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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

VOLUME 67
NUMBER 8

NOVEMBER 2007

Secondary Property Taxes Climb 16% in 2007 Two-Year Increase at 28%

In 2007, secondary property taxes climbed at more than twice the rate of primary property taxes. Secondary property taxes, which fund voter-approved bonds and overrides and special taxing districts, climbed 16% while primary levies rose 7.1%.

While most primary property tax levies of state and local governments are limited through the Constitution or state statutes, secondary tax levies lack similar controls. ATRA sought legislation in 2007 to extend the concept of the constitutional primary levy limits to several special taxing districts; however, that legislation was defeated in the House Ways and Means Committee.

Dramatic growth in secondary property tax valuations of 32% helped fuel the 16% growth in levies. The \$322 million increase in secondary levies was paced by a \$124 million jump in secondary levies for K-12 schools, an 11.4%

increase. The lion's share of the increases in school secondary levies can be attributed to debt service levies for new class B bonds (For further information, see separate article on school levies on page 4).

As ATRA predicted in the May 2007 *Newsletter*, the largest percentage increase in secondary taxes was in city debt service levies with 30% growth. As ATRA reported in May, several cities in Maricopa County rode dramatic increases in valuations to major increases in their secondary tax levies. Overall, city secondary taxes rose \$84 million, led almost entirely by the \$81 million spike in levies for cities in Maricopa County. The City of Phoenix, which actually raised its secondary tax rate this year, was responsible for \$44 million of the Maricopa increase. Phoenix increased secondary taxes 37%

See **Secondary Property Taxes**, page 2

Fire District Levies Rise 26% in One Year

Paced by dramatic valuation growth in most counties, statewide property tax levies for Arizona fire districts climbed 26%, or \$45.3 million, from 2006 to 2007. The counties that saw the greatest percentage increase in fire district levies were Mohave (52%), Santa Cruz (33%), Pima (27%), and Maricopa (26%). Pinal (8%), La Paz (6%), and Greenlee (2%) counties had the smallest increase in their fire district levies. Pima County saw the largest dollar increase in its fire district levies (\$11.7 million), followed by Maricopa (\$9.3 million), Mohave (\$8.9 million), Yavapai (\$6.9 million), and Navajo (\$2.2 million).

Despite skyrocketing property valuations, the majority of Arizona fire districts failed to reduce their tax rates in 2007. Out of 163 Arizona fire districts, 41 fire districts increased their tax rate while another 48 maintained the previous tax rate from 2006. Unlike counties, cities, and community colleges, the operational levies for fire districts are not limited. The only limitation on the operational levies of fire districts is a maximum tax rate cap of \$3.25. The primary levy limitations that apply to the operational levies for

See **Fire Districts**, page 4

SECONDARY NET ASSESSED VALUES (SNAV)

County	2006	2007	Difference	% 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	49,534,573,831	\$13,239,880,230	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	8,220,395,835	\$1,350,440,378	19.7%
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	1,107,186,911	\$189,855,372	20.7%
TOTAL	\$54,394,761,521	\$71,837,099,233	\$17,442,337,712	32.1%

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School District Election Results

		Number of Questions	Number Defeated	% Defeated	\$ Defeated	\$ Approved
Statewide Results	M&O Overrides	26	15	57.7%	\$47,624,371	\$38,195,776
	Capital Outlay Overrides	11	6	54.5%	\$18,465,000	\$21,351,348
	K-3 Overrides	15	6	40.0%	\$12,814,032	\$5,829,938
	Bonds	16	3	18.8%	\$163,970,000	\$496,610,000
	Total	68	30	44.1%	\$242,873,403	\$561,987,062
Results for only Maricopa County	M&O Overrides	15	12	80.0%	\$43,850,234	\$32,618,242
	Capital Outlay Overrides	9	6	66.7%	\$18,465,000	\$18,851,348
	K-3 Overrides	6	5	83.3%	\$12,132,435	\$2,994,422
	Bonds	5	1	20.0%	\$123,470,000	\$198,000,000
	Total	35	24	68.6%	\$197,917,669	\$252,464,012

In this month's jurisdictional elections, 45 school districts across the state asked voters to approve at least one budget override or bond question. Likely concerned by rising property taxes and skyrocketing assessed values, voters in 23 of these districts rejected school district spending measures. Evidence of taxpayer frustration also exhibited itself in thin margins of victory in districts where school spending typically garners significant majorities at the ballot box. Among the districts where no ballot measure failed, four districts saw ballot measures pass by a margin of less than 5%. The lowest margins of victory were 1.2% for a bond measure in Tolleson Union and 1.8% for a capital outlay override in Gilbert Unified.

While voters in six school districts outside of Maricopa County defeated school bonds and overrides, the overwhelming majority of the school-district upsets occurred inside the county's borders. Voters rejected 68.6% of school bond and override questions within Maricopa County.

As bonds and capital overrides provide districts with additional revenue for one-time expenditures, districts will cope with these failures by simply putting off projected capital spending. Overrides for the maintenance and operations budget (M&O), on the other hand, fund

on-going, operating expenses. The bulk of K-3 overrides similarly fund on-going expenditures but only for K-3 programs. The failure of these overrides will be more difficult for districts to manage. All but two of the defeated M&O and K-3 overrides were renewals of previously approved overrides. This means the districts currently increase their budget limits by 10% and 5%, respectively, for their M&O and K-3 overrides. Unless districts convince voters at a future election to reverse their

decision, the failure to renew M&O and K-3 overrides will result in budget reductions.

Interestingly, it was the M&O and K-3 overrides that saw the greatest defeat in this month's elections. In Maricopa County, 80% of the requested M&O override renewals failed, as did 83% of the K-3 renewals. Maricopa voters defeated 66% of capital outlay overrides and a relatively lower 20% of bond questions.

Justin Olson

SECONDARY PROPERTY TAXES, *Continued from page 1*

this year. The City of Goodyear had the largest percentage increase, with a staggering 68% jump in its 2007 levy. On top of significant valuation growth, Goodyear also increased the secondary tax rate almost seven cents. Leaving their tax rate at \$1.15, the City of Gilbert rode a 62% increase in their tax base to a \$10.4 million tax increase.

Statewide, special district levies jumped 21% this year, paced primarily by countywide special districts (see article on page 3) and fire districts. Unlike primary property tax levies that fund the operational budgets of local governments, secondary taxes that also fund the operational budgets of special districts have no levy limitations. As a

result, when values grow significantly, special districts are not required to reduce tax rates accordingly. Fire districts, which have only a rate cap of \$3.25, increased levies this year by 26% statewide (see article on page 1).

Secondary property valuations track the market value of property, and annual increases of these valuations are not limited. Consequently, taxpayers have their greatest exposure to increases in this area when the market drives property values up. In the 2008 legislative session, ATRA will once again advocate the imposition of levy limitations on most special taxing districts in order to ensure that tax rates drop when values climb.

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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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County Special District Levies Increase 33% on Average in 2007

Of the \$322 million increase in statewide secondary levies, \$32.8 million of that was attributable to county special districts, which include flood, library, jail, public health services (PHSD), special health care, and T.V. Total secondary property taxes levied by these districts totaled more than \$261 million in tax year 2007, up from \$228 million the year before. On average, county special district levies increased more than 33%.

Due to the significant growth in property values around the state, the decisions made by Arizona's counties this year regarding whether or not to adjust the rates for their special districts was more important than ever before.

Counties that increased rates

The Greenlee County Board of

Supervisors increased special district levies by 126% (\$344,208), the highest percentage increase of all the counties, as a result of increasing the tax rate on the *non-voter approved* PHSD by more than three cents (now up to \$0.1525 per \$100 of assessed value) and also by levying a six-cent tax rate for the first time to fund the existing flood control district. Consequently, the property taxpayers of Greenlee County were denied any relief from Prop 101 since the \$0.0929 mandated drop in the county's primary rate was exactly offset by the cumulative \$0.0929 increase in the county's secondary taxing district rates.

The Pinal County Board increased their special district levies 94% (\$2.2 million) with a four-cent overall increase in the flood and library district rates, on top of

the more than 50% growth in secondary net assessed value (SNAV), the highest percentage growth in SNAV of all 15 counties.

The Apache County Board of Supervisors also made the decision to create a PHSD, *without voter approval*, for the first time in tax year 2007 and adopted a rate of \$0.1243 to fund it. That together with a 14-cent increase in the library district rate to pay for voter-approved bonds resulted in an overall secondary tax increase of \$1.1 million, over 50% more than last year.

One of the two remaining counties that increased tax rates on their special districts included Coconino County, which increased the library district rate by three cents and kept the rate the same

See **Special Districts**, page 6

Special District Levies-Tax Years 2006 & 2007

County	Flood	Library	Jail	PHSD	Special H.C.	T.V.	TOTALS	\$ Diff.	% Diff.
Apache (2006)	\$133,514	\$1,169,488	\$969,189	\$0			\$2,272,191		
Apache (2007)	\$147,402	\$1,772,082	\$1,058,592	\$438,610			\$3,416,686	\$1,144,495	50.4%
Cochise (2006)	\$1,602,227	\$1,190,289					\$2,792,516		
Cochise (2007)	\$1,871,114	\$1,266,596					\$3,137,710	\$345,194	12.4%
Coconino (2006)	\$1,579,318	\$2,797,878					\$4,377,196		
Coconino (2007)	\$1,852,480	\$3,847,334					\$5,699,814	\$1,322,618	30.2%
Gila (2006)		\$844,535					\$844,535		
Gila (2007)		\$955,805					\$955,805	\$111,270	13.2%
Graham (2006)	\$84,351						\$84,351		
Graham (2007)	\$96,224						\$96,224	\$11,873	14.1%
Greenlee (2006)	\$0			\$273,100			\$273,100		
Greenlee (2007)	\$176,253			\$441,055			\$617,308	\$344,208	126.0%
La Paz (2006)							\$0		
La Paz (2007)							\$0		
Maricopa (2006)	\$67,096,622	\$18,401,410			\$42,960,000		\$128,458,032		
Maricopa (2007)	\$70,422,870	\$19,368,018			\$46,310,880		\$136,101,768	\$7,643,736	6.0%
Mohave (2006)	\$8,446,197	\$6,177,513				\$1,655,100	\$16,278,810		
Mohave (2007)	\$11,408,650	\$8,141,818				\$2,181,383	\$21,731,851	\$5,453,041	33.5%
Navajo (2006)	\$1,668,755	\$301,978		\$1,481,958			\$3,452,691		
Navajo (2007)	\$1,943,281	\$425,659		\$1,671,136			\$4,040,076	\$587,385	17.0%
Pima (2006)	\$22,902,866	\$25,247,086					\$48,149,952		
Pima (2007)	\$25,542,408	\$32,676,073					\$58,218,481	\$10,068,529	20.9%
Pinal (2006)	\$1,415,902	\$881,793					\$2,297,695		
Pinal (2007)	\$2,665,849	\$1,797,817					\$4,463,666	\$2,165,971	94.3%
Santa Cruz (2006)	\$1,624,203						\$1,624,203		
Santa Cruz (2007)	\$1,900,641						\$1,900,641	\$276,438	17.0%
Yavapai (2006)	\$4,094,000	\$2,349,034					\$6,443,034		
Yavapai (2007)	\$4,473,313	\$2,899,059					\$7,372,372	\$929,338	14.4%
Yuma (2006)	\$8,384,410	\$2,710,931					\$11,095,341		
Yuma (2007)	\$10,119,688	\$3,360,321					\$13,480,009	\$2,384,668	21.5%
2006 Total Levies:							\$228,443,647		
2007 Total Levies:							\$261,232,411	\$32,788,764	

Secondary Levies for School Districts Up 11.4%

For fiscal year (FY) 2008, the amounts levied by school districts for voter-approved bonds and overrides increased \$124.4 million over the previous year. This represents an 11.4% increase. While net increases occurred in all but two of Arizona's 15 counties, school districts in only four counties (Maricopa, Pima, Pinal, and Mohave) levied over 98% of the statewide increase. Maricopa saw the largest increase in dollars levied, but, in relative terms, the growth was greater in Pinal and Mohave.

Pinal County School Districts

The school districts in Pinal County increased their secondary levies by 44.5% (\$14 million). Two thirds of this increase resulted from bond levies while the remaining third was the effect of greater budget overrides. The bulk of the Pinal increase took place in five school districts. The secondary levies for Florence Unified increased \$4.6 million driven primarily by a threefold increase in bond levies (\$3.7 million). Maricopa Unified also saw similar growth in bond levies (264%) together with a 70.6% increase in overrides. Maricopa's combined secondary levies grew by \$2.4 million. J. O. Combs Unified levied a total of \$2.6 million nearly evenly divided between new bond

and new override levies. Casa Grande Elementary and Casa Grande Union were the last two significant contributors to the Pinal increase. In these districts, bond increases led to an overall secondary increase of \$1.5 million and \$1.2 million, respectively.

Mohave County School Districts

The bond and override levies in Mohave increased by 25.8% (\$3.7 million). Nearly all of this increase occurred in Kingman Unified and Lake Havasu Unified. The bond levy grew \$1.5 million (71%) in Kingman and \$1.4 million (41.1%) in Lake Havasu. The Lake Havasu district also saw an increase of \$206,000 levied for

overrides. The bond levy for Colorado River Union grew by \$453,000 (18.7%).

Maricopa County School Districts

The increase in secondary levies for school districts in Maricopa County amounted to \$84.7 million (10.4%). Levies for class B bonds jumped 62.1% (\$68.4 million) and represented more than four-fifths of the overall growth in secondary levies. The increase in overrides was relatively smaller at 3.4% (\$12.2 million).

Among the 45 districts that contributed to the secondary levy increase, Scottsdale Unified stood out with a

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FIRE DISTRICTS, *Continued from page 1*

the abovementioned taxing jurisdictions require those entities to offset the increase in property values by adjusting the tax rates downward.

The table below lists the twenty fire districts with the greatest levy increases from 2006 to 2007. Fort Valley Fire District in Coconino County had the largest increase in one year, at 140%, while maintaining a \$2.50 tax rate from 2006 to 2007. Without a commensurate drop in the tax rate, the 140% levy increase was strictly driven by the

growth in property values. The fire district with the second largest increase was Peeples Valley in Yavapai County. Although Peeples Valley decreased their tax rate 0.13%, the levy increased 88%. Of the larger fire districts, Buckeye Valley had a 78% (\$1.6 million) increase in its levy in one year and a 24% increase in its tax rate. Buckeye Valley's tax rate went from \$1.9883 in 2006 to \$2.4616 in 2007.

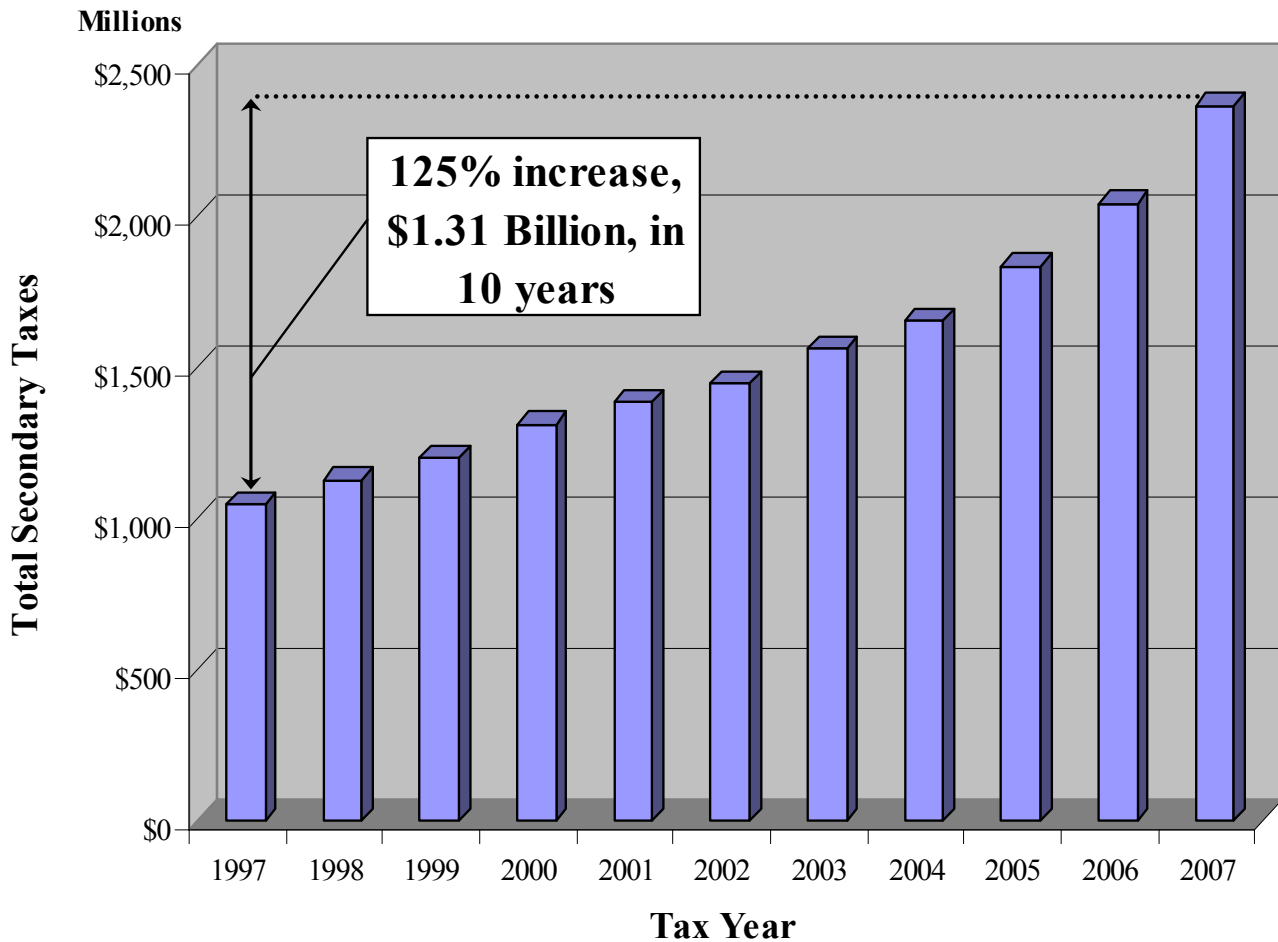
Courtney Baker

Top 20 Fire Districts with the Greatest % Increase 2006-2007

Fire District	County	2006 levy	2007 Levy	\$ Change	% Change
Fort Valley FD	Coconino	\$ 343,514	\$ 825,786	\$ 482,272	140%
Peeples Valley FD	Yavapai	\$ 58,800	\$ 110,800	\$ 52,000	88%
Valle Vista FD	Mohave	\$ 292,839	\$ 545,372	\$ 252,533	86%
Buckeye Valley FD	Maricopa	\$2,056,413	\$ 3,663,433	\$1,607,020	78%
Thunderbird FD	Pinal	\$ 11,855	\$ 21,020	\$ 9,165	77%
Arizona City FD	Pinal	\$ 546,340	\$ 893,608	\$ 347,268	64%
Corona de Tucson FD	Pima	\$ 713,106	\$ 1,138,079	\$ 424,973	60%
Eloy FD	Pinal	\$ 725,000	\$ 1,150,000	\$ 425,000	59%
Beaver Dam-Littlefield FD	Mohave	\$ 213,557	\$ 336,276	\$ 122,719	57%
Truxton FD	Mohave	\$ 12,710	\$ 19,807	\$ 7,097	56%
Williamson Valley FD	Yavapai	\$ 207,836	\$ 323,209	\$ 115,373	56%
Fort Mojave Mesa FD	Mohave	\$3,095,775	\$ 4,688,529	\$1,592,754	51%
Bullhead City FD	Mohave	\$6,659,916	\$ 9,998,839	\$3,338,923	50%
Golden Valley FD	Mohave	\$1,327,052	\$ 1,986,471	\$ 659,419	50%
Tonto Village FD	Gila	\$ 117,360	\$ 172,237	\$ 54,877	47%
North Ranch/Linda Vista FD	Pima	\$ 462,531	\$ 670,020	\$ 207,489	45%
Golden Shores FD	Mohave	\$ 370,443	\$ 536,374	\$ 165,931	45%
Green Valley FD	Pima	\$4,279,004	\$ 6,156,285	\$1,877,281	44%
Daisy Mountain FD	Maricopa	\$8,220,589	\$11,809,206	\$3,588,617	44%
Mohave Valley FD	Mohave	\$1,457,310	\$ 2,078,633	\$ 621,323	43%

2006 Tax Rate	2007 Tax Rate	\$ Change	% Change
2.5000	2.5000	0.0000	0.00%
0.9799	0.9786	-0.0013	-0.13%
3.0000	2.8800	-0.1200	-4.00%
1.9883	2.4616	0.4733	23.80%
2.0000	2.0000	0.0000	0.00%
1.6081	1.7904	0.1823	11.34%
2.5999	2.5900	-0.0099	-0.38%
1.9792	1.9533	-0.0259	-1.31%
2.5000	2.5000	0.0000	0.00%
2.0500	2.1500	0.1000	4.88%
1.8700	1.9600	0.0900	4.81%
3.0000	3.0000	0.0000	0.00%
2.2490	2.2420	-0.0070	-0.31%
2.7500	2.7500	0.0000	0.00%
2.2807	2.5334	0.2527	11.08%
1.0046	1.2207	0.2161	21.51%
2.3600	2.3600	0.0000	0.00%
1.7500	1.8000	0.0500	2.86%
2.2367	1.9788	-0.2579	-11.53%
2.6800	2.6800	0.0000	0.00%

Secondary Taxes 1997-2007



SCHOOL DISTRICTS, *Continued from page 4*

significantly disproportionate share of the growth. Driven by a 13-fold increase (\$19.9 million) in class B bonds, Scottsdale’s secondary levies grew by \$23 million. Scottsdale’s growth in secondary levies was nearly three times larger than the next highest increase (\$7.9 million for Peoria Unified). In order to levy payment for these bonds and overrides, the secondary tax rate increased to \$1.2634 despite the sharp 41.7% increase in the district’s secondary assessed value.

Chandler Unified levied the second highest growth in class B bonds with an increase of \$8.4 million (332.5%). Combined with an override increase and

an offsetting decrease in class A bonds, Chandler’s secondary levies saw a net growth of \$3.6 million.

The largest percent growth in the amounts levied for bonds and overrides throughout the county took place at Palo Verde Elementary and Higley Unified. The 172.6% (\$451,687) increase in secondary levies at Palo Verde was the result of a new class B bond. The 114% (\$5.6 million) increase in Higley’s secondary levies was divided between increases in class B bonds (\$3.6 million) and overrides (\$2 million).

Pima County School Districts

In Pima County the \$11.3 million growth in school district levies for bonds

and overrides resulted primarily from increases in three school districts. Tucson Unified levied a \$3.5 million (8.6%) increase, mostly for class B bonds. Marana Unified levied a new \$6.3 million M&O override, increased its class A levy by \$1.3 million, and did not levy the \$5.1 million for class B bonds which it levied in the previous year. These changes resulted in a net increase of \$2.5 million in secondary levies for the district. The third highest increase occurred in the Sunnyside Unified District where the secondary levies grew by \$2 million. The majority of the Sunnyside increase was for class A bonds (\$1.6 million).

Justin Olson

SPECIAL DISTRICTS, *Continued from page 3*

for flood control, thereby increasing taxes 30% (\$1.3 million) overall. Navajo County's decision to increase the library district rate one cent and to keep the rates the same for the PHSD (*again non voter-approved*) and the flood control district resulted in an overall tax increase of 17% (\$587,385).

Counties that kept rates the same

Some counties continued the same old practice of keeping tax rates the same, such as Mohave, Yuma, and Pima. The SNAV in Mohave County grew 31.8%. By not recognizing the dramatic growth in value and keeping the tax rates the same, the Board increased secondary taxes 33.5% (\$5.5 million), from \$16.3 million in tax year 2006 to \$21.7 million in tax year 2007 for the T.V., flood, and library districts. The SNAV in Yuma grew 20.7%. Keeping the rates the same resulted in an additional 21.5% (\$2.4

million) for the flood and library districts (a portion of the library district levy is to pay for voter-approved bonds). The SNAV in Pima County grew nearly 20%. The Board's decision to equally offset the three-cent drop in the flood control district rate by a three-cent increase in the library rate resulted in a 21% (\$10 million) tax increase. (It should be noted that Pima County reduced its primary rate nearly 20 cents below the maximum allowable rate.)

The remaining three counties that kept their secondary rates the same include Santa Cruz, Graham, and Gila. By choosing not to reduce the rates to offset the growth in value, taxes increased 17% (\$276,438), 14% (\$11,873), and 13% (\$111,270), respectively. (Gila County also reduced its primary rate nearly nine cents below the maximum allowable rate.)

Counties that reduced rates

Only three counties attempted to offset the increase in values by reducing secondary tax rates. Maricopa County should be given the most credit since the Board decided to apply the levy limits that are currently in place for primary property taxes to the library and flood control districts, resulting in nearly a nine-cent overall reduction. As a result, even though secondary values in Maricopa increased 36.5%, taxpayers saw secondary taxes go up just 6% (\$7.6 million). Yavapai taxpayer's realized a \$0.0264 total drop in their special district rates, but taxes still increased 14% (\$929,338). Although Cochise County reduced the library district rate one-cent, the combined levies for the flood and library districts increased 12% (\$345,194).

Jennifer Schuldt