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Governor calls for boost of 1 cent in state sales tax

Proposed 6.6% would rank AZ near top of U.S.

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CAPITOL MEDIA SERVICES

PHOENIX — Gov. Janet Napolitano is defending a proposal to hike the state sales tax to among the highest in the nation to fund transit improvements.

Napolitano, who is backing the ballot measure to hike the state sales tax by a penny, said Wednesday it is the only tax that can generate enough money and is reliable enough to support a \$42.6 billion plan to build new roads, widen existing ones and finance new and expanded mass-transit programs.

The governor acknowledged that sales taxes are paid by everyone based on what and how much they buy. And the additional levy, if approved by voters in November, would add 1 percent to the final price tag of these items.

But she said raising Arizona's tax to 6.6 percent for 30 years — which is what the initiative proposes starting in 2010 — does not worry her. She said the state's overall tax burden, including income and property taxes, would remain "relatively low compared to other states."

Opposition already is surfacing.

Byron Schlomach, economist for the Goldwater Institute, called sales taxes "a very poor substitute for user charges."

The Federation of Tax Administrators puts Arizona's current 5.6 percent sales tax rate in the middle of all states that have a sales tax. If voters approve the penny hike in November, only five other states will have higher sales taxes.

He said the best kind of levy, if more money for transportation is really necessary, is a user fee.

A prime example in this case is the gasoline tax. The more people use the roads, the more they pay.

Marty Shultz, treasurer of the organization pushing the project, said his group did explore hiking the 18-cent-a-gallon gasoline tax, which has not been raised since 1991. But he said the idea was dismissed as impractical.

Some of the problem is just pure numbers. An additional penny on the tax raises just about \$38 million a year, far short of what is raised by a penny on sales taxes. Potentially more significant, Shultz said, are the long-term trends.

"The gas tax is becoming less efficient all the time," he said, what with cars and trucks becoming more fuel-efficient and more people using mass transit.

Napolitano agreed. "It doesn't yield enough," she said of gas taxes. She said it remains to be seen whether a general tax is acceptable.

comparisons

States that now have higher sales taxes than Arizona:

7.25% — California

7.0% — Mississippi, New Jersey, Rhode Island, Tennessee

6.6% — proposed Arizona sales tax

6.5% — Minnesota, Nevada, Washington

6.25% — Illinois, Texas

6.0% — Arkansas, Connecticut, Florida, Indiana, Idaho, Kentucky, Maryland, Michigan, Pennsylvania, South Carolina, Vermont, West Virginia

5.6% — current Arizona rate

— Source: Federation of Tax Administrators

"That will be a judgment for voters to make," Napolitano said. But she added that she personally supports the transit plan and the funding source.

"I'm a taxpayer," Napolitano said. "I'm willing to pay this in order to get that infrastructure in place."

Shultz also dismissed claims sales taxes are "regressive," imposing a relatively higher burden on people near the bottom end of the income scale than those at the top, pointing out that food purchased at grocery stores for home consumption is exempt, as are prescription medications.

The governor also said she does not believe higher sales taxes might hurt business activity here.

"I think, on balance, our overall commercial activity will be hampered if we don't have a transportation infrastructure that allows people and goods and services to move easily around the state," Napolitano said.

Shultz said there is one other reason coalition members opted for higher sales taxes. The state constitution says gasoline taxes can be used only for roads, and not for things like mass transit.

Much of the debate over the levy is likely to surround earmarking \$7.6 billion of the total raised for mass transit, notably financing rail service between Phoenix and Tucson as well as expanded light rail in Maricopa County and setting up a similar system in Pima County.

Schlomach said these kind of rail projects make the least financial sense, with high costs for construction on the front end and little flexibility to alter routes later if growth and ridership patterns change.

He said if the state wants a subsidized system of mass transit — most systems do not pay for themselves — adding more express buses, perhaps with their own dedicated lanes, is a better option.

Napolitano, however, called rail plans "farsighted," saying other communities that have built rail systems have found people use them.

"When you're in a world where gasoline is \$3.50, \$3.54 a gallon, heading up to \$3.60 and going north, people are asking about what are our alternatives to driving," she said. "And in Arizona we don't have much to offer them right now."

The governor noted that \$7.6 billion for mass transit also includes funds for smaller communities to get help for things like van pools for seniors.

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