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ARIZONA TAX RESEARCH ASSOCIATION

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PROP 117

Perfect Opportunity To Simplify AZ's Property Tax System

Arizona's current property tax system was approved by the voters over 30 years ago in 1980. It is well known that our property tax system is one of the most complicated in the country and the main reason for that is the unique and unnecessary feature of our dual valuation tax structure. Prop 117 will reduce the taxable values on property from two values to one value, which will be limited to 5% annual growth. This is the first time since our current property tax structure has been in place that the statewide full cash value (FCV) and limited property value (LPV) are almost equal, providing a rare opportunity to seamlessly transition to a single valuation tax structure.

Property in Arizona is taxed on its FCV, which should reflect the market value of the property, and the LPV, which tracks the FCV and increases each year by the greater of 10% over the previous year or 25% of the difference between the current year's FCV and the previous year's LPV.

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County Budgets Decline for Second Straight Year

Many counties made modest budget cuts in fiscal year (FY) 2013 as statewide assessed valuations dropped for the third straight year. One trend this budget season was that all of the counties adopted primary tax rates within their truth-in-taxation (TNT) limits. As a result, primary levies dropped collectively as property values continued to decline. Despite the losses in property tax revenue, general fund budgets increased in a majority of counties largely because of the estimated growth in sales tax revenues for FY 2013. Overall, general fund budgets decreased 5.1% and total budgets declined slightly by 2.7%.

General Funds

General fund budgets finance the day-to-day operations and basic services of a county. As a whole, county general fund budgets decreased \$123 million (5.1%) after a negligible reduction last year. Most of the collective decrease is attributable to Maricopa

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ATRA'S ANNUAL GOLF TOURNAMENT

At McCormick Ranch Golf Club, Friday, November 2 @ Noon

&

OUTLOOK CONFERENCE

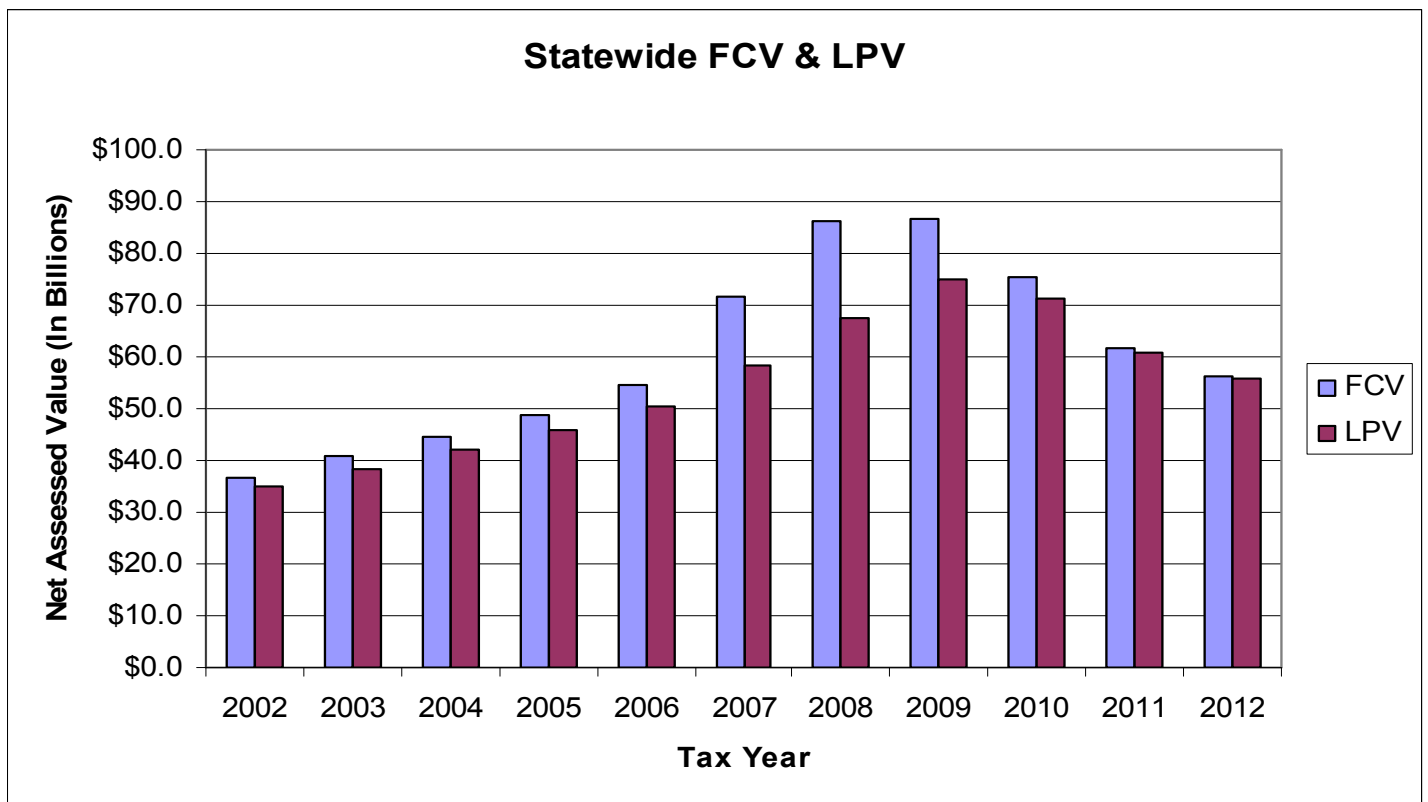
At Hilton Scottsdale Resort & Villas, Friday, November 16 @ 8:30

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Apparently the initial intent of the LPV was to prevent sudden spurts in assessed values. However, that was not the case between 2006 and 2008 when statewide FCV spiked 58.3% and LPV grew by 33.3%. The dramatic increase in values resulted in a 19% increase in overall taxes (26.3% in secondary (FCV) taxes and 14.9% in primary (LPV) taxes) as the result of nearly 150 jurisdictions that chose to keep their tax rates the same and other taxing jurisdictions that failed to adjust their tax rates down enough to fully offset the increase in property values.

This is a narrow window of opportunity that we have to simplify our property tax system without adversely affecting local government budgets. Attempting to implement the reforms that are being proposed under Prop 117 would have been difficult back in 2008, for example, when the gap between statewide FCV and LPV was the largest it has ever been at 22% (\$18.6 billion in value). Since the collapse in the real estate market, those two values currently vary by less than 1%. Since there is virtually no difference between the FCV and the LPV, reducing the taxation of property from two values to just the LPV will have minimal impact, if any, on local government budgets. Additionally, eliminating the complex LPV calculation to a simple and reasonable 5% cap will prevent a repeat of the tax increases that taxpayers experienced in 2007 when values surge in the future.

Property tax systems are judged across the country based on their simplicity, predictability, and transparency, and Arizona’s property tax system fails all three criteria. In fact, our current property tax structure does more to confuse taxpayers than anything else. Simplifying our dual valuation tax structure to a single tax structure will provide greater predictability and transparency for local governments and taxpayers alike.



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County, which lowered its general fund budget by a net of \$120 million (10.4%) after transferring \$159 million of its cash balance to capital projects. Of the five other counties that decreased their general fund budgets, Mohave County led the way with the largest reduction of 12.8% (\$10.8 million); however, much of the decrease was the result of the county drawing down its contingency, nearly half of which was transferred to its jail debt service fund. Apache County had the second largest decrease with a 9% reduction (\$1.5 million), and the remaining counties with reduced general fund budgets experienced decreases of only 1.6% or less. Excluding Maricopa from the analysis, general fund budgets collectively decreased just \$2.7 million (0.2%).

Of the nine counties that increased their general fund budgets, Greenlee County showed the largest increase of 18% (\$1.8 million) as the result of a \$2.5 million increase in its cash balance over last year. Other notable increases occurred in La Paz County with an 11.1% increase (\$1.4 million), which is being held in the county's contingency fund. A significant increase in Graham County's share of the state's sales tax revenue attributed greatly to the 5.7% (\$1 million) bump in its general fund over the previous year.

TABLE 1: General Fund Budgets

	FY 2012	FY 2013	\$ Change	% Change
Apache	\$17,021,306	\$15,488,797	-\$1,532,509	-9.0%
Cochise	\$81,552,007	\$83,964,571	\$2,412,564	3.0%
Coconino	\$67,955,736	\$67,158,299	-\$797,437	-1.2%
Gila	\$46,461,076	\$46,155,010	-\$306,066	-0.7%
Graham	\$19,220,684	\$20,309,658	\$1,088,974	5.7%
Greenlee	\$9,760,765	\$11,514,477	\$1,753,712	18.0%
La Paz	\$12,646,826	\$14,055,366	\$1,408,540	11.1%
Maricopa	\$1,155,761,404	\$1,035,674,136	-\$120,087,268	-10.4%
Mohave	\$84,098,134	\$73,297,582	-\$10,800,552	-12.8%
Navajo	\$38,692,033	\$39,325,245	\$633,212	1.6%
Pima	\$491,653,455	\$492,090,256	\$436,801	0.1%
Pinal	\$190,104,408	\$190,822,498	\$718,090	0.4%
Santa Cruz	\$25,814,499	\$27,108,017	\$1,293,518	5.0%
Yavapai	\$85,772,031	\$88,018,086	\$2,246,055	2.6%
Yuma	\$76,603,524	\$75,367,041	-\$1,236,483	-1.6%
TOTAL	\$2,403,117,888	\$2,280,349,039	-\$122,768,849	-5.1%

Property Taxes

Primary property taxes make up a significant portion of county general fund budgets. While property values were growing dramatically during the last decade, it was common for a county to adopt its maximum tax rate and levy. Now that a quarter of the state's primary property tax base has been stripped from the system since FY 2009, counties have become reluctant to raise property tax rates to account for the loss in value. Last year, nine counties adopted tax rates within their TNT limits despite the 15.1% drop in primary values, which resulted in an overall decrease of \$47 million in primary property taxes. In FY 2013, primary levies fell more than \$70 million for all counties, equaling a 6.8% drop, while primary net assessed value statewide decreased 8.3%. This year's decrease in primary levies, resulting from all 15 counties adopting primary tax rates within their TNT limits, follows last year's trend of reducing tax rates.

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TNT allows a county to adjust its tax rate based on the change in value on existing property that was taxable in the previous year, excluding any growth associated with new construction, in order to maintain the same levy. Six of the counties adopted their TNT rates, while the remaining nine counties adopted the same or lower primary tax rates compared to last year.

	FY 2012	FY 2013	\$ Change	% Change	Max. Levy
Apache	\$2,239,494	\$2,256,361	\$16,867	0.8%	\$2,347,313
Cochise	\$27,585,264	\$27,283,082	-\$302,182	-1.1%	\$29,578,824
Coconino	\$7,783,484	\$7,830,225	\$46,741	0.6%	\$7,985,781
Gila	\$21,695,555	\$19,919,963	-\$1,775,592	-8.2%	\$25,630,846
Graham	\$4,239,565	\$4,361,232	\$121,667	2.9%	\$4,448,356
Greenlee	\$2,169,644	\$2,349,223	\$179,579	8.3%	\$2,396,110
La Paz	\$4,477,787	\$4,250,508	-\$227,279	-5.1%	\$4,250,702
Maricopa	\$477,571,468	\$425,111,491	-\$52,459,977	-11.0%	\$558,192,255
Mohave	\$35,167,076	\$32,602,959	-\$2,564,117	-7.3%	\$36,510,799
Navajo	\$6,140,405	\$6,155,109	\$14,704	0.2%	\$6,488,787
Pima	\$284,023,289	\$275,951,044	-\$8,072,245	-2.8%	\$345,467,646
Pinal	\$86,403,886	\$81,841,628	-\$4,562,258	-5.3%	\$111,253,697
Santa Cruz	\$10,795,615	\$10,425,390	-\$370,225	-3.4%	\$12,617,621
Yavapai	\$38,797,705	\$39,512,311	\$714,606	1.8%	\$46,877,871
Yuma	\$23,442,709	\$22,305,815	-\$1,136,894	-4.8%	\$24,279,139
TOTAL	\$1,032,532,946	\$962,156,341	-\$70,376,605	-6.8%	\$1,218,325,747

The largest decrease in primary property taxes of 11% occurred in Maricopa County, which maintained the same rate as last year. Gila County and Mohave County, which also maintained last year's rates, dropped their primary levies 8.2% and 7.3%, respectively. Pinal County reduced its primary tax rate by 20 cents, the largest rate decrease of all the counties and well below its TNT rate, resulting in a 5.3% decrease in its primary levy. La Paz County, on the other hand, was required to drop its primary levy and rate in FY 2013 as a penalty for levying more than was allowed by law last year.

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	FY 2012	FY 2013	\$ Change	% Change	TNT Rate	Max. Tax Rate
Apache	0.4264	0.4143	-0.0121	-2.8%	0.4143	0.4310
Cochise	2.6276	2.6276	0.0000	0.0%	2.6801	2.8487
Coconino	0.4303	0.4480	0.0177	4.1%	0.4480	0.4569
Gila	4.1900	4.1900	0.0000	0.0%	4.3482	5.2295
Graham	1.8556	2.0874	0.2318	12.5%	2.0874	2.1291
Greenlee	0.7736	0.6213	-0.1523	-19.7%	0.6213	0.6337
La Paz	1.9744	1.8646	-0.1098	-5.6%	1.8998	1.9378
Maricopa	1.2407	1.2407	0.0000	0.0%	1.4172	1.6291
Mohave	1.8196	1.8196	0.0000	0.0%	1.9977	2.0377
Navajo	0.5984	0.6401	0.0417	7.0%	0.6401	0.6660
Pima	3.4178	3.4178	0.0000	0.0%	3.5480	4.2788
Pinal	3.9999	3.7999	-0.2000	-5.0%	4.0574	5.1655
Santa Cruz	2.8215	2.8215	0.0000	0.0%	2.9570	3.4148
Yavapai	1.4305	1.6426	0.2121	14.8%	1.6426	1.9488
Yuma	1.8798	1.8798	0.0000	0.0%	2.0059	2.0461
AVERAGE	1.9657	1.9677	0.0019	0.1%	2.0510	2.3236

County Budgets, *Continued from Page 4*

Although Greenlee County adopted its TNT rate, the county experienced the largest increase of 8.3% as the result of new construction. Graham County followed Greenlee with a 2.3% increase, and Yavapai County with a 1.8% increase, again as a result of new construction.

In contrast to this year's adopted tax rates, 13 counties adopted their maximum tax rates in FY 2008, the year in which Arizona's property values nearly peaked, resulting in a \$72 million increase in primary levies. Of course, since statewide values were on the rise at the time, the tax rates fell in each county. Last year, however, when values had plummeted, only six counties adopted their maximum tax rates.

Secondary property taxes, although separate from general fund budgets, provide additional padding to county general fund budgets. Secondary taxes fund special taxing districts, such as flood control, library, and public health services districts, as well as voter-approved bonds and overrides. Similar to primary property tax rates, despite the drop in property values, secondary tax rates in many counties were held constant this year. Overall, secondary taxes decreased \$20.3 million (6.9%), from \$294.3 million to \$274 million. The largest decrease of 43% was in Apache County, which did not levy a property tax for flood control, in addition to the elimination of the county's secondary override since voters rejected its reapproval. Maricopa had a notable decrease in secondary levies of more than \$9 million (11%), as did Pima, with a decrease of \$4 million (3.4%). Yavapai County, on the other hand, increased its secondary tax rates for the library and flood control districts in order to maintain the same levies from the previous year.

Cash Balances

County general fund cash balances collectively decreased \$118 million (19.5%), from \$604 million to \$486 million. Maricopa drove the large decrease with a \$137 million (36%) drop of its own by shifting \$159 million from the general fund to its Capital Projects fund to finance its pay-as-you-go capital improvement program as noted previously. Excluding Maricopa County, cash balances went up \$19 million, with the largest increase in Greenlee of 227% (\$2.5 million). Pima also had a significant increase in cash, which shot up 24% (\$13 million). The increase in Pima, as was the case in other counties, was from the county shutting down its ALTCS provider, which was privatized last year, and transferring that cash to the general fund.

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	FY 2012	FY 2013	\$ Change	% Change	% of GF-FY 2012	% of GF-FY 2013
Apache	\$4,000,000	\$4,000,000	\$0	0.0%	23.5%	25.8%
Cochise	\$28,416,129	\$30,861,018	\$2,444,889	8.6%	34.8%	36.8%
Coconino	\$25,644,420	\$25,659,330	\$14,910	0.1%	37.7%	38.2%
Gila	\$13,500,000	\$14,243,331	\$743,331	5.5%	29.1%	30.9%
Graham	\$1,359,422	\$1,479,784	\$120,362	8.9%	7.1%	7.3%
Greenlee	\$1,100,000	\$3,596,005	\$2,496,005	226.9%	11.3%	31.2%
La Paz	\$350,917	\$200,000	-\$150,917	-43.0%	2.8%	1.4%
Maricopa	\$384,405,703	\$247,432,960	-\$136,972,743	-35.6%	33.3%	23.9%
Mohave	\$11,134,589	\$11,830,484	\$695,895	6.2%	13.2%	16.1%
Navajo	\$4,000,000	\$4,000,000	\$0	0.0%	10.3%	10.2%
Pima	\$53,651,182	\$66,529,982	\$12,878,800	24.0%	10.9%	13.5%
Pinal	\$39,600,000	\$42,324,779	\$2,724,779	6.9%	20.8%	22.2%
Santa Cruz	\$9,963,139	\$10,611,502	\$648,363	6.5%	38.6%	39.1%
Yavapai	\$9,845,758	\$8,079,147	-\$1,766,611	-17.9%	11.5%	9.2%
Yuma	\$17,258,797	\$15,628,058	-\$1,630,739	-9.4%	22.5%	20.7%
Total	\$604,230,056	\$486,476,380	-\$117,753,676	-19.5%	25.1%	21.3%

County Budgets, *Continued from Page 5*

Santa Cruz County continues to lead all counties with the highest cash as a percentage of its general fund budget at 39.1%. In fact, nine counties in total carry a cash composition greater than 20% of their general fund budgets.

For the second year in a row, La Paz County's cash decreased significantly with a 43% reduction. Only 1.4% of La Paz County's general fund budget is composed of cash. The county's two-year drop reflects an 87% decrease from the FY 2011 balance of \$1.6 million. The only other counties to spend down their cash are Yavapai (18%) and Yuma (9.4%).

Total Budgets

In addition to the general fund, total budgets include special revenue, debt service, enterprise, and capital project funds. Special districts like flood control, library, and public health services make up a considerable portion of special revenue funds.

Total budgets are down \$189 million (2.7%) in FY 2013 to \$6.9 billion. As usual, the \$191 million (5.8%) decrease in Maricopa weighed heavily on the overall decrease. The largest total budget reduction was in Yuma County, which dropped its budget 16.7% (\$48.8 million) mainly by reducing its capital projects and special revenue fund budgets. Yavapai County had the second largest decrease at 8.1% (\$20.9 million), followed by Pinal at 6.3% (\$22.6 million), and Cochise at 6.3% (\$10.8 million). When Maricopa County is removed from the analysis, total budgets actually increased \$1.6 million (0.04%).

	FY 2012	FY 2013	\$ Change	% Change
Apache	\$52,555,247	\$51,492,813	-\$1,062,434	-2.0%
Cochise	\$169,534,449	\$158,782,707	-\$10,751,742	-6.3%
Coconino	\$224,907,504	\$216,743,152	-\$8,164,352	-3.6%
Gila	\$96,045,612	\$96,468,130	\$422,518	0.4%
Graham	\$30,430,376	\$31,890,759	\$1,460,383	4.8%
Greenlee	\$16,911,943	\$21,290,602	\$4,378,659	25.9%
La Paz	\$26,916,805	\$26,965,250	\$48,445	0.2%
Maricopa	\$3,303,148,531	\$3,112,081,596	-\$191,066,935	-5.8%
Mohave	\$268,815,191	\$255,080,903	-\$13,734,288	-5.1%
Navajo	\$113,913,886	\$113,367,385	-\$546,501	-0.5%
Pima	\$1,766,776,771	\$1,891,854,274	\$125,077,503	7.1%
Pinal	\$357,096,950	\$334,515,835	-\$22,581,115	-6.3%
Santa Cruz	\$76,677,132	\$73,370,071	-\$3,307,061	-4.3%
Yavapai	\$257,471,933	\$236,582,755	-\$20,889,178	-8.1%
Yuma	\$291,601,369	\$242,839,540	-\$48,761,829	-16.7%
Total	\$7,052,803,699	\$6,863,325,772	-\$189,477,927	-2.7%

Total Budgets reflect total financial resources.

Of the five counties that increased their total budgets, Greenlee County experienced the most growth at 25.9% (\$4.4 million), mostly because of the increase in its general fund. The \$125 million (7.1%) increase in Pima County's total budget, which was almost entirely in its Regional Wastewater Reclamation Enterprise Fund, partially offset the massive decrease in Maricopa County. This is in stark contrast to FY 2012 when Pima cut its total budget by \$208 million (10.5%).

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