ATA’s 2012 Legislative Program Moving

The 2012 legislative session is in full-swing and many of ATRA’s key proposals are steadily making their way through the process. Much of ATRA’s legislative program focuses on reforms to the property tax system, as well as transparency in local government budgets and bond elections. In addition, the Governor included two of ATRA’s key issues in her budget proposal this year, which included reforms to the corporate income tax net operating loss carryforward and a task force to study Arizona’s transaction privilege tax (TPT) system.

The following are brief descriptions and the most recent legislative actions on ATRA’s proposals:

SCR1025 Property tax assessed valuation; limitation (Yarbrough)

ATRA’s constitutional amendment for the 2012 general election ballot will limit the annual growth in the limited property value (LPV) of locally assessed property to 5%, which cannot exceed the full cash value (FCV). The assessor will continue to establish the FCV on property based on its market value; however, for taxing purposes, the LPV will be the only taxable value (will require enabling legislation in 2013). In order to avoid any inequities between comparable properties, the assessor will continue to establish the LPV based on the existing “Rule B” methodology, which is based on the relationship between the assessed values of similar property compared to their market values.

ATRA believes that placing a reasonable limit to the growth in locally assessed property values will increase the stability of Arizona’s property tax system by providing greater predictability for both government and taxpayers. If passed by the voters at the 2012 ballot, this constitutional amendment will be effective for tax year 2015 in order to provide ample time to enact applicable conforming changes. Passed the Senate on a 20-9 vote. Awaiting committee assignment in the House.

SB1279 Personal property tax; computer software (Yarbrough)

ATRA’s legislative proposal will reverse the current efforts by certain county assessors to extend the personal property tax to “application” software. ATRA’s position on the taxation of “application” software, as opposed to “operational” software dates back to a 1977 Court of Appeals case and reiterated by a 1996 superior court case decision, which stated that “application” software is not subject to the personal property tax. Passed the Senate with a vote of 28-1 and unanimously out of the House Ways & Means Committee. Currently awaits House COW.

Statewide Debt Grew $908 Million in FY 2011

Continued Shift to Non-Voter-Approved Debt

Total debt for all of the state’s political subdivisions increased $908 million (2.2%), to $42.8 billion, from fiscal year (FY) 2010 to FY 2011, according to the Arizona Department of Revenue’s (Department) annual report of bonded indebtedness. The annual relative growth is the smallest in more than a decade; however, over the last five years, total bonded indebtedness has grown $13.9 billion (48.3%).

In addition to the growth in state and local indebtedness, another major notable trend is the movement towards more non-voter-approved debt. In FY 2001, voter-approved debt made up 38% of total statewide indebtedness. Over the course of a decade, voter-approved debt has shrunk to 25% of total statewide indebtedness. The shift is the result of a 166% increase in non-voter-approved debt since FY 2001, compared to just 49% growth in voter-approved debt.

Arizona’s 91 cities collectively held the most debt of all jurisdictions, with 39% of the total debt load in FY 2011. Following the cities with 24% of total debt are state agencies, trailed loosely by school districts and other jurisdictions, both at 11%. Debt growth was the highest in special districts at 11%, while two jurisdictions, counties and state agencies, had collective decreases in debt.

The Department’s report is a compilation of data provided by the counties, community colleges, cities and towns, school districts, and other political subdivisions throughout Arizona. The debt reported includes principal amounts only, excluding all interest payment obligations.

VOTER-APPROVED DEBT VS NON-VOTER-APPROVED DEBT

Voter-approved indebtedness is primarily General Obligation (G.O.) bonds. In addition to the
HB2608 Assessed valuations; audit (Mesnard)

This ATRA proposal will allow the Department of Revenue (Department) to sample audit the new construction assessed valuations in county levy limitations. Currently, there is no review as to whether the property values reported in the levy limit worksheets by counties are accurate and this legislation would allow the Department to audit those values if it appears that there may be inaccuracies in those calculations. This legislation also requires local governments to use the final values published on February 10th for setting tax rates in August unless adjustments are approved by the Property Tax Oversight Committee. The reason that the February 10th numbers are so important is because local jurisdictions publish their truth-in-taxation (TNT) notices to taxpayers in the event that the jurisdiction is proposing a tax increase. Changing the value of the jurisdiction would change the TNT rate calculation that taxpayers were originally noticed on, ultimately nullifying the TNT publication. Passed House Ways & Means unanimously and now awaits House COW.

SB1084 Income tax; net operating loss (Reagan)

ATRA’s legislative proposal extends the current five-year limit on net operating loss (NOL) carryforwards to 20 years, same as federal law, for losses arising in tax years beginning from and after 12/31/2011. Arizona is currently only one of five states that have an NOL carryforward as low as five years, whereas the majority of states conform to federal law at 20 years. Conforming Arizona’s NOL carryforward to federal law would assist in attracting new businesses to our state, as well as benefit existing Arizona corporations that are looking to expand. This legislative proposal received unanimous support in the Senate and is also included in Governor Brewer’s 2012 Tax Reform Proposal package. Currently awaits House committee assignment.

HB2621 Local government budgets; posting; content (Lesko)

ATRA’s proposal requires counties, cities, and community colleges to include the following information in their budgets: 1) number of full-time equivalents (FTE’s); 2) total salaries; 3) employer retirement costs; 4) employer health care costs; and 5) all unencumbered cash, both restricted and unrestricted, from all funds. In addition, community colleges and fire districts will be required to publish their budgets on their official websites for a minimum of five years (conforms to the current requirements of counties and cities). Passed the House with a vote of 56-1.

HB2760 Publicity pamphlets; bond elections (Olson)

ATRA’s legislative proposal requires local governments to provide a deadline for the submission of arguments on bond and override elections in a public meeting. In addition, the deadline must be published in a newspaper of general circulation. ATRA believes it’s important to allow all taxpayers the opportunity to participate in the process of submitting arguments on bond and override measures. Passed the House with a 41-14 vote.

HB2564 Special districts; secondary levy limits (Olson)

ATRA legislative proposal to place levy limitations on the following countywide special districts: Library Districts, Public Health Services Districts, and Jail Districts. These countywide special district levies should be limited to the same percentage growth as the annual increase in the county’s primary levy limit. Never assigned to a committee in the House.

City Sales Tax Reform

Arizona businesses are burdened with the most administratively complicated sales tax system in the country. Much of that burden is grounded in Arizona’s independent municipal sales tax structure that allows cities to levy taxes on a different tax base than the state as well as collect and audit those taxes independently of the state. ATRA is currently involved, in conjunction with representatives from the Arizona League of Cities and Towns, in an exhaustive review of Model City Tax Code (MCTC). That review is targeting differences in the MCTC in order to eliminate differences across Arizona cities.

ATRA’s ultimate goal is to create a uniform state and local sales tax base. A uniform base would dramatically decrease the fiscal compliance costs for both business and state and local government. This is a major undertaking and interest in reforming the system among lawmakers has been growing. In fact, the Governor included the creation of a TPT Simplification Task Force as part of her 2012 Tax Reform Proposals. The purpose of the Task Force will be to study ways in which the state can simplify the TPT, reduce taxpayer confusion, and improve compliance and efficiency.
requirement that they be voter-approved, it has been interpreted by the Arizona Courts to be primarily the debt that counts toward the constitutional debt limits of the various jurisdictions. G.O. bonds are backed by the full faith and credit of the jurisdiction and the debt service is typically financed from property taxes. Special assessment bonds typically fund projects that benefit a group of taxpayers located in a special district. The bonds are secured by tax revenue levied against properties in the district. Special district bonds are subject to voter approval.

**Revenue bonds** differ from G.O. bonds in that they are secured by revenues generated by the issuing jurisdiction’s activities, usually other than property taxes. These bonds may or may not require voter approval and are not subject to any debt limitations. **Certificates of Participation (COPs)** are proportional shares in annually appropriated long-term leases. COPs are not subject to voter approval or debt limits. **Municipal Property Corporation (MPC) bonds** are issued by non-profit corporations to finance projects, which are then leased to the political subdivision. These bonds are secured by lease revenue from the jurisdiction and are not subject to voter approval or debt limits since the bonds are technically issued by the non-profit corporation and not the political subdivision. Lastly, **impact aid revenue bonds** are secured by revenues received from federal programs reimbursing schools for loss of traditional revenue as a result of federal activity. These bonds are not subject to voter approval or a debt limit.

The debt report also notes outstanding **lease purchase contracts**, which are agreements between two parties in which the purchaser agrees to purchase property after leasing the property for a specified amount of time. Lease purchase contracts totaled $938.6 million in FY 2011, down from $980.7 million in FY 2010. These contracts are also not subject to the constitutional debt limits and do not require voter-approval.

Since FY 2001, total debt has grown 122%, with increases in MPC bonds (1,134%), COPs (424%), revenue bonds (96%), and special assessment bonds (81%), whereas G.O. bonds increased only 49%, which was the slowest-growing debt instrument. This growth pattern led to a shift from voter-approved debt to non-voter-approved debt. Consequently, MPC bonds have gone from 3% of total debt to 16% in the last ten years and COPs are up to 10% of total debt from 4%.

The growth in FY 2011 was mainly driven by increases in MPC bonds and revenue bonds, which grew $569 million and $542 million, respectively. All other debt instruments dropped $202 million collectively. G.O. bonds, in particular, fell $80 million (0.7%), along with COPs at $95 million, special assessment bonds at $18 million, and impact aid bonds at $9.2 million.

**COUNTIES**

In FY 2011, total debt for counties decreased $20.1 million (1.5%), from $1.37 billion to $1.35 billion, despite a $30.8 million increase in G.O. bonds in Pima County. The increase in G.O. bonds was overwhelmingly offset by the $50.9 million decrease in COPs ($5.8 million), revenue bonds ($23.1 million), and MPC bonds ($22.1 million). Including the decrease in the past year, total county debt has increased $526.1 million (64%) since FY 2006. The bulk of the five-year spike was in G.O. bonds ($219 million/94%) and revenue bonds ($364 million/90%). Currently, revenue bonds make up the majority of county debt at $770 million, followed by G.O. bonds ($453 million), COPs ($62 million), and MPC bonds ($61.7 million).
At just under $1 billion, Pima County holds more debt than any other county, holding nearly three-quarters of the county debt total. Pima County’s outstanding debt grew by $1.6 million in FY 2011 to $998 million, driven by a $34.8 million bump in outstanding G.O. bonds. Pinal County had the largest increase in total debt from FY 2010 at $3.7 million (2.4%). Total debt for Maricopa County dropped $11.1 million last year, amounting to a reduction of 7.7%. Maricopa County is responsible for less than one-tenth of total county debt. Five counties—Coconino, Graham, Greenlee, La Paz, and Yuma—do not report any debt.

In addition to holding more debt than any other county, Pima leads all counties with $1,017 in per capita debt. Pinal County is the runner-up with $422 in per capita debt. Of the ten counties that hold debt, Maricopa holds the least on a per-capita basis at $35.

CITIES

The greatest portion of statewide debt is held by Arizona’s cities and towns, totaling $16.7 billion for the 75 debt-bearing jurisdictions in FY 2011, up $502 million (3.1%) from the previous year. The overall growth was primarily the result of a $592 million (9.1%) increase in MPC bonds and a $72 million (27%) jump in COPs, although G.O. debt dropped $208 million (4.5%).

Over the last five years, city debt has risen by 34%, with MPC bonds skyrocketing 145% ($4.2 billion) and accounting for 98% of the total increase in the debt roll. Total city debt currently consists of $7.1 billion in MPC bonds, $4.7 billion in revenue bonds, $4.4 billion in G.O. bonds, $335 million in COPs, and $92.4 million in special assessment bonds.

With almost half of all city debt, Phoenix’s debt load grew $505 million (7.5%) to $7.2 billion. Mesa carries the second largest amount of debt after a $41 million bump up to a total of $1.4 billion. Of the 57 municipalities to decrease debt, Gilbert shaved its debt $49.4 million (8.6%), the largest decrease of all cities.

Cave Creek tops the charts in per capita debt, carrying $12,774 in debt per person. Williams trails Cave Creek with $8,616 in debt per person, edging out Tolleson with $8,143 in per-capita debt. Phoenix placed eighth highest with $4,973 in per-capita debt.

During FY 2011, 23 cities issued new debt at a sum of $1.6 billion, more than half from new MPC bonds issued by Phoenix of $857 million.

COMMUNITY COLLEGES

Total debt for community college districts (CCDs) increased $57.8 million (7.1%) in FY 2011, from $815 million to $872 million, even though Maricopa CCD was the only district to increase debt. Maricopa’s debt climbed from $602 million to $684 million (13.6%) with a new G.O. bond issue for $150 million. G.O. debt grew $66 million (8.5%) to $839 million while revenue bonds dropped $8.3 million (20%) to $33 million. Of the seven CCDs to decrease their debt, Pima’s debt dropped more than any other CCD at $9.5 million (65%), bringing its debt total to $5.1 million. Debt in Mohave CCD was reduced $5.9 million (58%), from $10.2 million to $4.3 million. Approximately 96% of total CCD debt was in G.O. bonds and 4% was in revenue bonds. This year’s increase brings the five-year growth in CCD debt to $285 million (48.6%), primarily because of a $319 million (61%) increase in G.O. debt.

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See Debt, page 5
Of the twelve CCDs, eight carry debt, with Maricopa accounting for 78% of total CCD debt. Arizona Western, which serves Yuma and La Paz Counties, holds $67 million in debt, followed by Yavapai with $44 million in debt. Northland Pioneer, Eastern Arizona, Gila Provisional, and Santa Cruz Provisional do not report any debt.

Arizona Western had the highest debt per full-time student equivalent (FTSE) at $12,976. At $10,768, Yavapai CCD carries the second-highest debt per FTSE, and Pinal CCD is third-highest at $8,187. Maricopa CCD comes in at a close fourth at $8,045.

**SCHOOL DISTRICTS**

In FY 2011, total debt for K-12 school districts increased $60.2 million (1.3%), from $4.69 billion to $4.75 billion. G.O. bonds netted an increase of nearly $70 million, which accounts for the entire increase, while impact aid bonds dropped $9.2 million (19%) and all $410,000 in COPs for J.O. Combs Unified was retired. As of June 30, 2011, 64 school districts reported Class A bonds, totaling $909 million. Reported by 95 districts, Class B bonds, which made up a majority of school debt, totaled $3.8 billion. Impact aid bonds were reported by eight districts and amounted to $38.2 million. School districts in Maricopa County accounted for 76% of all outstanding Class A bonds and 71% of all outstanding Class B bonds.

Since FY 2006, school district debt has grown 23% but only 11% from FY 2001. That is because in 1999, the Arizona Legislature separated G.O. debt for school districts into two classes—Class A and Class B. The former refers to G.O. bonds that were approved before 1999 and are still subject to the constitutional debt limits, which are 30% of secondary net assessed value (SNAV) for unified school districts and 15% of SNAV for elementary and high school districts. G.O. bonds approved after December 31, 1998, known as Class B bonds, are limited to 10% of SNAV for unified districts and 5% for elementary and high school districts. These Class B debt limits were enacted as a result of Students First.

When the new debt limits became effective, G.O. debt was reduced because districts could not incur debt at the same rate and, as a result, hit their debt ceilings much faster. In fact, it took districts until FY 2007 to reach their FY 2001 debt total and that is with 71% growth in SNAV in those six years. Now, since SNAV has plummeted over the last two years, debt limits have dropped dramatically and several districts have debt in excess of their limits. However, these districts are not in violation of exceeding their constitutional debt limits but are prohibited from issuing new debt until their debt capacity grows.

In per-student debt, Yavapai County schools topped all districts at $8,836. Gila County schools garnered $6,545 in debt per student, coming in just higher than Mohave schools and Maricopa schools, at $6,061 and $6,054 in debt per student, respectively. School districts in Graham County ranked the lowest of all counties with only $1,147 in debt per student. Tucson Unified held the most debt of all districts, with $307 million, and Sedona-Oak Creek Unified had the highest debt per student ratio at $52,705. The average debt per student for all debt-holding districts was $5,661, which is up $11 from last year.

**SPECIAL DISTRICTS**

The category of special districts includes taxing districts for fire, public health services, flood, street lighting, irrigation, and many others. Of the 587 special districts on June 30, 2011, only 161 of the districts reported debt.

Over one year, special district debt grew by $169 million (11.2%) to $1.67 billion, which included $167 million of new debt. The increase is the result of outstanding revenue bonds jumping 36% to $808 million. G.O. bonds, special assessment bonds, COPs, and MPC bonds all had a collective decrease of $43.7 million, with $31 million in retired special assessment bonds. The five-year growth in special district debt amounts to $754 million (82%).

Revenue bonds now make up almost half of all special district debt, while in the previous year, the revenue bonds accounted for only 40% of total debt. Special assessment bonds and G.O. bonds each made up a quarter of special district debt, at $422 million and $411 million, respectively. Together, COPs ($30 million) and MPC bonds ($3 million) made up 2% of total debt.

**STATE AGENCIES AND UNIVERSITIES**

In FY 2011, there were 116 reporting state agencies, not including universities, of which only seven reported debt. Those seven agencies had debt totaling $9.96 billion, which is down $78 million from last year. The Health Facilities Authorities had the most...
outstanding debt, with $3.5 billion in revenue bonds. Three-quarters of total state agency debt was in revenue bonds with the remainder in COPs. State agencies use COPs and revenue bonds because of constitutional limitations. Since FY 2006, debt for state agencies has grown $4.3 billion (77%).

Debt for Arizona’s three state universities grew $20.3 million (0.8%) in the last year, from $2.512 billion to $2.532 billion. COP debt actually fell $27.4 million but was offset by a $47.7 million increase in revenue bonds. The only university to grow its debt was Arizona State University, which broke the $1 billion mark, equating to a 4.9% increase. The growth is attributed to a $57 million increase in revenue bonds. The University of Arizona, which holds the most debt at $1.1 billion, dropped its total debt $613,000 even with a $15 million increase in revenue bonds. Northern Arizona University’s debt fell 6% and was the only university to see a decrease in revenue bonds. Collectively, university debt has grown $807 million (48%) since FY 2006.

OTHER JURISDICTIONS

Other jurisdictions are political subdivisions that do not belong to a particular jurisdiction or cross county lines, like the Arizona Water Conservation District. Debt for other jurisdictions grew by 4.3%, increasing from FY 2010’s total of $4.8 billion to $5 billion in FY 2011. Since FY 2006, more than $2 billion (67%) in debt has been tacked on to the debt total.

SHIFT TO NON-VOTER-APPROVED DEBT

At the county level, G.O. bonds have become proportionally smaller in the last decade, despite 76% growth. Total debt for counties has more than doubled since FY 2001, mainly because revenue bonds nearly tripled during the ten-year span. While G.O. bonds composed 40% of total debt in FY 2001, these bonds now make up 34% of total debt. The composition of revenue bonds is up from 40% to 57%.

One trend that has picked up steam in Arizona’s cities over the last decade has been the shift from voter-approved debt to non-voter-approved MPC bonds. As previously mentioned, city debt related to MPC bonds has grown considerably over the last several years, in an effort by the cities to acquire debt while side-stepping voters. In fact, in FY 2001, MPC bonds accounted for 8.5% of total city debt, while in FY 2011, MPC bonds made up 43% of total city debt. In that time, total city debt has grown 159% in the last ten years while MPC bonds shot up a whopping 1,192%.

G.O. debt, with respect to the total amount of special district debt, is up 288% since the beginning of the decade. Contrary to the debt instruments issued by other jurisdictions, special district debt is shifting toward voter-approved debt, which increased from 13% to 25% since FY 2001. Special assessment bonds also increased in composition relative to the total amount, increasing from 18% to 25% during the same time period.

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