

INDIANAPOLIS'S ROAD TO REGULATORY REFORM

A NEW PATH IN LICENSING AND PERMITS

by Adrian T. Moore

THERE IS A GROWING REALIZATION in the United States that regulation, for all its apparent benefits, comes with significant costs as well. Long concerned with the rising costs of federal regulations, public officials are now starting to realize that the costs of state and municipal regulations are also substantial, and they are beginning to develop state and local regulatory reform programs. The city of Indianapolis, Indiana has been a pioneer in those efforts.

By systematically reviewing the city code and analyzing the merits of its regulations, Indianapolis has brought sense to its regulatory structure; eliminating or modifying regulations found to be outdated or more costly than their benefits merit. Examining what Indianapolis is doing, why it is being done, and what city officials have learned along the way offers lessons for other cities. This review of the Indianapolis experience offers a "how to" and "how not to" guide to the economics and politics of urban deregulation.

THE REGULATORY STUDY COMMISSION

Shortly after his election in 1991, Indianapolis Mayor Stephen Goldsmith commissioned a survey on business conditions that asked sixteen hundred local entrepreneurs what they viewed as the chief external "impacts on profits." The top three responses were taxes (62 percent), environmental regulations (57 percent), and other regulations (56 percent). Less than half mentioned more traditional business concerns like adequate workers or changing consumer demand.

Based on that information, Goldsmith established the Regulatory Study Commission (RSC), and charged it with weeding out bad regulations that were already on the books and conducting cost-benefit analyses on all new ones. The RSC began by articulating a set of regulatory principles that could serve as the basis for future actions. The following principles, unaltered in five years, have stood the test of time:

- (1) The cost of a regulation should be no greater than the value of the benefit created for the community;
- (2) Regulations must be written to insure the imposition of the minimum possible constraints upon the community;
- (3) Regulations must be simple, fair and enforceable; and
- (4) Local regulations should not exceed federal and state standards unless there is a compelling and uniquely local reason.

Based on those principles, the Commission needed to calculate the cost of regulations, including enforcement costs and the costs to business payrolls. Because "regulation" is a term that often defies clear definition, it is impossible to know precisely what percentage of the city budget is dedicated to municipal regulatory functions. However, drawing upon the literature on the costs of federal regulations, the RSC used a figure for total per-capita annual cost of local regulations of \$156.25. With a population of roughly eight hundred thousand, the total bill for local regulations was an estimated \$125 million a year.

The direct costs imposed by regulations on businesses and consumers were calculated on a case by case basis when the RSC began to look in detail at the city code. Also, regulations prevent some market transactions from occurring at all. But these so-called "dead weight losses" are not easily measurable, so the RSC did not attempt to factor them in.

The benefits of reforming a given regulation were calculated much like the costs specific to each regulation examined. The RSC concentrated on regulations where the benefits were clearly very small or nonexistent. It was easy in cases where regulations addressed conditions that no longer existed, due to technological or other changes. Other regulations clearly did not serve the public interest.

POLITICAL PREREQUISITES

The RSC needed three things to make a regulatory reform program successful: community support, political will, and sound economic analysis.

The RSC and the mayor's office invested considerable time and effort in laying out their plans and intentions to the city council and the citizens, and in answering community concerns. That made the reform process a part of the public debate and helped garner support for the RSC proposals.

A great deal of political will also was needed to push through meaningful reform. That is because regulatory reforms create losers as well as winners. Regulations often create large and concentrated benefits for a small number of individuals while costs are disbursed over a wider portion of society and thus are not as large per individual. Standing up to the special interests in Indianapolis required carefully choos-

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ing battles and making meticulous cases in support of reform.

Sound economic analysis was also a requirement for successful reform. Sloppy analysis would create a weapon for special interests to use against a reform effort. Even more important was the need for a sound economic framework in which to assess regulations and determine where effort should be directed. Properly applied, such analyses made the need for many reforms self-evident, easing the political task of enacting the reform. The RSC chose to use a simple and uniform cost-benefit analysis (see Chart 1) that posed five questions:

- (1) How does the regulation benefit the consumer or public?
- (2) How does the regulation benefit the regulated parties?
- (3) How does the regulation cost the consumer or public?
- (4) How does the regulation cost the regulated parties?
- (5) What administrative or enforcement costs are paid by taxpayers?

The RSC plunged into the nearly twenty-eight hundred single-spaced pages of municipal regulations in order to break them down into manageable groups. Each regulation was placed into one of two chief categories: (1) regulations that affected business operations and (2) noncommercial regulations that affected citizens.

The RSC had neither the political nor financial resources to weigh the costs and benefits of each regulation. The comprehensive review allowed the RSC to identify as a first pass the regulations affecting the greatest number of citizens and most significantly hindering job creation. Those regulations, the focus of the major push for reforms, concerned ground transportation, business and occupational licensing, development and housing, and health and hospital services.

TAXIS

The first area the RSC tackled was ground transportation, a heavily regulated area important to the city's economy. After analyzing existing regulations, the RSC developed a game plan for both the legal and political initiatives needed to bring about successful reform, initiatives that harmonized the influence of principle, economics, and politics. That model guided future efforts.

Like other large U.S. cities, Indianapolis's taxi service had been heavily regulated for decades. Only 392 cabs were permitted to operate in the city. (The law actually allowed for six hundred, but the taxi commission had long ruled that "public convenience and necessity" required no more than 392 cabs. One company controlled 201 of those permits, and the five largest companies controlled 326 permits, seriously limiting competition. Of the 392 licensed taxis, only about 250 were actually on the street at most times in an average day.

The RSC established an advisory panel of transportation experts to examine the city's ground transportation market. Based on their analysis, and on written and oral testimony from citizens, members of the taxi and other transportation businesses, church groups, and others, the RSC issued an Information and Analysis Statement with a series of official findings on the state of the ground transportation market.

The quality of service varied. Four taxi companies, holding 270 vehicle licenses, had computer dispatch equipment. Some other companies had radio dispatch equipment. Smaller taxi companies relied on cellular phone equipment.

The quality of "called for" taxi service was poor in Indianapolis. Long waits were common after calling for a taxi; and sometimes taxis did not respond at all. Service was especially poor for locations from which most calls are short trips.

Taxi fares for long trips were higher in Indianapolis than in many other major cities. Of the ten largest cities in the US, only Philadelphia and Phoenix had higher fares, the rest were 10 percent or more lower.

Typical of restricted taxi markets, Indianapolis' lower income neighborhoods were notoriously underserved. Those are the very areas where fewer people own cars, and more must rely on taxis and other mass transportation.

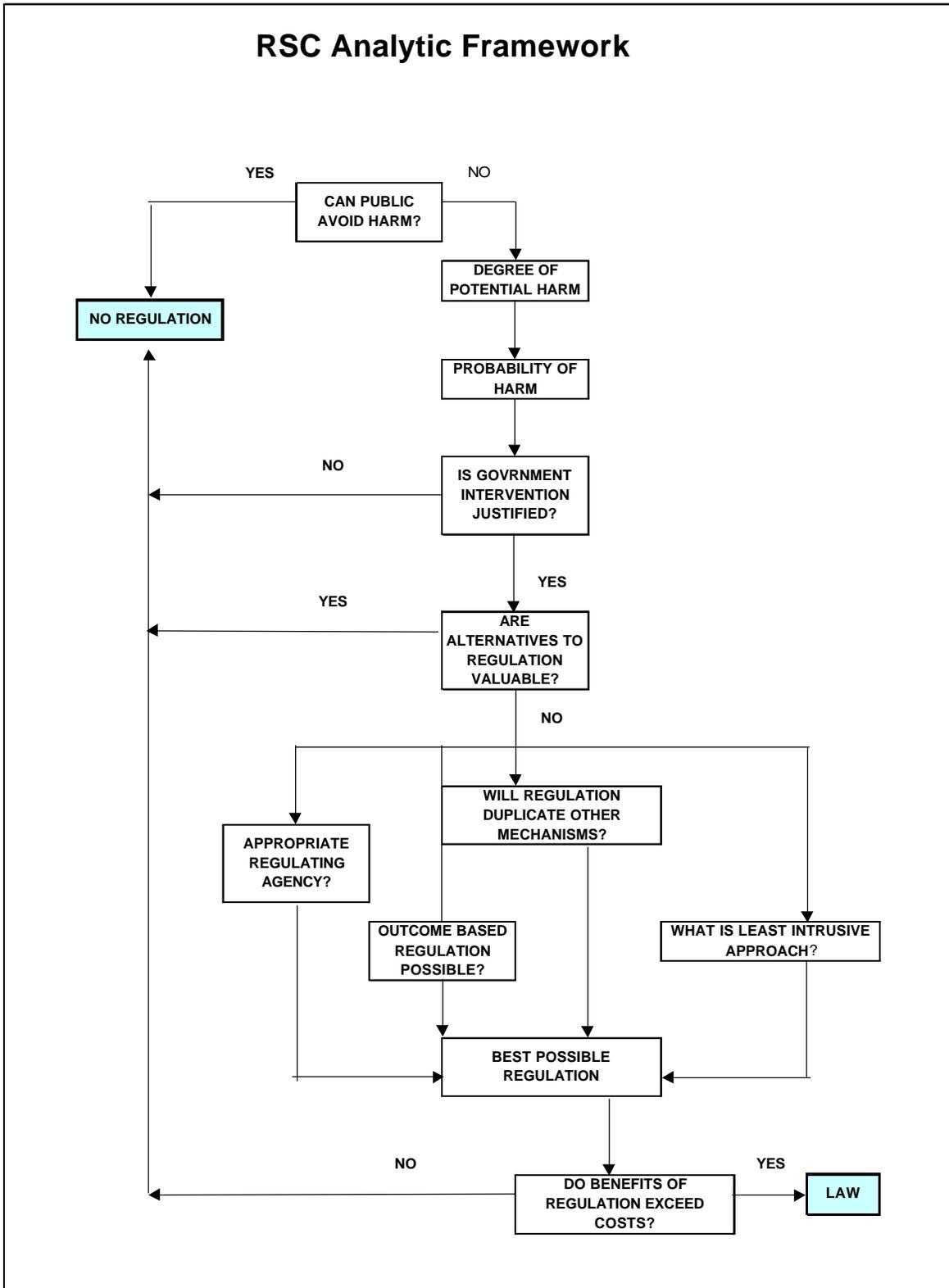
Special vehicles for the disabled, especially wheelchair accessible vans, were classified as "taxis" by the city. Owners of a taxi license make most of their money from regular fares, so investing in wheelchair accessibility made no sense. The city did not allow specialized service, so the disabled had to use expensive private ambulances for door-to-door trips.

Regulations that fix taxi prices distort the market almost as much as entry restrictions. Indianapolis taxis use meters, and regulators feared that without fixed price, taxi drivers might overcharge customers, especially those from out of town or who used cabs infrequently. But in fact, the taxi market is really three separate markets: (1) the cab stand market, where taxis wait for customers; (2) the arranged market, where a customer calls for a cab by phone; and (3) the hail market, where cabs drive around empty waiting to be hailed. The last practice was prohibited in downtown Indianapolis, supposedly to prevent congestion from taxis stopping to pick up passengers. Of course, passengers phoning for a cab could price shop. And passengers at taxi stands can compare the prices of the waiting cabs. There are some problems with passengers hailing cabs, though they too could ask about price first. Out-of-town visitors are also said to be subject to price gouging. But an information campaign and requirement that fare schedules be posted in cabs could solve most of that problem.

The RSC "Issue and Analysis Statement," held that most taxi regulations did not meet its guidelines for sound regulations. First, they flunked the cost/benefit test. The limit on licenses, combined with fixed fares, pushed both potential taxi drivers and passengers out of the market. It also created longer wait times for passengers, and gave the taxi companies an incentive to waste time and money defending limits on competition.

There seemed to be no benefits for passengers. Some might argue that taxis are a "natural monopoly," meaning that one or a few firms can provide service for lower costs than many. But there is no empirical evidence of economies of scale that would support that argument. Nor does there appear to be any "destructive competition," too many taxis competing for business and driving down costs by cutting service quality and safety thus driving away customers. Peter Suzuki, in a 1995

RSC Analytic Framework



article in *Transportation Quarterly*, argues that illegal taxis are widespread in most regulated cities, showing that customer demand is not met by regulated systems. With deregulation those cabs become legal and their quality rises. Based on a review of empirical studies of taxi markets in many cities, and on common sense economics, the RSC concluded that current taxi regulations made no sense.

The benefits were limited to higher profits for a few taxi company owners, and higher wages for the drivers. The RSC decided the costs of the limits outweighed the benefits.

Existing regulations also violated the RSC's "minimum possible constraints" guideline. If service and safety issues were real concerns in the taxi market, then they should be regulated directly, rather than through the back door of entry restrictions.

First on the RSC's reform agenda was eliminating the cap on the number of outstanding licenses. That proposal was designed to achieve open access. Any applicant who could meet the license requirements driver and vehicle safety standards, insurance requirements, and a \$102 fee could operate a taxicab in Indianapolis. Second, to address concerns about safety, the RSC included a requirement for random vehicle inspections and enhanced background checks on drivers. Third, the RSC would allow cabs to cruise for customers anywhere in the city. Fourth, the RSC proposed creating a "maximum fare ceiling" that allowed taxi operators to offer prices lower than the published maximum but did not allow them to charge more than the maximum. The ceiling allowed the city to encourage price competition while taking steps to prevent customers not familiar with the workings of the local taxi marketplace from being gouged. An unregulated "pickup" or "flag-drop" charge, stated up front to all passengers, was allowed in order to encourage short trips and cruising for hails where per-mile rates are often not remunerative.

Fifth, the RSC called for elimination of a host of arbitrary rules, such as requiring taxi drivers to wear a special badge and cap, and specifying the number of seats taxis and limousines could have, and the number of passengers per seat.

Sixth, the RSC would allow special taxis to carry passengers in wheelchairs and allow jitney businesses greater operational flexibility—picking up passengers within a broad corridor between origin and destination points, and providing special "charter services."

Finally, to deal with problems that often occur with taxis at airports, the RSC authorized the airport authority to impose stricter rules on taxi trips originating at the airport if it found such rules were necessary. The RSC figured that the airport authority would have greater incentives and better information than the city in ensuring high quality ground transportation service for its customers.

After briefing the city councilors on its proposed reforms, the RSC held public hearings to give people the opportunity to make their case for and against their reform proposals, and to

draw out grassroots partners for the reform process.

Complaints about local taxi service for years had been recorded and kept in logs by the city controller's office. But they had never been heard in a public forum. Those fact-finding hearings exposed wide public doubt and resentment about the way the taxi industry was being regulated. Senior citizens complained about sporadic call service, restrictions on cruising cabs, and poor service in general. Inner city residents complained that they could not get taxi service because their neighborhoods, often low income, high crime areas, were red-lined by dominant taxi providers. The very people that needed reliable and affordable taxi service the most were forced to find other means of transport.

THE VERY PEOPLE THAT NEEDED RELIABLE AND AFFORDABLE TAXI SERVICE THE MOST WERE FORCED TO FIND OTHER MEANS OF TRANSPORT

The disabled, who are often transit-dependent, complained that few licensed taxis were wheelchair accessible. Price regulations eliminated the incentive to take on the expense of converting cabs

to be wheelchair accessible. If taxis in a competitive market were able to charge for vehicle improvements like wheelchair lifts, and for the extra service provided a disabled passenger, they would offer the disabled better service and shorter waits for a taxi.

The Urban League supported deregulation because restrictions on taxi licenses, fares, and service levels all but prevented low income, often minority drivers from starting their own cab companies. Many drivers who wanted to start companies became a powerful force for taxi reform. The RSC supported the drivers by helping arrange media exposure, assisting in the writing of opinion and editorial pieces, and offering advice on how to contact and lobby city-county councilors.

The main resistance came from existing taxi companies, and initially much of the city and county council sided with them in the name of the "public interest." However, the support for reform by seniors, the inner city poor, minorities, the Urban League, and the disabled soon brought many of them over to the RSC's side. The RSC expected little support from Democrats on the council, but the strong support for deregulation from that party's traditional constituents turned the tide. Also, it became apparent that a total elimination of price regulation was unacceptable to many council members. Though the RSC was not certain that price controls were necessary, the price cap rule was included to secure passage of the reforms. In the end, in May 1994 the reforms passed with a 21-7 vote.

According to the Mayor's office, within thirty days of adopting the new open entry and price competition ordinance the number of licensed cab companies increased by 50 percent. Fares among the new companies were nearly 10 percent less than those offered by the dominant providers. Customer complaints about poor service directed to the controller's office dried up. Nearly overnight, dress codes for taxi drivers were transformed from ripped T-shirts and shorts to collared shirts and sometimes even ties. Cabs became noticeably cleaner and more visible on city streets.

In the four years since deregulation, according to data collected by city officials, the number of licensed companies has nearly tripled from twenty-six cab companies before deregulation to over seventy today. Minorities or women now own more than forty of the companies. Fares average around 7 percent less than before the regulatory changes. The total number of cabs actually on the street at any given time has more than doubled, from around 225 to almost five hundred. Average waiting time for arranged service has gone from forty-five minutes to twenty minutes.

BUSINESS AND OCCUPATIONAL LICENSING

States regulate more than one thousand different occupations and issue licenses for everything from doctors, lawyers, to barbers and embalmers. In North Carolina, for example, barbers must complete more than fifteen hundred hours of study from an accredited school, pass both a written and practical exam, and serve as a barber’s apprentice for a year before they can be licensed by the state. The people of North Carolina should have the nation’s best-cut hair.

Occupational licensing laws are justified as a means to protect public health and safety. Licensing requirements are supposed to ensure that incompetent, untrained, or otherwise unfit practitioners of various professions do not take advantage of their customers. The assumption is that the government is better able to determine the fitness of a business than are customers. And customers indeed might have a difficult time judging qualifications on first-time visits to some professions with whose work they are not familiar, such as doctors or dentists. After all, not everyone knows the names of the good medical schools, and the doctor or dentist is not likely to tell the patient how many times he or she has been sued for malpractice.

However, there is evidence that the government cannot judge qualification better than customers. Government licensing requirements often appear arbitrary and vary from place to place, suggesting that there is no one ideal criterion. For example, many state governments require twice as much training for X-ray technicians and eight times as much training for dental assistants than does the military.

Licensing fees and arbitrary license requirements also discourage the creation of new businesses. That adverse effect tends to be felt especially by a city’s poorest communities. Youths, minorities, and others who already suffer from the limitations of poverty or a lack of education, find themselves further hemmed in by the licensing requirements imposed by the city. Examples of such regulations abound. Cities charge large fees for licenses to sell food, operate vending carts, shine shoes, remove and dump snow, and repair VCRs. New York City charges over \$1,000 for a license to operate a newsstand. Budding entrepreneurs often simply offer services illegally in the black market, where warranties, guarantees, and honesty often do not exist.

SOME RULES GOVERNED SHUFFLEBOARD TABLES, REQUIRING AN ANNUAL LICENSE AND FEE FOR EACH TABLE.

In examining the city’s rules governing business licenses, the RSC discovered that, over the years, Indianapolis had created a series of business and occupational licensing requirements that did little more than protect current practitioners from new competition. While some might argue that licenses are needed for surgeons or airline pilots, members of the RSC wondered why hotel owners and junk dealers had to meet demanding licensing requirements of their own.

The RSC Issue and Analysis Statement identified two kinds of regulations that failed to meet the cost/benefit or minimum possible constraints criteria, and thus proceeded in two phases to reform them. One set of regulations seemed to offer no net benefit to the community were slated for elimination in a series

of initiatives called, “Fair Fees for Small Business.” In the first round of reforms, in 1994, the RSC eliminated the most obviously unnecessary components of the licensing code. For example, some rules governed shuffleboard tables, requiring an annual

license and fee for each table. Others governed milk cows, requiring a annual license and per-cow fee, not in order to facilitate health inspections but simply to raise revenue.

The next round of reforms identified more than forty types of business and consumer licenses for elimination. Some of those regulations were still in force long after the original purpose of the regulations had either vanished or been absorbed by other codes. The annual licensing requirements for hotels and motels, motion picture theaters, second hand goods dealers, and legitimate live entertainment theaters passed neither the cost/benefit analysis nor the “least possible community restraint” principles of the RSC.

Among the rules eliminated were those requiring hotels and motels to pay an annual fee based on a per-bed sliding scale. That measure had resulted in little public benefit, because it was enforced only against the larger hotels and motels, and because it subjected reputable businesses to unnecessary expense and red tape.

The original RSC proposal called for eliminating hotel and motel licenses entirely. But public safety officials objected on the grounds it would deprive them of an important tool against prostitution and drug dealing. In response, the RSC agreed to replace the annually renewable license and sliding scale fee with an automatically renewable license.

The case of second hand goods shops, most of which were minority or women-owned businesses, legitimate live entertainment theaters, and movie theaters were more straightforward, because those establishments presented no threat to public safety. As proof of how long it had been since those regulations were evaluated for relevance or cost-effectiveness, there was no direct evidence, either written or oral, to indicate the original intent of licensing.

In late 1996, the city passed Fair Fees For Small Business II, freeing almost 2,036 local businesses from the burden and expense of annual licensing. It required a one time, no-fee registration instead of a license, for businesses ranging from

horse-drawn carriages, commercial parking lots, vending and amusement machine operators, junk dealers, transient merchants, used car dealers, and pet store operators.

The RSC used the same process to determine which licenses to eliminate for Fair Fees II as they did for Fair Fees I. By studying enforcement and application histories, they could determine how often enforcement actions were taken against licensed businesses and how many businesses actually applied for and received city licenses. The licenses selected had seen almost no enforcement activity against license holders in the previous decade. In the case of second hand motor vehicle operators, less than 20 percent of those companies listed in the yellow pages under "used cars" had obtained the proper city licensing, yet not a single enforcement action had ever been taken against an unlicensed used car dealer.

ELIMINATING PETTY AND ARBITRARY BURDENS ON FIRMS WOULD IMPROVE THE BUSINESS CLIMATE AND STIMULATE ENTREPRENEURSHIP.

STATUS QUO SUPPORTERS

The RSC's initial analysis addressed the public safety questions, and critics were mostly satisfied. The question of fiscal impact came down to a matter of principle. Eliminating the fees collected from the 425 affected businesses in the first phase of regulatory reform meant \$85,000 less in revenue for the city, with no clear offset. The RSC argued that the fiscal loss was acceptable, because the fees themselves were not justifiable. Furthermore, eliminating petty and arbitrary burdens on firms would improve the business climate and stimulate entrepreneurship.

The issue of political favors turned out to pose the biggest problem. Demonstrating that political power often has more to do with control than it does with ideology, the opponents of the Fair Fees measures were mostly council Republicans. The power to grant, renew, and deny a business license could be wielded by the city council as an appeal for direct political support. It was also believed by reform proponents that those council members were acting as fronts for the established businesses that feared competition and therefore opposed reforms, but that did not want to make their opposition too vocal. Relinquishing the power to license was tantamount to relinquishing the ability to leverage the power into political support. The RSC simply maintained that the freedom to operate a small business in Indianapolis should be an economic right, not a political favor to be granted by government officials.

Leading the fight in support of reform was a city/county council or who represented a section of Indianapolis where job growth depended on the kinds of small businesses that existing licensing policies were hurting. The RSC launched a media and grassroots campaign for Fair Fees that closely mirrored the taxi campaign. It prepared briefing materials for the editors of all the local newspapers and encouraged editorials in support of the Fair Fees Initiative. It also garnered tremendous support from the regulated businesses. Nearly three hundred of the 425 affected businesses wrote letters of support to their

city-county councilors. While three hundred letters means little at the federal or state level, locally they make a huge difference. As one councilor remarked, "When we get more than two phone calls from constituents on an issue, it is a big deal."

The support generated by those efforts created a tremendous groundswell in favor of the regulatory reform package, and the proposal passed unanimously.

RESULTS OF LICENSING REFORM

The direct effect of Fair Fees for Small Businesses was a \$94,000 reduction in fees. The RSC has not been able to measure how many new businesses have emerged as a result of the reforms. However, what started as a few housecleaning items became a cornerstone of the administration's small business development agenda. Fair Fees II affects almost ten times the number of businesses as Fair Fees I, and according to the city's Enterprise Development office, the two programs together have saved businesses a total of \$618,798 in fees not paid and staff and overhead expenses avoided by the end of 1997. Those cost savings were calculated based on total revenues collected by the city the previous year for those fees that were eliminated, and by assuming it takes forty-five minutes of employee time each year to secure a license, and a per-hour cost of \$31.80 which includes wages, indirect personnel expenses, and overhead.

BUILDING AND CONSTRUCTION PERMITTING

Most local governments regulate construction of new homes as well as improvements and changes to existing homes. One common form of regulation requires a permit to build or significantly modify a structure. Significant modifications can include installing bathroom ventilation fans, adding windows and widening doors. The rationale for requiring a permit is to ensure compliance with local ordinances and to protect the safety of homeowners. Problems arise, however, when the requirements make simple home modifications a tangle of red tape, or increase costs by requiring a licensed contractor to do the work.

Indianapolis ordinances demanded permits for even the smallest of property-owner tasks. Many property owners were affected by rules and regulations dictating when and how they could improve or repair their property. The RSC Issue and Analysis Statement held that the city's permit requirements imposed significant costs on property owners. Homeowners who wanted to legally perform any significant work on their own house had to obtain one or more permits from the city. The often arduous process required submitting an application and waiting up to eight weeks while the site plan was reviewed and approved by as many as four separate city agencies. One local bank president who tried to put an awning on his new downtown branch spent more than twice as much money winning bureaucratic approval for his plan to beautify his business than it cost him to buy the awning.

If property owners were unwilling to deal with those bureaucratic hassles, their legal alternative was to hire a licensed contractor, who secured the permits as part of the job. Hiring a contractor, however, was much more expensive for a property owner than doing the work himself. (Not surprisingly, licensed contractors are great supporters of the property-owner work permit requirements.) Thus the consequences of the permitting process and associated costs deterred property owners from repairing or improving their property.

Another option for the property owner was to do the work illegally. The RSC estimated that less than one percent of homeowners in Indianapolis comply with the permit regulations. That number was calculated by multiplying an estimated number of windows per house by an estimated total number of homes. That figure was divided by the average life of a window to get a total number of annual window replacements. Compliance was calculated by comparing the average number of annual window replacements with the total number of annual window replacement permit requests processed by the city.

There was no evidence that permit avoidance resulted in any incidence of injuries or accidents. With such a low compliance rate, and the absence of a measurable safety problem, the RSC concluded that the permit in itself was not vital to citizen protection. Further, as one RSC member pointed out, such widespread disobedience implies that almost all citizens do not think the rule is justified.

The work of licensed contractors did not escape city regulation either. Local regulations imposed extensive fees and permits on almost all work performed by contractors. In most cases, each subcontractor had to go through their own fee and permit process, often increasing construction costs. Those rules distort housing markets, especially across jurisdictional boundaries where fee and permit requirements differ. As one local contractor put it at a 19 June 1995 meeting of the RSC, "To us, each permit requirement is an invitation for the government to hassle us, tie us up, slow us down and drive us crazy. We understand the need for permits, but why are there are so damn many of them?" As with property owner work permits, there was little evidence that contractor fees and permits had a significant impact on the quality of work and compliance with local codes.

PROPOSED CHANGES

On balance, the RSC concluded that many of the fees and permits required by local development regulations did not pass the cost/benefit analysis, nor the RSC principle of minimum constraints on markets. Many of the rules even exceeded state and federal requirements for no discernible reason.

In June, 1993 the RSC created a subcommittee to improve the local permitting system. Consisting of citizens from all walks of life, they spent more than a year devising a program balancing the need for reform with consumer safety concerns. The result was the "Indianapolis Homeowner Freedom Act." (See Box 1.)

The proposal had two main goals. First, it sought to eliminate

Box 1

The Indianapolis Homeowner Freedom Act

Six building code changes:

1. Eliminate building permits for construction activity that creates no significant health or safety risk.
2. Simplify issuance of building permits for major construction projects by allowing general contractors to obtain a "master building permit" for structural, electrical, heating and cooling, plumbing, and wrecking work.
3. Allow employees and agents to apply for building permits.
4. Allow owners of residential and commercial buildings to secure building permits for construction work to be done by their employees or by subcontractors that the owners hire.
5. Authorize the city to charge a reinspection fee where contractors do not cooperate with city inspection policies.
6. Enhance consumer protection by increasing the city's ability to police illegal contractors and contractors who violate building code provisions.

Box 2

Jobs Requiring No Permits or Fees under the Homeowner Freedom Act

- *Window and Door Replacement
- *Replacing Kitchen Cabinets
- *Hanging Dry Wall
- *Installing Flooring
- *Closet Construction
- *Knocking Down Interior Wall
- *Erecting Interior Wall
- *Fixed Bookshelves
- *Replacing Stairs
- *Heating and Cooling Duct Work
- *Fence Construction
- *Fire Sprinkler Installation
- *Installing and Repairing Siding
- *Replacing Bathroom, Attic, or House Fans
- *Construction of Decks
- *Chimney Repair
- *Window Awnings
- *Gutter Replacement and Repair
- *Patio Covers
- *Replacing Plumbing Fixtures
- *Most Roofing Jobs.

many restrictions, fees, and permit requirements on low impact property-owner repairs and improvements. Thus, for example, it would exempt from regulation common jobs that many homeowners preferred to perform for themselves. (See Box 2.)

Second, the proposal sought to dramatically reengineer the local building permit process by reducing the number of annual transactions required of citizens and developers and by allowing more freedom and flexibility for contractors while strengthening customer protection. For example, the Act allowed a developer to obtain one master building permit on a new project rather than requiring all subcontractors to be individually permitted, reducing the time and money spent to meet requirements.

In addition, to improve the process of dealing with the permit bureaucracy, the proposal would require that each permit request be assigned to a specific employee in much the same fashion that a case worker is assigned to a family in a social services department. The job of the "permit caseworkers" is to help the applicant do all that is required to obtain his or her permit.

POLITICAL INITIATIVES

The Homeowner Freedom Act's journey through the city-county council was relatively smooth. The RSC's most effective point was that exempting low impact building changes from the permit requirement would eliminate more than seventy-two hundred annual permits and the associated hassles of getting them. Representatives of local contractor and remodeling associations argued that the reforms would hurt quality control by allowing unqualified "trunk slammers" to work, leaving the consumer with no recourse if work were improperly performed. The RSC believed that consumers could judge quality and reliability on simple repair and construction work as well as a city inspector could. Nonetheless, to assuage concerns, the RSC increased penalties for shoddy work and for violating agreements and toughened enforcement mechanisms. The reforms passed easily.

RESULTS OF REFORM

The fiscal impact of eliminating a broad range of permit and fee requirements for low impact property-owner improvements was significant. Based on typical levels of construction, the RSC estimated that property owners are saving approximately \$750,000 in fees and associated costs each year—the calculated annual total of permit fees, security permits, and contractor markup on the jobs for which permits were reformed. And, over time, the freedom to repair and improve property should increase property values and, thus, increase property tax revenues.

Indianapolis is continuing to target additional areas for reform. In 1997, the most extensive review focused on the city-county health code. The Marion County Health and Hospital Corporation (HHC) is an independent municipal corporation not directly answerable to any elected city or county official. It is governed by a seven member board of trustees appointed by the mayor, the city-county council, and Marion County commissioners. HHC's formal powers are formidable.

In the interest of preserving and protecting public health, HHC can close businesses, destroy homes, and order arrests.

The RSC analyzed the county health code and developed a comprehensive reform package. Political opposition to the reforms, however, has been fierce, and by the end of 1997 only a few reforms had been enacted, and they were but minor or watered down changes. The RSC has moved on to new areas to reform, including parking requirements built into the zoning ordinances, animal control ordinances, and regulations governing home based business, including childcare.

CONCLUSION

Indianapolis's regulatory reform program has focused on existing regulations, using a formal process to analyze the current regulatory code and develop reform proposals. Not being limited to new regulations made it much easier for the RSC to garner grass roots and political support for reform. Putting together support for reforms proved to be a crucial strategy, since there are always interest groups organized to defend the status quo, be they taxi drivers or building contractors. By directly involving those who suffer under misguided regulations, the RSC forced the city/county council to face those who pay for regulations as well as special interests who benefit from them.

The result was a series of successful reform efforts that changed the face of the taxi market, business licensing, and development and building licenses in Indianapolis. Residents of Indianapolis get noticeably better service from the city's taxis, and are even able to start a taxi business if they so desire. Small business owners and workers, who no longer have to pay burdensome licensing fees, are saving over half a million dollars a year. And those residents who want to build new homes or improve their existing ones no longer have to wade through mountains of red tape, wasting untold hours and higher costs to get a permit.

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