



The taxpayer's watchdog for over 60 years

ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

VOLUME 62
NUMBER 9

DECEMBER 2002

Local governments increase reliance on property taxes in 2002

Arizona property tax levies rose \$266.6 million (6.41%) statewide in tax year (TY) 2002, slightly less than last year's increase of 7.41%, bringing total statewide property tax levies up to \$4.4 billion.

The majority of Arizona property taxes are levied by K-12 school districts, which account for approximately 57%, or \$2.5 billion, of total statewide levies in 2002.

Community colleges experienced the largest statewide percentage increase this year of all the taxing jurisdictions, with total levies reaching \$428.2 million, a 7.71% increase.

Over the last five years, total statewide levies have grown \$1.3 billion, nearly 42%, from \$3,127,123,726 in 1997 to \$4,428,552,333 in 2002.

The average statewide property tax rate, which is calculated annually by the Department of Revenue, represents the relationship between total statewide levies and net assessed values (NAVs). In TY 2002, the average statewide property tax rate dropped 0.5% due to a 6.95% increase in total NAV and a 6.41% increase in total levies. The average state rate dropped from \$12.55 to \$12.49.

Primary property taxes, which are generally levied for maintenance and operations purposes, increased \$204.9 million in TY 2002.

However, since the increase in primary levies (7.37%) was greater than the increase in primary NAVs (7.15%), the statewide average primary rate increased two cents, from \$8.54 in 2001 to \$8.56 in 2002. Since 1997, primary levies have risen 43.5% and

TOTAL PROPERTY TAX LEVIES

	2001		2002		Difference	Percent Change
State	\$ 17,905,200	\$ 13,801,961	\$ 13,801,961	\$ 13,801,961	\$(4,103,239)	-22.92%
Counties	829,896,505	890,737,029	890,737,029	890,737,029	60,840,524	7.33%
Cities	310,596,571	333,649,560	333,649,560	333,649,560	23,052,989	7.42%
Comm. Colleges	397,569,955	428,207,414	428,207,414	428,207,414	30,637,459	7.71%
Schools	2,380,393,548	2,519,747,805	2,519,747,805	2,519,747,805	139,354,257	5.85%
Other	225,613,790	242,408,564	242,408,564	242,408,564	16,794,774	7.44%
TOTAL	\$ 4,161,975,569	\$ 4,428,552,333	\$ 4,428,552,333	\$ 4,428,552,333	\$ 266,576,764	6.41%

currently make up nearly 67% of total statewide levies.

Secondary levies, which fund debt service on bonds, budget overrides, and a variety of special districts, climbed \$61.7 million (4.46%) over last year. The 4.46% growth in secondary levies, coupled by a 6.76% jump in secondary NAVs, resulted in an 8-cent decrease in the secondary average statewide tax rate, with the rate dropping from \$4.01 in 2001 to \$3.93 in 2002. Over the past five years, secondary levies have grown \$397 million (38%).

K-12 SCHOOLS

K-12 Primary Levies

Primary levies for schools grew 6.95%, just over \$110 million, raising total primary levies from \$1.587 billion in TY 2001 to \$1.697 billion in TY 2002. The 6.95% increase in levies was considerably lower than last year's 9.29% increase, which is partly the result of the state legislature's continued commitment to adjust the qualifying tax rate (QTR) in accordance with the truth-in-taxation (TNT) law.

See **Property taxes**, page 2

Inside . . .

Combined rate in Hayden-Winkelman up to \$44.81, page 5

Union Elem. property tax rate up 262%, page 5

Voters reject Pima College property tax override, page 6

Gila County voters approve "provisional" college, page 6

Property taxes

	PRIMARY LEVIES			Percent Change
	2001	2002	Difference	
State	\$ 17,905,200	\$ 13,801,961	\$ (4,103,239)	-22.92%
Counties	722,310,800	782,078,487	59,767,687	8.27%
Cities	120,334,471	130,659,803	10,325,332	8.58%
Comm. Colleges	331,557,464	360,156,006	28,598,542	8.63%
Schools	1,586,744,192	1,697,031,236	110,287,044	6.95%
TOTAL	\$ 2,778,852,127	\$ 2,983,727,493	\$ 204,875,366	7.37%

Continued from page 1

Since 1999, the state has complied with the TNT law by adjusting the QTR for schools in response to changes in property values (excluding new construction). The QTR for elementary and unified districts was reduced again by the state from \$2.0647 and \$4.1294 in 2001 to \$2.0296 and \$4.0592 in 2002. The drop in the QTR offset what would have been an estimated \$25.3 million tax increase according to the Joint Legislative Budget Committee (JLBC).

Despite the state's adjustment to the QTR through the TNT law, K-12 school primary levies surged ahead 6.95%. New construction was responsible for roughly 5.4% of growth, with the remainder being driven by expenditures outside district budget limits.

Another factor impacting K-12 primary levies this year was the passage of HB 2550 which capped budgeted desegregation levies for a 2-year period beginning in TY 2002. ATRA led the legislative effort to pass HB 2550 during the 2002 legislative session. The bill, sponsored by Representative Steve Huffman, was estimated by JLBC to save taxpayers approximately \$21.4 million in FY 2003 and \$34.9 million in FY 2004.

K-12 Secondary Levies

The increase in K-12 secondary levies was almost half of the increase in primary levies, with an increase of 3.66% over last year. The \$29.1 million increase brings total secondary levies for K-12 up to \$822.7 million in TY 2002.

K-12 secondary levies have also been influenced by the proliferation of Joint Technological Education Districts (JTEDs). JTEDs are multi-jurisdictional voter-approved special districts that are intended to provide efficiencies in vocational training.

There are eight JTEDs currently operating, involving 46 school districts. Several more districts voted to form a new JTED in the November general election.

Total secondary levies for these districts increased 8.6% over last year, from \$12,700,901 in 2001 to \$13,793,021 in 2002.

COMMUNITY COLLEGES

College Primary Levies

Community colleges topped the list with the largest percentage increase in primary levies, reflecting an increase of nearly \$28.6 million (8.63%) in TY 2002. As a result, total

primary levies for community colleges have grown to more than \$360 million.

Central Arizona College in Pinal and the Yavapai Community College had the largest percentage increases in primary levies this year, jumping 18.5% and 12%, respectively. Cochise Community College also adopted a significant increase of 9.7%, followed by Arizona Western College (Yuma/La Paz) with an 8.4% increase. Maricopa wasn't far behind with an 8% (\$16.5 million) increase over last year.

All 10 community college districts were required to hold TNT hearings prior to adopting their budgets.

College Secondary Levies

Community College secondary levies increased just over 3% in TY 2002, with total secondary levies coming in slightly above the \$68 million mark. However, the 3.1% increase appears modest compared to the 17.6% boost that community colleges received in 2001.

Gila County's secondary levy for the Gila Pueblo College received the largest percentage increase, with a 6.1% bump over last year, or \$118,837. The Maricopa

See Property taxes, page 3

TOTAL NET ASSESSED VALUES

	2001	2002	Difference	Percent Change
Primary	\$ 32,528,310,651	\$ 34,854,285,601	\$ 2,325,974,950	7.15%
Secondary	34,473,431,125	36,805,206,912	2,331,775,787	6.76%
TOTAL	\$ 67,001,741,776	\$ 71,659,492,513	\$ 4,657,750,737	6.95%

ARIZONA TAX RESEARCH ASSOCIATION
 Kevin Kinsall.....Chairman
 Kevin J. McCarthyPresident
 Michael E. HunterVice President
 Jennifer SchuldtSenior Research Analyst
 Carmen Florez-Lucero.....Office Manager

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.

Serving Arizona's taxpayers since 1940.

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



Property taxes

	SECONDARY LEVIES			Difference	Percent Change
	2001	2002			
Counties	\$ 107,585,705	\$ 108,658,542	\$ 1,072,837	1.00%	
Cities	190,262,100	202,989,757	12,727,657	6.69%	
Comm. Colleges	66,012,491	68,051,408	2,038,917	3.09%	
Schools	793,649,356	822,716,569	29,067,213	3.66%	
Other	225,613,790	242,408,564	16,794,774	7.44%	
TOTAL	\$ 1,383,123,442	\$ 1,444,824,840	\$ 61,701,398	4.46%	

Continued from page 2

Community College District adopted the largest dollar increase in TY 2002 of \$1,595,837 (4.6%), which also represented the second largest percentage increase. Finally, the levy for Northland Pioneer College in Navajo County grew an additional \$57,662 (3.8%) in 2002.

CITIES

City Primary Levies

City primary levies rose \$10,325,332 (8.6%), from \$120,334,471 in 2001 to \$130,659,803 in 2002. The Town of Buckeye's primary levy increased 73.5% over last year, representing the largest percentage increase of all the cities. Buckeye's increase was driven by a 39-cent hike in the primary rate from \$0.5900 to \$0.9776.

The City of Tucson experienced the second most significant percentage increase in primary levies, with an increase of over \$1.6 million, or 57%, in 2002. Like Buckeye, the increase in Tucson's primary levy was largely the result of the city increasing its primary rate above the TNT rate. More than seven cents over the TNT rate in this case.

The City of Eloy received the third largest percentage increase out of all the cities with levies increasing 27.4%, raising the primary levy from \$298,320 in 2001 to \$380,000 in 2002. The adopted primary rate of \$1.3551 was nearly 24 cents above the TNT rate.

Based on a TNT report published by the Department of Revenue, 22 of the 47 cities that levy a primary rate increased taxes over TNT levels.

City Secondary Levies

Cities received a healthy 6.7% boost in secondary levies, resulting in an additional \$12.7 million over last year.

A few cities received significant jumps in their secondary levies in TY 2002, such as the City of Surprise, with an increase of 69.5%, or \$283,681, over last year. Not far behind Surprise was the City of Goodyear, in which secondary levies increased \$670,420, or 66.5%. The third largest percentage increase occurred within the City of Avondale with a 20.8% increase, or \$197,590.

See Property taxes, page 4

HIGHEST TOTAL COMBINED PROPERTY TAX RATES IN EACH COUNTY

County	Total Combined Rate	School District/City or Fire District	County Average Rate	% of average
Apache	12.2089	Ganado Unified #20/Ganado Fire	7.99	152.8%
Cochise	20.6833	Bowie Unified #14/Bowie Fire	12.90	160.3%
Coconino	12.1301	Grand Canyon Unified/Tusayan Fire	9.42	128.8%
Gila	44.8109	Hayden-Winkleman #41/Hayden	13.14	341.0%
Graham	11.9247	Safford Unified #1/Safford Rural Fire	10.52	113.4%
Greenlee	10.3150	Clifton Unified #3/Clifton	5.79	178.2%
La Paz	15.3344	Salome Elem. #30/Bicentennial Union/Salome	10.92	140.4%
Maricopa	23.6569	Union Elem. #62/Tolleson Union/Phoenix	11.94	198.1%
Mohave	15.6981	Peach Springs Unified #8	10.85	144.7%
Navajo	13.1017	Holbrook Unified #3/Sun Valley Fire	9.88	132.6%
Pima	19.4800	Tucson Unified #1/Drexel Heights Fire	16.72	116.5%
Pinal	22.4755	Superior Unified #15/Superior	16.42	136.9%
Santa Cruz	16.7744	Santa Cruz Elem. #28/Nogales Suburban Fire	13.14	127.7%
Yavapai	13.3809	Seligman Unified #40/Seligman Fire	10.44	128.2%
Yuma	15.1723	Yuma Elem. #1/Yuma Union/Yuma	14.23	106.6%

Property taxes

STATEWIDE AVERAGE COMBINED PROPERTY TAX RATE

Continued from page 3

COUNTIES

County Primary Levies

County primary levies climbed an average 8.3%, an increase just over \$59.7 million, bringing total county primary levies up to \$782.1 million.

The counties with the highest percentage increases included Greenlee County, which increased its primary rate to \$0.5764, more than 21 cents over the TNT rate, and resulted in an increase of 23.4% in total primary levies.

Although Pinal County experienced 8.6% growth in new construction over the last year, the 16.2% increase in primary levies was primarily due to the county increasing its rate 30 cents above the TNT rate.

Coconino County adopted a rate increase of 7.2 cents, from \$0.3433 to \$0.4153, resulting in 9.6% growth in the primary levy. The adopted primary rate of \$0.4153 was more than seven cents above the TNT rate of \$0.3427.

Maricopa County showed the largest dollar increase, with primary levies rising \$31.3 million (8.72%) over last year, making it also the 4th largest percentage increase out of all the 15 counties. The county's primary rate of \$1.2108 was nearly four and a half cents above the TNT rate of \$1.1661.

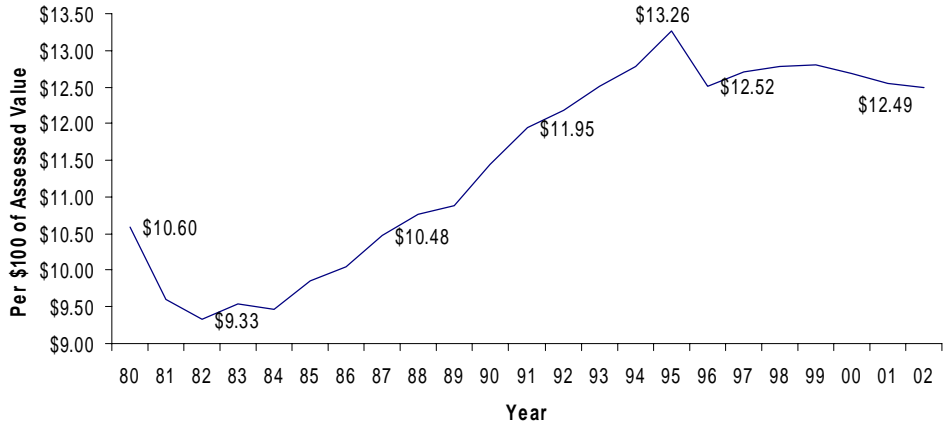
In 2002, 14 out of the 15 counties exceeded their TNT limit, requiring those counties to hold TNT hearings.

County Secondary Levies

At the same time that county primary levies rose 8.27%, secondary levies grew by a very modest 1%, or \$1.1 million, over last year.

Slower growth in secondary levies as compared to primary levies is in part the result of counties shifting from one to the other as decreases in debt service rates become increases in primary rates.

The best example occurred in Maricopa County, in which the Board adopted an increase on the primary side, with the rate increasing from \$1.1832 to \$1.2108. At the same time, the county's debt service rate dropped from \$0.0876 to \$0.0800 while the flood district rate was reduced from \$0.2319 to \$0.2119. The overall effect was a \$0.0276 increase in the primary rate and a combined decrease of \$0.0276 in both the debt service and flood district rates.



TOTAL COMBINED PROPERTY TAX RATE INCREASES OVER 10%* 2001 TO 2002

District	% increase
Union Elementary & Tolleson Union	80.4%
Grand Canyon Unified	31.2%
Nadaburg Elementary	29.1%
Hillside Elementary	27.4%
Kingman Unified	26.6%
Williamson Valley Elementary	25.0%
Page Unified	20.3%
Superior Unified	20.1%
Colorado City Unified	16.7%
Tuba City Unified	15.8%
Apache Elementary	14.7%
St. Johns Unified	14.4%
Aguila Elementary	13.8%
Ruth Fisher (Saddle Mountain Unified)	13.1%
Mammoth/San Manuel Unified	12.6%
Littlefield/Mt. Trum & Mohave Union	12.2%
Lake Havasu Unified	11.3%
Williams Unified	11.3%

*Calculated percentages include primary and secondary tax rates for taxing authorities within the listed school districts. Joint technological education district rates were included, however, other special districts were not. For districts that include more than one municipality within its boundaries, only the highest percentage is shown.

Jennifer Schuldt

UNION ELEMENTARY'S PROPERTY TAX RATE UP 262%

The Union Elementary School District's property tax rate increased 262% from last year, going from \$3.7708 per \$100 of assessed value to \$13.6519 in 2002.

Mark Busch, director of finance for the Maricopa County School Superintendent, attributes the \$9.8811 increase primarily to a series of administrative errors by the district's finance personnel that went undetected "for at least three years" by his predecessor at the county school office.

Each year, school districts must complete a "Miscellaneous Revenue Estimate" form for the county that is intended to report revenue, such as federal or state monies in lieu of taxes, that would reduce the property tax levy requirement.

A former business officer for Union Elementary had been reporting as additional revenue all of the state equalization assistance, budgeted levies for adjacent ways, as well as federal impact aid for approximately 66 students coming from the Gila River Indian Reservation.

In other words, the district's actual levy was falling well short of what their adopted budget called for. A document drafted by the business officer contained the following explanation:

"Equalization revenues were included in a report from the district to the county. These equalization amounts should not have appeared on the revenue form. The form is confusing and at my previous school, we did not have equalization or Impact Aide" [*sic*].

County documents show a negative cash balance of \$64,344 in FY 2001-2002 and \$160,872 in FY 2002-2003.

Cecilia Powell, the superintendent at Union Elementary since July 2002, attributed the problem to incompetence. Powell explained that the business officer had been with Union Elementary for about three years, having left the district in September of 2002 to become the business manager at the Buckeye Union High School District.

The former superintendent, James Ramsey, had left Union Elementary midway through the 2001-2002 school year. In addition, the three-member board has two vacancies.

The district considered adopting a primary rate closer to \$17.00 per \$100 of assessed value by not using any of the federal impact aid to offset the required levy.

Instead, \$150,000 of the \$245,000 in federal impact aid was used to bring the rate to \$13.6519.

According to Busch, the \$13.6519 rate should erase the district's negative cash balance. He estimates the rate to be between \$6.00 to \$7.00 next year. However, that assumes the district will have continued access to their property tax through the so-called "small school district adjustment."

With a prior-year student count of a mere 82 pupils, Union Elementary qualified, as in previous years, for the "adjustment" in FY 2002-2003. Under state law, districts with student counts less than 125 in grades K-8 or 100 in grades 9-12 qualify for unlimited access to their property tax. Union Elementary budgeted \$400,000 under this statute in FY 2002-2003, a \$50,000 increase from the previous year.

However, the district's student count is currently at 228, so the district will not qualify for the "small school district adjustment" next year. Any further property tax levies in excess of their budget limits would be limited and require voter approval. Powell said she intends to approach the Legislature in the upcoming session to ask for an extension to their unlimited access to the property tax without voter approval.

ATRA has long argued for reform of the "small school district adjustment." Last year, ATRA persuaded the "Governor's Task Force on Efficiency and Accountability in K-12 Education" to recommend that the State use mandatory consolidation and unification to help solve the "small school district" problem.

In the meantime, Union Elementary has received considerable attention from the

School District Consolidation and Unification Commission. ATRA vice president Michael Hunter, a member of the commission, has advocated that the Legislature include mandatory consolidation or unification, to the extent possible, to help solve problems faced by small districts and their taxpayers.

If ever there were a case where consolidation was needed to solve a district's problems, Union Elementary is it.

Combined rate in Hayden up to \$44.81

Providing ample evidence in the case against Arizona's school finance system, the Hayden-Winkelman Unified School District in Gila County has once again graced taxpayers with their annual demonstration of the limitless bounds of tax rates in the Copper State.

For the last seven years, the Hayden-Winkelman district, within the Town of Hayden, has maintained the distinction of having the highest total combined property tax rate. Now at \$44.8109 per \$100 of assessed value, the combined rate is 341% higher than the Gila County average. The total combined rate was \$43.21 last year, \$40.65 in 2000, and \$33.91 in 1999 (see the *ATRA Newsletter* for October 2001).

The Town of Hayden adopted the same \$15.07 rate as last year. Gila County also held their rate at \$4.41. Meanwhile, Hayden-Winkelman Unified increased its primary rate 37 cents to \$7.8742. The district's secondary rate rose \$1.25 to \$16.9178.

Winkelman taxpayers have the second highest combined rate in the county at \$33.86.

Taxpayers from the district have written the State Legislature and Superintendent of Public Instruction demanding an investigation.

Gila County voters approve “provisional” college district

Gila County voters approved a provisional community college district in the general election last month. With 57% voting YES, the provisional district will become the first such district in operation beginning July 1, 2003.

Barbara Ganz, formerly dean of instruction at Pima College was named president of the new Gila Community College District.

State law allows counties with net assessed values below a specified level to form “provisional” community college districts. Such districts must work in conjunction with another established college district. Provisional districts also have several other restrictions. A rather important example is that provisional districts are not eligible for equalization assistance.

Gila County pursued the provisional district in large part to eliminate its annual obligation for out-of-county tuition, totalling approximately \$1 million annually.

On the Gila County ballot as Proposition 400, the measure established the district and

its initial levy limit of \$4,125,015. State law requires that the provisional levy limit “be no less than the most recently formed community college district” (Coconino). The primary tax rate for FY 2003-2004 will be 63 cents, which is supposed to replace 58-cent secondary rate Gila County has been levying for Gila Pueblo College.

Just prior to the election, Gila County officials had severed a 34-year relationship with Graham County’s Eastern Arizona College and signed a one-year agreement with Pima College to provide courses and programs.

One of first major initiatives of the new college’s administration, as reported in the *Payson Roundup* on December 20, is to launch a program called the Senior Option to offer credit courses at reduced tuition to senior citizens.

Santa Cruz County voters approved the formation of a provisional district in September, 2000. However, county voters rejected the initial tax levy the following May.

Apache and Greenlee Counties have not yet taken steps to form provisional districts.

Voters reject Pima College property tax override

Pima County voters decisively rejected a community college property tax increase on the November 5 ballot. Despite efforts on the part of college officials to soft-peddle the tax impact, over 61% voted to reject the college’s proposed tax hike.

Labeled Proposition 400 on the Pima County ballot, the measure would have increased the college’s property tax levy between \$8.4 million and \$12.5 million annually for seven years.

ATRA raised concerns about the manner in which college officials were marketing the tax increase question. For example, a press release from Pima College stated that it was asking 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 informed Pima County taxpayers of Prop. 400’s actual impact through the ATRA Newsletter (July 2002) and in a guest column in the *Tucson Citizen* (available at www.arizonatax.org).