



The taxpayer's watchdog for over 65 years

ARIZONA TAX RESEARCH ASSOCIATION

2006 LEGISLATIVE PROGRAM

STATE BUDGET

ATRA has aggressively monitored and publicized Arizona's on-going state general fund structural deficit. For the last six fiscal years, the state legislature and Governor have adopted spending plans that exceeded on-going revenue. Fortunately, the fiscal year (FY) 2006 budget reduced the overall deficit from \$534 million in the adopted FY 2005 budget to \$273 million for FY 2006. Arizona's state spending continues to climb at rapid clip, with FY 2006 spending up 14% over FY 2005. (When the \$250 million cash financing for SFB is excluded, state spending growth drops to 10.7%).

Current revenue estimates will again provide the Legislature and Governor the opportunity to close the budget deficit and avoid the budget gimmickry that has characterized recent state budgets.

ATRA will again make specific recommendations (see attached) to the Legislature where opportunities exist for better financial management and, frankly, to clean up sloppy state spending practices. In addition to adopting a truly balanced budget, ATRA recommends that the Legislature make a serious effort in 2006 to improve its budgeting process.

TAXATION

Property Tax

The 2005 Legislative session was highlighted by the passage of a property tax reform measure (HB 2779) that will lower the assessment ratio on class one property from 25% to 20% over the next decade. While that reform is a major step in addressing Arizona's high business property taxes, it is important to recognize that the benefits of the assessment ratio reduction will not be realized for several years.

In an effort not to exacerbate Arizona's business property tax problem, ATRA has successfully advocated for compliance with the state Truth-in-Taxation law for seven straight years. In addition, ATRA has successfully opposed efforts to raise property taxes at the state level.

Tax reductions will likely be a major issue in the 2006 session. ATRA has consistently recommended that state tax reductions be directed towards property taxes. Directing tax relief to property owners in 2006 would help offset property tax increases that will occur statewide as a result of growth in real estate values. ATRA will pursue the following recommendations in the property tax:

- State Truth-in-Taxation (TNT) Compliance – ensure the Legislature adopts the TNT rates for the FY 2007 state budget.
- Property Tax Relief – direct available tax cut revenues to reductions in the county (state) education equalization rate. The current rate of \$.4358 will raise \$204 million in FY 2006. Each cent raises approximately \$4.6 million.
- Stop the Backfill – to ensure that property taxpayers receive the benefit of a state level property tax reduction, local governments (counties, cities and community colleges) would be required to adopt their TNT rates for the tax year 2006.
- TNT Compliance – beginning in tax year 2007, counties, cities and community colleges would be required to receive voter approval before exceeding their TNT limit for two consecutive years.

School Finance

- Tax Rate Cap/1% Districts – pursue legislation to cap the primary tax rates of school districts with a combination of 50% or more of their residential taxpayers at the 1% cap and a primary rate 150% of the QTR. Enforcement would be given to the Property Tax Oversight Commission.
- Capital Outlay Overrides – pursue legislation to limit capital outlay overrides to 100% of school district's Capital Outlay Revenue Limit (CORL).
- Transportation Spending – pursue legislation to prohibit increases in a school district's transportation revenue control limit (TRCL) if the calculated amount exceeds 120% of the transportation support level (TSL).

Sales Tax

- Sales Tax Exemptions – oppose efforts to make wholesale changes to the state's sales tax base through the elimination of exemptions or expansion of the sales tax base.
- Prime Contracting – pursue the creation of a legislative committee, including representatives from all interested parties, to study issues relating to Arizona's prime contracting tax.

Corporate Income

- Net Operating Loss Carryforward – support legislation to extend the current 5-year limit on net operating loss carryforwards to 20 years.
- Federal Conformity – continue to support full state conformity with the Federal IRC.

PUBLIC FINANCE

- Students FIRST Reform – (refer to separate sheet).
- Public Health Service Districts – pursue legislation that would require a county board of supervisors to receive voter approval prior to creating a Public Health Service District.
- County Budget/Tax Amendments – pursue the following technical changes to county finance laws:
 1. Require counties to reflect all available revenues in their adopted budgets.
 2. Require counties to separately state in their published tax rates and assessed values the secondary levies for K-12 school district class A bonds, class B bonds, M&O overrides, K-3 overrides, and capital outlay overrides.
 3. Clarify that the published net assessed values used to set property tax rates not include in-lieu values of exempt property.
- Unclaimed Property – pursue legislation prohibiting the Department of Revenue’s ability to employ auditors on a contingency basis. Also, create consistency between the confidentiality provisions in the unclaimed property statutes and title 42.

OTHER ISSUES

- TABOR/Budget Stabilization
- Florez/ELL funding
- School District Excess Utilities – attempt by the K-12 lobby to roll current excess utilities levies (scheduled for elimination in 2009) into new state-funded formulas.
- Higher Education Funding Reform
- Hospital Districts – seeking increase in property tax levy cap