



MEMORANDUM

Date: January 6, 2015

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

From: C.H. Huckelberry
County Administrator 

Re: **Total Property Tax Levy in Pima County versus Maricopa County**

In the June 2014 issue of the *Arizona Tax Research Association Newsletter* (Attachment 1), the headline article entitled "Pima County Hammers Taxpayers" references the property tax increase as a result of our adoption of Pima County's Fiscal Year 2014/15 budget. The headline could have also stated that total property taxes levied in Pima County increased by 11.86 percent – as compared to a 9.10 percent increased levy in Maricopa County – but such would be much less dramatic.

For your information, Attachment 2 contains comparison tables between Pima and Maricopa Counties showing all of the indicators associated with property taxation, including assessed value, growth in assessed value, various taxing levies and rates, and the combined total property tax levies in each county and the percent of growth of the tax levy.

Maricopa County's Primary Net Assessed Value (PNAV) grew by 4.76 percent, whereas Pima County's PNAV declined by 0.54 percent. Examining only the tax rate differences between Maricopa and Pima Counties is very misleading. A more complete picture of taxation is shown by the combined total property tax levy. As the tables indicate, Pima County's levy increase of 11.86 percent, although larger, is not dissimilar to the combined 9.10-percent property tax levy increase in Maricopa County.

Flagging and concentrating on only one variable in a budget process can be very misleading.

CHH/mjk

Attachments

ATTACHMENT 1



The taxpayer's watchdog for over 70 years

ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

VOLUME 74
NUMBER 5

JUNE 2014

Pima County Hammers Taxpayers Shocking 63-cent Tax Rate Increase

Despite pleas from the business community, the Pima County Board of Supervisors voted 3-2 to implement one of the largest primary tax rate increases in county history over the last 30 years. The business community, along with a long line of frustrated individual taxpayers, showed up to the final budget adoption meeting to voice their strong opposition to the increase to no avail.

The overall 63-cent increase is a combination of a 61-cent increase in the primary tax rate, plus a 6-cent increase in the library district tax rate, and a 7-cent decrease in the debt service tax rate.

Already burdened with one of the top tax rates in the state, Pima County businesses pushed back on the 63-cent increase that piles on top of last year's 25-cent rate jump.

Several letters from the business community were sent to the Board urging them to reconsider such a dramatic tax increase. The Tucson Metro Chamber noted that the tax increase "sends the wrong message to Pima County

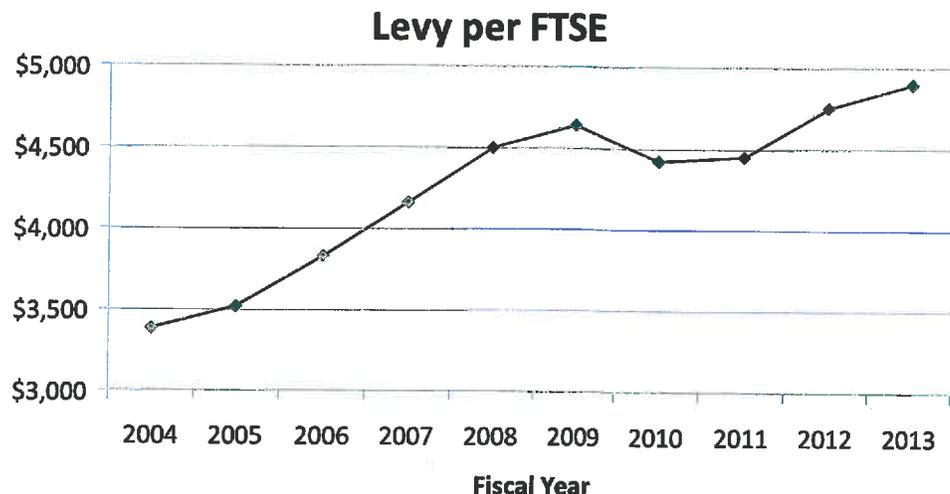
See Pima County, page 2

Comm Colleges Per Student Costs Soar

SEE INSIDE: SOUTH TUCSON'S
ILLEGAL PROPERTY TAX LEVY, page 2

Media headlines suggest Arizona community colleges are struggling with budget cuts and fiscal constraints. However, their budgets and audits tell a familiar story: increasing general fund (GF) expenditures regardless of matriculation. In Fiscal Year (FY) 2013, it cost local property taxpayers in Arizona on average \$4,902 per full time student equivalent (FTSE) per year. On average, community college districts levied local property taxes 26% more per FTSE in FY13 than five years prior. FY13 is the most recent audit available for FTSE counts. Decreases in state aid during that period didn't impact GF budget trends, which increased \$200 million, or 20%. Monies came from a 22% increase (\$121 million) in local property taxes as well as tuition and fees.

As reported in the May Newsletter, Community College Districts (CCDs) are able to continue to increase spending when student counts



See Comm Colleges, page 3

PIMA COUNTY, *Continued from Page 1*

property owners and to prospective businesses looking to locate in our county.” The same concern was echoed by the Tucson Hispanic Chamber of Commerce, adding that “such a tax increase may impact their (companies with multiple locations) to expand and to hire new positions in Pima County as they consider the financial burden compared to other counties in this State.”

Printed below is the text of ATRA’s letter to the Pima County Board of Supervisors encouraging the Board to seriously weigh the needs of the county against the impact the tax increase will have on taxpayers and the long-term economic viability of the County.

On behalf of the Arizona Tax Research Association (ATRA) Board of Directors, I want to extend our concerns regarding the proposed 63-cent increase in the combined property tax rates for the Fiscal Year (FY) 2015 budget. The proposed combined tax rates (that are the responsibility of the Pima County Board of Supervisors) will reach a staggering \$5.7167 – 91 cents higher than two short years ago.

As property taxpayers are painfully aware, Pima County has for decades been at or near the top in highest county property tax rates. For many years, Pima County has solidly occupied the unfavorable position of the highest county property tax rates, with the FY 2014 combined tax rate a full dollar higher than second place finisher Pinal County. In addition to being the highest overall rate in the state, Pima County's FY 2014 rate was \$2.71 higher than the average rate for all Arizona Counties. Most notably, despite being Arizona's second most populous county, Pima unbelievably still holds the distinction of the highest property levies per capita at \$386 for FY 2014. By comparison, the most populous Maricopa County levied \$118 per capita and the third largest Pinal County levied \$208 per capita.

Tax burdens are one of many criteria that businesses use in determining site locations. It has been well established that Arizona's largest tax barrier to recruiting new employers is our high business property taxes. For 2013, Arizona ranked 9th nationally in industrial property taxes.

Clearly, in the highly competitive marketplace for business retention and recruitment, Pima is already at a significant disadvantage both nationally and regionally. This proposed tax increase not only moves Pima County in the opposite direction of where it needs to go, it is a decision that will likely handcuff economic development efforts for years to come.

Like Arizona businesses, Arizona state and local governments faced significant challenges during the great recession. Certainly every Arizona government has needs that remain unmet from that difficult period. As you debate the needs of Pima County, ATRA strongly encourages you to balance those against not only the impact on Pima County taxpayers and businesses but also against the long-term viability of economic development in Pima County.

-Jennifer Stielow

South Tucson Illegally Levies \$1.8 Million in Property Taxes

In 2011, the South Tucson City council was struggling to meet its debt service obligations on its existing non voter-approved debt. At that time and upon the recommendation by the city manager Enrique Serna, the city council voted to levy a secondary property tax to fund the debt service, without the approval of voters. As a result, the council adopted a secondary property tax rate of \$2.4338 to fund the debt service payments, which was nearly 11 times higher than the \$0.2265 primary tax rate levied to fund the city’s general operations.

Primary property taxes are levied to fund the operations of local government budgets. Secondary taxes are levied to pay for the debt service on *voter-approved* general obligation bonds, South Tucson’s actions to levy of a secondary

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tax without voter approval might be unprecedented.

Based on a notice provided by the City of Tucson to its taxpayers, the city incurred debt in 2007 and dedicated the sales tax as payment for the annual debt service. In 2011, the administration recommended that the city levy a secondary property tax to fund the annual debt service in lieu of the sales tax and levied a secondary tax rate for the next three years, without the approval of voters. The secondary tax rate levied in those three years ranged from a low of \$2.4338 in 2011 to a high of \$2.7248 in 2013 and generated approximately \$600,000 each year.

The notice stated the current council realized during this year’s budget process that the previous council had improperly and perhaps illegally levied the tax. As a result, the council noted its intention to eliminate the secondary property tax but made no mention as to how the city plans to repay the taxpayers of South Tucson. In fact, the city considered the elimination of the secondary property tax as providing its taxpayers with “much needed tax relief” and that taxpayer’s will save approximately \$242 per year as a result.

The City claimed it is prepared to “seek every legal remedy available in order to resolve this situation.” The question that some taxpayers of South Tucson are asking is will the remedy include a refund of the \$1.8 million in illegal taxes levied? State policymakers should consider a mechanism to ensure proper oversight of levies for secondary taxes similar to the oversight of primary taxes.

-Jennifer Stielow

COMMUNITY COLLEGES , *Continued from Page 1*

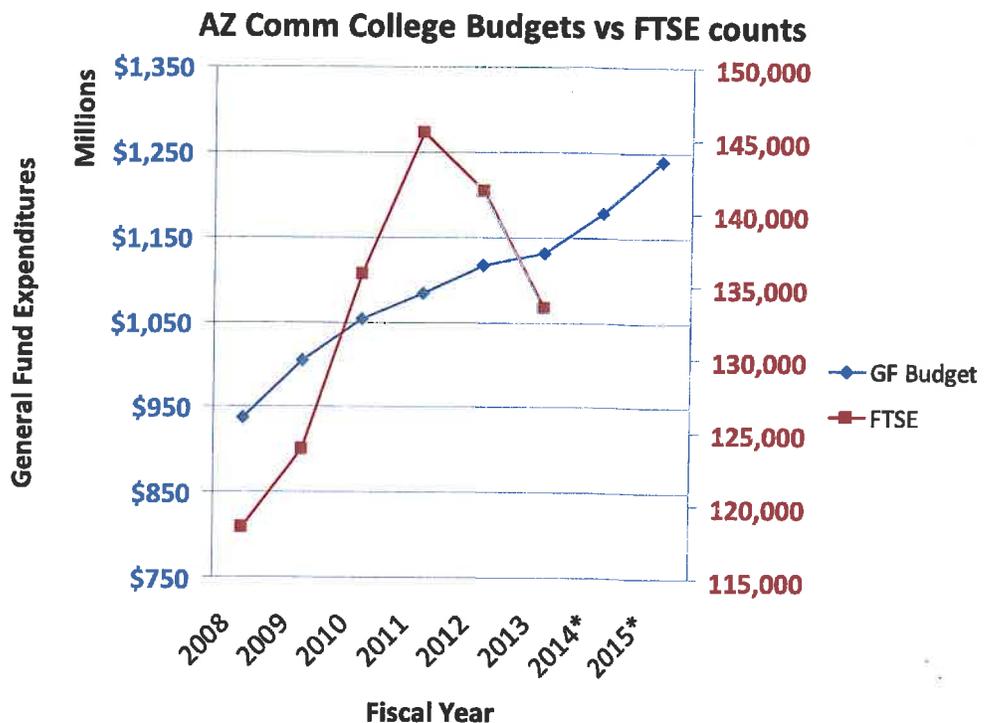
drop because, for all intents and purposes, they have no expenditure limits.

In FY13, FTSE exaggerations led to a 20.5% increase in the per student cost. Combining local property tax levies with state aid brings the total taxpayer cost to \$5,381 per FTSE. As budgeted, it should have been just \$4,465 per FTSE.

Student tuition and fees have also steadily increased in recent years. Adding them to taxpayer contributions brings the total cost in FY13 to \$7,831 per FTSE on average statewide (assuming 30 credit hours in a year).

Rural districts are far more expensive than their urban counterparts. Graham, Navajo, Pinal and Yavapai CCD each cost more than \$10,000 per FTSE per year in the aggregate.

Following concerns expressed by ATRA in recent years, CCDs are making small adjustments to their budgeted FTSE for FY15. However, budgeted



GF expenditures are up 5.3%, property tax levies are up 3.1%, and salaries and benefits are up 1.2%. All this despite a 6.5% decrease to constitutional expenditure limits based on estimated FTSE counts. The reason for the discrepancy is CCDs have significant latitude in what qualifies as spending under the expenditure limit. Furthermore, which spending qualifies for the limit is not determined until the audit, published nearly two years later.

While decreased, the estimated FTSE count of 146,734 is still likely high by several thousand considering negative trends statewide. The decreases are likely normalizing from recession years; however, the taxpayer would expect their costs to normalize as well. Despite decreased FTSE, taxpayers won't see any relief because districts swelled in size during the recession and are resistant to contraction. In fact, all districts which reported fewer students next year still increased their GF expenditures except Mohave CCD. Mohave CCD reported a 26% decrease in FTSE for FY15 but still raised property taxes to their maximum levy and only shrank employee compensation by .5% which comprises the vast majority of the GF. Graham CCD reported a 10% decrease in FTSE for FY15, raised property taxes, and increased their GF budget 5% and employee compensation 4.4%. Cochise CCD reported a 12% decrease in FTSE, raised property taxes, and increased their GF budget 8% and salaries and benefits 2.5%.

Maricopa CCD decreased its budgeted FTSE 6.2%, raised property taxes, and increased their GF expenditures 8.3%.

All told, Arizona taxpayers will foot a \$773 million bill for CCDs in FY15 which equates to \$5,271 per budgeted FTSE, 17.4% more than was budgeted just 2 years prior.

ATRA plans to pursue legislation in the 2015 session to require CCD expenditure limits be based on audited versus estimated FTSE (as is the case with K-12 districts). The knowledge that the expenditure limit audit will be based on actual FTSE will eliminate the incentive to knowingly exaggerate budgeted FTSE.

-Sean McCarthy

FY2013	Levy+Aid	FTSE	\$/FTSE
COCHISE	\$29,392,500	7,766	\$3,785
COCONINO	\$8,620,695	1,837	\$4,693
GILA	\$4,064,828	703	\$5,782
GRAHAM	\$24,280,550	3,107	\$7,815
MARICOPA	\$404,508,508	81,218	\$4,981
MOHAVE	\$21,407,221	2,987	\$7,167
NAVAJO	\$20,224,362	1,720	\$11,758
PIMA	\$100,075,000	19,514	\$5,128
PINAL	\$36,821,431	4,822	\$7,636
SANTA CRUZ	\$321,679	258	\$1,247
YAVAPAI	\$41,189,200	3,984	\$10,339
YUMA/LA PAZ	\$26,672,098	5,537	\$4,817
TOTAL/AVG	\$717,578,072	133,453	\$5,377
	Budgeted Amount	160,832	\$4,462

	Per-Credit Rate	Full Time	Total FTSE
	Residents	Rate	Cost
Cochise	\$70	\$2,100	\$5,885
Coconino	\$85	\$2,550	\$7,243
Gila	\$80	\$2,400	\$8,182
Graham	\$80	\$2,400	\$10,215
Maricopa	\$76	\$2,280	\$7,261
Mohave	\$76	\$2,280	\$9,447
Navajo	\$62	\$1,860	\$13,618
Pima	\$68	\$2,040	\$7,168
Pinal	\$72	\$2,160	\$9,796
Santa Cruz	\$70	\$2,100	\$3,347
Yavapai	\$70	\$2,100	\$12,439
Yuma/La Paz	\$72	\$2,160	\$6,977
Total/Average	\$73	\$2,203	\$7,831

ATTACHMENT 2

Plima County
FY 2013/14 Adopted Budget versus FY 2014/15 Adopted Budget

	FY 2013/14 Adopted	FY 2014/15 Adopted	Increase/ (Decrease)	Percent Change
Property Taxes				
Primary Net Assessed Value	7,559,129,097	7,518,481,988	(40,647,109)	-0.54%
Primary Property Tax Rate	3.6665	4.2779	0.6114	16.68%
Primary Property Tax Levy	277,155,468	321,633,141	44,477,673	16.05%
Library District Secondary Net Assessed Value	7,590,546,275	7,579,898,868	(10,647,407)	-0.14%
Library Property Tax Rate	0.3753	0.4353	0.0600	15.99%
Library Property Tax Levy	28,487,320	32,995,300	4,507,980	15.82%
Flood Control Secondary Net Assessed Value	6,768,456,641	6,808,507,653	40,051,012	0.59%
Flood Control Property Tax Rate	0.2635	0.3035	0.0400	15.18%
Flood Control Property Tax Levy	17,834,883	20,663,821	2,828,938	15.86%
Debt Service Secondary Net Assessed Value	7,623,691,280	7,579,898,868	(43,792,412)	-0.57%
Debt Service Property Tax Rate	0.7800	0.7000	-0.0800	-10.26%
Debt Service Property Tax Levy	59,464,792	53,059,292	(6,405,500)	-10.77%
Combined Property Tax Rate	5.0853	5.7167	0.6314	12.42%
Combined Property Tax Levy	382,942,463	428,351,554	45,409,091	11.86%
Payment in Lieu of Taxes (Federal, etc.)	2,016,900	2,085,000	68,100	3.38%
General Fund Revenue (excludes Operating Transfers-In)				
Property Tax Revenue	285,500,195	325,729,243	40,229,048	14.09%
State Shared Sales Tax	99,300,000	106,640,000	7,340,000	7.39%
Vehicle License Tax	23,332,000	24,100,000	768,000	3.29%
Other General Fund Revenues	59,288,511	65,503,850	6,215,339	10.48%
Total General Fund Revenues	467,420,706	521,973,093	54,552,387	11.67%
Excise Tax	0	0	0	0.00%
General Fund Expenditures (excludes Operating Transfers-Out)	503,524,831	521,401,927	17,877,096	3.55%
Expenditures-All Funds (excludes Net Operating Transfers)	1,266,899,617	1,188,464,252	(78,435,365)	-6.19%

Maricopa County
FY 2013/14 Adopted Budget versus FY 2014/15 Adopted Budget

	FY 2013/14 Adopted	FY 2014/15 Adopted	Increase/ (Decrease)	Percent Change
Property Taxes				
Primary Net Assessed Value	31,996,204,979	33,519,795,354	1,523,590,375	4.76%
Primary Property Tax Rate	1.2807	1.3209	0.0402	3.14%
Primary Property Tax Levy	409,775,397	442,762,977	32,987,580	8.05%
Library District Secondary Net Assessed Value	32,229,006,810	35,079,646,593	2,850,639,783	8.84%
Library Property Tax Rate	0.0438	0.0556	0.0118	26.94%
Library Property Tax Levy	14,116,305	19,504,284	5,387,979	38.17%
Flood Control Secondary Net Assessed Value	28,622,833,869	31,365,181,149	2,742,347,280	9.58%
Flood Control Property Tax Rate	0.1392	0.1392	0.0000	0.00%
Flood Control Property Tax Levy	39,842,985	43,660,332	3,817,347	9.58%
Combined Property Tax Rate	1.4637	1.5157	0.0520	3.55%
Combined Property Tax Levy	463,734,687	505,927,593	42,192,906	9.10%
Payment in Lieu of Taxes (SRP, Federal, etc.)	11,972,067	12,340,468	368,401	3.08%
General Fund Revenue (excludes Operating Transfers-In)				
Property Tax Revenue	423,402,095	450,442,622	27,040,527	6.39%
State Shared Sales Tax	437,402,846	465,300,725	27,897,879	6.38%
Vehicle License Tax	119,748,223	132,858,100	13,109,877	10.95%
Other General Fund Revenues	75,789,977	76,507,093	717,116	0.95%
Total General Fund Revenues	1,056,343,141	1,125,108,540	68,765,399	6.51%
Detention Excise Tax	131,106,321	141,295,781	10,189,460	7.77%
General Fund Expenditures (excludes Operating Transfers-Out)	942,766,416	1,015,901,116	73,134,700	7.76%
Expenditures-All Funds (excludes Net Operating Transfers)	2,333,968,295	2,309,530,514	(24,437,781)	-1.05%