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# ARIZONA TAX RESEARCH ASSOCIATION

## NEWSLETTER

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### LEGISLATIVE ACTIVITY IN FULL SWING

#### *Update on public finance & taxation bills*

As the first regular session of the 45<sup>th</sup> Legislature reaches its midpoint, ATRA is currently tracking numerous bills relating to public finance and taxation. Included here are some of the key bills on ATRA's list for public finance, retirement bills, and K-12 public school finance.

#### **PUBLIC FINANCE BILLS**

##### **ATRA Supports**

**SB 1097 Secondary property tax; assessment percentage** (Daniels) Provides that property tax levies for bond and override elections for counties, cities and towns, community colleges, and school districts approved after June 30, 2001 be financed using a 10% assessment ratio for all property classifications. *Passed Senate Finance Committee.*

**HB 2477 Corporate income; sales factor** (Huffman) Provides an election for corporations to file income taxes with an increased weight given to the sales factor for apportioning income. The sales factor, currently set at 50%, would be increased to 70% in 2001, and increased 10% a year until it reaches 100% in 2004. *Fully implemented, HB 2477 has a state general fund impact of \$68 million and passed House Commerce and Ways & Means Committee's. A companion bill, SB 1081, has also passed the Senate Finance Committee.*

##### **ATRA Opposes**

**HB 2508 Municipal Expenditure Limits; Penalty Waiver** (Brotherton) Waves the penalties for the City of El Mirage for exceeding its constitutional expenditure limit in Fiscal Year 1998. *The bill passed Ways & Means.*

**HB 2527 Enterprise zone program; extension; enhancements** (Carruthers) Extends the current enterprise zone program due to sunset June 30, 2001. Makes changes to expand the businesses that qualify for the property tax reductions under the enterprise zone law. *The bill has cleared the House Commerce Committee.*

**HB 2365 County jail districts; juvenile facilities** (Flake) Provides county jail districts the authority through an election to increase property taxes to finance juvenile detention expenditures. The secondary property tax rate for juvenile detention facilities would be capped at 15 cents. *This bill has passed the House.*

**SB 1355 Community facilities districts** (Bennett) Provides counties the authority currently provided cities and towns for creating community facilities districts (CFD's). A Senate Government Committee amendment prohibits the use of CFD's within three miles of a city with a population under 5,000 and six miles of a city with a population more than 5,000. *An amendment requested by ATRA to require 100% approval of the affected landowners in the unincorporated area will be added on the Senate floor.*

**HB 2357 County powers** (Flake) Provides County Boards of Supervisors with broad ordinance making powers. Currently, boards have only those ordinance powers provided in law. HB 2357 would allow boards to adopt ordinances unless otherwise preempted by state law. *Held in House Judiciary.*

#### **RETIREMENT BILLS**

##### **ATRA Opposes**

**HB 2004 ASRS; actuarial computation method** (Brimhall) Changes the actuarial method from a "projected unit credit" method to an "entry age normal cost" method. Also changes the amortization period from a 30-year rollover period to a 20-year rollover period. Effective beginning FY 2003. The estimated fiscal impact in FY 2004 is \$19 million from the general fund, \$6.9 million from other funds, and \$133.1 million from local governments. *Passed House Appropriations.*

**HB 2046 CORP; normal retirement; contribution rate** (Brimhall) Changes the normal retirement date and years of service from 25 years to 20. Increases the pension rate for a 20-year normal retiree to 50% of the member's average monthly salary. A retiree with more than 20 years of credited service will have a pension rate increase of 2% every year. For a retiree with 25 or more years of service, the rate will increase by 2.5% each year. Increases the maximum membership pension from 75% to 80% of the member's average monthly salary. Reduces the membership contribution rate from 8.5% to 7.65%. The total fiscal impact for FY 2004 is estimated at \$6.9 million. *Passed House Retirement & Government Operations.*

**HB 2049 ASRS; benefits; 2.5 multiplier** (Brimhall) Increases the benefit multiplier for retirees from 2.1% to 2.5% and gives current retirees a one-time permanent increase of 20% on July 1, 2002. The total fiscal impact is estimated at \$55.1 million in FY 2004. *Passed Retirement & Government Operations Committee.*

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# PUHSD's latest attempt to levy for "liabilities in excess" rebuffed by county board

Representatives of the Phoenix Union High School District (PUHSD) withdrew their latest petition for "liabilities in excess of the budget" minutes prior to the start of the Maricopa County Board of Supervisors' February 7 meeting. The Board was expected to deny the petition by a vote of 4 to 1.

This was a clear and decisive victory for property taxpayers who for years had been required to pay for budget overrides without voter approval under the "liabilities in excess" statute, §15-907. (See the *ATRA Newsletter* for May, June, September, and October 1999.) The statute requires the petition to go to the county school superintendent who then forwards the petition with a recommendation to the county board.

Phoenix Union had been artificially extending the use of voter-approved general

obligation bonds by reclassifying capital projects involving asbestos abatement as "health and safety hazards." Asbestos abatement is a routine component of renovation projects involving older buildings. Not only were the costs of the abatement being funded through use of the "liabilities" statute, but so was the rest of the renovation, what PUHSD called "put-back," right up to the finishing touches.

PUHSD's levies under the "liabilities in excess" law have amounted to several millions of dollars every year. The levy peaked at \$12.8 million in 1994 and remained in the \$12 to \$13 million range through most of the 1990s until ATRA opposed PUHSD's petition to the Maricopa County Board of Supervisors during the Summer of 1999. That August, the County Board approved only \$4.5 million of PUHSD's \$11.9 million request. In the

following year, the County approved \$3.7 million of a \$10.7 million dollar request.

Maricopa County School Superintendent Sandra Dowling opposed outright this year's petition from PUSHD for \$1.3 million. Board Chair Jan Brewer has consistently opposed PUHSD's requests since ATRA brought the issue to light in 1999.

## HB 2037 Passes the House

ATRA has proposed legislation twice since 1999 to reform the liabilities in excess law. Each year the bill passed the House and stalled in the Senate. This year, however, ATRA's HB 2037 has the support of the many representatives of the education lobby and received unanimous support from the School Facilities Board. HB 2037 passed the House earlier this month and awaits a hearing in the Senate.

## CONFUSION MARKS IMPLEMENTATION OF PROP 104

Proposition 104 was passed by the voters in the 2000 general election to allow property owners who are at least 65 years of age, meeting certain income requirements, to apply with the assessor for a valuation freeze. Under this program, a qualified senior may apply to have their full cash value frozen on their primary residence for a period up to three years.

Questions regarding Prop 104 began to surface almost immediately after its passage. In an effort to clarify some of these questions, the Department of Revenue (DOR) drafted a guideline to be used by all assessors to administer the program.

The most common question among assessors, aside from the implementation date and filing deadline, involved determining the income threshold to be used in qualifying seniors. The discrepancy lies

in the language of the statute which states that the maximum income in which a senior can qualify for the program is 400% of the Supplemental Security Income (SSI) benefit for an individual and 500 percent of the SSI benefit for a couple, as established by section 1611 of the Social Security Act (SSA).

As Prop 104 was going through the legislative process, supporters of the bill generally believed that the income level would equate to \$25,440 for an individual and \$31,800 for a couple in 2001. Supporters of the bill were obviously under the misconception that an individual and a couple received the same benefit of \$530/month. On the contrary, the SSA provides different benefits for an individual and a couple. In 2001, the SSI benefit is \$530/month for an individual and \$796/month for a couple, resulting in income thresholds of \$25,440 and \$47,760 respectively.

DOR guidelines are not considered legal documents but are published to ensure that counties implement laws with consistency so that taxpayers are treated equally throughout the state. Under the guideline, the department outlined the income requirements based on statutory language, confirming the higher income level for couples. Although the county assessors are not required to follow DOR guidelines, many problems can occur when a county deviates from provisions set forth in a guideline.

According to DOR, most of the counties have chosen to ignore the income portion of the DOR guideline and are using the lower income levels in qualifying seniors for the program. However, the potential for inequitable implementation of the program exists if some counties follow the DOR guidelines while others ignore them.

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# Update on public finance & taxation bills

*Continued from page 1.*

**SB 1129 CORP; Members; normal retirement** (Bundgaard) Changes the normal retirement date and years of service from 25 to 20 years. Increases the pension rate for a 20-year normal retiree to 50% of the member's average monthly salary. A retiree with more than 20 years of credited service will have a pension rate increase of 2% every year. For a retiree with 25 or more years of service, the rate will increase by 2.5% each year. Increases the maximum membership pension from 75% to 80% of the member's average monthly salary. Allows members with less than 20 years of credited service to receive a pension equal to the product of 2½ percent of the member's average monthly salary and the member's years of service. Total estimated fiscal impact for FY 2004 is \$4.4 million. *Passed the Senate.*

**SB 1149 PSPRS; EORP; tax equity; benefits** (Bundgaard) Extends an additional two percent benefit increase to members of the Public Safety Personnel Retirement System (PSPRS) and the Elected Officials Retirement Plan (EORP) who were employed prior to September 15, 1989, but who retire between November 1, 2000, and November 1, 2001. Administrators for PSPRS and EORP estimate that the total impact will be \$25,300. *Passed the Senate.*

**SB 1176 CORP; normal retirement; twenty years** (Brown) Changes the normal retirement date for CORP members from 25 to 20 years. An informal fiscal note was offered by JLBC to have an impact of approximately \$7 million to the general fund in FY 2004. *Passed Senate Finance.*

**SB 1512 ASRS; benefits; graded multiplier** (Valadez) Changes the multiplier used to calculate benefits for an ASRS retiree based on years of credited service from 2.1% for a member with less than 14.99 years of service to 2.5% for a member with at least 25 years of service. Sets the maximum average monthly benefit at 80% for a member retiring on or after June 30, 2002. Total fiscal impact is estimated at \$40.2 million for FY 2004. *Failed Senate Finance.*

## SCHOOL FINANCE BILLS ATRA Supports

**HB 2037 School facilities; liabilities in excess** (Gray) Clarifies that the State School Facilities Board is responsible for funding capital emergencies at school districts. Eliminates from statute the ability for districts to levy property taxes for unbudgeted capital projects. *Passed the House.*

**HB 2184 School districts; capital outlay overrides** (Gray) Currently, voter-approved overrides to exceed the capital outlay revenue limit (CORL) are unlimited. This bill would, if amended per ATRA's recommendations, limit such overrides to 15 percent of the district's revenue control limit. *Failed in House Education.*

**HB 2440 Schools; impact aid revenue bonds** (Norris) Allows school districts to hold elections to exceed the state minimum adequacy standards by leveraging their federal impact for revenue bonds. ATRA's support is conditioned upon the bill being amended to require districts to use either the impact aid revenue bonds or general obligation bonds, but not both. If amended, this legislation should provide relief prospectively to property taxpayers in districts with low property values and large amounts of reservation land. *Passed House Education and Ways & Means.*

**HB 2540 Community colleges; dual enrollment programs** (Huppenthal) The State Board of Directors for Community Colleges of Arizona (SBDCCA) has recently adopted a rule making modest reforms to dual enrollment practices (See January's ATRA Newsletter). In light of the State Board's adoption of this rule, this bill simply requires the Auditor General to certify separately any community college full-time equivalent student enrollment (FTSE) where the student is enrolled in a course for both high school and college credit simultaneously, taking into consideration any relevant law, regulation or rule. *Passed House Committee of the Whole.*

**SB 1178 Schools; energy savings calculation; eligibility** (Bennett) For the last two years, an "energy reduction adjustment" has been available to eligible school districts. The program's purpose was to provide an incentive to districts to engage in energy savings behaviors, such as turning off the lights in empty rooms or not leaving the AC running in the gym through the weekend. Participating districts could spend half of their cost savings in their M&O budget, after putting half of the savings toward lowering their tax rate. The catch was that to be eligible for the program the school district's expenditures for excess utilities had to be going down. During its two years in existence, several districts claiming a cost savings were ineligible. Other districts appear to have claimed more than they should have. SB 1178 will ensure that no more districts can participate in this program, which sunsets under current law in 2005. *Passed the Senate.*

## ATRA Opposes

**SB 1414 (also HB 2183) Small and rural school districts** (Vercamp) Currently, districts with student counts under 125 for grades K-8 or 100 for grades 9-12 can obtain unlimited overrides without voter approval. Growing districts that no longer qualify for this unlimited override can go to their voters for overrides based on a formula that reflects their relatively low student count. *Going soon to floor votes in both chambers.*

**HB 2079 Retired teachers; return to work** (Huffman) Allows teachers to retire and receive retirement benefits and immediately return to work. *Passed House Education.*

**SB 1160 Schools; district service programs** (Petersen) Allows school districts to sell products and services within "the community at large" for profit. *Passed Senate Education.*

# SINGLE ASSESSMENT RATIO CLEARS FINANCE

Senate Bill 1097, *Secondary Property Tax; Assessment Percentage*, cleared a major hurdle on February 26<sup>th</sup> with 5-3 vote in Senate Finance Committee. Sponsored by State Senator Lori Daniels, SB 1097 is an important property tax reform measure that ATRA has advocated for several years.

The reform calls for the use of a 10 percent assessment ratio for all property tax classifications to fund property tax levies on **future voter approved** bonds and overrides of counties, cities and towns, community colleges, and school districts. The current

system employs nine separate classes with business property taxed at 2.5 times the rate homeowners.

For the last decade, public finance experts and economists have criticized Arizona's property tax classification system on a number of fronts. Insulating the homeowner/voter from the true costs of the spending proposals of local governments undermines accountability. Further, the effect of ever increasing levies being shifted to business property taxpayers has resulted in some of the highest business property taxes in the country.

Despite the widespread recognition that Arizona's property tax classification system is badly in need of reform, representatives of the spending lobby are again rallying to oppose this modest proposal to improve the system. After increasing secondary property taxes 710 percent since 1980, local governments now purport to represent the interests of homeowners when opposing SB 1097.

SB 1097 cleared the Senate Finance Committee with the support of Senators Daniels, Bundgaard, Bennett, Cirrillo and Brown. Voting against the measure were Senators Blanchard, Cummisky, and Valadez.

## 2000 Effective Tax Rates

Class	Description	Total Taxable Full Cash Value	Percent of Total	Percent of Total Yield	Percent of Total	Effective Rate
1	Commercial & industrial, mines, utilities	57,937,184,758	24.94%	1,746,608,962	45.34%	3.01%
2	Ag/vacant land, non-profit businesses	17,155,430,642	7.39%	302,075,042	7.84%	1.76%
3	Owner-occupied residential	132,784,321,782	57.16%	1,482,581,156	38.49%	1.12%
4	Rental residential, child care	21,456,820,872	9.24%	281,955,279	7.32%	1.31%
5	Railroads, private car & flight companies	1,061,705,700	0.46%	26,700,253	0.69%	2.51%
6	Noncommercial historic, foreign/military/ent. zones	1,854,852,154	0.80%	11,724,376	0.30%	0.63%
7	Historic base/renovation value (class 1)	13,963,934	0.01%	372,035	0.01%	2.66%
8	Historic base/renovation value (class 4)	6,972,604	0.00%	83,903	0.00%	1.20%
9	Possessory interests	11,709,898	0.01%	4,515	0.00%	0.04%
Total		232,282,962,344	100.00%	3,852,105,521	100.00%	1.66%