★ Chapter Six ★

Subsidizing Sprawl, Subsidizing Wal-Mart

> Subsidizing economic development in the suburbs is like paying teenagers to think about sex.
>
> —*Lyle Wray, Minneapolis Citizens League*[1]

Does your metro area suffer from suburban sprawl? Here's a checklist of diagnostic indicators to help you find out.[2]

- ❑ Do most commuters have any choice except the car to get to work? Are commutes getting longer and traffic delays becoming more common?
- ❑ Is the air quality getting worse? Do you know more people with asthma?
- ❑ Are there neighborhoods in older areas with large numbers of people of color who suffer high unemployment?
- ❑ Are older areas having trouble maintaining public services because they have lost a lot of their tax base? Are there many abandoned or contaminated properties in older areas?
- ❑ Are newly developing areas on the outer fringe suffering financial strains because they are growing too rapidly? Are there calls for growth slowdowns?
- ❑ Is there not enough affordable housing in the suburbs? Are there many suburbs that are poorly served by public transit?
- ❑ Do many residential areas lack sidewalks? Are more people becoming obese?

- ❑ Are big-box retail power centers and Wal-Marts opening up, undermining older malls and downtown retail districts?
- ❑ Are farms and natural spaces getting paved?

As was the case for the proverbial judge who couldn't define pornography but knew it when he saw it, sprawl means different things to different people. However you define it, sprawl is a very serious problem, a huge drag on our economy and our health. It worsens racial inequality and costs us thousands more acres of natural spaces every day. In most metro areas, our built environment has grown dysfunctional, and it's getting worse fast.[3]

As if all that weren't bad enough, you guessed it: taxpayers are often subsidizing sprawl—in the name of jobs. The economic war among the states is a serious problem, but so is the economic war among the suburbs.

Taxpayers pay for sprawl when they subsidize corporate relocations, many of which go from older core areas to newer fringe areas. Those are the most typical corporate moves—within the same metro area, so firms can retain their workforces and stay close to their suppliers and customers. But when companies move *outward,* that often means jobs move away from public transit, away from areas of high unemployment, maybe even away from areas with existing infrastructure into "greenfields"; that is, farmlands or natural space.

Taxpayers pay directly for sprawl through two kinds of job subsidies—enterprise zones (EZs) and tax increment financing (TIF). Ironically, both of these programs were created to revitalize older areas. But in many states, they have been perverted: their rules have been rewritten so that now they fuel sprawl that undermines older areas. The most outrageous cases are when TIF and other subsidies go to big-box retailers like Wal-Mart.

Taxpayers also pay for sprawl when they subsidize companies through the many other kinds of giveaways that are available no matter where a company goes. That's because, as I'll explain, not one single state coordinates any of its job subsidies with public transit.

Stay tuned as we investigate the real suburban issue today: is a mall "blighted" unless it has a Nordstrom? We report. You decide.

What Is Suburban Sprawl?

"Suburban sprawl" refers to development patterns with low density and no mixed uses (for example, no jobs or stores anywhere near homes), a lack of transportation options (forcing everyone to drive to work or shopping), and job growth in newer suburbs simultaneous with job decline in older areas (both the core city and older suburbs).

So, as the checklist of indicators suggests, sprawl makes people ever more dependent on cars. Commuting times get longer, air quality deteriorates, and natural spaces in outlying areas are rapidly lost. Older areas lose jobs and tax base, so central city infrastructure crumbles and services decline, even though there is a greater concentration of people who need help. Newly developing bedroom suburbs on the fringe struggle to pay for a lot of new roads, schools, and teachers, but they lack much commercial or industrial property to balance their tax base.

As jobs spread out from older areas, work becomes scarce for unemployed workers who are concentrated at the core. Many suburbs lack affordable housing (often because they enact exclusionary zoning that blocks the construction of apartment buildings and townhouses), and many suburban jobs are not accessible by public transit (either because a suburb opposes the entry of transit lines or because jobs are simply spread too thinly). So sprawl effectively cuts central city residents off from regional job markets. This means concentrated poverty in core areas, where residents are disproportionately people of color.

Meanwhile, out at the suburban fringe, thin, sprawling development consumes open space at an alarming rate. Every day, the United States loses 3,000 acres of productive farmland to sprawl: the equivalent of all the acreage in Delaware every year.[4] Americans hate this. That's why 75 to 80 percent of the time they approve ballot measures for smart growth, to improve mass transit and to preserve natural lands.[5]

Sprawl causes us to chew up land far faster than our numbers grow. Between 1982 and 1997, the U.S. population grew by 17 percent, but urbanized land area increased by *47 percent*. In the Northeast and Midwest, where population growth was slowest, the people-land trends are worse: land there is being consumed about five times faster than population growth. For example, in this period the Detroit metro area gained only 5 percent in population, but its urbanized land area grew by 29 percent.[6]

In the South, where population growth was higher, the trends are not so lopsided, but metro areas there were thinnest to begin with. Atlanta is arguably the worst-sprawling metro area, with a density of fewer than three people per acre; it's the only region to have its federal highway money held up because its air quality became so bad.[7] By contrast, many cities in the West have stopped sprawling so badly. For example, the Los Angeles-Anaheim-Riverside metro area was much more dense than Atlanta to begin with, and actually became slightly more dense, with more than eight people per acre.[8]

When metro areas thin out, tax systems become unjust and inefficient. Taxpayers in older areas get stuck with higher property tax *rates* as cities try to make up for the loss of the corporate property tax *base*. Taxpayers on the outer fringe also get socked, because their growth is thin and inefficient. And taxpayers in the region as a whole pay more, because on a per capita basis there are more miles of roads and sewers and water mains to build and maintain. Plus, police, fire, sanitation, and other public services cost more to deliver when the population is thinly distributed.

Sprawl is bad news for your health, too. The most obvious problem is air quality, since cars and trucks are the fastest-growing source of air pollution. The occurrence rate of asthma in the U.S. more than doubled between 1982 and 2002. Our children are the canaries in the coal mine here: their rate has always been higher and has also more than doubled.[9]

But it's not just bad air. Sprawl also makes you more likely to be fat and suffer from high blood pressure. No joke. Since people who live in sprawling areas really can't do much on foot, they tend to put on pounds. Indeed, many post-war suburbs even lack sidewalks for walking around the neighborhood, much less giving residents a choice about how to get to work, school, or shopping. A 2003 study in the *American Journal of Health Promotion* found that people living in counties rated as most sprawling are significantly more likely to be heavier, have a higher body mass index, or suffer high blood pressure, compared to people living in less sprawling counties.[10]

Do all these symptoms of sprawl sound like a recipe for a globally competitive U.S.A. of the twenty-first century? I don't think so.

What Causes Sprawl (Besides Job Subsidies)?

Urban experts say sprawl is caused by many factors, including

- Some people's preference for low-density housing
- White flight
- Lack of effective regional planning
- Cities competing for jobs and tax base instead of cooperating
- "Redlining" (geographic and racial discrimination in older areas by banks and insurance companies)
- Crime and perceptions of crime
- Declining quality of central city schools
- Contaminated land or "brownfields"
- Exclusionary suburban zoning
- Federal capital gains rules that used to encourage people to buy ever-larger homes
- The historically low price of gasoline
- Federal transportation spending that grossly favors highways over public transit

Don Chen, director of Smart Growth America, refers to all of these factors as a system of "mutually assured sprawl"; that is, they represent a post-war consensus that said sprawl is the way things ought to be. That consensus in turn created a system of mutually reinforcing systems to make sure we got what we thought we wanted.[11]

Another contributing factor to sprawl—overlooked until recently—is economic development subsidies. Sprawl happens when states allow subsidies to go anywhere (like a cornfield), and often pay companies to do what they would have done anyway (move outward). It happens because states fail to coordinate their job programs with land use planning—in particular, public transit planning. And it happens because subsidies that used to be targeted for urban revitalization, such as TIFs and EZs, have been perverted. Their rules have been changed so that newer and more affluent areas can give these lucrative subsidies away.

When newer suburbs are pitted against inner cities and older, inner-ring suburbs, it's a rigged fight. Newer suburbs have all kinds of advantages: more undeveloped and uncontaminated land, newer infrastructure, a more educated workforce, less dependency, and higher incomes. That's why many states enacted subsidies in the 1970s and early 1980s that were written to favor older areas, to try to level the playing field. But over time, many states have loosened the rules so that almost any locality can give away "anti-poverty" or "anti-blight" subsidies. Or pay teenagers to think about sex.

EZ subsidies are supposed to help poor areas attract new investment and jobs—in exchange for locating there to improve things, companies get one or more tax breaks (property, income, inventory, sales, utility, and so on). Therefore, all designated EZs are economically depressed areas—right? Well, that was the original idea, before states like Ohio started perverting the EZ theory. The Buckeye State now has a whopping 339 zones—many in areas that are not at all economically depressed. And it just happens to record corporate migrations into its zones, including where the company came from and how many jobs were affected. Want to guess the ratio of jobs moving *within the state* compared to those coming in from *other states?* It's 20 to 1.[12]

Policy Matters Ohio compared enterprise zones and found that very-high-income school districts received two times more EZ-subsidized jobs and five times more dollars of investment in zones than very-low-income school districts. "It's the wealthy areas that tend to land the most lucrative deals," the author wrote. Legislators "should not pretend that they're helping struggling communities. . . . Ohio's poorest communities have been zoned out."[13]

TIF is a little more complicated. A city designates a small area as a TIF district for redevelopment. New construction occurs, property values go up, and therefore property taxes also rise. When that happens, the tax revenue is split into two streams. The first stream, set at the "base value" before redevelopment, continues to go to schools, police, fire, and other local services. The second stream—made up of all the increase or "tax increment"—gets diverted back into the TIF district to subsidize the redevelopment. As I explained in chapter 5, this diversion can last 15, 20, 23, even 30 years, depending on each state's rules. It usually goes for infrastructure or other public improvements, but in some states, it may also be directly paid to developers to subsidize private construction costs.

Here's an example of TIF subsidizing sprawl. Anoka, Minnesota, is a suburb of the Twin Cities about 20 miles up the Mississippi River. (It's Garrison Keillor's hometown; yes, Lake Wobegon got engulfed in suburbia.) Anoka used TIF to give free land to 29 small manufacturing companies with about 1,600 jobs. Half of the companies relocated from Minneapolis or older, ailing suburbs on its edge; all the others came from other suburbs. Most of the companies were moving because they needed to expand, and only one of them even considered leaving the Twin Cities area.

By staying in the region, the companies got to retain their skilled workers and stay close to their suppliers and customers. But when you look at these 29 corporate relocations from a regional perspective, the maps are ugly. Jobs were moved away from the region's poorest neighborhoods and those with people of color, and away from areas with the most welfare households (at a time when welfare reform was forcing recipients into Work First programs). The moves also took job opportunities away from low-income families who cannot afford a car: more than 70 percent of the jobs had originally been accessible by public transit, but in Anoka they are not. The new job-takers likely came from rural areas farther north.[14]

Although TIF usually only diverts property tax, several states like Missouri also allow the local share of the *sales tax* increment to be "TIFed." Obviously, if a TIF project consists of paving a cornfield to build a sprawl-mart, all of the sales tax from the site is new, so all of the local share of the sales tax could go to subsidize the big box, instead of supporting public education or other services. So in addition to its potential for subsidizing the relocation of manufacturing or service-sector companies, TIF can become a super-subsidy for retail sprawl.[15]

Enterprise zones in Ohio and TIF in Anoka are far from isolated cases; several other studies and news investigations have linked development subsidies to sprawl:

- In the Chicago metro area, the Woodstock Institute examined the geographic distribution of loans made under the Small Business Administration's (SBA) 504 loan guarantee program and found that higher-income and outlying zip codes received more loans than lower-income and closer-in areas (where most minority entrepreneurs live).[16]
- Friends of the Earth and the Forest Conservation Council analyzed SBA loan guarantees in the Washington, DC, metro area. The map of deals looked like a donut; almost all of the loan aid had gone to companies in the outlying areas of the region. The two groups sued the SBA for failing to analyze the environmental impact of its loans, and the SBA agreed to start considering such impacts.[17]
- The New York state Comptroller found that over a 12-year period in the 1970s and 1980s, one-fourth of all the low-interest, tax-free business loans made by a state authority (usually packaged with property tax abatements) went to just one county on Long Island, "a boom area with rock bottom unemployment rates." Further, he found, "only 4 percent of the authority's

deals were in a depressed area of approximately the same population size — Buffalo and Erie County — with some of the highest unemployment rates in the nation. The result shows what is instinctively thought: tax abatement activity follows rather than leads economic development."[18]

- The *Kansas City Star* did a terrific investigative series citing several companies that received subsidies to leave core areas with high unemployment and relocate into prosperous suburbs. The paper found the deals particularly galling because the tools being used by the wealthy suburbs were originally intended to help central cities. "Created to combat sprawl, tax breaks now subsidize it," the *Star* moaned.[19]
- Illinois perverted its TIF program in 1989 as part of a subsidy package worth at least $178 million, given to Sears when the retailer threatened to move its headquarters out of state. The deal ripped 5,000 jobs out of the Sears Tower in the Loop — where it drew a racially diverse workforce coming to work aboard a century of magnificent public-transit investments — and whisked them away to a "campus" in the affluent white suburb of Hoffman Estates, 29 miles away and then without any transit service.[20] Today, thanks to loose program rules, Illinois has more than 870 TIF districts.[21] Even the wealthy Chicago suburb of Lake Forest (median 2000 family income: $165,512) has a TIF district — and a Ferrari dealership! (In a 1986 consulting report to Illinois, Fantus Company recommended TIF rules be changed to allow it to be used to develop raw land.)[22]
- The *Milwaukee Journal Sentinel* cited a mutual fund company in suburban Menomonee Falls that received a $3 million tax credit. The paper reported that the deal was justified because it was "close to Milwaukee County, which continues to have higher unemployment than the state average." A state senator was more blunt: "It's essentially a government subsidy to promote sprawl."[23]
- New York state's "Empire Zone" program is such a sprawling upstate mess, it's hard to pick just one example. How about $100 million in tax breaks for auto insurer GEICO to locate a regional service center in Amherst, a well-off suburb nine miles outside of struggling Buffalo? GEICO is largely owned by Warren Buffett — the second-wealthiest person in the world, with $42.9 billion.

Worshiping Competition, Subsidizing Sprawl

There is an ideological link between the economic war among the states and the wealthy suburbs' use of loose subsidies to pirate jobs from older areas. The link is the blind worship of competition—or at least the version that says corporations get to define the rules of the game and that government officials must always compete, never cooperate. Especially since the early 1980s, states have enacted hundreds of subsidies in the name of "staying competitive" with each other. In the same period, many states have also loosened programs such as TIF and EZs in ways that fuel the wars among cities and suburbs.

Some states, like Ohio and Idaho, even deformed their EZ rules with the explicitly stated purpose of fighting other states for jobs. For example, Ohio's enterprise zone program barely pays lip service anymore to fighting poverty or unemployment. Although it was enacted in 1981 to reduce blight in depressed areas, its rules were amended in the late 1980s and early 1990s so that its officially stated purpose now is to reduce business property taxes and protect Ohio against competition from other states.[24]

Others have loosened rules in ways that make the programs less targeted and therefore less likely to benefit poor areas. States do this in several ways:

- Lowering the required rate of poverty or unemployment or other eligibility factors — or even saying every county can have a zone
- Allowing zones to become huge or so numerous they cover areas that really don't need help
- Making it easier for cities to gerrymander the boundaries to favor special interests
- Making the criteria more subjective or giving officials case-by-case power to designate an EZ

States can even let companies outside the zones get EZ tax breaks. New York, Texas, Connecticut, Louisiana, Utah, Wisconsin, and Indiana have each made one or more of such changes.

Give Arkansas, Kansas, and South Carolina credit: each has decided to drop all pretense of aiding poor neighborhoods with EZs—and simply declared the entire state to be one big enterprise zone![25]

Other states embraced loose new TIF rules, basically saying an area that "is capable of being substantially improved" or is a "non-blighted economic development area" or "lacks proper utilization" can be TIFed. Alaska, Indiana, Iowa, North Dakota, Oregon, Virginia, and South Carolina fall into this category. Indeed, the Palmetto State extended TIF eligibility to "sprawl areas" to include those considered to be at risk of blight because they could be developed as a planned community! And Virginia just waved the white flag and said any city could designate any place as a TIF district to promote "commerce and prosperity."[26]

Loosening TIF rules is an invitation to the proliferation of sprawling giveaways. Before Iowa loosened its TIF rules in 1989, it had 185 TIF districts; ten years later, it had 2,473, funding such distressed projects as golf course developments, market-rate single-family homes, and car washes. TIF districts have become such a mess that everyone from the Farm Bureau to the teachers' union thinks they need reform. Minnesota has seven kinds of TIF districts and only two require blight, so the state grew more than 2,100 TIF districts before a school-finance reform curbed the craziness.[27]

Most of these bad state rule changes occurred in the late 1980s and early 1990s, when the state-eat-state sweepstakes—like those for auto assembly plants—got so hot. In other words, misguided reactions to interstate competition have caused many states to deregulate their subsidy rules in ways that grossly favor wealthy suburbs. Other states, like Missouri and Pennsylvania with their scandalous TIF programs, have had loose rules all along. We can't worry about saving the cities, the states are collectively saying; we are too busy bulking up to fight each other.

As a result, taxpayers are needlessly subsidizing inefficient and wasteful development that is creating huge long-term problems for our economy, our environment, and our health.

Sprawl Worsens Economic and Racial Inequality

Sprawl is also bad news if you care about racial and economic equality. Because poor people and people of color live disproportionately in big cities and older, inner-ring suburbs, job sprawl makes inequality worse. New suburban office parks, retail power centers, and industrial parks are routinely given development subsidies. They are also often poorly served by public transit, if at all, so they often deny job opportunities to people who cannot afford a car.

That is bad news for low-income families, and especially bad news for workers of color. Transportation (overwhelmingly automobile) costs are second only to housing expenses for the average U.S. household, at 18 percent versus 19 percent—and rising faster. For families in the lowest-fifth income bracket, transportation now consumes 36 percent of their after-tax income![28] Such high costs exclude one in ten families from owning a car, and they are disproportionately people of color. African-American households are more than three times as likely not to own a car as white households, and Latino households more than twice as likely.[29]

A huge national survey of job subsidies sought to find some positive examples of governments actually coordinating job creation with transit. This was no small task, given that the average state now has 30 different subsidy programs on the books. Despite scouring hundreds of sources, the survey could not find one single example of a subsidy program that even gives preference to projects that are transit-accessible—much less requires it. The title of that report: *Missing the Bus*.[30]

Let me repeat: despite the fact that the states collectively have more than 1,500 job subsidy programs, and despite the fact that everyone knows poor people and people of color are less likely to own cars, and despite all the pro-subsidy rhetoric politicians have used about reducing poverty and unemployment, not one single subsidy says to companies: "If you want this taxpayer money, the jobs have to be accessible by transit." Not one single subsidy even says "We'll give preference to transit-accessible deals."[31]

Another way sprawling jobs fuel inequality is through housing: rents and prices are higher in the suburbs, and so is the rate of racial discrimination. Many studies have shown that when jobs sprawl from central city to suburbs, workers of color and low-wage workers are disproportionately harmed because they face barriers finding suburban housing.[32]

The Hidden Taxpayer Costs of Subsidizing Big-Box Retail

America is awash in excess retail space. The National Trust for Historic Preservation estimates we have 38 square feet of store space for every man, woman, and child. Measures vary, but other industrialized nations report between 1.5 and 8 square feet per capita.[33] We are way out of whack with comparable economies—and with our own history. In 1960, we had about four square feet per capita, and by 1977, still only about eight.[34]

Despite the fact that retail is a truly lousy economic development investment, a lot of this excess retail space has been getting subsidized. The big dogs driving this trend are the "category killer," "power center" players like Wal-Mart, Home Depot, and Target. Of course, Wal-Mart is the alpha dog of department stores, since it is five times bigger than #2 Target. It's also apparently the alpha hog at the public trough, as I'll explain—benefiting from more than $1 billion in bricks-and-mortar subsidies for its stores and warehouses.

Retail rarely deserves to be subsidized, because it packs such a lousy bang for the buck compared to manufacturing or almost any other activity. To measure the ripple effects of a new business, you look "upstream" to see how many supplier jobs the region would gain, and then you look "downstream" to see how many jobs would be created by the buying power of the people who work at the business. The upstream of a big-box store does not create many jobs for the local economy (think of all those goods made in China), and the downstream ripple effects are terrible because retail jobs are overwhelmingly part-time and poverty-wage, with no healthcare. That means most retail workers have very small disposable incomes: after paying for bare necessities, they have nothing left with which to stimulate the local economy.

In short, retail is not economic development; it's what happens when people have disposable income. But you'd be surprised at the arguments I have had with newspaper business writers, trying to get across one simple concept: you and I do not have more money in our pockets because we have more places to shop. Building new retail space just moves sales and lousy jobs around. It doesn't grow the economy. (The only exception to the poverty-wage problem is unionized grocery stores. And I think there is one justifiable time to subsidize retail: to help revitalize a truly depressed inner-city neighborhood that lacks basic retail such as grocery, drug, and clothing stores.)

In almost every region, the plague of overbuilt retail is evident. The National Trust for Historic Preservation's Main Street Center has helped downtown retailers in more than 1,000 cities fight against big-box centers such as Wal-Mart. The program's director has testified that cities with too much retail space suffer all kinds of hidden costs—in addition to whatever subsidies they grant the big box. When just one Main Street store, with two floors of 2,000 square feet, goes from being occupied and busy to being vacant, the total cost to the local economy is almost $250,000 a year, she reported. That includes losses in property taxes, wages, bank deposits and loans, rent, sales, and profits.[35]

It's not just downtown retail areas that are suffering: malls are also getting cannibalized. Indeed, the U.S. is "de-malling," as the construction of windowless, inward-looking malls has almost stopped and the power-center format takes charge. A 2001 study by the Congress for the New Urbanism and PriceWaterhouseCoopers about "greyfields"—the euphemism for dead malls—found that 7 percent of regional malls were already greyfields and another 12 percent are "potentially moving towards greyfield status in the next five years." That would be 389 dead malls.[36]

Since vacant or underutilized properties usually get reassessed and pay much lower property taxes, dead malls mean big tax revenue drops. For example, Northridge Mall in Brown Deer, Wisconsin, went from an assessed value of $107 million in 1990 to a greyfield sale value of $3.5 million in 2001.[37]

This process costs taxpayers three ways: the bricks-and-mortar subsidies going to the new big boxes; the losses caused by abandonment of both Main Street and the mall; and the massive hidden costs in the form of public assistance to low-wage workers. When Wal-Mart and other poverty-wage retailers fail to provide a decent wage and full-time hours, many employees and their families qualify for safety-net help such as Medicaid, state children's health insurance programs, earned income tax credits, Section 8 housing assistance, low-income energy assistance, and free or discounted school lunches.

Indeed, U.S. congressional staff have tallied all of these hidden costs; they estimate that each Wal-Mart store with 200 employees costs federal taxpayers $420,750 a year in safety-net costs.[38] Multiply that by the 3,500 stores Wal-Mart already has in the U.S.—and by the 300 more stores it plans to open every year.

For years, runaway increases in Medicaid costs have been the states' biggest spending headache. Healthcare inflation is partly to blame. But it is becoming increasingly obvious—as more than one million Americans a year lose health insurance coverage—that corporate freeloading is also fueling the problem and that retailers are among the biggest hogs. A few states are so fed up with the problem that they are starting to release hard data. Some company-specific data has become available, but as of late 2004, only Massachusetts has enacted legislation requiring such disclosure; other revelations have come out thanks to investigative journalists and healthcare advocates.

In the data available so far, Wal-Mart stands out, but it is hardly alone. The retail giant had the greatest number of enrolled beneficiaries in state-sponsored healthcare programs for low-income families in Connecticut, Tennessee, and Washington and the greatest number of employee children on Medicaid or SCHIP in Georgia and West Virginia. Wal-Mart had the fifth-greatest number of Medicaid beneficiaries in Florida and the third-greatest number in two Massachusetts programs combined. Wal-Mart reportedly has 3,765 employee, spouse, or child beneficiaries in Wisconsin's BadgerCare program, but data on other companies has not been released there. McDonald's ranked high for use of various public healthcare programs in Florida, Massachusetts, Connecticut, and West Virginia. The grocery chain Publix ranked high for employee children on Medicaid in Florida and Georgia. Both the grocery chain Stop and Shop and fast-food provider Dunkin' Donuts ranked high for beneficiaries in Massachusetts and Connecticut.[39]

How did we come to such bad policy? Why are we paying to kill downtowns and shutter malls and subsidize companies through the back door for their poverty wages?

No, no, no, say the developers! You're asking the wrong questions! *We have to stay competitive*.

How Suburbs Compete for Taxes—and Fuel Sprawl

Most states have tax rules that force local governments to compete, rather than cooperate, for their tax base. These dumb state rules seriously warp how cities and suburbs regulate the use of land, causing them to embrace pro-sprawl policies that maximize their income and minimize their expenses. The policy term for this is "fiscalization of land use." It means cities let budget issues dictate how land will be used.

Specifically, this means localities adopt land uses that maximize property and sales tax revenue and minimize public-service expenses (such as for school-age children—K-12 is local government's biggest cost). Land use gets driven by local governments trying to balance their budgets, not by human needs or what's most efficient or what's best for public health—or what's good for jobs.

Our tax systems, by pitting local jurisdictions against each other, fail us in many ways. We live in a *region*. What matters is how *the region* is doing. Many of us live in one jurisdiction, work in another, shop and play and worship in still others. We live regionally, but a lot of our local tax dollars act like, well, Hatfields and McCoys.

On property taxes, fiscalization of land use means localities have every reason to use subsidies to pirate companies from each other. Large business facilities have high values and therefore generate substantial taxes (unless, of course, they get abatements). Plus, business parks don't have any homes housing those costly school-age children.

On avoiding expenses, fiscalization causes localities to enact exclusionary zoning ordinances (saying, for example, only one single-family home per acre). That means only one family's children to educate. The family that can afford such a house is most likely white, so that helps keep the school system racially segregated. Of course, large-lot zoning, which excludes apartments, duplexes, and townhouses (read: affordable housing), also permanently screws up a suburb's built environment. Most residents there will never have a transportation choice; they will always be forced to drive because jobs, groceries, and parks will always be too far away to walk to. Thin density means transit will never work there.

Dog-eat-dog also makes no sense if a region wants to be economically competitive. Regional cooperation can improve productivity by reducing time lost in traffic. It can give companies fuller access to a region's labor force. And it can enable areas to focus on improving their business basics that attract new companies.

First, traffic. The Texas Transportation Institute's annual survey of traffic congestion found that in 2002 U.S. commuters lost a total of 3.5 billion hours due to traffic delays—five times what they lost 20 years before—at a cost of $63.2 billion. The trends are worst in the thinnest metro areas with poor transit systems. So in sprawling Atlanta, hours lost per person per year jumped from 14 in 1982 to

60 in 2002.[40] And with more employers beginning to experience shortages of skilled labor (see chapter 9), they need workers from all over the region to fill vacancies; in large metro areas, that means reliable job access by transit is critical.

Regarding recruitment, when a company is considering where to expand or relocate, it evaluates a metro *region,* not an individual suburb. It knows it will have to draw workers from the whole region, and depend on the region's infrastructure, and trust the region's schools and universities and quality of life to attract and retain good workers. It *will* look at individual cities within a metro area once it decides it likes the region, but *only* after determining that the region has the right stuff. So if an individual suburb wants to thrive, the best thing it can do is organize with other cities to make *the region* attractive. Public officials in some areas have figured this out and are cooperating more on recruitment efforts (and they downplay the use of subsidies to attract companies because they know they rarely matter). Cities in some regions share some of their revenue. But the harsh reality is that most states' rules still make local governments fight each other for tax base.

But the tax-sprawl story gets really, truly ugly when it comes to sales taxes and retailing. Many states allow localities to add a "local sales tax increment" (usually capped at between a half and one percent) on top of the state sales tax. This "point of sale" tax often goes only to the city where the sale occurs, not to a regional pot. This gives local governments a perverse incentive to zone a lot of land for retail, subsidize retail construction, and pirate lots of retail sales from other cities in the region. Of course, from a regional perspective, that makes no sense, given the excess retail space and dead malls we already have. But from the narrow viewpoint of an individual suburb, the goal is to land lots of busy cash registers. And the biggest prizes, again, are the "category killer" national chains—such as Wal-Mart, Home Depot, Target, Circuit City, Borders, and Bed Bath & Beyond.

This perverse incentive goes on steroids if local governments have budget problems because of property tax caps (like California with its Proposition 13) or cutbacks in state revenue-sharing to cities. It goes on double steroids when states allow cities to use property tax-TIF to subsidize retail (like Pennsylvania). And it goes on triple steroids in states that also allow the local sales tax increment to get "TIFed" for retail (like Missouri).

You've heard the term "smokestack-chasing"? I call this cash-register chasing. By every measure I can imagine, it fails the definition of good jobs policy.

Missouri: "TIFing" for Nordstrom

Missouri, which allows sales taxes to be "TIFed," has had a raging four-year debate about how to reform its TIF program before it subsidizes any more unnecessary new stores. The problem is especially severe in the St. Louis area, where the East-West Gateway Council has documented that most TIF districts are for retail projects that are dominated by national chains and located in wealthier suburbs.[41]

Yet the Show-Me State apparently does not want to be shown any cost-benefit data. The TIF law has no accountability rules to measure outcomes, even though it is widely known that the St. Louis area is swimming in overbuilt taxpayer-subsidized retail space. The issue has brought together a bipartisan coalition of existing retailers, school boards, small business groups, the Food & Commercial Workers union, planning bodies, and elected officials.

Missouri state senator Wayne Goode, a Democrat who represents St. Louis County, has sponsored a reform bill. "Putting public money into retail in a big metropolitan area doesn't make any sense at all," Goode says. "It just moves retail sales around." About one-third of the 90 municipalities in St. Louis County keep "point of sale" sales tax, he explains. The other two-thirds pool their local increments. So the one-third of municipalities fight both among themselves and against the two-thirds—often using TIF. Meanwhile, the county schools alone suffer a diversion of more than $5.1 million a year.[42] Area developers have gone to great lengths to block reforms because the TIF is so lucrative; it has financed a fourth or more of the cost of numerous projects.

St. Charles County executive Joe Ortwerth, a self-described "Reagan Republican," is equally incensed about the situation. He sued to end TIF, based on the Missouri state constitution's ban on the use of public money for private interests. His county is growing rapidly as people move outward from St. Louis, and it has no quantifiable measure of blight, he argues. Premier malls are getting TIF dollars just to get spruced up, he says.[43]

As for claims about higher sales tax revenues, that is just a "total ruse," says Ortwerth. "It is just a change in the point of sale." Indeed, he argues that because of the taxes diverted into TIF, there is actually a net revenue loss. Job creation claims are just as bogus, claims Ortwerth. Not long after Home Depot got a TIF deal in the city of St. Charles, says Ortwerth, the HQ store in St. Peters closed down.[44]

In a letter endorsing Senator Goode's bill, the CEO of Schnuck's, a major grocery chain in Missouri, said: "Over time, the definition of 'blight' has become more or less meaningless. TIF has in many cases become just a subsidy offered to entice a developer for the benefit of enhancing a municipality's sales tax base." Acknowledging that his company has accepted TIF in the past, he concluded that "TIF has distorted the free market," and he urged reform.[45]

As the St. Louis *Post-Dispatch* editorialized: "With towns handing out TIF like bubble gum, St. Louis may be getting over-stored, while developments are under-taxed."[46]

Many of those stores are getting built in wealthy areas, and the developers want TIF to offset high land prices. Shopping-center giant Westfield America, a publicly traded real estate investment trust, bought West County Center in Des Peres, an upscale suburb of St. Louis (2000 median family income: $106,195). Announcing it wanted to redevelop the center to include Nordstrom and Lord & Taylor, Westfield asked for a $29 million TIF subsidy. The Des Peres

Board of Alderman dutifully declared West County Center to be "blighted," even though it was almost 100 percent occupied and grossing more than $100 million a year. Being "blighted" made it eligible for the TIF subsidy, and the aldermen also approved that. Angry Des Peres citizens, together with the owners of a rival mall, sued to block the deal, but lost at trial and before the Missouri Court of Appeals.[47]

Presumably, the neighborhood is stabilized now that residents have ready access to Nordstrom's 117 brands of shoes.

California: Proposition 13 Fuels Sprawl as Cities Chase Pennies

California's tax revolt, marked by the passage of Proposition 13 in 1978, has had many unintended consequences. It has harmed public education and other public services, contributed to a massive infrastructure deficit, and created unfair tax disparities among different companies—and it is also a major cause of sprawl.[48]

Prop 13 froze property tax assessments at 1975 values, and said assessments could be raised no more than 2 percent a year—unless a property changes hands. When a property is sold, it gets reassessed at full market value; then once again the assessment can only go up 2 percent a year. If a structure is improved, the building is partially reassessed, but not the land. The net effect of these rules has been to artificially depress business property assessments and thereby depress property tax revenue. That, in turn, makes local governments in the Golden State ever more dependent on sales taxes.

Cities or counties receive a penny and a quarter-cent of the sales tax on each dollar, based on where the sale occurs. That means localities have a perverse incentive to subsidize too much retail, to steal sales from each other to capture those pennies. Surveys of local development officials in California find that their #1 redevelopment concern is getting more sales tax revenue, so land-use decisions get horribly warped.[49] And who has the most undeveloped land available for power centers? The suburbs out on the fringe, of course.

California localities are allowed to charge development fees on new developments; that makes it easier for them to recover the costs of infrastructure, partially mitigating the impact of Prop 13. But since these fees are primarily levied on undeveloped land on the fringe, that means more sprawl, too.

Occasionally, large parcels become available in built-out areas of California, and cities will spend huge sums to get lots of busy cash registers. In 1995, I was asked to testify in a dispute between Long Beach and Lakewood. The U.S. Navy was handing over a property to Long Beach, and of course the city was proposing to reuse the site as a big-box power center. This property was right on the city line between the two cities, and Lakewood Center, a mature but healthy mall that had opened in 1951 (said to be the nation's second oldest regional shopping center), was just two miles away.

In my testimony, I questioned the wisdom of spending at least $37 million in various subsidies on the deal and turning it over to big-box retailers then paying workers an average of only $6.50 per hour, for only thirty-one hours per week, or $10,478 a year—way below the family poverty line.[50] In Long Beach, the traditional cost-benefit balance sheet was missing in action. The quality of the jobs didn't matter. It was all about the sales-tax pennies. Today the Long Beach Town Center is a big, low-grade power center, a boring mix of unconnected boxes and chain retailers clustered around a multiplex theater and outdoor food court: Lowe's, Wal-Mart, Barnes & Noble, Linens & Things, Old Navy, and Bed Bath & Beyond.

Lakewood's mall didn't get cannibalized as the city had feared, but the area has grown thicker with retail. Lakewood also got a Wal-Mart. And the Lakewood Center mall has actually grown, landing one of the region's first Macy's, plus a new Target. Still, Lakewood's spokesman, D. J. Waldie, who chronicled the city's history in his lyrical book *Holy Land: A Suburban Memoir,*[51] says there is a troubling level of over-storing in the region. When more housing is so badly needed, he points out, "Do you actually need 136,000 square feet of Wal-Mart every two miles?"[52]

Prop 13 also has a loophole that enables corporations to dodge property reassessments. Again, it froze assessments at 1975 values, allowing only a 2 percent annual increase—unless the property changes hands. The trouble is, the ways in which investment properties are often owned—through publicly traded companies, limited partnerships, real estate investment trusts, and the like—means owners can come and go, but the same corporate entity still holds title, so there is no "change of ownership." The most common way this happens is through limited partnerships, which hold large amounts of California real estate such as office parks, shopping centers, and hotels. Partners may come and go, but the partnership retains title, so there is no "change of ownership," and therefore no reassessment.[53]

This system results in huge inequities. As the California Tax Reform Association has documented, in downtown San Francisco, the Hilton Tower Hotel paid 80 cents per square foot of land in property taxes in 2002 and 2003, while the Clift Hotel paid $16.55 a square foot—a difference of more than 20 times. The Hallidie Building paid $1.48, while the Bank of America building paid $15.90. In Silicon Valley's Santa Clara County, IBM paid a microscopic four-tenths of a cent, while Applied Signal Technology paid 67 cents—167 times more. In swank west Los Angeles County, the Luxe Summit Hotel in Bel Air paid 22 cents, while another Luxe, the Luxe Rodeo Drive, paid $3.35. In Orange County, large chunks of Disneyland's holdings were locked in at the 1975 assessment and paid just 1 to 5 cents, while more recently bought parcels paid 36 cents. In San Diego's pharmaceutical cluster, Dublin Medical paid 1 cent, while Amylin Pharmaceuticals paid 35 cents.[54]

"The law itself could be called loophole-ridden, except that it is all loophole and little else; the circumstances under which change of ownership takes place are fully subject to manipulation," writes Lenny Goldberg, the Association's president.[55]

Wal-Mart: More Than $1 Billion in Subsidies

It's hard to overstate Wal-Mart's role in making sprawl worse. A company with rural roots, it has a car-oriented format for stores that run as big as 220,000 square feet and Supercenters (that means groceries, too) of up to 261,000 square feet. Add about a thousand parking spaces, and you're talking about an enormous footprint.

No wonder it loves to site stores in greenfield locations near freeway off-ramps; such huge footprints rarely fit into existing urban areas. Among the big-box retailers, Wal-Mart has often been the most resistant to adapting its format to respect local communities' character. The trouble is, urban America is just about all that is left for Wal-Mart to saturate. It seems inevitable that "site fight" frictions will increase.[56]

That's why the National Trust for Historic Preservation named the entire state of Vermont an endangered historic place after Wal-Mart announced its intention of opening seven more stores there. "The likely result: degradation of the Green Mountain State's unique sense of place, economic disinvestment in historic downtowns, loss of locally-owned businesses, and an erosion of the sense of community that seems an inevitable by-product of big-box sprawl," said the Trust.[57]

Wal-Mart is also notorious for closing stores. It often closes a regular store upon opening a new, bigger Wal-Mart Supercenter nearby. In fact, Wal-Mart Realty's website in early 2005 listed about 350 properties available (mostly leased), with more than 27 million square feet of space![58] That's a lot of potential ghostboxes—the equivalent of 54 more dead malls. "Don't expect a long-term relationship with any superstore in your town," warns sprawl-buster Al Norman. "Wal-Mart arrives with its bags already packed."[59]

Despite the fact that Wal-Mart is the world's largest corporation; despite the fact that many public officials understand that it grows largely at the expense of existing retailers, causing abandonment and blight; despite its long-standing reputation as a land-chomping

“Sprawl-Mart”; and despite allegations concerning labor and discrimination and immigration-law violations—in spite of all this, Wal-Mart’s phenomenal growth has been supported by taxpayers in many states through job subsidies.

Indeed, a company official once said the company seeks subsidies in about a third of its stores, suggesting that more than 1,100 of its U.S. stores are subsidized.[60] A national survey by Good Jobs First in 2004 found taxpayer subsidies of more than $1 billion benefiting Wal-Mart. Besides documenting subsidies to 160 stores, the study looked at all 91 of the company’s distribution centers—*and found that more than 90 percent of them have been subsidized!* Altogether, 244 subsidized facilities in 35 states got taxpayer deals of more than $1 billion.[61]

The subsidies run the whole gamut: free or reduced-price land, infrastructure assistance, TIF, property tax abatements or discounts, state corporate income tax credits, sales tax rebates, enterprise zone tax breaks, job training funds, and low-interest tax-exempt loans. The most deals and dollars were found in Texas (30 deals worth $108 million) and Illinois (29 deals worth $102 million). And because of poor disclosure in most states, the authors concluded that this could be just the tip of the iceberg.[62]

The study even found outright cash grants totaling more than $30 million. For example, the state of Virginia gave cash grants to three Wal-Mart distribution centers totaling more than $2 million. The Old Dominion’s “Governor’s Opportunity Fund,” like other such subsidies, gives the governor a lot of discretion to hand out cash grants as “deal closers.”

Some Cities Just Say No

Of course, the real force driving Wal-Mart’s site location behavior is its voracious appetite for more market share, not subsidies. So the study found cases in which the company sought subsidies, didn’t get them, and still built. In Chula Vista, California, a $1.9 million subsidy deal was successfully challenged in court in 1998, after citizens complained that local redevelopment agencies were awarding state money to big-box retailers for projects with little benefit to the public. The Chula Vista Wal-Mart ended up being built without public assistance.

In 2001, voters in Galena, Illinois, rejected a $1.5 million sales tax rebate sought by the company for a planned Supercenter. Immediately after the vote, Wal-Mart said it would drop the plan, but it later decided to move forward after getting the private seller of the land to agree to a lower price.[63] Wal-Mart also proceeded with the construction of an unsubsidized Supercenter in Belvidere, Illinois, after its request for a $1.5 million sales tax rebate was opposed by local officials.[64]

Such events are especially controversial in TIF deals, because the governing law often requires that the beneficiary of TIF affirm that the project would not occur "but for" the subsidy. According to a report by 1000 Friends of Wisconsin, Wal-Mart admitted that the TIF funding provided to a project in Baraboo did not meet that requirement. The report also noted that the supposedly blighted area chosen for the project consisted of a cornfield and an apple orchard.[65]

Public opposition to subsidies for Wal-Mart has played a role in some successful "site fights":

- In 2000, voters in Olivette, Missouri, rejected a $36 million TIF proposal for an eighty-acre shopping center that was to be anchored by a Wal-Mart and a Sam's Club.[66]
- In 2002, Wal-Mart was rebuffed when it sought an $18 million subsidy in connection with a project that was to be located on the Near South Side of Chicago. According to a press report, Mayor Richard M. Daley "guffawed" when presented with the request. The project was abandoned.[67]
- Denver officials appeared to have dropped plans for a Supercenter project in 2004 that could have involved as much as $25 million in public money. The plan was controversial because of the subsidy and because it would have used eminent domain to displace a group of Asian-American small businesses.[68]

- Another Denver-area Wal-Mart controversy involving subsidies and eminent domain has been taking place in the city of Arvada. Wal-Mart has been seeking $7.5 million in TIF for a Supercenter. The project included a plan to condemn a lake so that it could be drained and partly filled with dirt and concrete to serve as part of the site.[69] The Colorado Supreme Court recently struck down this use of eminent domain, throwing the project into question.[70]
- In 2004, voters in Scottsdale, Arizona, voted resoundingly against a plan to give a developer up to $36 million in sales tax rebates for a complex that was to include a Supercenter and a Sam's Club.[71]

Some of the subsidies go to developers who build sites for Wal-Marts. When developers build for Wal-Mart, it is sometimes "all in the family." That's because THF Realty, which has been developing shopping centers anchored by Wal-Marts since 1991, was co-founded by E. Stanley Kroenke, the husband of Ann Walton, one of Sam Walton's nieces. By 2000, when Kroenke last had to disclose because he was a Wal-Mart board member, he was pulling down $23 million a year from rent on Wal-Mart stores.[72] Kroenke and his wife are estimated by *Forbes* magazine to be worth $4.4 billion.[73]

Costs and Benefits . . . or Costs and Costs?

When Good Jobs First released its study about subsidies for Wal-Mart, the company responded by saying it couldn't verify the figures, but that if they were correct, then "it looks like offering tax incentives to Wal-Mart is a jackpot investment for local governments." Specifically, the company claimed that over the past 10 years, it collected $52 billion in sales taxes, remitted $192 million in income taxes, wage withholdings, and unemployment insurance, and paid $4 billion in local property taxes. "Do the math and you will see that every dollar invested returned more than 30," the company summarized.[74]

Read those *verbs* very carefully. Of course Wal-Mart "collected" sales taxes—it's a retailer, it's required by law to do that. But that's *consumers' money,* not the company's. Wal-Mart is just a pass-through. And since much of its sales come at the expense of other retailers, any gain is obviously offset by lower sales taxes collected at competing stores—and by the taxpayer costs of abandoned downtowns and malls.

Of course Wal-Mart "remitted" income and payroll taxes—it's an employer, it's required to deduct taxes from its workers' paychecks. But income tax is not the company's money; it's *money from the workers' measly paychecks!* And since Wal-Mart jobs are largely shifted from other retailers, and Wal-Mart pays so poorly, the net revenue gain is unclear. And don't forget that estimate of $420,750 per year per store in hidden taxpayer costs for poverty-wage safety-net help like earned income tax credits, housing, and free school lunches.

Finally, of course Wal-Mart paid some property taxes—all property owners have to support local services. Unless, of course, they get an abatement; the study found more than 40 such instances. But Wal-Mart offered no disclosure on how much in property taxes it *hasn't* paid. And as economists point out, companies pass on the cost of property taxes to customers as much as market conditions allow.

So there you have it, folks: Wal-Mart's version of cost-benefit analysis. Taxpayer costs for job creation are balanced by "benefits" that mostly consist of, well, workers' costs, consumers' costs, and taxpayers' costs.

Can you say "other people's money"?


TOM the DANCING BUG PRESENTS:
BY RUBEN BOLLING
TOMDBUG@AOL.COM
NEWS of THE TIMES
Ned Balter To Remain In St. Louis
ST. LOUIS KINKO'S EMPLOYEE NED BALTER, 27, HAS ANNOUNCED THAT HE WILL STAY IN THE ST. LOUIS AREA.
I'M COMMITTED TO ST. LOUIS THROUGH 2015!
PARTY!
THE DEAL BETWEEN BALTER AND ST. LOUIS ENDED OVER A YEAR OF SPECULATION THAT BALTER WOULD MOVE TO CHICAGO.
ST. LOUIS TELEGRAPH
BALTER DECLARES ST. LOUIS "LAME"
Tells Friend He's 'Out of Here'
DIST. BY QUATERNARY FEATURES ©1997 R. BOLLING W/O 8/21
AS PART OF THE INCENTIVE PLAN, BALTER WILL RECEIVE SIGNIFICANT TAX BREAKS, AND THE CITY WILL BUILD AND MAINTAIN THIS STATE-OF-THE-ART 50,000 SEAT SPORTS STADIUM FOR HIM.
IS THIS A COOL CRIB, OR WHAT!
ALTHOUGH BALTER IS TO PAY $400/mth FOR FULL EXCLUSIVE USE OF THE FACILITY, IT IS RENT-FREE IN ANY YEAR IN WHICH BALTER DOES NOT HAVE A GIRLFRIEND FOR MORE THAN 180 DAYS.
SO I'D SUGGEST THE ST. LOUIS LADIES GET WITH THE PROGRAM!
AHMET VARNU, MANAGER OF THE BUCKA-ROOSTERS THAT BALTER FREQUENTS, PRAISED THE PLAN.
I DON'T KNOW WHAT WOULD HAPPEN IF WE LOST BALTER'S TWICE-WEEKLY PURCHASE OF A BUCKA-MEAL.
NEVERTHELESS, ECONOMISTS SAY THAT THE PLAN WILL NOT BE FISCALLY VIABLE, AN ASSERTION THAT MAYORAL AIDE VINCE NELSEN DOWNPLAYED.
THIS GOES BEYOND DOLLARS AND CENTS. WE WERE NOT GOING TO BE THE ADMINISTRATION THAT LOST BALTER!
BEST OF ALL, TAXPAYERS DON'T HAVE TO FOOT THE BILL--THE COSTS WILL BE TAKEN SOLELY OUT OF PUBLIC SCHOOL FUNDS.
THIS DEAL WILL CERTAINLY BEAR ON THE NEGOTIATIONS WITH CYNTHIA'S FLORIST SHOP, WHICH HAS THREATENED TO MOVE TO ALTON.
I'D BETTER GET A RETRACTABLE DOME NOW.