The taxpayer's watchdog for over 65 years

ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 67 NUMBER 6 JULY 2007

BUDGET AGREEMENT SPEEDS UP TAX REFORM

After clearing the Senate Finance Committee in the first week of the session, the ATRA-backed measure to accelerate the phased reduction in the class one assessment ratio had to wait until mid-June for final action. Fortunately, the final budget agreement between legislative leaders and Governor Napolitano included acceptance of the provisions in SB 1028, sponsored by Senator Jim Waring, and HB 2400, sponsored by Representative Steve Yarbrough. The chairs of the respective tax committees each made it a high priority to accelerate the scheduled ten-year reduction in the class one assessment ratio to six years.

Tax Year	Class One Assessment Ratio
2007	24%
2008	23%
2009	22%
2010	21%
2011	20%

In 2005, the Legislature passed a major property tax reform measure (HB 2779) that targeted inequities in Arizona's property tax system. As passed, that measure called for a reduction in the assessment ratio of class one property (business) from 25% to 20% over a ten-year period. The bill also included an increase in the "homeowners' rebate" from 35% to 40% in the first five years of the reform. As originally designed in 2005, the property tax reform measure called for a five-year phased reduction in the class one assessment ratio. Regrettably, last minute negotiations changed the measure to a ten-year phase down in the business property ratio. While the 2005 reform bill was clearly a major move in the right direction, ATRA argued that the policy problem of high business property taxes demanded a more timely response than a ten-year phase down. As passed, HB 2784 accelerates the assessment ratio reduction from 0.5% to 1% annual reductions beginning in tax year 2008. (table above).

See **Tax Reform,** page 2

SUPREME COURT OF ARIZONA HANDS TAXPAYERS A VICTORY

On May 24th, the Supreme Court of Arizona overturned an Arizona Court of Appeals ruling that allowed the Northwest Fire District to impose a "facilities benefit assessment" fee on new home construction. In taking the case (US Home of Arizona v. Northwest Fire District), the Supreme Court noted the statewide importance of the case effecting 145 fire districts and their residents. ATRA filed an amicus brief in the case with both the Court of Appeals and the Supreme Court.

In December 2004, the Northwest Fire District Board adopted a resolution approving a "facilities benefit assessment" on new construction upon the application of a building permit. The resolution stated that the assessment was necessary to pay "the costs of developing facilities from which to provide services to new construction areas." On January 14, 2005, the district began assessing new construction and invoicing home builders for the "facilities benefit assessment." U.S. Homes refused to pay the "facilities benefit assessment" and Northwest Fire District filed a complaint to collect the unpaid "fees."

Initially, the Pima County Superior Court decided that the fire district's ability to impose a "facilities benefit assessment" fee could only be charged to a property owner for specific services provided. The Superior Court decided in favor of U.S. Homes because the fire district

See **Taxpayer Victory,** page 2

What's inside…

TAX REFORM, *Continued from page 1*

This year's tax package also includes a change to the current accelerated depreciation formula for locally assessed personal property. Personal property that is taxed for the first time in 2008 will receive the benefit of an additional 5% added to current accelerated depreciation percentages as well as the addition of a fifth year of depreciation. The change in the accelerated depreciation is as follows:

Year of Assessment	% of Scheduled Depreciated Value-Current	% of Scheduled Depreciated Value-New
First Year	35%	30%
Second Year	51%	46%
Third Year	67%	62%
Fourth Year	83%	78%
Fifth Year	DOR Depreciation Schedule	94%
Sixth Year	DOR Depreciation Schedule	DOR Depreciation Schedule

Kevin McCarthy

TAXPAYER VICTORY, *Continued from page 1*

did not render any services not otherwise provided to the other residents of the district. The Northwest Fire District appealed the decision to the Arizona Court of Appeals. The Court of Appeals overturned the Superior Court's decision by broadening the interpretation to include, "a special assessment against real property for public improvements." The Court of Appeals concluded that the fire district did provide a service by having the adequate facilities to respond to an emergency. U.S. Homes appealed that decision to the Supreme Court of Arizona. The Supreme Court had to determine what the statutory authority of the Northwest Fire District was to impose a "facilities benefit assessment."

The Legislature granted fire districts the ability to raise revenues by issuing and selling bonds, collecting property taxes, and charging fees in accordance with fee schedules. Charging fees in accordance with fee schedules is a statutory power defined in Arizona Revised Statute (A.R.S.) section 48-805 (B)(14). This statute states that fire districts may "adopt resolutions establishing fee schedules for providing fire protection services and services for the preservation of life including emergency fire and emergency medical services, plan reviews, standby charges, fire cause determination, users' fees, facilities benefit assessments or any other fee schedule that may be required." The Supreme Court ruled that the property must receive a special benefit above what the other properties in the district receive to be a special assessment. This means that the district would need to know what the estimated costs for the special benefit are and what proportion each property would receive of these specified costs. The Northwest Fire District did not have any specific plan for a new facility and therefore, the district could not establish the costs associated with the "facilities benefit assessment." The district was placing the funds that were collected from the assessment into the district's general fund and could not prove that the monies collected would be spent on facilities to benefit the properties charged for a special assessment.

The Supreme Court concluded, "Without a specific plan and cost estimate, there can be no way of knowing the property owner's share of the improvement costs or whether a particular property will be benefited at all, let alone whether it will receive a benefit different than all other properties in the district." Importantly, the court also noted that the district's decision to establish a "facilities benefit assessment" lacked both political and public accountability stating that Northwest Fire's sweeping interpretation of the "facilities benefit assessment" would render all other fire district budget and tax limits in statute "illusory."

Courtney Baker

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.
Serving Arizona's taxpayers since 1940.

1814 W. Washington Street
Phoenix, Arizona 85007
(602) 253-9121
FAX (602) 253-6719
www.arizonatax.org
atra@arizonatax.org

Taxpayers Fund up to $10,094 per Community College FTSE

The eleven community college districts in Arizona (including one provisional district) recently adopted fiscal year (FY) 2008 budgets which will determine this year's corresponding property tax levies. In addition to property taxes, each college will also receive their formulaic allotment of state aid as appropriated by the State Legislature. In order to compare the efficiency of the different districts' use of these funds, ATRA evaluated the amount of these tax dollars each college will use to educate one full-time student equivalent (FTSE).

The amount of primary property taxes levied per FTSE will vary significantly across the different districts. At $8,650 per FTSE, property taxpayers in the Yavapai Community College District (CCD) fund the highest dollar amount for each student enrolled. Not far behind Yavapai, the Pinal and Mohave CCDs will levy, per FTSE, $7,809 and $5,360. At the other extreme Graham CCD—the college district with the highest primary rate—will raise much less property taxes due to its low net assessed value (NAV). Therefore, Graham property taxpayers will cover only $719 of the total expenses per FTSE. The remaining districts will levy between $2,000 and just over $4,000 per FTSE.

Unlike the property tax levies, operating state aid (M&O) and capital outlay state aid are formulaic appropriations based primarily on the audited count of FTSE attending each college. Therefore, among the colleges whose state aid consists of only M&O and capital outlay, the inequality of per FTSE state aid is relatively small (maximum difference of $991). Equalization aid, on the other hand, is not based on FTSE counts. The equalization aid formula funds districts based on the amount their NAV is below the average rural district's NAV. Therefore, equalization aid districts will receive a greater amount of state aid per FTSE and those amounts will vary more substantially. The Graham CCD will receive the highest amount of state aid per

See **Community College FTSE,** page 4

		Property Tax		State Aid			Per FTSE Costs		
District	FTSE	TR	Primary Levy	M & O	Capital	Equal. Aid	Primary Levy	State Aid	Total
Cochise	6,650	$1.7430	$14,165,750	$8,401,400	$1,060,600	$4,669,700	$2,130	$2,125	$4,255
Coconino	2,090	$0.3717	$5,628,497	$3,334,600	$423,800	-	$2,693	$1,798	$4,491
Gila	934	$0.5987	$2,712,579	$620,500	$133,400	-	$2,904	$807	$3,711
Graham	3,765	$2.0033	$2,706,811	$5,370,400	$510,100	$13,146,500	$719	$5,054	$5,773
Maricopa	75,000	$0.8246	$321,018,986	$57,528,300	$11,204,000	-	$4,280	$916	$5,197
Mohave	2,900	$0.8221	$15,543,352	$4,196,900	$591,200	-	$5,360	$1,651	$7,011
Navajo	2,800	$1.2257	$9,956,536	$4,412,300	$505,700	$4,305,200	$3,556	$3,294	$6,850
Pima	21,200	$1.0191	$74,937,000	$19,593,500	$3,198,900	-	$3,535	$1,075	$4,610
Pinal	4,400	$1.8000	$34,358,431	$6,052,000	$797,600	-	$7,809	$1,557	$9,365
Yavapai	3,826	$1.3397	$33,094,152	$4,820,400	$703,900	-	$8,650	$1,444	$10,094
Yuma/La Paz	4,582	$1.7345	$19,225,034	$5,722,700	$924,800	$1,372,400	$4,196	$1,750	$5,946

Per FTSE Rankings					
Primary Levy		State Aid		Total Taxpayer Support	
1. Yavapai	$8,650	1. Graham	$5,054	1. Yavapai	$10,094
2. Pinal	$7,809	2. Navajo	$3,294	2. Pinal	$9,365
3. Mohave	$5,360	3. Cochise	$2,125	3. Mohave	$7,011
4. Maricopa	$4,280	4. Coconino	$1,798	4. Navajo	$6,850
5. Yuma/La Paz	$4,196	5. Yuma/La Paz	$1,750	5. Yuma/La Paz	$5,946
6. Navajo	$3,556	6. Mohave	$1,651	6. Graham	$5,773
7. Pima	$3,535	7. Pinal	$1,557	7. Maricopa	$5,197
8. Gila	$2,904	8. Yavapai	$1,444	8. Pima	$4,610
9. Coconino	$2,693	9. Pima	$1,075	9. Coconino	$4,491
10. Cochise	$2,130	10. Maricopa	$916	10. Cochise	$4,255
11. Graham	$719	11. Gila	$807	11. Gila	$3,711

COMMUNITY COLLEGE FTSE, *Continued from page 3*

FTSE ($5,054) followed by the Navajo CCD ($3,294). The Gila Provisional CCD will receive the least amount of state aid for each FTSE they educate ($807), and the Maricopa CCD will receive only slightly more ($916).

Equalization aid ostensibly funds districts that could not otherwise raise enough tax revenue locally to adequately support the community college. This seems to clearly be the case with the Graham CCD (for whom the appropriation was originally designed) where the high property tax rate generates only one third of the amount generated per FTSE in the district with the next lowest per FTSE levy (also an equalization aid district). But not all equalization aid districts will levy a comparatively low amount of property taxes per FTSE. The CCDs of Yuma/La Paz and Navajo will rank fifth and sixth highest out of the eleven CCDs in property taxes per FTSE.

A final per FTSE calculation contrasts the total taxpayer cost (excluding voter-approved secondary levies) to educate one FTSE in each of the districts. The Yavapai, Pinal, and Mohave CCDs top this ranking with taxpayer costs per FTSE of $10,094, $9,365, and $7,011, respectively. These are followed by three of the equalization aid districts, Navajo ($6,850), Yuma/La Paz ($5,946), and Graham ($5,773). The lowest taxpayer costs per FTSE are in the Gila Provisional ($3,711) and Cochise CCDs ($4,255). Educating one FTSE in Gila (or Cochise) costs taxpayers 63.2% (or 57.8%) less than educating the equivalent student at Yavapai Community College.

It's important to note that the FTSE counts used to produce these figures are the FY 2008 budget estimates of the respective colleges. Final audited FTSE counts will not be available until 2009. Historically, the accuracy of the different districts' estimates has fluctuated. Colleges with overestimated FTSE counts will have artificially lower per FTSE costs. Comparing the most recently audited FTSE counts (FY 2006) to the same year's FTSE estimates provides an indication of how the per FTSE rates may adjust. The Navajo CCD's budgeted FTSE in 2006 was 20.4% higher than the audited FTSE. The Graham and Maricopa CCDs' estimated FTSE counts for the same year were higher than the actual FTSE by 15.5% and 11.7%, respectively. The percent by which the remaining districts' estimates exceeded the audited amounts varied between 2.2% and 9.9%.