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ARIZONA TAX RESEARCH ASSOCIATION

PROP 101-The Taxpayer Protection Act of 2006

ATRA STAFF ANALYSIS

The Taxpayer Protection Act of 2006 (Prop 101) would require a recalculation of the constitutional levy limits for counties, cities, towns, and community colleges that voters first approved in 1980. The limits allowed these jurisdictions to grow their previous year's primary levies by 2%, plus new construction. If passed, Prop 101 would eliminate more than \$186 million in primary property tax levying capacity that currently exists.

Over the last 25 years, the capacity to levy primary property taxes has outpaced actual levies for a variety of reasons. When the levy limits were first put into place in 1980, the expectation was that tax rates would decrease slightly each year. However, the maximum tax rates in some jurisdictions' levy limits have grown dramatically, particularly for those jurisdictions that were initially levying a higher rate when the limits were first implemented. Excess capacity has also been created through new construction that is brought into the levy limit using the maximum rate as opposed to the current rate levied by the jurisdiction. Some jurisdictions now have maximum tax rates that are 150% or higher than their current primary rates.

Another reason for the growth in the levy limit capacities, at least for counties, has been the ability to levy a sales tax. The Legislature granted all counties, except Maricopa, the authority to levy a ½-cent sales tax without a public vote. The growth in their levy limit capacities increased noticeably after the jurisdictions began levying a sales tax to subsidize their general funds.

As the table below shows, the counties were either at or near their levy limits in tax year 1989, which was eight years after the levy limits were implemented and prior to the counties ability to levy a sales tax. In 1995, after the counties were provided the authority to levy a sales tax to subsidize their general fund, the levy limit capacity had grown by nearly \$82 million.

Prop 101 ensures that local governments intending to raise taxes beyond reasonable limits should be required to seek voter approval.

County	TY 1989			TY 1995			TY 2005		
	Levy Limit Capacity	Adopted Tax Rate	Max Tax Rate	Levy Limit Capacity	Adopted Tax Rate	Max Tax Rate	Levy Limit Capacity	Adopted Tax Rate	Max Tax Rate
Apache	(76,211)	0.1522	0.1711	0	0.2555	0.2555	73	0.4598	0.4587
Cochise	0	2.8407	2.8407	(1,965,517)	3.0309	3.5106	(8,840,972)	2.9373	4.2673
Coconino	0	0.4285	0.4285	(478,826)	0.4008	0.4659	(358,913)	0.4753	0.5037
Gila	42,683	3.8368	3.8444	(3,465,761)	3.4500	4.7486	(7,113,806)	4.4100	6.2448
Graham	(151,827)	2.1992	2.4538	(726,862)	1.8968	1.8353	(1,750,444)	1.7912	3.4335
Greenlee	12,714	0.2230	0.2230	(127,587)	0.1652	0.2211	0	0.6556	0.6556
La Paz	0	2.2759	2.2759	(610,446)	2.3720	2.9796	(2,184,743)	2.2500	3.7805
Maricopa	2,609,417	0.9426	0.9235	(14,361,887)	1.1580	1.2669	0	1.1971	1.1971
Mohave	(24,934)	1.8423	1.8475	(1)	1.7454	1.7454	(2,874,653)	1.7500	1.9616
Navajo	(1,002)	0.3682	0.3683	(3)	0.5071	0.5071	0	0.6337	0.6337
Pima	(1,218,457)	3.7068	3.7476	(45,258,161)	3.5137	4.9593	(38,976,394)	4.0720	4.7233
Pinal	(214,644)	4.5839	4.4760	(10,989,475)	4.2567	6.0358	(45,625,839)	4.4532	8.2429
Santa Cruz	(118,169)	3.0188	3.1241	(960,124)	2.6485	3.2222	(486,934)	3.3487	3.5352
Yavapai	0	2.1773	2.1773	(1,532,368)	1.9413	2.1261	(6,369,087)	1.7008	2.0400
Yuma	76,860	1.9749	1.9794	(1,467,698)	1.9200	2.2672	(2,986,811)	2.2315	2.6565
TOTAL	936,430	2.0381	2.0587	(61,944,716)	1.9508	2.4098	(117,568,523)	2.1577	2.9556