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ARIZONA TAX RESEARCH ASSOCIATION

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PROPOSITION 101 DRIVES DOWN 2007 PRIMARY TAX RATES

In November of 2006, voters approved Prop 101, which provided for a recalculation of the constitutional levy limits back to tax year 2005, eliminating approximately $181 million in excess levying capacity from local governments; an amount that could have been levied without voter approval. Therefore, primary property taxes levied by counties, community colleges, and cities are strictly limited to 2% growth excluding any additional taxes generated from new construction.

As a result of Prop 101, counties, community colleges, and cities will be required to adjust their primary rates in fiscal year (FY) 2008 (tax year 2007) in order to offset the recent growth in net assessed values (NAV). However, this doesn't mean the total primary property tax levies generated by local governments will decrease, as levies for those jurisdictions can climb by an additional $149.4 million (9.7%). Of that amount, more than $108 million (72%) is attributable to new construction added to the tax rolls. (See table on page 2).

With the recent trend of rising values on existing properties statewide, the maximum allowable primary tax rate that may be levied by local taxing jurisdictions is limited to counteract increases in property values, which ultimately results in a reduction of the primary rate in most jurisdictions.

Counties

The constitutional levy limits will require all Arizona counties, except for Apache, to reduce their primary rates but still award counties with the potential to levy an additional $86.3 million (10%) in primary property taxes. More than $60 million (70%) of that amount is the result of new construction.

County	2006 primary rate	2007 Prop 101 levy limit rate	Difference
Apache	0.4683	0.4764	0.0081
Cochise	2.9160	2.8653	-0.0507
Coconino	0.4622	0.4383	-0.0239
Gila	4.3488	4.1989	-0.1499
Graham	1.7601	1.7336	-0.0265
Greenlee	0.5564	0.4635	-0.0929
La Paz	2.2068	2.1059	-0.1009
Maricopa	1.1794	1.1046	-0.0748
Mohave	1.6777	1.5298	-0.1479
Navajo	0.6229	0.6041	-0.0188
Pima	3.8420	3.7965	-0.0455
Pinal	4.3035	4.0183	-0.2852
Santa Cruz	3.3050	3.1809	-0.1241
Yavapai	1.6552	1.5292	-0.1260
Yuma	2.1429	2.0192	-0.1237

The primary rate in Pinal County will be required to drop nearly 29 cents, with the rate decreasing from $4.3035 in tax year 2006 to $4.0183 in tax year 2007. Even with this significant rate reduction, Pinal County can levy $13.3 million more in primary property taxes this year, representing a 21% increase over last year.

Gila County's primary tax rate will drop at least 15 cents, from $4.3488 to $4.1989, and still allow for $1.9 million (6.1%) growth in the total primary levy. Mohave County follows closely behind Gila with the third largest rate reduction of nearly 15 cents. This mandatory rate reduction will still provide Mohave with $2 million more (7.5%) in primary property taxes than last year.

Local jurisdictions have the option of levying a rate lower than the rate required by the Constitution. Pima County, for instance, is proposing a minimum 24-cent reduction in their primary rate to $3.6020, which is nearly 20 cents below the maximum allowable rate.

Cities

Thirty-six of the 50 cities and towns that levy a primary property tax will be required to drop their primary rates this year. Some of the cities that are experiencing large decreases in their

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What's inside…

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New Construction Drives Levy Limit Growth					$ Growth Attributable To New Construction	% Growth Attributable To New Construction
Jurisdiction	2006 Total Levy	2007 Prop 101 Levy Limit	$ Change	% Change		
Counties	$857,940,120	$944,210,987	$86,270,867	10.1%	$60,726,585	70.39%
Cities	$194,955,409	$214,774,696	$19,819,287	10.2%	$14,482,142	73.07%
Community Colleges	$491,897,057	$535,159,451	$43,262,394	8.8%	$32,849,092	75.93%
Totals	**$1,544,792,586**	**$1,694,145,134**	**$149,352,548**	**9.7%**	**$108,057,819**	**72.35%**

rates to offset the growth in value include Somerton (17 cents), Buckeye (12 cents), Gila Bend (12 cents), and El Mirage (10 cents). Even with the mandatory rate reductions required by Prop 101, these cities will be able to levy a collective $1 million (26.6%) more in primary property taxes than last year. In tax year 2007, the overall primary levies for cities could increase by as much as $19.8 million, 10% over last year, to a total of nearly $215 million.

Even though the majority of cities will be required to drop their rates, there are some cities that will see their maximum tax rates rise. The main reason for this anomaly is that these cities did not levy up to their limit last year and, as a result, now have excess capacity in their levy limit this year. Some examples of cities that are seeing their maximum tax rates increase, for various reasons, include the Town of Winkelman (74 cents), the City of Maricopa (56 cents), Superior (29 cents), and Hayden (23 cents).

Community Colleges

Prop 101 will force every community college district to decrease their primary property tax rate for the 2007 tax year. The largest decrease will occur in Pinal, where the community college primary tax rate will fall $0.2528 (12.3%). (While all other college districts proposed the maximum allowable rate, the Pinal Community College District proposed a rate of $1.80 — $0.0949 below their maximum.) The next greatest decrease will occur in the community college district of Yuma/La Paz with a decrease of $0.1389 (7.4%). The remaining districts will see rate decreases ranging from two to nine cents.

Notwithstanding the reduced tax rates, the total property tax levy for community colleges could potentially increase $43.3 million (8.8%) above the amount levied in 2006. However, as the Pinal Community College District proposed a rate below the maximum, the total levy for the community colleges will increase $40.9 million (8.3%). Over half of the increase will occur in Maricopa ($23 million), although this represents a smaller percent growth (7.7%) than several other districts. The Pima Community College District will receive the next greatest levy increase, $6.6 million (9.6%), followed by the Pinal Community College District with an increase of $4.1 million. The Pinal increase will represent the largest percent growth (13.7%) in property taxes levied by a community college district. The levy increases of the remaining districts will range from $2.6 million down to $156,000, with percent increases ranging from 5.0% to 13.1%.

In addition to the primary tax, six of the community college districts also levy a secondary tax to cover debt service requirements on voter approved bonds. Similar to the primary rates and levies, the secondary rates for the 2007 tax year are set to decline while the corresponding levies increase $8.9 million (9.4%). Only the Yavapai Community College District, with a secondary rate decrease of $0.0437 (19.3%), will maintain this levy at 2006 levels. The remaining secondary community college levies will increase; although, in Coconino and Navajo, the increases will be less than 1%, and in Pima and Yuma/La Paz the increases will be only about 2%. In Maricopa, on the other hand, the district sold an additional $240 million of the bonds voters approved in 2004. Therefore,

Community College	2006 primary rate	2007 Prop 101 levy limit rate	Difference
Cochise	1.7868	1.7430	-0.0438
Coconino	0.3920	0.3717	-0.0203
Gila	0.6201	0.5987	-0.0214
Graham	2.0658	2.0033	-0.0625
Maricopa	0.8815	0.8246	-0.0569
Mohave	0.8982	0.8221	-0.0761
Navajo	1.2639	1.2257	-0.0382
Pima	1.0570	1.0191	-0.0379
Pinal	2.0528	1.8949	-0.1579
Yavapai	1.4308	1.3397	-0.0911
Yuma/La Paz	1.8734	1.7345	-0.1389

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URBAN REVENUE SHARING CLIMBS 61% IN TWO YEARS

Most Arizona taxpayers understand that they pay many different taxes in support of state and local governments. The major taxes in Arizona come in the form of direct payments of property, sales, and income taxes. The majority of property taxes are directed to local governments while the majority of the sales tax goes to state government. All personal and corporate income taxes go to state government. Less understood, however, is that millions of the taxes paid to the state of Arizona flow back to local governments once they are received. Generally referred to as state shared revenue, Arizona's public finance system sends established percentages of several state taxes to local governments.

The state of Arizona shares revenue with local governments to assist in the equalization of fiscal disparities among jurisdictions. Fiscal disparities occur between local governments due to unequal resources and the needs of citizens. Local governments attempt to decrease these disparities by having different tax rates to provide equal services and goods but it is not enough to combat the inequities. Intergovernmental aid is needed from the state to relieve some of the pressure on local governments and the local taxes imposed on its residents. There are various forms of revenue sharing from the state, like local transportation assistance, highway revenue, state sales tax, and state income tax. According to research conducted by the League of Arizona Cities and Towns, the state will share a grand total of $1.58 billion with cities and towns this year. Urban revenue sharing (URS) accounts for 43% ($685 million) of that total.

URS is fifteen-percent of the monies collected from two years' prior state income tax collections, which is distributed to all incorporated cities and towns on a per capita basis. For example, fifteen-percent of the state income taxes collected in 2006 will be distributed to all incorporated cities and towns on a per capita basis in 2008. Arizona cities secured this additional

See **Urban Revenue Sharing,** page 4

Cities with the Largest 2 Year Percentage Growth (FY06-FY08)

	City	Fiscal Year 06 Amount	Fiscal Year 08 Amount	Change Between FY06 and FY08	% Change Between FY06 and FY08
1	Sahuarita	$339,435	$1,970,344	$1,630,909	480.48%
2	El Mirage	$796,658	$4,515,454	$3,718,796	466.80%
3	Queen Creek	$451,883	$2,311,739	$1,859,856	411.58%
4	Maricopa	$523,288	$2,244,136	$1,720,848	328.85%
5	Buckeye	$889,631	$3,578,167	$2,688,536	302.21%
6	Surprise	$3,229,767	$12,431,195	$9,201,428	284.89%
7	Goodyear	$1,979,970	$6,508,614	$4,528,644	228.72%
8	Youngtown	$315,145	$867,994	$552,849	175.43%
9	Marana	$1,419,305	$3,763,935	$2,344,630	165.20%
10	Avondale	$3,756,929	$9,768,062	$6,011,133	160.00%

Cities with the Largest 2 Year Dollar Growth (FY06-FY08)

	City	*Fiscal Year 06* Amount	*Fiscal Year 08* Amount	Change Between FY06 and FY08
1	Phoenix	$138,312,622	$207,855,663	$69,543,041
2	Tucson	$50,957,094	$74,612,521	$23,655,427
3	Mesa	$41,646,909	$63,109,599	$21,462,690
4	Chandler	$18,525,408	$32,512,085	$13,986,677
5	Gilbert	$11,485,210	$24,477,757	$12,992,547
6	Scottsdale	$21,223,092	$33,062,345	$11,839,253
7	Glendale	$22,909,486	$34,135,119	$11,225,633
8	Surprise	$3,229,767	$12,431,195	$9,201,428
9	Peoria	$11,345,646	$19,455,985	$8,110,339
10	Tempe	$16,607,943	$23,350,619	$6,742,676

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Maricopa's secondary community college levy will increase by $8.5 million (12.8%) to cover the increased debt service requirement. Including the recent bond issuance, the Maricopa Community College District has sold nearly half (45.2%) of the $951 million bond program of 2004. The district retains slightly more than $521 million in bonding capacity and intends to issue bonds every two years.

Secondary Property Tax Limits?

The limits that exist on primary property taxes can sometimes create the potential for local governments to shift the tax burden to the secondary property taxes. For instance, some jurisdictions will increase the secondary property tax rate on bonds by the same amount that they are required to reduce their primary tax rate in order to maintain the same overall tax rate as the prior year. In recent years, the cities of Phoenix and Tempe have made such adjustments (*See ATRA May 2007 Newsletter*). Consequently, the overall rate for the jurisdiction does not change and taxpayers are denied any relief from Prop 101.

HB2656 was an ATRA-backed measure sponsored by House Ways and Means Committee Chairman Steve Yarbrough this past session that would have limited the growth in secondary countywide special districts to the same limits that currently apply to primary levies: 2% growth plus new construction. The types of special districts that would have been affected by this legislation included flood control districts, library, jail, special health care districts, and public health services districts. Unfortunately, HB2656 failed in Committee, leaving the taxpayers fate in the hands of local governments.

The taxpayer's in Maricopa County, however, will be provided some relief since the county has voluntarily applied the levy limits to the flood control and library districts for the second year in a row to account for the growth in existing property values. Hopefully other jurisdictions will follow the example of Maricopa County and make appropriate reductions in tax rates to offset dramatic growth in values.

Jennifer Schuldt & Justin Olson

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funding through a 1972 voter initiative. At the time, cites made a commitment not to implement their own local income tax in return for tapping into the state's income tax receipts. Each city's share of URS is affected by the actions of other cities. For example, if a new city incorporates or a city experiences a large increase in population, every other city will see a change in their relative share of funding.

Over fiscal years 2006 to 2008, URS in Arizona will increase 61% or $259 million. The top ten cities that will see the greatest increase in their portion of URS are Sahuarita (480%), El Mirage (466%), Queen Creek (412%), Maricopa (329%), Buckeye (302%), Surprise (285%), Goodyear (229%), Youngtown (175%), Marana (165%), and Avondale (160%). The cities that showed the least amount of growth still had at least a 34.5% increase. The cities with the least amount of growth are Clifton, Winkelman, Gila Bend, Kearny, Hayden, Superior, Mammoth, and Duncan, all with a 34.5% increase in their URS. Globe (34.7%) comes in 9th for the least amount of growth in URS and is followed by Jerome (34.9%).

The cities that will see the largest monetary increases in URS from 2006 to 2008 are Phoenix ($69.5 million), Tucson ($23.7 million), Mesa ($21.5 million), Chandler ($14 million), Gilbert ($13 million), Scottsdale ($11.8 million), Glendale ($11.2 million), Surprise ($9.2 million), Peoria ($8.1 million), and Tempe ($6.7 million). All of these cities are among the top ten largest cities by population in Arizona except for Surprise, which is ranked 18th in population.

The URS increases are driven by increases in state income tax collections. Between 2004 to 2005, state income tax collections increased 25% ($709 million). Over the past two years, the total statewide net income tax collections have increased from $2.84 billion in 2004 to $4.52 billion in 2006. This is a 59.2% increase in total state income taxes collected.

Courtney Baker