Arizona property taxes for tax year 2003 climbed $334.4 million, shattering the previous record for one-year growth of $289 million set in 2000. The 7.6% increase in levies was driven primarily by a 10.4% increase in property values. Statewide primary net assessed values (NAV) climbed 9.9% while secondary NAV rose 11%.

The percentage increase in NAV outpaced the increase in property tax levies, causing the statewide average rate to fall from $12.49 last year to $12.18 for 2003, a 2.5% drop.

K-12 school property taxes make up the majority of total levies with nearly $2.7 billion levied in 2003, representing 56.2% of the total. County levies account for 20% of total statewide taxes, levying $969.7 million in 2003.

The largest percentage increase occurred at the city level, with levies increasing 11.6% ($38.7 million) over the last year, bringing total city levies to $372.4 million in 2003. Other levies, which include fire and street lighting districts, among many other special districts, experienced the second largest percentage increase, by climbing at a rate of 10.7% ($25.9 million) over last year, bringing the total levies in the “other” category to just over $268 million.

### TOTAL PROPERTY TAX LEVIES

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>Difference</th>
<th>Percent Change</th>
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<tr>
<td>State</td>
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<td>Comm. Colleges</td>
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<td>Schools</td>
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<td>159,192,506</td>
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<tr>
<td>Other</td>
<td>242,408,564</td>
<td>268,283,024</td>
<td>25,874,460</td>
<td>10.7%</td>
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<td><strong>TOTAL</strong></td>
<td>$4,428,552,333</td>
<td>$4,762,926,094</td>
<td>$334,373,761</td>
<td>7.6%</td>
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</tbody>
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### FIVE-YEAR GROWTH

Total levies have grown at a rate of 42.9% over the last five years, reflecting more than a $1.4 billion increase in taxes. The cities experienced the largest percentage growth over that same time, with levy growth at 58.4% ($137.3 million) since 1998. Following closely behind the cities were the community colleges, which experienced over a 57% increase in property tax levies.

### PRIMARY LEVIES

Primary property taxes, which are generally levied for maintenance and operations purposes, increased $217.9 million (7.3%) in 2003. However, since the 9.9%

### ATRA Outlook Conference, Nov. 21

ATRA’s Outlook Conference this year will be held on Friday, November 21, at the Radisson Resort & Spa in Scottsdale.

This year’s program will include a discussion of legislative priorities with House Speaker Jake Flake, Senate Minority Leader Jack Brown, and Senate President Ken Bennett.

Elliott D. Pollack will provide an up-to-date economic outlook and the Governor’s top budget advisor, George Cunningham, will give us the latest on the state budget.

Discussing the prospects for tax reform will be Rep. Steve Huffman and Senator Dean Martin.

The program will also include Cal-Tax President Larry McCarthy, who will attempt to answer the question: *Are there lessons to be learned from California’s recent budget troubles?*

Call ATRA at (602) 253-9121 or visit www.arizonatax.org for more information.
growth in the primary NAV was greater than the 7.3% increase in primary levies, the average statewide primary property tax rate dropped 2.3%, from $8.36 to $8.36 in 2003. Since 1998, primary levies have grown by nearly $1 billion, or 45.2%, fed in part by new construction. Primary levies make up over 67% of total statewide levies.

SECONDARY LEVIES

Secondary levies, which fund debt service on bonds, budget overrides, and a wide variety of special districts, jumped significantly in 2003 by $116.5 million (8.1%), almost twice the rate of last year’s growth of 4.5%. The growth in secondary NAV of nearly 11% over the past year outpaced the 8.1% in secondary levy growth, resulting in a 2.8% drop in the secondary average statewide rate, from $3.93 in 2002 to $3.82 in 2003. Secondary levies have grown $433.5 million (38.4%) since 1998.

K-12 SCHOOL DISTRICTS

K-12 Primary Levies

Primary levies for schools grew 5.8%, raising nearly $1.8 billion in primary levies for 2003. Over the past two years, the percentage growth in school primary levies has leveled off, largely as a result of a combination of truth-in-taxation (TNT) and freezing levies that are outside of the revenue control limit, such as excess utilities and desegregation spending. (See article on page 4 of this Newsletter.)

In addition, the State Legislature has remained committed to adjusting the qualifying tax rate (QTR) and the county education rate in adherence to TNT. 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 once again by the state from $2.0296 and $4.0592 in 2002 to $1.9583 and $3.9166 in 2003. The Legislature’s adherence to TNT offset what would have been an estimated $51 million tax increase according to the Joint Legislative Budget Committee (JLBC).

K-12 Secondary Levies

Once again, despite claims that property taxpayers would see relief through the state’s Students FIRST program, K-12 secondary levies climbed 7.4% in 2003, a $61 million increase, bringing total K-12 secondary levies to $883.8 million.

SECONDARY LEVIES

<table>
<thead>
<tr>
<th>2002</th>
<th>2003</th>
<th>Difference</th>
<th>Percent</th>
</tr>
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<tbody>
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<td>Comm. Colleges</td>
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<td>$(352,274)</td>
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<td>Schools</td>
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<td>$883,752,017</td>
<td>$61,035,448</td>
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<tr>
<td>Other</td>
<td>$242,408,564</td>
<td>$268,283,024</td>
<td>$25,874,460</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$1,444,824,840</td>
<td>$1,561,347,053</td>
<td>$116,522,213</td>
</tr>
</tbody>
</table>

COMMUNITY COLLEGES

College Primary Levies

Community college levies increased 8.9%, $32.1 million, bringing total primary levies to $392.3 million in TY 2003.

Central Arizona College in Pinal experienced the largest percentage increase of 16.5%, nearly a $3 million increase in primary property taxes. Central Arizona Community College’s adopted primary rate was more than 4 cents over the TNT rate. Northland Pioneer in Navajo saw a 12.4% increase in primary levies, adopting a rate that was nearly 6 cents above the TNT rate.

Mohave Community College adopted the third largest percentage increase of 11.9%, resulting in an additional $1.2 million in TY 2003. Mohave’s adopted primary rate was approximately 2.5 cents over the TNT rate.

Gila County created a provisional community college district in TY 2003, with an initial levy of $2.2 million. All 10 community college districts were required to hold a TNT hearing.

College Secondary Levies

Community College secondary levies dropped slightly by 0.52% in TY 2003 to $67.7 million. One reason for the drop in secondary levies is the elimination of Gila County’s community college tuition secondary levy since the creation of the provisional community college district creates a primary property tax.

See PROPERTY TAX LEVIES, page 3
PROPERTY TAX LEVIES

CITIES

City Primary Levies

City primary levies rose $18.4 million, representing the largest percentage increase at 14.1%, with primary levies totaling $149 million in TY 2003.

Sierra Vista adopted the largest tax increase by far, adopting a primary rate that was more than 14 cents over the TNT rate. As a result, Sierra Vista’s primary levy jumped from $12,057 in 2002 to $257,691 in 2003. With only 5.2% of NAV in new construction, the majority of the tax increase is on existing property.

The Town of Superior had the second largest percentage increase of 81.8%, which is partly the result of growth in the area, approximately 11% of Superior’s total NAV. Adopting a primary rate that was $1.70 above the TNT rate, Superior’s primary levy grew from $224,172 to $407,464. Of the $183,292 increase in primary property taxes, nearly 85% of that is a tax increase on existing property.

The third largest percentage increase occurred in the City of Holbrook, in which primary levies increased 54.5%, from $33,500 to $51,750. The city adopted a rate that was 10 cents over the TNT rate.

City Secondary Levies

The cities collectively increased their secondary levies 10%, resulting in an additional $20.4 million, bringing the total to $223.3 million in 2003. Nearly half of the cities that levy a secondary property tax experienced more than a 10% growth in their secondary levies.

The City of Tolleson increased its secondary rate from $0.9550 to $1.6534, which nearly doubled their secondary levy to $1,932,500 in 2003.

Other cities receiving significant increases in their secondary levies included the City of Avondale, which increased its secondary levy 26.8%, Chandler at 22.9%, Goodyear with a 22.1% increase, and Gilbert, which increased secondary levies 20.9%.

COUNTIES

County Primary Levies

County primary levies grew approximately 8.9%, or $69.4 million, driving primary levies up over $851 million in TY 2003.

Pinal County experienced 16.1% growth in their primary property tax levy, largely a result of the high volume of new construction in the county. New construction consisted of roughly 12.5%, or $119 million, of Pinal County’s total NAV of $951.8 million. Of the $6.5 million in additional tax levies, $5.2 million was the result of new construction in the county. Just by Pinal County keeping its tax rate the same, the county increased taxes on existing property $810,292. The county’s adopted tax rate was 8.5 cents over the TNT rate.

Yavapai County received the second largest percentage increase of 12.2% in primary levies after increasing its rate more than 12 cents above the TNT rate. The 12-cent increase over the TNT rate translated into over a $1.8 million increase in taxes on existing property in the county.

Coconino County received a significant increase of 11.5% above last year. Coconino’s adopted rate was more than 7 cents above the TNT rate, resulting in a tax increase on existing property of nearly $800,000.

County Secondary Levies

This year’s 8.8% growth in county secondary levies is significant compared to last year’s increase of only 1%.

Greenlee County adopted the largest percentage increase in secondary levies by increasing its override rate from $0.6202 to $1.1934, resulting in a secondary levy increase of 51.2%, or $578,930, in 2003.

Pima County had the largest dollar increase in secondary taxes, levying an additional $4.1 million (7.8%) in 2003, bringing the county’s total secondary levies up to $55.9 million. Right behind Pima was Maricopa County, with an increase of $3.8 million (11.9%), and Mohave County with an additional $598,200 (10.9%).

Jennifer Schuldt

Statewide Average Combined Property Tax Rate

Coconino County received a significant increase of 11.5% above last year. Coconino’s adopted rate was more than 7 cents above the TNT rate, resulting in a tax increase on existing property of nearly $800,000.

Jennifer Schuldt
Legislative action provides tax relief for TUSD taxpayers, others

Taxpayers in the Tucson Unified School District (TUSD) have seen some much needed tax relief as a result of the two-year cap on desegregation spending, as well as the similar cap on excess utilities.

When House Bill (HB) 2550 was enacted in 2002, TUSD had a primary tax rate of $8.09 per $100 of assessed value (tax year 2001). Included in that rate is the qualifying tax rate (QTR) used to levy the local property tax contribution that, when added to state equalization assistance, funds most of the district’s budget.

The remainder of the primary rate levies for items outside the district’s budget limit. The largest part of this levy in tax year 2001 was the nearly $62.5 million for TUSD’s desegregation budget.

The following year, because TUSD’s desegregation budget was capped, the rate dropped to $7.61 as the district’s assessed value climbed. TUSD’s rate this year is $7.18.

Also contributing to the tax rate reduction is the freeze placed on excess utilities. TUSD’s adopted budget for fiscal year 2002 was $4.2 million. When the Legislature moved to cap excess utilities budgets at FY 2002 levels ($68 million statewide), many school districts increased their excess utilities budgets prior to the May 15 budget revision deadline.

In fact, TUSD’s governing board approved a $3.4 million increase on May 14, bringing their FY 2002 excess utilities budget, and therefore the capped amount, up to $7.6 million.

Because of this loophole, the Legislature’s efforts to cap excess utilities at $68 million resulted in budgets totaling $81 million for excess utilities statewide in FY 2003 (see ATRA Newsletters for June and August, 2002).

Legislative efforts to close this loophole resulted in districts being limited to the amount they actually expended in FY 2002. Statewide, budgeted amounts for excess utilities was brought down to $68 million. In TUSD’s case, the Legislature’s action meant that they could only budget, and therefore tax, for $6.9 million.

Another very important factor in school district tax rate calculations, including the rate decrease for TUSD and many other districts this year, was the Legislature’s adherence to state-level truth in taxation (TNT) laws. TNT requires property tax rates controlled by the Legislature — the QTR and the county education rate — to be reduced in conjunction with growth in assessed values (excluding new construction).

The QTR for TUSD and other unified districts in 2001 was $4.1294 per $100 of assessed value. In 2002 it was $4.0592. The rate in 2003 (to fund FY 2004 budgets) is $3.9166.

These three factors — the budget caps on desegregation and excess utilities, and the QTR reductions — were the driving force behind the tax relief experienced by taxpayers in Tucson and elsewhere. But don’t breathe easy yet. Unless the Legislature takes further action, those budget caps disappear at the end of FY 2004 and school districts’ access to property taxes will again be unlimited.

Not everyone got relief

In contrast to the temporary tax relief provided through the caps on desegregation/OCR and excess utilities levies, there was no such relief provided in numerous very small districts that are allowed unlimited local property taxes. Taxpayers in Bowie Unified, for example, saw their tax rate climb from last year’s $11.91 to $16.55 in 2003. In nearby San Simon Unified, the primary rate climbed from $8.57 to $9.79. In Ash Fork Unified, last year’s rate of $6.65 was replaced with a rate of $8.28 for 2003.

Meanwhile, Union Elementary’s taxpayers did see a rate reduction from last year’s surprising $13.65 (see ATRA Newsletter for December 2002) to $6.72. Union’s student count has more than doubled so the district no longer qualifies for the small school district levy ($400,000 last year). However, the rate is still considerably higher than the QTR because the district did avail itself to an adjacent ways levy of $500,000.

Statewide, budgeted amounts for the small school district “adjustment” this year exceeds $14 million. Budgets for adjacent ways this year total nearly $57 million.

Michael Hunter