



County Supervisors
A S S O C I A T I O N
o f a r i z o n a

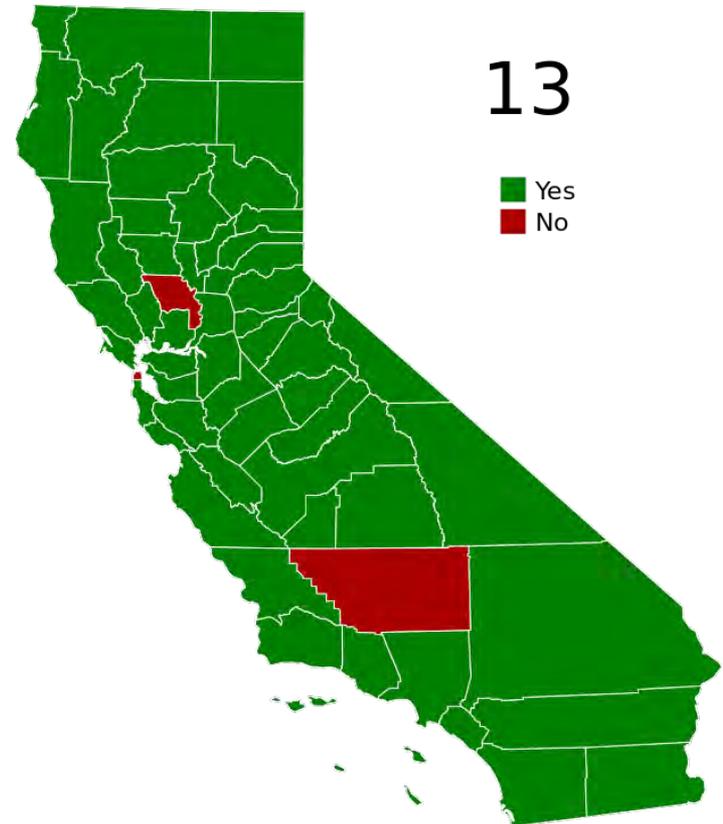
1% Constitutional Property Tax Cap: Background Briefing

California & Prop. 13

- Set off by a run up in assessed values
- Limited property taxes to 1% of the assessed value
- Growth in assessed value is capped at 2% annually



Prop. 13 Passed with 62.6% of the vote



Prop. 13 Starts a Wave

In November 1978 a group called "Citizens for Tax Relief" filed notice to circulate initiative petitions to bring a 1980 constitutional amendment to the ballot in Arizona --- referred to as "Arizona's Proposition 13"

The Kingman
 3015 Stockton Hill Road
 753-2121
 Fred Mohr
 Kingman, Ariz.

Drive to limit taxes planned

PHOENIX (AP) — A group called Citizens for Tax Relief has filed notice of plans to circulate initiative petitions for a 1980 constitutional amendment election to limit taxes in Arizona.

Filed as "Arizona's Proposition 13," the proposal has the blessing of California's Howard Jarvis, according to his daughter, Elaine Jarvis of Phoenix. Jarvis backed a similar measure adopted in California under the title of Prop. 13, but the number of such propositions in Arizona starts at 100.

The proposed Arizona amendment says that the "maximum aggregate amount" of all state and local property taxes "shall not exceed one percent of the full cash value of any such property."

William Meunier, Tucson vice chairman of the sponsoring group, said that the "intent of this document is to set a maximum limit on yearly property taxes and to limit all other levels of Arizona government in their authority to levy any new taxes."

The limit would not apply to taxes to meet interest and principal payments on debts approved by voters before the amendment took effect.

The proposed amendment defines full cash value as that determined for the 1975 tax rolls. Properties built or sold after that date would have full cash values equal to their "appraised" value, the proposal said. It does not define appraised value.

It says that the "full cash value" may reflect, from year to year, the inflationary rate, not exceed 3 percent for any year. "It also appears to set full cash value out conversions to any declines in the consumer price index."

The proposed amendment that "any changes in state taxes enacted for the purpose of creating revenue collected must derive, whether by law or



Letters

Courier / Prescott, Az.
 Sun., Jan. 16, 1983 • 5A

Taxpayers must be on constant guard



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they'll probably w enforcement strict — then an care special there's no end to vices they'll try o extract more xpayer" pocket. ayers, you must your guard to ing authorities nd the spending ion contained in age.

Robert W. Samz

Taxpayers' Revolt Growing in State of Washington, Too

Los Angeles Times Service
 Olympia, Wash. — Gary O'Neil was notified by the Thurston County assessor the other day that the assessed value of his suburban home had soared from \$28,000 to \$47,000.

"I figure my property taxes are going to jump from around \$600 to more than \$1,000," O'Neil said.

That would be enough to make most homeowners mad, but not O'Neil, research director for the Washington State Finance Department.

guage in the initiative, however, it is unclear whether this means two-thirds of all registered voters or two-thirds of those who actually cast ballots.

Revolt Brewing

Despite Washington's restrictions on the property tax, about one-fourth of which is a statewide school levy, a taxpayers' revolt is brewing.

Many political figures and financial experts here consider this revolt somewhat curious in view of the state's

to 6% annually, excluding property taxes on new construction. Washington already has a 6% annual revenue increase limit on property taxes supporting local government.

Another proposal calls for an initiative on the ballot next fall that would tie current state spending to gross personal income. The plan would make the current ratio of personal spending to gross personal income 10 percent. The plan would make the current ratio of personal spending to gross personal income 10 percent.

Tax Bombshell in California May Ignite Other Rebellions



Arizona Reacts

Babbitt asked to appoint panel to work on state tax reform

PHOENIX (AP) — Senate President Ed Sawyer has called on Gov. Bruce Babbitt to name a special committee to make recommendations on proposals for reshaping Arizona's tax structure and school financing system.

In a news conference Monday, Sawyer, a Safford Democrat said a special session to deal with the two issues, tentatively set for next fall, should begin early next year.

"I believe the consequences of delaying this massive effort until late next year, unless absolutely necessary, would be disastrous," Sawyer wrote in a letter to Babbitt.

A Babbitt spokesman said the governor wants to study Sawyer's request for an advisory committee

and an earlier special session before responding. He added, "This is a legislative matter and I don't want to mix the taxpayers may not see any real changes until 1981. I believe we

Arizona speaker urges overhaul of state property tax system

PHOENIX (AP) — A major tax overhaul with an effort to tilt school financing away from property taxes has been urged by House Speaker Frank Kelley, R-Scottsdale.

Kelley said he would ask the Legislative Council today for a joint House-Senate committee to begin studying tax reforms. The council is a steering committee of legislative leaders.

with Kelley's proposal. "We've got to get in and restructure the tax system and put less emphasis on the property tax," said Kelley. "It's time to start now to build the data banks and accumulate the mass of information that will be needed."

His target date for the special session would be in the fall of 1979.

Kelley said a drastic overhaul of the taxing and school financing system is

in several recommendations, including a long-range overhaul of the state taxing system.

Kelley said rising property valuations have people on fixed incomes "in a terrible bind."

He said there are inequities now within and between counties in assessing practices now, and predicted other problems will arise when the Palo Verde Nuclear Generating Station is

casions the Legislature has convened special sessions to deal with taxes and school aid.

The lawmakers established a statewide property revaluation program in 1967, along with a school finance plan to help prevent a sharp property tax rise for homeowners. This was overhauled in 1974 and an annual property tax rebate adopted to buffer homeowners from valua-

Babbitt wants property-tax lid

PHOENIX (AP) — Homeowners should be given property-tax relief but removing the sales tax on food is another question, Gov. Bruce Babbitt told state tax officials.

"We must tell the homeowners: 'Your property taxes will never exceed three-quarters of one percent of full-cash value,'" the governor said Thursday at the 1979 Arizona Tax Conference.

He called the sales tax on food "a regressive tax," but noted that "I've stopped short of saying I advocate outright repeal."

The proposal to limit homeowners' property taxes would cost the state \$175 million in annual revenue, and removing the four-percent sales tax from food would delete another \$120 million to \$140 million," Babbitt said.

"There isn't a limitless pot," the governor said, warning against "digging ourselves into a hole."

The State Department of Revenue

and Arizona Association of Assessing Officers sponsored the conference, ending today.

• PLAN

Continued from page 1

rumors to the contrary, there has been no talk of the council voting in mass to spread the political heat for Fashbaugh and Gillis.

Councilman Ken Asplund, Fashbaugh and Gillis all said they have yet to make up their minds on the rezoning issue. However, Gillis said the specter of a recall election has not affected his thinking. "We're in a no-win situation, but all I can do is vote the way I feel and let the chips fall," he said.

"The sad thing about it is that the people who need the housing will still be without it."

"How about taking the sales tax off of food and putting it on gasoline in the name of conservation?"

• PV SUIT

Continued from page 1

The problem, he said, is that the road maintenance has already ceased. The court case would tie the town's hands on doing the work itself and the roads would continue to deteriorate, he said.

If not for that problem, Jensen said he would be glad to pursue the case for the town. "Frankly it could be a real pay day for me," he said.

Councilman Paul Pollard agreed with Jensen's assessment and made the motion to approve the settlement offer. "There's been enough shilly-shallying around on this. I'm convinced we've got to go ahead," he said.

port level because of shifts and started on angles that me," said

'S DAY DILDAY Mo. (AP) — is the oldest in the West-back some researchers for ved from the percalla held r the god goddess of A.D., Pope that Feb. 14, east, he celestine's Day in thus, a priest & died in 104 to renounce

- Governor Babbitt called a special session of the 34th Legislature in November 1979
- A total of six tax reform measures, a bill calling for a special election, and 10 ballot referenda were passed before the special session adjourned sine die on April 3, 1980

1% Cap Overview: Pre-2016

The amount of primary property tax that may be levied on a Class 03 residential property is limited to 1% of the property value

Example

For the purposes of primary property taxes:

- A home has an assessed value of **\$100,000**
- Class 03 carries a **10% assessment ratio**
- The home's Net Assessed Value (NAV) is **\$10,000**
- The 1% constitutional cap mean the home can only pay **\$1,000** (1% of \$100,000) in taxes
- Tax rates are always per \$100 NAV
- The maximum "effective" rate a property can pay is **\$10 per \$100 NAV**

$$\left(\frac{\$10,000 \text{ NAV}}{100} \right) * \$10 = \$1,000 \text{ tax bill}$$



1% Cap Overview: Pre-2016 Cont.

The “effective” tax rate is the rate paid after any adjustments pursuant to:

- A.R.S. § 15-971, Equalization Assistance
- A.R.S. § 15-972(B), Homeowners’ Rebate

Jurisdiction	Adopted Primary	Effective Primary
County	\$3.00	\$3.00
City	\$3.00	\$3.00
CCD	\$3.00	\$3.00
State	\$0.50	\$0.50
School Dist.	\$4.00	\$2.70
Total	\$13.50	\$12.20

Example

For the purposes of primary property taxes:

- School District A’s adopted rate is **\$4.00**
- 15-971 reduces the rate to **\$3.50**
- 15-972(B) reduces the rate to **\$2.70**
- The new “effective” school district rate is **\$2.70**

NOTE: All figures are used for the example only and do not reflect actual rates or tax burdens



1% Cap Overview: Pre-2016 Cont.

If the effective tax rate is still greater than \$10, the state reduces the school district rate through an additional payment until the total effective rate is \$10 pursuant to A.R.S. § 15-972(E)

Jurisdiction	Adopted Primary	Effective Primary	After 1%
County	\$3.00	\$3.00	\$3.00
City	\$3.00	\$3.00	\$3.00
CCD	\$3.00	\$3.00	\$3.00
State	\$0.50	\$0.50	\$0.50
School Dist.	\$4.00	\$2.70	\$0.50
Total	\$13.50	\$12.20	\$10.00

Example

Using the effective rates to the left:

- A home has an assessed value of **\$100,000**
- The rate reduction under the 1% cap is **\$2.20**
- The state will pay an additional **\$220** to the school district
- The new “effective” school district rate is **\$0.50**

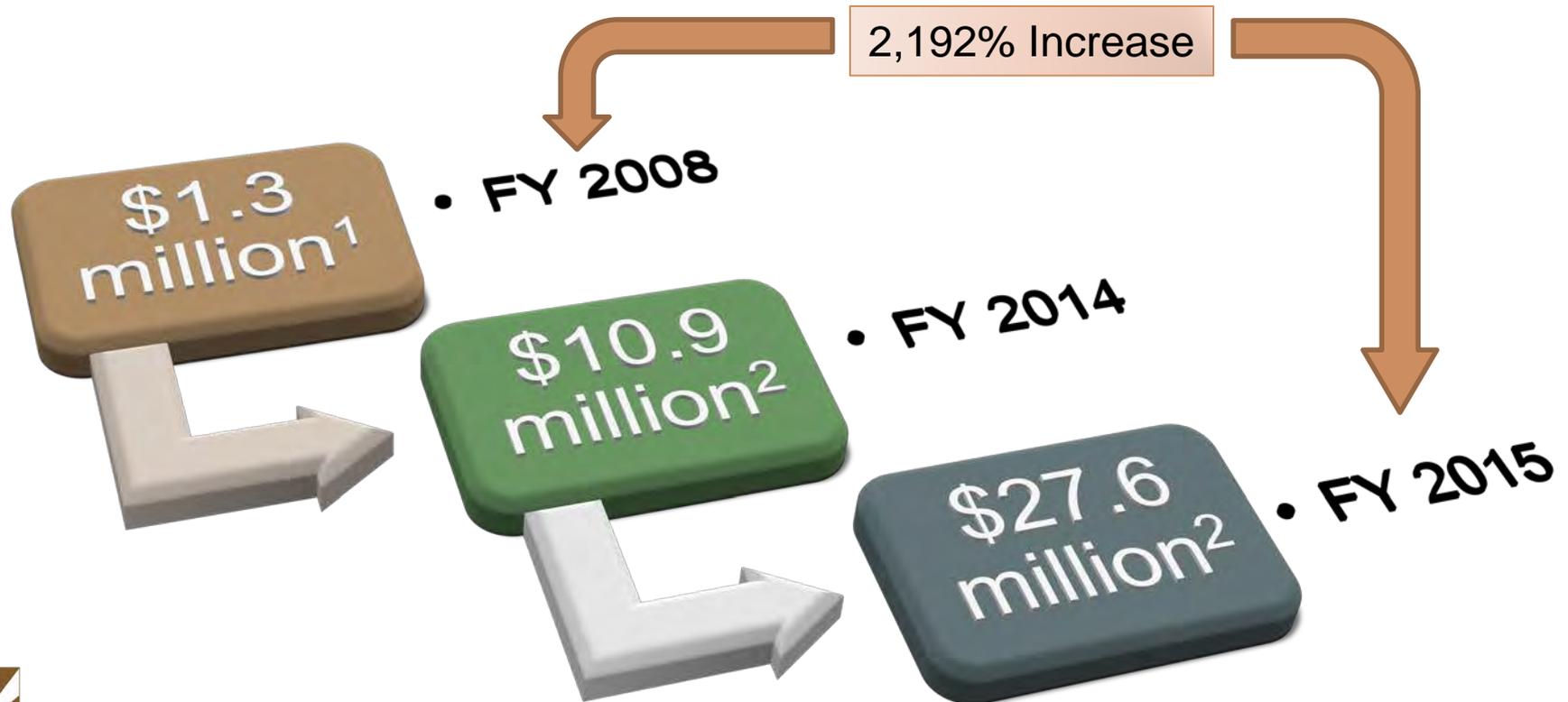
$$\text{Additional State 1\% payment} = \left[\frac{(\$100,000 * 0.10)}{100} \right] * \$2.20 = \$220$$

NOTE: All figures are used for the example only and do not reflect actual rates or tax burdens



1% Cap Overview: Pre-2016 Cont.

Estimated Cost to the State from 1% Backfill



¹Arizona Tax Research Association. (2009). *Arizona School Finance*. Phoenix, AZ: Olson, J
²Joint Legislative Budget Committee. (2015). *FY 2016 Baseline Book* (Pg. 161). Phoenix, AZ



FY 2016 Executive Proposal

- Cap the State's Liability at \$1 million per County
- Shift the remaining liability to the local jurisdictions (county, cities & towns, community college, and school districts)
- The liability would be allocated based on a jurisdiction's share of the total tax rate

Example

Total 1% Liability: \$1,500,000	Primary rate	Liability Above 1%
County	\$3.00	\$125,000 reduction
City	\$3.00	\$125,000 reduction
Comm. College	\$1.50	\$62,500 reduction
Elementary SD ¹	\$2.00	\$83,333 reduction
High School SD ¹	\$2.00	\$83,333 reduction
State	\$0.50	\$1,020,834 payment
Total Rate	\$12.00	

¹School district rate after making adjustments pursuant to A.R.S. § 15-971 & § 15-972(B)

$$\text{Jurisdictional Liability} = \left(\frac{\text{Jurisdiction rate}}{\text{total rate}} \right) * 1\% \text{ liability in excess of } \$1 \text{ million}$$

$$\text{County Liability} = \left(\frac{3.00}{12.00} \right) * 500,000 = 125,000$$

NOTE: All figures are used for the example only and do not reflect actual rates or tax burdens



FY 2016 Budget: CSA Interpretation

- Laws 2015 Chapter 15 § 7 (SB 1476) added paragraph (K) to A.R.S § 15-972
- Paragraph (K) caps the state's 1% liability at \$1 million per county and shifts any remaining liability to [qualified] local jurisdictions
- The liability is then proportionally allocated to each [qualified] jurisdiction based on that jurisdiction's rate compared to the sum of all [qualified] jurisdictions rates

Total 1% Liability: \$1,500,000	Primary rate	Qualified jurisdictions	Liability Above 1%
County avg: \$2.00	\$3.00	\$3.00	\$333,333 reduction
City avg: \$3.50	\$3.00	\$0	No reduction
Comm. College avg: \$1.30	\$1.50	\$1.50	\$166,667 reduction
Elementary SD ¹ Not included	\$2.00	\$0	No reduction
High School SD ¹ Not included	\$2.00	\$0	No reduction
State Not included	\$0.50	\$0	\$1,000,000 payment
Total Rate	\$12.00	\$4.50	

¹School district rate after making adjustments pursuant to A.R.S. § 15-971 & § 15-972(B)

$$\text{Jurisdictional Liability} = \left(\frac{\text{qualified Jurisdiction tax rate}}{\text{total qualified tax rate}} \right) * 1\% \text{ liability in excess of } \$1 \text{ million}$$

$$\text{County Liability} = \left(\frac{3.00}{4.50} \right) * 500,000 = 333,333$$

NOTE: All figures are used for the example only and do not reflect actual rates or tax burdens



CSA Interpretation: How we got here

A.R.S. § 15-972 K. NOTWITHSTANDING SUBSECTION E OF THIS SECTION, BEGINNING IN FISCAL YEAR 2015-2016,

1

THE MAXIMUM AMOUNT OF ADDITIONAL STATE AID FOR EDUCATION THAT WILL BE FUNDED BY THIS STATE PURSUANT TO SUBSECTION E OF THIS SECTION SHALL BE ONE MILLION DOLLARS PER COUNTY.

FOR ANY COUNTY WITH A SCHOOL DISTRICT OR DISTRICTS THAT COLLECTIVELY WOULD OTHERWISE RECEIVE MORE THAN ONE MILLION IN ADDITIONAL STATE AID FOR EDUCATION 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, THAT IS ATTRIBUTABLE TO EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT OR DISTRICTS.

2

3

BASED ON THOSE PROPORTIONS, THE PROPERTY TAX OVERSIGHT COMMISSION SHALL DETERMINE AN AMOUNT THAT EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT OR DISTRICTS SHALL TRANSFER TO THE AFFECTED SCHOOL DISTRICT OR DISTRICTS

DURING THE FISCAL YEAR IN ORDER TO COMPENSATE THE AFFECTED SCHOOL DISTRICT OR DISTRICTS FOR ITS PRO RATA SHARE OF THE REDUCTION IN ADDITIONAL STATE AID FOR EDUCATION FUNDING REQUIRED BY THIS SUBSECTION. IN DETERMINING THE PROPORTION OF THE VIOLATION OF ARTICLE IX, SECTION 18, CONSTITUTION OF ARIZONA, THAT IS ATTRIBUTABLE TO EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT OR DISTRICTS,

THE PROPERTY TAX OVERSIGHT COMMISSION SHALL ASSUME A PROPORTION OF ZERO FOR ANY TAXING JURISDICTION THAT HAS A TAX RATE FOR THE FISCAL YEAR THAT IS EQUAL TO OR LESS THAN THE TAX RATE OF PEER JURISDICTIONS, AS DETERMINED BY THE PROPERTY TAX OVERSIGHT COMMISSION.”

4



CSA Interpretation: How we got here

1

THE MAXIMUM AMOUNT OF ADDITIONAL STATE AID FOR EDUCATION THAT WILL BE FUNDED BY THIS STATE PURSUANT TO **SUBSECTION E** OF THIS SECTION SHALL BE **ONE MILLION DOLLARS** PER COUNTY.

1% backfill provision

Caps the State's Liability

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, THAT IS ATTRIBUTABLE TO EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT OR DISTRICTS.

Unelected technical board given discretionary authority

2



CSA Interpretation: How we got here

3

BASED ON THOSE PROPORTIONS, THE PROPERTY TAX OVERSIGHT COMMISSION SHALL DETERMINE AN AMOUNT THAT EACH TAXING JURISDICTION WITHIN THE AFFECTED SCHOOL DISTRICT OR DISTRICTS SHALL TRANSFER TO THE AFFECTED SCHOOL DISTRICT OR DISTRICTS

PTOC's likely interpretation is that the School Districts will be held held harmless

PTOC's likely interpretation is that this will mean "at or below the average rate for all similar jurisdictions (county compared to statewide average of all counties)

Some jurisdictions will not pay

THE PROPERTY TAX OVERSIGHT COMMISSION SHALL ASSUME A PROPORTION OF ZERO FOR ANY TAXING JURISDICTION THAT HAS A TAX RATE FOR THE FISCAL YEAR THAT IS EQUAL TO OR LESS THAN THE TAX RATE OF PEER JURISDICTIONS AS DETERMINED BY THE PROPERTY TAX OVERSIGHT COMMISSION."

PTOC determines what a peer jurisdiction is

4

