

Overview of Arizona's Property Tax System

Senate Finance Committee Presentation

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A Quick Review of the Basics

- A 1980 property tax initiative established the framework for our current system:

1. Unlimited (Secondary) Values

2. Limited (Primary) Values

Unlimited (Secondary) Values

- ◆ Property valued at its full cash (market) value
- ◆ No limit on annual growth in value
- ◆ State has experienced dramatic valuation growth
 - State's property tax base has doubled in last 10 years.

Secondary NAV Growth

County	TY 1994	TY 2003	TY 2004	1-Year Growth	10-Year Growth
Apache	\$399,588,053	\$305,072,059	\$302,353,668	-0.9%	-24.3%
Cochise	413,230,945	586,985,389	628,655,003	7.1%	52.1%
Coconino	735,068,940	1,151,482,204	1,222,225,551	6.1%	66.3%
Gila	270,606,048	363,174,059	378,256,442	4.2%	39.8%
Graham	65,649,057	101,767,801	103,542,473	1.7%	57.7%
Greenlee	212,116,806	142,446,531	160,301,809	12.5%	-24.4%
La Paz	100,780,240	129,744,836	148,341,040	14.3%	47.2%
Maricopa	13,521,174,915	27,477,987,528	30,066,986,670	9.4%	122.4%
Mohave	851,679,767	1,189,713,576	1,321,872,683	11.1%	55.2%
Navajo	508,066,755	649,315,690	663,206,947	2.1%	30.5%
Pima	3,150,104,570	5,221,270,997	5,620,156,274	7.6%	78.4%
Pinal	573,272,508	1,021,719,398	1,128,263,009	10.4%	96.8%
Santa Cruz	161,982,754	246,303,386	253,681,084	3.0%	56.6%
Yavapai	801,661,812	1,602,480,129	1,785,174,684	11.4%	122.7%
Yuma	414,334,779	650,434,765	678,720,689	4.3%	63.8%
Total	\$22,179,317,949	\$40,839,898,348	\$44,461,738,026	8.9%	100.5%

Source: County adopted rate & levy sheets. Arizona Tax Research Association

Limited (Primary) Values

Annual growth in value limited:

- No more than 10% over previous year's limited or primary value
- One-fourth of the difference between the new unlimited (secondary) value and the previous year's limited (primary) value
- Despite limit, Primary NAV has almost doubled in last 10 years

Primary NAV Growth

County	TY 1994	TY 2003	TY 2004	1-YR Growth	10-YR Growth
Apache	\$397,071,298	\$299,355,283	\$296,128,594	-1.1%	-25.4%
Cochise	404,496,637	570,409,342	\$611,079,588	7.1%	51.1%
Coconino	713,464,908	1,116,668,488	\$1,174,117,295	5.1%	64.6%
Gila	267,657,522	346,905,903	\$365,997,563	5.5%	36.7%
Graham	62,780,975	100,580,910	\$101,932,721	1.3%	62.4%
Greenlee	211,814,443	142,275,425	\$160,123,797	12.5%	-24.4%
La Paz	98,394,879	124,251,543	\$141,588,228	14.0%	43.9%
Maricopa	13,302,326,609	25,447,850,971	\$28,070,870,413	10.3%	111.0%
Mohave	773,445,922	1,159,793,042	\$1,251,920,164	7.9%	61.9%
Navajo	504,185,270	623,721,601	\$644,595,265	3.3%	27.8%
Pima	3,049,265,952	5,022,474,184	\$5,412,550,080	7.8%	77.5%
Pinal	564,820,363	951,824,434	\$1,061,148,994	11.5%	87.9%
Santa Cruz	157,800,521	240,075,205	\$247,854,940	3.2%	57.1%
Yavapai	776,405,938	1,516,807,417	\$1,676,029,540	10.5%	115.9%
Yuma	404,507,408	631,943,062	\$658,763,396	4.2%	62.9%
Total	\$21,688,438,645	\$38,294,936,810	\$41,874,700,578	9.3%	93.1%

Source: County adopted rate & levy sheets. Arizona Tax Research Association

Assessment Ratios

Class	Description	Assessment Ratio
1	Commercial, Industrial, Utilities, & Mines	25%
2	Agricultural & Vacant Land	16%
3	Owner-occupied Residential	10%
4	Rental Residential	10%
5	Railroad, Private car, airline flight	21%
6	Residential historic, Enterprise zones	5%
7	Commercial Historic	1%
8	Rental Residential Historic	1%
9	Possessory Interests	1%
Total		

Example

FCV = \$150,000

Class 1 – Commercial (25%)

NAV = \$37,500

Class 3 – Owner Occupied Home (10%)

NAV = \$15,000

Levies

SECONDARY LEVIES:

No overall limits

Self-limiting, voter approval required for most:

- 1. G.O. Bond Debt Service
- 2. Budget overrides
- 3. Special Districts

(some exceptions to the rule: flood & library districts, fire district assistance tax)

Primary Levies

The hallmark of the 1980 reforms:

Constitutional Levy Limits

Limits placed on the maintenance and operations (M&O) levies of:

- Counties
- Cities and Towns
- Community Colleges

Levy Limit Structure

- ◆ 1980 levy became the base limit
- ◆ Limit increased annually by 2% plus net new construction
- ◆ Capacity generated by limit is maintained even if not accessed

1% Homeowner Cap

Constitutional maximum limit on homeowner primary property taxes:

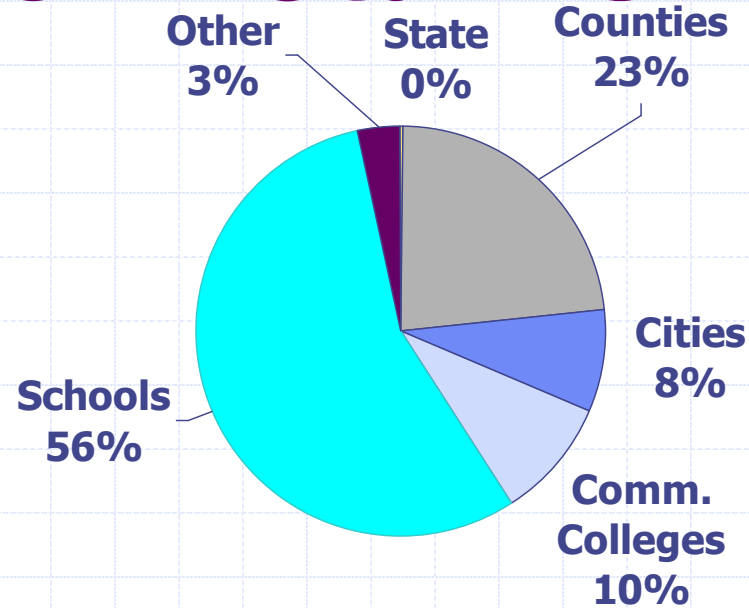
Primary taxes cannot exceed 1% of limited or primary value

Example:

- \$125,000 limited value
- \$1,250 total primary taxes

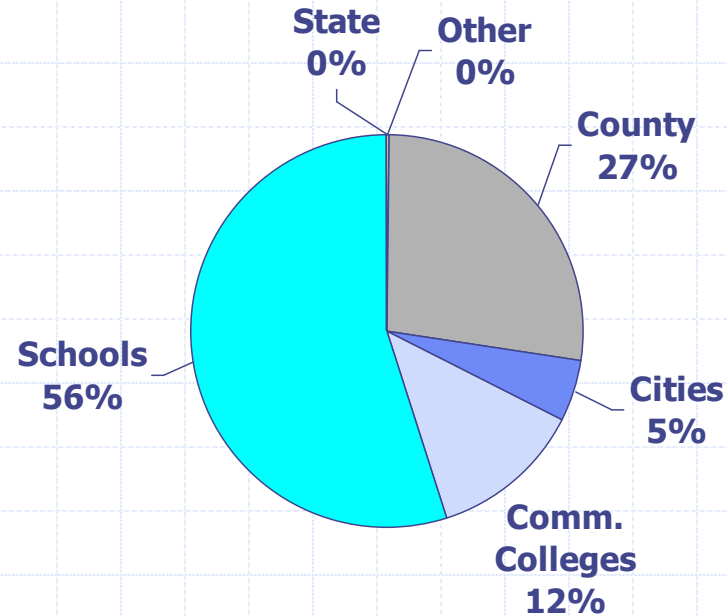
◆ ***The 1% Cap is the only assured protection in the 1980 reforms.***

2004 Total Levies



Jurisdiction	2004 Total Levies	% of Total
State	\$12,400,441	0%
County	\$1,164,777,902	23%
Cities	\$401,628,757	8%
K-12	\$2,816,466,699	56%
Community Colleges	\$482,563,137	10%
Special Districts	\$162,500,933	3%
Total	\$5,040,337,869	100%

2004 Total Primary Levies

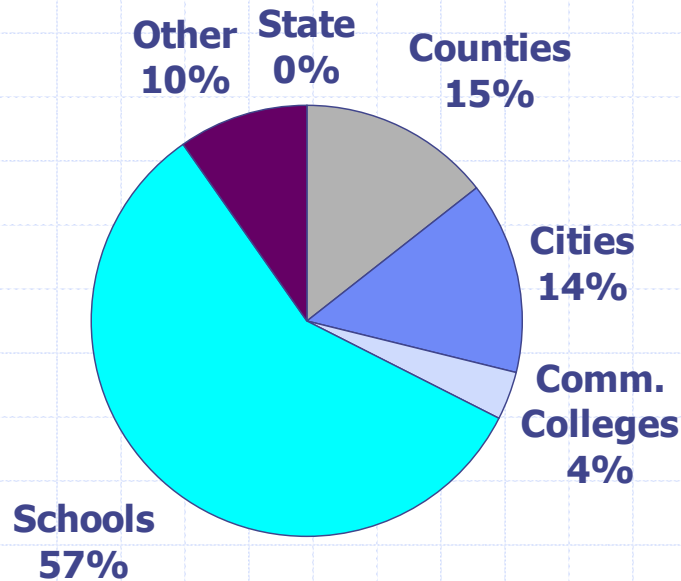


Jurisdiction	2004 Primary Levies	% of Total
State	\$12,400,441	0%
County	\$923,814,049	27%
Cities	\$165,034,880	5%
K-12	\$1,863,040,583	55%
Community Colleges	\$422,887,311	12%
Special Districts	\$353,042	0%
Total	\$3,387,530,306	100%

Primary Levy Growth

	1994	2003	2004	1-YR Change	10-YR Change
State	\$ 176,971,817	\$ 13,628,691	\$ 12,400,441	-9.0%	-93.0%
Counties	483,614,001	851,390,174	923,814,049	8.5%	91.0%
Cities	80,817,926	149,042,404	165,034,880	10.7%	104.2%
Comm. Colleges	204,925,569	392,267,591	422,887,311	7.8%	106.4%
Schools	1,081,200,975	1,795,188,174	1,863,040,583	3.8%	72.3%
Other	0	61,887	353,042	470.5%	-
TOTAL	\$ 2,027,530,288	\$ 3,201,578,921	\$ 3,387,530,306	5.8%	67.1%

2004 Total Secondary Levies



Jurisdiction	2004 Secondary Levies	% of Total
County	\$240,963,853	15%
Cities	\$236,593,877	14%
K-12	\$953,426,116	58%
Community Colleges	\$59,675,826	4%
Special Districts	\$162,147,891	10%
Total	\$1,652,807,563	100%

Secondary Levy Growth

	1994	2003	2004	1-YR Change	10-YR Change
State	-	-	-	-	-
Counties	\$ 64,505,240	\$ 240,299,095	\$ 240,963,853	0.3%	273.6%
Cities	109,087,190	223,349,933	236,593,877	5.9%	116.9%
Comm. Colleges	4,241,444	67,699,134	59,675,826	-11.9%	1307.0%
Schools	441,385,665	883,752,017	953,426,116	7.9%	116.0%
Other	141,287,642	146,246,874	162,147,891	10.9%	14.8%
TOTAL	\$ 760,507,181	\$ 1,561,347,053	\$ 1,652,807,563	5.9%	117.3%

Property Tax:

The case for reform

- Arizona's system is generally regarded as one of the most complex in the country
- Several aspects of the property tax system have created significant policy problems
 - High Business Property Taxes
 - 1% Residential Cap
 - Accountability

ATRA's Focus on Property Tax Reform

TWOFOLD:

- ◆ Decrease inequities in current system
- ◆ Control growth in property tax levies

Equity

- ◆ Limited success
 - Some class consolidation
 - Defeated efforts to further erode equity
- ◆ Major inequity still in place
 - Business at 25%
 - Residential at 10%

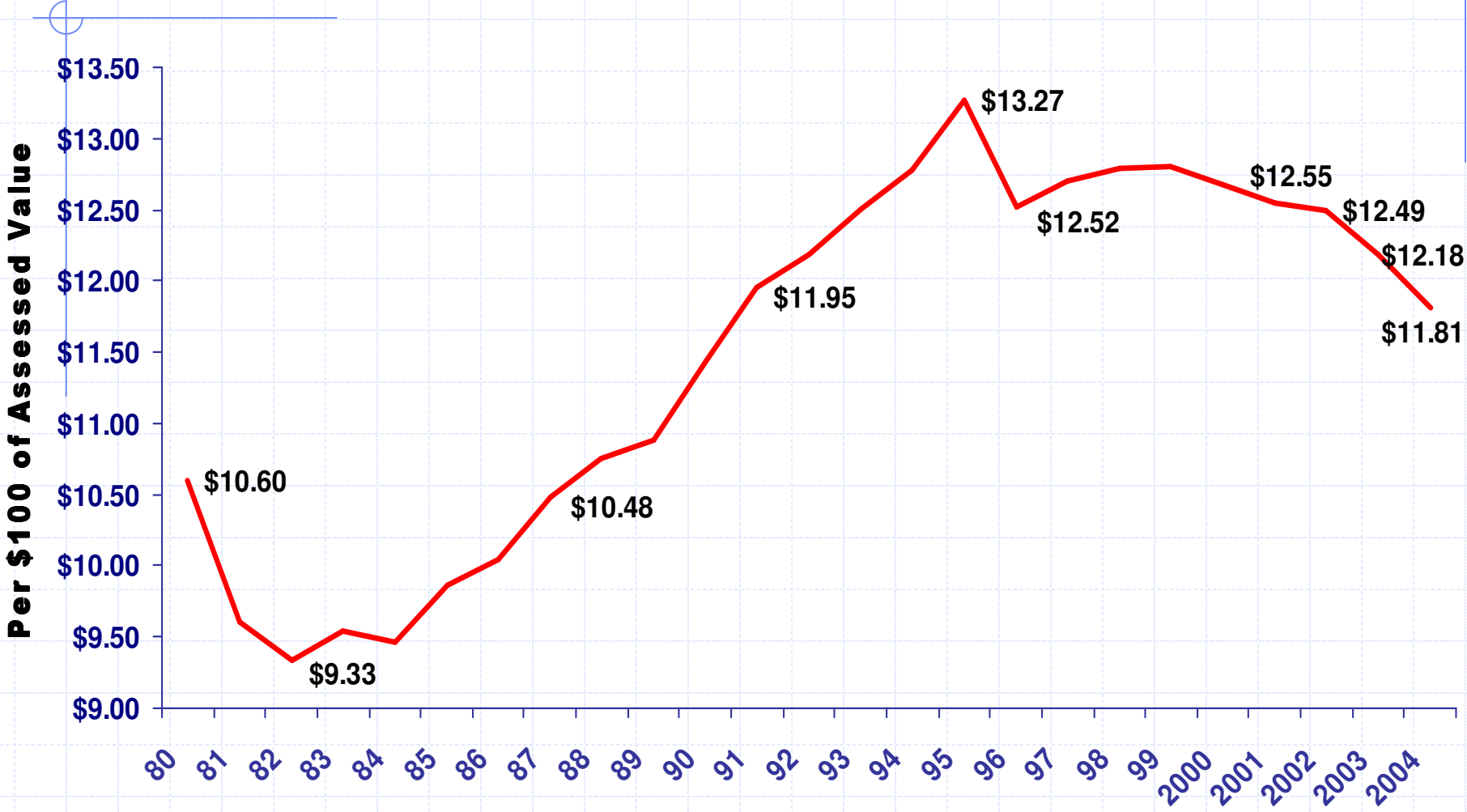
Successful Efforts to Control Levy Growth

- ◆ 1996 property tax cuts
 - Elimination of state 47-cent tax rate
 - Reduction in the qualifying tax rate (QTR) for schools from \$4.72 to \$4.40
- ◆ Truth in Taxation (TNT) laws passed in 1996, 1997 & 1998
- ◆ Ongoing effort to limit non-voter-approved K-12 district levies

Results

- ◆ Statewide average rate has fallen from a high of \$13.27 in 1995 to \$11.81 in 2004
- ◆ A decrease of \$1.46

Statewide Average Property Tax Rate



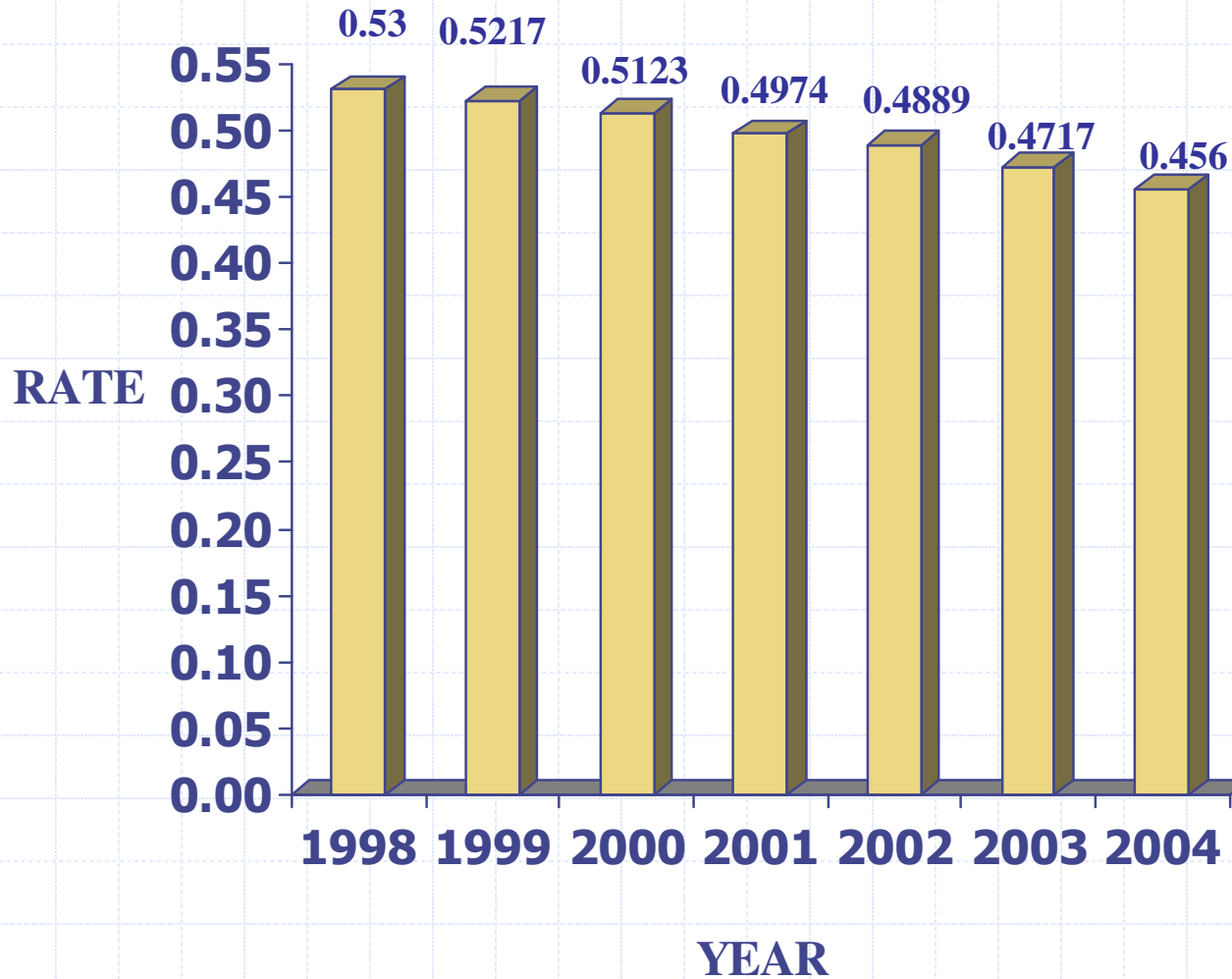
BENEFITS OF STATE TNT:

Qualifying Tax Rate



BENEFITS OF STATE TNT:

County Education Rate

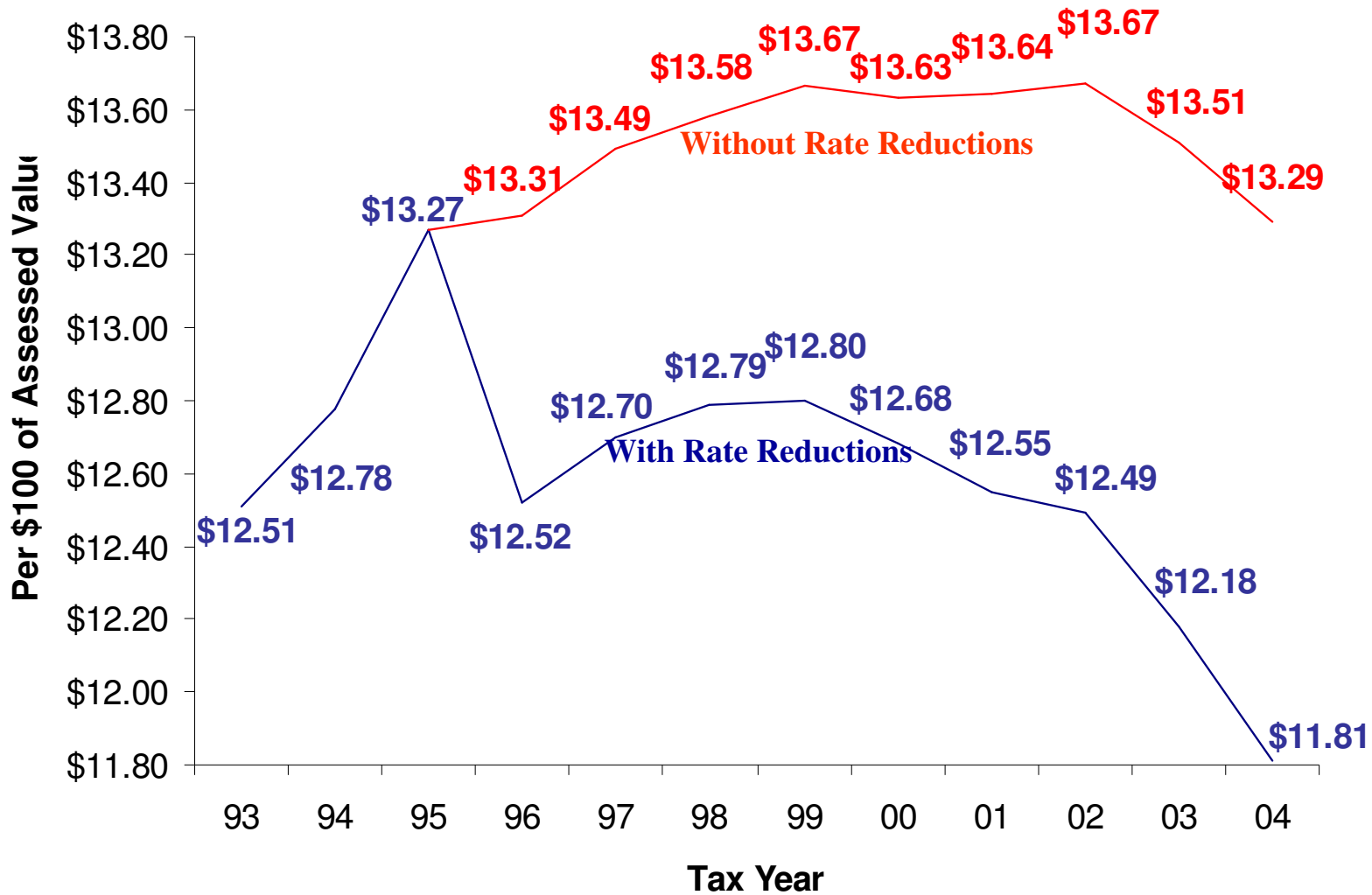


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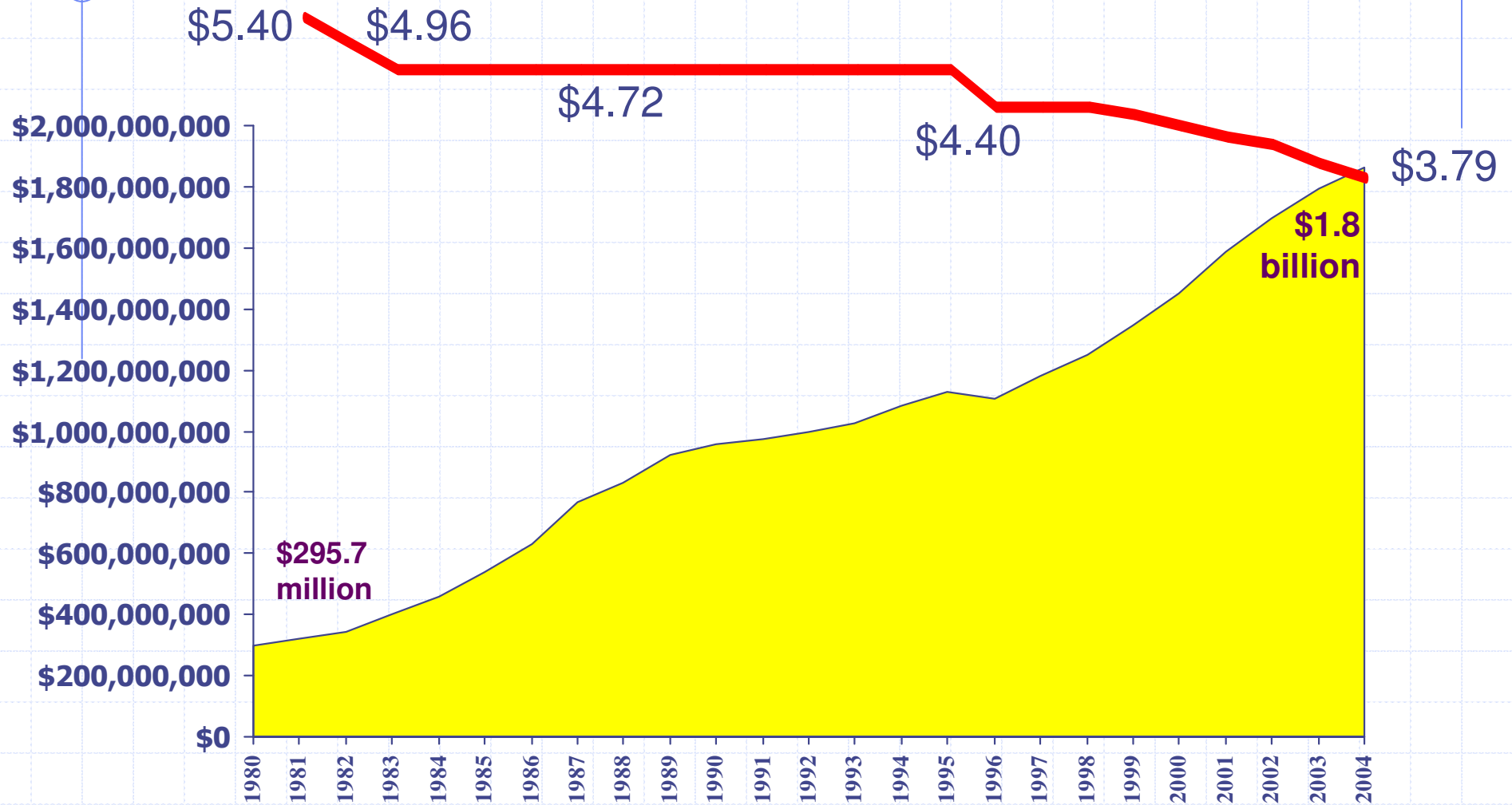
Savings to Taxpayers

- ◆ Passed in 1998, the state Truth in Taxation statute has saved Arizona property taxpayers an estimated \$687 million from tax years 1999 through 2004.

Statewide Average Property Tax Rate (with and without rate reductions)



K-12 Primary Levies 1980 – 2004 (with QTR)



2003 Effective Tax Rates

Class	Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Effective Total	Effective Rate
1	66,507,828,463	21.84%	1,941,344,303	43.21%	2.92%
2	20,166,880,015	6.62%	326,361,024	7.26%	1.62%
3	185,508,251,169	60.91%	1,849,930,235	41.17%	1.00%
4	27,613,757,881	9.07%	330,521,007	7.36%	1.20%
5	1,147,656,782	0.38%	26,504,204	0.59%	2.31%
6	3,002,981,097	0.99%	17,975,776	0.40%	0.60%
7	19,980,817	0.01%	431,536	0.01%	2.16%
8	592,656,388	0.19%	110,278	0.00%	0.02%
9	13,861,820	0.00%	9,068	0.00%	0.07%
Total	304,573,854,431	100.00%	4,493,187,431	100.00%	1.48%

MAJOR ISSUES

- ◆ High effective tax rates still a major concern
- ◆ Efforts to reverse recent successes on levies by reinstatement of statewide property tax
- ◆ Uncapped and uncontrolled K-12 primary levies causing significant increases in some districts
 - Excess Utilities; Adjacent ways; Deseg/OCR