THE ROLE OF ARIZONA CITIES AND TOWNS IN THE STATE’S ECONOMY

Prepared for
The League of Arizona Cities and Towns

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In 2004 the nation’s 361 metropolitan areas generated 86.3 percent of the U.S. gross domestic product (GDP), producing goods and services with a total value of $10.1 trillion. That percentage is forecast to increase to 88.5 percent by 2015, doubling in value to $21 trillion. In Arizona and 26 other states, the economies in metropolitan areas contributed 75 percent or more of the state’s total economic output.1

Arizona’s economic surge in 2005 went into the record books as the largest in state history, stronger even than originally reported, according to Arizona’s Economy.2 That surge was reflected in tax revenues worth $11.3 billion to state coffers. What role did Arizona’s cities and towns play in Arizona’s record-setting economic output? Gross Metropolitan Product (GMP) is a term used to measure economic activity in metro areas in the United States. In the 2005 “State of the State Report: Arizona,” statistics illustrate that Arizona’s metro areas—Flagstaff, Phoenix-Mesa-Scottsdale, Prescott, Tucson, and Yuma—produced 92.2 percent of Arizona’s Gross State Product (GSP), far higher than the average in 26 other states. Employment growth, total value added of goods and services, and wages are indicators of GSP. How did cities and towns contribute to Arizona’s “galloping economy?”

Aristotle noted centuries ago that “The city is a partnership for living well.” Since Aristotle weighed in on the role of cities in Greek society, American cities have undertaken many different roles. Created originally as places where people could make money, cities had to become involved in routine service delivery, the complexities of governance, and serve as centers of economic activity as well.3 Their roles have shifted back and forth between serving as islands of prosperity and addressing social problems, and they continue to do so. Crises arising from the industrial revolution forced cities to assume increasingly complex responsibilities—to supply water and dispose of wastes, to fight fires and crime, to build and maintain streets and bridges, to quell riots and contagious disease outbreaks, and address other “calamities brought on by unrestrained private activity.” Cities also build parks, adopt building codes, pave streets and alleys, write health and sanitation codes, grant franchises for utilities, expand public transportation, and influence the location of homes, factories, office buildings, restaurants, parking lots, and schools. Through building codes they regulate plumbing, wiring, building materials, structural heights and architectural styles. They also poison rats and control pigeons. As Judd and Swanstrom conclude, “Without cities life would become not only dangerous but also intolerable.”4

Since the 1990s, however, it is in the arena of economic development that cities have adopted the most significant role in the national economy. If metro areas generated 86.3 percent of the nation’s GDP in 2004, what activities did they pursue to insure economic growth and continued success? Cities float bonds to build new sports stadiums, they offer tax abatements and hand out subsidies to encourage the construction of enclosed malls. They run convention and tourism bureaus, repair fountains, plant flowers, restore historic buildings and intensify crime control in areas used by tourists. In these and other ways, cities use their public powers and resources to promote local economic prosperity. Seven out of 10

4 Judd and Swanstrom, 39.
Americans in the U.S. live in cities and towns. Municipalities not only provide public employment, but they also purchase 7 percent of all the goods and services in the country. In 2002 the combined budget of all U.S. municipalities was $376.4 billion, much of which generated federal and state income taxes, school property taxes and state sales taxes. Not only the expenditures but also the services and activities of municipalities are critical factors in national and state economies.

This report examines the roles that cities and towns played in Arizona's economy in fiscal year 2004-2005. It reviews data on jobs, state transaction privilege taxes and income taxes generated within municipal boundaries, and describes features and policies of Arizona's municipalities that are crucial to attracting, retaining and creating jobs, businesses and firms.


“Without cities life would become not only dangerous but also intolerable.”
State Budget Revenues

Gross revenues collected by the state for FY 2004-2005 totaled $8.9 billion. (This figure excludes gross revenues from corporate income taxes, transaction privilege taxes [TPT] collected for cities and towns, and revenue collected from the 0.6 percent TPT dedicated to education. Total state gross revenues were actually $11.3 billion.) Sources include transaction privilege, use and severance taxes; individual income tax; luxury tax; estate tax; and “other” (e.g., bingo and flight property tax). The major sources of revenue for the state's budget were the 5 percent TPT (excluding the .6 percent earmarked for education) and individual income tax. As table 1 depicts, those two taxes comprised $8.45 billion, or 95 percent of all state revenues. Income generation and consumption patterns are key indicators of the vitality of a state’s economy from year to year, and tax revenues generated by both economic activities reveal how important income and consumption are to a state’s budget. The following sections on population, non farm employment, income tax and sales tax conditions show that work and consumption activities in Arizona’s cities and towns make them the economic engines of Arizona. (We cannot determine the sub state region from where corporate income taxes are generated, thus that category is eliminated in this report.)

Table 1: Gross State Revenues for FY 2004-2005

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Privilege Tax*</td>
<td>$4.70 billion</td>
<td>53%</td>
</tr>
<tr>
<td>Income Tax**</td>
<td>$3.75 billion</td>
<td>42%</td>
</tr>
<tr>
<td>Luxury Tax</td>
<td>$ .35 billion</td>
<td>4%</td>
</tr>
<tr>
<td>Estate Tax</td>
<td>$ .12 billion</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>$ .01 billion</td>
<td>1/10 of 1%</td>
</tr>
<tr>
<td>Total Revenues:</td>
<td>$8.90 billion*, **</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Excludes city and town collections and the education tax
** Excludes corporate income taxes
Source: Arizona Department of Revenue, “2005 Annual Budget Report”

State Population Estimates

The population of the state of Arizona in 2005 was estimated to be 6,044,985. As table 2 shows, combined populations of Arizona’s 89 cities and towns (the town of Star Valley had not yet incorporated) totaled 4,987,312. Arizona residents residing in municipalities comprised 82.5 percent of the state’s total population.

Table 2: Arizona’s Population Estimates for 2005

<table>
<thead>
<tr>
<th>Level of Government</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>6,044,985</td>
<td>100%</td>
</tr>
<tr>
<td>Cities and Towns (89)</td>
<td>4,987,312</td>
<td>82.5%</td>
</tr>
</tbody>
</table>

Source: Arizona Department of Economic Security
Arizona’s Non Farm Employment

As shown in the table above, 82.5 percent of Arizona residents reside within city and town boundaries. An even greater percentage of Arizona’s non farm employed (excludes unemployed) resides---and files taxes---within city and town boundaries as well, 88 percent. Table 3 presents statistics from the Department of Economic Security on the residence of non farm employed. This figure represents the number and location of employed from January 2006 to May 2006:

<table>
<thead>
<tr>
<th>State</th>
<th>2,796,633</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities and Towns</td>
<td>2,471,580</td>
<td>88%</td>
</tr>
</tbody>
</table>

Table 3: Arizona’s Non Farm Employed


State Individual Income Tax

Arizona collected $3.75 billion in income tax revenues in FY 2004-2005, excluding corporate. What percentage of taxes from the individual income tax was generated from within cities and towns? The most recent year for which income taxes by city and town have been reported is calendar year 2000. We will use those statistics and make the assumption that the percentage of revenues from cities and towns has remained stable in the interim. Table 4 presents those figures, which are based on the federally-adjusted gross income (FAGI):

<table>
<thead>
<tr>
<th>Arizona</th>
<th>$92 billion*</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities and Towns (87)**</td>
<td>$84.1 billion</td>
<td>91.4%</td>
</tr>
</tbody>
</table>

Table 4: Gross Individual Income 2000 (FAGI)

* Excludes corporate
**The city of Maricopa and towns of Dewey-Humboldt and Star Valley had not yet incorporated.

The state collected $3.75 billion in income tax in FY 2004-2005. The percentage of state income taxes generated from cities and towns—assuming the percentage shown in table 4 has held steady—is 91.4 percent, or $3.43 billion. The assumption is made that the percentage of taxable income corresponds to the percentage of state tax liability. Table 5 below displays these income tax revenues and percentages:

<table>
<thead>
<tr>
<th>State Income Taxes</th>
<th>$3.75 billion*</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Taxes generated within Cities and Towns</td>
<td>$3.43 billion</td>
<td>91.4%</td>
</tr>
</tbody>
</table>

Table 5: State Individual Income Tax Generation FY 2004- 2005

*Excludes corporate income taxes

These tables show that Arizona’s cities and towns contain 82.5 percent of the state’s population and 88 percent of the state’s non farm employed, generate 91.4 percent of the state’s taxable income, and thus pay 91.4 percent of the state’s income taxes.
Arizona’s Economy for FY 2004-2005 (cont.)

Arizona’s Transaction Privilege Tax (TPT)

Arizona’s net taxable sales (TPT, use and severance tax) in FY 2004-2005 were $93.1 billion. Total tax collections were $4.635 billion, or just under 5 percent of taxable sales. The classes of retail, contracting, restaurant/bar, communications and use comprise 83 percent of revenue collections, amounting to $3.85 billion; retail sales account for half of all TPT tax revenues. This section examines the taxable sales in cities and towns and state sales tax revenues collected from transactions in cities and towns.

According to the Department of Revenue and the Department of Commerce, total taxable sales in municipalities for FY 2004-2005 amounted to $98.65 billion. The sales tax base for municipalities would therefore be greater than the state’s sales tax base by roughly $4.5 billion. An explanation for the greater municipal tax base could be that some cities and towns tax food for home preparation as well as commercial leasing, two classes not taxed by the state. The city of Phoenix provides an example.

City of Phoenix

To get a more accurate base and collection figure, we looked at the sales tax statistics for the city of Phoenix for FY 2004-2005. Taxable sales for Phoenix amounted to $32.62 billion (the city’s local sales tax revenues were $587.2 million). Transaction privilege tax revenues for that year were determined by multiplying municipal tax base collections by the state transaction privilege tax rate of 5 percent. (Revenues from the additional .6 percent tax rate are dedicated to education and are excluded in this report.) This formula would suggest that $1.63 billion in TPT revenues were generated within the boundaries of the city of Phoenix (over 35 percent of total state tax collections). An analyst in the city’s budget and research department provided some clarification. The city’s TPT tax base was recalculated by eliminating the elements of the base that are not taxed by the state. Applying the city’s sales tax rate of 1.8 percent on a more limited tax base, it appears that the state collected about $1.34 billion within the boundaries of Phoenix, a reduction of 12 percent from the original $1.63 billion estimate.

Assuming that the TPT tax base in other cities and towns is 12 percent less than originally determined, we therefore recalculated the municipal TPT base to be $86.8 billion. To determine an approximate contribution to state coffers, the tax base multiplied by the state rate of 5 percent amounts to $4.34 billion, or roughly 93 percent of gross TPT revenues. Statistics concerning the TPT are arrayed in table 6 below.

<table>
<thead>
<tr>
<th>Level of Government</th>
<th>Tax Base$/%</th>
<th>Gross Collections$/%</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>$93.1 billion/100%</td>
<td>$4.66 billion*/100%</td>
</tr>
<tr>
<td>Cities and Towns (89)</td>
<td>$86.8 billion/93%</td>
<td>$4.34 billion/93%</td>
</tr>
</tbody>
</table>

Urban Revenue Sharing represents an 11 percent return to municipalities on the $3.43 billion in income taxes generated within their boundaries.

*This is an approximate collection figure calculated by multiplying the tax base by the state rate of 5 percent

Urban Revenue Sharing represents an 11 percent return to municipalities on the $3.43 billion in income taxes generated within their boundaries.
Urban Revenue Sharing

The state of Arizona returns a portion of its income tax revenues to cities and towns. Called Urban Revenue Sharing (URS), the amount totaled $373,072,580 in FY 2004-2005. (Urban Revenue Sharing was implemented in 1972 through a voter initiative to share the income tax with cities and towns under the condition that cities and towns not levy a local income tax.) Urban Revenue Sharing represents an 11 percent return to municipalities on the $3.43 billion in income taxes generated within their boundaries. Table 7 shows income tax revenues generated in municipalities and income tax revenues returned to municipalities in the form of state revenue sharing.

Table 7: Income Taxes and Urban Revenue Sharing FY 2004-2005

<table>
<thead>
<tr>
<th>Cities and Towns to State</th>
<th>$3.43 billion/100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Share to Cities and Towns*</td>
<td>$373.1 million/11%</td>
</tr>
</tbody>
</table>

*Source: Arizona Department of Revenue 2005 Annual Report

Transaction Privilege Tax

For FY 2004-2005, the state of Arizona returned a portion of its TPT revenues to cities and towns. The amount totaled $376,213,000. As shown in table 8 below, transaction privilege tax sharing represents an 8.5 percent return to municipalities on the $4.34 billion collected in their jurisdictions.

Table 8: TPT and State Revenue Sharing FY 2004-2005

<table>
<thead>
<tr>
<th>Cities and Towns to State</th>
<th>$4.34 billion/100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Share to Cities and Towns*</td>
<td>$376.2 million/8.6%</td>
</tr>
</tbody>
</table>

*Source: Arizona Department of Revenue 2005 Annual Report

... transaction privilege tax sharing represents an 8.5 percent return to municipalities on the $4.34 billion collected in their jurisdictions.
A summary table follows which shows estimated state transaction privilege and income taxes (excluding corporate) generated within the boundaries of a rural town, a rural city, a suburban town, a suburban city, and a metro city. It also shows the revenues from both taxes that were distributed to these jurisdictions. The income tax estimate was based on 2000 tax returns presented in the Department of Revenue’s 2000 Individual Income Tax Statistics.

<table>
<thead>
<tr>
<th>Type/Population*</th>
<th>TPT to State</th>
<th>TPT from State**</th>
<th>Income Taxes Paid</th>
<th>URS**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Town:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payson/14,000</td>
<td>$14 million</td>
<td>$1.3 million</td>
<td>$11.3 million</td>
<td>$1.3 million</td>
</tr>
<tr>
<td>Rural City:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kingman/21,000</td>
<td>$30.2 million</td>
<td>$1.9 million</td>
<td>$18.8 million</td>
<td>$1.84 million</td>
</tr>
<tr>
<td>Suburban Town:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marana/15,000</td>
<td>$48 million</td>
<td>$1.3 million</td>
<td>$7.5 million</td>
<td>$1.3 million</td>
</tr>
<tr>
<td>Suburban City:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peoria/108,000</td>
<td>$152 million</td>
<td>$10 million</td>
<td>$112.5 million</td>
<td>$10 million</td>
</tr>
<tr>
<td>Metro City:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tucson/486,000</td>
<td>$442 million</td>
<td>$45 million</td>
<td>$520 million***</td>
<td>$45 million</td>
</tr>
</tbody>
</table>

*Sharing is based on 2000 population estimates
**Source: Arizona Department of Revenue 2005 Annual Report
***Includes the town of Oro Valley and the city of South Tucson

Note that the TPT to state and from state are not proportional from jurisdiction to jurisdiction. The same holds for income tax and URS. The reason for this is that TPT and URS paid to the state are based on taxable sales and taxable income that occur within municipal limits, and revenues shared are based on population (TPT) and population relative to total incorporated population (URS).
Table 10 summarizes the findings of the contribution of cities and towns to the state’s economy and budget. With 82 percent of the state’s population and 88 percent of the jobs, cities and towns produce 91.4 percent of gross income and 91.4 percent of state income taxes. They contain 93 percent of taxable sales and produce 93 percent of TPT revenues. In those two taxes alone, cities and towns send $7.77 billion to state coffers. Arizona then returned to cities and towns a total of $749.3 million, about 8.4 percent of total state revenues ($8.9 billion) in 2005. (As noted on page 2 of this report, total gross state revenues were actually $11.3 billion). The following table summarizes these findings:

Table 10: Cities and Towns and State Tax Revenues FY 2004–2005

<table>
<thead>
<tr>
<th>Category</th>
<th>State</th>
<th>Cities and Towns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>6,044,985/100%</td>
<td>4,987,312</td>
</tr>
<tr>
<td>Non Farm Employment</td>
<td>2,796,633/100%</td>
<td>2,471,580</td>
</tr>
<tr>
<td>Income Tax</td>
<td>$3.75 billion/100%</td>
<td>$3.43 billion</td>
</tr>
<tr>
<td>Urban Revenue Sharing</td>
<td>$373.1 million</td>
<td>$376.2 million</td>
</tr>
<tr>
<td>Transaction Privilege Tax</td>
<td>$4.66 billion/100%</td>
<td>$4.34 billion</td>
</tr>
</tbody>
</table>

... cities and towns ... contain 93 percent of taxable sales and produce 93 percent of TPT revenues.
Arizona’s municipalities know that they are the economic engines of the state. They understand that developing and nurturing robust economies is a critical responsibility—if not the most important—of their governance mission. Arizona’s cities and towns—from the city of Phoenix to the town of Jerome—dedicate precious resources to creating vibrant economies. Economic development has, in the history of municipalities, not been considered part of local government’s basic mission. After all, public safety, water, garbage collection, and public works are more traditionally linked to local government and consume the greatest share of a municipal budget. These basic services are a prerequisite for healthy local economies and for companies considering relocating to a particular city or town. Provided effectively, they form the essential foundation for economic success. Without them, a local economy would flounder and eventually dry up. As Judd and Swanstrom noted, living in cities would become “intolerable” without basic services. What is less understood by other levels of government and by citizens are all the additional municipal services, programs and tools that directly influence a local economy.

A survey was distributed by mail to the managers (or clerks) and economic development directors (if on staff) in August 2006 seeking information on what services, both basic and optional, were considered important with respect to developing and sustaining a healthy local economy. Twenty-one responses were received during the two-week solicitation period. The following discussion summarizes city and town responses on basic and optional services vital for economic development and economic vitality.

**Basic Services**

The anticipated responses of police, fire, streets, water and sewer are considered important by all city and town respondents. Beyond these most basic of services were listed wastewater treatment, airports, traffic circulation systems, maintaining an International Standards rating (ISO) of “3” to keep business insurance rates low, parks and recreation to keep crime rates low, snow removal, street sweeping, and “high quality of life,” defined as a combination of public safety, amenities, libraries and infrastructure. As one manager put it, “We provide public infrastructure to attract business and facilities to encourage developers to build here. Growth in our city attracts people and businesses.” Most responses underscored the importance of basic service provision in creating economic growth, and while specific optional services targeted at economic development are usually considered discretionary, economic development has become a necessary role of local government in Arizona.

The economic development director in one thriving city expresses this sentiment:

[Our city’s] key attraction for economic development is the city’s high quality of life. Over 90 percent of all new locates to [our city] cite quality of life as their primary locational determining factor. Therefore, all city services are critical to our economic development effort. It is the combination of all services that contributes to the city’s noted quality of life—good police protection, excellent parks and libraries, good infrastructure, etc.
Optional Services and Tools

Responses to the question of optional services and tools integral to economic development efforts revealed the breadth and scope of municipal activities devoted to creating and sustaining healthy and growing economies. One manager explained:

Economic development is now considered to be an integral part of our policy calculations in areas of local government responsibility previously considered separate and unrelated, such as arts/cultural/recreation programs (e.g., libraries, parks and recreation, performing arts facilities), environmental management, housing, neighborhood services, and redevelopment.

The list is long and varied. Many services were directly involved in economic development activities, many providing funding to chambers of commerce and regional economic development organizations, and many worked at building healthy economies indirectly through workforce development, civic amenities and public transit. The following table lists the services enumerated in the survey responses:

Table 11: Basic and Optional Services and Tools Vital to Economic Development

<table>
<thead>
<tr>
<th><strong>Basic Services</strong></th>
<th><strong>Optional Services and Tools</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Police</td>
<td>Free pre-development meetings on project design and site development</td>
</tr>
<tr>
<td>Fire</td>
<td>Expedient plan review</td>
</tr>
<tr>
<td>Water</td>
<td>Full-time economic development specialist</td>
</tr>
<tr>
<td>Sewer</td>
<td>Funding the chamber of commerce</td>
</tr>
<tr>
<td>Wastewater treatment</td>
<td>Funding the regional economic development organization</td>
</tr>
<tr>
<td>Airport</td>
<td>Funding the convention and visitors bureau</td>
</tr>
<tr>
<td>Traffic circulation system</td>
<td>Departments of planning, development, building review</td>
</tr>
<tr>
<td>ISO rating of “3”</td>
<td>Main Street Program</td>
</tr>
<tr>
<td>Parks and recreation</td>
<td>Cultural arts programs</td>
</tr>
<tr>
<td>Snow removal</td>
<td>Long-range planning</td>
</tr>
<tr>
<td>Street sweeping</td>
<td>Sales tax rebates</td>
</tr>
<tr>
<td>Libraries</td>
<td>Technical assistance for start-up small businesses</td>
</tr>
<tr>
<td>High quality of life</td>
<td>Maps and plans</td>
</tr>
<tr>
<td></td>
<td>Business and development outreach</td>
</tr>
<tr>
<td></td>
<td>Public art</td>
</tr>
<tr>
<td></td>
<td>Pro-active business development climate</td>
</tr>
<tr>
<td></td>
<td>Department of economic development</td>
</tr>
<tr>
<td></td>
<td>Small business resource center</td>
</tr>
<tr>
<td></td>
<td>Urban planning and design</td>
</tr>
<tr>
<td></td>
<td>Workforce development</td>
</tr>
<tr>
<td></td>
<td>Parks, recreation and pools</td>
</tr>
</tbody>
</table>

“Our city’s] key attraction for economic development is the city’s high quality of life.”
Services to encourage economic growth require direct expenditures or result in a reduction of revenues. While basic services consume the majority of municipal budgets (all funds, but especially the general fund), optional economic development activities are not cheap. The following examples illustrate the cost to municipal budgets of actively engaging in their local economies.

**Small cities and towns**

A sample of expenditures in FY 2005 geared toward economic development in one very small and rural town includes $428,000 on an airport, $343,000 on economic development, $187,000 on parks, and $13,000 on a library. (Its general fund amounted to only $6.5 million.) Another small town appropriated $200,000 for marketing and communications, $1 million for economic development, and $46,000 on historic preservation. And another town budgeted $334,000 for the airport and $1.6 million for community development. Purchasing open space cost one small jurisdiction $10,000, and another spent $690,000 on “growth management.” A small but long-established city put it this way:

We serve them [prospects] food! It is hard to argue in a committee when you are breaking bread together. Other services include an active economic development website, collaboration with the chamber of commerce and Main Street programs; attendance and membership in the Arizona Association for Economic Development, the Rural Committee, the Water Committee, and the Tribal Committee.

**Medium rural cities**

The largest city in its region yet well under a population of 100,000 allocated $550,000 for visitor services, $1.1 million for tourism, another $1 million on community investment, $8.3 million on transportation, and $40.3 million on “arts, science, metropolitan planning, trails, urban design, and streetscape.” One additional medium-sized rural city invested $197,000 in its heritage area, $733,000 for arts, youth and a pool, $1.2 million in a convention center, $686,000 in a baseball field, $277,000 for a downtown mall, $84,000 for pathways and trails, and $273,000 for golf. This city also provided funding for the convention and visitors bureau, river development, Main Street, the port authority, a film commission, and economic development for a total of $1.34 million. One respondent added:

... land sales, incentives for tax relief (property and sales), personnel, numerous meetings at which we bring interested parties together to facilitate economic development issues (e.g., Medical Services Strategic Planning Committee, I-30 Corridor Working Group, Ad Hoc Alcohol and Transient Issues Committee, and the Hill Interceptor Blue Ribbon Committee).
Suburban cities

Suburban cities do not rest in the shadows of Phoenix and Tucson. They spend millions each year on services and activities that provide a foundation for or directly promote vibrant economies, such as $1 million on community partnerships, $7.5 million on economic development incentives, $600,000 on the airport, and $800,000 on a civic center. One city official commented, “[Our] city has a very pro-active business development climate. It encourages and pursues business developments and will work with each developer to ensure a positive working environment that will accomplish our collective objectives.” While creating a pro-active business climate may not require an infusion of cash, successfully “ensuring a positive working environment” does require a great deal of staff time. The economic development functions of another suburban city are also time-consuming:

Our basic economic development services include: community information on demographics, community amenities, property availability, transportation and workforce availability; business assistance in starting a business, getting licensed, workforce training grant assistance and the planning and development process; business expansion and retention help in reviewing land or buildings; and business attraction services with Greater Phoenix Economic Council and local and national brokers.

Discretionary economic development services include: Visual Improvement Program that allows for public investment as a match for exterior improvements to businesses; the Downtown Dining District which allows for matching public investment in restaurant-related capital improvements; expedited development review in certain circumstances; redevelopment services in areas where properties are underutilized or in conflict with surrounding interests; and other financial incentives or public infrastructure investments when the community benefits.

Some expenditures for economic development are direct cash contributions. One suburban city, for instance, budgets $500,000 per year to “assist certain businesses with various funding requirements.” Staff evaluates each business and the needs of the city to determine if any funding assistance will be offered.

Metropolitan cities

The larger cities identified a variety of costs that include $2.4 million for community and public affairs, $4.8 million for housing, $400,000 for community improvements, $815,000 for economic development, $7.5 million for economic development incentives, $10.3 million for a regional airport, $1.6 million for economic development, $2.4 million for a golf course, $15.2 million for a cultural center, $4.4 million for a convention hall, and $4.8 million for adult and youth museums. One of the smaller large cities has a line item for “economic vitality” with a price tag of $8.9 million. Another of a similar size and location spent $18.3 million on community services and economic development. The largest cities in Arizona allocated $255 million for “community enrichment,” which included parks and recreation, libraries, golf, civic plaza/convention center/theater, education and youth, historic preservation and arts and culture. With a goal of becoming an “economic catalyst” for downtown, convention centers are considered by city officials to be a vital component. One spends $64 million a year to stimulate downtown economic activity as well as $350,000 on youth job fairs and $700,000 on a trade office with Mexico. In October 2006 the Phoenix city council approved a plan to construct a $900 million downtown “CityScape” project. It will become the single largest private investment project in the downtown area. In addition, the city
will work with the public to redesign the park and will also retain ownership of the open space surrounding the development. The city will purchase an underground parking structure and pay for repairs on a parking garage at a cost of $96.5 million. As an incentive (resulting in loss of city revenues), Phoenix will also waive property taxes for eight years. The respondent from another large city explains:

In economic, socio-political, and environmental terms, there are four key building blocks of economic development: infrastructure, labor force quality, quantity and cost; capital formation; and the state of technological advance. These are the foundations upon which the process of economic development at the municipal level has been based. Our basic services that impact these four building blocks include economic development (business recruitment, retention/expansion, small and minority business development, tourism); finance (licensing, tax and utility services); human resources (employee recruitment and training); information technology (on-line services, public relations and telecommunications); planning and development (plan review, permit processing, zoning); public safety (police and fire); and public works (airport operations, solid waste, streets, utilities, wastewater and water services).

**Service Reductions in the Face of Budget Reductions**

The third question asked city and town officials where reductions in services would occur if revenues were reduced. While mayors and councils would ultimately make that determination, of course, some offered these suggestions for placing services on the cutting block:

- Economic development
- Parks, recreation and pools
- Libraries: reduce hours and/or days
- Community events
- Capital improvement programs which will affect transportation, water and sewer, and utility improvements
- Code enforcement
- Public works
- Administration and director of the courts
- New capital improvement
- Staffing levels
- Quality of life services: parks, infrastructure, recreation, library, maintenance, neighborhood services, codes, plan review, and arts
- Parks (“We have the only golf course between Flagstaff and Gallup”)
- Beautification
- Airport
- Planning
- Cemetery maintenance
- Membership dues
- Pace of road improvements

With the exception of cemetery maintenance, membership dues, and reductions in court personnel, all service reductions are directly or indirectly tied to economic development. As one official explained when asked which cuts would be made, he replied “...economic development as a general rule, since that is an auxiliary function...all beautification [activities] and other grant funding that requires matching funds (e.g., TEAM grants, ADOT at 50%, FAA and ADOT Airport Grant at 5%).”
Cities and towns are the engines of economic growth throughout the U.S. and particularly in Arizona. In Arizona, 92.2 percent of Arizona's Gross State Product is produced in the state's five major metro areas alone. This is an astoundingly high percentage, considering that only 86.3 percent of the U.S. Gross Domestic Product is produced in metropolitan areas of the U.S.

Approximately 82.5 percent of Arizona's population lives in cities and towns along with 88 percent of our workforce. But the high level of production in cities and towns results in their contributing proportionally more to Arizona's Income Tax revenues (91.4 percent) and Transaction Privilege Tax collections (93 percent) than their population shares would imply.

Through the Urban Revenue Sharing and state-shared sales tax programs, cities and towns get back a relatively small 11 percent of state income tax revenues and 8.6 percent of state Transaction Privilege Tax revenues that they contribute. These state tax revenues (income and TPT) returned to them represent a small portion of state revenues but finance a big portion---if not all---of direct economic activities.

In order to be the growth engines of the state, local communities incur major expenses to attract, retain and expand businesses. First and foremost, they have to provide quality basic services. Basic services appear to be just as important to economic health as specific economic development services from the perspective of municipal officials involved in economic development. A strong public service foundation is necessary and, rightly so, is taken for granted by existing businesses and assumed by business prospects. Certain types of local programs, such as parks and recreation, are often referred to as discretionary. However, they are an important part of the quality of life in communities, a factor that can contribute to lower crime rates and that is an inherent part of the package that businesses and their workers expect.

In addition, cities and towns fund a wide variety of services that are directly geared to economic development. A wide spectrum of economic development activities and tools are utilized by cities and towns to support, promote, retain, expand and attract businesses. These include programs such as technical assistance for start-up small businesses, funding for regional economic development organizations, funding for chambers of commerce, and incentive policies, such as reductions in impact fees and local sales tax rebates. Most cities and towns play major roles in their own growth and development and, therefore, in the state's growth and development.

It appears that, as the “city is a partnership for living well,” Arizona's cities and towns are good investments for both the state and the business communities. The adage of the 21st century, “think globally, act locally,” exemplifies the importance of local communities in a global economy as the world flattens. Thriving local economies reduce the costs of municipal government in the long run, as fewer residents require the services of the Department of Economic Security, AHCCCS, or the Department of Health. State policies that strengthen municipalities are a good investment and result in substantial increases to the state treasury.
Sources

Arizona Department of Commerce. “Community Profiles.” www.azcommerce.com


