



Annexation Policy Study

City of Phoenix
Planning Department
December 1988

ACKNOWLEDGEMENTS

This study was a cooperative effort of the following individuals in seven departments. In addition, comments on drafts were received from other members of the City Manager's Office and the Aviation, Community and Economic Development, Finance and Water and Wastewater Departments. The Planning Department wishes to thank all of them for their dedicated efforts and commitment of time.

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ANNEXATION POLICY

INTRODUCTION

During recent discussions on the merits of proposed annexations City Councilmembers asked questions about the benefits of annexation. As the last comprehensive study on annexation was completed in 1974, the City Manager directed staff to analyze all of the issues. A multi-departmental task force of representatives from the Planning, City Clerk, Management and Budget, Law, Water and Wastewater, and Finance Departments, with input from Aviation and Community and Economic Development, has spent the last four months researching the process, the costs and benefits, the practice of other cities, and the alternatives available to Phoenix. Our conclusions and a recommended policy are presented as a series of questions and answers.

1. What are the benefits of having an Annexation Policy?

For many years Phoenix has pursued an aggressive annexation policy based on a goal of capturing new population and job growth as it moved outward and insuring a continued economic growth, primarily in revenue. In some cases, the City sent out field workers to canvass areas, passing out petitions to obtain signatures. State, Federal and County lands were annexed without need of signatures. Recent property owner requests for annexation for such reasons as to obtain an assured water supply; more reliable, cheaper or better services; urban zoning; and stronger land use controls have led City officials to think about the merits of continued annexations and their impacts on the City's financial health, its provision of services to existing residents and its effect on infill. Ideally an annexation policy should provide objective criteria for evaluating each proposed annexation and a method for understanding the long and short term financial costs and benefits. It can indirectly positively affect the timing and quality of development. It should give clear direction to the public and staff. The annexation policy will provide a rational basis for an individual evaluation of each proposed annexation.

BACKGROUND

2. What is the present procedure for annexing land, and how has it changed recently?

In the last 30 years, the City of Phoenix has grown from 53 square miles and 192,000 people to 404 square miles and 975,000 people. Strip annexation wars among the Valley cities in the late 1970s prompted the legislature to change the process to eliminate strip annexations. An area to be annexed must now be at least 200 feet wide and not more than twice the width in length. Where it joins the existing city limit boundaries, it must be 300 feet wide. However, many of these earlier narrow strips exist in Phoenix and other cities and they still contain large county islands.

After challenges concerning the due process shortcomings of the old law which allowed immediate annexation upon securing signatures representing more than 50% of the assessed valuation of the area, the legislature also changed the notification and signature requirements. Now, public hearings, newspaper publications, postings and mailed notice to all owners within a proposed area are required. Signatures of more than one-half of the owners of real and personal property as well as one-half or more of the assessed value are now mandatory. The size of the annexation area cannot be changed once owners have signed.

Property owners seeking annexation are required to produce a "workable proposal" by securing the greatest consent possible of adjacent small parcel owners in order to produce a logical and serviceable extension of the City's boundaries. Annexing small parcels could create a hopscotch pattern inefficient for service and possibly create long-term county islands. Preference is recommended for areas within strips and with high revenue generating development. Front-end costs are to be borne by annexed property.

In December 1987, the City of Phoenix began requiring that all new water service be available only to residents of the City of Phoenix, except for private water company purchased areas, resulting in more requests for annexation, including numerous small areas.

3. What has been the impact of the Groundwater Management Act on requests for annexation?

The Groundwater Management Act provides that lands within Active Management Areas may not be subdivided and sold without first demonstrating a 100 year supply of water for the proposed level of development. Until 2001, lands within the service area of cities, towns, or private water companies which have contracted for Central Arizona Project water, regardless of amount and who can demonstrate financial ability to take and treat water, are deemed to have an assured supply. After 2000, actual demonstration of available water supplies will be required to continue selling subdivided lands. The actual demonstration must not be achieved by mining groundwater beyond safe yield beyond 2025. Safe yield is defined as achieving a long term balance between withdrawals and recharge of groundwater.

The service area of a municipality according to the Arizona Department of Water Resources includes only those lands that are actually being served water by a municipal water system. A city may not drill wells to serve lands which are not physically connected to its existing water distribution system. The City was only able to begin serving Tatum Ranch without extending very costly pipe lines from the Union Hills Treatment Plant over five miles to the south because American Continental Corporation transferred a Type II grandfathered water right to the City. The City was thus able to make use of the well on-site also given by them. The well was used to serve the surrounding area. Therefore, the area served by the distribution system connected to this well could become part of the City's

water service area. Owners of other lands noncontiguous to our water service area will have to purchase transferable Type II nonirrigation rights or pay the cost to extend lines if they wish service up through 2000. Use of a Type II right also requires a sufficient supply of groundwater on site to support the development until the site is eventually connected to the City's distribution system.

4. What has been the impact of the City's current water service policy on annexation?

Property owners desiring to develop or possessing developable lands have pressured the City to serve new areas. The City has in turn used the "need" for City water service to require annexation and other commitments from developers as a condition for providing water service, assuming adequate water is available.

It is the City's policy to require annexation as a pre-condition for receiving water and wastewater except where a private water company service area has been purchased beyond our City limits. Even in these situations, annexation is strongly encouraged.

A possible future banning of new septic tanks because of their groundwater table contamination potential may generate future demands for annexation in order to receive sewer service.

Tucson's annexation policies, also investigated, were found to be unrelated to their water policies. They provide water service to large areas outside their city limits without extra operating costs, only the cost of line extensions. It is their intention to provide water service to the entire metropolitan area, except for areas served by private water companies. Tucson annexes areas determined to provide a positive cash flow at the request of residents. They have an aggressive program to annex state lands, primarily to the south.

5. How has Phoenix used preannexation agreements, and how could they be used in the future?

The City has entered into four preannexation agreements related to the construction of infrastructure and the provision of water and wastewater services:

Pima Ranch	1980	2678 ac
International Harvester	1982	4140 ac
AMCOR (Tatum Ranch)	1986	1200 ac
Jomax West	1988	1790 ac

In three of these, the City agreed to provide water to serve a specified population level expressed as a total number of dwelling units. Limitations on daily per capita water consumption (gallons) to be supplied were also included. Other provisions included paying for transportation studies and improvements.

The most recent agreement committed the property owners to pay all development occupational fees, the costs stated in the specific infrastructure financing plan applicable to the area and the requirements of the development fee ordinance as well as any future adopted water resources acquisition fee. These conditions should be included in future agreements. However, the fees are not binding on other properties under the annexation if the owners did not sign the agreement, unless the fees were adopted by Council ordinance.

These agreements were not "zoning contracts" as there was no guarantee of approval for any particular zoning or development intensity.

Recent legislation expands the authority of the City to enter into annexation agreements and requires that they be consistent with the General Plan. They may only be amended with mutual consent of the parties. However, the Law Department believes that agreements regulating land use and prescribing development standards must follow normal public notice and hearing processes. The Council also could not be restricted from modifying the development standards to protect public health and safety.

6. How have recent large annexations affected revenues versus expenditures? What have been the significant variables?

Three year cost/revenue studies were prepared for two proposed annexation areas in the 1980s. The two areas represented different population density scenarios. The Southeast annexation study area covered 16.3 square miles with approximately 6,000 residents or 368 residents per square mile. When the study was prepared in 1982 recommending annexation of all unincorporated parts of Area B, most of the population resided in Ahwatukee. Actual annexation of this area occurred in stages with the bulk of Ahwatukee joining the City in 1987 and 1988. For the Southeast area, additional out-of-pocket City costs were projected to exceed revenues for the first few years because of little commercial development.

The northeast annexation study prepared in May 1988 covered an area of 10 square miles and an estimated population of 17,500 persons, or approximately 1,700 persons per square mile, more than four times the density of the Southeast Area. The actual population estimate after annexation occurred was slightly over 14,000, possibly due to higher than average vacancy rates in the area (14.6%). In the Northeast Area projected revenues were expected to match actual new expenditures if services were phased in.

The most significant variables affecting the short term revenue/cost ratio are the following:

- a. Population density: The greater the density of the service area, the greater the ratio of revenues to expenditures, all other socio-economic factors being equal, unless the land is completely vacant.
- b. Proximity to existing services: Annexation of areas contiguous to already served areas may allow services to be extended and absorbed by existing staff and reduce costs associated with travel time to remote locations.

- c. Amount and type of nonresidential land use: Commercial properties generate sales tax revenues and add more to the total assessed valuation for property tax purposes than houses generally on equivalent acreage. However, revenue is also received through population-based State shared taxes. The City currently receives about \$76 in general purpose fund and \$44 in highway and lottery funds for each resident added through annexation without waiting for an official census. However, the City must apply to the U.S. Census Bureau to have the annexed population certified.
 - d. Amount and type of infrastructure needed and availability of an adopted infrastructure financing plan: Annexation of undeveloped land gives the City control over the future type of development and the quality of infrastructure. Annexation of developed land may require costly capital improvements to bring the infrastructure (especially streets and water and sewer lines) up to current City standards. An adopted infrastructure financing plan requires new development to pay its proportionate share of new capital costs.
 - e. Timing of annexation: Timing of annexations is important to maximize property tax revenues and to include the annexed population in the City's budget spending limitation formula. The Management and Budget Department verified that an area must be annexed by July 1 to include the population spending limitation for the following fiscal year. It must be annexed prior to November to have the property included on the Phoenix tax rolls for the next fiscal year.
7. What are the annexation policies of neighboring cities, and how have their annexations affected their financial health?

Although most of the Valley cities surveyed do not have any stated formal annexation policies, from their increases in size, it appears they have responded positively to annexation requests and, in some cases, have sought them. In addition, there are some cities that are quite small in size, such as Avondale and Tolleson, but which have strip annexed much larger areas. The four largest cities in the Valley by square miles are Phoenix (404), Scottsdale (183), Goodyear (125), and Mesa (109).

Glendale does not actively seek annexations, since it is limited except to the west, and cannot provide services in that direction at present. They will not provide sewer service outside the city. Peoria requires developed areas lacking on-site improvements at the time of annexation to form an improvement district. Goodyear requires each annexed area to provide for services. Cave Creek is currently seeking to expand its boundaries west of 32nd Street.

This study sought to compare Phoenix' population growth rates, median family income, percentage of residents living and working in the city, and costs of services with those of other Valley cities—both those recently annexing large areas (Scottsdale, Goodyear, Mesa, Peoria, Chandler, Surprise and Gilbert) and those which have changed little since before 1980 (Glendale and Tempe). Graphs/tables in the Appendix depict this data.

Phoenix' population growth rate was the slowest of all Valley cities surveyed, from 1980 - 1987, although it had the largest actual population increase. Rapid growth in land area has resulted in lower population densities for the cities reviewed. While there is a high correlation between land area growth and new housing units, Tempe which experienced only a 1% growth rate in land area between 1980 and 1987 had a 35% increase in housing units.

According to data from the U.S. Census and Valley National Bank, in 1970, Phoenix ranked fourth in median income among selected Valley cities, dropping to eighth in 1980 and ninth in 1986. Chandler and Gilbert experienced the highest rates of land and population growth and the highest rates of growth in median family income. This is not very surprising as new housing tends to cost more than older housing and, therefore, requires higher household incomes to purchase it. The median family incomes for Phoenix, Chandler, Gilbert, Mesa, and Peoria were all between \$25,000 and \$30,000 with Tempe and Scottsdale at \$30,500 and \$34,100, respectively.

As Valley cities rely heavily on sales tax as a revenue source, a relationship exists between growth in population and growth in sales tax and share of State sales tax revenues. To maintain its proportionate share of sales tax growth, Phoenix must also pursue the location of sales tax generators in Phoenix rather than viewing the location of these activities in adjoining communities. The percentage change in per capita sales tax between 1980 and 1987 for Phoenix was 71%. This includes a recent .2% increase in the rate. The percentages were less for Chandler, Glendale, Mesa, Scottsdale, Tempe, and Peoria, and greater for Gilbert, Avondale, and Surprise, all much smaller cities, according to data from the Arizona League of Cities and Towns and Phoenix revenue comparisons. It may be necessary to study the changes over a longer period of time and adjust for differences in and changes to the sales tax rates, in order to determine anything conclusive.

Of the six largest Valley cities, Phoenix by far had the largest resident workforce (74%), followed by Mesa (62%) and Chandler (53%). Glendale, Scottsdale and Tempe were all in the low forties percent.

Phoenix and Scottsdale were the only two of the ten Valley cities surveyed with an AAI bond rating.

A review of 1987-88 per capita revenues and expenditures for the six largest cities show that Phoenix was higher than all cities except Scottsdale in per capita revenue collections from primary property tax, city sales and franchise tax, and fines and forfeitures. Phoenix led all cities in State shared taxes. Phoenix' revenue from service charges was significantly less than Scottsdale, Chandler or Tempe and quite similar to that in Glendale and Mesa.

Phoenix spent more per capita for police and fire than the other five cities, but less for parks and recreation than Scottsdale and Tempe. Library per capita expenditures were significantly less than in Scottsdale, Glendale, or Mesa, ranking only ahead of Chandler. Phoenix expenditures for streets were also the lowest.

A Management and Budget report to Council in October 1988 compared the property tax, sales tax, sanitation charge, and water charge of Phoenix, the five other largest Valley cities and Tucson for a \$77,000 single-family home occupied by a family of four. The total taxes and charges for Phoenix were \$518, the lowest of the seven cities. The highest was Glendale at \$693 and the second lowest was Tempe at \$536. Both of the latter cities have annexed little since 1980. The reason that revenues are higher per capita in Phoenix while charges to the homeowner are less is that non-residential uses contribute a greater share of revenue, and therefore, service charges to homeowners are less.

There appears to be no strong correlation between an active annexation program and financial problems and high costs. In fact, the contrary seems the case. Phoenix which has more than doubled in size from annexations since 1970 has experienced strong family income growth, the highest resident workforce, one of the highest per capita sales tax growth rates, increases in its bond rating, receiving among the highest in per capita revenues from most sources, with the lowest over all costs for homeowners of the big Valley cities in providing basic city services. Clearly Phoenix has benefitted from economies of scale in providing services, and from a large, diversified economic base. It is a strong core city as opposed to a weak core city surrounded by vastly more affluent suburbs.

What would have happened if Phoenix had not annexed beyond its 1958 borders? If Phoenix had not annexed since its 1958 population of 192,000 in 52.7 square miles, the city would only have grown to 239,000 in 1985 with a projected population of 281,000 in 2000 as the overall density increases. In 1958, the median family income was between \$5,000 - \$5,999. Adjusted for inflation, this would be \$13,912 - \$16,691 in 1980. The actual household income for as close an approximation of the 1958 area as is possible, given a totally new census tract system, is \$10,000 - \$14,999. In 1980 the Phoenix median household income was \$17,419 or 86% of the median family income of \$20,365. If the actual 1980 household income for the 1958 area is converted to family income using the 80% ratio, the income would be between \$12,500 - \$18,749. This indicates that the income of the area has not grown much, if at all, and is below the median household income for the total city.

An estimate of 1985 revenues generated by this area versus 1985 expenditures shows that expenditures would exceed revenues by \$4.5 million or 4.8%. This study area is less affluent than the city as a whole, and has fewer persons per household. Personal income would be almost 32% below the surrounding area and more units would be renter-occupied. Crime would be a major issue as the area accounted for over 36% of all crimes in the existing city limits, with an emphasis on violent crimes while the area had only 32% of the 1985 population in Phoenix.

8. What has been the relationship in large cities outside of Arizona between ability to annex and financial health?

A study was conducted of 21 cities, including the standard survey cities, to determine if there is any relationship between the level of annexation activity and fiscal health. Thirteen of the 21 cities (Austin, Dallas, Denver, Fort Worth, Houston, Kansas City, Oklahoma City, Phoenix, Sacramento, San Antonio, San Diego, San Jose, and Tucson) annexed significant land area between 1950-1980. The other eight (8) cities

(Baltimore, Boston, Cincinnati, Detroit, Los Angeles, St. Louis, St. Paul and Seattle) have had few annexations since 1950. A strong correlation was found between population growth and business growth with the annexing cities having a larger share of the total number of businesses located in their metropolitan areas than the non-annexing cities. In fact, of the eight non-annexing cities, six showed a negative percentage business growth rate while only two of the 13 annexing cities showed a negative business growth rate. However, the rate of business growth in all of the metropolitan areas of the non-annexing cities continued to be positive.

The percentage of assessed value that cities had of the total assessed value of the metropolitan area was less than 30% for 6 of the 7 non annexing cities for which data was available versus less than 30% for only 3 of the 8 annexing cities for which data was available.

The median family income of annexing cities was closer to the median family income for the metropolitan area than it was in non-annexing cities, suggesting that cities that can't annex are more likely to have a larger percentage of families with lower incomes whose needs for services are greater and whose ability to pay is less. Five of the eight non-annexing cities had family median incomes less than 80% of that for the metropolitan area in 1980 while none of the annexing cities' family incomes was less than 83% of the metro family income. Even more significantly, there was a 30 year downward trend in the percentage of city to metro family income for all of the cities indicating that the more affluent live further out. The difference between annexing and non-annexing cities was that the former generally started above 100% and fell less far between 1950 and 1980 - a fall of 11 percentage points versus 20 percentage points.

Among the survey cities, non-annexing cities tended to have a greater share of the population below the poverty level according to U.S. Census data.

Non-annexing cities were more likely to experience a population decline between 1950 and 1980. Seven of the eight non-annexing cities have declined each decade since 1960 with only Los Angeles continuing to gain population. Only four of the 13 annexing cities have experienced any population decline since 1950 and that has all been since 1970.

In those non-annexing cities where the population declined, the population in the surrounding area continued to grow with the exception of the Boston, Detroit, and St. Louis areas. Each city's share of the total metro area's population continues to decline with the exception of San Jose. Being able to annex generally means a higher percentage of the total metro population will still be in the core city.

Annexing cities tend to have lower population densities, not surprising as most land that is annexed tends to be vacant or developed at a low density.

Annexing cities have a higher percentage of their work forces residing in their city - an average of 62% (for 11 cities reporting) v. 47% for 8 non-annexing cities. This reduces the number of persons who do not pay the full costs for the resources they use during the day.

Per capita government expenditures averaged \$523 in 1980 for 12 annexing cities versus \$940 for non-annexing cities. However, without adjusting for comparability of services it is hard to tell what that big difference means. For example, some cities include in their budget services provided by the school districts and County government in other areas such as health and welfare costs.

A review of per capita debt revealed no relationship to annexation versus non-annexation. Bond rating information also did reveal that cities that annexed were more likely to show improved bond ratings over time. Non-annexers were more likely to have bond ratings decline or stay the same.

The cities outside Arizona were also asked five subjective questions regarding annexation:

1. What is the city's annexation policy or guidelines?
2. What is their reason for annexing?
3. Are they still conducting annexations?
4. What are the political impacts of annexation?
5. Has the quality of life changed as a result of annexations?

Responses through telephone interviews were obtained from ten cities: Austin, Baltimore, Boston, Dallas, Denver, Detroit, Houston, Long Beach, St. Louis, and St. Paul. Highlights are presented.

Reasons given for annexing included the following:

- Denver - to obtain relief for flat economy (in the past)
- Austin - to extend planning zoning controls
 - to capture tax base
 - to minimize formation of additional utility districts and municipalities
- Dallas - to trade for convenience of property owners and enforcement
- Long Beach - to respond to political pressure or requests from major employers
- Houston - to diversify the tax base
 - to maintain future growth options

Those no longer annexing included Denver, Boston, St. Paul (land-locked for 50 years), St. Louis (not for over 100 years), Dallas, Detroit and Baltimore. Denver recently obtained special legislative action to annex its proposed new airport site, but is otherwise prohibited from annexing. Austin, Houston, and Long Beach (once every 2 or 3 years) are still annexing.

Austin reported that annexed areas need and expect services immediately which can be politically difficult. Houston will form an additional council district when the population reaches 2,000,000 and redistrict when population imbalances result from annexation.

Dallas reported being mostly land locked and trading with other cities.

Houston admitted that some city services have been stretched and some taxes are higher as a result of annexation.

9. How does Phoenix determine benefits and costs of annexing areas?

The City's approach for analyzing the benefit/cost of a potential annexation utilizes a comparison of the area's projected revenues versus service provision costs for three years. Service provision costs reflect only actual new costs that would have to be added to the budget. Any costs that could be absorbed through existing staff or equipment are not added. Projected population and development growth for the three years are incorporated into the analysis. General services assessed include police, fire, street maintenance, traffic control, street lighting and refuse collection. Sometimes park and library services are included.

Police and fire service analysis determines how much additional personnel and equipment will be needed to provide acceptable response times given the characteristics of the proposed annexation area and the status of existing services.

In assessing streets maintenance costs, staff reviews the degree of deficient street services, and actual street lighting maintenance costs. The amount and type of development, particularly single-family housing, determines refuse collection costs. The cost of utilizing the bookmobile for library service and staff and equipment required to maintain any existing parks in the area will also be considered.

Capital facility needs and associated costs are only included if a facility has been included in the Capital Improvements Program in anticipation of an annexation. This is generally for fire stations.

The principal revenue sources generated by annexation include: property tax, City sales and utility taxes, State-shared taxes (sales, income and vehicle license) and development fees. Revenues are phased in based on legal time delays and projected growth. Property tax estimates are based on current valuations plus estimated growth. Other revenue categories are based on present and projected population using existing per capita rates for each revenue category.

An attempt was made to calculate a revenue cost ratio for several areas annexed 5 to 15 years ago using Citywide per capita cost and revenue information as a basis for annexation analysis. However, that produced the same ratio regardless of the size of the area, its density, household income or land use mix. Without a detailed study of the marginal cost of providing each service to an annexation area 5 to 10 years later based on actual service demand and a detailed analysis of actual property taxes, sales tax generation and other revenue sources, an accurate ratio cannot be determined.

10. What are the most significant variables affecting the long and short term benefit/cost ratio of annexations?

Question 6 identified the five most significant variables affecting the short term revenue/cost ratios of annexations. This response to Question 10 builds on that answer and the conclusions reached in Question 9. The following are some of the capital and longer term variables affecting the revenue/cost ratios of annexations.

- a. Ability to annex vacant land to avoid replacement of substandard infrastructure after development occurs.

The City's standards for water main sizes and pressure are significantly higher than the minimum required by the State and County for private water companies. Therefore, after the City annexes an area it negotiates to purchase any private water companies servicing the area and then begins upgrading the level of service to City size standards. This involves replacement of the water mains. The City purchased the Consolidated Water Company for \$26.7 million and has spent \$13.8 million upgrading the infrastructure. Acquisition of the Mockingbird Water Company for \$6 million has been followed by expenditures of \$2.9 million for upgrades, in both cases an expenditure of approximately 50% of the acquisition cost. Sometimes Improvement Districts are used to upgrade water service or septic tanks to regular sewer service. If this development had occurred in the City, the developer would have installed the infrastructure to City standards without cost to the City.

The County does not provide sidewalks or landscaping when constructing (major) streets. When an area is annexed, either the City has to pay the full or partial costs of adding sidewalks and landscaping or endure unsafe and unattractive streetscapes.

- b. Ability to provide large, vacant land areas for large employers, large resorts, and planned communities

The existence of large, well-located, vacant land sites within the City limits is a powerful incentive to attracting high quality development. The above users rarely want to endure the cost and time involved in assembling dozens of small, vacant or developed parcels and clearing them. They prefer large, cheaper, vacant sites in single ownership. These sites are most available at the edge of urbanized areas. Attracting large industrial or institutional users such as IBM, Digital, Sperry or the Mayo Clinic attracts other related employers and eventually housing and retail services. Having sites allows Phoenix to compete with other Valley cities with less need to subsidize infill sites.

- c. Ability to capture new regional shopping centers, auto malls, and other high sales tax retail uses

City sales and franchise taxes account for 44% of the General Fund revenues. People tend to shop for large purchases near where they live rather than close to work. In the East Central Phoenix Economic Analysis, it was estimated that residents of the area

spend \$13,000 on shoppers goods (the majority of goods and products carried in regional shopping centers and department stores) and other retail as opposed to \$1815 for employees, a 7 to 1 ratio. The predominant land use in the outlying areas is residential. Retail services follow new housing and locate centrally along or at major street or freeway intersections to serve them. Regional and large shopping centers account for 20% of retail sales tax revenue. Auto malls are one of the highest sales tax generators. Merely annexing land will not insure that retail services locate in Phoenix. However, annexation combined with adopted land use plans which provide attractive locations for these uses at least insures Phoenix of being competitive.

d. Population growth translated into lessening decline in the percent of State-shared revenue

Although the City's percentage share of the State's population has been declining since 1960 and will continue to decline, strong population growth, particularly in families (larger than average household size) will slow that decline. State-shared revenue comprises 33% of the General Fund.

e. Ability to attract newer neighborhoods with median housing values exceeding the median value of sales of existing homes

The median value of new housing - either purchase or rental, is typically higher than the median values of existing housing. Newer homes built to higher standards generally have more amenities. Therefore, they generate more in property taxes and tend to be inhabited by households of higher incomes than the median for existing housing. There is a growing trend for large planned communities to develop in the newer outlying areas. Homes in these communities with higher quality controls and amenities also tend to retain higher property values over time than homes built in stand alone subdivisions. As these communities require large tracts, they are not typically built on infill sites.

f. Ability to use an adopted infrastructure financing plan and development fee ordinance in annexed areas

New development in peripheral areas A, C, and D (shown on the attached map) will pay its fair share of costs for capital infrastructure for services for the area at the existing City standard based on development fees charged under the development fee ordinance. Credit is given for secondary property taxes paid and the development's share of the State shared transportation fund. Money will be set aside until enough is collected to build the projects or the City decides to bond for the difference. In some cases, it may be desirable to build the infrastructure in advance through bonds to stimulate desired development. It has not been determined how long that money can sit before the City must use it and be reimbursed later for certain bond funds expended if the contributed funds are not sufficient to cover their projected share of the land and construction costs at the time.

- g. Ability to obtain a sufficiently rapid development pace to insure that revenues cover operating costs

Even with an adopted infrastructure specific plan, if development occurs in a leap frog, scattered fashion at low densities, revenues generated may not be sufficient to cover the costs to deliver services. This can be avoided by encouraging development to expand outward from existing urbanized areas which the infrastructure financing formula does by charging an extra fee for extraordinary costs to extend infrastructure or build an otherwise unneeded facility such as a fire station, and by approving zoning cases with time stipulations. Not only should development occur in a timely manner, but a sufficient quantity of development is needed to create a critical mass necessary for efficient service.

For example, it would cost more to pick up garbage from 100 single-family homes scattered over 160 acres and located 3 miles from the nearest developed area than it would from 100 homes located on 40 acres adjacent to developed subdivisions. It would take longer to reach the site and get to all of the homes so fewer homes elsewhere could be reached the same day, and it would use more gas. The same would be true for police or fire response, assuming the same number of calls per home. Desired emergency response times would be harder to achieve, especially for fires and emergency medical service, without building a new facility.

DISCUSSION

11. How does annexing land enable a city to control its destiny?

Annexing land, particularly vacant developable land, provides the city with greater control over its destiny by providing more options for economic growth and control of adjacent or future incorporated land use. More specifically, it provides the following advantages:

- a. More sites would be available for attracting large basic employers, resorts or planned communities.

Large, more remote parcels tend to be cheaper and easier to develop than underutilized infill sites requiring redevelopment, assuming infrastructure can be provided. Although Phoenix has a lot of vacant incorporated land today, it may not have a lot of large sites in 20 or 30 years and could lose its ability to compete for large site users. By then, many options for annexation could be lost.

- b. Higher value sites such as along transportation corridors or at intersections, or containing unique scenic amenities could be added to Phoenix.
- c. A greater mix of housing types and price ranges can be provided through large scale planned communities needing large acreages of vacant land.

- d. Undesirable land uses or development built under lower quality standards can be prevented from occurring in areas that would be adjacent to Phoenix or could be annexed to Phoenix in the future. At present, Phoenix has more stringent standards for on and off-site improvements and amenities than the County and some other jurisdictions. For example, Cave Creek and Carefree follow the County's zoning ordinance standards which provide for minimal and, in some cases, no landscaping or screen walls.
 - e. Leap frogging could be better controlled to prevent higher service costs after annexation in the future.
12. Does annexation enable Phoenix to control the timing of development and prevent leap frogging?

Having land within the city limits gives Phoenix the power to control the timing and intensity of zoning. The burden of proof is on the owner requesting the zoning to show that it is necessary for reasonable use of the land and that a market exists. Requiring a fair share contribution to support construction of capital infrastructure through the development fee ordinance is one way to prevent leap frogging. Another way is to condition zoning on a reasonable schedule for development and to revert it, if supported by valid planning reasons, if no construction or some agreed upon minimum does not occur. Annexation of land should not be an automatic guarantee of immediate zoning of any type or intensity if that zoning does not otherwise fit with good planning. Preannexation agreements can specify phasing and timing of development. This is most feasible for large, single ownership parcels.

As the City successfully uses its Capital Improvements Program (CIP) and other financial and policy incentives to promote infill, leap frog development will be less attractive to developers. Use of the CIP to provide infrastructure without charge to the developer in locations closer to where development is desired is a positive incentive. An example, would be provision of infrastructure and extra amenities in Village cores coupled with floor area ratio and height bonuses.

13. Does annexing land discourage infill development?

A City-wide infill area was defined as south of Bell Road and north of South Mountain Park for purposes of building permit comparisons in fiscal year 1986-87 before the pace of development slowed significantly. The number of housing units which were built in the "infill area" accounted for 69% (6,166 out of 9,004) of all units permitted. The value of construction was 59%. The "infill area" accounted for 91% of the square footage of all commercial and industrial development and 91% of the square footage of the value of construction permits issued for these uses. Thus it appears from this data that annexation of Area B and lands north of Bell Road is not inhibiting infill development. These figures also cover a time period in which no fiscal impact ordinances were in place.

Requiring higher charges for capital infrastructure in outlying areas now and in the future should only serve to make infill lands more attractive, assuming reasonable size parcels are available without significant off-site negative influences.