productive growth

by Kaizer Rangwala, AICP, CEcD, CNU-A

Historically, the principal measure of economic well-being has been growth. Ideally, this growth should allow cities, businesses, and individuals to make money on investments, save money on expenditures, and improve quality of life.[i] However, much of this growth has taken place in sprawling low-density, auto-dependent expansion that has consumed significant amounts of natural and man-made resources.

We are conditioned to believe that the solution to economic woes is more new growth. This new growth typically fueled by supporting new infrastructure gives a short-term boost from permit fees, utility fees, property tax increases, and sales tax. However, the long-term liabilities to maintain excessively large infrastructure systems severely limit long-term prosperity. We need a growth model that allows cities to become financially strong and resilient.

We are politically, financially, and socially dependent on never-ending growth. Our financial system is designed to pursue the highest rate of monetary return putting pressure for growing sales, profits, and market share. Politicians want to raise revenues without raising taxes. Socially, we are convinced that the only way to transform ourselves is to buy and consume more. Decades of propaganda and advertising lure us to buy products based on emotion rather than practicality, thereby creating demand for previously unwanted or unknown products.

Fueled by cheap oil and nurtured with favorable federal housing and highway funding, growth has relied on a continuous supply of land. Much of this growth has occurred in land intensive, segregated, auto-oriented low-density growth. Cities are running out of land and we cannot continue to build over farmland and the pristine environment.

Fiscally this pattern of development, says Joe Minicozzi of Urban3,"has resulted in an enormous mismatch between the cost of fixing infrastructure and the taxes generated by sprawl." Growth once served us, and now we serve to maintain that growth. "Our places do not create wealth, they destroy wealth," notes Charles Marohn, Jr., author, engineer, founder and president of the Strong Town Movement.[ii] A healthy economy should be designed to be stable and thrive, regardless of whether or not it grows.[iii]

Endless consumption of land is not necessary for cities to thrive. From a single cell we grow to our maximum height in about 20 years. While we are not growing physically, we continue to grow in other ways by becoming more wiser, more talented, and more cultured. Similarly, cities can grow in population and accommodate growth by redeveloping their underperforming built assets thereby growing stronger, resilient, and equitable.[iv] Nothing in nature grows forever. Something that tries to grow forever within a stable and thriving system impacts the health of the whole system.

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PLANNING FOR THRIVING AND COHESIVE PLACES THAT ARE IN BALANCE WITH ECOLOGY

The era of limitless supply of land, cheap fuel, and easy money may be coming to an end. Further compounded by the climate and housing crisis, we are faced with an unprecedented need to wean off the addiction to keep growing with no regard to future consequences. The path forward will need to build on existing natural, built, and socioeconomic assets to create thriving places that bring the fiscal house into order and into harmony with the ecology.

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LAND USE AND DEVELOPMENT PATTERN

Cities can be home to thriving people and places in harmony with the ecology. To be stable and thrive, efforts need to be directed towards strengthening and diversifying the existing community assets. Both revitalization and resilience are based on repurposing, renewing, and reconnecting our at-risk natural, built, and socio-economic environments.[v] The short term benefits of revitalization also yield long term benefits of resilience, which helps fund and build public support for additional reinvestment.

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Large format retail development or big houses in sprawling subdivisions are highly coveted as they generate more tax base. These developments may pay a lot more tax than the smaller main street business or small house on the city block. But revenues per lot is a poor metric for success. Joe Minicozzi says, "a better metric is to look at tax base on a per acre basis."

The larger developments may generate more revenues but they also consume more land and require a greater amount of infrastructure. Typically, these buildings are not built to last. A substantial amount of long-term public infrastructure investment is supporting a fragile and unproductive private investment. This format of development is designed for a single purpose, with no evolution of the site anticipated. Typically accessible by automobiles, large parking lots and ever widening roads are needed to keep the traffic moving. The long term effect has been to thinly spread the tax base while adding expensive infrastructure liability and ultimately decreasing the wealth of the community, while doing nothing to lower the cost of providing services. Fiscally, the community is paying a premium for a reduced return on investment. In many instances, large format retail uses displace neighborhood scale commerce, both physically by occupying the space and financially by crowding them out of the market. The large blank walls and parking lots typically associated with large format retail uses and strip malls fail to create a distinctive place or a memorable experience.

Comparatively, the modest main street or apartment buildings are not only more productive per acre and enduring than the larger format retail stores, they are also a good fit into the neighborhood. They are all built within the context of their surroundings, adding value to the properties around them. Neighborhood commercial not only creates opportunities for local entrepreneurs but it creates lots of jobs. A system redesigned to be inclusive and equitable.

WHAT IS PRODUCTIVE GROWTH?

For economists, productivity is how much you get out of what you put in. Businesses are considered productive if they produce a larger amount of goods or services with less labor, capital, and materials. For countries, being productive is how well they turn labor and materials into goods and services (GDP). A country's productivity is largely determined by the productivity of its cities. For cities, productivity is how well the outcomes of growth align with the city's priorities, the quality at which it is executed, and the efficiency with which it is done. Productive growth utilizes land and infrastructure investment more effectively while creating vibrant, diverse, and equitable places that generate wealth in excess to what is required to maintain its supporting infrastructure over multiple lifecycles.

Assessing how much a property owner owes in property tax depends largely on the building with little value placed on the land beneath as compared to the building itself. Therefore, if a developer constructs a cheaper building, they actually benefit by a lower tax value. The result is that the city loses both in terms of the property tax it collects and the long-term legacy of cheap single-use buildings.

Large-format suburban patterns of buildings surrounded by acres of parking generate less revenue per acre than a smaller infill mixed-use building in a walkable setting. Cities create productivity by facilitating the frequency of interactions. More people living and working in the city means higher interactions making it easier to share and exchange information, innovate, and launch new businesses.[vi]

STEWARDS OF THE FUTURE

To steer our children's future away from the fiscal, climate, and housing crises is a key moral priority of our time. To live well and thrive we must bring about profound changes in our ways of life.

The current pattern of growth creates a fragile tax base that is not sufficient to fund infrastructure maintenance, let alone contribute to parks, schools, libraries, and public safety. Developers understandably want to build housing that costs less and yields the greatest financial return. The houses and roads built are re-

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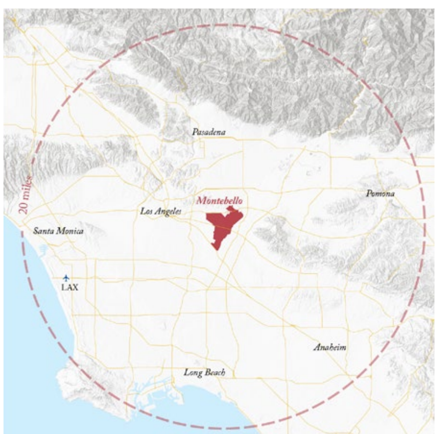
corded as positive growth at the national level in the GDP and at the local level as revenue boost in the annual city budget. However, this metric does not factor long-term liabilities of repair and maintenance. Neither does it factor costs to health from air, water, and noise pollution, or risks of paving and developing farmland, wetland, and forests.[vii]

Our old patterns of managing growth need to be rewired. City leaders need to prioritize the community's needs alongside the developers and focus on offering locals more housing options. Instead of sprawling on and fragmenting our natural assets, we can be better stewards of the future and repurpose, renew, and reconnect our existing assets. Growth needs to be adapted and refined to restore local assets to be fiscally productive to reduce long-term debt and infrastructure maintenance costs. A range of housing types built on a community driven framework of placemaking that promotes social interaction, strengthens community networks and local businesses, and nurtures local talent provides a holistic template for creating connected, thriving, and inclusive places. A renewed focus on walkability, biking, and public transit will curb transportation emissions that contain greenhouse gases that cause climate change.

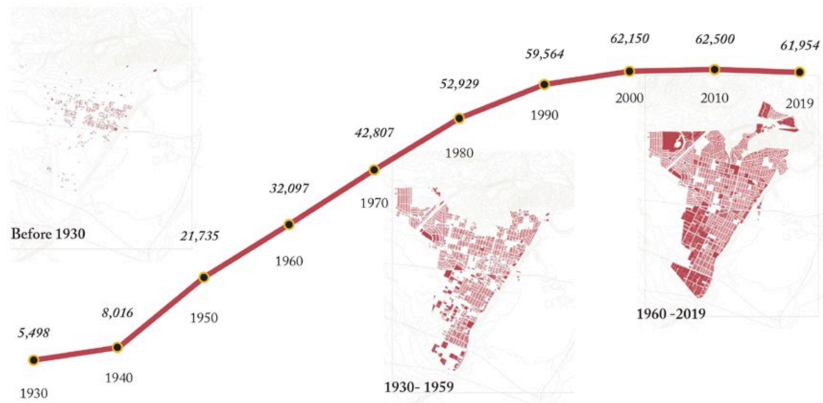
CASE STUDY: MONTEBELLO, CA



Montebello is located about nine miles to the southeast of downtown Los Angeles, with a footprint of 8.4 square miles and a population of approximately 63,000.

The majority of Montebello's growth took place between the 1940s and 1970s. During this phase, the pattern of development was walkable and mixed-use neighborhoods, supported by transit services along the corridors. However, development in the past few decades has been in residential subdivisions, shopping centers, and suburban office parks mostly designed to be accessed by the automobile. Montebello is now built out. (Figure 1) However, built out does not mean complete or no room for change. The recent escalating destabilization of large-format retail comes at a time of not only shifts in online shopping, demographics and associated consumer preferences, but also growing concerns about inefficient use of natural resources and the costs and environmental impacts of sprawling development patterns. Online purchasing and changing preferences have shifted to shopping from the comfort of our home, leaving much of the brick-and-mortar shopping centers and strips in decline.[viii]

FIGURE 1



Montebello started with a mixed-use walkable core. Transit corridors extended the neighborhoods outside the core – still walkable with diverse building types. More recent growth has primarily been auto-oriented, land intensive, and lower intensity-uses. Source: Montebello General Plan.

Montebello is transitioning from expansion and development to maintenance, preservation, and restorative infill activities. The new vision for growth was developed as part of the General Plan update and Downtown Montebello Specific Plan. The vision seeks to intrinsically integrate new growth with the city's economic, environment, mobility, place-making, health, recreation, and arts and culture strategies. New wealth creation opportunities will come from repositioning the underperforming commercial areas – filling in, fleshing out, and maturing with productive growth. (Figure 2)

In 2021, the total assessed value of real property in Montebello exceeded $7 billion. In 2021, property tax revenue represented over 23% of the city's General Fund– making the property tax the second largest source of revenue for the city. This revenue is used to fund important public services that support the quality of life for Montebello residents and business owners– including police and fire services and maintaining infrastructure and parks.

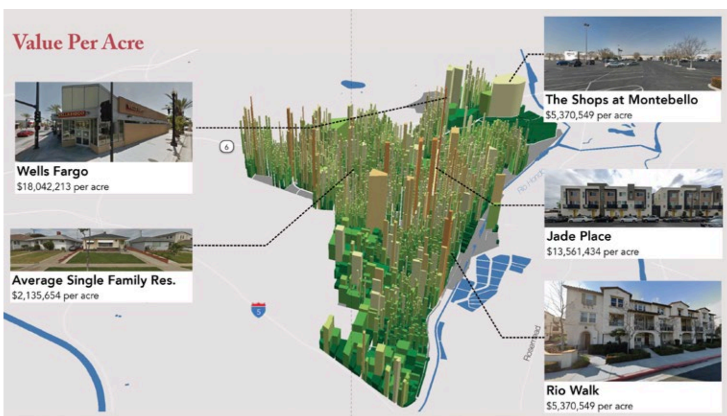
FIGURE 2

The first diagram maps out existing areas of stability (yellow color) and reinvestment (orange color). The second map shows the proposed green infrastructure that weaves together the various community assets. The third map shows areas where productive growth can be focused: such as downtown area, the corridors, and large tracts along the highway. Source: Montebello General Plan.

Certain types of land uses produce more in public revenue (i.e. property tax) than they consume in land area, while others consume more in public services (i.e. infrastructure) than they produce in public revenue. Since land is finite, long-term financial health of the city depends on the highly productive use of land.

The average single family residential home in the city has an assessed value of roughly $2.1 million dollars for every acre of land consumed. The average four-unit multi-family building carries an assessed value of $3.5 million. New multi-family residential developments like Rio Walk, Montebello Collection, and Jade Place topped out at over $13.5 million in assessed value for every acre of land consumed. Therefore, multi-family residential style developments provide greater value to public revenue, while consuming less of the finite land area of the city.

The General Plan and the Downtown Specific Plan reinforces the productivity of downtown and the corridors by prioritizing a diverse portfolio of residential developments, including multi-family and mixed-use opportunities. Specifically, the short-term housing objectives have the potential to add $3.1 billion in additional taxable value to the city. Collectively, the short-, mid-, and long-term objectives could add an additional $5.7 billion to the property tax base for the city. (Figure 3)

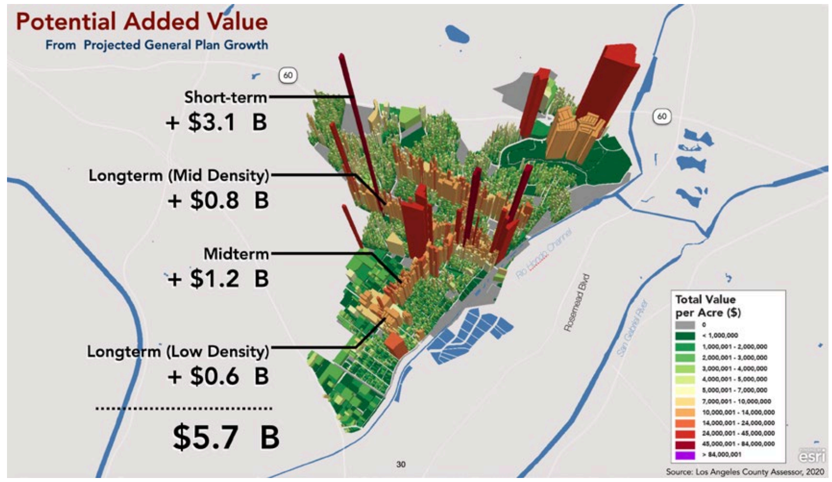


Montebello's value per acre prepared by Urban3. Source: Montebello General Plan

LESSONS LEARNED

A fiscal assessment of the city's revenues facilitated a shift in understanding the economic potency of walkable urban areas, often underserved, like South Montebello, the Corridors, and Downtown area. "Complex fiscal information was simplified and visualized to make it accessible so everyone can participate in meaningful conversations about community growth and development patterns that both secure its fiscal condition and create a strong sense of place," notes Joseph Palombi, Director of Planning and Community Development.

FIGURE 3

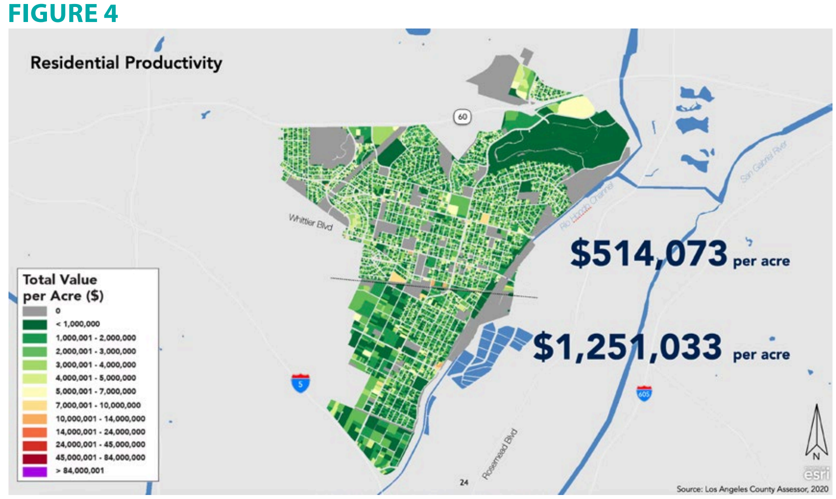


The map prepared by Urban3 shows financial productivity (total value per acre) of each parcel in the city with the height of the line representing the comparative productivity from projected General Plan growth. Source: Montebello General Plan.

The fiscal and equity assessment of property tax revenues was instrumental in creating strong support for additional urban infill in the downtown district and commercial corridors and increased public facilities and infrastructure investment within the concentrated areas of low-income housing. The assessments created a favorable environment to reverse decades of discriminatory housing policies and codes to promote integrated place-based planning and coding.

Auto-centric, racial inequity, and dysfunctional fiscal returns from sprawl is the default setting for many places, hardwired into the local zoning code and development regulations. The community's vision for intensity and character of development should be reflected in the zoning and development regulations.[ix] Besides zoning controls, cities can set targets for desired outcomes

FIGURE 4



The compact and dense traditional development pattern on the south side occupied by lower income people is financially more productive than the newer residential subdivisions to the north. The dense lower income neighborhoods use land more productively and tend to subsidize our wealthy neighborhoods. Prepared by Urban3. Source: Montebello General Plan.

of fiscal productivity, i.e.: revenues generated weighed against true cost to construct and maintain infrastructure; jobs, affordable housing units, and new park area added, etc. Existing development should not subsidize the cost of extending infrastructure. (Figure 4)

PATH FORWARD

In a 1962 essay, James Baldwin writes, "Not everything that is faced can be changed, but nothing can be changed until it is faced." These words are as relevant today as they were then. In a post COVID-19 pandemic environment we find ourselves reexamining how and where people want to live and work. The building types we were using just a few years ago no longer match our preferences. Additionally, decades of underperforming commercial corridors and underproduction of housing leaves us reevaluating what we need our buildings and cities to do for us. This presents an unprecedented opportunity for economic developers to strive for a pattern of growth that is productive, sustainable, and inclusive.

RECOMMENDED STRATEGIES FOR ECONOMIC DEVELOPERS

Use the Right Metric: Conduct a fiscal and equity assessment to understand the revenues generated by the different patterns of development and land uses. Measure revenues generated on a per acre basis.

Productive Development Pattern: To maximize returns on investment; minimize economic, social and environmental costs; and efficiently use resources and infrastructure, new growth should be directed to existing underperforming areas in the downtown, corridor or neighborhood centers.

Long-Term Investments: Economic development programs, investments, and subsidies should be evaluated on their long-term benefits, not on short-term job or revenue increases.

Local Focus: The most valuable fiscal assets are the existing businesses that are already contributing to the local economy. Promote local entrepreneurship to build and enhance locally based industries and businesses.

Make Great Places: Distinctive places facilitate a quality of life that is attractive for business retention and attraction. Economic developers can facilitate a community driven vision for distinctive places and offer predictable development standards and streamlined development review processes that make it easy to build great places.

ENDNOTES

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