The Fiscal Fix

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Peter Katz

A former planning director proposes analyzing development projects on the basis of how much revenue they generate per acre. The results will astound you.

by James A. Bacon

A discourse about the fiscal impact of low-density vs. high-density development may not seem like riveting subject matter to most people, but Peter Katz has a way of pulling you in. The professorial-looking planner with a salt-and-pepper beard speaks with a measured voice as he piles image upon image, fact upon fact, graph upon graph, until you go, "Wow."

He starts with a slide of a Walmart in Sarasota, Fla. It's a familiar image: Identical to hundreds of other Walmarts across the country, the big-box building squats in a vast parking lot. It may look barren but the store generates hundreds of thousands of dollars in property tax revenues for Sarasota County – a seeming bonanza.

Not so fast, Katz says. When you calculate the property tax per acre of land, including the parking lot, there's nothing extraordinary about it at all. In 2008 the Walmart yielded $8,350 per acre. That's only a couple hundred dollars per acre more than the county collected from a typical single-family house in the city of Sarasota (a separate municipality; the home owner actually pays city taxes as well).

Next, he mentions the return from a property housing a Burger King near the Interstate. What a surprise: The development yielded $15,500 per acre. And then he flashes a photo of Sarosota's premier retail destination, Westfield's Southgate Mall, which generated $21,800 in property taxes per acre.

Just as it dawns on you where he's heading with the presentation, Katz shows an older two-story, urban mixed-use building with a shop on the ground floor. It's attractive and well located, but hardly a luxury destination. Yet the tax yield leaps to $91,400 per acre, more than four times that of the swankiest mall in the area and more than 10 times that of the Walmart.

What happens with urban mixed-use mid-rise buildings? Katz clicks to a photo of an older 10-story building with street-level retail, one floor of office space, and condominiums above. The property tax take: $790,000 per acre. (Yes, that's a number with six digits.) Finally, the piece de resistance: Up pops a slide of a newly constructed, mixed-use high-rise loaded with retail, commercial space and luxury condos. The property tax yield is nearly $1.2 million per acre – or about 140 times that of the Walmart.

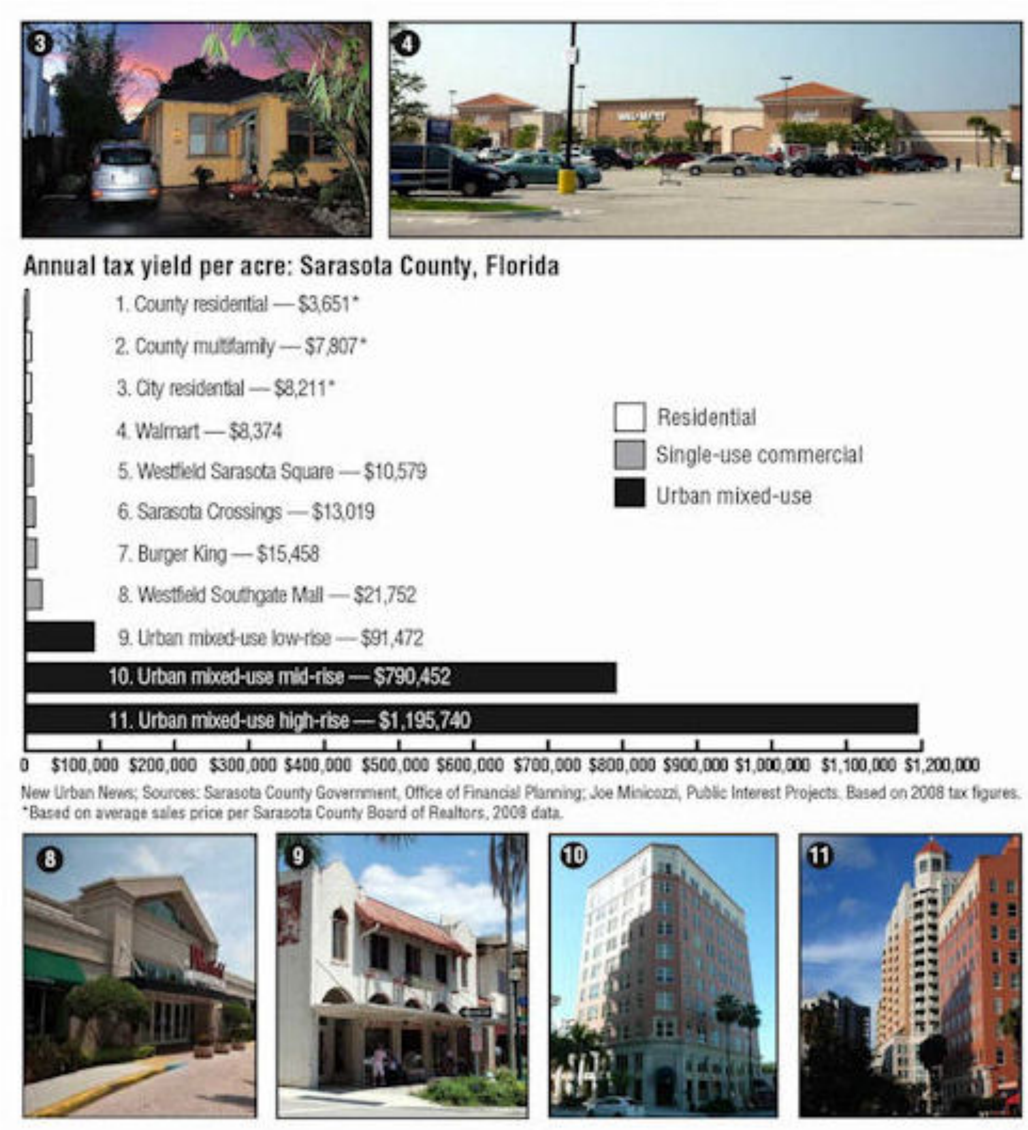

Photo credit: New Urban News. (Click for more legible image.)

So simple. Yet so revolutionary. Katz's information overturns decades of conventional analysis. Planners typically look at the tax take per house, per store or per office building. But that doesn't tell you anything particularly useful, says Katz, who in the past 20 years has served as the first executive director of the Congress for the New Urbanism, co-founded the Form Based Code Institute and worked as a senior planning official in Sarasota and then Arlington, Va. The cost of providing most government services – water/sewer, roads, sidewalks, police, fire and rescue, almost everything but schools– varies not just by the number of houses, stores or office units being served but by the geographic area being served.

According to Katz' Sarasota study, the tax yield per acre from a mixed-use urban development runs anywhere from 25 to 100 times that of low-density, single-use developments. Yet local governments have been approving projects at ever-lower densities for the past half-century, deluded by the impression that spreading growth further out onto cheaper land makes it a better deal for the municipality. Spreading out growth may or may not reduce the cost per acre – that's the subject of considerable debate — but it undeniably consumes many more acres. Is there any wonder, Katz asks, why local governments are facing so much fiscal pressure?

Questions about the cost per acre of providing infrastructure, while important to the analysis, become almost immaterial compared to the difference in the tax yield per acre. Katz says. “When you see such huge revenue disparities between the downtown high rise and the suburban big box; there is simply no way that anything on the cost side will significantly change the equation. We’re not talking about differences of 20 percent or 30 percent here. We’re talking differences of thousands of percentage points!”

The implications of this way of looking at the tax base are profound. Jim Ley, who was Sarasota County administrator when Katz commissioned the study in 2010, said the tax-yield-per-acre perspective helped tear down myths that supported low-density development. It was widely believed that the biggest taxpayer in the county was a mall, he says. “That’s true… but it sprawled over 40 or 50 acres.” The same acreage dedicated to mixed-use development would have generated far more in taxes.

In the 2000s, Sarasota County boomed and revenues increased year after year. But the real estate crash turned the growth paradigm upside down. “In this part of Florida, people have lost 36% of their property value,” says Ley, who describes himself as a bottom-line guy and a fiscal conservative. In other words, the county lost one third of its property tax base. Politically, the board couldn’t raise tax rates while people were hurting. The solution, he suggested, was not authorizing more development – it was authorizing development that yielded more tax revenue per acre. Read more.

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29 RESPONSES TO THE FISCAL FIX

Hydra | June 18, 2012 at 12:25 pm | Log in to Reply

Yet the tax yield leaps to $91,400 per acre, more than four times that of the swankiest mall in the area and more than 10 times that of the Walmart.

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Sounds like that guy is getting screwed on his taxes.

By tax yield, I assume he means Net tax yield, the costs of servicing the property being already subtracted. So, what possible justification is there for one property contributing so much more to the general coffers, over and abve what it costs?

Besides that, who cares wht it costs as long as the owner is paying that cost, and more? The cost part may vary all over the map, but the more part ought o be at least somewhat equitable.

Which is why I cringe when I hear the conservation addicts caliming that we need to save our parms because they pay twise as much as they cost.

Hydra | June 18, 2012 at 12:42 pm | Log in to Reply