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 Research 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 one of three principles: population, point of origin and need. Sharing on the basis of population results in a per capita apportionment among counties or cities and towns; this implies that a person is worth the same level of revenue regardless of location. 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. Revenue sharing according to need shares a portion of the tax yield based on the relative wealth of the political subdivision or based on 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 monies with incorporated cities and towns, as well as counties.

URBAN REVENUE SHARING

The Urban Revenue Sharing Fund (URS) was established by voter initiative in 1972. The initiative provided that a percentage of state individual and corporate income tax collections be distributed to incorporated cities and towns. With the creation of URS, counties, cities, towns and other political subdivisions were prohibited from levying an income tax. Monies are distributed each fiscal year based on net income tax collections from the two 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 or town’s population compared with the total incorporated population of the state based on the last decennial or special census.\(^1\) The original distribution percentage was 15 percent of net income tax collections. Since the 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 2018-2019.

\(^1\) A.R.S. § 43-206
State Shared Revenues

URS distributions decreased from $680.8 million in FY 2018 to $674.8 million in FY 2019. It is estimated that URS distributions will increase to $694.6 million in FY 2020 and to $708.9 million in FY 2021.²

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 have 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 the cities and towns was 10 percent of total collection; the counties’ share was 45 percent. The distribution formula has been changed numerous times since the 1940s.

A portion of TPT collections is designated by statute for deposit into a distribution base, which is divided among the state, counties and incorporated cities and towns. The remaining monies (non-shared) 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 the cities and towns, 40.51 percent to the counties and 34.49 percent to the state General Fund.³

HIGHWAY USER REVENUE FUND (HURF)

In 1946, the voters approved a ballot measure allocating to cities and towns a portion of gasoline taxes paid by motorists. Established in 1974, HURF consists of revenues 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. In recent years, the $10 million cap has been suspended, and a higher amount has been transferred to DPS. The FY 2006-2007 budget provided a one-time increase from the state General Fund and a corresponding decrease from HURF, thereby reducing DPS’ HURF allocation and restoring the $10 million HURF statutory spending cap. As session law in FY 2019, the HURF statutory spending cap was increased to $16 million.⁴

Statutory transfers to the Economic Strength Project Fund and DPS, as well as any legislative appropriations from HURF, are completed prior to the distribution to local governments and the State Highway Fund. The distribution of remaining HURF monies is as follows:

- to counties, 19 percent;
- to cities and towns, 27.5 percent;
- to cities (over 300,000 persons) 3 percent; and
- to the State Highway Fund, 50.5 percent, of which 7.67 percent is split: 75 percent to Maricopa County and 25 percent to Pima County.⁵

VEHICLE LICENSE TAX

In 1940, the voters approved an amendment to the Arizona Constitution that imposed the VLT, beginning January 1, 1941, in lieu of an ad valorem property tax, “on vehicles registered for operation upon the highways in Arizona.” The constitutional provisions in existence today require the VLT to be collected as provided by law and authorize the Legislature to stagger registration periods to facilitate an even distribution of vehicles registered and collection of the tax.

Motor vehicle registration fees and a portion of the VLT are deposited into the HURF and...
then distributed accordingly. The remaining VLT revenues are distributed to the State Highway Fund, counties, cities and towns, and to the state General Fund to aid school financial assistance.⁶

**ADDITIONAL RESOURCES**

- Arizona Department of Revenue – Annual Reports
  [https://azdor.gov/reports-statistics-and-legal-research/annual-reports](https://azdor.gov/reports-statistics-and-legal-research/annual-reports)

- League of Arizona Cities and Towns – “State Shared Revenue”

- Urban Revenue Sharing Fund Statutes: [A.R.S. § 43-206](https://azdor.gov/reports-statistics-and-legal-research/annual-reports)

- Transaction Privilege Tax Distribution Base Statutes: [Arizona Revised Statutes, Title 42, Chapter 5, Article 2](https://azdor.gov/reports-statistics-and-legal-research/annual-reports)

- Highway User Revenue Fund Distribution Statutes: [Arizona Revised Statutes, Title 28, Chapter 18, Article 2](https://azdor.gov/reports-statistics-and-legal-research/annual-reports)

- Vehicle License Tax Distribution Statutes: [Arizona Revised Statutes, Title 28, Chapter 16, Article 3](https://azdor.gov/reports-statistics-and-legal-research/annual-reports)

- Joint Legislative Budget Committee – Annual Appropriations Report
  [https://www.azleg.gov/jlbc.htm](https://www.azleg.gov/jlbc.htm)

- Joint Legislative Budget Committee – Tax Handbook
  [https://www.azleg.gov/jlbc.htm](https://www.azleg.gov/jlbc.htm)

⁶A.R.S. § 28-5808