



MEMORANDUM

Date: May 26, 2020

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

From: C.H. Huckelberry
County Administrator

Re: **Combined Property Tax Bills for Tucson Homeowners and Businesses in Comparison to Other Large U.S. Cities**

Background

Pima County is participating with the City of Tucson and the University of Arizona in a housing market study. The purpose of the study is to better understand our existing housing stock, development trends, and policies in comparison to the housing needs of the full range of households in Pima County. Phase 1 of the study was the development of a Neighborhood Vulnerability Index that essentially replaces the outdated Stress Index used previously to prioritize or qualify neighborhoods for infrastructure reinvestment and other forms of public assistance. Details of this Neighborhood Vulnerability Index are posted on the University of Arizona's Making Action Possible (MAP) Dashboard website at <https://mapazdashboard.arizona.edu/tucson-pima-county-housing-study>. The data layers are also available on Pima County's PimaMaps and MapGuide online mapping systems.

As part of Phase 2 of the housing market study, Pima County will be contributing expertise regarding property taxes. This includes: (1) the combined property tax burden to households in comparison to other communities, (2) property tax delinquencies by location and in comparison to those households in vulnerable neighborhoods, (3) changes over time in combined property taxes by location and in comparison to those households in vulnerable neighborhoods, and (4) where and how many households are making use of existing property tax relief policies and programs governed by State statute and whether there is the opportunity to expand the number of qualified households receiving this tax relief, especially households in vulnerable neighborhoods.

50-State Property Tax Comparison Study – June 2019

In 2016, I forwarded to the Board a study developed by the Lincoln Institute of Land Policy comparing property tax rates and combined property tax bills for homeowners and businesses across large cities throughout the United States. Attached is a summary of the updated 2019 version of that study showing how Tucson homeowners and businesses rank among these national data sets. While this study is dated June 2019, it uses 2018 taxes. This addresses item number one, above.

The Honorable Chairman and Members, Pima County Board of Supervisors

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The study includes two data sets relevant to Tucson to compare effective property tax rates and combined property tax bills for Tucson homeowners and businesses to other large U.S. cities. In one data set, the 73 largest U.S. cities are included. In the other, the 50 largest U.S. cities are included. The effective property tax rates and combined property tax bills listed for each large city include the taxes levied by that city, the county in which the city is located, the largest school district within that city, and special districts. The study uses the effective property tax rate, defined as the tax bill as a percent of a property's market value, which allows for comparisons across cities and states.

The study also uses statistical analysis to determine the factors that explain most of the variation in effective property tax rates across the cities, including median home values, property tax reliance as a revenue source, levels of local government spending, and differences in property tax assessments by property type.

According to the 2019 study:

Property taxes for Tucson homeowners are significantly lower than in other large cities. Of the 50 largest US cities, homeowners in only six cities had a lower combined property tax bill than for Tucson homeowners for a median valued home. The effective property tax rate for Tucson homeowners is about average and tax bills are well below average when compared to other large US cities. This is likely due to a much lower median home value than the comparison cities, and lower local government spending per capita.

The effective property tax rate and combined property tax bill for apartment properties in Tucson are lower than average. This study does not provide information on the cost of rent and whether lower property tax bills contribute to lower than average rental prices. However, rental prices will be considered as part of Phase 2 of the City/County/University of Arizona housing market study.

Property tax rates and combined property tax bills for commercial and higher valued industrial properties in Tucson, are above average. This is likely due to State-required property tax assessment ratios that are higher for commercial and industrial properties, the cap on primary property taxes for homeowners, and lower median home values.

Local property tax reliance in Tucson, in comparison to other revenue sources, is about average. Pima County's reliance on property taxes is often considered high because Pima County does not levy a sales tax. However, the City of Tucson's reliance on property taxes is low, which may have brought the overall measure of property tax reliance to average.

Attachment

CHH/dr

c: Jan Leshar, Chief Deputy County Administrator
Dr. Francisco Garcia, MD, MPH, Deputy County Administrator and Chief Medical Officer,
Health and Community Services
Carmine DeBonis, Deputy County Administrator for Public Works
Nicole Fyffe, Executive Assistant to the County Administrator

50 –State Property Tax Comparison Study – June 2019 for Taxes Paid in 2018
Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence

<https://www.lincolinst.edu/publications/other/50-state-property-tax-comparison-study-3>

A Summary of the Study for Property Taxes in the Tucson Area

This study compares property tax rates in more than 100 U.S. cities, including tax rates on homes, apartment complexes, and commercial and industrial properties. The study uses the effective property tax rate, defined as the tax bill as a percent of a property's market value, which allows for comparisons across cities and states. The effective tax rate listed for a particular city includes property taxes levied by the city, county, the largest school district in the city, and special districts for properties within the boundaries of that city. The effective tax rate is for tax year 2018. Homes or homesteads are defined as owner-occupied/primary residences. Some of the comparisons are limited to the largest city in each state, and in those cases Phoenix is included, not Tucson. Tucson is included in two other data sets that compare the largest 73 and largest 50 U.S. cities.

The study also uses statistical analysis to identify four key factors that explain most of the variation in property tax rates, as well as how much these factors influence the effective tax rate for homes and commercial properties each city. These four factors are:

1. The degree to which a city, county, school district, or special taxing district relies on property taxes for revenues, versus other revenues sources, was found to be the leading factor in the variation of property tax rates.
2. Differences in home values across cities was found to be the next highest factor in explaining the variation in property tax rates.
3. Differences in the levels of local government spending are also a factor
4. Whether homes are taxed at a different classification or assessment ratio compared to other types of property, is also a factor. In Arizona, for example, commercial and industrial properties carry more of the property tax burden compared to homes that are primary residences. 18 percent of the net assessed value of commercial and industrial properties is taxable, whereas only 10 percent of the net assessed value of homes that are primary residences are taxable. In addition, the combined primary property taxes for homes that are primary residences are capped at 1 percent of the value of the home. There is no such cap for other property types.

Generally, the study concluded that the first two, reliance on property taxes and home values, have the greatest effect on property tax rates. But for each city, the study reports for each of these four factors their ranking among the 73 largest US cities, and the impact each factor is predicted to have the effective tax rate for homes and commercial properties.

The full report can be accessed at: https://www.lincolinst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2018-full_3.pdf The tables referenced in this summary are attached.

Findings Concerning Property Tax Rates and Tax Bills for Homes and Businesses in Tucson

- A. Effective Property Tax Rates and Taxes for Homes (Primary Residences), Ranked with the 73 Largest US Cities and 50 Largest US Cities, with Assessment Limits.

The effective tax rate for a median valued home (primary residence) in Tucson is 1.08%, which ranks in the middle (39) of the 73 largest US cities. Local property tax reliance in Tucson also ranks in the middle, and is predicted to have little impact on the effective tax rate for homeowners. The median home value in Tucson is comparatively low (13th lowest), and is predicted to contribute to a higher tax rate for homeowners relative to homes in cities with the average home values. Local government spending in Tucson is also comparatively low (9th lowest), and is predicted to contribute to a lower tax rate for homeowners relative to homes in cities with average spending. The classification ratios for commercial properties to primary residences, and apartments to primary residences, are comparatively medium-high to medium, but are predicted to have little impact on the effective tax rate for homeowners. (Appendix Table 1a)

In comparison to the largest 50 US cities, Tucson's effective tax rate also ranks in the middle (26), is below the average of 1.25%, and the combined property tax bill of \$1,629 for the median valued home of \$150,400 in Tucson ranks low (44) and is well below the average tax bill of \$3,080 for the median valued home of \$303,980. (Appendix Table 2e)

Tucson's median value home is lower than most of the 73 largest US cities (60). (\$150,400 vs. \$303,980) (Appendix Tables 1a and 2e)

B. Effective Property Tax Rates and Taxes for Commercial Property, Ranked with the 73 largest Cities and 50 Largest US Cities

Tucson's effective tax rate for a commercial property valued at \$1 million with \$200,000 in fixtures is 2.10%, which ranks higher than 44 of the 73 largest US cities. Local property tax reliance in Tucson ranks in the middle, and is predicted to have little impact on the effective tax rate for commercial properties. The median home value in Tucson is comparatively low (13th lowest), and is predicted to contribute to a higher tax rate for commercial properties relative to commercial properties in cities with the average home values. Local government spending in Tucson is also comparatively low (9th lowest), and is predicted to contribute to a lower tax rate for commercial properties relative to commercial properties in cities with average spending. The classification ratio for commercial properties to primary residences is comparatively medium-high, and is predicted to contribute to a higher effective tax rate for commercial properties relative to commercial properties in cities with the average classification ratio. (Appendix Table 1b)

In comparison to the largest 50 cities, Tucson's effective tax rate for commercial property valued at \$1 million is 2.096%, which is above the average of 1.917%, and the combined property tax bill is \$25,146, which is above the average of \$23,003. This tax rate and tax bill ranks Tucson higher than 29 of the 50 largest US cities. (Appendix Table 3b)

In comparison to the largest 50 cities, Tucson's effective tax rate for commercial property valued at \$100,000 is 2.018%, which is above the average of 1.861%, and the combined property tax bill is \$2,421, which is above the average of \$2,233. This tax rate and tax bill ranks Tucson higher than 29 of the 50 largest US cities. (Appendix Table 3b)

In comparison to the largest 50 cities, Tucson's effective tax rate for commercial property valued at \$25 million is 2.475%, which is above the average of 1.960%, and the combined property tax bill is \$742,388, which is above the average of \$588,126. This tax rate and tax bill ranks Tucson higher than 35 of the 50 largest US cities. (Appendix Table 3b)

C. Effective Property Tax Rates and Taxes for Industrial Property (Personal Property = 50% of value), Ranked with the 50 Largest US Cities

In comparison to the largest 50 cities, Tucson's effective tax rate for industrial property valued at \$100,000 is 1.211%, which is below the average of 1.460%, and the combined property tax bill is \$2,421, which is below the average of \$2,920. This tax rate and tax bill ranks Tucson in the middle (27) of the 50 largest US cities. (Appendix table 4c)

In comparison to the largest 50 cities, Tucson's effective tax rate for industrial property valued at \$1 million is 1.824%, which is above the average of 1.549%, and the combined property tax bill is \$36,488, which is above the average of \$30,974. This tax rate and tax bill ranks Tucson higher (16) than many of the 50 largest US cities. (Appendix table 4c)

In comparison to the largest 50 cities, Tucson's effective tax rate for industrial property valued at \$25 million is 2.052%, which is above the average of 1.576%, and the combined property tax bill is \$1,025,928, which is above the average of \$787,815. This tax rate and tax bill ranks Tucson higher (15) than many of the 50 largest US cities. (Appendix table 4c)

D. Effective Property Tax Rates and Taxes for Apartment Properties Valued at \$600,000 Ranked with the Largest 50 US Cities

In comparison to the largest 50 cities, Tucson's effective tax rate for apartment properties valued at \$600,000 is 1.256%, which is below the average of 1.634%, and the combined property tax bill is \$7,911, which is below the average of \$10,297. This tax rate and tax bill ranks Tucson in the lower middle (31) of the 50 largest US cities. (Appendix Table 5b)

Findings Regarding Tax Rates and Bills in Tucson versus Phoenix

According to the report, homes (primary residences) in Phoenix have a slightly lower effective tax rate when compared to homes in Tucson, but the combined property tax bills are higher due to a higher median valued home (\$231,000 vs. \$150,400). Commercial and industrial properties in Phoenix have slightly higher effective tax rates and combined property tax bills than Tucson. Commercial effective tax rates and tax bills are high in Phoenix when ranked against other US cities, and industrial effective tax rates and tax bills in Phoenix are in the middle when ranked against other US cities. For apartment properties, Phoenix has a slightly higher effective tax rate and tax bills than Tucson, but still ranks in the middle when compared to other US cities.

Summary of Findings

Of the 50 largest US cities, homeowners in only 6 cities had a lower combined property tax bill than Tucson homeowners for a median valued home. The effective property tax rate for homes (primary residences) in Tucson is about average and tax bills are well below average when compared to other large US cities. This is likely due to a much lower median home value than the comparison cities, and lower local government spending per capita.

The effective property tax rate and combined property tax bill for apartment properties in Tucson are lower than average.

But property tax rates and combined property tax bills for commercial and higher valued industrial properties in Tucson, are above average. This is likely due to State-required property tax assessment ratios that are higher for commercial and industrial properties, the cap on primary property taxes for homeowners, and lower median home values.

Local property tax reliance in Tucson, in comparison to other revenue sources, is about average. Pima County's reliance on property taxes is often considered high because Pima County does not levy a sales tax. However, the City of Tucson's reliance on property taxes is low, which may have brought the overall measure of property tax reliance to average.

Referenced tables attached