Revenue and Budget Update
Arizona Tax Research Association
November 20, 2015

JLBC
Summary of Current Budget Status

- JLBC Baseline reflects revenue and statutory funding formula growth

- The projected ’17 one-time cash balance is $555M

- Up to $218M available for permanent initiatives without re-creating a long-run structural gap

- Remember lessons learned from the ’08 budget
Revenue Will Reach Pre-Recession Level in ’18

Excludes balance forward and other one-time revenues. Includes tax law changes and Urban Revenue Sharing.
Forecast Risks
- 1% Variance Yields $600 M Over 3 Years

Potential Gains
- National recovery creating more interstate migration

Potential Gain or Loss
- Estimate of ongoing ’15 gains

Potential Losses
- If historical average holds true, recession likely in this forecast cycle
Current Expansion Exceeds Historical Average

Length of Economic Expansions

- **45-48**: 37 months
- **49-53**: 45 months
- **54-57**: 39 months
- **58-60**: 24 months
- **61-69**: 106 months
- **70-73**: 36 months
- **75-80**: 58 months
- **80-81**: 12 months
- **82-90**: 92 months
- **91-01**: 120 months
- **01-07**: 73 months
- **09-?**: 75 months

- **Average**: 5
- **Now (2019)**: 120 months

# of months

- **Expansion**
- **Average**
### 1st Trimester Net Revenue Growth Slowed Significantly
- ’15 Driven by Capital Gains and Corporate Taxes

<table>
<thead>
<tr>
<th></th>
<th>’15 Above ’14</th>
<th>Thru Oct. Above ’15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>4.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Individual Income</td>
<td>8.6%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Corporate Income</td>
<td>15.3%</td>
<td>(4.7%)</td>
</tr>
<tr>
<td>Other</td>
<td>(14.5%)</td>
<td>3.2%</td>
</tr>
<tr>
<td>Total</td>
<td>6.1%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

- 1st trimester includes $46 M in tax amnesty collections, $31 M more than expected
- Without amnesty, 1st trimester is $90 M above forecast
- “Core” revenue growth remains disappointing --2.5% for sales, 1.2% for withholding
Volatility of Capital Gains Complicate Forecasting
- Final ’15 Capital Gain Receipts to be Determined

Estimated one-time $53 M

Individual Income Tax Capital Gains Revenue

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue (In M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>'02</td>
<td>216</td>
</tr>
<tr>
<td>'03</td>
<td>176</td>
</tr>
<tr>
<td>'04</td>
<td>224</td>
</tr>
<tr>
<td>'05</td>
<td>426</td>
</tr>
<tr>
<td>'06</td>
<td>721</td>
</tr>
<tr>
<td>'07</td>
<td>705</td>
</tr>
<tr>
<td>'08</td>
<td>652</td>
</tr>
<tr>
<td>'09</td>
<td>290</td>
</tr>
<tr>
<td>'10</td>
<td>142</td>
</tr>
<tr>
<td>'11</td>
<td>188</td>
</tr>
<tr>
<td>'12</td>
<td>207</td>
</tr>
<tr>
<td>'13</td>
<td>304</td>
</tr>
<tr>
<td>'14</td>
<td>273</td>
</tr>
<tr>
<td>'15</td>
<td>410</td>
</tr>
</tbody>
</table>
Corporate Gains May Not Be Sustainable
- Past History of Significant Revenue Shifts

- In 22 of last 28 years, annual change has been > +/- 10%
- ‘14 & ’15 results inexplicable
- 4-year tax cut was to begin in ’15, likely delayed to ’16
- YTD ’16, however, only declined by $(8) M
'15 Base Adjusted for One-Time Collections
- Net ’16 Growth with Adjustment is 2.6%

- Some ’15 corporate and capital gains appear one-time
- As a result, a portion of the $378 M ’15 revenue gain is one-time
- FAC Panel average:
  - $240 M ongoing
  - $138 M one-time

One-Time '15 Gains

- Individual $53 M
- Corporate $76 M
- Other $9 M
Revenue Growth Accelerates Slightly in ’18 & ’19

October Consensus Forecast

- 4 inputs

Chance of Exceeding Forecast

- 65%

Long Run Average Growth

- 4.75%

Percent Change in Base revenues excluding balance forward, statutory changes, one-time revenues, and urban revenue sharing

‘16 adjusted for one-time revenues
## Components of the Revenue Forecast
- Excludes Change in Beginning Balance

<table>
<thead>
<tr>
<th></th>
<th>$ in M</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>'16</td>
</tr>
<tr>
<td>Base Revenue Growth (4.0%/4.0%/4.2%/4.6%)</td>
<td>379</td>
</tr>
<tr>
<td>Previously Enacted Tax Legislation</td>
<td>(98)</td>
</tr>
<tr>
<td>Other Adjustments</td>
<td>57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>338</strong></td>
</tr>
<tr>
<td><strong>% Change</strong></td>
<td>3.7%</td>
</tr>
</tbody>
</table>
# Projected Baseline Spending Changes

- Including Special Session

<table>
<thead>
<tr>
<th></th>
<th>'17</th>
<th>'18</th>
<th>'19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Spending</strong></td>
<td>$9,322</td>
<td>$9,576</td>
<td>$9,818</td>
</tr>
<tr>
<td><strong>% Change</strong></td>
<td>1.4%</td>
<td>2.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Total Operating Budget Changes</strong></td>
<td>140</td>
<td>254</td>
<td>241</td>
</tr>
<tr>
<td><strong>K-12</strong></td>
<td>65</td>
<td>157</td>
<td>142</td>
</tr>
<tr>
<td><strong>AHCCCS</strong></td>
<td>81</td>
<td>79</td>
<td>100</td>
</tr>
<tr>
<td><strong>DCS</strong></td>
<td>(8)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>DES</strong></td>
<td>15</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td><strong>Corrections</strong></td>
<td>25</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td><strong>Universities</strong></td>
<td>12</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td><strong>Hiring Freeze / Consolidations</strong></td>
<td>(21)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Employee Health Insurance</strong></td>
<td>(16)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Land Dept. Self-Fund</strong></td>
<td>0</td>
<td>(13)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>(14)</td>
<td>(5)</td>
<td>(31)</td>
</tr>
</tbody>
</table>
’17: Large Cash Balance, But only Small Structural Balance

- ’17 would be first structurally balanced budget since ’06
- Using $555M cash balance for ongoing initiatives re-creates structural gap
- Excludes $460M Rainy Day Fund Balance

FY 2017 Baseline Projection

<table>
<thead>
<tr>
<th></th>
<th>$ in M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Forward / Other</td>
<td>$551</td>
</tr>
<tr>
<td>One-time Revenues</td>
<td></td>
</tr>
<tr>
<td>Ongoing Revenues</td>
<td>9,326</td>
</tr>
<tr>
<td>Ongoing Spending</td>
<td>(9,322)</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>$555</td>
</tr>
</tbody>
</table>
Projected General Fund Revenues & Expenditures
- With K-12 Special Session Funding

FY 2017 projected ending balance assumed to be allocated as part of the budget process.
### Agency Budget Requests

<table>
<thead>
<tr>
<th></th>
<th>$ in M</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>’16</td>
<td>’17</td>
</tr>
<tr>
<td>DCS</td>
<td>65</td>
<td>106</td>
</tr>
<tr>
<td>ADC</td>
<td>-</td>
<td>67</td>
</tr>
<tr>
<td>DES (Non-Medicaid)</td>
<td>8</td>
<td>56</td>
</tr>
<tr>
<td>SFB</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Universities</td>
<td>24</td>
<td>170</td>
</tr>
</tbody>
</table>

- ’16 represents supplemental to existing budget
- ’17 represents change to enacted ’16 budget
By ’25, $680 M Structural Balance Under Baseline, $(1.2) B Shortfall Under Alternative Scenario

- Are 10 year forecasts useful?
- Baseline tends to overstate balances
- Alternative: adds discretionary spending + 10 year average tax cut
Reviewing JLBC’s November 2014 Fiscal Policy Goals
- Discussed at Last Year’s ATRA Meeting

- Eliminate structural shortfall

- Develop multi-year solution with targets - Reduce reliance on 1-time solutions over time

- Long term goal: set aside 1-time revenues
  - Excess ending balances
  - Excess capital gains

- Dedicate 1-time $ for 1-time purposes
  - Rebates
  - Operating debt buyback - $84 M annual debt payment
  - Infrastructure
  - IT Modernization
Public Safety Retirement Reform

ATRA 2015 Outlook Conference
November 20, 2015

Leonard Gilroy
Reason Foundation
PSPRS Challenges

• PSPRS pension plan has seen massive reduction in funded status, increase in unfunded liabilities over last decade.

• Employer costs (state agencies, local police and fire) are skyrocketing.

• Cities like Bisbee, Prescott are facing massive unfunded liabilities that threaten services, budgets.

• Courts have struck down some previous legislative reforms, with more under litigation.
PSPRS’ Degrading Solvency

Funded Ratio: 101% in FY03 -- 49% in FY14
Unfunded liability: $0 in FY03 -- $6.5 billion in FY14
Two Major Problems Impacting PSPRS’s Funded Status

• Permanent Benefit Increases (PBI): mostly automatic increases to retiree benefits (e.g., COLA)
  – For retirees before 2011, 50% of “excess” returns over 9% diverted to separate PBI fund
  – Diverted funds cannot be used to reduce unfunded liabilities
  – PBI benefit not pre-funded like a traditional pension COLA
  – PBI benefits compounded, not tied to inflation
  – For retirees after 2011, returns would need to exceed 10.5% and no PBI unless funded ratio >60%

• Underperforming Investment Returns
Underperforming Investment Returns


Actuarially valued returns have been consistently below the expected rate of return since 2002.
PSPRS Baseline: Employer Contribution as % of Payroll

Baseline Total Employer Contribution Rate

"Pension Debt" Payment

Normal Cost
PSPRS Employer Contributions in 5% Return Underperformance Scenario

A 5% average return (FY2016-2038) would mean $8.9 billion additional employer contributions.

The light blue bars above the yellow line represent $8.9 billion in additional pension debt payments for taxpayers if returns are just 5.0% instead of the expected 7.5%.
Costs and Risks of Inaction

• Rising employer contribution rates = more $$ to pensions, crowding out other public services
• Inability to hire new public safety workers
• Inability to raise public safety wages
• New tax & debt proposals (e.g., failed Prescott PSPRS tax, pension obligation bonds)
• Service-level insolvency
• Municipal bankruptcy
Current Reform Efforts

Ongoing, collaborative stakeholder process:

• Legislative pension workgroup (led by Sen. Lesko & Rep. Olson)
• Public safety associations (led by Professional Firefighters of Arizona)
• League of Cities & Towns pension reform task force and PSPRS reform “yardstick”
• Reason Foundation (policy options and actuarial support)
• Goal is legislation for 2016 session
Goals of Reform

Establish a retirement system that is affordable, sustainable, and secure:

• Provide retirement security for members (current and future) and retirees
• Reduce taxpayer and pension system exposure to financial and market risk
• Reduce long-term costs for employers/taxpayers and employees
• Stabilize contribution rates
• Ensure ability to recruit 21st century employees
• Improve governance
Major Reform Concepts Under Discussion

• Constitutional amendment revamping PBI/COLA for retirees, current workers
• New tier for new hires:
  – Hybrid system for new hires with defined-benefit and defined-contribution elements, and employee choice
  – Changes to benefit formula
  – Comparable replacement income for future employees/retirees as today
  – Equal cost sharing between employers and employees
    • Employees currently capped at between 7.65-11.65% of payroll
    • Employers/taxpayers currently bear all costs and risks above that
  – Sustainable COLA structure, pre-funded and limited to inflation
• Reforms to prevent pension spiking
• Governance reforms
• Important to note:
  – Current unfunded liabilities would be reduced somewhat, but significant pension debts would remain and still need to be paid off.
  – Goal with reform is to reduce exposure to risk of future unfunded liabilities and reduce contribution rate volatility.
Takeaways

• The status quo is unsustainable. The problem is severe, taxpayers bear too much risk.
• Even strong markets will not solve this problem.
• Had the kinds of reform under discussion now been in place a decade ago, it is unlikely that PSPRS would have accumulated over $6 billion in unfunded pension debt.
• With labor and employers at the table, there is a potentially historic opportunity for meaningful reform and a national model for public safety pension reform.
QUESTIONS?

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2016 Tax Policy Outlook

ATRA Staff
10-Year Property Tax Levies

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Primary</th>
<th>Secondary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$3.6</td>
<td>$1.8</td>
<td>$5.4</td>
</tr>
<tr>
<td>2006</td>
<td>$3.7</td>
<td>$2.0</td>
<td>$5.7</td>
</tr>
<tr>
<td>2007</td>
<td>$3.9</td>
<td>$2.4</td>
<td>$6.3</td>
</tr>
<tr>
<td>2008</td>
<td>$4.2</td>
<td>$2.6</td>
<td>$6.8</td>
</tr>
<tr>
<td>2009</td>
<td>$4.6</td>
<td>$2.7</td>
<td>$7.2</td>
</tr>
<tr>
<td>2010</td>
<td>$4.5</td>
<td>$2.5</td>
<td>$7.0</td>
</tr>
<tr>
<td>2011</td>
<td>$4.4</td>
<td>$2.3</td>
<td>$6.7</td>
</tr>
<tr>
<td>2012</td>
<td>$4.4</td>
<td>$2.2</td>
<td>$6.6</td>
</tr>
<tr>
<td>2013</td>
<td>$4.4</td>
<td>$2.1</td>
<td>$6.6</td>
</tr>
<tr>
<td>2014</td>
<td>$4.7</td>
<td>$2.2</td>
<td>$6.9</td>
</tr>
<tr>
<td>2015</td>
<td>$4.8</td>
<td>$2.2</td>
<td>$7.0</td>
</tr>
</tbody>
</table>

Tax Collections (In Billions)

The taxpayer’s watchdog for 75 years
Arizona Tax Research Association

10-Year Property Values

The taxpayer’s watchdog for 75 years
Statewide Average Tax Rates

- **Statewide Avg T.R.**
  - 2005: $11.56
  - 2006: $10.99
  - 2007: $10.04
  - 2008: $9.23
  - 2009: $9.20
  - 2010: $9.67
  - 2011: $10.94
  - 2012: $11.75
  - 2013: $12.54
  - 2014: $12.67
  - 2015: $12.77

- **Primary Avg. T.R.**
  - 2005: $7.81
  - 2006: $7.24
  - 2007: $6.75
  - 2008: $6.24
  - 2009: $6.13
  - 2010: $6.32
  - 2011: $7.28
  - 2012: $7.89
  - 2013: $8.52
  - 2014: $8.75
  - 2015: $8.74

- **Secondary Avg. T.R.**
  - 2005: $3.75
  - 2006: $3.75
  - 2007: $3.29
  - 2008: $2.99
  - 2009: $3.07
  - 2010: $3.35
  - 2011: $3.67
  - 2012: $3.87
  - 2013: $4.02
  - 2014: $3.92
  - 2015: $4.03

The taxpayer’s watchdog for 75 years
1% Homeowner Cap

- 1980 Constitutional reform to protect homeowners
- Total primary property taxes cannot exceed 1% of limited property value
  - Limited to $10 rate per $100 of assessed value
  - Includes all jurisdictions: State, K-12, City, County, Community College
- Protects no other class of property
  - Renters, ranchers, farmers, businesses, etc.
- Insulates capped homeowners from tax increases
- Incomplete version of California Prop 13
- State “picked up the tab” for 35 years (statutory)
1% Homeowner Cap

All other taxpayers have no $10 cap
Renters, Businesses, Agricultural, etc
They pay the full primary and secondary tax rate

**All taxpayers pay the full secondary tax rate**
New Formula: 1% Homeowner Cap

- Ducey budget: End the unlimited state subsidy of high tax jurisdictions
- Shifted responsibility to local taxing authorities with above average tax rates; PTOC does math

One possible way to calculate new 1% Cap formula

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>2015 tax rate</th>
<th>statewide average tax rate</th>
<th>Overage</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>State (SETR)</td>
<td>0.5054</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pima County</td>
<td>4.3877</td>
<td>1.97</td>
<td>2.42</td>
<td>$8,688,024</td>
</tr>
<tr>
<td>Pima Community College</td>
<td>1.3689</td>
<td>1.76</td>
<td>0.00</td>
<td>$0</td>
</tr>
<tr>
<td>Tucson Unified</td>
<td>6.5217</td>
<td>4.31</td>
<td>2.21</td>
<td>$7,946,784</td>
</tr>
<tr>
<td>City of Tucson</td>
<td>0.5326</td>
<td>0.54</td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td>Totals</td>
<td>13.3163</td>
<td>4.63</td>
<td></td>
<td>$16,634,809</td>
</tr>
<tr>
<td>State liability</td>
<td></td>
<td></td>
<td></td>
<td>$943,903</td>
</tr>
</tbody>
</table>

Rebatable rate: 1.39
NAV Class-3: $1,268,030,829
Total Rebate: $17,578,711
State GF payment: **$943,903
Net Rebate: $16,634,809

**San Fernando & Altar Valley are small 1% Cap districts, presumes they take the first draw of the $1 million from the state GF
Managing the 1% Cap

• For decades, ATRA has encouraged lawmakers to avoid changes which collide with the 1% cap

• System designed to minimize 1% Cap violations
  – School QTR follows changes in assessed value
  – Homeowner rebate intended to decrease the primary rate
  – Caps on rate growth for cities, counties & comm colleges
  – State rate is low ($0.50)

• Policymakers must consider 1% cap implications in all property tax reforms
# State Policy Changes Can Impact Local Property Taxes

<table>
<thead>
<tr>
<th>Cost Sharing</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOR local cost sharing</td>
<td>$21 million</td>
</tr>
<tr>
<td>1% Cap</td>
<td>$20 million</td>
</tr>
<tr>
<td>Juvenile Corrections</td>
<td>$12 million</td>
</tr>
<tr>
<td>Sexually Violent Persons (SVP)</td>
<td>$3 million</td>
</tr>
<tr>
<td>Restoration to Competency</td>
<td>$900,000</td>
</tr>
</tbody>
</table>
## Notable Tax Increases

<table>
<thead>
<tr>
<th>County</th>
<th>$ Increase</th>
<th>% Increase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maricopa County</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary levy</td>
<td>$28,430,552</td>
<td>6%</td>
<td>Increased tax rate 4 cents (6 cents over TNT)</td>
</tr>
<tr>
<td>FCD</td>
<td>$5,851,804</td>
<td>13%</td>
<td>Increased tax rate 2 cents</td>
</tr>
<tr>
<td><strong>Pima County</strong></td>
<td>$12,725,433</td>
<td>4%</td>
<td>Tax rate up 11 cents (8 over TNT)</td>
</tr>
<tr>
<td>Primary levy</td>
<td>$12,725,433</td>
<td>4%</td>
<td>Tax rate up 11 cents (8 over TNT)</td>
</tr>
<tr>
<td>Library</td>
<td>$6,520,568</td>
<td>20%</td>
<td>Tax rate up 8 cents</td>
</tr>
<tr>
<td>City of Tucson</td>
<td>$1,662,004</td>
<td>11%</td>
<td>Tax rate up 5 cents (5 cents over TNT)</td>
</tr>
<tr>
<td><strong>Pinal County</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary levy</td>
<td>$6,106,052</td>
<td>8%</td>
<td>Tax rate up 20 cents (22 cents over TNT)</td>
</tr>
<tr>
<td>Community College</td>
<td>$9,019,179</td>
<td>24%</td>
<td>Tax rate up 39 cents (40 cents over TNT)</td>
</tr>
<tr>
<td><strong>Yuma County</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary levy</td>
<td>$2,998,262</td>
<td>12%</td>
<td>Increased tax rate 25 cents (19 cents over TNT)</td>
</tr>
<tr>
<td>Community College</td>
<td>$2,002,035</td>
<td>9%</td>
<td>Tax rate up 16 cents (11 cents over TNT)</td>
</tr>
<tr>
<td>City of Yuma</td>
<td>$1,190,230</td>
<td>12%</td>
<td>Tax rate up 24 cents (19 cents over TNT)</td>
</tr>
<tr>
<td><strong>Gila County</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary levy</td>
<td>$2,782,807</td>
<td>16%</td>
<td>Maintained same tax rate/NAV up 16% (37 cents over TNT)</td>
</tr>
</tbody>
</table>
K-12 and the 1% Cap

• Post 1980 wrinkles exacerbate 1% cap problems
  – Desegregation/Office of Civil Rights levy
    • TUSD has rate 150% above average
    • Phx Union + OCR Elementary = 5 capped districts
      Roosevelt Elem. Wilson Elem.
  – Adjacent Ways, Transpo Delta
• Small School Adjustment – responsible for many 1% cap areas
• Cash balance correction
  – School district under levied in previous year; has negative cash balance
  – Must spike rate to correct = pushes them over 1% cap
  – Example: Isaac Elementary, Tombstone Unified
• Result: State GF pays for (or subsidizes) non-formula programs
1% Cap Districts

- **Pima County**
  - Tucson Unified
  - San Fernando Elementary
  - Altar Valley Elementary
- **Pinal County**
  - Maricopa Unified
  - Superior Unified
  - Florence Unified
  - Casa Grande El/Union
  - Mammoth/San Manuel Unified
  - Eloy El/Santa Cruz Valley Union
  - Coolidge Unified
  - Toltec El/Casa Grande Union
  - Combs Unified
- **Maricopa Unified**
  - Roosevelt El/Phx Union
  - Phoenix El/Phx Union
  - Isaac El/Phx Union
  - Wilson El/Phx Union
  - Cartwright El/Phx Union
  - Mobile El
  - Morristown El
  - Sentinel El
- **Several others, amounts not exceeding $1 million/county**
  - Cochise close at $960k
  - State GF liability ~$4.4m
  - Local liability ~$26m
  - 38 total school districts
Taxpayers Needed that Trailer Bill

• ATRA predicted new formula would simply raise tax rates
  – Tax rate increases from several 1% cap liable jurisdictions
    • Pima County
    • Pinal County
    • Pinal County Community College District (Central AZ College)
    • Town of Superior
  – Homeowners insulated from increases again
  – As rates raise, liability for 1% cap raises
  – Property taxpayers put in death spiral

• Fix bill necessary
  – 1% cap fix shouldn’t expose non-class 3 properties to even higher taxes
  – Precedent: Maximum school tax rate law for high rates in 1% cap areas

• Other technical issues
  – How to calculate state average?
  – Math to determine “at fault” percentages
  – How to protect non-Class 3 property?
  – How to parcel out the $1 million per county GF liability?
Property Tax - Deseg/OCR

• Phase out Deseg/Office of Civil Rights levies
  – Funded exclusively by local property tax - $211m/year
  – $4 billion went to just 19 districts over last 30 years
  – No planned phase out

• 10 year phase out for districts with court order
  – Hold Tucson Unified harmless until declared unitary

• 5 year phase out for districts with OCR agreement
  – Districts never had court order to desegregate
  – No federal requirement for spending
  – Most no longer being monitored for issue by OCR

• Fixes biggest loophole in K-12 finance
  – Pre-requisite for school finance overhaul
  – Provides significant property tax relief in those districts
Property Tax- K-12 primary rate reform

• “Districts keep their cash, taxpayers keep their rate”
  • School districts long complained their cash “counts against them”
    – Charters can carryforward any amount of cash
    – Districts limited to 4% carryforward capacity
    – Any leftover cash beyond that creates a reduction in the primary tax rate
• Every June 30, superintendents certify their cash balance to county
  – Notoriously bad data; based on many assumptions
  – Counties rely on school district info
  – Bottom line: school districts control their primary tax rate
• When school districts tax too little, tax rate spikes in future
  – Budget authorization allows districts to spend into debt without cash
• ATRA proposes to end the primary rate chaos
  – Let districts manage cash as they see fit; remove 4% carryforward limit
  – Stop the games with primary rate ie. levying too little during election years
  – Levy the QTR each year or amount to fund district support level for non-state aid
  – Submit primary levy worksheet to county supt outlining non-formula levies
• Not a tax hike; stabilizes tax rates; more flexibility for schools
Sales Tax

- 2013 TPT reform implementation stalled
- Provision requires DOR capture data with sufficient specificity to meet needs of cities
- Result: cities have ‘GO’ lever on TPT reform
- ATRA will seek repeal of requirement
Comm Colleges Expend Limit

• Expenditure Limit study committee revealed:
  – Committee found problems with FTSE estimates
  – Districts financial concerns

• ATRA will propose
  – FTSE estimate based on an easy formula
    • “Soft landings” for contracting districts
    • Growth option for those growing
  – Adding override option for districts
  – Exclude entrepreneurial, non-credit $ from E.L.

• ATRA will oppose
  – Efforts to complicate how a FTSE is counted
  – Efforts to “blow-out” the expenditure limit

Arizona Tax Research Association

The taxpayer’s watchdog for 75 years
Threats to Taxpayers

- Tax Increment Financing
- Fire District property tax rate expansion
Property Tax- Adjacent Ways

- **Key problem area in K-12 finance: $60-$100m/yr**
  - Funded by local property tax; drives inequitable tax rates
  - Statutorily limited to public rights of way
    - Sidewalks, gutters, deceleration lanes, etc
- **Add oversight for Adjacent Ways levy**
  - Presently only requires Governing Board vote/TNT hearing
  - Districts often levy before project identified
  - Levy used by districts to “manage their tax rate”
- **Create accountability for use of funds**
  - Levy historically abused
  - Recent fraud: Higley illegally used $6.4 million for lease payments
- **Require School Facilities Board validate**
  - Project statutorily qualifies as Adjacent Ways
  - Bid is for the Adjacent Ways project
  - Then school district can proceed with levy

*The taxpayer’s watchdog for 75 years*