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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

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ATRA OFFERS PERSPECTIVE AND RESEARCH TO TAX REFORM GROUPS

The Arizona Tax Research Association's (ATRA) research and recommendations have been in demand more than usual in recent months as discussions heat up statewide on the topic of tax reform and the state budget's ongoing shortfall.

ATRA president Kevin McCarthy was one of a handful of individuals to present their organizations' perspective on tax reform before the Legislature's Tax Reform for Arizona Citizens (TRAC) Committee on September 23. McCarthy also serves as a member of that committee.

McCarthy told members of the committee that comparisons of national statistics are inevitable when analyzing state and local fiscal systems. However, caution should be exercised with any data on which one intends to base policy decisions. Aggregate per capita or personal income statistics, though popular, have limited value in analyzing tax burdens.

The U.S. Census Bureau is the primary source of data on aggregate tax burdens. However, ATRA's research has uncovered significant errors in Arizona's data that have been confirmed by the Census Bureau and that understate Arizona's overall tax burden.

For example, McCarthy told the TRAC Committee that Census Bureau data for FY 2000 ranks Arizona 36th in per capita state and local tax collections. After adjusting for the error (an underreporting of sales tax and vehicle license tax collections), Arizona's ranking moves up to 30th. Similarly, Arizona ranks 24th in state and local tax collections per \$1,000 of personal income. Correcting for the error, our ranking goes to 15th.

McCarthy pointed out that, in the

aggregate, Arizona's tax collections are in the mid range compared to other states. "At a minimum," said McCarthy, "the data should not lead to the conclusion that overall taxes are low and should therefore be increased."

McCarthy suggested that the best "snapshot" of Arizona's tax system is as follows:

◆ **HIGH SALES TAXES**

◆ **AVERAGE PROPERTY TAXES**

- high business property taxes
- low homeowner property taxes

◆ **LOW PERSONAL INCOME TAXES**

McCarthy also summarized ATRA's research on the performance of Arizona's tax system over the last two decades. He acknowledged that Arizona's tax system is far from perfect and in need of reform in some key areas. However, as a revenue producer, the system has performed quite well. In fact, inflation adjusted per capita tax collections have grown 51.6% between 1980 and 2000. (See ATRA's July 2002 *Newsletter* for more information in this 20-year analysis.)

Tax reform, said McCarthy, has been an ongoing process for ATRA for the past decade and many improvements have been made in the property and sales tax systems. ATRA's recommendations will continue to focus on both sound fiscal policy as well as realistic expectations. "Some tax reform recommendations that have emerged amount to draining the ocean and refilling it with water of a different color. ATRA's recommendations are for much more targeted reform," said McCarthy.

The most important guiding principle for reform in ATRA's view is that, whatever

changes are enacted, they should do no harm. Whatever happens in this flurry of tax reform activity, the problems in Arizona's current tax system should not be made worse.

McCarthy told the committee that the most pressing issue in Arizona's tax system continues to be the effect of the classification system on business property taxes, where Arizona ranks as high as 3rd nationally (see ATRA's May 2003 *Newsletter*).

In ATRA's view, there are two ways to deal with this problem: reduce property taxes overall or create equity across property classes. Considering the importance of the property tax for both state and local government, significant reductions in the

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MARK YOUR CALENDARS

**ATRA's
63rd Annual Meeting
& Outlook Conference**

**November 21, 2003
at the
Scottsdale Radisson Resort**

**ATRA Golf Tournament
November 20, 2003
at the
McCormick Ranch Golf Club**

Prop 301 kicks in: average instructional staff pay increases

Arizonans continue to hear from the news media and the education lobby that public school salaries are low. Often, a variety of funding statistics are lumped together to describe Arizona's public school system as "the worst in the nation" or "bottom of the heap." One recent article in *The Arizona Republic* noted that "Arizona's rock-bottom ranking in education polls has been a deterrent for some firms considering a move to the Valley..." (Sept. 13, 2003).

A memorable *Republic* editorial in support of the Prop 301 sales tax increase stated that "this measure indisputably is anchored in a single fact: that until it is passed, Arizona teachers are paid worse than any other public school teachers in America" (September 26, 2000). The same editorial concluded that "raising [Arizona] from the bottom of the salary ladder is a vital first step."

While it is widely accepted and quoted that Arizona's per-pupil expenditures for maintenance and operation (M&O) rank low nationally, it does not follow that instructional staff or teacher pay is last in the nation.

The National Education Association, (NEA), the largest teacher's union in the nation, ranks Arizona 10th for school year 2001-2002 in average salaries for "instructional staff."

The NEA defines instructional staff as including "consultants or supervisors of instruction, principals, teachers, guidance personnel, librarians, psychological personnel, and other instructional staff." The instructional staff category does *not* include such positions such as "administrative staff, attendance personnel, health service personnel, or clerical personnel."

Arizona's average instructional staff salaries grew 7.5% between 2000-01 and 2001-02, ranking 3rd nationally in terms of percentage growth. Between 1991-92 and 2001-02, the NEA calculates the percentage change in instructional staff salaries, adjusted for inflation, at 8.7%, ranking Arizona 11th nationally.

Calculating these average salaries as a percentage of per capita personal income is a

Rank	State	2001-2002 avg. instr. staff salary (NEA)	Rank	State	% of per capita personal income
1	Massachusetts	\$61,688	1	ARIZONA	197.5%
2	New Jersey	\$56,147	2	Michigan	176.8%
3	California	\$55,787	3	Rhode Island	175.5%
4	Connecticut	\$55,780	4	California	170.6%
5	New York	\$53,920	5	Pennsylvania	169.0%
6	Rhode Island	\$53,013	6	South Carolina	168.2%
7	Michigan	\$52,676	7	West Virginia	166.6%
8	Pennsylvania	\$51,920	8	Oregon	164.9%
9	Illinois	\$51,310	9	Indiana	163.5%
10	ARIZONA	\$51,089	10	Alaska	162.9%
11	Maryland	\$50,645	11	Georgia	161.2%
12	Delaware	\$50,487	12	Arkansas	160.9%
13	Alaska	\$50,399	13	New Mexico	160.1%
14	District of Columbia	\$48,352	14	Idaho	159.1%
15	New Hampshire	\$47,083	15	Utah	159.0%
16	Oregon	\$46,432	16	Mississippi	158.9%
17	Georgia	\$46,315	17	Ohio	158.6%
18	Washington	\$45,708	18	Massachusetts	158.6%
19	Ohio	\$45,690	19	Alabama	157.7%
20	Wisconsin	\$45,452	20	Kentucky	157.3%
21	Indiana	\$45,434	21	Delaware	155.5%
22	Hawaii	\$44,085	22	Illinois	155.4%
23	Minnesota	\$43,900	23	Louisiana	155.3%
24	Nevada	\$42,990	24	Wisconsin	155.3%
25	Virginia	\$42,755	25	North Carolina	155.1%
26	North Carolina	\$42,680	26	Maine	153.5%
27	Colorado	\$42,503	27	Hawaii	152.0%
28	South Carolina	\$41,856	28	New York	149.7%
29	Texas	\$41,625	29	Tennessee	148.5%
30	Maine	\$41,015	30	Oklahoma	146.2%
31	Vermont	\$40,518	31	New Jersey	145.8%
32	Florida	\$40,504	32	Texas	145.6%
33	Nebraska	\$40,193	33	Iowa	144.8%
34	Tennessee	\$40,072	34	Maryland	143.9%
35	Missouri	\$40,029	35	Nevada	143.8%
36	Iowa	\$39,562	36	Montana	143.5%
37	Kentucky	\$39,203	37	Washington	142.7%
38	Idaho	\$39,174	38	Missouri	141.8%
39	Wyoming	\$39,161	39	Vermont	141.7%
40	Alabama	\$38,774	40	Florida	139.9%
41	Utah	\$38,457	41	Nebraska	139.1%
42	Kansas	\$38,134	42	New Hampshire	137.9%
43	West Virginia	\$38,112	43	Kansas	133.5%
44	Louisiana	\$38,110	44	Wyoming	133.1%
45	New Mexico	\$37,073	45	Minnesota	132.6%
46	Arkansas	\$36,818	46	Virginia	131.8%
47	Oklahoma	\$36,661	47	Connecticut	131.4%
48	Mississippi	\$34,570	48	Colorado	127.0%
49	Montana	\$34,379	49	North Dakota	126.0%
50	North Dakota	\$32,630	50	South Dakota	121.7%
51	South Dakota	\$32,444	51	District of Columbia	120.4%
	United States	\$46,706		United States	153.3%

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Arizona average teacher pay ranks 26th nationally, 15th as a percent of per capita personal income

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Rank	State	2001-2002 avg. teacher salary (NEA)	Rank	State	% of per capita personal income
1	California	\$54,348	1	Michigan	176.8%
2	Connecticut	\$53,551	2	California	166.2%
3	New Jersey	\$53,192	3	Pennsylvania	164.7%
4	Michigan	\$52,676	4	Rhode Island	164.7%
5	New York	\$52,000	5	Oregon	163.6%
6	Pennsylvania	\$50,599	6	Arkansas	161.5%
7	Massachusetts	\$50,293	7	Idaho	160.8%
8	Rhode Island	\$49,758	8	West Virginia	160.6%
9	Illinois	\$49,435	9	South Carolina	160.4%
10	Alaska	\$49,418	10	Alaska	159.7%
11	Delaware	\$48,363	11	Indiana	159.1%
12	Maryland	\$48,251	12	New Mexico	157.4%
13	District of Columbia	\$47,049	13	North Carolina	155.1%
14	Oregon	\$46,081	14	Utah	154.7%
15	Indiana	\$44,195	15	ARIZONA	154.5%
16	Georgia	\$44,073	16	Georgia	153.4%
17	Ohio	\$44,029	17	Mississippi	153.1%
18	Washington	\$43,464	18	Ohio	152.8%
19	North Carolina	\$42,680	19	Kentucky	152.3%
20	Hawaii	\$42,615	20	Alabama	151.3%
21	Wisconsin	\$42,232	21	Illinois	149.7%
22	Minnesota	\$42,194	22	Delaware	148.9%
23	Virginia	\$41,731	23	Louisiana	148.1%
24	Nevada	\$40,764	24	Hawaii	146.9%
25	Colorado	\$40,659	25	New York	144.4%
26	ARIZONA	\$39,973	26	Wisconsin	144.3%
27	South Carolina	\$39,923	27	Montana	143.5%
28	New Hampshire	\$39,915	28	Tennessee	142.7%
29	Idaho	\$39,591	29	Iowa	139.9%
30	Florida	\$39,275	30	Maine	139.6%
31	Vermont	\$39,240	31	Oklahoma	138.6%
32	Texas	\$39,232	32	New Jersey	138.1%
33	Tennessee	\$38,515	33	Texas	137.3%
34	Iowa	\$38,230	34	Vermont	137.2%
35	Missouri	\$37,996	35	Maryland	137.1%
36	Kentucky	\$37,951	36	Nevada	136.3%
37	Wyoming	\$37,837	37	Washington	135.7%
38	Utah	\$37,414	38	Florida	135.7%
39	Maine	\$37,300	39	Missouri	134.6%
40	Alabama	\$37,194	40	Kansas	129.9%
41	Kansas	\$37,093	41	Massachusetts	129.3%
42	Arkansas	\$36,962	42	Virginia	128.7%
43	West Virginia	\$36,751	43	Wyoming	128.6%
44	New Mexico	\$36,440	44	Minnesota	127.5%
45	Louisiana	\$36,328	45	Connecticut	126.2%
46	Nebraska	\$36,236	46	Nebraska	125.4%
47	Oklahoma	\$34,744	47	North Dakota	124.5%
48	Montana	\$34,379	48	Colorado	121.5%
49	Mississippi	\$33,295	49	South Dakota	117.4%
50	North Dakota	\$32,253	50	District of Columbia	117.2%
51	South Dakota	\$31,295	51	New Hampshire	116.9%
	United States	\$44,683		United States	146.6%

common method that accounts for differences in the underlying wealth between states.

Arizona's average instructional staff salary is nearly double the per capita personal income figure, placing this state at the top of the national ranking.

Arizona faces many of the same challenges that confront other rapidly growing states. According to the NEA, only Nevada and Florida surpassed Arizona in the percentage change in public school enrollment between Fall 2000 and Fall 2001. Only Nevada had a larger percentage change in high school graduates between 1991-92 and 2001-02.

Such rapid growth is reflected in many national statistics. According to the American Federation of Teachers, Arizona is among states with the least experienced teaching force in the U.S. (an average 13.1 years).

Arizona teachers also have full classrooms. With an estimated 20 students to every teacher, the NEA ranks Arizona 2nd compared to other states, putting us in the company of other fast-growing states, such as California, Utah, Washington, Florida, and Nevada.

Arizona has also had to commit enormous sums of taxpayers dollars to the construction and renovation of school buildings. In fact, data from the National Center for Education Statistics (NCES) shows that in 2000-01 Arizona outpaced every other state in per-pupil expenditures for capital (Arizona's \$2,474 per pupil is surpassed only by the District of Columbia).

Despite these challenges, Arizona's classroom teachers fair better than one might be led to think. According to the NEA, Arizona ranks 26th (between Colorado and South Carolina) for school year 2001-2002.

Adjusting the average teacher salary figures for differences between states in per capita personal income, Arizona climbs to 15th in the national ranking.

Contrasting the last decade's growth in instructional staff pay, the percentage change in inflation adjusted average teacher salaries ranks Arizona 31st. Nevertheless, between 2000-01 and 2001-02, average pay for teachers in Arizona climbed 7.5%, ranking 4th nationally.

Michael Hunter

TAX REFORM

Continued from page 1

property tax are unrealistic. That leaves equity as the only other avenue to begin addressing the problem of high business property taxes.

Further recommendations for reforming property taxes included:

- ◆ *A single assessment ratio for all future voter approved bonds and overrides;*
- ◆ *Control future growth of property tax levies for all classifications;*
- ◆ *Address high school district primary property tax rates (desegregation/OCR, small schools, etc.);*
- ◆ *Manage the 1% cap.*

McCarthy told committee members that recommendations to levy a new "state" property tax will clearly exacerbate our current problems. While the state does not have a statewide property tax rate for general fund purposes, it very much relies on and benefits from property taxes through the qualifying tax rate (QTR) and the county education rate.

McCarthy also presented ATRA's recommendations on the sales tax:

- ◆ *Uniformity of the state and municipal tax base (while complete uniformity of state and city sales tax bases is unrealistic, disparities should be limited);*
- ◆ *Maximum rate caps should be considered;*

◆ *Exemptions are not "loopholes" — any consideration of expansion of the base should be done with great care and consideration of the state's competitive position for economic development.*

Finally, ATRA's recommendations for Arizona's income tax included the following:

- ◆ *Place a very high priority on conformity with the federal government, for both corporate and personal income taxes;*
- ◆ *Change the corporate income tax apportionment formula to 100% sales with an election for corporate taxpayers who wish to stay with the current three-factor formula.*

McCarthy also addressed the particulars of tax reform before the Governor's Citizen's Finance Review Commission (CFRC), the Urban Land Institute (ULI), and the Arizona Tax Conference.

ATRA vice president Michael Hunter also recently spoke to the TRAC Committee on reforming school capital finance and Students FIRST.

Hunter recommended keeping the new construction standards and providing an assured revenue stream to fund them. He emphasized the importance of maintaining state oversight and control.

Hunter told the committee that reforming Students FIRST has to entail more than just identifying a revenue stream. He outlined several problem areas in the workings of the Students FIRST laws and the School Facilities Board that the Legislature needs to change to regain control of school capital spending.

Slides from these and other presentations are available on the ATRA Website: www.arizonatax.org.

Attention ATRA Members

ATRA's 2003 *Property Tax Rates and Assessed Values* book will be available soon. Please provide your name and mailing address by mail, fax or e-mail by October 17, 2003, to receive your copy as part of our bulk 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.

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