transaction might occur?
4. Suppose New Horizon obtained the zoning variance in spite of the objection by the PAC. Is there still an opportunity for a private solution to this problem through a Coasian bargain with PAC? What type of transaction might occur?
5. Suppose the PCC levied a general tax and the revenues from the tax were used to reimburse the homeowners for their market losses. What impact would this have on economic efficiency? (Assume that the decline in property values is not uniformly experienced by all homeowners. As the distance from the group homes increases the decline in property values is less. Those properties furthest away may even experience an increase in property value.)