



Despite Record Revenues, Phoenix Plans Property Tax Increase

The City of Phoenix plans to adopt a budget this summer which calls for a 3% property tax increase—or \$5.3 million over the truth in taxation (TNT) amount.

Per state law, Phoenix would avoid a property tax increase if it only levied an additional \$4 million in property taxes in Fiscal Year 2020, the amount attributed to the growth in the tax base for new construction. This levy would have resulted in a TNT rate of \$1.26. However, Phoenix councilmembers appear poised to raise the levy an additional \$5.3 million for a total levy of \$172.6 million in primary property taxes.

With a surging economy, the City expects 5% growth in its city sales taxes estimated at \$23.4 million alone. In revenues shared by the state, the City expects growth of 5% in sales taxes, 9.3% in income taxes, and 5% in vehicle license taxes valued at a combined \$30.4 million. Overall, General Fund revenues are up 5.4% to a record \$1.27 billion. Given these increases, it is surprising that the city plans to raise property taxes \$5.3 million.

Some local governments will scoff at these tax increases because the rate is not increasing, conflating sales and income tax rates with property taxes. Increased economic activity will produce more revenues at the same rate for sales and income taxes. Property taxes work backwards; a levy is selected first and a rate is then calculated based on property values. Taxpayers are smart enough to realize their ability to pay property taxes is not tied to the rising value of property in their jurisdiction. When taxpayers are informed by their mortgage company that their monthly payment is increasing, they will not find this justification clever.

Phoenix's decision to raise property taxes is particularly puzzling considering the high combined tax rate problem they face. Combined property tax rates in central Phoenix, for instance, are 40%-60% higher than most other urban Maricopa areas and are more than double that of Scottsdale. This seriously hampers commercial and industrial growth in Phoenix, who pay effective property tax rates that are among the highest in the West, per the Lincoln Institute of Land Policy. This burden increases demand for tax abatement and suburban expansion for these type of properties in particular. Downtown Phoenix's recent growth has largely been a combination of abated commercial properties, multifamily housing, and untaxed medical and educational facilities. While the City is not alone responsible for this property tax problem, it could go a long way towards helping its economic development by not adding to it.