

FINDING NEW REVENUE SOURCES

A SPRING 2018 COLLABORATIVE REPORT OF
ARIZONA STATE UNIVERSITY'S PROJECT CITIES
& THE CITY OF APACHE JUNCTION



This report represents original work prepared for the City of Apache Junction by students participating in courses aligned with Arizona State University's Project Cities program. Findings, information, and recommendations are those of students and are not necessarily of Arizona State University. Student reports are not peer reviewed for statistical or computational accuracy, or comprehensively fact-checked, in the same fashion as academic journal articles. Project partners should use care when using student reports as justification for future actions. Text and images contained in this report may not be used without permission from Project Cities.



City of Apache Junction

300 East Superstition Boulevard • Apache Junction, Arizona 85119 • www.ajcity.net

Dear Apache Junction residents, community members, and report readers,

Once again, ASU has exceeded our expectations with four Spring Semester 2018 projects through ASU's Project Cities program. As the inaugural community partner for the program, we could not be more pleased with the relationship the city has developed with the students, professors, instructors, and Project Cities staff. This semester we were fortunate to have the opportunity to work with over 70 students on four projects that engaged five university professors and classes. The students and professors brought fresh perspectives and unique approaches to their work.

On behalf of the City Council, we can say that they are impressed with the relevant project work, and we are sure that it will help make Apache Junction a place people love to call home.

Four projects were undertaken in the Spring semester of 2018 (Positively AJ continued, Planning a Sustainable Future, Transitioning Mobile Home/RV Parks, and Exploring New Revenue Sources), and all have the potential to strengthen the community and prepare it for the next 40 years (AJ is just 40 years old this year). The project reports identified short- and long-range issues for the city and provided valuable information that will inform future council and community actions.

For example, the city is moving forward on the Sustainability and Solid Waste project from the Project Cities Fall 2017 project list. City council voted to direct city staff to prepare a Request for Proposals (RFP) for the coordinated collection of solid waste and recycling. This vote shows that the Project Cities program model is working and is invaluable to communities like Apache Junction.

While the projects are of great value to Apache Junction, we also know that they are equally valuable to the student researchers. Students have gotten to know the city, the challenges we face, and they were able to provide objective analyses and practical recommendations on the issues.

We look forward to working with ASU, the Julie Ann Wrigley Global Institute of Sustainability, and Project Cities long into the future!

With gratitude,

Jeff Serdy, Mayor



Bryant Powell, City Manager



ACKNOWLEDGEMENTS

City of Apache Junction

Jeff Serdy, Mayor
Chip Wilson, Vice Mayor
Gail Evans, City Councilmember
Robin Barker, City Councilmember
Dave Waldron, City Councilmember
Christa Rizzi, City Councilmember
Jeff Struble, City Councilmember
Bryant Powell, City Manager
Matt Busby, Assistant City Manager
Larry Kirch, Development Services Director
Anna McCray, Assistant to the City Manager

Arizona State University (ASU)

Julie Ann Wrigley Global Institute of Sustainability

Rob Melnick, Executive Director
Gary Dirks, Director
Christopher Boone, Dean of School of Sustainability
Meredith Simpson, Chief of Staff

On behalf of the ASU Wrigley Institute and the School of Sustainability, we extend a heartfelt thank you to the City of Apache Junction for enthusiastically engaging with students and faculty to confront difficult problems facing the community. Your real-world projects provide students with hands-on opportunities to apply knowledge that can create positive changes to Apache Junction's future livelihood and community well-being.

TABLE OF CONTENTS

PART 1 GET ACQUAINTED WITH THE PROJECT	1	Foreword from Apache Junction's Mayor
	2	Acknowledgements
	4	About Project Cities
	5	About Apache Junction
	6	Map of Apache Junction and Greater Phoenix
	7	Executive Summary
	9	Course Goal and Recommendations: Exploring New Revenue Sources for Apache Junction: Peer City Reviews
	PART 2	
	13	Exploring New Revenue Sources for Apache Junction: Peer City Reviews
GO IN-DEPTH: <i>PUBLIC AFFAIRS</i> <i>CAPSTONE</i>	14	Acknowledgements
	15	Introduction
	16	Problem
	16	Research Methods
	19	Findings
	27	Recommendations
	29	Areas for Further Exploration
	30	Conclusion
	PART 3	
ONLINE APPENDIX: <i>STUDENT REPORTS</i> <i>& PRESENTATION</i>	<i>Consult the student materials in their entirety at projectcities.asu.edu. They are located on the page "2017-2018 Partner: City of Apache Junction" found under the "Partner Cities" tab.</i>	

ABOUT PROJECT CITIES

The Project Cities program of Arizona State University (ASU) is a university-community partnership. For an entire academic year, faculty members and students work with a single city to co-create strategies for better environmental, economic, and social balance in the places we live. Students from multiple disciplines research difficult problems chosen by the city and propose innovative sustainability solutions. Project Cities is a member of the Educational Partnerships for Innovation in Communities Network (EPIC-N), a growing network of more than 30 educational institutions partnering with cities throughout the U.S. and the world.

ABOUT SUSTAINABLE CITIES

Project Cities is a program of ASU's Sustainable Cities Network. This network was founded in 2008 to support communities in sharing knowledge and coordinating efforts to understand and solve sustainability problems. It is designed to foster partnerships, identify best practices, provide training and information, and connect ASU's research to front-line challenges facing local communities. Network members come from Arizona cities, towns, counties, and Native American communities, and cover a broad range of professional disciplines. Together, these members work to create a more sustainable region and state. In 2012, the network was awarded the Pacific Southwest Region's 2012 Green Government Award by the U.S. EPA for its efforts. For more information, visit sustainablecities.asu.edu.

Project Cities Team

Director

Anne Reichman
anne.reichman@asu.edu
480-965-2168

Program Manager and Partner Liaison

Paul Prosser
paul.prosser@asu.edu
480-965-5040

Report Writing Assistant

Anna Harmon, Masters of
Sustainability Solutions Student

Student Assistants

Erin Rugland, B.A. Justice Studies and
B.S. Public Policy Student

Lexie Fields-Austin, Masters of Sustainability
Solutions Student



Project Cities

Sustainability Through Local Action
projectcities.asu.edu

ABOUT APACHE JUNCTION

The City of Apache Junction is well-situated on the eastern edge of Greater Phoenix, the 12th-largest metropolis in the U.S., yet it has a small-town, Western feel. This character is both intentional and influenced by geography. Apache Junction sits at the base of the Superstition Mountains and Goldfield Mountains and is near attractions such as the Lost Dutchman State Park, Goldfield Ghost Town, Superstition Mountain Museum, Canyon Lake, Tortilla Flat, and the historic Apache Trail. Home to 40,500 residents, the city has a population that nearly doubles in the winter, when seasonal residents arrive to enjoy its pleasant weather and unique setting.

It was named Apache Junction because it is located at the intersection of US Route 60 and the historic Apache Trail, which was used by Native Americans and later stagecoaches to traverse the Superstition Mountains and for the construction of water-reclamation dams along the Salt River. The city also straddles Maricopa County and Pinal County. Incorporated in 1978, Apache Junction has arrived at another crossroads as it matures. While the city wants to retain its small-town character, it must prepare for an increasing population, and it has set out to develop greater economic opportunities. In the spring of 2005, Apache Junction debuted the first LEED-certified city hall in Arizona. It is Apache Junction's aspirations and potential for sustainability, and the unique challenges it is facing, that form the basis of its partnership with ASU's Project Cities program.

Apache Junction Team

Project Cities Project Director

Larry Kirch, Development Services Director

Project Cities Project Managers

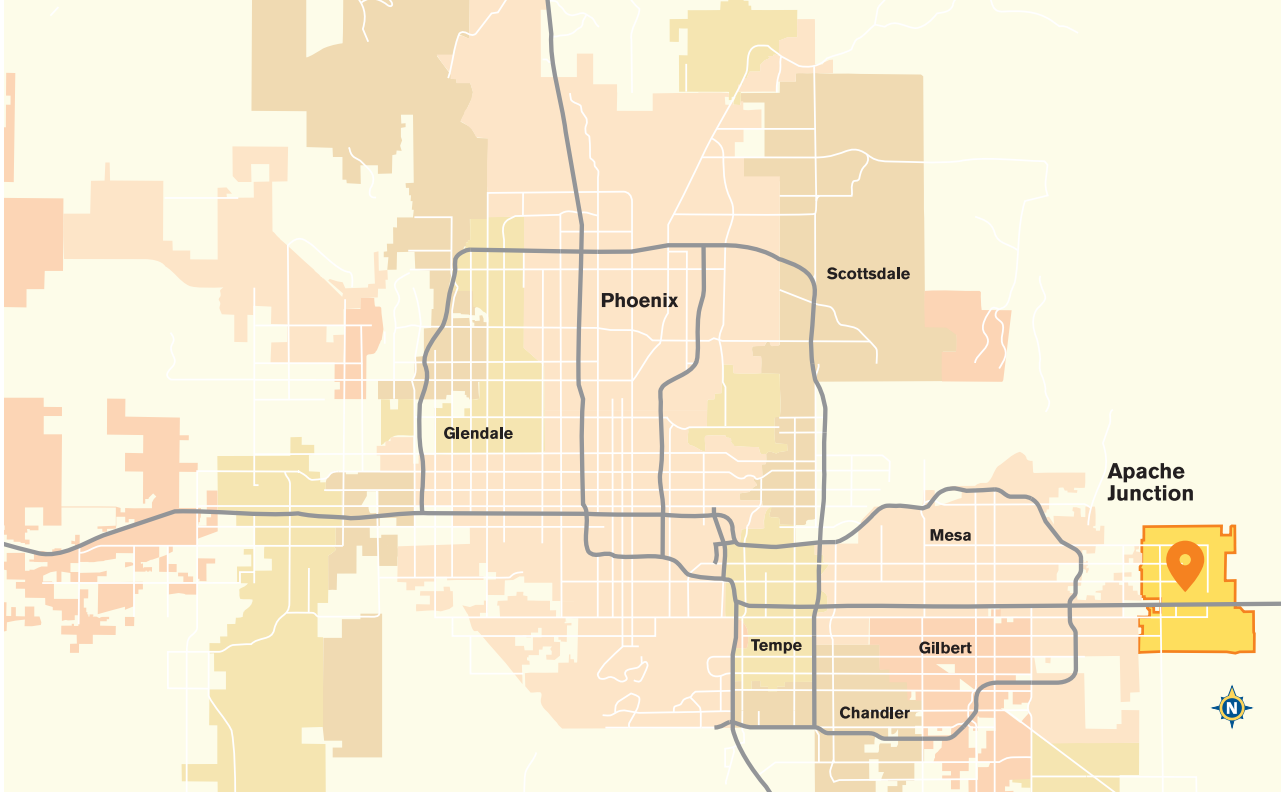
Anna McCray, Assistant to the City Manager



Surrounded by Legends

ajcity.net

**Map of the City of Apache Junction
and Greater Phoenix, Arizona**



EXECUTIVE SUMMARY

Around the nation, municipalities take different approaches to maintaining sufficient revenue levels to support their residents and improve their city's quality of life. Today, however, many cities are facing a similar challenge of diminished sales tax revenues due to increased and untaxed online shopping, also known as the "Amazon effect." In Arizona, municipalities are also battling with keeping retirement funds manageable—Apache Junction has even earmarked some sales tax revenue to meet this obligation. In rapidly growing areas, such as the Phoenix metropolitan area, newly incorporated cities can also divert revenues from abutting established municipalities and reduce their shares of state revenue, thus magnifying other effects.

These are all challenges Apache Junction faces today. Since its incorporation in 1978, the city has taken a conservative approach to generating revenue. It does not impose a property tax, maintains a low level of bonded debt, and relies on sales tax and state shared revenue. The doubling of its population in the winter with residents from other states helps to maintain its municipal tax revenues. Additionally, services provided to residents such as water, fire, and solid waste are run by private companies, which means that they are not currently the financial responsibility of the city but are also not vessels for revenue generation. While this approach has worked in the past, Apache Junction is now facing a potential for reduced revenue and looking for new ways to generate funds that will help the city thrive.

PAF 509: The students in this course dedicated their independent master's degree capstone reports to Apache Junction's search for paths to increase revenue. Each performed two case studies of the nearby peer municipalities of Avondale, Chandler, Mesa, Maricopa, Oro Valley, and Queen Creek. They investigated revenue challenges these municipalities were facing and approaches they have taken to generating funds. Then the students produced findings, and recommendations that included the following: 1) reevaluating fees, such as introducing higher fees for non-residents and commercial businesses; 2) expanding local economic opportunities, such as building a boutique retail sector; and 3) reconsidering a property tax, such as introducing a secondary property tax to retire debts.

The ideas and recommendations presented by these students are starting points for Apache Junction. Their research and identified opportunities are meant to support the city as it defines an approach to increase revenue. However, future plans need to reflect Apache Junction's unique demographics. Compared to peer cities such as Mesa, Avondale, and Queen Creek, Apache Junction's population has a much higher median age (50.9 years old) and lower median income (\$38,053) which may call for a different approach. Further, the work featured in this report is not comprehensive or totally cohesive, and any pursuit of the recommendations requires professional review and consideration. That being said, the course reports are meant to stimulate deeper conversations for managers and policy makers.

Following this Executive Summary are the highlighted goal and recommendations resulting from the course and an introductory summary of the student work. This summary covers the problem targeted, research methods used, research findings, student recommendations, and areas for further exploration. The report concludes with the student deliverables in their entirety, which can be consulted for greater depth and more clarity on how the recommendations were reached.

GOAL & RECOMMENDATIONS FOR FINDING NEW REVENUE SOURCES

Goal

The goal of this report is to determine how Apache Junction can increase and diversify its revenue sources.

While a conservative approach has historically appealed to residents and resulted in relative economic resiliency for the city, Apache Junction is vulnerable to revenue fluctuations with the Amazon effect, obligations of the Public Safety Personnel Retirement System (PSPRS) and the possible incorporation of San Tan Valley. The city is looking to maintain an adequate and diverse stream of revenue for high-quality municipal services.

A COMPARISON OF SALES TAX, SALES TAX REVENUE, AND GENERAL FUND REVENUE BETWEEN FOUR PEER CITIES

FY 2016	Apache Junction	Maricopa	Queen Creek	Oro Valley
Revenue from Sales Tax	\$11.3M	\$9.5M	\$20.7M	\$17.8M
Local Sales Tax	2.4% retail and construction	2% retail, 3.5% construction	2.25% retail, 4.25% construction	2.5% retail, 4% construction and utility services
General Fund Revenues	\$23.4M	\$37.6M	\$30.9M	\$31.9M

Comparison of Apache Junction's fiscal year revenue and sales tax percentages with that of three peer cities/towns.

Percent of annual revenue generated by services fees:

QUEEN CREEK: 15%

ORO VALLEY: 14%

APACHE JUNCTION: 11%

Recommendations for Employing Fees or Boosting Local Economy & Community to Increase Revenue



REEVALUATE FEES 	EXPAND ECONOMIC OPPORTUNITIES & FORTIFY COMMUNITY ATTRIBUTES 
<p>Restructure program fees such as those for sport fields and room rentals based on residency and business classification. Peer cities of Queen Creek and Oro Valley base their fees on residency and business classification as a nonprofit or for-profit.</p>	<p>To increase economic resiliency, diversify Apache Junction's retail base by bringing in popular established brands like Sprouts and Pita Jungle.</p>
<p>Raise the cost of recreation fees or special business permits or fees like liquor license fees.</p>	<p>Grow the city's retail sector by working with small businesses to build a boutique industry that attracts visitors by creating a destination shopping experience.</p>
<p>Introduce new fees, such as a tobacco retail fee, which Maricopa collects.</p>	<p>Strive for commonly cited attributes that attract new employers or visitors such as good schools, a well-trained work force, and low crime rate, which employers look for when scouting locations.</p>
<p>Consider low-income residents when designing fees. Progressive fees (with prices based on ability to pay) maintain equal access.</p>	<p>Fill service gaps that exist for residents (e.g., develop quality park programs geared toward the city's large demographic of 55+ part-time residents).</p>
<p>Maintain transparency and open communication with residents in the fee-setting process, allowing residents to understand how the City will invest new resources back into the community.</p>	<p>Survey residents for amenities and changes they would like to see in their community. Turning words into action would increase community satisfaction and the results could attract new residents.</p>
<p>Do not decrease fees.</p>	

Table 1. Recommendations generated by the students of PAF 509 for Apache Junction regarding increasing revenue through fees and economic/community opportunities.

Recommendations for Looking to Property Tax or Outside Resources For Revenue

RECONSIDER A PROPERTY TAX 	LOOK OUTWARD 
<p>Levy a primary or secondary property tax attached to something needed or desired by the community. For example, in 2008, the City of Maricopa passed a secondary property tax to pay for debt service on parks and recreation bonds.</p>	<p>Continue researching federal grants.</p>
<p>Consider introducing only a secondary property tax capped at a low rate and use it for payments toward debt service.</p>	<p>Begin planning for the external eastward-moving growth approaching Apache Junction.</p>
<p>To make a tax increase more palatable, offer a rebate or “circuit breaker” to retirees or residents who have an income under a certain threshold.</p> <p><i>Another option for making property tax more reasonable could be to concurrently reduce sales tax, as recommended by a City staffer.</i></p>	<p>Encourage tourism, which carries with it a multiplier effect.</p>

Table 2. Recommendations generated by the students of PAF 509 for Apache Junction regarding property tax and outside resources for revenue generation.

This page was intentionally left blank.

FACULTY MALCOLM GOGGIN
SCHOOL OF PUBLIC AFFAIRS

PAF 509 PUBLIC AFFAIRS
CAPSTONE
SPRING 2018

Exploring New Revenue Sources for Apache Junction: Peer City Reviews

ACKNOWLEDGEMENTS

Faculty

Malcolm Goggin

Students

Deborah Mabingani

Valerie Myers

Thomas Tun

INTRODUCTION

Since its incorporation in 1978, the City of Apache Junction has taken a conservative, pay-as-you-go approach to funding its operating budget and capital projects. The City does not collect a property tax, which can be the largest revenue source for most cities, and its sales tax is unlikely to increase beyond its combined rate of 9.6% (2.4% of which is the city sales tax). Historically, Apache Junction has relied upon winter residents and visitors to bolster sales tax revenues. Although a fiscally conservative approach appeals to residents and has contributed to the City's economic resiliency, Apache Junction today faces a rapidly changing environment with regard to sales tax revenue as well as state-shared revenue in order. This could effect its ability to maintain adequate and diverse revenue streams for its General Fund.

The three graduate students enrolled in PAF 509: Public Affairs Capstone in the School of Public Affairs at Arizona State University (ASU) set out to determine ways Apache Junction could increase and diversify its revenue sources in collaboration with City staff. This report describes the problem being addressed, the research methods used by the students, and their findings and recommendations.

For this project, three students conducted independent case studies and generated his/her own findings and recommendations as a capstone project for their Master in Public Administration or Master in Public Policy degree. They began their research by gathering data on ways that municipal revenue is generated and current threats to those revenues. Then, each student developed sets of case studies on two comparable cities near Apache Junction, collecting and analyzing their revenue data. Additionally, one student interviewed officials at these peer cities. Using these methods, the students then generated findings on the diverse ways that peer cities generate revenue.

One student aimed to address this research question: "Are there ways that Apache Junction can raise revenue that are not yet implemented?"

Apache Junction's main project goal was to find avenues to increase revenues. Accordingly, student recommendations included:

1. increasing fees for non-residents and commercial businesses;
2. attracting popular and established, name-brand businesses like Sprouts or Pita Jungle to increase sales tax and economic resiliency;
3. considering a secondary property tax dedicated to debt services.

Importantly, it is Apache Junction's role to identify the recommendations that best align with its values and determine how to integrate these results into a cohesive action plan. The findings may also reveal opportunities not explicitly mentioned in the recommendations. Additionally, students had ideas of areas for further exploration, but those new pathways require more assessment from the City.

The remainder of the "Exploring New Revenue Sources for Apache Junction: Peer City Reviews" report explains the methods used by the students and their findings. Next, it lists student recommendations. The summary finishes with areas for further exploration and a concise conclusion. The original student reports in their entirety can be viewed online via the Project Cities website.

PROBLEM STATEMENT

The growth of online retail, the possible incorporation of nearby San Tan Valley, and changes in how state revenue are dispersed to local governments threaten Apache Junction's primary revenue sources. Finally, the Public Safety Personnel Retirement System (PSPRS) represents a growing burden to all Arizona cities. For these reasons, Apache Junction wants to determine how to diversify and increase revenue flows.

RESEARCH METHODS

To understand the context of this research and recommend ways to make the Apache Junction's revenue streams more robust, the students reviewed the City's budget, income sources, expenditures, demographics, and other financial information. They then compared that data to peer cities using literature review, situational analysis, data collection and analysis, benchmarking and, in one case, in-person interviews.

Literature Review: This method provides background and context for a research project through compilation and review of information and data. The "literature" refers to written work such as academic papers, city documents, case studies, and materials from county governments. Students researched the City's demographics and revenue streams, as well as challenges to its model, including the impacts of: the "Amazon effect" of e-commerce on sales tax; state-tax structures on local revenue; incorporation of an adjacent community; and funding PSPRS obligations.

Situational Analysis: Researchers use this method to identify the context, opportunities, and challenges of an organization. One student used this analysis to understand threats to Apache Junction's revenue and the issues City officials identified (p. 2 of student report by Deborah Mabingani, find online).

Case Studies: This method examines a specific subject—usually an organization, situation, or group—from a specific angle. Case studies paint a broader picture while revealing insightful details. Each student conducted case studies of two peer communities (see Table 3 for information about these cities) and detailed their revenue streams. To conduct these case studies, the students added research methods of data collection and analysis and in-person interviews.

A COMPARISON OF APACHE JUNCTION AND SIX PEER MUNICIPALITIES

	Mesa	Chandler	Avondale	Maricopa	Oro Valley	Apache Junction	Queen Creek
Population (2017)	481,275	257,948	81,621	49,550	44,517	40,030	39,714
Median Household Income (2016)	\$52,393	\$75,369	\$56,120	\$68,888	\$75,966	\$38,053	\$90,987
Median Age (2016)	35.7 yrs	35.2 yrs	30.4 yrs	34.8 yrs	51.9 yrs	52.1 yrs	32.1 yrs

Table 3. Comparison of Apache Junction and the peer cities or towns researched for this report. (Data from AZ.gov and datausa.io.)

Data Collection and Analysis: Information used to build case studies comes from data collection from a range of sources. Most data came from online sources, including publicly accessible financial documents, and from city employees. To render the gathered data relevant to Apache Junction, students then analyzed the data. For example, one student used the research software Stata to run evaluative regression analyses to determine how demographics and service charges relate to the total general revenue of a peer city.

Interviews: This qualitative research method provides insight not found in documents or data. For this report, a student conducted an in-person interview with Queen Creek staff and an email interview with Oro Valley officials (see Figure 1).

QUESTIONS USED AS A GUIDE FOR DISCUSSIONS WITH PEER CITY OFFICIALS

1. Where can I get the latest description of fees collected by your city?
2. What primary mechanisms does your city currently utilize to raise revenue for your municipal fund (e.g. primary/secondary property taxes, cooperative efforts, intergovernmental agreements)?
3. What do you see as the biggest threats to your municipal revenue streams? [Public Safety Personnel Retirement System] funding? What strategies are you currently exploring to deal with any of these threats?
4. What opportunities and barriers do you currently feel exist for your city? What action has been taken to move these forward/address these? Have they been effective?
5. Has your city taken any innovative approaches, either in the past or presently, to increasing your general revenue streams?
6. What are your views on the threat of incorporation of adjacent cities? Has your city experienced this? If so, what financial impact was there in your city?
7. What information, if any, do you feel would be beneficial to share with the city officials of Apache Junction? What do you feel they could learn from your city's experiences regarding efforts to increase general revenue streams?

Figure 1. The interview questions one student asked officials of peer cities for research.

Benchmarking: This method involved measuring Apache Junction's revenue stream and comparing it to that of peer cities. The process allowed students to highlight areas where the City could increase revenues. One student chose to compare sales taxes, permits and licenses, fees and service charges, and total general revenue. This student also standardized revenues on a per capita basis after discovering city population and revenue totals varied significantly. (See student report by Thomas Tun online.)

FINDINGS

A motivator for this report was the perceived negative impact of e-commerce on collected sales taxes. State and local governments around the U.S. are experiencing a loss of retail sales-tax revenue due to the growth of untaxed e-commerce, aka the “Amazon Effect.” As of May 2018, e-commerce does not generate tax revenue where the purchase is made, but where the company headquarters are based. (A June 2018 U.S. Supreme Court ruling supported states in collecting sales tax from e-commerce retailers without an in-state physical presence, but it still falls to states to implement this.) According to the student researchers, the expansive nature of the Amazon Effect may necessitate action at the federal level. While federal legislation has been proposed to address this sales tax loophole, none of it has passed. Although Apache Junction staff perceive increased online retail as a threat, they are generally positive about the ability of local dining and retail establishments to offset this loss of sales revenue.

However, local communities such as Apache Junction increasingly rely upon state-shared revenues to maintain municipal revenue, and the General Fund for the Arizona state government depends upon sales and income taxes, which have fluctuated significantly with the economic cycle. In the 1990s, the Arizona Legislature reduced tax rates and added tax credits and exemptions that resulted in approximately 30% reduction in revenue for municipal funds. Today, Arizona ranks 8th in the nation in its reliance on regressive sales and excise taxes. Regressive tax systems may exacerbate widening income inequality and threaten states’ abilities to meet basic needs in the long-term. Further, future legislative action could reduce local control over how revenues are established or collected. Changes to the tax code could eliminate categories of revenue which local governments currently collect, thus affecting municipal revenue streams.

Local communities such as Apache Junction increasingly rely upon state-shared revenues to maintain municipal revenue.

Other threats to Apache Junction’s revenue are the incorporation of nearby San Tan Valley and the increased burden of funding PSPRS obligations. Although it supports San Tan Valley’s incorporation, nearby Queen Creek is opposed to the boundaries being drawn as they overlap with how it expects to expand. Further, Queen Creek officials estimate that non-residents (primarily 100,000 residents living in San Tan Valley) generate about 30% of the town’s sales tax revenue. Similarly situated

alongside San Tan Valley, Apache Junction could also lose sales tax revenues. As for funding their PSPRS obligations, peer cities have varying solutions. Queen Creek viewed this unfunded liability as a debt and created a plan to pay it down, while Oro Valley increased its contribution rate. However, Oro Valley does not expect to increase this further, instead working to dedicate annual one-time surplus funding to pay down the unfunded liability. Otherwise, the limited ability to fund pensions pressures cities to limit hiring and pay raises.

Proposed Solutions

Fees, Permits, Licenses, Charges for Services

Common revenue raising strategies among municipalities are to increase user fees, permits, and licenses. **Since the 1970s, local user charges have been the fastest-growing revenue stream for local governments.** Such fees include recreation fees, building permits, and franchise fees. But **when it comes to general revenue per capita generated from issuing licenses and permits, Apache Junction's returns have reached their lowest point in the last 10 years.** In the peer city of Mesa, the highest average amount collected from licenses and permits came from building permits, then zoning fees and subdivision development fees. In Avondale, the highest average amount collected came from engineering plan review, engineering permit fees, and building permits. The most frequently collected revenue in the permits and licenses category for Mesa were alarm permits and assessments collected by the police, followed by residential building permits. As for Avondale, the most frequently collected were electrical permits, followed by occupational license fees, building permits, and plumbing fees.

The peer city of Maricopa brought in nearly \$1.6M of revenue from a broader spectrum of fees, permits, and business licenses. In contrast, Apache Junction collected \$581,000. There are demographic and contextual differences between the two peer cities (see Table 3), but the student who conducted this case study proposed that the cost of construction permits may account for the difference. While increasing the cost of building permit fees could increase revenue, this revenue, dependent upon continued growth, could prove unreliable should growth slow or stop.

By contrast, in 2015, Apache Junction brought in \$270,000 in revenue from business licensing fees while Maricopa collected only \$50,000. However, Maricopa charges specific special business permits that Apache Junction does not, including permits for tobacco retail, pawn shop, and massage (p. 12 of student report by Valerie Myers, find online).

Changing the fee structure or increasing the cost of business permits could serve to increase revenue. The peer city of Chandler also charges higher business fees than Apache Junction. One example is the cost of a liquor license, which costs about \$1,400 in Chandler versus \$250 in Apache Junction. Finally, in 2017, Maricopa brought in \$3.1 million in franchise fees while Apache Junction only received about \$109,000.

As for service fees—which are charges for a broad range of city services including utilities, library services, and Parks and Recreation programs—these revenues have declined in Apache Junction while increasing for Mesa and Avondale.

The fees account for 15% of revenue for Queen Creek, 14% for Oro Valley, and 11% for Apache Junction. Queen Creek allocates most service-fee revenue to its Enterprise Fund, which totals nearly \$24 million. Enterprise Funds are obtained exclusively through goods and services fees, and are used in turn to pay for goods and services (typically utility services) that generate the revenue.

Services fees as percent of annual revenue in:

QUEEN CREEK: 15%

ORO VALLEY: 14%

APACHE JUNCTION: 11%

In 2015, Maricopa's Department of Parks and Recreation brought in \$466,000. Maricopa charges higher monthly membership fees for its recreation center, room rental rates, and non-resident user rates than other cities. For their Parks and Recreation programs, the peer cities of Queen Creek and Oro Valley structure fees based on resident status (non-resident or resident) and business status (nonprofit versus commercial use) as well. **This segmented fee structure allows for increased revenue while providing affordable access to services for residents and nonprofits.** (See Figure 2 for fees charged by Oro Valley for sports fields.) Comparatively, Queen Creek charges higher fees for meeting room and sports field use than does Apache Junction. It also offers fee-based preschool and kindergarten programs catering to young families moving to the town.

ORO VALLEY CHARGES FOR USE OF ATHLETIC FIELDS PER HOUR

Non-peak hours (6am to 5pm)

Residents: Flat fee of \$5
Nonprofits: Flat fee of \$5
Non-residents: \$10
For-profit businesses: \$10

Peak hours (5 to 10pm)

Residents: \$10
Nonprofits: \$10
Non-residents: \$20
For-profit businesses: \$20

Figure 2. Oro Valley's charges for use of athletic fields per hour.

Something to keep in mind when determining service charges and fees for licenses and permits are demographics. For example, it is important to ensure that prices are appropriate for the demographics of a city. Apache Junction has a lower median household income than Mesa or Avondale, but Apache Junction's dip in median income after the Great Recession suggests a more vulnerable average household income. Further, Apache Junction's population is older than average, though it wants to attract a younger population to the city.

Charges for service and fees are viewed as more equitable because those who are using the services are the ones who are paying for them. They are easier to implement because they are instituted by city council vote, rather than citizen vote. However, **fixed user fees are considered to be regressive, as they take a greater percentage of discretionary income from lower-income users than higher-income users.** One way to structure fees more progressively would be to institute conservation pricing, which would mean entities with higher density service use, or bulk use, would be charged higher rates. In effect, businesses and larger institutions would pay more for services than homeowners or lower-income users. A special assessments fee is another type of progressive fee. This fee pays for infrastructure projects (e.g., sidewalks, stormwater drains, or transportation improvements) levied against homeowners whose property values would be increased by these projects. Special assessments fees can be one-time fees or special taxes tied to property value increases.

Taxes

The primary revenue source for Apache Junction is its sales tax (2.4% of retail sales), which brought in more than \$11M in 2017.

In Maricopa, which has a similar population but a slightly lower retail sales tax (2% of retail sales, 3.5% of construction sales), the amount generated by sales tax was \$9.4M. The peer city of Queen Creek allocates 54% of its overall sales tax revenue to its General Fund; 75% percent of revenue from its sales taxes are in the construction and retail categories. (The 4.25% construction sales tax is a higher rate than retail sales tax.) (See Table 4.)

According to FY 2016-2017 budgets, Maricopa's General Fund revenues were more than \$37.6M while Apache Junction's were about \$24M, even though the two cities have similar populations. The student who conducted the Maricopa case study pointed to Maricopa levying a primary property tax to explain the difference. (Apache Junction does not.) **Maricopa approved its primary property tax in 2006 for public-safety spending. Maricopa also approved a secondary property tax to pay for debt service on parks and recreation bonds.** Together the property taxes total 6.4818%, brought in nearly

A COMPARISON OF SALES TAX, SALES TAX REVENUE, AND GENERAL FUND REVENUE BETWEEN FOUR PEER CITIES

FY 2016	Apache Junction	Maricopa	Queen Creek	Oro Valley
Revenue from Sales Tax	\$11.3M	\$9.5M	\$20.7M	\$17.8M
Local Sales Tax	2.4% retail and construction	2% retail, 3.5% construction	2.25% retail, 4.25% construction	2.5% retail, 4% construction and utility services
General Fund Revenues	\$23.4M	\$37.6M	\$30.9M	\$31.9M

Table 4. Comparison of Apache Junction's fiscal year revenue and sales tax percentages with that of three peer cities/towns.

\$10.3M to the General Fund and \$3.7M toward the Debt Service Fund in 2017. Queen Creek voters approved a 1.95% property tax in 2007, with all revenues allocated to the Emergency Management Services Fund. Of Chandler's general revenues funds, 11.6% comes from property taxes.

As for the peer community of Oro Valley, 70% of its fiscal year 2017-2018 annual budget revenues came from sales taxes, state-shared revenues, service charges, and water sales (see Figure 3 for details). The 0.5% local sales tax it added in 2015 helps fund operations of its Community Center. **Oro Valley also levies a 6% tax on lodging to support economic development and tourism.** This type of revenue, termed "tax exporting," raises revenue that is paid by visitors, often as a result of tourism.

Grants

Queen Creek is also looking beyond its traditional funding to support capital infrastructure projects deemed necessary to respond to its rapid growth. City staff and officials are considering new funding mechanisms, including publicly financed loans or bonds or state and federal grants. Indeed, inter-governmental grants are another area a city can look to for added revenue. The federal government offers matching grants. The U.S. Environmental Protection Agency (EPA) awards billions of dollars of grants each year, including the Healthy Places for Healthy Families grant, which supports the development of walkable downtown areas, and the Cool and Connected grant, which helps rural communities get broadband service infrastructure. Other sources that have grants to support economic development are the Federal Highway Administration, U.S. Economic Development Administration, and U.S. Department of Housing and Urban Development (HUD). For example, **HUD awarded funding to Chandler to develop affordable housing in 2016 and 2017, including the Public Housing Authority (PHA) Family Sites Grant, PHA Management Grant, and the PHA Capital Program Grant.**

The EPA awards billions of dollars of grants each year, including the Healthy Places for Healthy Families grant, which supports the development of walkable downtown areas.

In 2016, these grant awards totaled more than \$13M in revenue for Chandler.

Strategic Approaches

Fees, permits, and service charges comprise only a small part of city revenues. While property taxes are another way to generate revenue, according to one student researcher, the lack of property taxes in Apache Junction may be a competitive advantage for attracting employers. However, employers and workers look for other assets that Apache Junction could use to attract them, including a diverse workforce, good public schools, and safe neighborhoods.

Further, investments in economic development can increase revenue by creating jobs and local sales. **According to a recent EPA report, municipalities should focus on these three areas when trying to grow their economies: supporting local business (starting with what is already working); investing in workforce development; and nurturing quality of life.** (See Figure 4 for strategies for doing so.) One student proposed to diversify retail to include businesses

STRATEGIES FOR GROWING LOCAL ECONOMIES

- Revitalize downtowns, particularly historic downtowns.
- Re-zone business areas as mixed-use areas to allow for more vibrant, livable districts.
- To encourage revitalization and mixed-use development, partner with and provide tax incentives to developers and business owners.
- Encourage young entrepreneurs and small businesses through information-sharing opportunities, grants, and low-interest loans.
- Provide opportunities for students such as internships to attract young people.
- Develop community gathering spaces, mixed types of housing, open spaces, parks, cultural and arts centers.
- Invite artists and creatives to help define these spaces.

Figure 4. Strategies gathered by one student for growing local economies. (See p. 9 of Myers student report.)

that are congruent with community needs and resilient to e-commerce competition. All related strategies require dedicated financial investment and longer-term commitments than increases in fees.

To expand its economy, the peer city of Maricopa has focused on the technology sector, recruiting employers in agriculture technology, research, and manufacturing. To nurture economic growth and an improved quality of life, Queen Creek funded a park and equestrian center with its General Fund (see Figure 5). The revenue from this venue goes to maintenance and then back into the General Fund. The venue benefits the community by hosting organizations, car shows, concerts, and other events.

Partnerships provide opportunities to leverage shared resources into increased revenue and improved quality of life for residents. For example, Oro Valley works with nonprofits, including the Children's Museum of Oro Valley and the Southern Arizona Arts and Cultural Alliance, to support community events like the Oro Valley Marketplace and the Oro Valley Festival of the Arts. It continues to seek partnerships



Figure 5. New Queen Creek equestrian center. Photo by Todd Broadhead from queencreek.org/departments/horseshoe-park-equestrian-centre.

with the county, tourism agencies, and other entities. **Queen Creek and the City of Mesa combined forces for the “Visit Mesa” campaign to increase tourism and retail sales.** On a smaller level, cities can partner with their residents, inviting them to help found new parks, plant trees, or purchase benches.

Apache Junction’s peer towns and cities have pursued specific strategies. Queen Creek refinanced a large debt, consolidating two large loans to reduce long-term interest. To reduce healthcare expenses, Oro Valley educated public employees about healthcare and wellness. Looking to reduce the impact of vehicles purchased on the City’s operating budget, Oro Valley began to set aside funds to cover vehicle replacements beginning one year after new vehicles are purchased. As of May 2018, the program has resulted in \$375,000 for this purpose.

RECOMMENDATIONS

For this report, Apache Junction requested suggestions for restructuring fees to increase revenue. Students generated related recommendations, as well as recommendations for other ways Apache Junction could increase revenue. These range from stimulating the economy by improving community resources to proposing new taxes for specific purposes. However, the students do acknowledge the need to take into consideration Apache Junction’s demographics and strategy when deciding which to pursue. Although their recommendations are useful, it will require some discretion to determine which are most applicable and beneficial. This section presents revenue-increasing actions, but Apache Junction will also need to define those that best reflect its priorities and the values of its constituencies.



Reevaluate Fees

1. Restructure program fees such as those for sport fields and room rentals based on residency and business classification. Peer cities of Queen Creek and Oro Valley base their fees on residency and business classification as a nonprofit or for-profit (p. 27 of Mabingani student report).
2. Raise the cost of recreation fees or special business permits or fees like liquor license fees (p. 16 of Myers student report).

3. Introduce new fees, such as a tobacco retail fee, which Maricopa collects (Myers).
4. Consider low-income residents when designing fees. Progressive fees (with prices based on ability to pay) maintain equal access (p. 33 of Tun student report).
5. Maintain transparency and open communication with residents in the fee-setting process, allowing residents to understand how the City will invest new resources back into the community (Mabingani).
6. Do not decrease fees (Tun).



Expand Economic Opportunities and Fortify Community Attributes

1. To increase economic resiliency, diversify Apache Junction's retail base by bringing in popular established brands like Sprouts and Pita Jungle (p. 27 of Mabingani student report).
2. Grow the city's retail sector by working with small businesses to build a boutique industry that attracts visitors by creating a destination shopping experience (p. 17 of Myers student report).
3. Strive for commonly cited attributes that attract new employers or visitors such as good schools, a well-trained work force, and low crime rate, which employers look for when scouting locations (p. 16 of Myers student report).
4. Fill service gaps that exist for residents (e.g., develop quality park programs geared toward the city's large demographic of 55-plus part-time residents) (p. 27 of Mabingani student report).
5. Survey residents for amenities and changes they would like to see in their community. Turning words into action would increase community satisfaction and the results could attract new residents (p. 17 of Myers student report).



Consider a Property Tax

1. Levy a primary or secondary property tax attached to something needed or desired by the community. For example, in 2008 Queen Creek began levying a "limited" property tax dedicated exclusively to public safety, and the City of Maricopa passed a secondary property tax to pay for debt service on parks and recreation bonds (p. 15 of Myers student report).

2. Consider introducing only a secondary property tax capped at a low rate and use it for payments toward debt service.
3. To make a tax increase more palatable, offer a rebate or “circuit breaker” to retirees or residents who have an income under a certain threshold.

Another way to make property tax more reasonable could be to concurrently reduce sales tax, as recommended by a City staffer.



Look Outward

1. Continue researching federal grants (p. 15 of Myers student report).
2. Continue planning for the eastward-moving growth approaching Apache Junction (p. 28 of Mabingani student report).
3. Encourage tourism, which carries with it a multiplier effect (p. 16 of Myers student report).

AREAS FOR FURTHER EXPLORATION

In all further analyses and modification of revenue sources, Apache Junction should consider the low median household income of its residents (p. 33 of Tun student report).

Additionally, Apache Junction should identify its qualities that attract employers. Building upon these findings, Apache Junction could set out to attract compelling employers that would draw families that might otherwise move to nearby municipalities. This migration would, in turn, generate revenue for the City (p. 16 of Myers student report).

Conservative governments seek to model policies that limit expenditures, taxes, or other revenues. However, it is unclear if such policies, instituted in Apache Junction and Arizona have, in fact, succeeded. A possible future project could investigate the true effects of these policies. The research findings could influence whether Apache Junction decides to raise its fees and service charges or wait for the economic results anticipated from such policies (p. 33 of Tun student report).

CONCLUSION

While Apache Junction's revenue continues to grow at a steady rate, the City's dependence on sales tax, state funds and revenue, fees, and grants makes it vulnerable. The growth of e-commerce and the incorporation of nearby San Tan Valley are two possible threats to its revenue. For their culminating experience projects in PAF 509: Public Affairs Capstone at ASU, three graduate students conducted independent research to paint a detailed picture of how peer cities generate revenue and recommend ways Apache Junction can increase its revenue stream. Recommendations included restructuring fees and service charges, growing the local economy in community-appropriate ways, considering property taxes, and looking to outside sources. Before Apache Junction takes action, however, the City will need to first align the findings of the students with its vision, culture community needs.

SPRING 2018 PAF 509
STUDENT MATERIALS ARE
AVAILABLE ONLINE AT:

PROJECTCITIES.ASU.EDU

Consult the student materials in their entireties at projectcities.asu.edu. They are located on the page "2017-2018 Partner: City of Apache Junction" found under the "Partner Cities" tab.