Municipal Fiscal Structures and Land-Based Growth in the Phoenix Metropolitan Area

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Abstract

This case study examines municipal fiscal structures in the Phoenix metropolitan area, with a focus on Scottsdale, Chandler, and Fountain Hills. It explores implications of the quest for sales tax revenues in a context of rapid, land-based growth, and considers fiscal pressures faced by municipalities as they approach build-out, with land becoming less available. After documenting heavy reliance on sales taxes relative to property taxes, it provides data on sales taxes on construction activity and identifies approximate build-out dates. It suggests the idea of a fiscal life cycle, particularly in relation to infrastructure investment. It examines strategies pursued by municipalities approaching build-out, including efforts to increase retail sales tax revenues, and discusses legislative efforts to limit municipal incentives to attract retail facilities. It then discusses specific financial, planning, and other policies adopted by municipalities and highlights forward-looking policies on both the revenue and expenditure sides of the budget: limiting the use of one-time revenues for ongoing operating expenses, and addressing the problem of rising land prices by acquiring land and protecting rights of way in advance of need. Finally, it considers state-level policies to assist municipalities experiencing fiscal pressure as they approach build-out.

Research Findings and Highlights

- Municipalities in the Phoenix metropolitan area are heavily dependent on sales taxes relative to property taxes.
- Sales taxes on construction activity provide a significant share of general fund revenues and will diminish as municipalities approach build-out.
- Municipalities are pursuing a variety of strategies to address fiscal consequences of build-out, including annexation, redevelopment and infill, building up and increasing density, finding new revenue sources, and seeking to increase retail sales tax revenues.
- Forward-looking financial, planning, and other policies can be adopted to address both revenue and expenditure consequences of build-out.
- Such policies include limiting the use of one-time revenues for ongoing operating expenses, and acquiring land and protecting rights of way in advance of need.
- Options open to municipalities of differing size and economic circumstances vary widely.

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Introduction

For many municipalities in the U.S. West and South, the historical pattern of growth was one of rapid expansion onto available land. In the decades after World War II, annexation resulted in dramatic increases in land area for San Antonio, Atlanta, Norfolk, Denver, Portland, San Jose, and many other cities. Expansion by annexation had been common throughout the United States in the nineteenth century, but in the twentieth century it slowed in the East and Midwest, often as a result of opposition from suburban areas.[1]

Even in the West and South, extensive growth was not unopposed, nor did opposition date only from the 1970s, when environmental concerns (voiced earlier as well) became dominant. Michael Logan documented resistance to annexation across a broad political spectrum from the 1940s in Albuquerque and the 1950s in Tucson. He emphasized that "resistance to urbanization was as multifaceted as the booster/politician/planner forces pushing for expanded development."[2] These forces constrained, although they did not stop, the urban growth machines of the second half of the twentieth century.

Land-based growth and annexation were key elements of the history of the Phoenix metropolitan area.[3] The city of Phoenix grew from about 17 square miles in 1950 to about 516 by 2005.[4] Many neighboring municipalities also saw very large increases in land area. But by the early twenty-first century, limits to the land-based growth process began to appear. In part, these were purely physical constraints; much of the available land already was developed. In part, they stemmed from political decisions to set aside land for open space preservation. It remains to be seen whether other factors, such as water shortages, or the disamenities such as traffic congestion and air pollution that already have become serious problems in the Phoenix metropolitan area, also will limit growth or alter its character to be less land-using and environmentally destructive.

The winding-down of an extensive, land based growth process has many consequences. At the municipal level, some of the consequences are fiscal ones. In the Phoenix metropolitan area, they are magnified by characteristics of municipal fiscal structures, in which one-time revenues associated with growth have been an important component. Some of these one-time revenues have been used not only for capital projects, such as building urban infrastructure, but for municipalities' ongoing operating expenses. As a result, municipalities are vulnerable to fiscal pressure as they approach build-out. Individual municipalities face constraints even as the metropolitan area as a whole continues to expand.

Figure 1 allows us to identify the Phoenix metropolitan area, which consists of Maricopa and Pinal Counties. Recent growth has spread into Pinal County towards Tucson, located in Pima County. Figure 2 shows the boundaries of municipalities in Maricopa County. By the year 2000, land-based growth had resulted in many municipalities running up against each others' boundaries, or those of Native American Indian reservations. The latter appear as blank spaces on the map: the Salt River Pima-Maricopa Indian Community is north of Mesa and Tempe, the Fort McDowell Indian Community is east of Fountain Hills, and the Gila River Indian Community is south and west of Chandler and Phoenix. Due to the scale of the map, some annexations that were undertaken by municipalities (e.g., very narrow strip annexations) are not visible.

I focus in this paper on three municipalities within the Phoenix metropolitan area: Scottsdale, Chandler, and Fountain Hills. Scottsdale is a wealthy city with a population of 234,752 as of September 1, 2005, and an economy that relies heavily on tourism and on financial, business, computer, and health services. Chandler, also well-off, is similar in size but differs in having a strong high-tech industry focus, including several Intel and Motorola plants. Fountain Hills is a much smaller bedroom community (population 24,492), also wealthy, that originated as a master-planned community in the 1970s. It is located about 30 miles from downtown Phoenix.[5] My reason for selecting these municipalities is that each has explicitly identified the approach of build-out as a primary reason for fiscal pressure, and each is consciously seeking to devise policies to address this problem.[6]

This paper addresses the following questions. How important are sales taxes for municipalities in the Phoenix metropolitan area? What happens to sales tax revenues as municipalities approach build-out, with land becoming less available? What policies are municipalities adopting to address fiscal consequences of build-out?

Municipal Fiscal Structures in the Phoenix Metropolitan Area

Municipal fiscal structures in the Phoenix metropolitan area have three important characteristics. First, sales taxes are important as compared to property taxes. A relatively large number of municipalities in the Phoenix metropolitan area have no primary property tax at all (see Table 1).[7] In Maricopa Country, 10 out of 24 municipalities have no primary property tax (42 percent); in Pinal County, 1 out of 9 (11 percent). For the metropolitan area as a whole, one-third of municipalities lack a primary property tax. While some of these municipalities are quite small, with populations around 4,000-5,000, they also include Mesa, the forty-first largest city in the United States, with almost a half-million people. It is the largest U.S. city without a property tax.[8]

Data on the relative shares of sales and property taxes in general revenue from own sources are available for municipalities with populations of 125,000 or more for fiscal year [hereafter, FY] 1999-2000.[9] There were 6 such municipalities in the Phoenix metropolitan area (see Figure 3). Sales tax shares ranged from 34 to 51 percent, whereas the highest property tax share was 15 percent. For all U.S. municipalities in FY 2001-02, the share of sales taxes in general revenue from own sources was only 18 percent, much lower than its share in Phoenix metropolitan area municipalities. The property tax share for all U.S. municipalities was much higher, at 29 percent.[10]

The second important characteristic of municipal fiscal structures in the Phoenix metropolitan area is the share of construction (contracting) in sales tax revenues. To examine this, I acquired data from the Arizona Department of Revenue for municipalities participating in its collection program, and from Finance Departments of individual municipalities for municipalities that collect their own sales taxes (see Table 2 and Figure 4). In Arizona municipalities, the tax is levied on prime contractors' gross receipts and is received by the municipality in which the construction occurs. The contractor is allowed a standard 35 percent deduction for labor costs. Sales of building materials to contractors are exempt from sales tax. The result is a tax on the cost of the building materials plus the contractor's overhead and profit. It thus is partially a tax on income.

The share of construction in sales tax revenues ranges from 0 percent in Mammoth to 72 percent in Maricopa, a very rapidly growing (and recently incorporated) municipality in Pinal County. Scottsdale is the median municipality with a share of 20 percent. Thus for half of the municipalities in the area, construction accounts for one-fifth or more of their local sales tax revenues.[11]

The two characteristics of municipal fiscal structures described above—the importance of sales taxes and of the construction category within sales taxes--feed into the third, which in turn creates the need for the policy responses discussed later in this paper. That third characteristic is dependence on land-based growth to finance ordinary, ongoing government expenditures. To measure this dependence, I assembled data for a category of "construction-related revenues," which I show below as a share of general fund revenues. The construction-related revenues include the construction sales tax revenues in Table 2, as well as other building-related revenues such as building permit and engineering fees. The construction-related revenues are largely "one-time" revenues and can be expected to diminish as a municipality approaches build-out.

Some municipal Finance Departments employ in their reports a category of "elastic" revenues, which fluctuate repeatedly with the business cycle. In some respects, this category is conceptually similar to the one presented in this paper, and construction sales tax revenues appear in both. But the category of construction-related revenues used here differs in being linked to a long-run historical process rather than only to short-run macroeconomic fluctuations.

It would be possible to construct even wider categories of growth-related revenues. Municipalities in Arizona receive state-shared revenues based partly on population. A slowdown in a municipality's population growth relative to other municipalities might be expected to be associated with build-out. But since I do not at this point have information on how closely population growth is correlated with the physical process of expansion, I did not include those state-shared revenues here.

I also did not include development impact fees, which are growth-related revenues and in fact often are described as a way of making growth "pay for itself." However, they can only be used to finance capital projects, not ongoing expenses, and are used to create infrastructure such as water and sewer lines for new developments. The need for these revenues diminishes along with the revenues themselves as municipalities approach build-out, since the basic infrastructure already is in place. The disappearance of revenues from development impact fees thus would be less a source of fiscal pressure than the disappearance of construction sales tax revenues that have been used to finance ongoing expenditures. A municipality's need for fire protection, for example, does not diminish as the building of new houses on the fringe ends.[12]

Construction-related revenues as a share of general fund revenues in FY 2004-05 are shown in Table 3 and Figure 5. General fund revenues are those available for local government services such as police and fire protection, code enforcement, parks and recreation, planning and economic development, general administration, and any other activities for which special funds have not been created. For Scottsdale the share was 17 percent, for Chandler 18 percent, and for Fountain Hills 23 percent. These percentages mean that a significant share (approximately one-sixth to over one fifth) of general fund revenues was vulnerable to the approach of build-out. Of course, some redevelopment and infill will continue to occur even at build-out (and as explained below, redevelopment is central to some municipalities' strategies). However, historically a major source of construction-related revenues has been creation of new residential subdivisions, which require large tracts of available land.

The patterns over time of the shares of construction-related revenues in general fund revenues are shown in Figures 6-8. In some years, the shares were even higher than in FY 2004-05. For all three municipalities, they rose in the most recent two years (though for Scottsdale and Fountain Hills, not to the levels of the late 1990s).

The degree of dependence on construction-related revenues is noteworthy, since in each of these municipalities, construction-related revenues are expected eventually to decline. Similar concerns about the long-run prospects for construction-related revenues were voiced by officials in other municipalities, including some such as Surprise that still are expanding rapidly.[13] Fountain Hills's Budget Message for FY 2006-07 put the point succinctly: "As construction activity declines, and the associated revenues cease to be generated, the Town will be forced to find alternate sources of revenue to sustain existing community services and programs."[14] Without such alternate revenue sources, program cuts would need to be considered.

These data and projections suggest that it would be interesting to think more about the idea of fiscal life cycles of municipalities. What fiscal structures are characteristic and/or appropriate for municipalities at different stages of growth? What has been the historical experience of municipalities in different time periods and regions? Are there features of a fiscal life cycle that are specific to municipalities experiencing land-based growth, and others that are more general? An example of a more general feature might be the timing of the point at which growing municipalities begin to issue their own bonds. A financial consultant for the town of Queen Creek, incorporated in 1989 and undertaking its first issuance of municipal bonds in 2006, explained that "It's the evolution of a town . . .We're maturing."[15]

There is an existing literature on urban fiscal crises, such as those of the 1930s and 1970s, and on the historical evolution of sources of local, state, and federal revenue.[16] Some case studies of individual cities include fascinating treatments of fiscal matters.[17] Journalistic accounts have raised some of the fiscal issues associated with the maturing of cities.[18] These sources may help to provide a context for developing a greater understanding of stages in the evolution of municipal fiscal structures.

Young municipalities, at least in the Arizona context, can draw upon a range of growth-related revenues. This does not mean that they have no fiscal worries. As population soars, needs grow even faster than revenues. The city of Surprise requires a new fire station every 2-3 years and miles of water and sewer lines added annually.[19] Grady Gammage, Jr. described the infrastructure finance "gap" problem faced by growing municipalities in metropolitan Phoenix. Residents in new areas lacking commercial or employment uses generate demands for services, but in the short run, their tax revenues go elsewhere (for example, to established areas that already have shopping malls in place).[20] As in earlier periods of U.S. urban history, municipalities have resorted to a variety of financing mechanisms. Development impact fees have become almost universal; in addition to taxation and bonds, municipalities are starting to use mechanisms such as community facilities districts, in combination with private developers, to get infrastructure built.[21]

Municipalities at the other end of the life cycle, approaching build-out, face different fiscal pressures. Growth-related revenues decline, while the need for ongoing expenditures generally does not (though this is conceivable, if, for example, population declined significantly). Moreover, replacement of aging infrastructure becomes necessary. Fountain Hills, for example, created much of its infrastructure in the 1970s and 1980s; the town anticipates needing to replace much of it soon.[22] This need, of course, will recur at intervals for a municipality long after build-out has been reached.

Build-out Projections

When can municipalities in the Phoenix metropolitan area be expected to reach build-out? Projections for Scottsdale predict 90 percent build-out for residential uses by 2020. For Chandler, 95 percent build-out is anticipated for residential uses by 2010-2012, for commercial uses by 2013-2016, and for employment by 2030-2040. For Fountain Hills, which is primarily residential, a date of 2025 has been proposed. Build-out dates for other municipalities include 2015-2017 for Gilbert, 2013-2015 for Mesa, and 2030 for Queen Creek.[23]

Some municipalities already are at build-out or are very close. Tempe has been landlocked by other municipalities for several decades. In 1997-98, its ratio of vacant land to total land area was only 7.6 percent, whereas the ratio for Phoenix was 42.6

percent, for Mesa 34.7 percent, and for Glendale 24.4 percent.[24] El Mirage expects build-out by 2006 or 2007.[25] In Tolleson, a City Council member remarked in 2005 that "we don't have much land left."[26] On the other hand, several municipalities in the West Valley are pursuing annexation of large tracts of land, Cave Creek has filed annexation applications, and annexation also is occurring in Pinal County. Peoria and Phoenix recently annexed areas to the north and do not see build-out as imminent.

Build-out dates are approximate and subject to change. They are affected by overall macroeconomic conditions and trends in housing markets. The Phoenix metropolitan area recently saw some of the fastest house price appreciation in the nation, and housing construction soared. However, housing markets have cooled considerably and if the more subdued conditions continue or worsen, build-out dates will move farther into the future.

Build-out dates also are affected by political decisions to preserve desert open space. If more land is protected from development, build-out will be reached more quickly. This consideration is especially relevant for Scottsdale, which has undertaken a significant amount of preservation and which will be affected by any legislation concerning the disposition of state trust lands.[27] On November 7, 2006, two statewide ballot initiatives (Propositions 105 and 106) concerning state trust lands were defeated. If Proposition 106 had passed, 694,000 acres across Arizona would have been preserved. Five thousand acres would have gone into Scottsdale's McDowell Sonoran Preserve, and 9,000 additional acres could have been acquired by the city at lower rates, without the open auction currently required. Some supporters of the proposition, including Scottsdale Mayor Mary Manross, indicated that they would try again, although others were "exhausted and disappointed."[28]

Municipal Strategies as Build-out Approaches

Despite the potential variability in build-out dates, it is clear that many municipalities are approaching the point in their historical evolution when fiscal pressures associated with build-out will appear. What strategies are open to them, and which are they choosing to follow? Five can be identified; they are not mutually exclusive and some municipalities are trying several. They include: 1) expanding municipal boundaries through annexation; 2) promoting redevelopment and infill; 3) building up rather than out; 4) finding new revenue sources (such as a property tax); and 5) increasing retail sales tax revenues.

Generally speaking, annexation is a strategy for pushing out the date of build-out, rather than an option once build-out has been reached. El Mirage, however, which is very close to build-out, sought to re-establish the annexation option in court. It sued Glendale in 2005 to reverse an annexation done by Glendale in 1978, claiming that Open Meeting Law was violated in the process. Arguments were heard in Maricopa County Superior Court on November 13, 2006, and Judge Kristen Hoffman subsequently dismissed the case. The judge said that El Mirage officials had waited too long. In the meantime, both cities had acknowledged the annexation in planning documents. As of December 1, 2006, El Mirage was considering whether to appeal. If Glendale's annexation had been overturned, land located near the Loop 303 freeway would have been open to annexation by El Mirage, though that outcome would not have been assured since property owners in an area to be annexed must approve the annexation. The area in question is ripe for development and substantial tax revenues are anticipated, particularly from commercial development.[29]

Scottsdale is focusing heavily on the strategy of promoting redevelopment and infill. This approach was recommended in *Which Way Scottsdale?*, the 2003 report that initiated public discussion of impending build-out. Two main initiatives are underway: development of SkySong (the ASU Scottsdale Innovation Center) and the Scottsdale Waterfront. SkySong is a reuse of the former Los Arcos Mall site in south Scottsdale. A 1.2 million square foot mixed-use development, its focus is on technology commercialization, entrepreneurship, and business development. It will include programs in biosciences, engineering, and art in conjunction with Arizona State University, which has been heavily involved in partnering the development.[30]

The Scottsdale Waterfront is a 1.1 million square foot mixed-use downtown project on the northern banks of the Arizona Canal. Approved in 2003, it was an important step forward for an area whose redevelopment had lagged. The change was due in part to the area's new designation as an infill incentive district under state legislation. Previous attempts to redevelop the area had been based on municipal designation as a redevelopment district, but these had evoked concerns about condemnation and eminent domain, a very controversial issue in Arizona. The infill incentive legislation allowed for amendments to development standards, which for this project meant approval of twin 13-story residential towers and an 8-story retail/residential building. These exceeded the entitled building heights for this site.[31]

The project thus also is an example of the third main strategy: building up rather than out. Among municipalities in the area, Chandler has adopted this approach most explicitly. Like Scottsdale, it has approved individual buildings that exceed standard height limits (heights up to 45 feet are allowed by right in some zoning districts in Chandler). Plans for Elevation Chandler, located near the Chandler Fashion Square Mall, included a 10-story hotel and 15-story condominium.

Chandler went further, however, by adopting a Mid-Rise Development Policy in March 2006. The policy was an update of a 1985 ordinance; it was intended to be more flexible and to prompt more creativity than an ordinance. It was justified on the grounds that

> as the City continues towards its various stages of build-out and developable land becomes more limited, there will be greater pressure to build upward in key areas of the City. Hence the effort now is to update – and more clearly define – eligible locations and the considerations to be made for mid-rise development, and to continue requiring that such building heights can only be approved through the PAD [planned area development] zoning process.[32]

The policy sought to identify general locations and project performance characteristics rather than particular sites. Locations that were considered appropriate for mid-rise development included those of future growth or redevelopment, or those near freeways. Desirable performance characteristics included use of former industrial sites, efficient use of transportation facilities, a mix of land uses ("live/work/shop/play") within the project boundaries, and others.

The resolution also stated that "where proposed, mid-rise development should be consistent with the lower profile, less intensive development pattern that characterizes Chandler today."[33] The strategy of building up is a major break with the historical pattern of development throughout the Phoenix metropolitan area. Ambivalence about greater heights is perhaps even stronger in Scottsdale than in Chandler. Scottsdale has allowed buildings up to 143 feet in its downtown, but held to a 60-foot limit (4 stories) in north Scottsdale. However, it soon will be seeing higher buildings in the north whether or not it approves them.

Phoenix has granted permission to the developers of two projects on its side of Scottsdale Road, which divides the two cities, to construct 120- and 190-foot buildings. The Salt River Pima-Maricopa Indian Community, bordering Scottsdale, also has approved greater heights. DMB, the developer of One Scottsdale (a mixed-use project to be developed on 120 acres on the Scottsdale side of Scottsdale Road, north of the Loop 101 freeway), requested in 2006 a height increase to allow some buildings to reach 89 feet, exceeding the current entitlements for building heights of up to 60 feet on the site. The 60-foot limit had been approved by the City Council in 2002, when the site was rezoned from a Single-Family Residential designation (R1-35) with a much lower limit. Nearly 150 residents attended a City Council meeting on November 14, 2006 to speak for and against the request. The City Council voted to continue the issue, but DMB decided to withdraw its request after opponents threatened a referendum if the City Council approved the height increase. DMB believed that it could have won a referendum, but did not want the project delayed.[34]

It will be interesting to see how Scottsdale’s policies on heights evolve, in this area and in other parts of the city. Although Scottsdale as a whole is approaching build-out, and city officials are promoting redevelopment and infill, in north Scottsdale there still are possibilities for the less intensive pattern of development characteristic of an earlier phase of the life cycle (though as noted above, neighboring communities may choose more intensive development in close proximity). Opponents of the height increase requested for One Scottsdale in 2006 expressed concerns about the obstruction of views, damage to the desert ambience and quality of life, departure from Scottsdale's "tasteful low-key" architecture, and the precedent that might be set, in practice if not in law, for future decisions regarding building heights. Some wanted to confine a "big city look" to downtown. Supporters argued that One Scottsdale would be a "signature project," that the site was "the epicenter of the most dense development parcels in the Valley and one of the most highly-trafficked intersections of the City," and that the project would be an important source of new revenue for Scottsdale.[35]

Opposition to high-rise development has been active elsewhere in the Phoenix metropolitan area and the nation. Donald Trump and his development partner, Bayrock Group, ultimately were blocked from constructing a 190-foot luxury condo-hotel in the Camelback Corridor in Phoenix (although other high-rise projects are underway in downtown Phoenix). In discussing opposition to the Atlantic Yards project in Brooklyn, New York, an article in the *New York Times* (Aug. 6, 2006) described the project as an example of "vertical sprawl." However, residents in some areas welcome high-rise development if they see it as contributing to revitalization. In Mesa, a condo complex (Fiesta Towers) that could include four towers, with heights up to 25 stories, was approved by city boards and the City Council with little or no opposition. The hope was that if built, it would complement renovation of the Fiesta Mall and help shore up an aging district.[36]

Building up rather than out is only one component of the set of policies evolving in Chandler. City departments produced an initial build-out strategy that included a variety of approaches, such as maintaining a strong job base, resisting conversion from non-residential to residential land uses, preserving the city's image, and pursuing appropriate financial strategies. In 2004, Chandler commissioned a consultant (Mary Jo Waits, one of the authors of *Which Way Scottsdale?)*, to work on the issue. This work was the basis for discussion at a City Council retreat in September 2006, and the draft report was then presented to a joint meeting of the City Council and Planning Commission on November 16 of that year.

The report outlined changing national and global forces affecting Chandler and new realities facing the city as it transformed from being a rapidly growing outer suburb to a mature inner suburb, land poor rather than land rich. Emphasizing the importance of being pro-active, it stressed the need for Chandler to stick to its strategic vision as an employment center. This would entail not only attention to existing large employers, but nurturing of new, innovation-based local companies participating in the "idea economy." It also would require ensuring that the city remain attractive to highly educated and talented residents.

The report concluded with a set of five big projects that it argued Chandler should adopt as a basis for continued prosperity in the twenty-first century. These included attention to infill development and acceptance of higher densities and mixed use in certain locations; downtown revitalization along the Arizona Avenue Corridor, with an emphasis on high quality design, to attract small and medium-size professional services firms and entrepreneurs; rethinking the large corporate campus model, particularly in terms of future development of the Price Road Corridor; improving the city's "connectedness," alternatives to automobile travel, and potential as a "model healthy city"; and positioning Chandler as the catalyst for an East Valley technology corridor within the "megapolitan region" encompassing Phoenix, Tucson, and the areas in between. The latter would involve developing stronger relationships with rapidly growing Pinal County communities and working with them on regional issues such as transportation.[37]

Although not emphasized in the report, such cooperation on a regional level, in terms of air quality and other issues as well as transportation, will be important if municipalities in the Phoenix metropolitan area are to preserve the amenity qualities that have helped to generate growth in the area as a whole. Municipalities facing build-out may be inclined to think primarily in competitive terms—how can they be more successful than other municipalities in creating attractive shopping destinations, urban residential environments, or employment centers? But they also will need to work together to protect shared amenities and prevent disamenities from making each a less desirable place to live. A successful long-run build-out strategy for a municipality in the Phoenix metropolitan area cannot be confined to actions taken at the municipal level alone.

Fiscal issues also were not a major theme in the report. Because it has followed conservative financial policies regarding the use of one-time revenues (discussed further below), Chandler is in a better position than some other municipalities as it looks ahead to fiscal consequences of build-out. However, it still will need to make decisions about how or whether to finance capital projects that previously could have been financed by one-time construction-related revenues.

According to Chandler officials, the report provided a valuable opportunity for Chandler to step back, look at the big picture, and consider long-term goals for its future development. As it moves ahead, an important theme for the city will be sustainability and creating the right balance of land uses. A final version of the report will be distributed, implementation strategies will be devised, and a main focus of future activity will be the update of the city's General Plan, which Chandler is committed to undertaking every five years. Ideas from the report will be incorporated throughout the entire General Plan document.[38]

In addition to adopting its Mid-Rise Development Policy, Chandler already has taken other steps to encourage increased density by adopting an Area Plan for South Arizona Avenue with Medium and High, as well as Low, Density categories for residential development. The High Density category (18-40 units per acre) had not previously existed elsewhere in the city. Because there already was considerable commercial strength in and near this area, the focus for its redevelopment was new residential development, plus select commercial uses that would support a higher-density urban residential lifestyle. Building heights in this area were not specified in the plan, but the issue will be addressed through the zoning process and with input from neighbors. Compatibility and fit for a particular location will be important considerations. In addition to its pursuit of greater density, Chandler also has increased its focus on neighborhoods, particularly older neighborhoods, to maintain their attractiveness and to stimulate revitalization.[39]

If other municipalities decide to pursue a "building up rather than out" strategy, they may seek changes in current building height limits. As part of a zoning ordinance update undertaken by the City of Mesa, zoning code users were interviewed about desired changes in regulations. Many people suggested increases in height, particularly along the light rail line (buildings up to eight stories), at transit nodes, and in other areas not adjacent to single family homes. They sought a vibrant downtown with "more density, taller buildings, and mixed uses with late night hours."[40]

Current zoning regulations may not be the most important constraint on pursuing a strategy of building up. Many zoning codes do have provisions or processes for exceptions to standard height limits, such as specified districts where greater heights may be allowed, or opportunities for variances. It would be useful to know more about the extent to which changes in existing zoning codes would facilitate a strategy of building up, and also about what might be lost in terms of public discussion, or the ability to consider projects on a case-by-case basis, if greater heights were allowed by right in more locations.

There remain underlying issues of political will, as well as constraints that may arise from market conditions. A municipality might, for example, prefer to raise taxes or cut services rather than allow greater building heights in response to a revenue shortfall as it approaches build-out. Of course, not all residents in the municipality may be equally able to absorb the consequences of higher taxes or reduced public services. Residents also might favor greater heights, but only if they are in another neighborhood within the municipality. Further complicating the picture is the fact that decisions either to prohibit, or to allow, greater building heights are likely to entail both positive and negative externalities for neighboring municipalities (or for adjacent areas within a municipality). For example, prohibiting greater heights may preserve certain amenities, but contribute to urban sprawl.

Even if a political consensus is reached to allow greater heights, market conditions in a particular district or in a metropolitan area as a whole may result in those heights not being attained. Previous projects proposed for the Fiesta district in Mesa failed to materialize; when Fiesta Towers was approved, some skepticism was expressed that it would ever get built. A wave of conversions of apartments to condos, and construction of new high-rise condos in several municipalities in the Phoenix metropolitan area, also led some experts to wonder whether that market was becoming saturated. Simultaneous pursuit of a "building up" strategy by several neighboring municipalities could reduce its effectiveness for each, at least temporarily.[41]

Finally, a strategy of building up can have specific expenditure as well as revenue consequences, which in some cases might make a municipality reluctant to pursue that strategy. For example, if a municipality does not have adequate fire-fighting capacity for taller buildings, additional investment will be required. Strict height limits might be maintained to avoid that expenditure. Other possible interactions between local regulations, and the expenditure (as well as the revenue) side of municipal budgets, could usefully be explored.[42]

A fourth strategy followed by municipalities is finding new revenue sources. This is the primary focus for Fountain Hills, one of the municipalities lacking a primary property tax. Voters failed to pass such a tax in 2002 and 2003, but town officials hoped to see it voted upon again in May 2007. The earlier failure was due in part to the issue becoming entangled with the town's taking over the previously independent fire district. Dissatisfaction with this action may have spilled over into opposition to the town's proposal of a property tax, even though residents previously had been paying property taxes to support the fire district.[43]

Fountain Hills embarked on a comprehensive strategic planning process in late 2004, which included a random survey in October 2005 asking residents' opinions about financial options. Twenty-five percent of respondents favored a property tax, 23 percent a sales tax increase, and 30 percent chose "don't know/need more information." Twelve percent thought the town should cut or reduce services and 10 percent wanted to postpone raising revenue until a future date. Participants at a Town Hall meeting in August 2005 had received information about the Town's long-term financial picture. Among those answering a questionnaire that offered four (rather than five) options, 64 percent chose a property tax, 13 percent a sales tax increase, 7 percent a reduction in services, and 6 percent putting off action until a deficit actually occurred. Ten percent selected multiple options or favored other approaches. Comments of Town Hall participants who favored a property tax included statements that a property tax would be more stable and fair, that sales taxes already were high, and that a property tax would ensure that part-time residents ("snowbirds") paid their share.[44]

The strategic planning process included substantial citizen involvement and a major public education campaign. A volunteer Technical Advisory Committee had designed the citizen-driven process that was approved by the Town Council in December 2004. Early in 2005, the town hired an independent group of consultants and public opinion researchers to manage the process and conduct focus groups, and hired a local communications company (Image Weavers) for public relations, marketing, and document design. Two Town Hall meetings were held in April and August, 2005, a variety of other activities were pursued, and the *Strategic Plan 2006-2010* was adopted on December 1, 2005. The second element in its action plan stated that "The Fountain Hills Town Council will resolve the Town's projected long-term revenue shortfall by December 31, 2007."[45]

As part of this process, the Finance Director and Town Manager had prepared a 20-year financial plan which laid out consequences of impending build-out. According to the revised plan, a deficit in the town's operating budget would appear by 2017, and the projected cumulative operating deficit over the period to FY 2025 was $26.8 million. In addition, there would be a cumulative capital deficit (shortfall in the Capital Improvement Plan budget) of $49.6 million by FY 2025. Annexation of state trust land extended the date of the operating deficit, but only by two years from a previous estimate of 2015.[46]

At a Town Council Work Study Session in June 2006, the Finance Director proposed a property tax levy of $0.65. She indicated that a primary tax levy of $0.25 and secondary tax levy of $0.40, if enacted by FY 2008, would eliminate the operating deficit and capital deficit, respectively. An alternative approach would be increasing the Fountain Hills sales tax rate from 2.6 to 2.9 percent to cover the operating deficit, or to 3.4 percent to cover both the operating and capital deficits. However, the result would be a total sales tax rate (town, county, state) that would be one of the highest in Arizona. A third proposal was to research additional sources of revenue such as utility franchise fees, charges for municipal services, or licensing fees. The Finance Director explained that potential revenue from such sources would help, but not resolve, the long-term shortfall. In discussion of the proposal by City Council members and residents, the question of capital expenditures as well as revenue sources was raised. Some expressed the view that not all of the capital projects proposed really were necessary, or that some could be put off if new taxes would be required to finance them.[47]

In late summer 2006, residents could obtain information about the town's financial situation from cable TV, the town's website, videos, and a newsletter. A series of public workshops was scheduled for fall 2006. At the first workshops, on September 6, there continued to be divided support for a primary property tax or an increased sales tax. Residents voiced no strong objections to utility franchise fees. Such fees would require voter approval, as would a property tax. A sales tax increase could be passed by the Town Council.[48]

Additional workshops were held on October 4. At a subsequent meeting of the Strategic Planning Advisory Commission, it was reported that those workshops showed broader support for a property tax, and for utility franchise fees, than for a sales tax, although some attending did not feel they had enough information to make a decision. It also was reported that some town residents still did not seem to think that there would be a problem or that it was necessary to take immediate action. The suggestion was made that trust (regarding government spending) was an issue for some residents in Fountain Hills. This issue has come up in other municipalities considering increases in taxes. Finally, questions were raised at the workshops as to whether it would be possible to cut costs or rely on economic development for additional revenues. It was explained at the Strategic Planning Advisory Commission meeting that the town already was operating on a lean basis as compared to other municipalities in the Valley, and that economic development could not be counted on as a savior. These options, however, would be added to discussions at a series of neighborhood coffees to be conducted in the town before the end of 2006. For voters to decide on a property tax in May 2007, a decision to proceed would need to be made by January 2007.[49]

The fifth strategy open to municipalities facing build-out--increasing their retail sales tax revenues--can be pursued in several ways. The retail sales tax rate can be raised, as Fountain Hills is considering doing, although there is a risk of losing shoppers to neighboring municipalities with lower rates. Municipalities also can rezone land for commercial uses. This is common in growing communities at early stages of the life cycle, where agricultural land is still available. Older communities may have an ample supply of commercially zoned land. For them, the challenge is to protect the potential for future revenues by resisting efforts to down-zone land from commercial to residential use. Pressure for down-zoning increases as build-out approaches. Residential developers need land, and residents of subdivisions already built may oppose retail establishments in close proximity (particularly the big box stores or auto dealerships that generate large amounts of retail sales tax revenue). For Chandler's Planning and Development Department, the avoidance of down-zoning has been an explicit goal.[50]

The most common method used to attempt to increase retail sales tax revenues is offering incentives to attract retail establishments. Frequently this takes the form of rebating sales tax revenues to a developer. Scottsdale, Chandler, and Fountain Hills all have provided incentives, as have many other municipalities in the region, including rapidly growing ones. Gilbert offered $60 million to lure an auto mall. Glendale, among the most active in offering incentives, most recently landed the Cardinals football stadium and a massive Cabela's outdoor sports store.[51]

Offering incentives thus predates the approach of build-out, but build-out is likely to intensify efforts to increase retail sales tax revenues as construction-related revenues diminish. In this respect, the consequences of build-out may be similar to those resulting from the passage of Proposition 13 in California in 1978. A decrease in funds available from a previously important revenue source (the property tax) is alleged to have led to increased competition for retail sales tax revenues. The phenomenon described as "fiscalization of land use," in addition to being associated with subsidies to retailers, also is thought to lead to less construction of affordable housing as municipal officials seek land uses that increase their revenues and/or decrease their expenditures.[52]

State Legislation to Limit Competition for Sales Tax Revenues

The strategy of increasing retail sales tax revenues by offering incentives to developers differs from the first four strategies discussed above, in being highly likely to have distributional consequences that some regard as negative: transfer of resources from the public to the private sector. Citizen's groups have objected to proposed incentives; in Scottsdale a referendum reversed a City Council decision to provide a $37 million incentive for construction of a Wal-Mart on the Los Arcos mall site where SkySong later located. The need for incentives is less clear in the case of retail establishments than manufacturing ones, particularly if the latter are being attracted from out of state. Retail establishments tend to follow population growth ("retail follows rooftops") and are likely to locate somewhere in the metropolitan area in any case.[53]

Arizona legislators also have been concerned about municipal incentives. In 2005, they passed legislation to limit retail sales tax incentive agreements. S.B. 1274, sponsored by Senator Jay Tibshraeny and others, was intended to provide more transparency and accountability concerning agreements, rather than to stop them. Municipalities were required to make findings, verified by an independent third party, that the incentive would raise more revenue than the amount of the incentive (though a full fiscal impact analysis was not required) and that the retail business or a similar retail business would not locate in the municipality in the same time, place, or manner without the incentive.[54]

Not all legislators felt this bill was sufficient. Senator Ken Cheuvront and others sponsored legislation that would impose financial penalties on municipalities that offered incentives. The municipalities would lose state-shared tax revenues in an amount equal to the incentive offered. That bill (initially, S.B. 1201) failed to pass in 2005; a similar bill in 2006 (S.B. 1243) did not make it to the floor before the session ended in June. At a March 2006 meeting of the House Committee on Ways and Means, Senator Cheuvront (himself a small business owner) argued that the legislation was needed because small business persons could not compete with "big boxes" that were being given incentives. He felt that market forces should be allowed to operate and that business survival should not depend upon government intervention. Senator Cheuvront planned to reintroduce the bill in 2007.[55]

Interestingly, municipalities in the Phoenix metropolitan area opposed such legislation, as did the League of Arizona Cities and Towns. The main argument made against the legislation was that it would limit municipal autonomy. Kevin Adams, Legislative Coordinator for the League, argued that

> if a local incentive generates or brings in additional businesses, the state benefits from that revenue. These are decisions local councils and mayors are elected to make, and the appropriate place to address issues with a specific incentive being considered or passed is at the local level. If the actions of local officials go against the will of the people, it is very easy to vote them out of office next time they are up for election. There is also the option of a recall or referendum powers.[56]

Similarly, Jeff Fairman (Economic Development Director for Avondale) believed that decisions about incentives should be made locally, on a case-by-case basis. Avondale had granted incentives in some, but not all, cases when they were requested.[57]

Sheri Saenz, Tempe's Economic Development Director, stated in 2005 that "tax revenue is extremely critical to their economy, which is why these incentives are provided. It is very critical not to pass this bill as it would tie the city's hands from being able to compete for projects."[58] A Tempe lobbyist also opposed S.B. 1243 in March 2006. However, Hugh Hallman, elected as Mayor of Tempe in 2004, had come to support state legislation by September 2005. He explained that

> while I was one of the city leaders hoping to avoid legislative intervention, I now concede that it is inevitable and necessary. We must solve this insane 'race to the bottom' and set a standard that no city can ignore. . . . the Arizona legislature must now temper our cities' insatiable demand for sales tax revenues at all costs and stop cities from being pitted against one another to gain a share of the sales tax pie. Our residents ultimately pay the price – literally – by sacrificing city-provided services and amenities when sales taxes unnecessarily are given away.[59]

Some argued that the impact of S.B. 1274 should be assessed before moving ahead with the stronger S.B. 1243. However, it is not clear that any systematic monitoring of the effects of S.B. 1274 is underway. It would be useful to compile information on whether, and based on what evidence, independent third parties are finding that a specific retail business, or similar retail business, would not locate in a municipality in the same time, place, or manner without the incentive offered. Have there been any cases where the findings were negative and the incentive therefore not allowed? More importantly, even if it can be demonstrated that a retail business would not have located in a particular municipality without the incentive, it still is quite likely that it would have located somewhere within the metropolitan area. In that case, there is indeed an unnecessary loss to the public sector as a whole.

As described below, voluntary agreements among municipalities have for the most part failed to prevent such losses to municipalities (taken together), which makes legislation to solve the coordination problem seem warranted. However, there is one argument that might be made in favor of allowing retail incentive agreements: they can provide a way for municipalities to obtain needed infrastructure. Some, although not all, of the agreements require the developer to construct roads or other off-site public facilities. S.B. 1243 contained an exemption from the financial penalty for off-site public infrastructure. Although supporting legislation to limit incentives, Mayor Hallman believed that tax abatements should be allowed to finance the cost of infrastructure, as well as being allowed for historic preservation and environmental cleanup.

It is an interesting question as to whether this method of acquiring infrastructure is preferable to, or perhaps simply more politically feasible than, a municipality directly taxing itself (rather than foregoing future tax revenues as an incentive). It also can be a way of overcoming the timing issue associated with the infrastructure finance "gap." Further research is needed to examine the development agreements being approved by municipalities, the details of what infrastructure or other benefits they are getting in return for the incentives, and whether there are any significant disadvantages to relying on this method as opposed to alternate methods of infrastructure finance.

Financial, Planning, and Other Policies Adopted by Municipalities

One of the goals of this research project was to identify specific policies that municipalities can adopt to deal with fiscal consequences of build-out. A range of financial, planning, and other policies have been advocated or undertaken by municipalities in the area. Among those discussed below, two are highlighted as interesting examples of forward-looking policies on the revenue and expenditure sides of the budget, respectively. They are: 1) limiting the use of one-time revenues for operating expenses and allocating those revenues to capital projects or other one-time expenditures instead; and 2) addressing the problem of rising land prices by acquiring land and protecting rights of way in advance of need.

Financial Policies

One financial policy advocated by Chandler in its build-out strategy is to establish a sinking fund to cover future costs of maintaining infrastructure. According to Pat Walker, Management Services Director, Chandler already has implemented policies for some types of infrastructure. The city has funded street maintenance and needs for maintenance are being tracked. Progress has been made on funding the maintenance of water and sewer lines. Scottsdale also sets aside funds for maintenance of water and sewer infrastructure. Fountain Hills, as noted above, has recognized that much of its infrastructure will need replacement soon.[60]

Some of the most interesting financial issues concern the use of one-time revenues for operating expenses. Much of the construction-related revenues shown in Table 3 and Figure 5 are one-time revenues that will diminish when the outward physical expansion of the municipality ceases. To the extent that redevelopment occurs, some revenues will continue to be collected. However, it is expected that these will be significantly less than the revenues derived from construction of large residential subdivisions in early stages of the life cycle. Despite the fact that these revenues are temporary, many municipalities have been using them to pay for operating expenses. Those expenses will continue after physical expansion ceases (and may even grow), since the population already is in place and will continue to need police and fire protection, general government administration, and other services.

Fiscal prudence seems to suggest allocating some, if not all, of the construction-related revenues to capital projects or other one-time expenditures rather than to operating expenses. Several municipalities in the Phoenix metropolitan area have taken positive steps in this direction. Avondale, a rapidly growing community in the West Valley, allocates approximately 60 percent of certain construction-related revenues to one-time expenditures, including capital projects and other one-time expenditures such as consultants' fees. It plans to raise that percentage over time; the goal of Kevin Artz, Avondale's Finance and Budget Director, is to reach 100 percent. Surprise, also expanding rapidly, allocates 75 percent of its construction sales tax revenues to one-time expenditures, mainly capital projects. At present, the policy applies only to construction sales tax revenues, and not to other construction-related revenues, but that may change over time.

Chandler's policy is to allocate 100 percent of one-time revenues to one-time expenditures, rather than using them for ongoing expenses such as staff salaries. Not all construction-related revenues are considered one-time revenues. Pat Walker explained that the 100-percent policy was brought to the City Council in the fall of 1989, when she was Chandler's Budget Director, for implementation in the city's FY 1990-91 budget. Significant layoffs of municipal personnel had been necessary in January 1989 and she wanted to avoid a similar situation in the future.[61]

Craig Clifford, Chief Financial Officer for Scottsdale, emphasized the role of redevelopment and infill in continuing to generate construction-related revenues.

Scottsdale's policy is to allocate at least 25 percent of construction sales tax revenues to one-time expenditures. The actual amount transferred to the Capital Improvement Program was more than 25 percent in FY 2005-06. It is perhaps not surprising that a municipality focused on a redevelopment and infill strategy, and confident of its ability to succeed, would highlight the extent to which construction-related revenues are ongoing rather than one-time.[62]

Other municipalities that have faced severe fiscal problems have a different perspective. Timothy Pickering found layoffs to be necessary after he became Town Manager of Fountain Hills in 2002. Fountain Hills's goal is to allocate 100 percent of its construction-related revenues to capital projects. It had not yet been able to implement that policy by FY 2005-06; however, it plans to do so in FY 2007-08. Its *Annual Budget* for 2006-07 included an explicit statement that one-time revenues

> should not be depended upon for operating expenditures. These non-renewable funds are opportunities to purchase land or buildings, improve Town-owned properties, provides matching funds for grants, equipment purchases, economic development activities and other capital projects as determined by the Town Council.[63]

Further research might fruitfully explore whether there have been other historical situations, in the Phoenix metropolitan area or elsewhere, where municipalities relied upon temporary revenue sources for ongoing operating expenses. There have been cases of reliance upon debt finance; in the mid-1970s, as its financial conditions worsened, New York City "was using long-term borrowing which should have been for capital projects to cover operating expenses."[64] Philip VanderMeer provided an interesting account of how resistance to local taxes and the impact of inflation led Phoenix to rely in the 1970s on federal funds to meet its expanding needs. The city's bus service was financed in this way in 1973. A few years later, "Mayor Hance warned about the dangers of accepting federal funds, especially to pay city operating expenses."[65] Despite this concern, she successfully pursued federal funds for the city.

Planning and Other Policies

Municipalities approaching build-out also have adopted planning and other policies that will affect their fiscal positions. Chandler's Mid-Rise Development Policy was described above, and reference was made to Mesa's zoning ordinance update. Mesa decided that it needed to modify its zoning practices as the city aged. Its Planning Director, John Wesley, pointed out that "The code we have was developed for a fast growing suburban city . . . We're not fast-growing anymore. We're looking more at infill."[66] The city hired a consultant as part of an 18-month process to undertake the first comprehensive update of its zoning since 1988. Some of the changes that are envisioned appear to address political obstacles to redevelopment and infill. For example, there would be new rules requiring buffers and screening to protect homeowners affected by infill projects. It will be interesting to see whether other municipalities also decide that they need "age-appropriate" zoning.

Some municipalities have sought to minimize the distributional consequences of competition for retail sales tax revenues by enacting joint revenue sharing agreements. If competition intensifies as other revenue sources diminish, such agreements might be increasingly desirable as more municipalities approach build-out. However, individual municipalities do not necessarily see such agreements as in their interest, particularly if they think they are likely to be the winners in attracting retail establishments. Despite many years of discussion, and statements in favor of exploring various types of cooperative agreements (for example, by Phoenix's Mayor Phil Gordon), there have been only two successful cases of joint revenue sharing agreements in the region.

Tempe and Chandler agreed in 1996 to share the sales tax revenues from the Arizona Mills Mall, which ultimately located in Tempe. This agreement was ended in 2003. They also agreed in 1998 to share revenues from a Chapman Chevrolet dealership. In May 2005, the cities of Phoenix, Tempe, and Chandler designated a "no-incentive zone" along some of their mutual borders. However, the area was small and already largely built up. Moreover, the initiative appears to have been spurred largely by the threat of state legislation to limit municipal incentives. Municipalities argued that the legislation was unnecessary because of their voluntary efforts.[67]

The policies discussed above address revenue consequences of build-out. However, there are consequences on the expenditure side of municipal budgets as well. Perhaps most striking is the impact of rising land prices on the costs of land acquisition for public purposes such as open space, parks, roads, affordable housing, or sites for municipal facilities. There are numerous examples in the Phoenix metropolitan area. Scottsdale's commitment to preservation of desert open space has become increasingly expensive. In 2005, skyrocketing land and construction costs led Chandler to scrap the second phase of a successful project to provide housing affordable by members of the "struggling middle class," such as teachers, social workers, fire fighters, and police. The funds were reallocated to upgrading electrical boxes in public housing.[68]

Chandler did acquire 26 acres to expand Tumbleweed Park and create a park-and-ride lot. An article in the *Arizona Republic* noted that "the $229,635 per-acre price is more than triple what the city paid for the adjoining Tumbleweed Park land four years ago and 44 percent higher than what it had to shell out last year for a fire station."[69] The president of Fulton Homes, which is building the last major planned community in Chandler, described land the company purchased about three years earlier for $50,000 an acre. "We probably couldn’t touch it today for $250,000 an acre."[70]

Rising land prices do not only reflect build-out; there also are speculative tendencies that operate in land markets and land prices have been rising even in municipalities that are still expanding. However, other things being equal, the problem of higher costs for land can be expected to arise and worsen as a municipality nears build-out. Some forecasting models incorporate rising land prices as a linear trend. In Chandler, however, land prices began to rise much more rapidly as it approached build-out.[71] Thus, simple extrapolation could be misleading.

Some municipalities have adopted forward-looking policies relating to land acquisition and rights of way. Their hope is to take early action that will allow them to avoid negative fiscal consequences that result from rising land prices. In December 2005, the Surprise City Council voted to hire personnel for a new Real Estate and Survey Division. The Division's goals included a property and right of way inventory; identification of department and city real estate needs; acquisition of land and rights of way in advance, through a centralized process rather than one in which each department acted separately; creation of urban villages and grouping of municipal infrastructure on sites serving them; and establishment of standard policies and procedures for acquisition. The latter are especially important, since they enable the city to qualify for federal funding that can assist it in meeting infrastructure needs associated with rapid growth.[72]

Chandler did not have a Real Estate Division nine years ago when the Division's current Director, Sharon Joyce, was hired. The need for such a division was recognized, however, and within a few years, departments were being asked to provide information about their upcoming requirements for land. As a municipality now close to build-out, Chandler does not anticipate having large additional needs for land acquisition for public purposes. Road widening will continue to occur, but acquiring land for this purpose through condemnation, if necessary, is easier than for some other purposes.[73] However, as the affordable housing case mentioned above illustrates, some needs continue to exist and may even increase. The city's goal of remaining a high-amenity place to live and work also could entail creating new amenities that require land.

Other forward-looking policies relating to land acquisition and rights of way include the prevention of housing development on planned transportation routes, and development agreements with master-planned communities to set aside land for parks and open space. Land on which houses already have been built is much more expensive to acquire, yet developers have a right to build even on land designated for future roads or freeways. Beginning around 1985, Chandler's planners were able to deter development on land destined for the Santan Freeway by using density transfers and by steering the placement of retention basins associated with drainage for subdivisions.[74] The state has not been as successful in the case of the projected South Mountain Freeway in Ahwatukee (in the southern part of Phoenix). Land acquisition costs on the route now most likely to be adopted have soared, partly as a result of residential development.[75]

Development agreements with developers of master-planned communities provide a creative way for municipalities to acquire what otherwise would be increasingly expensive land for parks, other recreational facilities, and open space. In some cases, land is set aside within the master-planned community; in others, the developer donates land elsewhere for a facility to be owned and managed by the municipality. Facilities within master-planned communities raise interesting issues of access and of involvement in planning. Even if a community is not gated, its parks or recreational facilities are not necessarily open to others in the municipality. (The existence of such facilities does, however, reduce the need for the municipality to provide them for the master-planned community's population.) Moreover, to some extent the practice may represent a "privatization of planning," whose consequences are worth exploring.

State-level Policies to Assist Municipalities

Historically, one source of relief for municipalities facing fiscal pressure has been assistance from the state or federal government. Interviewees for this study were asked what, if any, policies at the state level might help municipalities facing fiscal pressure from build-out. A common response was "leave us alone," which is consistent with municipalities' position concerning legislation to limit municipal sales tax incentives. Municipal officials hoped that state legislators would not make things worse, particularly in terms of two areas of legislation being considered in 2006.

Some legislators pushed for a cut in the state income tax, which would result in a reduction in the funds received by municipalities under the state's revenue-sharing agreement. State-shared revenues are important in municipal budgets and will become even more needed as construction-related revenues diminish. The state budget ultimately did include a 10 percent income tax reduction, to be phased in over two years. A temporary appropriation to protect municipal revenues for one year was passed, but municipal officials planned to seek a more permanent "hold harmless" arrangement.[76]

Legislative efforts also were underway to limit further the use of eminent domain by municipalities, many of which consider it an important policy tool. For those attempting to follow a strategy of redevelopment and infill, eminent domain can play a crucial role. Its use is not inevitable; as noted above, Scottsdale moved away from it in connection with its Waterfront project, and Chandler has stressed that its Arizona Avenue redevelopment will not rely on condemnation. Tempe, however, which used eminent domain for its Mill Avenue redevelopment in the 1980s, continued attempting to do so, most recently (unsuccessfully) for its Tempe Marketplace. The controversial effort by Mesa to condemn Bailey's Brake Service, which was denied by the Arizona Court of Appeals in 2003, inflamed opposition to eminent domain and helped to generate legislative initiatives.

A ballot measure passed in November 2006 (Proposition 207) made changes to eminent domain standards, including increased compensation for relocation. Potentially much more problematic for municipalities, however, was the proposition's less publicized provision requiring compensation to property owners if land use laws, such as zoning ordinances, reduce the fair market value of the property. Although Proposition 207 claims are much more likely for downzoning, the League of Arizona Cities and Towns warned that even some upzoning decisions could give rise to claims.[77]

Additional policy tools for redevelopment could benefit municipalities. Several interviewees commented that it would be very helpful to be able to use tax increment financing, which is not allowed in Arizona but is used in other states. Tax increment financing provides a way for municipalities to finance new capital projects based on expected increases in property tax returns resulting from redevelopment.

Finally, heightened competition for retail sales tax revenues and the associated tendency to offer incentives might be reduced by changes in the distribution of state-shared revenues. Currently, that distribution is based partly on each municipality's population compared to the entire state. Growing municipalities thus receive a larger share; as municipalities age and approach build-out, their shares are likely to decline. They then may be even more inclined to compete for retail sales tax revenues. Different distribution formulas for state-shared revenues might be considered, although there certainly are grounds for including population as a criterion.

More broadly, the overall system of collection and distribution of sales tax revenues could be reconsidered. Chapman suggested an improvement for California: "To prevent each jurisdiction from doing everything it can to attract retail commercial development, often at the expense of alternative land uses, the fiscal effects on land uses could be reduced by distributing a portion of the locally levied sales tax on a basis other than the situs basis as it is now."[78] Similarly, it is not clear that sales tax revenues in Arizona are most appropriately received by the municipality in which they are generated. However, this raises large issues which are well beyond the scope of this paper.

Conclusion

The evidence presented in this paper indicates that municipalities that rely heavily on sales tax revenues, particularly those related to construction, may experience fiscal pressure as they approach build-out. Forward-looking financial, planning, and other policies can be adopted by municipalities before build-out, and two such policies were highlighted: limiting the use of one-time revenues for operating expenses, and addressing the problem of rising land prices by acquiring land and protecting rights of way in advance of need. When they no longer are able to annex land, municipalities can pursue a variety of strategies to sustain their tax revenues, including redevelopment and infill, building up rather than out, and finding new revenue sources, such as a primary property tax in municipalities that lack one. They also can compete harder for a remaining source of sales tax revenues, those deriving from retail activity. However, offering incentives to retail establishments has distributional consequences that led in some cases to citizen opposition and to state legislation to limit the competition.

It is important to bear in mind that the options open to different communities vary widely. Smaller and less wealthy communities may have difficulty pursuing some of the strategies outlined in this paper. A redevelopment and infill strategy, particularly one linked to high-end condos and a "live/work/shop/play" notion of a city's downtown, or to transit-oriented development, may be much less feasible in a small municipality than in Scottsdale, Tempe, or Phoenix. (Substantial redevelopment would, of course, raise classic issues of gentrification and displacement.) High-rise mixed-use developments, or resorts and other facilities that enable a municipality to tax nonresidents, may be hard to attract. Finding new revenue sources may help, but a community with low income, wealth, and property values may be unable to provide adequately for its needs through taxation of its own residents.

Although fiscal pressures resulting from build-out present themselves as a problem at the local level, adequate solutions may not exist for all municipalities at that level. Moreover, regional cooperation will be important to prevent disamenities such as air pollution and traffic congestion from making individual municipalities less desirable places to live and therefore less promising candidates for certain types of redevelopment. Future research might seek to compare the problems raised by build-out in the Phoenix metropolitan area with other historical cases of both large and small, wealthy and less wealthy, communities where an important revenue source disappeared or greatly decreased (e.g., Proposition 13 and similar initiatives in other states), and/or where revenue redistribution on a larger scale (e.g., regional, state, federal) served to assist municipalities facing fiscal pressure. In some cases, what may be needed is not so much redistribution as a greater willingness to pay for local government activities that create both economic and social value.

Notes

[1] Carl Abbott, *The New Urban America: Growth and Politics in Sunbelt Cities,* 2nd ed., rev. (Chapel Hill: University of North Carolina Press, 1987), 54-55, 175-84; David R. Goldfield, *Cotton Fields and Skyscrapers: Southern City and Region, 1607-1980* (Baton Rouge: Louisiana State University Press, 1982), 99, 129-30, 152-53; Kenneth T. Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985), 138-56; Jon C. Teaford, *The Twentieth-Century American City: Problem, Promise, and Reality*, 2nd ed. (Baltimore: Johns Hopkins University Press, 1993), 72, 108-9, 146; Philip J. Trounstine and Terry Christiansen, *Movers and Shakers: The Study of Community Power* (New York: St. Martin's Press, 1982), 92-99.

[2] Michael F. Logan, *Fighting Sprawl and City Hall: Resistance to Urban Growth in the Southwest* (Tucson: University of Arizona Press, 1995), 168. See also Trounstine and Christiansen, *Movers and Shakers*, 93-94.

[3] William S. Collins, *The Emerging Metropolis: Phoenix, 1944-1973* (Phoenix: Arizona State Parks Board, 2005); Grady Gammage, Jr., *Phoenix in Perspective: Reflections on Developing the Desert*, 2nd ed. (Tempe: Herberger Center for Design Excellence, Arizona State University, 2003); Patricia Gober, *Metropolitan Phoenix: Place Making and Community Building in the Desert* (Philadelphia: University of Pennsylvania Press, 2006); Carol E. Heim, "Border Wars: Tax Revenues, Annexation, and Urban Growth in Phoenix," University of Massachusetts, Department of Economics, Working Paper 2006-01 (rev. July 7, 2006); Carol E. Heim, "Leapfrogging, Urban Sprawl, and Growth Management: Phoenix, 1950-2000," *American Journal of Economics and Sociology* 60 (January 2001), 245-83; Bradford Luckingham, *Phoenix: The History of a Southwestern Metropolis* (Tucson: University of Arizona Press, 1989); Ann O'M. Bowman and Michael A. Pagano, *Terra Incognita: Vacant Land and Urban Strategies* (Washington, D.C.: Georgetown University Press, 2004); Philip VanderMeer, *Phoenix Rising: The Making of a Desert Metropolis* (Carlsbad, California: Heritage Media Corporation, 2002); John Wenum, *Annexation as a Technique for Metropolitan Growth: The Case of Phoenix, Arizona* (Tempe, Ariz.: Institute of Public Administration, Arizona State University, 1970).

[4] *Phoenix Summary Budget 2006-07*, Community Profile and Trends, p. 16, at http://phoenix.gov/BUDGET/bud06pro.pdf.

[5] "2005 Census Survey of Maricopa County, Arizona," conducted by U.S. Census Bureau for Maricopa Association of Governments, at http://www.mag.maricopa.gov/detail.cms?item=6189; Arizona Department of Commerce, Community Profiles, at http://new.azcommerce.com/SiteSel/Profiles. Household median incomes in 2000 were $57,484 in Scottsdale, $58,416 in Chandler, and $61,619 in Fountain Hills. See "Comparison of Income Between Census 1990 and 2000," prepared by the Maricopa Association of Governments and the Arizona Department of Economic Security, August 2002, at http://www.mag.maricopa.gov/pdf/cms.resource/Comparison-of-Income16324.pdf.

[6] Other municipalities also are experiencing or anticipating fiscal pressure. Jeffrey I. Chapman explored the Mesa case in "What Happens When a Large City Doesn't Have a Property Tax But Attempts to Enact One: A Case Study of Mesa, Arizona," unpublished paper, Tempe, AZ, May 2006 (forthcoming as a Lincoln Institute of Land Policy Working Paper). Build-out was identified as one of several causes of the city's severe fiscal crisis; another was the loss of retail sales to neighboring municipalities. See also *Mesa 2025: Financing the Future Committee Final Report*, September 2005, at www.cityofmesa.org/finance/pdf/Financing_Future_Report.pdf. In May 2006, Mesa voted not to adopt a property tax, though it did pass an increase in the city sales tax.

[7] Primary property taxes finance general operation and maintenance expenses. Secondary property taxes can only be used for general obligation debt service.

[8] Chapman, "What Happens When a Large City Doesn't Have a Property Tax," 1. Chapman explained that residents in these municipalities do pay property taxes to other jurisdictions, such as counties, school districts, and special districts. These revenues are not, however, available for municipal expenditures.

[9] General revenue from own sources includes local taxes (property, sales, income, and other), current charges, and miscellaneous revenue. The sales taxes are transaction privilege taxes rather than traditional sales taxes. They are not imposed on the purchaser of the goods, but on the seller for the privilege of conducting business. See Greater Phoenix Economic Council, *Greater Phoenix Fact Book*, section 6, p. 3, at http://www.gpec.org/infocenter/factbook.html.

[10] U.S. Census Bureau, "Table 2. Local Government Finances by Type of Government and State: 2001 – 02," at http://www.census.gov/govs/estimate/0200ussl_2.html. Data from this source are used for the comparison because the source cited in Figure 3 (*Government Finances, 1999-2000*) does not include a figure for all U.S. municipalities. Data from this source for 1999-2000 or 2000-01 cannot be used because the U.S. figure for those years is for all local government rather than for municipal government only, so 2001-02 is the closest possible comparison year.

[11] Based on data in a 2001 report, the share of construction in sales tax collections for 22 of the municipalities in Maricopa County ranged from 7 percent (Mesa) to 67 percent (El Mirage), with the median at 23 percent (Cave Creek). See *Maricopa Association of Governments Growing Smarter Implementation: Historic Sales Tax Base: Final Report*, prepared for Maricopa Association of Governments by Applied Economics, Scottsdale, Arizona, October 2001. At that point, the Arizona Department of Revenue used SIC codes to classify industries; in 2004-05 it used NAICS codes. In addition to providing a wealth of information on sales tax rates and structures in an earlier period, this report examines long-term trends in retail market conditions and provides a grouping system for municipalities in Maricopa County based on the likely impacts of those trends.

[12] There is, of course, a need to replace the infrastructure as it ages, and the creation of sinking funds is one of the policies discussed below. On the other hand, some expenditures (for example, for staff to handle building permits) are likely to diminish at build-out. If expenditures and revenues fell in step, there would not be a problem. Further research could seek to identify the magnitude of these expenditures. Because growth-related expenditures are not separately identified in municipal budgets, this would not be an easy, straightforward task. However, a preliminary look at total expenditures (only some of which are growth-related) for Planning and Development Departments for Scottsdale, Chandler, and Fountain Hills indicated that these expenditures are less than the construction-related revenues. This suggests that the construction-related revenues are financing other expenditures that will not end at build-out.

[13] City of Chandler, *Annual Budget, 2005-2006*, 73, 81-83; Town of Fountain Hills, *2025 Financial Plan and Capital Improvement Plan: Updated June 13, 2006* (Narrative), prepared by Julie A. Ghetti, Finance Director, and Timothy G. Pickering, Town Manager, p. 2, at http://www.blackerbyassoc.com/FH/2025Financial&CapitalPlan.Narrative.061306.pdf; Patricia A. Walker, Management Services Director, City of Chandler, interview by the author, June 15, 2006; Julie A. Ghetti, Finance Director, Town of Fountain Hills, interview by the author, June 15, 2006; Kevin H. Artz, Director, Finance and Budget Department, City of Avondale, interview by the author, June 7, 2006; Randy Jackson, Chief Information Officer, Jared Askelson, Acting Budget Manager, Lloyd Abrams, GIS Administrator, and Lari Beth Kirkendall, Real Estate Manager, City of Surprise, interview by the author, June 14, 2006.

[14] Town of Fountain Hills, *Annual Budget, Fiscal Year 2006-2007*, 5.

[15] *Arizona Republic*, Sept. 8, 2006.

[16] Mark Gelfand, *A Nation of Cities: The Federal Government and Urban America, 1933-65* (New York: Oxford University Press, 1975); Charles H. Levine, Irene S. Rubin, and George G. Wolohojian, *The Politics of Retrenchment: How Local Governments Manage Fiscal Stress* (Beverly Hills: Sage Publications, 1981); Eric H. Monkkonen, *America Becomes Urban: The Development of U.S. Cities and Towns, 1780-1980* (Berkeley: University of California Press, 1988); John B. Legler, Richard Sylla, and John J. Wallis, "U.S. City Finances and the Growth of Government, 1850-1902," *Journal of Economic History* 48 (June 1988), 347-56; John Joseph Wallis, "A History of the Property Tax in America," in Wallace E. Oates, ed., *Property Taxation and Local Government Finance: Essays in Honor of C. Lowell Harriss* (Cambridge, Mass.: Lincoln Institute of Land Policy, 2001). Exploration of similarities and differences between the fiscal crises of the 1930s and 1970s, and the current situation of municipalities in the Phoenix metropolitan area, could be fruitful, although the difficulties of those earlier decades were more extreme than anything currently faced in Arizona. A maturing economic base is considered to be one cause of the fiscal crises of the 1970s in older U.S. cities, which might provide a point of similarity, particularly if one is thinking in life-cycle terms. On the other hand, the likelihood of state or federal assistance to municipalities in the

Phoenix metropolitan area probably is much lower than in other historical cases of fiscal stress. Jon C. Teaford considered easy annexation—a key component of a land-based growth pattern—to be important in allowing many Sunbelt cities to escape fiscal crises in the 1970s. See his *The Twentieth-Century American City*, 2nd ed. (Baltimore; Johns Hopkins University Press, 1993), 141-46.

[17] See, for example, chapter 10, "Welcome to Sales Tax Canyon," in William Fulton's *The Reluctant Metropolis: The Politics of Urban Growth in Los Angeles* (Baltimore: Johns Hopkins University Press, 2001), 255-81.

[18] See the discussion of cities' stages of life in *Arizona Republic*, July 23, 2006.

[19] City of Surprise, *Capital Improvements Plan, Fiscal Year 2006*, 8.

[20] Gammage, *Phoenix in Perspective*, 130-35.

[21] Jeffrey Chapman, "The Impacts of Public Fiscal Tools on Private Development Decisions," *National Tax Association – Tax Institute of America. Proceedings of the Annual Conference on Taxation* (2002), 308-15; Jeffrey Chapman and Rex L. Facer II, "Connections between Economic Development and Land Taxation," *Land Lines* 17 (October 2005), at http://www.lincolninst.edu/pubs/pub-detail.asp?id=1058.

[22] Julie A. Ghetti, Finance Director, Town of Fountain Hills, interview by the author, June 15, 2006.

[23] City of Scottsdale, Department of Planning and Development Services, "Population Projections to 2020 Buildout," January 2006, at http://www.ci.scottsdale.az.us/BldgResources/Planning/PopProj-Buildout.pdf; Mary Jo Waits and William Fulton, *Which Way Scottsdale?: Scottsdale 2.0: Next Version* (Tempe: Morrison Institute for Public Policy, 2003), 16; City of Chandler, *Annual Budget 2005-2006*, 21; City of Chandler, Planning and Development Department, "Build-Out and Beyond," at http://www.chandleraz.gov/planning/Bldout_presentation.pdf; Timothy G. Pickering, Town Manager, Town of Fountain Hills, interview by the author, Jan. 11, 2006; Elliott D. Pollack & Company, "Demographic Analysis Pertaining to Transportation Issues within Pinal County," September 2005. The Fountain Hills *Strategic Plan 2006-2010: Adopted December 1, 2005*, at http://www.blackerbyassoc.com/FH/Fountain_Hills_Strategic_Plan_2006-2010.pdf, referred (p. 21) to a somewhat earlier date ("build-out in the 2012-2015 time frame").

[24] Bowman and Pagano, *Terra Incognita*, 212.

[25] B. J. Cornwall, City Manager, City of El Mirage, interview by the author, Jan. 12, 2006.

[26] *Arizona Republic*, Dec. 23, 2005.

[27] Craig Clifford, Chief Financial Officer, Art Rullo, Budget Director, and Bryan R. Bundy, Senior Financial Analyst, City of Scottsdale, interview by the author, June 21, 2006. In Clifford's view, "build-out" is something of a misnomer in the case of Scottsdale, since (as discussed below) redevelopment and infill are anticipated.

[28] *Arizona Republic*, Nov. 9, 2006, Nov. 19, 2006.

[29] *Arizona Republic*, June 11, 2005; *Business Journal of Phoenix*, Feb. 10, 2006; *Arizona Republic*, Nov. 15, 2006, Dec. 1, 2006.

[30] Waits and Fulton, *Which Way Scottsdale?*; City of Scottsdale News Release, May 26, 2004, at http://www.ci.scottsdale.az.us/news/2004/May/05-26-04a.asp.

[31] City of Scottsdale, Planning, Building & Zoning, "Waterfront: Development Information" (at http://www.scottsdaleaz.gov/projects/waterfront/devinfo.asp), "Waterfront: What is an infill incentive designation?" (at http://www.scottsdaleaz.gov/projects/waterfront/indes.asp) and "Waterfront: What are the proposed amended development standards?" (at http://www.scottsdaleaz.gov/projects/waterfront/devstds.asp); Janet M. Dolan, City Manager, City of Scottsdale, interview by the author, June 22, 2006.

[32] Minutes of the Regular Meeting of the Honorable Mayor and City Council of the City of Chandler, Arizona, Mar. 23, 2006.

[33] City of Chandler, Resolution No. 3952, adopted by the Chandler City Council on Mar. 23, 2006.

[34] *Arizona Republic*, Aug. 23, 2006, Nov. 15, 2006, Dec. 16, 2006; City of Scottsdale, Planning, Building & Zoning, "One Scottsdale – mixed use project" (at http://www.scottsdaleaz.gov/projects/ProjectsInNews/Stacked40s/onescottsdale.asp); Summarized Minutes, Scottsdale City Council, Nov. 14, 2006.

[35] *COPP News* 10 (October 2006) [see attached message from Board of Directors, Coalition of Pinnacle Peak], at http://www.coppeak.org/members/members.htm; Summarized Minutes, Scottsdale City Council, Nov. 14, 2006.

[36] *Arizona Republic*, Apr. 6, 2006, Apr. 21, 2006; City of Mesa, Council Minutes, Apr. 3, 2006, Apr. 17, 2006; *Loft & High Rise News*, Apr.18, 2006, Nov. 18, 2006, at http://www.weknowurban.com.

[37] City of Chandler, Planning and Development Department, "Build-Out and Beyond," at http://www.chandleraz.gov/planning/Bldout_presentation.pdf; Mary Jo Waits and Associates LLC, Solimar Research Group, and Collaborative Economics Inc, "Next Twenty: A New Progressive Agenda for Chandler" [second draft, n.d.].

[38] Douglas Ballard, Director of Planning and Development, City of Chandler, telephone interview by the author, Nov. 30, 2006.

[39] Minutes of the Planning and Zoning Commission of the City of Chandler, Arizona, Sept. 6, 2006; Minutes of the Regular Meeting of the Honorable Mayor and City Council of the City of Chandler, Arizona, Sept. 28, 2006; W. Mark Pentz, City Manager, City of Chandler, interview by the author, Oct. 16, 2006.

[40] Dyett & Bhatia, *Code User Interviews: Summary Report*, Oct. 2006, prepared for City of Mesa Zoning Ordinance Update, 2-11 and 2-12.

[41] *Arizona Republic*, Apr. 21, 2006, June 14, 2006, Nov. 9, 2006.

[42] I am grateful to Richard England for suggesting these points.

[43] Pickering interview.

[44] ETC Institute, *2005 Strategic Planning Community Survey: Findings Report*, conducted for the Town of Fountain Hills, Arizona, Oct. 2005, pp. 2, 8, at http://www.blackerbyassoc.com/FH/Fountain%20Hills_Final%20Findings%20Report_Nov%2001.pdf; Town of Fountain Hills, *Strategic Plan 2006-2010: Adopted December 1, 2005*, *Appendix I, Town Hall 2 Results, Vol. 1: Summary Report*, and *Vol. 2: Appendices*, Sept. 29, 2005, p. 4, at http://www.blackerbyassoc.com/FH/TH2Results.Summary.pdf, and http://www.blackerbyassoc.com/FH/Town_Hall_2_Results_Vol_2_Appendices.pdf. In the random survey, there were 1206 completed surveys (a response rate of 50 percent); of the 150 Town Hall 2 participants, 114 completed the questionnaire.

[45] Blackerby Associates, Inc., *Where We Are Now: Strategic Position Report*, prepared for the Town of Fountain Hills, Arizona, Apr. 12, 2005, at http://www.blackerbyassoc.com/FH/WhereWeAreNow.pdf; Town of Fountain Hills, *Strategic Plan 2006-2010: Adopted December 1, 2005*, p. 2.

[46] Town of Fountain Hills, *2025 Financial Plan and Capital Improvement Plan*, p. 2.

[47] Town of Fountain Hills, *2025 Financial and Capital Improvement Plan: Updated June 13, 2006* (Presentation), prepared by Julie A. Ghetti, Finance Director, and Timothy G. Pickering, Town Manager, at http://www.blackerbyassoc.com/FH/2025Financial&CapitalPlan.Presentation.061306.pdf; author's notes from Fountain Hills City Council Work Study Session, June 13, 2006.

[48] *Arizona Republic*, Aug. 25, 2006, Sept. 7, 2006.

[49] Author's notes from Fountain Hills Strategic Planning Advisory Commission meeting, Oct. 17, 2006.

[50] Douglas Ballard, Director of Planning and Development, City of Chandler, interview by the author, Mar. 22, 2004.

[51] *Arizona Republic*, Sept. 15, 2004, Sept. 24, 2004, Dec. 14, 2005; "Development Incentives," Attachment 3 to Arizona House of Representatives, Committee on Ways and Means, Minutes of Meeting on Mar. 28, 2005; City of Scottsdale Economic Vitality Office, "Economic Development Incentives," White Paper prepared for Scottsdale City Council, October 2004.

[52] Jeffrey I. Chapman, "Proposition 13: Some Unintended Consequences," Occasional Paper, Public Policy Institute of California, September 1998; Fulton, *Reluctant Metropolis*, 260-63.

[53] Some retail establishments, such as the Cabela's mentioned above and some of the newer "lifestyle malls," strive to be destination points attracting nonlocal shoppers. But the efficacy of incentives is debated even for manufacturing establishments. See Timothy J. Bartik, *Who Benefits from State and Local Economic Development Policies?* (Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research, 1991); Peter S. Fisher and Alan H. Peters, *Industrial Incentives: Competition Among American States and Cities* (Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research, 1998); and John E. Anderson and Robert W. Wassmer, *Bidding for Business: The Efficacy of Local Economic Development Incentives in a Metropolitan Area* (Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research, 2000).

[54] "Final Amended Fact Sheet for S.B.1274," Arizona State Senate, Forty-seventh Legislature, First Regular Session, at http://www.azleg.gov; Arizona House of Representatives, Committee on Counties, Municipalities and Military Affairs, Minutes of Meeting, Mar. 29, 2005; Jay Tibshraeny, Senator, Arizona State Legislature, telephone interview by the author, June 23, 2006.

[55] Arizona House of Representatives, Committee on Ways and Means, Minutes of Meeting, Mar. 13, 2006; Kenneth D. Cheuvront, Senator, Arizona State Legislature, interview by the author, Oct. 18, 2006.

[56] Arizona House of Representatives, Committee on Ways and Means, Minutes of Meeting, Mar. 28, 2005. Robert Littlefield, Vice Mayor of Scottsdale, and Jim Lane, a Scottsdale City Council member, were exceptions. They supported legislation to limit incentives, although Scottsdale had relied heavily on incentives for many years and its Economic Vitality Office produced the White Paper cited above, which outlined justifications for the practice. See Littlefield to Cheuvront, Jan. 26, 2005, and Lane to Robson, Cheuvront, and Tibshraeny, Jan. 19, 2005 (filed with minutes cited above in this endnote).

[57] Jeffrey Fairman, Economic Development Director, City of Avondale, interview by the author, June 7, 2006. Mr. Fairman subsequently moved from that position to become Business Development Representative for Sundt Construction.

[58] Arizona House of Representatives, Committee on Ways and Means, Minutes of Meeting, Mar. 28, 2005.

[59] Arizona House of Representatives, Committee on Ways and Means, Minutes of Meeting, Mar. 13, 2006; *Arizona Republic*, Sept. 28, 2005.

[60] City of Chandler, Planning and Development Department, "Build-Out and Beyond"; Walker interview; Clifford, Rullo, and Bundy interview.

[61] Artz interview; Jackson, Askelson, Abrams, and Kirkendall interview; *Arizona Republic*, Apr. 15, 2006; Walker interview.

[62] Clifford, Rullo, and Bundy interview; City of Scottsdale, *Fiscal Year 2006/07 Budget, Vol. 1*, 29.

[63] Town of Fountain Hills, *Annual Budget, Fiscal Year 2006-2007*, 9-10; Pickering interview; Ghetti interview.

[64] Levine, Rubin, and Wolohojian, *Politics of Retrenchment*, 23.

[65] VanderMeer, *Phoenix Rising*, 54.

[66] *Arizona Republic*, June 10, 2006. See also *Arizona Republic*, Nov. 15, 2006, Dec. 7, 2006, Dec. 13, 2006.

[67] *Arizona Republic*, Aug. 2, 2004, May 6, 2005.

[68] *Arizona Republic*, Aug. 31, 2005.

[69] *Arizona Republic*, Nov. 2, 2005.

[70] *Arizona Republic*, Jan. 25, 2006.

[71] Sharon A. Joyce, Manager, Erich Kuntze, Real Estate Property Management Officer, and Steve Shea, Real Estate Management Property Officer, Real Estate Division, City of Chandler, interview by the author, June 23, 2006.

[72] City of Surprise, Regular City Council Meeting Minutes, Nov. 10, 2005; Jackson, Askelson, Abrams, and Kirkendall interview.

[73] Joyce, Kuntze, and Shea interview.

[74] Hank Pluster, Interim Long-Range Planning Manager, City of Chandler, interview by the author, June 15, 2006.

[75] *Arizona Republic*, May 26, 2006.

[76] League of Arizona Cities and Towns, *Legislative Bulletin*, no. 23, June 23, 2006, p. 1.

[77] League of Arizona Cities and Towns, "In the Spotlight: Proposition 207: Recommended Implementation Guidelines," Nov. 17, 2006, at http://www.azleague.org/index.cfm?fuseaction=spotlight.article&a=a112106_01.

[78] Chapman, "Proposition 13," p. 25.

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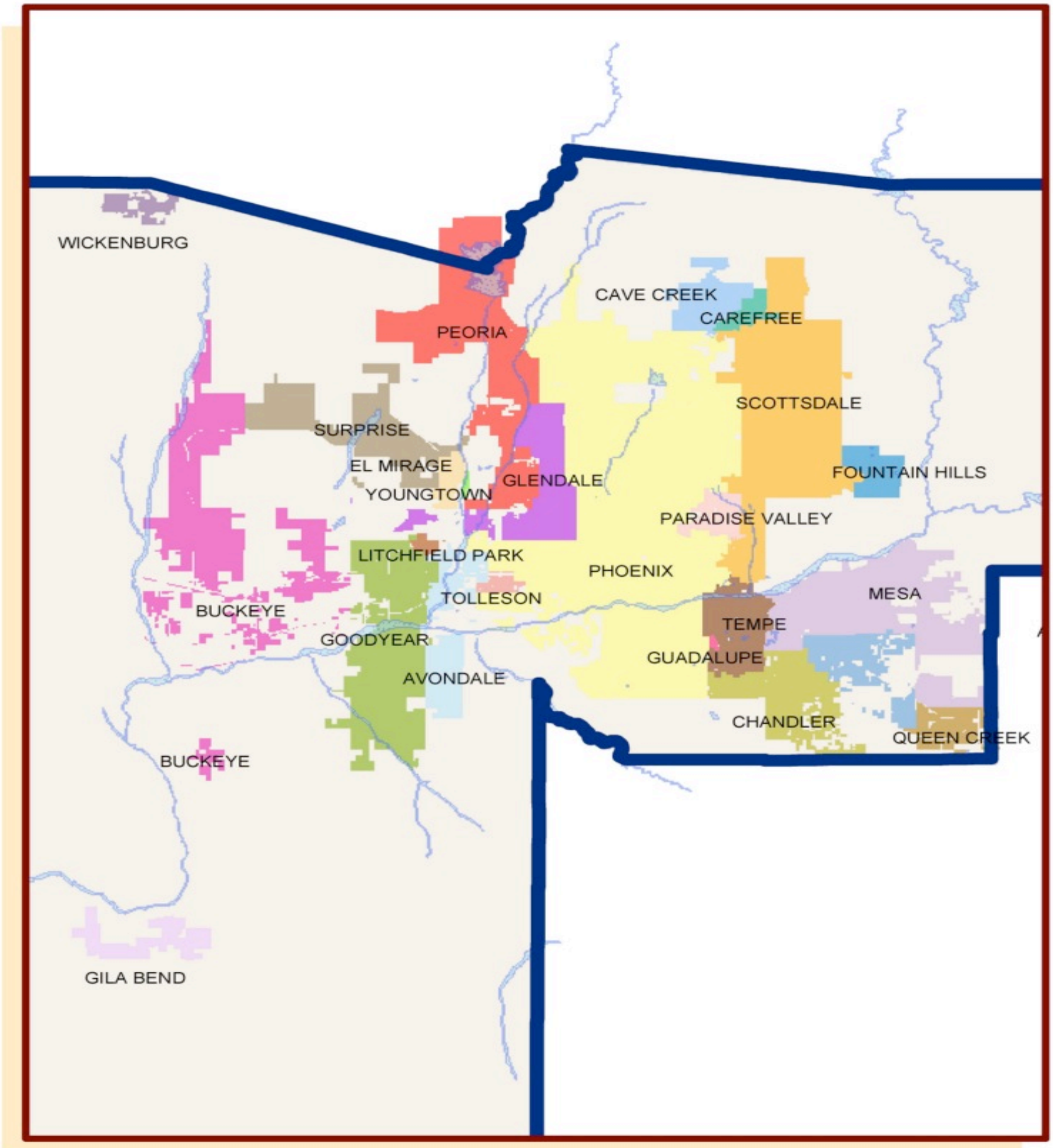
Figure 1
Phoenix Metropolitan Area:
Maricopa and Pinal Counties

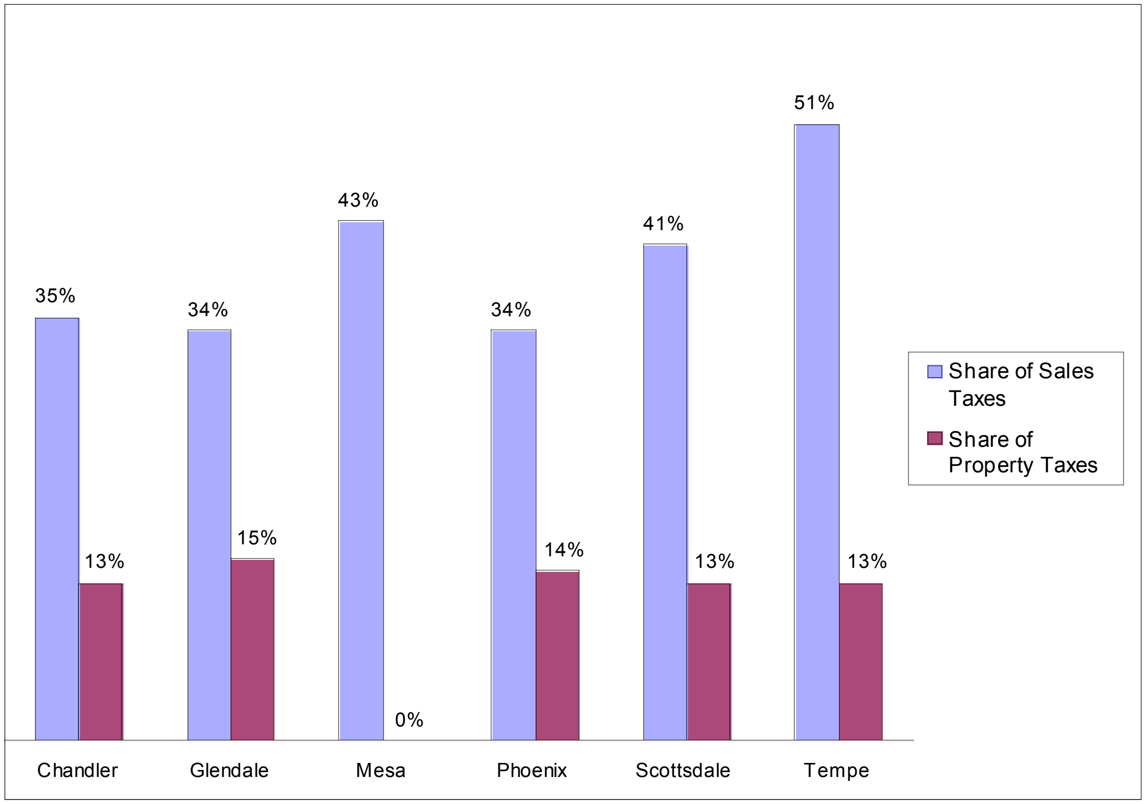
Source: Arizona County Selection Map, at http://www.fedstats.gov/qf/maps/arizona_map.html.

Figure 2
Municipalities in Maricopa County, Arizona
Boundaries in Year 2000



Source: Adapted from Figure 2 in Carol E. Heim, "Border Wars: Tax Revenues, Annexation, and Urban Growth in Phoenix," University of Massachusetts, Department of Economics, Working Paper 2006-01 (rev. July 7, 2006), p. 38.

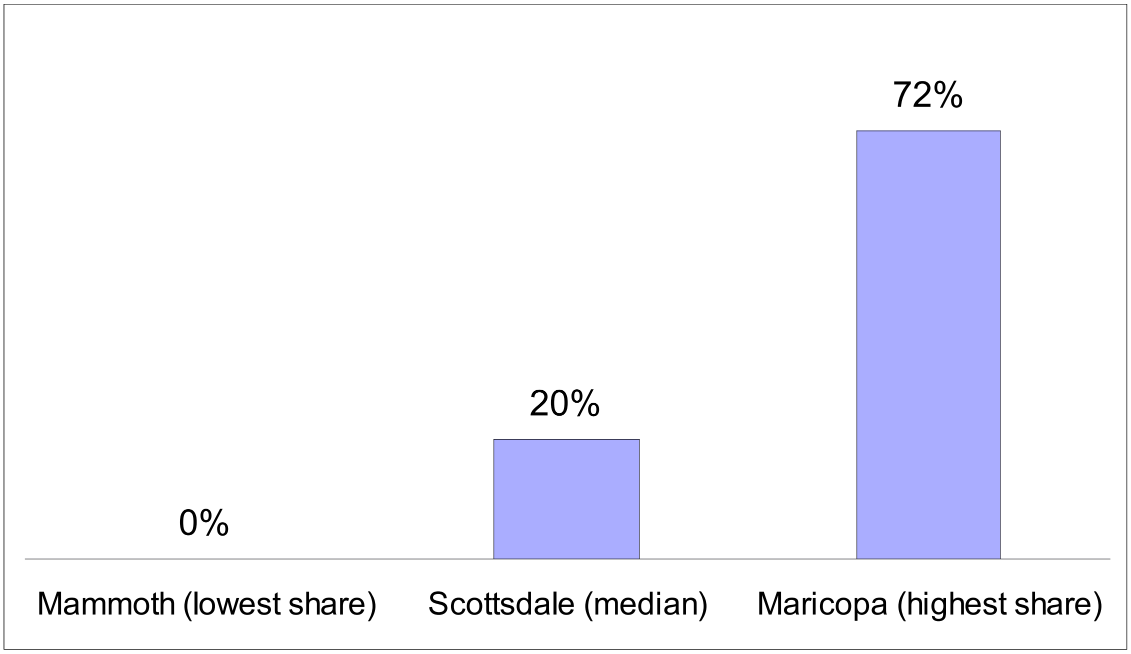
Figure 3
Shares of Sales and Property Taxes
in General Revenue from Own Sources
Fiscal Year 1999-2000



Notes: General revenue from own sources includes local taxes (property, sales, income, and other), current charges, and miscellaneous revenue. Data for Mesa have been corrected. The source below reports property taxes for Mesa of $11 million. An inquiry to the U.S. Census Bureau produced the following response from John R. Kennedy, Survey Statistician, Governments Division: "Property taxes were misreported for the City of Mesa from at least the late 1990's through fiscal year 2001. It does appear that the "auto in lieu of tax" was reported in the property tax category when it should have been shown as intergovernmental revenue from the state. The problem was caught and corrected in Fiscal year 2002. We did not revise previously released data . . . It would be accurate to say that for Mesa City in FY 1999-2000, the property tax amount should have been zero and that 'general revenue from own sources' should have been $11 million less than the amount shown. The entire $11 million was attributable to the "auto in lieu of tax" category. I found documentation that shows this error going back to FY 1997. I have no way of knowing if it occurred prior to that year."

Source: U.S. Census Bureau, *Government Finances, 1999-2000*, issued January 2003, "Table 4. Finances of Municipal and Township Governments with a Population of 125,000 or More: 1999-2000," at http://ftp2.census.gov/govs/estimate/00allpub.pdf.

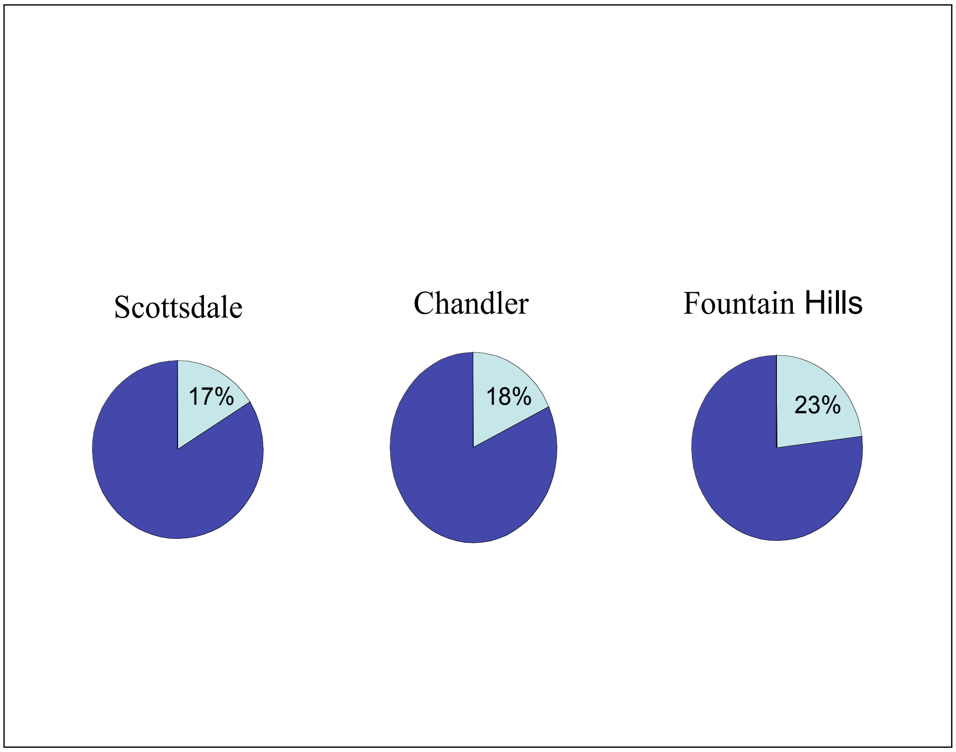
Figure 4
Share of Construction in Sales Tax Revenues
Fiscal Year 2004-05



Source: Table 2.

Figure 5
Share of Construction-Related Revenues
in General Fund Revenues
Fiscal Year 2004-05

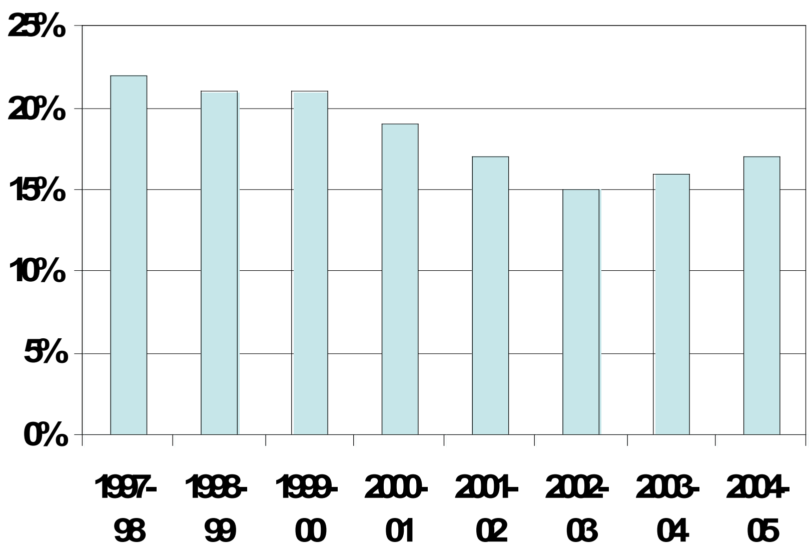
Scottsdale, Chandler, Fountain Hills



Source: Table 3.

Figure 6
Share of Construction-Related Revenues
in General Fund Revenues
Fiscal Year 1997-98 to Fiscal Year 2004-05

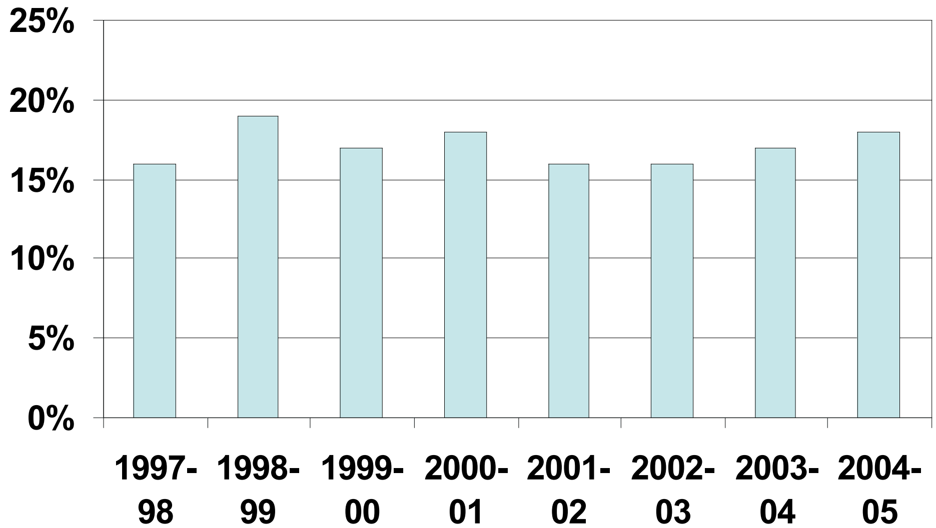
Scottsdale



Sources: City of Scottsdale, *1999/01 Biennial Budget*, p. 50; *Budget, Fiscal Year 2001/02*, p. 64; *Fiscal Year 2002/03 Budget*, p. 80; *Fiscal Year 2003/04 Budget*, *Vol. 1*, p. 24; *Fiscal Year 2004/05 Budget, Vol. 1*, p. 28; *Fiscal Year 2005/06 Budget, Vol. 1*, p. 32, *Fiscal Year 2006/07 Budget*, *Vol. 1*, p. 36; Bryan R. Bundy, Senior Financial Analyst, City of Scottsdale (for construction sales tax revenues).

Figure 7
Share of Construction-Related Revenues
in General Fund Revenues
Fiscal Year 1997-98 to Fiscal Year 2004-05

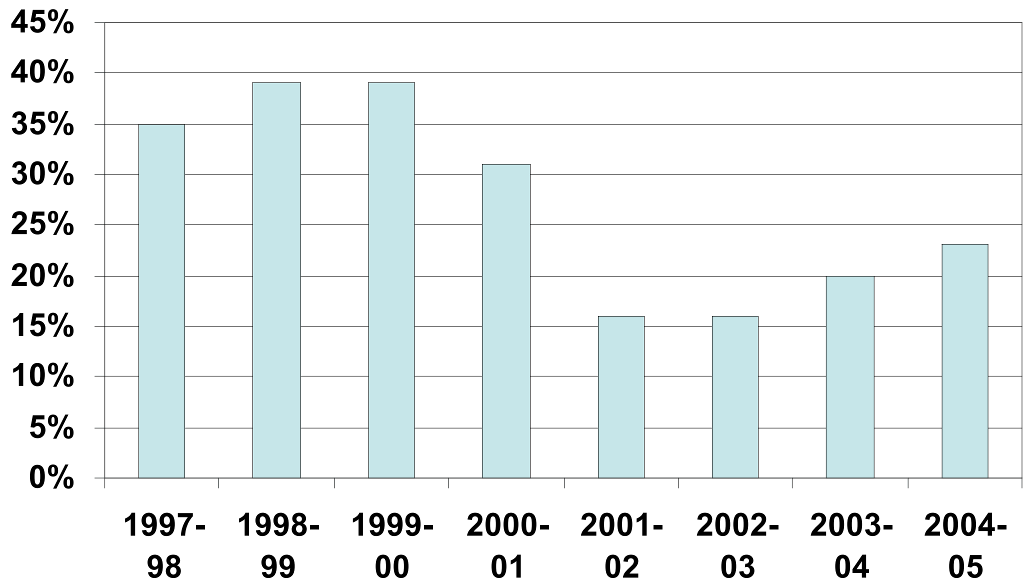
Chandler



Sources: City of Chandler, *Annual Budget 1997-1998* (p. 297), *1998-1999* (Schedules and Summaries, p. 4, 6), *1999-2000* (p. 323, 325), *2000-2001* (p. 92, 333, 335), *2001-2002* (p. 88, 357, 359), *2002-2003* (p. 86, 366, 368), *2003-2004* (p. 336, 338), *2004-2005* (p. 72, 356, 358), *2005-2006* (p. 74, 362), *2006-2007*, p. 80.

Figure 8
Share of Construction-Related Revenues
in General Fund Revenues
Fiscal Year 1997-98 to Fiscal Year 2004-05

Fountain Hills



Sources: Town of Fountain Hills, *Annual Budget, Fiscal Year 2006-2007*, p. 48; Julie Ghetti, Finance Director, Town of Fountain Hills (for construction sales tax revenues and general fund revenues).

Table 1
Municipalities with No Primary Property Tax

Maricopa County Municipalities	**Population (as of Sept. 1, 2005)**
Carefree	3,684
Cave Creek	4,766
Fountain Hills	32,061
Gilbert	173,072
Guadalupe	5,555
Litchfield Park	4,528
Mesa	448,096
Paradise Valley	13,863
Queen Creek	16,414
Youngtown	6,163
Pinal County Municipalities	**Population (as of July 1, 2005)**
Apache Junction	32,297

Note: Total number of municipalities in Maricopa County, 24; in Pinal County, 9.

Sources: "Property Tax Rates of Arizona Cities and Towns 2004" [updated to 2005], spreadsheet from League of Arizona Cities and Towns; "2005 Census Survey of Maricopa County, Arizona," conducted by U.S. Census Bureau for Maricopa Association of Governments, at http://www.mag.maricopa.gov/detail.cms?item=6189 (for populations of municipalities in Maricopa County); U.S. Census Bureau, “Table 4: Annual Estimates of the Population for Incorporated Places in Arizona, Listed Alphabetically: April 1, 2000 to July 1, 2005 (SUB-EST2005-01),” at http://www.census.gov/popest/cities/tables/SUB-EST2005-04-04.xls (for population of Apache Junction).

Table 2
Share of Construction in Transaction Privilege Tax Collections
Fiscal Year 2004-05

Municipality	Construction	Total	Share (percent)
Maricopa	$4,728,883	$6,535,461	72.36
Queen Creek	6,073,432	9,272,839	65.50
Buckeye	4,277,247	8,402,232	50.91
Surprise	19,208,741	37,819,927	50.79
El Mirage	1,649,943	4,026,943	40.97
Goodyear	7,388,757	21,830,955	33.85
Gilbert	13,941,104	42,803,499	32.57
Carefree	856,644	2,783,963	30.77
Florence	320,100	1,178,967	27.15
Cave Creek	880,763	3,336,084	26.40
Paradise Valley	2,112,435	8,104,679	26.06
Avondale	9,312,060	35,955,607	25.90
Tolleson	991,925	4,608,512	21.52
Fountain Hills	1,841,930	8,745,995	21.06
Chandler	14,966,943	72,545,550	20.63
Youngtown	262,144	1,297,524	20.20
Scottsdale	18,887,000	94,131,000	20.06
Peoria	7,871,565	45,318,132	17.37
Litchfield Park	373,716	2,392,213	15.62
Casa Grande	2,136,992	14,081,760	15.18
Wickenburg	276,336	2,110,113	13.10
Eloy	383,268	3,164,171	12.11
Kearny	31,892	263,553	12.10
Phoenix	66,671,000	580,165,000	11.49
Mesa	12,060,056	112,129,891	10.76
Glendale	7,715,914	77,069,834	10.01
Coolidge	217,187	3,037,109	7.15
Tempe	7,391,000	105,623,000	7.00
Gila Bend	59,407	853,426	6.96
Apache Junction	672,756	10,498,372	6.41
Superior	12,294	218,393	5.63
Guadalupe	58,100	1,239,688	4.69
Mammoth	0	71,754	0.00

Table 2, cont.
Share of Construction in Transaction Privilege Tax Collections
Fiscal Year 2004-05

Notes: Scottsdale and Phoenix tax collections are reported in thousands in the original sources; the last three digits are entered as zeroes here. Data for the 8 municipalities that collect their own sales taxes (Avondale, Chandler, Glendale, Mesa, Peoria, Phoenix, Scottsdale, and Tempe) are not strictly comparable with those from the Arizona Department of Revenue. For example, some used SIC codes to classify industries, whereas the Department of Revenue used NAICS codes. Sales taxes in municipalities in Table 2 are transaction privilege taxes rather than traditional sales taxes. They are not imposed on the purchaser of the goods, but on the seller for the privilege of conducting business.

Sources: For Avondale, Stone & Youngberg LLC [Underwriter],"Preliminary Official Statement Dated October 30, 2006: $18,500,000*: City of Avondale (Arizona) Municipal Development Corporation Excise Tax Revenue Bonds, Series 2006," Table 2B, p. 11; for Chandler, City of Chandler, *Annual Budget 2006-2007*, p. 80; for Fountain Hills, Glendale, Mesa, Peoria, Phoenix, Scottsdale, and Tempe, each municipality's Finance Department; for other municipalities, Arizona Department of Revenue, Office of Economic Research and Analysis.

Table 3
Share of Construction-Related Revenues in General Fund Revenues
Fiscal Year 2004-05

Scottsdale, Chandler, Fountain Hills

Municipality	Construction Sales Tax Revenues	Other Building-Related Revenues	Total Construction-Related Revenues	General Fund Revenues	Share (percent)
Scottsdale	$18,887,000	$18,164,152	$37,051,152	$221,826,640	17
Chandler	14,966,943	10,508,589	25,475,532	144,955,847	18
Fountain Hills	1,554,653	2,107,617	3,662,270	15,686,927	23

Notes: Building-related revenues include for Scottsdale, building permit fees and charges; for Chandler, engineering, building division, and planning fees; for Fountain Hills, building permit fees. They do not include development impact fees. For Fountain Hills, only construction sales tax revenues that went into the General Fund are included. Calculations are available from the author upon request.

Sources: Table 2 and City of Scottsdale, *Fiscal Year 2006/07 Budget, Vol. 1*, p. 36; City of Chandler, *Annual Budget 2004-2005*, p. 356, *Annual Budget 2005-2006*, p. 362, *Annual Budget 2006-2007*, p. 80; Town of Fountain Hills, *Annual Budget*, *Fiscal Year 2006-2007*, p. 37, 48.