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ARIZONA TAX RESEARCH ASSOCIATION

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Phoenix Provides Tax Breaks for Select Downtown Residents

New downtown Phoenix residents will experience drastically different property tax exposure depending on whether their unit received a property tax incentive deal. In the last several years, the City of Phoenix has rather liberally doled out tax breaks to developers building multi-family residential units particularly in the Roosevelt Row area.

The Union @ Roosevelt on 1st Avenue, Roosevelt Point Apartments on 3rd Street, Skyline Lofts on 4th Street, The Derby Roosevelt on 2nd Street and the planned Stewart apartments on Central Avenue (tentatively) are among those receiving or will receive property tax breaks worth millions in taxpayer subsidies.

See GPLET in Downtown Phoenix, Page 2

Statewide Property Taxes up $326 million

Arizona statewide property tax levies in 2016 are up $326 million or 4.7% totaling $7.3 billion. Eighty-eight percent of the tax levy increases are from Maricopa County. This amount tops the pre-recession surge in property taxes and sets a new record high.

By historical standards, a 4.7% tax levy increase is a modest amount considering market values grew 7.4% statewide. Over the last 25 years when values grew more than 3%, tax levies increased an average 7%.

Prop 117 continues to be a governor on the growth of property tax levies as all taxable values for locally assessed properties are now individually limited to 5% growth. This new single taxable value known as the Net Assessed Value saw just a 3.2% overall rise statewide this year. Jurisdictions must now publicly and transparently raise tax rates if they seek sizable levy increases. In fact, most of the increases this year were the result of voter-approved secondary property tax increases in Maricopa County.

Propelling this year's overall increase is a $0.18 per $100 statewide average tax rate increase. The combined average primary and secondary property tax rate is now $12.95 per $100 of assessed value, the highest since 1995.

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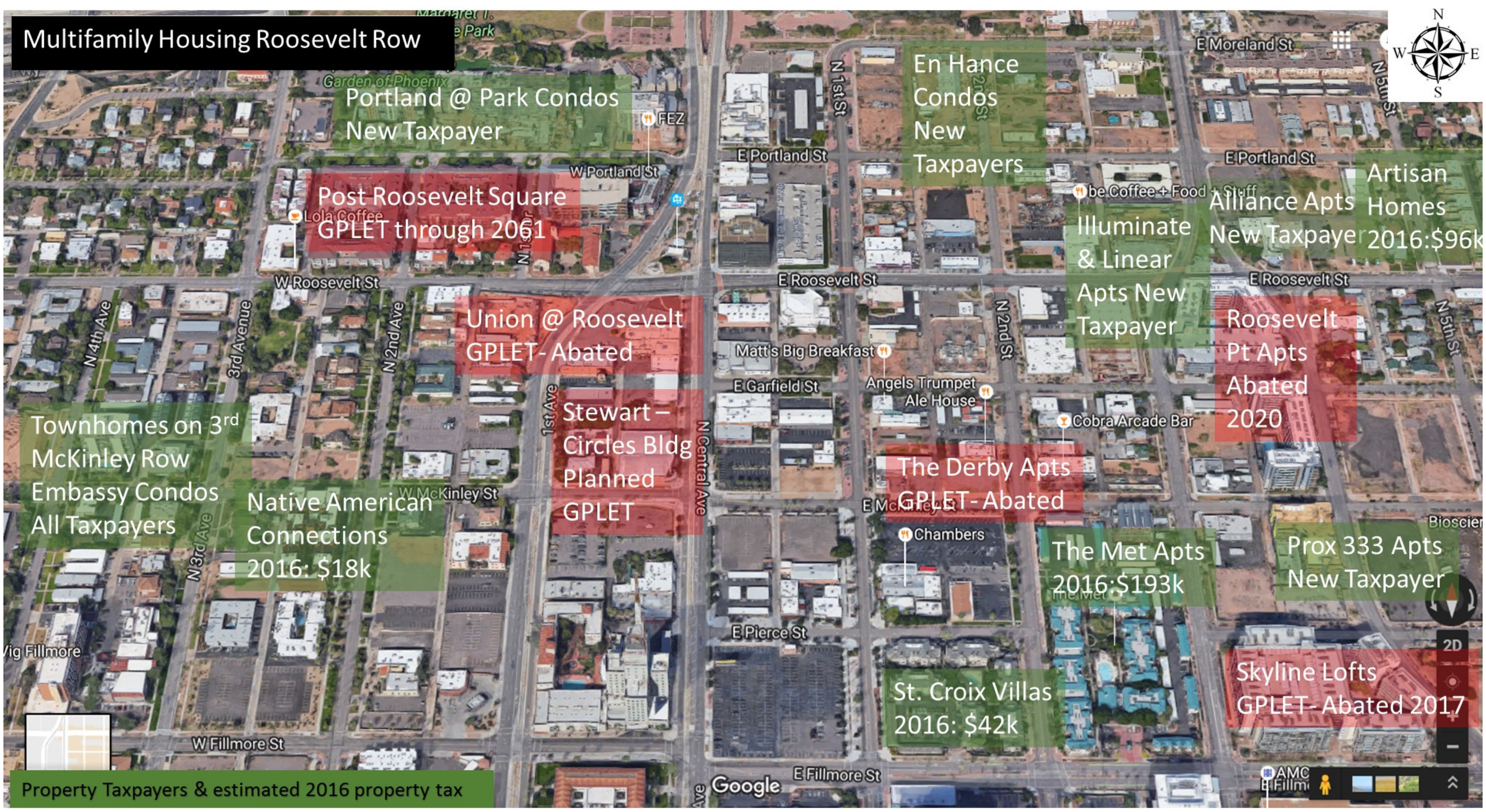
GPLET in Downtown Phoenix, *Continued from Page 1*

Government Property Lease Excise Tax (GPLET) is a statutory provision allowing municipalities and counties the ability to use their tax exempt status to shield private development from property taxation. Inside a city designated "central business district" that the city has casually defined as "slum and blight," the jurisdiction may exempt the business from GPLET for up to eight years, known as abatement. A loosely defined law allows any street in Arizona to qualify as "slum and blight" (see for example, Mill Avenue in Tempe). Beyond the eight years, the private concern pays a GPLET which represents a discounted rate on normal property taxes. In the meantime, state and local governments including schools are shorted tax revenue.

Tax incentives like abatement and GPLET are often justified by arguing a blighted area is in desperate need of investment. The Roosevelt Row area of downtown Phoenix is among the fastest growing areas in the state and certainly does not lack for investment. Moreover, there are at least four other brand new multi-family residential housing complexes who did not receive a subsidy and will be competing with these abated properties. They include En Hance Condos on Portland, Portland at the Park on 2nd Ave, iLuminate and Linear on 3rd Street, and Proxy 333 on 5th street.

Tax incentives are often defended with the argument that a private concern would not or could not have located in an area "but for" the tax break they received, making it financially viable. Nowhere is that justification more



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absurd than in Roosevelt Row, where new taxpayers are building similar developments across the street from abated properties.

In debates on the merits of subsidized tax incentives, central planners at City Hall justify their usage by pointing to a business or industry the incentive attracted which created jobs and spurred the economy. There is little evidence to suggest new multifamily residential or commercial retail drives jobs or economic growth. For the most part, residential and commercial retail sprout up around existing or projected demand. Yet the City of Phoenix has almost exclusively used GPLET for residential and retail in recent years.

In 2010, state lawmakers thought they were reforming GPLET by imposing temporal limits on new deals and increasing the lease excise tax rates closer to what other taxpayers are paying under the property tax. Unfortunately, municipalities have interpreted a grandfather clause in a manner which continues to allow new deals to pay GPLET under the old rates by claiming these new deals have been in the works since before 2010. The Auditor General reported as much in their review of GPLET published in December 2015.

This explains how the newly announced Fry's grocery store planned for 1st Street has a 75-year deal when the new state law limits them to 25 years. The planners at City Hall insisted that building a grocery store in downtown is an impossible feat without a massive subsidy. As though no grocery retailer would have ever responded naturally to the rapid residential growth in downtown Phoenix.

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The truth is the developers know they can get the deal; they just have to ask. They'd be crazy to want to pay the high business property taxes in downtown Phoenix. The sad reality is the new downtown neighbors- tax break winners and losers alike, will have to wait quite some time for a grocery store competitor to move in because the City has given the farm to Fry's. In the meantime, the City has indicated it will continue to raise property taxes on everyone else, which it did for this year, and likely will again next year based on their projections.

-Sean McCarthy

Voters Reject Most City Tax Questions

In Maricopa County, voters this November declined most tax increases for municipalities, rejecting sales tax increases from Mesa and Peoria and a bond for Surprise.

The City of Mesa proposed a 0.4 percent Transaction Privilege Tax (TPT) increase which was designed to direct additional revenues to public safety as well provide a revenue source for debt service on a new Arizona State University campus in downtown Mesa and expand the campus of Benedictine College. The tax would have increased their sales tax rate from 1.75 to 2.15 and projected to generate roughly $38 million per annum.

Several cities including Gilbert and Peoria are embattled in legal and financial trouble over the public funding of private universities. Mesa currently leases city space to Benedictine University; the proposition called for building additional space with the college paying an annual lease payment to the city. City voters defeated the tax increase 46.5% to 53.4%.

The City of Peoria proposed a similar TPT tax increase of .4 percent which proponents called a "Quality of Life Tax" and was to direct $17.5 million annually towards debt service on public safety projects such as a new fire station at Lake Pleasant, preservation and recreation projects. City leaders stressed a tax increase was needed to fund projects because the state had cut funding to growing cities. The city TPT rate would have increased from 1.80 to 2.20. Opposition led by Senator Debbie Lesko and Representative Tony Rivero dubbed it the "Forever Tax" since it was without a sunset. The Peoria Police Officers Association also opposed the tax. The TPT increase was soundly defeated 43% to 57%.

The City of Surprise unsuccessfully referred a $63 million bond to its voters which would have funded nine public safety, recreation and infrastructure projects. The bond was supported by city leadership including Mayor Sharon Wolcott and public safety unions. There was no formal opposition. Voters also rejected a $185 million bond proposal in 2009. Surprise is the only major metropolitan municipality currently without voter-approved secondary property taxes.

The only successful city tax questions were in Tempe, where voters handily approved all five of Tempe's bond requests totaling $254 million in principal which will be directed towards water and wastewater projects, street improvements, public safety projects, parks and community services, and improvements to city buildings. The bonds were supported by city officials and a group called Tempe First; no formal group opposed them.

-Sean McCarthy

K-12 Bonds/Overrides Mostly Pass

School district bond and override tax questions continue to enjoy high passing rates from their voters, a distinct turnaround from the recession when many, particularly overrides, would fail.

Most school tax questions passed by comfortable margins, with 17 of 22 bond questions passing totaling just over one billion in principal costs and 16 of 19 M&O overrides passing totaling $57 million in annual costs.

In Maricopa County, bonds passed by ten points or more, except in the cases of West-MEC JTED and Wickenburg Unified which passed by narrow margins. The largest bond to fail was Peoria Unified where a $198 million request was rejected. Queen Creek and Gila Bend Unified also failed to secure a $95 million and a $35 million bond request, respectively. Maricopa County overrides passed by healthy margins with all passing by 13 points or more.

After years of failed attempts, Scottsdale Unified successfully passed an M&O override last year and this year doubled down with the passage of a $229 million bond and a $4.7 million annual capital override. Scottsdale Unified plans to rebuild or remodel many of its elementary schools.

After voters rejected four successive override requests, Maricopa Unified voters finally complied with a 10% M&O override by a surprisingly strong margin. Lake Havasu Unified, Mohave Valley Elementary and Stanfield

Elementary were the only M&O overrides to fail. Colorado River Union and Seligman Unified also failed to secure bond requests.

Three of five District Additional Assistance (capital) overrides passed. Madison Elementary, Scottsdale Unified and Somerton Elementary passed with Sahuarita Unified and St. John's Unified failing.

Several Arizona pollsters cited K-12 education as the top voter issue of the 2016 election cycle. Despite the financial shot in the arm resulting from Prop 123, the media narrative quickly shifted to searching for additional financial infusions. In particular, additional funding for capital, all-day kindergarten, and special education funding are most often discussed.

The state's suspension of the District Additional Assistance (DAA) formula since the recession continues to be the most common refrain used by districts to rally for additional local funds. State policymakers have indicated they are uninterested in resuming this formula, preferring to simply direct available revenues to the M&O fund.

Policymakers need to decide whether they want to fund the DAA capital formula or do away with it altogether. Leaving it 80% unfunded provides nothing more than campaign fodder. The DAA capital budget is entirely unrestricted anyhow, meaning it doesn't have to be spent on capital. There is some support for the notion that the state ought to discipline school spending by restricting capital dollars to ensure their facilities are maintained. The trend has been to give schools unrestricted dollars and let them allocate as necessary.

As the state mulls how to approach the *Students First*/Prop 301 renewal, which was designed to make school capital funding a state issue and less of a local responsibility, it should consider that the state for the most part is right back where it was before the *Roosevelt v. Bishop* lawsuit. The state doubled bonding authority for school districts during the recession and ever since school capital issues have been predominantly funded at the local level, distorting spending equity across district (and charter) lines, leaving the state once again highly exposed to litigation.

-Sean McCarthy

PROPERTY TAXES, *Continued from Page 1*

Average primary property tax rates remain at $8.73 and levies are up 3%, corresponding with the similar rise in Net Assessed Values.

Secondary tax rates statewide have increased from $4.03 to $4.22 which drove an 8.2% increase in secondary tax levies.

Secondary property tax rates in Maricopa County have jumped $0.29 to $4.59 per $100 of assessed value due mostly to voter-approved activity.

Secondary tax levies from Maricopa County government increased 13.5% while the municipalities in Maricopa County grew on average

Top 20 Total Tax Rates in AZ

	School & Municipality or Fire District	Total Tax Rate
1	Hayden-Winkelman Uni in Hayden	$23.84
2	Cartwright El/Phx Union in Phx	$22.48
3	Superior Uni in Superior	$22.18
4	Isaac El/Phx Union in Phx	$21.92
5	Maricopa Uni in Maricopa	$19.90
6	Altar Valley Uni in 3 Points F.D.	$19.21
7	Laveen El/Phx Union in Phoenix	$19.20
8	Grand Canyon Uni in Tusayan F.D.	$19.01
9	Bowie Uni in Bowie F.D.	$18.90
10	Roosevelt El/Phx Union in Phx	$18.66
11	Tucson Uni in Drexel Heights F.D.	$18.63
12	Phoenix El./Phx Union in Phx	$18.52
13	Alhambra El/Phx Union in Phx	$18.45
14	Vail Uni in Rincon Valley F.D.	$18.20
15	Ash Creek/Valley in Elfrida F.D.	$18.16
16	Wilson El/Phx Union in Phx	$18.11
17	Eloy/Santa Cruz Union in Eloy	$18.09
18	Picacho El/Santa Cruz in Avra Valley F.D.	$18.03
19	Red Rock El/Santa Cruz Avra Valley F.D.	$18.02
20	Elfrida/Valley Union in Elfrida F.D.	$17.34

20.6%. Statewide school secondary taxes grew 8.9% with an 11.7% increase in Maricopa County.

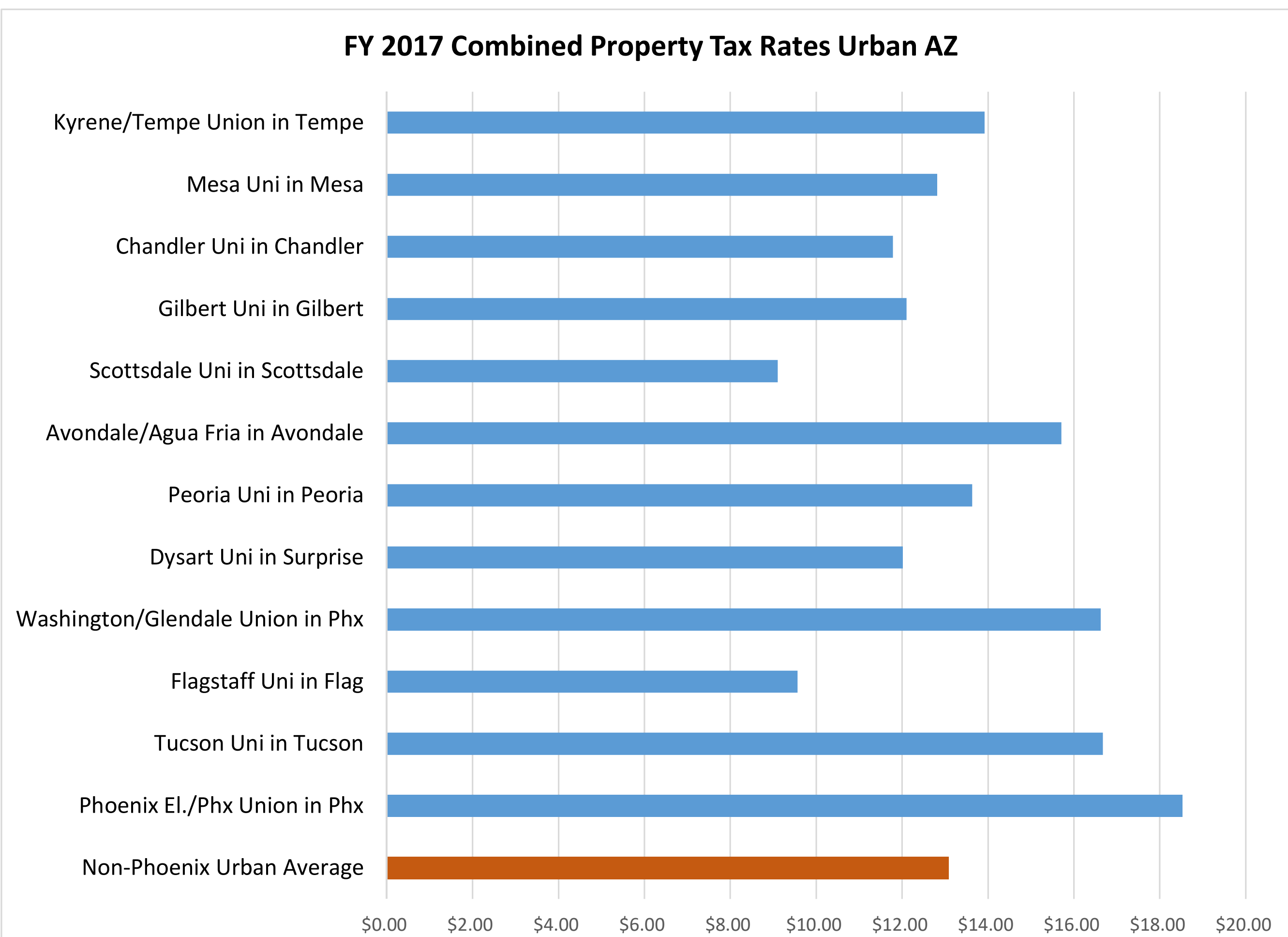
In total dollar terms, the largest tax levy increases came from Maricopa County schools at $157.7 million, of which two-thirds was an increase in voter-approved secondary levies. The next largest increase was from Maricopa County government with a $45 million total tax levy increase. Most of that went to the County general fund but $9 million went to an increase in the Flood Control District they manage.

The City of Phoenix can lay claim to $45 million of the $56 million jump in tax levies for Maricopa cities and towns. Both the City of Phoenix and Town of Gilbert elected to raise taxes rather than expend excess cash. The remainder is for small increases in suburban municipalities. Maricopa Community College district's total levy is up $12 million. MIHS, the County hospital, has raised their total tax levy $5.7 million.

Several factors increased taxes for Maricopa County school districts to include new voter-approved overrides in Phoenix Union (capital), Gilbert Unified, Queen Creek Unified, and Higley Unified. In some cases, bond repayments increased. In all cases, existing M&O overrides grew more expensive because Prop 123 increased school budgets bases by roughly 5% which in turn grew M&O overrides by 5%.

Pima County schools total tax levy increased $17 million which is primarily the result of cash corrections in the primary property tax in a few school districts.

-Sean McCarthy



Fire Districts 50/50 on Tax Elections

During the 2016 legislative session, fire districts were granted the authority under SB1244 to ask voters for a secondary tax override to exceed the current tax rate cap of $3.25. If approved, the fire district is provided the authority to levy up to a $3.50 tax rate for five years. Based on the unofficial election results, only six of the more than 150 fire districts took advantage of the temporary legislation, and of those, the voter outcome was evenly split. Of the six, Pine-Strawberry fire district, Tonopah fire district, and Superstition fire district were successful in their bid for a secondary tax override. However, voters failed to approve the additional tax in Sun Lakes, Avra Valley, and Mayer fire districts.

Two fire districts seeking voter approval for General Obligation (G.O.) bonds, which are also funded with a secondary property tax, were both successful. The voters in Sun City fire district in Maricopa County approved $10 million in G.O. bonds to pay for a new fire station, improvements to existing facilities, and replacement or refurbishment of fire engines. Voters in Pima County approved Northwest fire district's request for $23.6 million in G.O. bonds, which will be used to enlarge, remodel, reconstruct existing fire stations and build new fire stations.

-Jennifer Stielow

County	Fire District	Secondary Tax O/R	G.O. Bonds	Outcome
Gila	Pine-Strawberry	√		Passed
Maricopa	Sun City		√	Passed
	Sun Lakes	√		Failed
	Tonopah	√		Passed
Maricopa/Pinal	Superstition	√		Passed
Pima/Pinal	Avra Valley	√		Failed
Pima	Northwest		√	Passed
Yavapai	Mayer	√		Failed