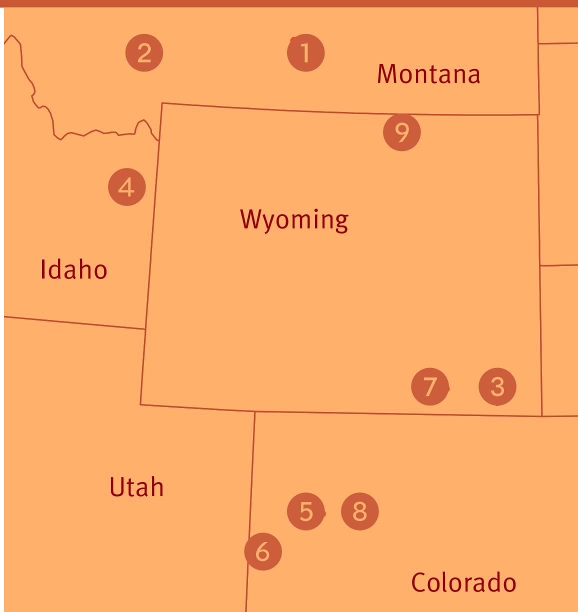
PHOTO: Rob Pertzborn

About Town Building Revenue for Communities



CITIES AND TOWNS STUDIED

1. Billings/Yellowstone County, Montana
2. Bozeman/Gallatin County, Montana
3. Cheyenne/Laramie County, Wyoming
4. Driggs/Teton County, Idaho
5. Glenwood Springs/Garfield County, Colorado
6. Grand Junction/Mesa County, Colorado
7. Laramie/Albany County, Wyoming
8. Rifle/Garfield County, Colorado
9. Sheridan/Sheridan County, Wyoming

SONORAN INSTITUTE

Shaping the Future of the West

Financial strain can be a burden on local governments, but it can also be a force for change, encouraging local officials to streamline operations, reduce waste, and seek reliable ways to increase revenue without raising taxes.

In the search for solutions in today's economy, one of the most promising new discoveries is the value of downtowns, which are bringing excellent revenue for communities throughout the Rocky Mountain West, according to a study commissioned by the Sonoran Institute and performed by Urban3. In comparison to their counterparts, namely big-box retail and large shopping centers, downtown projects are winning the numbers game when it comes to tax revenue.

The logic goes like this: imagine a table, and imagine needing to fit as many dollar bills onto that table as possible. Is it best to lay the bills side-by-side, or stack them vertically?

The answer, of course, is clear: stack the bills vertically to get the most money onto the table.

The same holds true for communities on the lookout for tax revenue. Compact, mixed-use development is the equivalent of stacked dollar bills, and the city or county limits represent the edges of the table. In terms of dollars-per-acre, a mixed-use urban area brings in many times the revenue of conventional strips and big-boxes. As centers of commerce, downtowns are already recognized as important economic assets, but the financial reward and stability they bring to governments is often overlooked.

"In terms of dollars-per-acre, a mixed-use urban area brings in many times the property tax revenue of conventional strips and big-boxes."

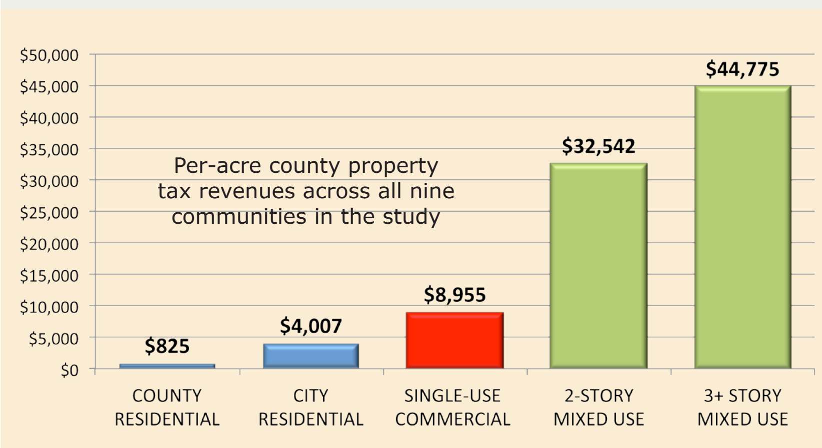
The Study

The Sonoran Institute took public data from nine communities in Colorado, Idaho, Montana and Wyoming to discover where cities, counties and towns could most likely generate tax revenue and improve their communities now and well into the future.

Analysis in the past has often compared one small property to one very large property – for example, one small hardware store would be compared in tax revenue to one very large hardware store. Rather than take this approach, the study compared relative tax revenue per acre, therefore providing a more accurate picture of where, exactly, we can expect to find the greatest amount of revenue. Like a car buyer who wants to know miles per gallon, not the size of the gas tank, the study reviewed the efficiency of any particular parcel's revenue output.

The Findings

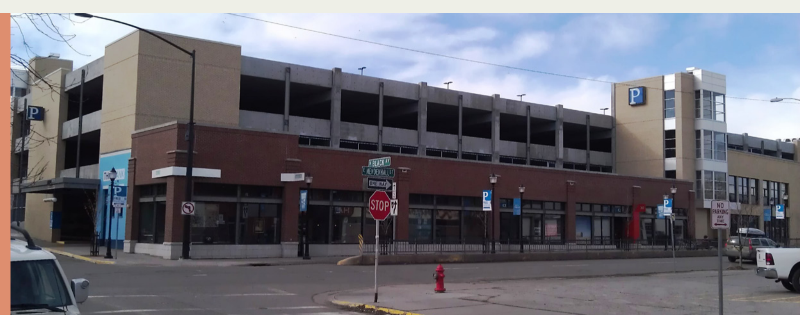
Urban3 collected property tax data from county and municipal records, and created charts to compare tax revenue per-acre. The graph below shows the per-acre tax revenues of various types of development across all nine communities:



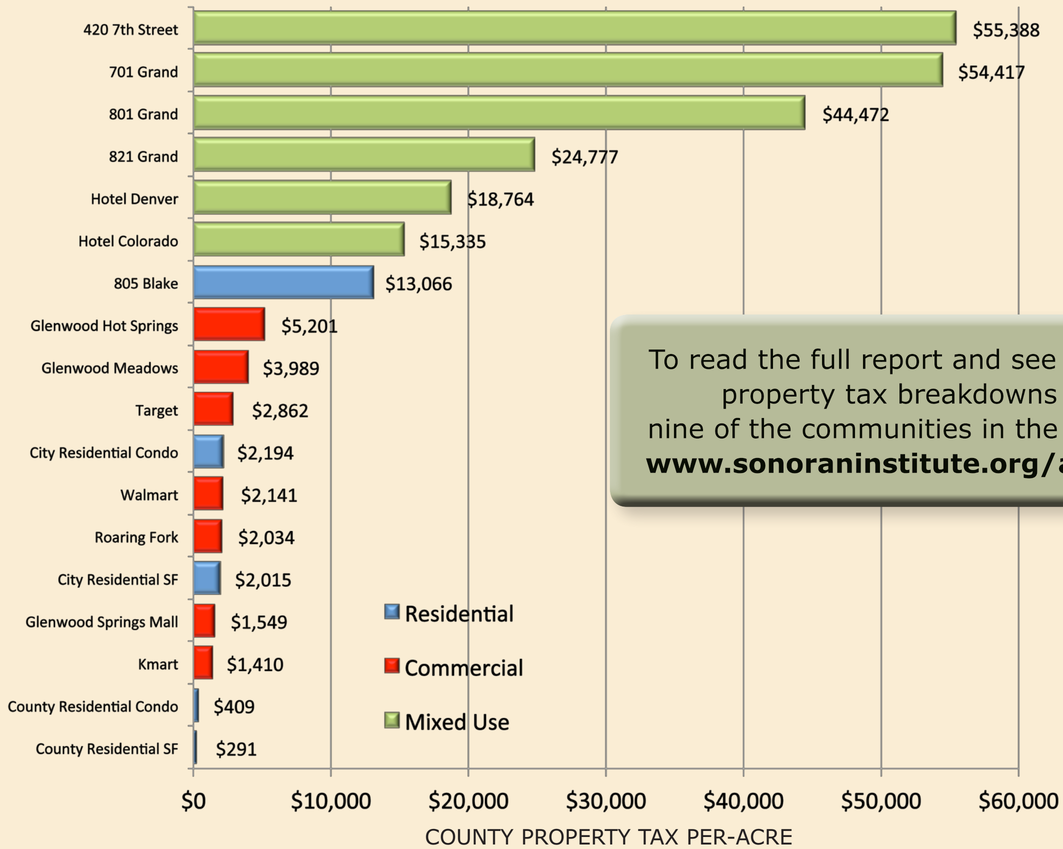
The results were clear across the board—each community showed the same pattern. Multi-story mixed use properties bring in many times more revenue per acre than other types of commercial or residential developments.

In Billings, Montana, the Montana Power building brings in $230,000 of property tax revenue per acre compared to just $6,000 for the K-mart, Wal-Mart, and Costco, combined. In Cheyenne, Wyoming, the six-story Boyd Building sits on one-tenth of an acre downtown, and yields more than 40 times the per-acre tax revenue as the 80-acre Frontier Square shopping mall. In Glenwood Springs, Colorado two mixed-use downtown developments, combined, bring in more than $100,000 in property tax per acre, as shown on the next page:

In an area previously occupied by a surface parking lot in downtown Bozeman (left), a new parking garage houses 435 parking spaces, a public bus transfer station, and several new commercial spaces.



Two mixed-use downtown developments, combined, bring in more than $100,000 in county property tax per acre in Glenwood Springs, Colorado.



To read the full report and see graphs and property tax breakdowns for all nine of the communities in the study visit:
www.sonoraninstitute.org/abouttown

What This Means for Rocky Mountain Region Towns and Cities

To understand what this analysis means for land use and development in today's economy, it helps to take a quick look at the issue from a historical perspective.

The last half of the 20th century was an era of movement away from city and town centers toward suburban development, residential neighborhoods, and large, discount retail centers. If pre-World War II America's business happened on Main Street, post-World War II America did its shopping on suburban strips.

The trend was pioneered by Woolworth Corporation in the 1950s, but soon a fleet of large-scale retailers capitalized on suburban growth to create shopping complexes which now cover hundreds of thousands of square feet, and have become some of the most well-known brand names in America.

Local governments, by-and-large, welcomed such developments, in large part because the tax revenue numbers appeared tremendous. Roads were built or expanded to handle the additional traffic. Utilities were extended, pipes laid, new districts created to handle the daily ebb and flow of people to-and-from the shopping centers.

The financial benefit for adding all of the infrastructure seemed to be the large tax revenue from the development itself. This, however, seems to be a simple miscalculation of the actual value, in terms of tax revenue, of the shopping centers in question.

(continued next page)

A Changing National Development Market

A growing body of research points towards a shifting real estate market. Economic and demographic factors are driving increased consumer preference for in-town housing with walkable access to shopping, restaurants and other amenities. More people are seeking centrally-located, affordable housing options beyond traditional single-family homes, such as multi-family units, townhomes, and smaller-lot single-family residences as well as mixed-use residential projects.

These trends are good news for spurring development in downtowns and mixed-use centers where housing (and the residents that come with it) adds vitality and generates foot traffic for local businesses.

Take, for example, the Mesa Mall in Grand Junction, Colorado. On the face of it, the mall looks like a winner, bringing in $300,000 in property tax revenue to the county annually. The stores draw customers from the local area, who drive in, park, and shop at the complex.

On the other hand, a building at 300 Main Street in downtown Grand Junction brings in a more modest $9,000 annually. However, on a per-acre basis, the 95-acre Mesa Mall yields $3,000 per year, while the 0.22-acre downtown building yields $43,000. The per-acre revenue from the building at 300 Main Street indicates tremendous potential for the area. In other words, less than 7 acres of the downtown property would yield as much property tax revenue as the 95-acre mall.

The story runs a bit deeper. Large malls and big box stores are built for a much shorter lifespan than are downtown buildings. Throughout the country, communities that welcomed the mega-shopping complexes are seeing the parking lots grow empty, and the buildings become vacant and abandoned. Once downgraded, these large complexes become a hard sell, simply because there are only a small number of developers with the investment dollars required, or the interest needed, to buy large and dilapidated structures and undertake the extremely large task of bringing them back to life.

On the other hand, it's easier to provide upkeep to downtown, mixed-use lots, because a larger percentage of the population can afford the remodeling and rent required to bring life back to a small street, building, or parcel.

Infrastructure also plays a role because its construction and maintenance can put local governments in the red. The public infrastructure required for a large shopping center on the outskirts is substantial and costly, especially when compared to the tax revenue that's generated. City and county road and emergency services must be extended farther out, and miles of wire and pipeline must be laid. Development in the existing urban core, on the other hand, usually requires minimal infrastructure upgrades and is almost always within existing fire, ambulance, and service areas.

Opportunity in the Changing Economy

Today's economic climate demands a laser focus on the bottom line. The numbers are clear; walkable, mixed-use development - the fabric of our downtowns - is good for tax revenue and less expensive to maintain than its suburban counterparts. In many cases, the historic designations of downtown areas allows for help from state and federal governments, further incentivizing the revitalization of city centers.

Looking forward, communities face an opportunity to capitalize on the economic potential of vibrant downtowns. To do so they must invest in their downtown and enable quality development. More and more communities are recognizing the cultural and social appeal of a vibrant downtown; it's now time to recognize their fiscal and economic benefits as well. The reward will be communities with a strong sense of place, that can attract jobs and investment and provide a stable source of revenue.

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300 Main Street, Grand Junction, Colorado

"...less than 7 acres of the downtown property would yield as much property tax revenue as the 95-acre mall."

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