



Issue 14 – April 16, 2021

Legislative Update

Today is the 96th day of the legislative session and to date, the Governor has signed 233 measures into law and issued one veto. There are currently 42 bills awaiting action from the Executive. The House and Senate floor calendars were shorter this week as the legislature focused on passing amendments to the tribal gaming compact ([HB2772](#)). Budget conversations continue to take place among lawmakers with the focus remaining on a proposal to cut income taxes by \$1.5 billion. Next Tuesday will mark the 100th day of session and there is at least one bill scheduled for a conference committee next week.

State Budget

Some House Republicans continue to advocate for the proposed tax cut package as part of the budget discussions, including the largest income tax cut in state history. Their proposed 2.5% flat income tax proposal would reduce revenues by \$1.5B over a period of three years, which includes a [\\$225M impact to cities and towns](#). The League and several mayors made significant outreach to legislators this week to highlight the proposal's impact to local government budgets and services, including public safety. Senator Paul Boyer (R-Glendale) submitted an op-ed to the [Arizona Capitol Times](#) highlighting his concerns with the proposal and its impacts to police and fire budgets.

If the proposal does not include some mechanism to maintain existing distributions to local governments, cities and towns would need to prepare making budget cuts or tax increases to adapt to this loss in revenue. Arguments in favor of the tax proposal suggest cities and towns would be made whole with growth that resulted from the cuts and that the *Wayfair* legislation passed three years ago allowing taxation of remote and online sales would provide sufficient revenues to offset the cuts. **Neither of these statements are accurate.** It would take significant growth in income, sales, construction, and other taxable activities to generate a revenue neutral position for the state and municipalities. In addition, *Wayfair* simply authorized the taxation of online and remote retail purchases that would have otherwise been taxed if it had been done at a bricks-and-mortar location in the state. As a result of more transactions occurring online, the state and cities and

towns were losing out on capturing the tax revenue for these transactions. Today, even with the *Wayfair* legislation, local governments will never recoup that lost revenue and cannot rely on online retail, which would also have to increase substantially to offset the income tax cuts proposed by House Republicans.

We ask you continue to talk with your legislators about the damaging impacts of this plan and suggest alternatives that would allow for the legislature to move forward with tax cuts that do not impact cities and towns.

SB 1146 Vehicle Sales

This week, the Joint Legislative Budget Committee (JLBC) issued a revised memo on the potential fiscal impacts of [SB 1146 NOW: motor vehicle dealers TPT](#). As we noted in a previous bulletin, the measure expands the TPT exemption for vehicles purchased by non-residents. Current law requires that the vehicle be delivered out of state in order to be eligible for the TPT exemption. SB 1146 would make it so that any individual that is not a resident of the state could make use of that exemption and drive the vehicle out of the dealer's lot without paying TPT – opening the door for a substantial loss of revenue to cities, towns, counties, and the state.

A previous fiscal analysis stated that there would be a small reduction in revenues to cities and towns. The League contends that this initial analysis did not consider that some TPT exemptions still require that local taxes be paid. Additionally, nonresidents that purchase a vehicle that will be registered in their home-state will still pay taxes in that state rather than paying those in Arizona where the commerce was supported and generated. The revised analysis supports the League's position that an expansion of this exemption would mean that cities and towns will likely see larger revenue losses than initially estimated. The League continues to oppose this measure.

Legislative Bill Monitoring

All bills being actively monitored by the League can be found [here](#).