BUILDING RESILIENT COMMUNITIES

The more we grow, the poorer we become

By Charles Marohn, Jr.

As a young engineer, I remember sitting in a city council meeting where a senior colleague presented my analysis on the massive backlog of road maintenance the community was facing.

My estimation was that the capital budget needed to be increased by five times just to keep from falling further behind. This felt like a total disaster! There was no way that kind of budget increase was ever going to happen, especially given the long list of other needs the city was facing.

And I knew that the obvious question of reckoning must be coming: How did we get to this point?

My colleague soberly reviewed the numbers and then deftly shifted the conversation into a discussion on funding. The city could raise taxes which, of course, we were not recommending. Better not to be the one to open that book since everyone in the room understands how that story ends.

There was hope that the state and federal governments might come up with some solution, especially since so many places are in the same situation. Hope, in this instance, is a feeling sort of like people have when their team is down three scores with the clock running out. We all know success is highly unlikely, but remember that one game. . .?

Hope is a psychological bridge that allows us to justify embracing the Holy Trinity of Decline: growth projections, subsidies, and debt.

We hope new growth will provide more revenue. Our desperation—although we would rather call it "commitment"—is such that we're prepared to subsidize that growth into existence, if need be. And when all else fails, we can handle this cash shortfall, which we hope is temporary given that we're investing in growth, by taking on debt.

To my dismay, the presentation ended without a reckoning. The hard question was never asked, and so the uncomfortable reality was never explored. Still, at some point over the coming days, I was certain that nearly everyone in attendance would ponder it.

How did this happen?

An Insolvency Crisis

The people who work at ratings agencies largely believe that municipal debt is as close as an investor can get to risk-free. This holds even in states like Illinois, New Jersey, and California, where pensions are a blinking red light on the dashboard of every budget projection.

The consensus belief is that, since widespread municipal defaults have not happened since the Great Depression, they are not likely to happen in the future.

There is a lot missing in that narrative. The first is that nearly every local government in the United States is currently defaulting on their obligations. Local governments make all kinds of promises—to properly maintain infrastructure, to adequately fund pensions, to staff police and fire departments—that they are failing to keep.

Unlike a debt default, these soft defaults are explained away as public policy choices. This ignores the connection between the capacity to pay debts and the capacity to keep other promises.

Both rely on local government tapping into the wealth of the community. Whatever combination of property, sales, and income tax is used, there must be capacity there to pay.

You can't tax what's not there. As public obligations grow, private wealth within the community must keep pace. Yet accounting rules and practices completely ignore this reality.

When a community builds a new road, that piece of infrastructure comes with a future obligation for maintenance. Local officials can estimate, with a good degree of precision, when that obligation will come due and roughly how much it will cost.

In normal accounting terminology, that would be considered a future

liability. In the magical world of municipal accounting, however, that road is labeled an asset.

Never mind that it can't be sold or transferred, and never mind that it carries a future maintenance obligation, it's counted on the asset side of the ledger. Standard accounting practices state that the more roads a community has and the more future promises it makes, the richer it is.

Simultaneously, these same rules give no consideration to the wealth being created, or not. That new road can serve 100 million dollars of property or a tax-exempt forest; it's all the same on the community's balance sheet.

If this sounds incoherent, it is. National economic policy since the Great Depression has focused on growth and employment, not on the broad creation of wealth. In the words of Czech economist Tomas Sedlacek, we've been willing to "sacrifice stability to achieve growth."

Local governments can't function this way, not over the long run. They can't take on more and more promises without generating enough wealth to meet those obligations—not without a reckoning.

A Lack of Wealth

Consider a common North American development scenario, one that played out in my hometown of Brainerd, Minnesota. Two identically sized blocks are separated by a third.

They are in the same neighborhood and on the same thoroughfare. They are the same size and have the same amount of public infrastructure and maintenance cost.

The westerly block I've labeled "Old and Blighted." It was erected in the 1920s, back when neighborhoods were built incrementally over time. When these buildings were constructed, this was the far edge of town. They were small investments that, if things worked out, could be expanded and improved as the community grew.

There would not have been any public infrastructure when these were built; theoretically, that would come later when the neighborhood reached a level of maturity that justified the ongoing public expense.

What you see demonstrated in the Old and Blighted block is the way that civilizations have been building for thousands of years: They begin with nothing, but with time and effort, they end up creating something. Historically, this is the first building block of a successful place.

Contrast this with the easterly block, which I've labeled "Shiny and New." This block used to look like the Old and Blighted block, but the community worked to get those buildings torn down and replaced by a new drive-through taco restaurant.

Not only did this transaction remove blighted properties, but the new site met all the city's policy objectives. It fully conformed with the zoning code, including setbacks, lot coverage, and sign placement.

It eliminated the on-street parking, allowing traffic to flow more smoothly. It even provided greenspace and some stormwater retention capacity.

By nearly every measurable objective, the Shiny and New block is more desirable than the Old and Blighted block. There is one significant measurement, however, where it falls short: wealth.

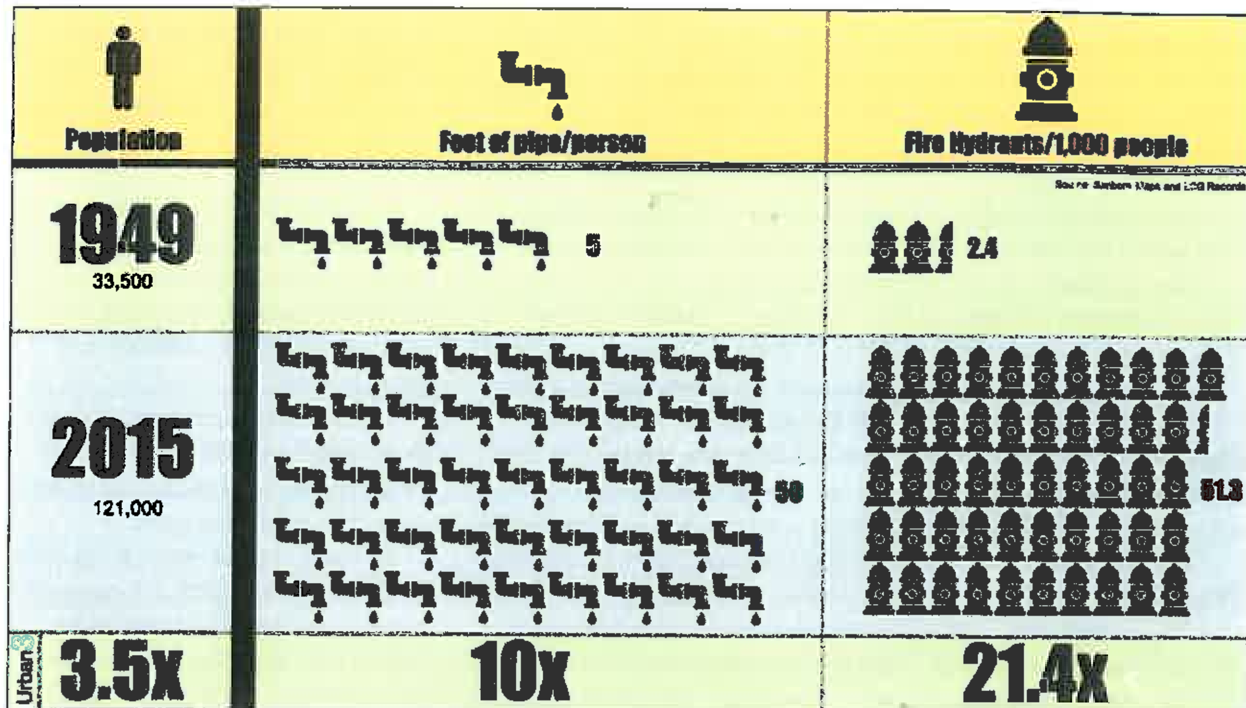
Total Value of the Old and Blighted Block: $1,104,000.

Total Value of the Shiny and New Block: $618,000.

That decrepit, old block the community would love to have razed is worth 80 percent more than the modern block. It pays 80 percent more property tax to the community. And not only does the Old and Blighted block outperform financially by a significant margin, it does so at the same cost to the taxpayer.

Figure 1. Brainerd Blocks.

Figure 2. Lafayette Pipes and Hydrants.



This illustration shows the growth in population, feet of pipe, and fire hydrants in the city of Lafayette, Louisiana, between 1949 and 2015. While the population has increased only 3.5 times since 1949, the amount of water infrastructure for the city has grown many times larger.

Meanwhile, the median household income for the city has increased by only 1.6 times according to U.S. Census figures. This math simply doesn't add up.

This is a pattern we see repeated everywhere across North America.

Simple Math

Despite the obfuscation of modern accounting practices, the math equation for a local government is fairly straightforward: a public infrastructure investment must generate enough private wealth to pay for the ongoing replacement and repair of that infrastructure or, if it is to be sustained, it must be subsidized by a more financially productive part of the system.

Analyses of new developments suggest that a *minimum* of $20 in private wealth is needed to sustain, for the long term, each dollar of public infrastructure investment. A ratio of 40:1 would provide an optimal buffer for future uncertainty.

Yet, when we examine modern North American localities, it is common to find ratios of 1:1 or worse. That is, in the current development pattern, it takes one dollar of public infrastructure investment to create one dollar of private wealth. That's a formula for economic disaster.

Consider a municipal sewer system. Pre-depression systems tended to rely on gravity flow, which is extremely cheap once the pipe is installed. Properties of that period tend to be skinny and deep, minimizing the amount of pipe needed per connection (or, said another way, maximizing the amount of private wealth per foot of public obligation).

Good urban design would place buildings on higher ground with treatment facilities downhill, a setup with a lower financial burn rate.

Today, designers generally don't worry about the public's return-on-investment. Parcels are wide and shallow, spread out with a lot of gaps in between. Pumps, which are expensive to operate, maintain and replace, are commonly used to provide service to marginal properties.

This is all expensive, and while the initial construction costs are often covered by a developer and rolled into the sale price of the home, taxpayers assume the burden of providing ongoing service and maintenance.

Yet, despite the large discrepancy in public cost, a residential home on a remote lot with a dozen pumps to get its sewage to a treatment facility will be charged the same as the home on the narrow lot with gravity flow all the way.

With decades of building in this new style—everything spread out across the landscape—the costs are enormous yet the comparative wealth is marginal. Our communities are bigger, yet financially less productive. We have grown our tax base, but our expenses have grown even more. This is not working.

A Strong Towns Approach

In the current approach to managing local governments, the more they grow, the poorer they become. While that growth may improve a city or county's short-term cash flow, it destroys the long-term solvency.

It all gets back to that simple math problem. To make our communities not just solvent but financially strong and resilient, we must increase our wealth without increasing—and perhaps even by decreasing—our expenses.

Instead of focusing on new growth, we need to obsess about making more productive use of that which we've already built.

That's not a modest tweak in approach but a radical revolution in how we plan, manage, and inhabit our cities, counties, and neighborhoods. It calls for a different relationship between local government and residents, between management professionals and the communities they serve.

It requires that the priorities of the state and federal governments to boost economic growth and lower unemployment become subordinate to the essential requirement that local governments remain financially viable.

A strong country is the byproduct of having strong communities and neighborhoods, not a substitute for it.

There is no clear road map for this revolution. No nation in history has systematically transformed the development pattern of an entire continent, within a single generation, changing everything about how we make a living, transact with each other, fall in love, make collaborative decisions, keep the peace, and perform other social functions.

We find ourselves operating without universal answers to the complex problems communities and neighborhoods face. At Strong Towns, we seek to discover rational ways to respond to these challenges.

Here is our approach:

- Rely on small, incremental investments (little bets) instead of large, transformative projects.
- Emphasize resiliency of result over efficiency of execution.
- Design to adapt to feedback.
- Inspire by bottom-up action (chaotic but smart) and not top-down systems (orderly but dumb).
- Seek to conduct as much of life as possible at a personal scale.
- Obsess about accounting for revenues, expenses, assets, and long-term liabilities (do the math).

The Strong Towns movement is growing. We have thousands of members around the world, including elected officials, management professionals, and many other people who share a passion for building great places. These people are working collaboratively to make their communities and neighborhoods as strong as they can be.

You can learn more and join us in this revolution at www.strongtowns.org. **PM**

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