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ARIZONA TAX RESEARCH ASSOCIATION NEWSLETTER VOLUME 85 NUMBER 4 MAY 2025

Governor Signs One ATRA Bill, Vetoes Another

Governor Signs HB2119 - Model City Tax Code; Notification (Rep. Neal Carter)

The Governor's signature on HB2119 now requires cities to provide proper notification to taxpayers when they are subject to an activity that is only taxable at the city level.

Arizona's chaotic transaction privilege tax (TPT) system that allows cities to impose a tax under the Model City Tax Code (MCTC), but that is not taxable at the state level, has caused taxpayer confusion for decades. Often times, taxpayers are not aware they are subject to tax by the city until they are audited.

As introduced, HB2119 requires cities to inform taxpayers that they are subject to a city tax as a result of a MCTC option. Specifically, cities must notify taxpayers when they apply for a business license and prior to the adoption or repeal of an option, excluding options pertaining to use tax and the two-tiered retail rate structure.

As amended in the Senate, HB2119 reinforces Arizona Department of Revenue's (ADOR) authority to share taxpayer information with the cities for notification purposes. The bill was also amended to further clarify that only those cities that issue business licenses are required to notify a business license applicant if they will be taxable under a MCTC option.

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Ignored Audit Findings Lead to Fraud

Arizona taxpayers funnel billions in tax revenue to fund local governments and the oversight of those dollars is crucial in maintaining taxpayer trust and ensuring government accountability. Over the years, the Legislature has enacted ATRA-backed measures to significantly enhance the transparency of local government audits. However, the highest level of transparency will never be enough to detect fraud and the misuse of public monies if those in charge disregard those audits. It certainly wasn't enough to prevent the Santa Cruz County Treasurer from embezzling approximately \$39 million in taxpayer dollars.

ATRA-backed Legislation on Audit Transparency

Counties, community college districts, cities and towns are required to file their financial audit within nine months after the close of each fiscal year. About a decade ago, ATRA noticed some counties in particular, were several years behind on their audits. That prompted ATRA to advocate for legislation at the State Capitol to improve the transparency of audits.

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Governor, *Continued from page 1***Governor Vetoes HB2515 - TNT Bonds; Notices (Rep. Justin Olson)**

The Governor vetoed a critical local government general obligation bond reform intended to address jurisdictions who falsely argue that the sale of bonds will not increase taxes in the official statement of their publicity pamphlets.

In addition to updating the property tax examples in the informational pamphlets for local bond and override elections and Truth-in-Taxation notices, HB2515 would have expanded the description in ballot measures for general obligation bond authorizations. Currently, the ballot must state that *“the issuance of these bonds will result in a property tax increase sufficient to pay the annual debt service on bonds.”* HB2515 would have expanded the statement to include the identical legal language that is included in all bond prospectuses in describing the security and repayment structure on the bonds as follows: **“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 (name of district or jurisdiction). The bonds will be payable from the tax without limit as to rate or amount.”**

ATRA urged the Governor to sign the bill to address false claims by jurisdictions in their official publicity pamphlets that the sale of bonds will not increase taxes. More importantly, the Governor’s veto will likely guarantee future litigation as ATRA stressed that these statements could jeopardize the sale of the bonds if challenged in court.

Fraud, *Continued from page 1*

Enacted in 2015, SB1066 required local governments that fall behind on their audits to submit a form prescribed by the Office of the Auditor General (OAG) that describes the reason for the delay and the anticipated date of completion. That form must be included in the entity’s budget and posted to the official website until the audit is filed with the OAG. The legislation also required the audits be retained in a prominent location on the entity’s website for a minimum of five years.

The 2015 legislation improved the transparency of audits but the number of audit findings among the counties remained numerous. In many instances, the audit findings were being repeated beyond the anticipated completion dates provided in the county’s corrective action plans ([Link](#)).

To ensure the governing bodies were being informed of audit findings, legislation was enacted in 2021 to require the auditors who conducted the audit to present their findings to the governing bodies in a public meeting. Having the audit findings disclosed in a public hearing ensures that the governing bodies are made aware of any issues, who may then take action to prevent the possibility of fraudulent activity.

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Fraud, *Continued from page 2**Santa Cruz County Treasurer, Elizabeth Gutfahr, Embezzlement Uncovered*

Similar to other counties, the audits of Santa Cruz County have included many findings over the years labeled as either similar or repeat findings from previous years. As the auditors emphasize through these audits, allowing issues to continue without remedy can lead to fraud or the misuse of public funds. In April 2024, news broke that Santa Cruz Treasurer, Elizabeth Gutfahr, resigned abruptly after the County suspended her for irregular and suspicious financial activities.

The embezzlement was first revealed by the county's bank that discovered fraudulent wire transactions into accounts in Gutfahr's name.

Year	Number of Wire Transfers	Amount Embezzled
2014	6	\$386,100.00
2015	12	\$948,000.00
2016	13	\$920,000.00
2017	18	\$1,970,000.00
2018	23	\$2,160,000.00
2019	24	\$3,560,000.00
2020	26	\$4,525,000.00
2021	18	\$4,913,000.00
2022	18	\$5,165,000.00
2023	21	\$11,350,000.00
2024	8	\$2,815,000.00
Total	187	\$38,712,100.00

A criminal investigation by the Federal Bureau of Investigation swiftly commenced and a criminal complaint was filed in the U.S. District Court of Arizona on November 19, 2024. The complaint outlines how Gutfahr fraudulently wired nearly \$39M in public funds via 187 wire transfers into bank accounts in her name. She accomplished this by circumventing the two-step approval process by convincing her chief deputy to share her multifactor token authentication device and bank login to initiate the wire transfers. Other methods in which she was able to avoid detection was by fabricating investment statements, avoiding diverting money in the months she knew would be reviewed by auditors, and misrepresenting fund balances in financial reports.

Santa Cruz County Files Complaints

In August 2024, the county filed a complaint against Gutfahr and her co-conspirators and demanded a jury trial.

Subsequently, the County filed a complaint against the State of Arizona and the OAG on two counts. The county claimed that the OAG failed to conduct audits with reasonable care, fell below standards, and were not comprehensive enough.

OAG Files Counter Complaint

In April of this year, the OAG filed a counter complaint, comprised of seven counts against the county. The OAG complaint describes that for several years, the OAG reported that the county lacked comprehensive internal control policies and procedures and the county also continuously failed to timely implement recommended changes.

The OAG claims that the various fraudulent reports and statements filed by the county treasurer went undetected because they weren't being reviewed by the board or finance department. The county finance director informed the OAG that the monthly cash reconciliation reports, for instance, would be filed and retained only for recordkeeping purposes. According to the OAG, had anyone from the county reviewed the treasurer's reports, "they would have noticed the irregularities and discovered Gutfahr's actions." Furthermore, the OAG claims that the board would approve Gutfahr's cash reconciliation reports in public meetings without reviewing them.

Fraud, *Continued from page 3*

In November 2024, Gutfahr entered into a guilty plea on three Counts: Embezzlement by a Public Official; Money Laundering; and Individual Tax Evasion. Gutfahr is scheduled to be sentenced in June.

All complaints can be found [here](#).

Legislation Allows OAG increased access to financial institutions

As part of the counter complaint, the OAG argues that the county was responsible for obtaining the treasurer's detailed financial information from the county's financial institution because the OAG lacked the authority. This gross embezzlement case was the impetus to legislation signed into law this year under HB2368. With this new law, the OAG or its authorized representatives will now have direct access to financial institutions and information in conducting its official duties. This expanded authority will allow the auditor direct access to bank accounts to verify the information provided by the entity to prevent this level of embezzlement from occurring again in the future.

- Jennifer Stielow

Adjacent Ways Levies Grow to \$62 Million

Since FY22, statewide K-12 adjacent ways (AW) levies have grown from \$37 million to \$62 million, or over 67.4%.

The AW levy is a taxing authority available to Arizona school districts for infrastructure improvements on public property adjacent to school sites. Qualifying projects include items like sidewalks, drainage, utility extensions, and roadwork. AW is levied as a separate, non-voter-approved component of a district's primary property tax. Because the levies and expenditures are unlimited and don't require voter approval, they carry a higher risk of misuse, especially by growth districts expanding their physical plants.

ATRA has raised concerns over the misuse of AW authority for many years. While AW is intended to fund infrastructure directly tied to school construction, some districts have historically stretched that authority to fund questionable projects or circumvent bonding and expenditure limitations. In response to this misuse, ATRA supported SB1117, signed into law by Gov. Ducey in 2016, which required School Facilities Board (SFB) validation for AW project expenditures exceeding \$50,000.

In FY25, the average AW tax rate across the state was \$0.2960, which represents a 55% increase over FY22. Only two districts, Maricopa Unified and Nadaburg Unified, had AW rates above \$1. Maricopa Unified continued to levy the highest dollar amount in the state, increasing from \$5.6 million in FY22 (at a rate of \$1.5312) to more than \$8.5 million in FY25, with a rate of \$1.7062. That's a 51% increase in the levy over three years. At their July 2024 TNT hearing, Maricopa Unified staff argued that, since they are already above the 1% cap, "residents will not pay any additional taxes for this levy." While true that owner-occupied homes have protection under the 1% cap, taxpayers of other property classifications have no such protection and would fully absorb any increase. In any case, the district is essentially relying on the state to backfill the difference.

Adjacent Ways, *Continued from page 4*

Nadaburg Unified saw the greatest growth in both their AW levy and rate. In FY22, the district levied \$300,000 at a rate of \$0.3188. By FY25, the levy jumped to \$3 million and the rate grew to \$2.1925, that's a 900% increase in levy and a 588% increase in the tax rate. Despite this, SFB had not validated any recent AW projects for Nadaburg at the time of writing. ATRA contacted Nadaburg for information on the projects driving this increase but received no response.

Several other districts also saw large gains. Agua Fria Union's levy rose from \$1.3 million to \$8.8 million, an increase of more than 570%. Agua Fria's recent AW projects include \$6 million in infrastructure for a new high school campus in 2019, along with additional spending supporting a transportation warehouse, high school gym, fire lanes, and a traffic signal. Queen Creek Unified more than tripled its AW levy between FY22 and FY25, from \$2.3 million to \$9.3 million. The district has recently used AW to fund a \$2.7 million roadway infrastructure project for Eastmark HS in 2023, \$1.6 million in initial infrastructure for Eastmark when it was constructed in 2018, as well as other fire lanes, roads, and school site improvements over the last few years.

Despite significant growth in many districts, not every district expanded its use of AW. In fact, twelve districts eliminated their AW levies altogether between FY22 and FY25. Across all districts statewide, the average increase over that three-year span was 62%.

See last page for an AW levies/rates table.

- Jack Moody

Adjacent Ways, *Continued from page 5*

County	District	Adjacent Ways Levies/Rates FY22-25							
		FY22 Levy	FY22 Rate	FY23 Levy	FY23 Rate	FY24 Levy	FY24 Rate	FY25 Levy	FY25 Rate
Cochise	Tombstone Unified			\$ 200,000	0.3666	\$ 100,000	0.1721	\$ 200,000	0.3294
Cochise	Willcox Unified	\$ 175,000	0.2316	\$ 225,000	0.2757	\$ 350,000	0.4042		
Cochise	Douglas Unified					\$ 100,000	0.1218		
Coconino	Flagstaff Unified	\$ 535,000	0.0366	\$ 500,000	0.0326	\$ 500,000	0.0310	\$ 900,213	0.0530
Coconino	Page Unified	\$ 50,000	0.0552	\$ 100,000	0.1065	\$ 100,000	0.1051	\$ 100,000	0.1000
Graham	Safford USD			\$ 417,841	0.2501			\$ (424,556)	-0.3930
Maricopa	Tempe ESD	\$ 900,000	0.0471	\$ 900,000	0.0449				
Maricopa	Mesa Unified	\$ 2,200,000	0.0608	\$ 2,900,000	0.0766	\$ 2,900,000	0.0733		
Maricopa	Washington Elementary	\$ 663,030	0.0441	\$ 789,840	0.0508	\$ 1,299,566	0.0810	\$ 1,200,000	0.0710
Maricopa	Creighton Elementary					\$ 750,000	0.1326		
Maricopa	Tolleson Elementary	\$ 300,000	0.1240	\$ 350,000	0.1447	\$ 350,000	0.1251	\$ 350,000	0.1176
Maricopa	Liberty Elementary	\$ 625,000	0.1827	\$ 975,000	0.2554	\$ 1,750,000	0.4126	\$ 1,800,000	0.3792
Maricopa	Buckeye Elementary	\$ 1,700,000	0.6329	\$ 1,500,000	0.5007	\$ 1,700,000	0.5061	\$ 2,750,000	0.6722
Maricopa	Glendale Elementary	\$ 600,000	0.1700	\$ 600,000	0.1614	\$ 600,000	0.1525		
Maricopa	Avondale ESD	\$ 2,100,000	0.3944						
Maricopa	Fowler Elementary	\$ 50,000	0.0114			\$ 50,000	0.0100	\$ 50,000	0.0096
Maricopa	Scottsdale USD			\$ 2,000,000	0.0311				
Maricopa	Laveen Elementary	\$ 300,000	0.1093	\$ 837,679	0.2747	\$ 935,687	0.2754	\$ 995,178	0.2699
Maricopa	Higley Unified					\$ 1,500,000	0.1560		
Maricopa	Union ESD							\$ 325,000	0.2540
Maricopa	Littleton Elementary	\$ 625,000	0.1942	\$ 800,000	0.2220	\$ 550,000	0.1382	\$ 150,000	0.0331
Maricopa	Roosevelt Elementary	\$ 1,000,000	0.1356	\$ 1,000,000	0.1255	\$ 1,500,000	0.1782		
Maricopa	Paradise Valley Unified	\$ 887,604	0.0221	\$ 2,676,203	0.0629	\$ 4,334,185	0.0976	\$ 2,030,000	0.0436
Maricopa	Litchfield ESD							\$ 1,000,000	0.0596
Maricopa	Chandler Unified	\$ 2,500,000	0.0732	\$ 2,500,000	0.0680	\$ 2,500,000	0.0640	\$ 2,000,000	0.0482
Maricopa	Nadaburg Unified	\$ 300,000	0.3188	\$ 300,000	0.2882	\$ 3,000,000	2.4073	\$ 3,000,000	2.1925
Maricopa	Cartwright Elementary	\$ 800,000	0.2612	\$ 1,820,125	0.5778	\$ 1,820,125	0.5500	\$ 1,250,000	0.3420
Maricopa	Dysart USD	\$ 780,000	0.0481						
Maricopa	Saddle Mtn USD	\$ 1,500,000	0.1644	\$ 1,500,000	0.1616				
Maricopa	Cave Creek USD							\$ 950,000	0.0347
Maricopa	Queen Creek Unified	\$ 2,344,774	0.3257	\$ 5,350,000	0.6456	\$ 9,605,000	0.9963	\$ 9,295,000	0.8265
Maricopa	Deer Valley USD	\$ 900,000	0.0293	\$ 500,000	0.0154				
Maricopa	Buckeye Union High			\$ 1,500,000	0.1523	\$ 2,500,000	0.2278	\$ 3,000,000	0.2418
Maricopa	Phoenix Union High	\$ 1,750,000	0.0291	\$ 1,750,000	0.0280	\$ 2,000,000	0.0306	\$ 3,500,000	0.0508
Maricopa	Tolleson Union							\$ 5,000,000	0.2547
Maricopa	Agua Fria Union High	\$ 1,300,000	0.0795			\$ 7,500,000	0.3570	\$ 8,751,000	0.3570
Navajo	Joseph City Unified	\$ 50,000	0.0416			\$ 50,000	0.0557	\$ 50,000	0.0535
Navajo	Blue Ridge USD							\$ 634,000	0.1920
Pima	Tucson Unified	\$ 1,000,000	0.0266	\$ 1,000,000	0.0255	\$ 1,000,000	0.0246		
Pima	Marana Unified	\$ 950,000	0.0919	\$ 950,000	0.0867	\$ 1,100,000	0.0933	\$ 1,200,000	0.0928
Pima	Amphitheater Unified			\$ 350,000	0.0194	\$ 350,000	0.0186	\$ 450,000	0.0229
Pima	Vail Unified	\$ 500,000	0.0769	\$ 750,000	0.1099	\$ 1,800,000	0.2411	\$ 1,800,000	0.2214
Pima	Sahuarita USD			\$ 1,500,000	0.3762				
Pinal	Florence USD	\$ 2,000,000	0.3507						
Pinal	Maricopa Unified	\$ 5,623,000	1.5312	\$ 5,623,000	1.4086	\$ 8,510,993	1.8988	\$ 8,510,993	1.7062
Yavapai	Beaver Creek ESD			\$ 200,000	0.6312				
Yavapai	Chino Valley Unified	\$ 100,000	0.0453	\$ 100,000	0.0428	\$ 250,000	0.0992	\$ 350,000	0.1266
Yuma	Somerton ESD			\$ 980,895	0.9770			\$ 306,263	0.2630
Yuma	Gadsden ESD	\$ 350,000	0.4468	\$ 350,000	0.4245	\$ 360,000	0.4162	\$ 400,000	0.4463
Yuma	Yuma Union	\$ 1,500,000	0.1190	\$ 1,500,000	0.1121				
Total		\$ 36,958,408	0.1915	\$ 45,295,583	0.2537	\$ 61,715,556	0.3228	\$ 61,873,091	0.2960