Pay Dirt: State Tax Policies Drive Local Land Use Policies to Ground

By Seth Miller

California's Proposition 13, passed in 1978, forever changed the fiscal and governance system of the state. It placed strict limitations on property taxation by capping overall property tax rates at one percent and requiring tax revenues from each property to be apportioned to each of the local governments—e.g., city, county, special district—serving that property. In turn, the local governments allocate the money among local agencies, such as police, fire, sewer system maintenance, and social services.

To soften the loss of revenue from property taxes, the state assumed a higher level of responsibility for education costs incurred by school districts. But this arrangement has led to a confusing system where the state raids local coffers to close the budget gaps in deficit years. Over time, and as population growth has increased the demand for schools, healthcare, and environmental protection, this fiscal policy has seriously limited the resources available for public services. As a consequence, local governments have been forced to chase revenues wherever they can be found: mainly in the form of sales taxes from retail sales.[1]

The need for tax revenue pushes cities across the state—and around the country—to accept developer plans for auto malls and mega stores, at the expense of affordable housing, parks, or open spaces. Cities have found it easier to pursue sales tax from commercial land use than to do battle with homeowners who have embraced a stable property tax structure since 1978.

Plan Locally, Pollute Globally

Planning commissions are made up of locally elected or appointed officials who understand that public projects, such as low-income housing, preservation of open space, and other amenities do not pay for themselves over time. But they do know that if you zone lots of land in your city for stores and auto malls, you can attract lots of customers who will come only long enough to buy cars, clothes, and computers in your city but will leave a penny of every dollar they spend in your coffers. That's because revenues from a one percent local sales tax (collected by the state) are returned to the general fund of the municipality in which the sale occurred.

Sales taxes now exceed property taxes as the largest source of revenue for California municipalities. What's more, it's revenue that is not earmarked for specific purposes, which makes it very attractive to cities everywhere. So, as long as local governments are responsible for land use decisions, parking lots, malls, and other sales revenue generators are going to be the winners.

Says Judy Corbett, executive director of the Local Government Commission, "There's too little incentive to create new housing and use land wisely when it's a money-losing deal for local communities."

The fallout from these thousands of locally made land use decisions, unfortunately, is traffic congestion and air pollution. Especially in this era of concerns about global warming, it is an opportunity missed to reduce the local carbon imprint and reverse greenhouse gas emissions. Fortunately, awareness of the climate change issue is slowly beginning to gain momentum in land use planning circles.

Cracking the Nut of Urban Planning

How can local communities have an impact on zoning decisions? Traditionally, participation in land use planning commission hearings has been left to the busybodies and zealots. But, if we do not all

Photo:

Typical mall development pays cities one percent sales tax revenue. Cities try to attract retail sales to the exclusion of balanced development.

begin to pay attention to the forces that drive local land use decisions, it will be too late for our environment and for our communities. Local communities need to implement thoughtful ideas for re-designing neighborhoods around industries that pollute less. Not only could this approach work to reverse global warming, it has the potential to enable our communities to capture sufficient revenue to deliver high quality services to residents.

In rural communities where farming and ranching are the cornerstones of the economy, there have been innovations to transform the methane produced by cows into energy creating facilities called methane digesters. That's the type of community transformation that urban communities must pursue.

The threat of a recession in 2008 has prompted the President to push for a cash rebate of approximately $600 per taxpayer—for a total of $150 billion. The idea behind this scheme is to spur consumer spending—of the tax rebate, apparently—and get us out of a recession. But what if the federal government had invested the funds in carbon sequestration programs? What if every rooftop in urban America were to plant carbon sinks—rooftop gardens—to not only minimize the progression of global warming, but to increase their local community's revenues?

It will not be a simple task to reform our fiscal policy institutions, but the alternative in this era is unthinkable. ■

Endnote

1. Lewis, Paul. "Retail Politics: Local Sales Taxes and the Fiscalization of Land Use," *Economic Development Quarterly*, Vol. 15, No. 1 (2001): 21-35, Public Policy Institute of California, 2001.

Fort Worth Grants Worthwhile Tax Abatements

Fort Worth, Texas, grants property tax abatements to certain residential and commercial industrial development projects in an attempt to promote investment that creates jobs and stimulates economic development in the inner city. To qualify, residential projects must be located in designated areas and must meet minimum size requirements. Commercial or industrial projects must commit to hiring a certain percentage of inner city residents for full-time employment and must either be located in the economically disadvantaged inner city or meet minimum investment requirements. Participating projects must also commit to using local women- and minority-owned businesses for construction, supplies, and service contracts.

The property tax abatements are offered on a discretionary basis (no project is eligible as a right) to projects that demonstrate a viable financial necessity for them. The value of each award is based on the actual number of local jobs created by the project, as determined by a yearly audit.

Through mid 1999, the city had granted tax abatements for 31 redevelopment projects. Together, the projects had created 7,072 jobs (2,076 of them for Fort Worth residents), surpassing the commitments made in the abatement agreements. In addition, the projects have generated over $200 million in construction contracts and nearly $19 million in service contracts for Forth Worth businesses. Other active agreements contain commitments for almost 600 jobs for inner city residents.

Seth Miller is the interim chief executive officer of the California Center for Regional Leadership.

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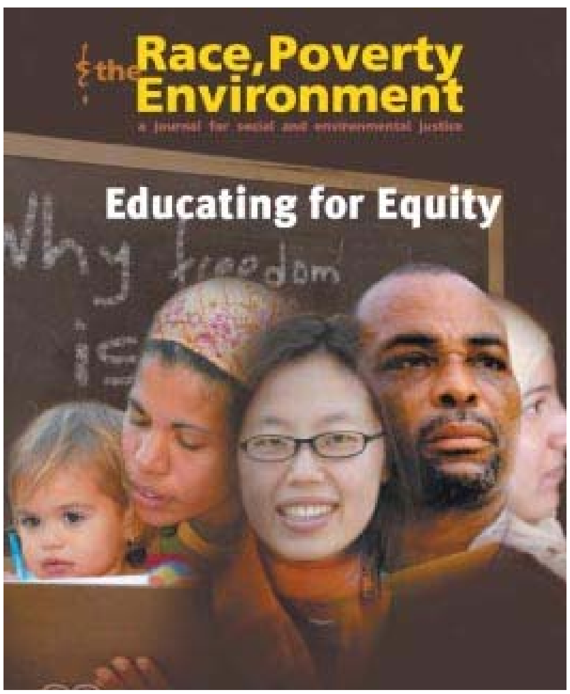

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