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ARIZONA TAX RESEARCH ASSOCIATION

Tax Increment Financing

Pork Barrel Spending, Arizona Style

Taxpayers are well aware of the pork barrel spending that has typified the appropriations process in the U.S. Congress. The practice of "bringing home the bacon" is fueled by the fact that the federal treasury is simultaneously viewed as "all our money" and "someone else's money." Tapping distant dollars at the federal level breaks the link between those who are spending the money and those who are paying the bill.

What Arizona taxpayers may not be aware of, is that a new form of pork barrel spending has caught on at the state level that in some respects is more insidious than that in Washington, D.C. Through the diversion of state sales tax revenue, Arizona cities are tapping state funds to help underwrite the costs of a variety of local public projects. However, unlike most federal pork projects that require a direct appropriation, with the associated costs fully recognized, these projects require no appropriation. The state funding is achieved indirectly through recaptured state sales tax.

Dubbed "tax increment financing" or TIF, this method of spending allows the beneficiaries to skip the appropriations committees where they would compete with funding for schools, universities, prisons, health and welfare and many other state programs. In its most common form, TIF allows cities to keep some or all of the state sales tax revenue owed on taxable activities at a specific facility or within the designated boundaries of a specified area. Examples of its use include Avondale's bridge for Phoenix International Raceway, Tempe's Rio Salado Project, Mesa's Rio Salado Crossing and Scottsdale's "cultural theme park."

Proponents of TIF build their support for using state revenue for their projects with two contradictory arguments. The first is that these projects will have a statewide impact and benefit, and as such, the state funding is appropriate. The second argument is that there really is no state revenue involved in financing these projects. The "foregone revenue" argument suggests these projects would not occur but for the tax incentive and therefore the state cannot lose revenue it never would have had in the first place.

The fundamental problem with either argument is that they could be made for almost any project. Further, the cities and private interests that espouse this theory never provide the policy basis for providing state taxpayer support for their project while others are left to make a go of it on their own. The truth is that politics, not good public policy, has been the determining factor for the cities that have successfully lobbied TIF schemes.

With the first TIF project, the Arizona Tax Research Association cautioned the Legislature that the precedent would not go unnoticed by other Arizona cities and we were right. The prospect of tapping state funding through TIF did wonders for the cities' imaginations. Worse, the success of one TIF bill only led to the necessity for another, with some legislators explaining their support for one TIF bill as a way of building support for another TIF bill for their city. Not every city has received a turn at the state trough, however, as a TIF project for the City of Tucson has been repeatedly rejected. The basis of support for Tucson's project, as reflected in the following comments in an editorial by the *Arizona Daily Star*, underscores the quid pro quo nature of this form of pork barrel spending: "It's a good idea for downtown and a good deal for Tucson and Pima County… And it's our turn for a good deal."

Competition for state tax dollars will understandably highlight every legislative session. At a minimum, that competition should occur in the appropriations process where priorities are set in the face of unlimited demands for taxpayer dollars. Allowing TIF proponents to choose the less visible route of diverting state sales taxes and deftly side step the competition of the appropriations process should stop. A highlight of this legislative session should be the end of Tax Increment Financing. The sooner this chapter in state fiscal chicanery comes to a close, the better.

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