2022 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 balanced and sustainable.

Prior to the coronavirus, Arizona was riding a wave of strong economic growth and the state's fiscal condition was strong. The 2020 legislative session was shortened following the passage of what was referred to as the "skinny" budget. Arizona's strong cash position was replaced with new estimates of billion dollar deficits. The 2021 session saw a reversal of those fortunes with the Arizona economy benefiting significantly from billions in federal stimulus monies and skyrocketing state revenue growth.

Current estimates suggest that the state's cash position continues to outpace budget estimates. The Governor's Office of Strategic Planning and Budgeting (OSPB) estimates the current structural surplus this year at $2.7 billion.

ATRA will provide state budget recommendations to the Legislature after the Joint Legislative Budget Committee and the OSPB have submitted their recommendations for the FY 2023 budget in January.

Taxation

Property tax reform. 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, 2011, and 2021, steady progress has been made in reforming the underlying policies that drive 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.

ATRA achieved a major victory in the 2021 legislative session with the passage of another reduction in the class one assessment ratio. Beginning in FY 2023, the 18% class one assessment ratio will be reduced to 16% over four years.

Most legislative sessions include debates surrounding reforms to Arizona's tax code. ATRA believes any effort to reform Arizona's tax system should include further reductions to the class one assessment ratio with the ultimate goal of 15%.

Prevent greater access to the property tax. For the 2022 session, ATRA will oppose efforts on the part of state and 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, each session is marked by efforts to increase access to the property tax.

In addition, ATRA will advocate for the continued compliance with the state's Truth-in-Taxation (TNT) law. Since its passage in 1998, the state has consistently complied with the TNT law. For the last seven years, the Qualifying Tax Rate and the State Equalization Tax Rate have fallen as a result of the TNT law. While those rates have both risen and fallen with the fluctuations in the real estate market, ATRA believes adherence to the TNT law is an important principle that has, and will continue to benefit taxpayers over time.

Targeted Property Tax Breaks. For decades, ATRA has steadfastly opposed efforts at the Capitol to rifle-shot property tax breaks to specific industries. ATRA will continue to support policies that provide for equitable treatment among property taxpayers and oppose efforts that undermine that important policy principle.

For the 2022 session, ATRA will pursue the following legislation:

Property Tax

Current state budget surpluses will provide a myriad of policy options for lawmakers in building the FY 2023 budget. One of those policy options should include some form of tax relief. The State Equalization Tax Rate (SETR) is currently $0.4263 and raises roughly $316 million annually. A reduction in SETR does not result in reduced K12 spending as any reduction SETR is offset by an increase in K12 formula funding from the state general fund.

Sales Tax

Prime Contracting Simplification

Arizona's prime contracting tax is generally regarded as the most complex and inefficient area of Arizona's transaction privilege tax (TPT) system. Some improvement was achieved through TPT Simplification in 2012 that transitioned activities involving maintenance, repair, replacement, and alteration (within certain thresholds) from prime contracting to a tax on materials at the point of sale, now known as MRRA. MRRA simplified tax compliance for most contractors that only work on MRRA projects; however, contractors involved in residential home remodels, for instance, can unknowingly get pulled into prime contracting. For example, tax guidance published by the Arizona Department of Revenue considers moving interior walls or adding a kitchen island as "modification" activity, which will make the entire contract taxable under prime contracting if the cost of the modification activity exceeds 15% of the contract. ATRA will pursue legislation to simplify MRRA by eliminating the current thresholds for alteration projects, and instead, only tax contracts under prime contracting that add or expand square footage.

Public Finance:

School Finance Reform:

For decades, ATRA has advocated for a school finance system that is equitable and reflective of Arizona's K12 system that encourages and promotes parental choice. ATRA has also argued that a more equitable school finance system reduces the state's exposure to the continuous litigation in this area. ATRA will pursue the following school finance reforms in the 2022 session:

Create a state student funding formula. This proposal would allow any school district with no secondary property tax (no bonds or overrides) to switch to a new State Formula Funding formula. Upon the approval of district voters, eligible districts would receive charter level funding (an average of $1,200 more per pupil) and agree to forgo bond and override funding. In order to offset some of the state general fund impacts of the new state funding formula, district voters would be required to approve an additional property rate tax of $0.35 for elementary and union districts or $0.70 for unified districts.

Reform the current district transportation formula. Arizona's long standing formula that provides transportation funding to school districts is both flawed and antiquated. Among other problems, the current system actually provides more per-pupil transportation funding to districts that are losing students and experiencing decreased demand for transportation dollars. What would normally be a rather simple transportation funding system (approved daily route miles multiplied by the per-mile support level) is complicated by a formula that holds districts harmless at their highest historical transportation expenditure.

The formula funding on actual route miles is called the Transportation Support Level (TSL). The historical high water mark is called the Transportation Revenue Control Limit (TRCL). The state is only liable for the actual route miles or the TSL. For districts with higher TRCL's, those dollars are funded through a local district property tax.

ATRA will pursue legislation to phase out the TRCL and transition districts to a more equitable per pupil allotment.

County Flex Language

Beginning in FY 2009, counties were provided the broad authority to shift revenues from their special revenue funds and countywide special taxing districts to their general funds. The initial intent of this broad authority was to offset state cost shifts that began during the Great Recession. This "flexibility" language is provided to counties in state statute as well as session law in the state budget every year. To date, counties have shifted more than $65 million from their special revenues that were intended for a specific purpose into their general funds to fund any county fiscal obligation. Although the state cost shifts have ceased, this broad authority remains. ATRA will pursue legislation to repeal the authority in state statute and to discourage lawmakers from continuing this practice as they negotiate the FY 2023 state budget.