



The taxpayer's watchdog for over 65 years

ARIZONA TAX RESEARCH ASSOCIATION

2008 LEGISLATIVE PROGRAM

STATE BUDGET

ATRA will make specific recommendations to the Legislature regarding opportunities for budget cuts to address the deficit as well as better financial management to clean up sloppy state spending practices. (Refer to separate document on budget recommendations.)

TAXATION

Property Tax

For the last two years, ATRA has led the effort to control property tax increases associated with dramatic property valuation growth. In 2006, policymakers were persuaded to reduce state property taxes while at the same time preempting local governments from increasing primary property taxes. In addition, the Legislature referred, and the voters approved, Proposition 101 to ensure that the constitutional levy limits on primary property taxes were current and that local governments would be required to reduce tax rates when values climbed.

As a result of the one-year separation between the property valuation calendar and the tax calendar, the large valuation increases of 2006 are hitting tax bills for the first time this year. For the most part, the efforts to reduce primary tax rates produced positive results with total levies limited to 7.1% growth and a 51-cent (7%) decrease in the state average primary rate. Over the last two years, primary levies rose only 9.2% with the average rate falling \$1.08 (13.8%). On the other hand, secondary levies (in many instances, voter-approved) grew at a greater rate of 28% over the last two years. The increases in secondary property taxes are fostering considerable unrest among taxpayers while also providing fertile ground for Prop 13 style property tax limitation initiatives.

ATRA will pursue the following recommendations in the property tax:

Primary Property Taxes

- **Make The Tax Cut Permanent** – repeal the state equalization rate tax increase scheduled for 2009
As noted above, the Legislature's actions over the last two years to reduce tax rates in the face of growing property valuations was the correct policy response to avoid huge property tax increases. Reversing that policy by increasing property taxes in 2009 will undermine and reverse all of the previous efforts to manage a crisis in Arizona's property tax system.
- **State Truth-in-Taxation (TNT) Compliance** – ensure the Legislature adopts the TNT rates for the FY 2009 state budget.

Secondary Property Tax Reforms:

The majority of secondary property taxes are voter-approved overrides and debt service levies on voter-approved bonds, and therefore, have some limitations on growth. However, as noted above, there are a number of areas in the secondary tax that need reform if taxpayers are to be protected from significant tax increases when valuations climb.

- **Limit County Flood Control Districts, Library Districts, Public Health Service Districts, Jail Districts and Television District levies** – these countywide special district levies would be limited to the same percentage growth as the annual increase in the county's primary levy limit.

- Limit Fire District levies – increases in fire district levies (excluding debt service) would be limited to 2% plus growth – the same formula applied to the operational levies of other local governments.
- General Obligation Debt Service Reforms:
 - Prohibit local governments from requesting approval for G.O. debt in excess of their debt limitations.
 - Limit G.O. bond refinancing to interest rate savings and prohibit changes in the debt service schedule for the payment of outstanding principal.
 - Prohibit local governments from levying more for debt service than that required for the current fiscal year.

School Finance

- Tax Rate Cap/1% Districts – 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 would be capped. 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).

Corporate Income

- Net Operating Loss Carryforward – support legislation to extend the current 5-year limit on net operating loss carryforwards to 20 years.
- Research and Development Tax Credit – support legislation to increase the credit.

Public Finance

- Students FIRST Reform – (refer to separate sheet).
- Initiative Reform – support legislation directed at reforming the state’s initiative process.
- 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 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.

Other Issues

- School Finance:
 - Excess Utilities
 - Career Ladders
 - Desegregation/OCR
- Higher Education Funding Reform
- Government Property Lease Excise Tax