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Statewide Property Values Decline Again

Tax Rate Increases Could be Significant

Arizona's property valuations established by the 15 county assessors and the Arizona Department of Revenue have fallen for the second straight year, plummeting a whopping 18% from last year's values. Secondary net assessed values (SNAV) are down $24.8 billion (28.6%) over the last two tax years and are now back to just above 2006 levels (*See chart on page 4*).

As has been widely reported, the deep recession that has plagued Arizona has had a particularly negative impact on Arizona's real estate market. Residential properties have been particularly hard hit and county assessors continue to chase those values downhill.

For tax year 2011, 12 of Arizona's 15 counties will experience reductions in SNAV (*See table on page 3).* Only Apache, Greenlee, and La Paz Counties will see an increase in SNAV this year. The largest reduction in SNAV was in Maricopa County, which experienced a dramatic $11 billion (22%) drop in SNAV. Maricopa's SNAV over the last two years has plunged $19.2 billion or 33%. The next largest percentage decrease was in Mohave County, where values fell $529 million or 21%. The following four counties all experienced double-digit decreases in SNAV: Yavapai (17.6%); Pinal (17%); Gila (12.4%); and Coconino (10.4%).

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Indications from the notices of value sent by some county assessors for the 2012 tax year (Fiscal Year 2013) suggest that NAVs will fall again next year. In Maricopa County, the noticed values for 2012 show a 12% reduction in the median value of all parcels in the county. Pima County's noticed values for tax year 2012 also reflected another round of reductions.

Taxpayers can anticipate that the decrease in NAVs will likely result in another round of tax rate increases to fund both the operational budgets of local governments as well as voter approved general obligation bonds and overrides. Last year's decrease in NAVs caused reductions in both statewide primary and secondary tax levies but not near enough to keep tax rates from climbing. The statewide average tax rate for tax year 2010 climbed 47 cents, the first increase in

See **Valuations,** page 2

Governor Brewer Appoints Jennifer Stielow to School Facilities Board

Governor Jan Brewer has appointed ATRA Vice President Jennifer Stielow to serve on the Arizona School Facilities Board (SFB).

The SFB was created in 1998 to take primary responsibility of the capital finance program of school districts as part of the Students FIRST legislation that resulted from the Supreme Court decisions of *Roosevelt v. Bishop* and *Hull v. Albrecht*.

Stielow is replacing ATRA member and Southwest Gas Representative Penny Allee Taylor on the nine-person board as the taxpayer representative.

The SFB is charged with administering three capital funds, which consist of building renewal, deficiencies corrections, and new school facilities. The SFB is funded with appropriations from the State General Fund.

VALUATIONS, *Continued from page 1*

that rate since 1999. Last year's drop in values actually resulted in tax rate increases in all levels of governments and early indications suggest the 2011 rate increases could be higher.

Following a 21-cent increase in the K-12 schools qualifying tax rate (QTR) in 2010, a rate set annually by the State Legislature through the Truth-in-Taxation formula, the 2011 QTR climbed 58 cents. The 79-cent, two-year climb (29%) in the QTR has that rate at $3.5364 for tax year 2011, its highest level since 2005. The State Equalization Tax Rate, which returned in 2009 at 33 cents, has climbed almost 10 cents in two short years to $0.4259.

Early indications with the adoption of Fiscal Year 2012 local government budgets suggest that this year's tax rate increases will eclipse last year's. Again, efforts on the part of local officials to limit or even reduce property tax levies this year will not be near enough to offset the significant decreases in NAV.

In Pinal County, where the Central Arizona College governing board reduced its operating levy 8% in an attempt to dampen a large increase in the debt service levy, property taxpayers will see a 27-cent (17%) increase in the total tax rate. Plummeting values and increasing debt service has caused the college's total tax rate to climb 27% in two years.

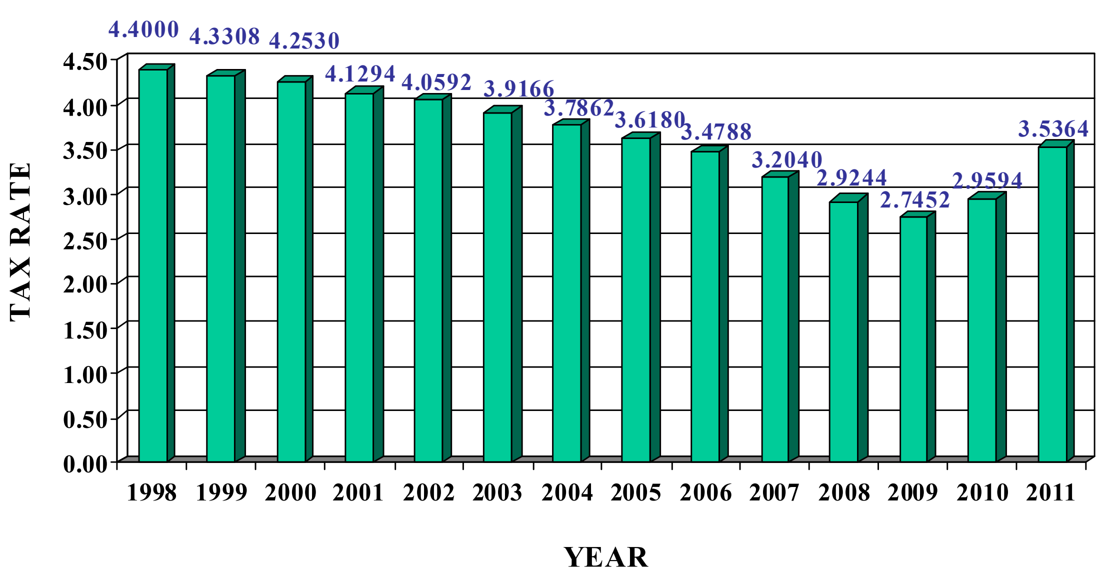
The Maricopa Community College District, which was hit with the largest drop in assessed values among the college districts, plans again to increase both the primary and secondary rates in 2011. Maricopa taxpayers will see an almost 25-cent jump in the combined primary and secondary rates. Most of that increase is the result of the college's planned 5% increase in its operating levy over last year.

Maricopa County government plans an almost 23-cent increase in its combined tax rates for 2011. The county is decreasing the primary levy, as well as the secondary levies for the flood control and library districts, but not enough to offset the 22% loss in assessed value. Likewise, Pima County government is also proposing an overall decrease in tax levies of $18.3 million (4.3%). However, a valuation decrease of 9.2% will still cause the overall rate to climb 17 cents (3.6%).

Several Arizona cities are experiencing particular problems with the recent decreases in assessed values. Unlike other local governments that typically levied the necessary secondary property taxes to fund the debt service obligations for that fiscal year, some cities have employed a fixed tax rate policy that left the tax rate the same regardless of changes in assessed value. Some cities,

See **Valuations,** page 3

K-12 Schools Qualifying Tax Rate (QTR)



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VALUATIONS, *Continued from page 2*

Secondary Net Assessed Values (SNAV)

County	TY 2010 SNAV	TY 2011 SNAV	$ change	% change
Apache	$ 541,020,129	$ 550,408,898	$ 9,388,769	1.7%
Cochise	1,111,756,015	1,091,813,753	(19,942,262)	-1.8%
Coconino	2,053,368,455	1,840,139,122	(213,229,333)	-10.4%
Gila	600,837,768	526,039,289	(74,798,479)	-12.4%
Graham	242,900,116	227,219,347	(15,680,769)	-6.5%
Greenlee	269,703,589	280,746,565	11,042,976	4.1%
La Paz	245,133,007	272,923,571	27,790,564	11.3%
Maricopa	49,707,952,123	38,760,296,498	(10,947,655,625)	-22.0%
Mohave	2,526,548,121	1,997,158,478	(529,389,643)	-21.0%
Navajo	1,116,355,302	1,040,385,596	(75,969,706)	-6.8%
Pima	9,342,561,193	8,481,950,795	(860,610,398)	-9.2%
Pinal	2,673,415,335	2,218,641,621	(454,773,714)	-17.0%
Santa Cruz	442,659,975	399,532,315	(43,127,660)	-9.7%
Yavapai	3,350,111,921	2,761,069,711	(589,042,210)	-17.6%
Yuma	1,418,967,607	1,316,076,878	(102,890,729)	-7.3%
Total	**$ 75,643,290,656**	**$ 61,764,402,437**	**$ (13,878,888,219)**	**-18.3%**

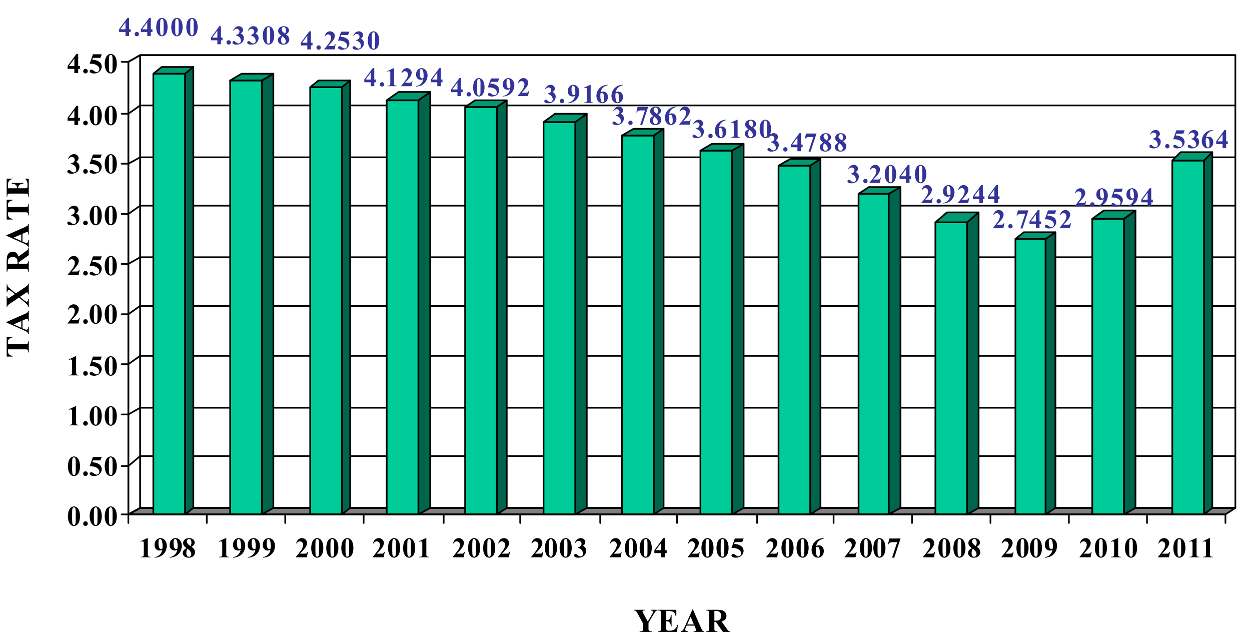
like Tempe and Phoenix, combined primary and secondary rates in achieving the same rate levied each year. Others, like Gilbert, committed to a fixed secondary rate regardless of what levy that rate generated each year.

This fixed rate policy allowed these cities to do two things: First, it allowed them to commit to a fixed tax rate when convincing voters to approve general obligation bonds. Often, these cities would go so far as to suggest that approval of the bonds would not cause taxes to increase. In years when property values were increasing dramatically, the property taxpayers in these cities quickly learned that they were misled about their taxes not increasing. Second, the fixed rate strategy allowed the city to levy secondary property taxes that were much greater than necessary to meet that year's debt service obligation. As a result, those excess levies allowed some cities to build huge cash reserves in their debt service accounts.

As assessed valuations have fallen precipitously for the second year in row, and with prospects for another decline in 2012, some cities with fixed tax rate policies are now looking to pivot to a floating rate policy to avoid decreasing the overall property tax levy.

See **Valuations,** page 4

State Equalization Tax Rate



VALUATIONS, *Continued from page 3*

This creates several challenges for these cities. After benefiting from the fixed rate strategy and actually levying more in taxes than they should have, the cities want to change the rules to the game now that it no longer benefits them. For example, when the City of Phoenix property values climbed 54% over the two tax years of 2007 and 2008, the combined primary and secondary tax levies for the city skyrocketed 44%. In addition, as noted above, these cities will have to admit to their taxpayers they misled them on the "no tax increase" spin of previous bond elections and be prepared to not employ that ruse in future elections.

The Cities of Tempe and Phoenix are a couple of cities in the midst of debating a departure from the fixed rate to a floating rate policy. Both cities have operated under a fixed rate policy for several years and are now facing challenges in their operating budgets and meeting debt service obligations. In recent years, both cities have increased their primary tax rates to the maximum allowed by law in order to maximize the benefit to strained operating budgets. However, the decreased secondary rates, coupled with declining SNAV, have caused both cities to dig into the bond levy reserves to meet debt service.

The good news for City of Phoenix taxpayers is that, at least in the near term, the city intends to adhere to its fixed rate of $1.82. Some recognition that the city needs to "take the good with the bad," coupled with the benefit of a huge reserve fund, caused Phoenix to push a possible change in policy out another year.

However, the City of Tempe is planning to abandon their self imposed $1.40 rate cap and increase the combined rate to $1.79. Tempe again plans to impose the maximum primary rate allowed by law, an increase from $0.5176 to $0.6572. However, in order to negate a decrease in their secondary levy, Tempe plans to increase the secondary rate from $0.8824 to $1.1291.

It is clear that when the property tax rates are finalized in August, Arizona property taxpayers will likely see an increase in the state average rate that will eclipse the increase in 2010. Property taxpayers across the state should be inquiring with their taxing jurisdictions regarding their plans for 2011 tax rates. As indicated earlier, some jurisdictions are attempting to mitigate the tax rate increases by decreasing levies while others are not. Regrettably, many local government officials and taxpayers are learning the hard lesson that government debt doesn't contemplate deep recessions. Those debt obligations have to be met, and despite what taxpayers were told, they are met through annual property tax levies that cannot be avoided, regardless of a collapsing real estate market.

Kevin McCarthy