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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

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STATE AVERAGE PROPERTY TAX RATE DROPS ANOTHER 95 CENTS

Arizona's 2007 statewide average property tax rate fell to \$10.04, a drop of 95 cents from 2006. The 8.6% reduction marks the eighth straight year the statewide average rate has fallen. The rate is now \$3.23 lower than the \$13.27 rate in 1995 – the highest rate on record. The Arizona Department of Revenue calculates the average statewide rate by totaling all property taxes levied against the state's taxable value.

The average primary rate of \$7.24 fell 51 cents (7%) as primary assessed valuations grew at twice the rate of primary levies. Primary valuations, which are limited in annual growth by the Constitution, climbed 15.2% for the 2007 tax year. Primary levies, which are also generally limited in growth by the Constitution and state statute, rose 7.1%.

The average secondary rate of \$3.75 came down 46 cents (12.3%) as levies again climbed at about half the rate of

valuation growth. Secondary valuations, which are unlimited, skyrocketed 32% statewide while secondary levies jumped 15.9%.

The reduction in the average primary rate this year was the result of the passage of Prop 101 last November as well as the state's continued adherence to the truth in taxation (TNT) law. Prop 101, which provided for a recalculation of the primary levy limits of counties, cities, and community colleges, eliminated approximately \$185 million in excess taxing capacity. Prop 101 ensured that each of those local governments' primary levies were limited to 2% growth over existing properties. As a result of Prop 101, 61 out of 76 local governments that levy primary property taxes were forced to reduce their tax rate.

The state's consistent adherence to its TNT law also continues to adjust tax

rates downward in response to increasing values. The state's TNT law requires an adjustment to the two key property tax rates controlled by the state. The first, and most significant, is the qualifying tax rate (QTR) for K-12 school districts. This rate determines the level of property taxes levied in each district versus the level state support to meet the budget. This year the QTR was reduced from \$3.4788 to \$3.2040 for unified districts and from \$1.7394 to \$1.6020 for elementary and high school districts.

In response to significant concerns surrounding skyrocketing property valuations, the Arizona Legislature provided direct tax rate relief to property taxpayers in the 2006 session. House Bill 2876 reduced the state equalization rate from \$0.4358 to zero for tax years 2006, 2007, and 2008. Those tax rate reductions have helped to mitigate some of the growth in actual tax bills over the last two years.

The average tax rates vary dramatically across the Arizona counties from a high of \$14.52 in Pinal County to a low of

See **State Average Tax Rate**, page 2

STATEWIDE TAX REVENUES EXCEED \$22 BILLION IN FY 2006

With a \$2.6 billion (13%) boost over last year, total tax revenues levied by Arizona's taxing authorities exceeded \$22 billion by the end of Fiscal Year (FY) 2006 based on data reported in ATRA's 2007 Arizona Tax Digest. A five-year analysis shows that total taxes have increased \$7.4 billion (50.7%).

ATRA's Arizona Tax Digest is a publication that summarizes the majority of taxes, licenses, and other revenues collected by state and local governments in Arizona. In addition to the state, these revenues are distributed to Arizona's 15 counties, 90 cities and towns, 218 school districts, 10 joint technological education districts (JTED's), 11 community colleges, and over 1,400 special taxing districts.

See **Tax Revenues**, page 3

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ATRA's Annual

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&

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STATE AVERAGE TAX RATE, *Continued from page 1*

\$3.90 in Greenlee County. Apache and Cochise Counties actually saw an increase in their average rate while Santa Cruz saw no change in its average rate. The largest reduction in the countywide average rate was Maricopa's \$1.15 decline.

Among taxing jurisdictions the largest reduction in the average rates was with K-12 school districts that saw a 61-cent reduction in the combined average rate, as noted above, roughly 27 cents of that reduction is attributable to the state's compliance with TNT. The smallest reduction in average rates was with cities and towns where many jurisdictions left secondary tax rates at their 2006 levels despite skyrocketing property valuations.

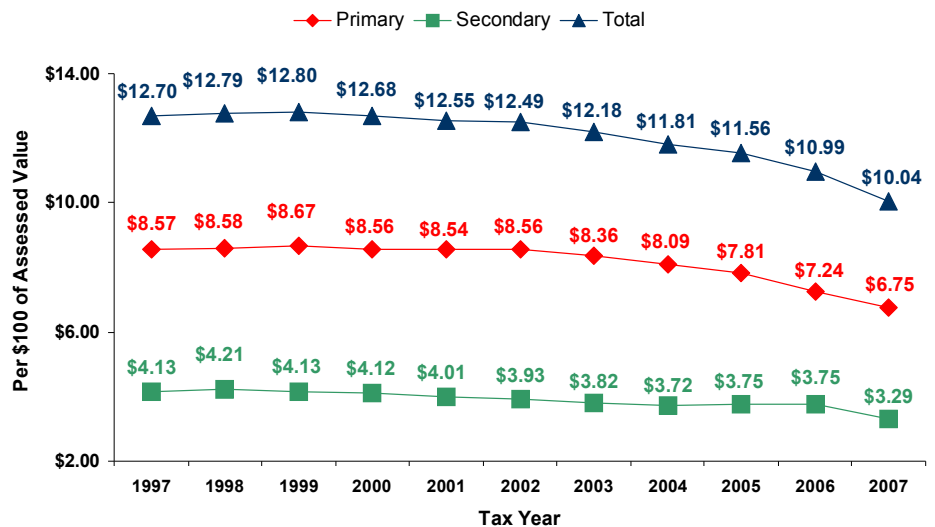
Kevin McCarthy

DESEGREGATION LEVIES CLIMB \$6.1 MILLION

Under the provisions of the 1964 Civil Rights Act, two Arizona school districts were placed under a court order to desegregate. Phoenix Union has since reached unitary status. The second district, Tucson Unified, will likely also be released from its desegregation order upon filing a comprehensive report required by a recent court ruling. Notwithstanding the unitary status of these districts, Arizona school finance laws allow the schools to continue to tax local property owners for ongoing desegregation expenses. What's more, other Arizona districts have entered into administrative agreements with the U.S. Department of Education's Office of Civil Rights (OCR). These agreements, which result from allegations of discrimination, also provide school districts the opportunity to tax property owners for desegregation expenses. Seventeen Arizona school districts tax for desegregation expenses due to OCR agreements.

Notwithstanding limits placed on any additional schools levying taxes for deseg/OCR agreements, the amounts levied by these 19 schools continue to increase. For fiscal year (FY) 2008, a total of \$207.5 million dollars was levied for deseg/OCR agreements. This

Statewide Average Property Tax Rates



is an increase of \$6.1 million (3.1%) over FY 2007 levels. The amounts budgeted varied significantly among the different school districts. With a desegregation budget of \$63.7 million, Tucson Unified levied the most. Together with Phoenix Union—which levied \$53.4 million—these two districts levied more for deseg/OCR agreements than the remaining 17 school districts combined. The next highest amounts were levied by Tempe Elementary and Roosevelt Elementary, both of which levied just over \$13 million. The lowest deseg/OCR levies were in Agua Fria Union and Window Rock Unified, which levied \$895,000 and \$632,088, respectively.

Due to differences in district sizes and

property values, significant disparities also exist among the deseg/OCR tax rates of the different districts. The property owners in the unified school districts of Holbrook and Window Rock have the highest deseg/OCR rates: \$5.5988 in Window Rock and \$5.8931 in Holbrook. Isaac Elementary and Tucson Unified implemented the next highest rates; both are just over two dollars. The lowest desegregation rates, \$0.2147, \$0.1556, and \$0.0997, respectively apply to property in the Flagstaff Unified, Scottsdale Unified, and Agua Fria Union school districts.

In 2004, the Legislature passed a “soft cap” on the amount districts could budget for deseg/OCR agreements. The cap, which was renewed each year since

See **Desegregation**, page 4

ARIZONA TAX RESEARCH ASSOCIATION
 Gretchen Kitchel.....Chairman
 Kevin J. McCarthy.....President
 Jennifer Schuldt.....Vice President
 Justin Olson.....Research Analyst
 Courtney Baker.....Research Assistant

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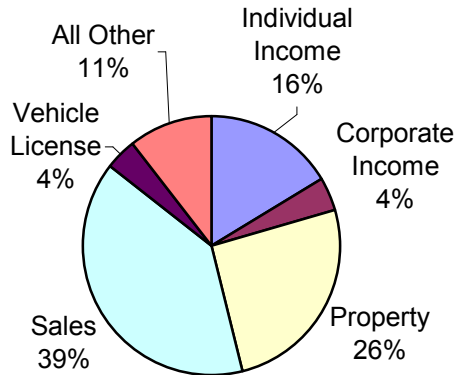
1814 W. Washington Street
 Phoenix, Arizona 85007
 (602) 253-9121
 FAX (602) 253-6719
 www.arizonatax.org
 atra@arizonatax.org



TAX REVENUES, *Continued from page 1*

Tax Type	2001	2005	2006	1-yr \$ chg.	1-yr % chg.	5-yr \$ Chg.	5 yr % Chg.
Individual Income	\$2,303,887,595	\$2,847,759,828	\$3,646,469,354	\$798,709,526	28.0%	\$1,342,581,759	58.3%
Corporate Income	\$541,173,869	\$701,859,285	\$874,219,472	\$172,360,187	24.6%	\$333,045,603	61.5%
Property	\$4,161,975,569	\$5,428,573,013	\$5,704,537,477	\$275,964,464	5.1%	\$1,542,561,908	37.1%
Sales	\$5,650,662,887	\$7,694,785,007	\$8,715,959,853	\$1,021,174,846	13.3%	\$3,065,296,966	54.2%
Vehicle License	\$570,769,364	\$708,253,641	\$831,950,743	\$123,697,102	17.5%	\$261,181,379	45.8%
All Other	\$1,458,970,171	\$2,196,304,970	\$2,359,011,830	\$162,706,860	7.4%	\$900,041,659	61.7%
Totals	\$14,687,439,455	\$19,577,535,744	\$22,132,148,729	\$2,554,612,985	13.0%	\$7,444,709,274	50.7%

Statewide Collections by Tax Type



Not surprisingly, the sales tax (TPT) generates the most in total tax revenues compared to all other tax types, which makes up more than 39% (\$8.7 billion) of the total revenues levied. The increased reliance on the sales tax by many jurisdictions has contributed to the \$1 billion (13.3%) growth in collections over the last year and \$3.1 billion (54.2%) in the last five years.

Property taxes are the second highest source of tax revenues in the state and account for 26% of total tax revenues. The \$276 million (5.1%) increase over last year pushed total property taxes levied to over \$5.7 billion. Over the last five years, property taxes grew more than \$1.5 billion or 37.1%.

Individual income tax collections represent 16.5% of the total taxes levied in the state and now amount to over \$3.6 billion. In FY 2006, individual income tax collections grew at a greater rate than all the other tax types, with a 28% increase (\$799 million), and 58.3% growth (\$1.3 billion) over the last five years.

Although the \$874 million in corporate income tax collections make up only 4% of the total taxes collected statewide, the one-year increase of \$172 million (24.6%) represents the second highest percentage increase right behind the individual income tax. The 61.5% growth over the last five years resulted in an additional \$333 million in corporate income tax collections.

Vehicle license tax collections follow closely behind corporate income tax collections with \$832 million generated in FY 2006 after a \$124 million (17.5%) increase. The \$2.4 billion remaining in the “all other” category includes tax collections under multiple tax types, such as motor vehicle taxes, insurance premium taxes, and luxury taxes, to name a few.

Jennifer Schuld

Desegregation/OCR Levies

District	FY 2005-06		FY 2006-07		FY 2007-08		1 Year Change		2 Year Change	
	Levy	TR	Levy	TR	Levy	TR	Levy	%	Levy	%
Agua Fria Union	\$845,000	\$0.1337	\$895,000	\$0.1165	\$962,000	\$0.0997	\$67,000	7.5%	\$117,000	13.8%
Amphitheater Unified	\$4,025,000	\$0.3735	\$4,025,000	\$0.3422	\$4,025,000	\$0.3043	\$0	0.0%	\$0	0.0%
Buckeye Elementary	\$622,965	\$0.6435	\$977,757	\$0.7033	\$1,327,445	\$0.7177	\$349,688	35.8%	\$704,480	113.1%
Cartwright Elementary	\$4,260,863	\$1.2877	\$4,444,165	\$1.2494	\$4,537,315	\$1.1963	\$93,150	2.1%	\$276,452	6.5%
Flagstaff Unified	\$2,118,167	\$0.2506	\$2,144,289	\$0.2330	\$2,197,375	\$0.2147	\$53,086	2.5%	\$79,208	3.7%
Glendale Union	\$5,800,632	\$0.3393	\$5,889,061	\$0.3272	\$6,011,725	\$0.3033	\$122,664	2.1%	\$211,093	3.6%
Holbrook Unified	\$2,387,181	\$5.8894	\$2,477,644	\$5.6983	\$2,493,307	\$5.8931	\$15,663	0.6%	\$106,126	4.4%
Isaac Elementary District	\$4,758,896	\$2.7464	\$5,044,872	\$2.7807	\$5,145,769	\$2.5669	\$100,897	2.0%	\$386,873	8.1%
Maricopa Unified	\$430,123	\$0.6804	\$636,832	\$0.6235	\$1,028,151	\$0.5038	\$391,319	61.4%	\$598,028	139.0%
Mesa Unified	\$8,351,162	\$0.3045	\$8,433,350	\$0.2931	\$8,602,017	\$0.2665	\$168,667	2.0%	\$250,855	3.0%
Phoenix Elementary	\$10,014,621	\$1.5007	\$10,214,913	\$1.5118	\$10,582,179	\$1.4567	\$367,266	3.6%	\$567,558	5.7%
Phoenix Union	\$49,674,046	\$1.0397	\$51,219,405	\$1.0028	\$53,455,893	\$0.9441	\$2,236,488	4.4%	\$3,781,847	7.6%
Roosevelt Elementary	\$12,636,000	\$2.3639	\$13,043,534	\$2.1324	\$13,407,478	\$1.9099	\$363,944	2.8%	\$771,478	6.1%
Scottsdale Unified	\$6,887,507	\$0.1837	\$7,090,502	\$0.1746	\$7,237,421	\$0.1556	\$146,919	2.1%	\$349,914	5.1%
Tempe Elementary	\$14,536,516	\$0.9770	\$13,627,690	\$0.8698	\$13,900,243	\$0.8295	\$272,553	2.0%	-\$636,273	-4.4%
Tucson Unified	\$62,461,811	\$2.4295	\$62,461,811	\$2.2447	\$63,711,047	\$2.0692	\$1,249,236	2.0%	\$1,249,236	2.0%
Washington Elementary	\$6,606,735	\$0.4810	\$6,606,735	\$0.4588	\$6,350,000	\$0.4014	-\$256,735	-3.9%	-\$256,735	-3.9%
Wilson Elementary	\$1,830,831	\$1.4736	\$1,867,447	\$1.3774	\$1,904,795	\$1.3668	\$37,348	2.0%	\$73,964	4.0%
Window Rock Unified	\$632,088	\$5.4733	\$632,088	\$5.4038	\$632,088	\$5.5988	\$0	0.0%	\$0	0.0%
Total	\$198,880,144		\$201,732,095		\$207,511,248		\$5,779,153	2.9%	\$8,631,104	4.3%

DESEGREGATION, *Continued from page 2*

its initial passage, limits the growth in deseg/OCR levies to 2% for assumed inflation plus an adjustment equal to the percent increase in the school districts average daily membership (ADM). Due to the cap, the percent increase in the amount budgeted for deseg/OCR agreements ranged from 2% to 3% in more than half of the school districts. However, two school districts utilized the opportunity afforded by their significant enrollment increases to drastically increase their OCR budgets. In FY 2008, Maricopa Unified will spend 61.4% more on its OCR agreement than it spent in FY 2007. Buckeye Elementary will spend 35.8% more. The next largest percent increases will occur in Agua Fria Union (7.5%), Phoenix Union (4.4%), and Phoenix Elementary (3.6%). Other districts did not take full advantage of the adjustment allowed under the cap. Holbrook Unified increased their OCR levy by only 0.6%. Window Rock Unified and Amphitheater Unified did not increase their levies but chose to maintain the FY 2007 levels. And Washington Elementary actually decreased the amount they levied for OCR expenses by 3.9%.

Comparing the deseg/OCR levies over two years magnifies the differences in the growth rates of these levies. The total amount levied for deseg/OCR agreements increased by 4.5% (\$8.6 million) from FY 2006 to FY 2008. The corresponding percent changes in all but two of the districts ranged from

-4.4% to 13.8%. In contrast, the levies in Buckeye Elementary and Maricopa Unified increased by an astonishing 113.1% and 139%.

ATRA's primary concern with deseg/OCR levies is that districts tend to use this revenue stream to increase spending on regular maintenance and operations (M&O) expenses that are only remotely connected to the court order/OCR agreement. In essence, the court orders/OCR agreements replace the voters in approving a new M&O budget override. In a recent East Valley Tribune article describing the nearly universal use of school budget overrides, Chuck Essigs—a recognized expert in school finance and a spokesman for the Arizona Association of School Business Officials—pointed out that Tucson Unified is the only one of the largest 20 Arizona school districts that does not have a budget override. He appropriately attributed the district's lack of an override to the amount of desegregation funding the district levies. Unfortunately for the taxpayers of the Tucson Unified School District, this override replacement costs \$36.1 million (130.7%) more than the amount the district would be allowed to levy for the most common budget override. And unlike budget overrides, the deseg/OCR levies require no voter approval.

Justin Olson

Attention ATRA Members

ATRA's *2007 Property Tax Rates and Assessed Values* book will soon be available. If you would like to reserve your copy, please provide your name and mailing address by mail, fax or email by November 9, 2007, to receive your copy as part of our mailing. The cost for non-members is \$25.00. Members receive the book free of charge. Requests for mailings after that date will require an additional S&H payment of \$5.00.

Name: _____ Affiliation: _____

Address: _____

City: _____ State: _____ Zip Code: _____

Mail: 1814 West Washington Street, Phoenix, AZ 85007 **E-mail:** cbaker@arizonatax.org **Fax:** (602) 253-6719