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ARIZONA TAX RESEARCH ASSOCIATION

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Property Tax Hikes Put Outdated K-12 Transportation Formula on Display

Property taxpayers witnessed a nearly \$100 million tax increase this year as a result of a school formula so broken it causes tax increases when schools run their buses less. School districts avoided considerable costs not using their school buses much last year due to the pandemic. Arizona's antiquated transportation formula allows districts to add a local property tax which makes up the difference between their current formula transportation funding (which uses route miles in the prior year) and the highest amount of transportation funding they have ever received. Sometimes referred to as "Transpo Delta," this tax totaled \$79.2 million statewide in 2020. Districts taxed \$178 million this tax year. This \$98.9 million tax increase will hit property taxpayers next month.

As a result of the pandemic, Arizona school districts used their school buses far less last school year. The state Transportation Support Level (TSL) formula is based on route-miles driven in the prior year. State law allows districts to tax for the difference between that and their historic high "or a lesser amount" (TRCL) if their governing board so chooses. Instead of using a small portion of the \$3.7 billion from the federal government for

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Stimulus Swells County Budgets

Arizona's strong economic growth combined with the massive download of federal stimulus dollars leaves county government in its strongest position in years. In FY 2022, county budgets grew by an unprecedented 26%, due in part to the \$1.4 billion assist in federal stimulus dollars. The counties began the fiscal year with \$3.6 billion in unreserved fund balances, which represents 41% of total county budgets. Although counties are flush with reserves, some are hesitant to utilize those funds out of skepticism that the current growth trends are not sustainable.

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Hilton

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pandemic assistance, nearly every school district in the state except a few decided to levy the maximum amount which resulted in the \$98.9 million tax increase.

The FY2021 tax increase associated with the Transpo Delta highlights the absurdity of the existing formula and the resulting taxpayer inequity. Some districts have almost no Transpo Delta tax because their route-mile driven formula in TSL is close to their TRCL. Some have massive amounts, meaning they essentially get more funding than others in relative terms. Districts with lower property value incur abusive tax rates to pay for the Tranpo Delta in some cases.

Santa Cruz Elementary has a relatively small amount of total Transpo Delta monies at \$528k this year, but in an area with low value, the tax rate is an incredible \$4.51 per \$100 of assessed value, which is about 57% of the total statewide average primary property tax rate. In Apache County, Vernon and Concho Elementary both have a Transpo Delta rate near \$2.90. Duncan Unified in Greenlee County has a rate of \$1.95. Page Unified is up to \$1.65. Mammoth-San Manuel Unified in Pinal County is up to \$3.68. There are dozens more with problematic tax rates.

This isn't just a rural phenomenon, though the impact there is considerably worse from a tax rate perspective. Tucson Unified jumped their rate 70% to \$0.38 this year. Laveen Elementary is up 82% for a rate of \$0.33 per hundred. Murphy Elementary has a rate of \$0.26 per hundred. So while taxpayers in areas of higher property value will not see a big change in their tax bills, other areas will certainly notice a difference in their total owed.

One of the reasons this peculiar system remains is many districts benefit from it and there is no simple or elegant solution. For most large districts, they spend considerably more on transportation services than the TSL route-mileage based formula generates. Many of them even spend more than their high-water mark in the TRCL, though there are many who spend somewhere in between the two (per FY2020 audits). In rural Arizona, where ostensibly districts much drive longer ways to reach students, there is quite a range of high and low formula amounts generated.

While in the aggregate, the TSL generates about \$274 per district student as of FY2020, there are 70 districts who generate at least double that amount and 43 districts who generate more than \$1,000 per pupil with the TSL. Roughly half of all school district's TRCL is more than double the \$274 per pupil figure.

Suffice to say, there is no easy way to flip this system into a neat per-student amount that perhaps adjusts for rural or isolated areas without causing considerable financial pain for many districts. It's worth noting that school districts are not required to bus children outside of special education, though many see it as a necessary service and one that helps keep the district competitive. Given that most districts are not financially incentivized to drive more route miles than are necessary—because of the hold-harmless TRCL formula, policymakers can conclude that routes are not inherently incentivized to be run inefficiently.

If lawmakers wish to rework the transportation formula, they will need to acknowledge that the route miles based formula works for many districts, particularly in rural Arizona, whereas a per-student amount would not. The hold harmless Transpo Delta concept is untenable for taxpayers and must be removed, but it may need to be

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	Transpo Delta	FY22 Total	FY21 Total	Change
accompanied with increases to the route-	Apache	4,321,766	4,469,098	(147,332)
miles driven formula to address the	Cochise	6,653,641	4,019,872	2,633,769
discrepancy between the TSL and actual	Coconino	4,041,415	2,277,510	1,763,905
spending. The administrative burden of	Gila	2,154,024	1,454,281	699,743
monitoring and reporting exact mileage	Graham	555,013	522,125	32,888
by moving to a simpler formula may be	Greenlee	434,343	395,346	38,997
attractive to many, which could suggest	La Paz	802,176	567,381	234,794
an optional system where districts choose	Maricopa	80,404,091	34,380,497	46,023,594
the current approach or a per-student	Mohave	5,610,366	2,613,858	2,996,507
amount.	Navajo	5,915,610	2,428,534	3,487,076
	Pima	32,129,980	9,089,105	23,040,875
	Pinal	18,396,714	7,485,029	10,911,685
	Santa Cruz	2,040,688	1,651,256	389,431
	Yavapai	7,088,616	3,692,434	3,396,183
	Yuma	7,634,445	4,249,580	3,384,865
	Total	178,182,887	79,295,907	98,886,981

The federal government provided three rounds of pandemic assistance to public schools totaling \$3.7 billion. They are one-time monies and mostly unrestricted, meaning they can be used for any legal

purpose. The one-time decrease in formula monies for transportation is a perfect example of what federal dollars should backfill. It's not as though this \$3.7 billion can be used for permanent pay raises for employees—it's one-time money.

For most districts, their one-time decrease in formula transportation funding represents a tiny fraction of the federal monies they received. Tucson Unified increased taxes \$10.4 million this year associated with the Transpo Delta and yet they have received a total of \$267.8 million from the federal government for pandemic assistance. For Alhambra Elementary, they increased taxes \$1.2 million when they received \$93.3 million. For Paradise Valley Unified, they increased taxes \$4.2 million when they got \$64.5 million from the feds.

-Sean McCarthy

Stimulus Swells County Budgets, *Continued from Page 1*

Revenues

According to a recent report from the Joint Legislative Budget Committee (JLBC), sales tax collections have grown over the last 15 consecutive months, and by double-digit growth over the last six months. Much of the growth is in retail and remote online sales, and the sales tax revenues from bars, restaurants, and lodging are up compared to 2019 reported revenues. Prime contracting is the only sales tax category that experienced a decline, which is mainly the result of a drop in highway, streets, and bridge construction.

State shared revenues/expenditures

As administrative arms of the state, Arizona's counties will certainly benefit from the growth in state revenues since the state shares its revenues with the counties on a percentage basis. The major state revenues shared with the counties includes TPT (sales tax), highway user revenue funds (HURF), and vehicle license taxes (VLT). In FY

2022, 40.51% of the sales tax distribution base allotted to counties is estimated to generate approximately \$1.2 billion. The state shares a significant portion of its HURF and VLT revenues with counties, which is expected to generate over \$650 million more.

County GF & TF Budgets

County	General Fund (GF)					Total Funds (TF)				
	FY 2021	FY 2022	% Chg.	Fund Balance	% of Budget	FY 2021	FY 2022	% Chg.	Fund Balance	% of Budget
Apache	\$21,767,837	\$22,861,026	5.0%	\$5,000,000	21.9%	\$66,685,143	\$86,737,132	30.1%	\$6,404,263	7.4%
Cochise	\$84,675,999	\$95,376,068	12.6%	\$35,000,000	36.7%	\$187,842,969	\$222,391,550	18.4%	\$98,896,757	44.5%
Coconino	\$67,684,536	\$100,374,563	48.3%	\$32,439,404	32.3%	\$187,713,991	\$276,633,204	47.4%	\$128,089,688	46.3%
Gila	\$58,023,939	\$62,834,052	8.3%	\$24,509,499	39.0%	\$118,695,298	\$115,838,783	-2.4%	\$46,347,519	40.0%
Graham	\$24,167,720	\$27,348,501	13.2%	\$9,204,626	33.7%	\$53,767,027	\$80,480,136	49.7%	\$18,686,224	23.2%
Greenlee	\$14,383,141	\$17,502,679	21.7%	\$8,389,735	47.9%	\$25,727,357	\$30,328,237	17.9%	\$14,089,735	46.5%
La Paz	\$18,916,003	\$16,785,135	-11.3%	-\$3,122,122	-18.6%	\$38,334,831	\$38,745,178	1.1%	\$14,360,171	37.1%
Maricopa	\$1,356,866,912	\$1,468,333,647	8.2%	\$440,118,199	30.0%	\$3,233,482,416	\$3,593,129,268	11.1%	\$1,720,727,729	47.9%
Mohave	\$105,141,475	\$108,328,946	3.0%	\$46,006,178	42.5%	\$339,523,708	\$519,816,812	53.1%	\$158,039,201	30.4%
Navajo	\$47,817,409	\$54,861,662	14.7%	\$22,662,458	41.3%	\$147,160,909	\$176,185,163	19.7%	\$74,138,411	42.1%
Pima	\$617,270,947	\$944,509,643	53.0%	\$415,770,313	44.0%	\$1,422,509,302	\$2,115,600,207	48.7%	\$815,155,242	38.5%
Pinal	\$207,042,987	\$238,822,359	15.3%	\$52,343,767	21.9%	\$570,355,462	\$734,501,764	28.8%	\$271,595,102	37.0%
Santa Cruz	\$29,040,598	\$35,522,430	22.3%	\$13,217,867	37.2%	\$90,503,445	\$111,593,127	23.3%	\$38,328,361	34.3%
Yavapai	\$118,917,077	\$124,809,149	5.0%	\$34,347,620	27.5%	\$298,892,713	\$347,290,247	16.2%	\$115,177,427	33.2%
Yuma	\$103,968,357	\$118,821,283	14.3%	\$47,588,120	40.1%	\$289,195,339	\$460,677,786	59.3%	\$143,028,239	31.0%
TOTALS	\$2,875,684,937	\$3,437,091,143	19.5%	\$1,183,475,664	34.4%	\$7,070,389,910	\$8,909,948,594	26.0%	\$3,663,064,069	41.1%

The state and counties also share in the costs associated with the Arizona Health Care Cost Containment System (AHCCCS) and the largest contribution made by counties is for the Arizona Long Term Care Services (ALTCS) program. Prior to 1997, counties were responsible for the entire amount of the state match to draw down federal funds for ALTCS. Legislation was enacted that year to require the state share in 50% of the growth in ALTCS

costs beginning in FY 1998. In FY 2022, the county's share of ALTCS is \$283.2 million and the state's share is \$236 million.

Net Assessed Values

County	FY 2017	FY 2021	FY 2022	1-yr % Chg.	5-yr % Chg.
Apache	\$453,791,208	\$468,553,759	\$483,626,316	3.2%	6.6%
Cochise	\$909,774,049	\$973,084,452	\$994,800,778	2.2%	9.3%
Coconino	\$1,569,812,808	\$1,929,724,114	\$1,983,519,972	2.8%	26.4%
Gila	\$496,294,071	\$549,382,397	\$561,868,674	2.3%	13.2%
Graham	\$193,098,383	\$223,857,868	\$239,863,655	7.1%	24.2%
Greenlee	\$424,428,003	\$515,942,447	\$477,688,366	-7.4%	12.5%
La Paz	\$200,919,282	\$220,005,082	\$230,605,118	4.8%	14.8%
Maricopa	\$36,135,494,474	\$45,704,969,813	\$48,724,126,672	6.6%	34.8%
Mohave	\$1,696,199,992	\$2,010,693,378	\$2,143,446,200	6.6%	26.4%
Navajo	\$803,062,466	\$882,158,116	\$911,478,089	3.3%	13.5%
Pima	\$7,816,699,760	\$9,140,425,898	\$9,696,150,355	6.1%	24.0%
Pinal	\$2,119,750,925	\$2,689,422,170	\$2,868,880,625	6.7%	35.3%
Santa Cruz	\$309,834,858	\$362,266,917	\$375,427,809	3.6%	21.2%
Yavapai	\$2,344,409,942	\$2,957,724,707	\$3,143,221,200	6.3%	34.1%
Yuma	\$1,116,022,260	\$1,286,552,350	\$1,365,656,741	6.1%	22.4%
TOTALS	\$56,589,592,481	\$69,914,763,468	\$74,200,360,570	6.1%	31.1%

Property Taxes & Special Taxing Districts

Arizona's real estate market is healthy and continues to be a reliable revenue source to fund state and local governments. Since the implementation of Prop 117 in 2015, the annual growth in taxable values has hovered around 5%. Prop 117 limits annual growth on the net

assessed values (LPV) to 5% on only locally assessed property (LAP), which accounts for nearly 90% of the total tax base. On the other hand, centrally valued property (CVP), such as mines and utilities, and all personal property (PP) are taxed at their full cash value. Although CVP and PP don't receive the same 5% limit as LAP, all properties benefit from the overall stability of the system because of Prop 117.

Counties levy both primary and secondary property taxes to fund their operations, which totaled approximately \$1.7 billion in FY 2022. All of Arizona’s counties levy a primary property tax, which account for the majority of the taxes levied by counties. In FY 2022, total primary property taxes levied by the counties was \$1.37 billion, 3.4% more than last year. Of the \$44.6 million increase in primary property taxes, \$28.5 million was the result of new construction and the remaining \$16.1 million was an increase on existing property.

County	Property Taxes			Special District Sales Taxes		
	Primary	Secondary	Subtotal	Jail	PHSD	Total
Apache	\$3,007,672	\$7,387,503	\$10,395,175			\$10,395,175
Cochise	\$26,607,936	\$3,619,604	\$30,227,540			\$30,227,540
Coconino	\$10,274,633	\$14,732,354	\$25,006,987	\$20,068,216		\$45,075,203
Gila	\$23,542,297	\$1,362,580	\$24,904,877			\$24,904,877
Graham	\$6,246,769	\$213,912	\$6,460,681	\$2,252,500		\$8,713,181
Greenlee	\$3,512,443	\$1,312,682	\$4,825,125			\$4,825,125
La Paz	\$5,653,515	\$0	\$5,653,515	\$1,772,325		\$7,425,840
Maricopa	\$655,778,021	\$107,520,440	\$763,298,461	\$196,615,774		\$959,914,235
Mohave	\$39,096,459	\$16,175,268	\$55,271,727			\$55,271,727
Navajo	\$7,748,475	\$4,855,892	\$12,604,367	\$5,430,000		\$18,034,367
Pima	\$375,861,572	\$124,865,666	\$500,727,238			\$500,727,238
Pinal	\$105,861,695	\$7,020,314	\$112,882,009		\$3,642,410	\$116,524,419
Santa Cruz	\$15,210,458	\$2,771,336	\$17,981,794	\$2,400,000		\$20,381,794
Yavapai	\$58,369,618	\$10,158,211	\$68,527,829	\$11,031,719		\$79,559,548
Yuma	\$34,253,402	\$15,252,613	\$49,506,015	\$18,250,150	\$4,069,783	\$71,825,948
FY 2022 TOTALS	\$1,371,024,965	\$317,248,375	\$1,688,273,340	\$257,820,684	\$7,712,193	\$1,953,806,217
FY 2021 TOTALS	\$1,326,422,706	\$306,767,214	\$1,633,189,920	\$221,855,849	\$6,188,758	\$1,861,234,527
% Chg.	3.4%	3.4%	3.4%	16.2%	24.6%	5.0%

All counties, except La Paz County, levy secondary property taxes to fund some special taxing districts, which totaled \$317.2 million in FY 2022. In a few counties, a sales tax is levied rather than a property tax to fund their jails and public health services districts. The amount to fund county special taxing districts totaled \$582.8 million, nearly 9% more than last year, which was mostly due to the growth in sales tax revenues.

Constitutional Levy Limits & TNT

Primary property taxes are subject to constitutional levy limits and truth in taxation (TNT) statutes.

The constitutional levy limits provide counties with 2% annual growth, plus new construction. It is not common for counties to levy up to their constitutional limit, as Coconino County is the only county that currently levies to its maximum.

TNT requires the State and local governments to inform taxpayers of proposals to increase property taxes by publishing notice and voting on the tax increase at a public hearing. The TNT law applies to primary property taxes and to the secondary property taxes levied for jails, flood control, libraries, and public health services districts. In FY 2022, nine counties increased property taxes and were subject to the TNT requirements. The six counties that chose not to increase property taxes on either primary or secondary included Apache, Graham, Greenlee, La Paz, Navajo, and Yavapai.

Expenditures

Public Safety Personnel Retirement System (PSPRS)

Like the state and other local governments, Arizona’s counties have been exploring their options to address the massive unfunded liabilities (UAAL) under the Public Safety Personnel Retirement System (PSPRS). According to

the FY 2020 PSPRS consolidated report, the UAAL for sheriff's deputies under tiers 1 and 2 climbed over \$34 million to \$897.6 million. The counties have utilized different approaches over the last couple of years to address the problem, like extending the amortization period, making lump sum payments, and in some cases, issuing pension bonds.

Debt

According to the *FY 2020 Report of Outstanding Indebtedness*, counties held \$1.34 billion in total debt. Other than general obligation (G.O) bonds that are repaid from voter-approved secondary property taxes, the annual debt service payments for all other debt puts added pressure on county general fund budgets. The largest portion of county debt was in revenue bonds at \$814.2 million and certificates of participation (COP) at \$321.7 million. Pima County held the most in outstanding debt with a total of \$856.5 million and is the only county with G.O. debt, which was reported at \$174.9 million. Pinal County held the second most debt at \$221.3 million in revenue bonds and Maricopa had \$191.7 million in outstanding COP and lease purchase debt. Cochise and Coconino were the only counties that reported no debt.

Employee compensation

Employee compensation accounts for a major portion of county budgets. On average, budgeted employee salaries reflect approximately 70% of total compensation, with the remaining dedicated for retirement and healthcare. In FY 2022, total employee compensation in county general funds was budgeted at \$1.6 billion and \$2.7 billion in total funds.

On average, counties budgeted around \$52,000 in TF salaries per full-time equivalent (FTE). Coconino county ranks the highest at \$61,433 per FTE, followed by Yuma at \$59,744, and Maricopa at \$59,327.

-Jennifer Stielow

Employee Compensation

	TF Salaries/FTE	Rank
Apache	\$44,397	15
Cochise	\$50,760	7
Coconino	\$61,433	1
Gila	\$50,345	8
Graham	\$48,249	11
Greenlee	\$45,802	12
La Paz	\$45,437	14
Maricopa	\$59,327	3
Mohave	\$49,928	10
Navajo	\$50,172	9
Pima	\$52,195	6
Pinal	\$57,244	4
Santa Cruz	\$45,622	13
Yavapai	\$54,163	5
Yuma	\$59,744	2
AVG	\$51,654	