

GOVERNANCE

THE REGION HAS A LOW LEVEL OF FRAGMENTATION.

1 Despite rapid growth for decades, the region continues to have low fragmentation. The presence of 25 municipalities, three Native American communities, and one county result in the region ranking fifth out of the top 100 largest metros for number of governments per 100,000 people. The region also ranks 18th out of America's 100 largest metros on the number of special governmental units per capita.

LOW TAXES AND A LOW VALUE PROPOSITION CHARACTERIZE THE REGION.

2 Seven of the 25 cities and towns in the region do not collect property taxes. This local tax structure makes cities more reliant on local sales tax, permit fees, user charges, fines, and other forms of local taxes and fees. Local governments' reliance on sales tax and permit fees has encouraged inter-city competition, especially for retail sales tax. For Greater Phoenix cities, sales tax revenue ranges from 35 to 55 percent of their general fund.

3 Despite the reliance on volatile sales tax and the impact of the recession, the region has maintained stability in bonding. Standard and Poor's Rating Service has given the City of Phoenix a AAA rating for its series 2012A general obligation bonds (GO), taxable series 2012B GO bonds, and series 2012C GO refunding bonds. They have given the city a stable outlook on the basis of strong fund balances and good operating performance. The outlook for the state is stable with an AA rating.

4 Funding is needed for critical infrastructure improvements in education, transportation, and other areas. For example, Arizona's legislature raids the Highway User Fund each year to pay for non-transportation related costs. The result is the Arizona Department of Transportation is operating on a maintenance budget and may not be able to match federal funds in the near future. The gas tax is more than 12 cents less per gallon in comparison to the national average across all of the states and has not been raised since 1992. Regarding education, Arizona trails the national average in per pupil expenditures.

STRATEGIC INVESTMENTS CAN IMPROVE GOVERNANCE AND ECONOMIC PERFORMANCE.

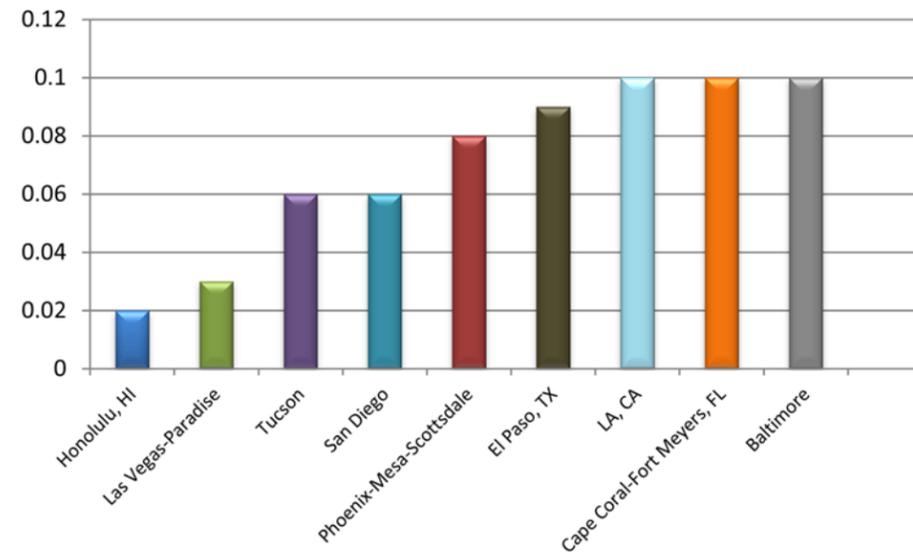
5 The relative lack of national headquarters - only seven Fortune 500 companies are headquartered in the region - puts a significant burden on the small number of existing corporations and executive leaders who participate in these processes. In addition, the civic and philanthropic sector is small. Arizona is 40th in the country for the number of philanthropic institutions.

6 A number of regional entities engage leaders to implement economic development initiatives, regional marketing, and public policies. Examples include the Greater Phoenix Economic Council (GPEC) and Greater Phoenix Leadership as well as sub-regional organizations such as Western Maricopa Coalition (WESTMARC), East Valley Partnership (EVP), and the Maricopa Association of Governments Economic Development Committee.

7 Aligning leaders around shared goals can make the region more competitive. For example, Texas created the alignment needed to support the ports of entry by creating trade plans 20 years ago. The cities along the trade route all signed MOUs to implement plans. The combination of long-term focus and alignment produced the resources necessary to implement the plans. In contrast, the Greater Phoenix region has a federally designated trade route with CANAMEX but little has been done to implement this route. Transportation infrastructure improvements like I-11 may help to revitalize this opportunity.

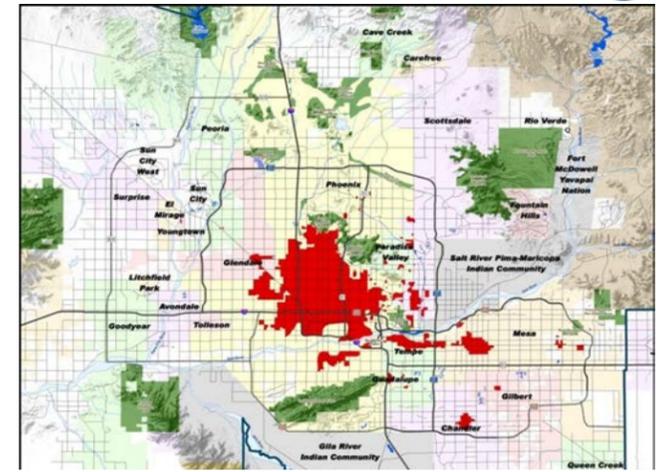
8 Arizona is the only state in the country to not have the benefit of Tax Increment Financing. Other states with similar political environments have access to such development tools that stimulate their economy.

Number of local governments per 100,000 people; 2007 US Census Bureau, Census of Governments Integrated Governments Directory



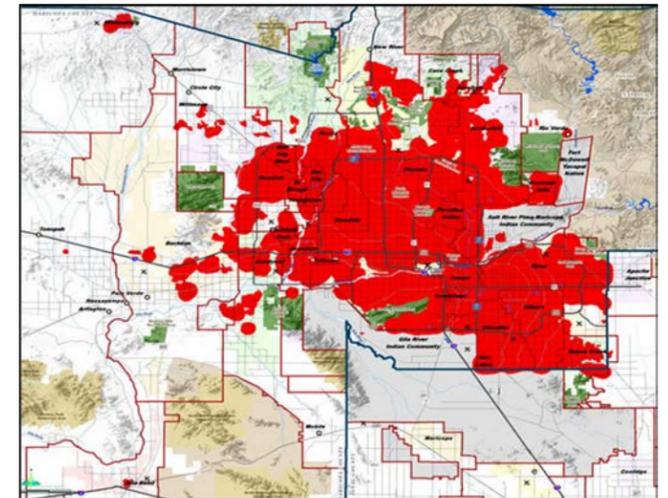
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Population of 470,000 people in 1955



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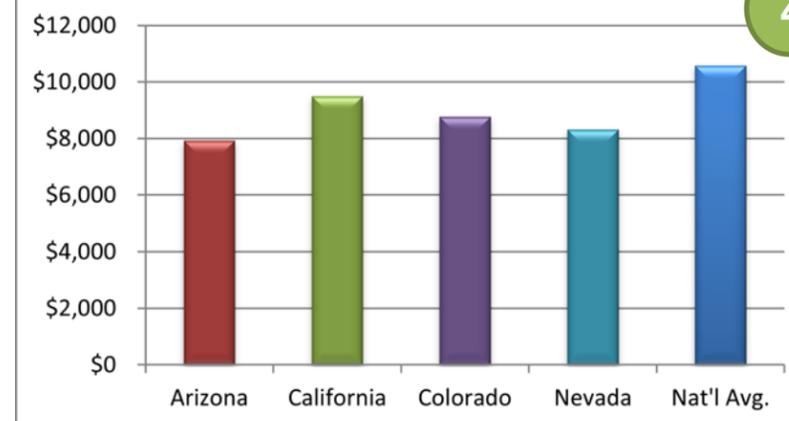
Population of 4.4 million people in 2010



The Visual Volume to Capacity Maps below indicate the congestion that is projected to occur without additional investments in transportation infrastructure.

4

2009 K-12 Per Pupil Expenditures



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