MEMORANDUM

Date: June 17, 2016

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

From: C.H. Huckelberry
County Administrator

Re: **State Shared Revenue Increase Based on Annexation or Incorporation**

Every few years, discussion occurs regarding Pima County's unincorporated population, which is the largest of any county in Arizona, and whether this population should either become a city or be annexed into adjacent cities or towns. This discussion centers around the increased State Shared Revenues (SSRs) that theoretically would allow taxes to be decreased. This premise is significantly flawed, and the more likely result from our unincorporated population becoming a city or town or being annexed by other jurisdictions would be an actual tax increase.

Consideration of the following factors must be included in any discussion of this issue:

- SSRs are distributed to cities and towns, as well as counties. Any new city or town or annexation of the 362,082 persons living in our unincorporated area would increase SSRs for that new town or the annexed jurisdiction, including Vehicle License Tax (VLT), Highway User Revenue Funds (HURF), State Shared sales tax and State income tax. Based on the population and existing revenue distribution, this newly incorporated city or town or annexed population would receive an additional $103.7 million in SSRs. This appears significant.

- The first problem with such an assumption is that, overall, statewide tax revenues from these categories do not increase; they are shared. Hence, any increase for a new city or town or annexed community will result in decreases for all other existing cities and towns. In this case, the total decrease in revenue for existing cities and towns within Pima County would be $29.1 million. Therefore, the net new regional additional tax revenues from SSRs would be $74.6 million, which still appears to be a significant amount.

- In addition to the existing cities and towns losing SSRs, the County would also see losses in SSRs in those revenue categories that rely on unincorporated population as a distribution factor. The County would lose its VLT revenues for transportation and see a significant reduction in County HURF revenues. These losses would equal $32 million. Therefore, the net increase in revenues to the region would be further reduced from $74.6 million to $42.6 million.

- The next significant questions are whether the region would be better off with this new or annexed community with a net increase of $42.6 million, and could this increase in revenue offset expected service costs for a new city, town, or annexed community? To answer this question, the best model would be to examine aggregate budgets of cities and towns in Arizona where the population ranges from as high 261,000 to as low as 171,000. The table below shows a list of the six Arizona communities that fall within this population threshold, as well as their respective annual and per capita budgets for last year. As can be seen, the annual budgets of even the least populated community of Peoria has an annual budget that exceeds by a factor of 12 the additional regional revenues that would be derived from such a strategy. Even with discounting the water and wastewater enterprise funds run by the community of Peoria, this factor would still exceed the additional revenue by 9.5 times. Clearly, a new community would need to rely on increased taxes. Hence, rather than being a tax reduction strategy, it is a strategy that will actually lead to increased local taxes.

Expenditures

City/Town	Population[1]	FY2015/16 General Fund Expenditures	FY2015/16 Total Funds Expenditures	Total Budget, Net of Enterprise Funds
Chandler	260,828	$244,595,922	$ 910,614,017	$ 810,734,843
Gilbert	247,542	169,904,050	615,009,220	518,437,420
Glendale	240,126	206,154,495	632,000,000	535,418,169
Peoria	171,237	168,566,321	511,000,000	403,422,981
Scottsdale	236,839	273,234,364	1,201,690,332	1,016,311,698
Tempe	175,826	187,647,884	607,527,884	516,329,698

Expenditures Per Capita

City/Town	Population[1]	FY2015/16 General Fund Expenditures	FY2015/16 Total Funds Expenditures	Total Budget, Net of Enterprise Funds
Chandler	260,828	$ 937.77	$3,491.24	$3,108.31
Gilbert	247,542	686.36	2,484.46	2,094.34
Glendale	240,126	858.53	2,631.95	2,229.74
Peoria	171,237	984.40	2,984.17	2,355.93
Scottsdale	236,839	1,153.67	5,073.87	4,291.15
Tempe	175,826	1,067.24	3,455.28	2,936.59

[1]US Census Bureau population estimate for July 1, 2015 https://www.census.gov/popest/data/

Assuming the highest annual per capita budget expenditure of the City of Scottsdale for our unincorporated population, the new community would result in a budget expenditure of $1.55 billon. Utilizing even the lowest per capita annual budget expenditure, the Town of Gilbert at $2,094.34, still results in an annual expenditure of $758.3 million.

Believing that incorporating our unincorporated population in either a new city or annexing it into existing cities and towns will result in a tax decrease is a fallacy. The exact opposite would occur.

CHH/mjk