



## Major Tax/Public Finance Issues for 2015

Kevin McCarthy

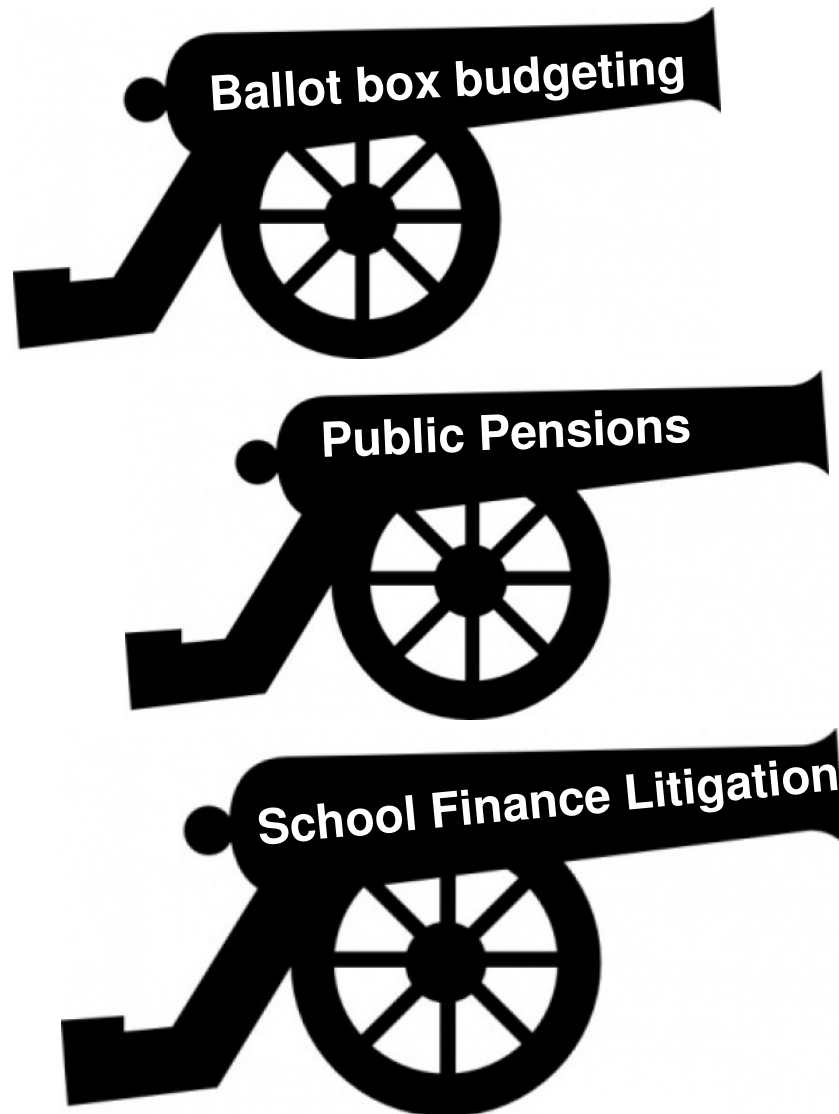
- State Budget Deficit
- Public Pensions
- Chaos in School Finance
- Update on State & Local Taxes

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# Threats to Taxpayers

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Taxpayers in the crosshairs

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## State Budget Deficit

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- For decades ATRA has opposed “ballot-box budgeting” and other measures that stripped state policymakers of authority to set budget priorities
- Too often the policy arguments in opposition to ballot box budgeting were viewed as esoteric
- In many respects, the source of Arizona’s chronic state budget problems are grounded in voter-approved, voter-protected initiatives



## State Budget Deficit - cont

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Could someone hit the reset button?

- Elections bring new opportunities to review existing policies from a different perspective
- Chronic budget deficits should provide the impetus to make meaningful changes to the existing structure
- At some point, Arizonans will have to come to terms with their tolerance level with chronic state budget deficits because the current environment will guarantee their continuation
- K-12 inflation lawsuit is a perfect example of how far this process has deteriorated



## State Budget Deficit - cont

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- Prop 301 Sunset in 2021 provides planning opportunity for reform
- Taxpayers should oppose any plan that earmarks spending outside the control of state policymakers and provides guaranteed funding without regard to available revenue



## Public Pension Reform

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- The public debate on public pension reform didn't end with the defeat of Prop 487 in the City of Phoenix
- PSPRS system in a state of crisis
- PSPRS costs are unsustainable in many AZ cities



## Public Pensions - cont

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- The legal handcuffs placed on policymakers and taxpayers drastically limit their options for improving the funded status for defined-benefit pensions.
- Contracts/Vested Rights
- Pensions clause in AZ Constitution
- The question before policymakers and taxpayers is why they would want to continue to support a system where the deck is so clearly stacked against them?



## Chaos in School Finance

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- School finance system continues to be the subject of litigation
- Costs of litigation almost always fall on the taxpayers
- Equity challenges have ignored property taxpayers where inequity falls the heaviest
- Some taxpayers paying \$0 vs some paying \$15.26 just for K-12 schools

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# Desegregation Tax Levies

School District	FY 2015 Deseg Totals	TY 2014 Primary Rate	Deseg as rate	FY 2015 RCL	Deseg levy as % of RCL	ADM	Deseg\$ /ADM
Tucson Unified	\$63,711,047	\$6.8021	\$2.1225	\$239,967,994	26.5%	46,086	\$1,382
Phoenix Union	\$55,800,892	\$3.4171	\$1.3496	\$141,275,843	39.5%	27,060	\$2,062
Tempe Elementary	\$14,178,248	\$3.3038	\$1.1563	\$52,607,708	27.0%	11,226	\$1,263
Roosevelt Elementary	\$13,570,494	\$4.3869	\$2.7257	\$44,249,659	30.7%	9,551	\$1,421
Phoenix Elementary	\$11,151,530	\$4.4773	\$1.8667	\$32,558,707	34.3%	6,744	\$1,654
Mesa Unified	\$8,774,057	\$4.9302	\$0.3497	\$312,208,054	2.8%	60,210	\$146
Scottsdale Unified	\$7,382,169	\$3.1091	\$0.1694	\$123,083,899	6.0%	23,312	\$317
Washington Elementary	\$6,350,000	\$2.9215	\$0.5886	\$105,669,590	6.0%	18,331	\$346
Cartwright Elementary	\$4,628,061	\$4.3281	\$2.3292	\$80,454,593	5.8%	17,738	\$261
Glendale Union	\$6,131,959	\$2.5904	\$0.4649	\$76,091,974	8.1%	14,961	\$410
Isaac Elementary	\$4,951,155	\$2.6025	\$4.2686	\$31,179,458	15.9%	6,637	\$746
Amphitheater Unified	\$4,025,000	\$4.3876	\$0.2924	\$68,823,015	5.8%	13,759	\$293
Holbrook Unified	\$2,517,481	\$3.7778	\$5.4503	\$12,302,062	20.5%	2,037	\$1,236
Flagstaff Unified	\$2,241,322	\$3.8502	\$0.2171	\$49,553,965	4.5%	9,268	\$242
Wilson Elementary	\$1,946,054	\$4.4554	\$2.4673	\$5,465,351	35.6%	1,164	\$1,672
Window Rock Unified**	\$0	\$0.0000	\$0.0000	\$12,513,895	0.0%	2,056	\$0
Agua Fria Union	\$999,000	\$2.9900	\$0.1079	\$36,109,498	2.8%	7,605	\$131
Buckeye Elementary	\$1,701,402	\$3.7761	\$1.0608	\$21,034,328	8.1%	4,697	\$362
Maricopa Unified	\$1,291,000	\$5.1646	\$0.5596	\$30,183,623	4.3%	2,725	\$474
<b>Totals</b>	<b>\$211,350,871</b>	<b>\$3.7511</b>	<b>\$1.4498</b>	<b>\$77,649,117</b>	<b>14.9%</b>	<b>15,009</b>	<b>\$759</b>

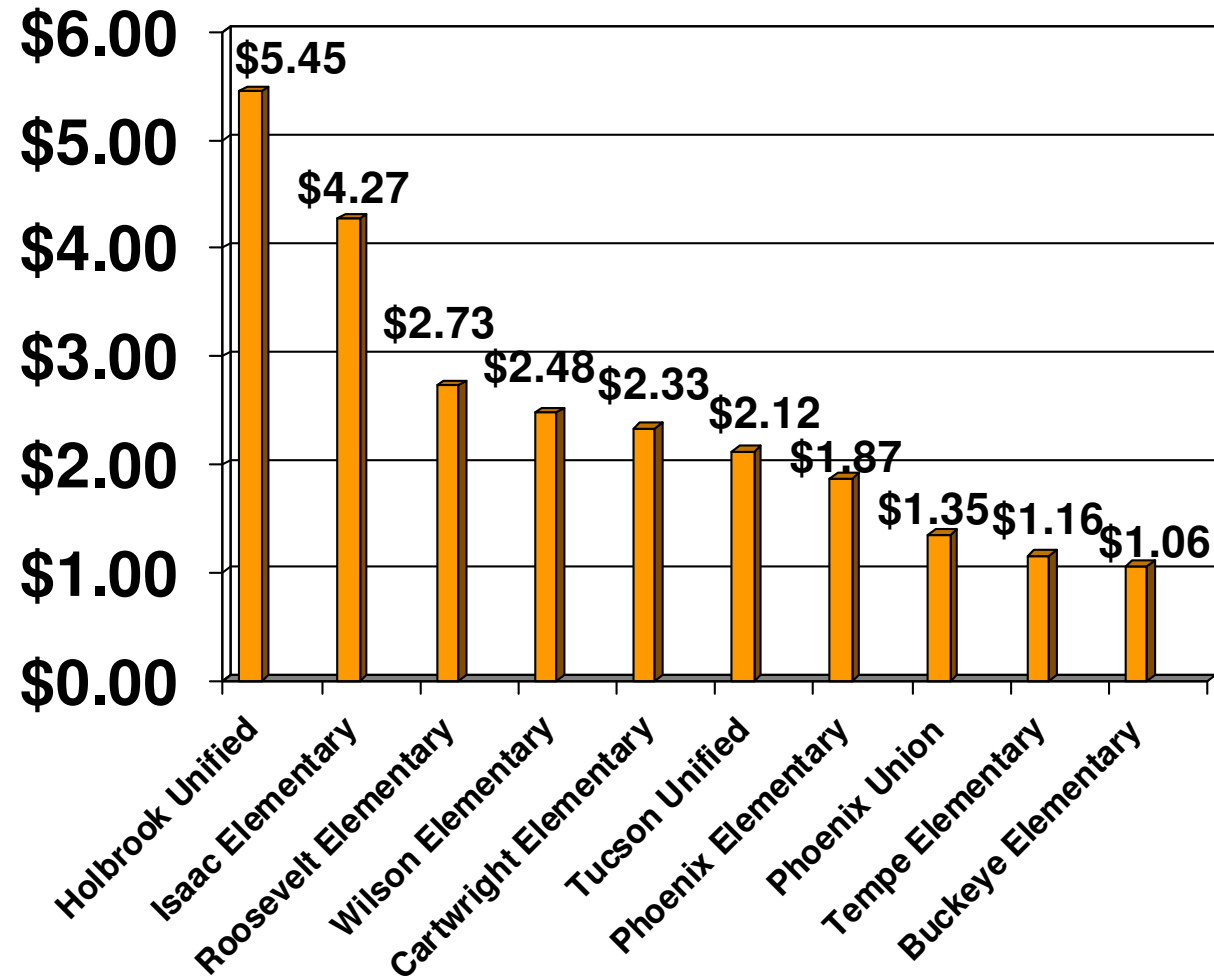
**Statewide total \$211m in FY15**

Source: JLBC

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# Top 10 Deseg Tax Rates



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# Top 10 Small School Tax Levies

## By percentage of Revenue Control Limit

<b>School District</b>	<b>FY 15 Total</b>	<b>Primary Rate</b>	<b>Levy as rate</b>	<b>RCL</b>	<b>% RCL</b>
Crown King Elementary District	\$86,971	\$1.4492	\$2.1008	13,798	<b>630.32%</b>
Empire Elementary District	\$280,000	\$2.1687	\$3.6551	73,916	<b>378.81%</b>
Yucca Elementary District	\$456,667	\$2.6383	\$1.8826	220,367	<b>207.23%</b>
Young Elementary District	\$756,000	\$6.8191	\$4.4057	379,822	<b>199.04%</b>
Bouse Elementary District	\$434,432	\$4.2376	\$2.8471	219,967	<b>197.50%</b>
Pine Strawberry Elementary District	\$2,009,375	\$4.9648	\$3.6544	1,104,925	<b>181.86%</b>
Sentinel Elementary District	\$523,500	\$10.0411	\$6.6923	368,188	<b>142.18%</b>
Mobile Elementary District	\$430,756	\$8.1774	\$4.4160	309,937	<b>138.98%</b>
Bowie Unified District	\$751,348	\$11.1018	\$7.2010	566,227	<b>132.69%</b>
Wenden Elementary District	\$756,407	\$5.9308	\$5.1552	589,969	<b>128.21%</b>

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# Transportation Revenue Control Limit (TRCL) vs. Transportation Support Level (TSL)

- As districts contract in size, the TRCL delta grows
  - FY09: \$60m levied in addition to TSL
  - FY14: \$75m levied
- Un-equalized; monies levied outside the RCL

## Top 10 Districts with Highest TRCL-TSL Levy

Name	TSL	TRCL	TRCL-TSL	Diff per ADM
Tucson Unified District	\$16,045,533.71	\$19,484,449.71	\$3,438,916.00	\$71.16
Flagstaff Unified District	\$3,640,010.83	\$5,819,851.51	\$2,179,840.68	\$240.91
Scottsdale Unified District	\$5,979,129.16	\$8,101,259.69	\$2,122,130.53	\$87.57
Phoenix Union High School District	\$7,242,720.98	\$9,337,670.46	\$2,094,949.48	\$82.32
Deer Valley Unified District	\$6,812,436.46	\$8,694,165.80	\$1,881,729.34	\$57.77
Window Rock Unified District	\$962,799.72	\$2,839,769.98	\$1,876,970.26	\$847.98
Ganado Unified School District	\$1,667,576.93	\$3,530,580.37	\$1,863,003.44	\$1,338.40
Mesa Unified District	\$17,765,968.72	\$19,190,021.45	\$1,424,052.73	\$23.64
Yuma Union High School District	\$3,314,557.26	\$4,718,120.49	\$1,403,563.23	\$132.08



# Primary Tax Rate Comparison FY15

UNIFIED DISTRICTS (FULL QTR)	
QTR = \$4.2246	PRI RATE

### Highest

Grand Canyon Unified	\$12.10
Hayden-Winkelman Elementary	\$11.89
Bowie Unified	\$11.10
Sentinel Elementary	\$10.04
San Simon Unified	\$8.94
McNeal Elementary	\$8.06
Colorado City Unified	\$8.00
Seligman Unified	\$7.73
Mobile Elementary	\$7.76
Ash Fork Joint Unified	\$7.38

### Lowest

Continental Elementary	\$2.26
Cave Creek Unified	\$2.24
Sedona Oak Creek Unified	\$2.23
Saddle Mountain Unified	\$2.19
Empire Elementary	\$2.17
Bagdad Unified	\$2.12
Eagle Elementary	\$2.11
Winslow Unified	\$2.10
Morenci Unified	\$2.07
Round Valley Unified	\$2.07

SPLIT QTR DISTRICTS	
QTR = \$2.1123	PRI RATE

### Highest

Wenden Elementary	\$5.93
Ash Creek Elementary	\$5.40
Elfrida Elementary	\$4.58
Wilson Elementary	\$4.46
Roosevelt Elementary	\$4.39
Bouse Elementary	\$4.24
Pearce Elementary	\$4.16
Sonoita Elementary	\$4.06
Salome Elementary	\$3.96
Phoenix Elementary	\$3.95

### Lowest

Creighton Elementary	\$2.10
Balsz Elementary	\$2.10
Fowler Elementary	\$2.04
Tolleson Elementary	\$1.98
Yuma Union	\$1.96
Union Elementary	\$1.85
Murphy Elementary	\$1.43
Bicentennial Union	\$1.40
Riverside Elementary	\$1.37
Arlington Elementary	\$1.11

\*\*Lowest of districts that have a rate

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# Total Rate Comparisons FY15

**UNIFIED DISTRICTS (FULL QTR)**  
**TOTAL RATE**

**Highest**

Hayden-Winkelman Unified	\$24.22
Grand Canyon Unified	\$13.08
Bowie Unified	\$11.10
Hayden-Winkelman Unified	\$10.75
Sentinel Elementary	\$10.04
Colorado City Unified	\$9.78
San Simon Unified	\$8.94
Willcox Unified	\$8.48
Mobile Elementary	\$8.18
Duncan Unified	\$7.84

**Lowest**

Walnut Grove Elementary	\$2.51
Round Valley Unified	\$2.46
Bagdad Unified	\$2.43
Cave Creek Unified	\$2.35
Chevelon Butte Unified	\$2.34
Morenci Unified	\$2.32
Continental Elementary	\$2.26
Empire Elementary	\$2.17
Eagle Elementary	\$2.11
Parker Unified	\$1.14

**SPLIT QTR DISTRICTS**  
**TOTAL RATE**

**Highest**

Cartwright Elementary	\$10.64
Roosevelt Elementary	\$7.58
Pendergast Elementary	\$7.27
Laveen Elementary	\$7.01
Alhambra Elementary	\$7.00
Wilson Elementary	\$6.75
Phoenix Elementary	\$6.72
Glendale Elementary	\$6.47
Isaac Elementary	\$6.36
Washington Elementary	\$6.02

**Lowest**

Picacho Elementary	\$2.62
Red Rock Elem.	\$2.60
Gadsden Elementary	\$2.40
Bullhead City Elem.	\$2.37
Quartzite Elementary	\$2.35
Patagonia Union	\$2.25
Wellton Elementary	\$2.00
Sierra Vista Union	\$1.78
Bicentennial Union	\$1.53
Arlington Elementary	\$1.29

\*\*Lowest of districts that have a rate

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# FY15 snapshot of Phoenix Union

<u>LEVY</u>			<u>Rate Increase</u>
\$2.1m	→	TRCL-TSL	\$0.05
\$56m	→	Deseg	\$1.35
\$20.9m	→	Override	\$0.48

- \$78.8m outside RCL; adds \$1.88 to total rate
- \$2,913 per pupil on top of the RCL

## *Phoenix Elementary District*

- \$2,496 per pupil for Phoenix Elem on top of RCL- adds \$2.77 to total rate
- Total rate outside RCL for both: \$4.65 for Phoenix Union/Elem.
- \$11.34 per \$100 of assessed value for Phoenix El/Union taxpayers for K-12

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## Arizona's Low Per Pupil Expenditure Ranking

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- Arguably no single statistic dominates Arizona's public finance debate more than our K-12 M&O per pupil expenditure ranking
- Arizona has consistently ranked low for decades
- Is the ranking a result of a lack of taxpayer/policymaker support for K-12 schools? Or do other factors play a role in our low relative ranking?





## Some perspective is in order

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- Arizona ranked 41<sup>st</sup> in M&O spending per pupil in 1992 and 48<sup>th</sup> in 2012
- From 1992 to 2012, Arizona ranked #7 in the percentage growth (173%) of K-12 M&O spending nationally
- How do we fall in relative ranking when we rank 7<sup>th</sup> in total M&O expenditure growth from 1992 to 2012?



## Student Growth

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- Between 1992 and 2012 Arizona's K-12 student population climbed 43% - 2nd highest in the country
- 27 states in the country experienced student growth under 10%
- 15 states had declining student counts



# Tale of Two States:

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- Arizona:
  - 1992 M&O rank – 41<sup>st</sup>
  - 2012 M&O rank – 48<sup>th</sup>
  - M&O expenditure growth – 173% (7<sup>th</sup>)
  - Student growth – 43% (2<sup>nd</sup>)
- North Dakota:
  - 1992 M&O rank – 39<sup>th</sup>
  - 2012 M&O rank – 17<sup>th</sup>
  - M&O expenditure growth – 112% (44<sup>th</sup>)
  - Student growth - down 18% (50<sup>th</sup>)



# Per Pupil Spending vs Student Growth

## High Student Growth

## Low Per Pupil Spending

Rank	State	2012 Student Count	Change from 1992
1	Nevada	428,526	101.5%
<b>2</b>	<b>Arizona</b>	<b>942,738</b>	<b>42.7%</b>
3	Colorado	843,120	41.8%
4	Georgia	1,669,156	41.5%
5	Texas	4,844,744	38.8%
6	Florida	2,658,559	32.6%
7	North Carolina	1,462,172	32.5%
8	Virginia	1,257,332	21.6%
9	Utah	553,873	21.2%
10	Washington	1,044,856	19.7%
11	Tennessee	998,638	18.9%
12	California	6,203,034	18.8%
13	Idaho	267,556	18.1%

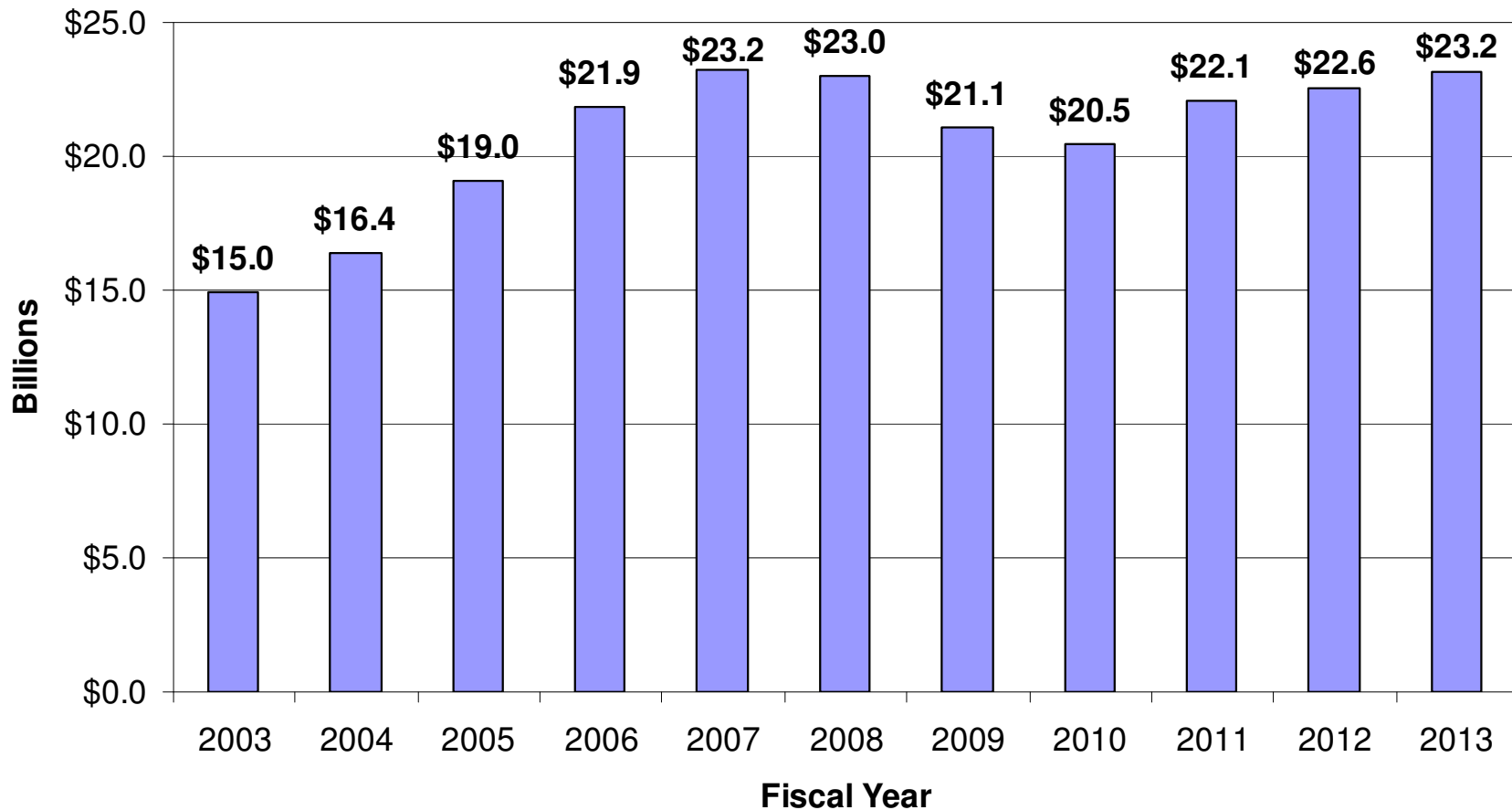
<b>35</b>	Georgia	\$9,426
<b>36</b>	Arkansas	\$9,384
<b>37</b>	South Dakota	\$9,347
<b>38</b>	California	\$9,060
<b>39</b>	Alabama	\$8,811
<b>40</b>	Tennessee	\$8,647
<b>41</b>	North Dakota	\$8,549
<b>42</b>	Florida	\$8,539
<b>43</b>	Idaho	\$8,528
<b>44</b>	Nevada	\$8,501
<b>45</b>	Mississippi	\$8,466
<b>46</b>	North Carolina	\$8,363
<b>47</b>	Texas	\$8,275
<b>48</b>	Indiana	\$8,064
<b>49</b>	Oklahoma	\$7,912
<b>50</b>	Utah	\$7,223
<b>51</b>	<b>Arizona</b>	<b>\$6,949</b>

\*K-12 per pupil spending from 2013, NEA

*All but 2 of the fastest growing states (>18%) in K-12 appear in the bottom 16 of per-pupil expenditures*

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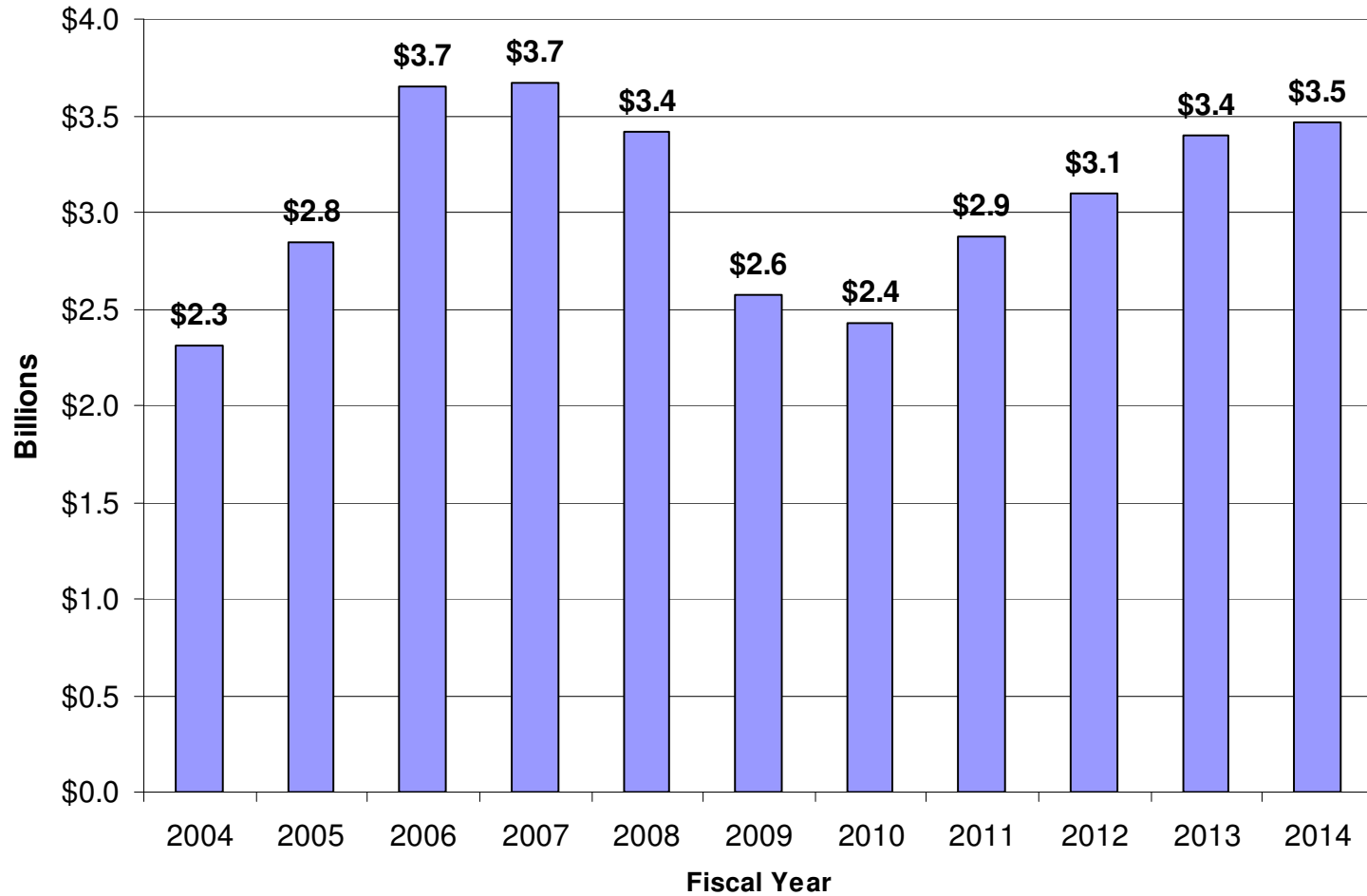
# Arizona's State and Local Taxes FY03 to FY13



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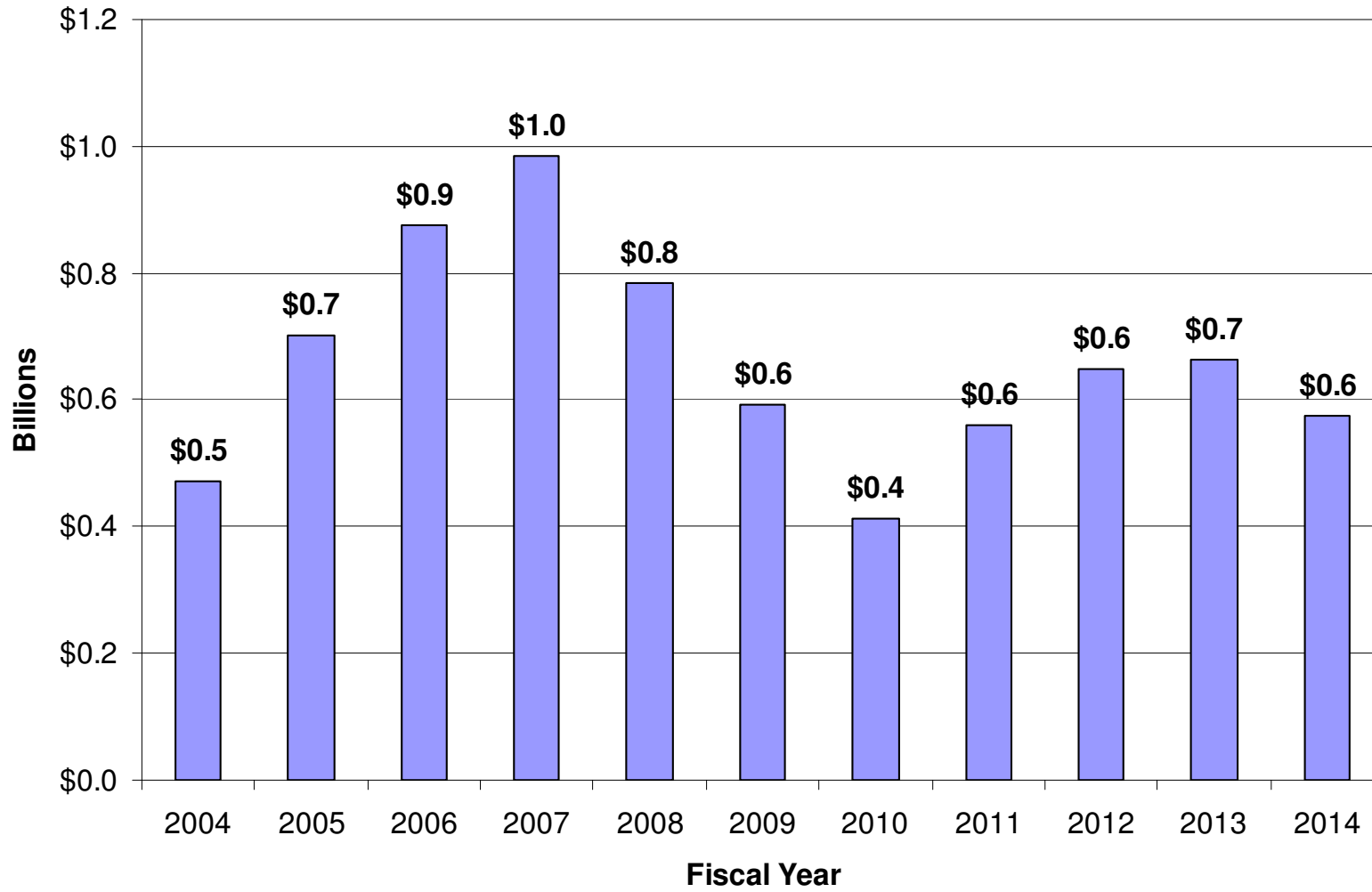
# Individual Income Taxes

## 2004 - 2014



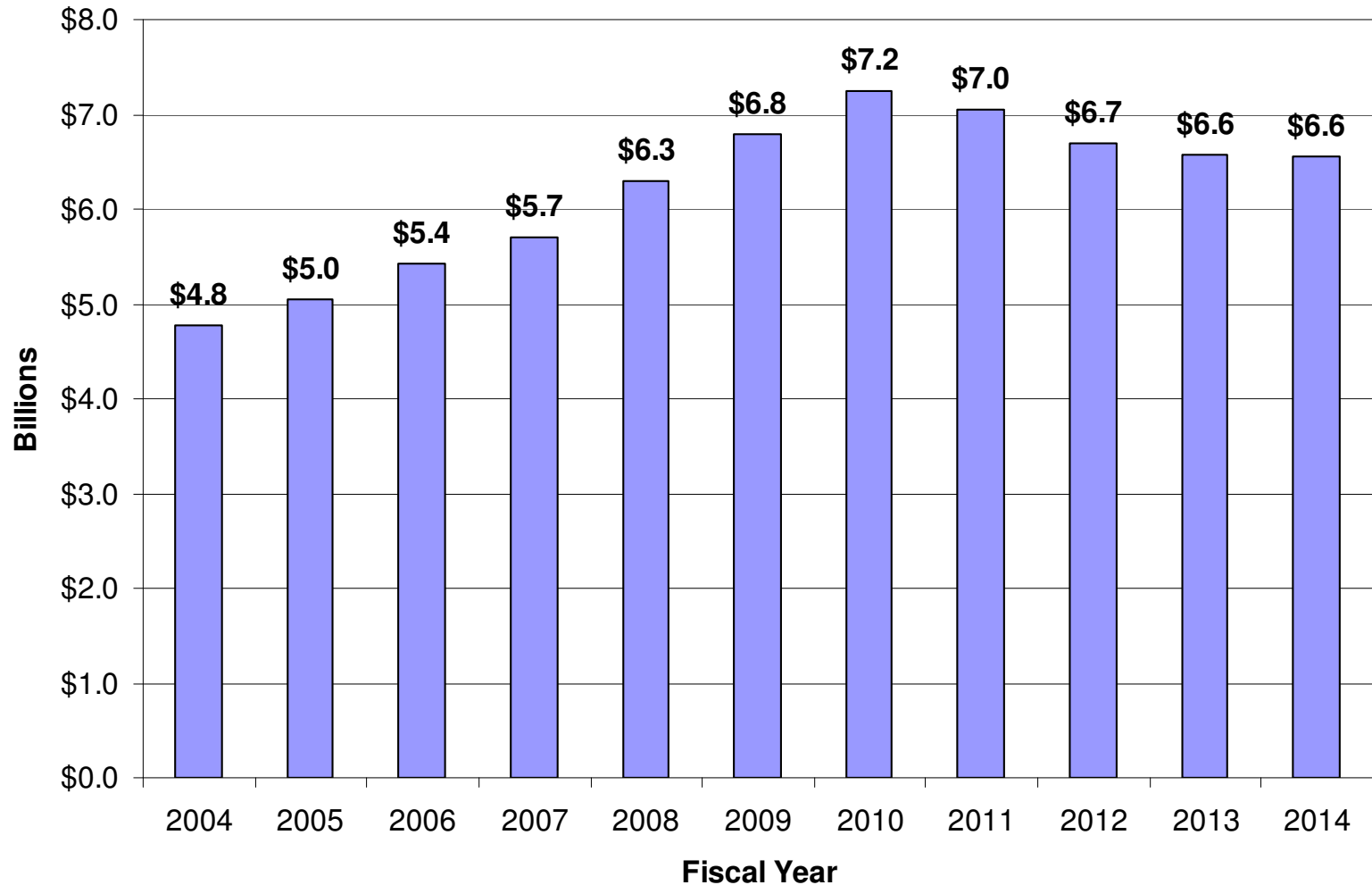
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# Corporate Income Taxes 2004 - 2014



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# State & Local Property Taxes 2004-2014

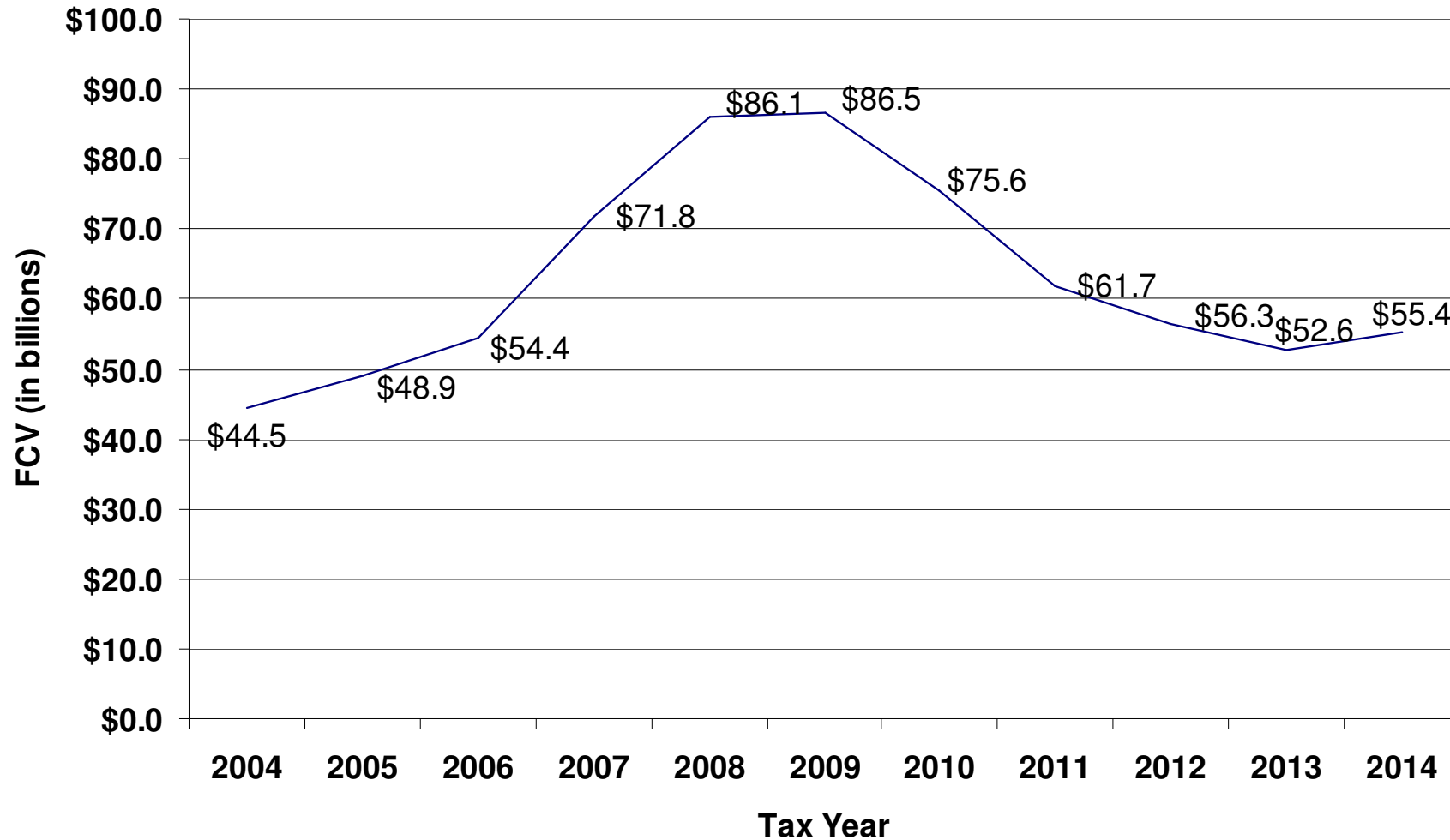


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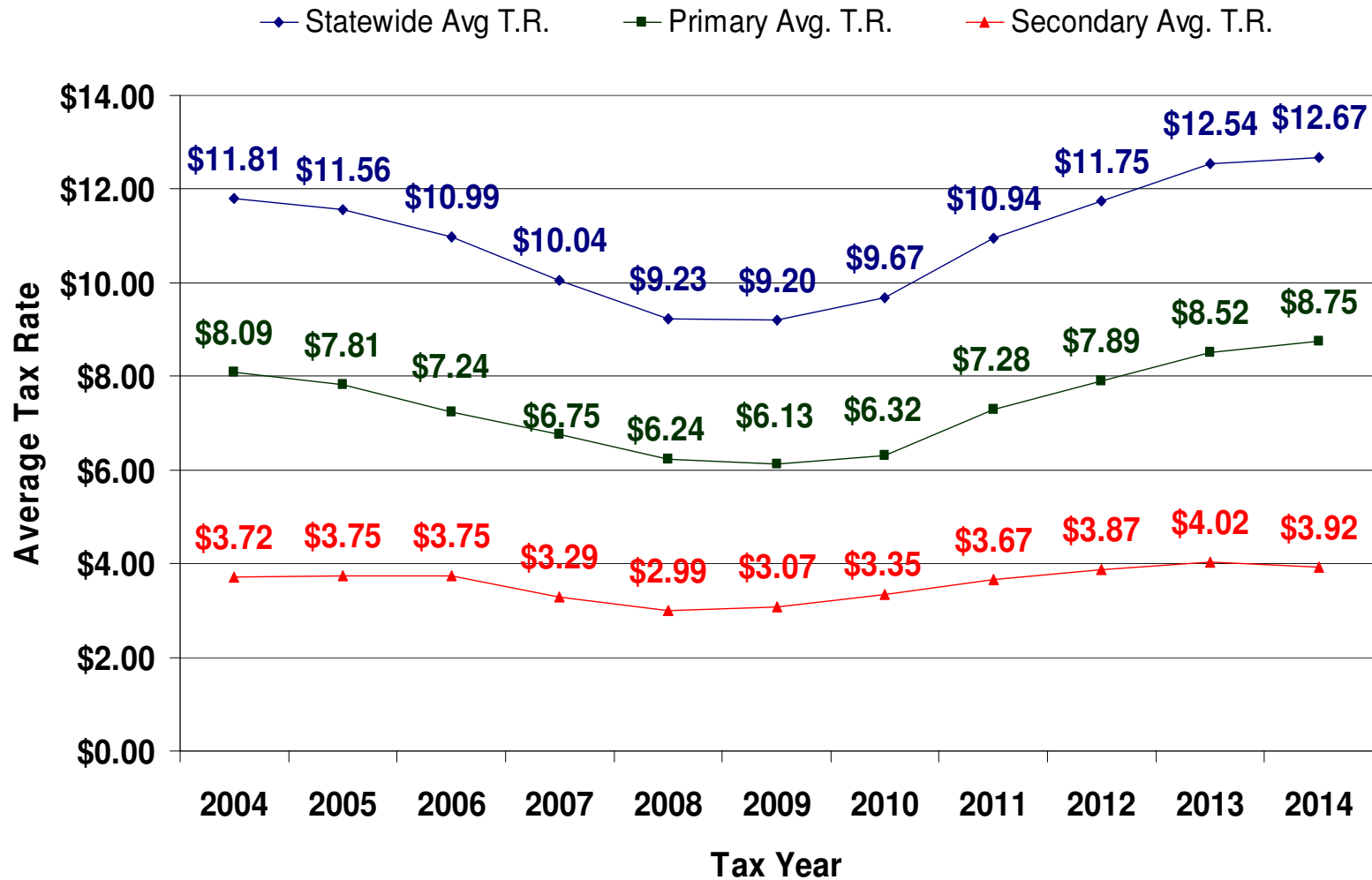
# Secondary Net Assessed Values



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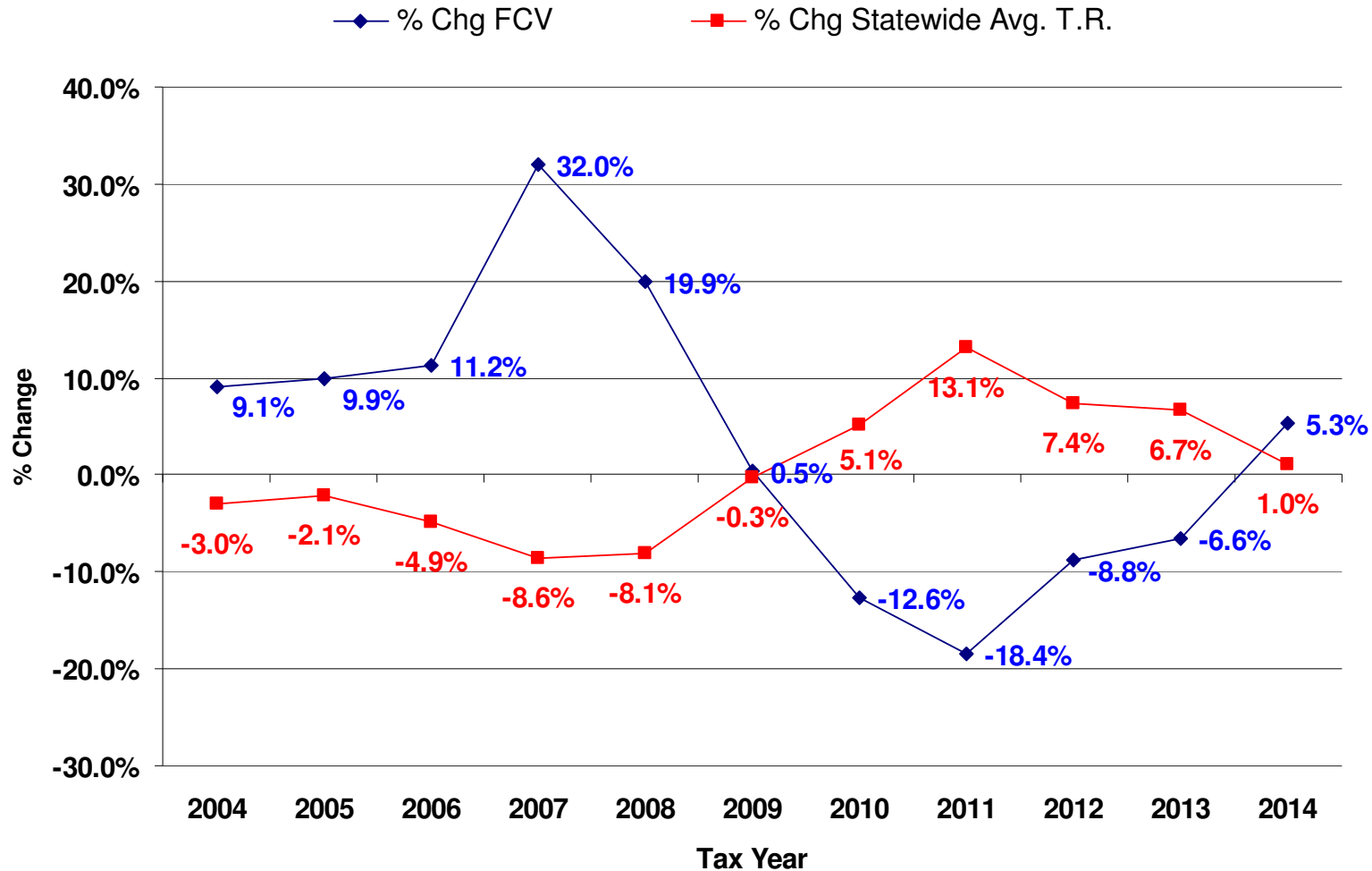
# Statewide Average Tax Rates



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# % Change in FCV vs. Statewide AVG T.R.

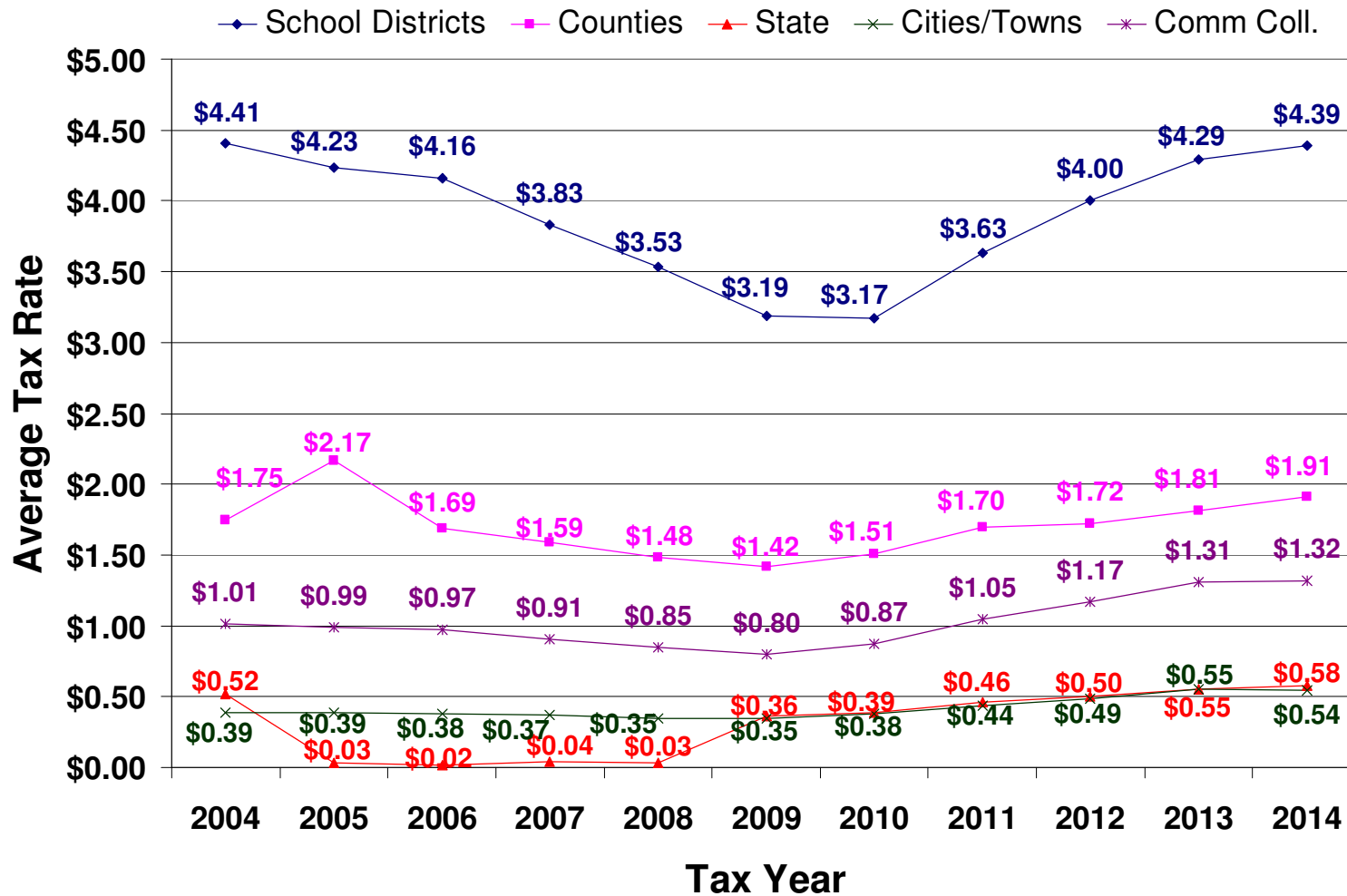


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# Most volatility at the K-12 level

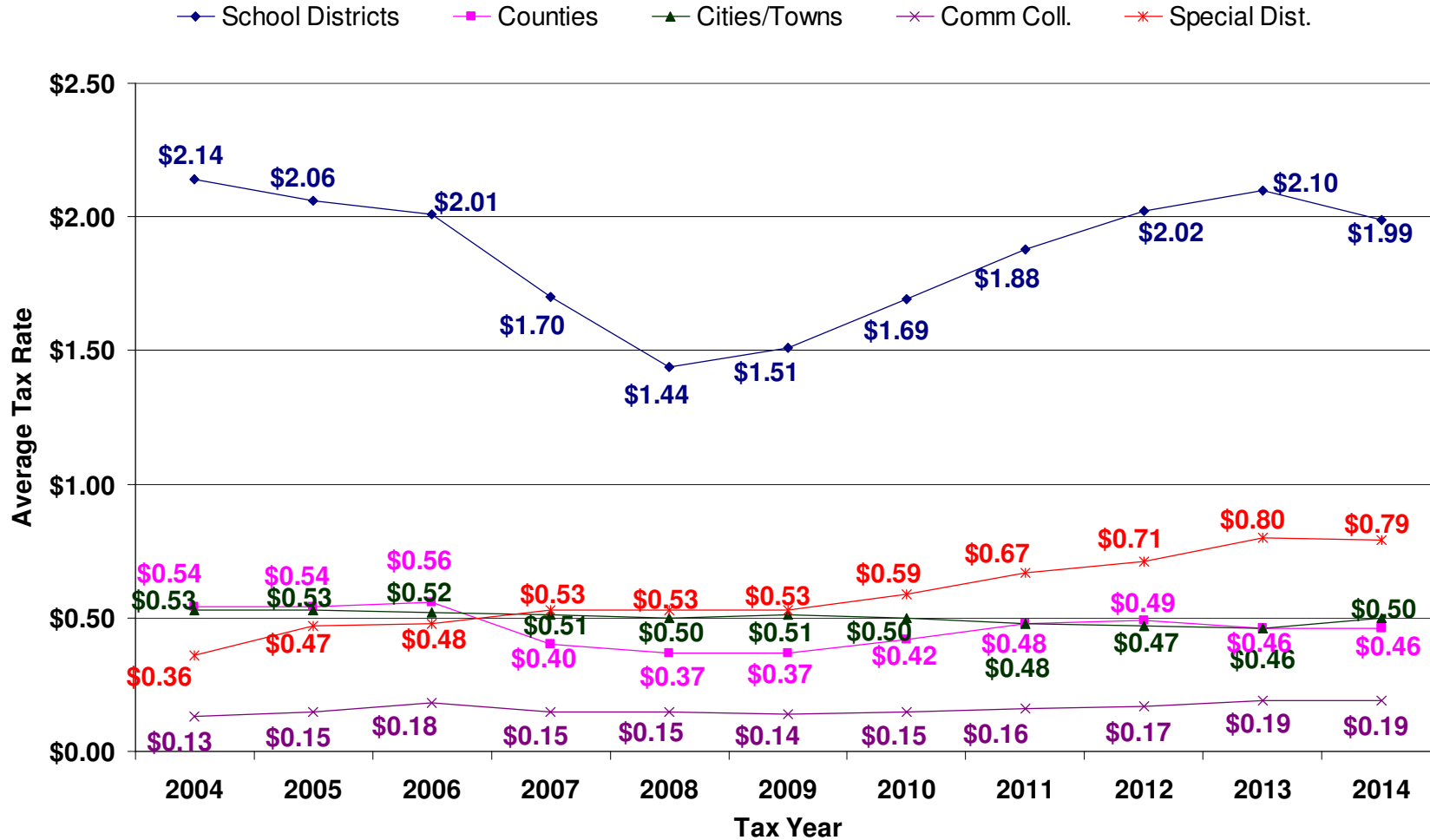
**Primary Average Tax Rates**



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# Secondary Average Tax Rates



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# Property Tax Shifts

2013 Effective Tax Rates					
Class	Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Total	Effective Rate
1	103,112,258,564	24.04%	2,381,623,651	39.27%	2.31%
2	22,274,054,197	5.19%	415,038,850	6.84%	1.86%
3	221,201,847,507	51.58%	2,296,150,210	37.86%	1.04%
4	73,819,187,032	17.21%	903,733,471	14.90%	1.22%
5	1,619,641,861	0.38%	27,873,066	0.46%	1.72%
6	6,676,107,974	1.56%	39,197,329	0.65%	0.59%
7	30,756,875	0.01%	597,905	0.01%	1.94%
8	9,851,792	0.00%	81,361	0.00%	0.83%
9	147,785,067	0.03%	187,982	0.00%	0.13%
Total	428,891,490,869	100.00%	6,064,483,824	100.00%	1.41%

2009 Effective Tax Rates					
Class	Total Taxable Full Cash Value	Percent of Total	Total Yield	Percent of Total	Effective Rate
1	133,344,947,390	19.53%	2,377,706,320	35.56%	1.78%
2	58,677,487,297	8.60%	627,336,056	9.38%	1.07%
3	416,678,070,929	61.04%	3,061,577,055	45.78%	0.73%
4	66,453,847,165	9.74%	570,169,971	8.53%	0.86%
5	1,518,081,799	0.22%	23,493,355	0.35%	1.55%
6	5,849,721,121	0.86%	25,998,195	0.39%	0.44%
7	40,633,981	0.01%	557,747	0.01%	1.37%
8	12,400,708	0.00%	88,935	0.00%	0.72%
9	26,369,225	0.00%	23,748	0.00%	0.09%
Total	682,601,559,615	100.00%	6,686,951,383	100.00%	0.98%

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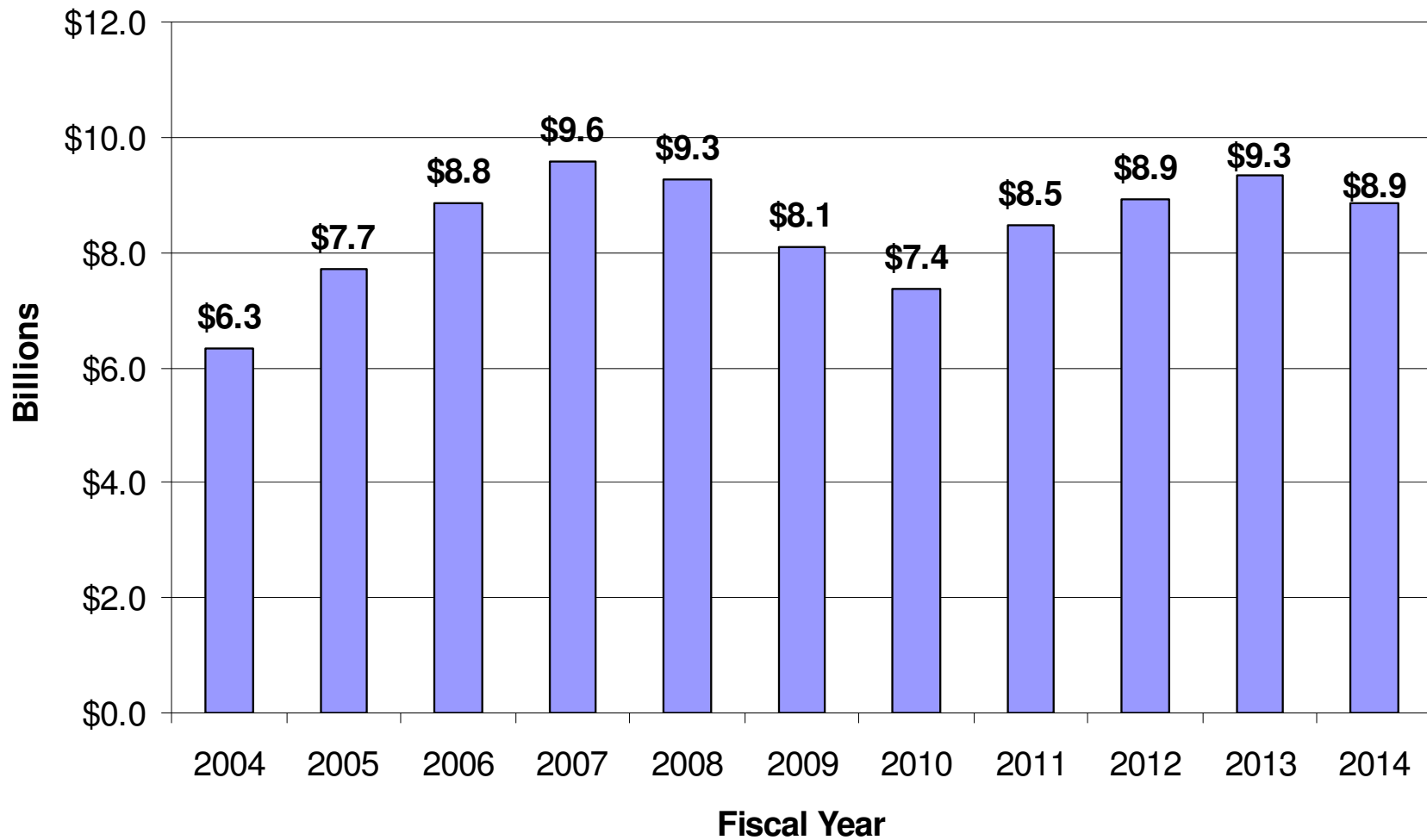
# Property Tax Shifts

<b>2009-2013 Effective Tax Rates Difference</b>					
<b>Class</b>	<b>Total Taxable Full Cash Value</b>	<b>Percent of Total</b>	<b>Percent of Total Yield</b>	<b>Percent of Total</b>	<b>Effective Rate</b>
1	(30,232,688,825)	4.51%	3,917,330	3.71%	0.53%
2	(36,403,433,100)	-3.40%	(212,297,206)	-2.54%	0.79%
3	(195,476,223,422)	-9.47%	(765,426,844)	-7.92%	0.30%
4	7,365,339,867	7.48%	333,563,500	6.38%	0.37%
5	101,560,062	0.16%	4,379,710	0.11%	0.17%
6	826,386,853	0.70%	13,199,134	0.26%	0.14%
7	(9,877,107)	0.00%	40,157	0.00%	0.57%
8	(2,548,916)	0.00%	(7,574)	0.00%	0.11%
9	121,415,842	0.03%	164,233	0.00%	0.04%
<b>Total</b>	<b>(253,710,068,746)</b>	<b>0.00%</b>	<b>(622,467,559)</b>	<b>0.00%</b>	<b>0.43%</b>

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# Sales taxes 2004 - 2014



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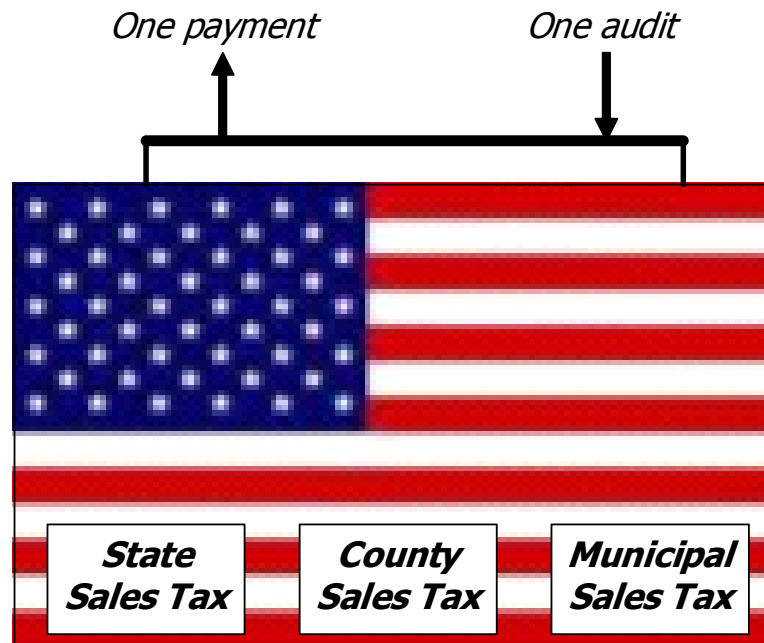




# Post HB2111

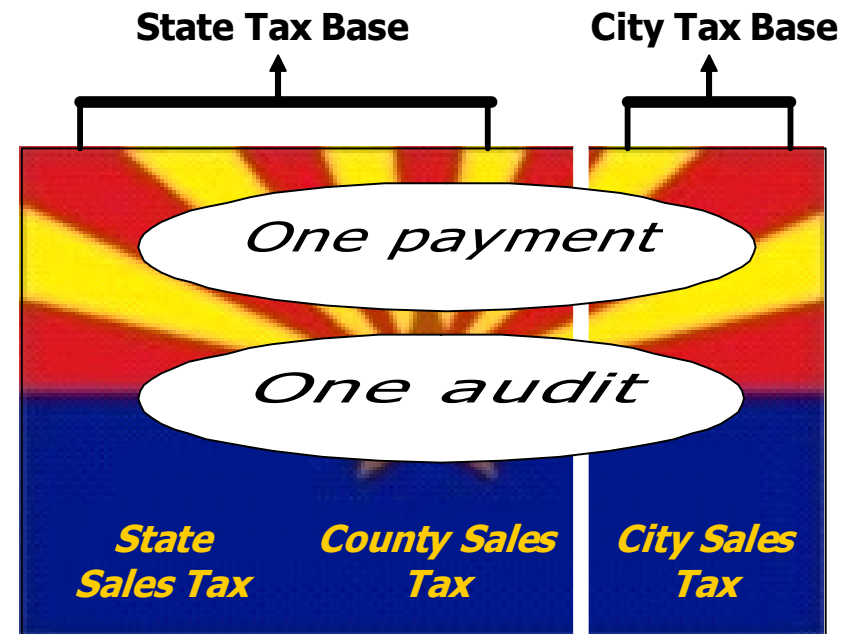
## ***Most States***

*One payment, one audit*



***One uniform sales tax base***

## ***Arizona***



***Maintains multiple tax bases***

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## Sales Tax Reforms on hold

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- Regrettably, the central features of TPT Reform from 2013 were put on hold until January 2016
- Complex system puts taxpayers interests at the back of the line again
- Bottom line is state level collection of TPT will never occur if every city issue and every city demand is resolved

# ARIZONA TAX RESEARCH ASSOCIATION



# Questions?

## ARIZONA TAX RESEARCH ASSOCIATION



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