

Legislature's Flat Tax Proposal Will Cut Revenue for Arizona's Cities and Towns by \$225 Million



Bisbee, Arizona

The proposed 2.5% flat tax rate and the 4.5% total cap on any income taxes would not only mean a \$1.9 billion cut to state revenues, it would also mean a cut to the urban revenue sharing dollars Arizona's cities and towns receive that are based on individual and corporate state income tax revenues. These cuts would result in a loss of critical services that our communities depend on to thrive like public safety, transportation,

“I am very concerned about all of the talk about substantial income tax cuts. I have said this before and I believe there is a lot of momentary money in our revenues right now that will be gone in three or four years. In Arizona it is much much easier to cut taxes than to raise taxes. When we start cutting, for example, income taxes we cut revenue not only for the state of Arizona but we cut revenue for local governments as well.”- Alan Maguire, Economist, Arizona Finance Advisory Committee, April 15, 2021

parks, libraries, and infrastructure.

In 1972, voters established the urban revenue sharing structure that provides 15 percent of state income tax revenues to cities and towns based on population. In exchange, cities and towns are prevented from adopting local income taxes. In Fiscal Year 2021, cities and towns will receive \$828 million in urban revenue sharing. Under the proposed 2.5 percent flat tax rate and 4.5 percent cap on any income taxes, cities and towns are expected to lose 31 percent of their urban revenue sharing dollars, or \$285 million.

Arizona's cities and towns are critical to the health and economic well-being of the state. Some cities and towns have been hit harder by the pandemic, resulting in business closures, high unemployment, and financial insecurity for families and individuals. As local leaders work to help their communities face these new economic realities, they are also tasked with ensuring that they have the much-needed revenue to pay for the services they provide and to invest in economic recovery.

Cities and Towns	Revenue Loss
Apache Junction	\$2,095,635
Avondale	\$4,328,564
Benson	\$240,227
Bisbee	\$257,210
Buckeye	\$3,919,440
Bullhead City	\$2,012,590
Camp Verde	\$550,700
Carefree	\$193,314
Casa Grande	\$2,886,267
Cave Creek	\$287,386
Chandler	\$12,856,324
Chino Valley	\$609,182
Clarkdale	\$216,155
Clifton	\$182,533
Colorado City	\$238,061
Coolidge	\$646,348
Cottonwood	\$603,176
Dewey-Humboldt	\$203,651
Douglas	\$797,130
Duncan	\$73,840
Eagar	\$243,230
El Mirage	\$1,760,007
Eloy	\$966,076
Flagstaff	\$3,693,883
Florence	\$1,349,898
Fountain Hills	\$1,240,516
Fredonia	\$73,840
Gila Bend	\$103,376
Gilbert	\$12,509,226
Glendale	\$12,423,916
Globe	\$361,669
Goodyear	\$4,274,858
Guadalupe	\$326,423
Hayden	\$73,840
Holbrook	\$250,269
Huachuca City	\$85,458
Jerome	\$73,840

Kearny	\$106,724
Kingman	\$1,526,672
Lake Havasu City	\$2,750,057
Litchfield Park	\$316,824
Mammoth	\$83,046
Marana	\$2,413,591
Maricopa	\$2,566,047
Mesa	\$25,500,087
Miami	\$87,624
Nogales	\$989,607
Oro Valley	\$2,266,600
Page	\$370,629
Paradise Valley	\$720,533
Parker	\$157,870
Patagonia	\$73,840
Payson	\$778,424
Peoria	\$8,662,002
Phoenix	\$82,749,901
Pima	\$125,922
Pinetop-Lakeside	\$219,995
Prescott	\$2,180,699
Prescott Valley	\$2,289,786
Quartzsite	\$185,241
Queen Creek	\$2,505,153
Safford	\$491,431
Sahuarita	\$1,546,756
Saint John	\$172,885
San Luis	\$1,712,011
Scottsdale	\$12,703,918
Sedona	\$508,956
Show Low	\$563,253
Sierra Vista	\$2,118,969
Snowflake	\$295,115
Somerton	\$814,901
South Tucson	\$281,331
Springerville	\$97,371
Star Valley	\$113,616
Superior	\$156,443

Surprise	\$6,973,669
Taylor	\$212,709
Tempe	\$9,638,859
Thatcher	\$255,979
Tolleson	\$362,900
Tombstone	\$73,840
Tucson	\$26,979,894
Tusayan	\$73,840
Wellton	\$149,846
Wickenburg	\$398,343
Willcox	\$173,918
Williams	\$159,889
Winkelman	\$73,840
Winslow	\$459,680
Youngtown	\$337,647
Yuma	\$4,838,259

Source: League of Arizona Cities and Towns, 2021

Notes: The estimate of the shared revenues cuts for each city and town are subject to change due to population size and tax cut estimates. The population figures used in distribution of state shared revenue are based on U.S. Census Bureau estimate for each city and town.

The Loss of Shared Revenues from the Flat Tax Will Hurt Small, Rural Communities

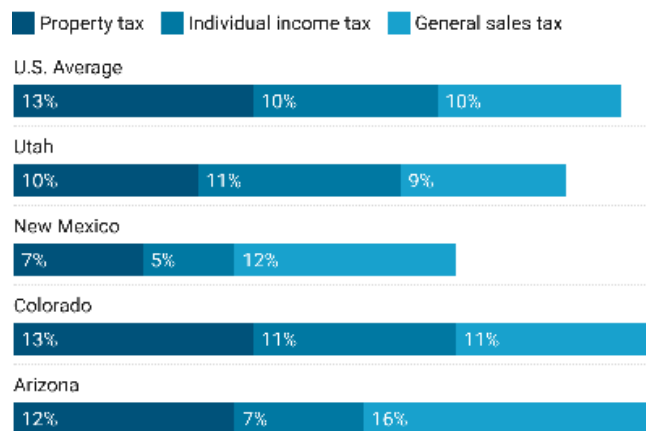
State sales and income taxes are often the largest revenue sources for Arizona’s smaller cities and towns. With significant restrictions on raising new revenues for cities and towns, permanent income tax cuts can lead to immediate revenue concerns and cuts to services at a time when communities need them most. Local economies will be impacted as cities and towns reduce or cancel planned capital projects. The impact of the proposed flat tax will be felt not only at the state level but also in every Arizona city and town. This will be especially true for small, rural Arizona communities – many of which have already been facing significant economic struggles.

Arizona’s current urban revenue sharing

works to complement other forms of revenue to achieve a more balanced and equitable tax system. Currently, Arizona’s only progressive tax is its tiered income tax structure. A flat tax will continue Arizona’s increasing dependency on regressive sales taxes to fund cities and towns across the state. According to the annual state and local government finance report by the U.S. Census, Arizona’s cities and town receive less funds from income taxes and are more reliant on general sales taxes than the U.S. average.

Arizona Cities and Towns Receive a Smaller Income Revenue Amount than the US Average

Taxes as a share of state and local general revenue



Nevada and Texas were excluded due to lack of income tax collection and reliance on excise taxes for oil and/or gambling

Chart: The Arizona Center for Economic Progress • Source: U.S. Census Bureau, 2018 Annual Survey of State and Local Government Finances, 2020 • Created with Dalawrapper

Arizona leaders should aim to create revenue systems that raise sufficient funds to support public goods and services at all levels of government.