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ARIZONA TAX RESEARCH ASSOCIATION

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## Pima County Tax Increase Aggravates 1% Cap Costs

Failing to convince voters to pass a bond in 2016 to fund its transportation program, Pima County decided this year to instead fund the program with a property tax increase. The 25-cent primary tax rate increase over its TNT rate pushes the county's primary rate to \$4.4596 and causes the overall primary tax rate inside Tucson Unified School District to increase \$0.1654, from \$12.5470 to \$12.7124. The repercussions associated with the increase in Pima County's primary tax rate is an additional \$3 million in 1% cap costs that will be paid by all taxpayers in Arizona, not just Pima County taxpayers.

One of Governor Ducey's first budget priorities in 2015

See **PIMA COUNTY**, Page 5

## Bonds & Overrides Top \$1.2 Billion

Property taxes for K-12 school districts related to bonds and overrides topped \$1.2 billion for FY 2018, a small uptick from last year at \$1.175 billion. After the recession upended taxable values and caused taxes for these programs to drop in 2013, they held steady near \$1.1 billion for several years before climbing again. The peak year for bonds and overrides was 2009 when they hit \$1.3 billion.

There are three types of voter approved levies school districts may refer to their voters: general obligation bonds for capital purchases, maintenance and operations overrides (unrestricted use) and

See **BONDS & OVERRIDES**, Page 4

## Property Taxes Stabilize, Average Rate Drops

County Supervisors approved property tax rates for FY 2018 on the third Monday in August, resulting in a drop in the statewide average property tax rate of \$0.20 per hundred dollars of assessed value. It is the first substantial decrease in the statewide average rate since tax year 2008, a sign of increasing property values and a stabilizing system. Total property taxes topped \$7.57 billion, a 3.3% increase.

Limited property values (LPV) are up 5% statewide. Over the last five years, statewide LPVs rose 14%, with most of that growth coming from urban areas. In counties outside of Maricopa and Pima, values rose just 2.53% over the last five years with several decreasing.

Since Prop 117 became law in 2015, the average growth in the statewide average tax rate has been 0.5% annually

See **PROPERTY TAXES**, Page 2

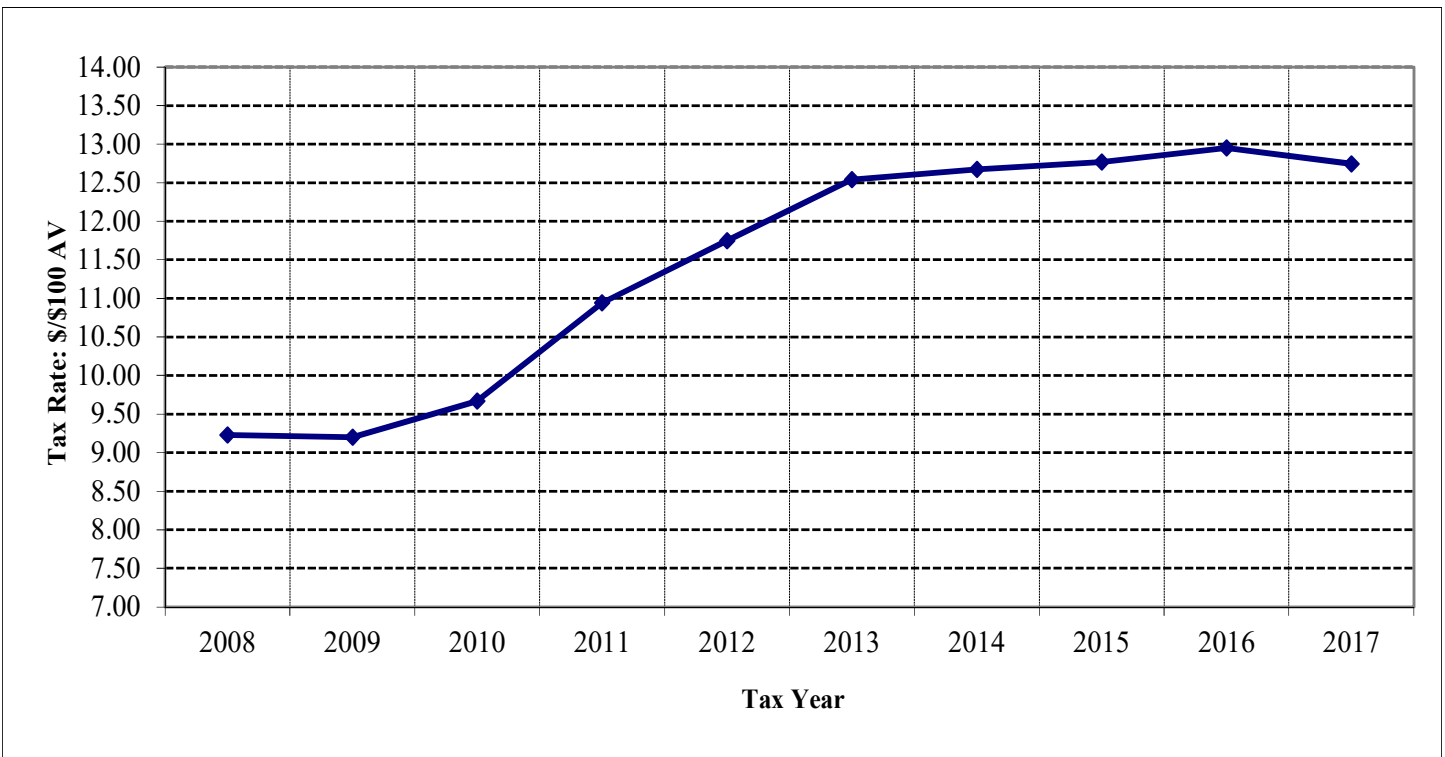
**PROPERTY TAXES**, *Continued from page 1*

with average levy growth of just 3.37%. With three years in the books, it is clear Prop 117 has stabilized valuation growth and levy growth to provide for smoother glide paths in Arizona’s property tax system.

ATRA reported in its July 2017 newsletter that Mohave County was proposing the largest primary property tax rate increase of all the counties at 54 cents. However, Mohave reversed course once it came time to final adoption and instead maintained the same tax rate as last year. Pima County, on the other hand, did not waiver from adopting a primary rate increase of 25 cents over TNT to fund its transportation program. Only four counties—Cochise, Gila, Greenlee, and Santa Cruz, chose not to increase property taxes this year (*See the ATRA July 2017 Newsletter to read more on county property tax increases this year*).

Several school districts in Apache County elected to impose a primary tax rate for K-12 education, a significant departure from past norms. These districts historically leveraged federal impact aid to eliminate the need for the local levy. Red Mesa Unified, Chinle Unified and Ganado Unified all witnessed significant jumps in their tax rates as a result.

The City of Benson shocked its residents with a 43.8% tax rate increase this year and side-stepped a state law requiring a unanimous vote of the board. Amazingly, the City interprets the law to mean that only the four councilmembers that showed up to participate in the vote needed to be unanimous in that decision.



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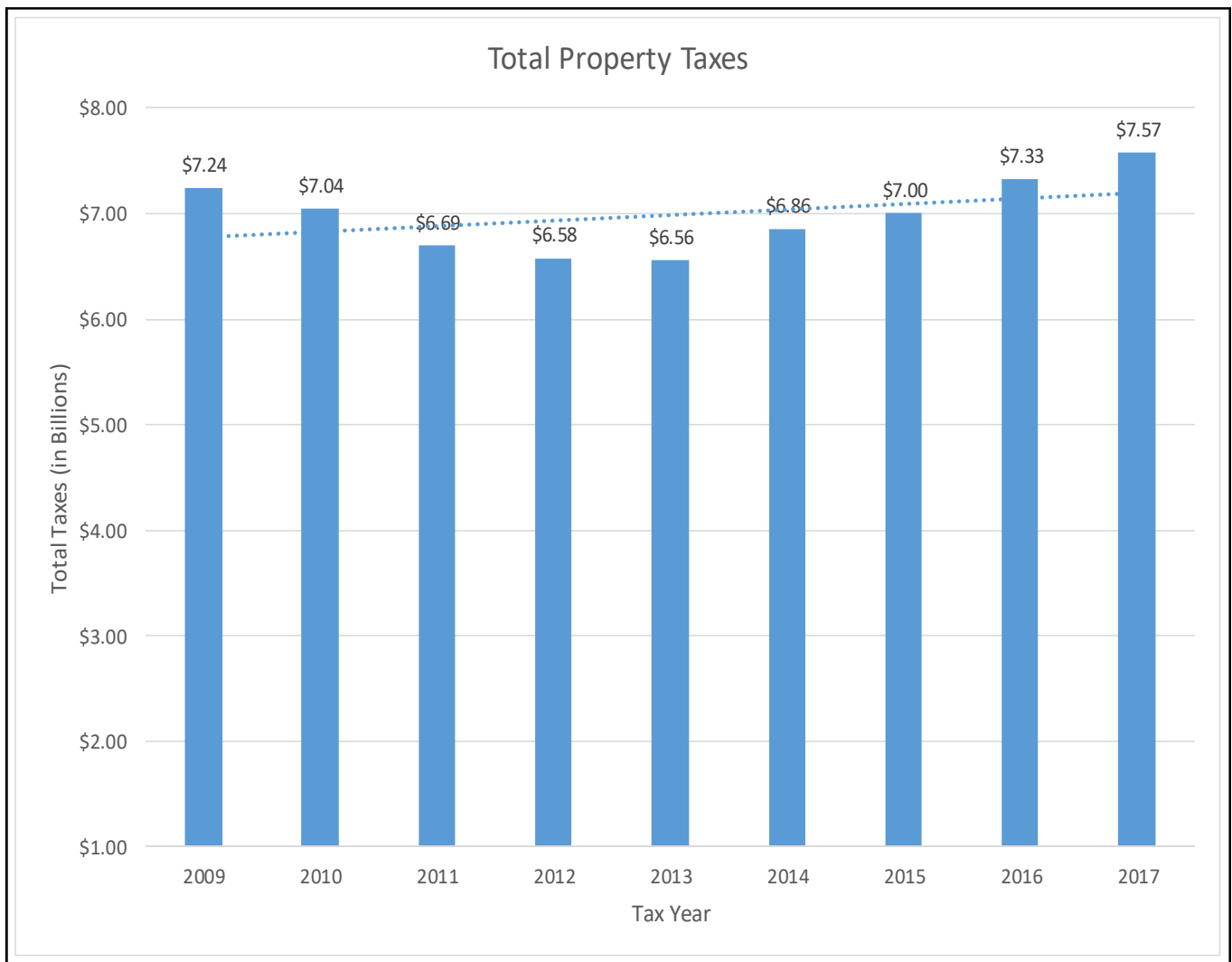
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The Town of Winkelman also raised its primary tax rate from a remarkably high \$4.78 to \$6.86, largely the result of a significant valuation reduction.

The City of Tucson lowered its primary rate 14% to \$0.4581 and its secondary rate 8% to \$0.9761.

The rate for the West-MEC Joint Technological District jumped 111% from \$0.0840 to \$0.1780 because the bond which passed in November increased the debt service payments.

In one positive trend, the vast majority of school district primary rates statewide decreased, which is expected given rising values and the truth-in-taxation laws governing the qualifying tax rate (QTR) described in the ATRA August 2017 Newsletter.



**BONDS & OVERRIDES**, *Continued from Page 1*

district additional assistance (DAA) overrides for capital outlay.

90% of district pupils attend a school district repaying debt service for bonds, which cost \$641.4 million this year. There are approximately 819,785 pupils in 104 school districts with bond payments, using FY 2016 pupil data from the Arizona Auditor General. Bonds typically pay for both hard and soft capital items, as well as transportation needs. They represent a debt to the district which is repaid with interest by the property tax base over a scheduled number of years.

78% of district pupils attend the 95 school districts with an M&O override, totaling \$477 million statewide this year. These tax levies may add up to 15% of a district’s budget and can be spent on any need but is typically used to reduce student to teacher ratios and supplement certified and noncertified staff salaries among other general fund needs. M&O overrides represent, on average, \$654 per pupil to districts who have one.

DAA overrides cost \$81.9 million and they represent \$400 per pupil for the 26 school districts who have them. They tend to be larger districts, representing 225,462 pupils.

	M&O Override	DAA Override	Bonds
<b>Districts</b>	95	26	104
<b>Total</b>	\$477,791,124	\$81,866,436	\$641,434,128
<b>Average Per Pupil Amount</b>	\$654	\$398	\$882
<b>Pupils in Those Districts</b>	702,559	225,462	819,785

The vast majority of bonds and overrides go to school districts in Maricopa County, who ask their voters for more budget increases and historically are more successful in those requests. Despite only having 64% of district school pupils, Maricopa County districts receive 81% or \$975 million of the \$1.2 billion. Specifically, they represent 77% of all bond debt service, 85% of M&O override dollars, and 93% of DAA override dollars.

This lopsidedness is partially explained by the lack of bonds and overrides in Pima County. Notably, the state’s second largest school district, Tucson Unified, struggles to pass overrides because of the high property taxes in Pima County and the long-running Desegregation tax.

In general, bonds and overrides are not as widespread in rural Arizona, particularly southern Arizona. This is partially explained by the Small School Adjustment (SSA), which is a nonformula spending program which allows very small school districts the ability to spend beyond state limits and add an additional and unlimited property tax by vote of the governing board. There is no need for an override for the 50 districts which qualify for the SSA. Historically, none of them have had one.

Discussions in K-12 finance often include funding disparities between various districts and charters. It remains true that school districts without overrides or other nonformula programs spend the least amount per pupil in their general funds. These are districts such as Cave Creek Unified, Sunnyside Unified, Humboldt Unified, Snowflake Unified, several Pinal County districts, and nearly all Mohave and Yuma County districts.

-Sean McCarthy

**PIMA COUNTY**, *Continued from page 1*

was to tackle the 1% cap problem that was costing the state nearly \$20 million at the time. In fact, the FY 2016 state budget included a provision that shifted the majority of the 1% cap payments from the state general fund back to those local governments responsible for the problem. However, a successful court challenge by Pima County voided that reform and also dampened any desire of state policymakers to resurrect the debate (*See ATRA August 2016 Newsletter*).

The constitutional 1% cap was approved by voters in 1980 and caps all homeowner primary property taxes at 1% of value and state law requires the state general fund absorb the overage. Rather than limiting taxes, the 1% cap has had the reverse effect of actually incentivizing higher property taxes, which Pima County clearly demonstrated this year.

In addition to the 1% cap, 47% of homeowner school primary property taxes are subsidized out of the state general fund costing all Arizona taxpayers currently \$386 million annually. In FY 2018, the 1% cap costs were estimated to cost an additional \$24 million, which will now increase to \$27 million with Pima County's tax increase. In essence, Pima County just raised taxes on all the taxpayers in Arizona to fund its transportation program and nothing prevents the County from raising taxes again in the future as long as the county is within its constitutional levy limit.

Clearly, the lack of transparency associated with the 1% cap contributes to its abuse. Governor Ducey understood early on this was a problem that needed to be addressed and further attempts should be made to pass comprehensive reform in this area. If and when that might occur, ATRA will insist that any reform which shifts the responsibility back to local governments provide protection to all local taxpayers.

-Jennifer Stielow

# Save the Date!

## ATRA Golf Tournament:

Nov 3, 12:00 pm

McCormick Ranch

## ATRA Outlook Conference:

Nov 14, 8:00 am

Wigwam Resort