Sarasota's SMART Growth Dividend

Doing the numbers proves that compact, centrally located, mixed use development yields the most property taxes.

By Peter Katz

SARASOTA COUNTY, like many other Florida counties, saw a huge wave of suburban development in the boom years from 1995 to 2007. During that time, more than 31,000 acres of land within the county and its incorporated municipalities came under development. Responding to state growth management policies and seeking to discourage future sprawl, county officials enacted an urban services boundary in 1997. Its purpose was to channel future growth into areas where the county was planning to provide urban services and infrastructure. A citizen-led initiative in 2008 strengthened the growth limit, requiring a unanimous vote of the county commission to enlarge the land area within it.

While the boundary now constrains the county's supply of developable land, the three home-rule cities in the county—Venice, North Port, and Sarasota—can still annex into unincorporated county lands inside the urban services boundary. Given such limits on its supply of developable land, and possible losses due to annexation, Sarasota County is concerned that *future* property tax revenues could be squeezed. The county's *current* revenue has already taken a major hit in the post-boom economy.

The shortfall results mostly from lower property assessments tied to falling real estate prices, coupled with and exacerbated by a slowdown of population growth. A further impact on local revenue collections is the loss of fee income due to a downturn in new construction: Residential permitting activity in Sarasota County has gone from more than 2,300 newly platted lots in 2005 to under 90 in 2009. Commercial development has followed a similar pattern: There were 110 projects in 2005 and fewer than 30 in 2009.

With such threats to its future revenue base, county staffers have started to rethink their approach to community building. "We need a better understanding of where our revenues are coming from," said Sarasota County Administrator Jim Ley last year. With regard to creating new sources of revenue, he added, "we need to start thinking more like a city."

Responding to Ley's directive, county planners came up with an idea. When researching new approaches for a comprehensive plan update, they found a unique tax revenue analysis of the Asheville, North Carolina, area. The analysis, prepared by Joe Minicozzi of Public Interest Projects, included a "revenue profile" that compared tax revenues generated by a range of building types in different locations around the city.

What made that analysis different from more conventional studies was that the figures were calculated on a *per acre* basis rather than the more typical *per lot, per unit, or per household* basis. Although unusual, this approach clearly showed a much greater return from some types of development—mostly close-in, mixed use properties, both old and new—over more conventional, single-use suburban offerings.

Seeing the dramatic results for Asheville, Sarasota County staff asked Public Interest Projects to compile a similar profile for the Sarasota region. That work is the primary focus of this article.

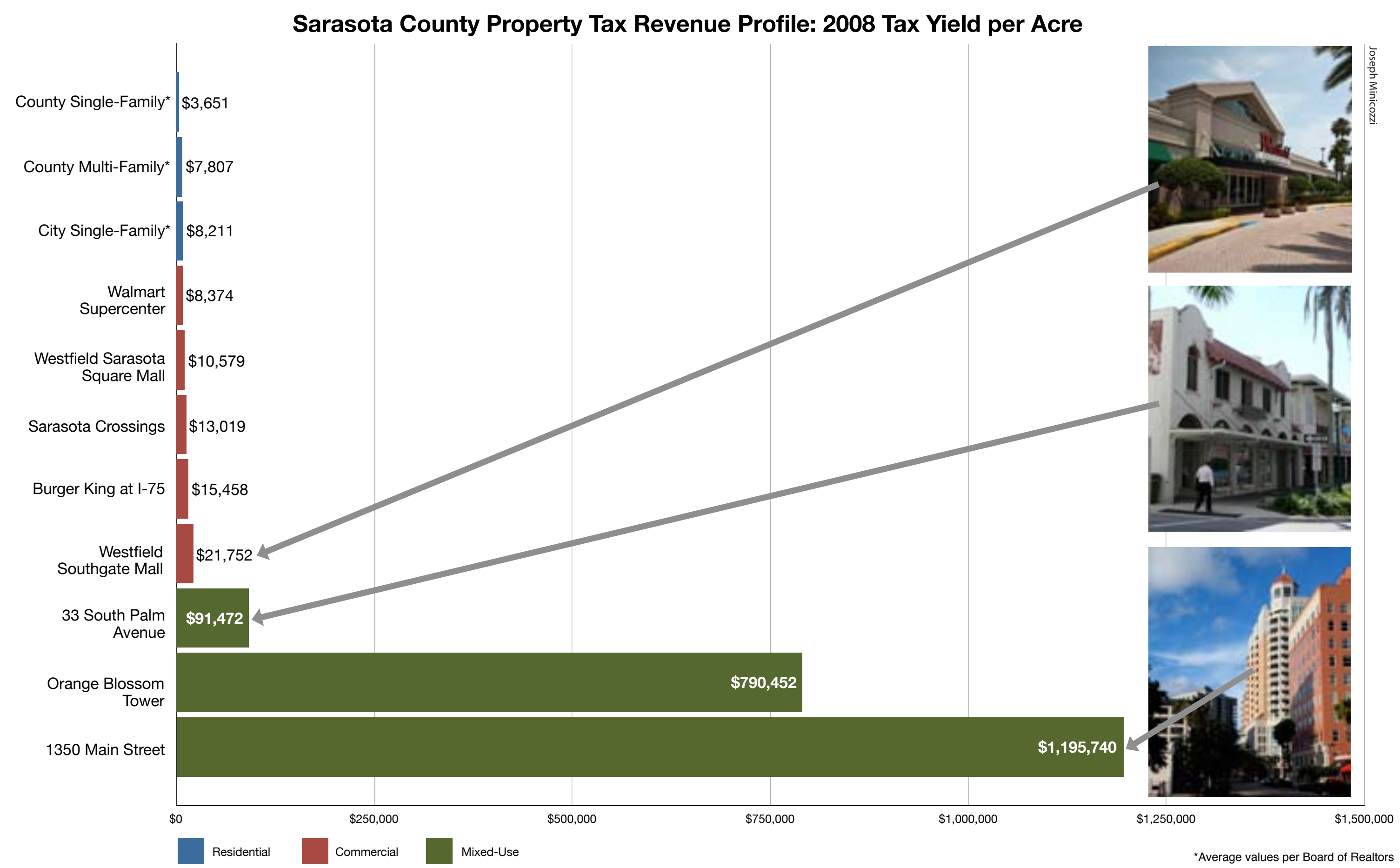
The data highlighted in the profile is straightforward—it's the amount of county property tax paid by the owners of each of the profiled properties (information that is readily obtainable from the local tax assessor). The taxes are then divided into the land area occupied by each property to obtain a *tax per acre* figure. The complete revenue profile thus provides an apples-to-apples comparison of the property tax yield for each development type.

While the revenue analysis may be straightforward, the cost analysis is not. That is because municipal services are provided, charged for, and accessed in ways that differ greatly from place to place.

Still, common sense suggests that some of the biggest public costs will be lower in downtown areas. Funding public schools is generally cheaper there because, in most U.S. regions, families with children tend to live in more suburban areas. Among families who do live downtown, many will opt to place their children in private schools. Water use, too, is likely to be lower in more urban areas because yards are relatively small if they exist at all.

The county's revenue profile

Looking at the top bar of Sarasota's revenue profile (in the graphic above), one sees that owners of single-family homes in the unincorporated county pay, on average, almost $3,700 per acre a year in property taxes. Multifamily developments (such as apartments or condominiums) are typically assessed at more than double that amount, yielding about $7,800 in property taxes on a per acre basis. Within the city of Sarasota, single-family home owners annually pay $8,211 per acre, on average, in county taxes alone.



Looking at commercial development (the red bars in the graphic), one sees that the county's new 21-acre Walmart Supercenter annually pays only $163 more in property taxes per year, on a per acre basis, than the average single-family home in the city of Sarasota. Walmart's tax bill of $8,374 per acre seems low, especially given the controversy that such big-box projects generate when they come before reviewing bodies.

Southgate, an established shopping mall anchored by Macy's, Dillards, and Saks Fifth Avenue, suggests a different story. The 32-acre property, which is located within the city of Sarasota, brings in more than two and one-half times the tax revenue of the big box center, or $21,752 per acre. The difference can be attributed to a more central location, a better standard of construction, and the higher merchandise price point set by upscale anchor merchants (the latter translating into higher rents per square foot, and thus higher property valuations).

A first-tier regional shopping center like Southgate may be the best revenue generator that many counties can ever hope to attain. That is why local governments try so hard to woo prestigious national merchants like Macy's or Nordstrom (the ultimate prize). But it's an achievable goal only if the locality has the demographic makeup to attract such merchants.

Mixed use: changing the game

Mixed use properties (shown in the green bars at the bottom of the profile) perform dramatically better even than Southgate, the strongest mall in the county, when it comes to generating property tax revenue. Take these examples, all of them located at or near one intersection in downtown Sarasota, just a few blocks in from the bay:

- 33 South Palm Avenue, a two-story building dating from the 1920s, was originally part of a larger hotel complex. Its first floor is a retail store; the second floor is zoned for offices. The structure currently generates more than $90,000 in county property taxes per year, calculated on a per acre basis.
- The 10-story Orange Blossom Tower was built in 1926 as the American National Bank Building. In the 1930s, it was converted to a hotel and later became a retirement residence. Today, the structure houses condominiums, second-floor offices, and ground floor retail. It brings in nearly $800,000 in county property taxes per acre.
- 1350 Main Street generates more taxes than any other building in the profile. Its arcaded ground floor houses a bank and other retail uses; condominiums occupy the upper floors. Although some units have water views, the building's principal attraction

What the Numbers Show

Our firm has created a computer model that shows that capital invested in high-density projects can produce a higher rate of return than lower density projects, including the big box stores that so many communities may mistakenly covet. The key is to look at municipal revenues generated per acre by a variety of land uses, including single-family housing, a typical suburban mall, and a more complex mixed use property.

Our 2008 study of Buncombe County, North Carolina, broke down the county property tax yield of Asheville-area properties on a per acre basis. We found that the average acre of single-family housing in the county contributed about $1,236 in property tax while the average acre of housing within the Asheville city limits contributed $1,716. The findings for downtown Asheville were far more dramatic: An average six-story mixed use project yielded $250,125 per acre. That's about 31 times the property tax yield of the Asheville Mall, which is also within the city limits but produced just $7,995 in county taxes per acre. Even after big box retail taxes were added to the study, the combined big box property and retail tax yields a total of about $51,000 per acre.

Results were similar in Sarasota, where we found that 3.4 acres of mixed use downtown development yielded 8.3 times more annual county property taxes than a suburban 30.6-acre, 357-unit garden-style apartment project. Further, the multifamily residential public infrastructure costs downtown were only 57 percent of the suburban project, while the revenues were 830 percent greater. A difference of $1.9 million a year versus $239,000 a year. And it took the urban project just three years to pay for the infrastructure versus the 42 years for the suburban project.

In sum, the urban form consumed less land, cost less to provide public infrastructure, and had a higher tax return.

Joe Minicozzi, AICP

Minicozzi is the New Projects Director at Public Interest Projects in Asheville, North Carolina.

2007 Annual County Tax Yield Per Acre: Asheville, North Carolina
County residential — $1,236*
City residential — $1,716*
City commercial — $2,406*
1-2 story office buildings — $7,059
Asheville Mall — $7,995
4-story apartments — $18,109
4-story mixed-use condos — $44,887
6-story mixed-use condos — $250,125
*Average values as per Board of Realtors

Photos courtesy of Sarasota County

Houses in the city of Sarasota generate, on average, $8,211 per acre per year in county property taxes. The new Walmart Supercenter in the unincorporated county (above, right) generates just $163 more. This specific house, in a close-in Sarasota neighborhood, pays $35,067. That amount is more than four times what the Supercenter pays annually per acre in property taxes.

is the vibrant nearby street life that emerged after streetscape improvements were made in the early 1990s.

Although the building occupies just over two-thirds of an acre, it generated nearly $1.01 million in combined city and county taxes in 2008. Extrapolating this earning power to a full-acre site, the same kind of building would generate $1.2 million in county taxes alone. On a per acre basis, 1350 Main brings in 142 times more revenue than the new Walmart Supercenter. It would take both that development and Southgate, together occupying 55 acres, to match the property tax contribution of 1350 Main, which sits on just 0.68 of an acre.

Takeaway

The most obvious lesson from Sarasota's revenue profile is that compact mixed use developments in urbanized areas generate property tax revenue at a much higher rate than do single-use developments in more suburban locations.

Skeptics are sure to ask: What about sales taxes? It's true that a large, high-volume retailer can make a significant financial contribution to a town or city. That's why so much effort is made to lure a productive retailer across municipal boundaries and why local governments focus so much on fiscal zoning. But at the regional scale, this becomes a zero-sum game. Consider: Sarasota County's total retail sales bring in $60 million to $70 million a year in sales tax revenue. Barring a huge influx of wealthy residents who decide to make most or all of their purchases locally, that number is unlikely to change.

If enhancing revenue is the goal, municipalities are far better off with compact development that generates higher property taxes. A grouping of 70 buildings like 1350 Main Street (a gridded cluster measuring seven rows wide by 10 deep) would bring in as much revenue as all of the sales tax currently collected in the entire county.

A quick calculation suggests that such a cluster could easily fit in an area of about 100 acres, including the land needed for streets, alleys, and a small public square or two. (By comparison, Sarasota's existing downtown is about 700 acres.) True, a large volume of new construction in a confined area is unlikely to happen in Sarasota County, or even the city of Sarasota. Nor is it being recommended here. But the notion provides a useful point of comparison between two important revenue sources—sales tax and property tax—that are available to local government.

With a new generation of smart growth development showing that greater density can be packaged in a physical form that is compelling to a wide range of citizens, and the fiscal information that can be gleaned from a community's revenue profile, longtime opponents of infill development may now be persuaded to consider a different, and potentially more cost-effective, approach to community building. With enough citizen buy-in, compact, walkable "smart growth districts" could be infinitely replicable, even in a suburban county such as Sarasota. Enabling them would be a far more viable strategy for increasing the county's revenue base than trying to squeeze more sales tax dollars from existing local residents, many of whom now live on fixed incomes.

Such compact development would also mean a more rapid payback on public investment. Comparing the return from a two- and three-story garden apartment complex near Interstate 75 (357 housing units on just over 30 acres) with 1350 Main Street and two other adjacent downtown buildings (a total of 197 units on 1.9 acres), one sees that residential units in the suburban development will take 42 years to pay back the county's infrastructure outlay, versus just three years for units in the downtown building. (Revenue from the commercial portions of the downtown properties was excluded to keep this an apples-to-apples comparison.)

The rapid payback is due to the fact that taller, more compact buildings require less of the horizontal infrastructure (roads, water, and sewer lines) that government typically pays for. Vertical infrastructure (elevators, stair towers, conduit, and structural steel), by contrast, are paid for by the builder or developer. Thus, the more that government can induce the private sector to spend on a given parcel of land, the more it stands to gain long-term, when the development is complete and higher property taxes begin to flow in.

Indeed, governments have always encouraged such private sector investment with expenditures and actions of their own, ranging from the subdivision of land into salable parcels to the provision of public improvements such as streets, parks, and utilities. Citing earlier development models that may have been more economically viable, County Administrator Jim Ley remarked: "Observation points out just how far we've traveled from the basic understanding about what it takes to build a financially sustainable community—that denser urban centers produce the community wealth that sustains the less dense areas."

As municipalities become more proactive in evaluating competing development models and driving toward the models that best meet their objectives in multiple realms—quality of life, quality of place, and economic sustainability—one can expect that tools such as the revenue profile will become an increasingly important part of the community decision-making process.

Peter Katz is Sarasota County's director of Smart Growth/Urban Planning. He is the author of *The New Urbanism: Toward an Architecture of Community* (McGraw-Hill, 1993).