Date: November 23, 2015

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

From: C.H. Huckelberry
County Administrator

Re: One Percent Homeowner Cap Discussion by Arizona Tax Research Association

I am enclosing a series of power point slides provided at a recent Arizona Tax Research Association (ATRA) presentation, this discussion centers around the one percent cap. The information is self-explanatory and demonstrates that more and more communities will be impacted by the one percent cap in the future. As assessed value is artificially depressed by Proposition 117, tax rates of the various property taxing jurisdictions throughout the State will rise more rapidly than they have in the past, pushing more and more counties and communities into the one percent cap issue.

For Pima County the impact is obvious and was used in the materials provided by ATRA. It is important to note that ATRA recognizes State cost shifts will drive up local property taxes, specifically those cost shifts most recently enacted by the legislature. In addition, the areas under notable tax increases included Maricopa and Pima Counties, with the Maricopa Primary Tax Levy increasing more than in Pima County.

The current litigation filed by Pima County is pending in Maricopa County Superior Court. We anticipate filing a Motion for Summary Judgement during the first week of December this year.

CHH/lab

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Keith Dommer, Finance Director, Finance and Risk Management
Robert Johnson, Budget Manager, Finance and Risk Management
2016 Tax Policy Outlook

ATRA Staff

The taxpayer’s watchdog for 75 years

Arizona Tax Research Association

10-Year Property Tax Levies

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>$3.6</td>
<td>$3.7</td>
<td>$3.9</td>
<td>$4.2</td>
<td>$4.6</td>
<td>$4.5</td>
<td>$4.4</td>
<td>$4.4</td>
<td>$4.4</td>
<td>$4.7</td>
<td>$4.8</td>
</tr>
<tr>
<td>Secondary</td>
<td>$0.8</td>
<td>$2.0</td>
<td>$2.4</td>
<td>$2.6</td>
<td>$2.7</td>
<td>$2.5</td>
<td>$2.3</td>
<td>$2.2</td>
<td>$2.1</td>
<td>$2.2</td>
<td>$2.2</td>
</tr>
<tr>
<td>Total</td>
<td>$4.4</td>
<td>$5.7</td>
<td>$6.3</td>
<td>$6.6</td>
<td>$7.2</td>
<td>$7.0</td>
<td>$6.7</td>
<td>$6.6</td>
<td>$6.6</td>
<td>$6.9</td>
<td>$7.0</td>
</tr>
</tbody>
</table>

The taxpayer’s watchdog for 75 years
10-Year Property Values

The taxpayer's watchdog for 75 years

Statewide Average Tax Rates

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**New Formula: 1% Homeowner Cap**

- Ducey budget: End the unlimited state subsidy of high tax jurisdictions
- Shifted responsibility to local taxing authorities with above average tax rates; PTOC does math

*One possible way to calculate new 1% Cap formula*

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>2015 tax rate</th>
<th>tax rate</th>
<th>Overage</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>State (SETR)</td>
<td>8.58%</td>
<td>1.67</td>
<td>2.42</td>
<td>$0,608,024</td>
</tr>
<tr>
<td>Pima County</td>
<td>4.36%</td>
<td>1.76</td>
<td>0.00</td>
<td>$0</td>
</tr>
<tr>
<td>Pima Community College</td>
<td>1.36%</td>
<td>1.75</td>
<td>2.21</td>
<td>$7,046,784</td>
</tr>
<tr>
<td>Tucson Unified</td>
<td>6.52%</td>
<td>4.51</td>
<td>2.72</td>
<td>$16,938,809</td>
</tr>
<tr>
<td>City of Tucson</td>
<td>6.52%</td>
<td>0.54</td>
<td>0.00</td>
<td>$0</td>
</tr>
<tr>
<td>Totals</td>
<td>13.21%</td>
<td>4.63</td>
<td>$16,938,809</td>
<td></td>
</tr>
</tbody>
</table>

State liability: $949,903

Reimbursable rate: 1.56
NAV Class 0: $1,988,030,820
Total rebate: $17,578,711
State OP payment: $843,403
Net rebate: $16,938,809

**San Fernando & Others** are small 1% Cap districts; presume they take the first draw of the $1 million from the State GF

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**Managing the 1% Cap**

- For decades, ATRA has encouraged lawmakers to avoid changes which collide with the 1% cap

- System designed to minimize 1% Cap violations
  - School QTR follows changes in assessed value
  - Homeowner rebate intended to decrease the primary rate
  - Caps on rate growth for cities, counties & community colleges
  - State rate is low ($0.50)

- Policymakers must consider 1% cap implications in all property tax reforms

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1% Homeowner Cap

- 1980 Constitutional reform to protect homeowners
- Total primary property taxes cannot exceed 1% of limited property value
  - Limited to $10 rate per $100 of assessed value
  - Includes all jurisdictions: State, K-12, City, County, Community College
- Protects no other class of property
  - Renters, ranchers, farmers, businesses, etc.
- Insulates capped homeowners from tax increases
- Incomplete version of California Prop 13
- State "picked up the tab" for 35 years (statutory)

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1% Homeowner Cap

Exempt from amount in excess
$10 rate (1%)

All other taxpayers have no $10 cap
Renters, Businesses, Agricultural, etc
They pay the full primary and secondary tax rate

**All taxpayers pay the full secondary tax rate

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### State Policy Changes Can Impact Local Property Taxes

<table>
<thead>
<tr>
<th>Local Cost Sharing</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>DOR $21 million</td>
<td></td>
</tr>
<tr>
<td>1% Cap $20 million</td>
<td></td>
</tr>
<tr>
<td>Juvenile Corrections $12 million</td>
<td></td>
</tr>
<tr>
<td>Sexually Violent Persons (SVP) $3 million</td>
<td></td>
</tr>
<tr>
<td>Return to Competency $900,000</td>
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</table>

### Notable Tax Increases

<table>
<thead>
<tr>
<th>Maricopa County</th>
<th>$ Increase</th>
<th>% Increase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary levy</td>
<td>$28,430,552</td>
<td>6%</td>
<td>Increased tax rate 4 cents (6 cents over TNT)</td>
</tr>
<tr>
<td>PCD</td>
<td>$5,851,804</td>
<td>13%</td>
<td>Increased tax rate 2 cents</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Pima County</th>
<th>$ Increase</th>
<th>% Increase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary levy</td>
<td>$12,725,433</td>
<td>4%</td>
<td>Tax rate up 11 cents (8 cents over TNT)</td>
</tr>
<tr>
<td>Library</td>
<td>$6,520,568</td>
<td>20%</td>
<td>Tax rate up 8 cents</td>
</tr>
<tr>
<td>City of Tucson</td>
<td>$11,700,000</td>
<td>0.11%</td>
<td>Tax rate up 5 cents (3 cents over TNT)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pinal County</th>
<th>$ Increase</th>
<th>% Increase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary levy</td>
<td>$6,106,052</td>
<td>8%</td>
<td>Tax rate up 20 cents (22 cents over TNT)</td>
</tr>
<tr>
<td>Community College</td>
<td>$9,000,000</td>
<td>24%</td>
<td>Tax rate up 39 cents (40 cents over TNT)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yuma County</th>
<th>$ Increase</th>
<th>% Increase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary levy</td>
<td>$2,998,262</td>
<td>12%</td>
<td>Increased tax rate 25 cents (19 cents over TNT)</td>
</tr>
<tr>
<td>Community College</td>
<td>$2,000,000</td>
<td>9%</td>
<td>Tax rate up 18 cents (11 cents over TNT)</td>
</tr>
<tr>
<td>City of Yuma</td>
<td>$1,200,000</td>
<td>12%</td>
<td>Tax rate up 24 cents (19 cents over TNT)</td>
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</table>

<table>
<thead>
<tr>
<th>Gila County</th>
<th>$ Increase</th>
<th>% Increase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary levy</td>
<td>$2,782,807</td>
<td>16%</td>
<td>Maintained same tax rate/NAV up 16% (37 cents over TNT)</td>
</tr>
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</table>
K-12 and the 1% Cap

- Post 1980 wrinkles exacerbate 1% cap problems
  - Desegregation/Office of Civil Rights levy
    - TUSD has rate 150% above average
    - Phx Union + OCR Elementary = 5 capped districts
      Roosevelt Elem. Wilson Elem.
  - Adjacent Ways, Transpo Delta
- Small School Adjustment – responsible for many 1% cap areas
- Cash balance correction
  - School district under levied in previous year, has negative cash balance
  - Must spike rate to correct = pushes them over 1% cap
  - Example: Isaac Elementary, Tombstone Unified
- Result: State GF pays for (or subsidizes) non-formula programs

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1% Cap Districts

- Pima County
  - Tucson Unified
  - San Fernando Elementary
  - Altar Valley Elementary
- Pinal County
  - Maricopa Unified
  - Superior Unified
  - Florence Unified
  - Casa Grande El/Union
  - Mammoth/San Manuel Unified
  - Eloy El/Santa Cruz Valley Union
  - Coolidge Unified
  - Toltec El/Casa Grande Union
  - Combs Unified
- Maricopa Unified
  - Roosevelt El/Phx Union
  - Phoenix El/Phx Union
  - Isaac El/Phx Union
  - Wilson El/Phx Union
  - Cartwright El/Phx Union
  - Mobile El
  - Morristown El
  - Sentinel El
- Several others, amounts not exceeding $1 million/county
  - Cochise close at $960k
  - State GF liability ~$4.4m
  - Local liability ~$26m
  - 38 total school districts

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Taxpayers Needed that Trailer Bill

- ATRA predicted new formula would simply raise tax rates
  - Tax rate increases from several 1% cap liable jurisdictions
    - Pima County
    - Pinal County
    - Pinal County Community College District (Central AZ College)
    - Town of Superior
  - Homeowners insulated from increases again
  - As rates raise, liability for 1% cap raises
  - Property taxpayers put in death spiral
- Fix bill necessary
  - 1% cap fix shouldn’t expose non-class 3 properties to even higher taxes
  - Precedent: Maximum school tax rate law for high rates in 1% cap areas
- Other technical issues
  - How to calculate state average?
  - Math to determine “at fault” percentages
  - How to protect non-Class 3 property?
  - How to parcel out the $1 million per county GF liability?

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ARIZONA TAX RESEARCH ASSOCIATION

Questions?

Arizona Tax Research Association
Michael D'Harle………………………………..Chairman
Kevin J. McCarthy…………………………..President
Jennifer Streeter……………………………..Vice President
Sean McCarthy……………………………..Senior Research Analyst

1814 W. Washington Street
Phoenix, Arizona 85007
(602) 253-9121
www.arizonatax.org
atra@arizonatax.org

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