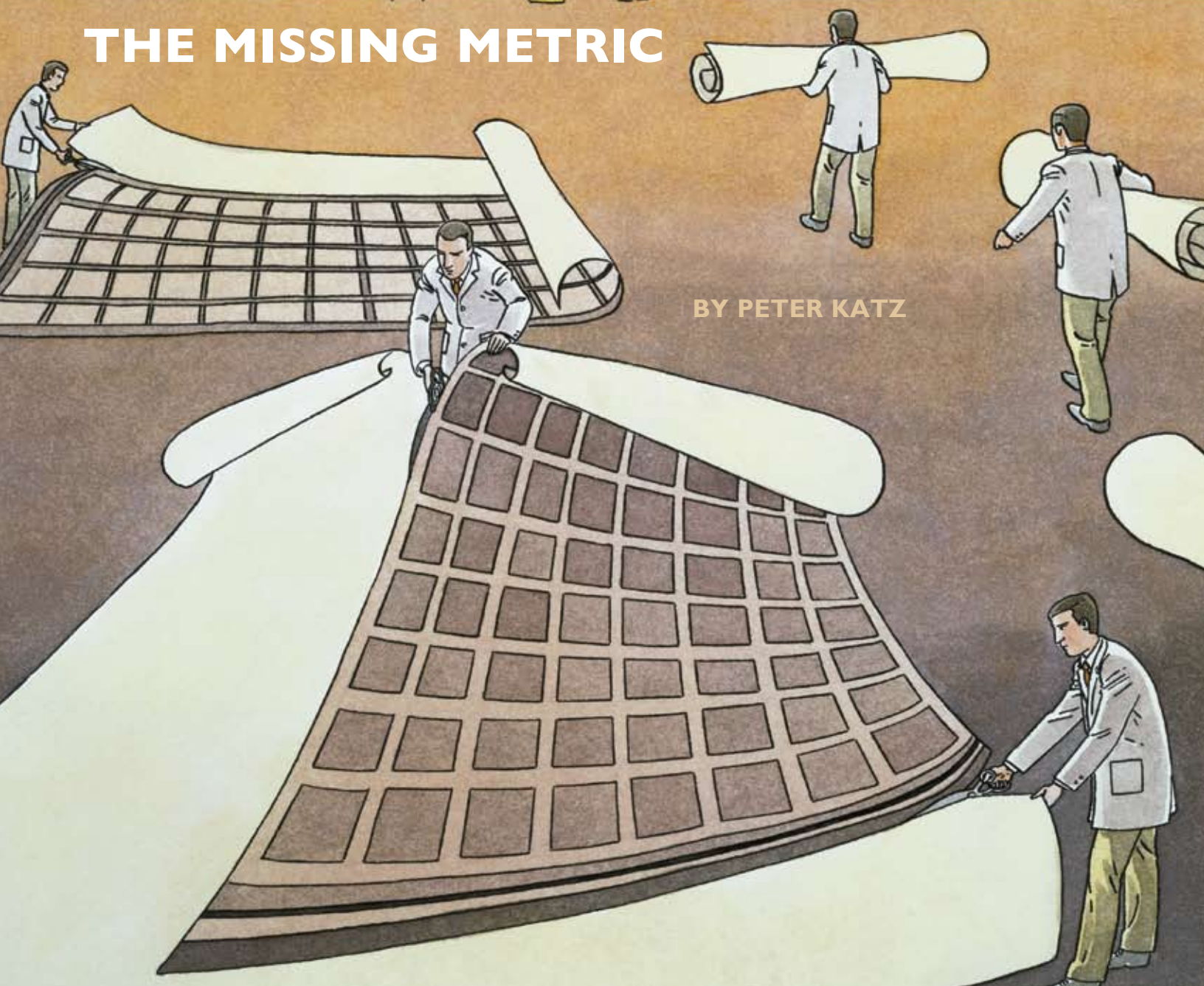


# THE MISSING METRIC



BY PETER KATZ

Although use-based zoning is widely employed across the United States and Canada to regulate development and manage its impacts, its effectiveness often comes at the expense of the municipality's bottom line. With local governments still reeling from the recent recession, some are looking for ways to systematically evaluate the anticipated fiscal performance of proposed developments when they are considered for approval. Peter Katz shares groundbreaking research on the subject and suggests a new way for municipalities to proactively manage and grow their tax base.

The development review, for a 290-unit office and residential project, took place in spring 2004, at an hour when most of Millville's citizens were already asleep. The name Millville is fictitious, but this story could have taken place in any of a thousand American towns and cities during the boom years of the early 2000s.

The council chambers were packed with citizens, most of whom were there to oppose the proposed development, citing too much density and traffic congestion. They were worried that the project would strain the town's overburdened road system. Another smaller group of citizens had come to support the application. That contingent included members of a regional smart growth coalition, whose comments were focused mostly on the jobs that the new development would bring, along with affordable housing.

An affluent community, Millville once looked like any of a number of fairly ordinary small towns in the region; but while the quiet, tree-lined streets of those other places gave way to urban decay and sprawling strip malls, Millville's small-town fabric had somehow remained intact. One unfortunate result of its appeal, however, was a lack of affordable places to live. Few of those who grew up in the town had the means to stay and raise their families.

In their three-minute testimonies, project supporters pushed back at the opponents of the development, touching on a wide range of fairly technical subjects. They explained how the project's "internal trip capture" might actually reduce vehicle traffic, or at worst, keep it stable, even as the town added thousands of square feet of residential, retail, and office space. Although project backers had hired a respected national consultant to research the data, few of the naysayers believed the traffic counts he presented. City staff said they would need more time to evaluate the numbers.

In the end, the review board turned down the mixed-use development, deeming it "just too dense" for that part of

Millville. The project was only a few blocks from several of the town's most established single-family neighborhoods. Observers saw the decision as a classic tradeoff between Millville's cherished quality of life and the perceived impacts of development.

Reviewing the video of the proceedings the following day, the town's chief financial officer, who rarely attended such sessions in person, noted to her staff that there was little, if any, discussion about the revenue that the development would have generated over its projected life. With a significant decline in the town's commercial real estate revenues, she knew that property taxes paid by the proposed development would be critical to maintaining current service levels in any number of key areas — roads, parks, sewer service, and libraries.

But there was another issue at stake, related to the town's self image. A discussion about revenue as a primary goal of development might have seemed too mercenary to some of the town's citizens. After all, Millville was an upscale community that prided itself on setting a high bar for development quality. Less affluent surrounding municipalities were known to let the quest for additional revenue — particularly sales tax revenue — drive their decision to permit high-impact commercial and industrial uses such as big-box shopping centers. Such projects were usually sited near municipal borders, where they could attract outside customers but offload transportation-related impacts and costs to neighboring jurisdictions, one of which, of course, was Millville. This practice irked Millville's civic leaders, but without a functioning regional planning framework or another forum for resolving intergovernmental disputes, there was little the town could do to address the problem.

Revenue-related issues had come up previously, such as when the review board was considering multi-family developments with units of more than two bedrooms. Reviewers



## Making Density Attractive



A street of low-rise mixed-use buildings in Naples, Florida. Significant residential density can be packaged in a form that is compelling to a wide range of citizens. Compact, walkable districts could be widely replicable, even in locations that today seem suburban in character.

feared that such projects would bring a flood of schoolchildren to Millville’s highly rated public school system. The rejected project tried to steer clear of that challenge by limiting its offerings to smaller units aimed at singles and retirees. But that tactic, suggested by the applicant’s attorney, did little to assuage community fears about the development’s size and intensity. Even though the demographic makeup of the surrounding region had become much more diverse in recent years, Millville still saw itself as a “single family kind of place.”

### LESSONS FROM MILLVILLE

During the years leading up to the early 2000s real-estate boom, both strategies — siting big-box retail near the edges of town to push infrastructure costs to neighboring municipalities, and biasing the housing mix to discourage families with children — were widely practiced as part of an approach known as *fiscal zoning*. Today, these strategies are seen as problematic because they foster unbalanced settlement patterns. But while the practice of fiscal zoning may be discredited, the problem it was meant to address remains very much with us.

The problem stems from a fundamental characteristic of use-based zoning that’s hard wired into the system, not just in Millville but also in the 80,000 other municipalities across the

nation that employ the approach. With so much of zoning’s focus on managing the impacts of surrounding development, and the main strategy for dealing with such conflicts during the approval process to be simply lowering development density/intensity to more “acceptable” levels, it’s not surprising that the overall economic return in the form of property taxes paid by new development to local governments has suffered.

During the boom years, it was easy to ignore this fundamental characteristic of zoning. But in the lean times that have followed, such issues are increasingly important to municipalities. There is certainly much discussion today about the causes of such problems — “legacy costs” (a euphemism for pension fund liabilities) and a range of so-called “financial causes” are among the culprits most often mentioned by journalists who write on the subject. At the same time, the nearly ubiquitous pattern of low-density suburban development, and the regulatory practices that enable it, are not considered. Until we recognize the significant burden that such practices impose on us, and make changes accordingly, municipalities will continue to struggle to achieve financial stability.

Revenue return from property taxes is the missing metric for communities that want to grow in a way that is healthy, balanced, and economically sustainable. To restore balance

to a system that is now strongly biased in favor of infrastructure intensive low-density sprawl that does not pay its way over the long-term, communities like Millville need to evaluate fiscal performance along with the other factors that they consider when determining the suitability of a proposed development for approval. At the same time, such an evaluation needs to take place within an objective and consistent scoring system. That system, in turn, must mesh effectively with the larger framework of planning and development regulations<sup>1</sup> in use within the community.

### CONTEXT: SARASOTA COUNTY IN 2008

Sarasota County, like many other Florida counties, saw a wave of suburban development in the boom years from 1995 to 2007. In those years more than 31,000 acres of land within the county and its incorporated municipalities came under development. As with many other local governments during that period, there was a focus on absolute dollars flowing into the county from large-scale, single-use developments at the suburban edge. But with money coming in from a variety of sources — property taxes, sales taxes, permit fees, impact fees — it was difficult for administrators to determine the contribution of any one development, and to calculate whether revenues received were actually covering the costs local government incurred to accommodate a specific development.

During that period, the county participated in an ambitious program, sponsored by Florida’s Department of Community Affairs — a study that was intended to help localities better understand the fiscal impacts of future development. Indeed, most local governments had few tools for understanding the long-term obligations they were taking on when constructing elaborate infrastructure for the low-density suburban development that was consistent with approved comprehensive plans. Unfortunately, according to the former county administrator, the models used in the DCA study were too coarse to enable an accurate comparison of alternatives.

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 Sarasota County was planning to provide urban services and infrastructure. A citizen-led initiative in 2008 strengthened the growth boundary, requiring a unanimous vote of the county commission to enlarge the land area within it.

Although the boundary constrained the county’s supply of developable land, the three home-rule cities in the county — Venice, North Port, and Sarasota — were able to annex unincorporated county lands inside the urban services boundary. Given such limits, Sarasota County was concerned that future property tax revenues could be squeezed. The county’s financial situation had already taken a major hit in the post-boom economy.

The shortfall resulted 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 was the loss of fee income due to a downturn in new construction: Residential permitting activity in Sarasota County went from a high of more than 2,300 newly platted lots in 2005 to fewer than 90 in 2009. Commercial development followed a similar pattern: There were more than 110 projects in 2005 and fewer than 60 in 2009.

With such threats to its future income stream, county staffers started to rethink their approach to community building. When researching new approaches for a comprehensive plan update, they found a unique tax revenue analysis of the Asheville, North Carolina, area.<sup>2</sup> That analysis included a “revenue profile” that compared property taxes generated by a range of building types in 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. The analysis 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 Asheville’s dramatic results, Sarasota County staff requested a similar profile for the Sarasota region. (See “Thinking Differently about Development” in this issue of *Government Finance Review*.)

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 that is evaluated.

While the revenue analysis may be straightforward, the cost analysis is more complicated, primarily because municipal services are generally provided and charged for in ways that differ greatly from place to place. Until recently, little research has been available to provide a national perspective on such costs. In June 2013, Smart Growth America released a study, *Building Better Budgets*,<sup>3</sup> that showed significantly better fiscal performance for compact (what some call “smart growth”) infill development in existing urban areas versus conventional low-density suburban development, and it saw consistent results in several locations around the nation. (See an excerpt, “Examining the Benefits of Smart Growth,” in this issue of *Government Finance Review*.) Among its findings, the study showed that “smart growth development saves an average of 38 percent on upfront costs for new construction of roads, sewers, water lines and other infrastructure.” It referenced other studies that found the number to be as high as 50 percent. In addition, the *Building Better Budgets* report showed that “smart growth development saves municipalities an average of 10 percent on police, ambulance, and fire service costs.” The study also looked at revenue data. Consistent with the Sarasota findings that follow, the study showed that “on an average per-acre basis, smart growth development produces 10 times more tax revenue than conventional suburban development.”

### THE COUNTY'S REVENUE PROFILE

The top three bars of Sarasota's 2008 revenue profile, shown in Exhibit 1, looked at average prices for residential properties obtained from the local board of realtors. The exhibit shows that owners of single-family homes in the unincorporated county pay almost \$3,700 per acre, per 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 Sarasota, owners of single-family homes pay an average of \$8,211 per acre in county taxes alone.

Looking at commercial development (the red bars in the exhibit), one sees that the county's new 21-acre big-box discount shopping center 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. The big-box center's tax bill of \$8,374 per acre seems low, especially given the controversy that such projects generate when they come before reviewing bodies. The store within the center spins off sales tax, of course, but not as much as might be expected. (Sales tax is discussed in a later section).

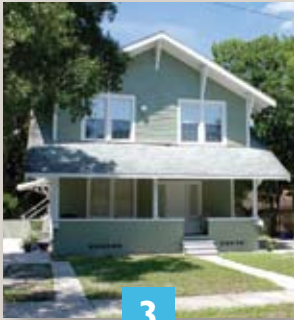
Southgate, an established shopping mall anchored by three nationally prominent department stores, suggests a different story. The 32-acre property, which is located within the city of Sarasota, brings in more than two and one-half times the property tax revenue of the big box center, or \$21,752 per acre. The difference can be attributed to a more central location, a better standard of construction, and the higher merchandise price point set by the upscale tenants. (The latter factor presumably translates 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 many counties can ever hope to attain, which is why local governments try so hard to woo prestigious national merchants. 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 in Exhibit 1) perform dramatically better than even the strongest mall in the county when it comes to generating property tax revenue. Take the following examples, all located at or near one intersection in downtown Sarasota, just a few blocks in from the waterfront:

- 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, and the second floor is zoned for offices. The structure 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.
- At 17 stories, 1350 Main Street generates more taxes than any other building in the profile. Its arcaded ground floor houses a bank and other retail units, and condominiums occupy the upper floors. Although some units have water views, the building's principal attraction is the vibrant nearby street life that emerged after streetscape improvements were made by the city in the early 1990s. The building generated nearly \$1.01 million in combined city and county taxes in 2008. Extrapolating this earning power to

## Exhibit I: Annual Tax Yield per Acre in Sarasota County



3



4



7



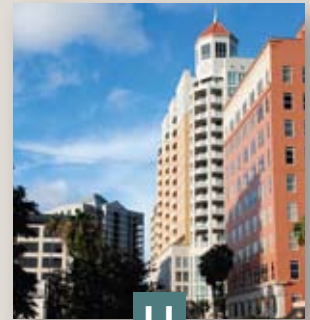
8



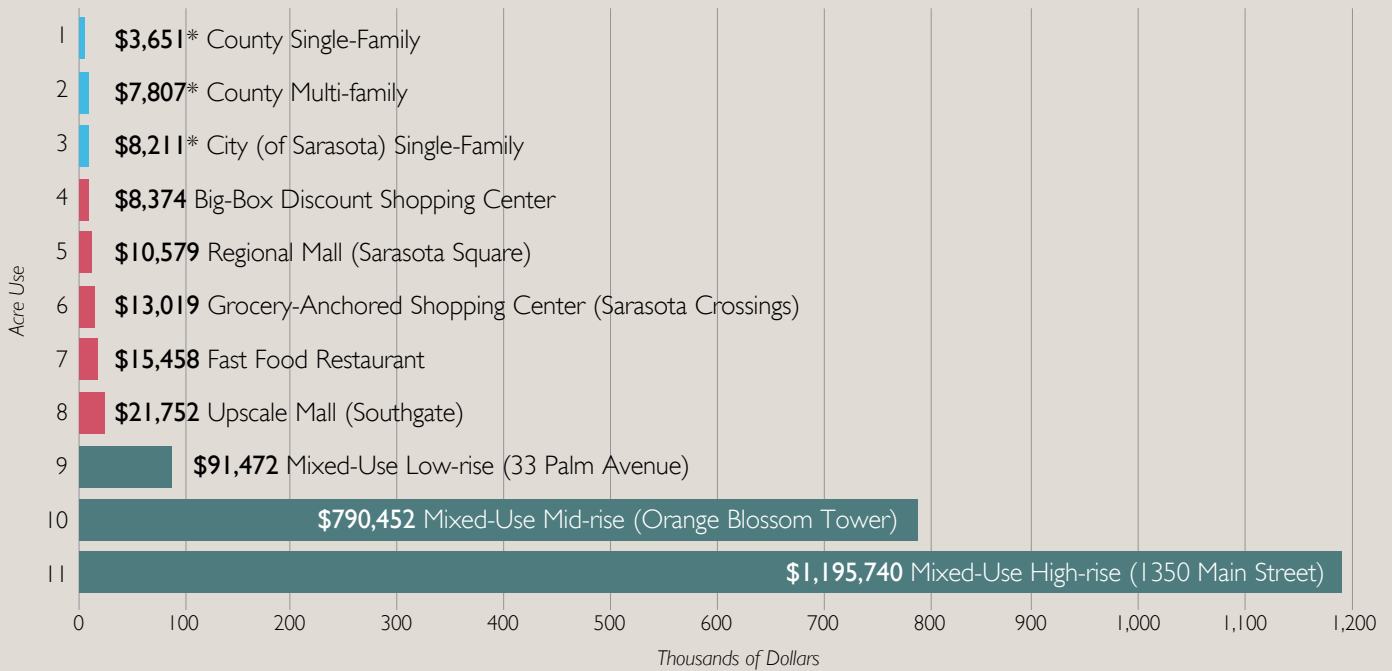
9



10



11



■ Residential ■ Single-Use Commercial ■ Urban Mixed-Use

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.



a full acre site, the same kind of building would generate \$1.2 million in county taxes alone.

## OBSERVATIONS FROM THE PROFILE

The most obvious lesson from Sarasota's revenue profile is that mixed-use developments in urbanized areas generate property tax revenue at a much higher rate than do single-use developments in more suburban locations. Specific comparisons are worth noting: On a per-acre basis, the strongest earner in the profile, 1350 Main Street, brings in 142 times more revenue than the newly constructed big-box retail center. It would take both that development and Southgate, the established shopping mall, together occupying 55 acres, to match the property tax contribution of 1350 Main, which sits on just over two-thirds of an acre.

At this point, the obvious question to ask is: 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 municipalities expend so much effort to lure a productive retailer across local boundaries. But at the regional scale, this becomes a zero sum game. Sarasota County's total retail sales from 2008, the year highlighted in the revenue profile, brought in \$61 million in sales taxes; 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 60 buildings like 1350 Main Street (a gridded cluster measuring six rows wide by 10 rows deep) would bring in as much revenue as all of the sales tax collected in the county (per 2008 figures).

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 (see Exhibit 2). 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 anyone recommending it. 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

**Exhibit 2: Marking Out 100 Acres of Downtown Sarasota**



information that can be gleaned from a community's revenue profile, a strong argument can be made for infill development as a cost-effective approach to community building. With enough citizen buy in, compact, walkable "smart growth districts" could be widely replicable, even in a suburban county such as Sarasota. Enabling them would be a 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 are older and living on fixed incomes.

Such compact development also would mean a more rapid payback of public investment. Comparing the return from a two- and three-story garden apartment complex near Interstate 75 (357 housing units on 30 acres) with 1350 Main Street and two other adjacent downtown buildings (a total of 197 units on 1.9 acres), and using standardized infrastructure costs from a study commissioned by Florida's Department of Community Affairs, one sees that residential units in the suburban development will take 42 years to pay back the county's capital infrastructure outlay, versus three years for units in the downtown building. (Revenue from the commercial portions of the downtown properties was excluded for an apples-to-apples comparison.) This comparison does not account for interest on what is, in effect, a long-term loan from government to a private-sector developer. (See Exhibit 3.)

The payback is more rapid, of course, because taller, more compact buildings make more efficient use of a limited footprint and typically require less of the horizontal infrastructure

(roads, water, and sewer lines) that local government pays for. To achieve their high value, however, developers must provide more of the vertical infrastructure (elevators, stair towers, conduit, and structural steel). The more that government can induce private-sector players to spend on a given parcel of land, the more it stands to gain long term, once the development is complete and the higher property taxes begin to flow in.

More and more, as municipalities evaluate competing development proposals on the basis of revenue return and meeting goals in multiple realms — quality of life, quality of place, and economic sustainability — the revenue profile is likely to become an increasingly useful tool for making development choices that are also fiscally sustainable. This is not to suggest, however, that future development in a community should switch to the most intense forms of mixed-use development at the bottom of the profile in a quest for greater revenue. Clearly, a city or town isn't likely to be made up only of such high-yielding buildings, nor would its citizens want it to be. Indeed, most citizens in suburban areas, even when they are aware of the tax consequences, still oppose density if they feel that it threatens the ambiance and perceived value of their own dwellings.

This said, it's important to note that one of the least intense of the mixed-use buildings shown in the profile, the two-story building at 33 Palm Avenue (image 9 in Exhibit 1), still outperforms the county's strongest retail center (image 8) by a factor of more than 4:1, and it outperforms the newly constructed big-box retail center (image 4) by a factor of more than 11:1. Such findings suggest that neighborhoods incorporating a *variety* of development intensities, from towers to mid- and low-rise buildings, can be expected to generate strong revenue streams and at the same time deliver a wide range of benefits including greater walkability and lower parking demand. Lower-rise neighborhoods that feature a few three- to four-story mixed-use buildings at their centers, surrounded by a blend of one- and two-story multi-family buildings scattered among one- and two-story detached dwellings, should, with careful planning, provide a net positive contribution to the municipal balance sheet.

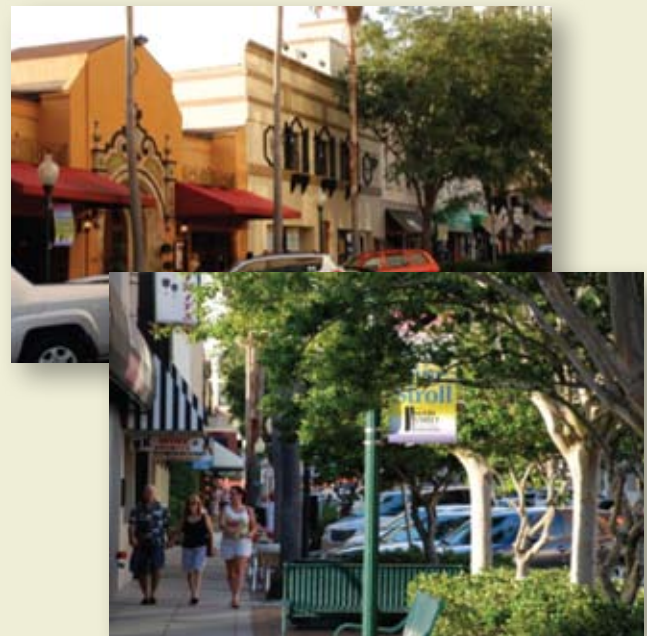
In the end, a generational shift in the marketplace will likely determine the physical composition of future neighborhoods. Driven by aging baby boomers seeking more urban lifestyles and their children, the Millennials, who also favor walkable but perhaps edgier urban locations, market demand will

be stronger in downtowns and close-in locations for some time. Matters of building density and intensity will, of course, remain a concern for urban dwellers, who are concerned with light, fresh air, views, and impacts related to human activity. But as issues related to revenue generation are increasingly linked to matters of building form and scale, communities should strive to hold more complete conversations about the tradeoffs associated with growth.

## TOWARD MORE CONSISTENT EVALUATION

The Sarasota revenue profile reveals dramatic property tax disparities within a municipality, and in so doing makes a powerful case for more compact development and for limiting the spread of municipally funded infrastructure. (See

### Walkability Matters



Sarasota's pedestrian-friendly downtown streets are a major reason why downtown condominiums, even those without water views, are able to sell for high prices, thus generating enormous tax revenue for both county and city. The quality and variety of local businesses adds value in two ways: Successful tenants generate strong rental income for property owners who, in turn, contribute to municipal coffers in the form of the taxes that they pay. The attractiveness and amenability of such businesses also adds to the market value of nearby residences.



### Exhibit 3: Payoff for Downtown versus Suburban Units



Property tax revenues on three downtown buildings (images 1-3, above), which occupy 1.9 acres, include a total of 197 units, and have a combined taxable value of \$193 million, pay off Sarasota County's upfront infrastructure costs in just three years. By contrast, a suburban garden apartment complex (image 4) consisting of 357 units that occupy 31 acres and are valued at \$19 million, takes an estimated 42 years to repay the county's initial infrastructure costs. This repayment does not include interest on what is, in effect, a long-term loan. The diagram at the right shows the sites for both. (See Exhibit 2 on page 46 for more information.)



“Thinking Differently about Development,” in this issue of *Government Finance Review*, for more on property tax disparities.) But helpful as the revenue profile is in gaining an overall sense of the earning potential of development types across a municipality, it may be even more useful to create a regulatory “screen” for use in evaluating competing development options for a specific parcel.

Sophisticated new modeling tools enabling these sorts of comparisons have recently been created, and others are under development. Most of the first generation of regional fiscal impact models were developed by intergovernmental agencies such as the Ohio, Kentucky, Indiana Regional Council, the Sacramento Area Council of Governments, and the Capital Region Transportation Planning Agency. As regional planning agencies, such groups share the goal of making better use of increasingly scarce state and federal infrastructure dollars. Two other models offered by private consulting firms were derived, in part, from an early fiscal impact model created by Metro, the elected regional government of Portland, for use in its groundbreaking 2040 Growth Plan.

Some of these models have taken on significant technical challenges: OKI’s Fiscal Impact Analysis Model accounts for the tax rates and service provision policies of three states. One SACOG model, known as the Rural-Urban Connections Strategy, is focused on decisions smaller rural communities face when making a transition from agriculture to urban land uses. In so doing, the RUCS model addresses a broad range of factors including crop prices and federal farm support policies.

### FROM ANALYSIS TO REGULATION

How might municipalities go beyond fiscal evaluation to adopt policies and regulations that foster more economically robust communities and regions? And how might such an approach advance a community’s economic development goals by streamlining approvals, rather than adding a further layer of regulation?

Local governments could evaluate projects based on the number of years they take to pay back public infrastructure investment.<sup>4</sup> As stated previously, the money that local governments spend on roads, water service, sewer, and other infrastructure elements are, in effect, a long-term loan from the taxpayers to the backers of a project to enable it to be built. Such funds are routinely provided with the expectation that the revenue generated by the newly constructed development will, over the long term, more than compensate for government's initial costs.

Common sense, and further review of Exhibit 1, reminds us that while revenue flowing back to local government is variable, it is ultimately linked to the value of a property, which in turn is based on factors such as the value of the land, value of the building, and market demand. The property tax rate is generally derived from the property value multiplied by the municipality's millage rate for that area or type of property. Costs borne by the municipality as a result of the new development also vary, depending on a much greater range of factors, including one-time costs for infrastructure, costs for ongoing services that aren't covered by user fees, and the future replacement cost of infrastructure that wears out or needs to be updated. Although complex, such factors now can be estimated with a reasonable degree of accuracy.

By looking at anticipated property-tax revenues generated by a variety of building types/land uses on a per-acre basis (such as those in the Sarasota study) in a range of locations (closer in and more distant from urban centers), staff can predict the fiscal performance of a proposed development almost anywhere in the region. In theory, such an analytical approach will enable staff to manage the municipality's tax base toward tangible goals, established by policymakers as part of a larger strategic planning process.

## DEFINING THE MISSING METRIC

If such a methodology were to become routine, credible, and ubiquitous across jurisdictional boundaries, local government would possess a new and powerful metric for assessing the fiscal suitability of a range of development options at the parcel level. The "missing metric," specifically defined, is the number of years it takes for property taxes to pay back the municipality's up-front investment to accommodate a new development. The figure is derived by estimating the costs for municipally provided infrastructure (capital costs only) for the given property/land use proposal and comparing that

figure to the expected annual property tax. The shorthand term for this new metric would be "fiscal impact quotient."

The basic structure of the analysis tool follows a balance sheet approach, looking at government's investment on one side with anticipated return on that investment on the other. The revenue side of the balance sheet is straightforward, modeling future property tax revenues on the basis of the value of the future development.<sup>5</sup> The value of the development would be derived by an appraiser, using plans and market studies in the same way that lenders now evaluate a yet-to-be constructed development.

The cost side of the balance sheet will be far more complex, taking into account the municipality's initial expenditure for infrastructure that's needed to accommodate a particular development based on location, servicing needs, proposed land uses, building type, and access requirements. A more nuanced variation of this concept would assign different values for locations that have some existing infrastructure, causing them to score better than places requiring significant new infrastructure. (For example: is the proposed development on an existing street, or will the municipality need to provide a new street or additional capacity for the development to take place?) GIS data of the kind kept by many municipalities could provide information on existing conditions in a form that could be easily integrated into the fiscal impact quotient scoring process.

Regardless of approach, the likely starting point for thinking about fiscal impact quotient calculations would be the way impact fees are currently computed by local governments and consultants. That said, impact fees are problematic in ways that are well known. First, they generally cover only initial capital costs of infrastructure and not the full lifecycle costs. Second, the collection of impact fees is highly inconsistent across the United States. Such fees are specifically enabled in a majority of the states, but not all. In the states that do collect such fees, their uses may be limited. For example, in Arkansas, impact fees can be used to pay for roads, water, sewer and storm water facilities, parks, fire and police facilities, and libraries, but the funds can't be used for solid waste processing facilities or schools. In Illinois, such funds can only be used for roads.

Although it's tempting to address one significant flaw of impact fees by factoring full lifecycle costs (rolled forward through a net present value calculation) into the fiscal impact quotient, such an approach would actually be "double charg-

ing.” Presumably such future expenditures, which are normally experienced over decades and even centuries, will be covered by the hopefully more-than-adequate property taxes paid over the life of a property (screened as it was using the fiscal impact quotient when first approved).<sup>6</sup> At the same time, initial costs don’t always correlate to full lifecycle costs or the costs of servicing a property over time, so it might make sense to include some fractional factor to represent these costs in order to get a more accurate investment/return score.

If local governments want to attain the more sensitive levels of cost analysis described in the prior paragraph, they may want to look to Canadian municipalities for guidance.

Provinces in Canada enable municipalities to levy development charges<sup>7</sup> to cover specific costs of growth in a community; this includes not just initial capital costs but lifecycle costs as well. (See Exhibit 4.) Such fees, paid by developers and builders, are specified in a table of charges that vary based on total building size and characteristics, and the location of the building within the municipality. The municipal bylaws that determine fee amounts are required to be updated on a regular basis through a public review process.

The latter point is important: by its nature, fiscal analysis is complicated, highly specific to location, and subjective, based on a wide range of factors. With inconsistent bound-

#### Exhibit 4: Development Charges in Canada

In Canada, costs related to new growth are paid in the form of development charges, which are clearly specified in development bylaws. Although the practice is enabled at the provincial level, each municipality is free to set its own charges based on local budgets. The upper grouping lists a menu of charges for unit types in a range of locations. The lower grouping breaks out the way the charges are applied to anticipated expenditure categories.



Area	Single, Detached and Semi-detached Dwelling	Apartment Dwelling (2+ Bedrooms)	Apartment Dwelling (<2 Bedrooms)	Multiple Row and Mobile Dwelling	Non-residential General Use	Commercial Institutional Industrial Office Use	Limited Industrial
	Per Unit			Per Square Foot			
1. Inside Greenbelt	\$15,207	\$7,897	\$6,086	\$10,798	\$15.17	\$12.29	\$6.98
2. Outside Greenbelt	23,376	13,970	9,309	17,828	15.17	12.29	6.98
3. Rural - Serviced	13,616	7,418	5,833	10,736	15.17	12.29	6.98
4. Rural - Unserviced	11,438	7,194	4,901	9,021	12.75	10.33	5.86

Category	Total	Roads and Related Services	Sanitary (Waste Water)	Water	Stormwater Drainage	Police
		Per Square Foot GFA				
<b>Non-residential</b>						
Rural - Serviced	\$15.17	\$7.60	\$1.55	\$0.34	\$0.04	\$0.26
Rural - Unserviced	12.75	7.11	0	0	0	0.26
<b>Non-residential Commercial</b>						
Rural - Serviced	\$12.29	\$6.16	\$1.26	\$0.28	\$0.03	\$0.21
Rural - Unserviced	10.33	5.77	0	0	0	0.21
<b>Non-residential Industrial</b>						
Rural - Serviced	\$6.98	\$3.50	\$1.55	\$0.34	\$0.02	\$0.12
Rural - Unserviced	5.98	3.28	0	0	0	0



aries between public service districts and municipalities, it is often difficult to perform “clean” calculations across an entire municipality that will reflect every nuance affecting the pricing of initial costs, lifecycle costs, or the ongoing delivery of services. Recognizing the difficulty of creating a perfect system for fiscal evaluation, the next best thing would be a system derived through a highly participatory process, like the approach taken in Canada, where key stakeholders are involved in the process and thus feel some ownership of the outcome.

## OBJECTIVE SCORING VERSUS FISCAL NEUTRALITY

In the past, some U.S. communities, concerned with the negative consequences of developments that didn’t fully pay their way (even with the impact fees that are often charged), have asked developers to submit statements of “fiscal neutrality” to accompany a project application. While the intent behind such a requirement is laudable, the analyses at the heart of such studies are often based on subjective assumptions that can be easily gamed to advance proposals that, once realized, become a financial drain on the community. Further variables in many local governments include the extent to which staff reviews of such studies may be affected by limitations of time and resources, and also political pressure from elected or appointed boards.

In an attempt to depoliticize the approval process as much as possible, the scoring system underlying the fiscal impact quotient should be based on objective criteria than can be independently verified, much like the indexes used to set mortgage rates when they periodically readjust. But like any scoring system that aspires to total objectivity, there will always be glitches that will require adjustment: For instance, high-rise waterfront buildings will score well in terms of fiscal impact quotient, but their towering presence could make it more difficult for nearby properties, particularly those in locations where views are blocked, to achieve scores that would allow them to obtain approval. In the aggregate, such an imbalanced situation could lower a neighborhood’s overall property tax base, so a correction factor would be needed to encourage high-value development of an entire group of parcels, and discourage the “cherry picking” of only the most amenity-rich sites.

Another problem with fiscal neutrality statements, even if it were possible to make them truly objective, is that they’re

typically required only for high-profile projects or plans that are subject to review by elected or appointed bodies. Much development and redevelopment activity in a community results from smaller projects that receive administrative approval because they’re in full compliance with local ordinances. Because they are not otherwise subject to public review, such projects go mostly unnoticed by citizens until they are built. But on a cumulative basis, such routine approvals do fiscal harm to our communities, both because of their sheer numbers and because they exist within a framework of use-based zoning rules that, while hyper-focused on limiting density and impacts, have little or no oversight when it comes to fiscal impacts.

A regulatory screen such as the one proposed in this article could deal effectively with such projects because it’s designed to work at the parcel scale as a routine evaluation that’s independent of other zoning criteria. This said, the use of a fiscal screen within a community’s larger regulatory structure could enable the municipality to relax or even eliminate other, more subjective rules, with the goal of fostering better places with less overall regulation. One further advantage of the fiscal impact quotient approach is its specificity to the local development context. Like the Canadian example above, the metric would be tuned to the specific cost and revenue structure of the municipality as well as specific locational criteria related to the site where the project will be built.

## THE FISCAL IMPACT QUOTIENT IN PRACTICE

Despite the higher level of precision that the missing metric promises in managing the community’s tax base, it also raises significant questions about how the fiscal impact quotient would be used in relation to other criteria now employed in development review. For example, would the metric be a *gating factor*, with projects being required to score well before being allowed to proceed to further stages of review? Or would it be used only as a *contributing factor* in the final approval decision, considered along with more subjective criteria such as compatibility with surrounding land uses, anticipated impacts on quality of life, or economic development issues (e.g., the degree to which the proposed development is expected to generate private-sector jobs)? Local governments would need to consider these policy issues.

Another important question concerns the number of years a community sets as its target. A community that is especially strapped for revenue might require five years for full return

of its investment, while jurisdictions that are less challenged might go with 10 or 20 years. In theory, less well-to-do communities needing a quicker payback would insist on a more rapid return, gaining a more robust tax base in the bargain. Such a response would be a welcome change from what sometimes happens in less affluent municipalities that become so hungry for investment that they're willing to overlook obvious red flags related to low projected revenue return, high anticipated future costs to maintain infrastructure, or both.

## CONCLUSIONS

The recent economic downturn has led to a greater awareness that local governments need to do more with less. Fortunately, analytical tools such as the revenue profile and new fiscal impact modeling tools can help municipalities better understand what forms of development will enable them to address long-term fiscal challenges. The fiscal impact quotient scoring system takes the concept a step further by incorporating objective fiscal analysis into day-to-day approvals which, in the aggregate, shape the financial future of a community.

With this new knowledge, and a way to link such knowledge to policy and routine development review processes, local government may finally be able to achieve a triple win among three key players:

- Citizens enjoying more vibrant places combining a greater diversity of uses and activities in proximity.
- Developers seeking greater return from a given land asset.
- Municipalities "growing" their tax base with more compact, resource-efficient settlements that return revenue at a far greater rate than the costs they generate.

The approach suggested here is not intended to replace the normal spatial planning processes in place in most communities, nor does it supplant the market forces that determine whether a building, once constructed, will be fully occupied or sit vacant. Indeed, a development application proposed under the scenario described here will likely move forward when criteria related to three distinct realms are satisfied — market demand, the core planning process, and the fiscal impact quotient.

Arguments for achieving denser settlement patterns through a community's development regulations touch on many highly subjective issues and personal choices related to quality of life, perceived impacts of urbanization, economic development, and even the social contract that binds citizens to the

common good. This said, few would argue that government should be subsidizing forms of private development that are known to generate public costs far in excess of the tax revenue that they will generate over their useful lives. The missing metric, now found, gives local government a viable tool for understanding and managing its tax base on a parcel-by-parcel basis. Citizens and public officials can use such a tool to achieve the near-term fiscal sustainability needed following the recent recession and the long-term prosperity to support and enhance the future growth of America's communities. ■

## Notes

1. Form-based coding, an emerging regulatory approach that focuses primarily on matters of physical form, has been used to implement developments based on the principles of smart growth and new urbanism. Form-based coding has proven highly effective at the neighborhood scale for both new and infill projects. It is potentially compatible with the fiscal screening approach described here. (Note: The author of this article has also written extensively on the topic of form-based coding and currently serves on the board of the Form-Based Codes Institute.)
2. The analysis was prepared by Joe Minicozzi of Public Interest Projects.
3. *Building Better Budgets: A National Examination of the Fiscal Benefits of Smart Growth Development*, Smart Growth America, May 2013.
4. In the worlds of business and finance, this would be referred to simply as *return on investment*. Linking the metric to years of payback recognizes the municipality's unique role in fostering community growth and emergence in multiple realms, versus the simple economics of profit and loss.
5. Distorting factors such as local variations in millage rates based on land use, or state laws such as California's Proposition 13 that cause owners of similarly valued properties to pay different tax rates based on duration of ownership, lead to distortions that may affect the implementation of a fiscal impact scoring system.
6. More central locations with higher land values are often the places where infrastructure repair and replacement needs are the greatest, so higher taxes in such locations meet an important need. Older neighborhoods that have not held their value are more problematic; the larger cycles of abandonment and revitalization that are normal in cities ultimately bring value to such places if they have intrinsic locational value.
7. The Canadian development charges system is *not* a mechanism for assessing fees for site-specific modifications (such as a change to a street configuration needed for to access a building) required by a development; such costs are generally paid for in their entirety by the private-sector developer.

---

**PETER KATZ** is the executive director of Place First ([www.place-first.org](http://www.place-first.org)). He is a planning consultant, lecturer, and author who focuses on emerging best practices related to community development. His book, *The New Urbanism*, helped catalyze a planning movement that The New York Times called "the most important phenomenon to emerge in American architecture in the post-Cold War era." Katz was the founding executive director of the Congress for the New Urbanism and a cofounder of the Form-Based Codes Institute. Katz can be contacted at [pkatz@place-first.org](mailto:pkatz@place-first.org) or at 202-486-7160.