



Privatization Watch

Celebrating 30 Years of Privatization and Government Reform

Vol. 31, No. 6 2008



Finding the Balance: Sustainability and Urban Development

Contents

- Privatization Briefs... 3**
- Redevelopment in Anaheim, California... 4**
- Smart Growth and Housing Affordability... 5**
- Sustainable Urban Development... 6**
- San Diego's South Bay Expressway ... 7**
- Failure of Urban Planning... 8**
- Who, What, Where... 16**

Privatization Watch

Editor



Leonard Gilroy (leonard.gilroy@reason.org) Leonard Gilroy, a certified planner (AICP), researches housing, urban growth, privatization and government reform.

Managing Editor



Adam B. Summers (adam.summers@reason.org) Summers is a policy analyst and has written extensively on privatization and government reform.

Staff Writers

Shikha Dalmia (shikha.dalmia@reason.org)
George Passantino (george.passantino@reason.org)
Robert W. Poole, Jr. (bob.poole@reason.org)
Lisa Snell (lisa.snell@reason.org)
Samuel R. Staley (sam.staley@reason.org)
Steven Titch (steven.titch@reason.org)
Shirley Ybarra (shirley.ybarra@reason.org)

Vice President, Reason Foundation



Adrian T. Moore (adrian.moore@reason.org) Frequently cited by journalists and sought after by policymakers, Moore is one of privatization's leading authorities.

President, Reason Foundation



David Nott (david.nott@reason.org) Nott leads Reason Foundation, a national organization dedicated to advancing a free society through the promotion of choice and competition.



Published by Reason Foundation

3415 S. Sepulveda Blvd., Suite 400 ■
 Los Angeles, CA 90034 ■
 800/582-2245; 310/391-4395 (fax) ■
 www.reason.org ■

Copyright © 2008 Reason Foundation. All rights reserved.

Letter from the Editor



I was in my mid-20s when I began my professional career as an idealistic urban planner filled with utopian visions of changing the world. But after a few years working in the field, I became increasingly disenchanted with the planning profession, primarily because I sensed a fundamental disconnect with economics and markets. I then had the disturbing realization that I had, effectively, become a social engineer. Fortunately, these insights set me on a path to the free-market movement—and straight to Reason Foundation.

Ultimately I came to understand that urban planning suffers from what Hayek called “the fatal conceit.” It’s basically the lesson we learned from Soviet-style central planning: Despite the best of intentions, centralized economic planning is doomed to fail because government planners are placed in a position of having to determine the distribution of resources in society, but they will never have enough information or tools robust enough to carry out this allocation reliably or to understand and shape a complex economic system. This describes contemporary urban planning in a nutshell.

Centralized planning will fail because there’s simply not enough information or sufficient tools.

This issue contains a number of articles that, in various ways, draw out this theme. Both Randal “The Antiplanner” O’Toole’s summary of his new book *The Best-Laid Plans* and our article on Florida’s statewide planning law highlight the unintended, negative consequences of planning-as-usual. Our critique of urban sustainable development policies finds that planners should, in essence, embrace market solutions and reject command-and-control schemes if they are really serious about sustainability.

Like any complex system, cities need flexibility and adaptability to allow for dynamic growth and urban evolution. Mayor Curt Pringle’s description of his administration’s innovative efforts to make Anaheim, California, a “freedom friendly” city certainly bears this out. It’s my hope that the next wave of 21st-century leaders and urban planners will follow Pringle’s lead by rejecting the failed central-planning models of the 20th century and embracing new planning paradigms that harness the power of markets.

Privatization Briefs

British Columbia Residential Care Project Wins Award for Public-Private Partnership

The Vancouver Island Health Authority (VIHA), one of five regional health authorities in British Columbia, has earned accolades for its public-private partnership with The Ahmon Group for the Vancouver Island Health Authority Residential Care and Assisted Living Capacity Initiative project. The project will provide 1,050 new complex-care and assisted-living beds by 2008. The speed and cost effectiveness of the early stages of the project led the Canadian Council for Public-Private Partnerships (CCPPP) to bestow upon the VIHA its Award of Merit for Innovative Procurement.

It took less than a year from the time the VIHA issued its notice of intent in December 2005 to sign the nine contracts to build nine facilities in Campbell River, Duncan, Sooke, Port Alberni, Nanaimo, Courtenay/Comox, Parksville, and Victoria. The VIHA received 52 proposals, with total capital costs per long-term care bed that ranged from \$150,000 to \$225,000, all far below the existing average of \$255,000 to \$300,000.

The contracts signed ensure that prices for both long-term care and assisting-living units are fixed, that contractors are responsible for any cost overruns, and that payments begin only when services are received. A financial-penalty clause was also built in as an incentive to complete the construction projects on time. If things do proceed according to schedule, it will have taken only 30 months from concept to opening.

During his keynote address at the CCPPP annual convention in November 2007, Premier Gordon Campbell said: “Public-private partnerships are delivering real benefits to communities across the province, and as our infrastructure needs grow, we’ll

continue to use these partnerships where they make sense for taxpayers and communities.”

Georgia, South Carolina Announce Port Accord

Georgia Gov. Sonny Perdue and South Carolina Gov. Mark Sanford have announced a bi-state agreement to develop a new port on the Savannah River. Under the agreement, the Georgia Department of Transportation would sell equal shares of the port site to the two states’ port authorities. The port authorities will then form a joint project office to research the ideal location for the terminal, work for the release of the existing spoil easement held by the Corps of Engineers, and develop a business plan. The office will also work with the states’ legislatures to develop an interstate compact agreement to establish a new entity that will own and operate the terminal, which is expected to be built with private capital.

“Gov. Sanford and I are committed to working together,” declared Gov. Perdue, “because this port will mean economic growth and activity that will benefit both of our states and the entire southeastern United States for generations to come.” He added that, “This port will generate quality, high-paying jobs for families in Georgia and South Carolina, as well as allowing the capacity for both of our states to continue growing as more and more companies want to trade goods with Georgia and South Carolina businesses.”



Flexibility and Freedom Lead to Growth and Redevelopment in Anaheim

By Mayor Curt Pringle



The following is an excerpt from “A Bias Towards Freedom: Freedom Breeds Choice and Innovation in Anaheim” from *Innovators in Action*. The full text of the article may be found online at www.reason.org/innovators2007.pdf.

After years of public service in state government, I was intrigued by the opportunity to impact real change at the local level and decided to run for mayor of the City of Anaheim. When I was elected in 2002, I did so with a clear intent to pursue a market-oriented, freedom-friendly agenda that would create an atmosphere of creativity and competition, putting our city at the forefront of innovation and efficiency.

I am proud that Anaheim has earned a reputation as a “freedom friendly” city because of policies we’ve created that are orientated towards giving our residents and businesses greater choices, greater opportunities to succeed, and a greater ability to define and create their own slice of the American Dream.

Too often, those of us in public service believe that more government programs are the answer to all issues facing a community or state, when, in fact, too often government efforts just get in the way. As mayor, I’ve worked with private enterprise to bring more freedom and choice to the residents of our city in a variety of areas, including planning, technology, and transportation.

Platinum Triangle

One of the greatest challenges that American urban mayors face is creating a dynamic urban core that attracts people, jobs, and housing. Anaheim is no different than many American cities; we wanted to create an attractive area that encouraged job growth, attracted new residents, and gave our tourists another reason to spend more time in our city.

As we studied the city, we realized that the best opportunity for such a community was the area around Anaheim’s Angel Stadium, which we believed could be turned into a new, vibrant neighborhood with housing, retail shops, and restaurants that would both benefit from and support the stadium and the Honda Center, where the NHL’s Anaheim Ducks play.

When many local governments decide to embark on such a



redevelopment project, they often try to accomplish their goal by using eminent domain, or the government’s legal power to seize private property for a purportedly public purpose, even over the objections of the property owner. When I became mayor, I called on my city council colleagues early on to reject the use of eminent domain in our efforts to create new economic life in the stadium neighborhood, which we call the Platinum Triangle, or any redevelopment project in our city. As a result, the city council approved severe restrictions on the city’s right to use eminent domain, restrictions that were recently placed into our city charter by a vote of the people.

Instead, the city council approved a plan for redevelopment that embraced the freedom-friendly standards we have become famous for:

- Development within the Platinum Triangle would be driven by private property owners. There would be no subsidies or other public incentives to achieve development goals.
- The mixed-use development opportunities could not turn existing properties into non-conforming uses or buildings. Property owners would still retain the rights to develop and use property pursuant to the underlying/existing zoning.
- Recognizing that the area was composed of dozens of individually owned parcels, the private sector would have to assemble parcels if larger sites were to be developed; the city would not use eminent domain to acquire property.
- Incentives would be created through market forces for those developers and land-owners who acquired property to break ground and build, not just continually flip the land for paper real estate profits.

See PRINGLE on Page 10

Smart Growth Planning Reducing Housing Affordability in Florida

By Leonard C. Gilroy, AICP, Samuel R. Staley, Ph.D., and Sara Stedron

The following is an excerpt from “Statewide Growth Management and Housing Affordability in Florida,” published by The James Madison Institute. The full text of the paper can be found online at www.jamesmadison.org/pdf/materials/610.pdf.

Florida is recognized as a national leader in the “Smart Growth” movement. The state has given housing goals a special prominence in regional and urban planning, explicitly requiring its cities to plan for a diverse range of housing needs and types.

However, a growing body of research strongly suggests that some of the goals of Smart Growth’s advocates may be inconsistent with the realities of housing development.

In fact, despite statewide planning goals and programs designed to promote affordable housing, housing costs have been increasing in Florida faster than the national average. According to the National Association of Realtors, home prices in Florida exceeded the national average for the first time in 2005. Housing price increases have also outpaced income growth. Indeed, since 1994, housing price inflation has outstripped income growth by a factor of two to one.

“Despite statewide planning goals and programs designed to promote affordable housing, housing costs have been increasing in Florida faster than the national average.”

Not surprisingly, housing affordability has suffered. Housing affordability in Florida tracked the national average for much of the 1990s but declined significantly after 2000.

Florida’s housing opportunity index—a measure of how many households can afford the “median” home based on income and housing price—has eroded sharply, particularly since 2005, falling well below the national level by 2007. While affordability nationwide was just over 10 percent lower in 2007 than it was in 1991, affordability in Florida has plummeted by more than 50 percent over the same time period and has eroded by nearly 60 percent since its peak of 80.7 in 1994.

Despite these trends, few analysts have examined Florida’s statewide growth management law and its impact on housing markets and prices. This is surprising because a large body of



research has shown that local and statewide development regulations significantly impact housing production and costs.

Among the handful of studies that have examined Florida’s housing market, one conducted by Reason Foundation in 2001 found that Florida’s Growth Management Act (GMA) may have contributed as much as 20 percent to rising housing costs between 1994 and 2000.

In partnership with the James Madison Institute, we recently updated and extended the 2001 Reason study by analyzing housing price data from 1990 to 2006. A statistical analysis of housing trends in 56 of Florida’s 67 counties found that as much as 16 percent of housing-price inflation during that time period can be attributed to planning under the state’s GMA, a result consistent with previous analysis and research.

The updated evidence in our report confirms that growth-management regulations increased median single-family home

See SMART GROWTH on Page 9

Sustainable Development in Urban Planning: The Case for a Market-Based Approach

By Samuel R. Staley, Ph.D., Skaidra Smith-Heisters, and Leonard C. Gilroy, AICP

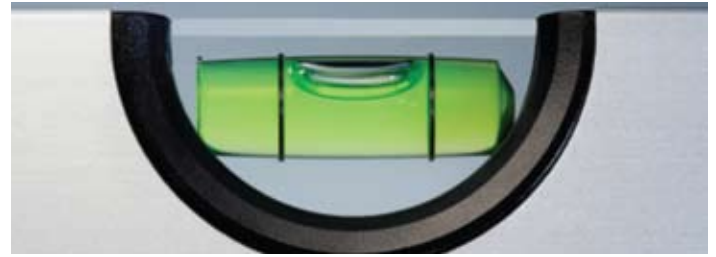
Sustainability has become part of the orthodoxy of contemporary professional planning. Unfortunately, the concept itself lacks a clear definition or focus, creating opportunities for special interest groups to carry out their own goals. In many U.S. cities, “sustainable” development programs have become little more than thinly veiled attempts to impose a radical environmental agenda that limits consumer choice and market-based innovation. This doesn’t have to be the case.

On the surface, sustainable development seems to be a noble goal: ensure that current resource use does not limit the ability of future generations to meet their needs. But what does this mean in practice? Unfortunately, policymakers have little concrete guidance for developing workable sustainable development policies, particularly if they don’t recognize the role that value markets, entrepreneurship, and private initiative play in creating sustainable economies and communities.

In principle, sustainable development can be achieved through any number of means; in practice, sustainable development has substituted highly centralized and prescriptive planning for decentralized, market decision making. Urban planning shifts decision making about land use, urban form, energy use, resource conservation, and environmental protection away from market-based institutions toward political ones.

The market has advantages over conventional urban planning as an institutional basis for making decisions about urban development. Unfortunately, these benefits are rarely recognized in urban planning or understood by professional planners. Markets efficiently aggregate and disperse information about resource scarcity across national and global economies through trade, often at lightning speeds. Nowhere is this more evident than in the technology sector of the economy. The rise and fall of global giants such as Motorola, Microsoft, and Apple Computer depend on their ability to remain nimble and on the cutting edge of technological innovation since product lifecycles can last less than a year.

This contrasts with the slow, deliberative procedures that bog down public decision making where bureaucracy reigns (by design, as a way to establish public accountability) and



petty local politics can stop an innovative idea dead in its tracks.

Indeed, the Achilles’ heel of sustainable development planning may be its failure to recognize the role markets and private initiative play in fostering innovation and ensuring that new technologies spread to the broadest population base possible. Innovation increases a society’s resiliency, flexibility, and capacity for self-correction. Markets, not governments, were responsible for economic shifts brought about by new technologies in the face of the rising scarcity of “critical” resources such as wood and whale oil, and virtually eliminated the environmental impact of horse-drawn transportation in urban areas.

In the United States, sustainable development planning is hampered further by a strong cultural emphasis favoring free markets and democratic rule, directly challenging the more top-down, centrally directed planning implicit in most sustainable development programs. Market-based sustainable development does not require either consensus or majority rule in order to progress.

Local community leaders, policymakers, and professional planners who want to encourage sustainable development policies consistent with property rights and markets should consider the following approaches and strategies.

1. **Develop strong performance criteria for sustainable development.** As in previous planning periods, planning activity, regardless of outcome, has often been considered evidence of its success. Cities experimenting with sustainable development programs, however, find achieving their goals difficult. The city of Santa Monica—arguably the U.S. city adopting the most aggressive sustainability agenda—has failed to significantly reduce per capita water use, energy use, solid waste, and wastewater flows despite increases in recycling and transit use. By making performance criteria explicit, errors and problems within the framework will be more transparent, and avenues for reform will be more evident.

2. **Adopt a realistic understanding of the way economic markets work.** Prices convey important information about risk

See [SUSTAINABILITY](#) on Page 15

Interview with Greg Hulsizer, CEO of the South Bay Expressway Toll Road (SR 125 Expansion)

By Adam B. Summers

In November 2007, a new toll road opened in San Diego County. The South Bay Expressway (SBX), a 10-mile road running from SR-54 in Spring Valley through eastern Chula Vista down to SR-905 in Otay Mesa near the Mexican border, was built primarily with private money and will be operated under a 35-year lease agreement with the State of California. The road was made possible through a public-private partnership among the California Department of Transportation (Caltrans), the San Diego Association of Governments (SANDAG), the Federal Highways Administration, and the South Bay Expressway. I had the opportunity to sit down with South Bay Expressway CEO Greg Hulsizer to discuss how the project came about and how it will benefit drivers, taxpayers, and the region in general.

AS: How long has this project been in the works?

GH: It's been a line on the map since 1959, so the project has been thought of for a long time, but there's never been any money to build it. And so, in 1989, when AB 680 was passed, it provided for four demonstration projects—public-private partnerships—and this is one of the projects that was proposed. Even then—the franchise was signed in 1991—it took 12 more years to get through environmental approvals and permitting. [Macquarie Infrastructure Group and Macquarie Infrastructure Partners] financed the project in May of 2003, and it took us four years to build it and open it.

AS: Can you explain how private financing has helped to advance the project?

GH: Without the public-private partnership, without the private-sector participation, this road would not be here for another 10 to 15 years at least. And it's one thing to think that there just wouldn't be a road here and it wouldn't be convenient for commuters, who just have to go the long way around, but, in addition to that, [there's] the economic development that this road will bring that's creating jobs and economic vitality. It's immeasurable, it's just huge, and in this part of San Diego County that's growing so rapidly, it's sorely needed and it really could not wait another 10 to 15 years.

AS: I've noticed a lot of new development, particularly in this area of Otay Ranch. Was the opening of this road a



factor in some of those plans for development?

GH: Yes, absolutely. In fact, any future development is conditioned on this road getting opened because you simply can't build, you can't just add more people without the infrastructure. How can you have economic vitality if you can't provide transportation? In this case, using private-sector investment and a partnership with the public sector, we were able to accomplish something decades before it otherwise would have been accomplished.

AS: How will this road benefit drivers—and taxpayers?

GH: Well, from a driver's perspective, they're going to save 20 minutes per trip—maybe even more depending on how crowded the freeway is. And that's huge. One of our customers told me that he works down in Otay Mesa and goes to school up at San Diego State in La Mesa two or three nights a week and he lives right here in Eastlake in eastern Chula Vista. The road is going to allow him to actually have dinner with his family on those nights instead of having to go directly to school. Twenty minutes might not sound like a lot, but for him it's huge. For other people, it's the ability to stay home and maybe have breakfast with their family before they leave in the morning, or for a businessperson to make a meeting on time, to make a sale, things like that. And [then there are] the benefits of less stress and [greater] reliability, knowing that you're going to have a reliable commute, that it really is only going to take you 10 minutes to go end to end, regardless of what else is happening anywhere else on the freeway, because

See TOLL ROAD on Page 14

The Failures of Government Planning (Despite the “Best-Laid Plans”)

By Randal O’Toole

In Portland, Oregon, land-use planners ordered a church to allow no more than 70 people to worship in its 400-seat sanctuary on the grounds that letting more people in would encourage too much auto driving. When another Oregon church applied for a permit to expand to accommodate its growing membership, planners agreed to give it the permit on the conditions that it be closed on Saturdays, offer no Sunday evening service, and hold no more than five weddings or funerals a year.

These are just some of the more outrageous examples of how government planners are intruding into some of the most basic aspects of our daily lives. Most cities and counties have planners on staff who tell elected officials how they should regulate land use, redesign streets to create more congestion, and divert highway user fees to politically correct but little-used public-transit systems.

How America, the land of free markets and the Cold War victor over the centrally planned Soviet Union, became increasingly dominated by planners is the subject of *The Best-Laid Plans*, my new book about the follies of government planning. Published by the Cato Institute, *The Best-Laid Plans* intersperses case studies of transportation planning, urban land-use planning, and forest planning with a history of the planning profession and the repeated failures of planning fads like public housing, urban renewal, and “smart growth.”

Government planners create shortages of things people want and surpluses of things people don’t want. So even as our highways are increasingly congested, planners work with rail contractors and green groups to divert highway user fees to expensive but lightly used rail transit lines. Even though more than four out of five Americans say they aspire to live in a single-family home with a yard, planners are restricting new suburban housing and subsidizing high-density, multi-family housing in cities.

Until recently, most opposition to planning came from rural landowners and other property-rights advocates who objected to increasingly strict regulation aimed at preventing people from using their land in the name of protecting open space. But now it has dawned on many economists, ranging from Paul Krugman to Harvard urban economist Edward Glaeser, that land-use regulation is responsible for the recent



housing bubble and, in turn, the subprime mortgage crisis that is shaking the foundations of our economy.

Fifty years ago, housing was just about equally affordable throughout the nation. Of course, wealthier cities had more expensive housing. But even in places like San Francisco and Boston, median housing prices were only about twice the amount of median family incomes, which meant that a family dedicating a quarter of its income to housing could easily pay off a home mortgage in fewer than 15 years.

Starting around 1970 (and a few years earlier in Hawaii), some cities and states began experimenting with “growth-management planning.” Up to this point, zoning aimed to protect people’s property values. In contrast, growth-management planning focused on either slowing population growth or focusing that growth on the cities while limiting growth at the urban fringe, derisively known as “sprawl.”

Russians say Americans don’t have real problems, so they make them up. Sprawl is one of those made-up problems. All of our urban areas cover less than 3 percent of the land area of the United States, so sprawl does not threaten farms, forests, or open space. Instead, sprawl allows people to live in affordable homes, avoid traffic congestion, and have access to low-cost consumer goods.

Planners’ attempts to control sprawl provide few benefits and impose huge costs, one of the most important being the

[See BEST-LAID PLANS on Page 13](#)

Continued from Page 5
SMART GROWTH

sale prices on a statewide level. This relationship becomes evident through summary data as well as more sophisticated statistical analysis that controls for factors such as changing household incomes, single-family home quality, and public policy.

This should be of particular concern to Florida policymakers given recent significant downturns in housing affordability. Our research found a disconnection between the goals of statewide growth-management laws that seek to ensure affordable housing for their residents and the effects of these growth-management policies when implemented.

The results of our research suggest that some of the goals of Smart Growth advocates may be inconsistent with the realities of housing development. To the extent that more compact, higher-density urban development is encouraged through growth-management laws designed in ways similar to Florida's, higher housing prices could result. First, higher density urban areas are associated with higher housing prices as more people compete for an increasingly scarce resource: land. Second, by forcing development into existing urban areas, housing development will tend to take place in fast-growing areas, propelling consumers to bid up the price of land.

The decreased housing affordability resulting from GMA implementation suggests that measures to check housing affordability were either inadequately designed or have not been implemented consistently by Florida's cities and counties. A 1999 report by Florida's Affordable Housing Study Commission (AHSC) supports this contention, finding that the GMA requires local plans to provide detailed information regarding the location, cost, and funding sources for a variety of community infrastructure needs (e.g., road, water, and sewer systems) but sets the bar lower for affordable housing. Local governments are required to quantify the affordable housing deficit in the housing elements of their plans but not how they will address such a deficit.

These problems may be compounded by the very structure of Florida's GMA. While explicitly including goals to promote housing diversity and affordability, it imposes planning mandates that are likely to increase housing costs. Thus, there is a breach between planning goals and planning implementation. This is particularly notable in policies aimed at reducing sprawl. By encouraging higher-density development, urban planning is likely laying a foundation for increased housing

prices unmatched by increases in incomes and other factors, resulting in deteriorating housing affordability.

This fundamental contradiction in the planning process is unlikely to be resolved by refining regulations and imposing more development controls. Though housing element requirements call for local governments to provide adequate sites for affordable housing, the lack of guidance regarding how this is to be accomplished already leads to a "piecemeal approach to planning for affordable housing," according to the AHSC, despite requirements that mandate consistency. The AHSC has found that some communities fulfill their housing requirement by delineating high-density residential areas on their future land-use maps, even though this approach does not guarantee the future availability of designated lands for such uses and could lead to an over-concentration of affordable housing in one geographic area. Other communities have addressed the housing requirements by either indicating that land for affordable housing is already built-out or that such needs have already been met by adjacent communities.

"Policymakers should recognize the difficulty of achieving affordable housing goals through GMA-style smart growth planning, given its impact on housing and real-estate markets."

Florida's experience under the GMA demonstrates that strong growth-management laws that tie local planning to statewide goals run the risk of further politicizing the development process, increasing transaction costs and creating an imbalance between housing supply and demand. This disequilibrium may exist in the aggregate as well as for specific types of housing, putting upward pressure on housing prices and, ultimately, reducing housing affordability.

Policymakers should recognize the difficulty of achieving affordable housing goals through GMA-style smart growth planning, given its impact on housing and real-estate markets. The American housing market is dynamic, and current comprehensive planning tools may not be able to capture this dynamism. This is particularly true in the context of America's legal system, which continues to protect property rights and respects the importance of meeting consumer demands for most goods and services, including housing.

Leonard C. Gilroy is director of Government Reform at Reason Foundation. Samuel R. Staley is director of Urban Growth and Land Use at Reason Foundation. Sara Stedron is a research associate at Wright State University.

Continued from Page 4
PRINGLE

Working with these broad goals, the city then took steps to streamline the development process and implement market-driven incentives, making the area even more attractive to developers. In some cases, property values more than quadrupled within 18 months after the new zoning was in place (in other words, the City rezoned in order to meet market demands).

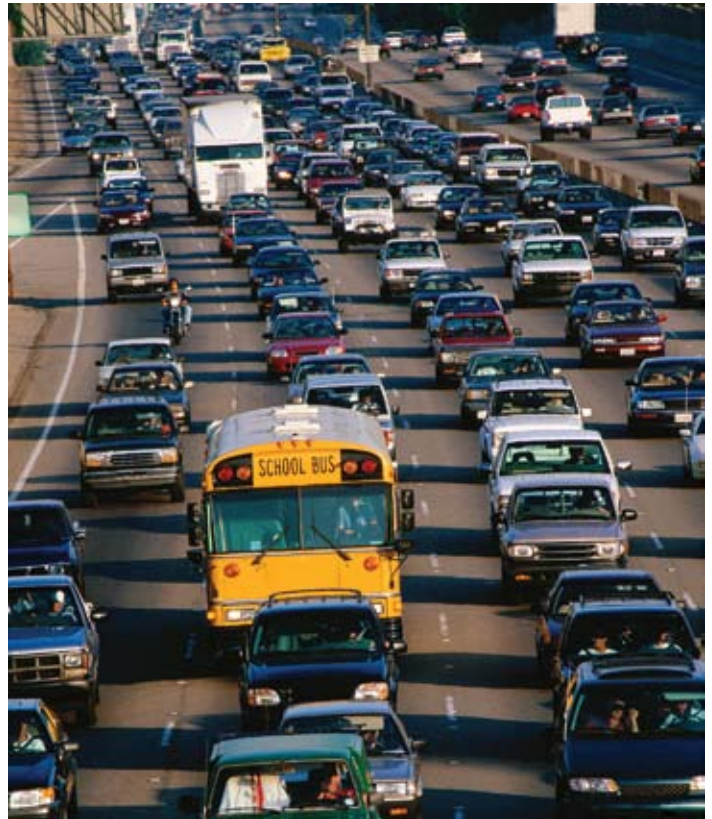
What we saw happen in our city was amazing. After the city passed its new flexible zoning requirements in August 2004, development plans by private firms were in place for nearly three-fourths of the 9,500 available residential units within fifteen months. Eleven separate developers sought city approval, purchased land from private property owners, and began their planning and development of the area within the first year.

Lennar Communities, a private developer, has the largest presence in the Platinum Triangle. They have two separate projects, with one project accounting for more than 2,600 new residential units and more than 229,000 square feet of commercial/retail space. Prior to the creation of the overlay zone, Lennar owned no property in the city. Upon the establishment of the zone, they purchased approximately 30 properties (over 50 acres), all from private property owners, at market price, without government involvement.

With the flexibility the city provided, the area is blossoming with more economic activity than ever imagined. In fact, with the new housing and retail activities planned, there has been an increased demand for high-end office space.

With the large amount of redevelopment going on in this area of our city, I am often asked if any of the existing property owners in this Platinum Triangle area will continue to own their property and businesses after the area is built out. While many of the owners did decide to sell their properties, there are still building owners and businesses within the area that have been there for many, many years. One business owner, who chose not to sell his property, will remain in the area and will soon have 20-story residential buildings nearby. That's just fine. In our view, it is the building owner's decision—not the City's—whether the business stays in the Platinum Triangle area over the long term or not.

What Anaheim's experience in the Platinum Triangle can teach is that redevelopment can happen without trampling on people's private property rights. Local government's desire to create new jobs and more economic activity should not come at the expense of those rights.



Dow Jones Infrastructure Summit

Profiting from Private Funds in Public Works
 MAY 13, 2008 | THE YALE CLUB | NEW YORK CITY

EXPERT INSIGHTS IN KEYNOTES FROM:

Robert Dove | Managing Director, | **The Carlyle Group**

Emil W. Henry, Jr. | Managing Director, Private Equity, |
Lehman Brothers

John L. Mica | Ranking Member, Committee on Transportation
 and Infrastructure, | **U.S. House of Representatives**

Michael Queen | Managing Partner, Infrastructure | **3i Group**

Privitization Watch readers save \$350

Use code PWIF when registering to receive discount.

<http://infrastructure.dowjones.com>

866-291-1800 | events.support@dowjones.com

© Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved.

DOW JONES

Transportation

Like other Southern California cities, traffic is one of Anaheim's biggest headaches. But we have had the foresight to join with our neighbors and invest local dollars in transportation projects that have had major local benefits, such as the widening of major freeways, like the I-5.

There is no doubt that our commitment to improving our infrastructure has been a big part of our growth. And it will continue to be so in our future.

That is why Anaheim is moving forward with its own 21st-century version of Grand Central Station—the Anaheim Regional Transportation Intermodal Center (ARTIC). This future-looking concept will bring together multiple modes of transportation in one location near the Platinum Triangle. Offices, residential units, hotels, and entertainment venues will be bustling around this transportation center, making it truly a hub for the entire Southern California region.

One of the exciting innovations we envision for ARTIC is an actual remote terminal to the Ontario International Airport here in Anaheim. At this remote terminal, a passenger could check their bags, clear security, and take a 15-minute high-speed rail trip that disembarks within the secure area of the terminal, ready to board their flight.

Government can be most effective when it keeps the interest of the people first and foremost and aims to operate as efficiently as possible.

We envision an expanded Metrolink service, running 18 hours a day up and back through Orange County; a high-speed connection taking only 20 minutes to Union Station in Los Angeles; a county-wide bus rapid-transit system and even a new internal circulator, perhaps a monorail system, which connects key stops in Anaheim. While Anaheim is ready to move with our plans on this project—this past year our transportation authority purchased land from the county for the future site of ARTIC—we have never received the funding we have needed from the federal government.

Well, we are tired of waiting. We believe that this project can be made a reality through a partnership with the private sector. [We plan to] issue a Request for Proposal [...] which will serve as a challenge to any and all developers, private equity financiers, and other interested parties. The RFP will ask developers and others to finance the construction of the ARTIC in exchange for development rights for a complex of offices, commercial, entertainment, hotel, and other uses in

and around the ARTIC. Rather than dictate their vision for this 17-acre piece of land, the RFP will ask interested parties for creative ideas on how to make it work.

Conclusion

Americans have long had a love-hate relationship with their government. Government can be most effective when it keeps the interest of the people first and foremost and aims to operate as efficiently as possible. These goals can be accomplished when our leaders are dedicated to keeping government regulation as streamlined as possible and recognize the value of putting free-market processes to work instead of heavy-handed government regulatory programs.

That is what we have tried to do here in Anaheim. Our city was founded by innovators and dreamers who created a dynamic community that continues to grow and change. Our city government is dedicated to helping keep our economy strong, our streets safe, and our neighborhoods vibrant through programs and policies that value freedom and innovation.

Curt Pringle is the mayor of Anaheim, the 10th -largest city in California, and the former Speaker of the California Assembly.

Opportunities In Transportation INFRASTRUCTURE 2008

TOLL ROADS • PORTS • TRANSIT • AIRPORTS

May 14-16, 2008 | Almas Temple | Washington DC

Keynote Speaker
 David Crane
Special Advisor to the Governor for Jobs & Economic Growth
 STATE OF CALIFORNIA

FEATURING BRIEFINGS BY SENIOR REPRESENTATIVES FROM:

- BART Oakland Airport Connector
- Northwest Parkway Public Highway Authority
- City of Chicago
- Oregon Department of Transportation
- Colorado Department of Transportation
- Partnerships British Columbia
- Commonwealth of Massachusetts
- Philadelphia Regional Port Authority
- Federal Highway Administration
- Port of New Orleans
- New Jersey Department of Transportation
- Washington State Department Of Transportation
- State of California
- State of Pennsylvania
- Texas Department of Transportation
- U.S. Department of Transportation
- VDOT Virginia Department of Transportation

For more information or to register please visit:
www.infocastinc.com/transinf
 Privatization Watch Subscribers:
 Use Code #080851 When Registering To Receive A 15% Event Discount

[Commentary and Opinion](#)

The Housing Crisis: Cause or Symptom of Economic Woes?

Commentary By Samuel R. Staley

Sluggish economic growth and rising unemployment have experts obsessing about the dreaded “R” word: recession. The “housing crisis,” too, is getting more than its fair share of the blame.

In reality, the housing industry simply can’t live up to its reputation as a major driver of the U.S. economy. The housing industry’s woes are really a symptom of larger economic problems, not the cause of a recession or downturn.

This observation may seem a bit odd. After all, economists at the National Association of Homebuilders estimate that the economic value produced by the housing industry may represent as much as 15 percent of the national economy. Every new home generates about \$80,000 in new wages and 2.4 new jobs in construction and related industries. These are impressive numbers.

So, when the nation’s largest mortgage lender, Countrywide, decides to sell out to Bank of America in the wake of record-high foreclosure rates, and large homebuilders like Levitt and Sons and KB Homes are either in bankruptcy or teetering on the edge, the economy has to suffer, doesn’t it?

Yes, but not in ways that would prompt an economic recession.

First, all jobs and wages don’t have the same economic impact. Demand for housing is “derived demand.” It’s the result of income generated in other parts of the economy, most notably manufacturing,

exports, and business services. These sectors produce goods and services that are globally competitive and sold outside a local area, generating income that can then be spent by employees (and their families) on local goods and services like housing, entertainment, and food.

Homes are built only if demand for them exists, and the demand can’t exist without the production of goods and services that are sold elsewhere.

Second, “record” foreclosures may grab headlines, but that doesn’t mean their impact is economy-wide. Just 1.44 percent of mortgages are being foreclosed, and that’s not enough to prompt a national recession.

Propping up the housing sector through guarantees and subsidies, or stricter regulation of financial services won’t improve the performance of the economy or the long-term viability of the housing industry.

It shouldn’t be a surprise, then, that overall economic growth is not a good predictor of the health of a local housing market; employment is. Employees buy homes with the wages



they earn, and the highest wages are earned from employees in high-value “export” industries, such as manufacturing, information technology, and business services. As employment in these sectors stagnates, the housing market stagnates, too.

Thus, many economic observers get the story turned upside down. It’s not that housing creates jobs. Rather, jobs create the demand for housing. Builders produce homes, and lenders make sure the financing is in place for workers to buy them.

What, then, of the so-called “subprime slime” and the tanking of the housing market? These are serious issues with serious consequences. But they should be kept in perspective. Subprime loans represent just 6.5 percent of the overall home mortgage market. The vast majority of mortgages and homes are financially secure.

Policymakers must avoid confounding the causes and symptoms of slowing economic growth.

The larger problem for the economy is the credit crunch and uncertainty surrounding future lending. As foreclosures have increased, and large mortgage lenders have grappled with larger-than-expected writedowns, banks and agencies that guarantee mortgages have clamped down on all home lending until the full scale of the problem has emerged. Thus, even home buyers with good credit are getting caught in the lending squeeze. Still, this is a problem for the housing sector, but unlikely to trigger a national recession (defined by economists as six months of negative growth).

As policymakers grapple with economic policy, they must avoid confounding the causes and symptoms of slowing economic growth. The housing sector is going through a substantial readjustment after a heady period. The most important factor in restoring its vitality will be policies that protect and promote broad-based economic growth, particularly in the industries that create the most wealth—business services, information technology, biomedical research, and high-end manufacturing.

Propping up the housing sector through guarantees and subsidies, or stricter regulation of financial services, might serve political goals, but it won’t improve the performance of the economy or the long-term viability of the housing industry.

Samuel R. Staley is director of Urban and Land Use Policy at the Reason Foundation in Los Angeles and the co-author of The Road More Traveled: Why the Congestion Crisis Matters More Than You Think, and What We Can Do About It.

Continued from Page 8

BEST-LAID PLANS

cost of housing. Efforts to control sprawl in California and Hawaii have increased median housing prices to more than eight times median family incomes. Anti-sprawl programs in states such as Florida, Oregon, Maryland, and Massachusetts have pushed housing to more than four times the amount of family incomes.

One result is that millions of people who could otherwise afford to buy homes at prime rates have been forced to go to subprime lenders. On top of this, land-use regulation not only makes housing more expensive, it makes prices more volatile, and when prices fall, many borrowers find they owe more on their homes than the houses are worth.

In 2005, homebuyers in the dozen or so states with growth-management planning paid at least \$250 billion more for homes than they would have paid without such planning. In contrast, fast-growing states that had no growth-management planning, like Georgia, North Carolina, and Texas, maintained affordable housing and did not suffer a housing bubble.

Despite these and other problems, planners continue to pressure state legislatures to pass more growth-management planning laws. The American Planning Association even promotes a book titled *The Land We Share*, whose premise is that everyone shares private land so no private landowner should be allowed to develop her land without everyone else’s permission.

The Best-Laid Plans shows that planners use any alleged crisis they can—obesity, peak oil prices, global warming—to justify their meddling and expensive regulations. While there are real social and environmental problems, such as high-school drop-out rates and air pollution from cars idling in congestion, urban planners are not solving those problems, and often are making them worse.

As the book demonstrates, the best thing we can do is to repeal federal and state planning laws and shut down all state and local planning offices. The book provides numerous examples of ways we can use markets, incentives, and user fees to solve problems that planners are failing to solve with their regulation, bureaucracy, and subsidies. *The Best-Laid Plans* is available from Amazon.com and a variety of other booksellers.

Randal O’Toole (rot@cato.org) is a senior fellow with the Cato Institute who has studied government planning for more than 30 years.

Continued from Page 7

TOLL ROAD

we guarantee our customers they're going to have a reliable commute.

AS: How will this toll road benefit the region in general?

GH: Well, for the south county, South Bay Expressway is the key to its future. Without South Bay Expressway, we wouldn't see this 800,000-square-foot regional shopping center over here, we wouldn't see, in a few years, an 80-square-block eastern [county] urban center of Class A office [space] and mixed-use, residential [units], and a university park. We would not see a four-year university that's going to go in over here at the university site, and we wouldn't see a potential for a Charger stadium. In Otay Mesa, if you look at that area today, it's truck yards, it's junkyards, it's warehouse distribution. In the next five to 20 years, [that area] is going to completely transform, and it will go from what it is today to probably low-rise commercial/industrial and then, over time, move into biotech and transform into a real job-producing and economically growing and vital area.

AS: Some critics of privately operated toll roads have argued that only the rich will benefit. How do you respond to those arguments?

GH: The best response is to look at what really happens. And if you look at the toll roads that we've opened here in Southern California, what you'll see is that the users run the full range of the economic spectrum. That's because the value of time is different for everybody, and it's different day by day, quite honestly. And so, for example, if you're working, let's say you're working two jobs, to make ends meet and you absolutely, positively have to be there on time, then what better way than to have a reliable commute? Let's say that you have two working parents and you have child care responsibilities and they charge you \$5 or \$8 or \$10 for every five minutes that you're late. Being able to know that you're going to get there on time, that's a good economic decision. So, we'll be no different here. We've spent the last four years out in this community talking with our customers and we will have customers from every part of the economic spectrum, I guarantee it.

AS: Can the toll roads benefit even the people who do not use them?

GH: Certainly. [SANDAG is] saying that they expect we'll take 20 to 25 percent of the traffic off the 805 freeway. Think about that. That's one out of every four, one out of every five cars. So, for every car that uses South Bay Expressway instead

of the 905 or the 805, that's one less car causing congestion [on those freeways]. So it's going to help the people—even those who don't use the toll road—and it's going to help overall mobility in the region. And that's why there's such a strong partnership here with the public sector, which has been so supportive of our efforts on this road, because we know that everybody's going to win, everybody's going to benefit from it.

AS: So what about concerns that a private company might raise tolls so high, trying to increase its profits?

GH: We're like any other business. We have to deliver a service at a quality price, and so we're sensitive to that. And we think that the private sector can result in higher levels of service because we went out to make sure, absolutely, that our customers are satisfied with our service, with the benefits that they get. Otherwise, they won't pay to go through.

AS: Does SBX have its own incident management program? Who maintains the roads?

GH: Yes, we pay for all the services on the road, so we pay for the [California] Highway Patrol to do law enforcement and emergency response, safety. We pay for CalTrans to do the routine maintenance and the incident response also. And then we have our own courtesy patrol. The courtesy patrol is there roving to make sure that if someone has a flat tire we change his tire for him, if [people] need gas we give them gas or we tow them to a safe area, and all this is managed out of our 24/7 traffic operation center in Otay Mesa. We have cameras the full length of the road and sensors in the road so we can see what's happening on the road, and if we notice something's happening then we can dispatch either Highway Patrol or CalTrans or a courtesy patrol to help out.

AS: What are the greatest obstacles you have encountered in the SBX project—politically, financially, or otherwise?

GH: The project had tremendous environmental hurdles. It took 12 years to get through environmental [approvals]—and that was everything from opposition to discovering new species in the middle of the environmental process. Once that was cleared, and we financed the job, then the last four years it's just been under construction. The best thing has been the support of the community, from the elected officials to the staffs of the [metropolitan planning organization] and CalTrans to the cities to the economic development organizations. This really is someplace where it's about as good as you can get from community support.

Greg Hulsizer is CEO of the South Bay Expressway. Adam B. Summers is a policy analyst at Reason Foundation.

Continued from Page 6

SUSTAINABILITY

and scarcity and are much more dynamic than conventional planning recognizes. Planners cannot possibly assimilate the amount of information that markets do on a consistent basis. The key is for planners to recognize and harness that information in order to ensure the effectiveness of public-sector planning by complementing market shifts based on changing prices and industrial profitability. Planning has a poor record of overcoming market trends.

3. **Recognize the institutional limits of implementing sustainable development programs within a legislative decision-making framework.** Sustainable development programs often attempt to take a comprehensive approach to managing land development when, in fact, they have little control over many factors that influence urban development and growth. Professional planners and local policymakers should adopt a more realistic and open-ended approach to implementing sustainable development principles by resisting the temptation to adopt specific technologies, strategies, or approaches to meeting goals, such as mandating specific construction techniques or

land uses. Moreover, planners and local public officials should be aware of the trade-offs implicit in their policymaking. For example, encouraging public transit use will likely increase commute times and urban congestion, reducing the overall quality of life for many people within the community.

4. **Embrace technological innovation as a key component for achieving sustainable development, recognizing that current technologies are likely to evolve or become obsolete as resources become more or less scarce.** Planners should avoid relying on straight-line trends to justify changes in public policy, particularly those changes that attempt to fundamentally alter lifestyles and habits. Technology fundamentally changes the choices faced by different generations. Planners are limited, as are economists, in predicting the future and anticipating the needs of future generations.

Samuel R. Staley is Reason's director of Urban Growth and Land Use Policy, Skaidra Smith-Heisters is a Reason policy analyst, and Leonard C. Gilroy is Reason's director of Government Reform. This article is a summary of a forthcoming Reason Foundation study, Sustainable Development in Urban Planning: The Case for a Market-Based Approach.

Protect Your Freedom & Mobility

Attend the Sixth Annual Preserving the American Dream Conference
Houston, Texas, May 16-18, 2008

americandreamcoalition.org



This photo of the privately planned community of Sienna in suburban Houston was taken by Sienna resident Adriana Rapolla.

Are you worried about how “smart growth” is dumbing down property rights and free markets? Do you fear many local transportation projects are a waste of tax dollars? Then don't miss the Preserving the American Dream conference, the nation's premiere showcase of free-market approaches to land-use planning, transportation and urban policy.

Meet and work with dozens of national and international experts on land use and transportation, including Leonard Gilroy and Adrian Moore on privatization, Sam Staley and Randal O'Toole on urban planning, Pat Michaels and Jerry Taylor on environmental policy, Wendell Cox and Ron Utt on transportation and sprawl, and many more.

Special panels will cover such subjects as:

- **Rebuilding New Orleans**
- **Global warming & peak oil**
- **Highway funding reform**
- **Replacing zoning with covenants**
- **Rail transit vs. highways**

Don't forget to take the optional tour of Houston showing how cities can protect livability without coercion and with innovative new transportation facilities.

The Preserving the American Dream Conference is co-sponsored by the Cato Institute, Reason Foundation, Heritage Foundation, and many other organizations.

For complete information and registration, go to americandreamcoalition.org

Who, What, Where

Reason Studies

[Increasing Airport Capacity without Increasing Airport Size](#), March 2008, Policy Study 368, By Viggo Butler

[Congestion Pricing for the New York Airports: Reducing Delays while Promoting Growth and Competition](#), December 2007, Policy Study 366, By Robert W. Poole, Jr., and Benjamin Dachis

[Statewide Growth Management and Housing Affordability in Florida](#), October 2007, By Leonard C. Gilroy, Samuel R. Staley, and Sara Stedron

[Occupational Licensing: Ranking the States and Exploring Alternatives](#), August 2007, Policy Study 361, By Adam B. Summers

[Annual Privatization Report 2007](#), July 2007, Edited by Leonard C. Gilroy

[Innovators in Action 2007](#), July 2007, Edited by Geoffrey F. Segal

[Density in Atlanta: Implications for Traffic and Transit](#), April 2007, Policy Brief 61, By Alain Bertaud and Robert W. Poole, Jr.

[Leasing State Toll Roads: Frequently Asked Questions](#), March 2007, Policy Brief 60, By Peter Samuel

[Building New Roads through Public-Private Partnerships: Frequently Asked Questions](#), March 2007, Policy Brief 58, By Leonard C. Gilroy, Robert W. Poole, Jr., Peter Samuel, and Geoffrey F. Segal

[Enabling Public-Private Partnerships for Transportation in California](#), September 2006, Policy Brief 50, By George Passantino

Upcoming Conferences

[Dow Jones Infrastructure Summit 2008](#), May 13, 2008

The Yale Club, New York, NY

[Opportunities in Transportation Infrastructure 2008](#), May 14-16, 2008, The Almas Temple, Washington, DC

[American Legislative Exchange Council, Spring Task Force Summit](#), May 16-17, 2008, Hot Springs Convention Center, Hot Springs, Arkansas

[American Dream Coalition, 2008 Preserving the American Dream Conference](#), May 16-18, 2008, Houston, Texas

[American Legislative Exchange Council, 35th Annual Meeting](#), July 30-August 3, 2008, Sheraton Chicago Hotel & Towers, Chicago, Illinois

[Reason Foundation studies](#) are archived at www.reason.org/policystudiesbydate.shtml.

[Privatization Watch](#) back issues are available at www.reason.org/pw.shtml.

PRIVATIZATION WATCH

Reason Foundation
3415 S. Sepulveda Blvd., Suite 400
Los Angeles, CA 90034
www.reason.org

Nonprofit Org. U.S. Postage PAID Santa Monica, CA Permit 81
