

ATRA SUPPORTS SB1097

SINGLE ASSESSMENT RATIO

SUMMARY

SB1097 provides that all property, on a prospective basis, pay equally for voter-approved taxes. From and after June 30, 2001, property taxes levied to fund debt service on future voter-approved bonds and overrides of counties, cities and towns, community college districts, and school districts would be financed using a 10% assessment ratio for all classes of property.

The bill will not change any existing or future property tax levies that have already been approved by the voters. Any levies paid on an equal basis must be approved by the voters after June 30, 2001.

Basis for ATRA's Support

Although Arizona has about average reliance on the property tax when compared to other states (Arizona ranks 31st in per capita property tax collections), Arizona's method of distributing the burden causes a number of problems for Arizona. Arizona has ***nine classes of property***, second only to Minnesota in the number of classes employed. Arizona taxes the majority of business property at 25% of its value. Homes, on the other hand, where the majority of the state's taxable property lies, are taxed at 10% of the value.

There are two primary policy concerns that result from Arizona's use of the classification system:

1. The higher ratios on business property result in much higher tax burdens on those properties. The enclosed table of Arizona's effective tax rates shows that the property tax burden on commercial and industrial property (3.01%) is three times higher than residential (1.12%). The dramatic disparity in business vs. homeowner property taxes is also reflected in the enclosed tables showing Arizona's national rankings in these categories. Arizona homeowners rank in the bottom quartile (38th) while industrial property ranks amongst the highest in the country (4th). The practical effect of these rankings is that very few capital-intensive manufacturers are willing to locate in Arizona without some form of a tax break. Many of the recent manufacturing plants have been placed in foreign trade zones (class 6) which are taxed at only 5% of value. While this proposal would not change these rankings immediately, it would begin to reduce the disparities over time.
2. Second, the subsidy provided to the homeowner/voter undermines accountability for local government spending. There are many negatives associated with Arizona's property tax classification system and the most significant is that it insulates the homeowner/voter from the true cost of government spending. While the system arguably makes for good politics, it is certainly poor public policy. The enclosed pie chart reflects the increase in secondary (voter-approved) property taxes since 1980. Those taxes have climbed from \$162 million to \$1.3 billion – an increase of 710%.

This proposal, beginning June 30, 2001, would strengthen the link between taxing entities and voters.



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