

**BALLOT PROPOSITION #202
Citizens Growth Management**

Publicity Pamphlet Fiscal Impact Summary

Proposition 202 would require cities and counties with populations over 2,500 persons to develop growth management plans by January 1, 2003. The fiscal impact of this Proposition will depend on how these growth management plans are implemented. The precise form of these growth management plans will not be known for several years. As a result, it is not possible to predict the Proposition's precise impact on the state economy at this time.

If the creation of the growth management plans results in less development in the long-term, the Proposition would probably negatively affect the state's economy and state and local government revenues. Slower development would cause declines in the construction industry. This could lead to lost state and local revenue from taxes on the construction industry. This same negative impact could also occur in the short-term if the approval of the initiative delays the start of new development projects.

If the Proposition channels development into specific geographic areas without slowing growth, the fiscal impact is more difficult to predict. The more limited geographic opportunities for development would probably increase land prices. Higher land prices could increase property tax collections, but could also lead to a reduced demand for development.

The growth management plans could generate local government savings as developers would be required to pay the full cost of infrastructure development, such as streets and sewers. If developers are not currently paying these full costs, this provision would increase local revenues. The developers, however, could pass these additional costs along to consumers or businesses in the form of higher prices.

In addition, local governments could realize efficiency gains if construction is directed inward where services such as police & fire protection are already provided.

	FISCAL YEAR		
	2001	2002	2003
STATE REVENUES	*	*	*

* The impact to state revenue collections will depend on how the proposed law is implemented by the local communities and interpreted by the courts. For a perspective, see *Estimated Impact* below.

FISCAL ANALYSIS

Description

Proposition 202 would require counties, cities and towns having populations of 2,500 or more to adopt "growth management plans" for regulating urban growth. (Smaller towns could voluntarily participate.) The county, city or town would have to draw "urban growth boundaries" for its planned urbanization for no more than ten years. New development and municipal services would be restricted outside the urban growth boundaries, and inside the boundaries new development regulations would be imposed for more controlled urban growth.

Description (Continued)

The Proposition would require that growth management plans ensure future growth is consistent with steady progress towards meeting and sustaining compliance with state and federal air and water quality standards. It also would require that the growth management plans include policies and requirements to ensure that water demand from new development does not place an unreasonable burden on ground and surface water supplies.

The Proposition would require that developers pay the full cost of new development, including costs related to roads, sewers, and other necessary public goods.

The Proposition's requirements would also apply to land owned or held in trust by the state to the maximum extent allowed by the Enabling Act and the State Constitution. Also, the Proposition would make the conceptual planning provision that applies to state trust land under current law an option instead of a statutory requirement.

Estimated Impact

The fiscal impact of this Proposition will depend on how these growth management plans are implemented. The precise form of these growth management plans will not be known for several years. As a result, it is not possible to predict the Proposition's precise impact on the state economy at this time.

If the creation of the growth management plans results in less development in the long-term, the Proposition would probably negatively affect the state's economy and state and local government revenues. Slower development would cause declines in the construction industry. This could lead to lost state and local revenue from taxes on the construction industry. This same negative impact could also occur in the short-term if the approval of the initiative delays the start of new development projects.

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In addition, local governments could realize efficiency gains if construction is directed inward where services such as police & fire protection are already provided.

Analysis

Issues of Interpretation

The fiscal impact of the Proposition will depend on the specific implementation of the growth management plans and the interpretation of the related provisions. The Proposition allows local legislative bodies to interpret and implement the proposed provisions. For example, it is unclear how the provision that requires continued compliance with air and water quality regulations will affect growth in the state. Although current law already requires that cities make steady progress towards meeting state and federal standards, this provision has not previously been used in conjunction with growth limitations.

In addition, the Proposition requires that the growth management plans include policies and requirements to ensure that water demand from new development does not place an unreasonable burden on ground and surface water supplies. It is unclear what constitutes an unreasonable burden on ground and surface water demand. For example, the City of Tucson has in the past experienced minor shortages in ground and surface water supplies due to the city's heavy reliance on this water as opposed to Central Arizona Project water. It is unclear from the language of the Proposition if these shortages could result in immediate growth limitations.

In addition, the Proposition specifies that Department of Economic Security (DES) population projections will be used to derive the proposed growth boundaries; however, there is no guidance as to how the DES projections will be translated into

Analysis (Continued)

building permits. Currently, the only available DES population projections are from 1997. These statistics underestimate Arizona’s population growth. If the 1997 statistics are used to develop the local growth management plans, the growth boundaries will allow for fewer building permits than if updated population statistics are used. Given the uncertainty about how the Proposition’s provisions would be implemented, any formal analysis of the plan would be speculative.

Comparison of Controlled Growth Communities

Currently, some communities throughout the country have implemented a form of a growth control plan. However, the JLBC Staff only found 3 other plans that contain a growth boundary element similar to what is included in the Proposition. The following table displays some major differences between the Proposition’s growth control plan and the plans in 3 other states.

<u>Comparison of Select Growth Management Plans</u>							
<u>State</u>	<u>Year</u>	<u>Central Coordination</u>	<u>Formal Link to Environmental Standards</u>	<u>Voter Approval</u>	<u>Formal Lawsuit Provision</u>	<u>Developers Pay Full Cost</u>	<u>Population Growth Allowance</u>
Arizona	2000	No	Yes	Yes	Yes	Yes	10 Yrs.
Oregon	1973	Yes	Yes	No	No	No	20 Yrs.
Washington	1990	No ^{1/}	Yes	No	No	No	20 Yrs.
Tennessee	1998	No	No	No	No	No	20 Yrs.

^{1/} Washington’s Department of Trade, Community, and Economic Development provides technical guidance to local planners.

As shown in the table, the growth management plan concept included in the Arizona proposal contains several elements that are not included in the other 3 states. The only similarity between the growth plan included in the Proposition and the growth plans adopted by the other listed states is the fact that all define the growth boundary based on population growth allowances. However, as shown in the table, the Proposition allows plans to provide for 10 years of population growth, while the others allow for 20 years of growth.

Since the growth management plans implemented in other states are considerably different than what is being proposed for Arizona, it may be inaccurate to assume that the economic experiences related to growth management in other states will also occur in Arizona.

General Economic Theory

The population growth allowances included in the growth management plans in other states reduced the quantity of developable land. In theory, if the supply of land is reduced, without an offsetting reduction in demand, the price of the land will increase. If the creation of the growth management plans results in less development, the Proposition could negatively affect the state’s economy and state and local government revenues. In this circumstance, slower development would cause declines in construction activity. This could lead to lost state and local revenue from taxes on the construction industry.

If the intent of the growth management is to more efficiently channel development into specific geographic areas without slowing the overall rate of growth, the fiscal impact is more difficult to predict. In this circumstance, the reduction in the availability of developable land would probably increase the price of the land that is within the growth boundaries. Higher land prices could increase state and local revenues by increasing property tax collections, but could also lead to a reduced demand for development.

The other plans nationwide do not provide for distinctive evidence of escalating land prices; however, a frequently discussed example of how growth management plans affect land prices is the Portland, Oregon experience. Between 1990 and 1999, as reported by the National Association of Realtors, the single-family median home price in Portland increased by 107.5%. Over the same period, the cost of housing in Phoenix increased by 48.6%. The U.S. average is 37.5%. There is also literature that suggests the Portland price increases are not entirely the result of the growth controls. One study sponsored by the Oregon Building Industry Association points out that 86% of the cost of a new home in Portland is associated with construction, as opposed to land costs. In addition, research conducted by the Reason Public Policy Institute reveals that

Analysis (Continued)

anywhere between 30% and 80% of the housing price increase in Portland can be attributed to the growth boundary. Therefore, the housing price increases may be partly due to the construction of more expensive homes. Regardless of the conflicting information about why housing costs have increased in Portland, it appears reasonable to assume that the Proposition's provisions would result in an increase in housing prices in Arizona simply due to restrictions on the supply of developable land.

Additional State Revenue Impacts

As noted above, it is nearly impossible to predict with any certainty the impact that the Proposition would have on the state's economy. Therefore, it is nearly impossible to predict how the impact on the economy would translate into an impact on state tax collections. However, the state General Fund could save \$600,000 annually by removing the current "Growing Smarter" funding from the State Land Department budget. The proposed growth management provisions would supercede the growth management plans already approved and funded by the Legislature. The removal of these monies is not guaranteed since the Legislature may still place a value on the State Land Department continuing with its own comprehensive growth plans.

Related to potential state costs from restrictions on state trust land sales, the State Land Department indicated that an analysis would not be possible until the specifics of the growth management plans are finalized at the local level. If the approved growth management plans exclude state trust lands from possible future development, fewer trust land sales would occur in the long run and fewer dollars would be deposited into the Permanent Fund. However, if state trust land is included in the proposed urban growth areas and we assume that the price of land in this area will increase as a result of the Proposition, these trust lands will sell for an inflated price.

Local Government Impact

The impact on local government revenue collections will also depend on how the Proposition's provisions are interpreted and implemented. The Proposition would require developers to pay fees equal to the cost of the public facilities that would be required to support any new development. Proponents of the Proposition argue that revenue derived from new development does not currently cover the full costs associated with providing public services to the new development. Under this assumption, local governments are required to pay the difference. Opponents of the plan argue that current development fees already cover the cost of providing services to new developments.

If the Proposition requires developers to pay fees equal to these infrastructure needs, and if current development fees do not cover needed public services, it is possible that local governments will receive an increase in funding under the Proposition. There does not appear to be any conclusive quantitative evidence on who currently pays for the public facility needs (local governments versus developers). However, some case studies support the contention that developers do not pay for the full cost of development. Therefore, in cases where development does not "pay for itself", the local governments will benefit from this provision.

In addition, the Proposition includes incentives (reduced development fees) for the development of infill areas. The development of these areas will place a lower burden on local communities since public services already exist beyond these points (if streets, sewers, police and fire services are already in place around an infill development, the cost of a project will be less for the local government). However, if development occurs in the infill areas, developers would be required to pay local communities less in development fees. Therefore, this provision may not necessarily result in local government savings, but could result in fewer development fees being passed on to home buyers.

Furthermore, as noted above, a possible consequence of implementing growth boundaries is an increase in housing prices. Current property tax law derives property tax amounts by applying a formula to a house's market value. Since the Proposition could raise the average market value of homes in Arizona, under the current property tax formula, the amount of property taxes collected at the local level would increase by a proportionate amount. However, if developers are already paying the full cost of the new public services that accompany new development, the full fee requirement would not generate additional revenue for the local communities. In addition, if growth management plans reduce development, economic growth and tax collections, local governments could be adversely affected.

7/14/00

A.R.S. § 19-123 requires the Joint Legislative Budget Committee Staff to prepare fiscal impact estimates for ballot initiative measures. This estimate was prepared by Jim Rounds and Tom Mikesell (602-542-5491).