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Towns struggle to provide services as building stalls

Sales tax not the remedy, towns say: impact fees, property taxes could be

By Erica Meltzer

ARIZONA DAILY STAR

Rapid growth over the last five years filled the wallets of home builders and speculators and made even average homeowners in Pima County feel a little flush.

It also swelled the coffers of local governments, especially in the Tucson area's suburban towns of Marana, Oro Valley and Sahuarita.

An Arizona Daily Star analysis of local government finances found that in recent years the towns collected 10 to 38 percent of the revenue they rely on to pay for roads, parks and police from development permit fees, construction sales tax and impact fees.

But growth has stalled as building permits dropped precipitously over the past year, taking with them important sources of revenue. At the same time, local governments face mounting infrastructure needs — everything from parks to sewers — to serve the residents added during the housing boom.

Slowdown is a peek into future

The current downturn is cyclical and temporary, but eventually growth in Pima County will stop, planners say.

National parks, tribal lands and other publicly owned lands limit the eventual size of the metro area. The county's conservation plan, which classifies land based on its value as habitat, also limits growth in much of unincorporated Pima County.

While some small infill projects will continue, they won't generate much development- related revenue.

Pima County's population surpassed the 1 million mark late last year, planners estimate. This report is part of a monthly series running all this year on the effects of our population growth.

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Saturday: Early leaders made decisions based on the idea that growth would continue unabated.

Sunday: For communities to survive and thrive, they must rethink how they plan and bring in revenue.

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And many local officials believe lack of water will stop growth even before we run out of space.

The slowdown provides a window into the challenges local government will face when residential growth eventually exhausts itself.

Nationally, housing starts are at their lowest level in 14 years. The number of residential building permits issued in every jurisdiction in Pima County is lower this year than it has been since 2002. Building permits fell nearly 39 percent in Marana over the last year, 47 percent in Tucson and 55 percent in Sahuarita.

For several years early in the decade, Sahuarita got nearly 40 percent of its revenue from growth-based sources, more than any other jurisdiction. It also has seen the sharpest decline in those revenues, with growth-based sources making up just 8 percent of revenue this budget year.

Most of that money comes from its 4 percent construction sales tax. The town has no impact fees and no property tax.

Town officials say they do not base their economy on growth.

"It's not true, of course," Town Manager Jim Stahle said. "I think there are a lot of folks around who believe in that mentality — grow or ye shall die. I disagree with it."

Yet Sahuarita officials balked at requests from Pima County earlier this year to stop issuing building permits when the town's wastewater-treatment plant was approaching capacity. In part, they didn't want to further damage a budget already taking a hit from the housing slowdown.

Now the town is trucking excess sewage to a county treatment plant until an expansion comes on line.

Sahuarita also is delaying large capital projects and reconsidering a proposal, two years in the making, to create a $6 million Wi-Fi network that would be free to anyone with an Internet connection.

At the same time, the town may raise sewer connection fees 26 percent and sewer user fees 74 percent. Officials also may impose impact fees in new developments — developer Bob Sharpe ensured Rancho Sahuarita does not pay impact fees — and even establish limited property tax in new community-facilities districts, designed to pay for specific infrastructure projects.

OV seeking economic diversity

Oro Valley saw the slowest and steadiest growth of the outlying jurisdictions, yet still found itself predicting fiscal crisis earlier this year.

In 2006, 22 percent of the town's local revenue came from construction-related fees. (The Star's analysis looked at total budgets, not just local revenues, and found a little more than 10 percent of the budget came from growth-related revenue.)

But the town has run out of developable land. Last year, Finance Director Stacey Lemos said the town needed to diversify its revenue sources or it would use up its $13 million contingency fund by 2012.

Although little has changed, Lemos said the situation isn't so dire. As long as the town doesn't add more employees, anticipated increases in sales-tax revenue should allow the town to maintain its savings, she said.

Marana still has room to grow

Marana's exponential growth has slowed, but town officials say they aren't feeling the pinch. The town has targeted commercial areas with few residents for annexation and last year brought in $28.6 million in taxes from retail centers. Meanwhile, development fees, impact fees and community facility districts pay for infrastructure improvements, and the town has $70 million in reserves.

Marana expects to develop thousands more acres over the next 20 years and expand into Pinal County. But like Oro Valley, the town eventually will not be able to grow any more.

Planning experts say even the reliance on sales tax is linked to growth and has its limitations.

"We are junkies for sales tax," said Grady Gammage Jr. of Arizona State University's Morrison Institute for Public Policy, which specializes in urban planning issues. "We're addicted to it because we're addicted to growth."

Like Marana and Oro Valley, Tucson relies heavily on sales tax, though it does have a small property tax. Sales-tax revenue grows rapidly only when towns are adding new residents and new shopping centers, as Tucson has done on the Southeast Side. Once a city or town reaches its capacity, sales-tax revenues fluctuate widely based on economic cycles.

Another problem with relying on sales tax is that neighboring cities and towns, each with their own revenue in mind, can oversaturate an area with retail, said Rob Melnick, director of the Morrison Institute.

Between Marana and Oro Valley, there are 10 million square feet of planned retail space, including three malls, within a few miles of each other.

Despite the uncertainty of sales-tax revenues, Pima County officials for years have wanted their own sales tax to diversify their revenue stream, which depends almost exclusively on property taxes. Imposing a sales tax requires a unanimous vote of the Board of Supervisors, and Supervisor Ray Carroll won't go along.

That reliance on property tax means fluctuations in revenue are less extreme. The total net assessed value increased almost every year since 1986, even as the number of building permits rose and fell with economic cycles, a recent county analysis found.

Growth kept property tax down

Growth still plays a role in county finances — county officials did the analysis because they are concerned about the decline in the housing market. They also found the rate of increase in housing values correlated directly with the number of building permits issued.

The rapid growth of 2005 and 2006 led to double-digit increases in the county's net assessed value for 2007 and 2008. (Assessments reflect the market conditions two years ago.)

Because of new growth, county officials were able to reduce the property-tax rate the last two years and still collect more property-tax revenue.

County Administrator Chuck Huckelberry said he anticipates several lean years starting in 2009, when assessed values will reflect the current housing market.

At the same time, the county is in the midst of a massive capital program, $322 million in this year alone, and expects to ask voters to approve another $750 million in bonds next year.

Even as the county prides itself on its fiscal stability, it is looking to get more revenue from growth in an effort to shift some of the burden to new residents.

The county has prepared a Southwest Infrastructure Plan that proposes much higher impact fees — more than $50,000 per home under one scenario, assuming all the costs were absorbed by new residents — to pay for infrastructure in a subregion that has seen explosive growth since the Sonoran Desert Conservation Plan shifted growth away from the Northwest Side. When that plan is complete, the county will create another subregional plan for the Vail area on the Southeast Side.

Huckelberry said the need for revenue to pay for infrastructure and the desire to keep impact fees per house reasonable could drive higher densities in those areas.

The mantra of local government has been that growth should pay for itself, yet every local government continues to play catch-up, with never quite enough money for parks, libraries, roads and sewers, many officials say.

Just as the county is considering higher densities to fund infrastructure on the Southwest Side, other jurisdictions also rely on growth to fund their projects. Marana's prediction that it can offer sewer service at fees similar to the county's depends on growth bringing enough new residents to share the burden.

Huckelberry would like to commission a study to see what growth really costs and how much it really contributes.

"We need to take a look at all the costs and all the revenues," he said. "I think we need to answer that question: Does growth pay for itself? I don't know if anyone really knows."

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more inside: The people who influenced growth

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