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ARIZONA TAX RESEARCH ASSOCIATION

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Property Taxes Stable as Overall Tax Collections Skyrocket

The collective growth in tax revenues over the last two years has provided the state and its local governments with nearly 20% more in revenue, providing ample cushion in their budgets and fund balances. Individual income taxes have shown the largest increase of over 30%. The passage of the Wayfair/online remote sales legislation in 2019 was perfectly timed, generating 21.5% in sales tax revenues as people were locked down during the pandemic. The growth in property tax revenues, however, reflect more reasonable growth of just 7.4%.

	FY 2019	FY 2021	% Growth
Sales Taxes	\$11,684,689,598	\$14,191,557,512	21.5%
Property Taxes	\$8,211,077,312	\$8,819,313,818	7.4%
Income Taxes	\$5,010,333,489	\$6,534,601,660	30.4%
Totals	\$24,906,100,399	\$29,545,472,990	18.6%

Arizona property taxpayers are experiencing the positive effects of the reforms implemented under Prop 117. With just six years on the books, Prop 117 has provided steady and reasonable growth and has eliminated most of the uncertainty that existed prior to 117.

Moving from a property tax system that taxed the market value of property to the Limited Property Value (LPV)

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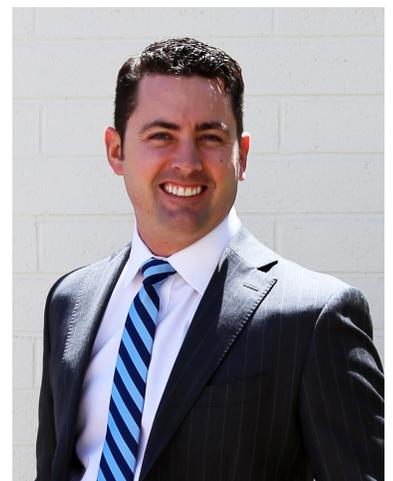
Sean McCarthy Departs ATRA for House Staff

ATRA Senior Research Analyst Sean McCarthy recently stepped down from his position at ATRA. Sean accepted a position as a Senior Policy Advisor in the Arizona House of Representatives.

Sean's departure wraps up seven and half years of service ay ATRA where he served as the organizations K12 and Community College finance expert as well as general taxation.

In his time at ATRA, Sean authored many important studies in the area of personal income taxes, tax increment financing, university tax free zones, as well as many K12 finance studies. Sean also authored a comprehensive book on Arizona's school finance system.

Commenting on Sean's service to the organization, ATRA President Kevin McCarthy said "Sean was a great asset to ATRA and was a key part of our team for the last 7 years. He will be missed but we wish him the best of luck with the Arizona House of Representatives."



Local School Bond and Override Questions Bring Mixed Results

Arizona’s school districts asked voters to approve millions in bonds and overrides last November. Of the six districts that requested \$614.5 million in general obligation (G.O.) bonds for capital spending, only half were approved totaling \$193.5 million. Twenty-seven districts statewide asked voters to levy an additional \$163 million each year to fund ongoing operations and capital outlay. With only nine failing, voters will pay nearly \$130 million more in taxes annually to fund the override requests.

School District G.O. Bonds

Although the state provides the funding to build new schools, school districts may seek additional funding through the issuance of G.O. bonds to pay for capital in excess of state standards. G.O. bonds require voter approval and are funded through the levy of secondary property taxes.

The six school districts that requested voters approve \$614.5 million in bonds are all located in Maricopa County. The District requests that failed included Queen Creek Unified, which requested the highest amount at \$286 million, followed by Higley Unified with a \$95 million request, and Cave Creek Unified at \$40 million. Voters in Littleton Elementary, Pendergast Elementary, and Tolleson Union approved \$193.5 million in new bonds.

Selling bonds to fund building construction and renovations makes sense, but many districts utilize some portion of the bond proceeds to pay for short-lived items such as technology, furniture, and equipment. For example, a portion of the Queen Creek bond proceeds would have been directed towards band instruments and uniforms, performing arts and athletic equipment, as well as technology upgrades. It’s questionable whether using the proceeds from bonds that must be repaid over 20 to 25 years to fund short-lived items is the best use of such funds.

BOND REQUESTS									
School District	Current Outstanding				Requested				
	Current bond levy**	Current T.R.**	Outstanding G.O. debt (P)*	Outstanding G.O. debt (P&I)	Bond Request (Principal)	Total Bond Cost (P&I)	Est. Avg. Tax Rate for new bonds	Est. taxes over bond life	
								RD (\$250k)	CM (\$1M)
Cave Creek Unified	\$3,572,006	\$0.1543	\$27,205,000	\$32,444,850	\$40,000,000	\$59,077,000	\$0.1684	\$630	\$4,545
Higley Unified	\$11,644,290	\$1.4460	\$86,925,000	\$106,388,019	\$95,000,000	\$136,955,315	\$0.5719	\$3,413	\$24,574
Littleton El	\$3,222,592	\$1.0392	\$35,305,000	\$45,349,071	\$15,000,000	\$24,600,300	\$0.2892	\$1,783	\$12,837
Pendergast El	\$8,520,421	\$2.0973	\$54,270,000	\$66,629,200	\$53,500,000	\$74,701,002	\$1.0143	\$3,804	\$27,386
Queen Creek Unified	\$14,043,194	\$1.9825	\$129,875,000	\$179,958,550	\$286,000,000	\$444,750,650	\$1.1746	\$8,920	\$64,222
Tolleson Union	\$20,843,334	\$1.4163	\$221,585,000	\$304,436,675	\$125,000,000	\$203,100,000	\$0.5200	\$3,036	\$21,912
TOTALS	\$61,845,837		\$555,165,000	\$735,206,365	\$614,500,000	\$943,184,267			

*Total outstanding debt according to Projected Debt Service and Secondary Tax Rate Impact statements in voter pamphlets.

**Current tax rates & bond levies per Maricopa County adopted tax rates & levies for tax year 2021.

School District Overrides

School districts may ask voters to pay higher taxes to fund maintenance and operations (M&O) and district additional assistance (DAA) overrides.

M&O overrides provide additional funding to support ongoing non-capital expenditures and the maximum amount requested may not exceed 15% of the district’s budget. Duration of the override is limited to seven years and the levy is phased down by one-third in each of the last two years prior to expiration. Since the maximum levy

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is limited to a percentage rather than a specific dollar amount, the annual levy will fluctuate according to the annual change in the district’s budget.

DAA overrides allow districts to exceed their budgets for capital spending and are limited to the lesser of 10% of the district’s M&O budget or a specified dollar amount. The amount approved is levied each year for seven years, same as M&O overrides, except the levy isn’t reduced at the tail of the override.

School District	Current Debt Limitation	debt if approved (Principal)	Over/Under Debt Limitation	New Outstanding G.O. debt (P&I)
Cave Creek Unified	\$812,875,388	\$67,205,000	\$745,670,388	\$91,521,850
Higley Unified	\$325,234,273	\$181,925,000	\$143,309,273	\$243,343,334
Littleton EI	\$75,520,811	\$50,305,000	\$25,215,811	\$69,949,371
Pendergast EI	\$100,878,131	\$107,770,000	-\$6,891,869	\$141,330,202
Queen Creek Unified	\$305,009,957	\$415,875,000	-\$110,865,043	\$624,709,200
Tolleson Union	\$441,515,640	\$346,585,000	\$94,930,640	\$507,536,675
TOTALS	\$2,061,034,200	\$1,169,665,000		\$1,678,390,632

M&O Overrides

Since M&O overrides decline in the fifth and sixth years before being fully eliminated, many districts return to the ballot as early as the fourth year to request reauthorization of existing overrides. Returning to the ballot early provides the districts with multiple opportunities to ask voters for reauthorization prior to any reduction in funding. When voters reapprove the override, the new override simply replaces the existing override without any loss in funding.

All of the 22 school districts that requested M&O overrides were asking for extensions to their existing M&O overrides. Voters approved \$84.8 million in M&O overrides this year in Chandler Unified, Phoenix Union, and Kyrene Elementary, which account for 60% of the total amount requested at the ballot.

M&O Overrides							
County	SDs	Current O/R levy	Current T.R.	Proposed levy*	Est. T.R.	% of RCL	Exisitng O/R
Apache	Round Valley USD	\$1,083,704	0.3174	\$1,390,777	0.3300	15%	15%
Cochise	Willcox USD	\$700,006	0.9263	\$720,000	0.9500	10%	10%
Coconino	Williams USD	\$423,887	0.3467	\$501,458	0.4091	10%	10%
Greenlee	Duncan USD	\$274,855	1.7049	\$290,292	1.8000	10%	10%
Maricopa	Agua Fria Union	\$8,224,436	0.5032	\$8,224,899	0.5032	15%	15%
	Arlington EI	\$294,360	0.1182	\$347,445	0.1244	15%	15%
	Buckeye EI	\$3,134,764	1.1727	\$3,394,411	1.2638	10%	10%
	Buckeye Union	\$3,053,228	0.3448	\$3,402,182	0.3701	10%	10%
	Chandler USD	\$39,862,300	1.1814	\$42,310,001	1.2380	15%	15%
	Ftn. Hills USD	\$1,283,214	0.2263	\$1,330,390	0.2316	15%	15%
	Isaac EI	\$4,470,369	2.6075	\$4,534,363	2.6120	15%	15%
	Kyrene EI	\$13,421,952	0.5563	\$13,980,170	0.5641	15%	15%
	Liberty EI	\$2,093,092	0.6144	\$2,441,484	0.7138	10%	10%
	Litchfield EI	\$9,360,963	0.8495	\$9,370,500	0.8503	15%	15%
	Phoenix EI	\$4,807,065	0.5500	\$4,681,800	0.5355	15%	15%
	Phoenix Union	\$27,243,704	0.4583	\$28,551,254	0.4750	15%	15%
	Roosevelt EI	\$6,601,224	0.9178	\$6,963,400	0.9441	15%	15%
Mohave	Mohave Valley EI	\$808,375	0.3692	\$1,029,080	0.4700	15%	15%
	Maricopa USD	\$4,940,701	1.3504	\$5,122,172	1.4000	10%	10%
	Santa Cruz Union**	\$195,862	0.1486	\$300,240	0.2340	10%	10%
Yavapai	Mingus Union	\$722,858	0.2247	\$804,248	0.2500	10%	10%
	Cottonwood-Oak Creek EI	\$1,109,773	0.4110	\$1,161,077	0.4300	10%	10%
TOTALS		\$134,110,692		\$140,851,643			

Voters in Santa Cruz Valley Union rejected reauthorization of its override for the fourth consecutive year this year. Since Santa Cruz Valley Union was in the last year of its existing M&O override, the district will have to trim its budget as a result of the reduced funding.

Voters also rejected reauthorizations in Augua Fria Union, Buckeye Elementary, Buckeye Union, Liberty Elementary, Litchfield Elementary, Mohave Valley Elementary, and Maricopa Unified.

DAA Overrides

A limited number of districts requested voter approval for DAA overrides, which provide funding for such things as technology upgrades, books, and other short-lived items. DAA overrides allow districts to exceed their general budget limit for capital spending. Four districts asked for extensions to their existing DAA overrides. Those districts imply that the state has failed to adequately fund the districts’ capital needs, despite the fact that the state is currently fully funding DAA. Of the five districts that requested DAA overrides, only one failed. Voters in Fountain Hills Unified voted down the district’s request for \$750k in additional annual funding.

DAA Overrides							
County	SDs	Current O/R levy	Current T.R.	Proposed levy	Est. T.R.	\$ or % of RCL	Exisitng O/R
Apache	Window Rock USD	N/A	N/A	\$499,375	3.7700	\$500k or 10%	no
Maricopa	Ftn. Hills USD	\$740,316	0.1306	\$750,000	0.1306	\$750K or 10%	yes
	Phoenix Union	\$15,134,942	0.2546	\$15,300,600	0.2546	\$15,300,600 or 10%	yes
	Riverside El	\$482,756	0.1113	\$850,000	0.1959	\$850k or 10%	yes
	Roosevelt El	\$4,400,817	0.6119	\$5,134,610	0.6962	\$5,134,610 or 10%	yes
TOTALS		\$20,758,831		\$22,534,585			

Voters Approve \$788 Million in Bonds for Chandler, Gilbert

Two of Arizona’s largest cities received approval from voters to issue \$788 million in new debt to fund their bond programs.

The Town of Gilbert requested the largest amount of \$515 million, which will fund a multitude of projects for streets, transportation, and other infrastructure projects. Based on the city’s estimate, residential property taxpayers will pay \$4,775 over the life of the new bonds and commercial taxpayers \$34,380. Including interest payments over the life of the bonds, the total bond cost is estimated at approximately \$709 million. Approval of the new debt will push the Town to just below current constitutional debt limitation of \$680 million.

Voters in the City of Chandler approved \$272.7 million in new bonds to fund similar projects as Gilbert. Approval of the new bonds more than doubled Chandler’s current outstanding debt, but the City is still well below its current debt limit. Total repayment of the bonds, principal and interest, is estimated at \$355.6 million. Residential property taxpayers will pay \$2,015 over the term of the new bonds and commercial will pay \$14,511.

BOND REQUESTS									
City	Current Outstanding				Requested				
	Current bond levy**	Current T.R.	Outstanding G.O. debt (P)	Outstanding G.O. debt (P&I)	Bond Request (Principal)	Total Bond Cost (P&I)	Est. Avg. Tax Rate for new bonds	Est. taxes over bond life	
								RD (\$250k)	CM (\$1M)
Chandler	\$30,135,014	\$0.8700	\$254,913,248	\$391,429,217	\$272,685,000	\$355,607,433	\$0.3505	\$2,015	\$14,511
Gilbert	\$27,750,000	\$0.9895	\$131,830,000	\$144,266,188	\$515,000,000	\$708,932,233	\$0.7640	\$4,775	\$34,380
TOTALS	\$57,885,014		\$386,743,248	\$535,695,405	\$787,685,000	\$1,064,539,666			

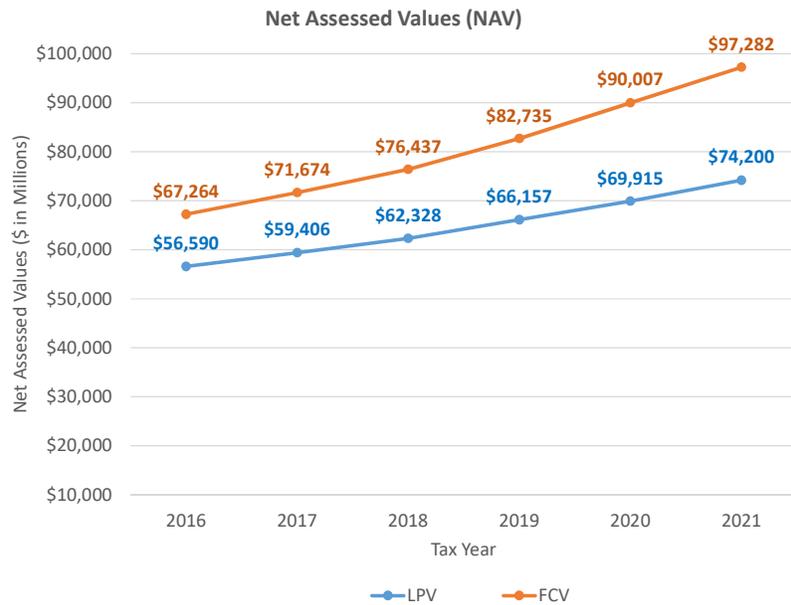
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**Current tax rates & bond levies per Maricopa County adopted tax rates & levies for tax year 2021.

PROPERTY TAXES, *Continued from Page 1*

that is limited to 5% maximum annual growth, Arizona’s property tax system is now much more predictable for both taxpayers when they receive their annual tax bill and local governments that rely heavily on it as a major revenue source.

Over the last five years, although market values (FCV) have grown by an average annual rate of 8.9%, LPV has grown by just 6.2%. This reflects great improvement since the LPV grew at nearly the same rate as the FCV in the old system since the LPV was only limited by 10%, or in some cases, higher. The 5% limit under Prop 117 has limited the annual growth in statewide LPV to reflect more reasonable growth patterns compared to the previous dual-valuation tax structure.



By controlling the growth in statewide taxable values, Prop 117 has also controlled the growth in levies. Over the last five years, total levies have grown 20%, or 4% per year. Primary taxes, which account for the majority of taxes levied at 65%, fund the maintenance and operations budgets of local governments. As a result of the 5% Prop 117 limitation, coupled with the state’s adherence to the truth in taxation laws that keep tax rates lower than they would be otherwise, primary levies have grown 17% since 2016, just 3.4% per year on average.

Secondary levies, on the other hand, have grown by 28% over the last five years, or 4.5% per year. Secondary levies fund voter approved general obligation bonds, K12 budget overrides, and special taxing districts.

Tax Year	Primary	Secondary	Total
2016	\$4,938,785,065	\$2,389,483,977	\$7,328,269,042
2017	\$5,077,107,680	\$2,498,947,880	\$7,576,055,560
2018	\$4,993,083,403	\$2,870,726,238	\$7,863,809,641
2019	\$5,323,167,423	\$2,887,909,889	\$8,211,077,312
2020	\$5,504,573,639	\$3,004,729,390	\$8,509,303,029
2021	\$5,760,593,434	\$3,058,720,384	\$8,819,313,818

The stabilizing effect prop 117 has had on tax rates is reflected in the annual change in the statewide average tax rates over the last five years. The statewide average tax rate is the relationship between statewide levies and net assessed value (NAV). When the NAV grows at a greater rate than levies, the statewide average tax rate decreases. Due to the average annual increase of 6.2% in NAV in contrast to the 4% growth in levies, the statewide rate has declined every year over the last five years.

As Prop 117 was being debated at the ballot, ATRA advocated for the measure knowing that although the 5% limit would only apply to locally assessed property, all property taxpayers would benefit from a more stabilized system. Curiously, opponents to the measure believed Prop 117 would put upward pressure on tax rates, but that certainly has not been the case.

Statewide Average Tax Rate

