ATRA Outlook Conference
Current Property Tax Issues

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Major Policy Changes to Arizona’s Property Tax System

• Major studies pointed to the same problems:
  
  ✓ One of the most complicated systems in the country
  
  ✓ Inequities lead to high business property taxes
  
  ✓ Controlling growth in levies in the face of skyrocketing values
Major Pieces of Legislation Passed By The 47th Legislature

2005 Session:
- HB 2779 – major tax reform measure that reduced the assessment ratio on class one property from 25% to 20% over 10 years – beginning in 2006

2006 Session:
- Major property tax relief ($215 million) provided as part of three-pronged attack on property tax increases resulting from skyrocketing valuation growth
- Pre-emption of local governments from raising primary taxes
- Public votes to exceed the 2006 levies in the future (Prop 101)
2006 Legislation Successful

- 2006 Overall levies grew only 5.1%
- State average primary rate fell 57 cents for 2006
- Primary levies grew only 2%
- Notable: Despite state TNT and HB 2876 preemption of locals raising taxes...
  - County primary levies still climbed 7.4%
  - City primary levies climbed 8.5%
  - Community Colleges 8.5%
State Level Success of Truth in Taxation

K-12 Statewide Primary Average Tax Rate

Average Tax Rate

$5.00

$4.80

$4.60

$4.40

$4.20

$4.00

$3.80

$3.60

2000 2001 2002 2003 2004 2005 2006

Tax Year

$4.85 $4.88 $4.87 $4.69 $4.45 $4.20 $4.13
TNT – Less Success at the local level

Less Success at the local level

Counties
Cities
Community Colleges

Tax Year

Average Tax Rate

$2.00
$1.75
$1.50
$1.25
$1.00
$0.75
$0.50
$0.25

$1.72 $1.73 $1.76 $1.75 $1.75 $1.74 $1.69
$1.03 $1.02 $1.03 $1.02 $1.01 $0.99 $0.97
$0.38 $0.37 $0.38 $0.39 $0.39 $0.39 $0.38
2006 Secondary Levies

- Secondary levies show record growth of $206 million (11.2%)
  - Community Colleges up 29.4%
  - Counties climb 17.4%
  - Special Districts up 14.9%
  - Cities up 8.6%
  - Schools climb 8.2%
What Limits Exist For Secondary Levies??

- General Obligation Bonds – voter approval for fixed debt levels
- K-12 Budget Overrides:
  - M&O levies limited to 5% or 10% of the school budget – which is limited through state law
  - Capital levies are limited to a fixed amount approved at the ballot
- Special Districts:
  - Generally only have rate caps. Levies are not limited (i.e. Fire Districts, Flood Control)
Secondary Levies Problem Areas

• General Obligation Bonds – valuation growth leads to refinancing of debt or new bond elections to keep the rate from falling
• K-12 Overrides – voters approve 10% of a future unknown number
  -Budget increases, Prop 301, State Approps drive increases in override levies
• Special districts-valuation growth can result in significant tax increases because of lack of levy limit
ATRA Recommendations for 2007

• Speed up reduction in phase down of class one assessment ratio from 10 to 6 years

• Make the 2006 tax cut permanent

• Secondary property tax reforms:
  - Levy limits for countywide special districts. Limit increase in levies to same percentage of primary levy limit
  - Limit K-12 M&O overrides to a fixed levy approved at the ballot – similar to county and college levy limit overrides
  - Limit K-12 capital overrides to a fixed levy capped at percentage of the district’s capital outlay revenue limit