

Arizona Bans Tax Breaks for Retail Development

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The content that follows was originally published on the Institute for Local Self-Reliance website at <http://www.ilsr.org/arizona-bans-tax-breaks-retail-development/>

For years local business owners and their supporters in the Arizona legislature have tried to put an end to the massive subsidies that cities in the Phoenix metro routinely dole out to chain retail developers. Bills to prohibit the giveaways were introduced in session after session, only to fail.

But this year, in the waning days of the session, lawmakers at last endorsed — and the governor signed — a [measure](#) that outlaws subsidies for retail projects in Maricopa and Pinal counties, which encompass the Phoenix metro and include two-thirds of the state’s population. Under the law, cities that continue to fund retail development will see their share of state revenue reduced by an amount equal to the incentives they give developers.

“It’s been a long hard road,” said Senator Ken Chevront, a small business owner and sponsor of the bill. He has introduced similar measures for years. “The irony was that I wasn’t even going to bring it forth this year,” he said.

But then two particularly massive and egregious tax giveaways announced in May sparked a wave of public outrage. Phoenix agreed to provide a \$100 million tax break for CityNorth, a mixed use project featuring Nordstrom and many other chains in one of the most affluent areas of the valley. Then came “the granddaddy that pushed everyone over the edge,” according to Chevront: the city of Surprise offered a \$240 million subsidy to the shopping center developer Westcor to build Prasada, a massive mixed use development slated to include a mall and a big-box power center.

Chevront brought his dormant bill back and, after many twists and turns of the legislative process, it finally passed the Senate 18-8 and the House 36-21 at the end of June.

“We are thrilled,” said Stacy Bertinelli, a board member of [Local First Arizona](#), an alliance of nearly 900 independent business owners working to build greater support for locally owned businesses and to eliminate government favors for chains. The group, which was founded in 2003 under the name Arizona Chain Reaction, counts among its members Senator Chevront, who owns a restaurant and a construction firm.

Local First Arizona worked hard to help pass the law. “We shepherded the bill and got our members engaged every step of the way,” said Bertinelli. The group sent weekly email messages to its members updating them on the bill, urging them to contact legislators, and offering detailed tips on how to communicate effectively.

“Our message was, we’re not asking for a handout. Why are you giving large multinational corporations a subsidy to compete against our homegrown businesses?” said Bertinelli. Calls from small business owners were very helpful in convincing lawmakers to pass the bill, said Chevront.

Arizona cities have one of the worst records of subsidizing shopping centers in the nation. More dependent on local sales taxes than cities in most other states and facing steep increases in public services costs due to rampant sprawl, municipalities in the Phoenix metro compete fiercely to attract car dealerships, malls, and big-box stores. They often use subsidies and tax breaks to win over developers.

Recent deals include \$84 million provided by the city of Mesa for Riverview, a large retail project anchored by Wal-Mart, Home Depot, and Bass Pro Shops, and a \$78 million subsidy given to Westcor for a shopping center in the city of Goodyear.

“Investing taxpayer dollars in national retailers is not a good economic model. You never get your money back,” contends Kimber Lanning, owner of the music store Stinkweeds and a co-founder of Local First Arizona. New shopping centers invariably reduce sales at existing businesses, which in turn contribute less in sales tax revenue to the city. Plus, it’s often only a matter of a few years before the appeal of a new shopping center is eclipsed by an even newer and bigger retail development in another suburb.

“It’s really short-sighted,” said Lanning. Cities are giving away tax dollars for unsustainable development, she explained, “as opposed to building a city that people are going to want to live in 20 years from now.” At about the same time Mesa agreed to the subsidy for Riverview, officials announced that the city’s libraries would have to close on Sundays because of budget shortfalls.

With opposition to retail subsidies growing in recent years, the mayors of several cities in the metro announced that they would work together to curb the problem. “The cities said, trust us, we can fix this ourselves,” recalled Senator Chevront. But the subsidies only grew larger. “Everyone realized that they couldn’t be trusted to do that. I look at this [new law] as a way to help them help themselves.”

Chevront’s bill was opposed by suburban municipalities and the League of Arizona Cities and Towns, which argued that tax incentives for big retailers helped “to fuel the economic engine of the state.” Central cities, including Phoenix, Tempe, and Scottsdale, opted to remain neutral. “They were getting blackmailed by developers,” said Chevront. “They realized that this was bad tax policy.”

Chevront intends to propose measures in the next legislative session to strengthen the new law. One problem is that lawmakers, apparently inadvertently, exempted the suburbs of Peoria and Marana, because neither is located entirely in Maricopa or Pinal counties. Chevront also believes the law should be extended statewide, which will require overcoming opposition from small town and rural lawmakers, who were only willing to vote for the new law because it is limited to the Phoenix metro.

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