

# ATRA Outlook Conference Current Property Tax Issues

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Friday November 17, 2006



# Major Policy Changes to Arizona's Property Tax System

- Major studies pointed to the same problems:
  - ✓ One of the most complicated systems in the country
  - ✓ Inequities lead to high business property taxes
  - ✓ Controlling growth in levies in the face of skyrocketing values



# Major Pieces of Legislation Passed By The 47<sup>th</sup> Legislature

## 2005 Session:

- HB 2779 – major tax reform measure that reduced the assessment ratio on class one property from 25% to 20% over 10 years – beginning in 2006

## 2006 Session:

- Major property tax relief (\$215 million) provided as part of three-pronged attack on property tax increases resulting from skyrocketing valuation growth
- Pre-emption of local governments from raising primary taxes
- Public votes to exceed the 2006 levies in the future (Prop 101)



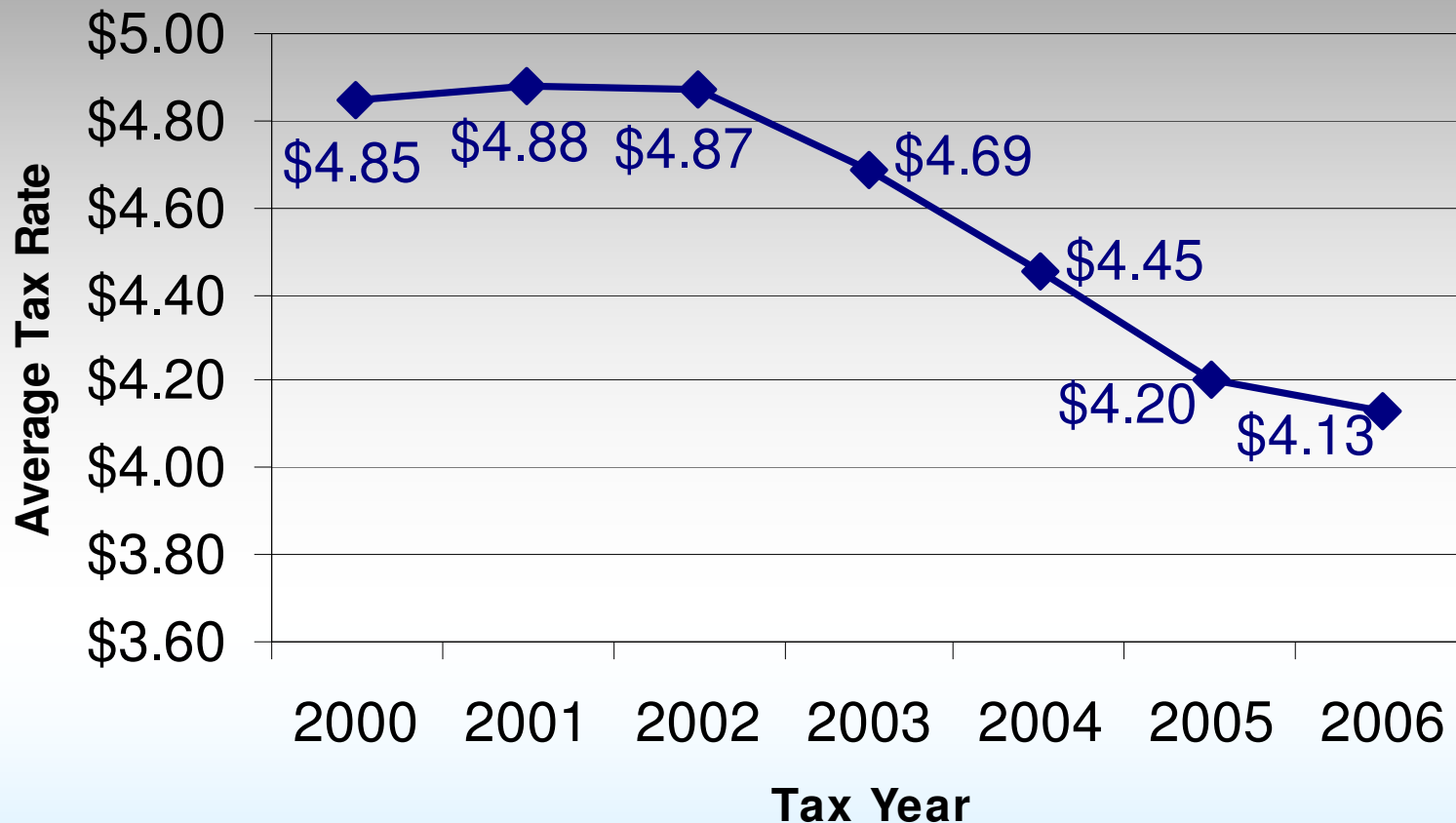
# 2006 Legislation Successful

- 2006 Overall levies grew only 5.1%
- State average primary rate fell 57 cents for 2006
- Primary levies grew only 2%
- Notable: Despite state TNT and HB 2876 preemption of locals raising taxes...
  - County primary levies still climbed 7.4%
  - City primary levies climbed 8.5%
  - Community Colleges 8.5%



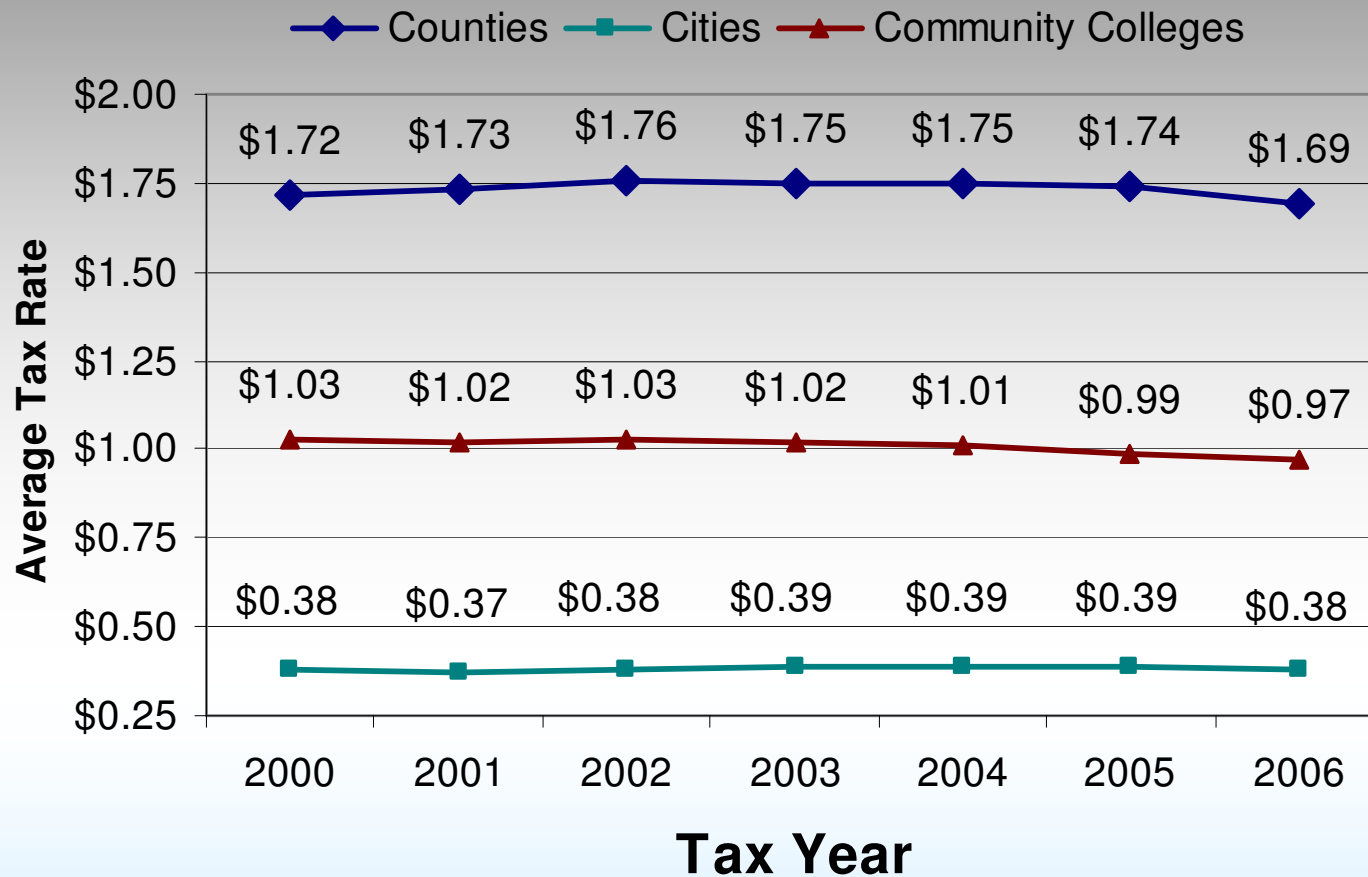
# State Level Success of Truth in Taxation

## K-12 Statewide Primary Average Tax Rate



# TNT – Less Success at the local level

## Less Success at the local level



# 2006 Secondary Levies

- Secondary levies show record growth of \$206 million (11.2%)
  - Community Colleges up 29.4%
  - Counties climb 17.4%
  - Special Districts up 14.9%
  - Cities up 8.6%
  - Schools climb 8.2%



# What Limits Exist For Secondary Levies??

- General Obligation Bonds – voter approval for fixed debt levels
- K-12 Budget Overrides:
  - M&O levies limited to 5% or 10% of the school budget – which is limited through state law
  - Capital levies are limited to a fixed amount approved at the ballot
  - Special Districts:
    - Generally only have rate caps. Levies are not limited (i.e. Fire Districts, Flood Control)





# Secondary Levies Problem Areas

- General Obligation Bonds – valuation growth leads to refinancing of debt or new bond elections to keep the rate from falling
- K-12 Overrides – voters approve 10% of a future unknown number
  - Budget increases, Prop 301, State Approps drive increases in override levies
- Special districts-valuation growth can result in significant tax increases because of lack of levy limit



# ATRA Recommendations for 2007

- Speed up reduction in phase down of class one assessment ratio from 10 to 6 years
- Make the 2006 tax cut permanent
- Secondary property tax reforms:
  - Levy limits for countywide special districts. Limit increase in levies to same percentage of primary levy limit
  - Limit K-12 M&O overrides to a fixed levy approved at the ballot – similar to county and college levy limit overrides
  - Limit K-12 capital overrides to a fixed levy capped at percentage of the district's capital outlay revenue limit

