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ARIZONA TAX RESEARCH ASSOCIATION

ATRA OPPOSES HB2516

Assessor's Tax Bill Damages and Undermines Transparency in Arizona's Budget and Tax Laws

In 1994 the Arizona Legislature passed landmark property tax reform legislation (SB1362) that, for the first time, aligned the property valuation calendar with the state and local budgeting calendar. This legislation was necessary because, prior to 1994, the **final equalized value** (net assessed value) of each jurisdiction was not available until early August – over a month into the new fiscal year. (Arizona state and local budgets operate on a **fiscal year** that begins on July 1st.)

Subsequent to the passage of SB1362, several important pieces of legislation were passed that changed the timing of the publication and distribution of the constitutional levy limits of local governments as well as instituting Truth-in-Taxation (TNT) laws in 1996 to create transparency in the tax rate setting process for state and local governments. These laws, and the key dates for their publications, were not possible under the single-year calendar process that existed prior to 1994.

The following is a list of some of the important budget/property tax statutes and formulas that rely on the **final net assessed values** for their calculation:

- ARS 42-17051 Levy Limit on County, Municipal and Community College Primary Levies

This statute provides the implementation for the constitutional levy limits. The methodology and formula for these levy limits is the same that is used for the state TNT statute as well as the TNT laws that apply to counties, cities, and community colleges. Most notable, these values, which are required to be published by February 10th of the current tax year, are required to be calculated using the “**finally equalized values of all property.**”

- ARS 41-1276 State Truth-in-Taxation Calculation for Qualifying Tax Rate (QTR) and the State Equalization Assistance Tax Rate

This statute requires on or before **February 15th** of each year, the JLBC to compute and transmit the TNT rates for all K-12 school districts to the Legislature for use in calculating state aid to schools. The law provides for a public hearing and notice in the newspaper if the Legislature decides to levy rates higher than the TNT rates calculated by JLBC. A two-thirds vote is required of the Legislature to adopt rates higher than the TNT rates.

- ARS 42-17107 County and City or Town Truth-in-Taxation Formula and Procedures

Using the values provided by the county assessor in ARS 42-17051 (the **final equalized values** required to be published on February 10th) each county and city or town is required to calculate its TNT rate for the upcoming fiscal year. If the governing body elects to exceed the TNT rate it must

publish a notice in the newspaper and hold a public hearing to vote to exceed the TNT rate. The deadline to adopt the final budget and conduct a TNT hearing is 14 days **before** taxes are levied (third Monday in August). The public notice and public hearing process of this statute requires counties and cities and towns to calculate the **exact** tax rate that they propose to levy. They are also required to calculate the impact of that proposed tax increase on residential property taxpayers.

- ARS 15-905.01 K-12 School District TNT Procedures

This statute requires each school district that proposes to increase property taxes over its TNT limit to publish the impact of that tax increase in a newspaper of general circulation. The statute specifically directs the district to calculate the tax rate increase using values provided by the county assessor on February 10th.

- ARS 15-995 K-12 School District Levy for Adjacent Ways

This statute requires a school district levying for a one-time adjacent ways expenditure to comply with the TNT provisions in ARS 15-905. ARS 15-905 requires the use of the February 10th values published by the county assessor.

- ARS 15-1461.01 Community College Truth-in-Taxation Formula and Procedures

Using the values provided by the assessor in ARS 42-17051 (the **final equalized values** required to be published on February 10th), each community college district is required to calculate its TNT rate for the upcoming fiscal year. If the governing body elects to exceed the TNT rate it must publish a notice in the newspaper and hold a public hearing to vote to exceed the TNT rate.

Arizona uses an ad valorem property tax system that allows state and local elected officials to establish property tax rates within a constitutional and statutory framework that has been developed for over thirty years. In most instances, elected officials are allowed some discretion in determining the property tax rate of their jurisdictions. The annual process of establishing the tax burdens that will be imposed on Arizona property taxpayers demands a level of transparency that allows property taxpayers to engage elected officials in those decisions.

Simply put, a transparent budgeting and tax rate setting process requires public information that both elected officials and taxpayers can rely on. Establishing constitutional levy limits and Truth-in-Tax rates on preliminary values that will always change through the administrative appeals process will create chaos in every effected taxing jurisdiction. Whatever benefits might be achieved through using a more updated (and usually higher) property valuation are dramatically offset by the damage done to a state and local budgeting process that has been developed and fine-tuned over the last several decades.