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Valuing Community Attributes in Rural Counties in West Virginia: An Application of Data Envelopment Analysis

Maribel N. Mojica

Tesfa Gebremedhin
tgebreme@wvu.edu

Peter V. Schaeffer
West Virginia University, peter.schaeffer@mail.wvu.edu

VALUING COMMUNITY ATTRIBUTES IN RURAL COUNTIES OF WEST VIRGINIA: AN APPLICATION OF DATA ENVELOPMENT ANALYSIS[1]

Maribel N. Mojica, Tesfa Gebremedhin, Peter Schaeffer[2]

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Abstract: The study used Data Envelopment Analysis (DEA) to examine community attributes of rural counties in West Virginia using variables determining quality of life. This analysis was done to understand the value of the social and economic characteristics associated with different communities as migration patterns in the US are mostly attributed to community characteristics determining the residents' valuation of the quality of life in an area. County level data was used to identify counties that are inefficient, measured in terms of socioeconomic factors. The data is composed of output variables representing desirable community attributes and input variables representing the undesirable characteristics. Analysis was done by using Data Envelopment Analysis to calculate efficiency scores among rural counties in the State as quantitative measures of the efficient production of quality of life within communities. The results show that the majority of the rural counties in the State lie on the efficiency frontier, while others are classified to be inefficient. The research findings are of interest to policy makers as indicators of community performance which can be used for evaluating counties in terms of quality of life.

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[2] Graduate Research Assistant, Professor and Professor, respectively, Division of Resource Management, West Virginia University

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Introduction

West Virginia is a state in transition, with some regions experiencing rapid economic growth and others remaining predominantly rural and impoverished. Rural mining regions, particularly in the central and southern part of the State are experiencing slow economic growth (Bukenya, et al. 2003). In stark contrast to most of the rest of the U.S. economy, West Virginia experiences high unemployment rate, poverty declining economy, and out migration (Deavers and Hope 1992). The State also ranks among the least in the nation in income and wealth (Dilger and Witt 1994; Haynes 1997). West Virginia's unique position as a state in transition, offers the opportunity to evaluate the quality of life in the state.

Quality of life as a concept can mean different things to different people, encompassing such notions as "well-being" centered on the individual to a "good place" centered on the location. Analyzing the quality of life in residential areas has gained increasing attention in recent studies as it becomes important to understand the value of the social and economic characteristics associated in different communities as measures of quality of life. Several studies (Rosen, 1979; Blomquist, Berger, and Hoehn 1988; Gabriel, Mattey, and Wascher, 2003; Roback, 1982; and Deller, et al., 2001) have attempted to measure and quantitatively analyze the concept of quality of life to determine its importance in economic growth and development. As quality of life measures are related to increased economic activity, it becomes increasingly important to develop indicators as accurate measures of the well-being of the residents in a community. The concept of quality of life is multi-dimensional and it becomes challenging to develop quantitative measures determining quality of life valuations.

In addition, quality of life affects the decision patterns of individuals in choosing residential areas which increases the importance of understanding the valuation of attributes in different communities. This is based on the hypothesis that residents will "vote with their feet" (Tiebout, 1956) and will therefore move to communities with higher quality of life. The value of social and economic characteristics of communities determines quality of life and affects migration patterns as it becomes a significant factor to attract people in certain locations.

The objective of the study is to evaluate the performance of rural communities in providing quality of life in West Virginia by using socio-economic factors. In this study, Data Envelopment Analysis (DEA) was used to analyze the efficiency of communities in producing quality of life using the rural counties of West Virginia as decision making units. Data Envelopment Analysis was used to calculate efficiency scores among rural counties in the State as quantitative measures of the efficient production of quality of life within communities. The analysis is focused on rural counties as it becomes increasingly important to consider the open spaces, natural amenities and the values given to smaller towns in providing quality of life.

Literature Review

Several studies have used different sets of variables reflecting social, economic, and environmental factors to evaluate the quality of life in certain communities. Economists have attempted to estimate the outcome of observed individual behavior in understanding how the society's well being is affected by location attributes. Rosen (1979) studied how quality of life variables affect location decisions, estimated its market price and provided city rankings in terms of the city's attractiveness as reflected by measures of quality of life. The study suggests that differentials in wage and rent can be explained by the characteristics of the city. The analysis was done by using quality of life indicators such as level of pollution, type of climate, unemployment rate and population growth.

Blomquist, Berger, and Hoehn (1988) used housing expenditure and wage differentials to explain differences in quality of life. Quality of life rankings were provided by constructing indices using preference-based weights from hedonic estimation. To rank communities based on quality of life indices, various amenity variables such as climatic, environmental, and urban conditions were used to estimate the hedonic equations. The results show that there is significant compensation for location-specific and non-traded amenities in the labor and housing market. The study presented a comparison within and among 253 cities in the US and the conclusions support the argument that quality of life is an important factor considered in location decisions. An extension of the study by Gabriel, Mattey, and Wascher (2003), analyzed the changes in quality of life rankings over time for United States. In addition to housing expenditure and wage differentials, the study included nonland cost of living in the hedonic estimation to reflect the capitalization of amenities. The results revealed that some states recorded a substantial deterioration in quality of life predominantly due to limited infrastructure investment. Other states have improved quality of life while some other states remained the same. Giannias (1998) also used housing and city characteristics as indicators to rank Canadian cities according to their attractiveness in terms of quality of life.

In the rural economic literature, Deller, et al. (2001) used five indices designed to capture specific amenity and quality of life characteristics. One of the objectives of the study is to construct measures of amenities and quality of life among non-metropolitan counties in the United States. This was done by using principal components analysis where groups of variables are condensed into a single scalar measure that captures the information in the original data. Five amenity attributes were constructed to represent indicators of quality of life in the rural areas. Of the five amenity attributes, the empirical findings showed that amenity attributes were positively related to at least one measure of economic growth reflected by the change in population, employment, and per capita income.

Kahn (1995) used data from the 1980 and 1990 Census of Population and Housing to rank the cities of Chicago, Houston, Los Angeles, San Francisco, and New York based on quality of life. The method of ranking used the differences in skills across cities as well as wage estimates. It is based on a revealed preference approach where a person's characteristics are evaluated at each city's estimated price vector. This approach allowed the ranking of the cities even if no attributes of the cities are observed with the assumption that all agents in the economy have similar preferences. If there is zero cost of migration and all agents have equal skills, the equilibrium is consist of differences in rental and wages and people will be distributed across cities such that no person can move to another city to raise his utility. The analysis was done using wage and rental regressions which resulted to rankings that Los Angeles and San Francisco have higher quality of life than Chicago and Houston in 1980 and 1990. In addition, Kahn found that quality of life in New York fell during the 1980s.

Furthermore, in urban economic literature, Douglas (1997) found that living standards were highest in the Northwest in the years 1970 and the 1980, while in 1990 it is highest in the south Atlantic coast. The study is based on the measurements of relative attractiveness of areas by observing individual location decisions. A random utility model was used to derive a measure of relative standard of living across U.S. states through pairwise comparisons which are then used to rank states. Standard of living was used in the study to refer to the opportunity to obtain a higher real income as an expanded definition of quality of life in the literature. Data on migration rates are analyzed to provide construct standard of living indices and rankings of the U. S. states which are found to be significantly affected by population. The results also indicated the effect of energy market dislocations and other economic shifts in the 1970s on population distribution. As an extension, Wall (2001) reexamined the use of migration rates to estimate compensating differentials as indicators of regional quality of life in United Kingdom. The study adds to the existing literature by relaxing the assumption of the independence of moving costs with the direction of the move, separating labor market conditions from other amenities, and controlling for the effect of contiguity. The results show the high correlation of the regional rankings of quality of life and standard of living in UK.

Theoretical Background

Data envelopment analysis (DEA) is a mathematical programming technique used to measure efficiencies of decision making units (DMUs). The technique was introduced by Charnes et al. (1978) and is widely used as a non-parametric approach originally developed to analyze the performance of different organizations. DEA is an approach extensively used by different sectors in management science, agriculture, and economics. For example, Speelman, et al., (2007) used Data Envelopment Analysis to measure the efficiency of water use in small scale irrigation schemes; Fogarasi and Latruffe (2007) used DEA to estimate the efficiency of crop and dairy farms; Gorton and Davidova (2004) used the technique in analyzing farm productivity; and Oude and Silva (2003) employed DEA to analyze the efficiencies of different heating technologies.

In this study, DEA was used to analyze efficiency levels in the county level by maximizing the desirable attributes such as employment, median household income and health index, while minimizing undesirable attributes such as unemployment rate and crime rate. The reasonable assumption is that communities want to maximize the desirable attributes and minimize the undesirable community attributes. The method provides a non-parametric approach in ranking communities and to analyze the contributions of different socio-economic factors in producing quality of life.

Evaluation of relative efficiency of each unit (county) was done by using the ratio between weighted outputs (desirable factors) over the weighted inputs (undesirable factors) as the most basic DEA formulation (Anderson, et al, 2005). A unit (a county, in this case) with an efficiency score of 1 is considered efficient while a ratio of less than one indicates inefficiency relative to other units. This allows DEA to provide a way to measure efficiencies while not requiring the specification of the production relationships between inputs and outputs (Marshall and Shortle, 2005). It is applicable when using different variables of differing units and is able to accommodate multiple units and outputs.

Empirical Model

Data envelopment analysis (DEA) is based on the concept that if a decision making unit (a county in this case) is using less input than another unit to produce the same level of output, that unit can be considered as more efficient based on observed efficiency measure. Efficient counties lie on the efficiency frontier while the inefficient ones lie outside the frontier. The frontier is represented by the composite county.

Since DEA is a non-parametric method, it is not necessary to have a direct relationship between the inputs and outputs considered in the analysis (Marshall and Shortle, 2005). Counties that are relatively efficient will produce relatively more desirable attributes (outputs) per unit of undesirable attributes (inputs) than counties that are relatively inefficient.

The model is based on a study by Speelman, et al (2007) and the sample problem presented by Anderson, et al. The model that follows below is for a data set on M inputs (undesirable attributes) and N outputs (desirable attributes) for each of the J rural counties in West Virginia:

$$\textbf{Min } \theta = \alpha_{i1} X_{i1} + \ldots \alpha_{im} X_{im} \tag{1}$$

Subject to:

$$-y_i + Y\pi \geq 0, \tag{2}$$
$$-\theta x_i + X\pi \leq 0, \tag{3}$$
$$J1'\pi = 1 \tag{4}$$
$$\theta, \pi \geq 0 \tag{5}$$

Where θ is an efficiency measure with a value between zero and one, one indicating that the county is relatively efficient. For the i-th county, input and output data are presented by column vectors x_i and y_i , respectively, while X and Y are the input and output matrices representing the data for all J counties. J1 is a Jx1 vector of ones and π is a Jx1 vector of constants. The objective function is to minimize θ which is the same as minimizing the undesirable community attributes (inputs). The DEA programming model is composed of thirty-four decision variables and twelve constraints, excluding the non-negativity constraint.

Data Types and Sources

County-level data from USDA Economic Research Service (ERS) and the Geostat and Statistical Data Center was used to analyze factor inputs and outputs (USDA-ERS and Geostat, 2007). The inclusion of variables was determined by the availability of information for all units (rural counties) in consideration, as well as variable correlations. Variable correlations will not affect the analysis but was used to avoid inclusion of many variables measuring the same community attribute. Data search resulted in the inclusion of output variables: employment, median household income, median house value, health index, personal care facilities, and high school graduates. These output variables are the development factors that the counties would like to maximize. Input variables include population density, unemployment rate, per capita tax, number of persons in poverty, and crime rate. These are the input variables the counties would like to minimize. The output and input variables included in the model are presented in Table 1.

Table 1. Descriptive statistics of outputs and inputs used in DEA

	Unit	Average	Standard Deviation	Minimum	Maximum
OUTPUTS					
Employment (EMP)	number	5503.45	5573.53	336.00	21998.00
Median Household Income (MHY)	dollars	18000.06	2268.75	13141.00	21655.00
Median House Value (MHV)	dollars	40593.94	7463.16	15800.00	51600.00
Health Index(HLTH)	number/points	8.68	2.61	4.20	15.50
Personal Care Facilities/Establishments (PERFAC)	number	3.64	3.87	0.00	17.00
High School Graduate 25 years and older(HIGRAD)	number	10063.30	8399.16	2671.00	32783.00
INPUTS					
Population Density (POPDEN)	persons per square mile	55.88	44.90	9.58	184.67
Unemployment Rate (UNEMP)	percent	13.18	3.72	7.70	22.40
Per Capita Tax (PCTAX)	number	281.71	84.61	90.68	416.90
Number of people below poverty(BELOPOV)	number	4836.82	3599.94	1081.00	13852.00

Crime rate (CRIME)	number	1320.85	614.34	479.00	2944.00

Following Marshall and Shortle (2005), rural counties were defined using the ERS rural-urban continuum codes called Beale Codes. Counties with Beale Code of 0-3 were considered urban, while those with 4-9 were considered rural (Figure 1).

Empirical Results and Analysis

The model presented above was estimated using Microsoft Excel Solver (Frontline Systems). Table 2 shows the distribution of efficiency scores of the counties with 6 percent having an efficiency score between 0.61 and 0.70, 12 percent with scores between 0.81 and 0.90, 21 percent between 0.91 and 0.99, and 61 percent having an efficiency index of 1. Counties with efficiency scores of less than one are considered inefficient, while those with a score of one are considered efficient. The average overall efficiency for all counties is 0.92.

Table 2. Efficiency estimates of rural counties in West Virginia

Efficiency Score	Number of Counties	% of Counties
0.00 - 0.60	0	0
0.61 - 0.70	2	6
0.71 - 0.80	4	12
0.81 - 0.90	7	21
0.91 - 0.99	0	0
1.00	20	61

Average Score: 0.92

Figure 2 further shows the efficiency scores of rural counties in West Virginia. Most of the counties (61 percent) have an efficiency score of one and are therefore considered to be relatively efficient. This means that these counties are maximizing the desirable community attributes and minimizing the undesirable attributes as much as the composite county. These are the counties that lie on the efficiency frontier. Twenty-one percent of the units have an efficiency score of between 0.81 and 0.90 which is a relatively high score of efficiency. The values mean that the composite county is more efficient than these counties and are judged to be relatively inefficient. The score indicates that the composite county can have at least the same level of each output that the counties with efficiency scores of between 0.81 and 0.90 can obtain but with fewer amounts of inputs. That is, the composite county can have the same level of desirable characteristics (outputs) as the inefficient counties but with less undesirable attributes (inputs). This is by having no more than 81 to 90 percent of the inputs by the inefficient counties. Two counties, Roane and Wyoming have the lowest efficiency scores of 0.67 and 0.70 indicating that the composite county can have the same level of desirable characteristics as they have but with only 67 and 70 percent of their undesirable characteristics.

Table 3. Slack values for Roane County

	Unit	Slack
Employment (EMP)	Number	385.32
Median Household Income (MHY)	Dollars	2900.88
Median House Value (MHV)	Dollars	7754.79
Health Index(HLTH)	number/points	0
Personal Care Facilities/Establishments (PERFAC)	Number	0.9468
High School Graduate 25 years and older(HIGRAD)	Number	0
Population Density (POPDEN)	persons per square mile	0
Unemployment Rate (UNEMP)	Percent	0.7715
Per Capita Tax (PCTAX)	Number	0
Number of people below poverty(BELOPOV)	Number	0

Crime rate (CRIME)	Number	46.07

The results of the DEA analysis also showed additional information on the slack/ surplus variables for each county (Table 3). The figures further support the efficiency scores of the counties and their interpretations. For example, in Table 3, the slack/surplus estimation for Roane County shows that the composite county has at least as much of each level of output as Roane County has. It has 385 more employment, $2900 more of median household income, $7754 more house value, and 0.95 unit more of personal care establishment. The slack with zero values for the input constraints indicate that the composite county has only 67 percent of the level of population density, per capita tax, and number of persons below poverty of Roane County. These results further support that the counties with an efficiency score of less than 1 are inefficient i.e. Roane County.

Conclusions

The results suggest that the majority of the rural counties in West Virginia are efficient in increasing quality of life. Since efficiency measures are based on community performances and not on production levels, it is difficult to determine the reasons for such efficiency values. However, the rural counties in the Eastern part of West Virginia were observed to be more efficient in generating quality of life relative to the other rural counties in the State. This may be due to the fact that counties that were observed to be efficient are in close proximity to the more developed counties.

The results of DEA presented a reliable method of measuring the efficiency of rural counties as indicators of quality of life based on available socio-economic data. These are useful information as most people base their migration decisions on quality of life in a community. The analysis also provides information of interest to policy makers as an indication of community performance which can be used for evaluating quality of life of counties and initiating development programs. In addition, the counties that are found to be efficient can act as models for efficiency to the inefficient counties, showing the achievable levels of outputs given the development characteristics of the counties.

Data envelopment analysis was presented to be a flexible methodology of analyzing community attributes using socio-economic variables. It is a beneficial method in measuring efficiency without the necessity of having direct relationships between output and input variables. DEA is a very useful method in determining the differences between rural counties in West Virginia about generating quality of life.

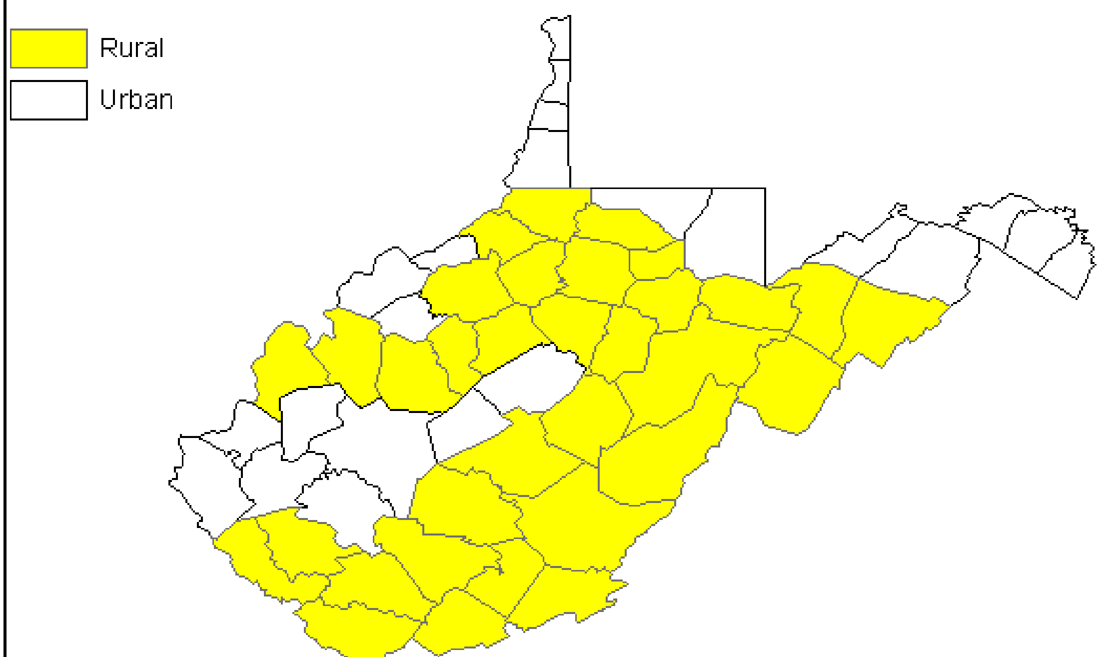

Figure 1. Rural/Urban Distinctions in West Virginia Counties

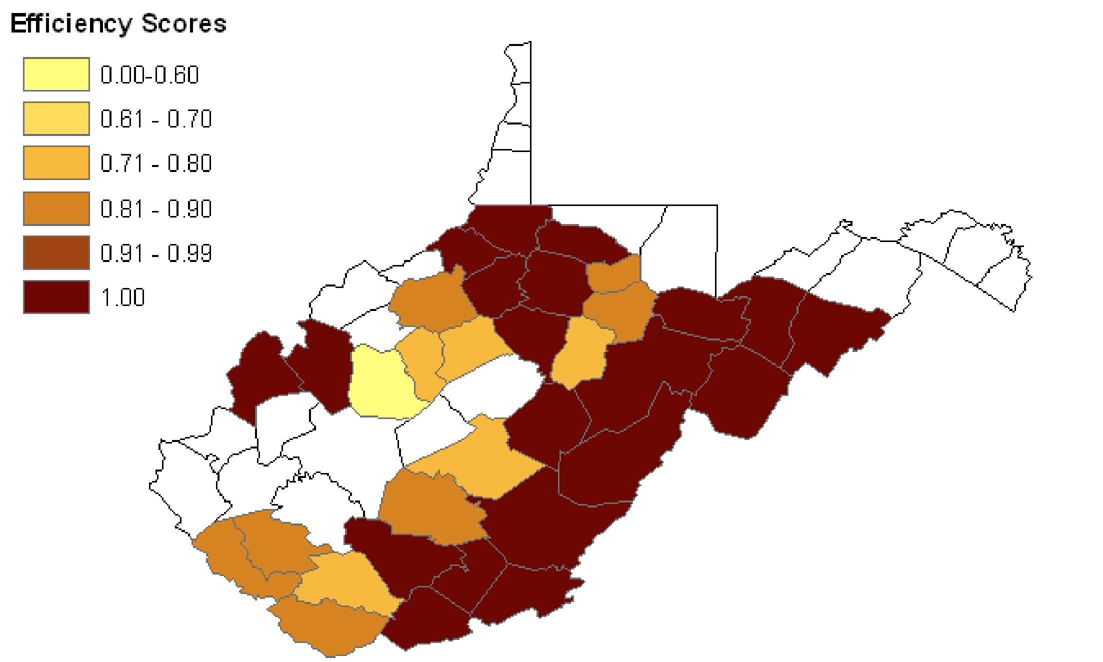

Figure 2. Efficiency Scores of Rural Counties in West Virginia

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