

# In Community Planning, It's All About the Tax Base

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Opponents of Kilroy Realty's One Paseo Project in Carmel Valley in February.  
Photo by Chris Jennewein

By John H. Horst

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At the heart of the power to govern is the power to tax. A speed limit in front of the kids' school isn't worth much without a police department to pull over speeders and write them a ticket. And that ticket doesn't mean anything if there aren't judges at a courthouse to hear and decide the dispute. That, and so many other things, means we have to have – and to fund – some level of government.

And that, of course, means taxes. And community planning is all about the tax base. But to get our heads wrapped around this, we have to dive a little deeper into both the economics and even the philosophy of government. I'll try to do that here without getting us lost in the weeds of politics.

### **Economic Production is all about Land**

This should be fairly simple: In order to produce in the economy, you need to have place. If you are raising corn to sell it at the market, you have to have a place — land — to raise the corn. If you are making a better mousetrap and selling them on Amazon, you have to have a place — land for a factory, maybe — to make the mousetrap.

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- *Second of two parts. [Read the first.](#)*
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The problem is you can't just make more land when you run out. The obvious reality of nature is there is and always will be only so much land. Thus the importance of community planning and the related idea of zoning.

If we are going to grow our food, sell that food, make things and otherwise have a functioning economy, there have to be places for these things — and for homes and apartments for the people in that economy. Then we have to have schools and parks for those people.

And the administration of all of this, and providing for the basics of civic life, requires money.



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### **Land Use is all about the Tax Base**

So to provide for the basics of civic life, we divide land into certain categories. We might have some land set aside as agricultural land, although we do not encounter that so much in a metropolitan area like the city of San Diego. We will need some industrial land. Because industrial materials can be dangerous, we divide that further into prime/heavy industrial and light industrial.

To accommodate shopping we will have land designated for commercial use. And then, of course, we have to live somewhere so that land will be designated as residential. Each of these land uses will generate tax revenue. In all cases, the property will generate property taxes. Industrial and commercial land will generate employment and therefore income tax revenue. Commercial land will generate sales tax revenue.

Local government budget analysts will use statistical models to calculate how much revenue can be expected from each kind of land, and slice those estimates up even further by zones which allow more or less density. And it is here where the meat of community planning is found. Here is why average citizens should pay close attention and participate in the community planning process.

## **Density is all about Maximizing Tax Receipts & Profit**

In any community planning process there are three basic stakeholders: the land owners (or developers), the city and the community (i.e. you and me). It is important for the community to understand how the interests of the city and the developer overlap.

Imagine a square plot of land, 100 feet by 100 feet. That is 10,000 square feet. Let's look at that from the developer's point of view. If prime office space goes for \$5 a square foot each month, then a single floor building can be rented out for \$50,000 per month. A two-story building generates \$100,000; three stories \$150,000, and so on. If the developer is a publicly traded company, they have an obligation to return value to their shareholders, so they will want to build a multi-story building to generate as much profit as possible.

Now let's look at it from the city's point of view. The first and most important thing a city does (from their point of view) is create a budget — everything follows from that. And to do this, you simply have to know how much revenue will come in. So imagine a one-floor building goes up on that 1,000-square-foot parcel. That improvement to the land makes it worth more, so more property tax revenue is generated. But if a ten-story building is built, to oversimplify a bit, the improved property is worth ten times more — meaning ten times more property tax revenue.

I do not say any of this to demonize either developers or government. Many of us probably have Real Estate Investment Trusts (REITs) somewhere in our retirement accounts, so as they return value to their shareholders, we benefit. And government is needed to provide for the basics of civic life. But we do have to remember that we are the third stakeholder, and we have to be vigilant that our interests are not overwhelmed by the profit motive of the developer and the tax revenue motive of government.

## Who Has the *Right* to Tax?

Bear with me for a little philosophical aside. Government is, again, the power to tax. But where does the *right* to tax reside? Imagine for a moment you are growing corn. For your labor in husbanding the crop, you have a natural right to the proceeds of its exchange for other things. You have this right regardless of whether any government exists or not, so it is not a right which was awarded to you by legislation; it is yours by nature.

But if there is a government, it will need some form of revenue, so the government might claim part of the proceeds from that exchange of corn. It is important to note that a tax is a price attached to an exchange. Where you will set a price for your corn, the government might set a price for the exchange (or the transaction) of your corn for something else. But since your right to those proceeds is a natural right, you also have the right to determine the price of the transaction — the tax.

In other words, the power to govern — to set and collect taxes — flows up from the governed. We invest that power in elected representatives. And our representatives then administer the zoning of lands so that a stable tax base might be created and the basics of civic life provided for. We can participate in the creation of that tax base by participating in community planning. And then it falls on us to ensure that developers and the city — who, again, have overlapping profit and tax revenue interests — do not ignore those plans when they find them inconvenient.

At the heart of this is realizing: 1) we are a stakeholder distinct from government; and 2) the right to create the tax base — to plan out areas for different kinds of uses and zones within those areas — resides with us. Collaborative progress can be made when we are vigilant to remind our representatives of these things.

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