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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

VOLUME 62
NUMBER 2

MARCH/APRIL 2002

LEGISLATURE APPROVES DESEG FREEZE BILL

The Arizona House of Representatives gave final passage to House Bill (HB) 2550 on April 22, freezing school district property tax levies in the name of desegregation and putting into motion a series of inquiries intended to bring such school district activities and spending to light.

The final House vote on HB 2550 was 43 ayes to 14 nays. The Senate vote, which took place on April 4, was 20 to 5.

The primary sponsor and author of the legislation, Representative Steve Huffman (R-District 12), stepped into a leadership role on this issue shortly after school districts across the state adopted budgets that included sizeable increases in their property tax levies for desegregation.



Rep. Steve Huffman

Successful passage of HB 2550 is an important milestone in ATRA's efforts to bring attention and resolution to the rapidly growing levies and expenditures under current law that gives unlimited access to property taxes for certain school districts that have run afoul of federal laws dealing with discrimination.

Representative Huffman received considerable attention last November at ATRA's Outlook Conference where he spoke on problems associated with desegregation and his plans to introduce legislation.

The impact these property tax levies have on the state general fund was a key reason for the success of HB 2550. The state pays additional state aid to districts where primary property tax levies exceed the constitutional cap for homeowners, such as in the Tucson Unified School District. The state also pays additional state aid to districts for the 35% "homeowner rebate" on district primary taxes.

A fiscal note from the Joint Legislative Budget Committee (JLBC) estimated that the bill could result in a savings of \$4,797,400 in fiscal year (FY) 2003 and \$10,122,400 in FY 2004.

Governor Jane Dee Hull has publicly announced her intent to sign the bill.

Gubernatorial candidates discuss tax and fiscal policy at ATRA luncheon

The Arizona Tax Research Association's *Gubernatorial Candidates Luncheon* provided an ideal opportunity for ATRA members and invited policy makers to hear from seven candidates in the race for Governor of Arizona on their tax and fiscal policy perspectives.

Emceed by former House Minority Leader, Art Hamilton, the highly successful event was held on March 14 at the Heard Museum in Phoenix.

The seven candidates in attendance to offer their views were (in alphabetical order): Secretary of State Betsey Bayless; Senate President, Randall Gnant; Former State Senator Alfredo Gutierrez; Former Secretary of State Richard Mahoney; Dr. Michael Newcomb; Former U.S. Congressman Matt Salmon; State Treasurer Carol Springer.



ATRA Chairman Kevin Kinsall kicks off the Gubernatorial Candidates Luncheon

Turn to page 3 to find some representative comments from their speeches.

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Property tax calendar change stopped

Faced with strong opposition from ATRA, the House Ways & Means Committee rejected HB 2197 on a 4-4 vote.

HB 2197, promoted by several county assessors, extended the deadline for enrolling new construction on the tax roll from the current deadline of September 30 each year to December 31.

ATRA argued that the change would dramatically undermine the state's Truth-in-Taxation process and remove any accountability for establishing primary property tax rates.

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Some county assessors argued that extending the deadline to December 31 would make the assessment process easier to explain to taxpayers as well as create more equity among taxpayers.

However, those assessors supporting the change had little interest in the bill's impact on supplying accurate values to local governments and taxpayers for use in making decisions during the budgeting process.

The September 30 deadline for enrolling new construction on the tax roll was a key feature in a major overhaul of Arizona's property tax calendar in 1994. The 1994 changes were the result of the work of an ad hoc legislative study committee that was charged with making changes to the property

tax system. The two major problems facing both the taxpayers and government at that time were an appeals process that had completely broken down and a lack of timeliness of final values for budgeting purposes.

The administrative appeals process, primarily in Maricopa County, had collapsed under an avalanche of appeals. Instead of establishing accurate values and enrolling new properties to the roll, county assessors were chasing appeals through four levels of the appeals process.

The ad hoc committee recommended, and the Legislature adopted, a streamlined appeals process that allowed assessors more time to hear and settle appeals at their level and thereby focus their resources productively on valuing property.

Prior to the 1994 changes, the property tax roll was not finalized until two months after the fiscal year had begun. The absence of final values caused confusion as state and local governments began the budgeting process each spring without knowing the impact of their spending decisions on property tax rates.

More importantly, taxpayers and citizens had no ability to hold elected officials accountable for the tax consequences associated with budget decisions because they were unknown until two and a half months into the fiscal year.

In order to make the property valuation calendar mesh with the budgeting process of state and local governments in a more logical fashion, the valuation calendar had to be turned back to get final valuations published by February each year. The valuation year was moved to the year preceding the tax year.

In addition, in order to avoid unnecessary delays in bringing new construction on the tax rolls, assessors were provided the authority to pick up new construction through September 30 for the valuation year already in progress.

The September 30 deadline allows time for administrative appeals on these values to be finalized by the third Friday in November each year. Assessors are required to forward to state and local governments the values necessary to calculate Truth in Taxation limits by February 10.

Those assessors supporting the change had little interest in the bill's impact on supplying accurate values to local governments and taxpayers for use in making decisions during the budgeting process.

With HB 2197, the December 31 extension for new construction naturally forced the assessors to also extend the appeals process forward. Instead of appeals to the state board being final on the third Friday in November, the deadline was extended to the third Monday in February, beyond the February 10 deadline for final values.

HB 2197 would have assured the return to the past where values used for the budgeting process were neither final nor reliable. The House Ways and Means Committee, Chaired by Representative Steve May, deserves credit for ensuring the integrity of the property tax values used for budgeting and taxing purposes.

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Published 10 times annually by the Arizona Tax Research Association, a nonprofit organization whose purpose is to promote efficiency and economy in Arizona government and reductions at all levels. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Research Association.

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Candidates for governor offer tax and fiscal policy perspectives

Continued from page 1.



BETSEY BAYLESS “Over the past number of years we have had government revenues that allowed state government to grow without justification at the same time we were cutting taxes. The focus of balancing the budget today is cutting across the top, avoiding layoffs, and maintaining the status quo. I strongly disagree. . . . Additions to the transaction privilege tax, although voter approved, have pushed that tax way too high. And business property taxes are strangling all business, particularly small business. My personal least favorite is the business personal property tax. I believe that over time we need to find ways to eliminate that tax.”

RANDALL GNANT “Now I’ve heard at least twice and three times from some of these candidates that there are ways that they can reinvent government, prioritize government, restructure government and cut the waste out of government. I need help. Right now I’ll take those suggestions. And if you got them, bring them to me. . . . If there is waste out there you point it out to me and we’ll try to get rid of it. If there is not waste out there, don’t say it, don’t pander, be specific.”



ALFREDO GUTIERREZ “The majority of the Legislature, apparently lacking either the creativity or the courage to offer even a meager alternative, seems poised to concede to [Governor Hull’s] wishes and cut deep into education. . . . They repeat the analogy of the ubiquitous working family again and again to persuade us that they have no choice. When such a

family is faced with a financial shortfall, what is their response? ‘They tighten their belts and do without.’ The family is, indeed, a useful analogy, but in Arizona’s case it is accurate to describe the head of the family as a drunken lout who, in a time of terrific economic growth, assumes the good times will last forever and squanders the family’s resources by giving them away to his rich friends.”



RICHARD MAHONEY “JLBC came out with 237 suggested cuts in spending and 87 budget reduction suggestions for a total of \$566 million. . . . I haven’t heard one word as I go down to the Senate and the House about those cuts. . . . If elected Governor I will call for a special session on taxation. First order of business: the property tax. We have skyrocketing residential property taxes in most of our cities. . . . I would recommend that we index valuation to the rate. As the valuation went up, the rate would go down. If you believe in limited government, that’s the way to do it. The other thing I think we ought to look at is the industrial property tax. The rate is 25%, it’s one of the highest rates in the United States. . . . That’s not good for business.”

MICHAEL NEWCOMB

“I believe we now live in a society where self interest and profiteering at the expense of the collective good of mankind has become commonplace. . . . African-Americans, Hispanics and Native Americans suffer disproportionately. I ask you, where is [Adam Smith’s] invisible hand? Arizona ranks 49th in funding per pupil in the U.S. Where is the invisible hand? . . . Our workers are human beings with families, friends, hopes and dreams. Tax and fiscal policies must embrace this central tenet.”



MATT SALMON “The fact is we are spending more than we are taking in revenues. And I think one of the most important things that we can do as a governmental body in the State of Arizona is move to a zero-based budget. Then every year, every agency, every program, would have to prove themselves from the bottom up to make sure that every program, many of those that have been instituted for decades, are still accomplishing that which they set out to do and they are doing it in a cost-effective way. I don’t believe they are. . . . I have never heard of a civilization anywhere on this planet that taxed its way to prosperity. . . . I believe we are taxed enough. In ten years of serving in elective office I have never voted for a tax increase. . . . If you want to tax services, vote for one of the other candidates. I’m not going to tax services. I don’t want to open that Pandora’s box.”



CAROL SPRINGER “I do agree with the idea of eliminating income taxes. . . . I feel that the detriment to business in the state is the property tax. We all know that the ratio issue is not going to go away. The fact that homeowners pay a 10% ratio and businesses pay 25% has always been a major problem. Any one of us who understands the issue should come to conclude one thing: It is politically impossible to change the ratio on property taxes until we have achieved a process where we have given homeowners enough of a benefit that they would support such a change. . . . There is no question in my mind that we have an outmoded sales tax system. We have come from an economy that has historically been based on manufactured products and that has been the basis of our sales tax system . . . we are now a service based society. . . . However, I do not support raising or changing the sales tax system at this time.”

SPECIAL DISTRICT BILLS DEFEATED

HB 2378 PARKS & RECREATION DISTRICT

Each legislative session, it seems, marks another attempt by county government to continue its disappearing act. Since the constitutional levy and expenditure limits were adopted in 1980, the strategy of county government has been to move county functions out from under the constitutional limitations and into special districts.

Some of their efforts have been successful, as special districts or special secondary levies have been created for flood control, libraries, jails, roads, community college tuition, fire district assistance, etc.

HB 2378 (McClure) was this year's effort to vacate the county general fund, which allowed the creation of a county parks and recreation District.

HB 2378 would have given counties the authority to create, upon voter approval, a new special taxing district to construct and maintain parks & recreational facilities, with a provision allowing cities and towns to opt into the program if so desired. If passed, the new district would have been financed with a 0.25% sales tax rate increase.

This bill was brought to the Legislature by Santa Cruz County officials who argued that the current system did not provide counties the ability to fund the construction and maintenance of new parks in the county.

ATRA argued that new parks could be constructed and financed without carving up county government into another special district. Current statutes provide counties the opportunity to fund capital projects with either voter-approved sales or property taxes. In addition, existing statute allows counties to fund additional operational costs with voter-approved property tax overrides.

ATRA also cautioned committee members about allowing further access to the sales tax base for any purpose.

Arizona sales tax rates have climbed dramatically over the last decade and some overall rates now approach the 10% level. Arizona's high sales tax rates already encourage consumers to avoid the tax by making purchases via the Internet and HB 2376 would have exacerbated that problem.

SB 1160 ARTS FACILITY DISTRICT

SB 1160 (Cirillo) would have allowed a county, community college, city or town, without voter approval, to form an arts facility authority. Once formed, the authority would have had the power to sell unlimited revenue bonds, again without voter approval. Currently, counties and municipalities are required to receive voter approval before selling revenue bonds.

In addition, the bonds issued by the authority would not have been considered a legal debt of the State, city or town, community college or county while the authority was in existence. However, upon termination of the authority, all outstanding assets, liabilities, and obligations would have become the responsibility of the State.

Having failed a floor vote in the Senate, SB 1160 was revived for reconsideration and squeaked through on a 16 to 13 vote. It appears unlikely that the bill will see the light of day in the House of Representatives, however, where it missed opportunities to receive a hearing in any of the three committees to which it was assigned.