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ARIZONA TAX RESEARCH ASSOCIATION

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Ben Nowicki Joins ATRA Staff

ATRA is proud to introduce the most recent addition to the staff, Research Analyst Ben Nowicki. Ben is a recent graduate of Youngstown State University where he received his Bachelor of Science degree in Mathematics and a minor in Finance. He graduated magna cum laude and earned a host of academic honors including Youngstown's Mathematics and Computer Science Man of the Year.

A long time Arizonan and graduate of Mesquite High School, Ben attended Youngstown State on a football scholarship where he was the Penguin's starting punter for three years and earned All Missouri Valley Conference All Academic Team honors in 2008 and 2009.

Ben lives in Gilbert and is engaged to his fiancé Samantha Oaks.

STATEWIDE AVERAGE PROPERTY TAX RATE JUMPS 47 CENTS

First Increase Since Tax Year 1999

Every year, the Arizona Department of Revenue calculates the average statewide property tax rate, which represents the relationship between total property taxes levied and the state's taxable value. In tax year 2010, the total average tax rate increased 47 cents, from $9.20 per $100 of assessed value to $9.67, marking the first time since 1999 that the average tax rate has increased. The significant increase in the combined tax rate this year shows that, although both property values and taxes decreased, levies dropped at a lesser rate.

Total secondary net assessed values (SNAV) dropped 12.6%, from $86.5 billion in tax year 2009 to $75.6 billion in tax year 2010. Unlike primary values, secondary values are unlimited in the amount

See **Statewide Average Rate,** page 4

Total City Levies Fall as Valuations Decrease

As Arizona experiences decreasing property values for the first time in seventeen years, total city levies are dropping. (Fifty-five Arizona cities and towns levied a primary property tax or a secondary property tax or both. Only those cities were used for this analysis.) While primary city levies rose 5.3% (See *Table on page 3*), secondary levies fell 15.2%, which led to an overall decrease of levies in tax year (TY) 2010.

Decreases in Net Assessed Values

The combined primary net assessed value (PNAV) for all cities decreased $2.5 billion, or 4.9%, despite 27 jurisdictions seeing increased values. This can be attributed primarily to Maricopa County cities, whose collective primary value dropped 5.7% and accounts for 82.6% of the state's total city values. The city of Phoenix alone suffered a 6% drop in PNAV which resulted in almost a $1 billion decrease. Phoenix is responsible for 36.9% of the PNAV

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of Maricopa County's cities and 30.5% of all cities' PNAV.

Contrary to primary valuation, secondary net assessed value (SNAV) is not limited in growth. While the primary value of cities declined moderately, total SNAV, also known as the full cash value, dropped more significantly. Forty-three of Arizona's 55 cities saw their collective secondary value decrease $7.7 billion, while the remaining 12 cities enjoyed a secondary value increase of $17.6 million. Once again, Maricopa County's 19 cities make up the majority of the decrease in SNAV, accounting for 82.7% of the value of all cities combined.

Changes In Levies

Even with a collective increase in primary levies, the large drop in secondary levies decreased the combined levy by $53.7 million over all Arizona cities, equating to a 7.6% decrease from TY 2009. Cities of Maricopa County combined for a $55.5 million decrease in total levies, meaning that the other fourteen counties' cities had a collective increase in total levies. Though it increased its primary levy, Phoenix had a total levy decrease of $37.7 million or 70% of the statewide decrease.

As previously mentioned, primary levies increased despite the drop in PNAV. Cities' and towns' primary levies are subject to a constitutional levy limit, which limits the growth of levies to 2% added to the previous year's maximum levy plus new construction. Thirty-nine of the 51 cities levying a primary tax increased their primary levy from the previous year. Of these, 17 cities had a decrease in PNAV, nine of which were in Maricopa County. The most notable levy increases were Buckeye and Goodyear, increasing their respective primary levies 11.64%, and Phoenix, which raised its levy 8.4%, or $10.3 million. Other large increases around the state include the cities of Pima (25.5%), Eloy (21.7%), Coolidge (17.8%), and Payson (14.0%), of which Pima was the only city to have an increase in PNAV. Phoenix's primary levy increase accounted for 76.4% of the collective primary levy increase, while the levy itself is almost half of the collective primary city levies at 48.8%.

Secondary levies are used primarily to fund voter-approved bonds and overrides. Twenty-one Arizona cities levied a secondary tax, two-thirds being in Maricopa County. Unlike primary levies, most cities decreased their secondary levies. Sixteen cities decreased their secondary levy for a total of $75 million as opposed to $7.6 million for the five cities that increased their secondary levy. Of the 21 cities levying a secondary tax, only two, Tombstone and Willcox, saw an increase in SNAV and both were among the five cities increasing their levies. The most notable changes occurred in Maricopa County, where the net levy fell 16.6%. The City of Scottsdale increased its levy more than $6 million, 20% more than last year's levy. Phoenix easily offset Scottsdale's increase with a $48 million (24.1%) reduction in its secondary levy. Outside of Maricopa County, there was an absence of significant increases except for the City of Maricopa in Pinal County which adopted a secondary levy in TY 2010 of $1.4 million (no previous secondary levy). Decreases, on the other hand, were abundant. In Gila County, Payson slashed its levy 43.9% while in Maricopa County, the west valley cities of Avondale (28.2% decrease) and Goodyear (40.9%) cut secondary levies along with Fountain Hills (36.2%). This year, secondary levies account for 57.9% of total city levies as opposed to 63.1% last year.

Eighteen of Arizona's 55 tax-levying cities levied both a primary and secondary tax. Scottsdale had the largest combined levy increase of 12.1%, or $6.9 million, mostly due to the large secondary levy increase. The City of Maricopa's combined levy rose 19.9% ($1.9 million) but largely because of the newly-adopted

See **City Levies,** page 3

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

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secondary levy. The largest decreases occurred in the Maricopa County cities of Phoenix ($37.7 million), Glendale ($5.6 million), and Goodyear (21.9%).

	Primary Levy	PNAV	Secondary Levy	SNAV	Total Levies
2009	$259,685,225	$52,032,714,706	$443,585,957	$60,309,682,075	$703,271,182
2010	$273,428,859	$49,483,881,265	$376,143,613	$52,590,893,289	$649,572,472
Change ($)	$13,743,634	-$2,548,833,441	-$67,442,344	-$7,718,788,786	-$53,698,710
Change (%)	5.29%	-4.90%	-15.20%	-12.80%	-7.64%

Total Levies

The decrease in secondary levies was a surprise considering those are levies for voter-approved general obligation bonds that have already been approved and sold. Those debt service payments must be met regardless of economic conditions or changes in property valuations. Cities that decreased debt service levies may have been drawing off of cash balances in the debt service accounts. The City of Phoenix secondary levy decrease was accomplished as a result of a large cash balance that existed in the debt service account that allowed the city to provide a one-time reduction in the debt service levy. On the other hand, the City of Scottsdale raised its levy $6 million this year to meet its debt obligation despite a $1 billion (12.6%) decrease in SNAV. With its secondary levy and value going in opposite directions, Scottsdale's tax rate shot up 35.9% to $0.5140 per $100 of assessed valuation. At first glance, it might appear that a city like El Mirage is in the same situation; increasing its secondary levy despite a decreasing SNAV. However, its levy increased only 3.5% while its value decreased 29.7%, increasing its tax rate 47.3%.

Tax Rates

One result of the declining city values will be changing tax rates—for most cities at least. Twenty-four jurisdictions raised their primary tax rates because of falling values, 17 jurisdictions managed to lower primary tax rates while the primary tax rates of 10 cities did not change from tax year TY 2009 to TY 2010. As for the 21 cities levying a secondary tax, five increased their rate, seven decreased their rate, and nine did not change from last year. Those jurisdictions maintaining last year's tax rates increased/decreased their levies by the same percentage of increase/decrease of their values. In addition, some cities adhere to a fixed tax rate regardless of changes in NAV. Cities known to use this approach are Chandler (both primary and secondary), Gilbert (secondary), Glendale (both), Peoria (both), and Queen Creek (primary). The great majority of the time, this practice leads to tax increases as values climb and cities fail to adjust tax rates. This was particularly evident in 2006 and 2007 when property values skyrocketed across the state. When property values decrease, as they are now, maintaining the same rate as the previous year will lead to lower levies and collections, as we have seen. Now that values are decreasing, some city officials want to abandon the policy of a fixed rate.

Another strategy utilized by policymakers, demonstrated namely by Avondale, Phoenix, and Tempe, is lowering the primary or secondary rate and raising its counterpart by the same amount. For example, the City of Phoenix lowered its secondary rate $0.1168 per $100 of assessed value but raised its primary rate $0.1168. With total levies down almost $54 million, it's easy to see why officials would want to desert these policies.

Ben Nowicki

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that they can change each year and should be reflective of market value. Although the property values established by the county assessors are beginning to drop in response to the slumping housing market, total SNAV is still $26.7 billion (54.6%) more than it was in tax year 2005.

Total primary net assessed value (PNAV) dropped as well, but not as dramatically as SNAV. The PNAV is different from the SNAV in that it is limited by the amount it can increase each year (greater of 10% of previous year's PNAV or 25% of the difference between current year SNAV and previous year's PNAV) until it reaches full cash value (market value). In tax year 2010, PNAV fell 4.6%, a sharp contrast from last year's 10.7% increase, which was due to the large gap between SNAV and PNAV as a result of the inflated market values (See SEP/OCT 2009 *ATRA Newsletter*). For example, the difference between SNAV and PNAV in tax year 2009 was $11.8 billion. Now that market values are on a downward spiral, the gap between the two taxable values has been reduced significantly to $4.3 billion. In tax year 2010, total PNAV is now at $71.4 billion after a $3.4 billion decrease. A five-year analysis shows that total statewide PNAV is $25.3 billion (55%) higher than it was in 2005.

TOTAL NET ASSESSED VALUE (NAV)

	Tax Year 2005	Tax Year 2009	Tax Year 2010	1-Yr Difference	Percent Change	5-Yr Difference	Percent Change
Primary	$46,040,108,597	$74,775,994,183	$71,371,917,198	-$3,404,076,985	-4.6%	$25,331,808,601	55.0%
Secondary	$48,931,946,145	$86,538,111,171	$75,643,290,656	-$10,894,820,515	-12.6%	$26,711,344,511	54.6%

ONE-YEAR TOTAL LEVY ANALYSIS

Total levies fell in tax year 2010, but not as precipitously as property values. Total statewide taxes levied by all jurisdictions totaled just over $7 billion after dropping 3.3% ($196.2 million). Although K-12 schools reduced their levies 4.1% ($151.7 million), they continue to levy the most in property taxes. In tax year 2010, Arizona's schools levied $3.5 billion, accounting for more than 50% of total levies.

City levies decreased the most in percentage terms, with a 7.6% drop, representing a $53.7 million reduction (see article on *city levies*, page 1). Both the community colleges and the state increased property taxes, by 1.6% ($11.5 million) and 1.3% ($3.4 million), respectively. Counties, which levy the second most in total property taxes at $1.4 billion, kept total levies fairly flat with just 0.7% growth or $9.7 million (For more information on county and community college levies, see the July/August 2010 *ATRA Newsletter*).

TOTAL LEVIES

Jurisdiction	Tax Year 2005	Tax Year 2009	Tax Year 2010	1-Yr Change	Percent Change	5-Yr Change	Percent Change
State	$229,726,774	$271,930,388	$275,380,386	$3,449,998	1.3%	$45,653,612	19.9%
Counties	$1,013,506,749	$1,386,720,719	$1,396,381,579	$9,660,860	0.7%	$382,874,830	37.8%
Cities	$440,141,556	$703,271,182	$649,572,472	-$53,698,710	-7.6%	$209,430,916	47.6%
Comm. Colleges	$527,682,509	$723,932,428	$735,390,630	$11,458,202	1.6%	$207,708,121	39.4%
Schools	$2,941,648,887	$3,692,220,213	$3,540,487,662	-$151,732,551	-4.1%	$598,838,775	20.4%
Other	$275,866,538	$461,902,914	$446,530,321	-$15,372,593	-3.3%	$170,663,783	61.9%
TOTAL	**$5,428,573,013**	**$7,239,977,844**	**$7,043,743,050**	**-$196,234,794**	**-3.3%**	**$1,615,170,037**	**29.8%**

FIVE-YEAR TOTAL LEVY ANALYSIS

Total property taxes have grown $1.6 billion (29.8%) since tax year 2005, which translates into an annual increase of over $320 million (6%). The largest percentage growth occurred in the "other" category, with a 61.9% increase ($170.7 million). The "other" category includes the levies for fire districts, countywide special districts, and other special taxing districts.

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K-12 schools were responsible for the largest increase in terms of dollars. Since tax year 2005, schools have levied an additional $598.8 million (20.4%) in property taxes, representing an annual increase of approximately $120 million (4.1%).

PRIMARY LEVIES

Jurisdiction	Tax Year 2005	Tax Year 2009	Tax Year 2010	1-Yr Change	Percent Change	5-Yr Change	Percent Change
State	$229,726,774	$271,930,388	$275,380,386	$3,449,998	1.3%	$45,653,612	19.9%
Counties	$799,358,200	$1,062,463,835	$1,080,161,177	$17,697,342	1.7%	$280,802,977	35.1%
Cities	$179,753,814	$259,685,225	$273,428,859	$13,743,634	5.3%	$93,675,045	52.1%
Comm. Colleges	$453,880,949	$600,005,442	$619,109,764	$19,104,322	3.2%	$165,228,815	36.4%
Schools	$1,931,610,896	$2,387,390,427	$2,263,034,447	-$124,355,980	-5.2%	$331,423,551	17.2%
Other	$0	$0	$0	$0	-	-	0.0%
TOTAL	**$3,594,330,633**	**$4,581,475,317**	**$4,511,114,633**	**-$70,360,684**	**-1.5%**	**$916,784,000**	**25.5%**

PRIMARY LEVIES

Primary taxes are levied to fund the maintenance and operations of state and local government budgets and account for the majority of total property taxes levied. In tax year 2010, primary taxes levied by all jurisdictions fell $70.4 million (1.5%) and totaled $4.5 billion. Since the 1.5% drop in primary levies was not as great as the 4.6% reduction in PNAV, the average statewide primary tax rate increased 19 cents, from $6.13 to $6.32. Since tax year 2005, primary levies have grown 25.5% ($916.8 million), with the largest percentage increase of 52.1% occurring at the city level.

Unlike secondary taxes, the aggregate amount levied in primary taxes for counties, cities, and community colleges is limited by the constitution to 2% growth on existing property from the previous year plus new construction. By 2006, $185 million in excess levying capacity had developed in the system since passed by the voters in 1980. In order to reinstate the effectiveness of the levy limits, voters passed Prop 101 at the 2006 general elction and eliminated that excess capacity.

SECONDARY LEVIES

Jurisdiction	Tax Year 2005	Tax Year 2009	Tax Year 2010	1-Yr Change	Percent Change	5-Yr Change	Percent Change
State	$0	$0	$0	$0	0.0%	$0	0.0%
Counties	$214,148,549	$324,256,884	$316,220,402	-$8,036,482	-2.5%	$102,071,853	47.7%
Cities	$260,387,742	$443,585,957	$376,143,613	-$67,442,344	-15.2%	$115,755,871	44.5%
Comm. Colleges	$73,801,560	$123,926,986	$116,280,866	-$7,646,120	-6.2%	$42,479,306	57.6%
Schools	$1,010,037,991	$1,304,829,786	$1,277,453,215	-$27,376,571	-2.1%	$267,415,224	26.5%
Other	$275,866,538	$461,902,914	$446,530,321	-$15,372,593	-3.3%	$170,663,783	61.9%
TOTAL	**$1,834,242,380**	**$2,658,502,527**	**$2,532,628,417**	**-$125,874,110**	**-4.7%**	**$698,386,037**	**38.1%**

SECONDARY LEVIES

Secondary levies mainly fund voter-approved bonds, overrides, and special taxing districts. In tax year 2010, secondary levies dropped 4.7%, which is negligible compared to the 12.6% reduction in property values. As a result, the average statewide secondary tax rate jumped 28 cents, from $3.07 to $3.35. After the 4.7% decline ($125.9 million), total statewide secondary levies now total $2.5 billion.

Over the last five years, total secondary levies have grown 38.1%, which represents an annual increase of 7.6%. As stated previously, the levies listed under the “other” category (fire districts, special districts, etc.) are responsible for the largest percentage increase of 61.9% ($170.7 million). Secondary taxes levied by K-12 schools account for the majority of secondary taxes levied by all jurisdictions. Since 2005, secondary taxes for K-12 schools increased $267.4 million or 26.5%.

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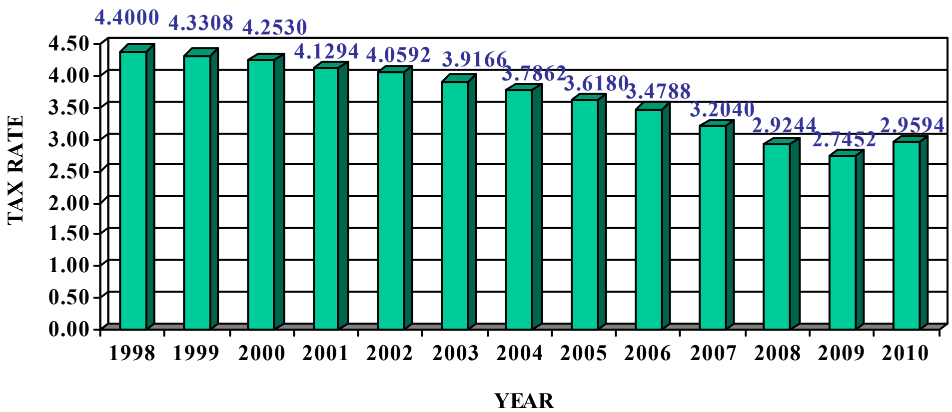
STATEWIDE AVERAGE RATE, *Continued from Page 5*

QUALIFYING TAX RATE (QTR)



K-12 SCHOOL DISTRICTS

Primary: Primary levies for K-12 schools dropped 5.2% ($124.4 million) from last year, which now total approximately $2.3 billion (50.2% of total primary levies). Contrary to the 21-cent increase in the qualifying tax rate (QTR), from $2.7452 to $2.9594, the average statewide primary tax rate for schools decreased two cents to $3.17. The drop in the statewide average primary tax rate is reflective of the fact that the 5.2% decrease in school primary levies exceeded the 4.6% decrease in primary values. Since 2005, primary taxes levied by Arizona's schools reflect a 17.2% increase, equating to $331.4 million more in property tax revenue.

Since its enactment, the Legislature has consistently applied the truth-in-taxation (TNT) law to the two key property tax rates that it controls, the QTR and state equalization rate, both of which provide funding for Arizona's education system. TNT requires an adjustment to the primary tax rate to offset any change in value. If a jurisdiction exceeds the TNT limit, the entity is required to hold a public hearing and publish notice of the tax increase. Unlike most of the local jurisdictions, the state has adhered to TNT since its enactment in 1998. In response to the dramatic decrease in property values, the Legislature was required to adjust the two tax rates upward this year for the first time.

Additionally, an analysis of the tax rates adopted by many of the school districts in 2010 show huge decreases, some even down to zero. One reason for the dramatic reduction in primary rates may be due to legislation that passed during the 2010 session that, for the first time, requires school districts to submit their property tax rate calculations to the Property Tax Oversight Commission (SB1188).

Secondary: In tax year 2010, the secondary levies for K-12 schools decreased $27.4 million (2.1%), reducing the total to $1.3 billion. School secondary levies account for more than 50% of total secondary taxes levied for all jurisdictions statewide. Because the 12.6% drop in values was significantly greater than the 2.1% decrease in secondary levies, the average statewide tax rate for schools jumped 18 cents, from $1.51 to $1.69. Over the last five years, secondary taxes levied by schools increased the most in dollar terms at $267.4 million (26.5%). The five-year increase equates to an annual increase of $53.5 million (5.3%).

OTHER LEVIES

Secondary Levies: Included in the "other" category are secondary taxes levied on behalf of special taxing districts, which include fire districts, community facilities districts, and all countywide special districts that are not included under the "county" category (i.e. fire district assistance tax and Central Arizona Water

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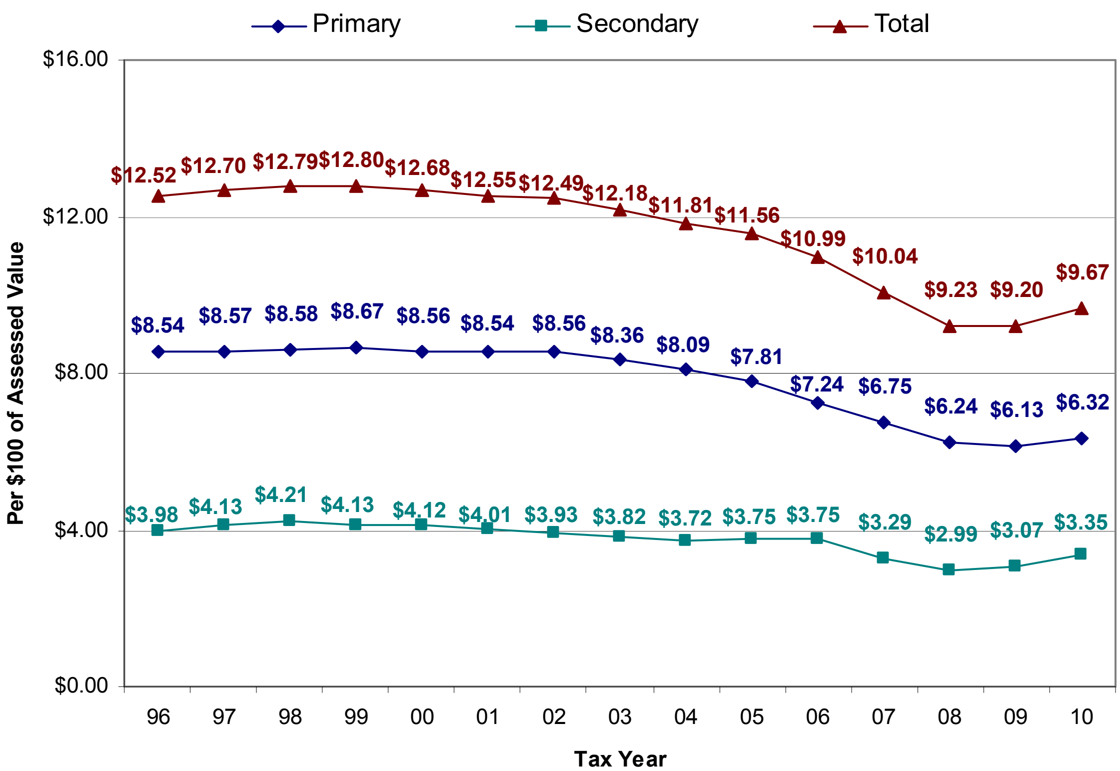
STATEWIDE AVERAGE RATE, *Continued from Page 6*

Conservation District). In tax year 2010, special district levies dropped 3.3%, which translated into $15.4 million less in taxes levied on behalf of special districts.

One contributing factor to the reduction in special taxing district levies is the result of the passage of SB1421 during the 2009 legislative session that placed limits on fire district levies beginning in tax year 2010. As a result, the total amount of taxes levied by fire districts to fund their budgets, not including voter-approved bonds, is limited to 8% growth over the previous year, plus any amount attributed to annexations.

Jennifer Schuldt

STATEWIDE AVERAGE PROPERTY TAX RATE



Attention ATRA Members

ATRA's *2010 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 October 22, 2010, to receive your copy as part of our mailing. The cost for non-members is $35.00. Members receive the book free of charge. Requests for mailings after that date will require an additional shipping and handling payment of $5.00.

Name: ______________________ Affiliation: ______________________

Address: ______________________ Phone: ______________________

City: ______________________ State: ____________ Zip Code: ______________________

Mail: 1814 West Washington Street, Phoenix, AZ 85007 **Email:** mtravers@arizonatax.org **Fax:** (602) 253-6719