What can be done about the housing crisis? The answer will have a lot to do with how New Zealand taxes homes and businesses and finances infrastructure development.

The LGA states:

“10 Purpose of local government

(1)

The purpose of local government is—

(a)

to enable democratic local decision-making and action by, and on behalf of, communities; and

(b)

to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.”

While this law is not unequivocal about who pays for the infrastructure, it generally seems to be the case that councils do.

The Productivity Commission report appears to take this into account when it states:

"Infrastructure New Zealand (2018, p. 5) also notes that councils require greater incentives to increase housing supply... ."   (p.62 of 89)

A payment to *councils* from central govt. for each new home is mentioned.

But how appropriate is that? It would be more effective to remove the *dis*incentives to councils' accommodating development. I always thought that it was a dread of urban sprawl that made NZ councils loth to expand their urban fences, rezone land, or grant consents. But I am coming to understand that it is the apparent fact that it is commonly accepted as their responsibility to provide infrastructure for green field developments.

That situation has a couple of bad effects: One is that vacant, unserviced land within urban areas is valued as if those services were already there, to the extent that zoning and potential consents allow utilising them via development. With the cost of land thus inflated, developers, having paid for the land, can't then incorporate the costs of installing infrastructure into the sale prices of the units they intend to build, as those units would be overpriced in an already overpriced (by world standards) market.

The second is that councils in this situation have a disincentive to grant consents to developers of unserviced land, or to expand city limits/upgrade zoning to allow development, because they have to bear the costs and that is a financial liability and political tight-rope. So they put obstacles in the way, which frustrates developers and those seeking housing, as well as commercial and industrial facilities, and accounts for a lack of supply, which drives up the cost of such units.

If the onus for the establishment of infrastructure goes onto developers and, concomitantly, councils lower the barriers to development in terms of zoning and consents (it would still be appropriate to channel this), raw land prices will fall to the point where it is economic for developers to finance infrastructure for their developments by apportioning it in their sales, which is where the responsibility belongs, as the owners and occupants of those units are the ones who will benefit from the money spent, not ratepayers or taxpayers.

Such infrastructure would need to be built, inspected, and completed to govt. specifications. And when a certain rate of sales is achieved, why not fifty percent, councils can assume ownership of the infrastructure, but not any debt related to its creation, and the addition of the new rating units will pay for the ongoing responsibility.

As the effects of such a regime change are equalised through the economy, potentially in short order, prices of both land and units will come down because land will no longer be valued according to the assumption that councils will provide free infrastructure, and the supply of units is no longer restricted in the above manner.

I do believe this is the current practice throughout the US, despite the picture painted (and erroneous conclusions drawn) by the P.C. and Infrastructure N.Z. reports. For instance, the P.C. report, echoed by a recent editorial by Brian Fallow,
(https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12159921)

suggests U.S. states such as Oregon and Texas have a property tax as opposed to a rates-based tax, that allows local governments to capture (unrealised) "windfall" gains in property value from homeowners. They recommend New Zealand follow suit. Such a punitive view of things would only exacerbate the current situation.

The following excerpts will help to demonstrate their misapprehension of the state of things in America:

From Infrastructure New Zealand; Enabling City Growth: Lessons From The USA; 2018

(https://infrastructure.org.nz/resources/Documents/Reports/Infrastructure%20NZ%20USA%20Report.pdf)

"Denver and Portland have implemented legislation to delink property taxes from changes in property values." (p. 5 of 48)

"Texas has no state or local income tax, so instead relies comparatively heavily on property tax to fund services. ...In application, these taxes are a set rate based on a property's value and so tend to rise with property values, ... This approach ensures taxing authorities gather more revenue to invest in services when property values rise," (p.44 of 48)

From: https://smartasset.com/taxes/texas-property-tax-calculator (U.S.A.)

"Texas cities have higher taxes on property and lower taxes on income. Property tax is generally levied in proportion to capital value and averages 2 per cent across Texas," (p. 3)

"Property tax rates in Texas are recalculated each year after appraisers have evaluated all the property in the county. They are calculated based on the total property value and total revenue need. In a given area, however, they typically do not change drastically year to year." (p. 4)

Note the reference to rates being set according to revenue needed. From what I saw here and elsewhere, to say these states have a proper property tax is a misapprehension. It is equally puzzling to me that Infrastructure N.Z. conclude that you can't pay off a bond (TIF) if you don't have such a tax. From the PC document:

"A number of commentators have proposed tax increment financing for growth-related infrastructure investments (NZPC, 2015; Infrastructure New Zealand, 2018). The idea behind TIF is that a local authority forecasts the increase in tax revenue that will result from an infrastructure investment, and borrows against that future income. This is commonly done in the United States by issuing bonds, with future tax revenue hypothecated for a timeframe to repay the debt. Yet tax increment financing will only work if councils' revenue is derived from a property tax rather than rates." (Infrastructure New Zealand, 2018). (p. 68-69 of 89)

The point here is that having a rates-based system does not preclude the use of municipal bonds as an infrastructure funding mechanism. The annual payments are another line item in the budget. An attendant observation is that tax-based property levies are not used in the U.S., perhaps not elsewhere, as valuation increases have nothing to do with the costs of operating municipal governments, and it is a dangerous practice to make valuation "windfalls" translate to council revenue windfalls, particularly where, as stated in this document, they are accompanied by mechanisms to maintain council income if values collapse.

Texas and Oregon are typically mentioned as U.S. states that employ a property tax,. Consider then, the following from: https://www.jolynne.com/property-tax-portland.html (U.S.A.)

"Oregon's property tax rates are higher than a number of other States. The main reason is that we do not have a sales tax (on anything). Just think, you can buy a new car and only pay an additional $50 for a two-year auto registration. ...Oregon's property tax system is primarily a rate-based system calculated on the Tax Assessed value of a property. There is a constitutional limit on tax assessed value increases. ...The tax rate or 'mill-rate' is charged per $1000 of tax assessed value."

The terms "rate-based system" and "mill rate" indicate Oregon's is not a 'property tax' in the strict sense of the term, as Infrastructure N.Z. and the P.C. construe it to be. Investopedia explains a 'mill rate' as follows:

"Mill Rate: once a budget is passed by your local government, known revenues are subtracted, which leaves the deficit to be raised through property taxes. This amount is divided by the value of all property in the town, which is then multiplied by 1,000. This figure represents the tax rate or the mill rate."

If you look at Figure 18, p.45 of the Infrastructure NZ report referenced above, you can see how agreeable the effects of a system based on time-tested rates-based property taxes and developer-funded infrastructure can be, particularly when you consider that the property taxes on these homes is under three thousand dollars per year. Also consider they have luxuries like plywood sheathing for walls and roofs (vs. Gib bracing and chicken wire), asphalt shingles vs. Coloursteel, and central heating and cooling systems, to list some of the differences between these homes and typical homes in New Zealand. Then consider that each of these homes, in desirable areas like Austin, Tx, is priced at US $200,000. It would be almost unimaginable for such attractive new house and land packages to sell for that here.

New Zealand seems on the verge of forcing itself to the conclusion that the rates based approach must be abandoned in favour of a strict property tax in order to foster development. That would amount to employing a blunt instrument, which would decouple revenue collections from budgetary requirements, and would have disastrous results.