

Creating More Fiscally Efficient and Sustainable Cities



How can cities be more fiscally efficient and sustainable? How do counties benefit from maximizing investments in city projects? What types of developments create the quality of life and financial returns that local governments and residents are seeking?

Why do the answers to these questions matter?

Iowa's local governments and schools rely heavily upon property taxes for funding. Property taxes comprise about 85% of Polk County's general fund revenue. Property taxes fund quality of life services such as police and fire protection, roads, water, sewer, parks, libraries, social services, and education.

City and county leaders need to look at their communities as investment portfolios. For example, the entire Des Moines metro area portfolio is valued at \$41.2 billion. Think of the private real estate holdings (private property) as the stock of the corporation, and the municipal investments such as roads and utilities as investments to generate 'value' in the private property. How can these returns be maximized? What types of developments generate enough community revenue to cover the costs of infrastructure serving the development?

Studies across the United States, including Urban3's [study](#) of the Des Moines metropolitan area, show that dense, mixed-use urban development styles create the greatest property tax values per acre. For example, downtown Des Moines' 1868 Hawkeye Insurance Company building, has a tax value of nearly \$4 million per acre versus the \$479,000 value per acre of the 19 acre Windsor Heights Wal-Mart.

Polk County, IA
Determining Lasting Value

2.3 acres of the Hawkeye would equal the 19.8 acre Walmart

Hawkeyes Insurance Co. Bldg.
\$3,992,537 Value per Acre

Walmart (Windsor Heights)
\$479,000 value per acre

EMC > 2.6Z

| | Z | EMC |
|-------------|--------------|--------------|
| Acres | 2.09 | 0.87 |
| Square Feet | 387,912 | 354,972 |
| Value | \$20,640,000 | \$21,460,000 |
| Value/Acre | \$9,870,875 | \$24,700,737 |

Walmart (Ankeny)
\$479,000 value per acre

A very visual example of the impact of land use and building design decisions on a community's ability to support essential services is the comparison below between The Principal Financial Group Z building in Des Moines and the EMC building just a few blocks away. The buildings have almost identical square footage, but the EMC building's taxable value is 250 percent greater per acre on nearly 60 percent less land.

But what about the sales taxes generated by large box development types such as malls? Major retail corridors such as malls and big box stores still pale in comparison to the potency of the downtown area on a per acre basis. Major differences in land use choices allow a downtown format to stack far more businesses into the same amount of space and allocate less space to surface parking.

Des Moines Metro Area Sales Tax Productivity

| Rank | Area | Total Sales | Sales/Acre |
|------|--|---------------|-------------|
| 1 | East Downtown | \$265,463,522 | \$3,636,487 |
| 2 | Central Downtown | \$81,262,171 | \$3,385,924 |
| 3 | Western Downtown | \$71,999,107 | \$1,714,264 |
| 4 | Valley West Mall | \$189,763,662 | \$1,459,720 |
| 5 | West DSM Power Center (west of Valley West Mall) | \$150,883,776 | \$1,077,741 |
| 6 | Wal-Mart/Sam's - Windsor Heights | \$167,224,646 | \$955,569 |
| 7 | Merle Hay Mall | \$130,329,080 | \$944,140 |
| 8 | Ingersoll Avenue | \$123,242,514 | \$906,195 |
| 9 | Jordan Creek Mall | \$503,352,043 | \$840,321 |

Who is impacted by community development decisions?

Everyone. Community policies and incentives that promote denser, mixed-use urban development styles maximize local government's fiscal returns from infrastructure investment. Local government policies that encourage less dense, single-use types of development are shortchanging a community's long-term viability.

What are the impacts of community development decisions?

Often times when communities make development decisions, they focus on the immediate revenue for the town without fully considering the long-term costs of maintaining the infrastructure and services to support the development such as roads, water, sewer, schools and police and fire protection. Development decisions encouraging less dense, more single-use types of development often times do not generate enough long-term financial reward to pay for the long-term costs of services and maintaining and replacing infrastructure.

How can local governments maximize fiscal returns?

Cities and counties can support creation of more fiscally efficient and sustainable communities. Here are a few tools to guide and assist local governments in development decision making.

- Review zoning requirements for barriers to denser, mixed-use developments;
- Examine incentive programs and policies for opportunities to encourage higher quality development;
- Fully examine revenue and long-term cost impacts of proposed developments;
- Lead by example by developing government projects consistent with denser, mixed-use development;
- Promote alternative transportation options such as walking, biking and mass transit; and
- Establish local incentive programs and consider utilizing [Community Development](#) Block Grants and Iowa's Nuisance Property Remediation Program to revitalize downtown buildings.

As your community and county adopts and updates policies and incentives, ask these three questions.

- 1 What are we building?
Do we encourage multi-story, mixed-use projects with limited surface parking?
- 2 How are we building?
Do we encourage building designs that will be a community asset for generations?
- 3 Where are we building?
Do we support projects that maximize use of existing infrastructure—land, roads, and utilities?

Important lessons of tax productivity.

Three important lessons emerge when we compare the tax productivity of different forms of development.

- 1 Commercial development is generally more productive than purely residential development but mixing uses produces far more revenue.
- 2 Stacking more development on the same or less amount of land has a profound impact on tax production. Multistory mixed-use buildings, particularly in downtown, produce exponentially more taxes per acre than more spread-out formats.
- 3 The quantity and configuration of surface parking heavily influences tax efficiency since it dilutes overall value.

About this document: In the summer of 2015, the Iowa Economic Development Authority contracted with Urban3 to conduct a value per acre analysis identifying the tax value performance of a variety of development types in the greater Des Moines, Iowa metropolitan area and to present the analysis findings at a series of local presentations. This document summarizes research and a series of presentations