Livable Places **Update**

Emerging Trends in Community Planning and Design

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Downtown Development Increases City/County Revenues Per Acre – Even In CA: Past issues of *Livable Places Update* have featured the work of real estate consultant/developer Joe Minicozzi who has successfully demonstrated that revenue-starved cities can garner far more taxes per acre from downtown multi-story buildings than from strip malls and housing subdivisions. Minicozzi has found this startling fact to be true in communities across the country – from his hometown in Asheville, North Carolina to rural communities in Colorado. However, when it comes to applying this information to California, a question has remained, "Given our State's Proposition 13, would the same hold true here?"

A study this month, commissioned by the LGC, has cast new light on this topic. Minicozzi's results do indeed hold true in California! The LGC contracted with him to analyze tax revenues in the San Joaquin Valley cities of Modesto, Turlock and Merced. His first analysis, for the City of Modesto, was released this month at a lunch for elected officials and a community-wide meeting. It turns out that Modesto and Stanislaus County have realized an annual $26,800 per acre in property taxes from a single building in downtown Modesto that houses a sports bar and other businesses compared to $6,900 per acre from a typical, auto-oriented mall, located on the urban edge. The three-story downtown building stands on less than an acre. The mall covers 94 acres of what was once prime farmland.

In another example, Minicozzi found that the 56,360-square-foot, 7-story City Tower building in downtown Modesto is the highest-grossing building for property taxes in Modesto. It generates $64,000 per acre for the city and county, whereas a large Target site on the outskirts of town provides only $2,440 per acre.

Minicozzi's analysis involves gleaning information from county assessor databases and using a computer program to produce maps of high-value and low-value taxable properties. He includes sales tax information when he can get it. In the process of doing this work, he finds time and time again that local governments, in their quest for revenues, are chasing big box stores surrounded by parking, thinking this will bring the city budget into balance through increased sales tax revenues. It turns out, however, that the income from sales tax is small compared to what a city/county could make per acre on property tax.

A street of small retail stores, coffee shops and restaurants clustered in a downtown can bring in the same amount of sales tax per acre as a big box store, said Minicozzi, but the property tax per acre from the downtown development contributes far more to the city than its suburban counterpart.

Minicozzi also notes that it is less costly to provide the necessary public services and infrastructure in downtowns than it is to serve growth at the urban edge. Modesto's Mayor Garrad Marsh confirmed this, adding it costs Modesto far less for police to patrol the city's 87-acre downtown than those areas of north and east Modesto developed on former farmland.

Others pointed out that while a developer may pay the first cost of the street in front of the house, they don't pay for the new arterial or other major roadways required by an increase in commuters. Nor are suburban residential properties likely to pay the full cost of the maintenance of parks, street trees or street repairs. Mayor Marsh estimated that the typical suburban house costs the city about $1,000 a year more than it earns in taxes.

Patrick Kelly, Modesto's Planning Manager noted, "The events (a meeting with city leaders and an event for the public) represented a major milestone for Modesto in moving in a new direction . . . It's a real eye opener to see the untapped potential downtown infill development can offer."

As a follow up, the city council is looking at code changes proposed to allow mixed-use projects downtown. The measure would allow some single-story buildings but also buildings as high as 15 floors, featuring shops or offices on ground level and residential units on higher floors. The new code would also do more to promote sidewalk eateries and other elements to make downtown interesting and appealing.

How In-Town Development Might Benefit Both Cities and Counties: Cities and counties share property tax revenues. The City Tower building in Modesto, for instance, generates $20,700 per acre for the city and $41,300 for the county.

Hurting for new money, some counties have chosen to build large retail establishments on the city's border to increase their own sales tax revenues. However there is only so much sales tax that can be generated from residents of a region – what benefits one local government takes away from the other.

Cities have used their own strategies to increase revenues. Former Fresno resident and newspaper reporter Timothy Egan has for many years observed, "Hemmed in by property tax limitations, cities were compelled to increase revenue by the easiest route: expanding urban boundaries. They let developers plow up walnut groves and vineyards and places that were supposed to be strawberry fields forever to pay for services demanded by new school parents and park users." However, much of this funded by developer fees and fees from new development projects were used to provide the roads and parks promised to the previous project. Now that new development is halted, developer fees are no longer available, creating the current local government-funding crisis.

In addition, Egan notes, "say the Walmart closes and moves to the edge as a new Super-Walmart, that spending hasn't increased per capita, just shifted. So the revenue growth is moot. But the real problem is what is left behind. In all the communities I've studied, there are internal middle-grounds of wasted buildings of low value, which yields low revenue. So the community is getting low return, yet they have to cover the cost of all the services at the property. So the trade off is that they trade new growth at the edge (where its value still doesn't balance with its cost) in exchange for leaving behind properties that become negative revenue gains in the property base."

Minicozzi's research provides us with a new strategy for funding local government, one that doesn't cover over precious farmland or rob Peter to pay Paul. Minicozzi likens this to a farmer choosing crops that earn the highest yield per acre. What if the city and county cooperated in a way that would bring the highest tax yield to both jurisdictions?

A recent editorial in *Modesto Bee* looks to Minicozzi work as a way to a brighter future for the city, "a new and more profitable direction." "It's exciting, they say, "to see some visionary thinking and solid financial arguments to put more life into the heart of our city."

Helping Downtown Housing Pencil Out For the Developer: Many Modesto residents are calling for housing in their downtown. Fortunately, one of their own – a Modesto native who recently returned – is ready to provide it! He recently purchased the beautiful, historic local post office and is ready to convert it to lofts and apartments. While starting from scratch can be more expensive in a downtown, developer Peter Janopaul stated that redeveloping an older building with an already sound structure is quite affordable.

Developer and investor John Given told of the success that a new Adaptive Reuse Ordinance had in bringing thousands of new housing units to downtown LA. The Ordinance was adopted in 1999 after the city unsuccessfully tried to increase downtown housing. Before implementation of the measure, there were 11,626 residential units in downtown; today there are more than 29,429. In 1999, about 18,000 people lived downtown, today there are about 45,600 residents supporting untold numbers of restaurants and other service industries.

While it originally only applied to downtown Los Angeles, the Adaptive Reuse Ordinance was extended into other neighborhoods in 2003. The ordinance continues to be applicable to all commercial buildings built before 1974. It provides expedited approval to developers who wish to convert these older buildings to new uses, which can include apartments, condos, live/work lofts, retail and hotels.

The incentives in the Adaptive Reuse Ordinance are enough to make any builder very happy – density restrictions are waived, no new parking spaces are required. Qualifying projects are approved "by-right'" The developer needs only to apply for a building permit – a public hearing is not required.

An on-line handbook is available from the City of Los Angeles to assist other communities in adopting their own reuse ordinance. Titled, the Adaptive Reuse Handbook, the document provides a summary of the program, answers frequently asked questions, and shares copies of the city's adaptive reuse ordinances. Updated in 2006, it can be downloaded by going to: http://preservation.lacity.org/reuse-ordinance.

It should be noted that the city's adaptive reuse ordinances are currently in the process of being updated again to address conflicts and discrepancies between city and state code that can lead to project delays. The City Council directed the Planning Department to complete an update to the ordinance ready for final approval by the fall.

Los Angeles' innovative program has created new housing opportunities, revitalized neighborhoods, preserved historic architecture, encouraged community development, and stimulated economic investment. Because older buildings are generally located in mixed-use neighborhoods, it has also provided housing opportunities in places where there are already transportation options. While not touted by city staff, it has most certainly increased per acre property taxes. This is a model that deserves consideration by every city trying to bring more housing downtown.

Livable Places Update is published monthly. For subscription information, call 916-448-1198. If you have news from your area that you would like to see included in future issues, please email to: lgc@lgc.org, with "LPU News" in the subject line or fax to: 916-448-8246.