

Phoenix Prop 3 – Background and Policy Notes

I. Background

Arizona already has a version of the Taxpayers Bill of Rights in its Constitution: a provision that limits spending by cities to 1979-80 levels, with annual adjustments for population increases and national inflation.

Every four years since 1983, Phoenix voters have voted to lift the spending limit, voting for an alternative expenditure limitation, a measure euphemistically referred to as “home rule” (“home misrule” might be a more accurate description, especially in recent years).

On September 11, city voters will vote on Prop 3, the latest alternative expenditure limitation measure. If the majority votes Yes—in favor of Prop 3—then things will continue as normal. In other words, the city will probably continue to increase its budgets at irresponsible rates for the next four years (through the 2011-12 fiscal year).

However, if the majority votes No—against Prop 3—then Phoenix will have to reduce its spending to the baseline established by increases in population and inflation since 1980. According to the city, Phoenix would have to reduce its current (bloated) budget by roughly \$1.1 billion, from \$3.3 billion to \$2.2 billion.

The city government and tax-taker interests have begun a scare campaign to promote the alternative expenditure limit (“home rule”). According to a “citizens task force” created to promote the “home rule” measure, rejection of Prop 3 would leave Phoenix unable to implement various programs, including public safety initiatives. As they have often done in the past, the pro-spending interests are threatening the public with cuts in public safety.

II. Policy Suggestions

There are many reasons to believe that the defeat of Prop 3—the defeat of the alternative expenditure limitation—would be beneficial for the people of Phoenix. Some of those reasons are listed below:

1. **Limited government.** The arguments for limited government could (and do) fill volumes, so we cannot possibly enumerate them here. We would emphasize the argument that government should not take tax dollars (by force) to perform functions that individuals, families, churches, and voluntary associations should be performing.

2. **Phoenix can cut its budget by \$1.1 billion—and increase public safety budgets.** The Arizona Federation of Taxpayers has produced a budget worksheet for Phoenix (<http://www.aztaxpayers.org/PhoenixBudgetReductionsA.pdf>), showing some ways Phoenix can reduce spending, while at the same time increasing spending on police, fire, emergency management, and criminal justice budgets by five percent. Included in the worksheet are oversight costs for long-term concessions and also first-year transition costs for concessions. In future years, the transition costs would be reduced dramatically.

3. Phoenix needs to focus on first responders. Phoenix currently spends about a third of its non-debt spending on public safety and criminal justice. By cutting \$1.1 billion in spending on non-public safety programs, Phoenix could increase the portion it spends on public safety to two-thirds of its budget. By establishing public safety as a priority, Phoenix would commit to getting back to the basics of competent government.

4. Scare tactics by the pro-spending lobby are unacceptable. Any politician who tells you that the defeat of Prop 3 would mean cuts in police and fire needs to be removed from office. That politician is either dishonest (he would not actually vote to cut public safety budgets), or he is irresponsible (he would vote to cut police and fire before cutting nonessential services). Further, as we explained above, Phoenix can reduce its budget by at least \$1.1 billion and still increase public safety budgets by five percent.

5. Phoenix needs to streamline its operations, by using competitive bidding to contract out many services to private enterprise. Private enterprises will operate more efficiently, and provide better value to customers. Some services that could be provided through long-term concessions include airports, libraries, golf courses, and water services. Phoenix could enter into long-term concession contracts for all public parks and recreation facilities—allowing selected vendors to increase the utility of those parks and facilities to neighbors and visitors, while at the same time giving vendors a stake in keeping parks and facilities in excellent condition.

6. Phoenix has been increasing its budgets at fiscally irresponsible rates. The City Council recently voted 9-0 to pass a budget of \$3.382 billion for Fiscal Year 2007-08. This fiscally irresponsible budget will increase overall spending by 12.6 percent over last year's estimated budget, and increase department spending by 14.5 percent. If the city uses last year's adopted budget of \$3.188 billion as a baseline, it appears that the budget is growing by a mere 6.1 percent, but the bottom line is that the 2005-06 actual budget was \$2.548 billion, meaning that the Phoenix budget will increase by 32 percent over two years, for an average yearly rate of increase of **15 percent**. 15 percent is three times the rate of growth of population plus inflation (the fiscal conservative's upper limit on budget growth), which is about five percent annually. 15 percent is twice as fast as the average growth rate for the region's personal income over the last decade. In other words, Phoenix has been growing its budget twice as fast as citizens—even in a fast-growing economy—have been earning the income with which to pay taxes.

7. Phoenix city leaders have been deceptive about recent property tax increases. During last year's bond election, and in discussion about the current city budget, Mayor Phil Gordon and other city leaders claimed that the City of Phoenix has not increased taxes. While it is true that Phoenix did not increase its property tax *rates*, rapidly rising assessed values have provided a large windfall in tax revenues to the city, even though homeowners have not enjoyed anything close to a corresponding increase in their incomes. Primary property tax revenues are set to increase from \$96 million to \$102 million—a tax increase of \$8 million. Secondary tax revenues are set to increase from \$120 million to \$164 million—a tax increase of \$44 million. Most of that \$52 million is from tax increases on existing homeowners, rather than levies on new growth.

8. **Budget cuts would allow Phoenix to reduce taxes dramatically.** The Arizona Federation of Taxpayers worksheet shows that budget reductions would generate General Fund savings of over \$150 million annually. \$102 million could be used to **eliminate the city's primary property tax**, and the remainder could be used to reduce city sales tax revenues by over ten percent (city sales tax revenues are \$425 million annually). The worksheet is here: <http://www.aztaxpayers.org/PhoenixBudgetReductionsA.pdf>