



*The taxpayer's watchdog for over 60 years*

**ARIZONA TAX RESEARCH ASSOCIATION**

# NEWSLETTER

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## Legislation Forces Local Government Tax Rates Down

For the first time in many years, Arizona counties, community colleges, and cities collectively adopted primary tax rates that were lower than the previous year. This good news for taxpayers comes courtesy of the Arizona Legislature and Governor in the form of House Bill (HB)2876.

In an effort to address growing concerns with skyrocketing property valuations, the Legislature supported a three-pronged ATRA plan that called for the following:

- Reduce state level property tax rates in 2006.
- Prohibit local governments from increasing primary property taxes in 2006.
- Beginning in 2007, require local governments to receive voter approval before raising primary taxes beyond the 2% plus growth-threshold.

Each of those recommendations was ultimately adopted, with the final recommendation hinging on voter's supporting the passage of Proposition 101 in November. In order to ensure that they did not backfill into the state's property tax cut this year, each county, community college district, and city was limited to a 2006 tax levy that was no greater than the 2005 primary increased by 2% plus new construction. *(For more details, see the June/July ATRA Newsletter).*

The table on page 2 provides the 2006 primary tax rates adopted by the counties and community college

districts. Every jurisdiction, with the exception of Apache County and Cochise Community College district, showed decreases in their tax rates.

**MARK YOUR CALENDAR**  
**The Annual ATRA**  
**Golf Tournament**  
**November 16th**  
**&**  
**Outlook Conference**  
**November 17th**

## TAX INCREASES CONTINUE AFTER VETOES

Two ATRA-backed measures that were vetoed by Governor Napolitano this year have allowed government to increase property taxes without the approval of voters.

### **Public Health Services District (SB1217)**

Senate Bill (SB) 1217, a measure that passed both the House and the Senate during the 2006 legislative session but was ultimately vetoed by Governor Napolitano, would have prevented future county boards from creating a Public Health Services District (PHSD) without voter approval.

The PHSD law, which was enacted in 2000, allows counties the ability to sidestep voters in creation of the special taxing district with the authority to levy

See **Tax Increases**, page 2

## Courtney Baker Joins ATRA as the New Research Assistant



This summer, Courtney Baker joined the ATRA staff by filling a new Research Assistant position. Courtney is a recent graduate of the University of San Diego where she received her Bachelor of Arts degree in political science.

Courtney will provide research support on all of the public finance and taxation issues the association monitors, as well as join the ATRA staff in taxpayer advocacy efforts at the Capitol during the Legislative session. In addition, Courtney will assist the President with the administrative duties of the association. An Arizona native and graduate of Mesquite High School, Courtney is twenty two years old.

In introducing Ms. Baker to the ATRA Board of Director's, ATRA President Kevin McCarthy said "Courtney is the perfect fit for ATRA's new research assistant position. The energy she brings to the job will be a great benefit to ATRA's operation."

**Tax Year**

Jurisdiction	2005	2006	Difference
Apache County	0.4598	0.4683	0.0085
Cochise County	2.9373	2.9160	(0.0213)
Cochise CC	1.7868	1.7868	0.0000
Coconino County	0.4753	0.4622	(0.0131)
Coconino CC	0.4031	0.3920	(0.0111)
Gila County	4.4100	4.3488	(0.0612)
Gila CC	0.6288	0.6201	(0.0087)
Graham County	1.7912	1.7601	(0.0311)
Eastern Arizona CC	2.0698	2.0658	(0.0040)
Greenlee County	0.6556	0.5564	(0.0992)
La Paz County	2.2500	2.2068	(0.0432)
Maricopa County	1.1971	1.1794	(0.0177)
Maricopa CC	0.8936	0.8815	(0.0121)
Mohave County	1.7500	1.6777	(0.0723)
Mohave CC	0.9404	0.8982	(0.0422)
Navajo County	0.6337	0.6229	(0.0108)
Northland Pioneer CC	1.2857	1.2639	(0.0218)
Pima County	4.0720	3.8420	(0.2300)
Pima CC	1.0930	1.0570	(0.0360)
Pinal County	4.4532	4.3035	(0.1497)
Central Arizona CC	2.1000	2.0528	(0.0472)
Santa Cruz County	3.3487	3.3050	(0.0437)
Yavapai County	1.7008	1.6552	(0.0456)
Yavapai CC	1.4900	1.4308	(0.0592)
Yuma County	2.2239	2.1429	(0.0810)
Arizona Western	1.8847	1.8734	(0.0113)

# Tax Increases, *Continued from Page 1*

either a sales or property tax. Although the introduced version of the bill in 2000 initially required voter approval, that provision was eliminated through a floor amendment with no debate.

Voter approval is typically required prior to the implementation of a new tax or tax increase. For example, a jurisdiction must receive voter approval prior to implementing a primary property tax or to levy over its levy limit. The same is true for secondary bonds or overrides, in which a taxing jurisdiction must receive the approval of voters prior to increasing property taxes.

Most special taxing districts also require voter approval. In particular, taxing districts that are similar to the PHSD, like Special Health Care Districts,

Hospital Districts, and Health Service Districts, all require voter approval. ATRA’s position is that the creation of a new taxing jurisdiction is a major policy question that voters should play a role in deciding.

Since enactment of the PHSD law, both Navajo and Yuma counties have chosen to create the district by a unanimous vote of the board. Navajo County was the first to create the district and is currently levying nearly a 20-cent property tax rate. Yuma County followed Navajo and levies a 0.1% sales tax rate. Together, Navajo and Yuma counties will generate a collective \$4.2 million in tax revenues during fiscal year (FY) 2007 without the approval of taxpayers.

In a letter encouraging Governor Napolitano to sign SB1217, ATRA reminded her of the recent debate concerning the threat of increasing property taxes and argued that it was bad public policy to remove taxpayer input from the district creation process prior to the implementation of a new tax.

Consequently, as a result of the Governor’s veto, the trend of creating a PHSD without voter approval will undoubtedly continue. In June 2006, Greenlee County became the third county to create a PHSI, and not surprisingly, without voter approval. The Board of Supervisors made the unanimous decision to levy just more than a 12-cent property tax rate per \$100 of assessed value, which is estimated to generate over \$273,000 in FY 2007. The county plans to fund health department services, animal control, and what ATRA considers to be out of the scope of what would typically be considered “public health services,” inmate medical expenses.

In the Governor’s veto letter, she stated that there was no need for the change (requiring voter approval) and that “if county voters disagree with a unanimous vote of a County Board of supervisors, they can either vote for new supervisors at the next regularly scheduled election or in some cases have the matter sent to the ballot through the referendum process.” The PHSD law has obviously made it easier for government to increase taxes without the approval of taxpayers, but regrettably, difficult for taxpayers to fight the tax increase once in place.

### Maximum Property Tax Rate (SB1206)

For the second year in a row, the Governor’s veto of a property tax reform measure left some taxpayers in school districts with extraordinarily high tax rates exposed to further increases. SB1206, and HB2143 from 2005, would have capped the primary tax rates in school districts that met the following criteria: First, more than half the homeowners of the district must be over the 1% constitutional cap on primary property taxes; Second, the school’s primary rate must be 150% of the qualifying tax rate for schools. This year the cap would have limited the taxing authority of 21 school districts.

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# HB 2712 Begins a New Era for Tax Practitioners and Taxpayers

By Mike Galloway, Bancroft Susa & Galloway, PC

Arizona tax attorneys, CPAs, and other practitioners have entered a new information age. October 1, 2006 was the effective date in which House Bill (HB) 2712, which was sponsored by Representative Steve Yarbrough, created the requirement on most state tax agencies, like the Arizona Department of Revenue (DOR), to publish virtually all of their decisions and cases resolving tax appeals online. State administrative courts that hear and adjudicate tax cases like the Office of Administrative Hearings and Board of Tax Appeals are doing the same.

This new information is the result of ATRA's Tax Practitioner's Committee's efforts to obtain equal access to

unpublished tax decisions that government agencies currently have. Considering the complexity of Arizona's tax laws, the increased compliance as the result of having access to the interpretations of tax decisions will benefit both government agencies as well as the public.

HB 2712 was the cumulative effort of the Committee's experience and was envisioned, drafted, and guided through the legislature by ATRA members Mike Galloway and Barb Dickerson, along with ATRA staffer Jennifer Schuldt. It was signed by Governor Napolitano on May 2, 2006. The bill requires most state tax agencies to publish almost all decisions on their website on a quarterly

basis and if the agency doesn't have a website, it must obtain one by December 31, 2007. Copies of the cases must also be sent to several state law libraries. An additional provision in the bill allows for "any person" to file an action in Maricopa County Superior Court to enforce the bill's requirements.

Finally, the legislation requires the Arizona Supreme Court to adopt rules for distributing unpublished judicial decisions and to determine what decisions are appropriate for dissemination. ATRA will be well represented on the Supreme Court Committee by Galloway, Dickerson, and Schuldt to discuss and draft the rules.

## Cities Increase Tax Burden on Newcomers

Cities levy transaction privilege taxes (TPT) on a variety of activities which include lodging, utilities, retail, telecommunications, restaurants, and construction contracting (prime contracting). Historically, the cities have levied the highest TPT rates against the lodging classification, with an average rate of 4.5%. In recent years however, cities have been increasing their TPT rates for prime contracting, which go virtually unnoticed by the average taxpayer.

Twenty cities now levy a TPT rate of 3.5% or higher for prime contracting (see adjacent table). As a result, the total rates levied for the activity of prime contracting, including the state and county rates, range from a minimum of 9.6% to a high of 11.3%.

To view the TPT rates for the various classifications, visit the Arizona Tax Research Association's website:

[http://www.arizonatax.org/research\\_publications1.htm](http://www.arizonatax.org/research_publications1.htm)

**Cities with highest TPT Prime Contracting Rates**  
October 2006

City	State	County					City	Total Rate
		GF	Road	Jail	Capital	Health		
Cave Creek	5.60	-	0.50	0.20	-	-	5.00	11.30
Eloy	5.60	0.50	0.50	-	-	-	4.50	11.10
Benson	5.60	0.50	-	-	-	-	4.00	10.10
Carefree	5.60	-	0.50	0.20	-	-	4.00	10.30
Litchfield Park	5.60	-	0.50	0.20	-	-	4.00	10.30
Queen Creek	5.60	-	0.50	0.20	-	-	4.00	10.30
Marana	5.60	-	-	-	-	-	4.00	9.60
Oro Valley	5.60	-	-	-	-	-	4.00	9.60
Sahuarita	5.60	-	-	-	-	-	4.00	9.60
Casa Grande	5.60	0.50	0.50	-	-	-	4.00	10.60
Coolidge	5.60	0.50	0.50	-	-	-	4.00	10.60
Florence	5.60	0.50	0.50	-	-	-	4.00	10.60
Surprise	5.60	-	0.50	0.20	-	-	3.70	10.00
San Luis	5.60	0.50	-	0.50	0.50	0.10	3.50	10.70
Winkelman	5.60	0.50	0.50	-	-	-	3.50	10.10
Quartzsite	5.60	0.50	-	0.50	-	-	3.50	10.10
Goodyear	5.60	-	0.50	0.20	-	-	3.50	9.80
Kearny	5.60	0.50	0.50	-	-	-	3.50	10.10
Maricopa	5.60	0.50	0.50	-	-	-	3.50	10.10
Winkelman	5.60	0.50	0.50	-	-	-	3.50	10.10



# Vote No on Prop 203

*Commentary by Kevin McCarthy*

The process of “ballot-box budgeting,” where special interest groups side-step the state budget process to earmark taxes for their pet projects, has been much abused in Arizona. This year’s effort comes in the form of Proposition 203, an initiative that calls for a dramatic 68% increase in tobacco taxes. The continued efforts of special interest groups to use the initiative process to receive guaranteed and permanent funding for their programs is bad public policy and should be rejected.

The new taxes, estimated at over \$150 million annually, would be turned over to a nine-member board appointed by the Governor. This board would exercise sole authority to appropriate monies to “regional partnership councils” that are also appointed and ultimately not accountable to the taxpayers. The board, as well as each of the regional councils, is given the authority to create a new bureaucracy through the hiring of full time staff.

Proponents explain that they targeted tobacco for a huge tax increase to fund early childhood programs because it polled well. It is doubtful those polls explained that any new

funding for child care would come at the expense of funding for health care, education, prisons, and tobacco education.

How do higher taxes reduce funds for existing programs? Simple. Arizonans are smoking less each year and tobacco tax collections from the current \$1.18 tax rate are already declining. In fact, state general fund receipts from tobacco taxes have declined 20% in the last decade. A huge tax increase will further decrease taxable cigarette sales, leaving current programs with less and less money. Nationally, increased taxes have led to an increase in tax avoidance through purchases on the Internet or Indian Reservations. The Joint Legislative Budget Committee conservatively estimates the loss in health care, prison, and education funding at \$23 million in the first full year.

Proponents hope the unpopularity of smoking and a slick campaign will cover up a measure that is poorly planned and will damage existing programs. Show them that you’re paying attention and that good public policy development deserves better than a simple poll. Vote no on Proposition 203.