



MEMORANDUM

Date: July 2, 2021

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

From: C.H. Huckelberry
County Administrator

Re: **State Cost Transfer Increases and the Need to Adjust the Primary Property Tax Rate for the Fiscal Year 2022/23 Budget**

State budget bills passed by the Legislature and approved by the Governor will reduce the Class 1 commercial assessment ratio from 18 percent to 16 percent over four years. This has the effect of reducing the County's tax base by legislative action. The attached table indicates various reductions, losses and revenues of each of the County's tax levies. (Attachment 1)

The legislation also proposes to increase the homeowner's rebate by increasing the percentage of the Qualifying Tax Rate used in the state aid to education calculation from 47.19 percent to 50 percent. This increase in state aid reduces the amount of primary property tax that primary residence homeowners pay to school districts but has no effect on the tax reduction that must be absorbed by the County. In FY 2022/23 when the class 1 assessment ratio is 17.5%, the overall levy reduction for Pima County jurisdictions is estimated to be \$3.96 million. The reduction increases to \$8.24 million in FY 2023/24 when the assessment ratio is 17.0%, \$12.72 million in FY 2024/25 when the ratio is 16.5% and finally \$17.54 million in FY 2025/26 when the ratio is 16.0%.

In addition, the State has continued to include the Arizona Department Juvenile Justice cost transfers to Maricopa and Pima Counties. In the past, we have paid approximately \$1.8 million of this cost.

For FY 2022/23, these two cost transfers add up to \$5.76 million. Therefore, I will be asking the Board of Supervisors to increase the primary property tax rate by 5.73 cents over what it may have been projected to be based on tax base growth and continued implementation of the present PAY-as-you-Go (PAYGO) structure. Increases in the primary property tax rate for future years will be determined as part of the budgeting process.

This increase in the primary property tax will offset these State cost transfers. I will ask the Board of Supervisors to adopt a policy that provides transparency for the tax transfer from the State. Adopting such a policy will improve clarity and accountability for State cost transfers to the County. (Attachment 2)

Finally, the Legislature is continuing a pattern of shifting property taxes to homeowners and residential properties. The present shift from commercial properties will inevitably increase the overall property tax burden on residential property owners.

The Honorable Chair and Members, Pima County Board of Supervisors

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Historically, in 1977, residential property owners bore 33 percent of the overall property tax burden. By 1995, that had shifted to 50 percent. In 2020, that burden had increased to nearly 70 percent. With this added shift of the property tax burden to residential property owners, recently enacted by the State Legislature, this burden will once again increase. (See Attachment 3)

CHH/anc

Attachment

c: Jan Leshar, Chief Deputy County Administrator
Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Francisco García, MD, MPH, Deputy County Administrator & Chief Medical Officer,
Health and Community Services
Michelle Campagne, Director, Finance and Risk Management
Andy Welch, Deputy Director, Finance and Risk Management
Michael Racy, Racy Associates, Inc.
Craig Sullivan, Executive Director, County Supervisors Association

ATTACHMENT 1

Table: Estimated Change in Pima County Levy if Class 1 Assessment Ratio is reduced to 17.5% in Tax Year 2022, 17.0% in Tax Year 2023, 16.5% in Tax Year 2024 and 16.0% in Tax Year 2025.

	2021 (Actual)	2022 (Estimated)			2023 (Estimated)			2024 (Estimated)			2025 (Estimated)		
	18.00%	18.00%	17.50%	Change in NAV	18.00%	17.00%	Change in NAV	18.00%	16.50%	Change in NAV	18.00%	16.00%	Change in NAV
Class 1 Taxable NAV	\$ 2,650,189,120	\$ 2,745,387,465	\$ 2,669,126,702	\$ 76,260,763	\$ 2,853,342,779	\$ 2,694,823,736	\$ 158,519,043	\$ 2,938,816,151	\$ 2,693,914,805	\$ 244,901,346	\$ 3,037,722,694	\$ 2,700,197,950	\$ 337,524,744
Overall Taxable NAV	\$ 9,696,150,355	\$ 10,124,745,010	\$ 10,048,484,247		\$ 10,546,306,952	\$ 10,387,787,909		\$ 10,950,471,546	\$ 10,705,570,201		\$ 11,346,900,853	\$ 11,009,376,109	
	2021 (Actual)	2022 (Estimated)			2023 (Estimated)			2024 (Estimated)			2025 (Estimated)		
	18.00%	18.00%	17.50%	Difference	18.00%	17.00%	Difference	18.00%	16.50%	Difference	18.00%	16.00%	Difference
General Fund Tax Rate	\$ 3.8764	\$ 3.8764	\$ 3.8764		\$ 3.8764	\$ 3.8764		\$ 3.8764	\$ 3.8764		\$ 3.8764	\$ 3.8764	
General Fund Class 1 Levy	\$ 102,731,931	\$ 106,422,200	\$ 103,466,027	\$ (2,956,173)	\$ 110,606,979	\$ 104,462,147	\$ (6,144,832)	\$ 113,920,269	\$ 104,426,913	\$ (9,493,356)	\$ 117,754,283	\$ 104,670,473	\$ (13,083,810)
Tax Rate to Retain Levy		\$ 3.8764	\$ 3.9058	\$ 0.0294	\$ 3.8764	\$ 3.9356	\$ 0.0592	\$ 3.8764	\$ 3.9651	\$ 0.0887	\$ 3.8764	\$ 3.9952	\$ 0.1188
Debt Service Tax Rate	\$ 0.4500	\$ 0.4500	\$ 0.4500		\$ 0.4500	\$ 0.4500		\$ 0.4500	\$ 0.4500		\$ 0.4500	\$ 0.4500	
Debt Service Class 1 Levy	\$ 11,925,851	\$ 12,354,244	\$ 12,011,070	\$ (343,174)	\$ 12,840,043	\$ 12,126,707	\$ (713,336)	\$ 13,224,673	\$ 12,122,617	\$ (1,102,056)	\$ 13,669,752	\$ 12,150,891	\$ (1,518,861)
Tax Rate to Retain Levy		\$ 0.4500	\$ 0.4534	\$ 0.0034	\$ 0.4500	\$ 0.4569	\$ 0.0069	\$ 0.4500	\$ 0.4603	\$ 0.0103	\$ 0.4500	\$ 0.4638	\$ 0.0138
Library District Tax Rate	\$ 0.5353	\$ 0.5353	\$ 0.5353		\$ 0.5353	\$ 0.5353		\$ 0.5353	\$ 0.5353		\$ 0.5353	\$ 0.5353	
Library District Class 1 Levy	\$ 14,186,462	\$ 14,696,059	\$ 14,287,835	\$ (408,224)	\$ 15,273,944	\$ 14,425,391	\$ (848,553)	\$ 15,731,483	\$ 14,420,526	\$ (1,310,957)	\$ 16,260,930	\$ 14,454,160	\$ (1,806,770)
Tax Rate to Retain Levy		\$ 0.5353	\$ 0.5394	\$ 0.0041	\$ 0.5353	\$ 0.5435	\$ 0.0082	\$ 0.5353	\$ 0.5475	\$ 0.0122	\$ 0.5353	\$ 0.5517	\$ 0.0164
Flood Control Tax Rate	\$ 0.3335	\$ 0.3335	\$ 0.3335		\$ 0.3335	\$ 0.3335		\$ 0.3335	\$ 0.3335		\$ 0.3335	\$ 0.3335	
Flood Control Class 1 Levy	\$ 8,838,381	\$ 9,155,867	\$ 8,901,538	\$ (254,329)	\$ 9,515,898	\$ 8,987,237	\$ (528,661)	\$ 9,800,952	\$ 8,984,206	\$ (816,746)	\$ 10,130,805	\$ 9,005,160	\$ (1,125,645)
Tax Rate to Retain Levy		\$ 0.3335	\$ 0.3360	\$ 0.0025	\$ 0.3335	\$ 0.3386	\$ 0.0051	\$ 0.3335	\$ 0.3411	\$ 0.0076	\$ 0.3335	\$ 0.3437	\$ 0.0102
Total Tax Rate	\$ 5.1952	\$ 5.1952	\$ 5.1952		\$ 5.1952	\$ 5.1952	\$ -	\$ 5.1952	\$ 5.1952	\$ -	\$ 5.1952	\$ 5.1952	\$ -
Total Class 1 Levy	\$ 137,682,625	\$ 142,628,370	\$ 138,666,470	\$ (3,961,900)	\$ 148,236,864	\$ 140,001,482	\$ (8,235,382)	\$ 152,677,377	\$ 139,954,262	\$ (12,723,115)	\$ 157,815,770	\$ 140,280,684	\$ (17,535,086)
Tax Rate to Retain Levy		\$ 5.1952	\$ 5.2346	\$ 0.0394	\$ 5.1952	\$ 5.2745	\$ 0.0793	\$ 5.1952	\$ 5.3140	\$ 0.1188	\$ 5.1952	\$ 5.3545	\$ 0.1593

ATTACHMENT 2



PIMA COUNTY, ARIZONA BOARD OF SUPERVISORS POLICY

Subject: General Fund Neutralization of State Legislature Cost Shifts and Disclosure of these Cost Shifts to Taxpayers	Policy Number	Page
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Purpose

To establish Pima County policy for neutralizing the annual primary or secondary property tax levy for funding General Fund increased expenditures due to State Legislature Cost Shifts (Cost Shifts).

Policy

The Board of Supervisors supports the full disclosure of how Cost Shifts affect Pima County taxpayers. In order to neutralize cost shifts enacted by the State Legislature to Pima County, the primary property or secondary property tax rate, or both, will be increased by an equivalent amount in the budget year following the Cost Shift.

The primary or secondary property taxes to be levied annually will include a Cost Shifts component based on the sum of cost shifts enacted by the State Legislature during the prior year. This will be calculated by dividing the increase in Cost Shifts by the applicable year’s primary property tax base (Taxable Net Assessed Value of property/ divided by \$100).

An example of this calculation is shown below for an estimate of \$1 million increase in Cost Shifts using the Fiscal Year 2021/2022 primary property tax base:

	FY 2021/22
State Legislature Cost Shift	\$ 1,000,000
Primary Net Assessed Value/100	\$ 96,961,504
Change to Primary Tax Rate	\$ 0.0103

The County Administrator shall include recommendations within the annual Recommended Budget and the Tentative Budget consistent with this policy for allocations to and expenditures from the General Fund.

The County Administrator will provide a written statement regarding the Cost Shifts in or on the property tax bill sent to Pima County taxpayers describing the amount and tax impact of the Cost Shifts.

Adoption Date:

Effective Date:

ATTACHMENT 3

