

# Fiscal Note

**BILL #** HB 2726

**TITLE:** severance tax; distribution; cities; towns

**SPONSOR:** Martinez

**STATUS:** As Introduced

**PREPARED BY:** Hans Olofsson

**Description**

HB 2726, as introduced, would allocate 2.5% of the distribution base for the severance tax on metalliferous metals to cities and towns with a population of less than 15,000 that are not located in the counties of Maricopa and Pima (hereafter referred to as "rural counties"). The bill would become effective on July 1, 2023.

**Estimated Impact**

The bill is estimated to reduce the distribution of the severance tax to the General Fund by \$(245,600) in FY 2024. The reduction in state revenues distributed to counties is estimated to be \$(288,500). While the total distribution of state revenues to municipalities would increase by net amount of \$534,200 under the bill, the impact by city would vary depending on the population and location of the city, as displayed in *Table 1* below.

<b>Table 1</b>				
<b>Impact of HB 2726 on State Revenue Distribution to Cities/Towns</b>				
<u>City Population</u>	<u>County</u>	<u>Distribution Current Law</u>	<u>Distribution HB 2726</u>	<u>Difference</u>
< 15,000	Maricopa/Pima	\$83,100	\$81,100	\$(2,000)
< 15,000	Rural counties	\$253,400	\$959,300	\$705,900
> 15,000	All counties	<u>\$6,785,500</u>	<u>\$6,615,800</u>	<u>\$(169,700)</u>
<b>Net Impact</b>		<b>\$7,122,000</b>	<b>\$7,656,200</b>	<b>\$534,200</b>

As shown in *Table 1*, the distribution to cities with a population of less than 15,000 and located in rural counties would increase by \$705,900 whereas cities with a population of less than 15,000 that are and located in Maricopa/Pima and all cities with a population of 15,000 or more regardless of location would incur a combined revenue loss of \$(171,700). Therefore, the total impact on all municipalities in the state would be a net revenue increase of \$534,200.

The change in the distribution of the severance tax by city is shown in the *Local Government Impact* section below.

**Analysis**

Under current law, 80% of the severance tax on copper and other metals is allocated to the distribution base and the remaining 20% to the General Fund. Of the 80% allocated to the distribution base, 25% is distributed to municipalities, 40.51% to counties and the remaining 34.49% to the General Fund.

The bill would allocate 2.5% of the severance tax designated as distribution base to cities and towns with a population of less than 15,000 located in rural counties. These monies would be allocated to each such city and town in proportion to its share of the total population among those cities/towns.

(Continued)



The amount remaining after the 2.5% allocation would be distributed to all municipalities, counties, and the General Fund based on the current statutory distribution formula, as described above. This means that cities with a population of less than 15,000 located in rural counties would effectively receive 2 types of distributions: (1) an additional 2.5% of the severance tax designated as distribution base plus (2) the regular distribution but from a 2.5% smaller distribution base.

Severance tax revenue is highly correlated with the price of copper and for this reason it tends to fluctuate considerably over time. For the purpose of this analysis, we have assumed that FY 2024 severance tax revenue will be at the same level as in FY 2021 when it was \$35.6 million. The distribution base is therefore estimated to be \$28.5 million [= \$35.6 million x 80%].

Under the proposal, 2.5% of the distribution base, or \$712,200, would first be distributed to cities and towns with a population of less than 15,000 located in rural counties. The remaining \$27.8 million of the distribution base would be allocated based on the current statutory distribution formula.

The \$(712,200) smaller distribution base under the bill would have the effect of reducing General Fund revenue by \$(245,600) [= \$(712,200) x 34.49%] in 2024; county-shared revenue by \$(288,500) [= \$(712,200) x 40.51%]; and city-shared revenue by \$(178,100) [= \$(712,200) x 25%]. The \$(178,100) revenue reduction would be shared by all municipalities in proportion to their share of the total population while cities with a population of less than 15,000 located in rural counties would receive additional revenues of \$712,200. The net revenue impact on all municipalities would therefore be \$534,200 [= 712,200 - 178,100].

#### **Local Government Impact**

The change in the distribution of severance tax by city is displayed in the table on pages 3 and 4. As shown in the table, cities with a population of less than 15,000 located in rural counties would receive additional distributions totaling \$712,200 under the bill. The smaller distribution base under the bill would reduce allocations to all municipalities from \$7,122,000 to \$6,943,900, or by \$(178,100). For cities with a population of less than 15,000 located in rural counties, the regular distribution would be reduced from \$253,400 to \$247,100, or by \$(6,300). This means that the overall net impact on such cities would be \$705,900 [= \$712,200 in additional distributions - \$6,300 in reduced regular distributions].

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City/Town	County	Population	% of Total Population	Regular Distribution - Current Law	Additional Distribution - HB2726	Reduced Regular Distribution – HB2726	Total Distribution - HB 2726	Change in Distribution
Apache Junction	Maricopa	42,571	0.74%	\$52,352	\$0	\$51,043	\$51,043	(\$1,309)
Avondale	Maricopa	87,931	1.52%	\$108,134	\$0	\$105,430	\$105,430	(\$2,703)
Benson	Cochise	4,880	0.08%	\$6,001	\$16,866	\$5,851	\$22,717	\$16,716
Bisbee	Cochise	5,225	0.09%	\$6,425	\$18,058	\$6,265	\$24,323	\$17,897
Buckeye	Maricopa	79,620	1.37%	\$97,913	\$0	\$95,465	\$95,465	(\$2,448)
Bullhead City	Mohave	40,884	0.71%	\$50,277	\$0	\$49,020	\$49,020	(\$1,257)
Camp Verde	Yavapai	11,187	0.19%	\$13,757	\$38,663	\$13,413	\$52,076	\$38,319
Carefree	Maricopa	3,927	0.07%	\$4,829	\$0	\$4,709	\$4,709	(\$121)
Casa Grande	Pinal	58,632	1.01%	\$72,103	\$0	\$70,301	\$70,301	(\$1,803)
Cave Creek	Maricopa	5,838	0.10%	\$7,179	\$0	\$7,000	\$7,000	(\$179)
Chandler	Maricopa	261,165	4.51%	\$321,170	\$0	\$313,140	\$313,140	(\$8,029)
Chino Valley	Yavapai	12,375	0.21%	\$15,218	\$42,769	\$14,838	\$57,607	\$42,388
Clarkdale	Yavapai	4,391	0.08%	\$5,400	\$15,176	\$5,265	\$20,440	\$15,041
Clifton	Greenlee	3,708	0.06%	\$4,560	\$12,815	\$4,446	\$17,261	\$12,701
Colorado City	Mohave	4,836	0.08%	\$5,947	\$16,714	\$5,798	\$22,512	\$16,565
Coolidge	Pinal	13,130	0.23%	\$16,147	\$45,378	\$15,743	\$61,121	\$44,975
Cottonwood	Yavapai	12,253	0.21%	\$15,068	\$42,347	\$14,692	\$57,039	\$41,971
Dewey								
Humboldt	Yavapai	4,137	0.07%	\$5,088	\$14,298	\$4,960	\$19,258	\$14,171
Douglas	Cochise	16,193	0.28%	\$19,913	\$0	\$19,416	\$19,416	(\$498)
Duncan	Greenlee	788	0.01%	\$969	\$2,723	\$945	\$3,668	\$2,699
Eagar	Apache	4,941	0.09%	\$6,076	\$17,076	\$5,924	\$23,001	\$16,925
El Mirage	Maricopa	35,753	0.62%	\$43,968	\$0	\$42,868	\$42,868	(\$1,099)
Eloy	Pinal	19,625	0.34%	\$24,134	\$0	\$23,531	\$23,531	(\$603)
Flagstaff	Coconino	75,038	1.30%	\$92,279	\$0	\$89,972	\$89,972	(\$2,307)
Florence	Pinal	27,422	0.47%	\$33,722	\$0	\$32,879	\$32,879	(\$843)
Fountain Hills	Maricopa	25,200	0.44%	\$30,990	\$0	\$30,215	\$30,215	(\$775)
Fredonia	Coconino	1,281	0.02%	\$1,575	\$4,427	\$1,536	\$5,963	\$4,388
Gila Bend	Maricopa	2,100	0.04%	\$2,582	\$0	\$2,518	\$2,518	(\$65)
Gilbert	Maricopa	254,114	4.39%	\$312,499	\$0	\$304,686	\$304,686	(\$7,812)
Glendale	Maricopa	252,381	4.36%	\$310,367	\$0	\$302,608	\$302,608	(\$7,759)
Globe	Gila	7,347	0.13%	\$9,035	\$25,392	\$8,809	\$34,201	\$25,166
Goodyear	Maricopa	86,840	1.50%	\$106,792	\$0	\$104,122	\$104,122	(\$2,670)
Guadalupe	Maricopa	6,631	0.11%	\$8,155	\$0	\$7,951	\$7,951	(\$204)
Hayden	Gila	631	0.01%	\$776	\$2,181	\$757	\$2,937	\$2,161
Holbrook	Navajo	5,084	0.09%	\$6,252	\$17,571	\$6,096	\$23,666	\$17,414
Huachuca City	Cochise	1,736	0.03%	\$2,135	\$6,000	\$2,081	\$8,081	\$5,946
Jerome	Yavapai	455	0.01%	\$560	\$1,573	\$546	\$2,118	\$1,559
Kearny	Pinal	2,168	0.04%	\$2,666	\$7,493	\$2,599	\$10,092	\$7,426
Kingman	Mohave	31,013	0.54%	\$38,138	\$0	\$37,185	\$37,185	(\$953)
Lake Havasu City	Mohave	55,865	0.96%	\$68,700	\$0	\$66,983	\$66,983	(\$1,718)
Litchfield Park	Maricopa	6,436	0.11%	\$7,915	\$0	\$7,717	\$7,717	(\$198)
Mammoth	Pinal	1,687	0.03%	\$2,075	\$5,830	\$2,023	\$7,853	\$5,779
Marana	Pima	49,030	0.85%	\$60,295	\$0	\$58,788	\$58,788	(\$1,507)
Maricopa	Pinal	52,127	0.90%	\$64,104	\$0	\$62,501	\$62,501	(\$1,603)
Mesa	Maricopa	518,012	8.94%	\$637,029	\$0	\$621,103	\$621,103	(\$15,926)
Miami	Gila	1,780	0.03%	\$2,189	\$6,152	\$2,134	\$8,286	\$6,097

City/Town	County	Population	% of Total Population	Regular Distribution - Current Law	Additional Distribution - HB2726	Reduced Regular Distribution – HB2726	Total Distribution - HB 2726	Change in Distribution
Nogales	Santa Cruz	20,103	0.35%	\$24,722	\$0	\$24,104	\$24,104	(\$618)
Oro Valley	Pima	46,044	0.80%	\$56,623	\$0	\$55,207	\$55,207	(\$1,416)
Page	Coconino	7,529	0.13%	\$9,259	\$26,021	\$9,027	\$35,048	\$25,789
Paradise Valley	Maricopa	14,637	0.25%	\$18,000	\$0	\$17,550	\$17,550	(\$450)
Parker	La Paz	3,207	0.06%	\$3,944	\$11,084	\$3,845	\$14,929	\$10,985
Patagonia	Santa Cruz	874	0.02%	\$1,075	\$3,021	\$1,048	\$4,069	\$2,994
Payson	Gila	15,813	0.27%	\$19,446	\$0	\$18,960	\$18,960	(\$486)
Peoria	Maricopa	175,961	3.04%	\$216,389	\$0	\$210,980	\$210,980	(\$5,410)
Phoenix	Maricopa	1,680,992	29.03%	\$2,067,212	\$0	\$2,015,532	\$2,015,532	(\$51,680)
Pima	Graham	2,558	0.04%	\$3,146	\$8,841	\$3,067	\$11,908	\$8,762
Pinetop-Lakeside	Navajo	4,469	0.08%	\$5,496	\$15,445	\$5,358	\$20,804	\$15,308
Prescott	Yavapai	44,299	0.76%	\$54,477	\$0	\$53,115	\$53,115	(\$1,362)
Prescott Valley	Yavapai	46,515	0.80%	\$57,202	\$0	\$55,772	\$55,772	(\$1,430)
Quartzsite	La Paz	3,763	0.06%	\$4,628	\$13,005	\$4,512	\$17,517	\$12,889
Queen Creek	Maricopa	50,890	0.88%	\$62,582	\$0	\$61,018	\$61,018	(\$1,565)
Safford	Graham	9,983	0.17%	\$12,277	\$34,502	\$11,970	\$46,472	\$34,195
Sahuarita	Pima	31,421	0.54%	\$38,640	\$0	\$37,674	\$37,674	(\$966)
San Luis	Yuma	34,778	0.60%	\$42,768	\$0	\$41,699	\$41,699	(\$1,069)
Scottsdale	Maricopa	258,069	4.46%	\$317,362	\$0	\$309,428	\$309,428	(\$7,934)
Sedona	Coconino	10,339	0.18%	\$12,714	\$35,732	\$12,397	\$48,129	\$35,414
Show Low	Navajo	11,442	0.20%	\$14,071	\$39,544	\$13,719	\$53,263	\$39,193
Sierra Vista	Cochise	43,045	0.74%	\$52,935	\$0	\$51,612	\$51,612	(\$1,323)
Snowflake	Navajo	5,995	0.10%	\$7,372	\$20,719	\$7,188	\$27,907	\$20,535
Somerton	Yuma	16,554	0.29%	\$20,357	\$0	\$19,848	\$19,848	(\$509)
South Tucson	Pima	5,715	0.10%	\$7,028	\$0	\$6,852	\$6,852	(\$176)
Springerville	Apache	1,978	0.03%	\$2,432	\$6,836	\$2,372	\$9,208	\$6,775
St. Johns	Apache	3,512	0.06%	\$4,319	\$12,138	\$4,211	\$16,349	\$12,030
Star Valley	Gila	2,308	0.04%	\$2,838	\$7,977	\$2,767	\$10,744	\$7,906
Superior	Pinal	3,178	0.05%	\$3,908	\$10,983	\$3,810	\$14,794	\$10,886
Surprise	Maricopa	141,664	2.45%	\$174,212	\$0	\$169,857	\$169,857	(\$4,355)
Taylor	Navajo	4,321	0.07%	\$5,314	\$14,934	\$5,181	\$20,115	\$14,801
Tempe	Maricopa	195,805	3.38%	\$240,793	\$0	\$234,773	\$234,773	(\$6,020)
Thatcher	Graham	5,200	0.09%	\$6,395	\$17,972	\$6,235	\$24,206	\$17,812
Tolleson	Maricopa	7,372	0.13%	\$9,066	\$0	\$8,839	\$8,839	(\$227)
Tombstone	Cochise	1,303	0.02%	\$1,602	\$4,503	\$1,562	\$6,066	\$4,463
Tucson	Pima	548,073	9.46%	\$673,997	\$0	\$657,147	\$657,147	(\$16,850)
Tusayan	Coconino	580	0.01%	\$713	\$2,005	\$695	\$2,700	\$1,987
Wellton	Yuma	3,044	0.05%	\$3,743	\$10,520	\$3,650	\$14,170	\$10,427
Wickenburg	Maricopa	8,092	0.14%	\$9,951	\$0	\$9,702	\$9,702	(\$249)
Willcox	Cochise	3,533	0.06%	\$4,345	\$12,210	\$4,236	\$16,446	\$12,102
Williams	Coconino	3,248	0.06%	\$3,994	\$11,225	\$3,894	\$15,120	\$11,125
Winkelman	Pinal	351	0.01%	\$432	\$1,213	\$421	\$1,634	\$1,202
Winslow	Navajo	9,338	0.16%	\$11,483	\$32,273	\$11,196	\$43,469	\$31,986
Youngtown	Maricopa	6,859	0.12%	\$8,435	\$0	\$8,224	\$8,224	(\$211)
<u>Yuma</u>	Yuma	<u>98,285</u>	<u>1.70%</u>	<u>\$120,867</u>	<u>\$0</u>	<u>\$117,845</u>	<u>\$117,845</u>	<u>(\$3,022)</u>
<b>TOTAL</b>		<b>5,791,407</b>	<b>100.00%</b>	<b>\$7,122,025</b>	<b>\$712,202</b>	<b>\$6,943,974</b>	<b>\$7,656,176</b>	<b>\$534,152</b>

