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ARIZONA TAX RESEARCH ASSOCIATION

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Statewide Average Property Tax Rate on the Rise

Each year, the Department of Revenue calculates the average statewide property tax rate, which represents the relationship between total taxes levied and the value of total taxable property. In tax year (TY) 2011, the decrease in total levies failed to match the drop in statewide property values. As a result, the average combined tax rate climbed \$1.27 (13.1%), from \$9.67 to \$10.94.

For the second year in a row, the statewide average property tax rate climbed after ten straight years of

See **Statewide**, page 3

Arizona's Sales Tax Rates 2nd highest in the Country

Arizona has the second highest combined transaction privilege tax (TPT) retail tax rate of all the states according to a recent report published by the Tax Foundation.

According to the report, Arizona's combined average tax rate is 9.12%. Arizona's rate includes the one-cent, three-year temporary sales tax rate levied at the state level, which is scheduled to sunset at the end of fiscal year 2013. As a result, the state rate is currently at 6.6%, making up the majority of the combined tax rate. Had the voters not passed the one-cent temporary sales tax, Arizona would have ranked 13th highest

See **Sales Tax**, page 2

\$1.9 Billion in School Property Tax Increases on November Ballot

Arizona taxpayers and voters will decide the size of future property tax bills when they go to the polls on November 8th. Forty-four school districts are asking approval to sell general obligation bonds, exceed maintenance and operation (M&O) budget limits, and exceed capital outlay budget limits. In total, there are 51 separate tax questions on the ballots in the 44 districts. ATRA calculated the impacts of the school tax questions from the publicity pamphlets that school districts are required to mail to each registered voter and the aggregate statewide impact of the bond and override questions is approximately \$1.9 billion.

The general obligation bond requests of fourteen districts will, if approved, cost taxpayers an estimated \$1.2 billion dollars in debt service over the next twenty to thirty years to pay off \$777 million in bonds. The total cost of the M&O and capital outlay overrides over the next seven years are estimated at \$691 million. Taxpayers in thirteen of the districts are back at the ballot this year after turning down bond or override requests last November.

See **Schools**, page 4

ATRA'S ANNUAL GOLF TOURNAMENT
At McCormick Ranch Golf Club, Friday, November 4 @ Noon
&

OUTLOOK CONFERENCE

At Pointe Hilton Tapatio Cliffs Resort, Friday, November 18 @ 8:30
For more information, visit www.arizonatax.org or call (602) 253-9121

Sales Tax, *Continued from page 1*

compared to the rest of the nation.

The Arizona cities with highest retail rates exist in Fredonia in Coconino County and San Luis in Yuma County, at 11.725% and 11.7%, respectively, as a result of both cities levying the highest rates of any other city at 4% each. The cities have a tendency to levy even higher tax rates under other classifications, such as the Lodging class. With the average city combined sales tax rate of 11.25%, Guadalupe in Maricopa County levies the highest tax rate for lodging out of all of Arizona's cities at 10%, which equates to a combined tax rate of 18.27% after including the state and county rates. Over the past decade, the frequency of cities raising the tax rates on TPT classes other than the retail class has grown tremendously.

The only state that has a higher combined average tax rate than Arizona is Tennessee and the average rate there is only slightly higher at 9.43%. Four states do not have a sales tax: Delaware, Montana, New Hampshire, and Oregon. Of the remaining states that do levy a sales tax, Alaska levies the lowest combined rate of 1.74%. The average combined rate for all the states that levy a sales tax equates to 6.88%.

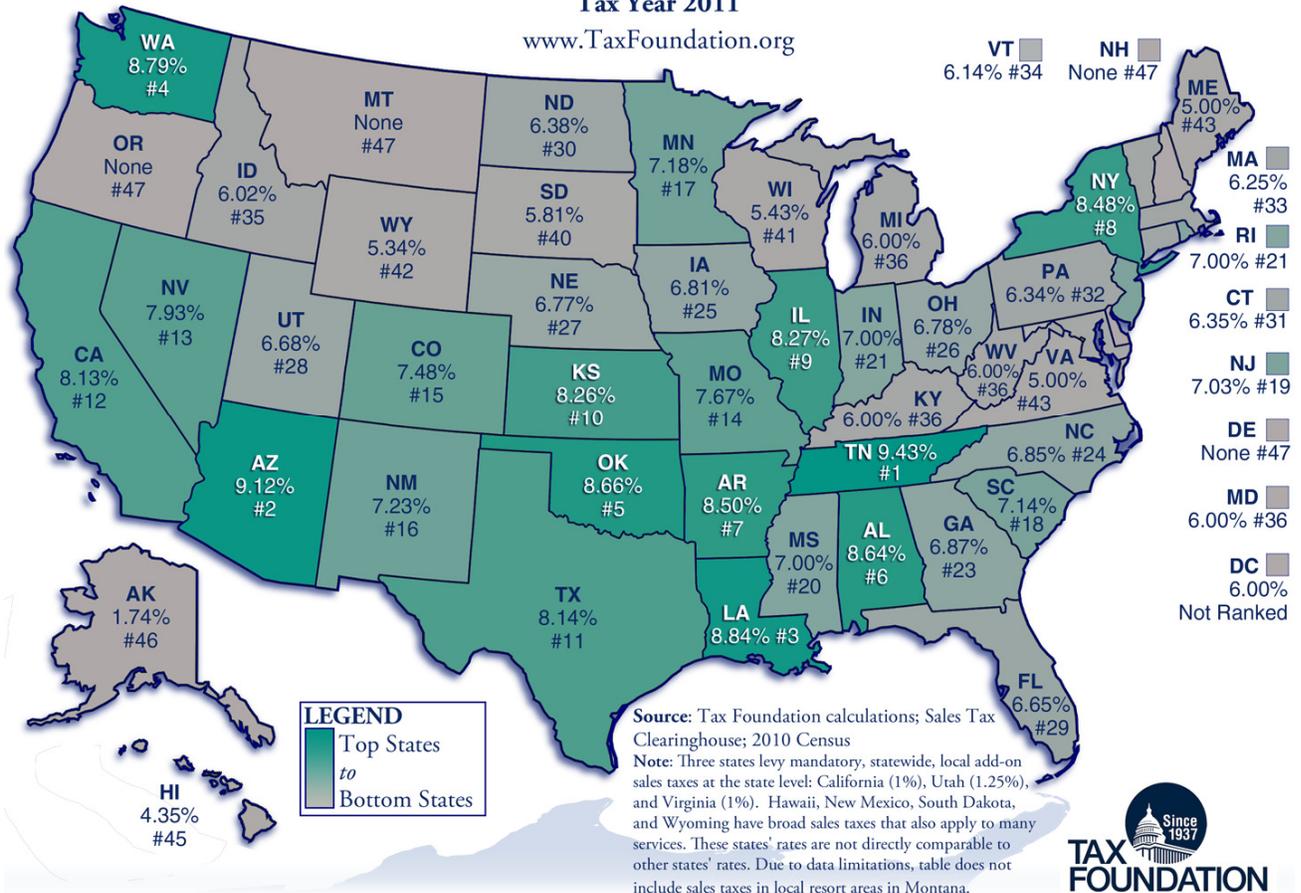
The obvious problem that arises with exorbitantly high sales tax rates is the desire for taxpayers to evade the tax by buying products on the Internet. Since congress has failed to act on the issue, government is prohibited from requiring certain remote sellers that sell their products on the Internet from collecting the sales tax. With taxpayers increasing their reliance on Internet purchases in order to avoid paying excessive sales taxes, high tax-rate states like Arizona can expect to collect less sales tax revenues than they would otherwise.

Jennifer Stielow

Sales Tax: Combined State and Average Local Rates

Tax Year 2011

www.TaxFoundation.org



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Statewide, *Continued from page 1*

decreases. Since the rate bottomed out in 2009, the rate has gone up 19% because the decrease in levies statewide has not kept pace with the drop in values. Following a 12.6% decrease in secondary net assessed values (NAV) in TY 2010, values continued to fall 18.4% in TY 2011, a two-year decrease of 28.7%. Levies, on the other hand, have receded only 7.5% in the two-year span. The rate is still \$1.61 lower than at the beginning of the decade and \$2.32 lower than its high-water mark of \$13.27 in TY 1995.

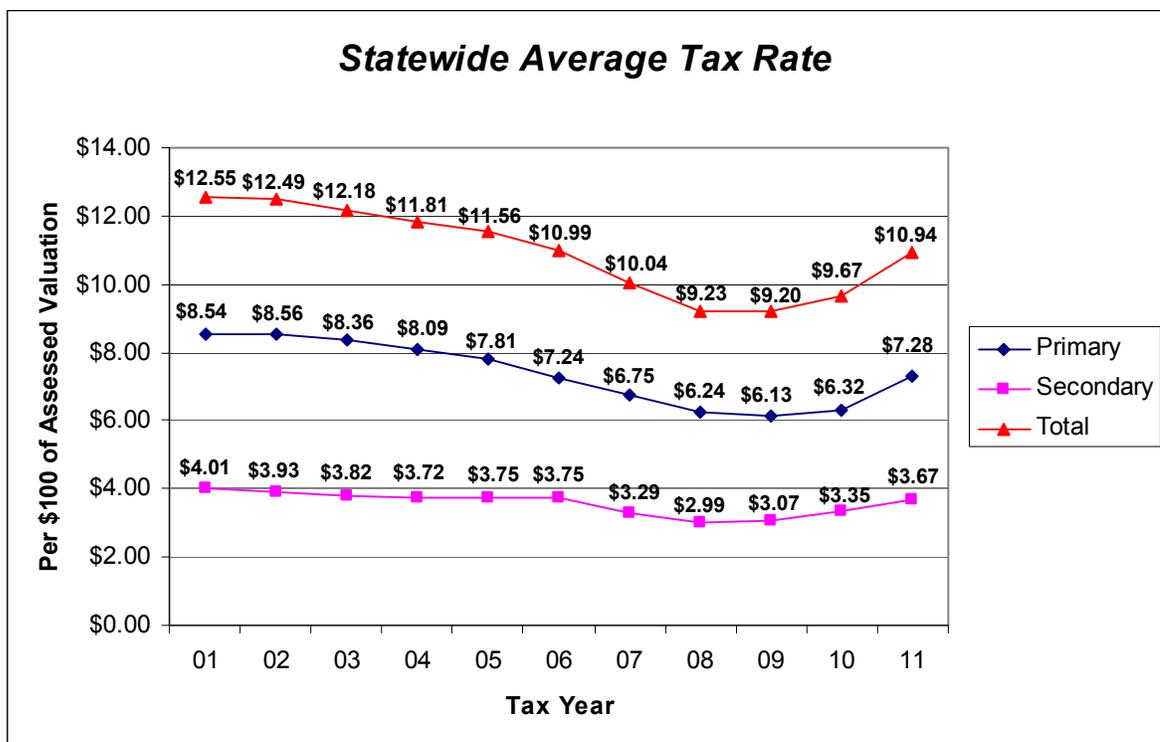
Primary taxes, which are levied to fund the maintenance and operations of state and local government budgets, account for the majority of total property taxes levied. The change in primary values is based on a constitutional formula, and due to the dramatic decline in market values, the primary values have plunged 14.7%. Primary levies are also limited in growth by the Constitution and state statute, but declined at a much lesser rate than primary values at 1.7%. Since the decrease in primary values far outpaced the drop in primary levies, the statewide average primary tax rate rose by nearly a dollar (15.2%), from \$6.32 to \$7.28.

Since its enactment, the Legislature has consistently complied with the truth-in-taxation (TNT) law in setting the tax rates that supply funding for Arizona’s education system. For the second year, the Legislature’s compliance with the TNT law required increases to both the qualifying tax rate (QTR) and the state equalization rate in response to the continual decline in property values. The QTR determines the level of property taxes levied in each district versus the level of state support to meet each district’s budget, and in TY 2011, the rate increased 58 cents to \$3.5364. The state equalization rate, which also provides funding for education, increased 7 cents to \$0.4259. As a result, school districts had the largest increase in their primary average tax rate of 46 cents. The counties followed the school districts with a 19-cent increase.

The statewide average secondary tax rate also increased but at a much lesser rate. Secondary levies fund voter-approved bonds, overrides, and special taxing districts. The statewide average secondary tax rate grew 32 cents, from \$3.35 to \$3.67, in TY 2011. While total secondary NAV dropped by a significant 18.4% in TY 2011, secondary levies fell just 10.7%. More than half of secondary taxes are levied by school districts. Special districts, which include fire, library, jail, and public health services, levy the second largest amount in secondary taxes, comprising more than 18% of the total. The secondary average tax rate for the school districts increased the most by 19 cents, with special districts following with the second largest increase of 8 cents.

The combined average tax rate by county, which takes into account the taxes levied by all jurisdictions, increased in all but three counties: Apache, Cochise, and Graham. Yuma County had the largest increase of \$1.71 after a \$1.40 jump in the average primary tax rate, bringing the total combined rate in Yuma up to \$11.55. Maricopa followed with the second largest increase of \$1.49, now with a combined rate of \$10.68, followed by Gila with an increase of \$1.35, elevating the county to a combined rate of \$12.38. Of all the counties, Pinal County has the highest combined average rate of \$14.29 after a \$1.18 rate increase.

Ben Nowicki



Schools, *Continued from page 1***General Obligation Bond Elections**

There are fourteen districts seeking approval of a total of \$777 million in general obligation bonds. Arizona school districts are statutorily limited (referred to as class B debt) in the amount of debt they can incur based on the secondary net assessed value (SNAV) of the district. Unified districts are limited to 10% of SNAV and elementary and high school districts are limited to 5% of SNAV. Current law does not limit district bond requests to the available capacity under the debt limit. Eight of the districts are making requests for debt financings that exceed the districts current statutory debt limits even before considering any existing debt outstanding. When existing class B debt is included, eleven of the district bond requests are well above their debt limits.

Glendale Elementary's request of \$28.3 million is almost twice its statutory debt ceiling of \$15.6 million. Similarly, Sunnyside Unified in Pima County, with a statutory debt limit of \$45.6 million, is asking voters for \$88 million in bonds.

More than half of the \$777 million in bonds is being requested by just two districts: Phoenix Union (\$230 million) and Paradise Valley (\$203 million). (Both districts also have capital outlay override requests on the same ballot.) Phoenix Union estimates its bond request will result in an average tax rate increase over the life of the bonds of \$0.29 (per \$100 of assessed value). The estimated average tax rate increase for Paradise Valley bonds is \$0.44.

Of the fourteen districts, the largest estimated average tax rate increase is Sunnyside Unified's \$1.12. Willcox Unified, whose \$12.3 million request is 71% higher than its current debt capacity, has the second highest bond tax rate at \$0.85. Balsz Elementary's \$21 million request is estimated to cost taxpayers \$0.68 on the tax rate.

Maintenance and Operations Overrides

Twenty-nine school districts are asking taxpayers for higher property taxes to exceed their M&O budget limits. These budget limitations are established through state law and are largely based on the student counts in each district. Twenty-six of the districts are already levying higher taxes to support an existing M&O override. Arizona law allows districts, if approved by the voters, to exceed budget limits for up to seven years. Most districts renew their override in the fifth year because state law requires the levies to be reduced by one-third and two-thirds, in the sixth and seventh years, respectively.

For years, district M&O overrides were limited to a 10% increase over budget limits. However, in 2009, state lawmakers increased the allowable override to 15%. As a result, this year taxpayers in twelve districts could see roughly a 50% increase in their current override taxes.

ATRA estimates the aggregate property tax impacts for the seven-year M&O overrides on the ballot at \$475 million. That compares roughly to \$361 million in existing M&O overrides in those same districts, a 32% increase.

Capital Outlay Overrides

Six districts are seeking capital outlay overrides. Since 2009, capital overrides have been limited to 10% of the district budget. Four of the six districts are seeking new authority for a capital override, while two, Kyrene Elementary and Paradise Valley, are seeking continuations for existing overrides. The total request for capital overrides is \$216 million, the largest of which is Phoenix Union's \$91 million. The highest estimated tax rate to support a capital override is Tolleson Elementary's \$0.8637.

Multiple Ballot Questions

Seven districts are hitting taxpayers with multiple ballot requests for tax increases. As a result, the property tax impacts in a few of these districts are significant. The estimated combined tax rate impact of the bond and M&O override in Sunnyside is a whopping \$2.88. The combined rate impact of the M&O and K-3 override in Combs Unified in Pinal County is estimated at \$2.71. Nogales Unified's request for bonds and an M&O override is estimated at \$2.47. Phoenix Union and Paradise Valley both layer huge bond requests with the largest capital outlay override requests, for a combined tax rate impact of \$0.56 and \$0.64, respectively.

The largest tax rate increase facing taxpayers in Arizona school districts is in rural Graham County, where Pima Unified's 15% override request is estimated to cost \$3.70. Not surprisingly, Pima Unified was the only district where the opposition statements in the publicity pamphlets outnumber those in support.

Schools, *Continued from page 4***Publicity Pamphlet Issues**

In an effort to inform taxpayers about the impacts of school override and bond questions, Arizona statutes require a publicity pamphlet to be mailed to each registered voter in the district. Statutes actually require each county school superintendent to prepare the required information for the pamphlets. Surprisingly, ATRA found several county school superintendents were either unaware of that responsibility or simply ignored it. ATRA found the school publicity pamphlets readily available in Maricopa, Pima, Coconino, and Pinal County School Superintendents offices. However, several county school superintendents, including Cochise, Graham, Greenlee, Navajo, and Santa Cruz appeared to have no information on their school elections and directed ATRA staff to contact the districts directly.

A key provision in the calculation of the estimated tax rate for bond and override elections are the estimates of future net assessed valuation (NAV) growth. Arizona law requires those estimates to come from the Department of Revenue or the county assessors. Because declining valuations in most school districts are putting upward pressure on bond and override tax rates, many appeared to have understated the tax rate impacts of the various bond and override tax levies through high NAV estimates. ATRA found some districts unable to explain the source for their NAV estimates.

Fowler Elementary in Maricopa County used an NAV estimate that was 50% higher than the published estimate available from the county assessor for tax year 2012. As a result, Fowler's estimated \$0.81 tax rate for their M&O override is actually closer to \$1.21. When ATRA contacted Fowler regarding the NAV estimate, ATRA was directed to call Fowler's consultant for an explanation. The consultant admitted that the estimate did not come from the Department of Revenue or the Maricopa County Assessor and that the "estimate" dramatically overstated the district's NAV.

Finally, while the publicity pamphlets also serve as opportunities for citizens to advocate for and against these tax questions, they are overwhelmingly dominated by those advocating for its passage. In fact, of the 51 separate questions on the ballots in November, 45 have no con arguments filed. Proponents for passage, from school board members to members of the PTA, are aware of the opportunity to file ballot arguments and the required deadlines. In many instances, those deadlines have passed by the time average citizens find out there is a tax increase on the ballot.

November General Election - School District Bonds

District	Current Bond Levy	2011 Tax Rate	Bond Request ¹	Total Bond Cost ²	Estimated Tax Rate (Avg.)	Current Debt Limit
Agua Fria Union	\$4,803,726	0.4687	\$31,600,000	\$49,426,200	0.2828	\$51,249,736
Balsz El.	\$0	0.0000	\$21,000,000	\$27,056,739	0.6760	\$15,555,557
Casa Grande El.	\$3,266,860	0.7084	\$29,000,000	\$41,406,400	0.5204	\$23,058,018
Eloy El.	\$0	0.0000	\$3,000,000	\$4,814,000	0.6010	\$1,261,389
Glendale El.	\$2,657,931	0.8494	\$28,285,000	\$38,830,000	0.6868	\$15,646,031
Glendale Union	\$6,962,023	0.4249	\$80,000,000	\$121,969,692	0.3033	\$81,928,273
Nogales Unified	\$0	0.0000	\$7,800,000	\$13,847,188	0.5220	\$14,242,888
Oracle El.	\$0	0.0000	\$13,000,000	\$19,654,571	0.4540	\$9,681,652
Paradise Valley Unified	\$24,190,506	0.7343	\$203,000,000	\$318,161,300	0.4406	\$329,452,570
Phoenix Union	\$14,859,379	0.2790	\$230,000,000	\$349,410,417	0.2876	\$266,265,255
Riverside El.	\$5,369,159	1.3307	\$25,000,000	\$29,430,050	0.4531	\$20,174,547
Sunnyside Unified	\$0	0.0000	\$88,000,000	\$136,037,600	1.1200	\$45,519,792
Willcox Unified	\$0	0.0000	\$12,300,000	\$19,029,842	0.8535	\$7,195,113
Williams Unified	\$0	0.0000	\$5,000,000	\$8,023,250	0.1990	\$12,274,827
Total	\$62,109,584	-	\$776,985,000	\$1,177,097,249	-	\$893,505,647

¹ Principal amounts only

² Includes principal and interest

Schools, *Continued from page 5***November General Election - School District Budget Overrides**

District	Override Type	Current Override Levy	2011 Tax Rate	Estimated Override Levy (FY '13)	Estimated Tax Rate	Total Override	% of RCL
Buckeye Union	M&O	\$1,246,232	0.1736	\$1,868,644	0.2723	\$11,211,864	10%
Cave Creek Unified ²	M&O	\$3,328,255	0.1830	\$4,412,270	0.2692	\$26,473,620	15%
Clarkdale-Jerome	M&O	\$147,975	0.2270	\$139,847	0.3219	\$839,082	10%
Combs Unified	M&O	\$1,884,165	1.5650	\$2,077,440	1.8036	\$12,464,640	10%
Combs Unified	K-3	\$0	0.0000	\$1,038,720	0.9018	\$6,232,320	5%
Continental El. ¹	M&O	\$166,457	0.0492	\$450,000	0.1398	\$2,700,000	15%
Creighton El.	Capital	\$0	0.0000	\$2,900,000	0.6659	\$20,300,000	-
Creighton El. ¹	M&O	\$3,096,318	0.7110	\$4,678,464	1.0742	\$28,070,784	15%
Douglas Unified	M&O	\$0	0.0000	\$1,750,000	2.3602	\$10,500,000	10%
Duncan Unified	M&O	\$231,164	1.8556	\$240,000	1.9265	\$1,440,000	10%
Florence Unified ²	M&O	\$3,887,759	1.4765	\$6,100,000	2.5741	\$36,600,000	15%
Flowing Wells Unified	M&O	\$2,500,366	1.1760	\$2,500,433	1.1760	\$15,002,598	10%
Fowler El. ²	M&O	\$2,747,969	0.9643	\$2,939,235	0.8063	\$17,635,410	15%
Gila Bend Unified	M&O	\$249,123	0.1852	\$265,000	0.2074	\$1,590,000	10%
Kyrene El.	Capital	\$6,657,265	0.3243	\$6,834,000	0.3329	\$47,838,000	-
Liberty El.	M&O	\$1,628,757	0.8253	\$1,800,000	0.9601	\$10,800,000	10%
Littleton El. ²	M&O	\$3,240,434	1.2717	\$3,440,121	1.4165	\$20,640,726	15%
Madison El. ²	M&O	\$3,786,922	0.3664	\$3,799,145	0.4084	\$22,794,870	15%
Marana Unified	M&O	\$6,365,269	0.8011	\$6,400,000	0.8398	\$38,400,000	10%
Maricopa Unified ¹	M&O	\$972,330	0.3925	\$4,300,000	1.9027	\$25,800,000	15%
Morenci Unified	M&O	\$744,727	0.2938	\$600,000	0.2367	\$3,600,000	10%
Nadaburg Unified	M&O	\$445,848	0.6145	\$450,000	0.7635	\$2,700,000	10%
Nogales Unified	M&O	\$1,685,422	1.1833	\$2,778,621	1.9509	\$16,671,726	10%
Page Unified ²	M&O	\$1,603,470	1.1329	\$2,231,170	1.2936	\$13,387,020	15%
Paradise Valley Unified	Capital	\$9,094,249	0.2760	\$5,874,000	0.1981	\$41,118,000	-
Phoenix Union	Capital	\$0	0.0000	\$12,995,000	0.2707	\$90,965,000	-
Pima Unified	M&O	\$0	0.0000	\$590,000	3.7017	\$3,540,000	15%
Roosevelt El. ¹	M&O	\$0	0.0000	\$7,250,824	1.2966	\$43,504,944	15%
Round Valley Unified ¹	M&O	\$482,502	0.1347	\$1,110,000	0.3099	\$6,660,000	15%
Saddle Mtn. Unified	Capital	\$0	0.0000	\$800,000	0.0860	\$5,600,000	-
Show Low Unified	M&O	\$1,130,010	0.4955	\$1,175,000	0.5423	\$7,050,000	10%
Sunnyside Unified	M&O	\$7,913,161	1.7384	\$7,913,379	1.7585	\$47,480,274	10%
Tanque Verde	K-3	\$307,275	0.1531	\$429,642	0.2314	\$2,577,852	5%
Tolleson El.	Capital	\$0	0.0000	\$1,500,000	0.8637	\$10,500,000	-
Toltec El.	M&O	\$190,296	0.2181	\$600,000	0.7859	\$3,600,000	10%
Vail Unified	M&O	\$3,500,334	0.7431	\$5,198,182	1.1495	\$31,189,092	10%
Willcox Unified	M&O	\$622,017	0.8645	\$635,000	0.8859	\$3,810,000	10%
Total		\$69,856,071	-	\$110,064,137	-	\$691,287,822	-

¹ Increasing from 10% M&O override to 15%² Increasing override to 15% by including K-3 override**TOTAL OF OVERRIDE AND BOND REQUESTS****\$1,868,385,071**