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ARIZONA TAX RESEARCH ASSOCIATION

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State Average Tax Rate Declines 57 cents

Dropping from \$11.56 in 2005 to \$10.99 this year, Arizona's statewide average property tax rate has declined again. This year's tax rate decrease of \$0.57 (4.93%) doubled the tax rate decrease of last year's \$0.25 (2.12%). The Arizona Department of Revenue calculates the average statewide tax rate by totaling all property taxes levied statewide against the state's taxable value. The decrease in the statewide average property taxes can be attributed in part to a combination of ATRA backed pieces of legislation.

The average primary tax rate dropped from \$7.81 in 2005 to \$7.24 in 2006, as a result of House Bill (HB)2876. HB2876 mandates two essential changes to Arizona property tax laws. The first significant change is the reduction in the equalization rate from \$0.4358 in TY2005 to zero in TY 2006. This rate is scheduled to remain at zero for three years. The reduction of the equalization rate saved Arizona taxpayers \$215 million. The second significant change was that counties, cities and towns, and

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PROPERTY TAX LEVIES GROW 5.9%

- *Legislation Limits Primary Levy Growth to 2%*
- *Secondary Levies Post Record Growth*

Total net assessed value (NAV) growth for all property in the state hit an all time high of 11.2% in tax year 2006, reaching over \$54 billion statewide. In tax year 2006, that dramatic valuation growth translated into a 5.1% (\$276 million) increase in total levies to more than \$5.7 billion. Total levies would have been even higher had it not been for the property tax relief legislation approved by the Legislature this year that saved taxpayers over \$200 million.

Total K-12 school levies, which make up the majority of levies statewide, are just below \$3.2 billion after a one-year \$241.6 million (8.2%) increase. Arizona's 15 counties make up 19.5% of total levies and increased 9.5% (\$96.3 million) to \$1.1 billion in one year.

The largest percentage increase in property tax levies occurred in the special district category ("other"), with one-year growth of 14.9% (\$41.2 million). The community colleges had the second largest percentage increase of 11.4% in total levies, which are now up to \$588 million statewide. City levies grew to \$477.7 million after an increase of 8.5% (\$37.5 million).

NET ASSESSED VALUE GROWTH

	2001	2005	2006	1-YR CHG	5-YR CHG
Primary	\$32,528,310,651	\$46,040,108,597	\$50,641,124,400	10.0%	55.7%
Secondary	\$34,473,431,135	\$48,931,946,145	\$54,394,761,521	11.2%	57.8%

FIVE-YEAR LEVY GROWTH

An analysis of statewide NAV growth over the last five years shows an increase of 57.8%, amounting to 11.5% annually. Over that same time, total levies grew \$1.5 billion (37.1%). Since tax year 2001, special district levies ("other") have more than doubled to over \$317 million. The cities and counties followed with the second and third largest percentage increases, at 53.8% and 50.4%, respectively. Making up the majority of property taxes at 56% of total levies, Arizona's school districts raised property taxes \$814.2 million (34.4%) over the last five years.

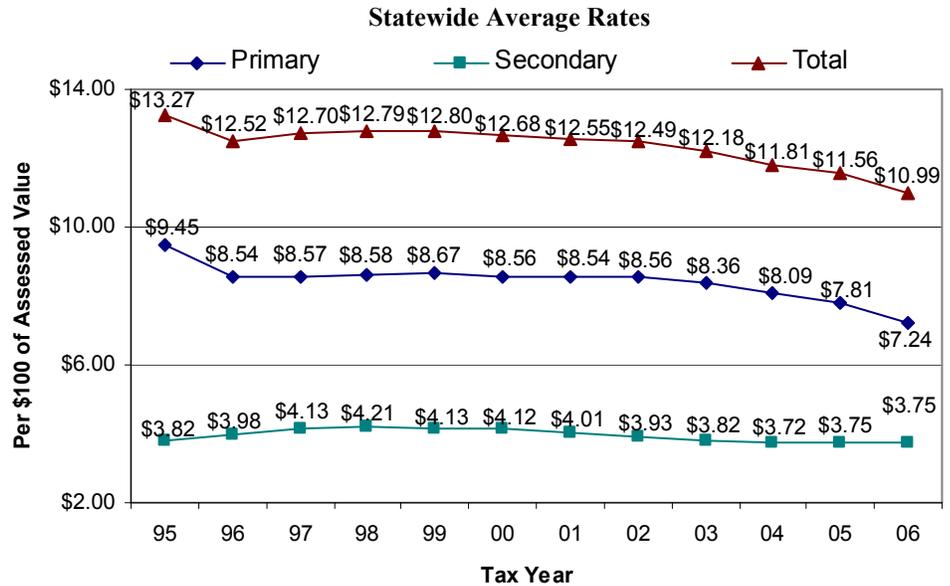
TOTAL LEVY GROWTH

Jurisdiction	2001	2005	2006	1-YR Change	1-YR % Change	5-YR Change	5-YR % Change
State	\$191,431,466	\$229,726,774	\$28,741,207	-\$200,985,567	-87.5%	-\$162,690,259	-85.0%
Counties	\$738,092,963	\$1,013,506,749	\$1,109,777,038	\$96,270,289	9.5%	\$371,684,075	50.4%
Cities	\$310,596,571	\$440,141,556	\$477,666,274	\$37,524,718	8.5%	\$167,069,703	53.8%
Comm. Colleges	\$398,684,441	\$527,682,509	\$588,033,486	\$60,350,977	11.4%	\$189,349,045	47.5%
Schools	\$2,369,110,294	\$2,941,648,887	\$3,183,286,861	\$241,637,974	8.2%	\$814,176,567	34.4%
Other	\$154,059,835	\$275,872,938	\$317,032,610	\$41,159,672	14.9%	\$162,972,775	105.8%
TOTAL	\$4,161,975,570	\$5,428,579,413	\$5,704,537,476	\$275,958,063	5.1%	\$1,542,561,906	37.1%

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community college districts were prohibited from raising primary property taxes in TY 2007. Those jurisdictions were capped at 2% plus new construction over last years levels. This limit on property tax levies was a preventative measure to restrain local governments from taking advantage of the state-level tax cut by backfilling on the now reduced equalization rate.

The average secondary property tax rate of \$3.75 did not fluctuate from 2005 to 2006. The dramatic growth in statewide values was matched by significant growth in secondary levies (11.2%). Across the board, all local governments showed significant increases in secondary levies this year.



Statewide Levies *Continued from Page 1*

PRIMARY LEVIES

Primary property taxes, levied to support the maintenance and operation of state and local governments, grew 2% (\$70.2 million) between tax years 2005 and 2006. The only reason that the primary levies didn't grow at a greater rate than usual was due to the tax relief package, which limited the primary levies of counties, community colleges, and cities to 2% growth plus new construction. Within the same measure, the state equalization rate was reduced 43 cents to zero, which represents the more than \$200 million tax reduction at the state level.

PRIMARY LEVIES Jurisdiction	2005	2006	1-YR Change	Percent Change
State	\$229,726,774	\$28,741,207	-\$200,985,567	-87.5%
Counties	\$799,358,200	\$858,302,680	\$58,944,480	7.4%
Cities	\$179,753,814	\$194,955,401	\$15,201,587	8.5%
Comm. Colleges	\$453,880,949	\$492,513,260	\$38,632,311	8.5%
Schools	\$1,931,610,896	\$2,090,058,791	\$158,447,895	8.2%
Other	-	-	-	-
TOTAL	\$3,594,330,633	\$3,664,571,339	\$70,240,706	2.0%

SECONDARY LEVIES

Taxpayer's didn't receive much overall tax relief in tax year 2006 since the secondary levies far outpaced the limitations placed on primary levies. In fact, the growth in total secondary levies was greater in tax year 2006 than any other year. Secondary levies, which include voter-approved bonds, budget overrides, and a wide variety of special districts, most of them voter-approved but not all, increased 11.2% (\$205.7 million) to over \$2 billion.

Jurisdiction	SECONDARY LEVIES 2005	2006	1-YR Change	Percent Change
State	-	-	-	-
Counties	\$214,148,549	\$251,474,358	\$37,325,809	17.40%
Cities	\$260,387,742	\$282,710,873	\$22,323,131	8.60%
Comm. Colleges	\$73,801,560	\$95,520,226	\$21,718,666	29.40%
Schools	\$1,010,037,991	\$1,093,228,070	\$83,190,079	8.20%
Other	\$275,872,938	\$317,032,610	\$41,159,672	14.90%
TOTAL	\$1,834,248,780	\$2,039,966,137	\$205,717,357	11.20%

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K-12 SCHOOL DISTRICTS

Primary Levies

In tax year 2006, school districts levied an additional \$158 million (8.2%) in primary property taxes, pushing total K-12 primary levies to over \$2 billion statewide. Since 1999, the state has maintained compliance with the truth-in-taxation (TNT) law by adjusting the qualifying tax rate (QTR) for schools in response to changes in property values on existing property (excluding new construction). The QTR for elementary and unified districts was reduced by the state from \$1.8090 and \$3.618 per \$100 of assessed value in tax year 2005 to \$1.7394 and \$3.4788 in tax year 2006. The Legislature's decision to comply with TNT offset what would have been an estimated \$68.7 million tax increase in tax year 2006, according to the Joint Legislative Budget Committee (JLBC).

Secondary Levies

The 8.2% growth in K-12 secondary levies in tax year 2006 increased the total to nearly \$1.1 billion. Although proponents of the Students FIRST program in 1998 insisted that taxpayers would see a decline in secondary property taxes, school districts have continued to hold bond elections for capital purchases and projects ever since its enactment.

Of the \$83 million increase in K-12 secondary levies, Maricopa County schools were responsible for \$69 million (83%) of the total. In 2005, Arizona schools successfully convinced voters to approve \$1.2 billion in bonds and capital overrides and will be asking voters to approve even more than that during the 2006 general election.

COMMUNITY COLLEGES

Primary levies

Community college primary levies grew 8.5% (\$38.6 million), with the largest increases coming out of Central Arizona Community College (18.6%), Arizona Western (13.5%), and Mohave Community College (11.7%).

Secondary levies

Secondary taxes levied by the community colleges grew at a much greater rate than primary taxes, with a 29.4% increase (\$21.7 million) over tax year 2005. The dramatic increase in total secondary levies was mainly attributed to the \$20.6 million increase in the Maricopa Community College levy, representing a 45% increase over last year. The second highest increase in community college secondary levies was Arizona Western Community College, with the levy increasing 31% (\$1.3 million) in tax year 2006.

COUNTIES

Primary Levies

The limitation of 2% growth plus new construction over the previous year's primary levy still allowed for a 7.4% increase in total county levies. As would be expected, the counties with the largest percentage increases were those that experienced the highest level of new construction: Pinal (16.5%); Mohave (12.1%); and Yuma (11.4%). Total county primary levies reached \$858 million in tax year 2006, representing an increase of \$58.9 million (7.4%).

Secondary Levies

Since secondary property taxes are not limited like primary taxes, total secondary levies for the counties grew 17.4%, or \$37.3 million, bringing the total to \$251.5 million. Out of the 15 counties, only three counties had increased their secondary levies by less than 10%. Greenlee County's secondary levy increased from \$9,952 to \$273,100 due to the board of supervisors creating a public health services district (PHSD) without voter approval. Yuma's secondary levy increase of \$4.8 million, from \$6.3 million to \$11.1 million, was mainly the result of voter-approved bonds for the library district.

CITIES

Primary Levies

50 out of the existing 90 cities and towns in Arizona levy a primary property tax and this year primary levies increased \$15.2 million (8.5%), bringing the total to nearly \$195 million. The cities with the highest percentage primary levy growth are as follows: Buckeye (47.1%); Surprise (23.8%); Goodyear (19.8%); Lake Havasu (18.3%); and Wickenburg (16.6%).

Secondary Levies

Only 23 cities currently levy a secondary property tax; however, secondary tax levies make up 60% of total city property tax levies. The 8.6% (\$22.3 million) growth in city secondary levies was led by Tolleson (61.5%), followed by Payson (33.3%), Goodyear (29.9%), Surprise (27.7%), and Avondale (21.3%).

OTHER LEVIES

Secondary levies

The largest percentage increase occurred in the "other" category. Included in this category are all of the fire districts, street lighting districts, and many other special districts in which only a secondary tax may be levied. The only special districts not included in this category are the districts in which the county board of supervisors sits as the district board and those levies are accounted for under the "counties" category. The nearly 15% increase, or \$41.2 million, pushed total "other" levies to over \$317 million.



Desegregation Levies Continue to Increase

Over the years, the Legislature has made efforts to curtail the growth in desegregation/Office of Civil Rights property tax levies. The most recent came in the form of HB2498 in 2005, which was vetoed by Governor Janet Napolitano. As predicted, this has led to numerous tax increases in the school districts which levy taxes for deseg/OCR over their budget limits.

Since the Governor's veto in April 2005, Deseg/OCR levies have climbed another \$5.2 million statewide. While a few districts have slightly decreased their levies, most have taken advantage of a "soft cap" placed in law for both FY2006 and FY2007. That cap allows increases for student growth and inflation.

While state policymakers thought the "soft cap" would keep districts from dramatically increasing their reliance on the controversial levy, it has not worked. In two years, Buckeye Elementary increased its levy 48%, followed by Maricopa Unified at 42%, and Agua Fria Union at 25%.

Desegregation Difference FY2005-07

District	FY2005	FY2006	FY2007	FY2005- 07 Difference	Percent Difference
Agua Fria Union	\$660,000	\$845,000	\$880,000	\$220,000	25%
Amphitheater Unified	\$4,025,000	\$4,025,000	\$4,025,000	\$0	0%
Buckeye Elementary	\$510,000	\$622,965	\$977,758	\$467,758	48%
Cartwright Elementary	\$4,140,780	\$4,260,863	\$4,444,165	\$303,385	7%
Flagstaff Unified	\$2,086,634	\$2,118,167	\$2,144,289	\$57,655	3%
Glendale Union	\$5,653,637	\$5,800,632	\$5,889,061	\$235,424	4%
Holbrook Unified	\$2,325,120	\$2,387,181	\$2,477,644	\$152,524	6%
Isaac Elementary	\$4,758,896	\$4,758,896	\$5,349,988	\$591,092	11%
Maricopa Unified	\$371,622	\$430,123	\$636,832	\$265,210	42%
Mesa Unified	\$8,171,391	\$8,351,162	\$8,433,350	\$261,959	3%
Phoenix Elementary	\$9,818,256	\$10,014,621	\$9,120,458	-\$697,798	-8%
Phoenix Union	\$48,808,290	\$49,674,046	\$51,258,782	\$2,450,492	5%
Roosevelt Elementary	\$11,726,400	\$12,636,000	\$13,043,534	\$1,317,134	10%
Scottsdale Unified	\$6,752,458	\$6,887,507	\$7,090,502	\$338,044	5%
Tempe Elementary	\$14,209,692	\$14,536,516	\$13,627,690	-\$582,002	-4%
Tucson Unified	\$62,461,811	\$62,461,811	\$62,461,811	\$0	0%
Washington Elementary	\$6,606,735	\$6,606,735	\$6,356,735	-\$250,000	-4%
Wilson Elementary	\$1,792,823	\$1,830,831	\$1,867,448	\$74,625	4%
Window Rock Unified	\$662,194	\$632,088	\$632,088	-\$30,106	-5%
TOTAL	\$195,541,739	\$198,880,144	\$200,717,135	\$5,175,396	3%

