



## Major Tax Issues

- Current Property Tax Trends
- Prop 117 Recap
- K-12 Secondary Levies, Capital Spending
- Prop 208 Post Mortem



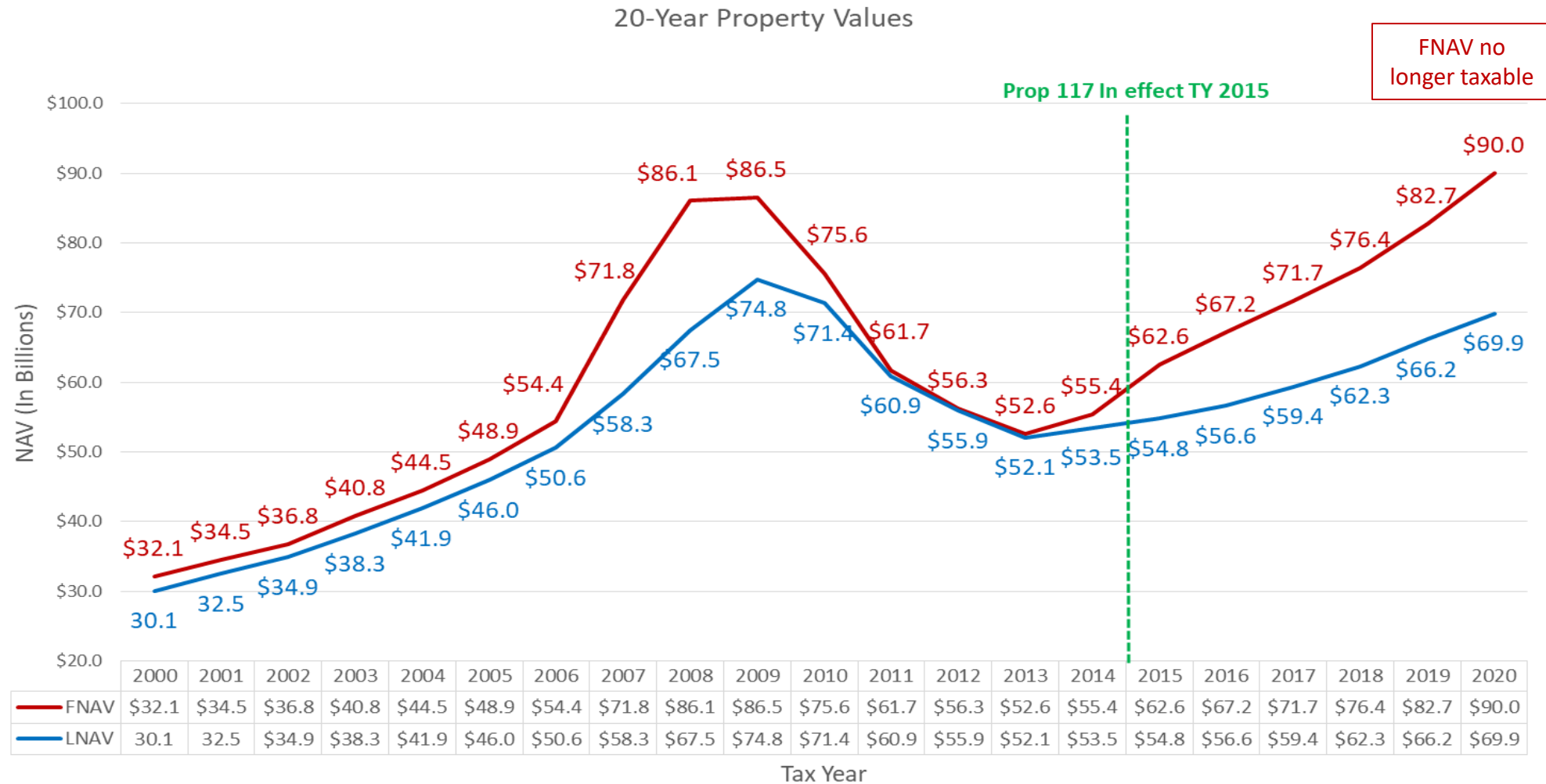
# Prop 117 – 5% Property Valuation Limit

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- Prior to Prop 117, AZ's property tax system one of most complicated in the country with two taxable values: FCV (market value) and LPV (two-part calculation 10%/25%)
- Voters passed Prop 117 @ 2012 Ballot – Effective TY 2015
  - FCV no longer taxable
  - LPV grows @ 5%/YR
- Taxpayer Protection
  - Insulate taxpayers from dramatic swings in tax bills due to major fluctuations in real estate market
- Simplify Property Tax System
  - From dual to single taxable value
- Stabilized Arizona's Property Tax System
  - Greater predictability for government & taxpayers
- Prop 117 – 5 Years in the Books: Taxing entities no longer able to ride major valuation increases to big tax increases. Rather, forced to adjust tax rates to cause dramatic tax increases



# 20-Year Property Values



- 2000-2005: FNAV & LNAV each grew 52.3% (10.5%/YR)
- 2015-2020 (Post 117): FNAV grew 44% (8.8%/YR); LNAV grew 28% (5.5%/YR)

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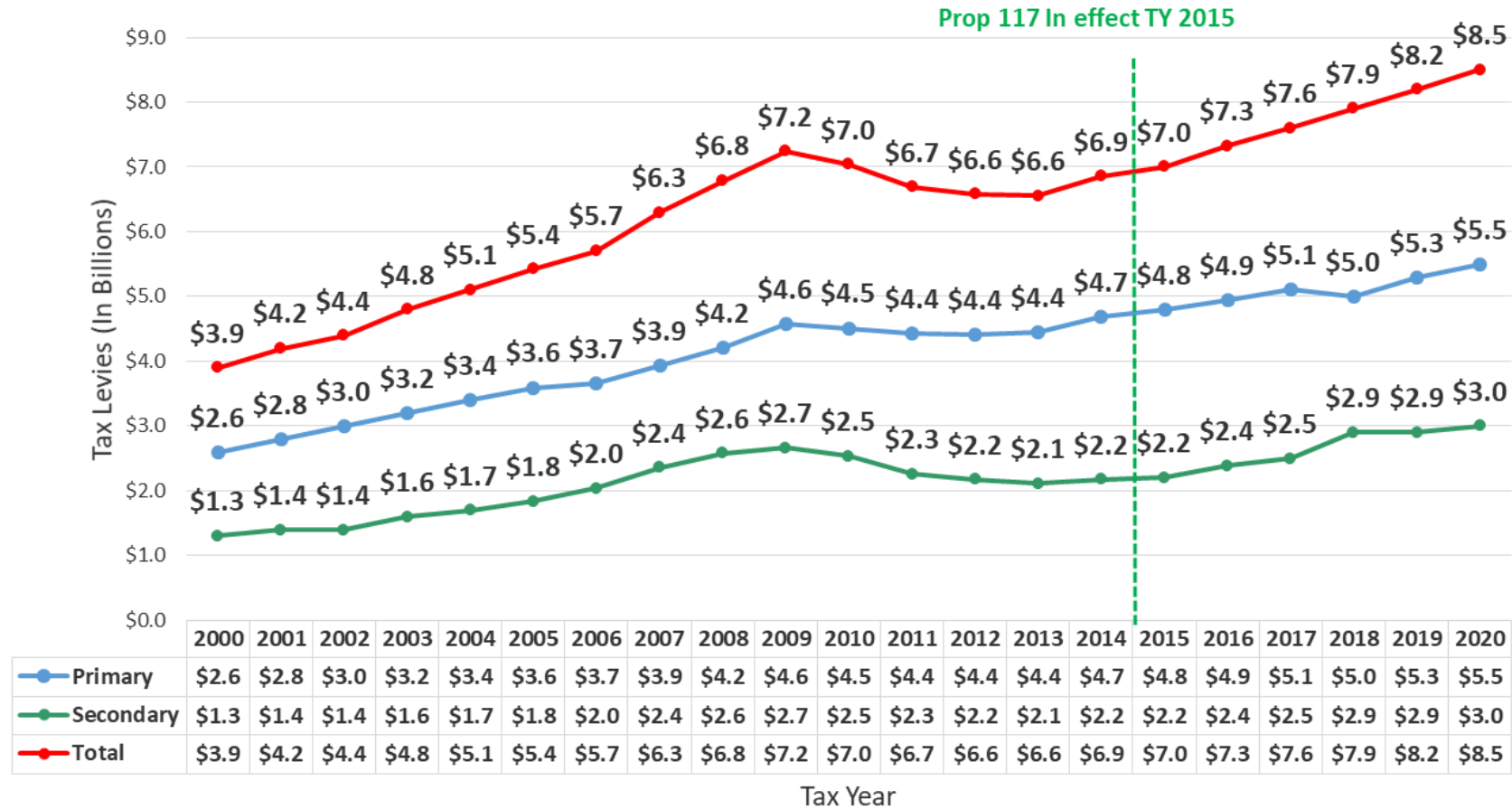


# FCV Growth 2015 - 2020

CLASS	PROPERTY DESCRIPTION	TAX YEAR 2015 FCV	TAX YEAR 2020 FCV	% CHG
1	Commercial, Industrial, Utilities & Mines	\$116,334,808,096	\$165,099,404,232	41.9%
2	Agricultural & Vacant Land	\$88,317,100,809	\$116,451,026,386	31.9%
3	Owner-occupied Residential	\$270,401,593,266	\$386,160,055,514	42.8%
4	Rental Residential	\$121,279,447,672	\$198,252,223,681	63.5%
5	Railroad, Private Car, Airline Flight	\$1,119,128,003	\$1,416,855,000	26.6%
6	Residential Historic, Enterprise & Foreign Trade Zones	\$6,427,196,830	\$7,075,459,244	10.1%
7	Commercial Historic	\$28,560,539	\$63,669,468	122.9%
8	Rental Residential Historic	\$14,647,784	\$22,706,382	55.0%
9	Possessory Interests, leased property to certain nonprofits	\$275,204,778	\$489,612,434	77.9%
<b>TOTAL</b>		<b>\$604,197,687,777</b>	<b>\$875,031,012,341</b>	<b>44.8%</b>



# 20-Yr Property Tax Levies



- 2000-2005: Secondary & Primary Levies grew 38.5% (7.7%/YR)
- 2015-2020 (Post 117): Total Levies up 21% (4.3%/YR) - Secondary up 36% (7.3%/YR); Primary up 15% (2.9%/YR)

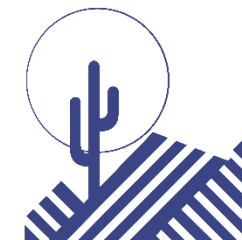
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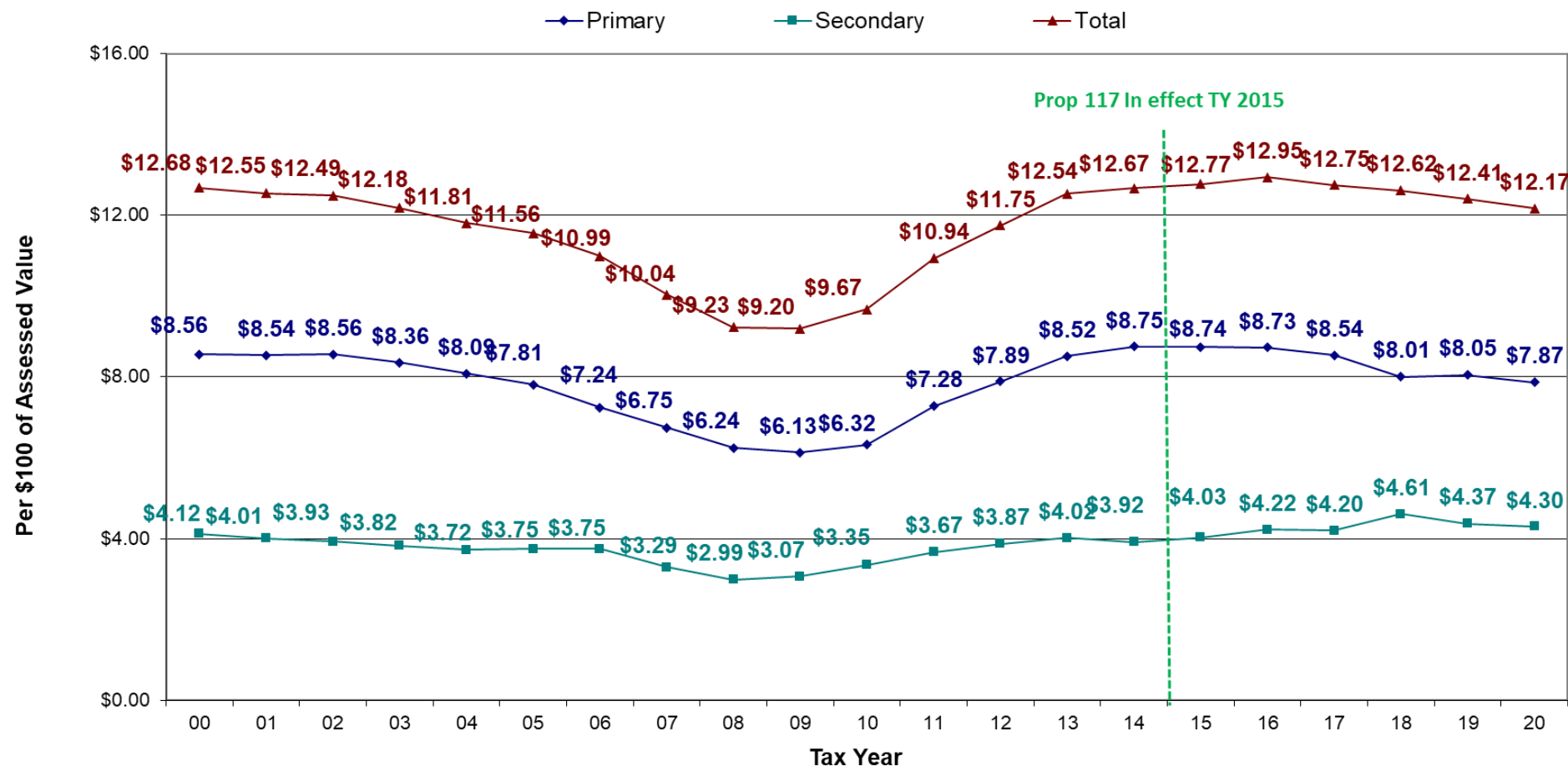
# NAV & Levy Growth Recap

FNAV Growth		Secondary Levies	LNAV Growth		Primary Levies	Total Levies
2000	\$32.1	\$1.3	2000	\$30.1	\$2.6	\$3.9
2020	\$90.0	\$3.0	2020	\$69.9	\$5.5	\$8.5
\$ Growth	\$57.9	\$1.7	\$ Growth	\$39.8	\$2.9	<b>\$4.6</b>
% Growth	180.4%	130.8%	% Growth	132.2%	111.5%	<b>117.9%</b>
Avg./Yr	9.0%	6.5%	Avg./Yr	6.6%	5.6%	5.9%
2000	\$32.1	\$1.3	2000	\$30.1	\$2.6	\$3.9
2005	\$48.9	\$1.8	2005	\$46.0	\$3.6	\$5.4
\$ Growth	\$16.8	\$0.5	\$ Growth	\$15.9	\$1.0	<b>\$1.5</b>
% Growth	52.3%	38.5%	% Growth	52.8%	38.5%	<b>38.5%</b>
Avg./Yr	10.5%	7.7%	Avg./Yr	10.6%	7.7%	7.7%
2015	\$62.6	\$2.2	2015	\$54.8	\$4.8	\$7.0
2020	\$90.0	\$3.0	2020	\$69.9	\$5.5	\$8.5
\$ Growth	\$27.4	\$0.8	\$ Growth	\$15.1	\$0.7	<b>\$1.5</b>
% Growth	43.8%	36.4%	% Growth	27.6%	14.6%	<b>21.4%</b>
Avg./Yr	8.8%	7.3%	Avg./Yr	5.5%	2.9%	4.3%

- 2000-2005 (Pre 117): FNAV & LNAV grew nearly same ~ 53% (10.5%/YR); Levies grew 38.5% (7.7%/YR)
- 2015-2020 (Post 117): FNAV grew 43.8% (8.8%/YR); LNAV grew 27.6% (5.5%/YR); Levies grew 21.4% (4.3%/YR)



# Statewide Average Property Tax Rates



- (2015 – 2020): Statewide average tax rate down 60 cents (4.7%) to \$12.17:
  - Primary average tax rate down 87 cents to \$7.87 (support m&o of local govt. budgets)
  - Secondary average tax rate up 27 cents (K-12 bonds & overrides; special taxing districts)

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# Truth in Taxation (TNT) Laws

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- TNT laws initially passed in late '90s & requires public hearings and publication of tax increase notice in newspapers of general circulation
  - 1998 applied to all local governments (counties, community colleges & cities) – primary levies only
  - 1999 applied to the state (QTR & SETR) – clearly the most effective at this level
  - TNT laws extended to the secondary levies of countywide special taxing districts for Library, Flood Control, Jails, Public Health Services in 2015





# Statewide Avg. Tax Rate by Jurisdiction

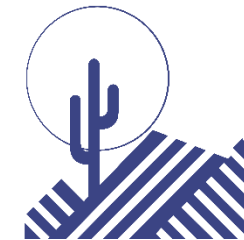
Taxing Jurisdiction	Tax Year 2019		Tax Year 2020	
	Primary	Secondary	Primary	Secondary
School Districts	3.81	2.26	3.72	2.25
Counties	1.92	0.49	1.90	0.46
State	0.50	0.00	0.48	0.00
Cities & Towns	0.55	0.56	0.55	0.55
Community Colleges	1.26	0.13	1.23	0.13
Special Districts	0.00	0.93	0.00	0.91
<b>Avg. T.R.</b>	<b>8.04</b>	<b>4.37</b>	<b>7.87</b>	<b>4.30</b>
<b>Total Statewide Avg. T.R.</b>	<b>12.41</b>		<b>12.17</b>	

- The statewide average tax rate for schools accounts for approximately half of the total statewide rate (\$5.97 Primary & Secondary combined)
- TNT has been most effective at the state level – State Legislature has adhered to TNT in setting QTR & SETR every year since law was created
- Less transparency with counties, community colleges, and cities

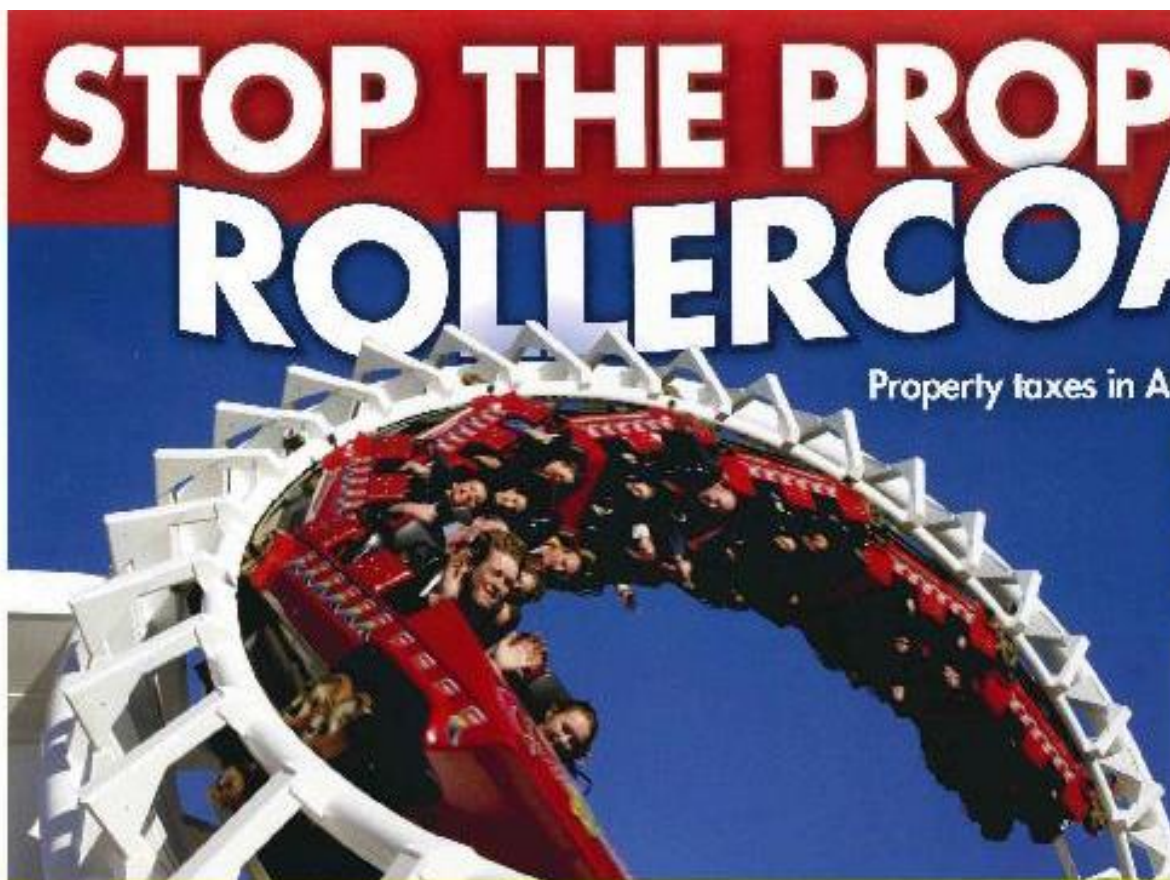


# 2019 Effective Tax Rates

Class	Type	Assessment	Full Cash Value	Percent of	Total Yield	Percent of	Effective
		Ratio		Total		Total	
1	Business, industrial, telecomm, utility, mines	18%	147,570,766,912	21%	2,722,729,844	35%	1.85%
2	Agricultural, vacant land, golf courses, nonprofits	15%	27,618,786,526	4%	346,337,072	4%	1.25%
3	Owner occupied residential	10%	351,310,023,321	49%	3,033,924,498	39%	0.86%
4	Rental residential; nonprofit residential	10%	176,687,892,234	25%	1,612,015,444	21%	0.91%
5	Railroads & flight property	14%	2,216,248,394	0%	35,393,331	0%	1.60%
6	Historic prop; FTZ; enviro tech; (more)	5%	6,541,570,569	1%	35,949,055	0%	0.55%
7	Comm historic property	18%/1%	51,383,832	0%	609,624	0%	1.19%
8	Rental residential historic property	10%/1%	21,856,074	0%	233,272	0%	1.07%
9	Possessory interests; leased churches	1%	369,030,533	0%	421,683	0%	0.11%
Total			712,387,558,395	100%	7,787,613,823	100%	1.09%



# Prop 117 “Rollercoaster” Mailer



## STOP THE PROPERTY TAX ROLLERCOASTER

Property taxes in Arizona have taken taxpayers for a wild ride!

Proposition 117 Will:

- Lower Property Taxes
- Cap Annual Increases in Taxable Values
- Simplify Arizona's Property Tax System

Paid for by Yes on 117, with major funding from Arizona Tax Research Association, MAIOP-AZ, and the United Dairymen of Arizona.

**PAID**  
FOR  
YES ON 117

## VOTE YES ON 117



## K-12 Secondary Levies & Capital Spending



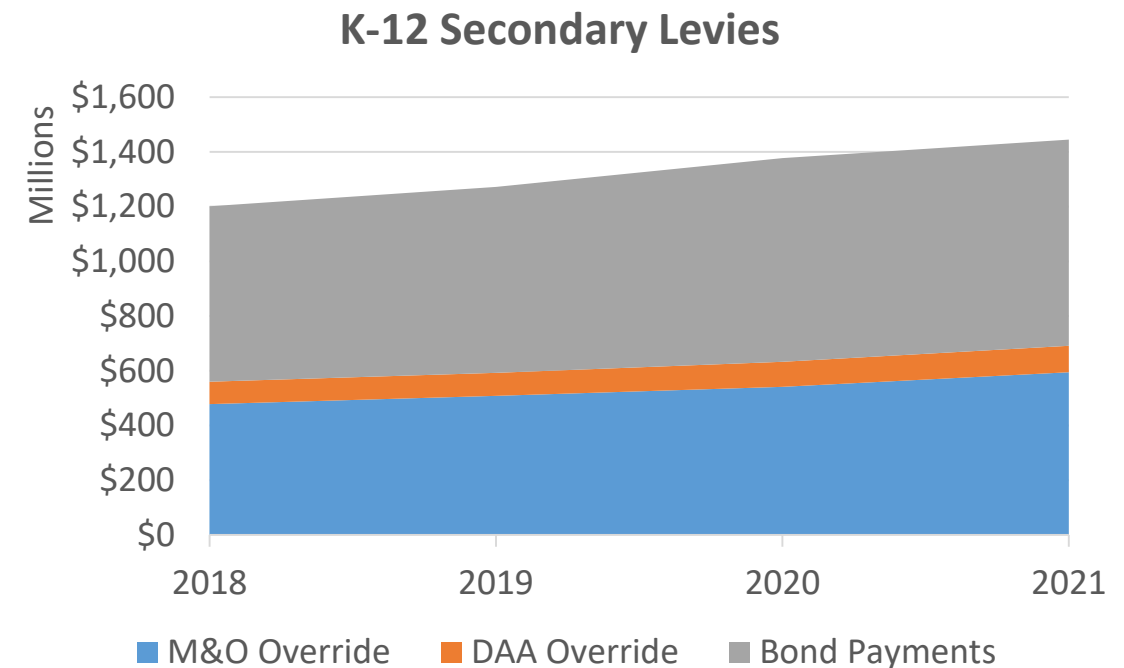
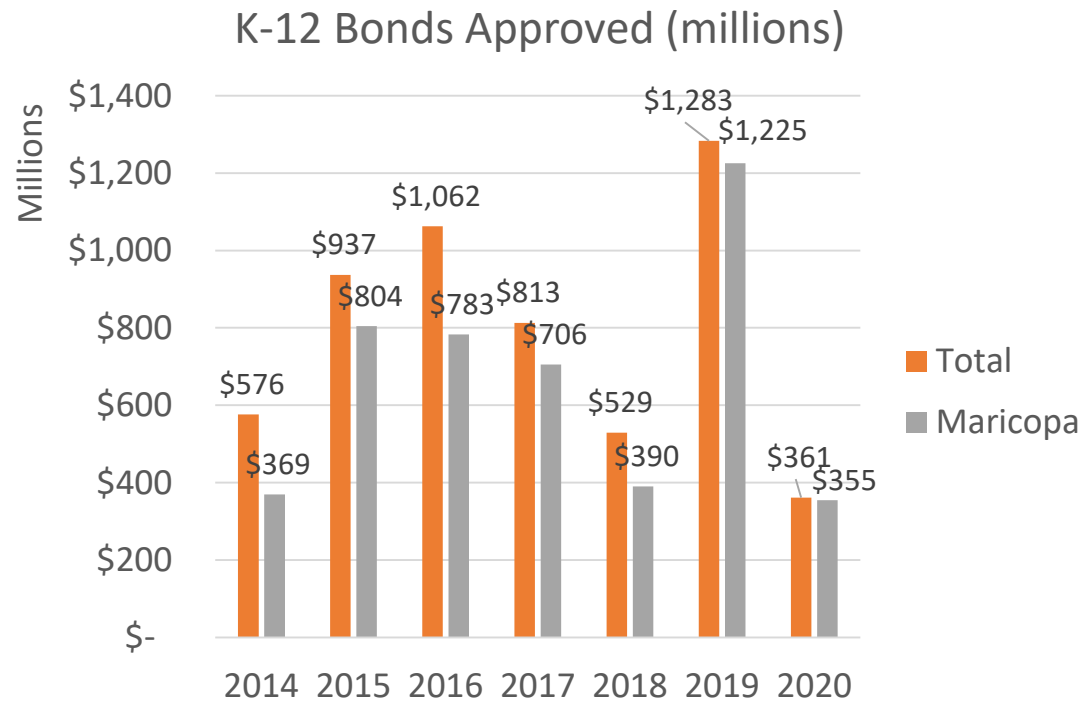
# Overview

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- Secondary taxes key contributor to inequitable system
- Areas with high value have higher spending and lower taxes
- For areas with less property value, reverse is true
- State is being sued by K-12 districts over capital spending
  - Considerable part of the case is equity related
  - With bonds/overrides, state will maintain this liability
- Policymakers must reduce legal vulnerabilities



# K-12 Bond Approvals, Levy Growth

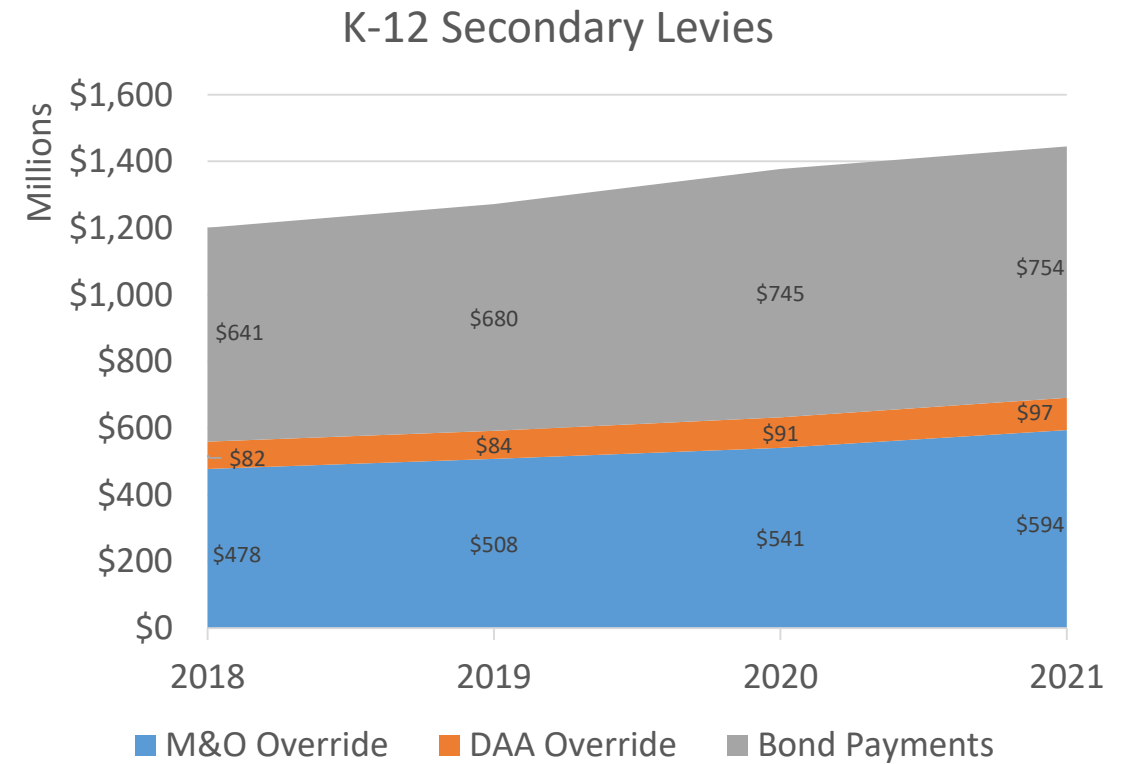


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# Growth in Bonds + Overrides

- 18% growth in 3 years
- Large bond approvals
- 20x2020 increased base
  - M&O overrides % of budget
  - 24% growth in these levies
- Median per pupil grew
  - Bond payments: \$652 → \$825
  - M&O overrides: \$704 → \$836
  - DAA overrides: \$426 → \$462

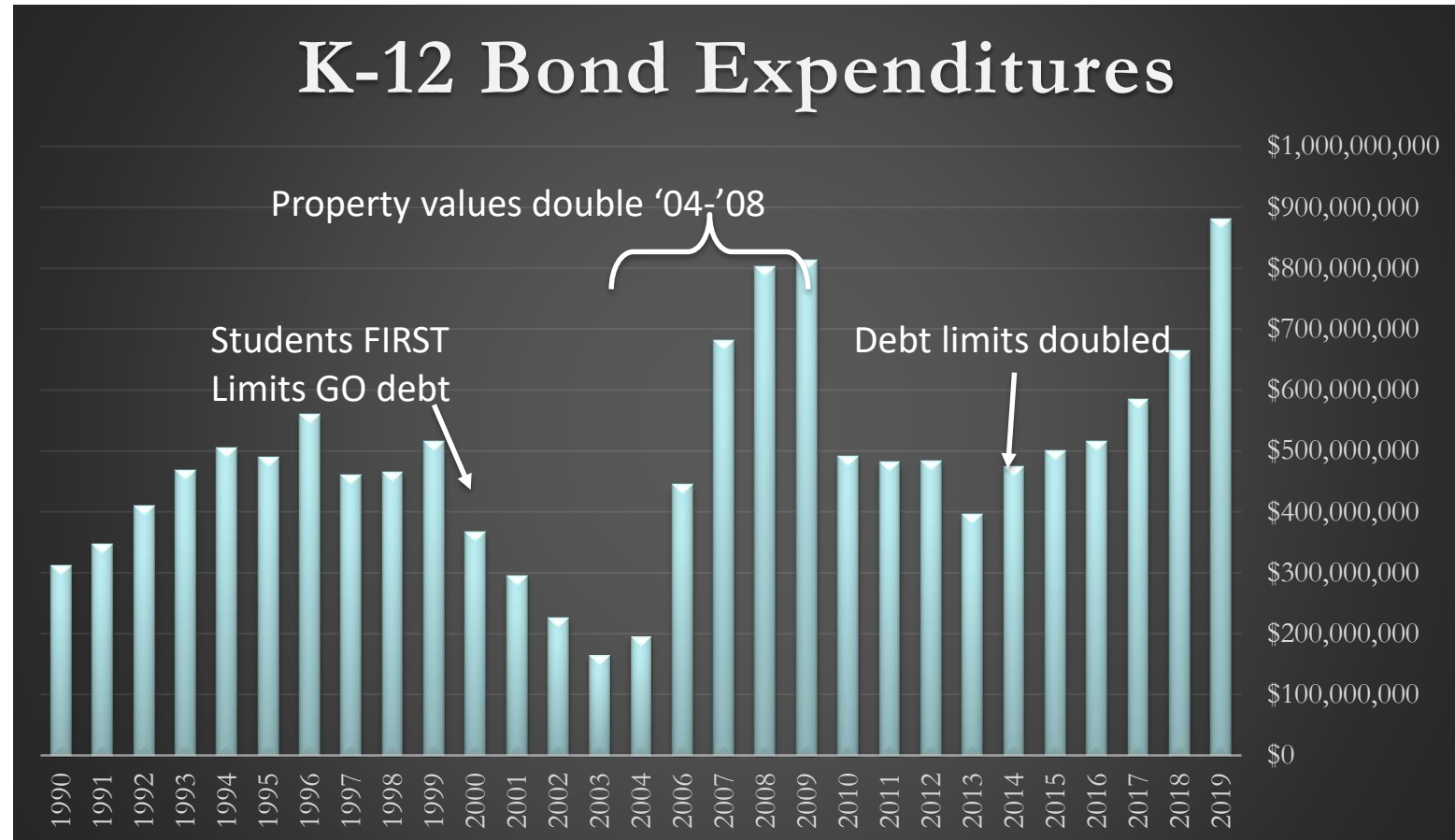






# K-12 General Obligation Bonds

- GO Bonding drivers:
  - Access to debt
  - Voter approval
- Unrelated to pupil growth
  - Record spending FY19
  - Spending will grow for foreseeable future

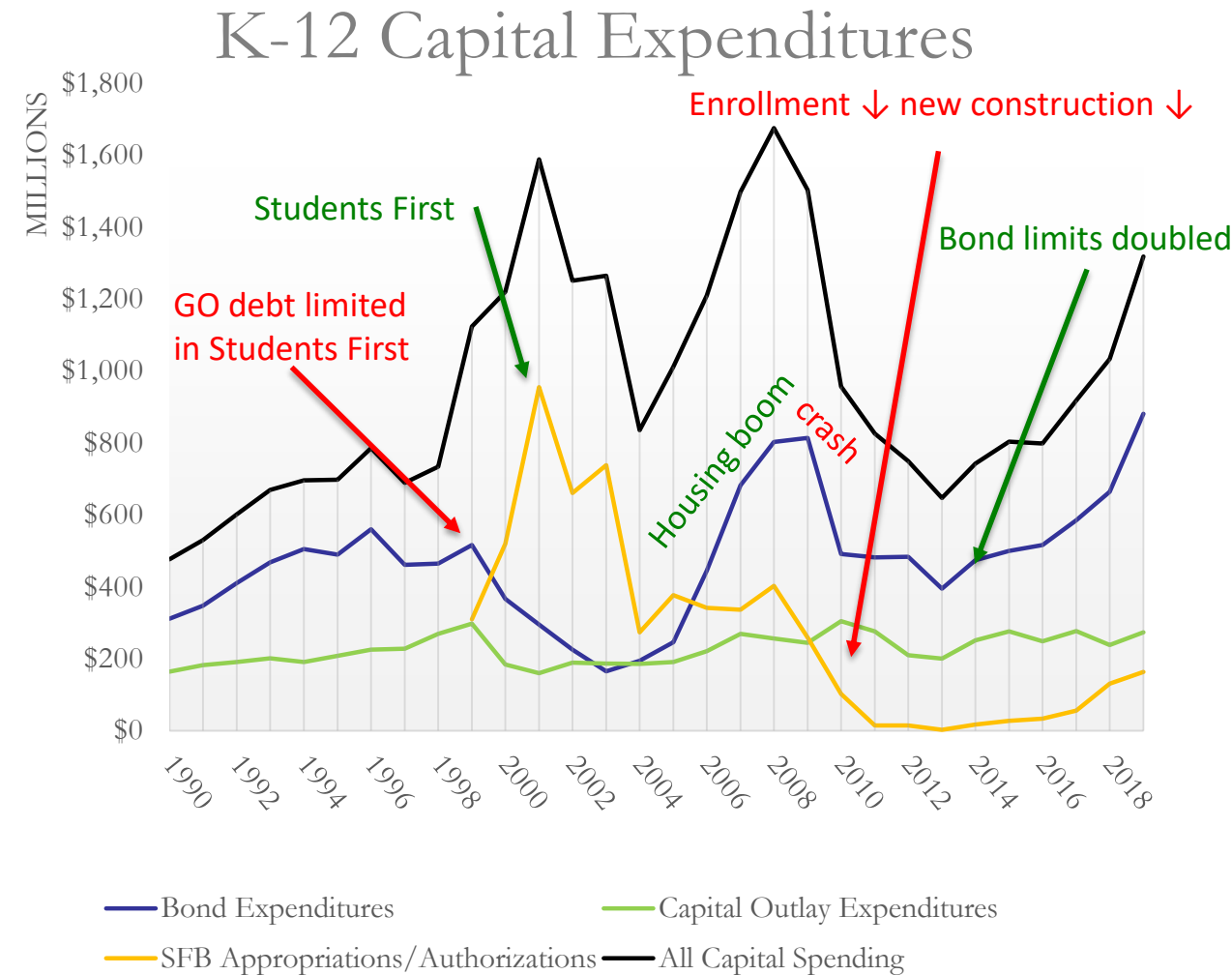






# K-12 District Capital Spending

- Several factors influence
  - Students First
  - Housing/Enrollment boom
  - Housing/Enrollment crash
  - Bonding capacity
- Achieving equity?
  - Equalized spending
  - Less reliance on property values
  - State > local spending



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# Where do bonds & overrides go?

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- Dominantly Maricopa County (65% of district enrollment)
  - 78.5% of Bond dollars, 84.5% of M&O override, 92% DAA override
  - 99% Maricopa district students have bond debt service & an override
  - 23/25 districts with “all three” in Maricopa
  - Median total value: **\$1,936 per pupil**
  - Value of bonds/overrides exceeds charter baseline formula gap for 89% of students
- Only in some areas outside Maricopa
  - Just 30 districts with M&O override + bond; 31% students
  - Median total value: **\$974 per pupil** (those with any secondary)
  - Value of bonds/overrides exceeds charter baseline formula gap 27% of students
    - Does not account for very small districts with Small School Adjustment, just 1.4% of cohort



# Significant Source of Revenue Inequities

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- Property value/pupil a significant factor in B & O per pupil
  - Below median value/pupil: **\$997** per pupil, **\$2.0839** median tax rate
  - Above median value/pupil: **\$1,791** per pupil, **\$0.8885** median tax rate
  - Median of those with one or more local options
- Maricopa Only
  - Below median value/pupil: **\$1,731** per pupil, **\$2.9019** tax rate
  - Above median value/pupil: **\$2,674** per pupil, **\$1.6449** tax rate



# Inequity in Dollar Amount, Tax Rates

## TOP PER PUPIL AMOUNT

Top 10 Districts	FY19 enrollment	Debt Serv pp	M&O pp	DAA OR pp	Total B + O pp
Riverside Elem	842	\$8,724	\$912	\$602	<b>\$10,238</b>
Sedona-Oak Creek USD	773	\$7,695	\$1,009		<b>\$8,705</b>
Gila Bend USD	425	\$3,263	\$1,364		<b>\$4,627</b>
Oracle Elem	363	\$3,080	\$1,349		<b>\$4,429</b>
Madison Elem	5,690	\$2,914	\$866	\$576	<b>\$4,356</b>
Osborn Elem	2,682	\$2,581	\$919	\$558	<b>\$4,059</b>
Phoenix Union HSD	27,088	\$2,302	\$1,016	\$559	<b>\$3,877</b>
Saddle Mountain USD	1,910	\$2,768	\$754		<b>\$3,522</b>
Tolleson Union HSD	11,678	\$1,385	\$1,024	\$665	<b>\$3,074</b>
Continental Elem	546	\$2,060	\$963		<b>\$3,023</b>

## MOST EXPENSIVE TAX RATES

District	FY19 enrollment	Total B + O pp	NAV/Pupil	Value/pp % of median	B + O Tax Rate
Laveen Elem	6,838	\$2,062	\$37,743	39%	<b>\$5.5039</b>
Alhambra Elem	11,438	\$1,475	\$29,943	31%	<b>\$4.9593</b>
Cartwright Elem	14,997	\$965	\$19,592	20%	<b>\$4.9249</b>
Pendergast Elem	8,868	\$1,743	\$43,113	45%	<b>\$4.0425</b>
Glendale Elem	11,437	\$1,136	\$29,260	31%	<b>\$3.8831</b>
Sahuarita USD	6171	\$2,090	\$56,506	59%	<b>\$3.6992</b>
Eloy Elem	771	\$1,050	\$30,360	32%	<b>\$3.4588</b>
Queen Creek USD	7,333	\$2,897	\$84,851	89%	<b>\$3.4142</b>
Littleton Elem	5,685	\$1,784	\$53,305	56%	<b>\$3.3745</b>
Vail USD	12,808	\$1,525	\$46,063	48%	<b>\$3.3111</b>
Mesa USD	59,613	\$1,900	\$57,511	60%	<b>\$3.3037</b>
Holbrook USD	474	\$803	\$25,066	26%	<b>\$3.2025</b>
Higley USD	12,126	\$1,973	\$62,182	65%	<b>\$3.1727</b>
Roosevelt Elem	8,197	\$2,627	\$84,199	88%	<b>\$3.1366</b>

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School District  
Secondary Levy per Pupil & Secondary Tax Rates

Cave Creek  
\$687 \$0.16

Dysart  
\$1,654 \$2.62

Deer Valley  
\$2,214 \$2.49

Paradise Valley  
\$2,656 \$2.09

Peoria  
\$1,682 \$2.92

Glendale Union  
\$1,763 \$1.58

Scottsdale  
\$2,692 \$0.99

Agua Fria  
\$2,440 \$1.32

Glendale  
\$1,136 \$3.88

Madison  
\$4,356 \$2.19

Cartwright  
\$965 \$4.92

Phx Union  
\$3,877 \$1.86

Mesa  
\$1,900 \$3.30

Tolleson Union  
\$3,074 \$2.60

Laveen  
\$2,062 \$5.50

Buckeye Union  
\$2,084 \$1.07

Gilbert  
\$1,736 \$2.49

Kyrene  
\$2,759 \$1.88

Chandler  
\$2,596 \$2.96





# School Facilities Board Reform

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- Thrust of agency's work has changed
  - From building schools to managing grants
  - From \$17m per year in grants to \$110m in renewal grants
- Goals
  - More efficient grant program; less bureaucracy for small projects
  - Modernize the oversight board towards its current role, involve the Leg more
- Transition SFB to a Division within ADOA
  - Appropriation authority to execute the BRG fund
  - Oversight Board sets policies/procedures, manages new school approvals



Questions?