



ATRA OUTLOOK CONFERENCE

Current Property Tax Issues

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Friday, November 18, 2005

Major Property Tax Reform Passed in 2005

- Arizona's Property Tax System was the focal point of two major studies of Arizona's Tax System in recent years (CFRC & TRAC).
- The 2005 Legislative Session was highlighted by the passage of HB 2779 that reduces assessment ratios on class one property from 25% to 20% over the next ten years.

ATRA's Focus on Property Tax Reform

- Decrease inequities in current system.
- Control growth in property tax levies.

Success on both fronts.

- **HB 2779 - 20% reduction in class one assessment ratio.**
- **State Average Tax Rate decrease from \$13.27 in 1995 to \$11.56 in 2005.**

So What's Next?

- First, it is important to remember that the problems that existed prior to the passage of HB 2779 will still exist for some time. Those problems are:
 - High Business Property Taxes
 - 1% Residential Cap
 - Accountability

Controlling Growth in Property Taxes

- Second, increasing property valuations will continue to drive concerns about associated property tax increases.
- Arizona's net assessed value has climbed \$17.1 billion or 54% in the last five years.
- Recent market activity will drive further increases in the 2006 values to be sent out early next year.

Controlling Taxes through Limiting Values?

- Past proposals to limit valuation increases would have exacerbated current problems in the property tax system.
- Further limits on valuations, whether on primary or secondary, or both, would put upward pressure on tax rates.
- Lower residential values combined with increasing tax rates would drive more residential properties over the 1% cap.

Property Valuation Limit

Issues and Concerns

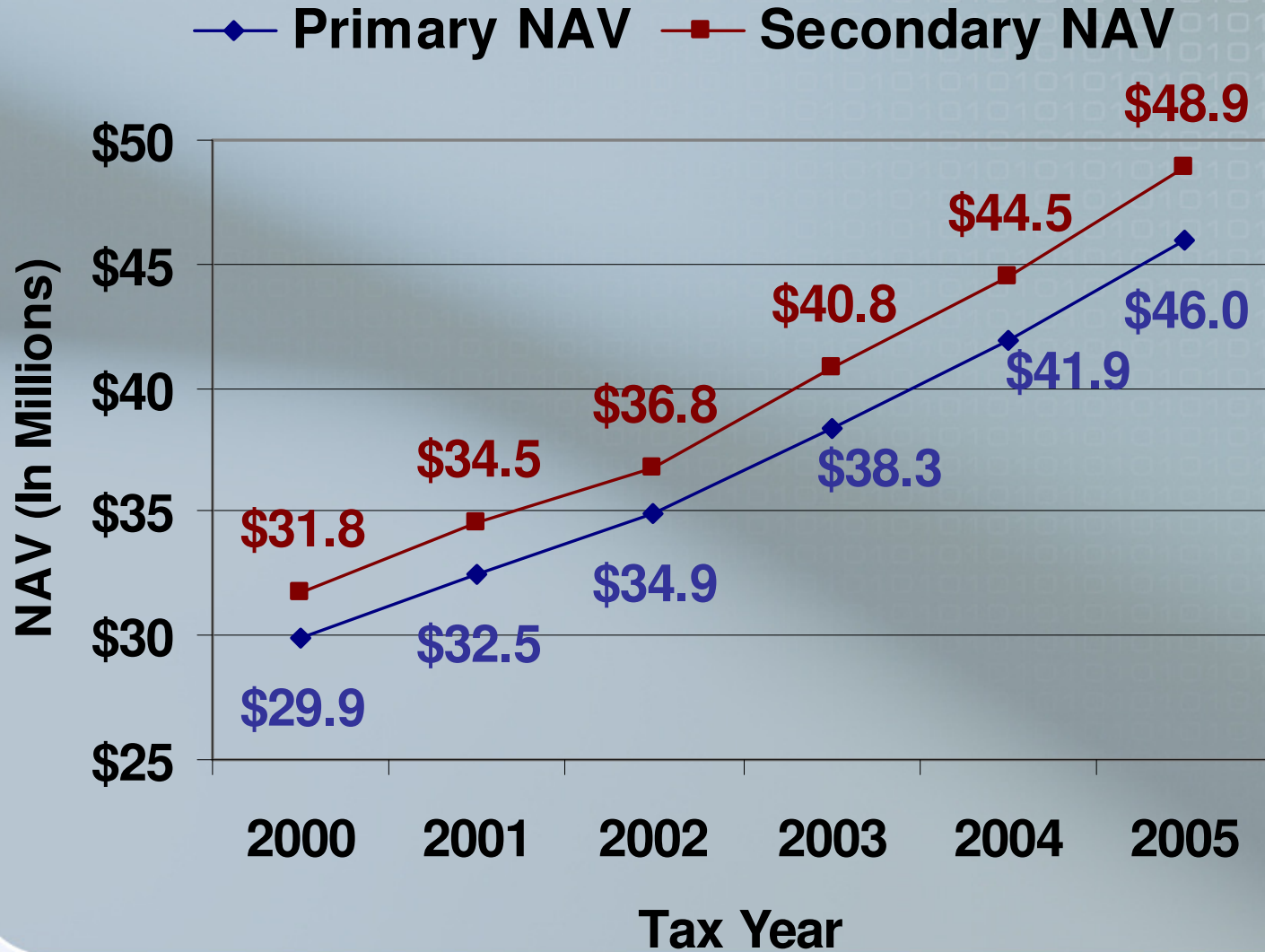
- Further limits on value will result in inequities in similarly situated properties.
- Depending on the percentage limit, the values for new construction will be significantly higher than older properties that have not changed owners. This will create further policy problems if a new limit were to also be applied to secondary values.

ATRA Recommendations

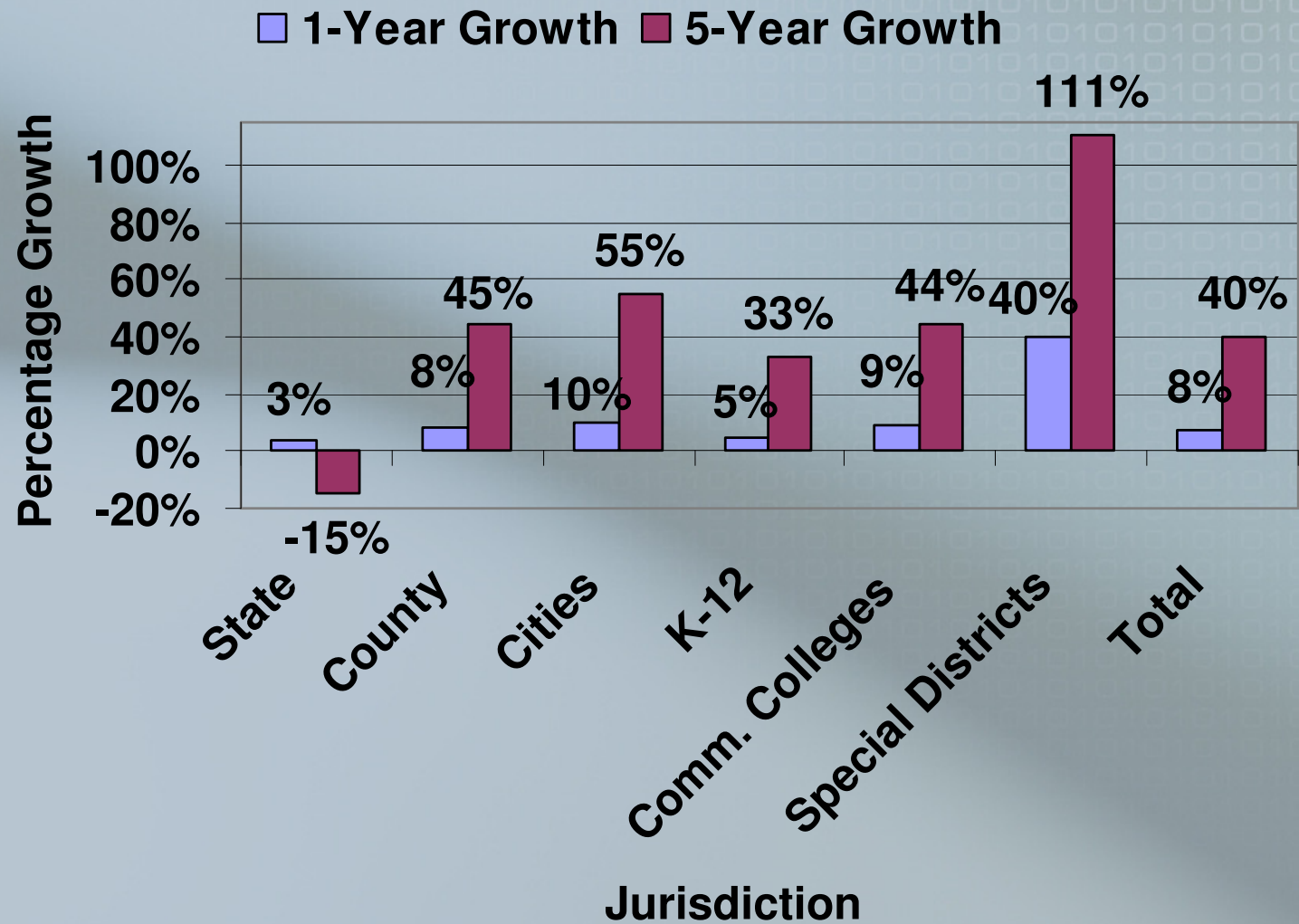
*Focus on the problem - taxes
not value*

- Focus attention on the real cause of tax bills increasing during a hot real estate market - tax rates.
- Current Truth-in-Taxation laws work when they are adhered to.

5-Year Valuation Growth

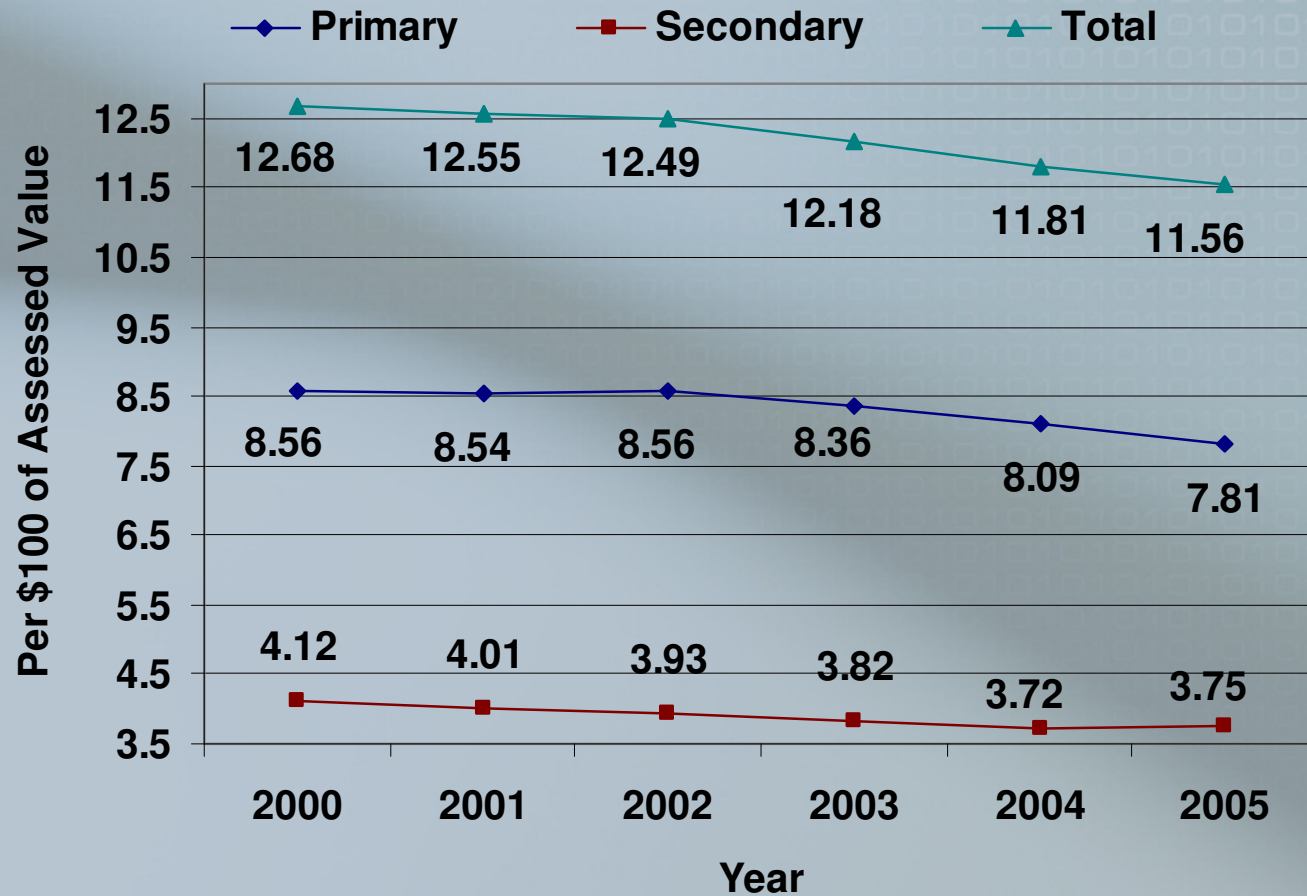


5-Year Levy Growth



Recent History of Rates

Statewide Average Tax Rate (2000-2005)



Truth in Taxation

Success with the state level TNT

QTR & County Ed Rate



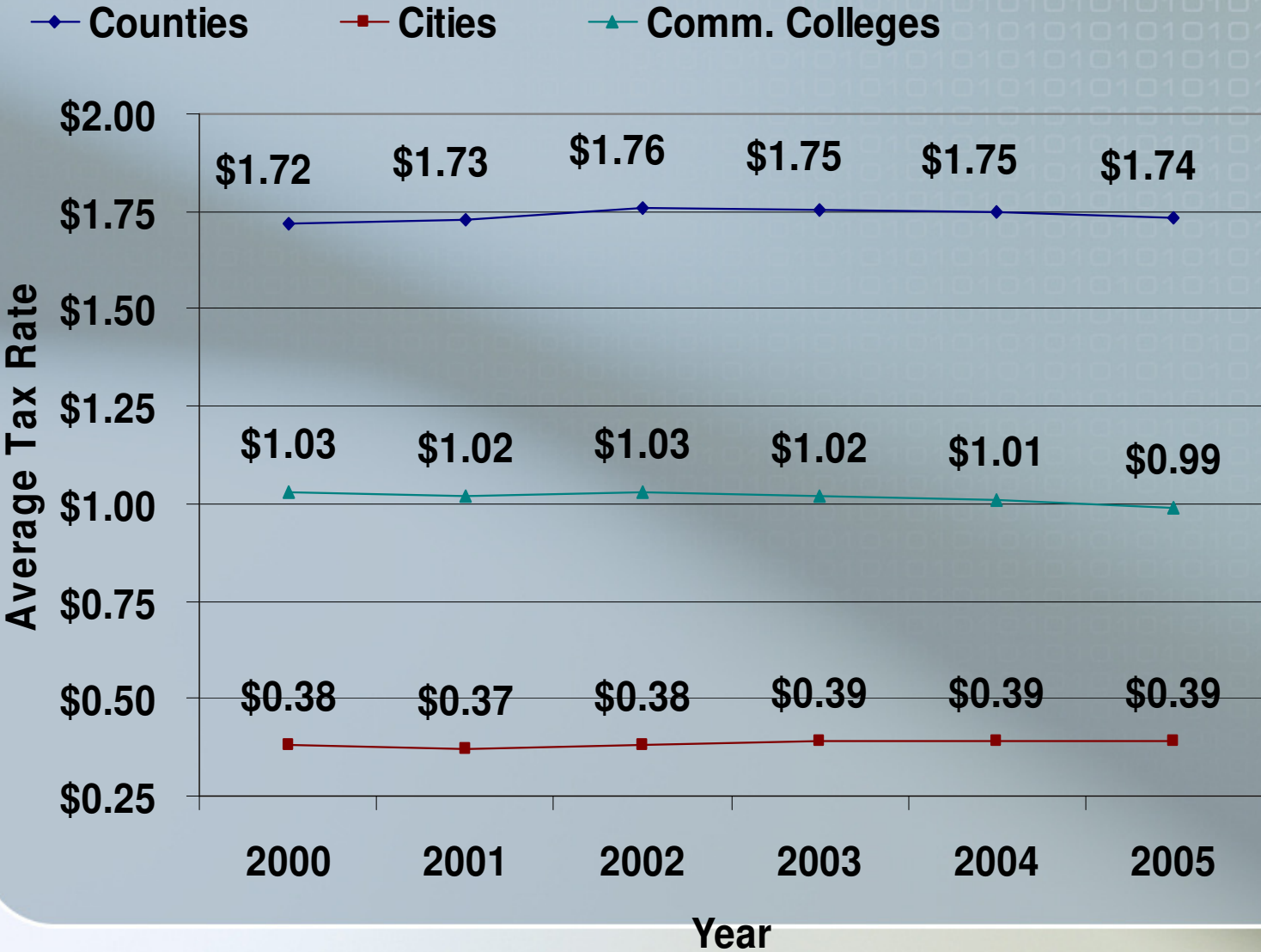
Truth in Taxation

K-12 Statewide Primary Average Tax Rate



Truth in Taxation

Less success at the local level

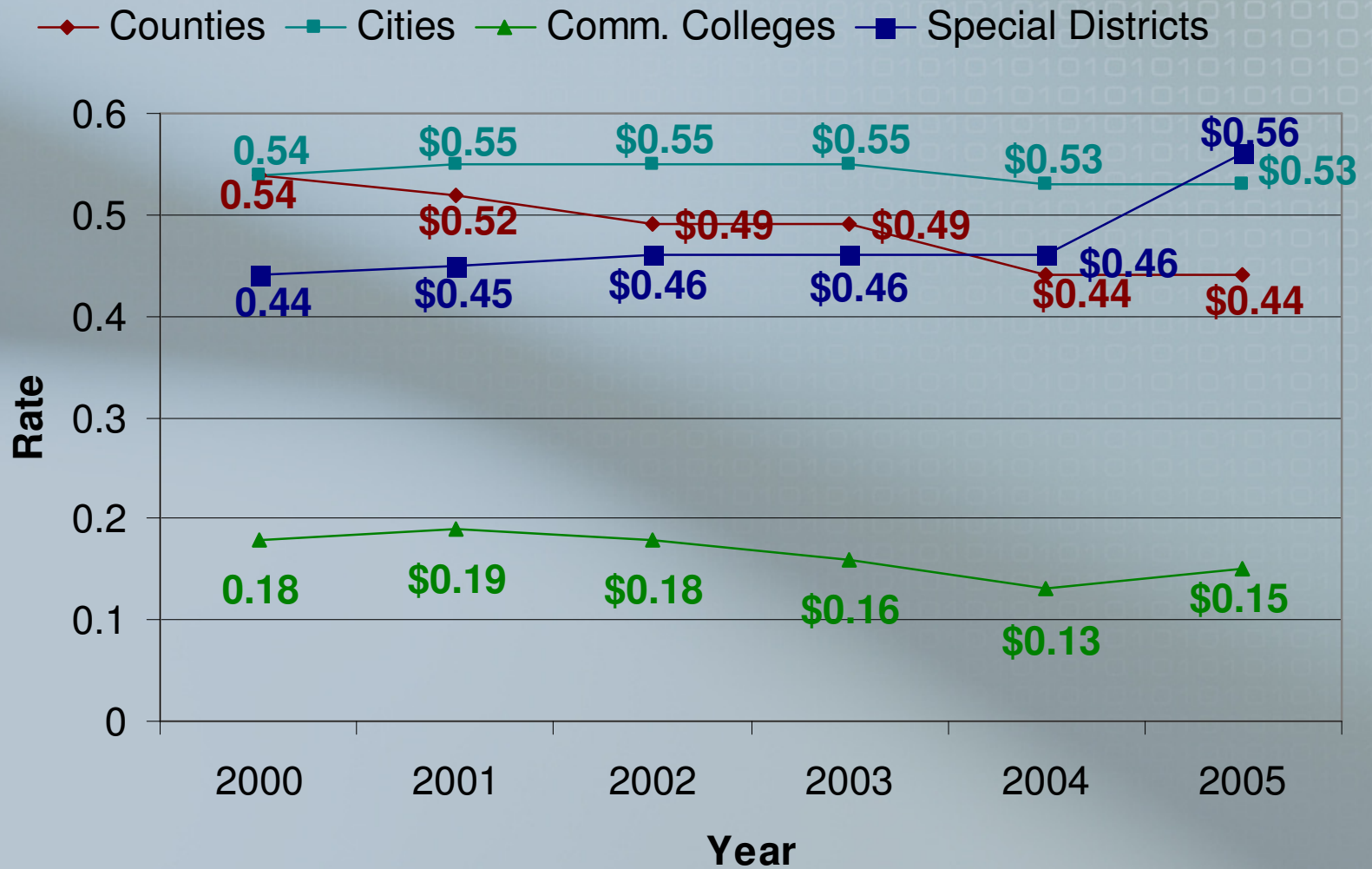


Average Secondary Rates

K-12 Statewide Secondary Average Tax Rate



Average Secondary Rates



ATRA Recommendations for 2006

TAX RELIEF

- Target tax relief to property taxes. Reductions in either the Qualifying Tax Rate (QTR) or the County Education Rate. The current county ed rate of \$0.4358 will raise \$204 million in FY 2006.

ATRA Recommendations (cont.)

- **Stop the backfill** - For tax year 2006, require counties, cities and community colleges to levy their TNT rates.
- **TNT Compliance** - Beginning in tax year 2007, counties, cities and community colleges would be required to receive voter approval before exceeding their TNT limit for two consecutive years.