The taxpayer's watchdog for over 70 years

ARIZONA TAX RESEARCH ASSOCIATION

ATRA SUPPORTS PROP 117

5% Locally Assessed Real Property Valuation Limit

Background:

Arizona has one of the most complicated property tax systems in the country. One of those complications is that property in Arizona receives two valuations: full cash value (FCV) and limited property value (LPV). The Constitution requires that the FCV of all property valued by the assessor be reflective of market value. Since the FCV fluctuates with the market, there is no limit as to how much it can increase each year. In contrast, the growth in the LPV is limited to 10% over the previous year or 25% of the difference between the current year's FCV and the previous year's LPV, whichever is greater. The LPV will continue to increase until it reaches the FCV but in no case can the LPV exceed the FCV.

In regard to new construction, while the FCV should represent market value, the LPV is set at a specified percentage of the FCV that represents the relationship between the LPVs to FCVs for similar property. This is commonly referred to as the "Rule B" calculation.

Primary taxes, which fund the maintenance and operations of local government budgets, are levied against the LPV. On the other hand, secondary taxes, which fund voter-approved bonds and overrides, as well as special taxing district operations budgets, are levied against the FCV. Consequently, due to the unlimited nature of FCVs, these values climbed dramatically by 95% between 2004 and 2009. As a result, some taxpayers saw portions of their tax bills increase by the same rate as a result of taxing jurisdictions keeping their tax rates the same during that same time. Following the peak in 2009, property values dropped nearly 30% by 2011, back down to 2006 levels. Worse, because of the gap between FCV and LPV, the LPV actually continued to climb as the real estate market collapsed.

Proposal:

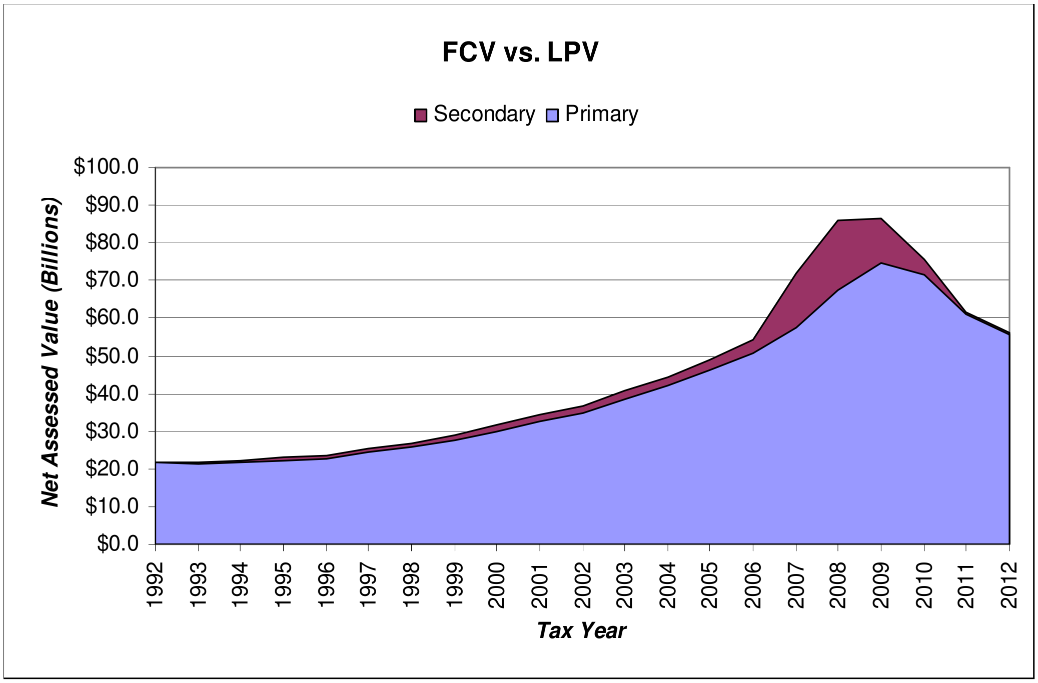
ATRA's proposal will limit the annual growth in the LPV of locally assessed property to 5%, and as is the case now, the LPV can not exceed the FCV. The assessor will continue to establish the FCV for all property based on market value. However, for taxing purposes, the LPV will be the only taxable value. Although both the primary and secondary taxes will be levied against only the LPV, the FCV will be maintained as the value for which property owners can appeal to the assessor if the owner believes the FCV exceeds market value.

When placing new construction on the tax rolls, the assessor will continue to establish the FCV based on market value and the LPV based on the "Rule B" methodology, which is based on the relationship between the assessed values of similar property compared to their market values. This will ensure that equity will be maintained between new construction and existing property.

The proposal, which would be referred to the 2012 general election ballot, will be effective for the 2014 valuation year (*as amended in the Senate*). Therefore, the notice of valuations that will be sent by the assessor on or before March 1, 2014 will impose the 5% valuation growth cap over the values established in the 2013 valuation year.

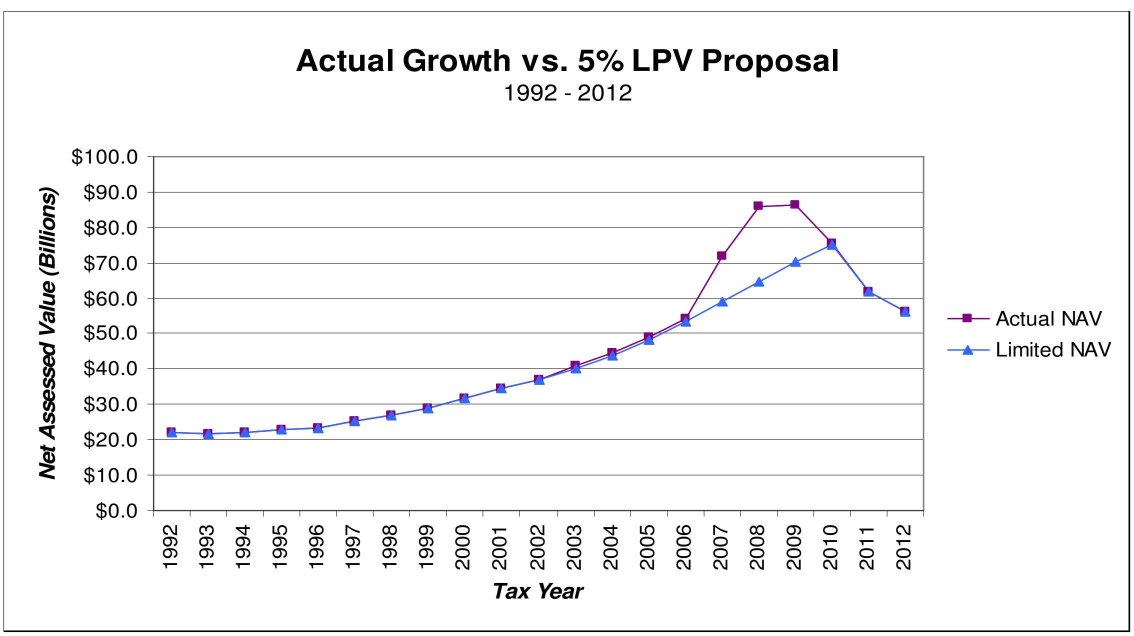
Basis For ATRA's Support:

***Simplicity/Reform*:** Arizona has one of the most complicated property tax systems in the country. Limiting the property tax to only the LPV will simplify the system. This proposal would be difficult to accomplish in another environment, such as when the variance between statewide FCV and LPV was much greater in tax years 2007 through 2010 (see below). This is a window of opportunity to simplify the system as the gap between the two values have narrowed significantly to just a 0.8% difference.



Stability: Applying a reasonable limit to the growth in locally assessed property will increase the stability of Arizona's property tax system and provide greater predictability for both government and taxpayers.

Taxpayer Protection: This proposal will insulate taxpayers from dramatic increases in their tax bills that result from major fluctuations in the real estate market. An ATRA analysis reveals that, had this proposal been in place over the last decade, it would have prevented $33 billion in value from being added to the tax rolls that was ultimately removed as a result of the collapse of the real estate market (see below).



Current System	Proposed System
Full Cash Value (FCV=Market) *No Limit on Growth*	Full Cash Value (FCV=Market) *No Limit on Growth*
Secondary Net Assessed Value (SNAV) **(Taxable Value-Tracks unlimited FCV)**	**No Secondary Net Assessed Value**
Limited Property Value (LPV) (Increase of 10% over the previous year's LPV or 25% of the difference between the current year's FCV and the previous year's LPV, whichever is greater. Cannot exceed FCV)	Limited Property Value (LPV) (Increase of 5% over the previous year's LPV. Cannot exceed FCV)
Primary Net Assessed Value (PNAV) **(Taxable Value)**	**Primary Net Assessed Value (PNAV)** **(Taxable Value)**