Kicking the Habit: Unsustainable Economic Growth

Urban Land Institute, MN Chapter
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The mission of Strong Towns is to support a model for growth that allows America's towns to become financially strong and resilient.
Investment in the community creates new growth, which increases tax revenue.

Powerful Incentives

• Initial cost to the public for new growth: **minimal**

• Benefit to the public budget for new growth: **substantial**

The catch is that the public agrees to maintain the improvement forever.
The critical assumptions to this strategy:

1. Either growth continues at ever accelerating rates, or
2. The pattern of development ultimately generates more revenue than it costs to maintain.

**Invalid Assumptions**
Local Street Project

- $6,600 cost per property
- 50% of costs assessed
- 37 years to recoup public contribution from adjoining tax base
Road Maintenance Project
• $354,000 total cost
• 79 years to recoup public expense from tax base
• To break even requires a 46% increase in property tax rates
Industrial Park Development

- $2.1 million inflation-adjusted total cost
- $6.6 million in improvements induced
- Payback from current conditions happens in 29 years if all revenue devoted only to debt
Growth Ponzi Scheme
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Serious implications for the future

- The “Mechanisms of Growth” we have become accustomed to are waning.
- Local governments are going to be forced to absorb the local costs of the current development pattern.
- This can’t be done in the current pattern of development without large tax increases and/or large cuts in services.
What’s the solution?
Focus Areas for a Rational Response

1. Build Cultural Awareness
2. Muster Social Capital
3. Restructure Economically
4. Reorient Government
Build it and they will come....
Build it and they will come....
Incremental growth
Incremental growth
Incremental growth
Reorient Government

Speculative government investments need to be small and experimental (venture capital).

All other government investments need to be secure and essentially risk free (banker).
Need to measure the public’s **REAL** return on investment
Reorient Government

Government investments need to have a **REAL** rate of return for the government.

The return on investment must be measured.
Need to account for the second life cycle costs.
Need to account for the second life cycle costs.

Gov’t can’t walk away.
Need to account for the second life cycle costs.

First Life Cycle

Second Life Cycle
Reorient Government

A cash flow analysis is not sufficient for local government.

Financial analysis for public projects must account for the second life cycle.
Need to identify high return investments.

Innovation that happens from the top-down tends to be orderly but dumb.

Innovation that happens from the bottom-up tends to be chaotic but smart.
Reorient Government

We must increase the financial productivity of our places. This can only happen at a fine grain scale.

Governments struggle to work at the fine grain scale.

Local governments need to unleash residents and allow them to identify the high ROI projects.
1945 - 2008
Government responsible for growth
- Local government as speculative investor
- Local government as shaper of markets
- Local governments picking winners

New Economy
Government responding to productive growth
- Local government as conservative investor
- Local governments supporting productive places
- Local governments working to improve quality of life at the block level
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