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Who pays the costs of growth?

You'd be outraged if the government made you send money to help wealthy developers build their next community. Yet, in effect, that's what's happening.

by Jerry Harmon

In the early 1970s, some citizens and elected officials were just starting to ask the question in the San Diego region, "Does population growth cost money?" At that time, a clear majority of elected officials held the strong belief that not only did growth not cost money, it added to the tax base and therefore created an additional income source over and above any costs that it created.

Population growth was encouraged as a source of revenue that would pay for itself, add money to government coffers, and improve the quality of life for existing residents.

Local politicians in the seventies had a significant advantage not held by those in local office today. At that time, each city council could annually set its own property tax rate. This meant that local budgets were easy to balance: once the annual budget had been agreed to by the city council, they simply had to multiply the existing property tax rate by the assessed valuation within the city to determine the income that would be generated that year. If the budget required more dollars to be balanced, it was simply a matter of adjusting the tax rate upward to generate the necessary income.

Generally, from the time of World War II into the early seventies, it was seldom necessary to increase the tax rate by much to "balance the local budget." This was true largely because inflation continued to increase the assessed valuation of land and buildings by more than enough to generate the needed income.

It is important to understand this history for two reasons. First, it created a mind set that population growth was good because it more than "paid for itself." Second, because growth never really *has* paid for itself, it led to a major taxpayer revolt that resulted in Proposition 13, passed by the voters of the State of California in 1978, that limited property tax increases.

Taxpayer revolution

How and why did this happen? As population growth continued to increase dramatically in California after WWII, and as politicians continued to claim they were being fiscally conservative by not increasing the tax rate, reality set in and the truth surfaced. Ever-increasing population required ever-increasing local budgets for both capital improvements (streets, storm drains, police and fire stations, schools, parks, libraries, etc.) and for maintenance and operation expenses to manage and provide these city and school services. As a result, the existing taxpayers were required to pay ever-increasing property taxes with each passing year.

Some home owners who were retired and living on fixed incomes in this unsustainable fast-growth paradigm found that, after paying for their property and paying taxes for years, they were now literally being taxed out of their homes. Others were just beginning to wake up to fact that their property taxes were ever-increasing at the same time services were declining. Schools were overcrowded, traffic was becoming more congested, crime rates were increasing, air quality was decreasing, and in general the quality of life was declining.

These facts, along with the apartment owners of California who saw a quick way to improve their earnings by cutting their property taxes, helped to create the Taxpayers Revolution more than a quarter of a century ago. This caused the passage of Proposition 13, which reduced the property tax rate and set a fixed percentage for annual increases, effectively stopping the politicians from continuing to subsidize population at the expense of the property taxpayers.

Impact fees set - but too low

Prior to this property tax revolution, there were some informed citizens and elected leaders who recognized the simple truth of what was actually occurring and recommended that other sources of income be developed to reduce the demand on ever-increasing property taxes. The primary suggestions were to establish a relationship between the costs of capital improvements required by new population growth and the increase in population.

Clearly, if a city or school district did not increase its population it would not need to construct new police and fire stations, new libraries, parks, schools, roads, etc. And, to the contrary, if it did increase its population and if the quality of life of its residents as defined by the services provided were to be maintained, then new public facilities would need to be built, maintained and operated.

Because property tax increases were cut substantially, new sources of income had to be found if population growth was to continue and if services were to be maintained at acceptable levels. This caused politicians to implement what we now call “development impact fees,” or “developer fees” for short. Most elected leaders were still not happy with the need to impose new fees on developers. But without the ability to rely on ever-increasing property taxes to subsidize population growth, they would have faced an angry public as more and more development was approved and services continued to decline.

At first, the new development impact fees were set arbitrarily lower than needed to provide the actual capital improvements, with the hope that some new income could be found from the state or federal sources. But they could never find enough. Over time, these new fees were increased in every community in the state. In San Diego County, for example, the average development impact fee was less than five thousand dollars in the early eighties; today, it has been increased to twenty thousand dollars, on average, for a standard tract house. But it is still not linked to the real costs of growth.

Lack of political will

We have a majority of elected officials today who have the responsibility to set proper development impact fees and who yet are unwilling to make growth pay for itself. They are still “robbing from Peter to pay Paul” when it comes to forcing existing residents and taxpayers to subsidize more growth.

This can be seen in the traffic congestion on our streets, roads, and freeways. It can be seen in overcrowded classrooms and makeshift trailers that our children are forced to use as classrooms. It is clear our water quality and air quality are not being maintained. These and other quality-of-life indicators tell us intuitively that population growth is still not being made to pay for itself. Existing taxpayers and residents are being forced to subsidize it by having our taxes diverted to pay for capital improvements needed by new population growth, by environmental degradation, and by having our quality of life decreased.

What to do?

What should we demand, as existing residents and taxpayers, to fix the problem?

First, we need to determine the level of services we now have. Even if the level of the existing service is not as good as we might desire, we still need to clearly measure where we are today. This needs to be in quantitative terms of: number of police per capita and response time per incident, fire fighters per capita and response time, library books/internet access per capita, acreage of park land per capita, open space acreage per capita, etc.

It is important to know this starting point because there have been numerous “mistakes of the past” made by self-serving politicians who set public policy to the detriment of taxpaying residents and to the advantage of development interests. This still continues today, but we are the voters who have elected the wrong leaders and allowed them to make the mistakes. We should only expect new population growth to pay for the level of service we currently have. We should not expect new population growth to pay for our mistakes.

Second, we need to elect local leaders who are not tied to the development industry. As long as the building industry controls a majority of positions on our boards and city councils, they will continue to make laws and policy to the benefit of developers and to the detriment of taxpayers. After all, they look to taxpayers to subsidize their projects by having their elected leaders set policies that cause our taxes to be used to build the new facilities needed by new population growth, not by existing residents.

At least, we should expect our elected leaders - or new ones, if the current ones cannot be convinced to change their ways - to develop new public policy (and laws to implement that new policy) that will make new population growth pay its full fair share of all new public improvements to at least match the standards we have today. This should be quantified, as noted above.

One good example

In 1988, the voters of Escondido changed to a slow-growth majority that made population growth pay its fair share. Up until that time, a pro-population-growth city council majority of just three people ran roughshod over unorganized residents by approving development after development with inadequate development impact fees and unmitigated environmental impacts.

The new city council majority, much to the dislike of development interests, instructed its city manager (and thus its planning staff) to determine what quality-of-life standards the city should consider when setting new development impact fee levels. It also asked the staff to quantify the existing standards. With this accomplished, the council revised its General Plan and included these new Quality Of Life Standards as part of the updated General Plan. Once the standards were quantified, it was possible to determine the amount of money each new building permit would cost if new population growth were to pay its fair share. That was implemented more than ten years ago in Escondido.

Subsequently, the council has changed again, and development interests have eroded some of the standards. The lesson to be learned is that if responsible growth interests want to make progress, they need to take the power away from the elected officials who become biased by developer influence and reserve it for the voters of a given city and/or county. The initiative process can do this.

Once an initiative is passed that requires any increases in land use intensity or decreases in development impact fees to be finally approved by a vote of the people, we will appropriately reduce developer influence on our elected leaders.

What about regional impacts?

In addition to city-based development impact fees that have been in existence for the past twenty plus years, we have yet to collect one dollar of impact fees for regional capital improvements generated by growth. For example, when housing tracts are approved in Carlsbad, Oceanside, Escondido, or San Diego, local development impact fees are collected by that particular city for some portion of local needs. However, no funding is collected to pay for necessary new freeway capacity, public transit, or regional road improvements.

It is no accident that traffic on regional systems keeps rising. The Regional Transportation Plan forecasts a $12 billion shortfall for a plan that will still have us stuck in traffic and without adequate transit alternatives. Not only does growth not pay for the transportation infrastructure needed to absorb its impacts, but city councils repeatedly vote to allow projects to go in without reducing those impacts.

Make growth pay its fair share

It is past time that we quit making the same mistakes of the past and get on with making population growth pay its fair share - for local capital improvements *and* regional capital improvements. Some regions in California are already doing this. Otherwise, we are just digging a deeper hole to climb out of by continuing to issue building permits without collecting regional development impact fees.

How much worse do our regional roads, freeways and low-service public transit have to get before we demand new public policy and laws that require new population growth to pay its fair share?

It adds up

No public agency currently measures the cumulative impacts of countless housing developments, strip commercial developments, or industrial developments as they individually and collectively impact our streets, roads, freeways and mass transit. No one requires an Environmental Impact Report to measure the cumulative impacts of countless developments approved by the eighteen incorporated cities plus the county. If we are to set proper impact fees

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we must demand measures of the cumulative impacts of developments.

The history of local leadership is one of developer-dominated city councils. The tax revolt of the late seventies will be mild compared to the urban sprawl revolt of the next decade if existing taxpayers are going to not only see once-valued open space destroyed, but also be expected to help subsidize the development interests who pave it over. ET

Jerry Harmon is a former Mayor of Escondido and SANDAG Board member. Now retired, he serves on the San Diego Sierra Club Political Committee and the League of Conservation Voters of San Diego County. Email: jharmon@cts.com Website: www.itsthetrafficstupid.org.