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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

VOLUME 62
NUMBER 5

JULY 2002

Arizona tax collections rise over two decades

Revenues from major taxes outpace population growth and inflation by over 50%

An Arizona Tax Research Association (ATRA) analysis of state and local tax collections over the last two decades found that tax collections climbed 429% from \$2.5 billion in 1980 to \$13.5 billion in 2000.

Per Capita Tax Collections, 1980-1990-2000

Year	Per Capita	Decade change	%
1980	\$938.36		
1990	\$1,884.60	\$946.24	100.8%
2000	\$2,675.24	\$790.64	42.0%
1980 to 2000 growth:		\$1,736.88	185.1%

Per capita collections rose from \$938 in 1980 to \$2,675 in 2000, a 185% increase. After controlling for inflation, per capita collections over the two decades climbed 52%.

Not surprisingly, the “big three” revenue sources — property tax, transaction privilege (sales) tax, and personal income taxes — were responsible for 85% of the growth in tax revenue since 1980.

State and local sales tax collections led the big three with growth of \$4.28 billion, a 436% climb. Property tax collections rose \$3.05 billion, up 371% over 1980 levels. Personal income tax collections, which climbed \$1.97 billion, showed the largest percent increase at 618%.

There has been considerable debate in Arizona in recent years about the sufficiency of Arizona’s tax system. Some of the debate has focused on the balance of Arizona’s three-legged stool of tax sources.

ATRA’s analysis demonstrates that while there were changes in the growth patterns of sales, property and personal income taxes over the last 20 years, their overall relationship is similar to that which existed in 1980.

In 1980 sales taxes accounted for the longest leg of the stool at 38% and accounts for 39% in 2000. Property taxes accounted for 32% of major state and local revenue in 1980 and its relative position fell to 28% in 2000. The shortest leg of the stool in 1980 was individual

income at 13%. Although it remains the shortest leg, individual income climbed to 17% in 2000.

While tax collections in both decades grew at a rate that outpaced population and inflation growth, the 1980s clearly outpaced the growth rates in the 1990s. Overall collections climbed 172% in the 1980s. Per capita collections grew 101% and inflation adjusted per capita collections rose 31%.

Major tax collection growth ebbed somewhat in the 1990s as the overall growth rate fell to 95%. However, that reduced growth rate still outpaced population and inflation growth by 16% over the decade. Dramatic growth in sales and personal income tax collections was offset by slower growth in property tax collections during the 1990s.

Per Capita Tax Collections, 1980-1990-2000

(inflation adjusted to 1980 \$)

Year	Per Capita	Decade change	%
1980	\$938.36		
1990	\$1,229.32	\$290.96	31.0%
2000	\$1,422.69	\$193.37	15.7%
1980 to 2000 growth:		\$484.33	51.6%

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Property, sales, and income taxes, 1980, 1990, and 2000

Per Capita Property Tax Collections, 1980-1990-2000

(inflation adusted to 1980 \$)

Year	Collections	Per Capita	Decade change	%	Inflation adjusted	Decade change	%
1980	\$821,596,042	\$302.28			\$302.28		
1990	\$2,506,010,794	\$680.83	\$378.55	125.2%	\$444.11	\$141.83	46.9%
2000	\$3,874,688,668	\$767.68	\$86.85	12.8%	\$408.25	-\$35.85	-8.1%
1980 to 2000 growth:			\$465.40	154.0%		\$105.97	35.1%

Per Capita Sales Tax Collections, 1980-1990-2000

(inflation adusted to 1980 \$)

Year	Collections	Per Capita	Decade change	%	Inflation adjusted	Decade change	%
1980	\$983,075,114	\$361.69			\$361.69		
1990	\$2,341,449,197	\$636.13	\$274.44	75.9%	\$414.95	\$53.26	14.7%
2000	\$5,264,576,318	\$1,043.05	\$406.92	64.0%	\$554.69	\$139.75	33.7%
1980 to 2000 growth:			\$681.36	188.4%		\$193.00	53.4%

Per Capita Individual Income Tax Collections, 1980-1990-2000

(inflation adusted to 1980 \$)

Year	Collections	Per Capita	Decade change	%	Inflation adjusted	Decade change	%
1980	\$319,339,473	\$117.49			\$117.49		
1990	\$996,405,685	\$270.70	\$153.21	130.4%	\$176.58	\$59.09	50.3%
2000	\$2,291,882,439	\$454.08	\$183.38	67.7%	\$241.48	\$64.90	36.8%
1980 to 2000 growth:			\$336.59	286.5%		\$123.99	105.5%

Sources: Tax collections: Arizona Tax Research Association; Arizona Department of Revenue;
Population: U.S. Census Bureau;
GDP deflator inflation index: U.S. Bureau of Economic Analysis.

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Published 10 times annually by the Arizona Tax Research Association, a nonprofit organization whose purpose is to promote efficiency and economy in Arizona government and reductions at all levels. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Research Association.

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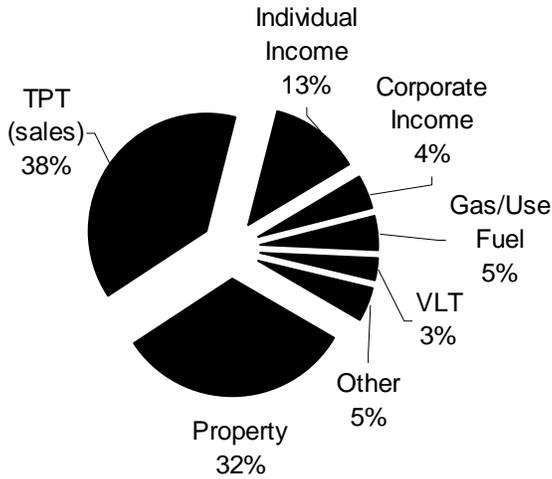
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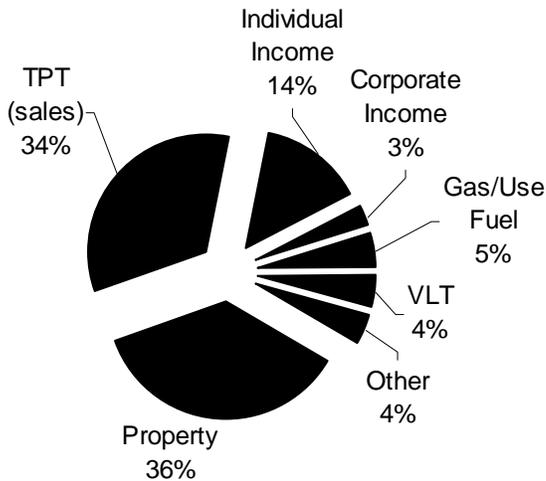
Major Tax Collections, 1980-1990-2000

FY 1980



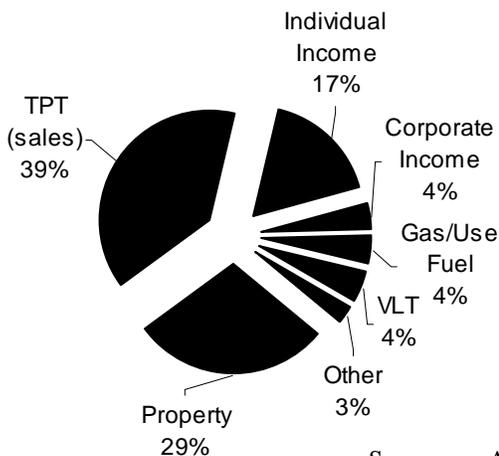
Tax	FY 1980	% of Total	Per Capita
Property	\$821,596,042	32.21%	\$302.28
TPT (sales)	\$983,075,114	38.54%	\$361.69
Individual Income	\$319,339,473	12.52%	\$117.49
Corporate Income	\$114,551,166	4.49%	\$42.15
Gas/Use Fuel	\$122,898,401	4.82%	\$45.22
VLT	\$73,800,000	2.89%	\$27.15
Other	\$115,206,241	4.52%	\$42.39
TOTALS	\$2,550,466,437	100.00%	\$938.36

FY 1990



Tax	FY 1990	% of Total	Per Capita
Property	\$2,506,010,794	36.13%	\$680.83
TPT (sales)	\$2,341,449,197	33.75%	\$636.13
Individual Income	\$996,405,685	14.36%	\$270.70
Corporate Income	\$178,067,102	2.57%	\$48.38
Gas/Use Fuel	\$339,116,220	4.89%	\$92.13
VLT	\$297,280,096	4.29%	\$80.77
Other	\$278,509,029	4.01%	\$75.67
TOTALS	\$6,936,838,123	100.00%	\$1,884.60

FY 2000



Tax	FY 2000	% of Total	Per Capita
Property	\$3,874,688,668	28.70%	\$767.68
TPT (sales)	\$5,264,576,318	38.99%	\$1,043.05
Individual Income	\$2,291,882,439	16.97%	\$454.08
Corporate Income	\$523,181,687	3.87%	\$103.66
Gas/Use Fuel	\$575,413,791	4.26%	\$114.00
VLT	\$583,199,118	4.32%	\$115.55
Other	\$389,737,063	2.89%	\$77.22
TOTALS	\$13,502,679,084	100.00%	\$2,675.24

Sources: Arizona Tax Research Association; Arizona Department of Revenue; U.S. Census Bureau

School vouchers aid taxpayer, too

By Kevin McCarthy

The recent U.S. Supreme Court decision on school vouchers has reignited debate on this important public policy issue.

This decision, as well as a similar ruling from the Arizona Supreme Court in 1999, opens the way for a healthy and focused debate on the benefits of vouchers.

While few would argue that the overriding benefit of vouchers is to empower parents with the choice of where to send their child to school, the financial benefits vouchers provide to taxpayers should also weigh heavily in future debates.

Two recent changes in our school finance laws make vouchers an even more important tool to manage the significant fiscal challenges in Arizona's future.

According to the most recent report from the state Department of Education, Arizona spent an average of \$7,300 to educate every K-12 public school student for fiscal 2001. Total statewide spending for K-12 schools topped \$6.2 billion, up from \$5.5 billion in fiscal 2000, a one year jump of \$699 million (12.7 percent).

As one the fastest growing states in the country, Arizona's top fiscal challenge is meeting the annual costs associated with ever-increasing student growth in our K-12 schools. By far the largest increase in the state budget each year is the appropriation to fund student growth.

The taxpayer savings associated with vouchers obviously hinges on the dollar amount of the voucher and the resulting shift of students from public to private schools. The optimum dollar amount would be one that provides an adequate incentive to parents to use private schools yet still provides significant savings to taxpayers.

The last serious effort to advance vouchers in Arizona in the mid-1990s pegged

the voucher amount at \$1,500 and was targeted at low-income parents.

Despite the fact that a limited voucher would not only save the state money and thereby provide greater budget flexibility for potentially higher per-pupil funding in our public schools, the public schools talk of financial ruin.

In Arizona this is a particularly curious argument. We have been conditioned by the public school lobby to believe that per-pupil funding levels do not cover the costs. To the extent that was true it would be financially advantageous for the public schools to shift the burden of student growth to the private sector.

Two recent changes in our school finance laws make vouchers an even more important tool to manage the significant fiscal challenges in Arizona's future.

First, as a result of a Supreme Court ruling Arizona is now responsible for not only the maintenance and operation expenses of our K-12 schools but the construction of schools as well. As a result, parents that chose to place their child in private school not only save the state those expenses but also the significant capital costs associated with building schools.

For years Arizona has been one of the nation's leaders in school capital outlay spending. With court-mandated capital spending and assured student growth our costs will only increase in the future.

The second major change was the mandatory increase in maintenance and operation funding required by Proposition 301, which increased the state sales tax rate 0.6 percent for K-12 school funding.

While the most prominent feature of Proposition 301 was the dedicated sales tax increase for schools, arguably the most important feature was the guaranteed increases in per-pupil funding required in the future.

The costs of this Proposition 301 mandate are not covered by the new sales tax, so the

funding responsibility falls to the state general fund.

As a result, the challenges of funding unabated student growth in Arizona public

While the most prominent feature of Proposition 301 was the dedicated sales tax increase for schools, arguably the most important feature was the guaranteed increases in per-pupil funding required in the future.

schools will grow as lawmakers are locked into funding increasing costs per student.

Parental choice and competition in education are obviously sound policy reasons to embrace vouchers. However, as school costs skyrocket in Arizona, the taxpayer benefits of vouchers argue for quick action on the part of policymakers.

This article appeared in The Arizona Republic on July 22, 2002.

Maricopa County Board announces intent to place jail tax on November ballot

The Maricopa County Board of Supervisors announced this month its intent to ask voters to extend the current one-fifth cent sales tax for an additional 20 years.

County Sheriff Joe Arpaio told Board members that additional funding would be needed to operate the County's new jails.

The one-fifth cent tax, approved by voters in 1998, will expire in 2007 when it is expected to have generated \$900 million.

The Board will call for the measure to be placed on the ballot during an August meeting.

Community college adopted general fund budgets up \$31 million statewide; capital projects on the decline

All 10 districts increase property taxes over TNT levels

Budgeted general fund spending in Arizona's 10 community college districts went from \$613.7 million last year to \$644.8 million in FY 2003, a 5% increase. The largest percentage increases occurred in **Maricopa, Mohave, Coconino, and Yavapai**. **Maricopa's** adopted general fund is 56% of the statewide total. Their \$23.2 million general fund increase is 75% of the total increase.

Meanwhile, unexpended plant funds statewide are down \$7.9 million as capital construction projects reach completion. The most notable exception is **Yavapai**, where proceeds from their recently-approved \$69.5 million general obligation (G.O.) bond program are being put to use.

Adopted budgets statewide, comprised of general funds and unexpended plant funds, increased 2.8% from \$840.7 million to \$863.9 million.

Every one of Arizona's 10 community college districts increased their primary property tax rate over truth in taxation (TNT) levels for tax year 2002. (See table on page 6.) The adopted property tax rates will generate over \$28.6 million in levy increases statewide, the lion's share of the \$31 million increase in general fund spending.

Enacted in 1996, TNT laws require taxing jurisdictions to respond to growth in property values either with commensurate reductions in tax rates or to inform taxpayers of the increase through newspaper ads and a public hearing. This is the first year since 1996 that all 10 districts were required to hold such TNT hearings.

As in past years, governing boards in **Coconino, Graham, Maricopa, Mohave, and Pima** adopted primary levies at 100% of their levy limits, in effect letting the levy limit formula made the decision for them to increase taxes.

The highest primary tax rate, as before, is the \$2.1737 per \$100 of assessed valuation in the **Pinal** district. Having paid off their general (G.O.) debt, the district no longer requires the 0.0385 secondary rate. However, the termination of the secondary rate did not result in any relief. The district increased the primary rate by precisely the same amount: 0.0385.

Similarly, **Yavapai** district took advantage of reductions in their debt service (secondary) rate to justify a 5-cent increase in their primary rate, increasing their levy by nearly \$2.4 million.

Yuma/La Paz got to claim a tax reduction of 2 cents from their secondary rate. However, they left their primary rate the same, increasing their levy by over \$1 million.

On the horizon: Look for an override election at **Pima** this year (see page 6) and another bond election from **Maricopa** district in 2004. Last year, the *ATRA Newsletter* reported that the district had issued its last series of the \$385.8 billion bond approved in 1994. Last summer the district was estimating the new bond for as much as \$750 million. Discussions this year have put the new bond proposal up to as much as \$900 million.

General Funds, FY 2003

District	FY 2002	FY 2003	Change	%
Cochise	\$21,992,839	\$22,667,448	\$674,609	3.1%
Coconino	\$10,130,042	\$10,778,661	\$648,619	6.4%
Graham	\$20,114,625	\$20,502,176	\$387,551	1.9%
Maricopa	\$355,649,197	\$378,812,394	\$23,163,197	6.5%
Mohave	\$15,950,998	\$16,991,429	\$1,040,431	6.5%
Navajo	\$14,772,634	\$15,394,286	\$621,652	4.2%
Pima	\$103,460,000	\$105,535,000	\$2,075,000	2.0%
Pinal	\$22,763,000	\$23,526,000	\$763,000	3.4%
Yavapai	\$26,270,725	\$27,760,743	\$1,490,018	5.7%
Yuma/La Paz	\$22,626,015	\$22,855,286	\$229,271	1.0%
Total	\$613,730,075	\$644,823,423	\$31,093,348	5.1%

Unexpended Plant Funds, FY 2003

District	FY 2002	FY 2003	Change	%
Cochise	\$1,056,329	\$1,522,087	\$465,758	44.1%
Coconino	\$6,972,697	\$722,500	(\$6,250,197)	-89.6%
Graham	\$16,135,338	\$11,403,191	(\$4,732,147)	-29.3%
Maricopa	\$115,809,517	\$98,947,476	(\$16,862,041)	-14.6%
Mohave	\$2,235,325	\$523,020	(\$1,712,305)	-76.6%
Navajo	\$7,270,000	\$8,311,300	\$1,041,300	14.3%
Pima	\$45,260,000	\$45,325,000	\$65,000	0.1%
Pinal	\$2,700,000	\$2,030,000	(\$670,000)	-24.8%
Yavapai	\$27,578,384	\$47,656,875	\$20,078,491	72.8%
Yuma/La Paz	\$1,947,540	\$2,623,540	\$676,000	34.7%
Total	\$226,965,130	\$219,064,989	(\$7,900,141)	-3.5%

Adopted Budgets*, FY 2003

District	FY 2002	FY 2003	Change	%
Cochise	\$23,049,168	\$24,189,535	\$1,140,367	4.9%
Coconino	\$17,122,273	\$11,501,161	(\$5,621,112)	-32.8%
Graham	\$36,249,963	\$31,905,367	(\$4,344,596)	-12.0%
Maricopa	\$471,458,714	\$477,759,870	\$6,301,156	1.3%
Mohave	\$18,186,323	\$17,514,449	(\$671,874)	-3.7%
Navajo	\$22,042,634	\$23,705,586	\$1,662,952	7.5%
Pima	\$148,720,000	\$150,860,000	\$2,140,000	1.4%
Pinal	\$25,463,000	\$25,556,000	\$93,000	0.4%
Yavapai	\$53,849,109	\$75,417,618	\$21,568,509	40.1%
Yuma/La Paz	\$24,573,555	\$25,478,826	\$905,271	3.7%
Total	\$840,714,739	\$863,888,412	\$23,173,673	2.8%

*Adopted budgets equal general funds and unexpended plant funds combined. Funds for the retirement of debt are excluded to avoid redundancy.

Pima Comm College spins tax override election

A notable tax increase question will be going to Pima County voters in November.

The Pima Community College District will ask their county residents to approve a property tax levy limit override, the first community college to do so since the levy limits came into existence in 1980.

Citing a mismatch between forecasted spending and available resources, Pima estimates the override to generate between \$8 million and \$12 million per year for seven years.

The district is proposing that the secondary tax rate to fund both the override and the continued debt service on G.O. bonds approved in 1995 will not to exceed 42 cents per \$100.

The district came to the 42-cent figure for this election because 42 cents was the "not to exceed" rate from the 1995 bond question. Thus the district's claim so far has been that the 42 cents is not a tax increase.

A press release from the district states that they will ask voters "to approve the continuation of a secondary tax." The

district's *Bulletin* provides this statement from Chancellor Bob Jensen: "We're not asking the community to increase their commitment, just to maintain their current contribution."

ATRA staff raised concerns to Pima district officials regarding the way they have so far positioned this proposed tax increase to voters.

ATRA believes that Pima County's already highly burdened taxpayers would be better served by a more honest and straightforward acknowledgment of the impact a prevailing "YES" vote would have.

Community college primary tax rates, Tax Year 2002

College District	Actual Levy TY 2001	Adopted Levy TY 2002	Primary Levy Increase	Actual Rate TY 2001	Proposed Rate TY 2002	TNT Rate	Rate Increase over TNT
Cochise	8,755,738	9,608,287	852,549	1.7368	1.7868	1.6964	0.0904
Coconino	4,125,015	4,281,028	156,013	0.4010	0.4083	0.4003	0.0007
Graham	1,788,541	1,916,115	127,574	1.9473	1.9760	1.9373	0.0100
Maricopa	204,648,094	221,156,802	16,508,708	0.9583	0.9634	0.9445	0.0138
Mohave	9,321,315	9,812,501	491,186	0.9398	0.9398	0.9214	0.0184
Navajo	6,265,472	6,775,529	510,057	1.1504	1.1898	1.1388	0.0116
Pima	49,960,363	53,800,000	3,839,637	1.1455	1.1535	1.1114	0.0341
Pinal	14,982,948	17,756,949	2,774,001	2.1352	2.1737	1.9911	0.1441
Yavapai	19,630,398	21,980,482	2,350,084	1.5325	1.5819	1.4777	0.0548
Yuma/LaPaz	12,079,580	13,097,666	1,018,086	1.8267	1.8267	1.7586	0.0681
	\$331,557,464	\$360,185,359	\$28,627,895	1.3774	1.3824	1.3378	0.0446
	Levy Totals			Tax Rate Averages			