The taxpayer's watchdog for over 75 years

ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 77 NUMBER 3 APRIL/MAY 2017

GPLET Reform Bill Signed

In mid-April, Governor Ducey signed ATRA's first bill of the session to make it through the legislative process, HB2213 *GPLET Reforms; K-12 Taxes,* sponsored by Representative Vince Leach. After negotiating with stakeholders from The League of Arizona Cities and Towns and the developer community, ATRA and bill supporters secured bipartisan support on the bill resulting in unanimous votes in the House and Senate.

See GPLET Reform , Page 2

Kevin McCarthy re-appointed to ASRS

ATRA President Kevin McCarthy was reappointed as a Trustee on the Arizona State Retirement System (ASRS) by Governor Ducey and confirmed by the Senate on April 18. Kevin has served on the board since 2010, presiding as Chairman for the last two years. He was reelected Chairman at the April meeting.

ASRS is a $34 billion pension fund providing retirement for most public employees in Arizona outside of public safety.

Effective Property Tax Rates Down in FY 17

Despite rising property values and tax levies, the Effective Tax Rate (ETR) paid by property taxpayers continued its decline in FY 2017. ETR is the amount paid in taxes relative to the value of the property—or, taxes paid divided by full cash value. During the recession, ETRs spiked, particularly for business property as the value of the residential market collapsed. A recovered real-estate market combined with mild tax levy increases has resulted in decreased property ETRs.

As reported in the ATRA November 2016 newsletter, FY 2017 property taxes grew 4.7% or $326 million, totaling $7.3 billion. The FY 2017 statewide average ETR is 1.18%, meaning for every $100,000 in property value, $1,180 in taxes are due. The ETR for Class 1 business property is roughly double at 2.03% and for Class 3 homeowners is 0.88%.

See Effective Tax Rates Down, Page 4

GPLET REFORM, *Continued from Page 1*

As amended in the House, HB2213 limits the total length of any prospective economic development deal to eight years from twenty-five years if there is any tax abatement period.

The final compromise resulted in restoring the eight-year abatement in exchange for eliminating "the tail"— years nine through 25. In year nine the property is conveyed to the lessee from the government lessor and is added to the property tax roll. The bill also makes technical adjustments to all GPLET deals, improving collection and remittance procedures. The lessee no longer will calculate their own tax and the government lessor is now responsible. Finally, any use of the 2010 grandfathering provision to apply 1996 GPLET rates must be confirmed by the Department of Revenue as being in compliance with the 2010 grandfathering provision.

Arguably the best feature of the compromise in eliminating "the tail" of the GPLET deals is the simplicity and harmony it creates within the property tax system moving forward. Instead of countless properties paying a complicated "in lieu" GPLET which must be separately accounted for and interwoven with public finance formulas, properties receiving abatement deals will go from paying zero to simply joining the tax roll in year nine. Properties paying the GPLET going forward will be few, causing fewer headaches for local governments, county assessors, and county treasurers.

As lawmakers came to better understand the GPLET program, it became clear they agreed with ATRA's contention that GPLET deals as currently constructed were both unfair to taxpayers as well as the local governments who depend on property tax revenue. Getting the bill across the finish line was due in no small way to the leadership of Rep. Vince Leach, who shepherded the bill through and ensured stakeholders had a voice in the debate. The amended bill passed both the House and Senate without a single 'No' vote.

As passed, HB2213 enjoyed support from: ATRA, NFIB, AZ Free Enterprise Club, The League of AZ Cities and Towns, Centurylink, TEP, Apollo Education Group, The Education Finance Reform Group, Goldwater Institute, NAIOP, Valley Partnership, AZ Rock Products Assn, AZ Builders' Alliance, Arizona Small Business Assn, AZ Multihousing Assn, Americans for Prosperity and Cities of Tempe and Tucson

HOW DID WE GET HERE?

- Early 80's: Some cities begin aggressively using their tax exempt status for economic development
  - 1985: Legislature creates Possessory Interest Tax (PIT), exempts all existing deals from tax
  - 1993: Court strikes exemptions as unconstitutional
- 1996: Legislature creates GPLET, replaces PIT
  - Create an "excise" tax, not *ad valorem* tax
  - Exempts all existing deals (again)
  - Rates drop every 10 years by 20% until zero
  - Unlimited in length, hence 75 or 100-year deals
- 2010: Legislature reforms GPLET
  - Increased rates; aligned closer to property taxes
  - Limits deals to 25 years; defined business districts
  - Prospective 10-year grandfather window provided

ARIZONA TAX RESEARCH ASSOCIATION
Steve Barela……Chairman
Kevin J. McCarthy……President
Jennifer Stielow……Vice President
Sean McCarthy……Senior Research Analyst
Kathleen Farnsworth……Office Manager

Published by the Arizona Tax Research Association, a nonprofit organization whose purpose is to promote efficient and effective use of tax dollars through sound fiscal policies. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Research

1814 W. Washington Street
Phoenix, Arizona 85007
(602) 253-9121

www.arizonatax.org

AZ's Tax Freedom Day Apr 15

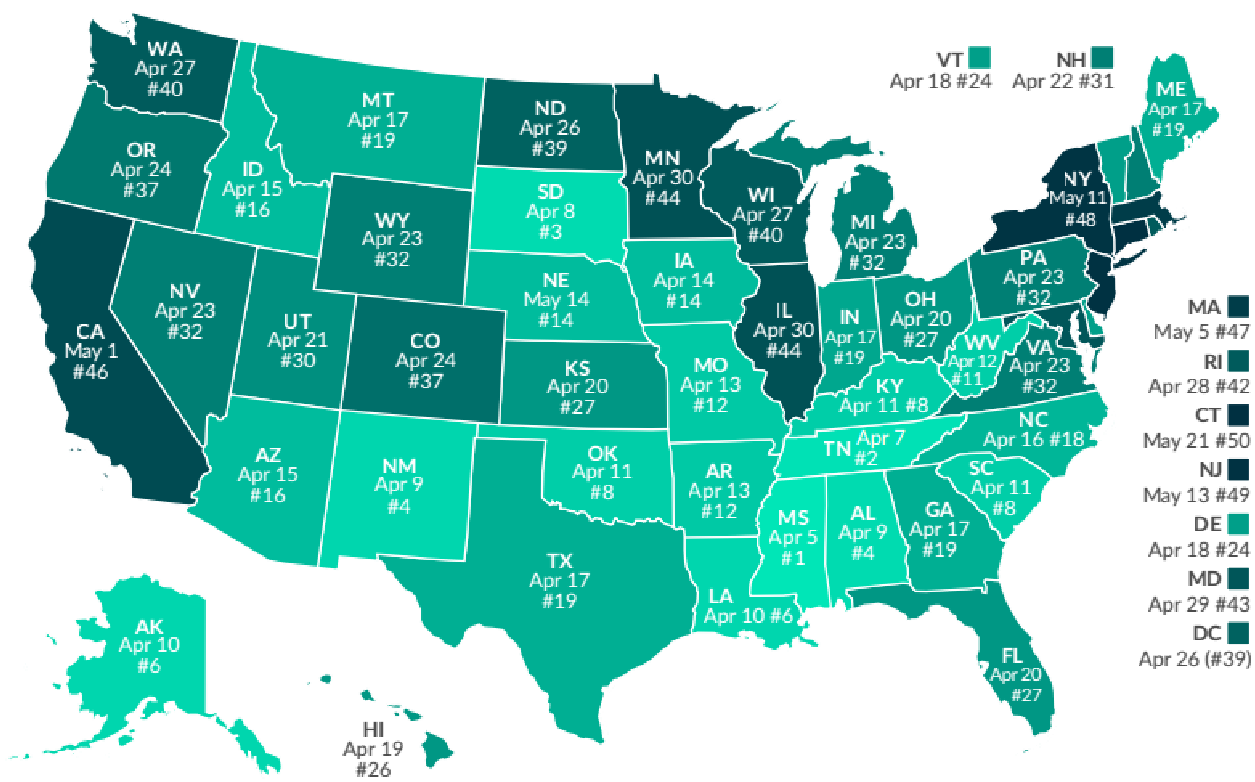
According to the *Tax Foundation*, Arizona ranks 16 in the nation for earliest tax freedom day, which is the day "when taxpayers have collectively earned enough money to pay their federal, state, and local tax bill for the year." States with higher incomes and higher taxes tend to have a later tax freedom date.

The tax freedom day has changed over time but has typically fallen in mid-April since the 1960's. The latest calendar date for the national tax freedom day using the *Tax Foundation's* methodology was in 2000, where it extended to May 1.

The national date is calculated by dividing all taxes owed to all levels of government by the *Bureau of Economic Analysis'* net national income. The same is done for each state individually. Per the *Tax Foundation,* federal taxes amount to $3.5 trillion in 2017 while state and local taxes will reach $1.7 trillion, which totals to 31% of national income. Taxes paid to small special districts and many user fees, which are often not counted into overall tax collection studies, are not factored in this study.

FIGURE 2.

When Does Tax Freedom Day® 2017 Arrive in Your State?



Notes: Each state's Tax Freedom Day® is the day when taxpayers in the state have collectively earned enough money to pay their federal, state, and local tax bill for the year.
Source:Tax Foundation, *Tax Freedom Day® 2017*

When Tax Freedom Day Arrives

Earlier Later

EFFECTIVE TAX RATES DOWN, *Continued from Page 1*

There are two primary reasons for the drop in the ETR. First, property valuation law changes under Prop 117 continue to demonstrate benefits to taxpayers. The 5% limitation on the growth of taxable property value has reduced the growth in tax levies relative to historical trends. FY 2017 property tax levies grew at nearly half the rate of past era's with similar growth. Over the last 25 years, when values grew more than 3%, tax levies increased an average 7%.

The second reason for the continued drop in ETRs is a series of reforms which reduced the assessment ratio for business classes of property. This has the effect of removing taxable value from the system which lowers ETRs. For decades, Arizona has ranked high for business property taxes and as a result, has subsidized residential property taxes. Lawmakers phased in half-percent assessment ratio reductions for business property from 25% to 18% over ten years. FY 2017 was the final year of the phase down. Class two agricultural property and vacant land also reduced from an assessment ratio of 16% to 15%. The ETRs in these classes of property all noticeably declined in FY 2017.

ATRA models property tax data to break down property taxes paid by class of property in order to determine ETRs, visualize tax shifts and understand historical trends. ATRA is the only organization which compiles all property tax information by class of property and by each subjurisdiction of the

2016 Effective Tax Rates

Class	Type	Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Total	Effective Rate
1	Business, industrial, telecomm, utility, mines	122,447,516,032	21.11%	2,484,612,711	36.36%	2.03%
2	Agricultural, vacant land, golf courses, nonprofits	25,477,419,293	4.39%	360,648,744	5.28%	1.42%
3	Owner occupied residential	287,636,060,921	49.58%	2,536,572,803	37.13%	0.88%
4	Rental residential; nonprofit residential	135,291,866,106	23.32%	1,375,959,879	20.14%	1.02%
5	Railroads & flight property	1,837,053,248	0.32%	30,622,616	0.45%	1.67%
6	Historic prop; FTZ; enviro tech; (more)	7,107,704,240	1.23%	43,034,526	0.63%	0.61%
7	Comm historic property	29,824,808	0.01%	540,988	0.01%	1.81%
8	Rental residential historic property	16,763,245	0.00%	108,562	0.00%	0.65%
9	Possessory interests; leased churches & charters	328,904,821	0.06%	375,150	0.01%	0.11%
Total		580,173,112,714	100.00%	6,832,475,980	100.00%	1.18%

2015 Effective Tax Rates

Class		Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Total	Effective Rate
1	Business, industrial, telecomm, utility, mines	112,658,496,856	21.08%	2,437,572,693	36.64%	2.16%
2	Agricultural, vacant land, golf courses, nonprofits	23,148,827,697	4.33%	392,352,930	5.90%	1.69%
3	Owner occupied residential	269,066,831,676	50.36%	2,472,306,815	37.16%	0.92%
4	Rental residential; nonprofit residential	121,015,087,115	22.65%	1,277,303,304	19.20%	1.06%
5	Railroads & flight property	1,808,910,076	0.34%	33,713,452	0.51%	1.86%
6	Historic prop; FTZ; enviro tech; more	6,369,484,730	1.19%	38,942,290	0.59%	0.61%
7	comm historic property (portion)	28,157,431	0.01%	589,456	0.01%	2.09%
8	rental residential historic property	14,647,784	0.00%	106,892	0.00%	0.73%
9	Possessory interests; leased churches & charters	212,063,078	0.04%	264,791	0.00%	0.12%
Total		534,322,506,443	100.00%	6,653,152,622	100.00%	1.25%

Difference

Class		Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Total	Effective Rate
1	Business, industrial, telecomm, utility, mines	9,789,019,176	0.02%	47,040,018	-0.27%	-0.13%
2	Agricultural, vacant land, golf courses, nonprofits	2,328,591,597	0.06%	(31,704,185)	-0.62%	-0.28%
3	Owner occupied residential	18,569,229,245	-0.78%	64,265,988	-0.03%	-0.04%
4	Rental residential; nonprofit residential	14,276,778,991	0.67%	98,656,575	0.94%	-0.04%
5	Railroads & flight property	28,143,172	-0.02%	(3,090,835)	-0.06%	-0.20%
6	Historic prop; FTZ; enviro tech; more	738,219,510	0.03%	4,092,236	0.04%	-0.01%
7	comm historic property (portion)	1,667,377	0.00%	(48,468)	0.00%	-0.28%
8	rental residential historic property	2,115,461	0.00%	1,671	0.00%	-0.08%
9	Possessory interests; leased churches & charters	116,841,743	0.02%	110,360	0.00%	-0.01%
Total		45,850,606,271	0.00%	179,323,358	0.00%	-0.07%

Note: Model does not capture levies from small special districts state. The model is capable of demonstrating the effect of various hypothetical policy changes such as altering property assessment ratios, changing various statewide tax rates or changing the state homeowner rebate for education.

While the real estate market has mostly recovered from the Great Recession and property tax levies are at historical highs, the total full cash value of Arizona properties still remains roughly $100 billion below the 2009 high watermark. In particular, the value of vacant land remains below pre-recession peaks and the total value of residential property is 12% below the 2009 peak.

-Sean McCarthy

Gov Ducey Signs 3 ATRA Bills

Three ATRA bills have crossed the legislative finish line and were signed by Governor Ducey. In recent weeks, ATRA was able to negotiate compromises with stakeholders on two bills which secured their passage while HB2286, a truth-in-taxation bill, sailed through without opposition. The first bill was ATRA's GPLET reform bill discussed on page one, which was signed in the second week of April.

HB2286 *truth-in-taxation; increase; notice,* sponsored by Representative Brenda Barton, simplifies the Truth-in-Taxation (TNT) notice required of taxing entities proposing an increase in property taxes. HB2286 makes the TNT message clearer for taxpayers by requiring the tax example in the notice show how much the taxes would be on a home valued at $100,000 both with and without the tax increase. HB2286 also extends the same oversight of the TNT requirements by the Property Tax Oversight Commission (PTOC) that currently applies to counties, community colleges, cities and towns to the operating levies of countywide special taxing districts. The bill passed the Senate 25-3 and was signed by the Governor last week.

The final ATRA bill to become law was HB2011 *bonds; levy; net of cash* sponsored by Representative Ugenti-Rita. HB2011 clarifies existing law related to secondary property tax levies, requiring that they be net of all cash in excess of 10% of the amount necessary for debt service payments in the following year. As amended, session law allows cities that have accumulated large reserves a two-year window to return the excess money back to taxpayers and a six-year window for cities with a population of 500,000 or more (Phoenix). After ATRA negotiated the amendment with the City of Phoenix, the bill easily passed the Senate 25-5. HB2011 was also signed last week.

Several other bills ATRA supported made it to the finish line including SB1123 *state contract lobbyists; prohibition* (Senator Griffin) which codified the ban on the use of contract lobbyists for state agencies which presently is disallowed due to an executive order. SB1062 *property tax oversight commission; continuation* (Senator Farnsworth), SB1326 *telecomm; broadband; accelerated depreciation* (Senator Lesko), and HB2064 *municipal jet fuel excise tax* (Rep. Ugenti-Rita) all were signed into law.

Happily, none of the 13 bills identified as bad for taxpayers passed this session although vigilance is in order as the legislative session is not over.