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ARIZONA TAX RESEARCH ASSOCIATION

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Statewide Debt Decreases Marginally

Trend to Nonvoter Approved Continues

For the second year in a row, Arizona reduced its total state and local debt obligation. According to the Debt Oversight Commission's (DOC) annual report, statewide bonded indebtedness decreased almost a half percentile, just above $187 million. **Total debt stands at $42.7 billon, approximately $6,400 per resident.** This two-year trend is largely reflective of lingering fears associated with recession recovery. However, the substantial debt growth Arizona endured over the past decade is concerning. Ten years ago Arizona's total debt was $22 billion, $3,842 per capita and rose 62% in five years to $36.5 billion in 2008, and rose another 17% in the past five years. In the past decade Arizona's debt nearly doubled even while population growth slowed. For comparison, Arizona's debt grew just $7.2 billion from 1993 to 2003; from approximately $14.7 billion to $21.9 billion; and proceeded to nearly triple that amount of growth over the past decade.

The DOC report is a compilation of data provided by the state's cities and towns, counties, community colleges, school districts, and other political subdivisions throughout Arizona. The debt reported includes principal amounts only, excluding all interest payment obligations. This is the first year ATRA included Lease Purchase debt into all year-by-year calculations in an effort to truly reflect all statewide debt.

See **Statewide Debt,** page 2

ATRA's 2014 Legislative Program Update

HB2389 TPT; Licensing & Filing Uniformity

Sponsored by Rep. Debbie Lesko, HB2389 is an ATRA supported implementation bill for last year's TPT reform legislation, HB2111. The bill makes technical and substantive changes to TPT licensing requirements to make the state and city procedures uniform. City TPT initial licenses and renewals are capped at $50. Taxpayers who file on a consolidated basis are subject to only one renewal fee per jurisdiction, otherwise the license fee applies to each location. The bill includes session law that provides that hearings for liabilities established prior to 1/1/15 will be heard by the municipal hearing office. *HB2389 passed the House 56-1, Senate Finance 6-0 and currently awaits Senate Committee of the Whole.*

See **Legislative Program,** page 7

Sean McCarthy Joins ATRA

ATRA is proud to introduce a recent addition to the staff, Senior Research Analyst Sean McCarthy. Sean is a 2007 graduate of the United States Air Force Academy where he earned a Bachelor of Science in Political Science and a minor in Spanish. There he earned the 2007 General Smith award for Outstanding Performance in the Political Science Major as well as the 2007 Department of Political Science Award for Excellence in National Security Studies. Sean has a Master's degree in Intelligence Studies from the American Military University. As an intelligence officer, Captain McCarthy served seven years in a variety of roles supporting combat operations with the *MQ-1 Predator* and the *F-16 Viper*, including a six month deployment in Afghanistan. Sean continues to serve locally in the Air Force Reserve. Sean's roles at ATRA will include K-12 education, Community Colleges and general taxation. Sean is ATRA President Kevin McCarthy's eldest son.

STATEWIDE DEBT , *Continued from Page 1*

Most jurisdictions managed to reduce their debt in Fiscal Year (FY) 13 except Universities (+17.3%), Community Colleges (+9.2%), and Counties (+9.5%) (see table 1). Cities continue to make up the largest percentage of the debt pie (38.2%) with only a marginal decrease in FY13.

Table 1

Jurisdiction	FY 2008	FY 2012	FY 2013	1-Yr Change	5-Yr Change
Universities	$1,893,785,153	$2,595,706,433	$3,045,022,305	17.3%	60.8%
K-12	$4,746,557,258	$4,651,435,689	$4,532,179,539	-2.6%	-4.5%
Comm. Colleges	$760,561,840	$890,713,964	$972,972,035	9.2%	27.9%
Cities	$14,681,528,271	$16,536,660,997	$16,306,676,411	-1.4%	11.1%
Special Districts	$1,589,965,537	$1,705,838,215	$1,633,084,709	-4.3%	2.7%
State Agencies	$7,700,558,953	$9,603,671,830	$9,336,946,391	-2.8%	21.3%
Counties	$1,196,424,748	$1,560,490,232	$1,709,431,591	9.5%	42.9%
Other	$3,951,550,085	$5,362,187,655	$5,179,771,730	-3.4%	31.1%
TOTAL	**$36,520,931,845**	**$42,906,705,015**	**$42,716,084,711**	**-0.4%**	**17.0%**

Total debt numbers are slightly different from Table 2 due to some minimal Lease Purchase debt which is not easily assigned.

The four primary debt instruments, General Obligation (G.O.) bonds, Revenue bonds, Municipal Property Corporation (MPC) bonds and Certificates of Participation (COPs) all witnessed fractional decreases in debt last year (see table 2). Of note, the only debt vehicle to increase last year was Lease Purchase (+5.2%); a mechanism which municipalities are increasingly using and whose debt service obligations are met primarily with general operating revenues. Lease Purchase debt has doubled in a decade, from $510 million in FY03 to over $1 billion in FY13.

The trend in how debt is acquired is troubling. Nonvoter approved debt which is generally not subjected to voter scrutiny or constitutional debt limits continues to climb. G.O. debt is voter approved, subject to debt limits and backed by property taxes but is decreasingly popular. It now represents just 25% of total statewide debt, down from 33% a decade ago. By contrast, COPs, MPCs and Lease Purchases are not voter approved or subject to debt limits and draw on the general fund of the entity that sells them. Their relative use has increased 105% in the past decade, currently representing 28% of all statewide debt. The total debt serviced with these mechanisms has increased from $3 billion to $11.96 billion, a 300% increase in the past decade. The rest is in Revenue bonds, which typically are not subject to voter approval and do not have constitutional limits but are usually tied to a dedicated revenue stream such as tuition payments or gas taxes.

Table 2

	FY 2008	FY 2012	FY 2013	1-Yr. Difference	1-Yr. Change	5-Yr. Difference	5-Yr. Change
G.O.	$9,877,573,798	$10,557,891,093	$10,483,889,667	-$74,001,426	-0.7%	$606,315,869	6.1%
Revenue	$16,280,888,888	$19,842,549,190	$19,809,270,614	-$33,278,576	-0.2%	$3,528,381,726	21.7%
MPC	$6,143,205,971	$6,846,813,229	$6,786,562,907	-$60,250,322	-0.9%	$643,356,936	10.5%
COP	$2,646,182,988	$4,174,732,713	$4,146,564,660	-$28,168,053	-0.7%	$1,500,381,672	56.7%
Impact Aid	$60,085,043	$49,850,000	$41,970,000	-$7,880,000	-15.8%	-$18,115,043	-30.1%
Spec. Assmt.	$573,550,754	$453,346,106	$418,362,130	-$34,983,976	-7.7%	-$155,188,624	-27.1%
Lease Purchase	$946,669,175	$979,539,579	$1,030,799,191	$51,259,612	5.2%	$84,130,016	8.9%
TOTAL	**$36,528,156,617**	**$42,904,721,910**	**$42,717,419,169**	**-$187,302,741**	**-0.4%**	**$6,189,262,552**	**16.9%**

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Table 3

Jurisdiction	G.O.	Revenue	MPC	COP	Lease Purchase	Special Assmt.
Universities	$0	$2,159,220,000	$0	$709,570,000	$176,232,305	$0
K-12	$4,304,428,492	$0	$0	$3,565,000	$182,216,047	$0
Comm. Colleges	$915,715,000	$23,800,000	$0	$0	$33,457,035	$0
Cities	$4,403,156,175	$4,703,974,743	$6,729,757,907	$302,907,471	$91,517,985	$75,362,130
Special Districts	$403,900,000	$778,100,000	$0	$24,400,000	$83,684,709	$343,000,000
State Agencies	$0	$6,607,956,175	$0	$2,316,142,188	$412,848,028	$0
Counties	$0	$1,023,994,696	$56,805,000	$456,690,000	$30,981,895	$0
Other	$0	$4,512,225,000	$0	$649,020,000	$18,526,730	$0
TOTAL	**$10,027,199,667**	**$19,809,270,614**	**$6,786,562,907**	**$4,462,294,659**	**$1,029,464,734**	**$418,362,130**

CITIES

Cities and towns continue to carry the largest debt burden amongst the jurisdictions at $16.3 billion, a 1.4% decrease from FY12. Twenty-four cities and towns across Arizona added a total of 47 bonds or Lease Purchase agreements valued at $1.35 billion in the past fiscal year.

Non-voter approved MPC debt continues to be popular amongst cities and towns, who are responsible for $6.7 billion in such debt, representing 41% of their total debt (see table 3). Historically, Revenue bonds counted for the plurality of city debt but now remain well behind MPCs at $4.7 billion. G.O. bonds count for $4.4 billion and the remainder is in special assessments, Lease Purchase, and COPs.

Table 4.1

Top 10 Outstanding Debt	
City	**Outstanding Debt**
Phoenix	$6,802,490,688
Mesa	$1,641,963,001
Scottsdale	$1,235,407,793
Tucson	$1,093,911,179
Glendale	$997,250,000
Tempe	$651,110,903
Chandler	$483,225,000
Gilbert	$434,445,000
Peoria	$346,540,534
Lake Havasu City	$293,522,258

Table 4.2

Top 10 Per Capita Debt	
City	**Per Capita Debt**
Cave Creek	$11,045.00
Williams	$7,502.14
Tolleson	$7,245.25
Queen Creek	$5,661.09
Scottsdale	$5,622.83
Lake Havasu City	$5,567.57
Sedona	$5,096.68
Phoenix	$4,644.20
Glendale	$4,354.65
Cottonwood	$4,227.55

"The total debt serviced with [MPC, COP, and Lease Purchase] mechanisms has increased...300% in the past decade."

Three cities in the state are in the top 10 in both outstanding debt as well as per capita debt: Phoenix, Scottsdale and Glendale (see tables 4.1 and 4.2). The city of Phoenix has an incredible $6.8 billion in debt; 41.7% of all city debt in the state despite only representing 22.7% of the population.

COUNTIES

For the second consecutive year, total statewide county debt rose; this year 9.5% to $1.7 billion in total. This marks an increase of 43% over the past five years. This year's jump is largely a result of Pima County's two new COP issues valued at $92.9 million, two G.O. bonds for $88.6 million, and a $128.8 million Revenue bond.

Pima County alone holds 80% of all county debt statewide, though it represents just 15% of the Arizona population. It also has the highest debt per capita at $1,377 (see table 5). More concerning is their method of acquiring debt, which is trending north in all mechanisms but noticeably with non-voter approved COPs, up 340% since FY08, which are unconstrained by constitutional debt limits. Ten years ago the county had just $1 million in

COP debt; today it is $127 million.

Maricopa County continued to decrease its debt 10% as it paid off its Lease Purchase Agreements and COPs and made a dent in its Revenue bonds. Total county debt has decreased 50% in the past five years.

La Paz County reported $19.4 million in outstanding debt, has the second highest debt per capita at $948 per capita, and last year issued two new Revenue bonds worth $1.3 million. Coconino County reports no outstanding debt and all other counties reported relatively low debt per capita. Interestingly, Yavapai County reports zero debt with voter approved mechanisms but has $23 million in Lease Purchase Agreements, putting it out front of many other rural counties.

Table 5

County	Outstanding Debt	County	Per Capita Debt
Pima	$1,349,791,979	Pima	$1,376.97
Pinal	$144,653,312	La Paz	$948.31
Maricopa	$108,975,000	Santa Cruz	$494.23
La Paz	$19,430,000	Pinal	$384.95
Santa Cruz	$23,436,375	Greenlee	$233.52
Yavapai	$22,933,567	Navajo	$131.33
Navajo	$14,111,148	Gila	$130.03
Mohave	$9,350,000	Yavapai	$108.67
Yuma	$7,500,000	Apache	$67.27
Gila	$6,969,326	Mohave	$46.71
Cochise	$4,238,687	Yuma	$38.31
Apache	$4,811,205	Cochise	$32.27
Greenlee	$1,970,186	Maricopa	$28.55
Graham	$807,181	Graham	$21.69
Coconino	$0	Coconino	$0.00
Total	**$1,718,977,966**		**$269**

"...Universities [are] using Lease Purchase Agreements more... up 50% in five years to $176 million with 45 agreements."

UNIVERSITIES

Arizona universities had the highest reported debt percentage increase in FY13 at 17.3%, bringing their total debt to $3.05 billion. Universities increased their debt 61% in the past five years, adding a total of $1.15 billion in debt. Universities have used COPs less frequently and have decreased that debt mechanism by 21% or $183 million since FY08; though Revenue bonds have increased 144% over the same period. Additionally, universities appear to be using Lease Purchase Agreements more as they decrease the use of COPs, up 50% in five years to $176 million with 45 total agreements.

This fiscal year, universities added five Revenue bonds to the rolls to the tune of $404 million and two COPs for $101 million. Arizona State issued a new COP ($65 million) and a Revenue bond ($111 million). Northern Arizona University also added one COP ($36 million) and one Revenue bond ($75 million). The University of Arizona sold three Revenue bonds totaling $218 million.

STATE AGENCIES

State agencies managed to decrease their debt 2.8% to $9.3 billion; though it has grown 21% since FY08. In five years state agencies added $1.64 billion in debt predominantly via COPs from the School Facilities Board and the Department of Administration and Revenue bonds from the AZ Department of Transportation (ADOT). The largest debt increase from this jurisdiction came from a $715 million Revenue bond issued by ADOT.

State Agencies and universities together comprise nearly $12.4 billion in debt, none of which is subject to debt limits or voter approval.

K-12 EDUCATION

Most counties in the state reported a debt decrease from their school districts (SDs) except for marginal increases from Graham, Santa Cruz, Cochise, and Coconino County. The total dropped 2.6% to $4.5 billion with 123 of 224 SDs reporting debt. That is a 4.5% decrease from FY08. Interestingly, K-12 SD's are the only jurisdiction to decrease total debt over the past five years. The vast majority of their debt resides in voter approved and constitutionally limited G.O. bonds. One of the reasons for their lack of growth is the limitation put on SDs to sell Class A bonds which had higher debt limitations. From 2000 to 2012, SDs were limited to Class B bonds (with some exceptions) which had a debt limitation of 5% of ad valorem valuation for elementary and union SDs and 10% for unified SDs. In 2013, Class B bond debt limits were doubled to 10% and 20%, respectively.

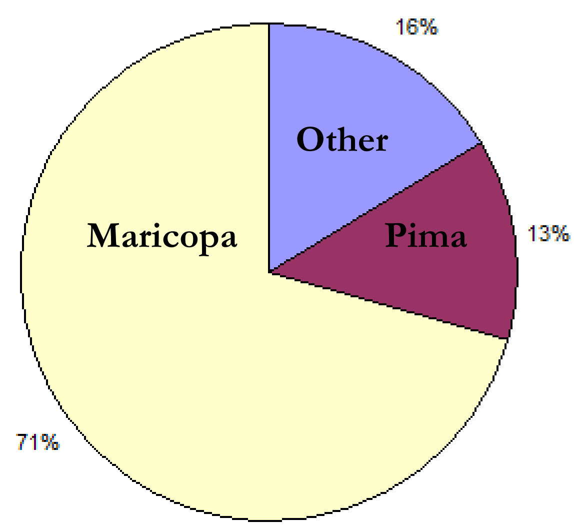
Maricopa County SDs represent 71% of all K-12 debt at $3.2 billion and also have the third highest per student debt (see table 6). Yavapai County SDs have the highest per student debt at $6,339 and Pinal County is second at $5,484. In Maricopa County, Paradise Valley Unified SD has the largest amount of debt amongst all SDs at $277.3 million but does not have the highest per pupil debt. In Yavapai County, Sedona-Oak Creek Unified SD carries that distinction at $47,316 per student.

For new issues in FY13, 39 SDs incurred $420.3 million in new debt, of which $31.8 million was in Lease Purchase debt.

School Districts **Table 6**

County	Outstanding Debt	Per Student Debt
Maricopa	$3,199,042,515	$5,341
Pima	$593,636,838	$4,568
Pinal	$229,128,192	$5,484
Yavapai	$129,657,797	$6,339
Mohave	$89,423,439	$4,250
Navajo	$67,930,667	$3,529
Yuma	$52,961,330	$3,244
Coconino	$51,882,839	$1,203
Apache	$30,974,706	$4,907
Gila	$33,842,033	$2,779
Cochise	$33,420,272	$1,320
Santa Cruz	$10,158,036	$1,115
Graham	$8,065,514	$667
Greenlee	$1,250,000	$775
La Paz	$805,361	$295

School District Debt by County



COMMUNITY COLLEGES

Arizona Community College Districts (CCDs) increased their debt in FY13 9.2% to $973 million. Notably, Maricopa CCD represents 76% of all CCD debt and is the only district to increase its debt in FY13 except Yavapai CCD with a fractional increase. Maricopa CCD netted $97 million to their total debt last year with a $151 million G.O. bond issue.

CCDs have increased their debt 28% in the past five years and nearly doubled it over the past ten. In that time, G.O. bonds have been the debt mechanism of choice and all CCDs have used less than 35% of their debt capacity limitation. Graham CCD, Navajo CCD, and Santa Cruz County Provisional College reported no debt (see table 7). The remaining CCDs reported minor decreases in debt as few issues were sold in FY13.

Table 7

Community College	Outstanding Debt	Per Student Debt
Maricopa	$713,193,980	$6,637
Pinal	$104,478,571	$17,043
Yuma/La Paz	$62,590,000	$11,538
Yavapai	$53,913,474	$8,625
Cochise	$21,090,000	$1,108
Coconino	$11,085,000	$5,374
Mohave	$5,249,273	$970
Pima	$1,355,000	$123
Gila Provisional	$16,737	-
Graham	$0	-
Navajo	$0	-
Santa Cruz Provisional	$0	-

SPECIAL DISTRICTS

Special districts are organized at or below the county level for a specific function like fire or flood services and utilize a variety of debt mechanisms, most of which are not subject to constitutional debt limits. In FY13, 167 of 660 known special districts reported debt to the tune of $1.63 billion, a 4.3% decrease from FY12 but a 2.7% increase over the past five years. In FY13, 21 special districts incurred $37.4 million in new debt.

G.O. debt from special districts sits at $403.9 million or 25% of all outstanding debt; $91.8 million reported by 17 fire districts, $259.5 million reported by 35 community facilities districts (CFDs), $52.6 million by two library districts in Apache and Yuma and one hospital district in Mohave County. Over $778 million or 48% of total outstanding debt is from Revenue bonds predominantly from CFDs. $343 million or 21% of special district debt is in special assessment bonds which are predominantly used for infrastructure improvements.

Table 8

Fire District	County	Current Capacity	Debt	% of Capacity Used
Apache Junction	Pinal	$21,472,763	$7,485,000	34.90%
Arizona City	Pinal	$1,869,579	$1,035,000	55.40%
Avra Valley	Pima	$3,185,323	$231,000	7.30%
Black Canyon	Yavapai	$939,172	$802,670	85.50%
Central Yavapai	Yavapai	$31,749,967	$12,885,000	40.60%
Chino Valley	Yavapai	$4,459,332	$4,235,000	95.00%
Drexel Heights	Pima	$11,626,908	$1,955,000	16.80%
Ganado	Apache	$1,508,370	$80,000	5.30%
Golder Ranch	Pima	$48,546,779	$10,420,000	21.50%
Maricopa	Pinal	$12,637,465	$2,185,000	17.30%
Mayer	Yavapai	$1,793,142	$790,000	44.10%
Northwest	Pima	$60,346,308	$30,020,000	49.70%
Picture Rocks	Pima	$2,306,669	$2,076,000	90.00%
Rincon Valley	Pima	$6,172,465	$5,265,000	85.30%
Rio Rico	Santa Cruz	$4,350,452	$5,110,000	117.50%
Three Points	Pima	$2,060,669	$1,650,000	80.10%
Tubac	Santa Cruz	$5,905,777	$5,555,000	94.10%

Fire districts are limited in their ability to levy against local property taxes via G.O. bonds by 6% of the total value of taxable property in their district. No district exceeded the statutory debt limit when they issued bonds but as property values changed, Rio Rico is now at 118% of their debt limit. A number other fire districts are at or near their capacity limit (see table 8).

OTHER JURISDICTIONS

Other jurisdictions are political subdivisions that do not belong to a particular jurisdiction or cross county lines like the Salt River Project. Total debt for other jurisdictions contracted 3.4% ($182 million) from $5.36 billion to $5.18 billion. The Arizona Sports and Tourism Board and the University of Arizona Health Network each issued one Revenue bond in FY13 adding $45 million in new debt.

-Sean McCarthy

LEGISLATIVE PROGRAM , *Continued from Page 1*

Counties Successfully Stop Audit Publication Bill

As introduced, SB1316 established a penalty for a county, community college, city or town for failure to comply with the existing eight-month statutory deadline for filing the audited financial statements with the Auditor General's office. A jurisdiction that fails to adhere to the statutory deadline would be prevented from adopting a general fund budget in the subsequent year in excess of the current year budget.

The purpose for the legislation was to provide an incentive for local jurisdictions to follow a law that was being ignored, most notably, by the counties. SB1316 actually cleared committee on a 7-0 vote with no opposition from local governments. Following the committee hearing, county representatives notified the bill's sponsor, Senator Steve Pierce, that they felt the penalty was excessive. In a discussion with ATRA, Senator Pierce, and the Auditor General's office, the counties provided various reasons for not abiding by the statutory filing requirement; the most notable was simply that some counties don't view it as a priority. However, recognizing that their can be very rare but legitimate reasons which might prevent a jurisdiction from meeting the statutory deadline, ATRA offered an amendment to extend the statutory deadline one year, from eight months to eighteen months, before the penalty would be triggered. Although ATRA believed that 18 months was more than ample time for local governments to finalize their financial audits, it became clear that no amendment would remove the opposition from the counties. In fact, just a few hours after the ATRA amendment was offered, the counties launched a successful campaign to kill the bill on the Senate floor by a vote of 14-14.

To date, six counties have yet to file their FY 2013 financial audits, one of which still hasn't filed its FY 2012 audit, according to the Auditor General's website.

Enforcement of the Model City Tax Code

The proposed strike-everything amendment to SB1331, which is sponsored by Rep. Debbie Lesko, specifies that any changes cities make in their tax codes are void if they are not reported to the Arizona Department of Revenue (ADOR) in the official copy of the Model City Tax Code (MCTC). The League of Arizona Cities and Towns (League) maintained the official copy of the code up until July 1, 2012, at which time the responsibility was transferred to ADOR as a result of legislation passed in 2011.

This legislative proposal is the result of a recent ruling issued by the Municipal Tax Hearing Office, an administrative body charged with deciding city tax cases, which has called into question the validity of the MCTC. In December 2007, the City of San Luis passed an ordinance that repealed a franchise fee offset, which affected only one business – Arizona Public Service Company (APS). San Luis failed to notify the League of the change as required under state statute. Consequently, the MCTC continued to show that the offset was still in effect and APS relied upon the MCTC to prepare its tax returns and continued to claim the offset.

It wasn't until a 2012 audit that APS learned of the franchise fee offset repeal when it was issued an assessment of $845,520 despite the fact that the change was still not reflected in the MCTC. The City took the position that the MCTC had no meaning or significance and therefore should not have been relied upon by the taxpayer. APS appealed the assessment and the Municipal Tax Hearing Office issued a decision in favor of the City, specifying that all a city needs to do is adopt an ordinance in order to effectively change its tax laws. The ruling upends the agreement that was codified in state statute among the Legislature, the cities and the business community in that the MCTC would be the source of information taxpayers could rely upon in complying with city tax laws.

The bill was heard in the House Ways and Means Committee, in which it passed by a 4-3 partisan vote. The only opposition to the bill was from representatives of the City of San Luis and its legislative delegation. *The bill currently awaits House Third Read.*

HB2395 property tax calculations; school districts (Lesko)

Sponsored by Rep. Debbie Lesko, HB2395 is an ATRA-backed measure intended to ensure that K-12 school primary property taxes are levied in accordance with all applicable state statutes. As amended in the Senate, HB2395 requires the county school superintendent to file and certify in writing to the Property Tax Oversight Commission (PTOC) on or before July 25 of each year the superintendent's estimate of the amount of school monies required by each school district for the ensuing year based on the proposed budgets adopted by the governing boards of the school districts. PTOC is required to review the primary tax rate and levy calculations, including the amount levied for the Minimum Qualifying Tax Rate (MQTR), if applicable. PTOC is required to notify a school district of an incorrect calculation of the primary tax levy and rate. A school district that disputes the findings of PTOC is provided the same appeal rights that currently exist for other taxing entities. Requires the County School Superintendent to file in writing with the County Board of Supervisors and the PTOC on or before the third Monday in August the amount required to be levied for each school district from both the primary and secondary property taxes. *HB2395 passed Senate Finance 6-0 and currently awaits the Senate Committee of the Whole.*

SB1182 school district overrides; bonds; information (Yarbrough)

Sponsored by Senator Steve Yarbrough, SB1182 specifies that the purpose statement for the request of a K-12 override election and all bond election publicity pamphlets reflect only factual information in a neutral manner and any advocacy for the election is strictly limited to the arguments in the pro and con statements. As introduced, SB1182 would have limited the continuation of K-12 override elections to once during the life of the existing override; however, that provision was removed in Senate COW to address the opposition to that provision. *SB1182 passed the House Ways and Means and House Education committees and currently awaits House Third Read.*

HB2378 municipal taxes and fees; prohibition (Olson)

Sponsored by Rep. Justin Olson, HB2378 specifies that a municipality is prohibited from assessing a municipal-wide parcel tax or fee on property based on the size or value of real property for any public service provided by the municipality, retroactive to December 31, 2013. *HB2378 passed the Senate Finance committee 7-0 and awaits a Third Read Calendar in the Senate.*

SB1412 accelerated depreciation; class 6 property (Yarbrough)

SB1412 extends the significant benefits of locally assessed accelerated depreciation for personal class 6 property acquired during or after tax year 2014 and initially classified during or after tax year 2015. Additionally, beginning in valuation year 2015, the Department of Revenue is required to reduce the minimum value of class 6 property valued by the assessor by 2.5% each year. Interestingly, the proponents are arguing the merits of this bill on equity grounds. The current tax advantage for property taxpayer's fortunate enough to be placed in class 6 is a 76% reduction in liability. Obviously, the passage of SB1412 would result in additional greater disparities between business properties in class 1 and class 6. *SB1412 passed the Senate 24-1 but was retained on the House Committee of the Whole Calendar.*

SB1303 property valuation; class six (Yarbrough)

SB1303 provides a property tax break to a regionally accredited institution of higher education with at least one university campus in this state that has more than 2,000 students residing on campus (only Grand Canyon University). Upon meeting the requirements, the real and personal property owned by the institution is classified under class 6, which is assessed at 5%, compared to other for-profit university property as well as most business property, which is classified under class 1 and is currently assessed at 19.5%. Typically, the expansion of class 6 for businesses has been to attract a particular business or industry to Arizona. SB1303 provides a dramatic reduction in tax liability for an existing business while not extending the same treatment to other similarly situated businesses. Under Article 9, Section 1 of the Arizona Constitution, "all taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax." While the courts have given the Legislature broad discretion in creating different classes of property, they have also cautioned that those distinctions in use, purpose or industry must be "real" and not be "arbitrary, specious or fanciful." In fact, the courts have invalidated disparate tax treatment between similar businesses in the same taxing jurisdiction based solely on the timing and size of the investment. ATRA believes the distinction created in SB1303 could have just such an infirmity. *The House Rules Committee agreed and the bill failed on April 2 after passing in the House Ways and Means Committee.*