



PSPRS COSTS PLAGUE CITY & FIRE DISTRICT BUDGETS

City Budgets Climb to \$5.6 Billion

Jennifer Stielow

City general fund (GF) budgets received a 6.7% boost in FY 2020 to \$5.6 Billion. The funding needs of Arizona's 91 cities and towns vary but the one constant pressure placed on local government budgets continues to be the spiraling unfunded pension liability costs associated with the Public Safety Personnel Retirement System (PSPRS).

The major revenue sources funding city government include local transaction privilege taxes (sales), property taxes, and state shared revenues. In FY 2020, the state shared revenues distributed to cities and towns will reach approximately \$2 billion. State shared income taxes, also known as Urban Revenue Sharing (URS), will jump 9.3% this year to \$740 million. The state is anticipated to share another \$590 million in sales tax revenues and nearly \$700 million in HURF and Vehicle License Taxes (VLT) to city and town special revenue funds.

GF Budget Growth

The 6.7% increase in budgeted city GF expenditures represents an additional \$354 million in planned spending this year. The most notable increases in GF budgets include Cave Creek 56.3%, Carefree 29.4%, Paradise Valley 44.4%, and Queen Creek 22.7%. This year's 6.7% increase is higher than the 5% average annual increase adopted by cities between FY 2014 and FY 2019.

GF Beginning Fund Balances

Cities and towns start this fiscal year with \$1.6 billion in beginning fund balances, an increase of \$197 million or 13.7% over last year, which represents 29% of total GF budgets. Five cities—Cave Creek, Queen Creek, Eloy, El Mirage, and Litchfield Park—have fund balances that are more than twice their GF budgeted expenditures. In fact, more than 50 cities have fund balances that exceed 20% of their budgeted expenditures, 20 of which exceed 50%. Approximately twenty cities failed to report a beginning fund balance in FY 2020. Between FY 2014 and FY 2019, city beginning fund balances grew substantially, from \$833 million (20% of GF budgeted expenditures) to over \$1.4 billion (27% of budgeted expenditures).

Local TPT

Local TPT revenues are the largest funding source for most city budgets. With a good economy and some raising rates, local TPT revenues have grown nearly 36% to over \$3 billion over the last five years. Cities and towns levy different tax rates for the sixteen TPT classifications, including retail, utilities, prime contracting, restaurants and bar, and lodging. Revenues generated through retail account for over 50% of total TPT revenues. The average

City	FY 2019 Primary Rate	FY 2020 Primary Rate	Diff.	TNT Rate	Over TNT	% Increase
Hayden	5.9635	8.5000	2.5365	5.6183	2.8817	51.3%
Casa Grande	0.9905	1.0606	0.0701	0.9225	0.1381	15.0%
Coolidge	1.8759	1.8759	0.0000	1.7454	0.1305	7.5%
Queen Creek	1.9500	1.9500	0.0000	1.8257	0.1243	6.8%
Buckeye	1.8000	1.8000	0.0000	1.6905	0.1095	6.5%
Yuma	2.2747	2.3185	0.0438	2.1847	0.1338	6.1%
Peoria	0.2900	0.2900	0.0000	0.2762	0.0138	5.0%
Lake Havasu	0.6718	0.6718	0.0000	0.6404	0.0314	4.9%
Surprise	0.7591	0.7591	0.0000	0.7252	0.0339	4.7%
Maricopa	4.7845	4.7845	0.0000	4.5808	0.2037	4.4%
Benson	0.8288	0.8704	0.0416	0.8367	0.0337	4.0%
Phoenix	1.3163	1.3055	-0.0108	1.2649	0.0406	3.2%
Avondale	0.7318	0.7003	-0.0315	0.6865	0.0138	2.0%
Goodyear	1.1084	1.0619	-0.0465	1.0410	0.0209	2.0%
Winslow	1.4123	1.3916	-0.0207	1.3643	0.0273	2.0%
Bisbee	2.8261	2.9152	0.0891	2.8581	0.0571	2.0%
Gila Bend	0.5337	0.6850	0.1513	0.6716	0.0134	2.0%
El Mirage	2.0603	1.9835	-0.0768	1.9447	0.0388	2.0%
Florence	1.1060	1.0738	-0.0322	1.0528	0.0210	2.0%
Flagstaff	0.8334	0.7933	-0.0401	0.7778	0.0155	2.0%
Tempe	0.9189	0.9010	-0.0179	0.8834	0.0176	2.0%
Clarkdale	1.6455	1.6150	-0.0305	1.5839	0.0311	2.0%
Safford	0.5135	0.5135	0.0000	0.5042	0.0093	1.8%
Scottsdale	0.5316	0.5198	-0.0118	0.5108	0.0090	1.8%

sales tax rate levied by cities for retail is 2.7% and the average overall tax rate is approximately 9% after including the state and county tax rates.

Property Taxes

Primary taxes

Fifty of Arizona's 91 cities and towns levy a primary property tax to support their GF budgets. Primary property taxes levied by cities and towns this year increased 5.4% to over \$360 million. Nearly half of the cities and towns that levy a primary property tax chose to increase taxes this year, and therefore were required to adhere to the Truth and Taxation (TNT) publication requirements. The Town of Hayden adopted the largest primary property tax increase by imposing a tax rate that was nearly \$3.00 over its TNT rate, representing a 51.3% tax

increase. As a result, the Town now levies by far the largest primary tax rate of all the cities at \$8.50 per \$100 of assessed value. Combined rates are already so high in Hayden, the increase on homeowners will be paid entirely by the state General Fund due to the 1% Cap. Other cities and towns with considerable primary tax increases included Casa Grande 15%, Coolidge 7.5%, Queen Creek 6.8%, Buckeye 6.5%, and Yuma 6.1%.

Secondary taxes

Nineteen cities and towns levy a secondary property tax to repay their General Obligation (G.O.) bond debt. Secondary taxes levied by cities increased 6.6% this year to over \$370 million. The largest tax increases in percentage terms occurred in Mesa (24.8%/\$8.3 million), Goodyear (20.4%/\$1 million), and the City of Maricopa (15.8%/\$465k). On the flip side, Casa Grande's secondary levy was cut in half after dropping its rate more than 32 cents to \$0.2752 and the City of Willcox did not levy a secondary property tax this year.

State Shared Revenues

State shared revenues that support city and town GF budgets consist of TPT and URS. Between FY 2013 and FY 2018, state shared revenues to the cities grew 31%. State shared TPT increased 29.3% to \$528 million and

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URS increased 32.6% to \$681 million. URS is slated to jump to nearly \$740 million in FY 2020, and increase another \$50 million to \$792 million in FY 2021, according to the Joint Legislative Budget Committee (JLBC). The dramatic increase in URS in FY 2021 is mainly due to the state conforming to the Tax Cuts and Jobs Act (TCJA) for tax year 2018, which resulted in an estimated \$155 million tax increase. Although the Legislature conformed to the federal tax code in FY 2020, adjustments were made to offset future tax increases by doubling the standard deduction and reducing tax rates (See ATRA's May 2019 Newsletter).

PSPRS unfunded liability a major cost driver

PSPRS is in dire straits and has been wreaking havoc on state and local government budgets for several years. With a funded status of only 47%, taxpayers are strapped with paying higher taxes to pay off billions in unfunded liability that has accumulated over the years with no relief in sight. Though many taxing entities have opted to extend their amortization period by ten years, that move simply delayed and ultimately increased the payment of the unfunded liabilities for ten cities. In fact, 31 cities and towns currently have contribution rates that exceed 50%. Some of Arizona's smallest cities have the largest contribution rates, like South Tucson's fire department at 391.5%. This means that if South Tucson wants to hire a firefighter, they will have to pay approximately four times more than their salary in pension costs for that one firefighter. Other small cities with outrageously high contribution rates include Holbrook police department 156.06%, Miami police department 105.01% and South Tucson police department 104.4%. Phoenix, the largest city in Arizona, is scrambling for ways to pay down its \$4.6 billion in PSPRS unfunded liability. At only 41% funded, the Phoenix city council opted to extend the amortization period to 30 years to provide some short term relief. However, the city's annual required contribution to PSPRS climbed from \$235 million in FY 2019 to \$257 million in FY 2020.

City	FY 2019 Secondary Tax	FY 2020 Secondary Tax	Diff	% Diff	FY 19 RATE	FY 20 RATE	Diff.
Mesa	33,438,521	\$41,740,629	\$8,302,108	24.8%	1.0201	1.1870	0.1669
Goodyear	5,129,038	\$6,175,100	\$1,046,062	20.4%	0.6266	0.6713	0.0447
Maricopa	2,941,887	\$3,406,616	\$464,729	15.8%	1.1220	1.1871	0.0651
Gilbert	22,300,000	\$24,150,000	\$1,850,000	8.3%	0.9884	0.9889	0.0005
Chandler	24,219,329	\$26,197,028	\$1,977,699	8.2%	0.8700	0.8700	0.0000
Peoria	16,557,849	\$17,902,292	\$1,344,443	8.1%	1.1500	1.1500	0.0000
Flagstaff	6,733,265	\$7,268,436	\$535,171	7.9%	0.8366	0.8366	0.0000
Tempe	28,030,238	\$30,177,956	\$2,147,718	7.7%	1.5046	1.5010	-0.0036
Phoenix	102,186,555	\$108,970,886	\$6,784,331	6.6%	0.8241	0.8241	0.0000
Tolleson	4,203,000	\$4,478,000	\$275,000	6.5%	2.0280	1.9888	-0.0392
Tucson	32,462,790	\$33,110,920	\$648,130	2.0%	0.9508	0.9255	-0.0253
Glendale	20,070,771	\$20,408,799	\$338,028	1.7%	1.5357	1.4441	-0.0916
Avondale	4,102,600	\$4,141,443	\$38,843	0.9%	1.0301	0.9540	-0.0761
Surprise	4,359,896	\$4,370,900	\$11,004	0.3%	0.4200	0.3880	-0.0320
El Mirage	2,030,000	\$2,030,000	\$0	0.0%	1.9007	1.7603	-0.1404
Tombstone	120,058	\$117,547	-\$2,511	-2.1%	0.9116	0.8755	-0.0361
Scottsdale	34,212,861	\$32,971,795	-\$1,241,066	-3.6%	0.5705	0.5214	-0.0491
Fountain Hills	1,986,373	\$1,674,485	-\$311,888	-15.7%	0.4257	0.3382	-0.0875
Casa Grande	2,167,966	\$1,074,280	-\$1,093,686	-50.4%	0.6010	0.2752	-0.3258
Willcox	156,648	\$0	-\$156,648	-100.0%	0.8476	0.0000	-0.8476

Fire District Budgets Up 7.4%

Arizona's fire districts plan to spend nearly \$500 million in FY 2020, a 7.4% increase over last year. Property values are on the rise and the current funding model for fire districts allows them significant access to the property tax base. The Legislature has been very responsive to the various needs of fire districts over time, particularly during the recessionary years, which has resulted in a variety of enhancements to the system. What has plagued fire district budgets over the last decade are the skyrocketing Public Safety Personnel Retirement System (PSPRS) unfunded liabilities.

The Impact of PSPRS Unfunded Liabilities

PSPRS is one of the most underfunded public retirement plans in the nation with a funded status of only 47%. Fifty-eight of Arizona's 150 fire districts (FDs) are members of PSPRS and these districts carry an aggregate \$350 million in unfunded liability. Six districts have contribution rates greater than 40%: Sun City (54.39%); Bullhead City (50.24%); Buckskin (48.21%); Chino & Central Yavapai (CAFMA/48.17%); Fort Mohave Mesa (45.24%); and Fry FD (45.05%).

Twelve fire districts have PSPRS unfunded liability in excess of \$10 million and account for two-thirds of the total unfunded liability of all the districts. CAFMA, which is a Joint Power Authority between Chino Valley and Central Yavapai fire districts, carries the most unfunded liability of approximately \$42 million. Northwest FD, the second largest district in the state based on Net Assessed Value (NAV) with the largest budget among all FDs, carries over \$34 million in unfunded PSPRS liability. Other FDs burdened with massive PSPRS unfunded liabilities include Sun City FD (\$31.5 million), Arizona FMD, aka Sun City West and Sun Lakes (\$27.4 million), Bullhead City FD (\$22.7 million) and Sedona FD (\$20.7 million). Like some counties and cities that are struggling amidst unfunded PSPRS liabilities, several fire districts have chosen to extend their amortization period to 30 years. Those fire districts include some of the largest fire districts in the state, including Daisy Mountain, Arizona FMD, Sun City, Superstition FMD, and Timber Mesa. Extending the amortization period an additional ten years to pay off the unfunded liability may alleviate some of the pressure in the short-term but it ultimately drives up the costs taxpayers will be required to pay in the long run.

Fire Districts with Largest PSPRS Unfunded Liability

Fire District	PSPRS FUNDED %	Unfunded Liability	Contribution Rates	FY 2019 Budget	FY 2020 Budget	% Chg.
CAFMA (Chino Valley/Ctrl Yavapai)	49.90%	\$41,743,033	48.17%	\$25,503,592	\$26,351,812	3.3%
Northwest FD	66.50%	\$34,474,751	32.05%	\$69,108,155	\$67,975,325	-1.6%
Sun City FD	42.30%	\$31,470,275	54.39%	\$11,594,381	\$14,539,537	25.4%
Arizona FMD (SCW/Sun Lakes)	60.70%	\$27,410,190	32.47%	\$27,491,502	\$29,024,844	5.6%
Bullhead City FD	59.80%	\$22,686,527	50.24%	\$15,086,215	\$15,282,454	1.3%
Sedona FD	55.10%	\$20,705,799	34.73%	\$17,290,812	\$17,659,070	2.1%
Golder Ranch FD	69.00%	\$18,916,980	23.03%	\$35,033,181	\$39,783,631	13.6%
Superstition/(A.J.)	65.00%	\$18,298,078	29.20%	\$21,768,080	\$22,509,123	3.4%
Fry FD	43.60%	\$15,039,110	45.05%	\$5,761,236	\$5,939,218	3.1%
Green Valley FD	59.50%	\$12,699,032	28.78%	\$11,202,159	\$11,854,203	5.8%
Drexel Heights FD	65.40%	\$11,691,492	32.49%	\$14,009,343	\$18,981,920	35.5%
Daisy Mountain FD	73.80%	\$11,181,443	24.66%	\$17,032,824	\$18,744,027	10.0%

Net Assessed Values (NAV)

Now several years removed since the Recession, the total NAV for Arizona's fire districts grew to nearly \$11 billion this year, a 6.5% increase over last year. Fifty-seven districts had an increase of 5% or greater. Though Prop 117 limits the annual growth in locally assessed taxable values to 5%, the NAV can grow greater than 5% in districts that have a significant amount of Centrally Valued Property (such as mines and utilities) that is not limited under Prop 117, as well as value added through annexations. Only 19 districts experienced a decline in their NAV, the majority of which ranged from 0.1% to as low as 7%. Two districts experienced double-digit declines- Greer FD (13.8%) and Parker FD (14.7%). Since Tax Year (TY) 2014, FD NAVs have grown 20%.

Levy Limits & Tax Rate Caps

Prior to legislation passed in 2009, fire districts were only subject to a tax rate cap. However, the tax rate cap, which is currently set at \$3.25, wasn't enough to protect taxpayers during the real estate market boom as many fire districts failed to decrease tax rates to offset the dramatic growth in values. For example, in the years leading up to the Recession and prior to the implementation of the levy limits, annual FD levies grew 25% in TY 2007 and another 20% in TY 2008. Failure of the fire districts to show fiscal restraint during that time prompted the Legislature to place levy limits on the fire districts for the first time. Unlike the constitutional levy limits placed on counties, cities, and community college districts of 2% plus new construction, the levy limits for fire districts allow a generous 8% annual growth, not including the value added from annexed property.

Since implementation of the levy limits and voters passage of Prop 117, the aggregate annual increase in fire district levies have remained under 8%. In fact over the last five years, fire district levies were limited to 27.8% growth. In TY 2019, fire district levies grew 6.8% to over \$300 million and approximately half the fire districts experienced 5% or greater growth in their levies over last year.

Tax Rates & Voter Approved Overrides

In 2019, the average tax rate levied by fire districts equates to \$2.69, compared to \$2.52 in tax year 2014. Six fire districts had excess capacity in their levy limits to increase their tax rates high enough to cause double-digit tax increases. They included Ehrenberg (from \$2.00 to \$2.9486/37.1% tax increase), Parker (\$1.8349 to \$2.5365/18% tax increase), Seligman (\$2.2616 to \$3.2490/54.2% tax increase), San Simon (\$1.3096 to \$1.80/42% tax increase), and Woods FD (\$0.75 to \$1.06/51.2% tax increase).

In the same legislation that implemented the levy limits, FDs were provided temporary relief by allowing them to seek voter approval to increase their tax rates. For districts that lost significant NAV as a result of the real estate market crash, the legislation authorized districts with at least 20% NAV loss to seek voter approval for a temporary override to exceed the rate cap to \$3.50 or for a permanent override for districts to increase the rate within the existing \$3.25 rate cap. Five districts- Superstition, Avra Valley, Pine/Strawberry, Pinewood and Tusayan- are currently levying a tax rate of \$3.50.

Fire District Assistance Tax (FDAT)

In addition to the local property taxes levied by FDs, property taxpayers are also required to pay an additional countywide property tax that is distributed to all the districts in the county, whether or not the taxpayer's property

is located within the boundaries of a fire district. The law requires that each county with a fire district (all counties except Yuma) levy a tax equal to 20% of each fire districts' levy, not to exceed a 10-cent tax rate. For most, the maximum amount each district can receive is \$400,000. For two or more districts that merge or consolidate, the maximum FDAT is the average FDAT each fire district received in the five years immediately prior to the merger or consolidation. Total FDAT levied by all counties increased 1.8% this year to nearly \$20 million.

Fire District Assistance Tax

County	Tax Year 2014		Tax Year 2018		Tax Year 2019		1-YR % Chg.	5-Yr % Chg.
	Levy	Rate	Levy	Rate	Levy	Rate		
Apache	\$434,309	\$0.0839	\$395,671	\$0.0844	\$393,273	\$0.0852	-0.6%	-9.4%
Cochise	\$959,542	\$0.1000	\$928,290	\$0.1000	\$941,486	\$0.1000	1.4%	-1.9%
Coconino	\$1,534,484	\$0.1000	\$1,726,580	\$0.1000	\$1,831,089	\$0.1000	6.1%	19.3%
Gila	\$419,258	\$0.1000	\$493,541	\$0.1000	\$519,905	\$0.1000	5.3%	24.0%
Graham	\$115,913	\$0.0543	\$104,233	\$0.0549	\$112,796	\$0.0582	8.2%	-2.7%
Greenlee	\$9,711	\$0.0021	\$10,960	\$0.0025	\$13,680	\$0.0031	24.8%	40.9%
La Paz	\$210,721	\$0.1000	\$218,120	\$0.1000	\$214,376	\$0.1000	-1.7%	1.7%
Maricopa	\$3,964,000	\$0.0113	\$4,325,286	\$0.0107	\$4,103,461	\$0.0095	-5.1%	3.5%
Mohave	\$1,757,075	\$0.1000	\$1,811,189	\$0.1000	\$1,908,201	\$0.1000	5.4%	8.6%
Navajo	\$846,247	\$0.1000	\$828,848	\$0.1000	\$852,640	\$0.1000	2.9%	0.8%
Pima	\$3,577,714	\$0.0472	\$3,675,247	\$0.0441	\$3,753,884	\$0.0430	2.1%	4.9%
Pinal	\$1,375,252	\$0.0674	\$1,514,544	\$0.0643	\$1,550,570	\$0.0615	2.4%	12.7%
Santa Cruz	\$323,844	\$0.1000	\$329,646	\$0.1000	\$344,280	\$0.1000	4.4%	6.3%
Yavapai	\$2,267,389	\$0.1000	\$2,599,538	\$0.1000	\$2,765,677	\$0.1000	6.4%	22.0%
TOTALS	\$17,795,459		\$18,961,693		\$19,305,318		1.8%	8.5%