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# Legislators would push cities to levy income taxes

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Arizona's largest cities would be forced to impose income taxes or else face massive cuts to public services under a new legislative plan to phase out shared state tax revenues.

Senate Appropriations Chairman Bob Burns wants to send a strong rebuke to city governments that have doled out tax incentives to lure retailers and used tax dollars to help build stadium and hotel projects. His plan, which took a key first step Monday, would wean Arizona's cities with more than 100,000 in population from about \$300 million a year in shared state income and corporate taxes over five years.

The plan faces an uphill battle in the Legislature. Leaders in all the state's large cities oppose it, saying it could lower the quality of life for thousands of Arizonans.

A goal of the proposal would be to decrease state income taxes for Arizonans while either shifting the financial burden to Arizonans who live in the cities or cutting back on services. Voters approved the revenue-sharing plan with an initiative in 1972. In exchange for 15 percent of state revenues, cities were barred from passing income taxes.

"The amount of (shared revenues) has continued to grow and grow and grow, and there's been no responsibility and connection with who raises the money and who spends it," said Burns, R-Peoria. "The Legislature has the responsibility of raising it, and the city is in the position of being the gift giver and spending it without having to face the voters."

Senate Bill 1115 passed the Senate Appropriations Committee on Tuesday on a 7-4 party-line vote. It could face a full Senate debate as early as next week.

Arizona residents and businesses would see their state income taxes go down under the plan. If city leaders want to make up their 15 percent share of state revenues, the bill would allow them to pass an income tax with a two-thirds majority vote of the city council.

## Sending a message

Sen. Jack Harper, who voted for the bill, acknowledged that the intent is likely to send a message to cities.

"Cities need to understand if they are going to be fiscally irresponsible, they need to do it with their money, not ours," said Harper, R-Surprise.

Eight cities would immediately feel the bill's impact: Phoenix, Tucson, Mesa, Scottsdale, Tempe, Glendale, Peoria and Chandler, as would the town of Gilbert. Leaders in all the affected communities oppose the plan. They say city governments have, sometimes through tax incentives, done the heavy lifting of

attracting businesses and jobs that bring in the tax revenues.

"The important thing to remember is that the economic development that the state benefits from happens at major cities and towns," said Glendale Mayor Elaine Scruggs, whose city builds about a third of its budget on shared revenues. "This proposal wants to take the burden of providing those services squarely on the individual resident. This tax reduction in reality will be a reduction in the quality of life in cities who contribute the very most to the state of Arizona."

Scruggs said that people come from all over the state, nation and world to visit cities, which places a burden on them. Visitors use streets, public safety services and park and recreation amenities, which cities provide with state-shared revenues.

## **Police, fire protection**

The proposed legislation caused blood pressures to skyrocket at Phoenix City Hall, where officials expect to reap more than \$121 million in the state income-tax portion of state-shared revenues this fiscal year. The money represents about 15 percent of the city's \$930 million general fund and is considered essential to providing basic city services, such as police and fire protection.

Cutting the money would make it impossible for Phoenix to do business, City Manager Frank Fairbanks said.

"It's safe to say it would make Phoenix unlivable," Fairbanks said. "We're talking potentially massive cuts to public safety, parks, senior services."

Those types of measures are not an option, Phoenix Mayor Phil Gordon said.

"This would be so dramatic, so draconian, it's almost incomprehensible," he said.

Burns' bill comes at an especially bad time because Phoenix officials already face a budget crisis. They've cut more than \$100 million over the past three years and are facing a \$68.7 million deficit as they look to the next fiscal year because expenses are fast outpacing revenues.

## **New taxes**

In Phoenix and Mesa, their city charters don't allow new taxes without asking voters. The councils would then have to ratify the new taxes with a two-thirds majority.

Mesa lobbyist Jim Huling said his city would be in a double bind because, unlike other large Arizona cities, it has no property tax. And he doubts that Mesa's traditionally fiscally conservative voters or City Council would approve an income tax. Mesa takes in about \$36 million a year from state-shared revenues, roughly 8 percent of a city budget that's facing 5 percent across-the-board cuts this year already.

"We would have to do massive program and service cuts," Huling said.

## **'Bait and switch'**

Chandler Mayor Boyd Dunn said losing state revenues would make it impossible to avoid cuts to police and firefighters, who usually get spared the knife in tough times.

Scottsdale City Councilman Bob Littlefield said the Legislature is attempting a classic "bait and switch."

"I think it's terrible," Littlefield said. "They're trying to help out the state budget by screwing us. They're saying, 'We need the money, but we don't want to be the ones to pass the tax increase. We want you guys to pass the tax increase, and then it will be your fault.' They get the extra money and make us the bad guys."

If the bill passed, Scottsdale would lose about \$20 million, or 10 percent of its \$200 million general fund budget.

Catherine Connolly, executive director of the Arizona League of Cities and Towns, said the bill could lead to more urban sprawl. "If this passed, it would be an incentive for people to live outside cities and for businesses to locate outside cities," Connolly said.

**Reporters Ginger D. Richardson, Monica Dunsmoor, Lesley Wright and Bao Ong contributed to this article.**

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