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ARIZONA TAX RESEARCH ASSOCIATION

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Statewide primary net assessed values up over \$38 billion in tax year 2003

While state and local governments have felt the impact of the struggling economy on sales and income tax revenue receipts, the property tax base shows none of the effects of a slow economy.

Statewide primary net assessed values (NAV) reached over \$38 billion in tax year (TY) 2003, a \$3.4 billion (9.9%) increase over last year. Over the past five years, statewide primary NAVs have grown 49%, or \$12.6 billion.

Centrally valued property (class 1), which includes producing mines, utilities, railroads, and pipelines, accounts for \$4.3 billion (11.2%) of the total statewide NAV in TY 2003. The increase in NAV amounted to nearly \$331.2 million, which is an 8.4% increase over last year.

Commercial and industrial properties, also classified under class 1, received a \$755.4 million (7.3%) increase in NAV. This class of property carries the second highest NAV on the property tax roll at \$11.1 billion in TY 2003.

The largest percentage increase in NAV (aside from class 9) occurred in class 6. Properties in this class experienced nearly a 25% increase in NAV. The total NAV growth of \$28.4 million for class 6 properties has brought the total NAV to \$142.2 million in TY 2003, up from last year's NAV of \$113.8 million.

Class 6 properties, which are assessed at 5%, include properties located in foreign trade zones, military reuse zones, and enterprise zones. One reason for the increase

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GHOST TOWN IN THE MAKING?

Hayden property taxpayers hit with \$62.55 rate



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Statewide primary NAV: 2002 & 2003

Class	Description	Ratio	TY 2002 Primary NAV	TY 2003 Primary NAV	Change	% Change
1	Utilities & mines	25%	\$3,963,641,827	\$4,294,836,090	\$331,194,263	8.36%
1	Commercial & industrial	25%	\$10,391,372,399	\$11,146,752,942	\$755,380,543	7.27%
2	Agricultural & vacant Land	16%	\$2,431,676,749	\$2,630,695,339	\$199,018,590	8.18%
3	Owner-occupied residential	10%	\$15,517,723,375	\$17,432,603,015	\$1,914,879,640	12.34%
4	Rental residential	10%	\$2,342,087,810	\$2,554,849,324	\$212,761,514	9.08%
5	Railroad, private car, airline flight	20%	\$104,435,295	\$105,580,053	\$1,144,758	1.10%
6	Residential historic, enterprise zones	5%	\$113,820,633	\$142,246,972	\$28,426,339	24.97%
7	Commercial historic	25%	\$3,059,111	\$3,024,670	-\$34,441	-1.13%
8	Rental residential historic	10%	\$768,271	\$794,068	\$25,797	3.36%
9	Possessory interests	1%	\$10,758	\$113,181	\$102,423	952.06%
Totals*			\$34,868,596,228	\$38,311,495,654	\$3,442,899,426	9.87%

Data Source: Department of Revenue, Assessment Roll Abstract.

*Total figures reported in DOR assessment abstract will vary from adopted county rate and levy sheets.

County primary levies up \$59.1 million in 2003

Total county primary property taxes grew \$59.1 million over last year, an increase of 9.7%, bringing this year's total county primary levies to \$670.8 million. The five-year growth in primary taxes has exceeded 56%, resulting in \$241.2 million in additional primary levies, which equates to an average increase of over 11% per year.

All counties, except for one, were required to hold truth in taxation (TNT) hearings because of their decision to raise taxes. Pima County led the way with the largest rate increase of more than 14 cents over the TNT rate. Next was Yavapai County, adopting a rate that was 12 cents greater than the TNT rate, and Pinal County adopted the third largest rate increase with an adopted rate that was 8.5 cents above the TNT rate.

In order to avoid a tax increase, TNT laws require state and local governments to recognize property valuation increases (excluding new construction) with a commensurate drop in the primary property tax rate so that the only growth in the

County	TY 2002 Primary Rate	TY 2003 Primary Rate	TNT Rate	Rate Increase Over TNT
Apache	0.3632	0.3696	0.3422	0.0274
Cochise	2.9373	2.9373	2.9108	0.0265
Coconino	0.4153	0.4753	0.4047	0.0706
Gila	4.4100	4.4100	4.3592	0.0508
Graham	1.7912	1.7912	1.7784	0.0128
Greenlee	0.5764	0.8492	0.8325	0.0167
La Paz	2.2500	2.2500	2.2107	0.0393
Maricopa	1.2108	1.2108	1.1594	0.0514
Mohave	1.7500	1.7500	1.7184	0.0316
Navajo	0.6909	0.4772	0.6684	(0.1912)
Pima	4.0720	4.0720	3.9256	0.1464
Pinal	4.4532	4.4532	4.3681	0.0851
Santa Cruz	3.3487	3.3487	3.2814	0.0673
Yavapai	1.6072	1.6808	1.5595	0.1213
Yuma	2.3180	2.3180	2.2920	0.0260

property tax levy is the result of new construction. If jurisdictions choose to exceed the TNT limit, that is, increase taxes over the prior year excluding new construction, they are required to notice

taxpayers and hold a public hearing regarding the tax increase.

Over time, more and more counties have made the decision to increase primary property taxes above TNT levels. In fact, 14

See COUNTIES, page 3

County primary levies compared: 1998, 2002, and 2003

County	TY 1998 Primary Levy	TY 2002 Primary Levy	TY 2003 Primary Levy	1-Yr Chg	% Chg	5-Yr Chg	% Chg
Apache	\$1,049,245	\$1,001,954	\$1,106,417	\$104,463	10.43%	\$57,172	5.45%
Cochise	13,338,403	\$15,794,952	\$16,754,694	\$959,742	6.08%	\$3,416,291	25.61%
Coconino	2,948,055	\$4,354,424	\$5,307,525	\$953,101	21.89%	\$2,359,470	80.03%
Gila	10,527,882	\$14,624,715	\$15,298,550	\$673,835	4.61%	\$4,770,668	45.31%
Graham	1,084,354	\$1,736,915	\$1,801,605	\$64,690	3.72%	\$717,251	66.15%
Greenlee	500,000	\$1,039,574	\$1,208,203	\$168,629	16.22%	\$708,203	141.64%
La Paz	2,331,620	\$2,711,525	\$2,795,660	\$84,135	3.10%	\$464,040	19.90%
Maricopa	183,750,071	\$277,949,612	\$308,122,580	\$30,172,968	10.86%	\$124,372,509	67.69%
Mohave	15,764,559	\$18,283,834	\$20,296,378	\$2,012,544	11.01%	\$4,531,819	28.75%
Navajo	2,819,270	\$3,890,835	\$2,976,547	(\$914,288)	-23.50%	\$157,277	5.58%
Pima	135,703,701	\$190,135,349	\$204,515,149	\$14,379,800	7.56%	\$68,811,448	50.71%
Pinal	25,021,475	\$36,378,177	\$42,386,646	\$6,008,469	16.52%	\$17,365,171	69.40%
Santa Cruz	5,770,881	\$7,637,148	\$8,039,398	\$402,250	5.27%	\$2,268,517	39.31%
Yavapai	17,883,500	\$22,310,000	\$25,495,163	\$3,185,163	14.28%	\$7,611,663	42.56%
Yuma	11,033,320	\$13,826,873	\$14,648,440	\$821,567	5.94%	\$3,615,120	32.77%
TOTAL	\$429,526,336	\$611,675,887	\$670,752,955	\$59,077,068	9.66%	\$241,226,619	56.16%

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COUNTIES Continued from page 2

out of the 15 counties were required to publish TNT notices and hold hearings because of their decision to increase taxes over the past two years. The only county that did not raise taxes in TY 2003 was Navajo County. However, Navajo County's tax cut this year was the direct result of the loss of a court case for exceeding their levy limit over the past three years (See the *ATRA Newsletter for April 2003*).

County	TY 2003 Primary Levy	TY 2003 TNT Levy	Over (Under) TNT Levy
Apache	\$1,106,417	\$1,024,461	\$81,956
Cochise	\$16,754,694	\$16,603,283	\$151,411
Coconino	\$5,307,525	\$4,563,272	\$744,253
Gila	\$15,298,550	\$15,122,212	\$176,338
Graham	\$1,801,605	\$1,788,754	\$12,851
Greenlee	\$1,208,203	\$1,184,453	\$23,750
La Paz	\$2,795,660	\$2,746,798	\$48,862
Maricopa	\$308,122,580	\$295,053,416	\$13,069,164
Mohave	\$20,296,378	\$20,068,323	\$228,055
Navajo	\$2,976,547	\$3,303,483	(\$326,936)
Pima	\$204,515,149	\$197,493,587	\$7,021,562
Pinal	\$42,386,646	\$41,576,354	\$810,292
Santa Cruz	\$8,039,398	\$7,877,885	\$161,513
Yavapai	\$25,495,163	\$23,654,598	\$1,840,565
Yuma	\$14,648,440	\$14,483,880	\$164,560
Totals	\$670,752,955	\$646,544,759	\$24,208,196

A comparison of the percentage increases (see table on bottom of page 2) in county primary property taxes over last year shows that Coconino County received the largest jump, with levies increasing 21.9% (\$953,101). Pinal County had the second largest percentage increase of 16.5% (\$6,008,469), Greenlee County increased its levy 16.2% (\$168,629), followed by Yavapai County, with a 14.3% (\$3,185,163) increase in TY 2003.

This year is a prime example of how increased property values translate into higher property taxes when local governments choose to adopt a tax rate

higher than the TNT rate. Comparing TNT levels to adopted primary levies for each county shows a collective increase in primary property taxes of approximately \$24.3 million in TY 2003.

Just by holding their primary rates constant from TY 2002, ten counties levied an additional \$22 million in primary property taxes as a result. Four other counties raised their primary tax rates and only one county, which was Navajo County, dropped their primary tax rate.

Jennifer Schuldt

Two-thirds of counties, colleges, cities & towns exceed TNT limits

59% of school districts also required to hold TNT hearing

According to a report prepared by staff of the Property Tax Oversight Commission, 53 out of 72 local jurisdictions, including community colleges, cities and towns, and counties, increased property taxes in TY 2003 and were required to hold TNT hearings.

The top two-thirds in this group that adopted the highest tax rate increases included the Town of Superior, which adopted the highest increase of \$1.701 over the TNT rate, Gila county, with an adopted rate that was \$0.2782 cents more than TNT, the Town of Florence adopted a rate \$0.2149 cents above TNT, and the City of Williams adopted a rate that exceeded TNT by \$0.2126.

Other local jurisdictions that adopted rates more than 10 cents over the TNT limit included the Town of Kearney (\$0.1478), Pima County (\$0.1464), Sierra Vista (\$0.1426), Casa Grande (\$0.131), Yavapai County (\$0.1213), and Holbrook (\$0.1006).

School Districts

As for Arizona's 227 school districts (including joint technological education districts), 133 districts were required to hold a hearing either because they exceeded their TNT base limit or budgeted for "adjacent ways" or "liabilities in excess" property tax levies. The total budgeted amount for

STATEWIDE NAV UP \$38 BILLION

Continued from page 1

in NAV is attributable to the increase in the number of properties qualifying for the lower assessment ratio given under class 6. The total number of parcels qualifying under class 6 is 3,597 in TY 2003, up 181 parcels from last year.

Owner-occupied residential properties (class 3), which carry the highest NAV of all properties at 45.5%, reached \$17.4 billion in TY 2003. This represents an increase of \$1.9 billion (12.3%) over last year.

According to county levy limit worksheets, total new construction in TY 2003 amounted to over \$2.2 billion in NAV.

That represents approximately 63% of this year's increase, which means that the NAV of existing property increased by 37% over the past year.

Unless tax rates are adjusted, most taxpayers will see increases in their property tax bills this fall. State and local governments are required to hold TNT hearings if they choose to adopt primary rates that do not adjust for the increase in value.

The State Legislature made the required adjustment while the great majority of counties, cities, and community colleges allowed taxes to increase with the growth in value (See the article on *TNT limits* on this page of the *Newsletter*).

Jennifer Schuldt

adjacent ways statewide for FY 2004 is \$56.6 million, 11.5% higher than last year's \$50.7 million. The property taxes that districts' levy for desegregation and excess utilities did not play a role in TNT calculations this year because those budget categories are temporarily capped.

Hayden property taxpayers hit with \$62.55 rate

The total combined property tax rate in the Hayden-Winkelman Unified School District, within the Town of Hayden, has reached an astounding \$62.55 per \$100 of assessed value for tax year 2003. This combined rate, which also includes all county-wide rates, is nearly 40% higher than last year's rate of \$44.81.

HAYDEN-WINKELMAN UNIFIED

The school district's primary rate increased 28%, from \$7.87 to \$10.07. The district's primary rate is 257% higher than the \$3.92 qualifying tax rate (QTR), used to determine the local property tax portion in the state's equalization formula.

Most of the difference between the QTR and the primary rate is the result of a sizeable gap between the transportation support level (TSL) and the transportation revenue control limit (TRCL). The TSL can change every year, up or down, depending on the number of students qualifying for transportation services and the per-mile funding levels.

Any growth in the TSL gets added to the TRCL. However, the TRCL can only go in one direction — up. The state equalization system recognizes the lesser of the two, the TSL, while school districts adopt the TRCL as part of their budgets. In other words, the difference between the TSL and the TRCL is funded solely by a local property tax.

Property tax rates on Hayden taxpayers 2002 and 2003

	2002	2003
Hayden-Winkelman Unified (primary)	7.8742	10.0720
(secondary)	16.0355	23.7403
Town of Hayden (primary)	15.0700	22.8816
Gila County (primary)	4.4100	4.4100
County (state) Education (primary)	0.4889	0.4717
Fire District Assistance Tax	0.1000	0.1000
Gila Community College (primary)	0.0000	0.6288
(secondary)	0.5823	0.0000
Library (secondary)	0.2000	0.2000
CVIT, Joint Tech District (secondary)	0.0500	0.0500
Total	44.8109	62.5544

Hayden-Winkelman's 2003 secondary rate increased 48%, from \$16.04 to \$23.74 per \$100. Most of the district's secondary rate (87%) is to pay debt service on bonds that voters authorized in 1992 and 1994. The remainder of the secondary rate is for maintenance and operations (M&O) and K-3 overrides approved in 1998.

An additional five-cent secondary rate is levied for the Cobre Valley Institute of Technology, a joint technological education district that Hayden-Winkelman voters opted to join in 2000.

Net assessed value (NAV) within the school district has decreased 84% since 1992. Valuations have declined over \$3.1 million since last year, a 32% drop.

TOWN OF HAYDEN

Meanwhile, Hayden's Town Council adopted a rate of \$22.88 for 2003, up 52% from last year's \$15.07, ignoring pleas from the handful of commercial taxpayers left in the jurisdiction who argued that the town was taxing them off their property.

Hayden's NAV, which dropped 39% since last year, is now pegged at just over \$2.9 million. The town's value in 1992 was over \$26.5 million, 89% higher than it is today. In 1992, the NAV for commercial property in Hayden totaled \$25,779,842, most of which was attributable to the ASARCO mine. By 2003, the commercial NAV had dropped over \$23 million to \$2,292,025.

COUNTY-WIDE RATES

The total combined rate of \$62.55 also includes several county-wide taxes. Gila County adopted the same \$4.41 rate as last year. The Fire District Assistance Tax (FDAT) remains at 10 cents and the County library tax stayed at 20 cents per \$100.

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The property taxes on Cheryl and Warren Chester's tire and auto parts business total \$7,037 — 16% of the property's full cash value.

HAYDEN *Continued from page 4*

The state-mandated county education rate dropped slightly, from 49 cents to 47 cents, in accordance with the State’s truth-in-taxation laws. Finally, the secondary tax (58 cents) levied by Gila County for Eastern Arizona College’s operation of the Gila Pueblo campus has been eliminated. In its place, the newly formed Gila County Provisional Community College District (Gila College) has adopted a primary rate of 63 cents.

THE ONE PERCENT CAP

The Arizona Constitution limits the primary property taxes on residential property. Article IX, Section 18, states that “The maximum amount of ad valorem taxes that may be collected from residential property in any tax year shall not exceed one per cent of the property’s full cash value as limited by this section.”

This means that homeowner property taxes cannot exceed an effective tax rate (*i.e.* after applying the 35% rebate on the school’s primary tax) of \$10.00 per \$100. Any portion of the school’s tax rate that cannot be paid by homeowners because of the 35% rebate or the one-percent cap is paid to the school district from the state general fund.

In 1992, the effective primary rate was \$10.79, in other words, 79 cents over the cap. For 2003, the amount over the one-percent cap is \$24.94. Additional state aid will only cover the amount related to the school district primary tax. Because this is well in excess of the school district’s \$10.07 rate, Gila County has been required to use “tax reduction rates” to ensure that homeowner tax bills do not exceed the cap.

For example, a homeowner in Hayden had a primary value of \$19,400 in 2002. The assessed value (using a 10% assessment ratio) is \$1,940. The tax would have been \$540.16. However, the maximum amount of primary taxes that can be levied on this property is \$194. Only if the assessed value increases could this maximum tax be increased.



The Slaters’ Napa Auto Parts is one of several closed businesses in Hayden.

There is no such cap on secondary taxes. In 2002, this homeowner paid \$329.18 in secondary taxes. Based on the same value, this homeowner’s secondary taxes will increase to \$467.35.

All other classes, including residential rentals, do not have the protection of a cap. A residential rental property in Hayden valued at \$22,707 paid \$1,017.66 in 2002. Again, based on that same value, this taxpayer’s levy will increase to \$1,420.61 in 2003.

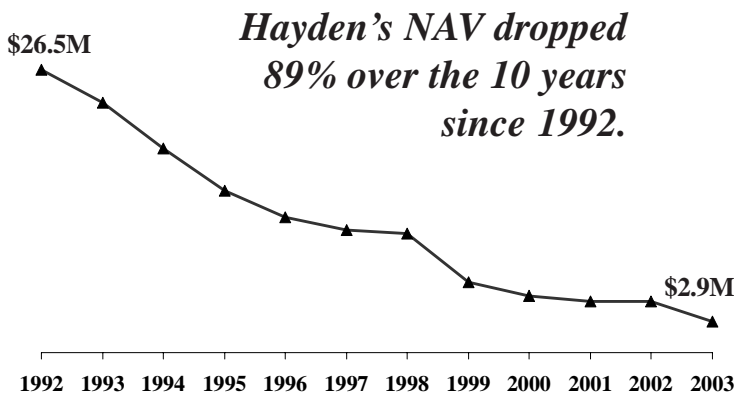
COMMERCIAL PROPERTY TAXPAYERS

In addition to the ASARCO mine, there are about seven businesses currently operating in Hayden. “There used to be a lot more,” said Jean Slater who, with her husband Bert, owns property in Hayden that used to be a Napa Auto Parts store. “People just can’t afford to stay here anymore.”

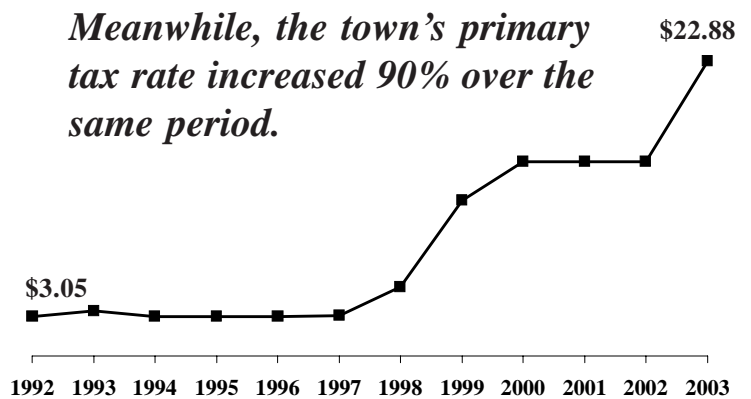
Warren and Cheryl Chester, owners of Eddie Tire & Auto Parts, will see the 2003 property taxes on their \$45,000 business increase to \$7,037 — nearly \$2,000 more than the amount they paid last year. “We keep waiting for things in this town to turn around,” said Cheryl Chester. “I don’t know how much longer we can wait.”

Michael Hunter

Town of Hayden’s primary NAV: 1992 to 2003



Town of Hayden’s primary rate: 1992 to 2003



TAX AMNESTY OFFERED

City sales taxes not included

Following a recommendation from Governor Napolitano, the Legislature included a two-month tax amnesty program as a part of the final state budget adopted for Fiscal Year (FY) 2004. The Legislature estimates that the amnesty program will generate \$25 million in revenue for the state coffers.

The window of opportunity for taxpayers to take advantage of the amnesty program is September 1, 2003 through October 31, 2003. As an incentive to pay taxes that are owed the state, taxpayers are provided protection from both civil penalties and criminal sanctions and reduced interest on back taxes owed on state and county taxes.

The amnesty program is being offered for taxpayers filing annually for any taxable period beginning from and after December 31, 1982 and ending before January 1, 2002. For taxpayers having a 52-53 week tax year, the taxable period is from and after December 25, 1983, and ending before January 15, 2002.

For all other taxpayers, any taxable period beginning from and after December 31, 1982 and ending before January 1, 2003.

The taxes included in the amnesty program extend to all taxes administered by the Department of Revenue except estate and ad valorem property taxes.

To qualify for amnesty, the taxpayer must submit the necessary paper work and pay at least one-third of the total amount due by October 31, 2003. The balance has to be paid in full by May 1, 2004.

A noteworthy feature of the amnesty program is the exclusion of cities and towns. As a result, taxpayers that come forward and pay outstanding transaction privilege (sales) tax obligations are protected from penalties and some interest on their outstanding state and county obligations but not city taxes.

For further information on the tax amnesty program visit www.taxamnesty.az.gov.

McCarthy elected NTC Chairman

ATRA President Kevin McCarthy was elected Chairman of the National Taxpayers Conference (NTC) at the group's recent annual meeting in Chicago.

NTC is an organization of statewide taxpayer associations that share the common mission of providing accurate, unbiased research on state and local taxation and spending policies in their respective states.

Also elected as NTC officers were:

1st Vice Chair — Carol Vilaro, President, Nevada Taxpayers Association;

2nd Vice Chair — Gary Sasse, Executive Director, Rhode Island Public Expenditure Council;

Treasurer — Lynn Reed, Executive Director, Minnesota Taxpayers Association; and

Secretary — Mary Whittinghill, President, Montana Taxpayers Association.