



## **FINANCING ARIZONA'S FUTURE**

Highlights of the 109th  
Arizona Town Hall

November 13-16, 2016  
Mesa, Arizona



Participants Patricia Garcia, John Courtis and Jodie Filardo consider changes to the draft report of recommendations during the plenary session at the 109th Town Hall.

*Education, public safety, infrastructure, health care, social services and highways all have one critical common thread: they each rely on government finance.*

- from the 109th Arizona Town Hall Report of Recommendations

**F**or over 50 years, Arizona Town Hall has educated, engaged and empowered Arizonans to create solutions to critical policy issues.

Prior to the Town Hall, participants from throughout the state reviewed a background report developed by Arizona State University in partnership with the University of Arizona, Northern Arizona University, the Arizona Board of Regents and other industry professionals.

Participants also considered recommendations from ten Future Leaders Town Halls and a Community Town Hall in Verde Valley that addressed the same topic.

Meeting in facilitated small groups, participants addressed a common set of discussion questions. Trained recorders captured points of consensus and the entire group gathered for a plenary session on the fourth day to adopt a report of recommendations. The report reflects the overall consensus achieved by the 109th Arizona Town Hall.

This publication is a summary of the complete report that includes the background research report and the report of recommendations.

Complete Town Hall reports are published and made available to Arizona Town Hall members, elected officials including the Arizona Legislature, public libraries, and the general public. Download copies online at [www.aztownhall.org](http://www.aztownhall.org) or call 602-252-9600 to request a printed copy.

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# KEY POINTS FROM THE BACKGROUND REPORT

Read or download the complete background report at [www.aztownhall.org](http://www.aztownhall.org).

Whether you care about education, our criminal justice system or the roads that get you to work, all of these issues are impacted by government revenue and spending. Government finance is critical to all issues that involve Arizona's local and state government systems.

## GOVERNMENT FINANCE IN ARIZONA

- More than one-third of the revenue received by Arizona state government comes from the federal government. Similarly, more than one-third of the revenue realized by local governments in Arizona derives from either the federal government or the state government — primarily the latter.
- The general fund is by far the largest of the more than 200 funds used by the Arizona state government. Its revenue comes from multiple sources, though primarily from the state sales tax and the state income tax.
- In contrast, most of the other funds receive revenue from just one or a few specific sources, and that revenue must be used for specific purposes.
- The Arizona State Legislature appropriates (decides how to spend) less than 40 percent of the total authorized spending of the Arizona state government. The monies that are not appropriated mostly come from user fees and the federal government and must be used for specific purposes.
- The general fund is the primary catch-all fund for the Arizona state government. It is largely dependent on sales and income taxes which fluctuate significantly with the economic cycle.
- General fund revenue has fallen by one-third since the early 1990s after adjusting for the state's growth. The decline in revenue largely results from a series of state tax law changes that have reduced tax rates and added tax credits and tax exemptions. The primary rationale provided for these tax law changes has been that tax reductions would boost economic growth.

- There has been no discernible improvement in economic growth and therefore no boost in tax collections to offset the initial loss of revenue resulting from these tax law changes.

## REVENUES AND EXPENDITURES

- Nearly three-fourths of the appropriations in the current fiscal year go to only three of the more than 100 state agencies: Department of Education, Arizona Health Care Cost Containment System, and Department of Corrections.
- Disproportionately large decreases in appropriations have been made to higher education and to an aggregate of relatively small state agencies.
- The general fund has experienced a structural deficit over much of the last four decades. It was caused mostly by reducing revenues without reducing spending by an equal amount, though certain expenditures were increased without boosting revenues.
- Sizable decreases in total authorized spending have occurred in many agencies, particularly the Department of Transportation.

## LOCAL GOVERNMENT REVENUE

- Local governments consist of counties, municipalities (incorporated cities and towns), school districts, and special districts (such as for fire protection).
- State government shares revenue with some local governments. A portion of the income tax collected by the state is shared with municipalities through the urban revenue sharing program.

- State-shared revenues are a significant portion of the total revenue of local governments.
- State-shared revenue and other total general revenue available to the aggregate of all local governments declined 19 percent between fiscal years 1993 and 2013 after adjusting for the state's growth, with most of the drop occurring after fiscal year 2007.
- The largest categories of expenditures by counties in Arizona are related to crime: corrections, police protection, and judicial and legal administration.

## REVENUE AND EXPENDITURE COMPARISONS TO OTHER STATES

- The total state and local government tax burden in Arizona of individuals and businesses combined is considerably below the national average.
- The individual tax burden in Arizona is substantially below average for those with high incomes, but is a little above average for those with low incomes. Arizona has one of the most regressive tax systems in the nation.
- Businesses in Arizona pay comparatively high amounts in property taxes and sales taxes. Other business tax burdens, including the corporate income tax, are quite low.
- Per student spending on K-12 education in Arizona in FY 2014 was the third lowest in the nation at 30 percent below average. Per student spending on K-12 education is below average in every expenditure category; Arizona ranks near the bottom on administrative costs. In FY 2015 per student support for higher education was the 10th lowest in the nation.





Marguerite Roza, Director, Edunomics Lab, McCourt School of Public Policy, Georgetown University addresses participants during Monday's dinner program.

*Arizona's government financing system is both affected by and affects our ability to generate economic development.*

- from the 109th Arizona Town Hall Report of Recommendations

# REPORT OF RECOMMENDATIONS

The 109th Arizona Town Hall gathered on November 13-16, 2016, to develop recommendations for financing Arizona's future. Below is a summary of the recommendations for action. Read or download the complete report of recommendations at [www.aztownhall.org](http://www.aztownhall.org).

## TAX STRUCTURE AND POLICY

- Broaden our tax base to provide more stable and predictable revenue including the collection of sales and use tax from Internet-based sales.
- Ensure that the budget stabilization fund (a.k.a. the "Rainy Day Fund") is properly structured, funded and implemented to address the cyclical aspects of Arizona's financing structure.
- Simplify the tax code in support of small business understanding and filing.
- Enact a citizen initiative to repeal Proposition 108's 2/3 majority requirement for raising taxation and instead require only a simple majority.
- Balance the state's revenue sources to ensure both vertical and horizontal equity considering the growth of the service economy, the regressive nature of the sales tax and the small contribution of property taxes to total revenue.

## BUDGET POLICY AND PROCESS

- Consider expanding local control by reviewing state-imposed caps on counties, cities, and special districts including the half-cent limitation on sales tax increases and allow counties and special districts to tax on the primary property valuation rate.
- Make the budget process more open and transparent to our citizens by including multiple opportunities for stakeholder input during the process.

- Move to biennial budgeting and require a rolling, six-year strategic plan.
- Consider initiatives such as Envision Utah and Healthy Colorado as best practice models.

## FUNDING PRINCIPLES

- Eliminate unfunded mandates, to include those to counties, cities and special districts.
- Prohibit the state from shifting costs and responsibilities to counties, cities and special districts and prohibit the state from taking revenue from these entities as well.
- Increase funding for: 1) the Arizona State Land Department; 2) the Arizona Department of Water Resources; and 3) the Department of Revenue.
- Restore health-care funding to meet statutory requirements.

## EDUCATION FUNDING

- Restore a viable level of funding to achieve specific, measurable outcomes for preK-12, community colleges, vocational programs, JTEDs and universities, even if taxes need to be increased.
- Restore the more than half billion dollars that were cut from the Arizona Board of Regents' budget over the last nine years.
- Consider limiting and even eliminating private school tax credits and empowerment scholarship accounts.



Keynote speaker Kil Huh, Senior Director, State and Local Fiscal Health, Pew Charitable Trusts presents an analysis of Arizona compared to other states.

*Arizona must recognize that the policies we have adopted have created a highly pro-cyclical government financing system which reduces government revenue at the precise time when additional resources are needed: when the economy falters.*

- from the 109th Arizona Town Hall Report of Recommendations

## ECONOMIC DEVELOPMENT AND INFRASTRUCTURE INVESTMENT

- Encourage and support the diversification of Arizona's economy by authorizing local governments to use the tools they need including tax increment financing, community facility districts, and both public-private partnerships and an Economic Development Reimbursement Authority to fund infrastructure.
- Prioritize infrastructure investment with a focus on expanding access to water, energy and telecommunications in order to meet the needs of all Arizonans and spur development.
- Update highway user revenue funding and fees to reflect current conditions.
- Ensure that roads and highways are maintained by preventing sweeps of these funds.
- Encourage veterans and military personnel to live in Arizona by enacting legislation similar to the Hazelwood Act in Texas that provides qualified veterans, spouses, and dependent children with an education benefit of up to 150 hours of tuition exemption at public institutions of higher learning in the state.

## JUSTICE SYSTEM

- Require independent audits of the adult and juvenile justice systems that reveal the current costs of incarceration.
- Compare the private versus the public expenses and make recommendations for changes to increase efficiency and safety based on best practices across the country.
- Consider reforms to the criminal justice system intended to reduce recidivism while also reducing costs, including diversion programs, using early release, and eliminating mandatory sentencing and requirements that inmates serve a minimum percentage of their sentences.

## PLANNING FOR THE FUTURE

- Facilitate long-range planning by increasing legislative terms and eliminating term limits.
- Enact a citizen initiative to automatically sunset voter protection of future citizen initiatives after ten years if they require additional funding or restrict raising revenues.
- Develop a strategic vision for Arizona.
- Educate Arizonans on the importance and benefits of government and making investments in the public sector.
- Encourage supportive civic leadership from business, professional and community leaders.



Dennis Hoffman, Tom Rex and Ken Strobeck presenting at the Monday Author's Breakfast.



# FUTURE LEADERS TOWN HALLS

The Arizona Town Hall, in partnership with Maricopa Community Colleges and other organizations, held Future Leaders Town Halls that drew high school and college students from around the state. Their recommendations helped to inform the discussions at the statewide Town Hall in Mesa. The following are some of the key points developed from the gatherings.

## PRINCIPAL ATTRIBUTES AND GOALS OF ARIZONA'S GOVERNMENT FINANCING SYSTEM

- Focus on vertical equity and efficiency to ensure forward progress and equality.
- Provide a balance in the distribution based on our most pressing needs.
- Redistribute the tax burden based on ability to pay.
- Increase funding for education at all levels.
- Ensure that long-term tourists pay their share of taxes.

## SUCCESS OF GOVERNMENT FINANCING SYSTEM IN MEETING SHORT AND LONG TERM NEEDS

- Emphasis has been on temporary fixes for permanent problems.
- Funds disbursed for education and public services are not adequate.
- Spending on correctional facilities is high compared to other priority needs.
- Rebalance funding to focus on education, infrastructure, the environment and healthcare.
- Continue support to preserve unique state resources.

## STRENGTHENING AND IMPROVING ARIZONA'S GOVERNMENT FINANCING SYSTEM

- Use tax brackets as guidelines and make the tax system more understandable.
- Emphasize proportional distribution and transparency in the state budget.

- Consider some tax increases to fund our growing needs.
- Find and establish new industries to provide more revenue.
- Provide a mechanism for the people to give greater input and feedback.

## MESSAGES FOR ARIZONA'S ELECTED LEADERS

- Increase funding for education to create financially viable communities.
- Be accountable for decisions and actions related to revenue and funding.
- Provide more oversight of how budgeted funds are used.
- Improve the accessibility of voting to increase citizen participation.
- Increase the information to the public on where the funding is going.

## COMMITMENTS TO ACTION

Participants committed to:

- Contact local legislators to communicate our needs and interests.
- Educate ourselves on the government financing system.
- Keep up with pending legislation.
- Vote.
- Promote involvement in policy discussions in our communities.

Empassioned participants discuss how best to finance Arizona's future at Arizona State University's Future Leaders Town Hall.

### Future Leaders Town Halls:

- Mesa Community College
- Arizona State University - Downtown Phoenix Campus
- Arizona Western College - Parker Learning Center
- Arizona Western College - San Luis Learning Center
- Central Arizona College - Aravaipa Campus
- Cochise College - Benson Center
- Cochise College - Sierra Vista Campus
- Cochise College - Willcox Center
- South Mountain Community College
- Yavapai College - Prescott Campus





## FINANCING ARIZONA'S FUTURE QUICK LINKS

Bureau of Economic Analysis	<a href="http://www.bea.gov">www.bea.gov</a>
United States Census Bureau	<a href="http://www.census.gov">www.census.gov</a>
W.P. Carey School of Business	<a href="http://www.wpcarey.asu.edu">www.wpcarey.asu.edu</a>
Council On State Staxation (COST)	<a href="http://www.cost.org">www.cost.org</a>
Lincoln Institute of Land Policy	<a href="http://www.lincolninst.edu">www.lincolninst.edu</a>
Minnesota Center for Fiscal Excellence	<a href="http://www.fiscalexcellence.org">www.fiscalexcellence.org</a>
Tax Foundation	<a href="http://www.taxfoundation.org">www.taxfoundation.org</a>
Institute on Taxation and Economic Policy	<a href="http://www.itep.org">www.itep.org</a>
Arizona Joint Legislative Budget Committee	<a href="http://www.azleg.gov/jlbc.htm">www.azleg.gov/jlbc.htm</a>
Arizona Department of Revenue	<a href="http://www.azdor.gov">www.azdor.gov</a>
95th Arizona Town Hall "Riding the Fiscal Roller Coaster"	<a href="http://www.aztownhall.org/95">www.aztownhall.org/95</a>

Participants Lindsay Welch and Bill Holmes share their Town Hall experience through social media.

## HOW YOU CAN HAVE AN IMPACT

*By stabilizing cyclical state financing systems and broadening the tax base, local governments would be better equipped to consistently provide services.*

- from the 109th Arizona Town Hall Report of Recommendations

- Share your knowledge and the work of Town Hall participants with family, friends and coworkers.
- Use available resources referenced in the background report for the 109th Arizona Town Hall to partner with existing organizations. Download the background report at: <http://www.aztownhall.org>.
- Keep up to date on relevant programs in your community and action you can take through the Arizona Town Hall (<http://www.aztownhall.org>).
- Arrange a program in your community. Arizona Town Hall can provide resources, speakers, and printed materials. Use social media and personal networks to share information.
- To join existing efforts to pursue recommendations from the 109th Arizona Town Hall, contact the Arizona Town Hall office.
- Vote in upcoming elections and educate yourself on the issues.



We welcome your involvement,  
questions and perspectives.

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Town Hall recommendations are a valuable resource for policymakers because they do not represent the agenda of a particular group or political perspective. Instead, Arizona Town Hall reports contain the informed consensus of Arizonans from different political parties, professions, and geographic areas of the state. A private, non-profit civic organization, Arizona Town Hall serves as a catalyst for conversations and recommendations that create significant changes in Arizona's public policy. Countless local, state, and national leaders cite Arizona Town Hall as an important factor in educating people about complex issues, and fostering the development of civic and community leaders.

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