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ARIZONA TAX RESEARCH ASSOCIATION

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Statewide Secondary Net Assessed Values Hit Record 32% Growth

The much anticipated 2007 secondary net assessed values (SNAV) are in and values skyrocketed 32% (\$17 billion) over last year, bringing the total SNAV to nearly \$72 billion. Not surprisingly, this is the most dramatic increase that Arizonan's have ever seen.

Of the 32% (\$17 billion) increase, the majority of the growth occurred in properties that are already on the tax rolls, which makes up an estimated 57% (\$9.6 billion) of the total increase. The estimated value generated from new construction added to the tax rolls in 2007 represents approximately 43% (\$7.5 billion) of total growth.

During the 48th legislative session, lawmakers have a prime opportunity to address taxpayers' growing concerns regarding potential tax increases associated with inflated property values.

The recent statewide media reports highlighting the dramatic growth in property values, coupled with the threat of initiatives duplicating California's Prop 13, should incentivize the Legislature to act fast and show taxpayers that they are not only capable but also willing to address the problem.

ATRA has been advocating three measures this legislative session that aim to provide property tax relief and reform to address taxpayer's justified concerns.

Primary property tax relief

First, SB1027 and HB2401, two identical bills introduced by the tax chairs Senator Waring and Representative Yarbrough, would make the suspension of the state equalization rate that passed last year permanent, preventing a huge tax increase for all property taxpayers in 2009. The temporary nature of the rate reduction

completely undermines the message to taxpayers that the Legislature is serious about managing this problem.

Business property tax reform

Second, SB1028 and HB2400, also introduced this session by the tax chairs, accelerates the phase-down in the assessment ratio for business properties from ten years to six. In 2005, the Legislature passed and the Governor signed HB2779, which allowed for a ten-year reduction in the assessment ratio for class 1 (business property), from 25% to 20%.

The reduction in the assessment ratio for business property was recommended by two committees: the Legislature's Tax Reform for Arizona's Citizens Committee (TRACC) in 2002 and the Governor's Citizens Finance Review Commission (CFRC) in 2003. The original version of HB2779 actually called for a five-year phase-down but unfortunately was increased to ten years during budget negotiations.

ATRA believes that the myriad of problems associated with Arizona's high business property taxes necessitates a more timely response to the problem.

Secondary property tax reform

Last year, the Legislature provided valuable tax relief to taxpayers with the reduction in primary property taxes by reducing the state equalization rate from 43 cents per \$100 of assessed value to zero; however, it is doubtful that many taxpayers saw an actual drop in their overall taxes due to the constant rise in secondary levies.

HB2656, which was introduced this session by the Chairman of the House Ways and Means Committee

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Justin Olson Joins ATRA Staff



ATRA is proud to announce that Justin Olson has joined the Association's staff as a Research Analyst. Justin graduated from Arizona State University in 2004 with a bachelor's degree in biology.

Justin comes to ATRA after a year long stint as a congressional aide for United States Congressman Trent Franks. In Washington, he advised Congressman Franks on legislation affecting the real estate industry, postal reform, and second amendment rights. He developed his background in the real estate industry while serving as a top-producing real estate agent during college.

Justin has been married to his wife Karyn for five years and is the father of three children.

What's inside...

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Fire District Levies Increase 84% in Five Years

One-year growth of 17% in 2006

A recent ATRA study on Arizona fire district levies showed that statewide levies climbed 84% or \$79.9 million between tax years 2001 and 2006. For 2006, fire district levies climbed \$25.6 million (17.2%) over 2005 levels (refer to the table below).

In 2006, fire districts levied \$175 million in taxes accounting for 3% of total property taxes levied. The secondary property tax is the major revenue source for the districts. This year, 157 fire districts levied secondary property taxes. Fire districts are special taxing districts that are created by property owners and electors to provide fire protection and emergency services and the taxes are set annually by elected governing boards.

The dramatic growth in levies was driven by a combination of valuation and tax rate increases. Despite increasing net assessed values (NAV) across the state, the average tax rate for fire districts

climbed from \$1.8666 per \$100 of assessed value in 2001 to \$2.0575 in 2006. The annual property tax levies of fire districts are not limited other than by a maximum rate that is set by statute at \$3.30. As a result, significant growth in property valuations set by the assessor can translate into major increases in tax revenues for the districts.

Forty-nine fire districts increased levies more than 100% over the five-year period. Forty-one fire districts, with growth in excess of 100%, were due to a combination of rate increases and increases in the NAV. Eight of those districts managed to increase levies without an increase in the tax rate.

The second table below lists the top twelve fire districts with the greatest increase in levies from 2001 to 2006 (list excludes new districts). These twelve districts make up only 7% of all districts in Arizona but account for 30% of the

five-year increase in levies. Maricopa County's Buckeye Valley Fire District led the top twelve with a 214% increase in their levy. This 214% increase is a product of the large escalation in the district's NAV (123%) as well as a 40.6% rise in the tax rate. Four of the top twelve districts had tax rate increases of 50% or greater over the last five years. The four fire districts are Show Low with 69%, Heber/Overgaard with 67%, Highlands, and Three Points, both with a 50% increase in their tax rates.

Fire District levies are also of interest to property taxpayers outside of the districts because a state law requires all property taxpayers (excluding Yuma County) in the state to participate in subsidizing the districts. The Fire District Assistance Tax (FDAT), which is levied annually on a countywide basis, funds 20% of the property tax levy of each fire district.

STATEWIDE TOTALS AND TAX RATE AVERAGES

2001 Levy	2001 Avg. Tax Rate	2005 Levy	2005 Avg. Tax Rate	2006 Levy	2006 Avg. Tax Rate	1 year Change	1 yr % Change	5 year Change	5 year % Change
\$ 94,656,447	1.8666	\$ 148,881,370	2.0192	\$ 174,552,698	2.0575	\$ 25,671,328	17.2%	\$ 79,896,251	84%

TOP TWELVE FIRE DISTRICTS

County	Fire District	5 year levy change	2001 Tax Rate	2006 Tax Rate	Tax Rate % change	2001 Net Assessed Value	2006 Net Assessed Value	Net Assessed Value % change
Maricopa	Buckeye Valley	214%	1.4141	1.9883	40.6%	\$46,378,853	\$103,425,913	123.0%
Navajo	Show Low	174%	1.1174	1.8918	69.3%	\$77,001,481	\$124,641,318	61.8%
Navajo	Heber/Overgaard	167%	1.0971	1.8276	66.5%	\$45,809,814	\$73,072,639	59.5%
Pima	Golder Ranch	140%	1.9900	2.0923	5.1%	\$117,008,524	\$266,707,519	127.9%
Coconino	Highlands	135%	2.0000	3.0000	50.0%	\$54,023,752	\$84,799,617	56.9%
Pima	Drexel Heights	134%	2.5500	3.1900	25.1%	\$88,196,706	\$165,062,861	87.1%
Pinal	Golder Ranch	123%	1.9900	2.0923	5.1%	\$52,349,313	\$111,186,955	112.3%
Yavapai	Central Yavapai	120%	1.7063	1.9940	16.8%	\$278,033,822	\$523,792,436	88.3%
Yavapai	Chino Valley	115%	2.0352	2.5400	24.8%	\$61,935,356	\$106,509,269	71.9%
Navajo	Pinetop	111%	1.2691	1.8634	46.8%	\$81,680,104	\$117,333,534	43.6%
Maricopa	Sun Lakes	109%	1.8976	2.6800	41.2%	\$116,773,568	\$172,841,023	48.0%
Pima	Three Points	104%	3.0000	4.5000	50.0%	\$20,163,981	\$27,438,721	36.0%

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Five-Year Growth in School Overrides

Amount to 92%

While implementing school overrides requires voter approval, many post-implementation factors may increase the annual levy without authorization from the electorate. Once put in place, school overrides can tax property owners for up to seven years. As significant changes can occur during the life of an override, ATRA analyzed those changes and the effects they had on taxpayers. ATRA found that Arizona property taxpayers funded a 92% increase in school district overrides between tax years 2001 and 2006. Tax year 2005 to 2006 alone reflected an 18% increase in total property taxes levied for overrides.

This five-year analysis of school overrides calls attention to two policy issues that will likely concern property taxpayers. First, voters approving an override of schools' M&O budgets (maintenance and operations) or a special K-3 override, while provided with estimates of the initial tax levy, in reality approve an unknown levy amount. Second, appropriations from the state general fund that increase school districts' budgets also increase override levies.

Each school district receives funding according to a formula based principally on the number of students enrolled. This formula establishes a budget limit (revenue control limit or RCL) beyond which districts are not allowed to spend without a budget override. Districts can request three different types of budget overrides. M&O overrides are the most common. These overrides can increase the district's budget (commonly used for salaries and benefits) by up to 10% of the district's RCL. Capital outlay overrides, the next most costly to taxpayers, are structured differently. These overrides are

not approved as a percentage of the RCL but rather as a specific amount to be levied over one to seven years. Funds from capital outlay overrides may be used for renovations and building maintenance. The last override, K-3, allows districts to increase their budget by 5% of the RCL to fund a special program, designed by a school district task force, to improve the academic achievement of low achieving pupils in kindergarten through third grade.

The noted increases in statewide overrides can have many causes. For example, during the five years evaluated, 19 school districts which originally did not have any overrides began to levy them. Also, the 83 school districts that continuously levied overrides throughout the same time frame saw a 78% increase in the amount levied for their overrides. These data indicate that the increased levies resulted from both an increased number of school districts with overrides as well as an increased amount levied for existing overrides. Furthermore, all override types shared responsibility for the increases. The amount levied for capital outlay overrides increased 42% from 2005 to 2006. This accounted for 40% of the year's total increase in override levies. One half of the year's increase resulted from higher M&O levies. The remaining 10% resulted from K-3 overrides.

While the levy amounts of existing capital outlay overrides as well as all new overrides were specifically approved by voters, the increases in existing M&O and K-3 overrides were not. Because M&O and K-3 override amounts are determined as a percentage of the RCL, any factor that increases the RCL similarly affects these overrides. Increases in the RCL result

See **Overrides**, page 4

SCHOOL DISTRICT PROPERTY TAX OVERRIDES

County	2001 Levy \$	2005 Levy \$	2006 Levy \$	1 year Levy Change	5 year Levy Change
Apache	\$604,635	\$759,385	\$834,189	\$74,804 9.9%	\$229,554 38.0%
Cochise	\$1,137,638	\$4,333,105	\$5,355,479	\$1,022,374 23.6%	\$4,217,841 370.8%
Coconino	\$3,564,023	\$7,056,260	\$7,549,871	\$493,611 7.0%	\$3,985,848 111.8%
Gila	\$812,511	\$1,115,803	\$1,738,452	\$622,649 55.8%	\$925,941 114.0%
Graham	\$0	\$0	\$0	\$0 0.0%	\$0 0.0%
Greenlee	\$413,000	\$522,900	\$586,000	\$63,100 12.1%	\$173,000 41.9%
La Paz	\$0	\$0	\$896,112	\$896,112 -	\$896,112 -
Maricopa	\$193,323,628	\$307,635,809	\$365,397,767	\$57,761,958 18.8%	\$172,074,139 89.0%
Mohave	\$0	\$3,494,276	\$3,829,244	\$334,968 9.6%	\$3,829,244 -
Navajo	\$2,588,612	\$2,855,415	\$3,468,238	\$612,823 21.5%	\$879,626 34.0%
Pima	\$13,238,023	\$25,207,954	\$27,774,758	\$2,566,804 10.2%	\$14,536,735 109.8%
Pinal	\$8,578,943	\$12,888,455	\$15,480,382	\$2,591,927 20.1%	\$6,901,439 80.4%
Santa Cruz	\$934,502	\$1,553,188	\$1,674,407	\$121,219 7.8%	\$739,905 79.2%
Yavapai	\$1,596,701	\$2,327,057	\$2,511,370	\$184,313 7.9%	\$914,669 57.3%
Yuma	\$2,154,545	\$2,587,914	\$1,945,354	-\$642,560 -24.8%	-\$209,191 -9.7%
Statewide Total	\$228,946,761	\$372,337,521	\$439,041,623	\$66,704,101 17.9%	\$210,094,862 91.8%



Overrides, *Continued from page 3*

from increases in student counts, from legislative increases to the base support level to account for inflation, and from legislative appropriations beyond established funding formulas. These increases in the RCL, in turn, raise property tax levies for M&O and K-3 overrides.

In recent years, the Legislature has increased baseline funding for K-12 schools well above the traditional increases for student growth and inflation. For example, the Legislature appropriated an additional 2.4% (\$100 million) in FY 2007 to the K-12 formula. Additionally, the FY 2007 budget contained \$118 million in supplemental funding for full day kindergarten. Interestingly, that session was also highlighted by concerns over growing property taxes that led to a state property tax cut. It is doubtful that most lawmakers that supported the increased funding for schools also understood that they were causing increased taxes for school overrides.

Secondary NAV, *Continued from page 1*

Representative Yarbrough, would have limited the growth in countywide special district levies to 2% plus new construction. The proposed limitations are the same limits currently in place for primary property taxes, which averaged approximately 8% growth for Arizona's 15 counties in tax year 2006.

Special districts levy taxes against the secondary value, which presumably reflects the property's market value. The countywide special districts that would have been specifically limited in HB2656 included flood control, library, jail, special health care, and public health services districts. Regrettably, the bill failed in the Ways and Means Committee on a 5-5 vote, with Representatives Kirkpatrick, Brown, Cajero Bedford, Farley, and Crandall voting no and in favor of maintaining County Boards of Supervisors' authority to set rates locally without regard to valuation growth.

County	2006 Secondary NAV	2007 Secondary NAV	Change	% Change
Apache	\$323,062,906	\$352,863,759	\$29,800,853	9.2%
Cochise	\$767,433,022	\$872,912,337	\$105,479,315	13.7%
Coconino	\$1,473,342,694	\$1,744,822,563	\$271,479,869	18.4%
Gila	\$422,267,703	\$477,902,533	\$55,634,830	13.2%
Graham	\$119,712,036	\$140,072,106	\$20,360,070	17.0%
Greenlee	\$226,907,616	\$289,414,018	\$62,506,402	27.5%
La Paz	\$172,147,917	\$200,054,271	\$27,906,354	16.2%
Maricopa	\$36,294,693,601	\$49,534,573,826	\$13,239,880,225	36.5%
Mohave	\$1,908,996,588	\$2,516,012,949	\$607,016,361	31.8%
Navajo	\$754,945,315	\$851,317,372	\$96,372,057	12.8%
Pima	\$6,869,955,457	\$8,236,498,616	\$1,366,543,159	19.9%
Pinal	\$1,547,005,089	\$2,334,827,334	\$787,822,245	50.9%
Santa Cruz	\$294,247,098	\$341,683,683	\$47,436,585	16.1%
Yavapai	\$2,302,712,940	\$2,853,059,731	\$550,346,791	23.9%
Yuma	\$917,331,539	\$1,106,615,322	\$189,283,783	20.6%
TOTAL	\$54,394,761,521	\$71,852,630,420	\$17,457,868,899	32.1%