# ATRA SUPPORTS HB2360

## *General Obligation Bond Reform*

## Background

General obligation bonds (G.O.) are sold to finance capital projects for Arizona local governments. The debt service for G.O. bonds are financed with secondary property tax levies. Because a G.O. bond is backed by the full faith and credit (unlimited property taxes) of the taxing jurisdiction, voter approval is required before selling them.

In most instances, local governments requesting approval to sell G.O. bonds are required to mail publicity pamphlets to each registered voter. The pamphlets provide a variety of information, including the length of the debt service schedule and the estimated tax rates necessary to fund the annual debt service payments. The pamphlets also estimate the cost of the bonds on both homes and businesses.

In recent years, secondary property taxes in Arizona have skyrocketed. Over the last five years, secondary taxes climbed 65%. Beginning in 2005, significant increases in real estate values fed dramatic increases in debt service levies for G.O. bonds. Theoretically, as property valuations climb, the tax rates to finance the debt service levies for bonds should fall. However, in too many cases, jurisdictions simply left the tax rate the same and collected significantly more than the annual payment required. Other jurisdictions refinanced outstanding bonds to shorten the debt service schedule to ensure that tax rates would not decrease as values climbed.

## ATRA's Support of HB2360

### Increasing Transparency in Publicity Pamphlets

In order to provide transparency for taxpayers, HB2360 makes changes to the information publicity pamphlet for G.O. bond elections. First, the property tax example in the pamphlet is required to grow at half the rate (currently remains constant) of the annual projected increase in the secondary assessed value growth in order to give taxpayers a realistic understanding of the tax impact the bonds will have on their property. Second and if applicable, the information pamphlet must state that the amount of the proposed bonds authorized combined with the current outstanding debt exceeds the political subdivision's constitutional debt limit.

Lastly, the call for a G.O. bond election must state the minimum number of years in which the bonds will be issued, the current outstanding G.O. debt, and the constitutional debt limit of the political subdivision.

### Refunding Reform

To resolve some of the abuses in the refunding of bonds, ATRA negotiated a solution to the problem with city representatives to allow bonds to be refunded without an election if the weighted average maturity of the refunding bonds is at least 75% of the weighted average maturity of the bonds being refunded.

## *ATRA ASKS FOR YOUR SUPPORT OF HB2360*

**ARIZONA TAX RESEARCH ASSOCIATION**

*1814 West Washington Street, Phoenix, Arizona 85007* *(602) 253-9121*

*www.arizonatax.org* *Serving Arizona's Taxpayers Since 1940*