"*The starting point for improvement is to recognize the need.*"

Masaaki Imai
Father of Continuous Improvement

THE CASE FOR IMPROVEMENT

Madison is competing with everywhere.

As the nation emerges from the deepest recession since the Great Depression and Wisconsin grapples with budget deficits, sustainable economic growth is more important than ever. In a municipal context, cities are competing for families, workforce, businesses, and investment. Each is necessary to sustain a healthy, stable, and vibrant economy and critical to the fiscal sustainability of the city.

Madison has benefited from the presence of Wisconsin government, the University of Wisconsin – Madison, and Madison College. While hosting these institutions means Madison has a higher percentage of property off the property tax roll relative to other cities, these institutions have offered stability, spurred innovation, jobs, and entrepreneurship, and made countless cultural, intellectual, and social contributions to our community.

Today, though, state budget policy threatens to diminish the ability of these institutions to maintain their past levels of employment and economic activity. Facilitating business development and related investments on taxable property will be increasingly important to Madison's continuing success and sustainability.

Innovation in the way the City processes real estate development proposals is one way to improve competitiveness and fiscal sustainability.

This report focuses on the following strategy for encouraging investment and quality development in our city:

Increase Madison's competitiveness for investment and job creation by streamlining the development process, maintaining quality of the built environment, and ensuring efficient, fair, and responsive regulatory decision making.

Research by professors at the University of Iowa and University of North Carolina, Chapel Hill, published in The Journal of Housing Research[1] states;

> *"In many jurisdictions, the number of months that it takes from application to approval can be quite short. In others, the time period from application to approval of entitlements can be quite long, in effect constraining the amount and timing of development through delays in the review and approval process. While there is no explicit restriction, in practice the delay lengthens the development period and increases the cost to the developer"*

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[1] Xifang Xing, David J. Hartzell and David R. Godschalk, *Land Use Regulations and Housing Markets in Large Metropolitan Areas*

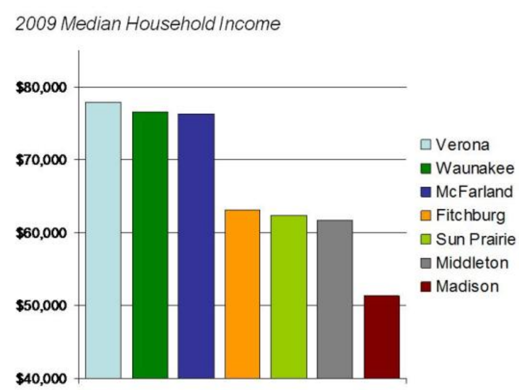
It's not only the city of Madison.

Madison is the hub of an innovative region. It is the urban center and heart of the metropolitan area. It is positioned nationally and internationally as a recognized brand, and is the main driver of the regional economy.

Madison, the region, is compact. Unlike much larger urban centers, the major communities surrounding Madison are relatively close-by and therefore considered as a single economic market in which people choose to live and businesses, together with their related jobs, choose to locate.

Because of this proximity, the city of Madison is competing with surrounding communities while at the same time cooperating as an integral part of overall regional development.

Currently the city enjoys a symbiotic relationship with the communities surrounding Madison. We must be cognizant, however, that this relationship could potentially become detrimental to the city if investment, businesses and families increasingly choose to locate "near" Madison rather than within its municipal boundaries.[2]



Madison currently approves the vast majority of projects submitted. Despite this fact, we continue to be perceived as a "challenging place to do business" by the development community. We can reverse this perception and invite additional applicants and even more investment by improving our reputation and affirming a process that minimizes development costs while obtaining broad stakeholder input to facilitate attractive, productive development and redevelopment.

The development process involves not only commercial, industrial and institutional investment, but also encompasses residential and private infrastructure investments. For that reason, we must keep a simple truism in mind when developing land-use policies:

Innovation, talent, and investment don't care about municipal or state boundaries on a map. They live, work, and raise families wherever it makes the most sense. When it no longer makes sense, for any number of reasons, they move somewhere else.

Most people and their purchasing power do not care if they're shopping, going to a restaurant, or watching a movie in the city of Madison or a mile down the road outside the city limits.

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[2] City of Madison Economic Development Division, "*Economic Dashboard Report 2-26-2010*"

What is the benefit of improving the development approval process in Madison?

By far the most compelling benefits are encouraging investment in the city and maintaining fiscal sustainability and municipal services. With nearly three quarters of the City of Madison's total revenue derived from property taxes[3], maintaining services while keeping increases in the tax levy in check, and potentially reduced, is a significant benefit.

The equation is simple:

Level of Services = Tax Levy X Property Values

The more investment in development (residential and non-residential) and personal property to maintain facilities and operations, the higher the overall property values within the city. The higher the values the greater level of services that can be provided by the existing level of taxes and/or the potential to lower the tax levy needed to support the same level of services.

The proposed state budget contains strict levy limits that make exceptions only for Net New Construction. This report makes recommendations to attract investment and net new construction that is appropriate and enjoys broad community support.

The following table shows Madison's recent record for net new construction.

AVERAGE ANNUAL NET NEW CONSTRUCTION (2005-2010)

Government Unit	Average Net New Construction[4]
Wisconsin Statewide	1.9%
Stoughton	1.6%
Monona	1.9%
Madison	**2.2%**
Middleton	2.6%
Fitchburg	3.0%
Sun Prairie	3.6%
Verona	8.5%
Dane County (w/o Madison)	2.7%
All Dane Co. cities except Madison & Verona	2.8%
All Dane Co. cities except Madison	3.5%
Same plus DeForest and Waunakee	3.5%

[3] Total City funding in 2010 comes from its share of property taxes (72%), intergovernmental payments (15%), and local revenues (fees, fines, licenses, permits, PILOT payments, etc.)(13%). The City's share of overall property taxes in 2010 is 35%. The remainder flows to MMSD (47%), the County (11%), MATC (6%), and State of WI (1%). Source: City of Madison 2010 Adopted Operating Budget

[4] Based on 5 year compound annual growth in net new construction 2005-2010; Department of Revenue statistics

Two points are immediately obvious. First, Madison has done well in attracting a reasonable amount of net new construction exceeding the state average and several of our neighbors. Second, Madison has an opportunity to improve its revenue position by facilitating more new construction.

Some of the additional construction in Fitchburg, Sun Prairie, Verona, and elsewhere is driven by population growth and new residential construction. Between 2000 and 2009, Madison's population grew 9.4% while Dane County villages grew 16.4% and other cities grew 16.6%.[5] However, the budget implications make an effort to compete for more new construction worthwhile.

This table shows the potential incremental 2011 property tax revenue had Madison matched the net new construction growth of the government entities identified in the previous table over the preceding 5 years.

POTENTIAL REVENUE GAIN[6]

Benchmark	Incremental 2011 Revenue
Middleton	~~$ 4,756,410~~ $3,396,610
Fitchburg	~~$ 8,357,960~~ $6,998,160
Dane County (w/o Madison)	~~$ 5,627,453~~ $4,267,653
Dane Cities (w/o Madison & Verona)	~~$ 6,408,498~~ $5,048,698
Dane Cities (w/o Madison)	~~$ 12,291,016~~ $10,931,216
Dane Cities (plus DeForest and Waunakee)	~~$ 12,664,009~~ $11,304,209

Given the lower population growth and greater complexity in facilitating infill investment, it is neither fair nor realistic to expect Madison to fully capture this revenue. The chart demonstrates, however, that in an era of budget constraints and strict levy limits, attention to competing for construction can add millions to the city's coffers.

[5] Regional Trends 2009, Capital Area Regional Planning Commission.
[6] Based on taxable construction