Dear Homeowner:

The purpose of this letter is to provide information about any increase in your property taxes and what you can expect over the next few years. First, let me cover some of the characteristics of the Arizona property tax system.

Properties are classified by use and the two major classes I'll discuss are commercial and residential. Commercial properties consist of all income producing properties from electric generating plants to a small mom and pop restaurant. The larger commercial properties such as mines, utilities*, railroads, airlines*, pipelines, telecommunication and others are valued by the Arizona Department of Revenue (DOR). The other income producing properties, shopping centers, manufacturing, general businesses, and others are valued by the county assessor. Residential properties are rentals and owner occupied primary and non-primary homes and are valued by the county assessor.

The DOR and county assessor place two values on each property referred to as full cash and limited values. Both primary and secondary taxes will be levied against the limited value beginning this year. Primary taxes are used to fund the operating budgets of the counties, cities, schools and community colleges. Secondary taxes fund about 1400 special district budgets (hospital, fire, library, water, street lights, and others) and about 350 voter approved bonds and budget overrides. About 10-15 separate districts tax each property.

The limited value is factored by an assessment ratio set by the legislature to determine the **assessed value** which is the **taxable value**. The assessment ratio for residential properties has been 10 percent since 1973. The ratio for most DOR valued commercial properties was 50 percent in 1979, gradually dropped to 25 percent by 1999, dropped to 20 percent in 2012, and will drop to 18 percent next year for a total drop of 64 percent. Commercial properties valued by the county assessor had an assessment ratio of 25 percent through 2005; it dropped to 20 percent in 2012 and will drop to 18 percent next year for a total drop of 28 percent. All of these reductions in taxable value were enacted by the legislature at the urging *of lobbyists* hired by owners of large commercial properties.

When the legislature reduces the taxable value of one class of property by lowering the assessment ratio it shifts the tax burden to other classes, mostly residential. Reducing the limited value of DOR valued commercial properties 64 percent and county assessor valued commercial properties 28 percent has increased homeowner's annual taxes by 20-30 percent. If you divide your tax by five it *will* give you a *rough* estimate of how much more taxes you pay just this year due to these special interest tax breaks.

The amount of tax is determined by the tax rates set by each tax district. The tax rate is calculated by dividing the tax district's budget by the total limited assessed value in the district. That rate is applied to the assessed (taxable) value of each property to determine what share of each district's budget it will pay. Reducing assessment ratios for commercial properties reduces the total limited assessed value that is divided into the district's budget causing a higher tax rate shifting the burden to residential properties.

This burden shift to residential properties caused by both market changes and special interest legislation will be locked in for many years due to passage of Proposition 117 in 2012. Sixty one of the ninety legislators voted to put Proposition 117 on the 2012 ballot and the campaign supporting it was paid for by members of the Arizona Tax Research Association. ATRA membership is comprised of lobbyist for owners of high value properties (mostly DOR valued), and they have been very successful in persuading the legislators to give tax breaks to their special interest clients.

ATRA's campaign material stated that Prop 117 would lower property taxes and about 55% of the voters voted for it. It will neither lower nor raise total property taxes. It will, however, lock in the tax burden shifts caused by the greater market increases of residential properties that occurred during the three years from when it passed in 2012 and when it became effective this year. Prop 117 requires all taxes to be levied against the assessed limited value, and limits yearly increases of the limited value to five percent not to exceed full cash value. In 2012 the gap between full cash and limited values for both residential and commercial properties was less than one percent. This year the gap for DOR valued properties is still less than one percent, but it's 8.9 percent for commercial properties valued by the county assessor, and about 19.2 for all residential properties.

There are numerous possibilities depending on what happens to market values of residential and commercial properties. But, if current full cash values were frozen, residential properties would experience the full five percent increase in taxable value for four years while commercial properties would receive the maximum increase for only two years. If the full cash value of residential properties increases at least five percent each year the tax burden shift from recent market increases and ongoing tax breaks for commercial properties will never be overcome due to Prop 117. You can search (google) "property value limits" online and find numerous articles written by economists and university professors describing how valuation limits will shift the tax burden to residential properties.

Another factor is Prop 117 becoming effective during a year where the assessment ratio for all commercial properties dropped from 19.0 percent to 18.5 percent. This reduces the Prop 117 five percent increase in limited value for all commercial properties this year to only 2.37 percent [5.0 – (0.5 ÷ 19.0) = 2.37]. Next year it will only increase 2.3 percent when the ratio drops to 18.0 percent. This means that the taxable value of commercial property can only increase about 4.7 percent for the first two years Prop 117 is effective while taxable value of residential property can increase the full 10 percent. I don't know if ATRA withheld this information from the legislators when the resolution was heard in committee, but it was not covered in ATRA's promotional material.

If you would like to voice your opinion on this matter you should **personally** contact the legislators in your *district*. ***Voicing your opinion to anyone other than your legislators will change nothing.*** If you do not know what legislative district you vote in or who your legislators are you can find information on the legislative website at: www.azleg.gov Click on the "**How Do I Find My Legislators**" link and follow the instructions. There are rosters that provide phone numbers and email addresses.

If you do not have access to the internet you can call 602-926-3559 or 602-926-4221. **Please keep in mind that the person helping you find your legislators cannot forward information to them on your behalf.** If you wish to send a letter the mailing address is: (Legislator's Name) Arizona State Senate (or Arizona House of Representatives), 1700 W. Washington, Phoenix, AZ 85007-2890.

Another thing to keep in mind is that taxable value reductions for special interest properties are granted by the legislators and taxes are levied by elected governing bodies, county supervisors, *city councils*, *school boards*, and special district boards of directors. **The county treasurer or county assessor are not involved in taxable *value* adjustments or determining the amount of taxes levied.**

Again, voicing your opinion to anyone other than your legislators will change nothing.

I hope this information is useful and I will periodically post additional property tax information on our ParcelWatch website. You can subscribe to the free ParcelWatch service at: www.treasurer.maricopa.gov.

Regards,

Charles "Hos" Hoskins
Maricopa County Treasurer