Correct Pricing and Deregulation

The Key to Economic and Environmental Sustainability

By: Lawrence Solomon

About Lawrence Solomon

Lawrence Solomon is one of Canada's leading environmentalists. His book, The Conserver Solution (Doubleday), which popularized the Conserver Society concept in the late 1970s, became the manual for those interested in incorporating environmental factors into economic life. An advisor to President Carter's Task Force on the Global Environment (the Global 2000 Report) in the late 1970's, he has since been at the forefront of movements to reform foreign aid, stop nuclear power expansion, save the world's rainforests and convert free roads to toll roads. He is a columnist with National Post (Toronto) and has been a columnist for the Globe and Mail (Toronto), a syndicated columnist, a contributor to the Wall Street Journal, and the editor and publisher of the award-winning The Next City magazine. He is author or co-author of seven books, including Energy Shock (Doubleday), In the Name of Progress (Doubleday), Breaking Up Ontario Hydro's Monopoly (Energy Probe), Power at What Cost (Doubleday), Toronto Sprawls (University of Toronto Press) and, most recently, The Deniers (Richard Vigilante Books).

Mr. Solomon is a founder and managing director of Energy Probe Research Foundation and the executive director of its Energy Probe and Urban Renaissance Institute divisions. He also helped found the World Rainforest Movement, Friends of the Earth Canada, and Lake Ontario Waterkeepers.

Mr. Solomon's 1982 model for electricity reform was adopted in the UK in 1989, leading to the demise of nuclear and coal power in the UK and its adoption of high efficiency natural gas technologies. His model has since become the dominant model for electricity sector restructuring in the world. His recommendations in the late 1980s and early 1990s for reforms in Ontario's natural gas sector contributed to an industry restructuring that yielded both economic and environmental benefits. His 1996 model for the satellite tolling of roads has been adopted throughout the European Union. He holds patents for toll road technology for the EU, China, Singapore, Hong Kong, Mexico, and Brazil.

Energy Probe Research Foundation, co-founded by Jane Jacobs and others in 1979, is one of Canada's leading environmental organizations. A proponent of conservation and renewable energy and a critic of coal, nuclear power, and large scale hydro dams, it works with citizens groups around the world to stop environmentally and economically destructive projects and promote sound development.

Mr. Solomon is a past Vice Chair of the City of Toronto Planning Board.

Abstract

In the absence of government regulation, cities tend to grow compactly, the growth being determined by the decisions of its residents and businesses who, all else being equal, generally develop land intensively. With the rise of government regulation, urban growth turned extensive, leading to sprawl and other economic and environmental inefficiencies. Property taxes based on market value assessments exacerbated the inefficiencies.

Planners can counter these inefficiencies by lessening reliance on the property tax through various mechanisms, including asset sales and user fees.

User fees, in and of themselves, tend to discourage extensive development and encourage intensive development. User fees in transportation – for the use of roads and the use of public transit – are especially important in discouraging sprawl.

Planners should also recommend the removal of regulations that discourage intensive development and promote sprawl and they should highlight the impact on sprawl that proposed new regulations might have. These highlights need not be limited to municipal regulations. Every municipal resident is also a resident of the province and the country, and would be well served to understand the implications on their built form of decisions made at all levels of government.

Discussion Paper

Until a century ago, cities throughout the world were compact, urban development occurring at high densities because of the inherent efficiency of doing so. Then this historical pattern began to change in North America. Through explicit and implicit policies designed to lower urban densities, governments intervened via numerous mechanisms, among them lot sizes and setbacks, zoning that eliminated mixed uses and discriminated against specific industries, public health regulations targeting high-density immigrant districts, postage stamp rates for public transit, and taxation based on density.

Policies at the provincial and federal levels further acted to lower urban densities. To reduce the cost of living for those outside cities, urban dwellers saw their power and telephone bills rise to subsidize electricity and telephone customers in suburban and rural areas. Indeed, in the delivery of the great proportion of government services, be it in health care or education or transportation or welfare, the funding will typically involve transfers from the city to jurisdictions outside it.

The upshot of these policies is sprawl, an averaging of inherently high urban densities with inherently low rural densities to produce more of a soup. Before the intervention of governments a century ago, the urban-rural boundary was well defined. Today, it can only be discerned by government signs at municipal boundaries, advising travellers that they are entering an adjacent municipality.

The public, sensing the loss of quality of life in city and rural area alike, has rebelled, leading decision makers to enact planning measures to preserve both city neighbourhoods and rural communities. These measures – typically new layers of regulations atop the old -- generally fail. For a century now and since World War II in particular, sprawl has advanced, seemingly inexorably. This has been the case in Edmonton as elsewhere, and it is expected to remain the case.

Over the next 30 years, Edmonton's outskirts in the Capital Region are expected to roughly double in population, from approximately 250,000 to approximately 500,000. Most of this growth will be unsustainable, driven and supported by subsidies or cross-subsidies of various kinds. In contrast, the City of Edmonton's population is merely expected to increase by half, from approximately 750,000 to 1,150,000, despite Edmonton's inherent efficiencies. Without the interventions by government, and without the subsidies and cross-subsidies, the picture in 2040 would likely be quite different: the population of 250,000 in the outskirts would likely decline to 200,000 or 150,000. The City's population, meanwhile, would likely double to

1,500,000. This outcome would represent a more natural growth and evolution, one that better reflected the innate capacities of both Edmonton and its environs.

While it may not be politically feasible to fully achieve this outcome, this paper argues that a series of policies could be put in place to move the Capital Region in the direction of a more compact urban form for Edmonton and a lower density for its environs.

Move away from property taxes

Property taxes based on market value assessment discriminate against density by their very nature. Land that is well situated attracts the most people and businesses, giving it a high density. At the same time, the demand for this well situated land raises its value, and thus the property taxes that it attracts. The more that land is taxed, the likelier that people and businesses will flee to a less valued, and lower taxed, location. The direction of the flight will be from high to low density. Often this flight will be to a lower taxed jurisdiction.

Property taxes are perverse. On the one hand, they penalize those who make improvements to their property or who use their property intensively, discouraging investment by owners. On the other, the units in the compact, intensively use districts that attract the highest property taxes tend to make the fewest demands on urban infrastructure – as a general rule, the higher the density of an area, the lower the cost of delivering a service to a resident of the area.

Property taxes are thus both economically and environmentally undesirable in that they discourage efficient use of municipal resources while promoting sprawl.

To reduce property taxes, the City can weigh several options:

Asset sales

By selling its non-core land holdings to market-oriented users, the City would further several economic and environmental sustainability goals. To take the case of its golf courses, for example, a sale by the City would convert little used recreational land into either a one-time gain or into a revenue stream that could then lower property taxes. In private hands, moreover, the golf lands would be generating property taxes that would further lower the burden on existing taxpayers.

Further, the City has been pricing its golf services at politically determined prices that may not have optimized the use of these lands. In private hands, the pricing would be at market

rates and, more importantly, if the land can be developed to capture more intensive, higher value uses, the development will be likelier to occur, generating more revenue for the City while increasing its density.

The Cty could go further, however, and borrow a page from Chicago, a leader in asset sales and long-term leases. As one example, Chicago sold a 99-year lease to its Skyway Bridge to finance a freeze on property taxes and to fund neighbourhood improvements. As another, Chicago vacated the parking garage business.

Apart from the disposition of large parcels of land or of other non-core lands to reduce property taxes, the City can also put its sidewalks into more productive play. Restaurants that wish to extend their seating into sidewalk cafes or businesses that wish to use sidewalks as extended lobbies may now do so on a temporary basis that excludes permanent construction. These limitations undermine the City's goal of making streets more interesting for pedestrian activity while also costing the City much needed revenue.

An alternative approach would have the City sell the sidewalk space to willing businesses at fair market value, subject to easements the City would maintain to guarantee public safety and pedestrian access. Because the sidewalk space would have great value for many businesses, well exceeding the per square foot value of their existing space, the City would secure substantial revenue from such a sale. As important, because businesses would have secure rights to their sidewalks, and the ability to build permanent facilities, they would invest in higher grade infrastructure better able to attract pedestrian traffic, in the process also satisfying a City goal.

User fees

While policing and fire protection do not lend themselves to user pay, other major services now financed by property taxes do. One of the most important of these is the maintenance of the roads, the City's most important physical asset and, when unpriced, a major enabler of sprawl.

Road users currently pay the City no fees for the use of the roads, including for residential street parking. Because property taxes pay for road maintenance, the City provides no incentive to drivers to minimize their use of the roads. The result is a subsidy from Edmonton non-drivers to Edmonton drivers through their property taxes, and a subsidy from all Edmontonians to commuters from the outskirts into the city.

Because Edmontonians do not pay for the use of their roads in proportion to their use of the roads, residents and non-residents alike are encouraged to discount commuting distance when considering where to live and work. The absence of a distance-based fee is an important factor in discouraging compact communities within Edmonton, and in encouraging sprawl in the jurisdictions outside Edmonton. Indeed, a user fee that captured all the costs of commuting could, on its own, entirely halt the continuation of sprawl in the communities outside Edmonton.

While the introduction of road tolls is invariably controversial, it often proves popular with residents and businesses alike after they have experienced it. In Stockholm in 2006, all residents participated in the Stockholm Trials, a seven month period during which anyone entering or leaving the city on weekdays faced a charge that varied with congestion – as little as $1.50 at low-volume periods, such as 6:30 a.m. to 6:59 a.m., as much as $3 at a peak period such as 7:30 a.m. to 8:29 a.m.. The daily charge was capped at $9 over the course of any day.

Before the Stockholm Trials began, public opinion inside and outside the city ran strongly against the notion of making the tolls permanent. Attitudes changed, however, as the public experienced the results. Traffic congestion all but ended, vehicular emissions decreased, public transit use increased, road safety improved, and local businesses saw improvements, as shoppers less often drove to distant box stores.

Several months after the Stockholm Trials ended, during which residents were again experiencing free roads, they cast their verdict on the trials via plebiscite. Stockholm residents chose to restore the tolls, with only 40% in opposition. By then, surprisingly, even many of those in the suburbs of Stockholm had reversed their opinion on the road tolls: Their vote was split, 46% for and 46% against.

London, which also introduced a congestion charge, likewise found it to be popular. The London electorate twice chose as its mayor a proponent of congestion charges. Londoners found that the congestion charge promoted public transit, taxicabs, walking, and cycling while discouraging automobile use, traffic congestion, auto accidents and air pollution. Businesses also endorsed the congestion charge because they found the costs involved were dwarfed by the savings in delivery costs and employee time lost in travelling.

By introducing a universal user fee on vehicular traffic that reflected the costs of using the road, Edmonton could markedly reduce its property taxes while achieving many of the same social, economic and environmental benefits seen in Stockholm and London.

Edmonton's scope for introducing user fees could also encompass public transit, another major claimant of subsidies through the property tax system. Contrary to popular belief,

subsidized public transit is a major cause of suburban sprawl – without the artificial cheapening of public transportation, many suburbs couldn't be economically serviced. In fact, before the era of the automobile, it was subsidized public transit that opened up the regions beyond the city. This was the case with subsidized commuter trains into London in the 19th century and it was the case with the subsidized inter-urban routes in the 1920s in North America. When the Great Depression hit in the 1930s, many of the unsustainable suburbs that had been spawned by cheapened transportation then went bankrupt. The cities, in contrast, remained viable.

Public transit functions best without subsidies. Before public transit systems were taken over by governments, they were profitable and important people movers. The demise of public transit, whether owned by the public or private sector, was chiefly a consequence of profitable public transit routes in cities being required to subsidize unprofitable routes, typically in the suburbs.

In the UK, a major reform took place in the 1980s, with the country's public transit systems deregulated and privatized outside London and turned into a franchise system within London. Public transit then enjoyed an immediate renaissance. Costs declined, waiting times decreased, total mileage travelled improved and the great majority of routes operated on a for profit basis (governments subsidized some 16% of the routes).

Many of the improvements in performance occurred due to the pressures of competition. To attract more customers, bus routes changed to better reflect the customers' needs. Minibuses began to populate low density routes, running more frequently than their larger predecessors. In London, operators competed by upgrading the quality of vehicles.

A deregulated public transit system for Edmonton would likely usher in a wave of innovations suited to the city and its environs. Lower density routes would likely see minibuses and shared taxis. High density routes would retain the larger capacity vehicles. Routes that were not commercially viable would either be abandoned or explicitly supported by government. The net effect would be a more efficient transportation system that didn't unjustifiably encourage commutes.

General Deregulation

Those who recognize the importance of higher urban densities typically advocate measures that will directly achieve their goals. They might promote infill in some areas and public transit through judicious use of subsidies. But while these and other densification measures

may see some success, history shows that the gains often do not materialize, and are often short-lived when they do. Cities are far too complex, and the planner's tools are far too few and too blunt, to successfully determine development.

A more reliable route to increasing densities is to remove existing regulations wherever feasible, and to let cities be cities. Left to their own devices, they will grow organically, and densely.

Apart from eliminating past policy interventions that promote sprawl, proposed new policy interventions should be assessed to determine their effect on sprawl. It is in the nature of regulation to react to immediate concerns, often giving short shrift to the consequences down the road. To satisfy the concerns of a small existing group of property owners opposed to a development, for example, the long term needs of the city as a whole may be more difficult to meet. Or, a policy at a senior level of government – say subsidizing a new rural service at the expense of urbanites -- might have the unintended consequence of promoting sprawl. A necessary role for city planners concerned about the direction of development would be to highlight such unintended consequences, to prevent regulations of the day from compromising the society of the future.