Sales Tax and Land Use: Are Cities Being "Driven to the Mall"?

Senator Greg Bell

RESEARCH ASSISTANCE FROM BARTLY MATHEWS

In 1999, citizens in part of unincorporated Salt Lake County, Utah were forming the city of Holladay. As they were deciding the boundaries for the new city, they considered the tax revenues that various properties would bring to their city. They could include the Cottonwood Mall, a traditional anchored shopping mall, and/or Cottonwood Corporate Center, a large state-of-the-art, mid-rise office complex, which is a hotbed of high-tech companies located near upscale residential areas where executives for such companies might tend to live. Holladay chose the mall over the office park because of the tremendous sales tax revenue the city would reap from it (Linton, 2004). Holladay would have gained little on a net basis from including the office park in its municipal boundaries because the city does not participate in the significant personal and corporate income taxes generated there.

The Holladay experience vividly demonstrates some of the powerful financial incentives and disincentives at work for Utah municipalities. Like all persons and entities, municipalities react in a rational manner to economic stimuli. This article explores whether municipalities and their citizens are well served by the current municipal fiscal structure imposed by the state of Utah, especially the point-of-sale portion of local option sales tax. It also discusses whether the state of Utah's goals for economic development are helped or hindered by the current fiscal structure under which municipalities operate.

MUNICIPAL SHARE OF SALES TAX

Under Utah's current system, the local option sales tax is 1% (or 1 cent per dollar) of the roughly 6.5% sales and use tax, which varies from county to county depending on transit, transportation, ZAP, RAP, and other "boutique" taxes. (In the 2006 and 2007 General Sessions, the Utah Legislature reduced the state portion of sales tax on unprepared food as well as the "boutique" taxes from RAP, ZAP, etc.; but the municipal local option portion on food is unaffected.) All municipalities have adopted the local option sales tax. Of this 1%, one-half is distributed to all local governments pro rata based on population. The other half percent is distributed to the municipality at the point of sale. Thus, if Smallville generates $1,000,000 of non-food sales, the tax will be approximately $65,000; $55,000 will go to the State and other entities, and $10,000, the local option portion, will be split: one-half ($5,000) will be paid to Smallville and the remaining one-half ($5,000) will be divided among all Utah municipalities based on population.

SALES TAX AS A DRIVER OF LAND USE DECISIONS

Farmington City, Utah provides an interesting picture of how many formerly rural and bedroom suburban cities have moved along the arc of sales tax reliance, *with the accompanying increasing intensity of land uses*. In the mid 1980's, Farmington City, a charming town of about 5,000 inhabitants, conducted an extensive values study, exploring what its citizens valued in their city and how they wanted Farmington to develop (Forbush, 2007). The almost unanimous response was that Farmingtonians enjoyed the quasi-rural flavor of their community and wanted to preserve that environment and did not want typical suburban retail-type development in Farmington. Tellingly, the citizens indicated they would prefer to travel to other cities for the retail and other services they needed.

However, the city's population steadily increased (tripling by 2007 to 15,000) and brought with it escalating demands for both the quantity and quality of city services. Newer citizens were not satisfied with the minimal police and fire protection. The city established a full-time police department, built a new public safety building, hired a full-time fire chief, and manned their fire station during all but the late hours of the night. The city built a swimming pool, then expanded it, built several parks and enhanced others, and expanded its recreation programs. The City built a cultural center for the performing arts and other events.

In considering these expanded services and facilities, Farmington City leaders had realized that the city's traditional revenue sources were inadequate to fund these expanded services and amenities. (The capital costs of these facilities were paid for mostly by general obligation bonds authorized by public election.) The city already assessed the maximum of franchise taxes. Raising property taxes was problematic for the reasons discussed below. Nor would all the new residential building help its revenue stream. New residences not only bring new citizens who place additional burdens on city services, but generate little in property tax revenue for the City. Since being amended by public vote in the 1980s, the Utah Constitution has required that residential property, unlike commercial, industrial and other types of real property, be taxed at only 55% of its value (agricultural ground receives different but favorable treatment for taxation purposes). Thus, if a vacant parcel of land were being considered for either office development or residential development, assuming the market value of these developments were the same, the city would receive 45% less in property taxes for the residential development.

REAL PROPERTY TAX LIMITATIONS

In 1978 California voters passed Proposition 13, which capped the amount of property taxes which can be assessed against real property. Subsequently, many Western states followed suit. In the mid-1980s, Utah instituted "Truth in Taxation" by statute, the purpose of which was to keep cities, counties, school districts and other governmental entities from passively increasing their property tax revenues. Because county assessors periodically re-appraise the value of real property, which has historically resulted in ever growing valuation, if a city maintains the same property tax rate, the city will receive more dollars in property taxes each year. If a city budget anticipates that the city will receive more property tax revenue in the next year than in the current year (other than for new growth), Truth in Taxation kicks in. Truth in Taxation requires a municipality 1) to give public notice via a large ad in the newspaper that it is "raising" property taxes, and 2) to hold a Truth in Taxation public hearing.

To avoid the stigma of advertising to its citizens that it is increasing property taxes, the city must therefore annually *reduce* its property tax rate. There is no inflationary factor built into this formula. If a city wishes to maintain the inflation-adjusted equivalent of the exact same dollar value of its property tax receipts, the city has to go through the Truth in Taxation process every year. For example, assume that Smallville's property tax receipts in 2007 were $100 with a tax levy of .0020 and inflation was 2%. Smallville may avoid Truth in Taxation advertising and a public hearing only by reducing its property tax levy so that its property tax revenues in 2008 will be $100 or less. If Smallville wishes to collect $102 in 2008 so that its property tax revenue simply keeps pace with inflation, Smallville must go through the Truth in Taxation process, even though its property tax rate may not increase and may even decrease. [Note: The foregoing example assumes there is no increased valuation for new buildings or other new property. Increased revenue from growth is not subject to Truth in Taxation.]

When raising property taxes is on the agenda, the city council room tends to fill up with senior citizens protesting that they live on fixed incomes and cannot afford a property tax increase. Businesses protest that rates are lower in other towns and that they will move their business locations. Citizens turn out to decry government waste and inefficiency. Many city officials who have undergone a Truth in Taxation hearing vow never to go through it again; the political and personal pain for these officials can be intense.

Another practical barrier to increasing property taxes is that the pay-off is typically somewhat small for most cities. Farmington had a relatively high property tax levy of .002149 in 2006 and total assessed valuation of about $610,000,000, which will result in total property tax revenue of about $1,300,000. To raise $500,000 more a year, Farmington would have to increase property taxes by 38%. This would increase City property taxes on a $300,000 home from $355 to $490, an increase of $135. Most citizens would see that as a very significant tax increase. As will be seen below, this amount can be fairly easily raised from one big box store.

A city's typical share of property taxes on residences rarely defrays the cost of services for those residences. In the last two decades, most Utah cities have not been able to fund from traditional tax sources the services and programs citizens have come to expect from modern city government. Adding new residences only aggravates the problem. The city can resort to impact fees and utility franchise taxes, but most suburban cities already assess some or all of these. Therefore, all that remains for a city to raise significant new revenue in a politically acceptable way is to create or expand the city's retail base to provide more point-of-sale sales tax revenue.

THE APPEAL OF SALES TAX FOR CITIES

Sales tax is one of the most appealing taxes for a city. In making purchases, consumers generally know what the cost of the sales tax will be. Because many purchases are elective, payment of sales tax can also be considered elective to some degree and thus avoids many of the negative elements associated with governmental imposition and extraction of less palatable taxes. With the exception of necessities, one can somewhat moderate one's purchases to lessen the amount of total sales tax one pays in total. Moreover, sales tax is often paid in trifling amounts; the pain is spread over many, many purchases.

As between a city and its residents, the sales tax is indirect, and the responsibility for it is diffused because sales taxes are collected by the retailer and remitted to the state, which then distributes the revenue to the entities entitled to it. Having the retailers collect the tax distances a city considerably from any pain and resentment which might be felt by the taxpayer. The political responsibility for sales tax is made even more diffuse by the fact that a major portion of sales taxes collected in regional facilities such as shopping malls and car dealerships comes from the residents of a wider region rather than citizens of the host city. Because all Utah municipalities levy the same sales tax rate, no municipality stands out as having a higher tax rate than any other. For municipalities, the sales tax collection process is about as painless as collecting taxes can be.

By contrast, property tax levies vary widely from city to city, and citizens are often keenly aware of these differences. Sales taxes are spread across millions of transactions. With sales tax, there is no ominous check to write on April 15 (state and federal income taxes) or November 30 (property taxes), which focuses the taxpayer's attention on the existence of the tax and size of the levy. Surely if one were able to quantify a city official's misery-per-tax-dollar-raised index, property tax increases would rate very high and sales tax would rate very low. Indeed, the only political heat a city official will likely get from pursuing augmented sales tax revenue will be in the context of land use decisions.

In comparison to the political and economic hurdles of raising property taxes, gaining only one mega-retailer can make a huge difference to a city's bottom line. Landing a Costco store can add $500K or more to the city's revenue ($100,000,000 annual sales times ?% =$500,000). The Centerville City Budget for 2007-2008 conservatively estimates that a new Wal-Mart store will bring $350,000 in point-of-sales revenue to the City (Lutz, 2007). Big box retail and new and used car lots are very popular with cities because of the huge amount of sales taxes they generate. For most cities, no other tax, fee or municipal imposition provides cities with the ability and the flexibility to raise revenues on the scale that point-of-sale sales tax does.

CITIES HAVE STRONG ECONOMIC INCENTIVES TO ALLOW RETAIL DEVELOPMENTS

Again the Farmington City experience is instructive. As mentioned, the city leaders felt the need to seriously augment the city revenues to pay for the costs of increased demands of public safety, recreational, open space and cultural amenities. The city could have scaled back its budget, but the city's leaders determined their electorate wanted those services and amenities if they could be funded from sales taxes rather than through more direct levies on Farmington citizens. In about 2003-04 they projected both the anticipated revenues of the city and the anticipated costs for increased services and amenities. Their projections showed a significant shortfall in revenues of about $3,000,000 per year. The city would have had to increase property taxes by three and one-half times (350%) to garner that much money. The city never considered such a tax increase, but the following illustrates the impact such an increase would have: the city portion of the annual property tax bill on a $300,000 residence would have skyrocketed from $355 to $1,240, and on a $1,000,000 commercial property would have jumped from $2,150 to $7,525.

There was no alternative but to promote significant retail development to secure increased sales tax receipts for the city (Forbush, 2007). Accordingly, Farmington worked with a developer and other landowners to re-zone property for a huge retail complex to be known generally as Farmington Station. Farmington Station is on the west side of I-15 at the junction of Clark Lane and Park Lane. Initially, this lifestyle center development was anticipated to have about 800,000 square feet of mostly retail space, and at build-out with neighboring properties developed, will have up to 1.5 million square feet of retail/commercial space. By way of comparison, Layton Hills Mall (a traditional, enclosed mall in Layton, Utah with three department store anchors) has 660,000 square feet in the mall proper. Significant office and multi-family residential developments are also slated to be developed nearby or as part of Farmington Station.

Farmington's commitment to a regional shopping facility was not necessarily tantamount to selling its birthright. Lying at the junction of I-15, US 89, and Legacy Highway, Farmington Station is a good site for retail uses. Moreover, the shopping facilities will be integrated with the Frontrunner commuter rail station being built there. The Farmington Station property is bounded on the east and north by the Union Pacific and commuter rail tracks, as well as I-15. It fronts the Davis County Justice complex, the Davis County Fairgrounds, and the large Davis County Jail complex. The property is served by the Park Lane interchange and located at the junction of the freeway and major highways mentioned above.

The scale, the intensity and the traffic of Farmington Station and its ancillary properties when developed will drastically alter the lifestyle of area residents. A decade ago, west Farmington residents enjoyed a semi-rural environment, with many horse properties, small farms and large vacant parcels of land. However, many suburban-style subdivisions have been developed in the last few years hastening west Farmington's suburbanization. The Farmington Station development will complete this transformation.

In only two decades Farmington City has changed from being a quasi-rural "Mayberry" with its citizens content to live with few shopping and other commercial amenities in their own city to a city driven to bring in a large-scale, regional retail/commercial development. Ironically, the residents of Farmington City are not perceived to have demanded the commercial development per se. The City's primary motivation in facilitating the development of Farmington Station is not to satisfy the shopping needs of its own citizens. This huge development is mainly being built to appeal to an entire regional shopping market primarily for the fiscal benefit of the citizens of Farmington.

And so it goes. Smaller cities which have had limited or only local commercial facilities have either aggressively developed or merely allowed extensive commercial/retail development on a regional scale. The following cities are more or less typical of this phenomenon: North Logan, West Bountiful, Centerville, Springville, South Jordan, West Jordan, Taylorsville, Riverton, West Valley City, Spanish Fork, Washington, Draper, Murray, Pleasant Grove, Lehi, and American Fork. On a contrary note, residents of Centerville, Sandy, the east Millcreek area of Salt Lake County and other areas have strongly fought to prevent the location of Wal-

Mart, Home Depot or other big box stores into their communities.

The Retail Chase

An obvious downside to ever more retail development is that cities "cannibalize" limited retail spendable dollars. New stores do not bring more retail expenditures into the shopping region as a whole. While Smallville may generate additional sales tax revenues from their own new retail facilities, those revenues will come at the expense of other cities in the region (except for growth in spendable income). Thus, there are ever new winners and losers in this endless chase after retail growth. Many shopping centers along the Wasatch Front stand vacant, victims certainly to economic and demographic forces, but in some cases victims also to the zoning actions of the city next door, which developed more attractive and larger shopping centers. There are over 20 vacant big box stores in the Salt Lake Valley. A small shopping center contains about 10 acres. As the smaller shop tenants most often leave a shopping center when the anchor goes dark, the entire shopping center usually becomes vacant. Thus 20 vacant big boxes will likely result in at least 200-300 acres in vacant shopping centers, a huge amount of unproductive and blighted real estate. (Salt Lake Tribune, 2003, p. A1)

In recent years, the Utah Legislature has deprived cities of most of their ability to induce retailers and developers to their towns with financial incentives, including redevelopment agency powers such as sharing or giving to the developer or retailer property tax and sales tax rebates. Still, receptive city leaders can facilitate significant movement of large retail facilities through favorable zoning.

Until fairly recently, municipal boundaries generally developed out of historic and geographic conditions, without regard to point-of-sale sales tax considerations. Moreover, not all cities are favorably located in a large shopping region, or have a freeway off-ramp or convenient highway access and exposure. The host city's boundaries have almost nothing to do with the area from which a retail/commercial facility will draw customers. For example, the Southtowne Mall is just across the freeway from the eastern boundary of South Jordan. The mall no doubt enjoys many purchases by South Jordan residents. Yet Sandy City receives the entire point-of-sale portion of the local option sales tax. Sandy City has some costs associated with hosting the mall, such as fire and police protection above what would be necessary without the mall. But it is axiomatic that Sandy City derives a net fiscal benefit from hosting the mall, the Auto Mall, and other large retail/commercial facilities. Sandy City's "per capita gross taxable sales" (PCGTS) of nearly $22,000 are markedly higher compared to neighboring suburbs like South Jordan ($7,100) and Riverton ($4,800). Understandably, South Jordan and Riverton are both currently aggressively pursuing retail development within their boundaries so they can benefit from point-of-sale sales tax revenues.

It seems unfair for the point-of-sale city to enjoy the exclusive benefit of the sales tax on sales made for the most part to residents of the larger region. Riverdale City lies at the intersection of I-84, I-15, and Riverdale Road in Weber County. Riverdale has one-tenth the population of Ogden, the largest city in Weber County, but has over five times the PCGTS, which are $83,000 for Riverdale and $16,000 for Ogden (Utah State Tax Commission Annual Report, 2006 fiscal year, annual sales figures, p. 29, divided by 2005 Census population figures). Neighboring Washington Terrace doesn't have the freeway exposure and heavy highway traffic Riverdale has, but with a populace the same size as Riverdale's, Washington Terrace gets a puny $1,964 of PCGTS. Riverdale's annual taxable sales of $653,000,000 are more than ***40 times*** Washington Terrace's of $16,500,000, with virtually the same population. Washington Terrace residents probably spend nearly as much in Riverdale stores and restaurants as Riverdale's residents, yet Riverdale keeps all of that point-of-sale revenue. Including the revenue from the sales tax distributed on the basis of population, the bottom line for FY 2005 was that Riverdale received $4,600,000 in total sales tax revenue while Washington Terrace received only $656,000.

Leaders of cities like Riverdale which host regional retail facilities argue that the system is not inequitable with arguments like these: 1. There are many costs associated with hosting regional retail facilities such as additional public safety personnel and equipment and the need to maintain city roads burdened with heavy shopping traffic. 2. Host cities have often had to bear significant infrastructure capital and O&M costs associated with such commercial facilities. 3. The host city probably planned for commercial development and their citizens have dealt with the intensity of the land uses, including traffic, overburdened freeway off- and on-ramps, and other inconveniences. 4. Retail host cities had to pay the political price of zoning for large commercial uses. While it may now seem self-evident that the sites of large shopping facilities should have been located where they now are, it probably was not always so apparent. Residents likely raised stiff opposition to some of these facilities. 5. The extra municipal costs offset the benefits of such commercial developments.

Mayor Jerry Washburn of Orem has opined that cities like his who have regional-scale commercial development may currently be at fiscal equilibrium and questions if anyone knows where the equilibrium point is. Moreover, he believes that changing the system to distribute more of local option sales tax on the basis of population would penalize cities who have developed a lot of retail and who have "played by the rules". He pointed out that under the existing system, Orem City would have an additional $2 million in sales tax revenue each year but for the population component. (Washburn, 2003)

Still, the incredibly wide variation of sales tax receipts among cities inarguably demonstrates the strong economic incentive for cities to pursue point-of-sale sales tax revenues. These disparities are easily seen in sales tax per capita data for 2005. Ogden's and Logan's PCGST (per capita gross sales taxes) were about $16,000. Salt Lake City's and St. George's were far greater at $30,000 and $28,000, respectively. Sandy City, a regional shopping area, had PCGST of almost $22,000. The foregoing five large cities are regional economic and shopping centers. However, Riverdale and North Logan are small cities which have a large retail presence and disproportionately high retail sales because of their favorable location in their respective regions, especially Riverdale with an astounding $83,000 PCGST. Farmington had an anemic PCGST of just over $6,000 (Howe, 2006).

NON-ECONOMIC COSTS OF THE FISCALIZATION OF LAND USE

Many people refer to cities' pursuing or permitting retail establishments to improve their bottom line as "Zoning for Dollars". Scholars call it the "Fiscalization of Land Use" (Wassmer, 2002). Some Utah cities make land use decisions in favor of retail/commercial development based on their bottom line. We know this to be true because they say they do so. However, if Farmington and other communities had ways to finance their growth other than by facilitating regional retail growth within their boundaries, they would likely pursue such alternatives as a complement to and maybe even instead of expanding retail facilities in their communities.

One wonders whether the citizens of the cities who have developed commercial/retail facilities for sales tax revenue are pleased with the result. Do they view retail and commercial development as necessary to finance a modern city? Do they enjoy large retail developments as providing desirable services and amenities? Do they object to their city's change from a bucolic and identifiable town to a sprawling suburb with fast-food franchises and discount super-stores as their gateway? Has there been a consequent loss of Main Street businesses such as the hardware store, the local grocery, the diner, the deli and the barber shop, and have the residents noted and regretted this loss? Do they care that they now can't tell when they're leaving their town and entering the neighboring one? Do residents care that when most Wasatch Front cities are viewed at their freeway entrances, they are becoming indistinguishable from each other and from the suburban areas of Phoenix, Las Vegas and Southern California? Do they care that we are close to having the same McCity at every freeway off-ramp? Do they regret that suburban commercial development is almost exclusively auto-dependent, sprawl-type development? Do they care that the gateways to their cities and towns are no longer a tapestry of fields and pastures and unique older homes, but a predictable pattern of four-lane roads lined with big box retail, car lots and malls? Will they miss the ambience and connectedness of the traditional town with its smaller scales and the unique flavor deriving from hometown shops and stores and old buildings? Will there be any place to walk to anymore? Is it still possible for a ten-year old living in suburban Utah to ride his bike to his baseball practice or to get an ice cream cone?

MUNICIPAL MIS-ALIGNMENT WITH STATE ECONOMIC DEVELOPMENT POLICIES

As can be seen in the example about Holladay at the beginning of this article, Utah's municipal finance policy runs counter to Utah State's economic development policy. The state aggressively seeks to create and maintain high-paying jobs, to foster the creation of desirable businesses, to fortify the health of and expand existing companies, and to attract businesses from elsewhere. Non-retail business tends to create wealth, while retail business consumes it and adds little to the economy. Retail growth naturally follows population growth without incentives or external assistance. Notably, Utah has an acute need for graduate engineers (software, electrical, mechanical, and civil). These jobs pay from $50,000 to $150,000. (Sutherland, 2007) Their employers typically provide health insurance and other employee benefits, and such employees become net payers to the state rather than consumers of state services.

By contrast, retail enterprises typically pay minimum wage or slightly better, offer few meaningful career opportunities, and rarely provide health insurance and other benefits. Adults working in retail make far less than those working in high-tech companies, in real estate, banking, finance, and other market sectors. Such adults often need state and federal resources to supplement their wages and to compensate for the health and other benefits they lack. A self-sustaining wage for a family of four in the Salt Lake-Ogden SMSA is $44,700 per (Pearce, 2001). Even two parents working full time at $10/hr. will fall short of making $40,000 per annum, and one working parent will make half that. Utah's median wage is about 80% of the national average. This results in high taxes relative to income and in resource-constrained government programs relative to other states. Combine this with Utah's higher number of children per household and its disproportionately young population, and the result is that our public education and other public programs suffer from serious under-funding compared to other states.

Because cities are economically rewarded by pursuing retail development, they may give industrial and office development short shrift. Moreover, the strong suburban bias against multi-family rental units sharply restricts the availability of low-cost rental housing, where most people start their adult lives and in which most of the workforce must live until they can afford a home of their own. Many of the conflicts between proposed rental housing and existing suburban single-family residents could be avoided if more sites were made available for such rental units, sites which are currently deployed, zoned or planned for retail uses. Certainly, retail competes for sites with industrial, office, and multi-family rental projects. Given the strong systemic economic bias towards retail in Utah's municipal fiscal structure, it can hardly be doubted that more industrial, office and rental projects would be developed absent such bias.

Utah's urban freeways and highways are clogged with commuters traveling from suburban cities to work. If suburban cities had significant economic incentives to create job-sites and attract capital investment in businesses, it could materially reduce commuting, with its public costs in money, pollution, and wasted resources and its private costs in money, time, and lost family and social interaction. If a change in land use policy at the city level could be effected which created more job sites in the suburbs, it would pay huge dividends. Reducing VMT's (vehicle miles traveled) by only 3% would result in a reduction in congestion of 10%, (Wasatch Choices 2040, 2007) and the consequent savings in time and money would be significant. Commendably and against the grain of local incentives, West Point, Syracuse and Clearfield are considering entering into an interlocal agreement to cooperate in the development and zoning and sharing of revenue in the Davis Economic Development Cooperative. "An overriding idea is to create lots of jobs over time, so that residents of the area won't have to commute long distances to work — employment, entertainment and shopping will be closer to home. (Ogden Standard Examiner, 2007)

Is There a Better Way?

The best sales tax distribution system would 1) align municipal incentives with State economic development goals of creating jobs and facilitating desirable business growth, 2) let retail develop naturally as it will, 3) fairly offset municipal costs of hosting regional retail developments, and 4) allocate to cities a significant portion of local option sales taxes on a population basis in recognition that sales taxes are paid by the populace.

In 2005, I introduced a SB 169 in the Utah Legislature. Although the language of the bill was never finalized, my announced and widely-discussed intent was to change the local option distribution formula to 25% for the point-of-sale city and 75% for all cities based on population. I had worked with a respected economist to try to estimate the "hosting costs" associated with regional retail development. However, the many different kinds of retail (whether "new" or "old", neighborhood or regional, etc.) and the many varying conditions cities deal with in hosting retail proved to be too complicated to reduce to a statutory formula. The 25/75% split attempted to strike a rough balance between compensating the host city for its costs while removing the incentive to create retail facilities. The proposal would also have had a hold harmless formula "freezing", i.e. grandfathering cities' existing point-of-sale revenue, so that the change in distribution would be prospective only. Nonetheless, the Utah League of Cities and Towns vociferously opposed this bill, although several cities expressed support for a change along these lines. I didn't push the bill, hoping that in time we could develop a more appealing proposal.

Ogden Mayor Matt Godfrey and his staff suggested one interesting idea for a new distribution formula, which would reflect multiple factors such as total payroll of businesses in a city or other job-related figures in an effort to balance the cities' costs and benefits of hosting retail as well as giving due credit to cities who hosted job sites. Salt Lake City Mayor Rocky Anderson and his staff have also been very interested in changing the system as their city's expenses in hosting a huge day-time workforce are very high and are not fully recouped, in their view, through only point-of-sale sales taxes.

Conclusion

Like all rational creatures, city leaders respond to financial incentives. Utah's municipal fiscal structure provides a strong bias in favor of cities facilitating regional retail development. Most of this development has been sprawl-type auto-oriented retail and commercial facilities. Such development often comes at the cost of losing traditional Main Street-type businesses and the scale and flavor of the historic places from which these suburbs have grown. The economic development incentives applicable to cities are misaligned with the State's goals of non-retail job creation and business growth. Cities' fiscal bias towards retail development has worked against siting more industrial and office facilities in suburban locations, which has seriously increased commuting and its attendant public and private costs such as congestion, pollution, and highway capital and maintenance costs.

The current municipal point-of-sale sales distribution formula is neither fair nor good policy. A new formula could protect cities that have invested in retail facilities, yet could begin to wean municipalities from over-reliance on sales tax dollars and even give them incentives to align themselves with State economic development goals by providing for more office, industrial and non-retail commercial development in their communities.

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