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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

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## Phoenix Expands CBD *Signals GPLET Ramp Up*

Following a recent legislative committee hearing in which a Phoenix representative implied that the City is close to winding down its use of incentives under the Government Property Lease Excise Tax (GPLET), the City Council voted unanimously to grow its Central Business District (CBD) six-fold, signaling the City actually has no intention of backing off.

### Phoenix IS NOT winding down GPLET's after all

During a House Ways & Means Committee hearing in January, Phoenix's Economic Development Director testified in opposition to the ATRA-backed legislation under HB2309 that would have reduced the number of years a city could abate the property taxes under GPLET from eight to four years. In testimony, the Director explained that Phoenix has abated over \$3 billion in new development from property taxes in downtown Phoenix, with another 19 projects currently in the queue, claiming that all that development would not have happened without GPLET. The bill sponsor, Rep. Travis Grantham, questioned how long

See **GPLET**, Page 2

## In Memoriam Dick Foreman

Long time ATRA board member and chairman, Dick Foreman, recently passed away. As a representative from Southwest Gas Corporation, Dick served on the ATRA Board of Directors for 24 years and served as ATRA's Chairman



of the Board in 1998 and 1999. He was again elected chairman for another two-year term in 2008 and 2009.

Dick had a passion for public finance and taxation and he shared a particular interest in school finance with ATRA staff. After his retirement from Southwest Gas, Dick became the President and CEO of the Arizona Business and Education Coalition where he was able to pursue his passion for K12 education.

The entire ATRA family extends its thoughts and prayers to Dick's wife Kate and the entire Foreman family.

## Save the Dates!

### ATRA Golf Tournament

Wednesday, October 30th, Stonecreek Golf Club

### ATRA Outlook Conference

Friday, Nov 15th, Scottsdale Hilton

## INSIDE:

- **Two Counties Asking Voters for Increases in Constitutional Expenditure Limits, pg. 4**
- **\$2.4 Billion in K12 Bonds on November Ballots, pg. 4**

**GPLET**, *Continued from page 1*

Phoenix needs to use other jurisdiction’s money to incentivize development. Another lawmaker on the Committee questioned the fairness of having taxpayers in other cities backfill tax breaks provided to developers in downtown Phoenix. Both legitimate questions, both left without a straight answer.

**Phoenix wrongly takes credit for reductions in property tax rates**

To justify the City’s continued and persistent use of GPLET, the Phoenix representative tried to sell the idea that the City’s use of GPLET has caused the overall tax rate in Phoenix to decline over the years. That might make sense if any of the GPLET deals ever made it back on the property tax rolls, but even based on the City’s testimony, only one property has landed back on the tax rolls. In fact, there are several major properties, like the two Renaissance towers and the Collier Center in downtown Phoenix that will never be added to the tax rolls since they are grandfathered in and not impacted by any of the GPLET reforms (See GPLET legislative history chart on page 5). The real credit for the reduction in tax rates in the downtown area goes mainly to the State Legislature for eliminating the state equalization property tax and reducing the qualifying tax rate (QTR) levied to fund school district budgets, not to mention taxpayers for paying down voter-approved debt. In fact, the tax rate in Phoenix actually increased nearly 28 cents between 2014 and 2023 (See chart).

Taxing Jurisdiction	TY 2014		Total Tax Rate	TY 2023		P \$ Chg	S \$ Chg	Total Tax Rate	\$ Chg
	Primary (P) Rate	Secondary (S) Rate		P Rate	S Rate				
State Equalization	0.5089	0.0000	0.5089	0.0000	0.0000	-0.5089	0.0000	0.0000	-0.5089
Comm College	1.2824	0.2363	1.5187	1.0791	0.0597	-0.2033	-0.1766	1.1388	-0.3799
County	1.3209	0.0000	1.3209	1.2044	0.0000	-0.1165	0.0000	1.2044	-0.1165
Flood Control	0.0000	0.1392	0.1392	0.0000	0.1536	0.0000	0.0144	0.1536	0.0144
Library	0.0000	0.0556	0.0556	0.0000	0.0488	0.0000	-0.0068	0.0488	-0.0068
Central AZ Project	0.0000	0.1400	0.1400	0.0000	0.1400	0.0000	0.0000	0.1400	0.0000
Special HC	0.0000	0.1856	0.1856	0.0000	0.2716	0.0000	0.0860	0.2716	0.0860
FDAT	0.0000	0.0113	0.0113	0.0000	0.0081	0.0000	-0.0032	0.0081	-0.0032
Phx Elementary	3.9479	2.7682	6.7161	3.0944	1.9439	-0.8535	-0.8243	5.0383	-1.6778
Phx Union	3.4171	1.2025	4.6196	2.6800	1.8178	-0.7371	0.6153	4.4978	-0.1218
City of Phx	1.3541	0.4659	1.8200	1.2851	0.8141	-0.0690	0.3482	2.0992	0.2792
<b>Total Tax Rate</b>	<b>11.8313</b>	<b>5.2046</b>	<b>17.0359</b>	<b>9.3430</b>	<b>5.2576</b>	<b>-2.4883</b>	<b>0.0530</b>	<b>14.6006</b>	<b>-2.4353</b>

**Developers hold School Districts Harmless?**

In response to a question of whether these developers are required to hold school districts harmless, Phoenix responded in the affirmative. She explained that these agreements require the developer to cut a check to the school districts equal to the amount of property taxes that the developer would have otherwise had to pay –not based on the property taxes these multi-million-dollar projects would be required to pay if fully improved but *only as if the property remained vacant land*. To put this in perspective, the taxpayer victory in the *Englehorn* Gift Clause challenge (See *ATRA July 2020 Newsletter*) regarding Phoenix’s GPLET deal for a \$35.9 million-dollar high rise project, the developer would have only been required to pay the school district \$372k over the 8-year abatement period instead of more than \$2 million the developer would have otherwise been required to pay.

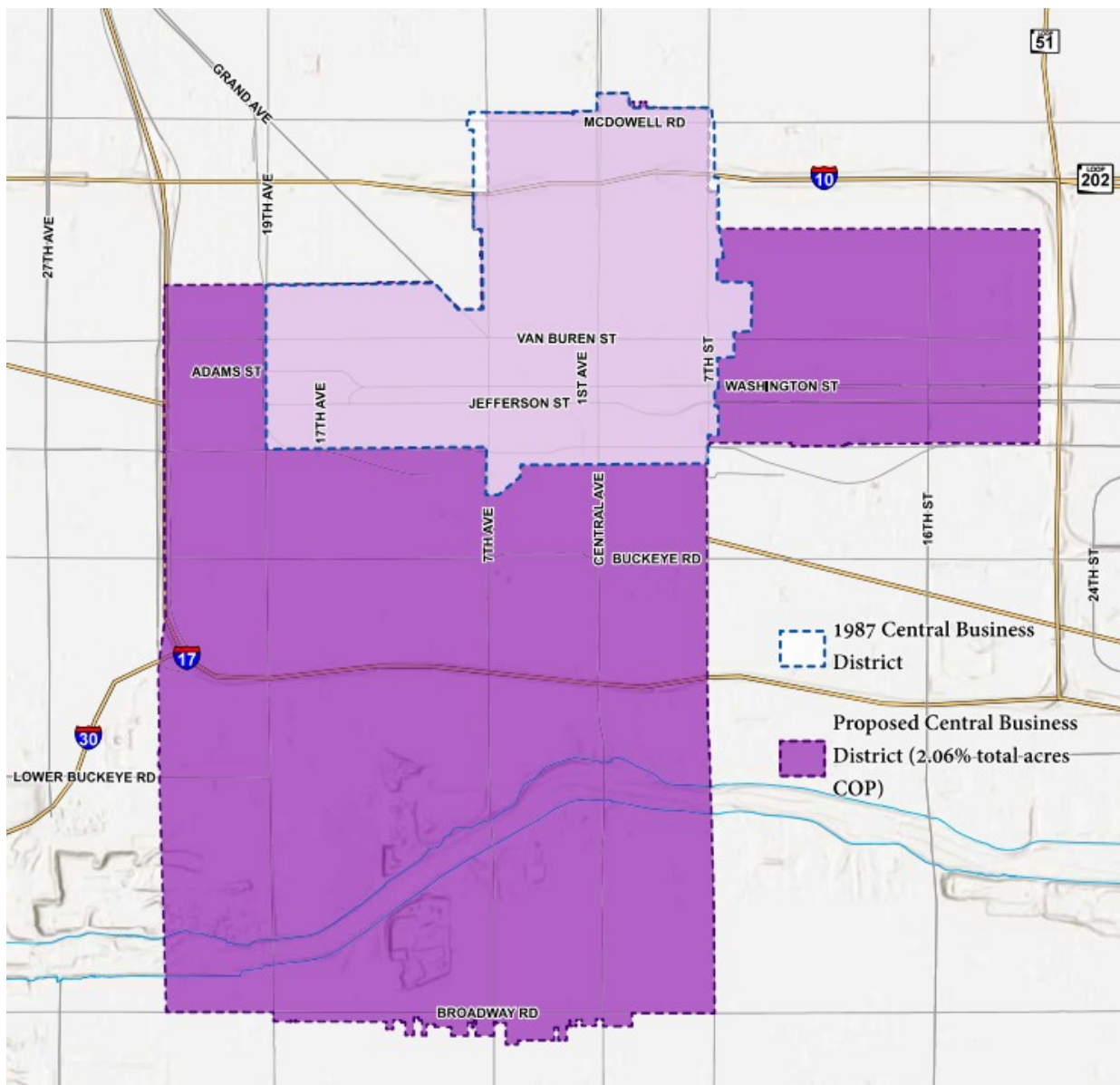
**GPLET**, *Continued from page 2*

**Gift Clause Concerns Persist**

Concerns of violations to the Gift Clause persist following the Governor’s veto of HB2309 and taxpayers can’t be expected to file a lawsuit on every deal that is made. Under the *Engleborn* decision, the Court appropriately questioned the usefulness of GPLET if it must be comparable to the property tax abatement to avoid future Gift Clause violations. The City representative testified that the City has adjusted their GPLET deals to ensure they are in compliance with the Court’s decision and that the City’s *give* doesn’t exceed the *get*. However, ATRA’s analysis of Phoenix’s post-*Engleborn* deals are almost identical and therefore would certainly result in gift clause violations based on the Supreme Court’s ruling under *Schires v. Carlat*.

- Jennifer Stielow

# Phoenix CBD Expanded Six-Fold



# Two Counties Asking Voters for Increases in Constitutional Expenditure Limits

In what is generally a rare event, two Arizona counties are seeking voter approval for increased expenditure authority. Both Coconino and Yavapai Counties have questions on the 2024 General Election ballot to request increases to their base expenditure limits that were originally set in fiscal year (FY) 1979-80.

The constitutional expenditure limits were approved by the voters in 1980 and apply to each county, community college district, and city or town. The actual expenditures for FY 1980 became the base limit and that limit is adjusted each year based on population and inflation growth.

ATRA has consistently taken the position that adjustments to the constitutional expenditure limits are the purview of the voters - not the Arizona Legislature. These expenditure limits are necessary to protect taxpayers by controlling the growth of the operating budgets of local governments. Asking voters for increased expenditure authority provides local governments with a great opportunity to engage its voters/taxpayers as to why the increased spending is necessary.

The \$7.5 million increase Coconino County is requesting to its base expenditures will provide the County with \$58.5 million in increased spending authority beginning in FY 2025. Coconino views this as a 20-year solution. Yavapai County is asking for a similar increase of \$7.9 million to its base limit.

- Jennifer Stielow

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## \$2.4 Billion in School Bonds on November Ballots

Last November, 27 school districts statewide asked voters to approve a record \$3.6 billion in bonds. Only 7 of the proposals were rejected by voters, but nearly \$3 billion was approved. This year, 14 Maricopa districts, 1 Pima district, 3 Pinal districts, 1 Navajo district, and 2 Yuma districts will ask voters to approve almost \$2.4 billion in bonds, including some who had approved multimillion dollar bonds just last year. Though Graham County has confirmed with ATRA that none of its districts intend to seek bonds or overrides this year, it remains unclear what districts in the remaining 9 counties are planning for the upcoming election. Per usual, the bond dollars will be used by the districts to fund a swath of capital projects including construction and renovation of education facilities, transportation, and even technology.

The largest request comes from Chandler USD at \$487 million. According to ADOA's 2023 Report of Bonded Indebtedness, the district currently holds nearly \$330 million of its original \$496 million in General Obligation (G.O.) debt. Deer Valley Unified had the second largest request at \$325 million. Deer Valley went out for the same amount last November, but the proposal was rejected by the voters. Deer Valley currently holds almost \$177 million of its original \$311 million in G.O debt. (See page 6 for a detailed breakdown of district bond requests)



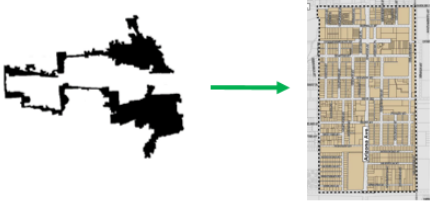
Three districts, Agua Fria Union, Glendale Union, and Tolleson Union, are going out for another round of bonds

**School Bonds**, *continued from page 4*

after successfully passing bonds last November. Agua Fria is requesting \$138 million this year, after passing \$197 million last year. Having just passed a \$40 million bond proposal last November, Glendale Union is now asking voters for another \$195 million. Tolleson Union, whose voters approved \$125 million in bonding last year, is asking voters for the same amount again this November. Prior to last year's elections, these districts already held significant G.O. debt. As of FY23, Agua Fria held \$108 million in G.O. debt, Glendale held \$164 million, and Tolleson held \$214 million.

Districts are required to mail informational pamphlets to voters, which were not available at the time of writing. Districts are prohibited from using public funds to advocate for bonds, though the line between advocacy and providing necessary information is often very fine. Importantly, the pamphlet informs voters about the existing outstanding debt of the districts along with the current debt service schedule and estimated tax rates. Regrettably, for many of the districts, the top selling feature to voters is the claim that the bond debt issuance won't raise taxes. Districts rationalize this misleading statement by pointing to a new debt service schedule that plugs into a declining debt service schedule for existing outstanding bonds. In addition, most districts estimate consistent growth in the net assessed value of the district to help keep the estimated tax rate constant as tax levies climb each year.

- Jack Moody

<p>Arizona Tax Research Association</p> <p style="text-align: center;"><b>Government Property Lease Excise Tax</b> ~ Reform History ~</p> 	
<p><b>Pre 2010</b></p>  <p><u>Deal length:</u> <b>Unlimited</b></p> <p><u>Rate Structure:</u> <b>Decreasing 20% every 10 years</b></p> <p><u>GPLET Tax Paid:</u> <b>Far below property tax</b> <b>Zero after 50 years</b></p>	<p><b>2010 Reform</b></p> <p><u>Deal length:</u> <b>25 years</b></p> <p><u>Rate Structure:</u> <b>20% deflator removed</b> <b>Inflation adjusted</b></p> <p><u>GPLET Tax Paid:</u> <b>Rates doubled; near property tax rates</b> <b>8 year abatement retained</b></p> <p><u>Central Business District</u> (Where abatement may be offered): <b>Must be contiguous &amp; geographically compact;</b> <b>No larger than 5% of city size or 640 acres</b></p>
<p><b>2017 Reform</b></p> <p><u>Deal length:</u> <b>Up to 8 year abatement only</b> <b>OR up to 25 years paying GPLET then property returns to tax rolls</b></p> <p><u>Efficacy &amp; Oversight:</u> <b>Gov Lessor responsible for calculating GPLET tax; Database of deals reported on city &amp; DOR websites</b></p>	<p><b>2018 Reform</b></p> <p><u>Renewal:</u> <b>Slum &amp; Blight designations updated every 10 years</b></p> <p><u>Central Business District Size:</u> <b>NOW 2.5% of city size or 960 acres</b></p> <p><u>Shape:</u> <b>Gerrymandering limited by defining "geographically compact" in law</b></p> 
<p><small>*GPLET: building + land is held by Gov so property tax is not owed</small></p>	

<b>School District Bond Requests</b>		
<b>County</b>	<b>District</b>	<b>FY25 Bond Request</b>
Maricopa	Agua Fria UHSD	\$ 138,000,000
Maricopa	Balsz ESD	\$ 35,000,000
Maricopa	Buckeye UHSD	\$ 155,000,000
Maricopa	Chandler USD	\$ 487,450,000
Maricopa	Creighton ESD	\$ 85,000,000
Maricopa	Deer Valley USD	\$ 325,000,000
Maricopa	Dysart USD	\$ 127,000,000
Maricopa	Glendale UHSD	\$ 195,000,000
Maricopa	Higley USD	\$ 83,100,000
Maricopa	Laveen ESD	\$ 50,000,000
Maricopa	Peoria USD	\$ 120,000,000
Maricopa	Roosevelt ESD	\$ 150,000,000
Maricopa	Tolleson UHSD	\$ 125,000,000
Maricopa	Wilson ESD	\$ 10,500,000
Pima	Ampitheater USD	\$ 84,000,000
Pinal	Apache Junction USD	\$ 20,000,000
Pinal	Toltec ESD	\$ 9,000,000
Pinal	Maricopa USD	\$ 70,000,000
Navajo	Kayenta USD	\$ 8,500,000
Yuma	Yuma ESD	\$ 77,000,000
Yuma	Somerton ESD	\$ 14,000,000
<b>Total</b>		<b>\$ 2,368,550,000</b>