

ATRA SUPPORTS HB 2685

Stop the property tax increases

BACKGROUND:

Both commercial and residential property values have increased dramatically in the last two years. Without some legislative action taken to prevent it, those increased property values will result in property tax increases across Arizona. In the last five years, Arizona's net assessed valuation has climbed \$17.1 billion or 54%. Recent market activity will force county assessors to increase taxable valuations at an even higher percentage.

ATRA'S RECOMMENDATION:

TAX RELIEF: When property values increase, the only way to protect property taxpayers from significant increases in their tax bills is to **reduce tax rates**. ATRA recommends that the legislature direct tax relief this year to property taxes by either eliminating or significantly reducing the county education equalization rate. The legislature could provide roughly \$205 million in property tax relief through the elimination of this rate, which is currently set at \$0.4358. *(Although labeled a "county education" rate, this tax rate is controlled by the state and its elimination would not affect the funding for either county government or K-12 schools.)*

STOP THE BACKFILL: The fear of most property taxpayers is that local governments will ride the significant property valuation growth to huge tax increases by failing to adjust tax rates downward. In order to ensure that taxpayers see the effect of the state's effort to reduce rates, ATRA recommends that the legislature mandate that each county, city or town and community college district adopt their Truth-in-Taxation (TNT) rate for tax year 2006. This provision does not require local governments to reduce taxes. It simply requires them to participate in the effort to mitigate the damage that could be done with huge property tax increases.

TNT COMPLIANCE: Arizona's TNT laws, passed in the late 1990's, have had varied success. As the charts on the accompanying page reflect, TNT at the state level (the state's requirement to adjust to the qualifying tax rate (QTR) for K-12 schools and the county education equalization rate) has been very successful. The state has adopted the TNT rates every year since the law has been in effect, however at the local level, TNT has been less successful. Despite dramatic growth in property values, the primary tax rates of counties, cities and community colleges have not decreased accordingly. ATRA recommends that, beginning in tax year 2007, counties, cities and community colleges be required to receive voter approval before exceeding their TNT limit two consecutive years in a row.