

# **Playing the Inside Game: The Challenge of Urban Revitalization in Arizona**

Report for

**Valley Partnership**

By

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# **Playing the Inside Game: The Challenge of Urban Revitalization in Arizona**

## **Introduction: From Outside Game to Inside Game**

For a century, Arizona has pursued prosperity through outward expansion of its urban areas. In metropolitan Phoenix and elsewhere, “growth” has meant developing raw land with new houses, new shopping centers, and new industrial parks – and the metropolitan “frontier” has moved farther outward from downtown every year.

This has not been uniformly true, of course. Some cities – Phoenix, Tempe, and Scottsdale especially – have been grappling with the question of revitalizing older urban neighborhoods for many years. But the “outside game” has been the predominant development pattern in the Valley of Sun for many decades. And the Phoenix region has played this game better than one might think, creating many high-quality master-planned communities, protecting lots of open space, using impact fees to build good infrastructure. In other words, Phoenix has used the “outside game” to create a region so attractive it continues to be one of the fastest-growing metropolises in America.

Today, however, the world is changing – in Phoenix, in Arizona, and around the nation. As growth continues outward and traffic congestion increases, the metropolitan fringe is too far away to be competitive. Many of the institutions that anchor high-growth sectors of the economy – universities, hospitals, think tanks, and many technology companies – are deeply rooted in older areas close to the center of the region. Many desirable entrepreneurs and creative artists who create value with new products, services – or just experiences – crave the edginess and personal contact that only mixed-use and high density can provide.

All these trends have led to a second wave of growth in cities and older suburbs throughout the United States and in metropolitan Phoenix as well. This second wave has created a market for urban revitalization and infill development that is far more substantial than any previous trend – at least in a young and traditionally suburban metropolitan area such as Phoenix. This trend is likely only to continue, as market pressure for urban redevelopment increases and more and more cities in metropolitan Phoenix find that they are landlocked.

So it’s time for metropolitan Phoenix to begin playing an “inside game” as well as an “outside game.” Growth on the metropolitan fringe will continue – there’s a market for it, and newer cities such as Surprise and Gilbert are eagerly embracing the “outside game” as a way of attracting the next generation of master-planned communities and shopping centers. But for many cities – and for the region as a whole – only the “inside game” will get the job done these days. Knowing what we do about how the economy works these days, it is in the region’s interest – and in Arizona’s – to make sure that these older cities and neighborhoods are good at the inside game.

But the inside game is hard to master – harder, in many ways, than the outside game. Recycling previously urbanized land is often far more difficult and time-consuming than so-called “greenfield” development, requiring different goals and tools and even a different mindset. High land cost, the

need to assemble land from many small parcels, the concerns of neighbors, fears of traditionally minded lenders – all these factors stand in the way of high-amenity urban revitalization.

Furthermore, as the second wave grows, urban redevelopment goals and tools may need to be revisited. Traditional redevelopment focuses on constructing “big stuff” – sports arenas, convention centers, hotels, office buildings, shopping centers, cultural and performing arts centers, and the like. The second wave requires a more subtle approach, allowing for development of “small wonders” and niche items like small shops, artists lofts, and the fine-grained urban texture that turns a project into a place.

The purpose of this report is to help Arizona re-examine the question of urban development in the new context of today. What should Arizona’s urban infill and revitalization goals be in the second wave? Is “the eradication of blight” – the traditional rationale for redevelopment – really the purpose, or are there other goals more appropriate to the modern-day situation. And what tools are required to meet those goals? In other words, how does Arizona play the inside game?

## ① How The Game Has Changed

Public-private partnerships to revive downtowns and other older urban neighborhoods are nothing new. The simple reason is that cities are always battling functional obsolescence. A building, a piece of transportation infrastructure, a business district, a master-planned community – all these pieces of the urban puzzle are built at a given point in time in response to short-term market conditions. But they remain in existence for decades, struggling to compete against newer trends and technological advances. That’s why governments and private business in older communities tend to work together to build certain types of things – mega-malls, convention centers, sports stadiums.

But a few other things **are** new, and that has changed the game:

- More and more cities and business districts are “landlocked,” meaning they have little or no raw land to accommodate new development. This is increasingly true even in metropolitan Phoenix.
- Just as important, many of the most important civic and business institutions are landlocked in these older areas as well. This is especially true of many universities and medical centers, which increasingly serve as the engines of the new economy.
- The requirements of companies in the high-growth sectors of the economy – especially the science, technology and entertainment sectors – have changed from suburban to urban. As experts such as Ross DeVol, at the Milken Institute, and Richard Florida, author of *The Rise of the Creative Class*, have pointed out, entrepreneurs and corporate functions most likely to stay in cities are those that require face-to-face contact – high-end deal making, collaborative creative processes and global connections. Clerical, administrative and other mid-level tasks as well as manufacturing can be effectively done from the suburbs or from less costly regions of the country or the world.
- The urban development game is changing also because of demographics. An increasing number of people want to live in the urban core, as evidenced by those who have been flocking to places like San Francisco and downtown Denver over the past decade. These new urbanites include creative people, the young, single, childless couples, “nexers,” or baby boomers with grown children, lovers of the arts, and immigrants.
- It’s becoming ever more clearer that the key to the current and next urban renaissance lies in understanding that an “urban” environment is more than a collection of steel and glass connected by fiber optic cables. It is a sense of place, a collection of experiences, filled with energy – it’s a lifestyle. It’s also an identity – particularly for those who work in the emerging cultural and knowledge-based enterprises. These workers tend to migrate to the vibrant, innovative places – and their businesses follow.

There is an important intersection among all five of these trends today, especially in the Phoenix region. As the entertainment, science and technology sectors increasingly power the economy, they are transforming the way all business is done and redefining location priorities.

The Phoenix metropolitan region’s “three big bets” are tied to the creative process – Arizona State University, T-Gen and the biosciences industry, and the advanced business services and technology clusters. And while some of this business activity is occurring in suburban industrial parks, these three big economic bets are also bets on urban revitalization as well. T-Gen will be located in

downtown Phoenix; ASU is located in downtown Tempe with a growing presence in downtown Phoenix and south Scottsdale.

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### **The Region's "Three Big Bets"**

**Big Bet No. 1** – Arizona State University: Proposition 301, which citizens approved in 2000, earmarks \$1 billion over 20 years distributed among the state's three universities to expand funding for university research, technology transfer, and new business development. Citizens have recognized that top-tier universities are a critical infrastructure for the 21<sup>st</sup> century.

**Big Bet No. 2** – Genomics: \$90 million was raised in 2002 to "jump-start" the bioscience industry. The region has also developed a "road map" to scale-up Arizona's efforts and activities over the next five years in three areas of existing or emerging strengths – cancer therapeutics, neurological sciences and bioengineering.

**Big Bet No. 3** – Industry Clusters: The region's new strategy targets five technology-oriented, knowledge-intensive clusters to build regional strengths in: high technology, software, biomedical, aerospace, and advanced financial services – all sectors that compete on innovation, can deliver high income jobs, and propel other development.

Source: *Which Way Scottsdale?*, Morrison Institute for Public Policy, 2003.

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The success of the three big bets depends in large part on the region's ability to make the urban locations work – not just for hotels and sports stadiums, but for technology firms, creative collaborations, live-work lifestyles, and all the other small and niche amenities that matter most in today's economy. Phoenix, for example, plans space for spin-off companies and others that want to locate next to T-Gen downtown – and for employees in the biotech sector that want to live in an urban setting.

Traditional urban revitalization techniques focus on "the big deal" – a single large development project, often with a single large corporate tenant that is critical to the project's success. Arizona has always been good at building "the big deal" – a master-planned community, a resort, a ballpark. By themselves, however, such projects do not create the kind of urban texture and ambience required by the new economy. The new urban pattern requires a wide range of amenities and atmospheres, including fine-grained urban environments, unique restaurants, small music venues, small parks, bike trails, which tend to spring from a strong brew of human ingenuity, sustained work and unexpected moments of good fortune that bring new businesses into being. Taking on redevelopment in a nuanced way – parcel by parcel, building by building – takes more effort, more patience, and more time. It takes a new approach – and new tools.

This does not mean that metropolitan Phoenix should eschew big projects. Rather, it means that the older cities in the region must approach revitalization in a more well-rounded way, creating a vibrant urban fabric with at least three different types of efforts:

- Big Deals
- Small Wonders
- Niche Items

**Big Deals** are the traditional large-scale downtown-type projects such as hotels, convention centers, sports arena, shopping malls, and large office buildings, which have formed the traditional basis for most redevelopment work. “Big Deals” can be successful, or they can be a flop – usually when they are designed in an inward-looking way, so that the people attracted to them never really interact with the rest of the neighborhood. They arrive by car in the parking garage, move in and out of the big project, and leave by car as well.

**Small Wonders** are the small-scale restaurants, boutique hotels, live performance venues, and lofts that “fill in the blanks” in the urban environment between the big projects. These are the building blocks of life in an urban neighborhood – places to live and places to go. For some, these will be the hangouts that they’ll go to before or after a ball game or some other event in one of the “Big Deals.” For others, they will serve as the place around the corner from their loft. Housing is an especially important “Small Wonder.” Entrepreneurs and creative professionals often prefer to live in urban neighborhoods – rather than just parachute in for entertainment. And a small-scale housing project such as a renovated old building, an architecturally distinctive loft, or an apartment above a store, is far preferable to a large, traditional apartment project.

**Niche Items** are also small-scale, but they are the non-commercial spaces that round out an urban lifestyle so that it is more humane and enjoyable – like a pocket park, a greenway along a river or canal, or just a place to walk the dog. Most people never notice such spaces until they are missing.

<b>How the Game Has Changed</b>	
<b>The Outside Game:</b>	<b>The Inside Game:</b>
Preserve open spaces	Create vibrant mixed-use centers
Focus on quality of life in master-planned communities	Focus on quality of life in the neighborhood, community, region
Strict controls that seek to manage new suburban development	Design standards that seek to make every neighborhood distinctive
Development and impact fees	Incentives that seek to recycle old and underutilized buildings and lots

Source: *Which Way Scottsdale?*, Morrison Institute for Public Policy, 2003

## ② The Changing Toolbox of Urban Revitalization

Like any area of public policy, the question of urban revitalization is not just a question of *goals*. It's a question of *tools*. Once you know what you want – Big Deals, Small Wonders, Niche Items, whatever – how do you get it done? What specifically does it take to bring businesses into an urban area – to put development projects in the ground – to make things happen?

The basic assumption in urban revitalization is that, all other things being equal, real estate and business investment ought to be channeled to certain kinds of properties and certain kinds of businesses in certain locations – in other words, a somewhat different outcome than the market might produce. This will necessarily require a public policy that provides either financial or “process” (regulatory) incentives that “bend the trend” that would otherwise take place in the market.

So here's a list of typical incentives that cities often provide – broken down into traditional redevelopment tools, incentives and assistance, and what we call “process breaks,” or efforts to streamline or short-circuit cumbersome approval processes.

### Traditional Redevelopment Tools

#### Eminent Domain

Eminent domain is the oldest and, in many ways, most powerful tool available to cities undertaking urban revitalization. It is also one of the most controversial. In most cases, the “big stuff” doesn't happen without it – and that can cut both ways.

Eminent domain gives government agencies the power to obtain land from property owners at a fair market value, without their consent if that is necessary. It has traditionally been used in the case of redevelopment to acquire many small parcels in order to assemble large parcels, which are then sold (typically at a loss) to private developers.

Without the ability to condemn property, municipalities can easily be stymied in their efforts to redevelop or revitalize blighted areas. Where the tool is available, the process is seldom smooth. Property owners often disagree with the settlements offered them and this can lead to protracted litigation. Owners may inflate their estimated relocation costs in order to capture some of the property value appreciation they expect to result from redevelopment or based on their perception of the importance of their property to the project. Municipalities, on the other hand, are required by law to make offers based on independent appraisals that only take current market conditions into account.

Beyond these considerations, the simple fact of the matter is that in a private-property oriented state such as Arizona, many powerful forces will oppose eminent domain on ideological grounds. Property rights advocates will argue that it is an abuse of governmental power to use eminent domain to acquire land for the purpose of conveying it to another private owner.

## **Tax Increment Financing**

In most states, the other common tool used by traditional redevelopment agencies is tax-increment financing districts, or TIFs.

Almost all states except Arizona allow for use of TIFs, which are popular because they allow infrastructure improvements to be financed using anticipated increases in property tax receipts in the redevelopment area, thus obviating the need to increase taxes or create assessment district. It is probably the most common financing tool used inside redevelopment project areas. In the redevelopment context, tax-increment financing can be used only in a specific geographical area with blighted conditions.

The TIF tool is based on the assumption that tax revenues will increase as a result of redevelopment activities, and therefore some general tax revenue that would otherwise go to the city general fund, the county government, the school district, and other local taxing entities should go to the city's redevelopment agency instead. TIFs are usually based on property taxes but can be based on sales tax revenues as well.

Studies of TIFs effects on property values have yielded differing results. One study found that the increase in assessed property values within TIF districts in Illinois outpaced that in the rest of the jurisdiction, but they also found that, overall, municipalities that adopted TIFs had lower growth in property values (Dye & Merrimen, 2000). Another study in 1998 by the Public Policy Institute of California found that, as currently constituted, California's TIF system is not efficient, but that gains in redevelopment areas are made at the expense of their larger communities (Public Policy Institute of California, 1998). Yet another study from Indiana found the adoption of a TIF program helped property values both inside and outside the TIF area (Man & Rosentraub, 1998). Concerns about subsidies aside, many cities credit TIF with the success of other redevelopment programs and consequently with the advancement their broader economic development objectives.

## **Incentives and Assistance Programs**

### **Tax Abatements**

Tax abatements generally given provide relief from property taxes, corporate income and employment tax, or sales taxes – the largest sources of state and local government tax revenue.

Studies of the impact of taxes on business location decision have produced varying results. Most conducted through the 1980s found little connection between the two; later studies found that taxes were considered but only after more substantive factors (labor, infrastructure, capital costs) were weighed (Buss, 2001).

Tax breaks are often thought of as “free incentives” by agencies because there is no hard outlay of funds, but the commitment may weigh heavily if economic conditions sour as they have for many states and localities in the recent recession. Faced with mounting budget deficits, four states curtailed their incentives programs in 2003 (Biggins, 2002; Stadtmauer Bailkin Biggins LLC, 2002; Bertman, 2003).

If governments find they cannot honor previous incentive commitments, they may be open to legal consequences (Biggins, 2002). If they maintain incentive programs by reducing their local service levels, they may come under criticism from citizens for extending “corporate welfare” at the expense of residents. The widespread concern about fiscal stability has prompted private sector advisors to warn businesses to take this into consideration when entering into agreements, and legislation is being pursued in various places to ensure that incentive commitments are honored by all parties (Stadtmauer Bailkin Biggins LLC, 2003).

Firms, too, can fail to meet the performance levels on which tax credits were predicated. To protect their interests, jurisdictions must include “clawback” and “recapture” clauses. From the firm’s point of view, tax credits-against-income arrangements are valueless if the firm fails to turn a profit; hence there is a private-sector preference for sales and property tax credits (Callies, Kudo, & Guth, 2002).

### **Enterprise Zones**

Enterprise zones were a Reagan-era policy idea that called for giving tax and regulatory breaks to companies that locate in depressed areas. In a way, the idea has never been truly tested, because a federal enterprise zone program has never been adopted. Federal income tax payments and federal regulatory requirements are among the largest costs that many businesses face. (The federal government does have an “empowerment zone” program that channels federal resources into selected areas.)

For this reason, the enterprise zone idea has been implemented mostly through state programs. Most states have adopted an enterprise zone program of some kind. Partly because state incentives are small in comparison to federal incentives however, there is little evidence that enterprise zones are effective in changing employment or business formation patterns. Surveys of firms located within California enterprise zones (EZ) reveal that less than half avail themselves of zone incentives (Dowall, 1996). Similar results were reported in studies of the EZ programs in Louisville, KY (Lambert & Coomes, 2001) and in New Jersey (Boarnet & Bogart 1996).

### **Small Business Loans**

Small business loans are a cost effective tool for expanding and retaining small business ventures. A study of California firms receiving loan guarantees from 1990 to 1996 found employment increased substantially in firms receiving loan guarantees, while the state was mired in recession. Firms participating in the program had a very low (2%) default rate, and the program generated nearly twice as much in revenue as the program cost to administer (Bradshaw, 2002).

### **Infrastructure Improvements**

Urban or suburban growth of any kind requires a vast amount of public infrastructure to support it – roads, water lines, sewers, parking facilities, landscaping, and on and on. Increasingly, the trend in suburban growth is to load the full cost of this infrastructure onto the developers, thus driving up the cost of new development. In redevelopment areas, cities often do the opposite – they subsidize infrastructure improvements, usually with tax money, as a means of attracting investors.

Non-traditional infrastructure improvements are also being made to help attract business to Denver. A new web site will not only provide easy access to the information needed by site selection agents, but it will also track their activity on the site and survey their attitudes about the city's business climate. The city expects this will help identify high-probability prospects so that recruiting efforts can be focused. It will also allow them to identify business trends in their early stages (Proctor, 2003).

Infrastructure improvements are most often paid for with tax increment funds, but money comes from other sources as well. Sometimes funds come from special taxes, such as a citywide sales tax increase, or from state and federal sources. If the piece of infrastructure has a revenue stream attached to it – such as an airport, a parking garage, or a sports arena – the infrastructure can be paid for by “revenue bonds” backed by the revenue from the project itself.

### **Business Improvement Districts**

Formed under various names, BIDs are essentially benefit assessment districts. Business owners within a defined district pay into a designated fund, which provides for a higher level of services – policing, lighting, signage, promotional activities – than would otherwise be provided by the jurisdiction. Their intent is to create an atmosphere attractive to employees, clients and customers, and anecdotal reports indicate that well-run BIDs are highly successful in achieving their goals. Self-financed, they generally only receive opposition from very low-margin businesses (Mitchell, 2001).

### **New Wave Tools Focused on Small Wonders and Niche Items**

Whether or not an older neighborhood is located inside a redevelopment area, it probably faces competitive disadvantages just by virtue of its age and location. Increasingly, cities are adopting a series of infill-oriented strategies to “level the playing field” for all urban projects – large or small, inside a redevelopment project area or outside. Here is a brief description of some of these strategies.

### **Niche Districts**

If a city has targeted a particular creative sector of the economy as the engine of urban revitalization, then one of the most powerful tools is simply to designate an urban neighborhood as a “niche district” such as an arts and culture district. In some cases, these districts may simply serve as a focal point for a multitude of existing policy initiatives – for example, channeling available funding for arts and culture into an arts and culture district. In other cases, it might be the catalyst for a new local policy initiative. In Providence, for example, the city has created a tax-free arts zone, which provides tax incentives for both artists and property owners inside the arts district. In still other cases, state policy may serve to stimulate the creation of a district. In Maryland, the state has created the “Smart Growth Arts and Entertainment District” designation, which again qualifies artists and developers for tax breaks and also exempts patrons from admissions and amusement taxes.

### **Faster and Easier Processing**

Urban revitalization can often be stymied by the Byzantine processing procedures in the typical city. “Big Deals” can often survive these problems; “Small Wonders” cannot. This puts the small urban project at a disadvantage compared to either larger or more suburban competitors. “Process breaks” can permit small urban projects to bypass established procedures or else get a pro-forma approval if certain standards are met. Urban projects can also benefit from lower impact fees to account for the fact that they are being built in neighborhoods already served by urban infrastructure.

### **Different Parking Standards**

Urban projects often operate in a different environment than suburban projects for which parking standards were created. Either they exist in a parking-rich area, where on-street parking and lots and garages are plentiful; and/or they exist in neighborhoods where some trips can be taken conveniently on foot and via transit, rather than in a car. Urban revitalization can be encouraged by lowering parking ratios and, instead, pursuing alternative parking strategies such as tandem parking, off-site parking, or payment of a fee in lieu of providing parking that goes toward a district-level parking solution.

### **Density Bonuses**

Urban developers can also be incentivized to build projects – especially affordable housing – if they are permitted to pursue density bonuses that allow them to build higher density projects. Higher density in suburban situations often runs into neighborhood opposition. But in urban locations, a density bonus can stimulate investment in housing that might not otherwise flow to an urban neighborhood, and if it includes an affordable housing requirement (as most do) it can encourage a mix of incomes both in the project and in the neighborhood. Given the need to attract both the “creatives” and clerical-level workers to urban locations, density bonuses can be a useful tool.

### **Mixed-Use Zoning**

Urban locations are also placed at a disadvantage if they are held to typical suburban zoning, with its setbacks, parking requirements, and – especially – the typical segregation of uses. But “mixed use” zoning can help level the playing field too. Mixed-use zoning permits a combination of residential and commercial uses in the same development project, sometimes horizontally, sometimes vertically. Mixed-use zoning can give a location a more urban feel, create more street traffic, and also provide a “Small Wonder” developer two different revenue streams to help make the project pencil out.

### **Adaptive Reuse**

Municipalities need to review their codes to determine whether they are supportive or restrictive of redevelopment. While most buildings have a structural life-span of 40-years, the rate of change in space and infrastructure requirements renders them serviceably obsolete in much less time. Adaptive reuse of older buildings to bring residential development into commercial areas helps to alleviate “dead zones,” those places where either residential streets are lifeless by day or commercial thoroughfares are deserted at night. Adaptive reuse also helps to preserve the authenticity of a community by preserving its architectural or economic heritage.

### **Transferable Development Rights**

Transferable development rights programs have been adopted in various jurisdictions both to direct development towards favored locations and away from others. In urban settings – including New York, Los Angeles, and Seattle – they have been used to protect historically significant buildings of small scale by permitting the landowners to sell their rights to additional density to another, nearby landowner. In this way, small urban gems can be preserved – Grand Central Terminal in New York and the Los Angeles Central Library are excellent examples – while nearby landowners obtain the density they need to build the truly “big stuff.”

### **③ Lessons From Elsewhere: Four Hot ‘Cool’ Places**

When Big Deals, Small Wonders, and Niche Items work well together, urban revitalization can take on a life of its own – transforming not just the immediate urban area being revitalized, but the entire region as well. In this arena, success often begets success – as a vibrant urban revitalization project can begin to redefine the region’s entire definition of both quality of place and quality of life. Arizona can learn from many, many examples around the country. But here are four success stories from cities with which Phoenix has something of a kinship – Denver, Albuquerque, San Diego, and Pasadena.

#### **Denver**

In Denver, Coors Field is sparking a renewal of the areas to its northeast, but in nearly wasn’t so. The site in the Lower Downtown district (LoDo) was one of three candidates and it was not the first choice of either the politicians or the consultants hired to design the field. While a proposal to site the stadium next to Mile High Stadium was quickly rejected, the city council leaned toward a site next to the Platte River but isolated from the downtown by a major thoroughfare (Fox, 1998). That the LoDo site was chosen is a testament to the vision and tenacity of LoDo District, Inc. (LDDI), a non-profit organization of property and business owners, residents and others committed to preserving and marketing this historic area (LoDo District Inc., 2004). Although Coors Field is definitely a “Big Deal,” the way it was connected to LoDo is a classic example of the success of a “Small Wonders” approach.

LoDo is where Denver began in 1858, but for most of the last half-century it had been a mostly ignored district of obsolete warehouses and flophouse hotels. But during the 1970s and 1980s – over the objections of most LoDo property owners – the city created a Historic District in LoDo. To encourage investment, the city tried to set the stage by sprucing up streetscapes and converting viaducts, but private dollars were slow to follow (Weiler, 2000).

Even those who were willing pioneers could not get financing, so the city offered seed money in the form of a \$1 million revolving loan fund. Among the first to take it up on its offer were Jerry Williams and John Hickenlooper (now Denver’s mayor), who opened a brewpub in LoDo in 1988 (Weiler, 2000). In that same year (1988), the Lower Downtown Property Owner’s Association and the District, a designers’ collaborative, formed LDDI (LoDo District Inc., 2004).

Though LoDo’s transformation from Skid Row to white-hot and cool is generally attributed to the construction of Coors Field, it is really attributable to these LoDo’s pioneers, who crafted a vision for the area and then set out to realize it. Also crucial was the change from industrial to mixed-use zoning, which also took place in 1988 and allowed a residential base to begin growing. Three years after the zone change streetscape design guidelines were put in place (LoDo District Inc., 2004). With these essential pieces set in place, LoDo’s redevelopment slowly began.

When the location for Coors Field came up for discussion, a group of urban planners were convinced that the stadium could be successfully integrated into the neighborhood without destroying its historical integrity. Joining with LDDI and LoDo residents, they began their campaign. For their part, opponents argued that not only would the ballpark destroy LoDo’s character, but also that LoDo’s high crime rate would depress attendance and make the ballpark unprofitable. To the contrary, LDDI and Seydel asserted the ballpark would catalyze LoDo’s revitalization.

Financing for Coors Field came mainly from the public sector. Of the \$215 million project costs, 78% was generated by a tenth-of-one-percent sales tax collected by the Denver Metropolitan Major League Baseball District, which spans a six-county area. The District, which owns the field, leases it to the Colorado Rockies. Rockies' owners paid the remaining 22% of the construction costs and cover all operating costs.

Even as the stadium was being built, skeptics still doubted it would transform LoDo. But with near lightning speed, lofts, shops and restaurants burgeoned. It's been estimated that private interests invested \$200 million in the area around the ballpark in the first three years after its construction (Fox, 1998). With revitalization pushing real estate prices higher in the city's LoDo district, the area adjacent to Coors Field became attractive for both residential and commercial redevelopment projects, some of which were "work-live" spaces (Johnansen, 2001). The flood of baseball fans into the area pushed the area's revival into overdrive – crime rates plummeted, businesses flourished (Horstman, 1997).

Officials believe the key to success was in what was not built – parking. The director of the Denver Metro Convention and Visitors Bureau credits the development of retail in the area adjacent to Coors Field to a decision to limit parking and provide light rail service. With the parking space to stadium-attendee ratio of 1-to-10, spectators are essentially forced to come by train and walk to the stadium. The retailers have followed the foot traffic (Kix, 2003).

Nearly ten years have passed since opening day at Coors Field. Lofts costing a half-million dollars are considered "moderately-priced." Even the Rockies' own players complain about not being able to afford to live in the neighborhood (Jenkins, 2003). While the construction of Coors Field augmented it, there is no doubt that the vitality that rebuilt the area came from within. In the case of LoDo, the "little stuff" was already in place – and the "big stuff" sealed the deal.

## **Albuquerque**

Perhaps Albuquerque is too long a name to work gracefully into song lyrics. For whatever reason, Bobby Troup's 1949 musical road trip on Route 66 sped from Amarillo straight to Gallup without so much as a how-do-you-do. At the time, Route 66 and downtown Albuquerque were heavily trafficked – but when the I-40/I-25 interchange opened in 1966, downtown went into a stubborn decline that has resisted more than three decades to revive it. Faced with this stark reality, city leaders decide to try something different than the traditional redevelopment approach.

Jim Baca, who was Mayor at the time, enlisted the aid of civic mover-and-shaker Pat Bryan; together they enlisted the local corporate heads to serve on what became the Downtown Action Team (DAT). Following a market analysis of the downtown, the DAT developed a strategic plan for the downtown – a plan that corporate leaders are committed to help implement.

The actual master plan for the downtown emanated from a series of open community meetings followed by a public design workshop conducted by the Historic District Improvement Company (HDIC), which was formed by DAT, the McCune Charitable Foundation, and Arcadia Land Company (ALC), the New Urbanist development firm co-owned by former real estate analyst Chris Leinberger.

The Century Theaters Block serves as the centerpiece of the plan. It is located at the intersection of Central Avenue (Historic Route 66) and 1<sup>st</sup> Street. Other projects include the Gold Ave. Lofts, 200 Central Avenue (currently in the planning stages), the Crossroads Building, and the American Warehouse Buildings. Together these projects represent more than 500,000 square feet of gross leasable area. All are expected to be complete by 2005 (Historic District Improvement Company, 2004).

Downtown Albuquerque's innovative financing approach involves three different groups of investors who receive returns at different points in time. A group of private real estate investors receives all cash-flow for the first three or four years, at an expected internal rate of return ranging between 15% and 18%. The second group of investors – including HDIC and others with a longer-term view – receive no payments until the first group is paid off. The third investment group is the city of Albuquerque, which will receive returns beginning in the sixth year. The city's total support is expected to be \$25 million, after an initial investment in the downtown district of \$14 million for land, infrastructure improvements, parking structure bonds, and tax relief (Hazel, 2001).

The first flush of projects has brought Albuquerque lots of recognition. It has been listed as the most creative mid-sized city in the US by Creative Class guru Richard Florida and as number three on the list of best cities for relocating businesses. National Public Radio's *Smart City*, dubbed it "the fastest downtown turnaround in the country" (Historic District Improvement Company, 2004). But the downtown resurgence has not been without its rough spots. Developers of the America Warehouse Buildings are facing foreclosure because the building has no tenants. HDIC is currently suing District Development, its equity partner in the project, on grounds of mismanagement and claims that its relationship with the McCune Charitable Foundation have been damaged as a result.

Parking has also proved to be a continuing problem – there is apparently too much of it. City-issued revenue bonds were used to build four garages, and lease payments made by private contractors were to be used by the city to retire the bonds. However, in March 2003, the operator of one of the garages failed to make its first annual lease payment claiming that demand for parking has not materialized as planned (Domrzalski, 2003) And office vacancies downtown are on the rise because 700 federal jobs may be relocated in 2004. The city has sued to stop the move; commercial realtors are scrambling to flush out prospective tenants (Schroeder, 2003).

In January 2004, the city dialed up downtown's already "hot" image another notch by announcing that, along with HDIC, it had entered into an agreement to build an indoor sports and entertainment arena on the eastern edge of downtown. The facility's development and management will be undertaken by a private non-profit corporation. Plans currently call for \$24 million worth of non-taxable bonds to be issued by the non-profit; private investors would similarly raise an additional \$24 million. The bonds issued by the non-profit would use proceeds from a ticket surcharge to repay the loan (Domrzalski, 2004).

Veterans of Albuquerque's previous downtown revitalization attempts are still withholding judgement on whether this is the time it will finally work (Webb, 2003). It still remains to be seen if the residential market will take hold as it has in Denver's LoDo, and that seems critical if the area is to become self-sustaining.

## San Diego

San Diego has always had a vision of itself as the “City Beautiful,” and this civic pride made the city an early and aggressive user of redevelopment. As early as the mid 1960s, the city redevelopment agency and a nonprofit advocacy group used redevelopment tools to create a new City Hall and a convention center.

The turning point, however, was the completion of the Horton Plaza downtown shopping center, which opened in 1985 after more than a dozen years of planning. As with Coors Field, this was most definitely a “Big Deal.” But it has helped spawn a “Small Wonders” revival in the adjacent Gaslamp District, the urban revival is now spreading even beyond the downtown.

In the early 1970s, the city created a separate redevelopment agency just for the downtown – the Centre City Redevelopment Corporation – and gave it latitude to condemn and purchase property in order to assemble the needed site. The agency was also given the authority to use a wide range of financing tools as they saw fit (Snedcof, 1985).

Project development was an arduous process. The development agreement, originally signed in 1977, would undergo eight amendments before construction finally began. Voter approval of California’s Proposition 13, which severely limited the county’s ability to increase ad valorem taxes on real properties unless they changed hands, threatened the city’s ability to raise the funds it needed to assemble the site. Prices for the property and construction costs for the parking structures soared. Funds raised from the sale of tax allocations bonds were proving insufficient. Rising interest rates discouraged the issuance of new bonds to cover the slack. Eventually, the redevelopment agency and the developer reduced the size of the site, increased the plan’s density, and structured a deal with retailers, who agreed to pay fees in lieu of taxes to the redevelopment agency for 30 years so CCDC’s lease revenue bonds could be serviced. Of \$249 million project costs, the redevelopment agency contributed \$33 million for the site and site improvements and an additional \$4 million for theaters incorporated in the project (Snedcof, 1985).

When the center opened in 1985, it far surpassed all expectations for the number of people it would attract, the volume of sales it would produce, and the speed with which it would catalyze further downtown redevelopment. Jon Jerde’s design proved a powerful magnet. Sales per square foot are still the highest in San Diego and the development returns 12% annual yield on investment (The Jerde Partnership, 2003).

Though Horton Plaza is now almost 20 years old, it remains a critical component of one of the most remarkable downtown turnarounds in American history. Downtown San Diego is a thriving office location; its retail and entertainment districts are thriving, especially the historic Gaslamp District; an adjacent district will now be the focus of development around a new baseball stadium; and downtown has recently seen a dramatic increase in residential construction as well. Mid-rise and high-rise condominiums and apartments are being constructed throughout downtown San Diego, supported by a regional light-rail system and even a downtown supermarket.

Tax increment financing was a critical component of the Horton Plaza deal. It is a tool that has been used often and well by the San Diego Redevelopment Agency, which now has 16 project areas (Centre City included encompassing 8,000 acres). In 2003, the agency oversaw a budget of \$120

million, completed 16 projects to construct 1,600 homes, 199 hotel rooms, and 603 thousand square feet of commercial space, and started 20 new projects. Property values in the redevelopment areas increased by \$1 billion to \$5.6 billion total; and the agency estimated that redevelopment projects generated \$25 million in transient occupant taxes, \$8 million in sales taxes, and \$3.5 million in property taxes (Centre City Development Corporation, 2004).

The Gaslamp District in particular is a tremendous success. The original historic core of San Diego, it was derelict at the time that Horton Plaza opened. Since then, the city has used tax-increment financing and other tools to create a remarkable revitalization, interweaving restaurants and retail in historic buildings with new residential construction – some lofts, some mixed use – on selected sites.

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### **The San Diego Technology District**

While it's a great example of urban revitalization, San Diego is also a great example of using zoning and development tools to create a technology district. Although the San Diego biosciences area was suburban when it was first planned in the 1960s, it is located in the La Jolla area of San Diego, which has become much more urban since that time.

Today, many regions envy San Diego's biosciences stature. But it wasn't always so – in fact, the city had little historical tradition in this area and depended heavily on tourism and U.S. military presence for economic growth. San Diego's ascent to the top is the result of five decades of proactive public and private sector planning, investing and coordination—and of course good weather and geography. It started with the Salk Institute when Jonas Salk visited the region and decided to set up his research center on the Torrey Pines Mesa in 1960. Local government and business leaders teamed up to lobby and get a University of California campus built in La Jolla in 1962. Other research institutions followed in the 1970's, drawn again by climate and land and the city's accommodation of them through zoning and land grants.

Today North Torrey Pines Road is a densely packed 2-mile stretch with Scripps Research Institute, Salk Institute for Biomedical Studies, and University of California San Diego. It is a “built” hub of innovation and entrepreneurship because it offers expertise and interaction. As the Vice President of the Salk Institute says, “we can throw a rock and hit UCSD. I can hit a golf ball and hit Scripps. Everything is within walking distance. That means more heads get together and we do a lot of collaboration.”

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### **Pasadena**

Although it is a small city (slightly over 100,000 persons), Pasadena is known worldwide because of the Tournament of Roses and it is centrally located in the very large and dense Los Angeles metropolitan area. Pasadena is a Scottsdale or Tempe type of city.

Pasadena's downtown area was heavily developed with civic buildings during the City Beautiful era (including a City Hall and Civic Auditorium) and high-quality commercial buildings during the 1920s heyday of downtowns. By the late 1970s, the commercial portion of the downtown was derelict, leading the city to a series of “Big Deals” that eventually led to “Small Wonders.”

In 1980, the city redevelopment agency subsidized the construction of a suburban-style shopping center in the downtown that cut off the City Beautiful axis between City Hall and the Civic Auditorium. Historic preservationists did not like “Plaza Pasadena,” but it was moderately successful. However, it did not connect to the adjacent downtown.

Beginning in the mid 1980s, the city began a revitalization effort for the commercial core some three blocks away. At that time, the historic commercial buildings were mostly rundown and occupied by marginal businesses. Even so, they were located on Colorado Boulevard, a street famous throughout the world thanks to the Rose Parade. The city invested \$27 million in a series of parking garages on either side of Colorado Boulevard, as well as \$7 million on streetscaping.

A renaissance emerged in the 1990s that featured a combination of Small Wonders and Niche Items. The city's streetscape improvements to old alleys encouraged the opening of stores in the alleys and, in one case, construction of a large new multiplex theater in the alley. Pasadena also reinstated diagonal crosswalks on the major intersections, making Colorado Boulevard even more pedestrian-oriented. With the Metropolitan Transit Authority planning the construction of a light-rail line, developers created a loft housing project that incorporated a historic building and literally straddled the proposed light-rail line.

By 2000, Pasadena was the most vibrant urban neighborhood in Greater Los Angeles. Hundreds of units of additional housing are under construction, most of them adjacent to the light-rail line. In addition, the city and a new generation of developers have renovated the Plaza Pasadena so the former suburban-style shopping mall now has a wide pedestrian area reconnecting the City Hall and the Civic Auditorium, and adding four floors of housing above what is now known as "Paseo Colorado."

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## 10 Steps to A Living Downtown

In reviewing the LoDo experience in Denver, Jennifer Moulton, the city's planning director, suggested that there are 10 steps toward successfully creating a housing-oriented downtown. The lessons are equally applicable to any older neighborhood or district seeking to attract creative types and high-wage workers. The 10 steps are:

- ① **Housing Must Be Downtown's Political and Business Priority.** Key downtown interests – business owners, government, residents – should all agree on housing as a priority.
- ② **Downtown Must Be Legible.** A “legible” downtown is one with delineated and distinguishable boundaries.
- ③ **Downtown Must Be Accessible.** For the downtown economic environment to grow and prosper, its physical infrastructure needs to be in good shape.
- ④ **Downtown Must Have New and Improved Regional Amenities.** Downtowns need people – a lot of people – in order to be efficient economic machines and to have lively, vital streets. If regional amenities are located within or close to downtown, legions of newcomers in the form of sports fans or arts patrons will be exposed to the diversity of downtown's entertainment and shopping choices.
- ⑤ **Downtown Must Be Clean and Safe.** Many suburbanites never go into the center city, assuming the negative stereotype is correct. For downtown to become a neighborhood in which to live, it must feel safe and be clean.
- ⑥ **Downtown Must Preserve and Reuse Old Buildings.** Most downtowns in American cities have a stock of old buildings, once used for manufacturing, storage or small offices, and now largely vacant. These very buildings, however, have created the skeleton for affordable residential development in center cities.
- ⑦ **Downtown Regulations Must be Streamlined and Support Residential Growth.** Much of the zoning and building regulation on the books of American cities today actually discourages or even blocks the economic and demographic forces that support downtown residential revivals. Support for residential uses must be evident in a city's land use regulations, especially where little market housing exists. Specific code provisions, as well as the attitudes of the regulators themselves, should be reviewed and adjusted to promote housing in the urban center.
- ⑧ **City Resources Should Be Devoted to Housing.** Any city has a number of sources of public funding for housing: its own tax funds, state and federal funds. Leadership, good information for the private sector, and financial resources must be leveraged in order to boost the production of downtown housing.
- ⑨ **The Edge of Downtown Should Be Surrounded By Viable Neighborhoods.** The downtown of most U.S. cities has become isolated from the rest of the community, ringed by surface parking lots and empty, boarded up buildings – an intimidating moat that makes getting to downtown an unappealing trip. Like the empty buildings downtown, these next-to-downtown neighborhoods are substantive assets to a city's downtown housing and revitalization strategies.
- ⑩ **Downtown Is Never “Done.”** A city must not believe that its downtown revitalization momentum is inexhaustible when housing finally arrives. Downtowns are an eternal work in progress.

Source: “10 Steps To A Living Downtown,” Brookings Institution Center on Urban and Metropolitan Policy.

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## ④ Urban Revitalization in Arizona

Although some cities in Arizona have been focused on urban revitalization for many years, municipal leaders have focused mostly on “the outside game.” Given the region’s vast land resources and Arizona’s skill at producing high-quality suburban development, this is understandable. But there is little question that metro Phoenix’s future – unlike its past – is intimately tied to the region’s ability to deliver housing and amenities in its urban areas.

Most housing growth is still occurring on the metropolitan fringe, and a big chunk of employment growth is focused on outlying business parks, such as those in the northern part of Phoenix and Scottsdale Air Park. But, to a large extent, this is conventional business activity – retail, office parks, and manufacturing. By contrast, the “soft side” of technology – media workers, web designers, artistic businesses of the new economy – are located in the regional core. These fast-growing sectors are highly suited for the regional core and can succeed there. But the core is a place that must *change* even though it cannot *expand* in the conventional sense.

Already, downtown Phoenix and downtown Tempe have begun to see massive change in response to the challenge of the “3 Big Bets” and to the workers that seem to like the “funky” urban lifestyle. Downtown Scottsdale is moving in that direction, and even downtown Mesa has laid a big bet on creativity with its arts center, the arts-oriented possibilities with the Mesa Community College, and the “creative class” influx of software engineers. All of these downtowns and the older urban neighborhoods that surround them are in one part of the region – the corridors and centers east of I-17. This landlocked regional core contains virtually all of Phoenix’s old downtowns, many distinctive and historic neighborhoods, and the vast majority of the region’s institutional infrastructure – the state capitol, ASU, Sky Harbor Airport, big cultural and sports facilities.

In order to cash in on the “3 Big Bets” and ensure another generation of prosperity, metro Phoenix has no choice but to focus on this regional core for employment, entertainment, and housing. Housing in particular has emerged – almost for the first time in metro Phoenix – as a strong component in urban revitalization. A recent report from The Meyers Group estimated that demand exists for close to 4,000 housing units in downtown Phoenix – an figure unimaginable only a few years ago, yet one the Meyers Group argues could be absorbed by the marketplace in only three to four years.

Yet in this large and significant regional core, there is little undeveloped land available. Tempe is completely landlocked. Phoenix’s raw land is located mostly in the northern portion of the city, but it does have 135 acres of vacant parcels and surface parking lots in its downtown redevelopment area. The Morrison Institute report on Scottsdale last year found that in south Scottsdale – defined as Chapparral Road south – fewer than 200 acres of undeveloped land remain. An aggressive urban revitalization strategy is essential if Arizona is to keep its older neighborhoods and downtowns competitive in the years ahead.

Yet so far the results are mixed. Phoenix is good at “the big stuff,” but has struggled to provide the fine-grained urban fabric necessary to make revitalization truly robust. Tempe – the first landlocked city – has used its location, its status as a university town, and the few tools available under Arizona law to score some big successes – but it is unclear whether the city can hold on to those successes.

Scottsdale has used some tools, shunned others, and shown mixed success. Mesa and others are just beginning to see whether they can make urban revitalization work.

The mixed results are not entirely due to local efforts, however. Arizona's cities also have a more limited arsenal than their counterparts in most other states – even other states in the West and Southwest. Arizona's political landscape – focused on low taxes and protecting private property rights – means that cities here have fewer traditional redevelopment tools available to them than cities in other states.

This is not to say that Arizona is at a “competitive disadvantage,” or that Arizona cities are not entrepreneurial in their use of urban revitalization tools to get things done. Rather, it is simply to point out a fact: Most other states allow cities to commonly use some tools which Arizona law does not authorize, most significantly tax-increment financing and property tax abatement. Urban revitalization is also “fussier” than conventional suburban development. They are smaller, finer-grained, and require lots of work to conform to traditional codes.

To succeed, Arizona cities need better tools at their disposal, which means that the state must provide a better toolbox. And the cities must also use those tools more strategically – so that when strong governmental powers are exercised in a conservative, pro-property rights environment, the general consensus that they are necessary is strengthened rather than undermined.

## **⑤ Arizona's Half-Empty Toolbox**

### **Land Assembly**

As in most other states, Arizona redevelopment law provides cities with the power of eminent domain for redevelopment purposes. Indeed, given the fact that Arizona does not permit tax-increment financing (see below), eminent domain is perhaps the most important power the redevelopment law bestows on Arizona cities.

The use of eminent domain for redevelopment purposes has always been controversial. And concern over the use of eminent domain for redevelopment purposes has been rising nationwide. In California, for example, many new or expanded redevelopment project areas restrict or ban the use of eminent domain.

But eminent domain has been more of a hot-button issue in Arizona than in other states, partly because it has been targeted by conservative property-rights advocates as a good place to take a stand. The most highly publicized situation was the case of Bailey's Brake Service, located on one of the most visible intersections in downtown Mesa. The city sought to acquire the Bailey's property as part of Mesa's redevelopment effort. But with the help of the conservative Institute for Justice, the property owners fought the condemnation action in both the courts and the press, eventually winning a slot on "60 Minutes" and a ruling against the city in the appellate court. In early 2004, voters in Mesa prohibited the use of eminent domain except for properties that would remain in public ownership for 10 years.

Opposition to eminent domain also drove the repeal of redevelopment project areas in downtown Scottsdale. Local merchants successfully lobbied the city to eliminate the downtown redevelopment area, though other redevelopment areas in the city remain.

In short, ideological challenges to the use of eminent domain may be discouraging cities from using this important tool in situations where it is necessary to get the job done.

### **Revenue Sources**

In most other states, redevelopment law allows local governments to use tax-increment financing in redevelopment efforts. As explained above, this tool channels at least some of the increase in property taxes inside the redevelopment area to the redevelopment agency directly. Tax-increment financing usually allows local governments to bond against future revenue streams and use the funds to acquire land and pay for public infrastructure.

But tax-increment financing is not permitted under Arizona law. As a result, local governments must turn to other revenue sources – typically tax increases or bond issues – to pay for redevelopment activity. Maricopa County increased its sales tax to pay for the Bank One Ballpark; Mesa increased its sales tax to pay for the Performing Arts Center.

In many cases, cities use bond money to pay for urban land write-downs, for affordable housing, and other tools. But bond funds are a finite source of revenue – they must be backed up by a revenue source (often the general fund); they are available only for a limited amount of time; and cities can quickly run up against debt limits that make bonding imprudent either politically or fiscally. Thus,

cities must generally increase taxes in order to pay for the big-ticket infrastructure needed to make urban revitalization work. And in order to provide incentive to specific developers, they are forced to turn to tax abatements – or, more accurately, Arizona’s peculiar variation on a tax abatement.

### **Property Tax Incentives**

As stated above, tax abatements are not usually the central feature of a successful redevelopment strategy. Without tax-increment financing, however, cities are sometimes forced to turn to tax abatements as a means of providing individual developers with the incentives they need.

But here again, Arizona differs from most other states. Most states permit property tax abatements as an economic incentive. Property tax abatements are widely used by cities around the country to attract and keep important businesses.

Arizona law does not permit property tax abatements. As an alternative, Arizona does permit cities to provide relief from the Government Property Lease Excise Tax (GPLET), which has been used by some aggressive communities – especially Tempe – as a substitute for a property tax abatement or even as a de facto TIF.

Under state law, buildings leased by private parties from government agencies are subject to an excise tax. The GPLET law permits an eight-year exemption from the excise tax under certain circumstances. Some cities and redevelopment agencies have used the GPLET to provide a de-facto property tax abatement by accepting the deed for projects from developers, then leasing them back and granting the excise tax exemption.

### **Sales Tax Incentives**

One powerful tool that Arizona cities do have is the state law permitting sales-tax rebates to urban developers. This rebate can be a useful tool, but like the GPLET arrangement it tends to create cumbersome deals. As used in metro Phoenix – especially in Tempe, which has used this tool extensively – the sales-tax rebate creates a kind of inside-out tax-increment financing. Private developers pay for needed public infrastructure up-front, and then are paid back with sales-tax revenues derived from their own projects.

Even sales-tax rebates have met with public resistance, however. In early 2004, voters in Scottsdale rejected a sales-tax rebate as part of the proposed deal to redevelop the Los Arcos property.

Beyond Los Arcos and a few other projects, sales tax incentives would not be characterized as being tools for urban revitalization. In fact, in metro Phoenix, most sales tax rebates are, as land-use attorney Grady Gammage points out, “for growth on the edge, because that is where sales tax is to be garnered and where it can be ‘stolen’ from neighboring jurisdictions.”

What does all this add up to for Arizona? It’s a half-empty toolbox. Many cities in Arizona know how to do good strategic plans for redevelopment. And the push for special taxes to promote urban revitalization – such as the BOB tax and the Mesa performing arts tax – can be important mechanisms to build public support and encourage public accountability for revitalization efforts. But with eminent domain under attack, tax-increment financing not permitted, and GPLETs serving as a

complicated “bastard child” of property tax abatements, Arizona cities simply do not have the same tools as cities in other states.

The half-empty toolbox doesn't mean that Arizona cities can't do deals. Rather, it means that the deals are more complicated to do. Eminent domain battles create uncertainty in redevelopment projects. Without tax-increment financing, revenue streams are hard to come by. GPLET abatements often force private developers to deed their property to a city, then buy it back eight years later. The sales tax rebate forces developers, rather than public agencies, to finance and build public infrastructure.

The most important consequence of the Arizona system is that it drives cities toward the big stuff. Transaction costs are high, and many tools – such as the GPLET abatement and sales tax rebate – are simply not worth using for smaller projects.

## ⑥ Case Studies of Urban Revitalization in Arizona

Arizona has not been without its successes in urban revitalization. But almost without exception, these efforts to revitalize urban areas have been a mixed blessing. Each of the following four case studies reveals a success of sorts – along with a cautionary lesson about the available tools and how to use them.

### **Scottsdale and the Los Arcos Mall Site**

The recent deal between the city of Scottsdale and Arizona State University for the former Los Arcos Mall site is a great example of the opportunities available in metro Phoenix to marry the knowledge economy and urban revitalization. But the whole Los Arcos tale is also a good example of how Arizona's "half-empty toolbox" makes the best deals hard to do.

The Los Arcos Mall site is a vacant 42-acre parcel on McDowell Road in South Scottsdale. Formerly the site of the first enclosed mall in the Valley of the Sun, the site is now the linchpin of Scottsdale's Los Arcos redevelopment area. In recent years, debate has raged over what the character of future development of the McDowell corridor should be. Furthermore, redevelopment in Scottsdale generally has been controversial; the City Council disbanded the downtown redevelopment area in 2002, the waterfront redevelopment area in 2003. The City may disband its other two districts – one of which is Los Arcos– in the near future.

The Los Arcos site was owned by The Ellman Companies, a set of real estate investment entities controlled by developer Steve Ellman. In 2003, Scottsdale agreed to enter into a sales-tax rebate agreement with Ellman to build a large retail center with Wal-Mart as the anchor tenant. The proposed deal called for a 49% rebate for up to 40 years – a total of \$37 million.

The city was naturally drawn toward a retail project for two reasons. First, like most Arizona cities, Scottsdale is heavily dependent on sales tax. State and local sales taxes account for almost half of the city's general fund, compared to less than 10% for property taxes. So any Arizona city is always looking to augment its sales tax base.

Second, the incentive structure in Arizona encourages retail projects. A city is permitted rebate sales taxes to make a redevelopment deal work, but cannot abate property taxes or do a tax-increment deal involving property taxes – the most common subsidy tool used in virtually all other states. Obviously, therefore, it is much more difficult to provide financial assistance to a revitalization project that does not have a retail component.

The Wal-Mart project immediately ran into considerable community opposition, however, including a referendum on the city's approval of the development agreement. Faced with likely defeat at the ballot, Ellman withdrew his proposal before the election in March 2004. More than 80% of the voters voted against it.

The city quickly came up with a new deal for the site – this one with Arizona State University. Instead of a Wal-Mart, the Los Arcos Mall site will be the location of the new ASU Scottsdale Center for New Technology and Innovation. The new ASU center will focus on research and "technology transfer" – that is, moving technological innovation from academia into the world of commerce. It is clear that

the “inside game” location – a site two miles from the Tempe campus, close to downtown Scottsdale, that could be made into a pedestrian-oriented, campus-like setting – was an important part of the deal.

Under the deal, the ASU Foundation purchases the property from Ellman and then sells it to the city, which will lease 37 of the 42 acres back to ASU. Scottsdale has committed \$41.5 million to buy the property and another \$45 million for infrastructure improvements. In return, the city will get half of ASU’s profits on the center up to a cap of \$81.5 million. The city might also turn a profit on the remaining five acres, which will likely be used for retail.

The ASU deal is not without risk for Scottsdale, in part because of the way the city was forced to use Arizona’s half-empty toolbox. No property tax breaks were available, and of course a sales-tax rebate was virtually meaningless. Instead, the city will purchase the property with bonds issued by its Municipal Property Corporation, which is backed by revenue from the city’s excise tax. If ASU does not follow through on its commitments, the land will revert to the city, which could of course come up with a new plan in the future.

The bottom line, however, is that the incentives available to a city like Scottsdale don’t line up with the high-tech and creative class opportunities that are emerging as the best way for urban revitalization to hook together with the Phoenix region’s “3 Big Bets.” Moreover, the city is essentially tapped out of funds to do other projects for a while. Had there been some other source of funds to help pay for this, the city would still have money left for future projects.

## **Downtown Mesa**

Located just east of Tempe, Mesa is not usually considered one of the region’s older, “landlocked” cities. Rather, it is usually viewed as a large bedroom suburb. With a population of more than 400,000, it is the 40<sup>th</sup> largest city in the United States, slightly larger than Atlanta.

Yet the western part of Mesa – including the downtown – is without question a part of the older, landlocked part of the region, located just a few miles west of downtown Tempe. Redevelopment in Mesa has not been without controversy, as the Bailey’s Brake Shop story suggests. At the same time, however, Mesa has used both vision and the Big Deal strategy very effectively to try to transform its downtown into an “institution-rich” environment that can serve as one of the region’s anchors. Mesa’s biggest play is the Mesa Arts Center, a \$95 million facility now under construction that will be the largest arts center in the State of Arizona. The arts center will include four theaters, ranging from 1,600 seats down to 99 seats; as well as five galleries and 14 visual and performing arts studios.

In most other states, such a facility probably would have been funded largely with tax-increment financing. But like other “Big Deals” in Arizona – including the Bank One Ballpark in downtown Phoenix – Mesa’s arts center is being financed by a sales tax. Local voters passed the “Quality of Life” sales tax increase in 1998 to pay for both capital (\$91 million in public funds) and operating (half of the annual \$7.2 million) expenses.

The Mesa Arts Center is a classic example of a Big Deal, but it’s also a good example of using a Big Deal as an anchor in a downtown that has a consistent and visionary concept. The city and the Mesa Town Center Corporation are attempting to use the arts center to leverage a downtown arts and

cultural district that attracts both creative artists and high-tech businesses that often gravitate to creative districts – just as this report suggests.

So far, Mesa has had some success in creating an institution-rich environment. The downtown has also attracted a new campus of Mesa Community College, which seeks to take advantage of the other downtown institutions by hooking up with the local YMCA, the city library, and other entities. Downtown Mesa has also attracted Saltmine Studios, one of Arizona’s leading recording studios, and JusticeTrax, a computer software that pays average salaries of more than \$75,000 per year.

Mesa is a good example of a city that has learned to play the Big Deal game well and is beginning to learn how to leverage Small Wonders off of it. But the key to Mesa’s success and survival will be whether enough Small Wonders locate – and stay – in the downtown, and whether the city can manage to combine Big Deals, Small Wonders, and Niche Items in a meaningful way.

### **La Grande Orange Grocery**

The snapshot of the region’s redevelopment history must, of course, capture both the big, preplanned downtown efforts and the small, organic neighborhood corner efforts. One of the best examples of the organic approach can be found in the southwest corner of the Arcadia neighborhood at 40<sup>th</sup> Street and Campbell Avenue in Phoenix.

In this location, Craig and Chris De Marco started the transformation with Postino’s, a wine bar/restaurant, which they opened in 2001 in a renovated Arcadia Post Office. Postino’s was followed by La Grande Orange, a market/bakery/café/pizzeria/flower shop, based on the designs of Chris De Marco and architect Cathy Hayes.

Architect Hayes moved her office to the corner, and her office is often the place where the local entrepreneurs, including the De Marco’s and the pastry chef Tammy Coe and flower vender Marc Karp, who own their own businesses, meet to offer each other support and to plan future additions. This is exactly the sort of neighborhood that attracts the creative class.

A big part of that energy comes from a strategic mixing of small venues—compressing the space needs of selected venues, like restaurants, intentionally cause patrons to wait in line. This strategy effectively advertises the venue’s popularity with customers publicly, while contributing to make the street a “happening place.” This perception of popularity contributes to the neighborhood’s “hip-ness,” attracting even more patrons, furthering its robust and lively street scene. This strategy benefits the shop owner too. Smaller venues require less rent and operational cost. In many cases, this approach effectively doubles the revenues that a shop owner can achieve per square foot of store space.

A number of cities and developers throughout the Phoenix region have noticed the transformation and have approached these young entrepreneurs about projects. What do entrepreneurs such as the De Marcos want from cities? They want to see signs that the city cares about the small, incremental redevelopment projects just as much as they care about downtown stadiums and arenas.

In a situation like La Grande Orange, it’s clear that the “Big Stuff” tools such as sales-tax rebates aren’t important. What is important – and would have helped La Grande Orange move even faster –

are the “process breaks” so important to small neighborhood businesses: more flexibility with signs and parking; a designated point of contact inside city hall; and perhaps a special team to work with small neighborhood projects (DeMarco & Hayes, 2004).

The reality, however, is that the city of Phoenix didn’t do anything special – no sales tax rebates, no fee waivers, no expedited approval process, no designated staff person to guide them through the complex process – but easily could have helped with some “process breaks.”

### **Phoenix Infill Housing Program**

In 1995, the city of Phoenix established an infill housing program for single-family housing on vacant land in the central part of the city and authorized \$100,000 in contingency funds for the program. The funds were to be used to reimburse city departments for lost revenues for fee waivers granted to applicants. The fee waivers included building plan review and permit fees and water and sewer development occupational fees. In addition, infill projects would be eligible for an expedited development process. The designated infill area lay between Cactus Road on the north and South Mountain.

This policy initiative was based on a series of interviews with more than 60 builders and developers, professionals associated with property development, neighborhood activists, city staff and, planning commission members that identified sixteen barriers to infill. The top five were:

- Crime and perception of crime;
- Perception of schools as inadequate and/or unsafe;
- Difficulty in finding and acquiring land suitable for development (due to multiple owners, unrealistic expectations and speculation that inflated land prices, and property not being on the market);
- Perceptions of declining property values;
- Higher development costs, including in some cases the cost of retrofitting infrastructure.

All these problems – plus the difficulty some developers had in obtaining financing – led to profit margins as low as 4%. But the process breaks contained in the infill program – such a fee waivers – can raise the profit margin to 7%, competitive with suburban homebuilding (Heim, 2001).

By 1999, the infill program had permitted 1,081 projects with an estimated construction value in excess of \$130 million. The average fee waiver was approximately \$1,700, although the maximum waivers were \$2,250 per house. (Heim, 2001) In addition, pilot programs were underway to address three significant barriers, all of which fall into the “process” category:

- Regulatory requirements pertaining to public health, safety, and welfare,
- Plan review times, and
- Costs associated with city review.

The city found that for many applicants expedited building plan review and personalized service in the development process, rather than the financial incentives, had been the most important benefits.

Unlike some other infill programs, Phoenix’s program did not have a strong commercial or mixed-use component. And yet, based on the La Grande Orange example, for small commercial enterprises and mixed-use projects some “process breaks” – expedited building plan review and personalized service – could be among the most important benefits.

## **7 Conclusion: Five Steps to Making Urban Revitalization Work in Arizona**

In order to compete in the national and global economy today, Arizona must master the art of urban revitalization. The region's "3 Big Bets" all depend on Arizona's ability to create and maintain urban places that combine entrepreneurial activity tied to large institutions with an attractive lifestyle that's different from Arizona's traditional ideal.

It's not impossible to make urban revitalization work in Arizona. But it's not so easy, either. There's a built-in bias toward more suburban development and against reusing urban land. There's a half-empty toolbox that is hard and cumbersome to use. There's a bias toward the big players and the big projects. To create greater diversity in urban development, the state and its cities need to get serious about both the goals of revitalization and the tools available to do the job.

Here, then, are five sound bites about urban revitalization in Arizona and how to make it work:

### **① Know what you want**

Nothing lays the foundation for success like a vision – and nothing helps create a sustainable vision more than local knowledge and local participation. Early urban renewal plans often obliterated the existing urban fabric – creating some new economic activity, but robbing the downtown or older neighborhood of its place-based assets in the process. The success stories listed above did the opposite: They built on the distinctive character of a downtown or a neighborhood with a strategy that played to assets and strengths. And by sticking to the vision, these cities have managed to create consistent success no matter whether they are focusing on Big Deals, Small Wonders, or Niche Items.

In Denver, funneling the baseball fans through LoDo to the parking lots was just as important as building Coors Field. In Pasadena, reinstating diagonal crosswalks was just as important as building parking garages. A vision can ensure that all the different pieces of the puzzle fit together.

Furthermore, the vision does not have to occur only at the local level. Arizona could borrow an idea from Michigan Governor Jennifer Granholm's "Cool Cities" initiative. Concerned that the young professionals and the "creative class" are leaving the state's urban areas, Granholm asked the mayors of more than 250 cities to convene advisory groups all over the state and figure out how "cooler cities" could be more attractive to young people.

Based on input from her local Cool City advisory groups, Granholm's Cool City Initiatives identified 20 pilot projects to receive \$100,000 grants to create places that attract the creative class, including access to over \$100 million in a "Resource Toolbox" of 75 state community improvement grants, loan programs, and assistance programs. "Cool Cities" is a great example of strategic planning that included a state-local partnership – with effective implementation follow-up.

## ② Know what you have

Arizona's cities can't play the inside game without an understanding of what the available land resources are – and this task is much tougher in infill locations than in the suburbs. Land is already subdivided into multiple small parcels, and each owner has his or her own often unpredictable agenda.

In a concise report for the Brookings Institution, urban experts Paul Brophy and Jennifer Vey recently argued that step one for cities in understanding their land resources is “Know Your Territory” – an information base that requires knowing:

- Where are the vacant land and buildings?
- What is the condition of the supply?
- How are the parcels zoned?
- Are they in strong or weak market areas?
- Who owns the parcels?
- What are their current market values?
- What properties might be in danger of becoming abandoned?

The emergence of electronic databases and geographical information systems (GIS) makes compiling and mapping this data possible. A wide variety of tools and techniques have been developed in recent years, such as the California Infill Estimation Methodology, a GIS-based infill housing tool developed by the city of Los Angeles and the Environment Now Foundation under a grant from Caltrans. Another innovative example is Baltimore Citistates, a GIS-based system that tracks progress of all city services.

## ③ Make sure there is a place to come home to – and a place to walk the dog

Big stuff – Arizona knows how to do that. The small stuff is harder but, in the end, just as important. Loft housing, coffeehouses, art galleries, incubator space for small tech companies, pocket parks – all of these things are just as important as the sports arena and the performing arts center. Yet the deck is stacked against these smaller projects.

Transaction costs are high, and redevelopment practice is oriented toward the big deal. Cumbersome processing makes it tough for little guys to hang in there. And that keeps the mom-and-pop venues and young developers away. It isn't easy, but the goals of urban revitalization in Arizona must acknowledge the small stuff, and the tools must make it easier to invest in small wonders.

The coolest “hot” places are those where pioneers lead the way and those pioneers often take advantage of small business loans programs, low-scale subsidies for artists lofts, and similar small-business assistance. And there always is a need for a place to walk the dog, meaning a revitalization strategy must build in the small and humane things that make a place truly livable – in addition to being cool and awesome.

#### **④ If you are going to play the game, get the right equipment**

Arizona is schizophrenic about the tools of urban revitalization and this schizophrenia is deeply embedded in state redevelopment policy.

On the one hand, municipal leaders clamor for tools and the state makes them available. On the other hand, ideological opponents raise a political fuss against their use and the state limits their utility. So eminent domain is available for land assembly, but local officials pay a big political price to use it. Cities can form redevelopment areas, but they can not buy land or finance infrastructure improvements with tax-increment financing, a tool used almost everywhere else in the nation. Cities can not offer property tax abatements, but they can offer an extremely complicated sale-leaseback deal that serves the same purpose. The result, ironically, is a system that favors big guys over little landowners the very people supposedly most at risk.

It is time to stop the schizophrenia. If Arizona wants to stop playing the urban revitalization game, then the legislature should simply outlaw all of the typical redevelopment tools available to cities in other states. Of course, Arizona will pay a steep price for this decision as urban areas will languish and decay, the creative class will stay away, and the state will be stuck with an increasingly outdated 20<sup>th</sup> century economic development strategy. But at least Arizona will be intellectually honest: We don't like the tools, so we won't play the game.

But if Arizona *does* want to play the game, then the state has to fill up the toolbox. Clarify how eminent domain can be used because judicious use of eminent domain has always been a legitimate and useful part of revitalization. Give cities some financing tools such as TIF so they can build technology districts, downtown districts, and urban infill districts. And provide a straightforward property tax abatement with strict rules on when and how it can be used. This will send a clear message that Arizona is in the urban revitalization business, and it will lower the transaction cost so smaller entrepreneurs, developers, and businesses can play the game.

The state Growing Smarter effort provides an ideal forum to create a set of state policy proposals. Growing Smarter requires that cities create infill strategies, but the legislation did not provide any new infill tools. The state Growing Smarter Coordinating Council should take up the task of crafting a proposal for a comprehensive set of "inside game" tools the state could provide to local government.

#### **⑤ Focus on process as well as money**

Complicated implementation tools are just one reason why the deck is stacked in favor of big stuff and big guys. The other reason is process. A sports arena or shopping mall is not likely to get flattened by a late hit from a building inspector. But a condo or loft project could be, especially since rules and regulations for residential projects are so much more complicated. But what is the point of claiming you want to promote urban revitalization in your policies if your codes, your plan checkers, and your building inspectors undermine the goal?

Arizona cities should focus on streamlining the process so that the right little guys doing the right little stuff can get the job done. This means creating an alternative set of codes and standards for urban locations, including parking standards, adaptive reuse standards, and lower impact fees. And

it means streamlining the process so that little-guy developers and landowners who meet those standards can get their projects approved and built quickly.

Providing “process breaks” for desirable infill projects isn’t easy. It requires a city government to rethink how it does business and how it can make it easy for some developers to get their projects approved. Arizona has operated a municipal redevelopment process that is “ad hoc and deal driven,” says land-use attorney Grady Gammage. As a result, “projects which are big enough, well-funded and well-represented are able to steer through the ‘Rube Goldberg’ system of development agreements, eminent domain, sales tax rebates and GPLET abatements.” But smaller stuff – the fine grained elements of a vibrant, unique downtown – falls between the cracks and gets little help or incentive. One way to fix this is for cities to create true infill districts or redevelopment districts in which financial incentives and “process breaks” are available on a relatively level playing field to big and small projects.

It is not easy to turn these five sound bites into action. Small stuff is hard to do. Compromise on the tools is always politically tempting even if the result is that they are hard to use. And it is never easy to clean up processes and make them easier. But in order for cities to play a good inside game, Arizona must get serious about urban revitalization. And that will require big changes.

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