

BALLOT PROPOSITION #203
Transportation and Infrastructure Moving Arizona's Economy Act

FISCAL ANALYSIS

Description

Proposition 203 would increase the state sales tax and use tax from 5.6% to 6.6% for 30 years beginning January 1, 2010, for statewide transportation projects. The proposition would also increase the mining severance tax from 2.5% to 3.5%. Additional revenue from the tax would be distributed as follows: 55% for highways, 18% for passenger rail, 20% for local transportation, 4% for transportation enhancement projects, and 3% for wildlife habitat affected by transportation projects.

The proposition would also create two non-appropriated funds: the Highway Transportation and Infrastructure Moving Arizona's Economy (TIME) fund will be used primarily for constructing and maintaining state highways; and the Rail TIME fund will be used primarily for passenger rail systems.

Beginning in FY 2015 and every fifth year thereafter, the Auditor General shall contract with an independent auditor to conduct performance audits. Costs incurred by the Auditor General shall be paid from the respective TIME fund. In addition, no supplanting of funds is allowed.

Estimated Impact

Proposition 203 is projected to increase state transportation revenue by \$1.2 billion in calendar year 2010. The \$1.2 billion would be distributed as follows: \$660 million (55%) for highways, \$216 million (18%) for passenger rail, \$240 million (20%) for local transportation, \$48 million (4%) for transportation enhancement projects, and \$36 million (3%) for wildlife habitat affected by transportation projects.

Over 30 years, the tax would generate between \$53 billion and \$62 billion in today's dollars after adjusting for an annual inflation rate between 2.5% and 3.5%.

The Arizona Department of Transportation (ADOT) estimates that the proposition would generate \$43 billion in today's dollars over the 30-year life of the tax after adjusting for an annual inflation rate of 5%.

Analysis

Over its 30 year life, the proposition is estimated to generate \$96 billion of total revenue. This estimate assumes 0.1% sales tax collection growth in FY 2009, 6.4% annual growth from FY 2010 to FY 2020, 5.9% annual growth from FY 2021 to FY 2030, and 5% annual growth from FY 2031 to FY 2040. The growth rates are based on a FY 2010 – FY 2030 growth forecast provided by the Economic and Research Center at the University of Arizona. The FY 2031 – FY 2040 forecast assumes a further slowdown as the state's population base grows. Assuming an annual inflation rate of 2.5% to 3.5%, the \$96 billion in 30-year collections would translate into revenues of between \$53 billion and \$62 billion in today's dollars.

Besides the direct impact of the rate increase on tax collections, there may also be an indirect impact on tax revenues stemming from a change in economic activity as a result of altered taxpayer behavior. For example, a higher sales tax rate may lead to higher consumer prices, which could reduce consumer demand. This negative impact, however, could be offset by the increased public spending on infrastructure financed by the tax increase. The net effect of the tax rate increase on economic activity cannot be determined in advance.

ADOT estimates that the proposition would generate about \$120 billion over the 30-year life of the tax. This amount would translate into \$43 billion in today's dollars using a 5% annual discount rate.

Local Government Impact

As noted above, the proposition would generate total revenue of about \$240 million for local transportation and \$48 million for transportation enhancement projects in calendar year 2010. These monies would be distributed to local governments for local transportation purposes. Future-year collections would depend in part on population growth and growth in purchases and prices of taxable items.

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This estimate was prepared by Juan Beltran/Bob Hull (602-926-5491).