



My Corner: The Folly of Elected Officials Wading Into The Market



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Far too often elected officials think they know better than the market. They were elected because of their good ideas, and so now they must use those good ideas to do what the market has left undone. And since they now control millions of taxpayer dollars, they put those dollars to work.

The latest example of that “must-be-a-good-idea-even-if-I-wouldn’t-invest-my-own-money” syndrome is SB 272, Amendments to Transportation Provisions (J. Stevenson). If passed, SB 272 would allow the Utah Transit Authority (UTA) to partner with private developers to construct “transit oriented developments” (TODs) around UTA stations.

When UTA bought the land for many of their stations, they needed approximately 10 acres. However, sometimes the seller would only sell land in 30 acre chunks. Now UTA wants to convert that excess land into high density, walkable developments. Having these communities will increase UTA’s ridership, they hope. They also hope taxpayers’ ownership in these communities will produce a long-term revenue stream for UTA.

According to UTA and the supporters of SB 272, these developments aren’t being developed because the banks aren’t lending money for these projects. And if UTA will simply mitigate these projects’ risk, for example by letting taxpayers’ land take second position behind the bank loan, then the projects will be built and succeed.

I have no doubt that these TODs will be built, if UTA partners with private developers. UTA’s partnership lowers the risk facing banks and developers, so their willingness to invest in questionable projects goes up. However, there is little reason to think that UTA will be a better judge of what will succeed in the market than the cities who formed UTOPIA, Utah’s largest municipal telecom system.

UTOPIA recently released their FY 2009 audited financial report, and it couldn’t emphasize their financial plight any more clearly. After more than five years of operations, UTOPIA has a deficit of \$126 million in net assets. To understand what that deficit means, imagine selling all your assets – home, cars, etc. – and using the proceeds to pay your outstanding debts. If UTOPIA did that, they would still owe \$126 million.

As the nearby Table 1 shows, UTOPIA is digging a deeper hole for itself. While UTOPIA’s annual operating revenues have steadily increased, their operating expenses have increased even faster. In fact, their operational deficit hasn’t been less than \$5 million since FY 2005. Even worse, UTOPIA’s own FY 2010 budget anticipates an operational deficit of \$2 million per month.

When elected officials get government into the business of business, UTOPIA-like results are all too common. That is why SB 272 is such a bad idea. Perhaps the TODs contemplated by the Utah Transit Authority really are a good idea. Maybe they’ll succeed. The best way to find out is for UTA to sell the excess land around their stations to the highest bidder, and see what the market will bear.

When elected officials substitute their judgment for that of the market, the elected officials end up making losing business decisions. Importantly, it’s not because the elected officials aren’t smart people who sincerely want to do what’s best for their communities. In the overwhelming majority of cases they are.

However, an investor’s calculus is vastly superior to an elected official’s calculus, because the investor has “skin in the game.” If the project fails, their children’s college fund fails too. That risk sharpens the investor’s focus, and forces him to more carefully evaluate a project.

My own hometown of Eagle Mountain, Utah offers a clear example. Last summer the City Council approved a community development area, allowing the city to invest taxpayer dollars in a grocery store. Signs went up promising a new grocery store; the Mayor and City Council ceremonially turned the first spades of dirt on the project; my neighbors were thrilled.

Nearly a year later, the only dirt that’s been turned is what the Mayor and City Council turned. Why? Because the bank financing still hasn’t come through. Time and time again, well-meaning elected officials jump into a project like UTOPIA, a grocery store or “transit-oriented developments,” only to find that the market for that project isn’t really there. If TODs can succeed, the market will provide them, but hoping that UTA understands the demand for TODs better than the market is folly. And that’s why the Taxpayers Association is adamantly opposed to SB 272.

Table 1: UTOPIA’s Net Operation Revenues, FY05 through FY09

	2005	2006	2007	2008	2009
Revenues	\$123,054	\$1,550,426	\$2,318,607	\$3,201,987	\$3,341,807
Expenses	\$4,485,104	\$8,807,957	\$13,157,385	\$10,076,126	\$12,238,835
Net Revenue	(\$4,362,050)	(\$7,257,531)	(\$10,838,778)	(\$6,874,139)	(\$8,897,028)

Calculations by Utah Taxpayers Association using data from UTOPIA’s Audited Financial Reports