



# Arizona State Senate Issue Brief

November 3, 2022

## Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Issue Briefs* series is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Nothing in the Brief should be used to draw conclusions on the legality of an issue.

## **STATE SHARED REVENUES**

### **INTRODUCTION**

Revenue sharing is generally based on population, revenue point of origin or need. Population based revenue sharing results in a per capita apportionment among counties or cities and towns. Point of origin sharing is based on the theory that revenue should be returned to the location in the proportion to which that location contributes to the state treasury. Need based sharing shares a portion of the tax yield based on the relative wealth of the political subdivision or the political subdivision's ability to raise revenues.

### **ARIZONA'S STATE SHARED REVENUES**

In Arizona, the state shares income tax (urban revenue sharing), state transaction privilege tax (TPT), vehicle license tax (VLT) and Highway User Revenue Fund (HURF) monies with counties and incorporated cities and towns.

### **URBAN REVENUE SHARING**

The Urban Revenue Sharing Fund (URS Fund) was established by voter initiative in 1972. The initiative required a percentage of state individual and corporate income tax collections to be distributed to incorporated cities and towns. With the creation of the URS Fund, counties, cities, towns and other political subdivisions were prohibited from levying an income tax. Monies are distributed each fiscal year based on the net income tax collections from two fiscal years prior. Each month, the State Treasurer disperses to each city or town one-twelfth of its entitlement, which is based on the proportion of the city's or town's population compared with Arizona's total incorporated population based on the last decennial or special census.<sup>1</sup> The original distribution percentage was 15 percent of net income tax collections. Since original enactment, the distribution percentage has been altered numerous times, from 12.8 percent in FY 1989-1990 to the current 15 percent for FY 2023. Beginning in FY 2024, the distribution percentage will increase to 18 percent.

<sup>1</sup> [A.R.S. § 43-206](#)

URS Fund distributions decreased from \$828 million in FY 2021 to \$756 million in FY 2022. The Joint Legislative Budget Committee estimates that URS Fund distributions will increase to \$1.11 billion in FY 2023.<sup>2</sup>

## **TRANSACTION PRIVILEGE TAX**

The Legislature authorized the first TPT to be levied in 1933. Depending on the type of business being conducted, the original rates ranged from 0.5 percent to 2 percent. Counties received 25 percent of the total amount collected. In 1942, the voters approved an initiative to begin sharing TPT with cities and towns in proportion to the city's or town's population. The initial percentage distributed to cities and towns was 10 percent of total collections and the counties' share was 45 percent. The distribution formula has been changed numerous times.

A portion of TPT collections, referred to as the distribution base, is designated for distribution to the state, counties and incorporated cities and towns. The remaining monies (non-shared monies) are directly credited to the state General Fund. Laws 1994, Eighth Special Session, Chapter 8 established the allocation of monies in the distribution base to the current percentage rates, which are 25 percent to cities and towns, 40.51 percent to counties and 34.49 percent to the state General Fund.<sup>3</sup>

## **HIGHWAY USER REVENUE FUND**

In 1946, the voters approved a ballot measure allocating a portion of gasoline taxes paid by motorists to cities and towns. Established in 1974, HURF consists of revenues collected from gasoline and use fuel taxes, motor carrier fees, motor vehicle registration fees, VLT and other miscellaneous fees.

Statute requires \$1 million in HURF monies to be transferred to the Economic Strength Project Fund, and up to \$10 million to be

transferred to the Department of Public Safety (DPS) for highway patrol expenditures. For FY 2019, the HURF statutory spending cap for DPS highway patrol expenditures was temporarily increased to \$16 million.<sup>4</sup>

Statutory transfers to the Economic Strength Project Fund and DPS, as well as any legislative appropriations from HURF, are completed prior to distributions to local governments and the State Highway Fund. Remaining HURF monies are distributed as follows:

- 19 percent to counties;
- 27.5 percent to cities and towns;
- 3 percent to cities with a population of more than 300,000 persons; and
- 50.5 percent to the State Highway Fund which is further allocated as statutorily outlined.<sup>5</sup>

## **VEHICLE LICENSE TAX**

In 1940, the voters approved an amendment to the Arizona Constitution that imposed the VLT in lieu of an ad valorem property tax on vehicles registered for operation on the highways in Arizona. The Arizona Constitution requires the VLT to be collected as provided by law and authorizes the Legislature to stagger registration periods to facilitate an even distribution of registered vehicles and tax collections.<sup>6</sup> The VLT decreases with the age of the vehicle and the minimum VLT is \$10 per year or, for an alternative fuel vehicle that was initially registered in Arizona before 2023, \$5 per year.<sup>7</sup>

Motor vehicle registration fees and a portion of VLT revenues are deposited into HURF and distributed. The remaining VLT revenues are distributed to the State Highway Fund, counties, cities and towns, and the state General Fund for school financial assistance.<sup>8</sup>

<sup>4</sup> [Laws 2018, Chapter 278](#)

<sup>5</sup> [A.R.S. § 28-6538](#)

<sup>6</sup> [Ariz. Const. art. 9 § 11](#)

<sup>7</sup> [A.R.S. Title 28, Chapter 16, Article 3](#)

<sup>8</sup> [A.R.S. § 28-5808](#)

<sup>2</sup> [State of Arizona FY 2023 Appropriations Report.](#)

<sup>3</sup> [A.R.S. § 42-5029](#)

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## ***ADDITIONAL RESOURCES***

- Arizona Department of Revenue:  
[Annual Reports](#)
- League of Arizona Cities and Towns:  
[State Shared Revenue Annual Reports](#)
- URS Fund Statute: [A.R.S. § 43-206](#)
- TPT Distribution Base Statutes:  
[A.R.S. Title 42, Chapter 5, Article 2](#)
- HURF Distribution Statutes:  
[A.R.S. Title 28, Chapter 18, Article 2](#)
- VLT Distribution Statutes:  
[A.R.S. Title 28, Chapter 16, Article 3](#)
- Joint Legislative Budget Committee:  
[FY 2023 Appropriations Report](#)
- Joint Legislative Budget Committee:  
[Tax Handbook](#)