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Opinion : Planners Give Inadequate Public Service

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by John Hood

RALEIGH – Although suspicious of most occupational-licensing laws, I'm sorely tempted to advocate that the state of North Carolina create a new, high standard for certifying local land-use planners. Call it an Adequate Public Benefit law. In order to be employed by a local government, any planner would have to show that he or she has a sufficient understanding of basic economics and financial accounting to provide a net benefit to taxpayers.

Many current and prospective planners would fail the test.

I don't doubt their sincerity. Nor do I deny that public authorities have an inevitable planning role, which derives not only from the government's monopoly over road provision but also from a legitimate need to identify and address externalities – the effects of business transactions on the rights of third parties ranging from water runoff to noise to health and safety risks.

The problem is that planners so often venture underneath the hood of the local economic engine to tinker with its moving parts using tools entirely unsuited to the task. Instead of employing prices to encourage the economical consumption of scarce resources, they employ blanket permissions and prohibitions. Instead of coordinating the efficient provision of government services to satisfy public preferences, they try to force the public to change its preferences. And instead of considering all the costs and benefits of a regulatory action, they cherry-pick the data in an attempt to justify their own preferred land-use pattern, commonly but erroneously referred to as "Smart Growth."

It's that last practice that recently drew the attention of one of my John Locke Foundation colleagues, Research Director Michael Sanera. A political scientist, he also serves as our policy analyst on local government issues. Over the past couple of years, Sanera has been dismayed at the shoddy research work that so many North Carolina cities and counties use to justify impact fees, Adequate Public Facilities Ordinances, and other local land-use rules. In a new research paper exploring the subject at length, Sanera and coauthor Haley Wynn demonstrate how truly bad these studies are.

Believe it or not, most of the studies fail to count fiscal benefits as well as fiscal costs when assessing the impact of new development. That is, researchers on contract with local governments may provide a reasonable estimate of the future cost of providing utility service, street access, and other amenities to a new subdivision. But they fail to provide any estimate of the total taxes and fees that builders and buyers of the new homes will pay during the same time period.

For example, the lumber and other materials used to construct homes are subject to sales tax. Most of the entrepreneurs, real-estate marketers, construction workers, and contractors involved in bringing new housing capacity to the market spend their resulting incomes in ways that boost local coffers, via sales, property, automobile, and other taxes. More generally, housing development is usually a following, not a leading, indicator. That is, there's typically a demand for housing because jobs are being created that demand more workers. If the government restrcts development, it hampers the ability of other taxpaying employers to grow and prosper, which has revenue implications.

Without a full accounting, it makes no sense whatsoever to demand an impact fee or other charge supposedly to offset the "cost" of growth. Which is why so much local land-use policy in North Carolina can properly be called senseless.

Obviously, rapid rates of real-estate development pose challenges for cities and counties. Planning ahead as they should, local governments must build enough capacity in roads, water and sewer, public schools, and other infrastructure to satisfy the likely demand for such services by current and prospective residents. At the same time, though, growth brings new revenue. As long as governments budget reasonably, take on debt wisely, and avoid punching holes in their revenue base with targeted economic incentives, these revenues will more than offset the cost of service delivery over time in most (but not all) cases.

There is nothing wrong in theory with charging prospective homebuyers up-front for some infrastructure costs. I've never been opposed to impact fees, for example, as long as they are confined to build-out costs directly linked to servicing a new development, such as for sewer lines and street improvements. But applying impact fees to pay for public schools is another matter, as I have previously argued.

Before they ever get to the point of crafting regulations or setting prices, local governments must have an accurate accounting of the net costs of development, if any. Local planners aren't providing the required information. It's time for local elected officials to start demanding that they do.

Hood is president of the John Locke Foundation and publisher of CarolinaJournal.com

Previous article - Next article