



The taxpayer's watchdog for over 80 years

ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 82 NUMBER 6 OCTOBER 2022

County Budgets Remain Strong in FY 2023

County budgets continue to thrive due to residual federal stimulus funds and strong tax revenue growth. The fiscal health of Arizona's counties allowed some the opportunity to provide property tax relief, and with few exceptions, most counties that raised property taxes did so modestly compared to years past.

County FY 2023 Budgets

In FY 2023, county general fund (GF) budgets grew 6.3% to over \$3.7 billion. Approximately \$1.3 billion in reserves provide county coffers with a generous cushion, accounting for 34.5% of GF budgets. County total fund (TF) budgets grew 16.5% this year to \$10.4 billion and the \$4.7 billion in reserves represents 45.2% of TF budgets. Maricopa County's TF balance of \$2.8 billion accounts for 60% of total county fund balances.

Some increases in this year's county budgets are the result of expanded budget capacity for anticipated bond issuances during the year. Pinal County's budget included \$126 million in tax revenue bonds to purchase land in Casa Grande to lease to Lucid Motors for economic development purposes. Budget capacity was included in Coconino County's budget for \$56 million in bonds to prepay a portion of the County's future pension contributions to the Arizona State Retirement System (ASRS). The reasons for the excess budget capacity among the fifteen counties vary, but most of the counties still have significant amounts of unspent federal stimulus dollars or anticipate other grants that must be budgeted for if they plan to spend the funds during the fiscal year.

Vote Yes on Props 130 & 132!

Inside: See page 6

ATRA Fall Events!

ATRA Golf Tournament

Friday, Nov 4th @ 12:15 pm, Stonecreek Golf Club, Phoenix

ATRA Outlook Conference

Friday, Nov 18th @ 8:00 am, Scottsdale Hilton

Please contact the ATRA office at (602) 253-9121 to RSVP or inquire about sponsorship opportunities!

Property Taxes & Special Taxing Districts

Primary property taxes, which are levied by all fifteen counties to fund their general operations, are subject to constitutional levy limits and truth in taxation (TNT) statutes.

The constitutional levy limits provide counties with 2% annual growth, plus new construction. Only Apache and Coconino County currently levy to their constitutional maximum.

TNT requires the state, counties, community colleges, and cities and towns to notify taxpayers when proposing property tax increases by publishing notice in a newspaper of general circulation prior to voting on the tax increase

County GF & TF Budgets

County	General Fund (GF)					Total Funds (TF)				
	FY 2022	FY 2023	% Chg.	Fund Balance	% of Budget	FY 2022	FY 2023	% Chg.	Fund Balance	% of Budget
Apache	\$22,861,026	\$24,038,379	5.2%	\$11,000,000	45.8%	\$86,737,132	\$91,283,477	5.2%	\$11,470,257	12.6%
Cochise	\$95,376,068	\$96,547,090	1.2%	\$32,500,000	33.7%	\$222,391,550	\$250,049,871	12.4%	\$89,185,709	35.7%
Coconino	\$100,374,563	\$176,086,739	75.4%	\$51,479,606	29.2%	\$276,633,204	\$408,888,749	47.8%	\$179,749,276	44.0%
Gila	\$62,834,052	\$60,538,828	-3.7%	\$38,584,242	63.7%	\$115,838,783	\$124,423,067	7.4%	\$57,315,635	46.1%
Graham	\$27,348,501	\$42,456,658	55.2%	\$14,148,707	33.3%	\$80,480,136	\$104,267,235	29.6%	\$27,199,565	26.1%
Greenlee	\$17,502,679	\$18,108,298	3.5%	\$11,415,413	63.0%	\$30,328,237	\$33,053,831	9.0%	\$17,115,413	51.8%
La Paz	\$16,785,135	\$18,193,249	8.4%	\$3,882,985	21.3%	\$38,745,178	\$41,076,230	6.0%	\$19,022,440	46.3%
Maricopa	\$1,468,333,647	\$1,568,693,084	6.8%	\$683,820,008	43.6%	\$3,593,129,268	\$4,609,733,933	28.3%	\$2,820,958,928	61.2%
Mohave	\$108,328,946	\$125,135,985	15.5%	\$50,231,962	40.1%	\$519,816,812	\$560,703,299	7.9%	\$212,122,940	37.8%
Navajo	\$54,861,662	\$61,743,330	12.5%	\$31,565,000	51.1%	\$176,185,163	\$211,711,876	20.2%	\$105,068,014	49.6%
Pima	\$944,509,643	\$679,892,827	-28.0%	\$137,789,053	20.3%	\$2,115,600,207	\$1,932,712,979	-8.6%	\$500,633,243	25.9%
Pinal	\$238,822,359	\$479,607,328	100.8%	\$68,909,648	14.4%	\$734,501,764	\$1,017,055,235	38.5%	\$276,093,781	27.1%
Santa Cruz	\$35,522,430	\$40,003,500	12.6%	\$15,916,604	39.8%	\$111,593,127	\$131,767,756	18.1%	\$44,231,857	33.6%
Yavapai	\$124,809,149	\$135,009,755	8.2%	\$58,943,645	43.7%	\$347,290,247	\$362,742,440	4.4%	\$145,764,405	40.2%
Yuma	\$118,821,283	\$128,323,266	8.0%	\$51,994,142	40.5%	\$460,677,786	\$501,668,494	8.9%	\$188,781,147	37.6%
TOTALS	\$3,437,091,143	\$3,654,378,316	6.3%	\$1,262,181,015	34.5%	\$8,909,948,594	\$10,381,138,472	16.5%	\$4,694,712,610	45.2%

at a public hearing. The TNT law applies to primary property taxes and to the secondary property taxes levied for the countywide special taxing districts for jails, flood control, libraries, and public health services districts.

Arizona's real estate market remains strong and continues to provide local governments with a reliable revenue source. The passage of Prop 117 eliminated the Full Cash Value (market value) as taxable and maintained the Limited Property Value (Net Assessed Value/NAV) as the only taxable value, limited to 5% annual growth for all locally assessed property. As a result of 117, the stability and predictability in Arizona's property tax system has improved dramatically for both government and taxpayers. Prop 117 went into effect in tax year 2015, and since then, statewide NAV has grown steadily by 6.1% per year on average. In contrast, the FCV, which is no longer taxable, has grown at an average annual rate of 9.4%.

In FY 2023, statewide NAV grew by 5.7% to \$78.4 billion, compared to 6.8% growth in FCV to \$103.9 billion. Total county property taxes grew by only 0.6% this year. The 1.2% (\$16 million) growth in primary taxes to \$1.4 billion was partially offset by a 2% drop in secondary taxes to approximately \$311 million. Maricopa County provided the largest cut in property taxes this year after reducing its primary property taxes \$29.2 million below TNT and dropping its secondary taxes for library and flood control by a collective \$7.9 million. In contrast, Pima

County increased primary taxes \$11 million over TNT and secondary property taxes for the county library district by \$2.5 million. At the same time, Pima County's secondary taxes for debt service dropped \$11.2 million as taxpayers continue to pay down the remaining general obligation (G.O.) voter approved debt. La Paz County was statutorily required to reduce its primary levy \$1.6 million below TNT this year to account for the reserves left in its judgment bonds sales tax reserve fund after paying off its \$14 million judgment in the *La Paz County v. Yakima* case. Coconino levied to the 50-cent maximum tax rate cap it needed for flood control this year, which resulted in a \$4.6 million increase over TNT. The six counties that chose not to increase primary or secondary property taxes this year included Graham, Greenlee, La Paz, Maricopa, Navajo, and Yavapai.

County	Property Taxes			Special District Sales Taxes		Total
	Primary	Secondary	Subtotal	Jail	PHSD	
Apache	\$3,199,135	\$7,347,234	\$10,546,369			\$10,546,369
Cochise	\$27,368,063	\$3,718,383	\$31,086,446			\$31,086,446
Coconino	\$10,589,976	\$20,121,968	\$30,711,944	\$20,868,700		\$51,580,644
Gila	\$24,855,092	\$1,438,511	\$26,293,603			\$26,293,603
Graham	\$6,311,497	\$216,992	\$6,528,489	\$2,500,000		\$9,028,489
Greenlee	\$3,601,916	\$1,345,850	\$4,947,766			\$4,947,766
La Paz	\$4,128,345	\$0	\$4,128,345	\$1,771,763		\$5,900,108
Maricopa	\$643,295,202	\$101,750,175	\$745,045,377	\$241,952,016		\$986,997,393
Mohave	\$40,331,294	\$17,321,184	\$57,652,478			\$57,652,478
Navajo	\$7,455,516	\$4,759,852	\$12,215,368	\$5,715,000		\$17,930,368
Pima	\$392,781,054	\$117,317,478	\$510,098,532			\$510,098,532
Pinal	\$111,319,863	\$7,656,245	\$118,976,108		\$5,108,943	\$124,085,051
Santa Cruz	\$15,796,321	\$2,875,687	\$18,672,008	\$2,800,000		\$21,472,008
Yavapai	\$59,748,121	\$10,378,488	\$70,126,609	\$13,500,000		\$83,626,609
Yuma	\$36,203,625	\$14,692,983	\$50,896,608	\$18,492,836	\$3,865,133	\$73,254,577
FY 2023 TOTALS	\$1,386,985,020	\$310,941,030	\$1,697,926,050	\$307,600,315	\$8,974,076	\$2,014,500,441
FY 2022 TOTALS	\$1,371,024,965	\$317,248,375	\$1,688,273,340	\$257,820,684	\$7,712,193	\$1,953,806,217
% Chg.	1.2%	-2.0%	0.6%	19.3%	16.4%	3.1%

When creating the countywide special taxing districts for jails and public health services districts (PHSD), some counties opted to levy a sales tax to fund the districts instead of a property tax. The sales taxes levied to fund these special taxing districts increased 19.2% and generated \$316.6 million.

State-shared revenues & expenditures

In addition to local property taxes, other major revenues that fund county government comes from the state of Arizona. In FY 2023, the state-shared revenues from sales taxes, highway user revenue funds (HURF), and vehicle license taxes (VLT) topped nearly \$2.2 billion, a 26% increase over last year. Local tax revenues from the half-cent GF sales taxes, countywide special taxing districts for jails and public health services districts, and other local miscellaneous tax revenues, account for approximately one-quarter of state-shared revenues.

The state and counties share in the costs associated with the Arizona Long Term Care Services (ALTCS) program administered by the Arizona Health Care Cost Containment System (AHCCCS). Prior to 1997, counties were responsible for funding the entire amount necessary to draw down the federal matching funds. However,

County	GF Salaries	TF Salaries	GF Compensation	TF Compensation
Apache	\$8,909,765	\$18,678,538	\$13,103,385	\$27,517,017
Cochise	\$33,316,543	\$49,216,848	\$53,883,752	\$76,448,188
Coconino	\$39,586,477	\$78,983,394	\$55,100,276	\$109,484,809
Gila	\$20,124,267	\$30,099,771	\$28,152,448	\$42,139,805
Graham	\$7,296,995	\$13,791,632	\$10,919,491	\$20,239,884
Greenlee	\$5,901,003	\$8,656,879	\$15,666,079	\$19,413,495
La Paz	\$7,906,956	\$14,099,706	\$12,523,807	\$21,637,243
Maricopa	\$529,898,473	\$1,013,810,329	\$786,883,036	\$1,766,510,124
Mohave	\$45,919,583	\$77,146,242	\$67,721,392	\$77,146,242
Navajo	\$17,886,074	\$34,564,066	\$27,315,843	\$52,503,454
Pima	\$275,089,130	\$405,730,731	\$386,701,866	\$569,447,852
Pinal	\$106,337,182	\$145,825,606	\$146,746,787	\$203,811,645
Santa Cruz	\$11,651,173	\$22,966,583	\$18,434,248	\$35,165,866
Yavapai	\$61,881,260	\$112,017,763	\$95,179,830	\$167,169,040
Yuma	\$42,870,985	\$85,402,178	\$59,224,490	\$116,974,080
FY 2023 TOTALS	\$1,214,575,866	\$2,110,990,266	\$1,777,556,730	\$3,305,608,744
FY 2022 TOTALS	\$1,091,716,059	\$1,881,043,957	\$1,626,908,956	\$2,785,935,300
% CHG	11.3%	12.2%	9.3%	18.7%

Employee Salaries/FTE

FY 2023	GF Salaries/FTE	Rank	TF Salaries/FTE	Rank
Apache	\$52,899	13	\$50,346	11
Cochise	\$55,151	9	\$54,245	8
Coconino	\$69,294	1	\$67,666	1
Gila	\$52,630	14	\$50,210	12
Graham	\$56,217	8	\$52,680	9
Greenlee	\$47,208	15	\$48,909	15
La Paz	\$53,389	12	\$49,255	14
Maricopa	\$64,161	2	\$65,037	2
Mohave	\$57,548	7	\$55,937	7
Navajo	\$53,781	10	\$49,590	13
Pima	\$57,732	6	\$56,206	6
Pinal	\$63,754	3	\$61,810	3
Santa Cruz	\$53,692	11	\$50,952	10
Yavapai	\$61,208	4	\$60,354	4
Yuma	\$60,303	5	\$56,615	5
AVG	\$57,265		\$55,321	

legislation was enacted that year to provide relief to the counties by requiring the state to share in half the growth in ALTCS costs. According to the FY 2023 JLBC Appropriations Report, the county's share in ALTCS costs total \$352.7 million and the state's share is 90% of the county share at \$315.9 million.

Expenditures

The main cost driver in county budgets is employee compensation. In FY 2023, GF salaries increased 11.3% to \$1.2 billion and TF salaries grew 12.2% to \$2.1 billion. The budgeted employee salaries in nearly every county grew over the last year. Employee compensation, which includes salaries

and the employee-related benefits for health insurance and retirement, grew 9.3% in total GF budgets to approximately \$1.8 billion and 18.7% in TF budgets to \$3.3 billion.

On average, counties budgeted \$57,265 in GF salaries per full-time equivalent (FTE) and \$55,321 in TF salaries per FTE. By ranking the counties based on their budgeted salaries per FTE, without adjustment for cost of living, Coconino County ranks highest, followed by Maricopa and Pinal Counties. Some of the smaller rural counties such as Greenlee, Gila, Apache, and La Paz rank in the bottom tier of all 15 counties.

Unfunded Pension Liabilities

Like other local governments, Arizona's counties have been scrambling for ways to reduce their unfunded pension liabilities (UAAL), particularly in the Public Safety Personnel Retirement System (PSPRS). Absent any reforms to the system, the only way to address the liabilities is to reduce the interest costs by making pre-payments, lump-sum payments, extending the amortization period, or issuing bonds at a lower interest rate. Arizona's counties, for instance, have issued more than \$1 billion in debt to pay down their unfunded pension liabilities. Like in Coconino County as mentioned earlier, Maricopa County plans to issue \$500 million in bonds to pay down its pension costs in both ASRS and PSPRS. Although these actions will improve the funded status of the pension plans, it merely shifts the problem to the books of local governments. Meanwhile, taxpayers remain saddled with paying off hundreds of millions in debt for years to come.

-Jennifer Stielow

PSPRS UAAL (FY 2020 - FY 2021)

County	FY 2020			FY 2021			Amort.
	UAAL	FUNDED	CONTRIB. RATE	UAAL	FUNDED	CONTRIB. RATE	
Apache	\$11,814,709	32.00%	75.88%	-\$398,650	102.20%	7.89%	15
Cochise	\$36,750,774	36.80%	49.28%	\$34,979,231	40.10%	55.76%	25
Coconino	\$14,448,337	72.90%	38.26%	-\$5,311,143	110.20%	4.80%	15
Gila	\$13,318,811	40.50%	52.73%	-\$1,133,920	105.10%	8.65%	15
Graham	\$4,113,286	58.70%	31.47%	\$1,917,318	81.10%	21.45%	25
Greenlee	\$3,461,739	59.20%	39.21%	\$1,891,544	78.20%	30.00%	15
La Paz	\$13,108,564	35.70%	78.25%	\$13,190,231	36.60%	78.81%	15
Maricopa	\$363,676,088	44.50%	70.16%	\$360,047,815	47.00%	76.77%	15
Mohave	\$26,803,147	48.90%	53.63%	\$26,471,668	50.90%	55.17%	15
Navajo	\$12,979,159	35.40%	57.24%	\$12,536,127	38.80%	49.38%	15
Pima	\$259,986,600	41.10%	82.13%	\$234,063,466	48.00%	84.45%	15
Pinal	\$66,655,372	49.50%	47.07%	-\$2,354,262	101.70%	10.71%	15
Santa Cruz	\$11,065,031	45.10%	56.98%	\$11,040,896	47.00%	64.81%	15
Yavapai	\$37,273,380	52.00%	45.60%	\$32,112,477	60.00%	45.66%	15
Yuma	\$22,191,952	50.90%	46.52%	-\$2,802,740	105.90%	7.57%	15
TOTAL	\$897,646,949	46.88%	54.96%	\$716,250,058	70.19%	40.13%	

ATRA Supports Proposition 130 (SCR1011)

Constitutional Property Tax Exemptions

ATRA supports Prop 130 because it restores the tax benefit provided to Arizona's disabled veterans that was struck down by the courts due to unconstitutional residency requirements. The exemption is provided to honorably discharged veterans and the amount of the exemption is based on the percentage of the veteran's service or nonservice connected disability as rated by the U.S. Department of Veterans Affairs.

Furthermore, ATRA believes it is good tax policy to move these modest property tax exemptions for veterans, widowers, and business personal property into state statute in order to provide our State Legislature the flexibility to react when circumstances change.

Vote YES on Proposition 130!

ATRA Supports Proposition 132 (HCR2015)

Initiatives; supermajority vote; requirement

Proposition 132 would increase the threshold for voter approved initiatives and referendums to approve a tax to sixty percent. Arizona has a rich history of establishing important public policy through voter approved initiatives and referendums. Proposition 132 will provide an added degree of protection for Arizona taxpayers regarding future efforts to increase taxes in statewide elections.

In 1992, through the Proposition 108 initiative, Arizona citizens voted overwhelmingly to impose a 2/3 vote requirement on tax increases imposed by the Arizona State Legislature. That law has served taxpayers well over the last 30 years.

Adjusted for inflation, Arizona's per capita taxes grew 53% between 1980 and 2020. Our tax system clearly generates ample revenue for state and local governments and efforts to change our tax system at the ballot box run the risk of doing significant long-term damage. Ensuring that future tax increases garner broad public support is good policy and creates needed stability in Arizona's tax code.

Vote YES on Proposition 132!