The taxpayer's watchdog for over 70 years

ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 74 NUMBER 6 AUG 2014

ATRA Leads Opposition to $1.4 Billion Bond

The Maricopa Integrated Health System (MIHS) will ask Maricopa County voters in November to approve a property tax increase for a General Obligation bond request of $935 million ($1.4 billion with interest) over 27 years. ATRA has formally announced its opposition for a variety of reasons.

Proposition 480 seeks to rebuild most of the facilities associated with MIHS but actually reduces the number of beds at the Maricopa Medical Center (MMC) facility from 515 beds to about 250 because they currently only use about 280 with a 70% occupancy rate. They also wish to build new facilities for the regional burn center, the level one trauma facility, consolidate the behavioral health facilities, and build new or update existing outpatient clinics.

According to MIHS officials, their services represent just five percent of the market share of all medical services rendered in Maricopa County. New regional outpatient clinics will serve as the spokes in their model, which perform triage and funnel patients to their hub at MMC. Existing MIHS outpatient clinics are typically older than private and nonprofit clinics, limiting their market share.

ATRA's opposition can be summarized to three major points: taxes, timing, and process.

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Kathleen Farnsworth Joins ATRA Staff

ATRA is happy to introduce Kathleen Farnsworth as the association's new office manager. Kathleen joined the ATRA staff this summer and will be responsible for the financial operations of the association as well as a variety of general office duties.

Kathleen is a graduate of Arizona State University where she received a bachelor's degree in Sociology. Following graduation Kathleen worked for several years in the banking industry as a credit officer and loan administrator for both Bank of America and Wells Fargo Bank.

Kathleen is married to Ken Farnsworth and has two sons, Kyle and Kolton.

Deseg/OCR Levies Punish Phoenix Taxpayers

It isn't easy being a taxpayer in downtown Phoenix. If you're unlucky enough to pay taxes in both Phoenix Elementary and Phoenix Union High School districts, you're treated to some of the highest tax rates in the state. In FY2014, taxpayers paid a combined $17.80 property tax rate per $100 of assessed value.

The difference maker triggering the high taxes in these areas of Phoenix is an extra assessment for "desegregation." The combined tax rate in these two districts for K-12 education was $12.13. The rate for desegregation alone was a combined $3.18, which generated an extra $66 million for the two school districts in FY2014.

The rest of the property taxes are spread to the county, city, state equalization for education, flood control district, community college district, library

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Taxes

MIHS will certainly downplay the impact of the bond by narrowly focusing on a small homeowner's monthly liability, but a $935 million bond is the third largest proposal in Arizona history and will be costly to taxpayers, particularly businesses. Despite the reductions made to business property valuations over the last several years, the massive collapse of the residential real estate market shifted property tax burdens to businesses in an unprecedented way. The result was a 30% increase in the effective property tax rate on business property between tax year 2009 and 2013. $1.4 billion is too heavy a burden to be minimized, particularly before businesses can fully recover from the recession. Many government agencies in Arizona claim to need substantial future investment, most notably education and infrastructure, and they represent far more than a five percent market share.

Timing

The payment and delivery of health care in the U.S. has never been in a more unstable environment. Arizona policymakers made the difficult and expensive decision to expand Medicaid coverage under the Affordable Care Act. The primary purpose of these policies is to ensure universal access to health insurance, which can be used at a variety of clinics and hospitals around the county. Medicaid expansion only took effect on January 1 this year. MIHS, which predates AHCCCS (Arizona's Medicaid program), was created to serve the uninsured, who represent just 30% of their customers today and should be dwindling as more people join AHCCCS. The program is currently exploding and has nearly 1.6 million enrolled, 25% of Arizona's population. At a minimum, government should stop pulling levers on the health care industry until the dust settles on the massive changes recently implemented.

> *We need to slow the changes currently being made to government influenced health care, not speed them up.*

Process

The taxpayer deserves every benefit of the doubt when it comes to questioning the need for more government when private options exist. Certainly, MIHS does currently provide some valuable services. Who provides those services in the future should be the topic of discussion between elected officials, taxpayers and health care industry stakeholders. Instead, MIHS would like a billion dollars to spend as they see fit. Moreover, the existence of the hospital district itself should be subject to debate as it has become a regional facility, not a county one. Maricopa is the only Arizona County that still has a public hospital; the rest were closed after the creation of AHCCCS. Maricopa County taxpayers should ask why they alone fund the Arizona Burn Center, used by folks all across the southwest. Maricopa taxpayers already pay thrice for subsidized health care through their federal, state and county taxes; they alone shouldn't be asked to pay again.

-Sean McCarthy

Published by the Arizona Tax Research Association, a nonprofit organization whose purpose is to promote efficient and effective use of tax dollars through sound fiscal policies. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Research

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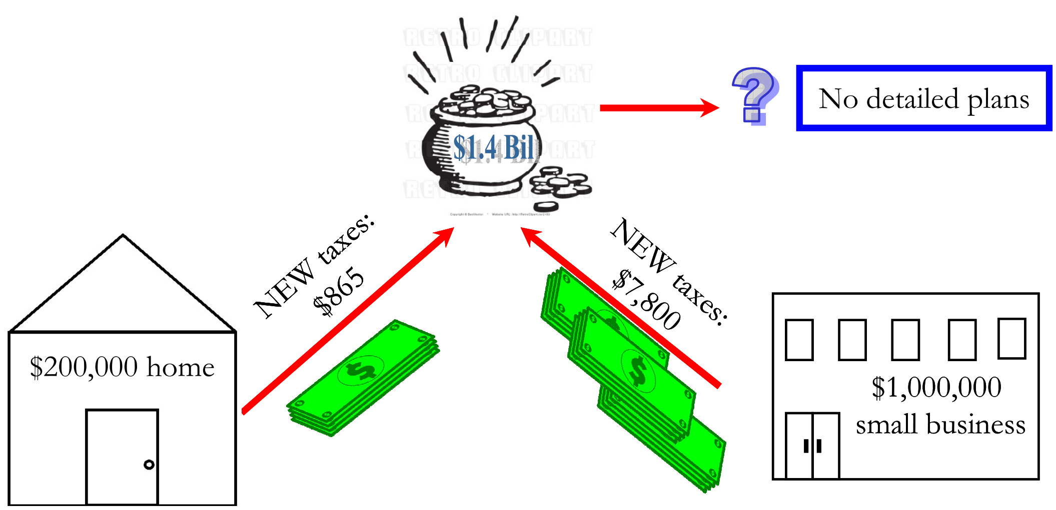
Vote No on Prop 480 Pamphlet

ATRA Encourages Maricopa County Voters to Vote NO on Prop 480

- ***Prop 480 is Bad Timing for Taxpayers***
  - AZ businesses struggled through recession BUT did not see property values decrease as homeowners did
  - Result: huge swing in tax liability to businesses: from FY10 to FY14, 30% increase in property tax rate for businesses
  - $1.4 Billion in NEW taxes is bad for businesses trying to recover
- ***Prop 480 is Bad Timing in the Healthcare Industry***
  - Unprecedented uncertainty in health care nationwide due to ACA
  - Arizona expanded access to Medicaid, implemented 1 Jan '14
- ***Prop 480 Uses Tax Dollars to Compete Against Private Hospitals***
  - Clinic expansion will compete against private hospitals, clinics
  - Private hospitals are prepared to meet vast majority of medical needs
- ***Prop 480 Only Asks Maricopa Residents to Pay Again***
  - Arizonans are paying to expand Medicaid (insurance for the poor)
  - County taxpayers already pay $65 million/year for MIHS
  - No other county will pay for this statewide/regional facility



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SAVE THE DATE!

ATRA Golf Tournament: 7 Nov 14, McCormick Ranch, 12:00pm

ATRA Outlook Conference: 21 Nov 14, Chaparral Suites, 8:00am

ATRA Ballot Statement on Proposition 480

The Arizona Tax Research Association (ATRA) strongly encourages Maricopa County taxpayers to vote NO on Proposition 480, which proposes a $1.4 billion (principle and interest) property tax increase on Maricopa County citizens, one of the largest bond proposals in Arizona history. This tax increase will cost the owner of a $200,000 home $865 and hit a small business with $1,000,000 in taxable value with $7,800 **IN NEW TAXES** over the life of the bond.

In 2003, Maricopa County taxpayers agreed to create a countywide special taxing district primarily for providing subsidized health care services for the poor. Now this relatively new governmental entity wants to dramatically expand its mission despite the historic uncertainty now surrounding the delivery of health care in the United States. Publicly funded health care is exploding nationwide. In 2013, Arizona agreed to participate in Medicaid expansion, a critical feature of the Affordable Care Act that will be paid for with your federal and state tax dollars.

More Arizonans than ever have access to health insurance they can exercise at a variety of clinics and hospitals. These private hospitals are prepared to meet this demand under existing delivery systems. These private hospitals should not be forced to compete unnecessarily with a publicly funded health care system looking to increase its market share.

Prop 480 comes with surprisingly few details and gives the district wide discretion on how the money is ultimately spent. Taxpayers should reject this blank check and force MIHS to develop a business plan in conjunction with taxpayers, businesses, and private health care providers. At a minimum, such a plan should not require Maricopa County taxpayers to shoulder additional costs for services

Deseg Levy, *Continued from Page 1*

district, Central Arizona Project, and the special heath care district.

Arizona state statute allows school districts to levy for desegregation if they received a federal court order to desegregate, which applies only to Phoenix Union and Tucson Unified. However, 16 other school districts were also authorized to levy for desegregation because they received a violation letter from the Office of Civil Rights (OCR). The levy is now commonly referred to as Deseg/OCR.

School districts have a significant advantage in levying for Deseg/OCR as it gives them a substantial financial leg up over neighboring districts without the authority.

Phoenix Union levies an additional $56 million annually for Deseg despite the fact their court order to desegregate was lifted in 2005 (along with Tucson Unified in 2009, who has since fallen back under court order). Phoenix Elementary levies $10.6 million annually for OCR. The levy is not tied to pupils or inflation but was capped by the Legislature in 2009.

A business with $1 million in total property value- a modest value for a small business, pays about $6,201 per year for these two assessments alone. In total, said business pays about $34,000 per year in property taxes.

Deseg/OCR is not equalized by the state and causes substantial inequities in the K-12 finance system. Those able to qualify in the 1980's and 1990's continue to reap the benefits in perpetuity, while other districts must spend according to the equalization formula. While the money is designated for desegregation efforts, a simple look at the budget shows the money simply goes mostly towards salaries and benefits, which is the most substantial part of any schools M&O budget. The money amounts to an extra $2,324 per pupil for Phoenix Union and an extra $1,502 per pupil for Phoenix Elementary; an extraordinary bonus. The total levy will not decrease even as these districts shrink in student count, growing the inequity annually.

Property taxes are so much higher in downtown Phoenix that businesses have demonstrated an unwillingness to locate there unless they receive tax abatement. The Government Property Lease Excise Tax (GPLET) is a municipal lease-back program where eight years of property tax abatement is provided for a commercial business. Following the eight years of abatement, the business pays a fractional amount of GPLET taxes.

Tax abatement programs are designed to reinvigorate blighted areas like urban centers. But for Alice Cooperstown restaurant, who is not a recipient of a tax abatement program, it serves to put them at a significant disadvantage. Within eyeshot of Cooperstown is the CityScape complex, a GPLET property still in tax abatement. So while Cooperstown paid roughly $25,000 in property taxes in FY2014, its direct competition across the street paid none. CityScape hosts 15 restaurants such as the Tilted Kilt Pub, Chipotle, Five Guys, Jimmy John's, Potbelly Sandwich, and The Arrogant Butcher. They essentially pay a subsidized rent within CityScape because the owners of the space deeded the property to the City of Phoenix. Again, under GPLET they will pay no property taxes for eight years and following that they will pay a fractional amount for the remaining 25 years.

A more glaring example of tax disparity can be found in the hotel business. In FY2014, the Hyatt Regency (700 rooms) in downtown Phoenix paid just shy of $2 million in property taxes while the Sheraton across the street (1,000 rooms), a GPLET property, paid none.

From a tax perspective, Deseg/OCR causes significant tax inequities. A taxpayer is better suited in Scottsdale Unified, whose combined property tax rate in FY2014 for K-12 education was $4.58. Scottsdale Unified also levies for Deseg/OCR, but a far smaller amount at roughly $300 per pupil. The same is true for Mesa Unified, who also levies a small per-pupil amount for Deseg/OCR; their FY2014 tax rate combined was $7.44.

Districts without Deseg/OCR tend to have far lower tax rates, such as Kyrene Elementary/Tempe Union ($6.94), Deer Valley Unified ($6.59) Chandler Unified ($6.46), and Cave Creek Unified ($2.36).

Other school districts with significant levies for Deseg/OCR are Tucson Unified, whose $63 million allows them to spend an additional $1,360 per student on top of their statutory budget level. Tempe Elementary levies $14 million for OCR which gets them an extra $1,274 per head. Wilson Elementary only takes $2 million but it gets them an extra $1,648 per student. In total, 18 school districts levy $210 million annually across the state for Deseg/OCR. It is one of the largest disturbances in equitable M&O spending in the state. It is also a significant contributor to property tax inequity in a system that envisioned taxpayers paying roughly the same rate for K-12 M&O financing.

-Sean McCarthy