



*The taxpayer's watchdog for 75 years*

# ARIZONA TAX RESEARCH ASSOCIATION

## 2016 LEGISLATIVE PROGRAM

### **Introduction/State Budget**

ATRA's legislative program is developed each year with recognition that the Legislature and Governor's highest priority for the session should be passing a state budget that is not only balanced but is sustainable. State law now requires the Legislature, in conjunction with the passage of the General Appropriations Act, to also reflect revenues and expenditures for the following three years. The major issue facing state policymakers is ensuring one-time revenue (rainy day fund and cash balance) is not appropriated for on-going spending.

The development of the Fiscal Year (FY) 2017 budget will be somewhat clouded with the uncertainty surrounding the outcome of Proposition 123 on May 23<sup>rd</sup>. By all accounts, the state general fund is in a better structural position than in recent years. JLBC estimates, presuming the passage of Prop 123, that on-going revenue will meet the projected baseline spending for FY 2017. The base revenue forecast does not include one-time revenues of \$551 million that are estimated to be available for FY 2017 budget deliberations. Interestingly, the collapse of the Arizona state budget during the Great Recession was made considerably worse when, just prior to the downturn in FY 2008, state policymakers used a similar sized cash balance (\$529 million) to fund on-going spending. State policymakers need to resist the temptation to repeat that mistake in the FY 2017 budget.

ATRA will provide updated state budget recommendations to the Legislature after the Joint Legislative Budget Committee (JLBC) and the Office of Strategic Planning and Budgeting (OSPB) have submitted their recommendations for the FY 2017 budget.

### **Taxation**

#### **Property Tax**

Arizona property taxpayers have experienced historic instability over the last 12 years. Following record increases in net assessed values (NAV) from 2003 to 2008, statewide NAV plummeted between tax years 2009 and 2013. However, despite statewide NAV's climbing 5.2% over the last two years, the statewide average tax rate still climbed 23 cents to \$12.77, the highest rate since 1999.

The statewide average tax rate is now up \$3.57 (39%) from the low point of \$9.20 in 2009.

Regrettably, despite recent policy changes aimed at reducing Arizona's very high business property tax burden, the collapse of the residential real estate market during the Great Recession had a particularly negative effect on business property taxes. In fact,

the reduction in residential values resulted in a 22% increase in effective tax rates on business property from 2009 to 2015.

**Prevent greater access to the property tax.** For the 2016 session, ATRA will oppose efforts on the part of Arizona local governments and special districts to increase access to the property tax base. Despite widespread recognition that Arizona's business property taxes are a major impediment to economic development, there is considerable pressure at the Capitol to increase access to the property tax. Among others, Arizona Fire Districts will be seeking increased access to the property tax base through a removal of the current \$3.25 rate cap.

In addition, ATRA will advocate for the continued compliance with the state's Truth-in-Taxation law. Since its passage in 1998, the state has consistently complied with the TNT law. While that rate has both risen and fallen with the fluctuations in the real estate market, ATRA believes adherence to the TNT law is an important principle that will benefit taxpayers over time.

**Property Tax Reform vs. Targeted Property Tax Breaks.** ATRA has led the effort to reform Arizona's property tax system and reduce the disparity in tax treatment between business and residential property. As a result of previous ATRA-backed legislation passed in 2005, 2007, and 2011, steady progress has been made in reforming the underlying policies that result in Arizona's high business property taxes. That progress is the direct result of policymakers addressing the root cause of that problem: the shift of taxes from residential property to business through higher assessment ratios on business property. To their credit, over the last decade, policymakers largely rejected calls to address the problem through rifle-shot tax breaks to specific industries. ATRA continues to support policies that provide for equitable treatment among property taxpayers and will oppose efforts that undermine that important policy principle. Along with other organizations that oppose targeted tax breaks for specific industries, ATRA has been successful in recent sessions in defeating legislation to expand class six (5% assessment ratio) to targeted industries.

For the 2016 session, ATRA will pursue the following property tax legislation:

**1% Cap Reform** – ATRA will pursue legislation to protect all property taxpayers from spiraling property taxes in jurisdictions that have owner-occupied residential property at the constitutional 1% cap (HB2480/Rep. Olson).

**Phase Out Desegregation/Office of Civil Rights (OCR) Levies** – ATRA will pursue legislation to phase out, over five years, the OCR levies being imposed by 17 Arizona school districts. In addition, the proposal will impose a 10 year phase out of the Deseg levies of two Arizona school districts. Districts that remain under a federal court order to desegregate would begin the phase out the year following being declared unitary. (SB1125/Sen. Lesko & HB2401/Rep. Leach)

**K12 Primary Rate Reform** – ATRA will pursue legislation to simplify the calculation of the K12 primary rate. K12 districts that qualify for state aid would annually levy the

Qualifying Tax Rate (QTR). Levies for expenditures outside the district budget limit would require a separate tax rate. (HB2481/Rep. Olson)

**Adjacent Ways Levy Approval** – ATRA will pursue legislation to require K12 districts to receive approval through the School Facilities Board prior to levying non-voter approved property taxes for an Adjacent Ways project (SB1117/Sen. Dial).

## **Sales Tax**

The 2013 legislative session was highlighted by the passage of HB2111, a historic measure that made significant progress towards reforming the administration of what is arguably the most complicated and chaotic sales tax system in the country. Legislation enacted in the following year required state level uniform licensing and filing. A key feature of the 2013 reforms, state level collections of all state and local sales taxes, was regrettably delayed until 1/1/16. That delay has now been extended again with no certainty regarding a new implementation date. A provision in the 2013 TPT reform legislation included a poison pill that indicated the state collection of all state and local sales taxes would go into effect once the Department of Revenue had captured data with sufficient specificity to meet the needs of Arizona cities. This provision has placed the cities in the position of being the sole arbiters for deciding when or if TPT reform becomes a reality.

For the 2016 session, ATRA will support the following sales tax legislation:

**State Collection of Sales Taxes** – ATRA will pursue legislation to repeal the 2013 TPT Reform provision that requires city approval before taxpayers are provided the administrative relief of a single payment for all state and local sales tax obligations at the state level.

**TPT Customer Claims** – ATRA will support legislation to provide an alternative claims process for customers to file for a refund in an amount equal to the taxes paid by the vendor. This will provide customers with a remedy in situations when the vendor is either unwilling to pursue a refund or the vendor is no longer in business. (Rep. Olson)

## **Public Finance**

**Community College Expenditure Limitation Reform** – ATRA will pursue legislation to create accountability for the estimation of Full Time Student Equivalents (FTSE) for community college expenditure limitations. (HB2126/Rep. Shope)

**Sale of School Property** – ATRA will pursue legislation to reform the current laws associated with the use of proceeds from the sale and lease of school property. (HB2476/Rep. Norgaard)

**Local Debt Limit Values** – ATRA will pursue legislation to codify the recent Attorney General opinion that the constitutional debt limits for Arizona local governments are based on full cash net assessed value. (HB2054/Rep. Mitchell)