

2004 Arizona Tax Conference

The Impact of New
Construction on
Public Finance in
Arizona

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Why is New Construction Important?

- Practical Impact:

- New value provides increased revenue for state and local government budgets

- Legal Impact:

- Centerpiece of the 1980 property tax reforms
- Later became key component of truth in taxation laws

1980 Property Tax Reforms:

- Direct use of new construction in our public finance structure started with 1980 property tax reforms
- Taxpayers were promised that annual property tax growth would be limited to 2% plus growth (incorporating some concepts from California's Prop 13)
- New construction needed to be separately accounted for in order to maintain that commitment

New Construction & Constitutional Tax Limitation

- Constitutional levy limits using new construction apply to:
 - Primary property taxes for counties, cities, & community colleges

What about State & K-12 schools?

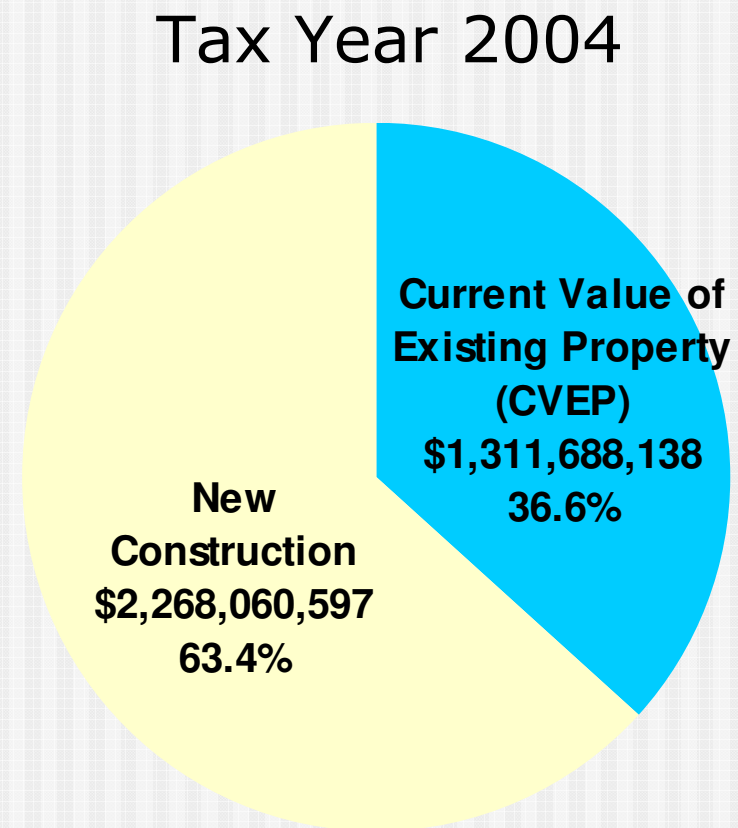
- No limit applied to secondary taxes-
taxpayers are on their own

Truth in Taxation (TNT)

- Beginning in 1997, new construction also became a key feature of the TNT laws for state, county, city and community college primary levies
- Growth in primary levies over current value of last year's property required public notice and vote of governing board
- Major difference from constitutional levy limits is that TNT applies to the state's qualifying tax rate (QTR) for schools and the county education equalization rate

The influence of new construction on the property tax base

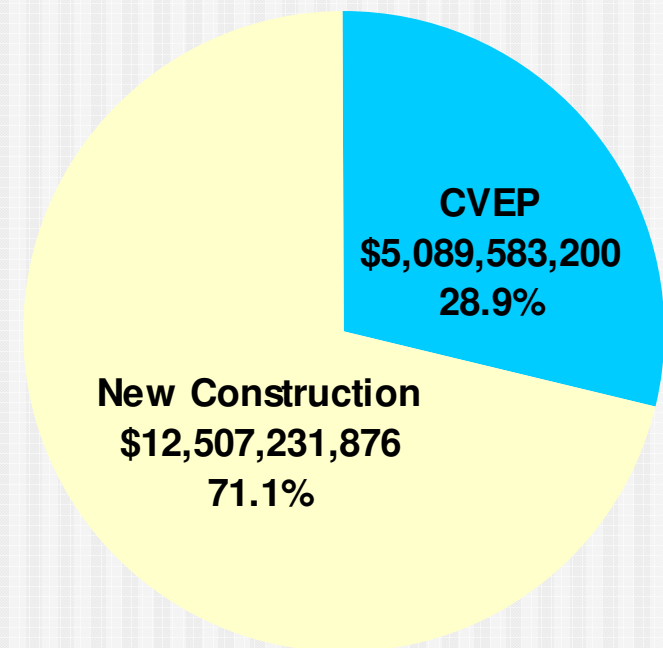
- For tax year 2004, statewide primary NAV climbed \$3,579,748,735 or 9.3%.
- New construction accounted for \$2,268,060,597 of this year's increased value or 63.4%



New construction since 1997

- Statewide NAV has grown \$17,596,815,076 or 72.5%
- New construction is responsible for \$12,507,231,876 or 71.1% of the growth

Tax years 1997-2004



New construction's effect on levies

- Primary property tax levies have climbed \$1,122,202,641 or 54% in the last 6 years (1997 through 2003).

New construction and primary rates

- Dramatic increases in new construction have reduced pressure on primary rates

Tax Year	Average Primary Rate
97	8.57
98	8.58
99	8.67
00	8.56
01	8.54
02	8.56
03	8.36

