



The taxpayer's watchdog for over 70 years

ARIZONA TAX RESEARCH ASSOCIATION

2015 LEGISLATIVE PROGRAM

Introduction/State Budget

ATRA's legislative program is developed each year with recognition that the Legislature's highest priority for the session should be passing a state budget that is not only balanced but is sustainable in future years. State law now requires the Legislature, in conjunction with the passage of the General Appropriations Act, to also reflect revenues and expenditures for the following three years. The major issue facing state policymakers is ensuring that one-time revenue (rainy day fund and cash balance) is not appropriated for on-going spending that cannot be sustained in future years.

The development of the Fiscal Year (FY) 2016 budget promises to be a significant challenge for the Governor-elect Ducey as well as the 52nd Legislature. The Joint Legislative Budget Committee (JLBC) estimates the current FY 2015 shortfall at \$189 million and the FY 2016 shortfall at \$667 million. The Superior Court K-12 inflation ruling would further increase those deficits to \$520 million in FY 2015 and \$1 billion in FY 2016.

ATRA will provide updated state budget recommendations to the Legislature in January after the Joint Legislative Budget Committee (JLBC) and the Office of Strategic Planning and Budgeting (OSPB) have submitted their recommendations for the FY 2016 budget.

Taxation

Property Tax

Arizona property taxpayers have experienced historic instability in the last ten years. Following record increases in net assessed values (NAV) from 2003 to 2008, statewide NAV plummeted between tax years 2009 and 2013. Tax year 2014 marks the first year since 2009 that statewide NAV has not decreased. However, despite a 5.2% increase in NAV in 2014, the statewide average tax rate climbed for the fifth year in a row to \$12.67. The statewide average tax rate is the highest rate since 2000 and is now up \$3.47 from the low point of \$9.20 in 2009.

The looming state budget deficits, coupled with the on-going threats associated with various school finance lawsuits, put property taxpayers in jeopardy of seeing further increases in tax rates.

For the 2015 session, ATRA will oppose efforts on the part of Arizona local governments and special districts to increase access to the property tax base.

Property Tax Reform vs. Targeted Property Tax Breaks. ATRA has led the effort to reform Arizona's property tax system and reduce the disparity in tax treatment between business and residential property. As a result of previous ATRA-backed legislation passed in 2005, 2007, and 2011, the effective tax rate on business properties has improved from 3rd highest in the country to 13th, according to the most recent statistics from the Minnesota Center for Fiscal Excellence. In addition, repeated efforts to decrease the tax burden on business equipment through enhanced accelerated depreciation have dramatically reduced the exposure to that punitive tax. In addition, small businesses have benefited from an increase in the personal property tax exemption from \$68,079 to \$141,385. Through ATRA's consistent efforts, Arizona's competitive tax position for Arizona businesses has significantly improved compared to a decade ago.

The steady progress made in addressing Arizona's high business property tax problem is the direct result of policymakers addressing the root cause of that problem: the shift of taxes from residential properties to business through higher assessment ratios on business property. To their credit, over the last decade, policymakers largely rejected calls to address the problem through rifle-shot tax breaks to specific industries. ATRA continues to support policies that provide for equitable treatment among property taxpayers and will oppose efforts that undermine that important policy principle. Along with other organizations that oppose targeted tax breaks for specific industries, ATRA has been successful in recent sessions in defeating legislation to expand class six (5% assessment ratio) to targeted industries.

For the 2015 session, ATRA will pursue the following property tax legislation:

Phase Out Deseg/OCR Levies – ATRA will pursue legislation to phase out, over five years, the Deseg/OCR levies being imposed by 18 Arizona school districts. (Sen. Lesko)

Countywide Secondary TNT Limits – ATRA will pursue legislation to require the following countywide special taxing districts to comply with the Truth-in-Taxation limits in state statute: Library Districts, Public Health Services Districts, Flood Control and Jail Districts. (Rep. Mitchell)

General Obligation Bond Ballot - ATRA will pursue legislation to require the ballot language for general obligation bond elections to reflect that the bond will be paid through an increase in secondary property taxes. (Rep. Mitchell)

Sales Tax

The 2013 legislative session was highlighted by the passage of HB2111, a historic measure that made significant progress toward reforming the administration of what was arguably the most complicated and chaotic sales tax system in the country. The 2014 session marked the passage of legislation requiring state level uniform licensing and filing. Regrettably, a key feature of the 2013 reforms, state level collection of all state and local sales taxes, will be delayed until 1/1/16.

Arizona's sales tax system still falls short of both ATRA's long-term policy goals, as well as the current federal requirements proposed under the Marketplace Fairness Act.

For the 2015 session, ATRA will support the following sales tax legislation:

Pole Attachments – ATRA will support legislation clarifying that licensing agreements are not taxable under the transaction privilege tax as rental of tangible personal property.

TPT Customer Claims: ATRA will support legislation that will provide an alternative claims process for customers to file for a refund in an amount equal to the taxes paid by the vendor. This will provide customers with a remedy in situations when the vendor is either unwilling to pursue a refund or the vendor is no longer in business.

Prime Contracting/TPT Reform Clean-up – ATRA will pursue legislation to address both technical and substantive issues associated with the implementation of the TPT Reform legislation from 2013. (Sen. Lesko)

Public Finance

Community College Expenditure Limit Accountability – ATRA will pursue legislation requiring community college expenditure limit audits to be calculated using actual instead of estimated Full Time Student Equivalents (FTSE). (Rep. Olson)

Annual Budget Publication and Audit Accountability – ATRA will pursue legislation to create penalties for local governments that fail to meet the required deadlines for the publication of their financial audits. (Sen. Pierce)

Use of Public Funds to Influence the Outcome of Elections – ATRA will pursue legislation to tighten the current restrictions on the use of taxpayer money for electioneering of local governments bond and override elections. (Rep. Petersen?)

Limits on Award of Fees in Tax Cases – ATRA will support legislation to remove the limit on attorneys' fees for tax matters in court. The award of fees will be governed by the same laws that apply for other civil matters decided by the court.

Other Major Issues

- Single Valuation/Tax Year for Property Taxes – County Assessors
- Public Pension Changes (PSPRS) – Fire and Police Unions
- County Sales Tax Rate Expansion - County Supervisors Association
- Fire District Property Tax Rate Expansion – Fire Districts and Fire Union