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ARIZONA TAX RESEARCH ASSOCIATION NEWSLETTER VOLUME 70 NUMBER 5 JULY/AUGUST 2010

BUSINESSES DESERVE CITY SALES TAX CODE REFORM

Arizona businesses are struggling through the worst economic climate facing Arizona since the Great Depression. Over 300,000 Arizonans have lost their jobs over the last two years. The prolonged recession has also had a significant impact on state and local budgets. State revenues have fallen almost 40% from Fiscal Year 2007.

The dismal performance of the Arizona economy has caused some state policymakers to look to the state's tax system for changes or reforms that might spur job creation in the state. Most of the changes to the tax system that are proposed focus on the high effective tax rates paid by Arizona businesses in property taxes and corporate income taxes. Particularly with business property taxes, these areas of our tax system have clearly proven to be impediments to economic development.

However, if state policymakers want to truly attack impediments to job creation and business expansion in the tax code, they shouldn't ignore the tremendous burden placed on businesses in complying with Arizona's onerous state and local sales tax code.

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Valuation Decreases Drive Primary Tax Rate Increases In Some Arizona Counties

ATRA staff has completed its annual tour of Arizona's 15 counties to review proposed budgets. While tax rates have not been finalized, taxpayers in some counties will certainly see major rate increases.

For the first time since 1993, Arizona has incurred a decrease in property values (See *Table 1 on page 2*). The net assessed value (NAV) statewide dropped 4.6% in fiscal year (FY) 2011 as a result of decreases in primary NAV in eight counties. In terms of dollars, Maricopa County experienced the largest decrease in value of more than \$2.8 billion. The NAV in Greenlee County represented the largest percentage drop at 44.5%, mainly as a result of the declining value of copper.

Despite the overall statewide drop in value, seven counties saw their values increase. The largest increase in terms of dollars was Coconino County, up \$79.3 million from tax year 2009 to 2010. La Paz County observed an increase in value of 7.5%, the largest

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ATRA's ANNUAL GOLF TOURNAMENT
At The Pointe Golf Club on Lookout Mountain
Friday, November 5, 2010
&
ATRA'S ANNUAL MEETING
At The Pointe Hilton Squaw Peak Resort
Friday, November 19, 2010

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percentage increase in the state.

Primary Levy Changes

Counties are subject to a constitutional levy limit which controls the growth in primary levies to 2% plus growth for new construction. Because levies are limited and not tax rates, most counties were able to levy at least what they levied in tax year 2009 as a result of major increases in tax rates to counter the decreases in NAV. Primary levies in the state grew 1.6% despite large increases in several counties (see *Table 2 on page 3*). Maricopa County, which is responsible for nearly half of the total levies, actually decreased its levy from 2009 slightly (0.003%), causing the low overall percentage change. Additionally, Pima

Primary Net Assessed Values (NAV)				
County	2009 (p)	2010 (p)	Total Change	Percentage of Change
Apache	\$480,466,523	\$503,365,682	\$22,899,159	4.77%
Cochise	986,677,834	1,042,041,186	55,363,352	5.61%
Coconino	1,840,775,046	1,920,050,801	79,275,755	4.31%
Gila	590,487,639	568,461,573	(22,026,066)	-3.73%
Graham	221,874,583	217,455,207	(4,419,376)	-1.99%
Greenlee	485,530,992	269,441,653	(216,089,339)	-44.51%
La Paz	209,757,376	225,558,163	15,800,787	7.53%
Maricopa	49,675,117,156	46,842,818,990	(2,832,298,166)	-5.70%
Mohave	2,533,064,495	2,321,464,632	(211,599,863)	-8.35%
Navajo	998,764,550	1,059,004,850	60,240,300	6.03%
Pima	8,985,711,830	8,939,647,260	(46,064,570)	-0.51%
Pinal	2,880,540,107	2,562,246,078	(318,294,029)	-11.05%
Santa Cruz	389,942,563	411,476,801	21,534,238	5.52%
Yavapai	3,274,078,347	3,187,559,879	(86,518,468)	-2.64%
Yuma	1,223,205,142	1,301,330,388	78,125,246	6.39%
Total	\$74,775,994,183	\$71,371,923,143	(\$3,404,071,040)	-4.55%

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Table 1

COMMUNITY COLLEGE DISTRICT LEVIES GROW \$18 MILLION DESPITE REDUCED PROPERTY VALUES

Although the primary net assessed values (PNAV) for Arizona's community college districts (CCD) dropped more than 4% (See *table on page 5*), from \$73.4 billion in tax year 2009 down to \$70.2 billion in tax year 2010, the proposed primary levies are expected to increase 3% when property tax rates and levies are adopted on August 16. The 3% growth translates into an \$18.4 million increase in statewide primary property taxes.

The PNAV for seven of the eleven community college districts decreased in tax year 2010. The largest percentage decreases occurred in Pinal CCD with an 11% decrease (\$318.3 million), Mohave CCD with a reduction of 8.4% (\$211.6 million), and a 5.7% drop in Maricopa CCD (\$2.8 billion). The four districts that are experiencing an increase in PNAV included La Paz/Yuma with

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Community College District	TY 2009 Primary Levy	TY 2010 TNT Levy	TY 2010 Proposed Primary Levy	Total Change (2009 to 2010)	Percent Change (2009 to 2010)
Cochise	\$15,860,846	\$16,329,514	\$16,655,987	\$795,141	5.0%
Coconino	\$6,201,571	\$6,310,618	\$6,436,010	\$234,439	3.8%
Gila	\$3,177,103	\$3,346,603	\$3,398,263	\$221,160	7.0%
Graham	\$3,987,087	\$4,556,435	\$4,647,670	\$660,583	16.6%
La Paz /Yuma	\$21,697,918	\$22,454,748	\$22,903,329	\$1,205,411	5.6%
Maricopa	\$360,268,991	\$371,591,874	\$371,276,183	\$11,007,192	3.1%
Mohave	\$17,206,296	\$17,902,202	\$18,260,641	\$1,054,345	6.1%
Navajo	\$11,344,683	\$11,747,542	\$11,975,227	\$630,544	5.6%
Pima	\$84,070,320	\$85,499,742	\$87,206,000	\$3,135,680	3.7%
Pinal	\$39,751,619	\$41,392,194	\$37,665,017	-\$2,086,602	-5.2%
Yavapai	\$36,833,381	\$37,765,524	\$38,397,561	\$1,564,180	4.2%
Total	\$600,399,815	\$618,896,996	\$618,821,888	\$18,422,073	3.1%

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County reduced its primary levy \$1.5 million from tax year 2009. The largest levy increase in terms of dollars was Pinal County, raising its levy \$9.4 million. Greenlee County was able to increase this year's levy 42.9% because the 2009 levy was considerably lower than the levy limit.

Two-thirds of the counties exceeded their truth-in-taxation (TNT) levies. The TNT limit reflects only the growth from new construction and does not give the benefit of the constitutional levy limit of 2% added to the previous

year's levy. *Table 2* shows how counties adopted primary levies with respect to their TNT levy. Maricopa County is surprising; opting not to utilize more than \$15 million, or 3% less than what is permitted by the TNT levy. The largest dollar excess is Pinal County, as would be expected, its primary levy in excess of its TNT of \$1.8 million. Also, Greenlee County exceeded their TNT levy by 21.8%.

Rate Changes

Since primary property values dropped statewide in FY 2011, tax rates increased in many counties as a result (See *Table 3*). The inverse proportionality of NAV and tax rates should imply that all eight counties that decreased in value raised their tax rates. Pima County, however, did not raise its tax rate despite a small decline (0.5%) in NAV. The remaining seven counties with property devaluation did raise tax rates. Of these, Pinal County had the highest rate increase of \$0.7683 while the percentage increase in Greenlee County was a whopping 158%. Conversely,

seven counties lowered tax rates as a result of increased property values. Santa Cruz County lowered its tax rate \$0.0741, or 2.6%. Overall, Gila County raised its tax rate to a state-high of \$4.1900, while Coconino County lowered its tax rate to own the lowest rate of \$0.3953.

Ten counties adopted primary rates that exceeded their TNT rates. Graham and Yavapai Counties adopted primary rates that met their respective TNT rates while Maricopa, Pima, and Santa Cruz Counties operated below their TNT rates.

County Primary Levies

County	TY 2009 Primary Levy	TY 2010 TNT Levy	TY 2010 Proposed Primary Levy	Total Change (2009 to 2010)	Percent Change (2009 to 2010)
Apache	\$2,145,763	\$2,167,493	\$2,210,782	\$65,019	3.03%
Cochise	\$26,072,962	\$26,842,981	\$27,380,675	\$1,307,713	5.02%
Coconino	\$7,313,399	\$7,442,117	\$7,589,961	\$276,562	3.78%
Gila	\$22,143,286	\$23,324,547	\$23,818,540	\$1,675,254	7.57%
Graham	\$3,450,150	\$3,942,898	\$3,942,898	\$492,748	14.28%
Greenlee	\$1,450,175	\$1,702,332	\$2,072,715	\$622,540	42.93%
La Paz	\$3,958,961	\$4,116,662	\$4,198,911	\$239,950	6.06%
Maricopa	\$492,230,736	\$507,682,472	\$492,215,163	-\$15,573	0.00%
Mohave	\$32,010,336	\$33,306,053	\$33,979,277	\$1,968,941	6.15%
Navajo	\$5,587,089	\$5,785,343	\$5,900,775	\$133,686	5.61%
Pima	\$297,723,590	\$302,785,853	\$296,197,333	-\$1,526,257	-0.51%
Pinal	\$93,087,534	\$100,706,520	\$102,487,281	\$9,399,747	10.10%
Santa Cruz	\$11,291,178	\$11,664,133	\$11,609,650	\$318,472	2.82%
Yavapai	\$42,045,714	\$43,108,560	\$43,108,560	\$1,062,846	2.53%
Yuma	\$21,464,803	\$22,195,491	\$22,639,245	\$1,174,442	5.47%
Total	\$1,061,975,676	\$1,096,773,455	\$1,079,351,766	\$17,376,090	1.64%

Table 2

County Primary Tax Rates

County	TY 2009 Primary Rate	TY 2010 TNT Rate	TY 2010 Proposed Primary Rate	Total Change (2009 to 2010)	Percent Change (2009 to 2010)
Apache	0.4466	0.4306	0.4392	(0.0074)	-1.66%
Cochise	2.6425	2.5760	2.6276	(0.0149)	-0.56%
Coconino	0.3973	0.3876	0.3953	(0.0020)	-0.50%
Gila	3.7500	4.1031	4.1900	0.4400	11.73%
Graham	1.5550	1.8132	1.8132	0.2582	16.60%
Greenlee	0.2986	0.6318	0.7693	0.4707	157.64%
La Paz	1.8874	1.8251	1.8616	(0.0258)	-1.37%
Maricopa	0.9909	1.0838	1.0518	0.0609	6.15%
Mohave	1.2637	1.4347	1.4637	0.2000	15.83%
Navajo	0.5594	0.5463	0.5572	(0.0022)	-0.39%
Pima	3.3133	3.3870	3.3133	0.0000	0.00%
Pinal	3.2316	3.9304	3.9999	0.7683	23.77%
Santa Cruz	2.8956	2.8347	2.8215	(0.0741)	-2.56%
Yavapai	1.2842	1.3524	1.3524	0.0682	5.31%
Yuma	1.7548	1.7056	1.7397	(0.0151)	-0.86%
Average Tax Rate	1.7514	1.8695	1.8930	0.1417	8.09%

Table 3

REFORM, *Continued from page 1*

Arizona is one of only three states that allows for an independent municipal sales tax structure. As a result, there are a myriad of differences between the state sales tax code and city sales tax codes. City sales tax codes also differ from city to city.

Unlike most states, Arizona's sales tax system requires many businesses to maintain two sets of books to determine their city sales tax liability. In addition, they are often required to remit separate sales tax payments to the cities in which they operate.

The costs to Arizona businesses to comply with this dual system are enormous. In addition to keeping track of the multiple local codes, interpretations of the tax treatment of identical activities can also vary across jurisdictions. Because cities have developed different tax codes than the state, all of the major cities carry out their own audit and appeals processes, further increasing the compliance costs for businesses.

Arizona's dysfunctional sales tax system has been the subject of considerable debate at the state capitol at various times over the last 30 years. The Arizona business community attempted to codify in state statute a uniform municipal code in the early 1980's. That effort finally failed in 1986. Attempting to address the complete disarray in local sales tax codes, several city tax administrators created the Model City Tax Code (MCTC) in 1987. While the crafters of the MCTC never pretended to improve uniformity between the city and state codes, it also failed to achieve uniformity among cities.

In the early 1990's, the on-going effort to put a band-aid on this huge wound in the tax system included the creation of the Model City Tax Code Commission. The Commission was made up of two mayors, two members of the general public, and the Director of the Department of Revenue. The Commission was only created to serve as a clearinghouse for changes to city codes. In fact, the Commission was specifically preempted from exercising any authority over cities sales tax codes. Three years later the membership of the commission was expanded to seven members, all being mayors or city council members.

In the late 1990's, responding to further pressure from ATRA, the Legislature preempted local city council's ability to expand beyond the Model City Tax Code without the consent of the Model City Tax Code Commission.

Interestingly, while Arizona cities have blissfully presided over Arizona's chaotic local sales tax structure for the last decade, state and local governments in other states have been working to simplify their tax codes as well as the administrative burdens on taxpayers. Most state and local governments around the country understand that a state and local sales tax structure must be administratively simple for both government and taxpayers if they are to ever have any hope of convincing Congress to deal with taxation of remote sellers on Internet transactions.

In Arizona, where city leaders are comfortable with a tax code that punishes businesses under the banner of "local control", we are actually falling further away from a national movement to streamline state and local sales tax codes. Unbelievably, instead of moving toward greater uniformity and a single point of contact for sales tax payments, city leaders are actually encouraging cities to leave the state collection system and establish their own collection system.

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6.6% growth (\$93.9 million), Navajo with an increase of 6% (\$60.2 million), a 5.6% increase in Cochise (\$55.4 million), followed by Coconino with 4.3% growth (\$79.3 million).

CCD's are subject to the same constitutional levy limits of counties, which limits primary property taxes to 2% plus growth for new construction. In tax year 2010, primary property taxes for the CCD's are expected to increase \$18.4 million (3%) despite the 4.4% drop in property values. Nine of the eleven districts are levying over their TNT levies. Pinal CCD is planning to reduce its primary levy \$2.1 million in tax year 2010, which is \$3.7 million below the TNT levy. Although the primary levy in Maricopa CCD is increasing \$11 million this year, the proposed levy is just under the district's TNT limit. The largest percentage increase in primary levies was led by Graham CCD with an increase of 16.6% (\$660,583), Gila CCD with 7% growth (\$221,160), and Mohave CCD, which increased its primary levy 6.1% (\$1,054,345). Following Maricopa CCD in terms of the largest dollar increases were Pima with an increase of \$3.1 million, and Yavapai, with an increase of \$1.6 million.

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The same seven districts that are experiencing reductions in PNAV have elected to offset those decreased values with an increase in their primary tax rate, amounting to an overall net increase of nearly 76 cents per \$100 of assessed value. The 76-cent tax rate increase was mainly driven by the 34-cent rate increase in Graham CCD, followed by Mohave with nearly an 11-cent rate increase, and Pinal, which raised its primary rate nine cents.

Jennifer Schulte

Community College District Proposed Primary Tax Rates

Community College District	TY 2009 Primary Rate	TY 2010 TNT Rate	TY 2010 Proposed Primary Rate	Total Change (2009 to 2010)	Percent Change (2009 to 2010)
Cochise	1.6075	1.5671	1.5984	-0.0091	-0.6%
Coconino	0.3369	0.3287	0.3352	-0.0017	-0.5%
Gila	0.5321	0.5887	0.5978	0.0657	12.3%
Graham	1.7970	2.0953	2.1373	0.3403	18.9%
La Paz /Yuma	1.5142	1.4706	1.5000	-0.0142	-0.9%
Maricopa	0.7253	0.7933	0.7926	0.0673	9.3%
Mohave	0.6791	0.7712	0.7866	0.1075	15.8%
Navajo	1.1352	1.1093	1.1308	-0.0044	-0.4%
Pima	0.9356	0.9564	0.9755	0.0399	4.3%
Pinal	1.3800	1.6155	1.4700	0.0900	6.5%
Yavapai	1.1250	1.1848	1.2050	0.0800	7.1%

Community College District Primary Net Assessed Values

Community College District	TY 2009 PNAV	TY 2010 PNAV	Total \$ Change	Percentage Change
Cochise	\$986,677,834	\$1,042,041,186	55,363,352	5.61%
Coconino	1,840,775,046	1,920,050,801	79,275,755	4.31%
Gila	590,487,639	568,461,573	(22,026,066)	-3.73%
Graham	221,874,583	217,455,207	(4,419,376)	-1.99%
La Paz /Yuma	1,432,962,518	1,526,888,551	93,926,033	6.55%
Maricopa	49,675,117,156	46,842,818,990	(2,832,298,166)	-5.70%
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Yavapai	3,274,078,347	3,187,559,879	(86,518,468)	-2.64%
Total	\$73,420,054,105	\$70,187,639,007	(\$3,232,415,098)	-4.40%