MEMORANDUM

Date: March 27, 2015

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

From: C.H. Huckelberry
      County Administrator

Re: Senate Bill 1076

On March 25, 2015, House Appropriations Chair Justin Olson offered a strike everything amendment to Senate Bill (SB) 1076 that clarified legislation adopted in the budget regarding the one-percent homeowners’ tax cap and its payment by local jurisdictions rather than the State. This one-percent constitutional tax overage has been paid by the State for the last 34 years. This year, the Governor’s budget introduced the concept of having the State payment limited to no more than $1 million per county, with the taxing jurisdictions of the counties proportionally sharing in the overage balance as a State cost transfer.

The legislation enacting this portion of the budget was confusing at best and directed at Pima and Pinal Counties. The strike everything amendment attempts to clarify this State cost transfer, but it punishes Pima, Pinal, and perhaps Cochise County even more through a property tax rate cap.

The Property Tax Oversight Commission (PTOC) initially indicated that in the case of Pima County, we would be responsible for the entire $18.6 million of overage. The strike everything amendment results in the cost being shared between Pima County and Tucson Unified School District, with our share being in the range of $8 million.

More troubling in the strike everything amendment is the capping of our primary property tax rate. In essence, this legislation would be similar to that passed in the United States Congress regarding sequestration, which has had a devastating impact on the Department of Defense’s budget. Our property tax rate could not be adjusted for inflation, population growth, economic expansion or increasing maintenance of projects approved by voters in bond issues, etc. There would be very little financial flexibility in operating the County, and all County projects and programs would have to be reduced and many eliminated. This legislation, if approved, would have the effect of cannibalizing County operations; since costs such as pensions and employee benefits could only be paid by reducing other County expenses. Hence, the direct loss of County programs and services.
The Honorable Chair and Members, Pima County Board of Supervisors
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The strike everything amendment passed the House Appropriations Committee Thursday morning at 2:30 AM. Mr. Michael Racy represented the County and provided the reasons why the legislation is bad public policy.

While some of the clarifications in the legislation are favorable to Pima County, contrary to the interpretation of the PTOP, the rate cap is very bad public policy; essentially putting the State Legislature in control of County government and very similar to Federal control over State land and programs.

I will continue to update the Board as this legislation moves through the House and eventually on to the Senate. Mr. Racy and I are very hopeful this legislation will be amended by striking Paragraph N in the attached bill.

In addition, since this legislation reverses 34 years of State policy, was conceived behind closed doors, and was approved in the middle of the night, we are hopeful a study committee will be formed to review and correct the clear and devastating unforeseen consequences, such as the budget impact on yet another community college – Cochise Community College.

CHH/anc

Attachment

c: Sally Simmons, Presiding Judge, Superior Court
   Elected Officials
   Appointing Authorities
   Michael Racy, Racy Associates, Inc.
   Craig Sullivan, Executive Director, County Supervisors Association of Arizona
COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES AMENDMENTS TO S.B. 1076

(Reference to Senate engrossed bill)

1 Strike everything after the enacting clause and insert:
   
   "Section 1. Section 15-943, Arizona Revised Statutes, is amended to read:

   15-943. Base support level
   The base support level for each school district shall be computed as follows:
   1. The following support level weights shall be used in paragraph 2, subdivision (a) of this section for the following school districts:
   (a) For school districts whose student count in kindergarten programs and grades one through eight is classified in column 1 of this subdivision, the support level weight for kindergarten programs and grades one through eight is the corresponding support level weight prescribed in column 2 or 3 of this subdivision, whichever is appropriate:
   
<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support Level Weight</td>
<td>Support Level Weight</td>
<td>For Small Isolated School Districts</td>
</tr>
<tr>
<td>Student Count</td>
<td>School Districts</td>
<td>School Districts</td>
</tr>
<tr>
<td>1-99</td>
<td>1.559</td>
<td>1.399</td>
</tr>
<tr>
<td>100-499</td>
<td>1.358 + [0.0005 x (500 - student count)]</td>
<td>1.278 + [0.0003 x (500 - student count)]</td>
</tr>
<tr>
<td>500-599</td>
<td>1.158 + [0.002 x (600 - student count)]</td>
<td>1.158 + [0.0012 x (600 - student count)]</td>
</tr>
</tbody>
</table>

   (b) For school districts whose student count in grades nine through twelve is classified in column 1 of this subdivision, the support level weight for grades nine through twelve is the corresponding support level weight prescribed in column 2 or 3 of this subdivision, whichever is appropriate:
   
<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support Level Weight</td>
<td>Support Level Weight</td>
<td>For Small Isolated</td>
</tr>
<tr>
<td>Student Count</td>
<td>School Districts</td>
<td></td>
</tr>
<tr>
<td>1-99</td>
<td>1.559</td>
<td></td>
</tr>
<tr>
<td>100-499</td>
<td>1.358</td>
<td></td>
</tr>
<tr>
<td>500-599</td>
<td>1.158</td>
<td></td>
</tr>
</tbody>
</table>
House Amendments to S.B. 1076

<table>
<thead>
<tr>
<th>Student Count</th>
<th>School Districts</th>
<th>School Districts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-99</td>
<td>1.669</td>
<td>1.559</td>
</tr>
<tr>
<td>100-499</td>
<td>1.468 + [0.0005 x (500 - student count)]</td>
<td>1.398 + [0.0004 x (500 - student count)]</td>
</tr>
<tr>
<td>500-599</td>
<td>1.268 + [0.002 x (600 - student count)]</td>
<td>1.268 + [0.0013 x (600 - student count)]</td>
</tr>
</tbody>
</table>

2. Subject to paragraph 1 of this section, determine the weighted student count as follows:

(a)

<table>
<thead>
<tr>
<th>Support Level</th>
<th>Weighted Student Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade Base</td>
<td>Group A Weight</td>
</tr>
<tr>
<td>PSD</td>
<td>1.000 + 0.450</td>
</tr>
<tr>
<td>K-8</td>
<td>1.000 + 0.158</td>
</tr>
<tr>
<td>9-12</td>
<td>1.163 + 0.105</td>
</tr>
</tbody>
</table>

Subtotal A

(b)

<table>
<thead>
<tr>
<th>Support Category</th>
<th>Weight</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>HI</td>
<td>4.771</td>
<td>x _____ =</td>
</tr>
<tr>
<td>K-3</td>
<td>0.060</td>
<td>x _____ =</td>
</tr>
<tr>
<td>K-3 reading</td>
<td>0.040</td>
<td>x</td>
</tr>
<tr>
<td>ELL</td>
<td>0.115</td>
<td>x</td>
</tr>
<tr>
<td>MD-R, A-R and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SID-R</td>
<td>6.024</td>
<td>x _____ =</td>
</tr>
<tr>
<td>MD-SC, A-SC and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SID-SC</td>
<td>5.833</td>
<td>x _____ =</td>
</tr>
<tr>
<td>MD-SSI</td>
<td>7.947</td>
<td>x _____ =</td>
</tr>
</tbody>
</table>

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House Amendments to S.B. 1076

1. OI-R 3.158 x _____ = ____________
2. OI-SC 6.773 x _____ = ____________
3. P-SD 3.595 x _____ = ____________
4. DD, ED, MIID, SLD, SLI and OHI 0.003 x _____ = ____________
5. ED-P 4.822 x _____ = ____________
6. MOID 4.421 x _____ = ____________
7. VI 4.806 x _____ = ____________

(c) Total of subtotals A and B: ____________

3. Multiply the total determined in paragraph 2 of this section by the base level.

4. Multiply the teacher experience index of the district or 1.00, whichever is greater, by the product obtained in paragraph 3 of this section.

5. BEGINNING IN FISCAL YEAR 2015-2016, FROM THE PRODUCT DETERMINED IN PARAGRAPH 4 OF THIS SECTION, SUBTRACT AN AMOUNT EQUAL TO THE AMOUNT OF ADDITIONAL STATE AID FOR EDUCATION THAT THE SCHOOL DISTRICT IS EXPECTED TO FORGO, IF ANY, FOR THE FISCAL YEAR PURSUANT TO SECTION 15-972, SUBSECTION K.

Sec. 2. **Repeal**

Section 15-972, Arizona Revised Statutes, as amended by Laws 2015, chapter 15, section 7, is repealed.

Sec. 3. Section 15-972, Arizona Revised Statutes, as amended by Laws 2011, second special session, chapter 1, section 8, is amended to read:

15-972. **State limitation on homeowner property taxes; additional state aid to school districts; definitions**

A. Notwithstanding section 15-971, there shall be additional state aid for education computed for school districts as provided in subsection B of this section.

B. The clerk of the board of supervisors shall compute such additional state aid for education as follows:
1. For a high school district or for a common school district within a
high school district which does not offer instruction in high school subjects
as provided in section 15-447:
   (a) Determine the qualifying tax rate pursuant to section 41-1276 for
       the school district.
   (b) Determine the following percentage of the qualifying tax rate
determined in subdivision (a) of this paragraph:
       (i) Thirty-five per cent PERCENT through December 31, 2005.
       (ii) Thirty-six per cent PERCENT beginning from and after December 31,
            2005 through December 31, 2006.
       (iii) Thirty-seven per cent PERCENT beginning from and after December
       (iv) Thirty-eight per cent PERCENT beginning from and after December
       (v) Thirty-nine per cent PERCENT beginning from and after December 31,
           2008 through December 31, 2009.
       (vi) Forty per cent PERCENT beginning from and after December 31,
            2009.
       (vii) Such further adjustments of the percentage beginning from and
             after December 31, 2012 as provided by law.
   (c) Select the lesser of the amount determined in subdivision (b) of
       this paragraph or forty per cent PERCENT of the primary property tax rate
       that would be levied in lieu of the provisions of this section for the
district.
   (d) Multiply the rate selected in subdivision (c) of this paragraph as
       a rate per one hundred dollars assessed valuation by the assessed valuation
       used for primary property taxes of the residential property in the school
district.

2. For a unified school district, for a common school district not
within a high school district or for a common school district which offers
instruction in high school subjects as provided in section 15-447:
(a) Determine the qualifying tax rate pursuant to section 41-1276 for the school district.

(b) Determine the following percentage of the tax rate determined in subdivision (a) of this paragraph:

(i) Thirty-five per cent PERCENT through December 31, 2005.

(ii) Thirty-six per cent PERCENT beginning from and after December 31, 2005 through December 31, 2006.

(iii) Thirty-seven per cent PERCENT beginning from and after December 31, 2006 through December 31, 2007.

(iv) Thirty-eight per cent PERCENT beginning from and after December 31, 2007 through December 31, 2008.

(v) Thirty-nine per cent PERCENT beginning from and after December 31, 2008 through December 31, 2009.

(vi) Forty per cent PERCENT beginning from and after December 31, 2009.

(vii) Such further adjustments of the percentage beginning from and after December 31, 2012 as provided by law.

(c) Select the lesser of the amount determined in subdivision (b) of this paragraph or forty per cent PERCENT of the primary property tax rate that would be levied in lieu of the provisions of this section for the district.

(d) Multiply the rate selected in subdivision (c) of this paragraph as a rate per one hundred dollars assessed valuation by the assessed valuation used for primary property taxes of the residential property in the district.

C. The clerk of the board of supervisors shall report to the department of revenue not later than the Friday following the third Monday in August of each year the amount by school district of additional state aid for education and the data used for computing the amount as provided in subsection B of this section. The department of revenue shall verify all of the amounts and report to the county board of supervisors not later than August 30 of each year the property tax rate or rates which shall be used for property tax reduction as provided in subsection E of this section.
D. The board of supervisors shall reduce the property tax rate or rates that would be levied in lieu of the provisions of this section by the school district or districts on the assessed valuation used for primary property taxes of the residential property in the school district or districts by the rate or rates selected in subsection B, paragraph 1, subdivision (c) and paragraph 2, subdivision (c) of this section. The excess of the reduction in property taxes for a parcel of property resulting from the reduction in the property tax rate pursuant to this subsection over the amounts listed in this subsection shall be deducted from the amount of additional state aid for education. The reduction in property taxes on a parcel of property resulting from the reduction in the property tax rate pursuant to this subsection shall not exceed the following amounts except as provided in subsection I of this section:

1. Five hundred dollars through December 31, 2005.
5. Five hundred eighty dollars beginning from and after December 31, 2008 through December 31, 2009.

E. Prior to the levying of taxes for school purposes the board of supervisors shall determine whether the total primary property taxes to be levied for all taxing jurisdictions on each parcel of residential property, in lieu of the provisions of this subsection, violate article IX, section 18, Constitution of Arizona. For those properties that qualify for property tax exemptions pursuant to article IX, sections 2, 2.1 and 2.2, Constitution of Arizona, eligibility for the credit is determined on the basis of the limited property value that corresponds to the taxable assessed value after reduction for the applicable exemption. If the board of supervisors determines that
such a situation exists, the board shall apply a credit against the primary property taxes due from each such parcel in the amount in excess of article IX, section 18, Constitution of Arizona. Such excess amounts shall also be additional state aid for education for the school district or districts in which such parcel of property is located.

F. The clerk of the board of supervisors shall report to the department of revenue not later than September 5 of each year the amount by school district of additional state aid for education and the data used for computing the amount as provided in subsection B of this section. The department of revenue shall verify all of the amounts and report to the board of supervisors not later than September 10 of each year the property tax rate which shall be used for property tax reduction as provided in subsection E of this section.

G. The clerk of the board of supervisors shall report to the department of revenue not later than September 30 of each year in writing the following:

1. The data processing specifications used in the calculations provided for in subsections B and E of this section.
2. At a minimum, copies of two actual tax bills for residential property for each distinct tax area.

H. The department of revenue shall report to the state board of education not later than October 12 of each year the amount by school district of additional state aid for education as provided in this section. The additional state aid for education provided in this section shall be apportioned as provided in section 15-973.

I. If a parcel of property is owned by a cooperative apartment corporation or is owned by the tenants of a cooperative apartment corporation as tenants in common, the reduction in the property taxes prescribed in subsection D of this section shall not exceed the amounts listed in subsection D of this section for each owner-occupied housing unit on the property. The assessed value used for determining the reduction in taxes for the property is equal to the total assessed value of the property times the
ratio of the number of owner-occupied housing units to the total number of housing units on the property. For the purposes of this subsection, "cooperative apartment corporation" means a corporation:

1. Having only one class of outstanding stock.

2. FOR WHICH all of the stockholders of which are entitled, solely by reason of their ownership of stock in the corporation, to occupy for dwelling purposes apartments in a building owned or leased by such corporation and who are not entitled, either conditionally or unconditionally, except upon a complete or partial liquidation of the corporation, to receive any distribution not out of earnings and profits of the corporation.

3. Eighty per cent PERCENT or more of the gross income of which is derived from tenant-stockholders. For the purposes of this paragraph, "gross income" means gross income as defined by the United States internal revenue code, as defined in section 43-105.

J. The total amount of state monies that may be spent in any fiscal year for state aid for education in this section shall not exceed the amount appropriated or authorized by section 35-173 for that purpose. This section shall not be construed to impose a duty on an officer, agent or employee of this state to discharge a responsibility or to create any right in a person or group if the discharge or right would require an expenditure of state monies in excess of the expenditure authorized by legislative appropriation for that specific purpose.

K. NOTWITHSTANDING SUBSECTION E OF THIS SECTION, BEGINNING IN FISCAL YEAR 2015-2016, THE MAXIMUM AMOUNT OF ADDITIONAL STATE AID FOR EDUCATION THAT MAY BE FUNDED BY THIS STATE FOR A FISCAL YEAR PURSUANT TO SUBSECTION E OF THIS SECTION IS ONE MILLION DOLLARS PER COUNTY. FOR ANY COUNTY WITH A SCHOOL DISTRICT OR SCHOOL DISTRICTS THAT COLLECTIVELY WOULD OTHERWISE RECEIVE MORE THAN ONE MILLION DOLLARS IN ADDITIONAL STATE AID FOR EDUCATION FOR A FISCAL YEAR PURSUANT TO SUBSECTION E OF THIS SECTION, THE PROPERTY TAX OVERSIGHT COMMISSION ESTABLISHED BY SECTION 42-17002 SHALL DETERMINE THE PROPORTION OF THE VIOLATION OF ARTICLE IX, SECTION 18, CONSTITUTION OF ARIZONA, FOR A FISCAL YEAR THAT IS ATTRIBUTABLE TO EACH TAXING JURISDICTION, OTHER THAN THIS
STATE, WITHIN THE AFFECTED SCHOOL DISTRICT OR SCHOOL DISTRICTS, INCLUDING THE
AFFECTED SCHOOL DISTRICTS. BASED ON THOSE PROPORTIONS AND AFTER DEDUCTING
THE AMOUNT OF ADDITIONAL STATE AID THAT THE STATE WOULD CONTINUE TO PAY UNDER
THIS SUBSECTION PURSUANT TO SUBSECTION O OF THIS SECTION, THE PROPERTY TAX
OVERSIGHT COMMISSION SHALL COMPUTE AN AMOUNT THAT EACH TAXING JURISDICTION,
OTHER THAN THIS STATE, WITHIN THE AFFECTED SCHOOL DISTRICT OR SCHOOL
DISTRICTS SHALL TRANSFER TO THE AFFECTED SCHOOL DISTRICT OR SCHOOL DISTRICTS
DURING THE FISCAL YEAR IN ORDER TO COMPENSATE THE AFFECTED SCHOOL DISTRICT OR
SCHOOL DISTRICTS FOR THE TAXING JURISDICTION'S PRO RATA SHARE OF THE
REDUCTION IN ADDITIONAL STATE AID FOR EDUCATION FUNDING REQUIRED BY THIS
SECTION AND SHALL NOTIFY THE AFFECTED TAXING JURISDICTIONS, OTHER THAN THIS
STATE, OF THIS AMOUNT ON OR BEFORE DECEMBER 31 OF THE FISCAL YEAR. THE
PROPERTY TAX OVERSIGHT COMMISSION ALSO SHALL COMPUTE THE AMOUNT OF ADDITIONAL
STATE AID FOR EDUCATION THAT THE AFFECTED SCHOOL DISTRICT OR SCHOOL DISTRICTS
WILL FORGO FOR THE FISCAL YEAR UNDER THIS SUBSECTION AS THE SCHOOL DISTRICT'S
OR SCHOOL DISTRICTS' PRO RATA SHARE OF THE OVERALL ADDITIONAL STATE AID
REDUCTION REQUIRED BY THIS SUBSECTION. IN COMPUTING THE PROPORTION OF THE
VIOLATION OF ARTICLE IX, SECTION 18, CONSTITUTION OF ARIZONA, THAT IS
ATTRIBUTABLE TO EACH TAXING JURISDICTION, OTHER THAN THIS STATE, WITHIN THE
AFFECTED SCHOOL DISTRICT OR SCHOOL DISTRICTS AND FOR THE AFFECTED SCHOOL
DISTRICT OR SCHOOL DISTRICTS, THE PROPERTY TAX OVERSIGHT COMMISSION SHALL
ASSUME A PROPORTION OF ZERO FOR ANY TAXING JURISDICTION, OTHER THAN THIS
STATE, THAT HAS A PRIMARY PROPERTY TAX RATE FOR THE FISCAL YEAR THAT IS LESS
THAN OR EQUAL TO THE AVERAGE PRIMARY PROPERTY TAX RATE FOR THE FISCAL YEAR
FOR PEER JURISDICTIONS. FOR THE PURPOSES OF THIS SECTION, THE PRIMARY
PROPERTY TAX RATES FOR SCHOOL DISTRICTS THAT ARE USED TO DETERMINE THE
PROPORTION OF THE VIOLATION OF ARTICLE IX, SECTION 18, CONSTITUTION OF
ARIZONA, SHALL BE THE NET EFFECTIVE RATES THAT EXIST AFTER THE ADJUSTMENT IS
APPLIED PURSUANT TO SUBSECTION B OF THIS SECTION. FOR THE PURPOSES OF THIS
SUBSECTION, "PEER JURISDICTIONS" MEANS ALL TAXING JURISDICTIONS OF THE SAME
TYPE WITHIN THIS STATE.
L. Beginning in fiscal year 2015-2016, a taxing jurisdiction for which the Property Tax Oversight Commission has computed an amount that must be transferred for a fiscal year to a school district or school districts pursuant to subsection K of this section shall transfer that amount to the school district or school districts on or before January 31 of the fiscal year. If a county, city or town does not make the transfer on or before January 31 of the fiscal year, the school district or school districts shall notify the State Treasurer of the amount owed and the State Treasurer, after confirming the nontransfer, shall withhold the amount, including any additional interest as provided in section 42-1123, from any transaction privilege tax revenues that would otherwise be distributed to the county, city or town. The State Treasurer shall transfer in a timely manner to a school district affected by this subsection the amount of revenues withheld from a county, city or town on the school district's behalf under this subsection.

M. County, city, town and community college district transfers made pursuant to subsection L of this section are excluded from the county, city, town and community college district expenditure limitations.

N. Notwithstanding any other law, beginning in fiscal year 2015-2016, a taxing jurisdiction for which the Property Tax Oversight Commission computed a proportion of the violation of Article IX, Section 18, Constitution of Arizona, of greater than zero for the prior fiscal year may not levy in the fiscal year a primary property tax rate that exceeds the primary property tax rate the taxing jurisdiction levied in the prior fiscal year. For fiscal year 2015-2016, the Property Tax Oversight Commission shall determine, on or before July 15, 2015, whether each school district, county, city, town or community college district in this state would have had a proportion of the violation of Article IX, Section 18, Constitution of Arizona, of greater than zero for fiscal year 2015 if subsection K of this section had been in effect for fiscal year 2015 and shall notify each school district, county, city, town or community college district in this state of that determination on or before July 15, 2015.
O. THE MAXIMUM ONE MILLION DOLLARS OF ADDITIONAL STATE AID FOR
EDUCATION THAT IS DISTRIBUTED IN A COUNTY PURSUANT TO SUBSECTION K OF THIS
SECTION EACH FISCAL YEAR SHALL BE DISTRIBUTED FIRST TO SCHOOL DISTRICTS IN
THE COUNTY THAT HAVE THE SMALLEST ADDITIONAL STATE AID FOR EDUCATION COSTS
FOR THE FISCAL YEAR IN ORDER TO FULLY FUND ADDITIONAL STATE AID FOR EDUCATION
COSTS FOR AS MANY OF THOSE SCHOOL DISTRICTS AS POSSIBLE. AFTER THOSE
DISTRIBUTIONS ARE MADE, ANY REMAINING AMOUNT OF THE ONE MILLION DOLLARS OF
ADDITIONAL STATE AID FOR EDUCATION PER COUNTY, IF ANY, SHALL BE ALLOCATED TO
THE REMAINING AFFECTED SCHOOL DISTRICTS ON A PRO RATA BASIS BASED ON THE
AMOUNT OF ADDITIONAL STATE AID FOR EDUCATION THAT THEY WILL FORGO FOR THE
FISCAL YEAR PURSUANT TO SUBSECTION K OF THIS SECTION.

K. For the purposes of this section:

1. "Owner" includes any purchaser under a contract of sale or under a
deed of trust.

2. "Residential property" includes owner-occupied real property and
improvements to the property and owner-occupied mobile homes that are used as
the owner's primary residence and classified as class three property pursuant
to section 42-12003."

Amend title to conform

and, as so amended, it do pass

JUSTIN OLSON
Chairman

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3/26/15
H:laa

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C: tdb