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ARIZONA TAX RESEARCH ASSOCIATION

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House Kills Secondary Levy Limits

Despite widespread taxpayer unrest surrounding huge increases in secondary property taxes, the Arizona House of Representatives killed a modest measure to put levy limits on some secondary special districts. HB2586, sponsored by House Ways and Means Chairman Steve Yarbrough, was defeated on a vote of 22-34. Every House Democrat, except Rep. Cajero Bedford who did not vote, voted against the measure. They were joined in opposition by the following House Republicans: McClure; Konopnicki; Nelson; Paton; Burns; Hershberger; Mason; and Tobin.

The final version of HB2586 called for levy limits of 2% plus growth on countywide special districts excluding flood control districts. In addition, it restricted the annual growth in fire district levies to 10%. In 2007, taxpayers experienced 33% growth in countywide

special districts and 26% growth in fire district levies. Currently these districts have no limitations on property tax levies while a few have limits on the maximum tax rate that can be imposed. As a result, many of these jurisdictions rode large valuation increases in 2007 to big tax increases by simply leaving the tax rate the same.

Following negotiations with fire district representatives after the bill cleared the Ways and Means Committee, ATRA agreed to change the fire district limitation from 2% plus growth to a flat 10%. This change secured the support of a few fire districts that obviously viewed that as a very generous "limitation" that allowed for differences across fire districts. However, county lobbyists, the Arizona Fire District Association and fire union representatives opposed the

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House Passes

State Rate Repeal

The Arizona House of Representatives has taken action on a key ATRA legislative issue for the 2008 session. The House voted 32-28 to pass HB2220 to permanently repeal the state property tax rate. Regrettably, this important tax issue, which was sponsored by House Speaker Jim Weiers, cleared the House on largely a partisan vote with only one Democrat (Rep. Mark DeSimone) voting in support. The bill was supported by all of the House Republicans with the exception of Representatives Burns and Hershberger.

During the 2006 legislative session, ATRA advocated for a series of property tax reforms in an effort to respond to skyrocketing property valuations. Those reforms were focused on reducing primary property tax rates to offset dramatic valuation growth. Fortunately, the Legislature showed strong leadership and responded to the problem by decreasing state controlled property tax rates (state equalization rate and the K-12 qualifying tax rate), as well as referring Proposition 101 to the general election ballot in 2006. Prop 101 updated the primary levy limits of counties, community college districts, and cities to ensure that levies were capped at 2% plus growth. Regrettably, in last minute budget negotiations, the

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Unlimited Fire District Levies Drive Up FDAT Levies

A key component to sound tax policy is accountability, which means that there should be a link between the revenue raised and the spending authority so that voters can hold elected officials responsible for those decisions. If there is an aspect of Arizona's tax system that falls short of this criteria, it's the Fire District Assistance Tax (FDAT).

In addition to local taxes levied by fire districts, the FDAT is a countywide property tax that is levied on all taxpayers to fund local fire districts. The majority of the property tax revenue generated from FDAT comes from taxpayers located outside of fire districts to fund services they do not receive or have any voice in how the taxes are spent.

Counties with established fire districts are required to levy the FDAT at an amount that is equal to 20% of each fire districts' adopted levy, not to exceed \$300,000 for any single fire district. The maximum tax rate that can be levied for the FDAT is capped at 10 cents per \$100 of assessed value. Fourteen out of Arizona's 15 counties currently must levy the tax.

The total FDAT levied in tax year 2007 amounted to \$16.6 million, a \$1.9 million (13%) increase over 2006. The increase in FDAT was driven by the 26% average increase levied by fire districts on their local taxpayers (See *ATRA November 2007 Newsletter*). The counties that had the largest increases in

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Deseg/OCR Budgets Lead to K-12 Spending Beyond Constitutional Limits

In an effort to place restraints on the rate at which government spending can increase, the Arizona Constitution places expenditure limits on many government entities. The constitutional limit on K-12 education spending is calculated annually by first adjusting the spending of a baseline year (1980) for the growth in student counts and for the change in the cost of living. This adjusted figure is then increased an additional 10%. The resulting figure becomes the maximum aggregate amount Arizona's school districts may spend unless two-thirds of both houses of the Legislature vote to grant a one-year exception.

In order to manage the aggregate K-12 spending level, statutory budget limits that have been in place since 1980 limit the spending of individual districts. Like the constitutional limit, these statutory limits also adjust for both inflation and growth in student counts. Had school districts been limited to spending only the amounts allowed under these statutory limits, today's

aggregate spending level would not exceed the constitutional expenditure limit.

The Legislature, however, has authorized districts to exceed their budget limits with certain types of expenditures. In 1983, the Legislature authorized a budget exemption for districts with a court order to desegregate. Shortly thereafter, the exemption was extended to include districts under administrative agreements with the U.S. Department of Education's Office for Civil Rights (OCR). Over the next decade and a half, the number of districts that budgeted expenditures under the deseg/OCR budget exemption grew from one district in fiscal year (FY) 1984 to 19 districts in FY 2002. During this period, deseg/OCR expenditures grew significantly as there were no limits on the amounts a qualifying district could budget. In 2002, the Legislature implemented a two-year freeze on the growth of deseg/OCR budgets. Then, each year since the

expiration of the freeze, the Legislature annually implemented a soft cap that allows districts to increase their deseg/OCR budgets by 2% plus a percentage increase for the district's growth in student enrollment.

Resulting from the many years of unlimited growth, as well as the continued growth under the soft cap, \$207.5 million is currently budgeted for deseg/OCR expenditures. That is \$207.5 million that the 19 qualifying school districts spend in excess of their individual budget limits. In addition to deseg/OCR expenditures, the Legislature has created other budget exemptions—such as adjacent ways, excess utilities, and the small school adjustment—but the amount budgeted for deseg/OCR expenditures exceeds the amounts budgeted for each of the other exemptions.

For some time, ATRA has articulated concern that these budget exemptions are neither state aid equalized nor

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Deseg/OCR Levies

District	FY 2005-06		FY 2006-07		FY 2007-08		1 Year Change		2 Year Change	
	Levy	TR	Levy	TR	Levy	TR	Levy	%	Levy	%
Agua Fria Union	\$845,000	\$0.1337	\$895,000	\$0.1165	\$962,000	\$0.0997	\$67,000	7.5%	\$117,000	13.8%
Amphitheater Unified	\$4,025,000	\$0.3735	\$4,025,000	\$0.3422	\$4,025,000	\$0.3043	\$0	0.0%	\$0	0.0%
Buckeye Elementary	\$622,965	\$0.6435	\$977,757	\$0.7033	\$1,327,445	\$0.7177	\$349,688	35.8%	\$704,480	113.1%
Cartwright Elementary	\$4,260,863	\$1.2877	\$4,444,165	\$1.2494	\$4,537,315	\$1.1963	\$93,150	2.1%	\$276,452	6.5%
Flagstaff Unified	\$2,118,167	\$0.2506	\$2,144,289	\$0.2330	\$2,197,375	\$0.2147	\$53,086	2.5%	\$79,208	3.7%
Glendale Union	\$5,800,632	\$0.3393	\$5,889,061	\$0.3272	\$6,011,725	\$0.3033	\$122,664	2.1%	\$211,093	3.6%
Holbrook Unified	\$2,387,181	\$5.8894	\$2,477,644	\$5.6983	\$2,493,307	\$5.8931	\$15,663	0.6%	\$106,126	4.4%
Isaac Elementary District	\$4,758,896	\$2.7464	\$5,044,872	\$2.7807	\$5,145,769	\$2.5669	\$100,897	2.0%	\$386,873	8.1%
Maricopa Unified	\$430,123	\$0.6804	\$636,832	\$0.6235	\$1,028,151	\$0.5038	\$391,319	61.4%	\$598,028	139.0%
Mesa Unified	\$8,351,162	\$0.3045	\$8,433,350	\$0.2931	\$8,602,017	\$0.2665	\$168,667	2.0%	\$250,855	3.0%
Phoenix Elementary	\$10,014,621	\$1.5007	\$10,214,913	\$1.5118	\$10,582,179	\$1.4567	\$367,266	3.6%	\$567,558	5.7%
Phoenix Union	\$49,674,046	\$1.0397	\$51,219,405	\$1.0028	\$53,455,893	\$0.9441	\$2,236,488	4.4%	\$3,781,847	7.6%
Roosevelt Elementary	\$12,636,000	\$2.3639	\$13,043,534	\$2.1324	\$13,407,478	\$1.9099	\$363,944	2.8%	\$771,478	6.1%
Scottsdale Unified	\$6,887,507	\$0.1837	\$7,090,502	\$0.1746	\$7,237,421	\$0.1556	\$146,919	2.1%	\$349,914	5.1%
Tempe Elementary	\$14,536,516	\$0.9770	\$13,627,690	\$0.8698	\$13,900,243	\$0.8295	\$272,553	2.0%	-\$636,273	-4.4%
Tucson Unified	\$62,461,811	\$2.4295	\$62,461,811	\$2.2447	\$63,711,047	\$2.0692	\$1,249,236	2.0%	\$1,249,236	2.0%
Washington Elementary	\$6,606,735	\$0.4810	\$6,606,735	\$0.4588	\$6,350,000	\$0.4014	-\$256,735	-3.9%	-\$256,735	-3.9%
Wilson Elementary	\$1,830,831	\$1.4736	\$1,867,447	\$1.3774	\$1,904,795	\$1.3668	\$37,348	2.0%	\$73,964	4.0%
Window Rock Unified	\$632,088	\$5.4733	\$632,088	\$5.4038	\$632,088	\$5.5988	\$0	0.0%	\$0	0.0%
Total	\$198,880,144		\$201,732,095		\$207,511,248		\$5,779,153	2.9%	\$8,631,104	4.3%

ARIZONA TAX RESEARCH ASSOCIATION
 Dick Foreman.....Chairman
 Kevin J. McCarthy.....President
 Jennifer Schuldt.....Vice President
 Justin Olson.....Research Analyst
 Maria Travers.....Office Manager

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



FIRE DISTRICTS, *Continued from page 1*

the FDAT included Mohave, with the most growth at 32%, Apache County with a 20% increase, followed by Coconino with 18% growth. Over the last five years, FDAT levies grew \$6.1 million (57%).

Taxpayers that reside within city boundaries and pay city taxes for fire service rather than taxes to a fire district are double taxed since the taxpayers must also pay the FDAT in which they receive no benefit. For instance, Lake Havasu City residents pay property taxes to the city for fire services rather than a fire district. In tax year 2007, those city residents paid approximately \$930,000 in FDAT, none of which was distributed to benefit its residents. Instead, that \$930,000 was divvied up among all of the fire districts in the county that provide no services for the residents of Lake Havasu City, approximately \$115,000 of that went to the Bullhead Fire District.

In tax year 2007, Cochise County levied an FDAT rate that was just under the 10-cent rate cap at \$0.0867, resulting in a total levy of \$756,815. Fry F.D. is the only fire district in the county that is at the \$300,000 levy cap and there's only one other fire district that comes within even half that amount. (Not only is Fry F.D. at its FDAT levy cap, but it's also just under the local rate cap of

Fire District Assistance Tax Levies

County	2002 levy	2006 levy	2007 levy	1-year		5-year	
				Increase	(%)	Increase	(%)
Apache	\$152,129	\$255,220	\$306,639	\$51,419	20%	\$154,510	102%
Cochise	\$554,221	\$705,271	\$756,815	\$51,544	7%	\$202,594	37%
Coconino	\$1,084,876	\$1,473,343	\$1,744,823	\$271,480	18%	\$659,947	61%
Gila	\$357,161	\$422,268	\$477,903	\$55,635	13%	\$120,742	34%
Graham	\$40,106	\$68,290	\$76,544	\$8,254	12%	\$36,438	91%
Greenlee	\$9,952	\$9,952	\$9,952	\$0	0%	\$0	0%
La Paz	\$122,305	\$172,148	\$200,054	\$27,906	16%	\$77,749	64%
Maricopa	\$1,859,466	\$2,466,637	\$2,631,597	\$164,960	7%	\$772,131	42%
Mohave	\$1,072,414	\$1,908,997	\$2,516,013	\$607,016	32%	\$1,443,599	135%
Navajo	\$592,604	\$754,945	\$851,317	\$96,372	13%	\$258,713	44%
Pima	\$2,214,687	\$2,851,032	\$3,148,412	\$297,380	10%	\$933,725	42%
Pinal	\$822,832	\$1,336,866	\$1,219,047	-\$117,819	-9%	\$396,215	48%
Santa Cruz	\$235,056	\$294,247	\$341,684	\$47,437	16%	\$106,628	45%
Yavapai	\$1,452,096	\$2,061,389	\$2,366,042	\$304,653	15%	\$913,946	63%
TOTAL	\$10,569,905	\$14,780,605	\$16,646,842	\$1,866,237	13%	\$6,076,937	57%

\$3.25). The \$300,000 in FDAT received by Fry F.D. represents 40% of the total FDAT levied in Cochise County in tax year 2007. To put that amount in perspective, 40% of the FDAT paid by all taxpayers countywide went to fund Fry F.D., which carries only 14% of the total value in the county.

Yuma County is the only county that is not required to levy the FDAT since it currently has no fire districts. However, if a fire district were to be created in the county, all county taxpayers would be required to pay the tax to fund that one fire district.

In opposing any limitations on their annual levies, fire district lobbyists have argued that local control should dictate

the amount of local taxes levied. Further, they argue that fire district taxpayers are the ones with the ultimate control over how much is levied through their elected boards. This commitment to "local control" certainly falls apart when effects of the FDAT are analyzed. In fact, fire districts have every incentive to drive up taxes in an effort to soak taxpayers outside of their jurisdictions that have no recourse other than to dutifully pay taxes few even understand.

Clearly, if fire districts succeed with their version of the "local control" argument, it should certainly follow that they be held solely responsible for their spending appetite and the FDAT be repealed.

Jennifer Schuldt

SECONDARY LEVY LIMITS, *Continued from page 1*

bill arguing that "local control" should dictate the level of taxes imposed by these jurisdictions – not the state Legislature. Although all of the other major taxing jurisdictions, including K-12 schools, counties, community colleges, and cities, all operate under similar levy limitations, the opposition argued that these special taxing districts could not survive under the limitations.

Interestingly, local control, depending on one's definition, was actually a key feature in the bill with a provision that provided for voter approved overrides and higher taxes for fire districts. However, as sometimes happens at the Capitol, control lies in the hands of the spending lobby – not the taxpayers that

fund them.

The defeat of HB2586 was immediately noted by Marc Goldstone, the Chairman of Arizona Tax Revolt, who is currently circulating an initiative that would place new limits on valuations and levies. Goldstone used the demise of HB2586 as evidence that property taxpayers can't expect relief through a political process that is dominated by the concerns of taxpayer-financed government lobbyists. The Legislature might have another opportunity to prove Arizona Tax Revolt wrong before they adjourn sine die. Senator Robert Burns has a measure (SB1256) identical to HB2586 that has not yet been voted in the Senate.

**Arizona Ranks 16th
Highest in State and
Local Debt**

ATRA's January 2008 *Newsletter* article regarding the level of state and local debt in Arizona raised the question of how Arizona's debt compares to the amount carried in other states. Using the data reported by the U.S. Census Bureau, ATRA ranked the states according to their individual level of state and local debt. ATRA found that Arizona ranks 16th highest in debt as a percentage of each state's average personal income. In terms of total debt per capita, Arizona ranks 29th.

STATE RATE, *Continued from page 1*

state rate relief was extended for only tax years 2006, 2007, and 2008.

A companion measure in the state Senate (SB1002) sponsored by Senate Finance Chairman Jim Waring has not received final consideration where Senate Democrats and two key Republicans (Senator's O'Halleran and Allen) have expressed opposition.

ATRA has argued that the tax relief was the correct policy response in order to avoid huge tax increases and those measures have worked to hold down primary taxes. In fact, primary taxes rose only 9.2% over the last two tax years. However, it is obvious that the success in holding down primary taxes will be reversed if the state reimposes the state tax rate in 2009. Further, whatever

confidence the Legislature has established with property taxpayers that this problem was being addressed by state policymakers will be wiped out. A plan to dramatically increase state level property taxes in 2009 certainly provides fertile ground for the advocates of the current property tax initiatives in circulation.

DESEG/OCR, *Continued from page 2*

student driven. HCR2005, approved by the Legislature on February 27 of this year, demonstrates that these exemptions also drive school spending beyond the constitutional limit. HCR2005 allows school districts to spend \$146.6 million more than permitted under the FY 2008 constitutional spending limit. If the 19 deseg/OCR districts were not exempt from their individual budget restrictions, the aggregate spending of Arizona schools would be well within the

constitutional boundary.

While only 19 school districts exceed their budget limits with deseg/OCR expenditures, all 218 districts in Arizona will be affected in the event that a future Legislature fails to approve the annual override to the constitutional limit. Current statutes outline a protocol for reducing spending if such a situation arises. The Legislature has until March 1 of each fiscal year to approve

budgeted expenditures that exceed the aggregate limit; otherwise, each school district will be required to reduce their respective budgets by the percentage that the aggregate budget exceeds the spending limit. Districts that have maintained budgets within their individual limits would be forced to reduce spending to make up for the budget-limit excesses of deseg/OCR districts.

Justin Olson