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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

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Vetoes lead to property tax increases for some taxpayers

Governor Janet Napolitano's veto of the bill to permanently repeal the state equalization property tax rate drew widespread attention from property taxpayers across Arizona. Arizona has been embroiled in a multi-year debate regarding the best strategy for controlling property taxes. However, the veto of HB2220 was just one of many vetoes the Governor stamped on measures directed at reforming or controlling Arizona property taxes. The third Monday in August marks the annual exercise for the establishment of property tax rates in each of Arizona's fifteen counties. In some instances, taxpayers could have been spared the tax increases had ATRA's bills been signed rather than vetoed.

Public Health Services District (PHSD)

In 2006, Senate Finance Committee Chairman Dean Martin sponsored legislation that would have required a county to receive voter approval prior to the creation of a special taxing district to fund public health services. The purpose of the legislation was to rectify the law that was originally enacted in 2000 that allowed a County Board of Supervisors to create a special taxing district with just a unanimous vote of the board.

Most special taxing districts require voter approval prior to the levy of a tax. The PHSD, on the other hand, is one of very few taxing districts that can entirely side-step the voters with just a unanimous vote of a county board of supervisors. Conveniently, the county board serves as the board of directors once the district is created and a sales tax or property tax may be levied to support the district. To date, not one of the five counties that have created the district did so with the approval of voters.

In a letter urging the Governor to sign SB1217, ATRA emphasized that removing public input from the district creation process and prior to implementing a new tax is bad public policy. Nonetheless, the Governor vetoed SB1217 asserting that the counties were exercising their authority responsibly and if taxpayers didn't like the decisions made by county boards, they could choose not to reelect them.

Prior to the Governor's veto, two counties had created the district without voter approval and levied a total of \$4.5 million in taxes. Since the veto, three more counties have created districts without voter approval and have collected an additional \$23.3

See **Vetoes** , page 2

ATRA Supports School District Unification

Summary of key provisions:

The Legislature charged the school district redistricting commission (SDRC) with reviewing each common school (K-8) district in the state and submitting to each districts' voters a plan to form a unified (K-12) school district.

The SDRC-recommended plans affect 76 of the 123 non-unified school districts, including districts in nine counties: Cochise, La Paz, Maricopa, Pima, Pinal, Santa Cruz, Yavapai, and Yuma. The redistricting plans include the creation of 27 new unified districts and affect more than 330,000 students.

For three of the affected common school districts, the redistricting plans will create three unified districts that have the same boundaries as the existing districts.

For 44 of the affected districts, the redistricting plans will create unified districts that follow the boundaries of an existing high school district. These proposed districts encompass each of the common school districts that currently contribute students to the existing high school district.

For the remaining 33 affected districts, the redistricting plans will create unified districts that follow the boundaries of only some of an existing high school district's contributing common school districts. These plans will require two ballot questions, one to approve the subdivision of the high school district and a second to approve the unification of the subdivided portions with different common school districts.

See **Unification** , page 4

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GOLF TOURNAMENT

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&

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VETOES, *Continued from page 1*

million. To date, the county boards of Apache, Greenlee, Navajo, Pinal and Yuma have increased taxes by \$28 million, all without voter approval. Pinal and Yuma counties are collecting taxes through a countywide sales tax while Apache, Greenlee and Navajo levy a property tax.

Maximum property tax rate

The 1% constitutional cap on owner-occupied residential property provides such taxpayers a ceiling on their liability for primary property taxes. However, because there is no cap on the spending of the jurisdictions responsible for the high taxes, the 1% cap often serves as an incentive for even higher tax rates. The Tax Reform for Arizona Citizens Committee (TRAC) noted that the state subsidy for the homeowner’s cap, combined with the fact that increasing rates only apply to non-residential property, had led to several instances of extraordinarily high rates.

The TRAC committee developed the following targeted recommendation that, if implemented, would only impact school districts with excessively high tax rates: cap tax rates if at least 50% of the residential property value within the school district boundaries exceeds the 1% cap (to ensure that the school district was primarily responsible for the high rate) and the school primary tax rate exceeds the qualifying tax rate (QTR) by at least 150% (to further ensure that the school district had a primary rate considerably higher than required by state law).

The TRAC committee’s recommendation led to ATRA-supported legislation in 2005 (HB2143) and 2006 (SB1206). Despite the commission’s findings and considerable evidence that the 1% cap was causing major problems at both the state and local level, both bills were vetoed.

In 2005, 21 school districts would have met the criteria and had their rates capped, which decreased to 18 in

Public Health Services District Levies

County	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Apache	-	-	-	-	-	\$438,744	\$742,818
Greenlee	-	-	-	-	\$273,100	\$441,055	\$678,661
Navajo	\$391,289	\$492,830	\$503,374	\$1,378,730	\$1,481,958	\$1,671,136	\$1,960,566
Pinal	-	-	-	-	-	\$4,305,000	\$3,420,000
Yuma	-	-	-	\$1,772,690	\$2,682,393	\$2,678,369	\$2,538,056
TOTAL	\$391,289	\$492,830	\$503,374	\$3,151,420	\$4,437,451	\$9,534,304	\$9,340,101

2006. In 2007, the number of school districts meeting the criteria fell to ten; however, five of those districts continued to levy excessively high tax rates in 2008. If the Governor had signed the legislation in 2005, taxpayers already paying extremely high rates would have saved \$4.2 million in property taxes.

The Governor’s veto message of the maximum tax rate bill was grounded in the notion that school district governing boards should maintain “local control” over their finances. While this would have been a policy justification for such a veto in 1979, it completely ignored the current structure of school finance in Arizona. In addition, the message made the argument that the legislation would “further exacerbate the discrepancies in per-pupil education spending levels among high and low property wealth districts.” Actually, the reverse was the case as the bill would have decreased per-pupil spending in the districts with the highest such expenditures.

Cap on Desegregation Taxes

During the 2005 legislative session, ATRA supported HB2498 sponsored by then House Ways and Means Chairman Steve Huffman. HB2498 would have capped property tax levies for school districts’ desegregation budgets at the amount levied in 2004.

ATRA, and other proponents of the bill, argued that the existing policy inappropriately rewarded districts for violating civil rights. The statutes that HB2498 sought to reform provide unlimited access to property tax revenues for each district that operates under a court order to desegregate or under an agreement with the U.S.

Department of Education’s Office for Civil Rights (OCR). These deseg/OCR property tax levies are not part of the school district equalization formula and, consequently, lead to unequal per-student funding and unequal property tax burdens. These levies amount to unlimited budget overrides that require no voter approval.

To address these concerns, HB2498 would have eliminated any expansion of the deseg/OCR levies and would have required districts to apply to the Department of Education for desegregation assistance to cover any deseg/OCR expenditures that exceeded the amount funded by the capped levy. The Department of Education would have funded these requests solely with revenue appropriated specifically for deseg/OCR expenses. Subjecting any increase in deseg/OCR budgets to the regular appropriations process would have introduced more legislative oversight and would have reduced further exacerbation of unequal property tax burdens.

HB2498 passed the House with a vote of 36 to 24. The bill then passed the Senate 19 to 10. Unfortunately, for the taxpayers of the deseg/OCR school districts, Governor Napolitano vetoed HB2498 and allowed school districts to continue tapping property tax revenues for expansions of their deseg/OCR budgets.

Each year since the veto of this “hard cap” on deseg/OCR levies, the Legislature has successfully implemented a one-year-only “soft cap.” Unlike the permanent hard cap that actually froze deseg/OCR levies, the

See *Veto*es , page 3

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Deseg/OCR Levies

District	FY 2004-05		FY 2008-09		4 Year Change		Portion of the FY 2009	Total Levies
	Levy	Rate	Levy	Rate	Levy	%	Rate Resulting From the Veto of HB2498	Resulting From the Veto of HB2498
Agua Fria Union	\$660,000	\$0.1270	\$999,000	\$0.0828	\$339,000	51.4%	\$0.0281	\$1,061,000
Amphitheater Unified	\$4,025,000	\$0.4041	\$4,025,000	\$0.2741	\$0	0.0%	\$0.0000	\$0
Buckeye Elementary	\$510,000	\$0.7080	\$1,608,921	\$0.6224	\$1,098,921	215.5%	\$0.4251	\$2,497,088
Cartwright Elementary	\$4,140,780	\$1.3554	\$4,628,061	\$1.0701	\$487,281	11.8%	\$0.1127	\$1,307,284
Flagstaff Unified	\$2,086,634	\$0.2678	\$2,241,322	\$0.1952	\$154,688	7.4%	\$0.0135	\$354,617
Glendale Union	\$5,653,637	\$0.3538	\$6,131,959	\$0.2764	\$478,322	8.5%	\$0.0216	\$1,218,829
Holbrook Unified*	\$2,325,120	\$0.0000	\$2,518,482	\$0.0000	\$193,362	8.3%	\$0.0000	\$0
Isaac Elementary District	\$4,758,896	\$2.8712	\$4,951,155	\$2.2691	\$192,259	4.0%	\$0.0881	\$865,108
Maricopa Unified	\$371,622	\$0.9909	\$1,296,305	\$0.4474	\$924,683	248.8%	\$0.3191	\$1,904,923
Mesa Unified	\$8,171,391	\$0.3224	\$8,774,057	\$0.2377	\$602,666	7.4%	\$0.0163	\$1,475,022
Phoenix Elementary	\$9,818,256	\$1.5562	\$11,151,530	\$1.3606	\$1,333,274	13.6%	\$0.1627	\$2,690,219
Phoenix Union	\$46,808,290	\$1.0509	\$55,800,892	\$0.8773	\$8,992,602	19.2%	\$0.1414	\$22,917,076
Roosevelt Elementary	\$11,726,400	\$2.5780	\$13,570,494	\$1.6384	\$1,844,094	15.7%	\$0.2226	\$5,751,906
Scottsdale Unified	\$6,752,458	\$0.1943	\$7,382,169	\$0.1378	\$629,711	9.3%	\$0.0118	\$1,587,767
Tempe Elementary	\$14,209,692	\$1.0421	\$14,178,248	\$0.8011	-\$31,444	-0.2%	\$0.0000	\$326,824
Tucson Unified	\$62,461,811	\$2.5803	\$63,711,047	\$1.9108	\$1,249,236	2.0%	\$0.0375	\$2,498,472
Washington Elementary	\$6,606,735	\$0.5118	\$6,350,000	\$0.3607	-\$256,735	-3.9%	\$0.0000	\$0
Wilson Elementary	\$1,792,823	\$1.3663	\$1,946,054	\$1.3633	\$153,231	8.5%	\$0.1073	\$377,835
Window Rock Unified*	\$662,194	\$0.0000	\$632,088	\$0.0000	-\$30,106	-4.5%	\$0.0000	\$0
Total	\$193,541,739		\$211,896,784		\$18,355,045	9.5%		\$46,833,970

*The amounts listed for Window Rock and Holbrook were not property tax levies but were budget-limit increases for deseg/OCR that were funded with other revenue.

VETOES, *Continued from page 2*

annual soft caps have allowed these levies to increase by 2% each year plus a percentage increase equivalent to the districts' growth in enrollment. Many districts have taken full advantage of these opportunities to increase their levies. As a result, the 2008 deseg/OCR levies are \$18.3 million (9.5%) higher than the 2004 levels.

Of the 19 school districts with deseg/OCR levies, Phoenix Union, Roosevelt Elementary, and Phoenix Elementary increased their deseg/OCR levies the most. These districts' deseg/OCR levies, respectively, increased by \$9.0 million (19.2%), \$1.8 million (15.7%), and \$1.3 million (13.6%). Other districts levied even greater percentage increases. Maricopa Unified increased its deseg/OCR levy by 248.8% (\$924,683) and Buckeye Elementary's levy increased 215.5% (\$1.1 million).

These increases significantly affected the property taxpayers in these districts. Had the governor signed HB2498, the 2008 tax rate of Buckeye Elementary would have been \$0.43 lower. The 2008 rates for Maricopa Unified, Roosevelt Elementary, and Phoenix Elementary would have been, respectively, \$0.32 lower, \$0.22 lower, and \$0.16 lower.

Collectively, Governor Napolitano's

veto of HB2498 has cost property taxpayers an average of \$11.7 million each year since 2004 for a total of \$46.8 million to date. The annual cost, \$18.4 million in 2008, will continue to rise until a real limit prohibits the further expansion of these deseg/OCR levies.

General Obligation (G.O.) Bonds

Sponsored by current House Ways & Means Chairman Steve Yarbrough, HB2585 was a measure proposed during the 2008 session with the intent to reform G.O. bond election procedures and the refinancing of G.O. bonds.

HB2585 would have provided voters with additional information regarding bond elections. First, it would have made the property tax example in the publicity pamphlet more realistic in terms of valuation growth so that taxpayers would have a better understanding of the projected tax impact. Second, the bill would have required jurisdictions to disclose to taxpayers if the amount of proposed bonds, combined with the current outstanding debt, would exceed the political subdivision's constitutional debt limit.

In regard to refinancing, the negotiated language between ATRA and local governments sought to resolve some of the abuses involved in refunding bonds

that have typically resulted in huge property tax increases in past years. The legislation would have required an election if the weighted average maturity of the proposed refunding bonds was less than 75% of the weighted average maturity of the bonds to be refunded. Simply put, local jurisdictions would have been required to seek voter approval prior to dramatically reducing a bond debt service schedule through refinancing that would result in a large tax increase to property owners.

Considering the growing track record of vetoes of pro-property-tax legislation, ATRA negotiated several amendments to eliminate any of the vocal opposition to the bill. Despite the lack of any vocal opposition, the Governor vetoed HB2585. Again, despite ample evidence that property taxpayers have experienced dramatic increases in secondary taxes for bond debt service that was entirely inconsistent with what they thought they approved at the ballot, the Governor opted for more "local control."

State Rate Repeal

In 2006, state lawmakers responded to property taxpayers' concerns regarding the surge in property values with a temporary repeal of the state property tax rate (state equalization

See *Vetoes*, page 4

VETOES, *Continued from page 3*

rate). Although the Legislature strongly advocated for the elimination of the state rate, they were only able to secure a three-year suspension in negotiations with the Governor. With widespread support from the business community, legislative leadership made the permanent repeal of the state rate a major priority in 2008.

HB2220 was vetoed by the governor on April 16, 2008 calling it the height of fiscal irresponsibility in the face of severe budgetary deficits.

The state equalization rate is estimated at approximately 34 cents per \$100 of assessed value when it returns next year, which means that property taxpayers can anticipate an estimated \$250 million tax increase. Residential property owners will be hit the hardest with a tax increase

of approximately \$120 million. Business property taxpayers will have to pay \$80 million more and agricultural landowners will see an increase of \$20 million.

Conclusion

While ATRA disagreed with Governor Napolitano's veto of the state rate repeal bill this year, her stated reasons for the veto were not without foundation. However, those arguments rang hollow for property taxpayers that have consistently been on the losing end of her decisions to oppose reasonable limitations on local government's access to the property tax base. Moreover, the governor's consistent opposition to these measures has served to bolster the efforts of grassroots organizations that argue that reasonable property tax policy cannot succeed at the Capitol.

UNIFICATION,

Continued from page 1

The individual plans can be downloaded from the SDRC website at www.ade.az.gov/sdrc.

ATRA Policy Concerns/Issues:

Efficiency

Unifying these school districts will eliminate duplicative administrations. The unified districts will be more efficient and, therefore, allow more of the districts' education dollars to reach the classroom.

Articulation

Having only one administration and one school board governing the individual unified districts will provide for a greater articulation of the curriculum from kindergarten through the twelfth grade.

Attention ATRA Members

ATRA's 2008 Property Tax Rates and Assessed Values book will soon be available. If you would like to reserve your copy, please provide your name and mailing address by mail, fax or email by November 9, 2008, to receive your copy as part of our mailing. The cost for non-members is \$25.00. Members receive the book free of charge. Requests for mailings after that date will require an additional shipping and handling payment of \$5.00.

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