



MEMORANDUM

Date: May 8, 2018

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to be "CHH", is written over the printed name "C.H. Huckelberry".

Re: **One Percent Constitutional Property Tax Limitation and Shifting the Tucson Unified School District Desegregation Expenses to a Secondary Property Tax Levy**

In the closing hours of this year's Legislative Session, the Legislature again enacted legislation designed to unfairly shift the one-percent Constitutional State Aid to Education limitation from the State to another taxing entity. As the Board recalls, three years ago, the State attempted to shift this tax burden to Pima County. The County sued the State, arguing that the shift was unconstitutional and Pima County prevailed in Maricopa County Superior Court. The property tax shift from the State to Pima County was reversed and we were able to reverse a property tax hike because of the shift.

This recent action of the State Legislature is similar to what previously occurred except the State has this time shifted the tax burden back to residential property owners in the Tucson Unified School District (TUSD). We estimate there are 99,547 homeowners in TUSD that will be affected by this legislation and pay increased property taxes. Below is our analysis of this tax shift with attached appended worksheet for homes that have an assessed value of \$100,000 and \$200,000.

Estimated impact of proposed shift of school district Desegregation Expenses from being included in a district's primary property tax levy to a new secondary tax levy is as follows based on actual 2017 information:

1. TUSD included Desegregation Expenses in its 2017 primary tax levy.
2. Based on TUSD's 2017 adopted budget Desegregation Expenses (\$63,711,047) and taxable net assessed value (\$3,215,767,737), Desegregation Expenses comprised \$1.9812 of the district's overall primary property tax rate of \$6.3763 for 2017.
3. Therefore, TUSD's primary property tax rate would decrease by \$1.9812 from \$6.3763 to \$4.3951, which would be the "new" TUSD primary tax rate for all property owners.

The Honorable Chairman and Members, Pima County Board of Supervisors
Re: **One Percent Constitutional Property Tax Limitation and Shifting the Tucson Unified School District Desegregation Expenses to a Secondary Property Tax Levy**

May 8, 2018

Page 2

4. Analysis of the Base State Aid for Education Rate for Legal Class 3 primary residence taxpayers in TUSD would not change from the 2017 rate of \$1.9097.
5. All taxpayers in TUSD would see a "new" \$1.9812 TUSD Desegregation Secondary Property Tax Levy.
6. There is NO NET TAX IMPACT from the proposed shift in levy for businesses (includes mines, utilities, railroads, etc.), non-homeowner residential properties, and other miscellaneous legislative classes such as historic properties, foreign trade zone properties, etc.
7. ONLY LEGAL CLASS 3 PRIMARY RESIDENCE HOMEOWNER PROPERTIES would be affected with increased total property taxes each year by the proposed shift.
 - Overall taxes on a \$100,000 Limited Value primary residence located in TUSD and the City of Tucson would increase by \$126 for 2017.
 - Overall taxes on a \$100,000 Limited Value primary residence located in TUSD and the City of South Tucson would increase by \$105 for 2017.
 - Overall taxes on a \$100,000 Limited Value primary residence located in TUSD and not in the Cities of South Tucson or Tucson would increase by \$80 for 2017.

See the attached regarding calculations for Legal Class 3 primary residences located in TUSD and in the City of Tucson. Attachment 1 is for a \$100,000 value home; Attachment 2 is for a \$200,000 home. The average-valued home located in TUSD and the City of Tucson for 2017 is valued at \$123,902. This is the average value of 73,753 Class 3 primary residences that fall into this category. The estimated additional cost to such a home because of this property tax shift is \$156. Note that this and the estimated cost to the homes provided elsewhere in this memorandum assume all \$63.7 million of TUSD's adopted budget for desegregation expenses were included in TUSD's 2017 primary tax rate and will now be shifted to a secondary property tax.

Impact of Constitutional One Percent State Aid for Education with the proposed shift:

During 2017, we reported a total of \$16,596,833 in Constitutional One Percent State Aid for all Pima County school districts. Of that amount, \$16,524,959 in Constitutional One Percent State Aid was associated with TUSD. The shift of Desegregation Expenses from a primary tax levy to a secondary tax levy would reduce the combined primary tax rates of all taxing districts in TUSD (net of the Base State Aid for Education rate) by \$1.9812 so the

The Honorable Chairman and Members, Pima County Board of Supervisors
Re: **One Percent Constitutional Property Tax Limitation and Shifting the Tucson Unified School District Desegregation Expenses to a Secondary Property Tax Levy**

May 8, 2018

Page 3

overall combined jurisdiction total would be below the \$10.0000 break point when Constitutional One Percent State Aid for Education becomes effective.

The shift in Desegregation Expenses to a secondary tax levy would result in the following overall combined primary tax rates (net of the Base State Aid for Education rate of \$1.9097 for 2017):

Property Location	Overall Combined Primary Tax Rate Net of Base State Aid for Education
TUSD in City of Tucson	\$9.2796
TUSD in South Tucson	\$9.0702
TUSD but not in South Tucson & Tucson	\$8.8215

With the proposed shift of Desegregation Expenses to a secondary tax levy, the State would dramatically reduce the amount of Constitutional One Percent State Aid for Education necessary for TUSD.

Summary

In summary, the State Legislature did to TUSD what it attempted to do to Pima County several years ago. The County sued and prevailed. We have not been contacted by anyone in TUSD regarding this matter. As you recall, in our litigation against the State, we stood alone without the assistance of others.

CHH/anc

Attachments

- c: The Honorable Dustin Williams, Pima County Superintendent of Schools
Tom Burke, Deputy County Administrator for Administration
Keith Dommer, Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management
Nicole Fyffe, Executive Assistant to the County Administrator
Craig Horn, Financial Project Coordinator, Finance and Risk Management
Michael Racy, Racy Associates, Inc.

ATTACHMENT 1

**PROPERTY TAX COMPARISON UNDER CURRENT LAW AND PROPOSED DESEGREGATION SECONDARY TAX FOR
PRIMARY RESIDENCE PROPERTIES**

(Comparing Residential-Type Properties Located In Tucson Unified School District And The City of Tucson)

	Current Statutes		Potential Deseg As Secondary Tax	
	For ARS Class 3 Primary Residence With \$100,000 Limited Value In Tucson Unified District		For ARS Class 3 Primary Residence With \$100,000 Limited Value In Tucson Unified District	
Property Assessment Information				
Limited Value		\$100,000		\$100,000
Assessment Ratio %		10.0%		10.0%
Taxable Net Assessed Value		\$10,000		\$10,000

Step 1 - Calculate Property Taxes Including Amount Of Base State Aid For Education Pursuant To A.R.S. §15-972(D) for ARS Class 3 Property Only

Primary Property Tax Calculation	2017		2017	
	Tax Rate	Tax Amount	Tax Rate	Tax Amount
Pima County Primary Tax	\$4.2096	\$420.96	\$4.2096	\$420.96
Pima County Transportation Primary Road Tax	\$0.2500	\$25.00	\$0.2500	\$25.00
Pima College Primary Tax	\$1.3890	\$138.90	\$1.3890	\$138.90
City of Tucson Primary & Tort Judgment Primary Taxes	\$0.4581	\$45.81	\$0.4581	\$45.81
State School Equalization Primary Tax	\$0.4875	\$48.75	\$0.4875	\$48.75
School District Primary Tax	\$6.3763	\$637.63	\$4.3951	\$439.51
Less: Base State Aid for Homeowner (Maximum \$600)	(\$1.9097)	(\$190.97)	(\$1.9097)	(\$190.97)
Net School District Primary Tax With Base State Aid	\$4.4666	\$446.66	\$2.4854	\$248.54
Total Net Primary Property Tax With Base State Aid	\$11.2608	\$1,126.08	\$9.2796	\$927.96

Secondary Property Tax Calculation

Tucson Unified School District				
Class B Secondary Tax	\$0.5455	\$54.55	\$0.5455	\$54.55
Desegregation Secondary Tax	N/A	N/A	\$1.9812	\$198.12
Total TUSD Secondary Taxes	\$0.5455	\$54.55	\$2.5267	\$252.67
Joint Technical Education District Secondary Tax	\$0.0500	\$5.00	\$0.0500	\$5.00
County Bonds Secondary Tax	\$0.7000	\$70.00	\$0.7000	\$70.00
City of Tucson Secondary Tax	\$0.9761	\$97.61	\$0.9761	\$97.61
Central Arizona Water Conservation District Secondary Taxes	\$0.1400	\$14.00	\$0.1400	\$14.00
Pima County Flood Control District Secondary Tax	\$0.3135	\$31.35	\$0.3135	\$31.35
Pima County Library District Secondary Tax	\$0.5053	\$50.53	\$0.5053	\$50.53
Fire District Assistance Secondary Tax	\$0.0459	\$4.59	\$0.0459	\$4.59
Total Secondary Property Taxes	\$3.2763	\$327.63	\$5.2575	\$525.75

Total Primary And Secondary Taxes	\$14.5371	\$1,453.71	\$14.5371	\$1,453.71
--	------------------	-------------------	------------------	-------------------

Step 2 - Determine Whether Property Is Eligible For Additional 1% State Aid For Education Pursuant To A.R.S. §15-972(E)

1% of Property's Limited Value		\$1,000.00		\$1,000.00
Total Primary Property Taxes Including Base State Aid		\$1,126.08		\$927.96

Do Total Primary Taxes Including Base State Aid Exceed 1% of Property's Limited Value for ARS Class 3 Primary Residence?		YES		NO
If NO, property is not eligible for Additional 1% State Aid				
If YES, property is eligible for Additional 1% State Aid				
Amount of Additional 1% Constitutional State Aid Primary		\$126.08		\$0.00

Step 3 - Final Calculation Of Property Taxes Including Base And Additional 1% State Aid For Education for ARS Class 3 Primary Residence Only

Final Primary Property Tax Calculation	2017		2017	
	Tax Rate	Tax Amount	Tax Rate	Tax Amount
Pima County Primary Tax	\$4.2096	\$420.96	\$4.2096	\$420.96
Pima County Transportation Primary Road Tax	\$0.2500	\$25.00	\$0.2500	\$25.00
Pima College Primary Tax	\$1.3890	\$138.90	\$1.3890	\$138.90
City of Tucson Primary & Tort Judgment Primary Taxes	\$0.4581	\$45.81	\$0.4581	\$45.81
State School Equalization Primary Tax	\$0.4875	\$48.75	\$0.4875	\$48.75
School District Primary Tax	\$6.3763	\$637.63	\$4.3951	\$439.51
Less: Total Base & 1% State Aid for Homeowner	(\$3.1705)	(\$317.05)	(\$1.9097)	(\$190.97)
Net School District Primary Tax With Base & 1% State Aid	\$3.2058	\$320.58	\$2.4854	\$248.54
Total Primary Property Tax With Base & 1% State Aid	\$10.0000	\$1,000.00	\$9.2796	\$927.96

Tucson Unified School District				
Class B Secondary Tax	\$0.5455	\$54.55	\$0.5455	\$54.55
Desegregation Secondary Tax	N/A	N/A	\$1.9812	\$198.12
Total TUSD Secondary Taxes	\$0.5455	\$54.55	\$2.5267	\$252.67
Joint Technical Education District Secondary Tax	\$0.0500	\$5.00	\$0.0500	\$5.00
County Bonds Secondary Tax	\$0.7000	\$70.00	\$0.7000	\$70.00
City of Tucson Secondary Tax	\$0.9761	\$97.61	\$0.9761	\$97.61
Central Arizona Water Conservation District Secondary Taxes	\$0.1400	\$14.00	\$0.1400	\$14.00
Pima County Flood Control District Secondary Tax	\$0.3135	\$31.35	\$0.3135	\$31.35
Pima County Library District Secondary Tax	\$0.5053	\$50.53	\$0.5053	\$50.53
Fire District Assistance Secondary Tax	\$0.0459	\$4.59	\$0.0459	\$4.59
Total Secondary Property Taxes	\$3.2763	\$327.63	\$5.2575	\$525.75

FINAL TOTAL PRIMARY AND SECONDARY TAXES	\$13.2763	\$1,327.63	\$14.5371	\$1,453.71
				\$126.08

ATTACHMENT 2

**PROPERTY TAX COMPARISON UNDER CURRENT LAW AND PROPOSED DESEGREGATION SECONDARY TAX FOR
PRIMARY RESIDENCE PROPERTIES**

(Comparing Residential-Type Properties Located In Tucson Unified School District And The City of Tucson)

	Current Statutes		Potential Deseg As Secondary Tax	
	For ARS Class 3 Primary Residence With \$200,000 Limited Value In Tucson Unified District		For ARS Class 3 Primary Residence With \$200,000 Limited Value In Tucson Unified District	
Property Assessment Information				
Limited Value		\$200,000		\$200,000
Assessment Ratio %		10.0%		10.0%
Taxable Net Assessed Value		\$20,000		\$20,000

Step 1 - Calculate Property Taxes Including Amount Of Base State Aid For Education Pursuant To A.R.S. §15-972(D) for ARS Class 3 Property Only

Primary Property Tax Calculation	2017		2017	
	Tax Rate	Tax Amount	Tax Rate	Tax Amount
Pima County Primary Tax	\$4.2096	\$841.92	\$4.2096	\$841.92
Pima County Transportation Primary Road Tax	\$0.2500	\$50.00	\$0.2500	\$50.00
Pima College Primary Tax	\$1.3890	\$277.80	\$1.3890	\$277.80
City of Tucson Primary & Tort Judgment Primary Taxes	\$0.4581	\$91.62	\$0.4581	\$91.62
State School Equalization Primary Tax	\$0.4875	\$97.50	\$0.4875	\$97.50
School District Primary Tax	\$6.3763	\$1,275.26	\$4.3951	\$879.02
Less: Base State Aid for Homeowner (Maximum \$600)	(\$1.9097)	(\$381.94)	(\$1.9097)	(\$381.94)
Net School District Primary Tax With Base State Aid	\$4.4666	\$893.32	\$2.4854	\$497.08
Total Net Primary Property Tax With Base State Aid	\$11.2608	\$2,252.16	\$9.2796	\$1,855.92

Secondary Property Tax Calculation				
Tucson Unified School District				
Class B Secondary Tax	\$0.5455	\$109.10	\$0.5455	\$109.10
Desegregation Secondary Tax	N/A	N/A	\$1.9812	\$396.24
Total TUSD Secondary Taxes	\$0.5455	\$109.10	\$2.5267	\$505.34
Joint Technical Education District Secondary Tax	\$0.0500	\$10.00	\$0.0500	\$10.00
County Bonds Secondary Tax	\$0.7000	\$140.00	\$0.7000	\$140.00
City of Tucson Secondary Tax	\$0.9761	\$195.22	\$0.9761	\$195.22
Central Arizona Water Conservation District Secondary Taxes	\$0.1400	\$28.00	\$0.1400	\$28.00
Pima County Flood Control District Secondary Tax	\$0.3135	\$62.70	\$0.3135	\$62.70
Pima County Library District Secondary Tax	\$0.5053	\$101.06	\$0.5053	\$101.06
Fire District Assistance Secondary Tax	\$0.0459	\$9.18	\$0.0459	\$9.18
Total Secondary Property Taxes	\$3.2763	\$655.26	\$5.2575	\$1,051.50
Total Primary And Secondary Taxes	\$14.5371	\$2,907.42	\$14.5371	\$2,907.42

Step 2 - Determine Whether Property Is Eligible For Additional 1% State Aid For Education Pursuant To A.R.S. §15-972(E)

1% of Property's Limited Value		\$2,000.00		\$2,000.00
Total Primary Property Taxes Including Base State Aid		\$2,252.16		\$1,855.92

Do Total Primary Taxes Including Base State Aid Exceed 1% of Property's Limited Value for ARS Class 3 Primary Residence?		YES		NO
If NO, property is not eligible for Additional 1% State Aid				
If YES, property is eligible for Additional 1% State Aid				
Amount of Additional 1% Constitutional State Aid Primary		\$252.16		\$0.00

Step 3 - Final Calculation Of Property Taxes Including Base And Additional 1% State Aid For Education for ARS Class 3 Primary Residence Only

Final Primary Property Tax Calculation	2017		2017	
	Tax Rate	Tax Amount	Tax Rate	Tax Amount
Pima County Primary Tax	\$4.2096	\$841.92	\$4.2096	\$841.92
Pima County Transportation Primary Road Tax	\$0.2500	\$50.00	\$0.2500	\$50.00
Pima College Primary Tax	\$1.3890	\$277.80	\$1.3890	\$277.80
City of Tucson Primary & Tort Judgment Primary Taxes	\$0.4581	\$91.62	\$0.4581	\$91.62
State School Equalization Primary Tax	\$0.4875	\$97.50	\$0.4875	\$97.50
School District Primary Tax	\$6.3763	\$1,275.26	\$4.3951	\$879.02
Less: Total Base & 1% State Aid for Homeowner	(\$3.1705)	(\$634.10)	(\$1.9097)	(\$381.94)
Net School District Primary Tax With Base & 1% State Aid	\$3.2058	\$641.16	\$2.4854	\$497.08
Total Primary Property Tax With Base & 1% State Aid	\$10.0000	\$2,000.00	\$9.2796	\$1,855.92

Secondary Property Tax Calculation				
Tucson Unified School District				
Class B Secondary Tax	\$0.5455	\$109.10	\$0.5455	\$109.10
Desegregation Secondary Tax	N/A	N/A	\$1.9812	\$396.24
Total TUSD Secondary Taxes	\$0.5455	\$109.10	\$2.5267	\$505.34
Joint Technical Education District Secondary Tax	\$0.0500	\$10.00	\$0.0500	\$10.00
County Bonds Secondary Tax	\$0.7000	\$140.00	\$0.7000	\$140.00
City of Tucson Secondary Tax	\$0.9761	\$195.22	\$0.9761	\$195.22
Central Arizona Water Conservation District Secondary Taxes	\$0.1400	\$28.00	\$0.1400	\$28.00
Pima County Flood Control District Secondary Tax	\$0.3135	\$62.70	\$0.3135	\$62.70
Pima County Library District Secondary Tax	\$0.5053	\$101.06	\$0.5053	\$101.06
Fire District Assistance Secondary Tax	\$0.0459	\$9.18	\$0.0459	\$9.18
Total Secondary Property Taxes	\$3.2763	\$655.26	\$5.2575	\$1,051.50

FINAL TOTAL PRIMARY AND SECONDARY TAXES	\$13.2763	\$2,655.26	\$14.5371	\$2,907.42
				\$252.16