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## **State budget could drastically impact local government operations**

The Arizona State Legislature has approved a budget for the 2009-2010 fiscal year that includes drastic changes to the budgets of local cities and towns that will directly affect the public's health, safety and quality of life. As part of the \$8.2 billion budget, the Legislature has attacked local government with a multifaceted proposal to take away a variety of local revenues to support the state's budget.

If the budget approved by the Legislature is adopted, cities and towns will be forced to eliminate vital programs and services, increase a wide range of fees and sell assets such as parks, city buildings and vehicles to pay for debt incurred over the past several decades by communities that were building infrastructure to meet the needs of growing populations.

The proposed changes and their impacts include:

### **Three-year freeze on collection of development impact fees**

The Legislature's budget would prohibit municipalities from collecting development impact fees for three years, which home builders currently pay with each building permit they obtain. The fees are the only opportunity cities have to hold home builders accountable for the impact of their projects and protect residents from runaway growth and inadequate infrastructure. The fees ensure that the cost for infrastructure that is needed by new residents is not paid for by residents who already live in the community.

The three-year suspension, which was proposed by the Home Builders Association of Central Arizona (HBACA), would take millions of dollars from cities in order to reduce the costs of building homes, effectively "bailing out" the housing industry on the backs of local governments and their residents. Currently in Arizona, 33 cities have adopted development impact fees.

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Just as homeowners establish mortgages to pay for their homes over time, municipalities issue bonds and incur debt to pay for necessary community infrastructure. Cities have used development impact fees as a long-standing, state-authorized tool to finance infrastructure such as transportation projects, water, sewer systems, and fire and police services. Development impact fees are set aside like savings accounts for large infrastructure projects and are used to pay off the project debt over time. By law, the fees are designated for specific purposes and cannot be used for any other projects or expenses. These projects are typically part of a community's long-term vision for its quality of life, which has been developed with extensive input from citizens.

Inability to collect the fees would mean that cities and towns would be forced to pay their infrastructure debt from general operating expenses, affecting programs and services. Municipalities would have to evaluate options such as reducing the number of their police officers and firefighters; closing parks; cutting or eliminating parks and recreation programs like baseball and soccer; cutting after-school program hours; reducing library hours; reducing funding for community arts and theater programs; eliminating community festivals and events; laying off employees; and placing a hold on new development because related infrastructure needs would be unfunded.

Cities and towns have proactively taken steps to reduce their budgets over the past few years in response to the economic downturn, including delaying construction of public projects, laying off employees, cutting employee pay and reducing services. If the approved Legislative budget goes into effect, cities would face severe additional cuts that further reduce services and programs.

The HBACA's proposal to the Arizona Legislature directly contradicts statements made to municipalities in the past. Although the HBACA is currently proposing the freeze on collection of development impact fees to support the housing industry, its representatives previously told individual cities and towns that it supports the fees so that new growth will pay its fair share. The HBACA has also expressed its understanding of the importance of the fees to infrastructure construction.

### **Three-year suspension of local sales tax increases**

The Legislature also approved a three-year freeze on cities' and towns' ability to increase local sales taxes. Combined with the reduction in revenues of commercial property tax assessments, this would severely limit the ability of municipalities to replace the lost development fee revenues.

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**Reduction in commercial property tax assessments**

The Legislature's budget would reduce commercial property tax assessments from 22 percent to 10 percent. Communities across the state stand to lose millions of dollars that are currently used to pay for essential services.

**Loss of Vehicle License Tax**

The budget also includes the diversion of revenue generated by the Vehicle License Tax from cities and towns to education. This also will result in significant financial loss to communities across the state.

Although the state mandates that cities and towns provide essential services such as construction inspections, clean water, wastewater services and air quality/dust control, the adopted Legislative budget extensively eliminates the income that would be needed by municipalities to pay for these services.

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