



Citizens Tax Committee

Guardians of the Tax Payer's Money



Newsletter

APRIL 2009

A comment from CTC Chairman:

Bill Warren

Dr. John P Danforth is a member of CTC and operates his own Economic Consulting Company. He has served as a senior Federal Reserve official as well as economic advisor to many of the nation's largest banking organizations.

QUESTIONING THE ECONOMIC CASE FOR THE BIG CHINO PIPELINE

Remarks By John P. Danforth, Ph.D.

As an economist, I tend to think about issues like preserving the flow of the Upper Verde in terms of the choices or tradeoffs pursuing this objective entails. While some folks might oppose any action that could harm the environment and some might be totally indifferent to adverse environmental impacts, I believe most of us fall somewhere in between those two extremes.

For those of us occupying that middle ground, if potential adverse environmental impacts from the pipeline are negligible, then the pipeline could make sense even if the expected economic benefits of the project were modest. Yet if potential environmental costs are significant, then the prospect of substantial economic benefits would seem to be required.

Pipeline supporters have claimed the economic benefits of completing the Big Chino pipeline are so substantial they would outweigh any plausible environmental costs associated with the project. However, some members of the public are skeptical of the economic case for the pipeline advanced by its proponents. Indeed, I personally

question whether the pipeline project can be counted on to yield any economic benefits for the average current resident.

To date, the only support I've seen for the claim that local residents will benefit economically from completion of the pipeline is a report commissioned by the Central Arizona Partnership. This Report, prepared by Elliot D Pollack & Company, purports to show that completion of the Big Chino Pipeline would have enormous positive economic impacts on our area.

As it turns out, however, the Pollack Report is fatally flawed. It exaggerates positive pipeline impacts, ignores important negative economic impacts, and in the end, provides absolutely no reliable insights regarding whether area residents or local governments would benefit economically from the pipeline project. And I'm not alone in my assessment. Three independent critiques of the Pollack Report are posted on the CWAG website. In addition to my detailed comments, you'll find similarly damning critiques by Dr. William Kendig and by Sidney Moglewer. Consider just a few of the Report's more egregious failings discussed in those critiques:

- First, the Report includes the positive economic impacts of spending \$175 million to construct the pipeline, but it ignores completely the negative economic impacts resulting from the fact local citizens must reduce other spending to pay for that pipeline construction through increased taxes and/or water rates and fees.
- Second, the Report's fiscal impact analysis is based purely on government revenues and ignores completely the cost of government services required to support the population growth and commercial activity from which these revenues are generated.

- Third, the Report completely ignores significant risks associated with the project, such as the risk that litigation substantially delays or prevents water importation after we've sunk substantial dollars into the project; or the risk that monitoring wells reveals significant pumping impacts and substantial amounts of money have to be spent to mitigate those effects; or the risk that population growth falls far short of expectations, requiring existing residents to increase materially the share of pipeline costs they're obligated to pay.
- And fourth, even if everything goes as planned, the Report provides no support for the conclusion that most current Prescott and Prescott Valley residents and business owners will share in any economic benefits resulting from water importation. For instance, doubling Prescott's size certainly would increase local economic activity and would make some folks richer. Yet the report provides absolutely no reason to believe most of us would benefit economically from that population influx.

Based on these and many other serious problems, it's clear to me the Pollack Report grossly exaggerates the positive economic and fiscal impacts of building the Big Chino pipeline and provides virtually no support for the claim that current citizens of Prescott and PV would, on balance, benefit from completion of that project.

Of course, I suppose some would argue you don't need a fancy study to prove that the pipeline would have a positive economic impact on local residents. Building the pipeline certainly would permit faster population growth, and isn't it obvious that faster population growth increases the economic well being of local residents?

The answer to that question may surprise some folks. In fact, claims that increasing population growth can be counted on to provide economic benefits for the average citizen or that increasing population growth can be relied upon to enhance local government finances are just plain myths.

If you're interested in a comprehensive debunking of these myths, I encourage you to read Eben Fodor's classic treatise *Better NOT Bigger*. But for

the time being, let me offer a few facts that I believe shed some light on this issue.

First, let's look close to home and consider the most reliable publicly available indicator of the economic well being of an area's individual citizens, namely per capita personal income. During the period 1980 through 2006, the rate of population growth in Yavapai County ranked 37th out of the more than 3,000 counties in the United States. Yet despite the fact that our County's population grew faster than nearly 99 percent of US counties, average personal income of Yavapai County residents grew much more slowly than the average for the US as a whole. As a result, the ratio of Yavapai County per capita personal income to the national average per capita personal income declined from .86 in 1980 to just .73 in 2006. And while only about a thousand US counties had higher per capita personal income than our county in 1980, over 1,650 counties had higher per capita personal income than Yavapai County in 2006.

Moreover, Yavapai County's experience of relatively rapid population growth and relatively slow per capita personal income growth is not an exception. Between 1980 and 2006 the average increase in per capita personal income in the fastest growing 10% of US Counties was 4.2% less than the average increase in per capita personal income in the slowest growing 10% of counties, all of which had actual population declines during this 26 year period.

A similar story emerges from an examination of the relationship between population growth rates and unemployment rates for US counties. The average rate of unemployment over the period 1990 to 2006 in the 10% of US counties with the fastest rates of population growth was 5.9% higher than the corresponding average unemployment rate in the 10% of US counties with the slowest rates of population growth (all of which had population declines of at least 10% during this time period). And what about claims that population growth contributes to the fiscal health of municipalities? The most direct evidence addressing these claims of which I am aware is a compilation of more than one hundred "cost of community services" studies conducted by the Farmland Trust for cities located throughout the United States. A 2004 survey of the 103 "cost of community services" studies conducted during the prior dozen years revealed that the median cost of serving the needs of

residential development exceeded by 15% the revenues generated by that development.

Now, don't be tempted to read too much into these facts. They do not imply most of our citizens or our local governments would necessarily be harmed by the pipeline project. But they could be. Both of my grandfathers were carpenters, and I take very seriously their advice to measure twice and cut

once. The Big Chino pipeline project is an enormous undertaking, and we should not proceed based on unsubstantiated assertions about the need for our communities to continue their historical patterns of growth. The devil is in the details, and we really ought to complete a careful, unbiased investigation of those details before rushing to impose potentially huge financial obligations on our local residents.

The following is a summary of comments prepared by Milbeth Mauer, Treasurer of CTC, who is also a member of the League of Women Voters.

On March 14, 2009, the League of Women Voters. presented a panel of our current State Legislators (Lucy Mason, Andy Tobin and Steve Pierce) to participated in a Q & A session on the current state of the State. The following represents excerpts from their comments. The current State budget crisis has opened up the opportunity for a complete revamping of the budget procedures in place, which would never have been feasible in good times.

We have 20 new freshmen legislators in the House, out of 60, who are anxious to contribute to constructive changes. Arizona has the 4th highest corporate tax in the nation, which has been a detriment to our ability to attract new businesses.

Budget cuts have averaged 10-12% in each dept. except Education, which has only been cut by 1.8 - 2%.. No school district under 600 students had any cuts. All local school districts have been given more flexibility on their own budgets, as well as a loosening of mandates by the State.

Federal stimulus money comes with strings attached in every area, and final decisions are made by the Governor. A so called "Maintenance of Effort" based upon 2006 standards of performance is used by the Feds as the criteria to determine eligibility for stimulus money.

It has always been an uphill battle for rural areas to garner their fair share of any funding available. Maricopa County has a resounding lead in their influence, which our elected representatives continue to confront. Since they receive hundreds of emails daily, they are not always able to respond, but depend upon the input, and encourage us all to maintain that contact.

Arizona Public Schools received \$9,707.00 per student in 2007-08 by Matthew Ladner, Ph. D

Condensed from "The Goldwater Institute Daily" report of February 23, 2009

Arizona's citizens have been subjected non-stop to the claim that Arizona's public Schools are desperately underfunded. The "Superintendent of Public Instruction's finance report" says otherwise. On pages six of that document, you will find a figure for all revenues collected by Arizona school districts from all sources. That number is \$9,232,916,095. If you divide that figure by the enrollment number for districts on page nine of the same document, you get \$9,707.45 in total revenue per pupil. For a bit of perspective, the average Arizona private school tuition in 2006 was \$4,300 and the average total cost was \$5,500. The same revenue per pupil calculation for Arizona charter schools is \$7,800.

Some might be inclined (I'm not) to divide the revenue number by fall enrollment rather than average attendance. Doing so effectively gives credit for students that have since dropped out or moved away. Even doing the math this way, this figure is still near \$9,000 per pupil.

Dr. Matthew Ladner is vice president for research at the Goldwater Institute.

Please take a look at the enclosed questionnaire regarding the One Cent Street sales tax EXTENTION. The City of Prescott is addressing this question right now. Your input will make a difference in their decision. Bill Warren

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Send this form and check to: Citizens Tax Committee, Inc., P.O. Box 11408, Prescott, AZ 86304
CTC is a non-profit Arizona Corporation established in 1977 and committed to seeing that our tax dollars are spent in the most effective way possible.

**Dues are payable on January first of the current year, and become delinquent on March 1st of that same year.*

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