Current Property Tax Issues
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Major Property Tax Reform
Passed in 2005

- Arizona’s Property Tax System was the focal point of two major studies of Arizona’s Tax System in recent years (CFRC & TRAC).

- The 2005 Legislative Session was highlighted by the passage of HB 2779 that reduces assessment ratios on class one property from 25% to 20% over the next ten years.
ATRA’s Focus on Property Tax Reform

- Decrease inequities in current system.
- Control growth in property tax levies.

**Success on both fronts:**

- HB 2779 - 20% reduction in class one assessment ratio.
- State Average Tax Rate decrease from $13.27 in 1995 to $11.56 in 2005.
So What’s Next?

First, it is important to remember that the problems that existed prior to the passage of HB 2779 will still exist for some time. Those problems are:

- High Business Property Taxes
- 1% Residential Cap
- Accountability
Controlling Growth in Property Taxes

- Second, increasing property valuations will continue to drive concerns about associated property tax increases.
- Arizona’s net assessed value has climbed $17.1 billion or 54% in the last five years.
- Recent market activity will drive further increases in the 2006 values to be sent out early next year.
Controlling Taxes through Limiting Values?

- Past proposals to limit valuation increases would have exacerbated current problems in the property tax system.

- Further limits on valuations, whether on primary or secondary, or both, would put upward pressure on tax rates.

- Lower residential values combined with increasing tax rates would drive more residential properties over the 1% cap.
Further limits on value will result in inequities in similarly situated properties.

Depending on the percentage limit, the values for new construction will be significantly higher than older properties that have not changed owners. This will create further policy problems if a new limit were to also be applied to secondary values.
ATRA Recommendations

Focus on the problem - taxes not value

- Focus attention on the real cause of tax bills increasing during a hot real estate market - tax rates.

- Current Truth-in-Taxation laws work when they are adhered to.
5-Year Valuation Growth

Tax Year

2000 2001 2002 2003 2004 2005

NAV (In Millions)

$25 $30 $35 $40 $45 $50

Primary NAV
Secondary NAV

$29.9 $32.5 $34.5 $36.8 $40.8 $44.5 $48.9

$31.8 $34.5 $36.8 $40.8 $44.5 $46.0 $48.9

$41.9 $38.3 $36.8 $40.8 $44.5 $46.0 $48.9
Recent History of Rates

Statewide Average Tax Rate (2000-2005)

Per $100 of Assessed Value

Year

2000 2001 2002 2003 2004 2005

Primary
Secondary
Total
Truth in Taxation

Success with the state level TNT

QTR & County Ed Rate

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<thead>
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<th>Year</th>
<th>Rate</th>
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<tbody>
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<td>2005</td>
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Truth in Taxation

Less success at the local level

<table>
<thead>
<tr>
<th>Year</th>
<th>Counties</th>
<th>Cities</th>
<th>Comm. Colleges</th>
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Average Secondary Rates

K-12 Statewide Secondary Average Tax Rate

- 2000: $2.42
- 2001: $2.00
- 2002: $2.10
- 2003: $2.20
- 2004: $2.30
- 2005: $2.40

Year

Rate

$2.50
$2.40
$2.30
$2.20
$2.10
$2.00
Average Secondary Rates

- **Counties**: $0.54, $0.55, $0.55, $0.55, $0.53, $0.53
- **Cities**: $0.54, $0.52, $0.49, $0.49, $0.46, $0.46
- **Comm. Colleges**: $0.44, $0.45, $0.46, $0.46, $0.46, $0.46
- **Special Districts**: $0.15, $0.13, $0.46, $0.16, $0.13, $0.15

ATRA Recommendations for 2006

TAX RELIEF

- Target tax relief to property taxes. Reductions in either the Qualifying Tax Rate (QTR) or the County Education Rate. The current county education rate of $0.4358 will raise $204 million in FY 2006.
ATRA Recommendations (cont.)

- **Stop the backfill** - For tax year 2006, require counties, cities and community colleges to levy their TNT rates.

- **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.