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ARIZONA TAX RESEARCH ASSOCIATION

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Counties Adopt FY 2011 Budgets *Total Spending Climbs 2.6%*

Arizona counties have adopted their budgets for fiscal year (FY) 2011, and at a time when taxpayers are seeking relief, some counties are actually increasing spending. Although the reduction in county general fund budgets of 2.4% is reflective of the persistent decrease in sales tax revenues and reduced beginning fund balances, total budgets overall increased 2.6%.

GENERAL FUND BUDGETS

County general funds, which are mainly supported with property and sales tax revenues, decreased 2.4% collectively (see *Table 1*). Seven counties across the state enacted general fund budget increases in FY 2011, ranging from 0.06% in La Paz County to 8.43% in Greenlee County. The 8.43% increase in Greenlee County was due to the temporary drop in the county primary property tax levy in FY 2010 as penalty for exceeding its levy limit by \$281,077 in the previous year. Therefore, in FY 2011, the county regained the capacity in the levy limit and levied to the maximum.

Pinal County displayed the highest general fund increase of \$12.3 million, 6.7% more than last year, mostly due to a 31% increase

See *Counties*, page 3

Arizona's Business Property Tax Ranking Improves **According to Recent Minnesota Taxpayer's Study**

Each year, the Minnesota Taxpayer's Association (MTA) conducts a study that compares the property tax burden for business and residential properties across the 50 states. Historically, the MTA study always ranked Arizona's business property tax burden in the top five. However, as a result of a number of ATRA-led reforms, that important ranking is improving. In 2008, Arizona's ranking for a major industrial property fell to 10th nationally from 5th in 2007. In the most recent study, using 2009 taxes, that same ranking improved to 15th place.

The favorable drop in Arizona's ranking resulted from reducing the tax burden on business property through a combination of a reduction in the assessment ratio on class one (business) property as well as steady reduction in tax rates. In addition, Arizona's relative ranking also improved as a result of the increased tax burdens on business property in five other states at the same time.

In 2005, the Arizona Legislature enacted legislation to reduce the assessment ratio on class one property from 25% to 20% over a ten-year period. Additional legislation was passed in 2007 to accelerate the reduction in the assessment ratio from a ten-year phase

See *Arizona Ranking*, page 2

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ATRA'S ANNUAL MEETING
At The Pointe Hilton Squaw Peak Resort
Friday, November 19, 2010

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down to six years. Since tax year 2007, the assessment ratio has dropped by one percent each year and is scheduled to reach 20% by tax year 2011. Therefore, over the next two years, the reduction in the assessment ratio will continue to reduce the tax burden on business property located in Arizona, and as a result, hopefully lead to further improvements in our ranking.

The MTA study applies the actual tax rates levied by the states to various hypothetical properties. Another reason for the reduction in Arizona’s property tax burden in 2009 was the result of the 36% reduction in the Phoenix Elementary school district property tax rate, which is the jurisdiction used to calculate Arizona’s tax burden in the study each year. Combined with the rates levied by other jurisdictions, the overall tax rate dropped 14.5% for a property located in the district. However, the significant reduction in the tax rate is only temporary as the overall property tax rate jumped back up 10% in tax year 2010, which will negatively impact Arizona’s ranking in next year’s study.


The effective tax rate (ETR) is used to express the relationship between property taxes and the market value of property. In the MTA study, the ETR is calculated for the different property types in each state after accounting for local assessment practices and statutory provisions in the property tax calculation. In 2009, the ETR for business property in Arizona dropped down to 1.687%, a dramatic improvement compared to the 2007 ETR of 2.529%. As noted above, the decline in the ETR on business property is the result of the reduction in property tax rates and the assessment ratio on class one property. However, while Arizona’s ETR on business property has decreased, five other states have done the opposite and increased the ETR on businesses located in their state. Had Arizona’s ETR of 1.994% in 2008 remained unchanged in 2009, Arizona would have ranked 12th compared to other states.

Jennifer Schuldt

\$25,000,000 Land and Building \$12,500,000 Machinery and Equipment \$10,000,000 Inventories \$2,500,000 Fixtures											
Industrial Property Taxes Payable 2007			Industrial Property Taxes Payable 2008				Industrial Property Taxes Payable 2009				
Rank	State	NET TAX	ETR	Rank	State	NET TAX	ETR	Rank	State	NET TAX	ETR
1	South Carolina	1,864,900	3.730%	1	South Carolina	1,947,900	3.896%	1	South Carolina	1,538,879	3.078%
2	Michigan	1,724,404	3.449%	2	Michigan	1,658,568	3.317%	2	Michigan	1,480,031	2.960%
3	Indiana	1,470,297	2.941%	3	Texas	1,261,850	2.524%	3	Texas	1,261,850	2.524%
4	Mississippi	1,291,050	2.582%	4	Mississippi	1,242,554	2.485%	4	Mississippi	1,242,554	2.485%
5	Arizona	1,264,650	2.529%	5	Kansas	1,169,583	2.339%	5	Missouri	1,150,676	2.301%
6	Texas	1,264,358	2.529%	6	Missouri	1,116,103	2.232%	6	Kansas	1,141,163	2.282%
7	Kansas	1,121,475	2.243%	7	Indiana	1,104,315	2.209%	7	Indiana	1,090,901	2.182%
8	Missouri	1,111,255	2.223%	8	Iowa	1,095,133	2.190%	8	Iowa	1,087,622	2.175%
9	Iowa	1,069,372	2.139%	9	Tennessee	1,008,207	2.016%	9	Tennessee	1,046,277	2.093%
10	Tennessee	1,033,544	2.067%	10	Arizona	996,842	1.994%	10	Pennsylvania	1,029,057	2.058%
11	New York	988,045	1.976%	11	New York	993,271	1.987%	11	Louisiana	1,026,584	2.053%
12	Connecticut	949,440	1.899%	12	Connecticut	980,760	1.962%	12	New York	976,546	1.953%
13	Pennsylvania	911,994	1.824%	13	D.C.	903,275	1.807%	13	D.C.	935,725	1.871%
14	DC	903,738	1.807%	14	Pennsylvania	893,737	1.787%	14	Connecticut	881,326	1.763%
15	West Virginia	833,234	1.666%	15	Louisiana	890,381	1.781%	15	Arizona	843,417	1.687%
AVERAGE		745,139	1.490%	AVERAGE		725,151	1.450%	AVERAGE		729,805	1.460%

Correction to ATRA July/August 2010 Newsletter article “Valuation Decreases Drive Primary Tax Rate Increases In Some Arizona Counties”

The July/August 2010 ATRA Newsletter contained certain errors regarding the data reported for Pinal County. The published newsletter stated that the primary levy in Pinal County increased \$9.4 million as a result of the county increasing the primary rate \$0.7683. The error was in tax year 2009, in which the levy should have been reported at \$96,714,134 rather than \$93,087,534, to include for the Mary C. O’Brien levy in that year. After the correction, the primary property tax increase in Pinal County was actually \$5.8 million. Similarly, the Pinal County primary rate should have been reported at \$3.3575 rather than \$3.2316 in tax year 2009, resulting in a tax rate increase of \$0.6424 rather than \$0.7683. These corrections have been made to the version posted to the ATRA website.

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COUNTIES, *Continued from Page 1*

in the beginning general fund balance (see *Table 2*). Other noteworthy increases include Yavapai County, which increased its general fund 3.52% (\$2.7 million), 3.42% (\$1.6 million) in Gila County, and Cochise County with an increase of 3.25% (\$2.5 million).

County	General Fund '10	General Fund '11	Change (\$)	Change (%)
Apache	\$19,661,227	\$18,985,039	-\$676,188	-3.44%
Cochise	\$75,405,622	\$77,857,021	\$2,451,399	3.25%
Coconino	\$65,713,809	\$63,536,805	-\$2,177,004	-3.31%
Gila	\$46,026,786	\$47,601,444	\$1,574,658	3.42%
Graham	\$18,932,057	\$19,344,609	\$412,552	2.18%
Greenlee	\$8,434,315	\$9,144,911	\$710,596	8.43%
La Paz	\$13,886,260	\$13,895,075	\$8,815	0.06%
Maricopa	\$1,225,773,156	\$1,164,582,650	-\$61,190,506	-4.99%
Mohave	\$82,163,652	\$81,946,277	-\$217,375	-0.26%
Navajo	\$39,171,953	\$38,847,148	-\$324,805	-0.83%
Pima	\$494,765,645	\$487,666,759	-\$7,098,886	-1.43%
Pinal	\$185,112,668	\$197,443,406	\$12,330,738	6.66%
Santa Cruz	\$30,681,880	\$25,925,726	-\$4,756,154	-15.50%
Yavapai	\$77,769,184	\$80,506,227	\$2,737,043	3.52%
Yuma	\$78,411,275	\$76,153,715	-\$2,257,560	-2.88%
Total	\$2,461,909,489	\$2,403,436,812	-\$58,472,677	-2.38%

Source: FY 2010 & FY 2011 County Adopted Budgets

Table 1 *Change in County General Funds*

The eight remaining counties decreased their general fund budgets from FY 2010 to FY 2011. Santa Cruz County's general fund experienced the largest percentage reduction at 15.5%, mainly as a result of a decreased beginning fund balance and reduced sales tax revenues. Maricopa County's general fund dropped 5%, or \$61.2 million, from last year's budget. Apache had the third largest percentage decrease at 3.4%. Behind Maricopa County, Pima County had the second largest dollar decrease of \$7.1 million, which

County	Beginning Fund Balance '10	Beginning Fund Balance '11	Difference	% Change	% of General Fund '10	% of General Fund '11
Apache	\$4,189,037	\$3,816,756	-\$372,281	-8.89%	21.31%	20.10%
Cochise	\$20,438,927	\$24,559,182	\$4,120,255	20.16%	27.11%	31.54%
Coconino	\$22,323,330	\$19,630,179	-\$2,693,151	-12.06%	33.97%	30.90%
Gila	\$12,000,000	\$12,000,000	\$0	0.00%	26.07%	25.21%
Graham	\$1,331,347	\$1,337,161	\$5,814	0.44%	7.03%	6.91%
Greenlee	\$1,000,000	\$1,100,000	\$100,000	10.00%	11.86%	12.03%
La Paz	\$1,507,603	\$1,597,360	\$89,757	5.95%	10.86%	11.50%
Maricopa	\$371,157,184	\$453,144,579	\$81,987,395	22.09%	30.28%	38.91%
Mohave	\$11,733,822	\$11,583,219	-\$150,603	-1.28%	14.28%	14.14%
Navajo	\$6,935,283	\$3,797,928	-\$3,137,355	-45.24%	17.70%	9.78%
Pima	\$24,982,199	\$53,633,402	\$28,651,203	114.69%	5.05%	11.00%
Pinal	\$29,517,875	\$38,576,879	\$9,059,004	30.69%	15.95%	19.54%
Santa Cruz	\$12,776,832	\$10,682,826	-\$2,094,006	-16.39%	41.64%	41.21%
Yavapai	\$994,577	\$5,576,610	\$4,582,033	460.70%	1.28%	6.93%
Yuma	\$18,942,385	\$17,757,638	-\$1,184,747	-6.25%	24.16%	23.32%

Source: FY 2010 & FY 2011 County Adopted Budgets

Table 2 *Cash Balances per County*

COUNTIES, *Continued from Page 3*

equated to a percentage decrease of only 1.4%.

The \$2.2 million (3.3%) decrease in Coconino County's general fund budget resulted mainly from the county shifting general fund expenditures for health services to a new special revenue fund. In order to offset the significant reduction in revenues, Coconino County took advantage of a law that allows counties to create a special taxing district without voter approval and levy either a property or sales tax to fund the district. The Board of Supervisors' decision to create the Public Health Services District (PHSD) and levy the 25-cent maximum property tax rate resulted in a \$5.2 million tax increase in FY 2011.

Six counties are drawing down their cash balances to offset declines in revenues (see *Table 2*). Some counties have accumulated a substantial amount of cash compared to their general funds, ranging from a low of 6.91% in Graham County to a high of 41.21% in Santa Cruz County. In Santa Cruz County, for example, unreserved funds account for 41% of the general fund, the highest cash make-up of all counties. Maricopa County's cash balance made up 30.3% of its general fund in FY 2010 and 39% in FY 2001; however, County officials claim that the large cash balance is necessary to accommodate the county's modified "pay-as-you-go" financial policy, in which the county utilizes a combination of cash and debt financing to fund its capital projects program.

Pima County's beginning general fund balance more than doubled, with an additional \$28.7 million in FY 2011. As stated previously, Pinal County experienced significant growth of \$9 million in its cash balance, representing an increase of 31%. Yavapai County's beginning general fund balance nearly sextupled (461%) due to the accumulation of funds which were not expended in the previous year. Navajo County experienced the largest percentage decrease of all counties with a 45.4% decline in its beginning fund balance.

TOTAL BUDGETS

In addition to the general fund, the total budgets of counties include funding for special revenue funds (i.e. road funds and taxing districts) and other funds specifically designated for capital projects and debt service. In contrast to the 2.4% decrease in general fund budgets, total budgets increased 2.6% on average in FY 2011. Nine counties increased their total budgets, with Maricopa and Pima Counties being responsible for the largest dollar increases of \$99 million and \$44 million respectively. Pinal County followed closely behind with an increase of \$29.7 million. Navajo County had the largest percentage increase of 9.6%, which was primarily attributed to a collective increase of \$10.5 million in the special revenue budgets of the attorney's office, flood control, and the road fund. In addition to a growing general fund budget, Pinal County increased its total budget 7.4% with the expansion of capital projects and

County	Total Budget '10	Total Budget '11	Change (\$)	Change (%)
Apache	\$56,010,014	\$55,561,295	-\$448,719	-0.80%
Cochise	\$173,160,567	\$184,597,917	\$11,437,350	6.61%
Coconino	\$178,059,829	\$173,477,263	-\$4,582,566	-2.57%
Gila	\$100,298,479	\$104,308,843	\$4,010,364	4.00%
Graham	\$29,308,847	\$30,571,371	\$1,262,524	4.31%
Greenlee	\$16,548,035	\$16,723,378	\$175,343	1.06%
La Paz	\$32,061,533	\$30,114,836	-\$1,946,697	-6.07%
Maricopa	\$2,425,291,718	\$2,524,321,276	\$99,029,558	4.08%
Mohave	\$278,875,283	\$267,700,074	-\$11,175,209	-4.01%
Navajo	\$103,823,749	\$113,792,885	\$9,969,136	9.60%
Pima	\$1,387,871,873	\$1,431,897,069	\$44,025,196	3.17%
Pinal	\$400,217,200	\$429,878,000	\$29,660,800	7.41%
Santa Cruz	\$109,842,633	\$74,597,307	-\$35,245,326	-32.09%
Yavapai	\$251,326,785	\$263,831,781	\$12,504,996	4.98%
Yuma	\$251,792,133	\$243,473,901	-\$8,318,232	-3.30%
Total	\$5,794,488,678	\$5,944,847,196	\$150,358,518	2.59%

Source: FY 2010 & FY 2011 County Adopted Budgets

Table 3 Change in County Total Funds

COUNTIES, *Continued from Page 4*

enterprise funds. Conversely, Mohave County's total budget dropped \$11.1 million with reductions in the capital projects and enterprise funds. Yuma County's total budget receded \$8.3 million from reductions in the debt service and capital projects funds.

It is common that a county will incur temporary expenses or begin a project that will not be a perennial budget item resulting in significant inter-budget shifts. In FY 2011 budgets, these differences are present in a few counties and should be noted. For example, Santa Cruz County reduced its total budget more than \$35 million, by far the largest dollar decrease and largest percentage decrease of 32.1%. The large budget decrease in Santa Cruz County is primarily the result of the completion of construction of the jail facilities scheduled to open in the fall of 2010. In addition, Maricopa County's capital projects fund, the Capital Improvement Program (CIP), has increased significantly. CIP is the funding source for several projects throughout the county, including the criminal court tower currently under construction in downtown Phoenix.

EFFECT OF MARICOPA COUNTY

From Tables 1 and 3, it is inferred that general funds are decreasing and total funds overall are increasing. However, Maricopa County is severely skewing the data. In *Table 1*, the overall drop in general fund budgets from FY 2010 to FY 2011 is more than \$58 million but the decrease in Maricopa County is \$61.1 million. When Maricopa County is eliminated, there is a \$2.7 million (0.2%) increase statewide. *Table 3* shows an increase of almost \$150 million in total budgets statewide but Maricopa County's increase facilitates 66% of the statewide increase. Once again, eliminating Maricopa County will deflate the increase to \$51.3 million, or 1.5%.

PER CAPITA EXPENDITURES

Of course, each of the 15 counties is different in geography and population. To that end, *Table 4* below compares expenditures on a per capita basis. By considering population, it may be determined which counties have, in fact, higher spending habits per person.

Maricopa County has the largest general fund budget in the state at \$1.2 billion. However, after taking its four million inhabitants into consideration, the county spends \$289 per person from the general fund (see *Table 4*). The least populous county, Greenlee, certainly without the economies of scale of Maricopa County, spends almost four times as much per person, making Greenlee the highest spending county per capita in the state. The counties with the highest general fund spending per capita behind Greenlee include Gila (\$911.92), La Paz (\$694.34), and Cochise (\$601.13).

County	General Fund (GF)	GF per Capita	Total Fund (TF)	TF per Capita
Apache	\$18,985,039	\$268.94	\$55,561,295	\$787.09
Cochise	\$77,857,021	\$601.13	\$184,597,917	\$1,425.27
Coconino	\$63,536,805	\$489.31	\$173,477,263	\$1,335.99
Gila	\$47,601,444	\$911.92	\$104,308,843	\$1,998.29
Graham	\$19,344,609	\$522.19	\$30,571,371	\$825.25
Greenlee	\$9,144,911	\$1,137.29	\$16,723,378	\$2,079.76
La Paz	\$13,895,075	\$694.34	\$30,114,836	\$1,504.84
Maricopa	\$1,164,582,650	\$289.47	\$2,524,321,276	\$627.45
Mohave	\$81,946,277	\$420.61	\$267,700,074	\$1,374.05
Navajo	\$38,847,148	\$343.86	\$113,792,885	\$1,007.24
Pima	\$487,666,759	\$478.01	\$1,431,897,069	\$1,403.55
Pinal	\$197,443,406	\$579.08	\$429,878,000	\$1,260.78
Santa Cruz	\$25,925,726	\$592.30	\$74,597,307	\$1,704.26
Yavapai	\$80,506,227	\$373.26	\$263,831,781	\$1,223.22
Yuma	\$76,153,715	\$386.62	\$243,473,901	\$1,236.08

Source: FY 2010 & FY 2011 County Adopted Budgets
Table 4 Expenditures Per Capita

COUNTIES, *Continued from Page 5*

Pima County, at a quarter of the size of Maricopa County by population, spends nearly twice as much from its general fund per person, making it the ninth highest spending county. In Coconino and Cochise Counties, where populations differ by a mere 331 people (see *Table 5*), Coconino County spends only 80% of the amount Cochise County spends per capita.

Total expenditures per capita comparisons produced similar results to general fund expenditures per capita but there were some small differences. Greenlee and Gila were the highest total fund spending counties per capita but Santa Cruz County is the third highest spending county, whereas it was fifth highest general fund spending per capita. La Paz and Cochise Counties ranked fourth and fifth highest, respectively, in total spending per capita. Even though Mohave and Yuma Counties appear to have similar general fund per capita expenditures, general fund weight, and population, their total expenditures per capita are much different. This is due to Mohave budgeting \$24 million more than Yuma. Graham County, ranked seventh highest in general fund expenditures per capita, had the third lowest total expenditures per capita because 63.3% of the budget is the general fund. Apache County is an anomaly in that its population is the sixth smallest but its general fund spending per capita is the lowest in the state and its total spending per capita is second lowest; however, 68% of the County is designated as Indian reservation, which limits the taxing authority of the County.

Ben Nowicki

County	Population
Apache	70,591
Cochise	129,518
Coconino	129,849
Gila	52,199
Graham	37,045
Greenlee	8,041
La Paz	20,012
Maricopa	4,023,132
Mohave	194,825
Navajo	112,975
Pima	1,020,200
Pinal	340,962
Santa Cruz	43,771
Yavapai	215,686
Yuma	196,972
Total	6,595,778

Source: U.S. Census Bureau

Table 5 *Arizona's Population by County as of July 1, 2009*

School Bond & Override Election Results

In the November general election, 37 school districts around the state appeared on the ballot seeking additional funding from taxpayers on 43 bond and override questions. Only 20 of 43 school district ballot measures passed. The 46.5% success rate is slightly higher than the 44.4% rate in 2009 but nearly half of the 82.4% rate in 2008. While bonds have perennially fared well, overrides again proved more difficult to attain.

A majority of propositions were in the form of maintenance and operation (M&O) budget overrides, with only eight of 23 passing. Failure of M&O overrides could have significant impact on district budgets as most of the districts were seeking re-authorization. Districts opting to increase capital outlay beyond its limit also saw little success, with only two of seven districts passing. Capital outlay overrides have typically funded new technology upgrades as well as general maintenance on existing facilities. Conversely, 10 of 13 school districts seeking voter approval on bonds were successful. General obligation bonds typically fund new construction and major upgrades on existing facilities.

Most of the ballot measures pertained to Maricopa County school districts, and of the 25 bond and override questions, 16 passed, marking a better success rate in the County than last year. Contrary to last year's results when M&O overrides were less than 50% successful, 63.6% of M&O overrides were approved this election. Six capital outlay overrides were on the ballot in Maricopa County but only one-third were successful. Seven of eight bonds passed in the County, with Gila Bend Unified School District's bonds as the lone failure for the second consecutive year. Outside of Maricopa County, 77.8% of bond and override questions failed, up remarkably from 55.6% last year.