ATRA’s 2009 Legislative Program

ATRA’s Board of Director’s finalized its 2009 Legislative Agenda at its December meeting and ATRA staff are pursuing those objectives as the 49th Legislature starts the first regular session.

First and foremost, this year’s agenda was developed with the recognition that the Legislature’s highest priority is closing the state’s massive budget deficit. As in past years, ATRA offers a list of solutions to the Legislature to help address the FY 2009 and FY 2010 state budget deficit as well as improve the state’s financial management. In recognition of the size of the current budget deficit, ATRA has expanded its list of recommended budget cuts this year.

ATRA’s Budget Recommendations

The budget deficit is estimated at $1.6 billion for FY 2009 and over $3 billion for FY 2010. In fact, by percentage, Arizona’s state budget deficit is the worst in the country. While some of the deficit can clearly be attributed to a slumping economy and decreased tax revenues, some can also be attributed to poor budget decisions in recent years that simply masked the growing deficit.

Through an endless array of budget gimmicks, state policymakers sidestepped difficult decisions and dug the hole deeper and deeper. As a result, the new leadership at the Capitol is now faced with much more difficult budget decisions. Clearly, those decisions need to focus on reducing the structural deficit between revenues and

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Statewide Property Tax Levies Approaching $7 Billion

One-year increase of $488 Million (7.7%)

The Arizona Department of Revenue annually calculates the average statewide property tax rate, which is used to levy taxes against flight property of airline companies and private rail cars. The rate is calculated by dividing the sum of all statewide levies by total statewide NAV.

The majority of property taxes are levied by K-12 schools, accounting for 53% of the total. In tax year 2008, property taxes levied by K-12 schools increased 5% or $173.7 million and reached a total of over $3.6 billion. County levies account for 19.4% of total levies, which includes all countywide special districts. After this year’s 7.8% increase ($95.3 million), total property

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expenditures rather than gimmicks that lead to even bigger deficits in future years. (A detailed list of ATRA’s Budget Recommendations can be viewed online at www.arizonatax.org)

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Prevent the property tax increase. In the face of a mounting property tax revolt in 2006, ATRA advocated for the repeal of the state equalization property tax. Regrettably, in the final budget agreement, Governor Napolitano negotiated only a temporary three-year reduction in the rate. Last year, ATRA and others successfully pushed a measure to repeal the scheduled 2009 return of the tax. The bill was vetoed by Governor Napolitano.

If the rate returns this year, it is estimated to be set at approximately 32 cents per hundred dollars of assessed value. The statewide tax increase will raise about $247 million. The increased property taxes will assist in the state’s obligation for funding K-12 schools and serve as an offset for current state general fund assistance. The bill to prohibit the tax increase from taking effect will be introduced by Senate Finance Chairman Jim Waring and Representative Andy Biggs.

Secondary Property Tax Reforms. While primary property taxes have shown limited growth in recent years as a result of tax reductions, truth in taxation laws, and Proposition 101 that passed in 2006, secondary property taxes continue to increase at a rapid rate. In the last five years, primary levies have averaged 6.3% annual growth while secondary levies showed annual growth of 13%.

ATRA will advocate for the following secondary reforms directed at protecting taxpayers:

Special District Levy Limits

This measure, sponsored by Senator Jim Waring, would place levy limitations on most countywide special districts (library, jail, public health services, and television districts) as well as fire districts.

The levy limit for countywide special districts will mirror the constitutional levy limits currently imposed on counties. Those limitations provide for annual increases of 2% plus growth attributed to new construction. Fire districts would be subject to the same limitations, however, fire districts would be guaranteed annual growth of no less than 5%. The fire district would be allowed a voter-approved override that would be a permanent adjustment to the district levy limit.

G.O. Debt Service Reform

The dramatic growth in property values in recent years has led to huge increases in property tax levies for debt service on general obligation bonds. During a time when rates should have been dropping due to growth in property values, many local governments kept rates the same, resulting in significant tax increases. ATRA proposes the following reforms:

1. Require jurisdictions to disclose if the amount of the proposed bonds, combined with current outstanding debt, would exceed the jurisdictions constitutional debt limit.
2. Require an election if the weighted average maturity of a proposed refunding is less than 75% of the weighted average maturity of the bonds to be refunded.
3. Require publicity pamphlets to more accurately reflect the long-term impact of the bond on taxpayers.

Corporate Income Tax. Senate Commerce Chair Senator Barbara Leff will introduce a measure recommended by the ATRA Tax Practitioner’s Committee to change Arizona’s treatment of corporate net operating losses. This proposal would extend the current five-year limit on net operating loss carryforwards to twenty years for losses arising in tax years beginning from and after 12/31/08.

Public Health Services Districts. Representative Sam Crump will introduce legislation that will require a county board of supervisors to receive voter approval prior to creating a Public Health Services District.

GPLET. ATRA will advocate for reforms to the Government Property Lease Excise Tax laws to limit cities use of their tax exempt status for economic development purposes.

FDAT/Mergers. Rep. Steve Yarbrough will introduce legislation to extend the current $300,000 cap on the fire district assistance tax (FDAT) to include districts that have consolidated.

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taxes levied by the counties amount to more than $1.3 billion. Special districts (“other” category) incurred the largest percentage increase of 18.5% over last year, the majority of which was the result of increased levies by the fire districts. Cities had the second largest percentage growth at 14.5%.

Five-year Growth
Total property tax levies grew over $2 billion (42.5%) since 2003, from $4.8 billion to $6.8 billion in tax year 2008. Since schools account for the majority of property taxes levied in the state, it’s no surprise that they had the largest monetary gain over the last five years of $960 million (36%). During the same period of time, the cities had the largest percentage increase by growing property taxes 80%. The special districts (“other”) incurred the second largest

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percentage increase over the past five years at 69.5%. The 90% decrease in the state category is due to the former county equalization tax that was imposed by the state in tax year 2003 but was not levied in tax year 2008.

**Total Primary Levies**

Statewide primary property taxes, which support the maintenance and operations of state and local governments, increased 7% ($273.8 million). Total primary taxes now total $4.2 billion, accounting for 62% of total levies. Since the growth in primary NAV grew at a much greater rate than the growth in primary levies, the statewide average primary tax rate dropped 7.6% (51 cents), from $6.75 to $6.24.

The increase in primary levies would have been greater if not for the fact that the voters passed Proposition (Prop) 101 in 2006 that required a recalculation of the constitutional levy limits for counties, cities, and community colleges and removed more than $185 million in excess levying capacity. For that reason, most of the counties, community colleges, and cities are at their constitutional levy limit and therefore, increases in primary levies are mainly limited to 2% plus new construction. As a result, the year-to-year growth in primary property taxes is now less dramatic than prior to the passage of Prop 101.

Since 2003, primary property taxes have grown over $1 billion (31.5%), equating to an annual average of 6.3%. Cities had the largest percentage increase over that same period of time with 58.7% growth. Schools had the largest dollar increase of $600 million since 2003, followed by the counties with five-year growth of $326 million.

**Total Secondary Levies**

Secondary levies, which fund the debt service on bonds, budget overrides, and special districts, increased 9.1% ($214 million) over the last year, totaling $2.6 billion. Since the 19.8% growth in secondary NAV’s far exceeded the 9.1% increase in secondary levies, the statewide average secondary tax rate dropped 30 cents to $2.99. The additional $1 billion in secondary levies represents 63% growth over the last five years.

**K-12 SCHOOL DISTRICTS**

**Primary Levies:** The 6.6% increase in K-12 primary levies allowed Arizona schools to levy an additional $147.5 million in primary property taxes. Total primary levies for the school districts are now approaching $2.4 billion. The growth in K-12 primary levies would have been higher if not for the Legislature’s continued adherence to the truth-in-taxation (TNT) law (see graph on page 5). The TNT law requires that the state, counties, community colleges, and cities reduce the primary tax rate to offset the growth in value on existing property, exclusive of new construction. These taxing jurisdictions can choose not to adopt the TNT rate but are then required to hold a public hearing, notice taxpayers regarding the intent to increase taxes, and with a majority vote, may levy a tax rate that exceeds the TNT rate.

Since 1999, the state has maintained compliance with the 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 from $1.6020 and $3.2040, respectively, in tax year 2007 to $1.4622 and $2.9244 in tax year 2008. The Legislature’s decision to comply with TNT offset what would have been an estimated $44.5 million tax increase, according to the Joint Legislative Budget Committee (JLBC).

**Secondary Levies:** The K-12 secondary levy growth of 2.2% in 2008 resulted in a $26.2 million increase, bringing the total to $1.2 billion. Although the Students FIRST program was created in 1998 to pay for school construction, the secondary levies for schools still make up 48% of total secondary levies.

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The largest percentage increases occurred in Apache County schools with 150% growth. Tax year 2008 was the first year that Window Rock Elementary levied a secondary tax rate of $3.6852, which produced a total levy of $441,120. In Round Valley school district, the levy increased from $402,371 to $1,794,015 as a result of the tax rate increasing from $0.1324 to $0.5981.

COMMUNITY COLLEGES

Primary Levies: Community colleges increased primary levies by 7.7% ($41 million) in tax year 2008 to a total of $574 million. Eastern Arizona in Graham County reflected the largest percentage increase of 21.9%. Following Eastern Arizona was Coconino Community College with a 9.4% increase, and Maricopa with an increase of 8.4%.

Secondary Levies: The increase in community college secondary levies reflects the highest increase of all jurisdictions at 21.2%. The $22 million increase in secondary taxes brings total secondary levies for the colleges to $127 million. The largest increase occurred in Apache County at 61.4%, in which the taxes levied are for tuition to other colleges and post-secondary education services since the county doesn’t have a community college district. The increase in Apache was the result of the tax rate increasing over 7 cents, combined with a 33.6% jump in property values. Following Apache was Maricopa Community College with a 27.1% increase ($20.3 million) as a result of the 33.6% growth in secondary values and a slight increase in the tax rate.

COUNTIES

Primary Levies: County primary taxes increased 7.2% ($66.9 million) to a total of nearly $1 billion in tax year 2008. Of the 15.8% growth in statewide primary NAV, 40% of that was attributed to new construction with the remaining 60% an increase in value on existing property. Apache County saw the largest increase in primary taxes of nearly 26%, largely due to the $89 million in value that was added to the tax rolls. Other counties that had large increases included Graham County (16.2%), Greenlee (12.6%), and Pinal (7.9%), most of which is associated with new construction in each county. Over the past five years, county primary levies have grown $326 million or 48.6%.

Secondary Levies: Ninety percent ($285.2 million) of the county secondary property taxes are levied to fund countywide special taxing districts in which the county board of supervisors serves as the board of directors, such as flood control districts, library, jail, health care, and public health services districts. The remaining 10% in secondary taxes are levied to fund voter approved overrides, debt obligations, and the fire district assistance tax (FDAT) that is levied by the county on behalf of all fire districts within the county.

Total county secondary levies grew by $28.4 million (9.8%) to $318 million in tax year 2008. However, Maricopa, Pima, and Yuma Counties reduced the secondary tax rates of their special districts in order to offset the dramatic growth in property values. By removing these three counties from the analysis, total secondary levies for the remaining 12 counties increased by an overwhelming average of 29%.

An analysis of the special taxing districts that the county boards control shows that the increase in secondary levies ranged from a low of 18.3% to a high of 80.3%. For example, by raising the tax rates for the flood control and library districts by two cents each, along with the 47.7% growth in secondary NAV, Pinal County taxpayers paid an additional $3.6 million (80.3%). Holding tax rates constant for the three special taxing districts in Mohave County in the wake of 28.5% secondary property value growth, the Board of Supervisors increased property taxes by $6.4 million (29.3%).

In addition, the fire district assistance tax (FDAT), which is levied by the counties on behalf of fire districts, increased $3.5 million (20.8%). Since the formula for distribution of FDAT is based on 20% of the district taxes levied, the FDAT closely tracks the dramatic growth in fire district levies. The FDAT in seven counties received increases of over 20%, with Apache County leading the way at 41.3%, followed by La Paz with an increase of 36.6%, and the 28.5% increase in Mohave County. The remaining four counties increased Graham (25.7%), Pima (25.3%), Pinal (23.9%), and Gila (20.2%).

CITIES

Primary Levies: City primary levies grew 8.5% ($18.6 million) in tax year 2008 to a total of $236.5 million. As was the case with the counties, the jurisdictions with the most new construction experienced the largest
increases in levies, such as Queen Creek (29.5%), Buckeye (27%), and the City of Maricopa (26.5%). Over the last five years, city primary levies have grown 58.7% ($87.4 million).

Secondary Levies: City secondary levies grew at a much greater rate than the primary levies at 18.1% ($66.3 million). The cities with the highest growth in secondary levies included Goodyear (40.7%), which was a result of 31% growth in secondary NAV as well as the more than 6-cent increase in the tax rate. Avondale had 26.4% secondary levy growth, mostly due to the 20.6% increase in values and a $0.0334-cent tax rate increase. The 14.9% increase in secondary NAV in El Mirage contributed to the 24.8% secondary levy increase, in addition to a $0.0177 tax rate increase.

City secondary levies have nearly doubled over the past five years, from $223.3 million in tax year 2003 to $433.4 million in tax year 2008. To take advantage of growing NAV, many cities have refinanced bonds to pull forward debt payments, resulting in major tax increases. Some have elected not to reduce tax rates and, as a result, levy more than their current debt service obligation.

OTHER LEVIES
The category of “other levies” includes taxes levied against special districts, which include fire districts, street lighting districts, and many other special districts. Secondary levies for special districts grew 18.5% ($71.1 million) in tax year 2008 to a total of $454.7 million.

The 160 fire districts that levied property taxes in tax year 2008 make up 58% of total levies in this category, which totaled $263.3 million in tax year 2008. An average increase of 19.4% over tax year 2007 for the districts amounted to an additional $42.7 million in property taxes. The most dramatic increases in fire district levies occurred in Pima County. Heritage Hills Fire District, La Canada, and North Ranch Linda Vista collectively tripled their district levies from $1.75 million in 2007 to $4.5 million 2008. In this case, the increase in taxes was mainly the result of two of the three districts doubling their tax rates, as well as the additional value associated with annexations. Wickenburg Fire District in Yavapai County increased its district taxes by 115%, with a 47% increase in the tax rate and 45.8% increase in NAV. Over the last five years, total fire district levies have more than doubled. The $148.2 million (129%) increase since 2003 was the result of fire districts increasing levies from $115 million to $263.3 million in tax year 2008, resulting in an average annual increase of 26% per year.

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