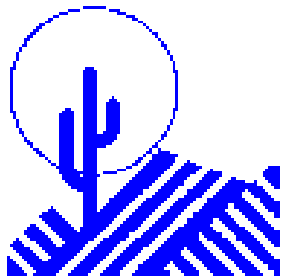


Presentation to the Citizens Finance Review Commission

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Arizona Tax Research Association

Topics to Cover

- National Statistics and Arizona Policy Decisions
- The Performance of Arizona's Tax System - Two Decade Analysis
- ATRA Key Recommendations

National Statistics & Arizona Policy Decisions

- National comparisons are inevitable when analyzing a state and local fiscal system.

However, a few words of caution...

- Be very careful with the data if you intend to base policy decisions on it.
- Aggregate per capita or personal income statistics have limited value in analyzing tax burdens.

How Arizona Compares

- Bureau of Census is the primary source of data on **aggregate** tax burdens.
- However, ATRA's research indicates significant errors in Arizona's data, some confirmed by the Census Bureau, which understates Arizona's overall tax burden.

Total State & Local Tax Collections

FY 2000 Census Bureau

Per Capita: \$2,599

Ranking: 36

Per \$1,000 of Income: \$110.88

Ranking: 24

Per Capita vs. Personal Income

Total State & Local Tax Collections

(adjusted for error)

FY 2000 Census Bureau

Per Capita: \$2,731

Ranking: 30

Per \$1,000 of Income: \$116.52 Ranking: 15

Adjustment for error in total tax collections includes (in thousands):
\$430,046 in additional VLT and \$248,596 for Maricopa County Road Tax.

How Arizona Compares: ATRA's View

- In the aggregate, Arizona's tax collections are in the mid range compared to other states.
- At a minimum, the data should not lead to the conclusion that overall taxes are low and should therefore be increased.

Snapshot of our Tax System

Average overall reliance

- High Sales Taxes
- Average Property Taxes
 - High Business Property Taxes
 - Low Homeowner Property Taxes
- Low Personal Income Taxes

Performance of Arizona's Tax System

Two Decade Analysis 1980 - 2000

- Arizona's tax system is far from perfect and in need of reform in some key areas;
- However, as a revenue producer the system has performed quite well over the last two decades.

How has the system performed?

Per Capita Tax Collections (1980-1990-2000) *(inflation adjusted to 1980 \$)*

Year	Per Capita	Decade change	%
1980	\$938.36		
1990	\$1,229.32	\$290.96	31.0%
2000	\$1,422.69	\$193.37	15.7%
1980 to 2000 growth:		\$484.33	51.6%

Per Capita Property Tax Collections 1980-1990-2000

(inflation adjusted to 1980 \$)

Year	Collections	Per Capita	Decade change	%	Inflation adjusted	Decade change	%
1980	\$821,596,042	\$302.28			\$302.28		
1990	\$2,506,010,794	\$680.83	\$378.55	125.2%	\$444.11	\$141.83	46.9%
2000	\$3,874,688,668	\$767.68	\$86.85	12.8%	\$408.25	-\$35.85	-8.1%

1980 to 2000 growth:

\$465.40 154.0%

\$105.97 35.1%

Per Capita Sales Tax Collections 1980-1990-2000

(inflation adjusted to 1980 \$)

Year	Collections	Per Capita	Decade change	%	Inflation adjusted	Decade change	%
1980	\$983,075,114	\$361.69			\$361.69		
1990	\$2,341,449,197	\$636.13	\$274.44	75.9%	\$414.95	\$53.26	14.7%
2000	\$5,264,576,318	\$1,043.05	\$406.92	64.0%	\$554.69	\$139.75	33.7%

1980 to 2000 growth:

\$681.36 188.4%

\$193.00 53.4%

Per Capita Individual Income Tax Collections 1980-1990-2000

(inflation adjusted to 1980 \$)

Year	Collections	Per Capita	Decade change	%	Inflation adjusted	Decade change	%
1980	\$319,339,473	\$117.49			\$117.49		
1990	\$996,405,685	\$270.70	\$153.21	130.4%	\$176.58	\$59.09	50.3%
2000	\$2,291,882,439	\$454.08	\$183.38	67.7%	\$241.48	\$64.90	36.8%

1980 to 2000 growth:

\$336.59 286.5%

\$123.99 105.5%

Arizona's Tax System & The Three-Legged Stool

- The two-decade tax analysis also allowed us to look at the relative changes in the make-up of our tax system.

- The 3-legged tool has seen minimal change:

	<u>1980</u>	<u>2000</u>
Sales	38%	39%
Property	32%	29%
Income	17%	21%

ATRA Recommendations: General Comments Tax Reform

- “Tax reform” has been an on-going process for ATRA for the past decade.
- Many improvements have been made in property and sales tax systems.
- ATRA’s recommendations will continue to focus on **both** sound fiscal policy as well as realistic expectations.
- Drain the ocean vs. Targeted reform?
- **Do No Harm!**

ATRA Recommendations: Property Tax

- ATRA believes the most pressing issue in Arizona's tax system is the effect of the classification system on business property taxes.(As high as 3rd in the country)
- There are two ways to deal with this problem:
 - 1. Reduce property taxes overall
 - 2. Create equity across the classes

ATRA Recommendations: Property Tax (continued)

- Considering the importance of the property tax for both state and local government significant reductions in the property tax are unrealistic.
- That leaves equity as the only other avenue to begin addressing the problem of high business property taxes.

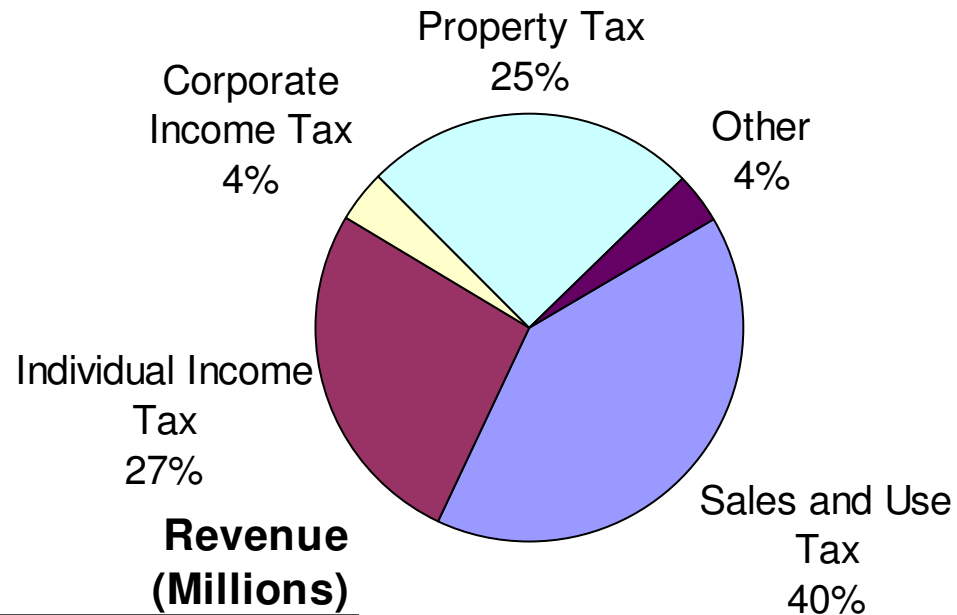
Key Property Tax Recommendations:

- Single Assessment Ratio for all future voter approved bonds and overrides.
- Control future growth of property tax levies (for all classifications)
- Address high school district primary property tax rates (desegregation, small schools, etc.)
- Manage 1% cap

State Property Taxes

- Recommendations to levy a new “state” property tax will clearly exacerbate our current problems.
- While the state does not have a statewide property tax rate for general fund purposes it very much relies on and benefits from property taxes.

FY 2003 State General Fund Revenue Including State Controlled Property Taxes

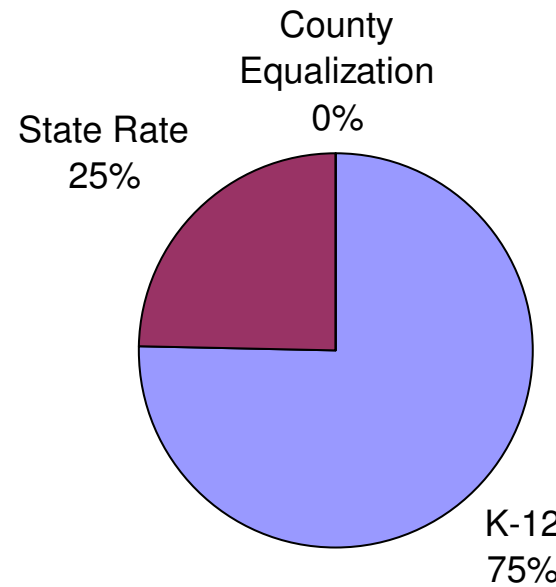


<u>Source</u>	<u>Revenue (Millions)</u>
Sales and Use Tax	\$3,046.2
Individual Income Tax	\$2,016.4
Corporate Income Tax	\$285.4
Property Tax	\$1,907.4
Other	\$297.5
TOTAL REVENUE	<u>\$7,552.9</u>

*Includes K-12 Primary Levies [$\$1,697,031,236 + \$21,903,614$ (SRP) = $\$1,718,934,850$], County Equalization [$\$170,402,602 + \$2,663,449$ (SRP) = $\$173,066,051$], and MQTR ($\$13,801,961 + \$1,643,144$ (SRP) = $\$15,445,105$].

State Primary Property Tax Levies Tax Year 1980

■ K-12
 ■ State Rate
 ■ County Equalization



	1980
K-12	\$298,798,420
State Rate	\$98,013,661
County Equalization	\$0
Total	\$396,812,081

**Per Pupil Primary
Property Tax Levies** **\$818.85**

Includes SRP voluntary
contributions.

State Primary Property Tax Levies Tax Year 1990

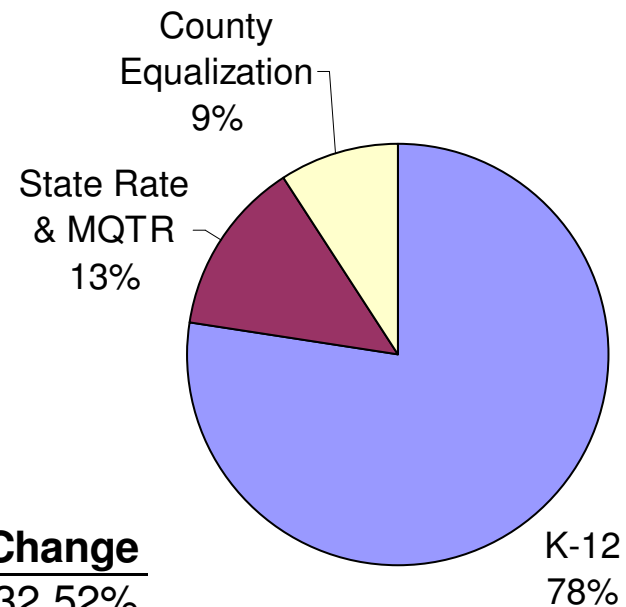
■ K-12
 ■ State Rate & MQTR
 ■ County Equalization

	1990
K-12	\$993,579,246
State Rate & MQTR	\$171,054,099
County Equalization	\$119,230,696
Total	\$1,283,864,041

**Per Pupil Primary
Property Tax Levies**

\$2,121.51

	\$ Change	% Change
K-12	\$694,780,826	232.52%
State Rate & MQTR	\$73,040,438	74.52%
County Equalization	\$119,230,696	100.00%
Total	\$887,051,960	223.54%



Includes SRP voluntary
contributions.

State Primary Property Tax Levies Tax Year 2002

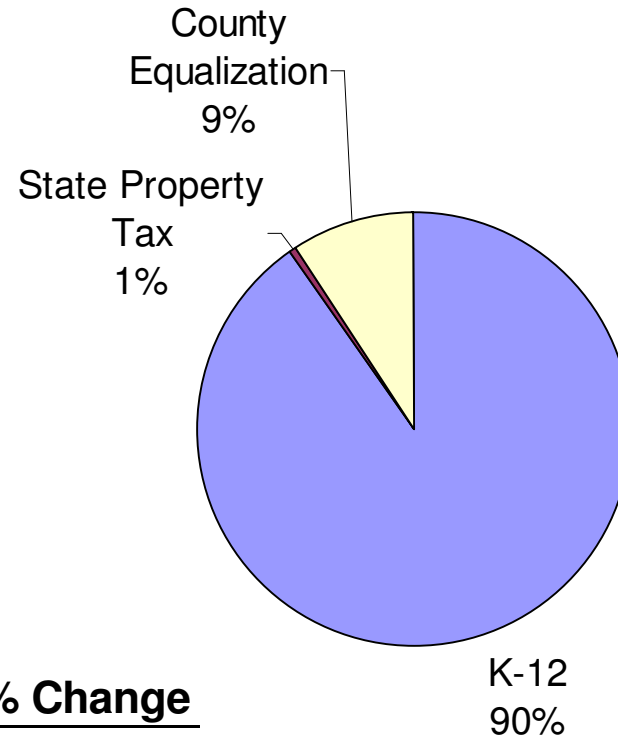
■ K-12
 ■ State Property Tax
 ■ County Equalization

	2002
K-12	\$1,718,934,850
State Rate & MQTR	\$15,445,105
County Equalization	\$173,066,051
	\$1,907,446,006

**Per Pupil Primary
Property Tax Levies**

\$2,113.96

	\$ Change	% Change
K-12	\$725,355,604	73.00%
State Rate & MQTR	-\$155,608,994	-90.97%
County Equalization	\$53,835,355	45.15%
Total	\$623,581,965	48.57%



Includes SRP voluntary
contributions.

ATRA Recommendations: Sales Tax

- Uniformity of the state and municipal sales tax base. (While complete uniformity of state and city sales tax bases are unrealistic, disparities should be limited)
- Maximum rate caps should be considered
- Exemptions not “loopholes”. Any consideration of expansion to the base should be done with great care and consideration of the state’s competitive position for economic development.

ATRA Recommendations: Income Tax

- Arizona should consider conformity with the federal government, for both corporate and personal income taxes, a very high priority.
- Arizona should change the corporate apportionment formula to 100% sales with an election for corporate taxpayers to stay with the current three factor formula.