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ARIZONA TAX RESEARCH ASSOCIATION

2009 LEGISLATIVE PROGRAM

STATE BUDGET

ATRA's state budget recommendations will be updated and expanded to address the severity of the current state budget crisis. In addition to specific budget reductions, the recommendations will focus on the following major issues:

- State policymakers need to show leadership in addressing this issue and stop hiding behind an exaggerated view of the handcuffs that both Proposition 105 and statutory formulas place on them.
- ATRA recommendations will reflect the severity of the deficit – everything should be on the table.
- The FY 2010 “current services” budget should be scrapped.

TAXATION

Property Tax

For the last three years, ATRA has led the effort to control property tax increases associated with dramatic property valuation growth. In 2006, policymakers were persuaded to reduce state property taxes while at the same time preempting local governments from increasing primary property taxes. In addition, the Legislature referred, and the voters approved, Proposition 101 to ensure that the constitutional levy limits on primary property taxes were current and that local governments would be required to reduce tax rates when values climbed.

ATRA's effort to limit primary property tax levies in the face of skyrocketing values was a success. Over the last three years, primary valuations climbed 47% while primary levies were limited to 17% growth. As a result, the average primary tax rate fell \$1.57 (20%) over the last three years. However, secondary levies (in many instances, voter-approved) have climbed \$742 million over the last three years, a 41% increase. Unless some reasonable limitations are placed on secondary property taxes, we can expect efforts to pass Prop-13-style initiatives in Arizona to continue.

Primary Property Taxes

- Prevent the Property Tax Increase – repeal the state eq. tax rate increase scheduled for 2009.

As noted above, the Legislature's actions over the last three years to reduce primary tax rates in the face of growing property valuations was the correct policy response to avoid huge property tax increases. Allowing this rate to come back will undermine some of that success as well as reinforce the argument of those that suggest state policymakers cannot be trusted with managing the property tax system. However, it would be an understatement to say this issue is now complicated by the state's deepening budget crisis.

- State Truth-in-Taxation (TNT) Compliance – ensure that the Legislature adopts the TNT rates for the FY 2010 state budget. Since its passage in 1998, the state has consistently complied with TNT. Undoubtedly, the budget deficit creates more of a threat for non-compliance than in previous years.

Secondary Property Tax Reforms

The majority of secondary property taxes are voter-approved overrides and debt service levies on voter-approved bonds; and therefore, have some limitations on growth. However, there are a number

of areas in the secondary tax that need reform if taxpayers are to be protected from significant tax increases when valuations climb:

- Limit County Library Districts, Public Health Services Districts, Jail Districts, and Television District levies – these countywide special district levies should be limited to the same percentage growth as the annual increase in the county’s primary levy limit.
- Limit Fire District levies – Limit increases in fire district levies (excluding debt service) to the greater of 5% or 2% plus growth (the same formula applied to the operational levies of other local governments). Provide fire districts the authority to ask voters for a permanent levy override within the current \$3.25 rate cap.
- Cap the fire district assistance tax distribution for consolidated districts at the \$300,000 cap that is currently in place for all fire districts.
- General Obligation Debt Service Reforms:
 - Require jurisdictions to disclose if the amount of the proposed bonds, combined with current outstanding debt, would exceed the jurisdictions constitutional debt limit.
 - Require an election if the weighted average maturity of a proposed refunding is less than 75% of the weighted average maturity of the bonds to be refunded.
 - Require publicity pamphlets to more accurately reflect the long-term impact of the bond on taxpayers.

School Finance

- Tax Rate Cap/1% Districts – cap the primary tax rates of school districts with a combination of 50% or more of their residential taxpayers at the 1% cap and a primary rate 150% of the QTR. Enforcement would be given to the Property Tax Oversight Commission.

Corporate Income

- Net Operating Loss Carryforward – support legislation to extend the current five-year limit on net operating loss carryforwards to twenty years for losses arising in tax years beginning from and after 12/31/2008.

Public Finance

- Students FIRST Reform – (refer to separate document).
- Initiative Reform – support legislation directed at reforming the state’s initiative process.
- Public Health Services Districts – pursue legislation that would require a county board of supervisors to receive voter approval prior to creating a Public Health Services District.
- GPLET – support legislation to reform the Government Property Lease Excise Tax on a prospective basis.
- Prohibit cities from hiring auditors on a contingent fee basis and contracting out collection duties to a private concern.

Other Issues

- School Finance: Excess Utilities, Career Ladders, Desegregation/OCR
- Sales tax authority for special districts
- “Economic Stimulus” Package (tax incentives for solar; transferability or refunding of tax credits)