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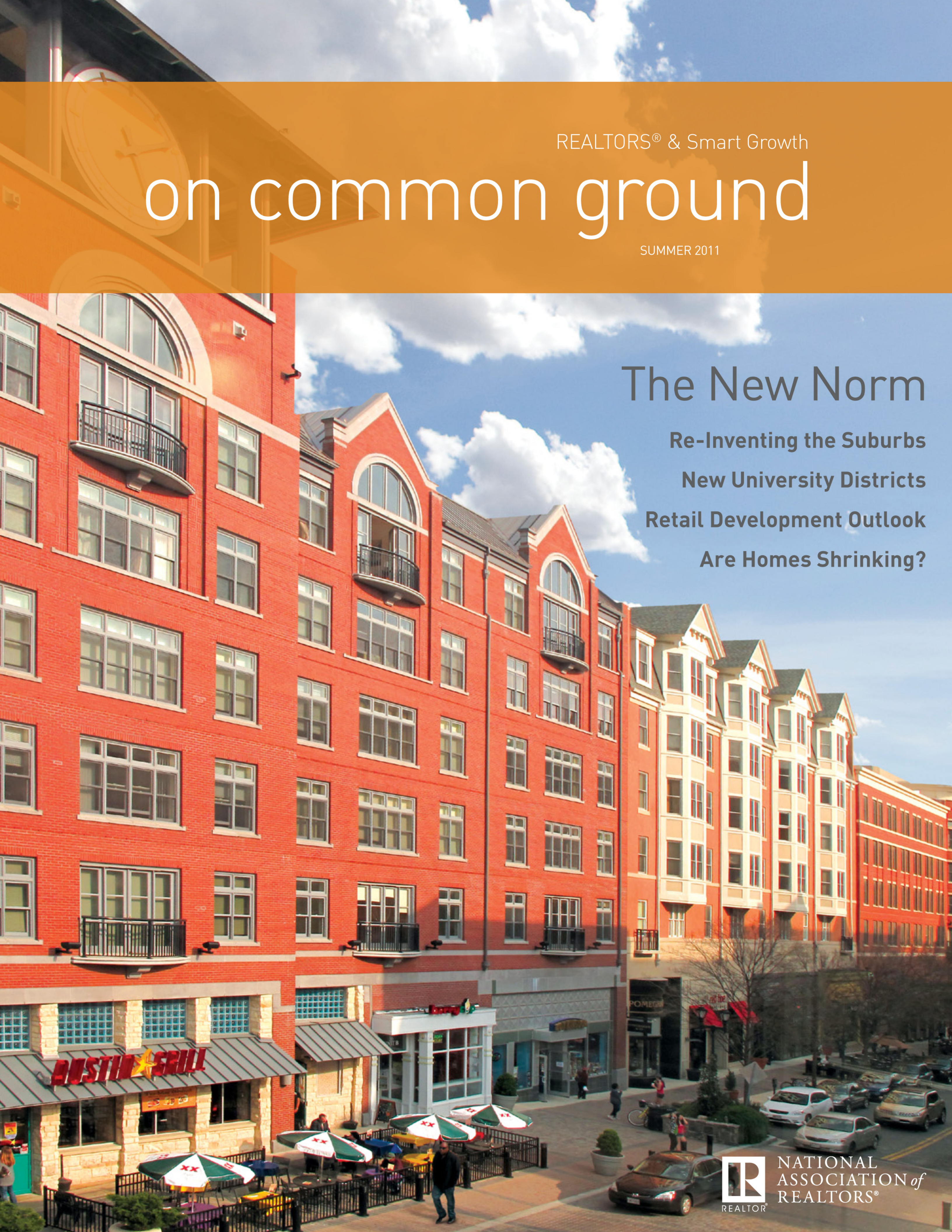

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A Prescription for Fiscal Fitness? Smart Growth and the Municipal Bottom Line

By David Goldberg

It's time for a critical eye on the bottom line. Municipal governments are faced with ever-increasing demands on their budgets and trying to make ends meet as property tax revenues aren't at levels previous to the recession, sales tax receipts have just started to climb, and lingering unemployment rates continue to challenge income tax revenues. However, let's not miss a unique opportunity to meet these challenges.

Can smart growth policies help?

Yes, says Peter Katz, director of smart growth/urban planning in Sarasota County, Fla. "For a long time, smart growth has been accepted wisdom as the right thing to do," Katz said. "Now it is the necessary thing to do."

While not a panacea, nor an immediate cure for existing revenue ills, Katz and others argue local governments today can't afford to ignore the basic tenets that have been grouped together under the heading "smart growth": to shape growth and development so as to encourage more efficient use of existing water, sewer, transportation and other infrastructure; to encourage compact development that requires less new infrastructure; and to attend to the quality of life concerns that keep existing residents and attract new ones.

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In fact, the failure to follow those basic principles is one underlying cause of the current fiscal crisis, contends Christopher Leinberger, a longtime real estate expert and a visiting fellow at the Brookings Institution. In a recent article for The Washington Monthly, Leinberger made the case that governments overextended themselves building infrastructure and expanding schools and services to support developments where overextended financial institutions provided credit so that overextended families could buy houses in distant suburbs with increasingly expensive commutes.

"The systemic reason for why we are in this situation is that a half-century of building drivable suburban development came to an end, but no one realized it," said Leinberger. "They massively overbuilt." In his 2007 book, "The Option of Urbanism: Investing in a New American Dream," Leinberger contrasts "drivable suburban" landscapes — the familiar subdivisions and strip shopping centers — with "walkable urbanism" — neighborhoods with shopping, offices and other destinations close at hand.

The overbuilding of "drivable suburban" development is evident in the abundance of empty or half-completed new subdivisions and the high foreclosure rates on the exurban fringe of many metros, where demand is so low that families in financial trouble can't find buyers, said Scott Bernstein, president of the Center for Neighborhood Technology in Chicago. Bernstein, whose group has studied the relationship among property values, foreclosure rates and commute costs around the country, said that high — and rising — gas prices are another drag on these places with long car commutes. Countless stories have covered the fallout, including a recent story in the Minneapolis Star-Tribune recounting how the decline has devastated the once-booming northern exurbs of the Twin Cities.


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Local governments planning for both their physical layout and fiscal future should note that rising gas prices are combining forces with two powerful demographic trends that are reshaping the markets for housing and commercial development, Leinberger said. "The two largest demographic groups in the country, the baby boomers and their children — together comprising half the population — want homes and commercial space in neighborhoods that do not exist in anywhere near sufficient quantity," Leinberger contends in the Washington Monthly piece. "The coming demographic convergence will push construction inward, accelerating the rehabilitation of cities and forcing existing car-dependent suburbs to develop more compact, walkable and transit-friendly neighborhoods if they want to keep property values up and attract tomorrow's homebuyers."

Meeting this rising demand for places where people can do more, while driving less, is one way that localities, working with private-sector developers, can help the economy while also reducing energy consumption and climate-harming emissions, said Steve Winkelman of the Center for Clean Air Policy. Winkelman is the author, along with Chuck Kooshian, of the recent "Growing Wealthier: Smart Growth, Climate Change and Prosperity," a report marshalling reams of academic and real-world data on the economic and fiscal impacts of policies that allow for more compact and less driving-intensive development.

"We set out to do the Growing Wealthier report because we kept finding more evidence of economic benefit," Winkelman said. The Sacramento region had evaluated several development scenarios in its Blueprint planning exercise and discovered that local and state governments could save billions in infrastructure through more careful planning of transportation and development. In Portland, a partnership of local government and real estate interests had built a streetcar line that improved property values and attracted development that is paying back the transit investment several times over. Arlington, Va., had managed to create new "downtowns" around its Metro rail stations so that 7 percent of the land area was generating more than a third of its property taxes. New residents, meanwhile, are driving significantly less, while the preexisting single-family neighborhoods remain unchanged.

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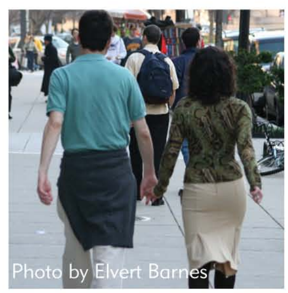
Photo by Elvert Barnes

Arlington's experience is one that Peter Katz hopes to learn from in Sarasota County, Fla. His desire to do so was given a boost by a recent study in his region showing that, on a per-acre basis, mixed-use, multi-story development yields far more tax revenue than big box retail, such as Walmart or single-use residential. After seeing a similar study for Asheville, N.C., Katz commissioned J. Patrick Whalen Jr. and Joseph Minicozzi of Public Interest Projects to evaluate the property tax revenue generated by several types of development in Sarasota County. While the county receives some revenue from a sales tax, the property tax delivers more than three times that to local government coffers.


Courtesy of Arlington County, Va.

"What we found was that Walmart is only yielding a little more per acre in taxes per acre than typical city residential," Katz said. "Local officials take a lot of heat when they approve big box stores. They think they're doing it for big tax receipts, but in overall revenue it doesn't net much more than a house." And houses, he noted, don't cover the full cost of the infrastructure and services they require.

If localities focused on creating "smart growth districts," typically around transit stations, the communities would be far more economically self-sustaining.

What did well? The Westfield Southgate Mall, with three department store anchors, generated about $22,000 per acre each year, as opposed to the $8,400 produced by Walmart. That was pretty good, but paled next to a downtown mixed-use building. A building, at 17 stories high with retail on the bottom and offices and condominiums above, sitting on three-quarters of an acre, yields $1.01 million in local taxes. It would take about five Walmarts on 145 acres to equal that amount, Katz noted.

"The funny thing is, nobody has looked at it this way before," said Katz. "When urban land seemed infinite, nobody thought about maximizing the revenue for each developed acre. Now, urban land is in finite supply so people need to think about it. In most regions you have constraints on land, and concerns about preserving farmland or other limitations."

Katz isn't advocating that the county permit only high-rise development. He noted that a mid-rise town center tapering down to single-family residential at the edges would more than pay for itself on a per-acre basis. If localities focused on creating these "smart growth districts," typically around transit stations, they would find them far more economically self-sustaining — and sustainable — than the shopping centers often courted with permissive, "fiscal" zoning.

Photo by Patrick Dirden

The money not spent by local and state governments could be as important as the revenue generated by certain types of development, Katz said. A study by the Florida Department of Community Affairs found that the infrastructure needed to serve a house in spread-out, conventional suburban development cost nearly twice as much ($15,316 in today's dollars) as it cost to serve a house closer to existing job centers. In years past, building a new highway in virgin territory, although an expensive proposition, raised property values for land that previously had been inaccessible. But today highway projects are more likely to involve widening roads in already developed areas, an act that can devalue adjacent property, Katz said. "We spend a great deal of our tax dollars building wide arterial roads. But people don't want to live near those."

The opposite is true of high-quality public transportation, such as light or heavy rail, streetcar or rapid bus ways. Not only do they improve property values, but the corridors they serve also offer the opportunity for mixed-use development that yields higher tax revenue. And there is some hope that private sector contributions can actually help to build the transit service itself, said Leinberger. He noted that the streetcar lines that were ubiquitous 100 years ago were built mostly by developers, often in partnership with utility companies. Those went away when the government subsidized the competitor highways that drew development farther into the countryside, he said. Today, the experience with Portland's streetcar and elsewhere has shown that property owners often are willing, even eager, to invest in transit lines that benefit both them and the population as a whole.

If such new transit lines and surrounding neighborhoods become more commonplace, they could help the nation meet a goal of reduced oil consumption, Bernstein said. "The evidence is that by providing enough transportation choice, people will drive less, spend less on cars, use less oil and have more money in their pockets." And the evidence further shows that local governments can save money and collect more money by encouraging a style of development that will meet a large and growing demand.

However, Bernstein cautions, the economic chasm that created the collapse of the former real estate paradigm is far too deep for easy outs. "Smart growth by itself may not be enough to make up for some egregious market failures," he said. It remains to be seen, he added, whether financial institutions and their regulators learned the right lessons from the crisis. Extreme caution, even fear, is stymieing most development, and underwriters continue to lean on the "tried and true" formulas that fueled development in a now bygone era.

Still, the pause in development may be just what local and state governments need to be able to put the zoning, infrastructure investment and other policies in place to support the needed change, Winkelman said. "Right now, there might not be much money for redoing older infrastructure or building new, but at some point we will be making these investments. We have the chance to take a breath and plan for the kind of walkable density that will save money and make it possible to reduce energy consumption and greenhouse gases."

Katz believes more and more local governments are getting the message. "You don't have to use the terms density or smart growth or walkability to make your case. It's solely about good government and fiscal pragmatism."

David A. Goldberg is the communications director for Smart Growth America, a nationwide coalition based in Washington, D.C. that advocates for land-use policy reform. In 2002, Mr. Goldberg was awarded a Loeb Fellowship at Harvard University, where he studied urban policy.

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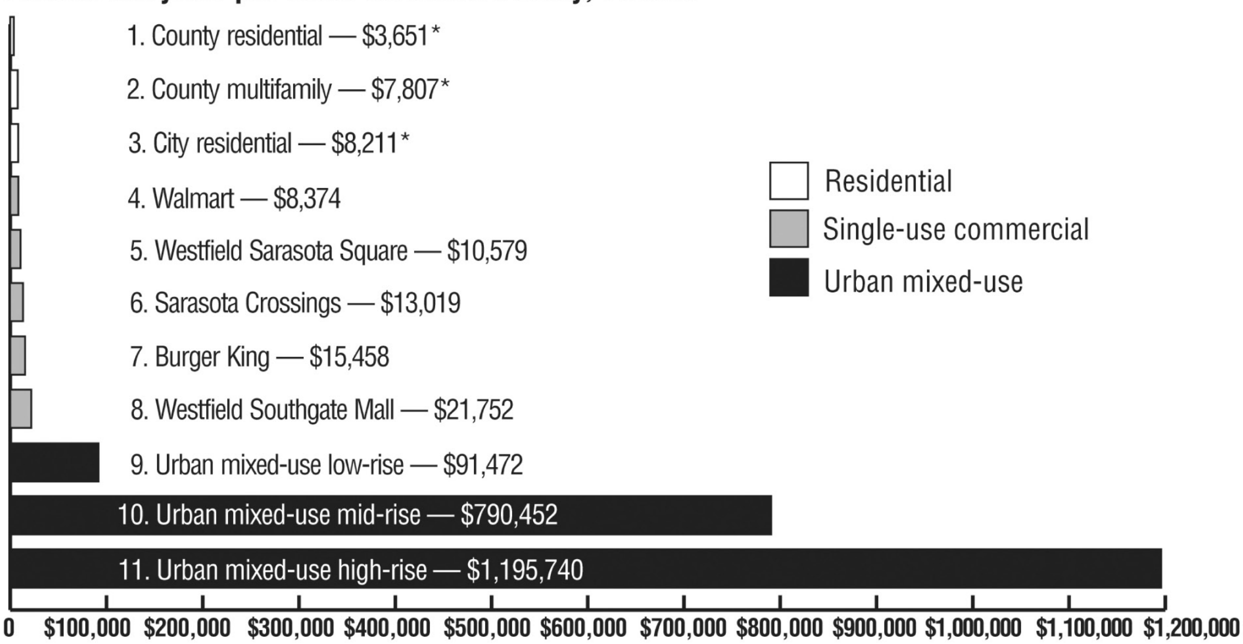
We spend a great deal of our tax dollars building wide arterial roads. But people don't want to live near those. They want to live near high-quality public transportation, which improves property values, and the corridors served by transit also offer the opportunity for mixed-use development that yields higher tax revenue.

This graphic, courtesy of New Urban News, illustrates the property tax revenue generated by several types of development.

Annual tax yield per acre: Sarasota County, Florida



New Urban News; Sources: Sarasota County Government, Office of Financial Planning; Joe Minicozzi, Public Interest Projects. Based on 2008 tax figures.
*Based on average sales price per Sarasota County Board of Realtors, 2008 data.