The taxpayer's watchdog for over 80 years

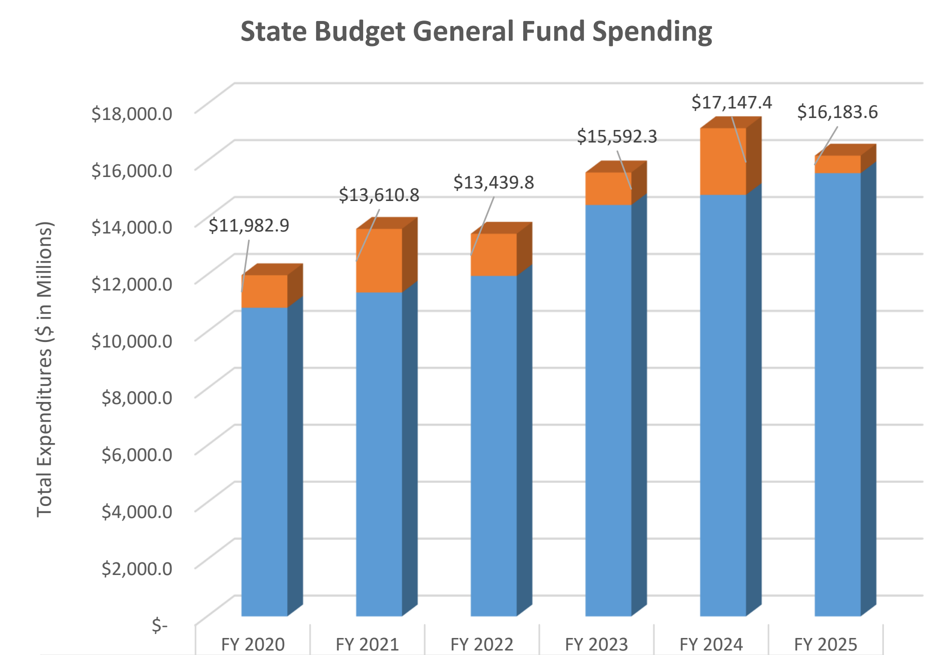
ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 84 NUMBER 4 JUNE 2024

Legislature Adjourns After Closing State Budget Deficit

Total Ongoing Spending Climbs $763 Million for FY25

The Arizona Legislature adjourned sine die on June 15th after passing a bipartisan budget package that closed a combined $1.4 billion shortfall for Fiscal Years (FY) 2024 and 2025.



	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Total One-Time	$1,143.0	$2,236.0	$1,483.0	$1,142.8	$2,342.2	$615.8
Total Ongoing	$10,839.9	$11,374.8	$11,956.8	$14,449.5	$14,805.2	$15,568.0

* FY20-24 represent estimated actuals and FY25 represents the budgeted amount

The two-year deficit was dominantly addressed through one-time measures, led by $715 million in fund sweeps from a laundry list of state agencies and revolving funds. There were $540 million in one-time changes made to the FY 24 budget, primarily from "ex-appropriating" funds for capital projects from previous years' budgets. Finally, ongoing spending in the FY 25 budget was trimmed by $133 million, with only $39.6 million being ongoing reductions to various state agency budgets. The $133 million in ongoing reductions is a roughly 1% reduction in the ongoing budget.

Too often in government budgeting, reductions to expected increases are characterized as cuts. The initial Joint Legislative Budget Committee FY 25 budget estimate that rolled out in January reflected ongoing spending climbing $851 million, or 5.7%, over FY 24. The final budget actually increased ongoing spending $763 million, or 5.2% - most of that directed to K-12 schools, AHCCCS, the Department of Economic Security, and the Department of Corrections. In fact, ongoing spending over the last five years has climbed $4.7 billion, a significant 43.6%. The required three-year budget estimates ongoing state spending increasing $1.97 billion or 13.3% through FY 27.

INSIDE:

Major Property Tax Judgment to Hit Maricopa Taxpayers This Fall

The Maricopa County Assessor's office's policy on how it calculates the assessed value of property that is reclassified between residential owner-occupied (Class 3) and residential rental (Class 4) prompted taxpayers to file a class-action lawsuit under *Qasimyar v. Maricopa County* in 2016. Almost a decade later, the taxing jurisdictions in Maricopa County must now refund an estimated $329 million to the affected taxpayers.

At the center of *Qasimyar* was whether to apply Rule A or Rule B when determining the Limited Property Value (LPV) when there is a change in residential property use. Under Rule A, the LPV increases 5% each year if there is no change in use. Rule B, on the other hand, applies when there is a change in use, in which case the LPV is a percentage of Full Cash Value (FCV) that reflects the average ratio of LPV to FCV of all properties within the same class in the county.

At some point, the Maricopa County Assessor's office reversed its longstanding policy of applying Rule B when property is reclassified between classes 3 and 4 and instead began applying Rule A. Taxpayers appealed to Tax Court in 2016, arguing that a reclassification between the two classes constituted a "change in use" and therefore a Rule B calculation should apply. The Tax Court agreed and ruled in favor of taxpayers. The County appealed that decision and lost again when the Court of Appeals upheld the lower court's decision in 2021. The County exercised its last resort by requesting review by the Arizona Supreme Court. It wasn't until early this year that taxpayers received finality in the case when the Court denied the County's request.

The local taxing jurisdictions in Maricopa County must now refund the overpayment of taxes that were erroneously assessed. According to the Maricopa County Treasurer, total refunds are estimated at approximately $329 million, which includes accrued interest of 8% and that will continue to accrue until all refunds are issued by June of next year. For properties that were under-assessed, those values will be corrected prospectively beginning in tax year 2025. Legislation was enacted in 2022 to codify the County's view in the case that a change in the occupancy or classification of a single-family residence does not constitute a change in use (i.e. Rule B). This legislation was effective for tax year 2024.

Although property tax judgments are common, the magnitude of *Qasimyar* is unique both in terms of the number of taxpayers impacted and the dollar amount of the refunds. Most property tax judgments involve a single taxpayer but *Qasimyar* was granted class-action status, and therefore, affected all taxpayers in the county in which the Assessor erroneously applied Rule A when there was a change in use between classes 3 and 4. Additionally, the sheer size of the aggregate amount to be refunded is extraordinary, driven largely by the number of years involved, from tax year 2015 to tax year 2023, plus the accrued interest of 8% that must be applied to each of those tax years.

Published by the Arizona Tax Research Association, a nonprofit organization whose purpose is to promote efficient and effective use of tax dollars through sound fiscal policies. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Research

1814 W. Washington Street
Phoenix, Arizona 85007
(602) 253-9121

www.arizonatax.org

See **Qasimyar**, Page 3

Qasimyar, *continued from page 2*

Legislation was enacted this year under HB2909 as part of the budget package that directs a recalculation of state aid to school districts and provides a bridge for all affected local taxing jurisdictions. Specifically, JLBC estimates that a recalculation of the basic state aid for school districts could increase the state's share as high as $75 million. The state's responsibility to reimburse impacted school districts should dampen some of the higher taxes levied this year for the refunds. The legislation specifies that school districts are not prevented from adjusting their tax rates to pay any required debt service on general obligation bonds, but alternatively, districts could use their existing cash balances to pay the property tax refunds. Finally, the legislation allows all affected taxing districts with a tax rate impact that is 4% or higher over the 2023 tax rate to issue tax anticipation notes or to request the state loan commissioners to issue bonds to redeem or refund tax anticipation notes.

- Jennifer Stielow

Community College FY 2025 Budgets up 3.6%; Audited FTSE up 1.1%

FY25 tentative community college general fund (GF) budgeted expenditures are up 3.6% from FY24. Mojave saw the largest 1-year GF spending increase at 12.7%. Yavapai and Cochise experienced the second and third highest growth in expenditures, with respective increases of 8.5% and 7.7%. Out of the remaining districts, Coconino recorded the smallest expenditure shift, with a marginal increase of just 0.1%, despite having the largest percentage increase in their primary tax levy at 19.4%. Only one district, Navajo, decreased their GF spending by 0.6%.

FTSE (Audited)				
District	**FY22**	**FY23**	**Difference**	**% Chg.**
Cochise	5,999	5,244	(755)	-12.6%
Coconino	1,581	1,561	(20)	-1.3%
Gila	457	451	(6)	-1.3%
Graham	1,994	2,167	173	8.7%
Maricopa	52,588	53,964	1,376	2.6%
Mohave	1,941	2,009	68	3.5%
Navajo	1,375	1,425	50	3.6%
Pima	11,462	11,568	106	0.9%
Pinal	3,234	3,137	(97)	-3.0%
Santa Cruz	101	199	98	97.0%
Yavapai	3,207	3,206	(1)	0.0%
Yuma/La Paz	5,065	5,080	15	0.3%
Total/Average	**89,004**	**90,011**	**1,007**	**1.13%**

Enrollment is a vital factor for community colleges, as it directly impacts their revenue and determines their ability to provide quality education and resources to students. However, despite efforts to attract and retain students, audited community college FTSE is down roughly 44,000 over the last ten years. Despite this long-term trend, however, total college enrollment is up 1% over last year.

The impact of declining student enrollment on Arizona community colleges goes beyond the immediate decrease in student numbers. Despite losses in FTSE, primary tax levies have climbed steadily as colleges have used the property tax base to make up for lost state aid and tuition revenues. While tax rates themselves may have remained relatively stable or even decreased slightly, increased property values statewide have led to higher levies for community colleges. Consequently, taxpayers are providing more funding to community colleges through property taxes, despite a steady decline in student enrollment. In fact, only four of the twelve districts (Mohave, Pinal, Santa

See **College Budgets**, Page 4

College Budgets, *continued from page 3*

Cruz, and Yuma/La Paz) adjusted their property tax rates enough to avoid a Truth-in-Taxation (TNT) hearing.

In fact, declining enrollment figures are steadily changing the financing mix of Arizona's Community Colleges. Between FY14 and FY24, total primary levy revenues grew by 52% and total tuition revenues decreased by 18%. In FY14, primary property tax levies accounted for 64% of total revenues, whereas in FY25, this contribution increased to 77%. At the same time, revenues generated from tuition and fees dropped from 36% of total revenues to 23%.

Moreover, the implications of declining student enrollment extend to the way colleges are regulated and funded. Expenditure limits, which govern the amount of money colleges can allocate to various operational areas, are directly influenced by changes in FTSE and inflation. FTSE reflects the number of full-time students enrolled and provides a measure of student demand for resources and services. When student enrollment decreases, the FTSE figure drops, resulting in tighter expenditure limits for the colleges. Combined with the impact of inflation, tight expenditure limits create a complex financial puzzle for colleges to solve.

For years, the colleges have viewed the legislature as the preferred source of expenditure limit relief, thereby circumventing the voters. As many of the districts continue to bump up against their limits, two districts, Graham and Maricopa, have decided to go to the voters this fall for expenditure limit relief.

- Jack Moody

	Primary Rates			Primary Levies			
District	**FY24**	**FY25**	**% Chg.**	**FY24**	**FY25**	**% Chg.**	**Over TNT?**
Cochise	$2.4122	$2.4444	1.3%	$25,920,344	$27,232,906	5.1%	Yes
Coconino	$0.6090	$0.6870	12.8%	$13,226,363	$15,792,906	19.4%	Yes
Gila	$0.9177	$0.9048	-1.4%	$5,843,186	$6,020,822	3.0%	Yes
Graham	$2.6047	$2.4609	-5.5%	$7,918,256	$8,225,274	3.9%	Yes
Maricopa	$1.0791	$1.0486	-2.8%	$590,508,448	$611,634,606	3.6%	Yes
Mohave	$1.1546	$1.1129	-3.6%	$28,029,984	$28,592,408	2.0%	No
Navajo	$1.7536	$1.7707	1.0%	$17,000,000	$18,340,750	7.9%	Yes
Pima	$1.2802	$1.2530	-2.1%	$136,301,532	$141,019,025	3.5%	Yes
Pinal	$1.7847	$1.6886	-5.4%	$60,517,493	$63,709,492	5.3%	No
Santa Cruz	$0.4305	$0.4066	-5.6%	$1,778,201	$1,795,372	1.0%	No
Yavapai	$1.5084	$1.4956	-0.8%	$53,650,100	$56,930,800	6.1%	Yes
Yuma/La Paz	$2.0718	$2.0391	-1.6%	$36,900,814	$37,547,092	1.8%	No
Total/Average	**$1.4672**	**$1.4427**	**-1.1%**	**$977,594,721**	**$1,016,841,453**	**5.2%**	

General Fund Expenditures				
District	**FY24**	**FY25**	**Difference**	**% Chg.**
Cochise	$54,505,948	$58,714,970	$4,209,022	7.7%
Coconino	$27,880,374	$27,901,400	$21,026	0.1%
Gila	$7,618,554	$8,162,764	$544,210	7.1%
Graham	$46,342,787	$47,682,919	$1,340,132	2.9%
Maricopa	$787,048,984	$805,547,738	$18,498,754	2.4%
Mohave	$38,618,995	$43,533,602	$4,914,607	12.7%
Navajo	$39,072,827	$38,827,550	-$245,277	-0.6%
Pima	$208,063,000	$218,567,000	$10,504,000	5.0%
Pinal	$53,220,673	$55,994,965	$2,774,292	5.2%
Santa Cruz	$1,778,201	$1,795,372	$17,171	1.0%
Yavapai	$59,010,200	$64,025,200	$5,015,000	8.5%
Yuma/La Paz	$59,445,116	$61,671,244	$2,226,128	3.7%
Total/Average	**$1,382,605,659**	**$1,432,424,724**	**$49,819,065**	**3.60%**