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# MEMORANDUM

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Date: January 31, 2018

To: Chair and Members  
Pima County Sales Tax Advisory Committee

*NCF*  
From: Nicole Fyffe  
Executive Assistant to the  
County Administrator

Re: **Additional Information Concerning a Proposed County General Sales Tax and the Impact to Low-Income Households**

## 1. Background

This memorandum is in response to questions and comments from Sales Tax Advisory Committee (Committee) members during and after discussion of this topic at the Committee's January 9, 2018 meeting. It expands upon information provided in the memorandum dated December 8, 2017.

## 2. Estimated Cost of the Sales Tax by Household Income

Materials provided to the Committee and the public often cite an estimate of \$91 a year (\$7.58 a month) as the cost of a half-cent sales tax to a household with the average income in Pima County, which is \$65,000. The median household income as estimated by the U.S. Census Bureau for 2016 is \$46,764, which is lower than the average.

Note that these estimates are per household, not per person. The U.S. Census Bureau estimates an average of 2.47 persons per household for Pima County. Prior to the City of Tucson's sales tax election last year, City materials included an estimated cost of \$3 per month per person, which is almost identical to the County's estimate of \$7.58 a month per household for the average income households at 2.47 persons per household (\$3.07 per person).

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Table 1 was provided to the Committee in the previous memorandum and shows how the estimated cost of the sales tax varies by household income. Again, this is per household, not per person. The source data for Table 1 is the U.S. Bureau of Labor Statistics Consumer Expenditure Survey. The data does have limitations. For example, household income may be under reported and does not include student loans, savings, and the value of food stamps/SNAP program benefits, which means that the households access to funds to purchase goods and services may be under represented. For our purposes, it also means that households included in the lower-income categories may include students and retirees that may have access to funds not shown and therefore may not be as impacted by an increased sales tax. But regardless of the limitations, this consumer expenditure survey data is the primary source of data available if we want to relate the expenditures of consumers to their incomes.

Regarding the impact of the sales tax on lower-income households, Table 1 shows the estimated cost would range from about \$3 to \$6 a month for households with incomes below the median household income of \$46,764.

**Table 1**

**Estimated County Half-Cent General Sales Tax Cost Per Household By Household Income**

<b>Income Before Taxes</b>	<b>Less than \$15,000</b>	<b>\$15,000 to \$29,999</b>	<b>\$30,000 to \$39,999</b>	<b>\$40,000 to \$49,999</b>	<b>\$50,000 to \$69,999</b>	<b>\$70,000 to \$99,999</b>	<b>\$100,000 to \$149,000</b>	<b>\$150,000 to \$199,999</b>	<b>\$200,000 and more</b>
<b>Avg. Income Before Taxes*</b>	\$8,388	\$22,167	\$34,703	\$44,589	\$59,369	\$83,595	\$120,512	\$170,704	\$345,002
<b>Avg. Annual Taxable Expenditures*</b>	\$7,362	\$9,614	\$13,088	\$13,890	\$16,151	\$19,727	\$24,913	\$31,238	\$40,817
<b>Sales Tax Rate</b>	.005	.005	.005	.005	.005	.005	.005	.005	.005
<b>Annual Cost of Half-cent Sales Tax</b>	\$36.81 (\$3.07 month)	\$48.07 (\$4.01 month)	\$65.44 (\$5.45 month)	\$69.45 (\$5.79 month)	\$80.76 (\$6.73 month)	\$98.63 (\$8.22 month)	\$124.56 (\$10.38 month)	\$156.19 (\$13.02 month)	\$204.09 (\$17.01 month)
<b>Annual Cost as % of Income</b>	0.44%	0.22%	0.19%	0.16%	0.14%	0.12%	0.10%	0.09%	0.06%

\*National level data from the Consumer Expenditure Survey 2016, U.S. Bureau of Labor Statistics

3. Number of Low-Income Households in Pima County

The Committee may be interested in how many households fall within these various income categories. Table 2 shows the estimated number of households by household income, according to data from the U.S. Census Bureau. While the income categories don't line up perfectly with the income categories in Table 1, the data shows that roughly one third, or 128,000 households in Pima County have incomes below \$30,000. Those households are estimated to pay approximately \$3 or \$4 a month more in sales tax if the County were to adopt a half-cent sales tax.

**Table 2**  
**Number of Households in Pima County by Household Income**

<b>Household Income</b>	<b>Estimated Number of Households</b>	<b>Percent of Total Households</b>
Less than \$10,000	32,118	8%
\$10,000 to \$14,999	24,478	6%
\$15,000 to \$19,999	23,828	6%
\$20,000 to \$24,999	25,202	6%
\$25,000 to \$29,999	22,502	6%
\$30,000 to \$34,999	22,621	6%
\$35,000 to \$39,999	19,643	5%
\$40,000 to \$44,999	20,891	5%
\$45,000 to \$49,999	17,654	4%
\$50,000 to \$59,999	31,928	8%
\$60,000 to \$74,999	38,781	10%
\$75,000 to \$99,999	44,846	11%
\$100,000 to \$124,999	26,987	7%
\$125,000 to \$149,999	15,864	4%
\$150,000 to \$199,999	14,980	4%
\$200,000 or more	13,067	3%
<b>Total:</b>	<b>395,390</b>	<b>100%</b>

Source: U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates, Household Income in the past 12 months in 2016 inflation adjusted dollars

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4. Number of Households in Poverty In Pima County

Pima County's poverty rate as of 2016 was 18.4 percent and the City of Tucson's poverty rate was 24 percent. These are down slightly from 2015 but up significantly from 2007 and the start of the Great Recession. Poverty guidelines (the household income level for which those with incomes below the level are considered to be in poverty) are set at the Federal level and depend on family size, as shown in Table 3.

**Table 3**  
**2018 Poverty Guidelines**

<b>Persons in family/household</b>	<b>Poverty guideline</b>
For families/households with more than 8 persons, add \$4,320 for each additional person.	
1	\$12,140
2	\$16,460
3	\$20,780
4	\$25,100
5	\$29,420
6	\$33,740
7	\$38,060
8	\$42,380

5. Home-Ownership by Household Income

According to Table 4, even for the lowest income households, at least a third own their home and would therefore see their Pima County primary property taxes reduced under the proposals that the Committee and the Board have discussed to date.

**Table 4**  
**Owner-Occupied versus Rental Housing in Pima County by Household Income**

<b>Household Income</b>	<b>Total Housing Units</b>	<b>Owner-Occupied</b>	<b>% Owner-Occupied</b>	<b>Renter-Occupied</b>	<b>% Renter-Occupied</b>
Less than \$5,000	15,816	5,333	34%	10,556	67%
\$5,000 to \$9,999	16,211	5,090	31%	11,168	69%
\$10,000 to \$14,999	24,514	7,999	33%	16,370	67%
\$15,000 to \$19,999	23,723	10,423	44%	13,463	57%
\$20,000 to \$24,999	25,305	11,393	45%	13,769	54%
\$25,000 to \$34,999	45,074	24,240	54%	20,960	47%
\$35,000 to \$49,999	58,122	34,663	60%	23,561	41%
\$50,000 to \$74,999	70,775	47,995	68%	22,643	32%
\$75,000 to \$99,999	44,679	34,178	76%	10,709	24%
\$100,000 to \$149,999	42,702	35,633	83%	7,191	17%
\$150,000 or more	28,073	25,452	91%	2,601	9%
<b>Total</b>	<b>94,995</b>	<b>242,399</b>	<b>61%</b>	<b>152,991</b>	<b>39%</b>

Source: U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates, Household Income in the past 12 months in 2016 inflation adjusted dollars

#### 6. Analysis of Draft 10 Year Road Repair Plan

One of the suggestions we received from a member of the public via the online feedback form was to consider fixing roads in lower-income areas first. Staff ran an analysis comparing the estimated median household incomes of Census block groups across Pima County to the road treatment schedule contained in the Draft 10 Year Plan for Road Repair for Unincorporated Pima County. The analysis found that this current draft plan would not result in more road miles in low-income areas being treated in the early years. For the total County maintained paved road miles in areas where the median household income is estimated to be less than the median for the entire County (\$47,000), one-third of the road miles are scheduled to be treated within the first 5 years of the program, and two-thirds of the road miles are scheduled to be treated within the last 5 years of the program. This plan is merely a draft and staff can certainly change inputs into the model. However, it is also worth considering that households, regardless of income, often drive outside of their immediate

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neighborhoods to access schools, employment and services, and therefore may also benefit from road repairs occurring outside of their immediate neighborhoods.

7. City of Tucson's 5-Year Half-cent Sales Tax for Road Repair and Public Safety Equipment

City voters approved a temporary, five-year half-cent sales tax increase in May 2017, to fund road repair and public safety equipment. When the additional sales tax terminates, the City's sales tax would decrease by a half cent, which would then eliminate the impact of a County half cent sales tax for those who shop or conduct taxable business transactions in the City. A half-cent County sales tax would generate more annually for the City for road repair than the City's tax does, if the revenues are distributed to the City based on population, as proposed under the plans that the Committee and Board have discussed to date. That said, the City could still seek voter approval to continue the tax.

8. United Way's Voluntary Income Tax Assistance Program and the Arizona Income Tax Credit for Increased Excise (Sales) Taxes

The December 8<sup>th</sup> memorandum referenced the option of providing increased County assistance for the United Way's Voluntary Income Tax Assistance (VITA) program, with the goal of increasing the number of eligible households that claim the Arizona income tax credit for increased sales taxes. This tax credit, if not already taken, may completely offset the impact of a County's half-cent sales tax. The tax credit is \$25 per person, with a maximum credit of \$100 for a household of four or more, and those eligible include individuals or married couples filing separately with adjusted gross incomes of \$12,500 or less, and single heads of households or married couples filing jointly with adjusted gross incomes of \$25,000 or less.

Ken Briggs oversees the VITA program for the United Way of Tucson and Southern Arizona, which provides free tax filing assistance to eligible individuals and households. According to Mr. Briggs, 2015 data from the Internal Revenue Service (IRS) for Pima County shows that there is a lot of opportunity to expand the VITA program. Expansion of the program would not only increase the number of households that can claim the increased sales tax credit and other tax credits such as the Earned Income Tax Credit, but would also eliminate the filing fees for those that currently pay an average of \$250 to file but are eligible to file for free. While United Way and its partners have a limited number of IRS-certified tax return preparers, they are able to encourage people to file tax returns through free online software or through "Valet VITA". Valet VITA includes sites around the community that are staffed by volunteers that interview people and scan the required documents, which are then uploaded to a secure

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server. IRS-certified preparers are then physically located at offsite locations and process these tax returns within about a week. Pima County's involvement in United Way's VITA program is specifically through Valet VITA, whereby Pima County's Community Service, Employment and Training Department provides sites and site coordinators for this service.

Mr. Briggs stated that Pima County could be most effective by increasing resources for targeted promotion of the program. If that promotion then leads to a considerable increase in those who use the program, Pima County could then consider providing more Valet VITA sites.

Pima County also provides sites at libraries and community centers for the American Associations of Retired Persons (AARP) to provide free tax filing assistance. The United Way's program and partners, along with AARPs, are the primary providers of this free tax filing assistance in Pima County.

**9. Additional Support to Increase the Financial Stability of Low-income Households**

Pima County provides assistance to low-income households through a variety of County and external agency programs and services, including a more recent initiative that is part of the County's Economic Development Plan: the Ending Poverty Now initiative. According to the County departments responsible for the majority of these services and programs, there is no practical way to offset the increase in sales tax to all the low-income households that would be impacted. However, the Committee and the Board may want to consider expanding assistance for programs and services that increase the financial stability for many such households. One idea is to commit, in the sales tax implementation plan ordinance, to allocate one percent of the annual sales tax revenues (\$800,000 on average) to such efforts. The infrastructure for identifying annual needs in these areas, prioritizing those needs and requests, and allocating funding, already exists through the County's long-standing Outside Agency Program, which is overseen by a 6-member Committee appointed by the Board of Supervisors and the County Administrator. The departments responsible for the majority of the County services and programs collaborate through an interdepartmental Addressing Poverty Working Group associated with the Ending Poverty Now Initiative, which may also provide an effective way to direct these additional resources for emerging needs, cross discipline approaches, or multi-generational projects that have not been identified or funded through previous efforts.

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10. Summary

While the estimated cost of a County half-cent sales tax to the average income household in Pima County is estimated to be \$91 a year or \$7.58 per month, about one-third or 128,000 households in Pima County are estimated to have incomes below \$30,000 and are therefore estimated to pay about \$36 to \$48 a year or \$3 to \$4 per month per household. While low-income households are disproportionately impacted by sales taxes, at least one-third of households at the lower-income levels own homes and would see a reduction in Pima County primary property taxes if some or all of the sales tax revenue is applied to property tax reduction. The Draft 10 Year Plan for Road Repair for Unincorporated Pima County does not currently prioritize road repair in low-income areas, though it is assumed that households often travel outside of their immediate neighborhoods and therefore may benefit from road improvements in other areas. The City of Tucson's 2017 voter-approved half-cent sales tax is set to expire in 4 years, at which time the total sales tax in the City would be reduced by a half-cent, unless the City asks voters to continue the tax. The poverty rate in the City is significantly higher than the County as a whole. There is opportunity to expand the United Way's free tax filling assistance program and for Pima County to increase targeted proportion of the program. In addition, the Board could consider allocating one-percent, or about \$800,000 a year, from a County half-cent sales tax to programs and services that increase the financial stability of low-income households that would be disproportionately impacted by the sales tax.

CHH/

c: Chuck Huckelberry, County Administrator  
Jan Leshner, Chief Deputy County Administrator  
Tom Burke, Deputy County Administrator for Administration  
Carmine DeBonis, Deputy County Administrator for Public Works