

ALBUQUERQUE LEADERS AND GEORGISTS TALKED LAND USE AND TAXES

(The following columns about presentations made on July 23, 2004 at the Council of Georgist Organizations conference in Albuquerque are from your editor's notes.)

A NEW ECONOMIC DEVELOPMENT MODEL FOR ALBUQUERQUE.

The East Downtown Charrette & Master Plan

ROB DICKSON got into the New Urbanism in 1996 because of a Congressman who was one of the founders. He spent a little time in politics in Washington, DC, and was legislative counsel to a US Senator from Texas. He read James Kunstler's book, "Home from Nowhere", including the chapter about Henry George's solution.

Dickson talked about the East Downtown Master Plan: the process, principles, and work that went into creating this document (www.edocharrette.com). This is a rezoning of an entire area of Albuquerque. It is about 5,000 linear feet in an area of corridors just east of downtown, Broadway Blvd., Central Ave. and Main St. (Rt. 66). Well over 100 property owners in the master plan area agreed they could do better by working together in a corridors partnership than by working separately. They raised money for this Charrette, which is going to end up costing \$400,000, but the model can be duplicated around town for significantly less dollars.

At Broadway and Central Ave. they held a Charrette which is really a planning technology, a 4-7 day collective effort of getting all the right people and all the right information into one place at one time to design a solution. It is a good tool for land use because it takes everything that can stretch out literally over years and tries to focus it into a 4-7 day effort. They hired a great team of professionals, some local and some international. They had to find money and had some great contributors to the effort. They wanted to bring the public in but wanted to operate from a set of principles which are truly New Urbanist principles. They used the phase Urban Village, which is what they want it to be, putting the pedestrian first, with retailing at the ground level and people living up above the stores.

One of their goals was for all of your daily needs to be within walking distance. There are a variety of home types, not just floor plans, but ownership and rental, with a range of housing from affordable, mid-range to luxury housing, with traditional architecture and mixed use buildings, stores and businesses, and beautiful public spaces. They wanted to get back to streets being more than a traffic sewer. The first day of the Charrette they walked the neighborhood and looked at existing conditions and brought all the specialists from city government in because they are going to have to help design the solution. They brought in the councilmen from the district and also the mayor. On the first

day after looking at all this stuff and going through the principles and having a team lecture on the principles, they divided the 150 people that came the first night into tables and gave them a certain part of the master plan to take, using the principles and looking at existing conditions. What do you see happening here? How should we evolve? Where should we be in 20 years? In the final four days they took the ideas that they got from the public and synthesized them into the plan. Then they went back to the public and got more feedback, which continued after the Charrette. Through the public adoption process, the public and those that participated are the ones shepherding this through. The Landmarks Commission voted 4-0 and the Plan Commission voted 7-0. This goes to the Council next month.

Once the zoning is changed, the biggest plan is to change the design of the streets from "traffic sewers" to make Central Ave. to be a true avenue and Broadway Blvd. to be a true boulevard. There is a lot of vacant land, cleared in urban renewal, and the master plan talks about how to fill it in. There are some historic buildings and they want to renovate these buildings.

Just off the Urban Village is really a sort of single family Victorian neighborhood but it needs continuing investment as well. If Central and Broadway suffer disinvestment, that neighborhood cannot achieve its maximum potential.

The tax base in this master plan area has marginal market value, but built out over 20 years they see the plan being \$350 million to \$400 million of assessed value. That is the only way Albuquerque is going to attain fiscal health, raising the tax base on the infrastructure that it already has.

Charettes are about pictures. You don't talk about a solution. You draw a solution.

The public space is really the most important thing, and they want to have two great streets. The area is about half a mile long, 2800 ft. long, and it could be the best shopping district in the city. The goal is to go out and define an ideal tenant base and try to fill the ground level space. They are utilizing roundabouts in the plan rather than traffic signals. Modern roundabouts are being installed all over the country and in the west. They calm traffic. They eliminate waiting time at stop lights. Central Ave. has been defined as a potential light rail corridor and the plan accommodates that. Park once and walk.

After the Charrette is the hard part, the implementation. First the Council needs to adopt the plan. Then they will have to seek a Metropolitan Redevelopment Area designation. That designation and the plan will allow access to Tax Increment Financing, to improve the streets and convert streets from their existing condition to beautiful conditions, a necessary condition to all the investment that will drive the tax base up. That will cost money, and cities always have limited funds. The TIF mechanism issues debt at the beginning of a period and utilizes the growth in the tax base (continued on pg. 4)

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collections to repay that debt over time. The district uses the funds for a while, and after those bonds are repaid, all those taxes go to the city's general fund. They are only looking for public finance for the public space. Generally speaking, all private parcels will be privately financed and privately owned.

Tax Incentives for New Urbanism

JOSHUA VINCENT has been the researcher and executive assistant with the Center for the Study of Economics (www.urbantools.net) since 1944 and its president since August 1997. Approximately 40% of his time is spent on the road visiting cities, attending seminars on urban and tax affairs, and educating interested officials in land value taxation. Through lectures, research, and publications, he has helped make Land Value Taxation a prominent factor of the new breed of non-dependent city originated economic development and tax reform as well as a notable aspect of green solutions to sprawl.

Josh Vincent commented that was one of the best Charrettes that he have seen. As he flew in to Albuquerque, he had looked down at the layouts of new roads and especially new cul de sacs, generally on the west side of Albuquerque, seeing suburban sprawl in the making. Inside the city of Albuquerque on the way to the conference hotel, driving in the shuttle, he noticed that what we know to be the highest land value areas, the I-40 exchange, coming up Louisiana Ave. from the south side, the main intersections were very underdeveloped if not vacant.

It is problematic what LVT advocates can offer Albuquerque. New Mexico is one of the lowest in the United States in the level of property taxation. When talking about LVT solutions to urban problems, the LVT system can fairly easily propose a solution. Land Value Taxation is more saleable in states perhaps east of the Mississippi, mainly because the property tax is more heavily relied on. The property tax in New Mexico sends a message, and that message is a message of waste. You don't have to worry about how much land you tear up, you don't have to worry about going into the desert where there is no water because for years there has been a guarantee of roads and infrastructure from the state and also New Mexico is a beneficiary of federal largesse.

Property taxes, however, in Albuquerque are the highest in the state. Vincent has seen facts and figures that the value of residential property in N.M. is skyrocketing; however, the value of commercial property has been dropping like a rock. That is not how things work. There seems to be regime state-wide that encourages larger commercial property owners, probably including a lot of developers, to get their assessments dropped. That is a real problem. Albuquerque was a well built, densely packed traditional city. Having a traditional city ended with development of roads in the post war

period that helped move people out of town. As far as a tax incentive for say just downtown, those land values are still very high, and a Land Value Tax would be sensible. The district itself could turn itself into a sort of an enterprise zone un-taxing buildings and creating jobs. How about turning the gross receipts tax into a tax on the land values in this district. The gross receipts tax in the state of New Mexico is its primary source of public finance. It is essentially a VAT (value added tax). It used to affect food sales but food is now exempt.

There is nothing taxwise that would really pull people into Albuquerque. A TIF is certainly one tool. But a more direct application of the land tax idea and increasing the tax on land values in this district would encourage those holding land out of use and in underuse to do something with their land. Just looking for financing to improve the street scape is going to lead to increased land values even before the project is underway. Some of the latest research in London where they are tracking land values on a proposed extension of London underground shows that just the mere thought is going to increase land values. Albuquerque should capture those land values as soon as possible and return those to the public treasury.

As far as making Albuquerque and specifically downtown more preferable, it needs to be a city-wide, or at least a district-wide, enterprise zone. Otherwise there is no reason for people to stay here as far as their pocketbooks are concerned, considering the generous application of infrastructure to the outlying areas. If we are going to provide a wonderful area with amenities and a place where you can walk across the street without having to run for your life, to essentially improve the environment for people, it needs to be easier for people financially to live here and do business. That should not be just a temporary sense of what a TIF would do or a ten year abatement would do, but a permanent universal abatement on capital and or labor. There is a fairly substantial income tax in state of New Mexico. Make Albuquerque a place where the income tax is lower and apply that to land values.

The property taxes are so low in New Mexico that the LVT traditional application will have to be approached from a different way. Albuquerque will have to consider itself in competition with the suburbs and rural areas who have all the advantages. No one is going to turn off the water or stop those roads out there. Then fight back with low taxes on what people do and with a penalty for holding land out of use and use that which has been set up with infrastructure for 150 years.

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JOHN HOOKER, an architect, is the former mayor of Village of Los Ranchos de Albuquerque, and a candidate for senator in N.M. (www.Hooker4Senate.org). He is noted for his work to preserve open land and agriculture in the Albuquerque area and his support for smart growth and the New Urbanism. He is also knowledgeable about land value tax policies, and served as the local contact for the CGO conference in Albuquerque.

Hooker commented that Albuquerque (continued on pg. 5)

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is one of the fastest growing sunbelt cities in the U.S., building about 5000 houses a year on top of a population of about a half million people, consuming land at an exponential rate around the city, and sprawl is becoming the subject of about 1 editorial in 20 in the papers.

Albuquerque's public needs are vast. Every year the state of New Mexico tries to host a conference to teach counties and cities how to find money to pay for their own infrastructure, whether it is clean air and water money, or highway money. And of course you find out when you get to Washington, that everybody got there first. We need to spend billions of dollars just to maintain the infrastructure that our parents and grandparents built throughout Albuquerque and New Mexico. It is not just the city, but also the schools and universities, all the institutions that we have created over the generations, and Albuquerque is a young town. Albuquerque really didn't have much until about 1880 when the railroad came through. And then it pattered along and really exploded after WW II.

Ten years ago there was a state study done by the Dept. of Finance and Administration and they discovered after interviewing cities and counties that Albuquerque had just over \$1.2 billion in federal funding capital needs. Albuquerque public schools in that same study identified \$800 million in unfunded needs. In Albuquerque the University is talking about \$2 billion in unfunded needs. On top of that, several hundred million dollars is going into Homeland Security, including the airport.

As long as everybody argues about taxes being too high, or the wrong taxes on the wrong people or the wrong industries, then how are we going to get back to fixing roads and the sewer treatment plant?

DR. LEE REYNIS is Director of Business and Economic Research at the University of New Mexico, the preeminent economic research operation in the state which provides analysis and data for the state and the city of Albuquerque (www.unm.edu/~bber). Previously, she was the chief economist for the city and prior to that she worked as the chief economist for the New Mexico Dept. for Finance and Administration.

Dr. Reynis talked about financing state and local government and infrastructure in N.M. Typically when people talk about funding state and local government they talk about a stool with three legs: taxation of income, property, and consumption. New Mexico has a stool with maybe 2-1/4 legs, and has been at the very bottom when measured by per capita basis and income basis in terms of utilization of the property tax.

Why is the property tax underutilized? There is in N.M., as in many places, a kind of a porridge of taxes on property. New Mexico has a lot of people that have very close connections to land and to community. People here lost their land, as is true in many places around the world through various tricks and devices but also

in some cases through property taxes. New Mexico has a lot of people who are perhaps land rich but cash poor. There are a lot of reasons.

Fairly early on in this century, probably the 1920s and '30s, there was coalescing of interests between people who were trying to find a source of funding for public schools and the railroad interests. That was actually the genesis of something unique to N.M., its broad based gross receipts tax. It is a tax on the seller for the privilege of doing business in N.M. and is on practically everything. It has been in place for such a long time that it is not on particular products but on businesses and also taxes services (legal, advertising, medical), unless there is a not for profit exemption. Another thing is that the State of N.M. has been very rich in terms of endowment of its natural resources, mineral resources, and has a very strong extractive industry. The extractive industry is taxed in a variety of ways. Deriving revenues from gas, coal and other extractive industries basically has meant incomes haven't been taxed as much and N.M. hasn't had to be extra reliant on the property tax.

Because of rents and royalties paid on state lands and on federal lands and also because of taxes on extractive industries (severance taxes), N.M. has been able to accumulate huge permanent funds — the severance tax permanent fund and the land rent permanent fund dedicated to the public schools and the universities. It is up over \$11 billion and that has been a source of income to the general fund and for interest earnings.

The energy boom in N.M. came to an end with a crash in the early 1980s just after the state had managed to make some very significant tax changes. There is a boomlet now. N.M. funds public schools with a state equalization formula, and doesn't have local property taxes funding public school operations. Until around 1981, N.M. had a statewide property tax that was used to fund public schools operations, that was collected and sent to the state and was sent out along with other revenue sources to schools around the state. At the height of the energy boom they eliminated the statewide property tax. Subsequently they gave the authority, there is a constitutional cap on 20 mills that you can have for operations, to towns and municipalities where it is generally not used. At the same time they also cut income taxes and also cut gross receipts taxes. When the energy boom ended, the state finances were a disaster so they fell back and started raising the gross receipts taxes and started raising income taxes statewide.

There are some ways in which N.M. kind of limits its property tax through the state constitution. N.M. has elected assessors, and until last year was one of a handful of states that did not have uniform disclosure. Prior to that, only the assessors got to look at the information as to what properties were selling for. A lot of opposition to public disclosure has come from people in the rural areas.

New Mexico has a very expansive severance tax bond program with which to fund its capital program.

What does get funded with the property tax in New Mexico? It doesn't fund school operations. The public schools around the state have the (continued on pg. 6)

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authority of GO (general obligation) bonds and other statutory provisions that allow them to raise money for capital improvements from the property tax. It also goes into county operations and is a critical source of revenue for counties. Cities use the property tax much less.

Albuquerque uses general property taxes to fund GO bonds to fund public projects, capital improvements, libraries, as well as infrastructure. For municipalities, the major resource is the gross receipts tax, typically about 70%, and that may also be used to fund capital projects, transportation projects, quality of life, parking structures downtown. Albuquerque uses the gross receipts tax not only for funding operations but also for various things.

The counties use gross receipts tax for funding infrastructure, the jail, court house, some of it driven by the fact that counties are actually constitutionally limited on what they can spend GO bonds money on, some limitations in addition to the fact they have to be voted on that push counties as well as municipalities in the direction of reliance on the gross receipts tax. It tends to be a lot more stable actually than the sales taxes. Municipalities and counties are very upset that this past session the gross receipts tax on food was eliminated. It has been regressive but a good tax in terms of stability.

The problem with the gross receipts tax is that it is pretty much on everything. Take out inflation, and what tends to make Albuquerque taxes swing all over the place? Employment counts for some of it. But the real thing about the gross receipts tax going through the stratosphere or not is what happens to construction and in particular housing construction. Besides building more and more houses there are also all the contents and furnishings and other things that people buy. So this is a cyclical problem. There is always a concern about getting retail, and also annexation battles.

JUDITH ESPINOSA, a lawyer, is the Director of the Alliance for Transportation Research, an institute at the University of New Mexico (<http://www.unm.edu/~atr>). Previously she was the Secretary of Transportation for the State of New Mexico.

Ms. Espinosa's philosophy on infrastructure is that government ought to own the infrastructure for the benefit of the whole--corrections facilities, utilities, drinking water, transportation infrastructure, liquid waste facilities. It is a vital common good that we seek when we provide these services, and costs ought to be born by society as a whole and ought to be for the benefit of all of us. However, she doesn't think that government ought to operate everything. There may be some really nice government owned private operations, a lot of which you see in Europe, particularly in transportation.

In financing infrastructure, particularly transportation, it is not just the financing mechanisms that concerns her. It is the entire cycle of transportation, according all the costs to

design and create and implement and more importantly to maintain that transportation infrastructure that neither N.M. nor most places in the country have ever really come to accounts with. "I am talking about building and maintaining transportation as a sustainable system, and a sustainable system of infrastructure," she commented, "transportation meaning all modes--air, transit, rail, highways and roads."

Somehow we have the mindset that transportation needs to pay for itself, unlike other pieces of infrastructure that are for the common good. Transportation is part of our quality of life and part of our common good. Government needs to transport its people efficiently, equitably and provide mobility; people who are disabled, or low income or who are elderly ought to be able to utilize it so that they are not a burden on society. All those countries in the world including third world countries always provide some kind of subsidies. We did that with our highway and road infrastructure. Transit can't pay for itself.

Here are a few policy changes that she would like to start moving towards. View it in a societal whole for the good of all of us. Look at an analysis of land use. Look at the current uses of that land, the best future uses of where we are going to put that transportation infrastructure, and that includes looking at housing, job opportunities, retail and growth boundaries, transit oriented design scenario and the urban/rural interface. The rural folks have a harder time financing infrastructure than anybody in Albuquerque would ever have. That needs to be factored into the modeling for transportation. When engineers sit down, they don't talk about land use, other than what to buy up, how much it costs, who has to move so it can be put there. That is not just highways but also transit and light rail and the like.

Look at valuing that land use, not only now but for the future and what that interplay will be for the transportation infrastructure, she said. Look at our pricing policy. Factor into the models or into the financing scenarios the models of maintenance of what it costs to maintain that infrastructure. Take into account the pollution impact; there are no models out now that deal with green house gases in building transportation infrastructure. There is nothing you can plug in that will give you that pollution cost. Look at things like our cultural heritage.

On the other side, there are certain benefits we can account for with pedestrians and bikes, and we ought to start putting financial numbers to that. How do we capture the value of transit and pedestrians and non-car resources, valuing the social benefits of non-motorized transportation infrastructure? If we look at value capture at, say, transit oriented design, we can talk about better livable communities--better for business and better for retail, better for walking around--and in turn it will improve the tax base, both property and gross receipts taxes. Studies have been done all over the country that show that. (continued on pg. 10)

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WILLIAM BATT, PhD, Albany, NY, after experience as a Peace Corps volunteer in Thailand in the early 1960s, went on to teach in several colleges. Dr. Batt left university teaching in 1982 to serve the Speaker of the N.Y. State Assembly, initially with the Commission on Critical Transportation Choices and shortly thereafter on the Tax Study Commission, and was on the staff of the N.Y. state legislative Commission on Critical Transportation Choices. (He may be emailed at hwbatt@yahoo.com)

Dr. Batt for ten years was involved in helping the N.Y. legislature and the public to understand how good taxes should be designed. Ms. Reynis' prior references to the 3-legged stool metaphor, typically income, sales, and property taxes, caused Dr. Batt to recall what it was that prompted him to first think anew about tax design years ago. The prevailing wisdom is that an ideal revenue stream rests on three taxes, so that burdens will be spread as widely as possible whatever the economic circumstances, and that government finance will then be stable and reliable, as well as comport with other common guidelines of taxation. Students of public finance have long agreed about principles in forming sound tax theory; they are variously enumerated in textbooks as efficiency, neutrality, equity, administrability, simplicity and stability. (See <http://www.progress.org/cg/battprincip02.htm>)

If indeed the economic rent is collected, many of Georgists believe that we not only would have a very stable tax revenue source, but probably would be able to eliminate economic cycles, because Georgists believe that it is the build-up of land rent and speculation that prompts those economic cycles to begin with.

Dr. Batt noted that land values arise from the presence of common social investments, and those values, with proper design, can be recaptured to pay debt service in an efficient and revenue neutral loop. When you build a road, the beneficiaries are the land sites alongside the road, and the value of those sites increases. Those are largely not public; they are private landowners. One study (and there have been several such) showed that one 9-mile stretch of superhighway west of Albany going north to the Mohawk River/Erie Canal on the way to Montreal would cost some \$128 million to build the 34 bridges and the 6 lanes of highway (in 1995 dollars). But the land value of those landsites within just two miles on either side of that corridor increased by \$3.8 billion in the 38 years since.

(<http://www.urbantools.net/pdf/ValueCaptureAsAPublicFinanceTool-BillBatt.pdf>) Who got that windfall? Who should have gotten that money?

Batt noted that Walt Rybeck, when he was working for Congressman Henry Reuss, did a similar study in the early 1980s of how value capture might have been employed to finance the Washington DC, Metro. The Washington Metro very shortly thereafter yielded a two-fold increase in the land values proximate to the stations over what the cost of construction of Metro was, a return (continued on pg. 11)

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that would be many times that in later years.

So, yes, definitely, look at value capture.

Dr. Batt believes the capital infrastructure can be built by collecting land rent to pay off the bonds used to build those highways, and operating and maintenance costs should be paid by user fees. And those user fees are for the most part private, better collected directly from users. Roads provide the basis for services of a public good dimension, particularly for fire protection, public safety and security, and so on. But the preponderance of vehicle use, cars and trucks, is really private. Not all the beneficiaries are drivers; beneficiaries should include proximate landsite owners as well. The many elements of transportation costing should each be paid for through several different mechanisms—one kind of pricing for registration and licensure, another for congestion, a third for pollution, and so on.

The big debate when Batt was in graduate school in the 1960s, concerned so-called "balanced and unbalanced growth." One side argued that investment in identified sectors of developing nations would lead to growth in other sectors. It was simply a matter of pump priming. No one even follows such discussion today. Now the word "growth" itself is being questioned by economists like Herman Daly in his book, "Beyond Growth". He suggests that "growth" implies a kind of exploitation of natural resources, a kind of a vulgar consumption. He advocates development, not growth, a concern for quality, not quantity. Words do change their meaning. It is mindless growth, he says, that is so wasteful and environmentally destructive.

One reason that we over-consume transportation services is that we don't pay the true costs of their use. Transportation finance studies have shown, for example, that drivers typically only pay 10% of the real cost of driving their cars. One study done by World Watch Institute showed that the private transportation system in this country is so far underpriced, that it has induced a kind of consumption of automobile use that is ruining us. One study showed that if all costs were included, some 25 percent of the US economy would be attributable to motor vehicle transportation. If we were to price our transportation services at marginal cost, we would have a very different kind of transportation system that we have now. In fact, we now have a very privatized system because our capital costs are invested so much in highways. Were we to invest more in public transit services, our initial capital costs might be higher but our operating costs would be far lower. Pollution costs and congestion costs can be recovered equal to what their total budgets are.

The public has unfortunately not had much understanding of transportation costs or their relationship to land use configurations. Batt recommended a new video, "The End of Suburbia" (www.endofsuburbia.com), narrated by James Kunstler. It is the only one out there now that describes the looming end of cheap fossil fuel and its consequences. He urged everyone to get a copy for its sobering view.

JOSH VINCENT, Director of the Center for the

Study of Economics, Philadelphia, PA, responded. (He may be emailed at manager@urbantools.net)

Vincent lives in the Northeast where all the states are failing, save one, New Hampshire, which essentially operates on a 1-legged stool. It operates on property taxation, and N. H. is the only state in that region that prospers. In New Mexico, there seems to be a sort of schizophrenia in that we care about the old ways of small owners holding onto land, people that prospered for years without a major highway or anything like that, and that is why property taxes are very low. Yet N.M. has the most regressive taxes that make up the majority of municipal and county and state finances, the gross receipts tax. A divide exists between the city, Albuquerque, and up north where immigrants, anglos, are moving in and taking over vast tracts of land. There is a model in how Hawaii treats its citizens and its tax structure; indigenous people and regions are treated differently under the tax structure. It seems to work in the more agricultural counties of Hawaii, which have land value taxation. If you are adjudged indigenous or traditional, then you aren't subject to some of the property taxes or sales or income taxes that urbanized areas are. <<

ADDRESSING HOUSING NEEDS

LOUIS KOLKER, an architect, is Executive Director of Greater Albuquerque Housing Partnership, which is a non-profit affordable housing organization that is working to revitalize Albuquerque's older neighborhoods. He is a member of the City of Albuquerque's Impact Fee Committee and is past chairman of the city of Albuquerque's Affordable Housing committee.
(www.swcp.com/proabqnet/Orgs/GAHP.html)

Kolker talked about reframing the affordable housing strategy, specifically in the city of Albuquerque. He verbally painted three different pictures, all relating to the current strategy on the need for affordable housing.

The first picture was one of someone sitting in an automobile in rush hour traffic and looking around and seeing nothing but other automobiles and holding on tightly to the steering wheel and riding the brake.

The second image was of someone returning to a subdivision, driving down the street and seeing 2-car garages, coming out of all the homes. It is really an automobile environment. There is no one playing in the street, no one walking down the street.

The third picture was driving a car in an older neighborhood in the inner city. There are houses in disrepair, fences that need mending, roofs that need mending. There are some people in the street, walking about, and these tend to be people of color. Turning the corner, there are boarded up abandoned buildings, where in the past there may have been some retail activity. There are also vacant lots that are sitting there unused. (continued on pg. 12)

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To Kolker, all three pictures are a result of our current strategy on how we address affordable housing in the city. How we now address affordable housing is that we rely on private market forces to go to the very fringe of the city where the land is the least expensive, and for land developers to buy the largest tracts they can possibly afford to purchase, subdivide that up to about 6 units per acre, and then sell that land to mass production home builders. And the mass production home builders come in, working with economies of scale, and mass produce house after house after house, possibly offering 1, 2, 3, or 4 floor plans. All of the homes are dominated by the 2-car garages sitting in front of the house. The house is a very important part of this, but the answer to affordable housing is the automobile, and you have heard a lot of times you drive as far as you can to qualify for housing you buy. And that is currently how we address our affordable housing needs.

In 2003, Albuquerque permitted 4,900 houses. From 1999 to 2003, Albuquerque permitted a little over 20,000 houses. The market in Albuquerque for new home construction is really a first time home buyer, young families starting out. The city of Albuquerque and its economy is not one that attracts a lot of new businesses and a lot of new jobs from elsewhere. So most of the growth in Albuquerque is a response to young families moving out from older families and starting their own homes.

When you look at the population in general in the city of Albuquerque, 38% of that population has median incomes below 80% of the area median income. In looking at the dollar amount value of those housing permits, a good 40%-50% of those permits are priced so young families starting out with a median income below 80% could afford those homes. So in one analysis, the city of Albuquerque, using this market driven approach to building affordable housing, is meeting its affordable housing needs, at least in the area of home ownership.

But that has a price of traffic jams, pollution, lack of neighborhood, lack of pedestrian activity, and physical health problems. The city of Albuquerque in the past 3-5 years has gone through a lot of community dialogue around the issue of continuing growth on the fringes, as the inner core of the community deteriorates. As a result of those discussions, a neighborhood strategy has been developed toward traditional neighborhood development, the new urbanistic type of development, not only on the fringes but also in the core area. In looking at how to do that financially, Albuquerque is going through the discussion now of impact fees to determine what the actual price of growth is on the fringes. Starting very soon the city can recapture the cost of growth through the implementation of impact fees, and in so doing try to curb that kind of growth, and centralize growth in the core areas where the impact fees would be less. Or the city can offer incentives to waive those impact fees if the

development that happens on the fringes is more in line with mixed use development, mixed income development, walkable communities, schools near to where people live, retail near to where people live, and just sort of as a guideline using traditional neighborhood development in trying to achieve the goals.

Kolker suggested the way to make affordable housing, multi-family housing, home ownership housing, and multi-family rental housing happen in each of these communities is not through the market place, but through government regulation and designation in conjunction with the MRA (Metropolitan Redevelopment Area) that 38% of the housing built in that designated MRA be for families with incomes at or below 80%.

Another way of doing it is through inclusionary zoning. Inclusionary zoning is a method that really got its start in Montgomery County, MD., where subdivisions of a certain size must provide 20% of the new housing units created to families with incomes at or below 80% of median income. He suggested that is another mechanism that the city currently doesn't have. He further argued that when the city goes through zoning changes, that it include in the zoning changes legislation of some fashion, some zoning mechanism that requires a certain amount of affordable housing. So affordable housing units, multi-family or the home ownership units, can be placed in vibrant communities, in redeveloping communities, where in many cases, the redevelopment displaces lower income families, anyway. This is a way to assure that you are going to have at least a mixture of incomes in those communities.

The third method, and this is the method under discussion now in conjunction with the planned growth strategy, is through impact fee waivers. Albuquerque is going through an exercise using consultants from Georgia Tech University. At this time it is estimated those numbers are going to come in that for every 1,000 sq. ft. home developed out at the fringe, the costs associated with that to the city of Albuquerque are somewhere in the neighborhood of \$12,000 to \$18,000 for each home. Granted, a large portion of that housing is affordable housing. In the legislation of N.M. you can waive impact fees for affordable housing units. But we don't want to waive affordable housing impact fees for continued subdivisions on the fringes and housing that is affordable; we want to use this waiver to encourage affordable housing in traditional neighborhood type development, where you get mixed income housing, you get housing within 1/4 to 1/2 mile walking distance from retail, to schools within the same distance. We would like to use the waiver of impact fees to encourage affordable housing, not on the fringes, but within a core community of people in the inner city or large land developments outside of the city.

CHRISTOPHER LEINBERGER, an urban land strategist and urban developer, is a partner in Arcadia Land Co. of N. M. operations, and he is responsible for historic district improvements in Albuquerque. (continued on pg. 13)

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Leinberger said that there are a whole host of smart growth, new urbanist projects that are underway at the local level in Albuquerque, N.M., and at the regional level, and hopefully soon at the state level. His focus is on the centers, the cores, and the multiple centers, the multiple cores. Whether it be cores, corridors, new urbanist, greenfield communities, or conservation development out on the fringe, progressive development is yearning to be born in this country. There is great pent up demand for it. That is what they are attempting to do in downtown Albuquerque, but what it means is you have to design these places differently, finance them differently, and want them to be mixed income as well as mixed use. You have got to really focus on that right up front.

In the 12-block downtown development district, they are trying to make walkable places. Yes, you need to deal with cars. People can walk from home to the movies, or from home to the restaurant, or from home to work. Secondly you can have a bicycle or take transit, but you still have to deal with the car. It is a catch 22 as you have got to achieve the critical mass, and they are attempting to achieve that.

The thing about design that is crucial to understand is that you have got to create a walkable place. People want to walk about 1500 ft. and within those 1500 ft., people see a lot of interesting things at street level. That means we have got to build things that have architectural significance. That means we have got to build things that have much higher quality than the billboard strips out in the suburbs where we don't build architecture; we build strip malls that are billboards, 150' back from the street, to last about 10 years, made out of plastic and stuff that won't be around much longer than that.

The first project that Leinberger did with the Civic Trust was a movie theater at First and Central. Across the street is a surface parking lot where the new 10,000 seat arena is going to be. Transit is going right up and down Central and the railroad they will start next year goes just to the east of it. Albuquerque is a very car dominated town, so behind it, 45 feet behind the sidewalk, is a 180,000 sq. ft., 630 parking space deck. In front of that is a structure, which has 41 for-sale loft housing units on the top 4 floors. For sale office and for rental retail space will be on the ground floor. The Greyhound building will be torn down, and Greyhound moves into Phase II of the multi-modal transportation center with construction to be started at the end of the year. There will be retail on the ground floor and housing on the top.

This is all downtown, which in 1998 had its first private sector building permit in 15 years. Albuquerque put in place a strategy at that point and has seen \$450 million worth of public and private development. Presently at 4th and Central there are 13 restaurants, the highest restaurant concentration in the state, where there previously had been 3 restaurants. All this talks about is that there is a great pent up demand throughout the country for mixtures, walkables as special places. Research done in the Albuquerque metropolitan area shows about 100,000 households want walkable communities.

In this country we have been engaged in what Leinberger referred to as conventional development because it is has become codified, it is simple, it is modular, and it is segregated by income and race. If you want to buy the country, 40% of what you are buying is in fact real estate. We have given it over to Wall Street. And there are a lot of reasons for it, primarily because we in real estate have a tendency to borrow money. How we build our cities, throughout history, has always been driven by the transportation system. Transportation and land use are linked at the hip.

So how are we going to pay for these special places. The average car costs \$6,000 a year, after tax dollars, according to the AAA. So you drop \$6,000 for your car that is a depreciable asset out of your household, and convert it into \$120,000 worth of appreciable asset and get to walk more.

Wall Street has done what they do best; they make markets. Markets want to trade like for like. We then, therefore, standardize real estate with 19 standard product types that we can easily build, easily finance, and are legal. But the elements of progressive development are different and that is that we build much more complex, very much mixtures on the same site; it is integrated, and it can be mixed incomes. One of the problems when we build progressive development is because it is so special. There are so few special places and the rest of suburbia is so boring that the market drives the price up. However the key issue is walkability. That is the common transportation mode by which we build these places. The thing about special places is that they take off in value over time. It is what Leinberger referred to as creating the upward spiral of value creation. That is why great urban places have always had the highest value ratios in the metropolitan area, the highest prices.

In Albuquerque, downtown is being gentrified as they try to bring middle class and upper income people that have not lived there in 80 years back to downtown, and in the process they are attempting to tame that gentrification by dedicating some of it to affordable housing. The business plan that they drafted offers 200 to 300 housing units per year in the downtown that are affordable. They are doing that by dedicating future cash flows out of downtown projects into a civic trust, a new 501.c(3). Those future cash flows, like TIF, will be dedicated to the repayment of money to be borrowed up front to invest in affordable housing. And it will be sustainable for years to come. It isn't like the federal subsidy program which can always be cut. As the downtown proceeds, there will be more and more money for affordable housing. And the units downtown will remain affordable forever.

For more information about the civic trust concept, you can access Leinberger's website (www.cleinberger.com) or you can go to the civic trust web site (www.abqcivictrust.org) (continued on pg. 14)

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ED DODSON is a Housing and Community Development Finance Specialist for a national investment firm. He has spent 30 years in the real estate financing business. The first 10 years in his career he worked in the mortgage department of a commercial bank. Since 1985 he has been with Fannie Mae. [He made clear that he was participating in this conference discussion as a private individual and that any opinions expressed were his own and were not to be construed as positions taken by his employer.]

Dodson said that statistics from HUD show that a higher percentage of housing stock in the country is deteriorating and really should be condemned and vacated, torn down and replaced. The problem is that the pace of demand and need is growing exponentially while the number of new housing units that are affordable to people at the lower end of the income spectrum is declining in a net way. Part of the reason is that land costs are rising almost everywhere because of the dysfunctional nature of the land market. The only way to deal with that structurally is to impose a 100% tax on location values, on the rental value of land, so that land prices are contained.

Land prices aren't high everywhere, he acknowledged. Brownfields tend to create low land prices, except that before you can develop you have to clean it up first. And so in order to build anything that the market will pay for, you need a public subsidy. In his job Dodson spends a great deal of time looking at financing structures that are designed to bring combinations of federal, state, and local money to subsidize construction of housing so that it can be sold to people who make 100% or 80% of the area median income. These financing structures are very complicated and time consuming to put together.

Though speaking as an individual, Dodson said that in his career he has seen tremendous strides. Fannie Mae has over fifty offices scattered around the country, including one in Albuquerque, with staffs that are dedicated to be on the ground and talk to people who are trying to redevelop downtown as well as neighborhoods. They try to bring Fannie Mae's corporate resources to that arena to participate in land development, new construction. Doing so requires a lot of adjustments to what the standard criteria is for doing this business.

What has happened over the last say 10 years is that a lot more data has been collected about how people pay their bills and budget their expenditures. Who can afford to buy a house, how they pay their bills, and how to treat people who do not have conventional jobs or income streams are now far better understood than even a few years ago. There used to be a common ratio that said you don't qualify someone for a mortgage loan if that payment is more than 25% of their gross income. It is now standard to take all the household income that is coming in from the adults in that household to qualify for that loan, and maybe that front end ratio will be as high as 40%. To offset this large housing expense, credit scores are looked at very closely.

A lot more households are able to obtain mortgage financing today than in prior housing cycles. There is a bigger supply of candidates who have the opportunity to compete for housing stock, so the price goes up until the developers can respond by building more housing.

However, the developers first have to negotiate with the landowners. In the cities sometimes the landowners that we are trying to negotiate with aren't even private landowners. They are the redevelopment authorities. The redevelopment authority in many cities will take parcels that have been abandoned, if they are willing to take on the insurance liability costs. A redevelopment authority might hold onto a downtown prime piece of land for a decade or more waiting for the market to ripen. The authority might be trying to get title to the contiguous site or a couple of other contiguous sites so that instead of one small development they will have land that they can offer to a developer at a price that the developer says it can afford to pay. Dodson expressed amazement at how creative everyone in the housing industry has been in improving the situation despite the underlying dysfunction that is taking place in terms of land markets and tax policy, bad zoning, difficulty in getting construction permits, and "not in my back yard" development attitudes.

Dodson indicated his work in the Northeast part of the United States deals with old industrial cities with numerous brownfields, decaying structures, abandoned buildings, and abandoned land -- and very large costs. In the Southwest, most of the cities are newer, expanding people are moving in that direction. Some places like New York City have the advantage of a constant inflow of immigration. People get tired of living in the city and move out and other people replace them. In the Southwest, people are moving to Phoenix -- which is now the fifth largest metropolitan area, displacing Philadelphia. Philadelphia is losing population not only to the suburbs, but some parts of the suburbs are losing population as well.

One common condition is that potential first time home buyers have minimal savings to put down to buy the median priced housing in most urban and suburban communities. To become home owners, they need grants or gifts or deferred loans from local government, from foundations, or parents. CDBG (Community Development Block Grant) money or HOME funds is often a primary source of funding for the construction of affordable housing units. Ironically, there is a lot of community resistance to high density construction for first time home buyers. Why? Young families with children move into the neighborhood and property taxes are raised to pay for public schools. Senior citizens with no school-age children vote against the bond programs to finance school expansion.

Dodson added that the financial pressures on many seniors has been aggravated by the long period of low interest rates. Seniors tend to have their savings in bonds or certificates of deposit. Their incomes from these investments have dropped dramatically during the 1990s. So, seniors don't have the kind of income that they had to absorb increases in the property tax and other expenses, including medical care. His view is (continued on pg. 15)

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that until we get the tax structure corrected, and local governments get most of their revenue from land values rather than taxes on housing, we will continue to need revenue sharing from the Federal or state government to support affordable housing.

TED GWARTNEY, is the assessor of Greenwich, CT and before that he was the assessor of Bridgeport, CT. He has been a professional assessor and appraiser all of his life.

Gwartney responded that his first job was the assessor's job in Southfield, MI, a town just north of Detroit and a fairly good sized community that at the time was rural and didn't really have that much in terms of commercial development. But it did have a freeway which was fortunate. In that case, the mayor of the town, Jim Clarkson, just wanted to have fair assessments. Southfield went into a progressive evaluation mode to keep the assessments current. And it was amazing because when you do your first reassessment, you see that the land values go way up whereas the buildings pretty much stayed the same. What happened was all of a sudden people who were sitting there on land who really had no reason to do anything with it, were willing to sell to people, to developers. There were these commercial sites along the freeway that had been vacant for all those years finally being bought up. Southfield was reported to be the most progressive city in Michigan. It has 180 of Fortune 500 companies located there. That is how it developed so well as a result of the policies that were used there.

Land value basically is a resource that is created by the community. It is created by the energy of the community, and the energy that people are putting into their community is reflected in the land values.

One example is the capital of Pennsylvania, Harrisburg, which 15 years ago was rated one of the worst cities in North America. They decided to do something radical, to have a much higher tax rate on land than on buildings, a ratio of land to buildings tax of about 6 to 1. That means that there is an incentive for people to fix up their buildings because it won't

increase their taxes significantly. There is an incentive to develop land that is vacant because they are paying high taxes on the land, to build it up and get income out of it. It means that commercial properties can fix up and rent. It means that new properties can be developed. It brings back this whole feeling of life to the community. And this is something that gets around the need for government subsidy. Government may not always have money to subsidize. Here is something that can be done in addition to any government subsidy. This can be done by the community itself. A progressive community should look very strongly at this.

Right now land values are increasing at a very rapid rate, whereas building values are increasing at a much lower rate. Generally speaking in Connecticut where Gwartney is from, land values are increasing at 1% per month, 12% per year. Building values are increasing at a net 2% per year--3% less 1% for depreciation. That is quite a difference. If you are having land values increase at 12% and building values increase at 2%, that really is going to bring these land prices up just out of the sky. Now the average house in the state of Connecticut is around \$300,000, just for an ordinary house.

Another suggestion that Gwartney ran across this year is the concept of communities leasing land for development. This has been done a lot in Australia over the years. In this development the government owns the land and leases it out. The annual lease is around \$5,500. The people put no money down but are under contract to buy the building which the builder develops and they pay the annual fee. <<



Pictured above from the panel on "Addressing Needs" are Edward Dodson, Louis Kolker, and Christopher Leinberger. At the microphone, panelist Ted Gwartney is just outside of the picture frame.