

Groundhog Day Tax Increase

Presentation for Payson Tea Party, December 12th, 6:00 pm at Tiny's Restaurant

By:

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Topic: Repeal of prior .88% sales tax sunset clause and proposed 1% sales tax increase.

Quick Facts.

The state sales tax rate in Arizona is 5.600%. The total sales tax rate is between 5.600% and 11.200% with local taxes. Payson currently ranks 30 out of over 450 tax jurisdictions in Arizona. If the rate is increased by an additional 1%, we will rank 7th for the highest tax rate. ¹

Rank	Location	Rate
1	Kearny, AZ Sales Tax Rate	11.20%
2	Mammoth, AZ Sales Tax Rate	11.20%
3	Superior, AZ Sales Tax Rate	11.20%
4	South Tucson, AZ Sales Tax Rate	11.10%
5	Fredonia, AZ Sales Tax Rate	10.90%
6	San Luis, AZ Sales Tax Rate	10.71%
	Payson, AZ Sales Tax Rate - Proposed	10.48%
7	Williams, AZ Sales Tax Rate	10.40%
8	Chino Valley, AZ Sales Tax Rate	10.35%
9	Guadalupe, AZ Sales Tax Rate	10.30%
10	Coolidge, AZ Sales Tax Rate	10.20%
30	Payson, AZ Sales Tax Rate - Current	9.48%
42	Fountain Hills, AZ Sales Tax Rate	9.20%
67	Phoenix, AZ Sales Tax Rate	8.60%
69	Star Valley, AZ Sales Tax Rate	8.60%
78	Mesa, AZ Sales Tax Rate	8.30%

¹ https://www.sale-tax.com/Arizona_all

Impact.

We suspect a Payson sales tax/TPT may negatively impact local business. A drive to Mesa will get an 8.3% rate and no food tax. Are you in the market for a \$50,000.00 car? Save money, up to 4% or \$2,000.00, depending on where you go, by leaving Town.

The Food tax implications. How much does the Payson food tax impact you?

The median income is \$29,412.00 per person. That differs between men and women. Per household, \$55,303.00. The median differs from the average as it is the midpoint of the values. Half of the people are above, half are below. The median age is 59.1 years.

The USDA weekly food allowance for a moderate plan for a male 51-70 is \$81.80 weekly. The current rate of 2.88% is \$2.355 per week or \$122.50 per year. If the rate goes to 3.88% that is \$3.173 per week, or \$165.00 per year. That is paid after payroll taxes and cannot be claimed as a deduction. The federal tax burden at \$29,142.00 is \$3,967.00. Arizona is about \$450.00. (Arizona now has a flat tax of 2.5%; the state may be a bit higher than what is calculated.) Net pay is then \$24,725.00. So, Payson collects .667% of your net income when buying groceries. Single male with a couple of kids? They collect more. Single female with kids? Bigger percentage.

How about a 30-year-old female with two children? Women make about 83% of the median income. So, \$24,116.00. Female, age 30, moderate plan weekly, \$73.20. Child 4 to 5/\$48.40, child 6 to 8/\$66.50, child 9 to 11/\$76.30. The average is \$63.73. The total weekly groceries for mom and two kids is \$200.66. If the tax rate goes to 3.88%, that is \$7.625 per week or \$396.50 per year. The federal tax burden at \$24,116.00 is \$2,979.00. Arizona is about \$300.00. Net pay is then \$20,837.00. So, Payson collects 1.902% of single moms' take-home pay when she buys groceries.²

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https://datacommons.org/place/geoid/0453700/?utm_medium=explore&mprop=income&popt=Person&cpv=age,Years15Onwards&hl=en#

<https://www.bls.gov/opub/ted/2023/median-earnings-for-women-in-2022-were-83-0-percent-of-the-median-for-men.htm>

<https://www.fns.usda.gov/sites/default/files/resource-files/CostofFoodAug2023LowModLib.pdf>

History.

For those new to the area, in 2017, a one percent (1%) sales tax/TPT increase was proposed. It was ultimately compromised to 0.88% with a sunset in 2027. Now, in 2023, there is another proposal for a one percent (1%) sales tax/TPT increase. The stated reason in 2017? Unfunded retirement liability of Fire and Police funds.

For police, in 2016, the unfunded liability was \$11,977,909.00 (\$11.9M). In 2022, the police unfunded liability was \$11,872,223.00 (\$11.8M) or \$12.1M, depending on the Actuarial Value or Market Value method. Add in the \$7.2M for fire, and we are above the \$17M owed in 2017. It is beyond evident that the .88% has not been used to pay down the unfunded liability.³

The Town now states that the increase was not marked to pay down the PSPRS liability.

Let's look at the minutes of May 4th, 2017, from Ordinance 888.

LaRon Garrett, Town Manager, explained the proposed change was to increase the sales tax by 1% percent to cover the shortfall of the Public Safety Personnel Retirement System (PSPRS) as well as additional fees the Town had to pay this year for PSPRS. It would be ongoing as part of the public safety personnel wages. It would make payments on the Water Department loan, get the reserve fund back to where it needed to be, build the contingency fund up, and do deferred maintenance.⁴

Curiously, the tax increase Ordinance from 2017 was passed on an emergency basis. There was discussion about letting people vote, but that discussion was quickly shut down.⁵

Hector Figueroa, Town Attorney, noted the Council could not respond to any questions. The Council could respond if they were criticized. Mr. Figueroa explained the only options the Council could vote on were on the agenda.

Vice-Mayor Carpenter noted he preferred a vote, but it would put the budget in peril. Vice-Mayor Carpenter asked Mr. Figueroa to explain the issue of the referendum. Mr. Figueroa replied the Council was authorized to vote on this without the people. There was a petition process that could be done if somebody wanted to file a referendum. Mr. Figueroa explained this was not to discuss now, the Council's role today was to decide to vote for the sales tax increase.

³ [Arizona PSPRS Consolidated Report](#), June 30th, 2016 and [Arizona PSPRS Consolidated Report](#), June 30th, 2022

⁴

https://payson.granicus.com/player/clip/2079?view_id=17&meta_id=105779&redirect=true&h=f32620b03e4695551650b1fde5b5945a

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https://payson.granicus.com/player/clip/2079?view_id=17&meta_id=105779&redirect=true&h=f32620b03e4695551650b1fde5b5945a

At the time of the passage, The Payson Roundup reported as follows: ⁶

Garrett recommended using the extra money to pay down a million-dollar water fund loan fund, make big increases in its reserve and contingency funds, provide raises, undertake various capital projects and buy new cars.

Mayor Craig Swartwood said it would also give the town funds to finally begin working toward projects it has discussed for decades and repair existing facilities and roads, which have fallen into disrepair since the recession forced the Town to cut maintenance.

The extra money would provide fund to develop things like a plan for Main Street, water features in the American Gulch, covering the event center and more. However, the Town would probably have to sell bonds and perhaps establish an improvement district to actually pay for those projects.

Part of the money from a tax increase is expected to go toward replacing the carpet in town hall.

The sales tax/TPT passage resulted in a new budget presentation. There was a second Ordinance, number 892. One Council member asked a great question during the passage of that Ordinance. ⁷

"Council Member Sterner asked if there was a sunset clause. Mr. Garrett replied yes. Council Member Sterner asked where it stated the Water Department loan would be paid. Mr. Garrett replied in the budget."

Unfortunately, the funds were not "earmarked." They were "in the budget" to provide raises, undertake various capital projects, and buy new cars. Maybe carpet for Town Hall?

The current spending plan:

The CIPCAC Recommendations.

1. For TPT Sales Tax Funding and bonding Options
 - i. Police and Fire Deferred Maintenance projects (\$3 million)
 - ii. Combined Aquatic and Recreation Center (\$26-\$29 million)
 1. If Land acquisition is necessary (\$10 million)
 - iii. Rumsey Park Drainage and Improvements (\$ 5 – \$7.5 million)
 - iv. Event Center Upgrades and Improvements (\$6 million)
 - v. American Gulch Drainage and Main Street Improvements (\$5 million)

The committee recommends a 1% increase in the TPT sales tax to fund all the above stated projects (with bonding capacity for \$50 – \$60 million) and necessary Operating and Maintenance Expenses of these projects.

2. For General Obligation Bonds:
 - i. New Police Station (\$ 15 – 17 million)
 - ii. Streets and Roads Improvements (\$5 million annually) (\$15 – 20 million)

⁶ https://www.paysonroundup.com/government/payson/payson-council-approves-sales-tax-increase/article_490311ed-3701-52d2-aba1-a40e2fca252a.html

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https://payson.granicus.com/player/clip/2086?view_id=17&meta_id=106188&redirect=true&h=811d71b185d9dd5734677c975b8cc4b7

- iii. New Combined Fire Station (\$15 – 16 million)
- iv. Green Valley Parkway Extension (\$ 12 – 14 million)
- v. Trails and Trail Heads (\$.5 – 1 million)

The committee recommended that at least projects i and ii receive consideration for a future GO Bond Proposal (\$ 30 – 40 million).

3. The committee recommended that the current .88% TPT sales tax not be sunset in 2027, indicating that should be extended for at least the length of these projects.

The Current Issue.

The current issue is Ordinance No. 963, An Ordinance amending the Town Tax Code to repeal the sunset clause in Ordinance No. 888, providing for severability and making Ordinance 963 immediately effective.

The use of the emergency clause may be found in the staff report.⁸ That report reads in part as follows:

Why Immediate Implementation of the Ordinance is Warranted

Pursuant to A.R.S. § 19-142 a Town Council Ordinance or Resolution is subject to referendum, as described above, and is not operative until thirty days after its passage. The council has set its agenda to consider a 1% TPT tax rate increase at the February 6th Special Meeting, appropriate notices have been provided to the community, as required by A.R.S. § 9-499.15, which says a 60-day public notice/comment period is required for any change or new fee or tax. With respect to the passage of a new Transaction and Privilege Tax (TPT) rate, the Arizona Department of Revenue further requires an additional 60 days to implement a new tax rate. The effect of not implementing either of these ordinances immediately is that it would take at least 5 months to approve such an increase, before it could take effect. If you were to consider the Council's calendar, the next available meeting is not until January 10th, adding to and further delaying the implementation of any Council action(s).

Town Council is currently funding design and engineering services related to the construction of certain capital facilities projects, including projects related to public safety, parks and recreation, transportation, trails, and efficient governmental administration. These projects are necessary for the immediate preservation of the peace, health or safety of the Town. The Town will need to finance these projects with short-term or long-term obligations, which may include bonds, installment purchase contracts, lease-purchase contracts, or otherwise, and these obligations may be purchased by investors or financial institutions at market rates. These financial transactions are all subject to the current volatile financial markets and fluctuating interest rate terms. Any delay in the Town's ability to act could prevent the Town Council from obtaining favorable financing terms, on behalf of the community and the projects under consideration. Therefore, in order to put the Town in a position to obtain the best financing terms for the Town and its residents, it is warranted to include an emergency clause in Ordinance 963, which is the first step in preparing long term financing for the described projects and to be able to consider establishing a new TPT rate, on February 6th, 2024.

⁸ https://legistarweb-production.s3.amazonaws.com/uploads/attachment/pdf/2332160/Staff_Report_Ord_963_removing_88_Sunset_TS_12.13.23.pdf

Take Action!

Contact the Council Members at:

The Honorable Chris Higgins, Mayor, chiggins@paysonaz.gov

The Honorable Barbara Underwood, Vice-Mayor, bunderwood@paysonaz.gov

The Honorable Brett Flaherty, bflaherty@paysonaz.gov

The Honorable Joel Mona, jmona@paysonaz.gov

The Honorable Scott Nossek, snossek@paysonaz.gov

The Honorable Jolynn Schinstock, jschinstock@paysonaz.gov

The Honorable Suzy Tubbs-Avakian, stubbs-avakian@paysonaz.gov

Speak at the Council Meeting on Wednesday the 13th, at 4:00 pm.