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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 85 NUMBER 2 FEBRUARY 2025

2025 ATRA Legislative Update

The following summaries include ATRA's top priorities of the session, along with some bad bills that ATRA is opposing.

ATRA SUPPORTS

HB2119 model city tax code; notice (Carter)

Unlike most other states, Arizona's transaction privilege tax (TPT) system allows for an independent municipal sales tax structure under the Model City Tax Code (MCTC). Not only does the MCTC tax base vary from the state's tax base, but the tax base also varies among the 91 cities and towns through the adoption of "local" and "model" options. Taxing activities at the municipal level that are not taxed by the state has caused taxpayer confusion for decades. Regrettably, taxpayers often don't know they're subject to the tax until they are audited by a city. HB2119 improves transparency by requiring cities and towns to inform municipal business applicants that they are subject to tax as a result of a MCTC option and to notify all businesses in an affected business classification before the adoption or repeal of a local or model option.

The League of Arizona Cities and Towns testified in opposition to the bill in the House Ways & Means Committee, surprisingly claiming that municipalities don't have access to the information necessary to notify the impacted business.

The bill currently awaits third read in the House; however, the bill may be amended in the Senate to ensure

See **Leg Update**, Page 2

ATRA Opposes DBacks TIF Bill

HB2704 tax; distribution; county stadium district (Weninger)

HB2704 diverts state transaction privilege tax (TPT) and income tax revenues to the Maricopa County Stadium District for improvements to Chase Field. Specifically, the District may use the revenues for reconstructing, equipping, repairing, maintaining or improving the Major League Baseball facility owned and operated by the County Stadium District. Allowing local governments to harvest the state sales and income taxes to assist in the funding for local projects is not only a dangerous precedent, but it's also poor tax policy. Taxpayers in other communities around the state of Arizona should not be asked to participate in the funding of this local project. Diverting state sales and income taxes from the state general fund to finance this project obligates all the state's taxpayers to participate in the funding to renovate this county facility.

Attempting to tap state funds for financing local projects became very popular in the late 1990s and ATRA strongly argued against all of those measures. In fact, this form of tax increment financing (TIF) became so popular, the Legislature ultimately sunset all of the TIF laws on the books. Each of the TIF projects that have been debated over the years had one thing in common: they were extremely important to the communities working on them and each felt they were worthy of state assistance. Lawmaker's need to consider where to draw the line and whether they are

See **Dbacks**, Page 2

Dbacks, *Continued from page 1*

prepared to allow TIF for other jurisdictions that will understandably demand similar treatment. At a minimum, if the state wishes to assist in the funding of this project, it should do so through the appropriations process with a clear understanding of the costs and where the project competes against all other requests for state funding. *HB2704 cleared the House 35-25 and currently awaits action in the Senate.*

Leg Update, *Continued from page 1*

cities have the information to properly notify businesses of their tax obligations.

SB1069 personal property exemption; increase (Mesnard)

In 1996, voters approved an amendment to Arizona's constitution to exempt the first $50k of locally assessed business personal property (BPP). The exemption is adjusted annually for inflation and is currently at $248k. SB1069 increases the exemption to $500k, effective January 1, 2026.

Previous actions by the Legislature and voters have markedly reduced the tax base and administrative burden on small businesses. In 2022, voters' approval of Prop 130 provided expanded authority to the Legislature to fully exempt BPP and separate legislation enacted that same year limited taxation of newly acquired BPP to 2.5% of full cash value. These reforms were enacted in recognition that the BPP tax discourages capital investment and is complicated and inefficient. In addition, many businesses often fail to self-report because they are unaware they owe the tax.

SB1069 mirrors last year's effort that failed to advance due to a $1.6 million fiscal note, as the Legislature grappled with a $1.4 billion state budget shortfall. In recognition of the tax year 2026 effective date, this year's fiscal note of $825k is based on an inflation-adjusted exemption estimate of $295k. *SB1069 passed the Senate 17-9-4 and was transmitted to the House.*

HB2118 TPT sourcing; business location; receipt (Carter)

In 2023, the Department of Revenue issued a draft TPT Ruling that would have provided clarity to Arizona's complex TPT sourcing rules. That draft ruling was never issued due to opposition from cities and towns that had a different interpretation of the existing sourcing law compared to the Department's interpretation. Enactment of HB2118 would codify in statute the language in the Department's proposed draft ruling.

Under current law, retail sales of tangible personal property are sourced to the seller's business location if the seller receives the order at a business location in this state. HB2118 clarifies that the seller's business location is a physical space that a person can occupy and in which business is carried on, but more specifically, that the location of servers used to transmit the order to a business location does not determine where the order is received.

Although this was not a bill pursued by ATRA, the organization is in strong support since it would provide clarity for taxpayers. Despite existing statute that the Department's interpretation is binding when state statute and the

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See **Leg Update**, Page 3

Leg Update, *Continued from page 2*

MCTC are the same, cities have actually audited businesses while enforcing an interpretation that is contrary to the Department. *HB2118 passed the House 33-26-1 and will be heard in Senate Finance on March 3.*

HB2515 Truth in taxation; bonds; notices (Olson)

HB2515, sponsored by Representative Justin Olson, would make changes to both the informational pamphlets and ballot language for bond and budget override elections. HB2515 would require additional example property values to illustrate the tax impact of their passage and add clarifying language on ballots to ensure voters understand the financial implications of approval.

Informational pamphlets, otherwise known as publicity pamphlets, are required to be sent out by jurisdictions seeking the passage of a bond or override. These pamphlets include important statutory language designed to inform voters about the tax implications of the proposal, which is calculated using different example property values. As real property values have grown considerably in recent years, a residential property valued at $100,000 no longer accurately reflects a typical home in urban Arizona. Accordingly, tax estimates calculated based on that value will often not provide taxpayers an accurate idea of what they might owe in future property taxes when they vote on a bond or override. Accordingly, HB2515 includes both $100,000 and $400,000 in required valuations for residential tax calculations to capture a broader range of properties in both urban and rural parts of the state. The bill also includes $1 million and $2 million in required valuations for commercial properties. TNT notices, published by local governments when they raise property taxes above the current level, also include similar property value-based tax calculations and will receive the same update under HB2515.

Currently, a ballot with a measure to authorize the sale of general obligation (G.O.) bonds must include the following language: "the issuance of these bonds will result in a property tax increase sufficient to pay the annual debt service on bonds." HB2515 would add the following language to the same area of the ballot:

"Principal of and interest on the bonds will be payable from a continuing, direct, annual, ad valorem tax levied against all taxable property located within the boundaries of the (name of district or jurisdiction). The bonds will be payable from the tax without limit as to rate or amount."

This language is identical to that found in bond prospectuses to describe the security and repayment structure of the G.O. bonds. This addition is critical, as some school districts have falsely argued that their bond sales **would not increase taxes or tax rates** in the official district statement of their publicity pamphlets. *HB2515 passed in the House 35-23-2 and will be heard in the Senate Finance Committee on March 3.*

SB1473 K-12; school funding; revisions (Farnsworth)

For decades, ATRA has advocated for a school finance system that is equitable and reflective of Arizona's K12 system that encourages and promotes parental choice. ATRA has also argued that a more equitable school finance system reduces that state's exposure to the continuous litigation facing the state. These inequities are evident when comparing districts with and without secondary tax rates, such as Phoenix Elementary and Toltec Elementary. Phoenix El is able to maintain a comparatively high per-pupil spending rate of $21,305 because of its access to secondary tax levies that fund the debt service on bonds and overrides. Toltec El, which has no secondary levies, spends at a rate of only $10,909 per student.

See **Leg Update**, Page 4

Leg Update, *Continued from page 3*

SB1473 would allow any school district with no secondary property tax (no bonds or overrides) to switch to a new state funding formula similar to the current charter funding system. Upon the approval of district voters, eligible districts would opt into the new state funding system (an average of almost $1,100 more per pupil) and agree to forgo bond and override funding. In order to offset some of the state general fund impacts of the new state funding formula, district voters would also be required to approve an additional property tax rate of $0.32 for elementary and union districts or $0.64 for unified districts.

Differing from prior variations of the bill, ATRA believes the FY26 GF impact would be much lower, as not every qualifying district is expected to opt in immediately. SB1473 also differs from previous versions in that it now includes an annually adjusting qualifier based on the support level ratio of a district, from 90% in FY26 to 50% in FY30 and subsequent years, which could further spread out the initial General Fund impact.

Arizona's Constitution calls for a "general and uniform public school system." SB1473 is sensible and responsible policy that assists lesser-spending districts while allowing districts to equitably compete for students in system with high student mobility between districts. *SB1473 passed Senate Finance 6-1 and awaits Senate Third Read.*

ATRA OPPOSES

HB2457 fire districts; formation; county supervisors (Marshall)

HB2457 is a repeat of last year's failed legislative attempt to allow the creation of a fire district with a simple public vote. Current statute requires signatures from the majority of property owners and owners with the majority of value within the boundaries of a proposed fire district to approve its creation. If established, a fire district may levy a secondary property tax at a maximum tax rate of $3.75 per $100 of assessed value.

This legislation is the result of a proposed fire district in northern Arizona that did not get the requisite number of signatures from its property owners during the statutory one-year time frame. Proponents claimed they couldn't get enough signatures due to a high percentage of out-of-state property owners. However, based on ATRA's review of the submitted petitions, there were at least 100 full-time residents that could have signed the petition to create the district, but did not. Sponsored again this year by Rep. David Marshall, HB2457 does an end-run around property taxpayers that may or may not be qualified electors in the proposed district.

It's important for lawmakers to understand why the petition process for district creation must be preserved. During the 2010 session, ATRA was supportive of legislation backed by the Arizona Fire District Association (AFDA) to remove the electors from the district creation petition process. Eliminating the electors from the petition process made sense since an elector may not necessarily be a property taxpayer but could approve a property tax. On the other hand, property owners may not be registered to vote in the area and would not have input as to whether a property tax is approved. This is true particularly in rural areas of the state if a property owner is not a fulltime resident of the proposed district and therefore is not eligible to vote— but would be required to pay the tax. In this case, a fire district could be created by a small number of electors, who may or may not be property owners, to enact a significant property tax on everyone. *HB2457 passed the House Public Safety Committee by a vote of 13-1-1 but failed to get a hearing in House Ways & Means to which it was also assigned.*

Arizona's Highest Property Tax Jurisdictions

Arizona's property tax rates vary widely, with the highest rates often occurring in rural jurisdictions with school districts, cities, counties, and fire districts with higher-than-average tax rates. Defying this norm is Red Mesa Unified in Apache County, where the district alone accounts for nearly all of its combined rate of $33.70. Red Mesa Unified, which is in first place among jurisdictions with the highest overall tax rates, achieved that rank by virtue of only one particular tax—a transportation levy commonly referred to as the transpo delta (See page 6 for further discussion). Alongside the transpo delta, several school finance mechanisms are responsible for many of the other high school district primary rates statewide.

Though many of the highest-rate jurisdictions include high school district tax rates, others made the top 20 due to high county, city, or fire district rates. In Pima, Gila, and Pinal counties, combined rates were significantly impacted by high county tax rates, with Pima adding $5.1048, Gila $4.4325, and Pinal $3.8506. Though high primary rates are typically a feature of rural jurisdictions, Pima is mostly urban.

The second and third highest rates in the state are in the cities of Hayden and Winkelman. Those cities both have extraordinarily high city primary rates.

Not all jurisdictions have fire districts, but those that do may contend with the unfortunate trifecta of high fire district, county, and school rates. For example, taxpayers in Avra Valley FD pay a $4.33 fire district rate, a combined school district rate (Eloy El & Santa Cruz Valley Union) of $8.1868, and a Pinal county/community college rate of $5.5234, resulting in a combined rate of $18.2824—the fifth highest overall. Many fire districts, like Avra Valley, have increased their secondary rates to the newest rate caps as they have grown incrementally from $3.25 in 2021 to $3.75 in 2024. Fire districts are also authorized to sell and levy for the debt service on bonds, as Avra Valley did, producing a rate of $0.58.

The table below reflects the highest 20 tax rate jurisdictions in the state and the levies driving those rates.

County	Taxing Jurisdiction	High Tax Rate Drivers	County (CO)	Community College (CC)	City (CI)	Fire District (FD)	School District (SD)	Combined Tax Rate
Apache	Red Mesa Unified/Apache	SD(TRCL/TSL)	1.6726	0.4090	0.0000	0.0000	31.4695	33.7011
Gila	Hayden-Winkelman Unified/Hayden/Gila	SD(SS, TRCL/TSL),CI/CO	4.4325	0.9048	13.0000	0.0000	11.8296	30.3169
Gila	Hayden-Winkelman Unified/Winkelman/Gila	SD(SS, TRCL/TSL)/CI/CO	4.4325	0.9048	7.1694	0.0000	11.8296	24.4863
Cochise	Bowie Unified/Bowie FD/Cochise	SD(SS, TRCL/TSL)	3.1330	2.4444	0.0000	2.8696	10.6939	19.2909
Pinal	Eloy Elementary/Santa Cruz Valley Un/Avra Valley FD/Pinal	SD(B, OR)/FD/CO	3.7106	1.8128	0.0000	4.3300	8.1868	18.2824
Maricopa	Cartwright Elementary/Phx Un/Phoenix/Maricopa	SD(D, B, OR)	1.6196	1.1047	2.0799	0.0000	12.7414	17.8761
Cochise	San Simon Unified/San Simon FD/Cochise	SD(SS)/FD	3.1330	2.4444	0.0000	3.0730	8.9393	17.7397
Pinal	Maricopa Unified/Maricopa/Pinal	SD (B, OR, AW),CI/CO	3.7106	1.8128	4.3337	0.0000	7.4313	17.5306
Coconino	Grand Canyon Unified/Tusayan FD/Coconino	SD(SS)/FD	1.5400	0.6870	0.0000	3.5000	11.5286	17.4056
Maricopa	Cartwright Elementary/Phx Un/Glendale/Maricopa	SD(D, B, OR)	1.6196	1.1047	1.4925	0.0000	12.7414	17.2887
Maricopa	Isaac Elementary/Phx Union/Phoenix/Maricopa	SD(D, B/OR)	1.6196	1.1047	2.0799	0.0000	12.2449	17.1971
Pima	Marana Unified/Picture Rocks FD/Pima	CO/FD	5.1048	1.2530	0.0000	4.5328	5.5504	16.6675
Pima	Marana Unified/Avra Valley FD/Pima	CO/FD	5.1048	1.2530	0.0000	4.3300	5.5504	16.4647
Pinal	Superior Unified/Superior/Pinal	CI/CO	3.7106	1.8128	5.2543	0.0000	5.4368	16.4567
Cochise	Pearce Elementary/Valley Union/Sunsites/Pearce FD/Cochise	SD(SS)/FD	3.1330	2.4444	0.0000	3.7500	6.8495	16.3269
Pima	Flowing Wells Unified/Northwest FD/Pima	SD(B, OR)/CO/FD	5.1048	1.2530	0.0000	3.2042	6.4926	16.2811
Pima	Vail Unified/Corona De Tucson FD/Pima	SD(B, OR)/CO/FD	5.1048	1.2530	0.0000	3.3000	6.3777	16.2620
Maricopa	Laveen Elementary/Phx Union/Laveen FD/Maricopa	SD(B/OR/D)	1.6196	1.1047	0.0000	2.0906	11.2384	16.2013
Pinal	Eloy Elementary/Santa Cruz Valley Union/Eloy FD/Pinal	SD(B, OR)/CO	3.7106	1.8128	0.0000	2.1436	8.1868	16.0960
Pima	Vail Unified/Sonoita Elgin FD/Pima	SD(B, OR)/CO/FD	5.1048	1.2530	0.0000	3.1000	6.3777	16.0620

*City of Maricopa taxpayers pay Maricopa Fire District debt service.

SD: Small School (SS); Deseg (D); Override (OR); Bonds (B); Adjacent Ways (AW); Transportation Revenue Control Limit/Transportation Support Level (TRCL/TSL).

Certain special taxing districts are not stated separately and account for the difference between the sum of the major taxing jurisdiction columns and the stated total combined rates.

Non-Voter Approved Taxes Drive K-12 Inequities

The largest drivers behind some of the state's highest school district primary property tax rates are special tax levies that are outside the state's standard funding formula. School district programs like Desegregation funding, a decades-old levy initially intended to address racial segregation, have expanded far beyond their original scope. Transportation Revenue Control Limit (TRCL) adjustments and the Small School Adjustment (SSA) provide additional funding but result in higher taxes. Adjacent Ways (AW) taxes, used for infrastructure near schools, often fund expensive projects. Notably, all of these levies do not require voter approval.

Red Mesa Unified in Apache County, which is in first place among jurisdictions with the highest overall tax rates statewide, achieved that rank by virtue of only one provision of the Arizona school finance system: the transpo delta. The transpo delta, or TRCL/TSL, is the difference between the Transportation Revenue Control Limit (TRCL) and the Transportation Support Level (TSL). TRCL is a funding cap calculated based on a school district's transportation expenses and miles traveled by buses and the number of students transported. TSL is the state-funded portion of the district's transportation budget. The difference between these two, or "delta", is not supported by the state and the district is instead allowed to make it up through a non-voter approved property tax levy. Because there is no limit to this rate, property taxpayers can be on the hook for massive tax rate increases without their approval. Though the Transpo delta is not the only driving factor behind school districts with the highest primary tax rates, all 20 of the highest districts on the chart below levy it.

While all of the remaining high primary rate districts levy the transpo delta, their rates are primarily driven by a combination of other non-voter approved levies like SSA, AW, and desegregation. The SSA is another budget exemption allowed for districts with fewer than 125 elementary or 100 high school students. Hayden-Winkelman USD in Gila County, for example, drove their primary rate to almost $12 with a combination of a large SSA rate of $6.5368 and a Transpo delta rate of $2.4323. In fact, most of the districts on this list are SSA districts and appeared on this list for similar combinations. The SSA rate is unlimited, and often drives major inequities in rural school district tax rates.

The districts are ranked separately depending on

K-12 Primary Rate Comparisons	
	Primary Rate
Highest	
Red Mesa Unified	$31.4695
Sentinel Elementary*	$11.9823
Hayden-Winkelmen Unified*	$11.8296
Bowie Unified*	$10.6939
Grand Canyon Unified*	$10.4780
San Simon Unified*	$8.9393
McNeal Elementary*	$8.5488
Mobile Elementary*	$8.2778
Redington Elementary*	$7.7497
Ash Fork Unified*	$7.6902
Lowest	
Arlington Elementary	$0.9485
Bicentennial Union HS	$1.2138
Continental Elementary	$1.2350
Riverside Elementary	$1.2757
Oracle Elementary	$1.5398
Williamson Valley Elementary	$1.5422
McNary Elementary	$1.5930
Mingus Union	$1.6055
Sedona-Oak Creek Unified	$1.6168
Tempe Elementary	$1.6293

See **K-12**, Page 7

K-12, *Continued from page 6*

whether they are a unified district or elementary and high school districts. Unified school districts levy the full Qualifying Tax Rate (QTR), while elementary and union high school districts levy half of the QTR. In TY24, the QTR is $3.1860. Across the board, the districts with the lowest rates lack or minimize the use of the aforementioned “add-ons” like small schools or the Transpo delta.

In TY24, districts statewide levied a total of $214.9 million for desegregation, $61.4 million for AW, and $26.8 million for SSA. Although desegregation funding generates the most revenue statewide in this category, it is not levied by districts with the highest primary tax rates largely because desegregation levies are primarily an urban phenomenon. The largest levies are in districts like Tucson USD, Phoenix Union, and Tempe ESD—urban districts with significantly higher property wealth. In contrast, SSA levies are predominantly levied by rural districts, requiring much higher rates to compensate for their lower overall property wealth, making them the primary factor driving up rural districts’ rates.