



MEMORANDUM

Date: March 7, 2013

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "C.H. Huckelberry", is written over the printed name and title.

Re: **State Shared Revenues to Our Region Based on Annexation or New Incorporation**

Historically, once a year the issue is raised whether substantially increased revenues to our region would occur if the nearly 357,000 residents of unincorporated Pima County were annexed or became a new city. While this idea looks like an attractive strategy to increase government revenues throughout our region, on closer inspection and factual analysis, it is significantly exaggerated. In fact, more local taxes may be required to sustain this model.

The attached Table 1 shows the distribution of state-shared revenues for Fiscal Year (FY) 2011/12 to all jurisdictions, including new incorporated cities or towns. As it is impossible to predict which annexations by which jurisdictions may or may not be successful, for purposes of simplicity, it was assumed all of the unincorporated population of Pima County could become incorporated into one new city. If this were the case, the 357,000 residents in this new city would receive approximately \$80 million in state-shared revenues from sales tax, income tax, Highway User Revenue Funds and vehicle license taxes.

Tax receipts based on incorporation or annexation do not grow statewide; they are finite. These receipts must be shared with all existing cities and towns in the state, as well as any new entity.

In Pima County, each jurisdiction would see a reduction in state-shared revenues, with the largest reduction coming from the City of Tucson of approximately \$19.2 million. Pima County would lose \$24.5 million. Given these losses, the net new revenues would be \$32.5 million. While this is not \$80 million, it is certainly an attractive increase.

The next question is whether this net increase in revenue would cover the cost of services provided to the new incorporated community or annexed territories of the various cities and towns.

If the unincorporated population of Pima County were to be suddenly incorporated, it would be the fourth largest city in Arizona, only exceeded in population by Phoenix, Tucson, and Mesa. The FY 2012/13 budgets of these three cities were reviewed. Table 2

below shows the operating and maintenance expenditures of each of the cities, including on a per capita basis.

“Pima City” would be the fourth largest city, and it is likely the budget for general governmental services for such a city would be similar to the three cities reviewed.

Table 2 – Adjusted Municipal Operating Expenditures Per Capita.

City	Adopted	Net	Per Capita
Phoenix	\$2,507,673,000	1,564,752,000	\$1,068
Tucson	1,020,960,660	775,308,480	1,481
Mesa	923,887,000	751,286,000	1,688

These expenditures have been adjusted downward in each of the cities by removing expenditures for 1) fire or medical services, since these services would be provided by Pima City and/or via fire districts; 2) library services, since these services are provided by the County; 3) convention center expenditures, since it is unlikely the new city would have a convention center; and 4) enterprise fund programs, such as aviation, water and wastewater. Reducing these expenditures from the adopted budget of each of these cities is shown in the net municipal operating expenditures for each city.

Using the average per capita adjusted net municipal operating expenditures for Tucson, Mesa and Phoenix would yield an average net operating expenditure for the new city of \$1,412 per capita. Multiplying this by the 357,000 residents served would yield a budget for the new city of \$504,084,000. This amount is then compared to the state-shared revenues that would be received by this new city in the amount of \$80,088,387, which is significantly less than that needed to support probable municipal expenditures. The difference would have to be made up in sales taxes, property taxes or both; therefore, any new city would need to levy more taxes to support its municipal expenditures.

This analysis does not include the savings that would occur in the region by reduced County expenditures, since a number of services now provided by the new city would not be needed, required or provided by the County. Table 3 below shows those services that would not be provided by the County, which would mean a net reduction of \$155 million, making it likely the County property tax would be reduced by a similar amount. The net expense impact would be reduced from \$504 million to approximately \$349 million, still significantly more than the region’s net increase in state-shared revenues of only \$32 million.

Table 3 – County Services Not Provided Within Pima City.

Service	Amount
Animal Control	\$ 5,904,161
Development Services	6,742,375
Non-corrections Law Enforcement	73,728,197
Parks and Recreation	15,055,714
Parks and Recreation Grants/Special Programs	260,079
Solid Waste Management	5,418,000
Transportation and Transportation Grants	38,918,936
Portions of Justice Courts	7,992,220
Portions of Justice Courts Grants/Special Programs	1,425,764
Total	\$155,445,446

These larger cities and towns not only have a sales tax of approximately two percent or more, they also have a property tax. Table 4 below lists property taxes levied by each of these communities, as well as a few other larger communities in the State.

Table 4 – Municipal Property Tax Rates.

City	Population	Tax Rate Per \$100 of Net Assessed Value		
		Primary Tax Rate	Secondary Tax Rate	Total Combined Tax Rate
Phoenix	1,464,727	\$1.2397	\$0.5803	\$1.8200
Tucson	523,471	0.4125	0.8514	1.2639
Mesa	444,856	0.0000	0.5104	0.5104
Chandler	241,214	0.3292	0.9422	1.2714
Glendale	229,008	0.2252	1.6753	1.9005
Scottsdale	219,713	0.5027	0.7225	1.2252
Gilbert	219,666	0.0000	1.1500	1.1500
Tempe	164,659	0.7862	1.3552	2.1414

On average, the property tax levied by these cities and towns is \$1.4104. The County's primary property tax, from which the County provides all similarly related urban and regional services, is \$3.4178 by comparison.

Any new incorporated city or town would likely levy an approximate two percent sales tax and a property tax. The net effect of new incorporation or annexations will be higher taxes.

While the initial proposition of seeing more state-shared revenues is an attractive one, the details indicate it is not such a bargain.

The Honorable Chairman and Members, Pima County Board of Supervisors
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A great deal of detailed information regarding the cost of County-provided services is available. Please contact my office if you are interested in receiving this information.

CHH/mjk

Attachment

c: Martin Willett, Chief Deputy County Administrator
Tom Burke, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management

TABLE 1

FY 2011/12 STATE SHARED REVENUES REGIONAL IMPACT OF INCORPORATION

State Shared Revenue *	Pima County					South Tucson			Tucson		Sahuarita		New Unincorporated Area Cities/Towns	Overall Regional Impact
	Marana	Oro Valley	South Tucson	Tucson	Sahuarita	Unincorporated Area Cities/Towns	Overall Regional Impact							
Revenue With Current Incorporated Population														
State Shared Sales Tax ^{1/}	\$92,723,932.00	\$2,731,863.04	\$3,204,611.86	\$441,648.98	\$40,642,020.49	\$1,973,745.85							\$25,790,240.46	\$141,717,822.22
State Shared Income Tax (Urban Revenue Sharing FY2011/12) ^{2/}	N/A	2,950,734.00	3,461,359.00	477,033.00	43,898,174.00	2,131,878.00							27,859,746.63	52,919,178.00
Highway User Revenue Fund (HURF) ^{3/}	33,554,762.83	2,056,098.87	2,412,685.12	332,971.10	30,589,188.76	1,485,790.55							18,228,090.17	70,431,497.23
Vehicle License Tax to Local Government General Fund ^{4/}	22,782,573.12	1,270,356.25	1,490,208.07	205,271.01	18,898,827.93	917,909.86							8,210,309.80	45,565,146.24
Vehicle License Tax for Transportation Purposes ^{5/}	10,796,199.29	N/A	N/A	N/A	N/A	N/A							N/A	10,796,199.29
Total	159,857,467.24	9,009,052.16	10,568,864.05	1,456,924.08	134,028,211.18	6,509,324.26							80,088,387.06	321,429,842.98
Revenue With New or Expanded Incorporated Cities/Towns														
State Shared Sales Tax ^{1/}	\$92,723,932.00	\$2,552,347.81	\$2,994,031.52	\$412,627.49	\$37,971,366.19	\$1,844,047.75							\$25,790,240.46	\$164,288,593.22
State Shared Income Tax (Urban Revenue Sharing FY2011/12) ^{2/}	N/A	2,757,157.83	3,234,283.90	445,738.28	41,018,331.84	1,992,021.10							27,859,746.63	77,307,279.58
Highway User Revenue Fund (HURF) ^{3/}	19,870,564.69	1,595,814.00	1,872,857.65	257,973.84	23,749,216.35	1,153,601.36							18,228,090.17	66,728,118.05
Vehicle License Tax to Local Government General Fund ^{4/}	22,782,573.12	812,538.61	953,148.40	131,359.75	12,088,164.91	587,051.65							8,210,309.80	45,565,146.24
Vehicle License Tax for Transportation Purposes ^{5/}	0.00	N/A	N/A	N/A	N/A	N/A							N/A	0.00
Total	135,377,069.81	7,717,858.25	9,054,321.47	1,247,699.37	114,827,079.29	5,576,721.86							80,088,387.06	353,889,137.10
Incremental Change in State Shared Revenue With Expanded or New Cities/Towns														
State Shared Sales Tax ^{1/}	\$0.00	(\$179,515.23)	(\$210,580.34)	(\$29,021.48)	(\$2,670,654.30)	(\$129,698.10)							\$25,790,240.46	\$22,570,771.01
State Shared Income Tax (Urban Revenue Sharing FY2011/12) ^{2/}	N/A	(193,576.17)	(227,075.10)	(31,294.72)	(2,879,842.16)	(139,856.90)							27,859,746.63	24,388,101.58
Highway User Revenue Fund (HURF) ^{3/}	(13,684,198.15)	(460,284.87)	(539,827.47)	(74,997.26)	(6,839,972.42)	(332,189.19)							18,228,090.17	(3,703,379.18)
Vehicle License Tax to Local Government General Fund ^{4/}	0.00	(457,817.64)	(537,059.67)	(73,911.26)	(6,810,663.02)	(330,858.21)							8,210,309.80	0.00
Vehicle License Tax for Transportation Purposes ^{5/}	(10,796,199.29)	N/A	N/A	N/A	N/A	N/A							N/A	(10,796,199.29)
Total	(24,480,397.43)	(1,291,193.92)	(1,514,542.58)	(209,224.72)	(19,201,131.89)	(932,602.40)							80,088,387.06	32,459,294.12

* Revenues are computed based on Census 2010 population shares, adjusted for annexations, for each state shared revenue category during fiscal year 2011/12.

^{1/} State shared sales taxes are distributed to incorporated cities/towns based on their share of statewide incorporated population. Distributions to counties are based on a combination of each county's share of statewide population, each county's share of secondary net assessed property valuation, and its share of where taxable sales occur.

^{2/} State shared income taxes are distributed to each incorporated city/town based on its respective share of statewide incorporated population. Counties do not receive state shared income tax monies.

^{3/} HURF monies are distributed to each incorporated city/town based on a combination of its share of statewide incorporated population and its share of the local county's incorporated population, adjusted for the county's share of statewide gasoline usage. HURF distributions to counties are based on the county's share of statewide gasoline and diesel fuel usage (72% weighting) and the county's share of statewide unincorporated population (28% weighting). HURF revenues for FY 2011/12 were reduced offset State budget shortfalls. The amounts shown in the table do not include monthly adjustments made by the Arizona Department of Transportation each month.

^{4/} Approximately 24.59% of Vehicle License Tax revenues are distributed to the general fund of the county where vehicle registration occurs. Another 24.59% of Vehicle License Tax revenues are distributed to the incorporated cities/towns in the county where the vehicle is registered based on each city's/town's share of the incorporated population within that county. As no additional vehicle registrations are assumed to occur in the county, there is no incremental change in Vehicle License Tax revenue distributed to the Pima County general fund.

^{5/} Approximately 5.83% of statewide Vehicle License Tax revenues are distributed to counties for transportation purposes based on each county's share of overall statewide unincorporated population. Incorporated cities/towns do not receive these state shared monies.

Note: Revenues do not include any potential state shared Local Transportation Assistance Funds or local municipal sales taxes. HURF distributions to local municipalities do not include "3 Percent" monies currently distributed to the City of Tucson, as the City's population qualifies it for such funding. Expansion of existing cities/towns or incorporation of new cities/towns in the unincorporated areas of the county could reduce Pima County's Hotel/Motel Tax revenue, which funds MTCVB tourism promotion, Stadium District and Economic Development, from nearly \$6.3 million in FY2011/12 to \$0 should these unincorporated areas no longer exist. Local municipal hotel/motel tax revenues would likely increase by a similar amount, however.