

# ***Johnston County's “Dumb Growth” Plan***

## **The Growth Management Committee Fails to Understand Basic Economics**

**DR. MICHAEL SANERA**  
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200 W. Morgan, #200  
Raleigh, NC 27601  
phone: 919-828-3876  
fax: 919-821-5117  
[www.johnlocke.org](http://www.johnlocke.org)

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### EXECUTIVE SUMMARY

The Johnston County Growth Management Committee GMC believes that rapid growth has outstripped the county's ability to keep up with essential public services. To solve this problem, the GMC is recommending "smart growth" policies. The GMC is urging the County Commission to limit home building in rural areas to one home to an average of two acres. This is a 203 percent increase in the average lot size.

This *Regional Brief* documents the fact that county revenues have more than kept

pace with population growth. Per capita county revenues were seven percent greater in 2006 than they were in 2001, in constant dollars. If implemented, the GMC recommendation would introduce economic segregation with wealthy individuals living in large expensive homes in rural areas and low and middle income people confined to crowded housing in the cities. In addition, property values and taxes would increase for all county residents and many homebuilders would flee the county taking their jobs with them.

### INTRODUCTION

The Johnston County Board of Commissioners is considering a recommendation from the county's Growth Management Committee GMC to limit most home building in the rural areas of the county to an average of one home per two acres. This recommendation is based on the "smart growth" philosophy, and the GMC also recommends that the cities in the county "provide higher density housing."<sup>1</sup> If the county and cities adopt this philosophy, smart growth planners and their political allies will use land use regulations to force the construction of expensive homes on large lots in the rural parts of the county and crowded, densely packed small homes, condos and townhouses in the cities for lower and middle income families.<sup>2</sup> These policies ignore housing market realities by disregarding the desires of most Americans. A recent poll found that 82 percent of Americans want to live in a single family home in the suburbs.<sup>3</sup>

This *Regional Brief* analyzes the GMC's proposal. The GMC's recommendation is based on the unexamined assumption that growth is outpacing the county's ability to provide basic public services. The GMC's September 14, 2006 report outlines the infrastructure needs of the county including more schools, community college,

recreation roads water and sewer capacity and landfill space.<sup>4</sup> According to the GMC report, the county must "manage" i.e. limit growth in order to meet these needs.

### RAPID GROWTH HAS NOT OUTPACED THE COUNTY'S FISCAL CAPACITY

The GMC asserts that many of the "growth related challenges" can be solved with money, but that the current revenues are insufficient to provide for new schools, roads, recreation facilities, and water and sewer needs.

Figure 1 illustrates that county revenues (adjusted for inflation) have increased by 41 million from 2001 to 2006. This is a 26 percent increase in constant dollar revenues compared to a 15 percent increase in population for the same time period.<sup>5</sup>

Figure 2 provides a record of the inflation-adjusted revenues per person in Johnston County from 2001 to 2006. In 2001, the county received 1,264 per person or 5,056 per family of four in revenues to provide public services. Since 2001, more than 23,000 people have moved into Johnston County.<sup>6</sup> If the county's financial resources had not kept pace with population growth, the per capita, constant dollar revenues would be falling. But new residents pay property and sales taxes, and home construction generates jobs

and sales. As Figure 2 demonstrates, county per capita revenues have risen almost 7 percent between 2001 and 2006.

In other words, the county has 7 percent more money per person than it had in 2001. The rapid growth during this time period has not diminished revenues, but increased them. The assumption that growth is outstripping the county's capacity to keep up cannot be supported by the data.

If the GMC members believe that increased revenues are needed, perhaps they should determine how much revenue per capita is necessary to provide county services and ask everyone in the county to agree to a tax increase. Or they could examine the current spending and recommend spending cuts so that revenues can be transferred to higher priority projects.

### THE GMC'S RECOMMENDED POLICY

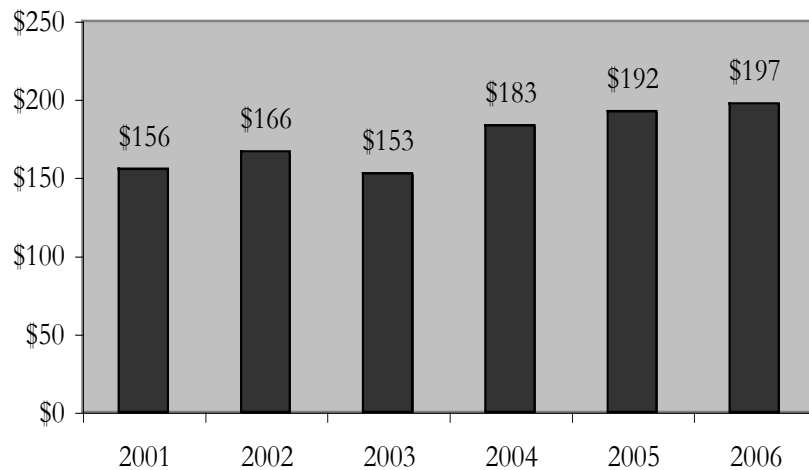
The GMC wants to slow growth by instituting a requirement that all new homes in the rural areas of the county be built on an average of two acres. According to the GMC's logic, fewer homes in rural Johnston County means fewer people, and fewer people means fewer demands on public services.

Any new home subdivision will be approved automatically if it meets this requirement. If a homebuilder wants to

build homes on smaller lots, he will be required to petition for a special use permit SUP. He must show how the development will address five issues: "1) community compatibility; 2) traffic impact and road conditions; 3) school capacity and planned capacity; 4) recreation and other amenities; and 5) public utilities."<sup>77</sup>

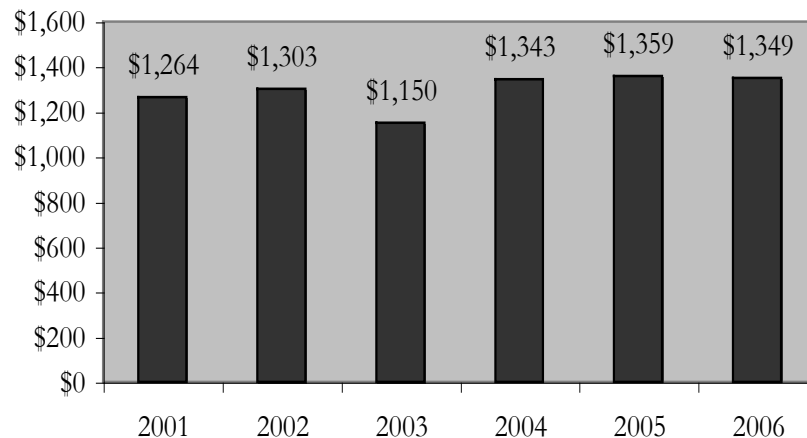
The GMC report states that addressing these five issues is "a starting point, and not meant to be an exhaustive list, as other factors may come into play with individual subdivisions." This apparently leaves the

**FIGURE 1. JOHNSTON CO. TOTAL REVENUES, 2001-06**  
*Constant 2006 Dollars in Millions*



Sources: The N.C. Dept. of State Treasurer; U.S. Bureau of Labor Statistics.

**FIGURE 2. JOHNSTON CO. PER-CAPITA REVENUES, 2001-06**  
*Constant 2006 Dollars*



Sources: The N.C. Dept. of State Treasurer; the N.C. Office of State Budget, Planning and Management; U.S. Bureau of Labor Statistics.

door open for arbitrary and capricious actions by the Planning Board and the Board of Commissioners.

The GMC report provides four examples that compare the old and new land use requirements.<sup>8</sup>

Example 1 shows how a typical 100 acre subdivision works under the existing rules. Currently, 100 acres can be subdivided into 150 homes with the average lot size of two thirds of an acre.

Example 2 shows what is called a "Land Dedication." Here 100 acres are divided into 50 lots on 50 acres, a potential school site on 25 acres and a potential recreation/amenity on 25 acres.

Example 3 illustrates the "Homestead" option. This option shows 50 lots on 40 acres with a potential homestead/farming site on 25 acres and a potential conservation natural area on 35 acres.

Example 4 is the "Traditional" plan. It shows 50 lots on 100 acres or an average of one home per 2 acres.

Examples 2, 3, and 4 have one thing in common: they illustrate a reduction from the 150 homes per 100 acres permitted under the current rules to a maximum of 50 homes per 100 acres, a 203 percent increase in the average lot size.

What the GMC Report fails to calculate is the economic impact of this change. Naively, the GMC members assume that these changes will cause the "development community" to "absorb and fund" some of the perceived short falls in public facilities.<sup>9</sup>

### CONSEQUENCES OF THE "ONE HOUSE PER TWO ACRES" POLICY

Although revenues have kept pace with population growth, there is intense political pressure to ignore this fact and limit growth. This is not unusual; many state and local public policies are based on assumptions the facts don't support. Therefore, consequences of implementing the GMC recommendations must also be examined.

- *All Home Values and Prices Will Increase.*

These changes will make housing in Johnston County more scarce. As with any reduction of supply with constant or growing demand, prices will increase not only for new homes but existing homes.

New homes built on the diminished number of lots available will be larger and cost more. New homes that are affordable to lower and middle income families will be confined to higher-density development in the cities with smaller homes than are currently being built. This ignores the aspirations of most families.

In addition, this reduced supply of housing will cause all homes in the county to be more expensive. This will be reflected in the sale prices of resale homes. Existing homeowners, including County Commissioners and members of the GMC, will gain a monetary windfall, usually measured in thousands of dollars, from this policy.

The effects of reducing the supply of housing due to smart growth policies have already been witnessed in Asheville and Wilmington. Economist Randal O'Toole of the American Dream Coalition has estimated the impact of smart growth on housing prices nationally and in North Carolina. In Asheville, homes are 25 percent more expensive due to these policies, and the average home value has increased 13,901. In Wilmington the situation is even worse. Homes are 27 percent or 21,675 more expensive than they would otherwise be due to smart growth policies.<sup>10</sup> If implemented, the housing restrictions will have similar effects in Johnston County.

*Higher Property Taxes.* With the increase in the value of housing countywide, the next revaluation in 2011 will show a marked increase in property tax levels. This will pose a hardship on the elderly and others on fixed incomes. Beneficiaries will be those people who take advantage of the increased home prices due to the restriction in supply and sell their homes, take their profits and move out of the county before the revaluation.



*Homebuilders and Homebuyers Going Elsewhere.* The stated goal of this policy is to “encourage” the development community to help solve the “infrastructure and facilities short falls.” In other words, the developers should pay, and if they don’t, the GMC recommends capping building permits, impact fees, and land transfer fees.<sup>11</sup> But homebuilders are constrained by basic economics. Since the policy demands larger lots, homebuilders must build expensive homes on these lots. The market for expensive homes is much smaller than for moderately priced homes that are presently being built in Johnston County. Thus in order to conform to economic realities, many homebuilders will simply move to neighboring counties to build homes where they can satisfy the demand from low and middle income homebuyers. Many of the new residents of neighboring counties will commute to their jobs using Johnston County roads.

*Economic Segregation.* The total smart growth policy, as envisioned by the GMC, would result in large expensive homes on large lots in the rural parts of the county for the wealthy and crowded, and high density housing for lower and middle income people in the cities.<sup>12</sup> Thus, it will be the official government policy in Johnston County to create economic segregation. Once these effects become visible, county commissions, including several in NC, are lobbied for remedies such as even more restrictive inclusionary zoning and so called affordable housing regulations.

## RECOMMENDATIONS

The GMC report contains one recommendation that will help county revenues continue to keep pace with population growth. The current eight year revaluation schedule should be changed to a four year schedule. By revaluating property every four years, property taxes will more accurately reflect market conditions in Johnston County.

But the most important change that

the county commission should make is to stop the current reactionary approach to county policy. Johnston County, like most counties, reacts to the immediate crisis. In this case, the GMC’s recommendations are based on the assumption that growth related problems will be solved by policies that slow growth. This approach is not only wrong, it is shortsighted. It is a reaction to the way public problems are defined. The GMC argues that there is not enough money to build schools. The real issue is how does the county meet its responsibilities to improve education. The GMC believes there is not enough money to build roads. But the real issue is how does the county reduce congestion.<sup>13</sup>

When problems are defined differently, a larger array of options become available. When the school construction problem is redefined, for example, to be how best to improve student educational achievement, more options are on the table.<sup>14</sup> Allow teachers to establish schools within schools or new storefront schools. Give parents open enrollment options. Use public/private partnerships, build lease options, more charter schools, etc.<sup>15</sup>

One obvious option in a rapidly growing area like Johnston County is to allow homebuilders to build schools as part of a housing development and guarantee that kids in the development get first choice at attending that school. And homebuilders should not be required to build the massive, 800 student elementary schools that are currently being built in Johnston County, but smaller neighborhood schools accommodating 100 to 200 neighborhood students.<sup>16</sup>

Admittedly, this approach is more difficult politically, but it does provide the opportunity for political leadership. A political leader who redefines county problems and articulates a new array of innovative solutions will certainly gain the attention of the public that is often cynical about politics and politicians.

*Dr. Michael Sanera is Research Director and Local Government Analyst for the John Locke Foundation.*

## NOTES

1. Report of Johnston County Growth Management Committee GMC Report , September 14, 2006, in the "Vision Statement" section no page numbers .
2. Harvard economist Edward L. Glaeser notes that restricting housing supply will lead to high housing prices and "high housing prices change an areas's demographic mix." See "The Economic Impact of Restricting Housing Supply," Rappaport Institute in the Kennedy School of Government, Harvard University, *Policy Brief*, PB 2006 3, May 2006 p. 2.
3. Randal O'Toole, *The Planning Penalty: How Smart Growth Makes Housing Unaffordable*, The American Dream Coalition, March 2006, p. 29, [www.americandreamcoalition.org/penalty.html](http://www.americandreamcoalition.org/penalty.html).
4. GMC report, "Background" section.
5. GMC Report, Appendix "Population Projections."
6. *Ibid.*
7. GMC Report, "Committee Recommendations" section.
8. GMC Report, Attachment "Projected Land Use Plan" by Johnston County Planning, October 13, 2006.
9. GMC Report, "Conclusions" section.
10. Michael Sanera and Joanna Grey, "Planning Penalties in North Carolina: Why Other N.C. Cities Should Not Follow Asheville and Wilmington," John Locke Foundation *Policy Report*, May 25, 2006, [www.johnlocke.org/policy\\_reports/display\\_story.html?id=72](http://www.johnlocke.org/policy_reports/display_story.html?id=72), and Randal O'Toole, "The Planning Penalty."
11. GMC Report, in the "Conclusions" section.
12. See "Smart Growth and Its Effects on Housing Markets: The New Segregation," Center for Environmental Justice and The National Center for Public Policy Research, November 2002 and Matthew E. Kahn, "Does Sprawl Reduce the Black/White Housing consumption Gap?" *Housing Policy Debate*, Volume 12, Issue 1, Fannie Mae Foundation, 2001, p. 77.
13. Christopher Goff, "Conquering Traffic Congestion in the Capital City: More Effective Solutions Than Light Rail," Joh Locke Foundation *Policy Report*, August 15, 2006, [www.johnlocke.org/policy\\_reports/display\\_story.html?id=74](http://www.johnlocke.org/policy_reports/display_story.html?id=74).
14. Terry Stoops, "The ABCs of Public Disgrace: North Carolina's school accountability system has misled parents and taxpayers" John Locke Foundation *Spotlight* No. 299, [http://www.johnlocke.org/spotlights/display\\_story.html?id=146](http://www.johnlocke.org/spotlights/display_story.html?id=146).
15. Terry Stoops, "Building for the Future: The School Enrollment Boom in North Carolina," John Locke Foundation *Policy Report*, September 28, 2005, [www.johnlocke.org/policy\\_reports/display\\_story.html?id=60](http://www.johnlocke.org/policy_reports/display_story.html?id=60).
16. See Kristin Collins, "Board Alters Stance on Cary School," *The News and Observer* Raleigh , January 18, 2003, p. B1.