

**1% Sales Tax Renewal
City of Prescott
CAP Position Paper
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Introduction

In 1996 the City of Prescott (COP) passed a 1% sales tax increase with funds dedicated to road maintenance and improvement projects. In 2005 the sales tax was renewed for a period of 10 years. At that time, the ballot language was altered in order to include Open Space (OS). Also at that time, it was determined that Roads (R) would effectively receive 75% of the funding and OS would receive 25% capped at \$40.7M. Presently, the tax is set to expire in 2015; it is significant to note that OS is on track to accumulate the maximum amount of \$40.7M by the sunset date. To date, the city council has approved and closed purchases totaling approximately \$15M.

Presently, Public Works projects an overall need of \$784M from FY10 (July 2009) through FY35. In order to meet the short term need FY10-FY15, the COP needs to renew the sales tax so that it can secure the short term bond financing necessary to keep the roads improvement projects on course. **This includes an estimated amount of \$47.6M in FY10 (starting in July of 2009) which would serve as a large economic stimulus for central Yavapai County and the COP.**

In addition to the funds generated by the sales tax receipts, the COP also receives Highway User Reserve Funds (HURF). HURF funds are commonly know as the federal “gas tax” and it is collected by the Federal Government and allocated to the states based on an arcane system dating back to the 1950’s when the Interstate Highway system was formed and construction commenced. Since 1996, HURF fund receipts are basically flat with the COP receiving approximately \$3.2M on an annual basis. These funds are used to maintain and build the road system of the COP in addition to the sales tax dollars received locally.

Annually, the Federal Government deposits Arizona’s share of the income with the state. It is then in the purview of the Arizona State Legislature to determine how much money gets passed on to the municipalities around the state. Unfortunately, in times of need, this means that the legislature has the discretion to direct the funds as it sees fit. This leaves the HURF funds susceptible to “sweeps” at times when state sales tax revenues are in decline.

As a side note, the historical allocation of HURF funds expires this year and Rep. Jeff Flake is on the forefront of crafting the new proposed allocations with the goal of state equalization in the United States Congress. Arizona’s revenues received fall well below those generated by the state historically. Flake and others representing the West will attempt to secure a dollar out of the system for every dollar paid in.

It is important to note that if the proposed renewal were to be approved with the entire 1% earmarked for roads only and combined with the average amount of HURF funds historically collected, the COP would be able to only fund about half of the need projected from FY10-FY35 in the amount \$784M! As a result, the overall course of action is clear; do what it takes in order to renew the tax in the maximum amount that voters will approve in September.

Counter Arguments

It is widely believed that most informed residents understand the pressing need for renewal of the tax. The main issue seems to center on the inclusion of OS as a continual component of the tax. **It would seem that the most widely held belief for a prudent course of action is to split Roads and OS into separate initiatives and request a renewal for Roads only in the amount of .75% over a 20-year term.** It is important to note that recently the Open Space Alliance (OSA) released a written position that backs this strategy. The OSA plans to bring a separate ballot initiative to the voters in the future in order to secure further funding of OS acquisition in the COP.

There is clearly a concern in some circles that “growth pay for growth”. In this instance, those worried about growth do not want to see the sales tax funds generated going towards the future construction of new roads. It is vital to note that once you back out the estimated interest cost of \$85M from the projected need of \$784M, approximately **75% of the funds needed, roughly \$525M, will be used for some form of maintenance of the COP’s existing traffic infrastructure from FY10-FY35.** It is interesting to note that the COP believes the value of the asphalt alone on the streets (not included sidewalk, curb, gutter, drainage or utilities) is currently \$200M.

Presently, the most onerous threat to passage of the renewal of the tax is the continued upheaval in the budgets of all governmental agencies nationally and within the state. The legislature may turn to the voters for a temporary sales tax increase in the amount of 1% in November in order to close the gap on the state budget shortfall. If this happens, it will create a substantial challenge to the renewal of local sales tax in any form simply due to timing. Yavapai County seems to have deferred round two of the .25% jail tax until 2010. If they reverse course and attempt round two in the fall it will clearly hurt the chance of passage for the roads tax too.

CAP’s Stance

The COP has a pressing need and as a result must move forward with the ballot initiative in September as presently anticipated. The COP is not in a position to fund the projected need under any circumstance and should therefore ask for the maximum amount it perceives it can pass based on the results of the poll it commissioned. Open Space should be divorced from Roads as recommended by the Open Space Alliance. Transit should not be included with Roads and should be left to fend for itself at some point in the future. **CAP recommends the renewal of the sales tax in the full amount of 1% with all monies collected going to the roads program. The term of the renewal should be**

25-years and OS maintenance should be paid for out of funds accrued in the OS account.

CAP has identified this issue as a top priority in 2009 and stands ready to support the voter initiative fully as long as it is crafted based on the terms outlined. The organization understands the importance and the challenge presented by timing. We recognize that well run campaigns have been successful in the form of JTED locally and the .5% sales tax increase for road improvements approved in Pima County earlier this year. Although we acknowledge a tough battle ahead, we feel it can be won through the formation of a wide based coalition of various community groups and proper voter education.