

FICTION: IMPLEMENTATION OF THE FLAT TAX HAS HURT CITY REVENUES – AND ARE SPREADING OUR BUDGET PROBLEMS TO THE CITIES.

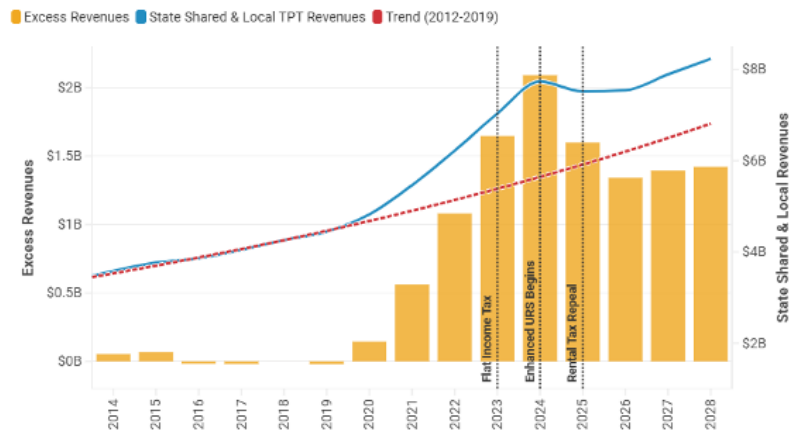
“Phoenix to increase sales tax to shore up budget shortfall. City getting less revenue because of changes in state law”ⁱⁱⁱ

FACTS:

- Since 2020, State Shared and City Sales Tax Revenue are Up Over \$7 Billion: After following a strong and stable 4.8% annual growth trajectory for nearly a decade, municipal and county revenues – both local and state shared – have surged (averaging 9.3% per year), leading to nearly \$7 Billion in cumulative revenues between 2020 and 2025 beyond what cities could have expected given prior trends. Based on revenue forecasts through 2028, the net cumulative “excess” revenues are expected to reach \$11 billion, even after state-imposed revenue cuts.
- The State has recently shared more revenue with cities and towns, not less. Without the implementation of the 2.5% flat tax (and the accompanying increase to Urban Revenue Sharing payments to cities and towns), municipalities would have received \$260.8M less in State shared revenue last year, and only \$11M more this year. Meaning, cities and towns today have received \$249.4M more revenue as a result of the flat tax legislation.

Local and State Shared Revenues Have Soared in Recent Years

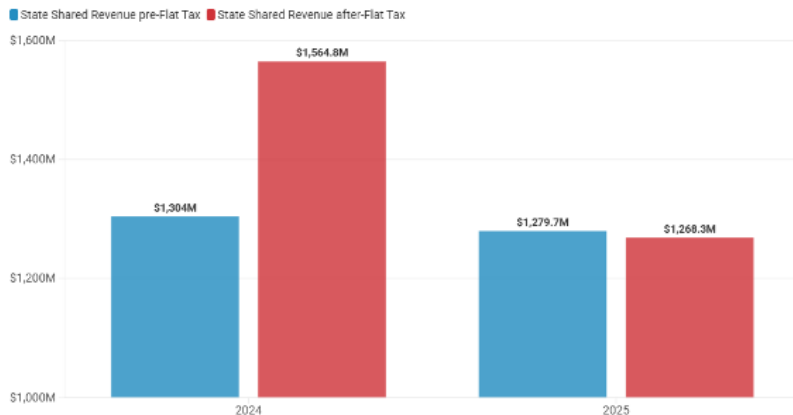
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Source: Common Sense Policy Institute, 2025 Budget Then and Now

The State Has Shared More Revenues With Cities and Towns, Not Less

Without the implementation of the 2.5% flat tax (and the accompanying increase to URS payments to cities and towns), municipalities would have received \$260.8M less in State shared revenue last year, and only \$11M more this year. Meaning, cities and towns today have received \$249.4M more revenue as a result of the flat tax legislation.



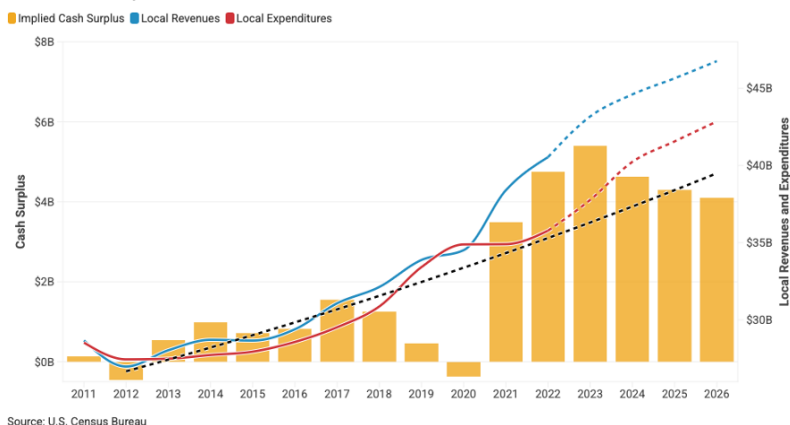
Source: Arizona Department of Revenue Annual Reports, JLBC FY 2024 Appropriations Report, CSI Calculations • State Shared Revenue includes only URS disbursements

State shared revenue last year, and only \$11M more this year. Meaning, cities and towns today have received a \$250 million cash-infusion due to the flat tax legislation.

- Policymakers increased the share of income tax revenues it gives to cities and towns from 15% to 18% to protect them from any revenue loss due to the Flat Tax: The increase was phased in ahead of the Flat Tax itself, to provide cities and towns with a temporary cash infusion to bridge the transition. This bridge is never acknowledged.
- Local governments have increased spending at historic rates. Over the past five years, local government budgets are up at least 32%. The ballooning of revenue to cities and towns over the past five years has led to much larger cash surpluses than the historical average. From 2011 through 2020, the average annual cash surplus was \$564 million. From 2021 through estimated 2026, that figure has exploded to \$4.4 billion—8 times higher than its historical annual average.

Local Government Revenues and Expenditures

Based on their responses to Census survey data and extrapolations by CSI, local government budgets likely grew at least 32% in the last five years.



BOTTOM LINE

Arizona's local governments have enjoyed years of rapid revenue growth, despite any coincident changes to statewide tax policy. From 2020 through forecasted 2028, the net cumulative "excess" revenue cities and towns will have received from the State totals \$11 billion—far exceeding and reported deficits. Managing these surplus resources responsibly is central to keeping balanced budgets.