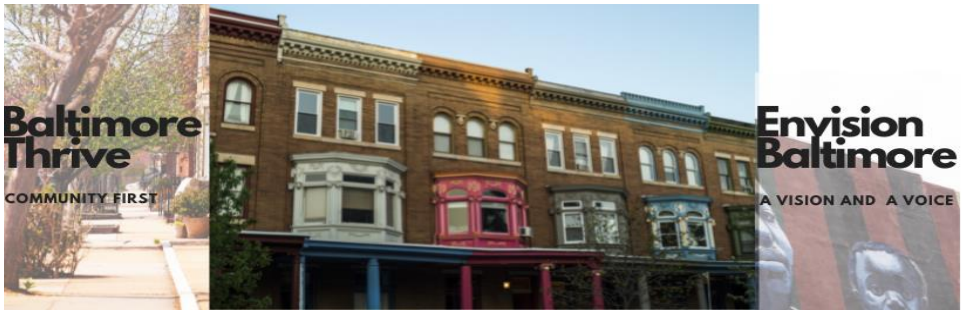

ALIGNING ECONOMIC INCENTIVES for JOB CREATION and AFFORDABLE HOUSING with INFRASTRUCTURE FUNDING and MAINTENANCE

If smart growth is so smart, how come there's so much dumb growth? Economic incentives for sprawl are partly to blame. If we understand the economic incentives for sprawl, the remedies become clear. Properly applied, these remedies can create jobs, enhance housing affordability and reduce tax burdens.

Infrastructure can be a double-edged sword. We create it to facilitate development. Yet, the resulting inflation in land prices near public facilities and services can drive development (particularly affordable development) to cheaper but more remote sites. We then extend infrastructure to these remote sites only to have the process repeat. Thus infrastructure created to facilitate development ends up chasing it away. We run after sprawl with more infrastructure, but never catch up. This process destroys the countryside and strains city budgets as communities build more infrastructure than they would need if development was more compact. The results are poverty, pollution and needlessly long commutes.

Part of the problem stems from the ability of private landowners to appropriate publicly-created land values. This is the fuel for land speculation. Utilizing "land value return" techniques can return publicly-created land values to the agencies that created them. In this way, infrastructure becomes financially self-sustaining. Those who benefit from infrastructure pay in proportion to benefits received.

Additionally, if properly designed and implemented, land value return can actually encourage the development of high-value land. High-value land, typically adjacent to transportation facilities and other urban amenities, is where communities want development to occur. Encouraging development at these high-value locations makes communities more compact. This facilitates walking, cycling and transit while preserving rural areas for agriculture, conservation and recreation.

Some jurisdictions have accomplished this by transforming their traditional property tax into a land value return fee. One technique involves reducing the property tax rate on privately-created building values while increasing the tax rate on publicly-created land values.

The lower tax rate on buildings makes it cheaper to construct, improve and maintain them, reducing rents for residents and businesses. (The typical property tax on buildings is only 1% or 2%, but has the economic impact of a 10% to 20% sales tax on construction labor and materials.) The higher tax on land values reduces land speculation and helps keep land prices low. This reform concentrates development near existing infrastructure. It promotes jobs by making it cheaper to improve and maintain existing buildings and by keeping business rents low. See "Break the Boom and Bust Cycle" at https://drive.google.com/file/d/1TYY6uapW_LewthHn57fDkV8rx-PNrkSM/view .

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