ATRA SUPPORTS HB2338

Placing levy limits that exist for counties, community colleges, and cities on countywide special districts

Background

Secondary property taxes are levied against the secondary net assessed value, which tracks market value, and funds voter-approved bonds, overrides, and special taxing districts.

In previous years when values were skyrocketing, most counties were leaving the tax rates of special districts constant, causing dramatic property tax increases. For example, back in 2007, statewide secondary net assessed values increased at the record rate of 32.1% while total secondary taxes jumped 16%. Considering just the levy growth in the countywide special taxing districts, such as the county library and flood control districts, taxpayers were burdened with paying an additional 14.4% ($32.8 million) over the previous year.

At the same time that secondary taxes grew 16%, primary property taxes grew by less than half that rate at 7.1%. The reason for the limited growth on primary levies verses secondary levies is simple: the primary levies of counties, cities, and community colleges have levy limits. Most secondary taxing districts only have caps on the maximum rate that can be levied against property and are not regulated by levy limits.

ATRA's Recommendations

There has been much debate in previous years to turn Arizona's property tax system upside down with the threat of property tax initiatives being sent to the ballot. ATRA continues to oppose Prop 13-type measures which can cause serious damage to Arizona's public finance system.

In order to prevent taxpayers from unwarranted tax increases in the future, ATRA recommends applying the percent change in the county's constitutional primary levy limit, which is 2% plus new construction, to the countywide special districts in the county. This 2% plus growth formula translated into an average statewide growth rate of 5% in tax year 2010, with a range of 3% to 20% among the 15 counties.

The proposed statutory recommendations in HB2338 are reasonable approaches to prohibiting property value increases from automatically translating into higher taxes. Arizona's property tax system already has many tax limitations in place. Primary property taxes, which fund the maintenance and operations budgets of counties, cities, and community colleges, are limited to 2% plus growth. Secondary taxes levied for bonds and budget overrides are limited in the respect that they require voter approval. In 2009, the Legislature passed legislation that applied reasonable limits to the taxes levied by fire districts for maintenance and operations purposes. The secondary taxes levied for the maintenance and operations of countywide special district budgets are all that remain in Arizona's property tax system that do not have levy limitations.

ATRA asks lawmakers to adopt meaningful secondary property tax limits.

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