

AFT-AFP Guide to Property Tax Reform in Arizona

Below you will find a quick guide from the Arizona Federation of Taxpayers, a state chapter of Americans for Prosperity, to the three property tax reform initiatives that have been filed with the Arizona Secretary of State. If the initiatives collect enough signatures, they will appear on the state ballot on November 4, 2008. AFT-AFP also comments on prospects for a property tax reform to be referred by the Legislature.

Arizona Tax Revolt

This summer, the Mohave County-based Arizona Tax Revolt committee filed two property tax reform initiatives, one dealing with constitutional levy limitations (Article 9, Section 19) and one dealing with changes to the system of assessed valuation (Article 9, Section 18).

ATR Levy Limitation and Rollback Initiative. (Article 9, Section 19) The Arizona Tax Revolt levy limitation initiative would broaden the existing two percent limit for levy increases to include all taxing districts. It would also roll many levies back to 2005 levels, and require a two-thirds majority for voter approval to raise any future levy faster than two percent in one year. Districts with modest increases in levies this year would qualify for a rollback to the average levy of the years 2005 to 2008.

If the ATR levy limit initiative reaches the ballot (and if it is approved by Arizona voters in greater numbers than the Prop 13 Arizona initiative), its features would result in significant tax relief for all Arizona home and business property owners. By limiting yearly property tax levy increases two percent, the initiative would help to restrain the kind of outrageous overspending seen around the state in recent years. Preliminary estimates suggest that the tax revenue levied by various taxing districts could be reduced by anywhere from 10 to 30 percent.

ATR Assessed Valuation Initiative. (Article 9, Section 18) ATR's valuation rollback would serve as a backup measure for its levy rollback, providing relief for property owners who have suffered from large increases in assessed valuation in recent years. The initiative is somewhat complex, and prescribes a mathematical system for future assessments that attempts to ensure that similar properties are valued similarly.

The ATR initiatives cover more details than the Prop 13 Arizona initiative, but if both of the ATR initiatives pass and go into effect, the Legislature will still have to make upward adjustments in the statutory caps imposed on certain taxing districts, and it would have to adjust the QTR for educational property taxes.

To get involved with the Arizona Tax Revolt committee, contact Marc Goldstone at Chairman@ArizonaTAXRevolt.org or (602) 388-8833.

Prop 13 Arizona

On November 5th, the Prop 13 Arizona committee filed its property tax reform initiative with the Arizona Secretary of State. Modeled on California's famous Prop 13, the Prop 13 Arizona initiative would replace the state's current constitutional limitations on assessed valuation (Article 9, Section 18). Features of the reform include: 1) a cap on all residential property taxes at 0.5 percent of assessed valuation; 2) a cap on all other property taxes (including taxes on business property) at one percent of assessed valuation; 3) beginning in 2009, a rollback in all property values to 2003 levels; 4) for all property purchased after 2003, assessed value will be set at the actual purchase price; 5) after 2009, all assessed values will increase by no more than two percent annually; and, 6) maintenance of the existing property valuation protection option for seniors. The initiative would repeal Article 9, Section 19 (the current levy limitations).

If it passes, and if it gets more votes than any competing initiative, the Prop 13 Arizona reforms would entail a radical transformation of Arizona's system of property taxation, effectively ending the current role of the county assessors in setting assessed values for existing properties. The 0.5 percent residential cap and the one percent cap for all other properties, combined with the rollback to 2003 levels, would substantially reduce the amount of property tax money available to local taxing districts. Some districts could see reductions in property tax revenue of 50 percent or more. In Arizona's education system, the result would be a large shift of burden from local property taxes to state-collected income and sales taxes. The Prop 13 Arizona initiative language is relatively simple, and leaves the mechanics of implementation to the state Legislature, including the distribution of rates and ratios between residential property and non-residential property, and the distribution of property tax revenues between competing taxing districts.

To get involved with the Prop 13 Arizona committee, contact Lynne Weaver at info@Prop13Arizona.com.

Legislative Referendum

Property tax reformers at the Arizona Legislature have been exploring the possibility of referring legislation to the November 4, 2008 ballot.

Although some legislators are looking at limits on assessed valuation (including a rollback), the heart of any truly effective proposal would be a levy limitation. If an effective limit is placed on levies, assessed values can increase without doing great harm to taxpayers, because rates will have to fall to compensate. The problem in Arizona has been the absence of effective limits on levies. Prop 101, which was referred to the November 2006 ballot by the Arizona Legislature and approved by the voters, did a good job of limiting the primary property tax levies for counties, cities/towns, and community colleges. Prop 101 strengthened the existing protections of Article 9, Section 18, by which the tax levies for those taxing districts can increase by only two percent per year.

But there may be a dozen taxing districts on a typical taxpayer's property tax bill—and most of those districts are not subject to Article 9, Section 18's two percent levy limit.

Strong Legislative Referendum. A strong reform would apply the Prop 101-style two percent levy increase limit to all taxing districts going forward, and would be even stronger with a two-thirds voter override provision (such as the one included in the ATR levy limitation initiative).

Weak Legislative Referendum. A weak reform would involve having a two percent levy limit as a default, but allow simple majorities of taxing district officials to adjust rates so as to exceed the two-percent levy increase limit. The problem with this kind of Truth-in-Taxation provision is that it requires voters to pay close attention to the votes made by city council members, county supervisors, and dozens of other officials.

In our judgment, because of the political strength of the local taxing and spending interests, it is unlikely that any rollback provision could be referred out of the Legislature. In other words, any legislative referendum that survives would probably be forward-looking, and not provide retroactive relief.

AFT-AFP Recommendation

Out of strategic considerations, AFT-AFP recommends that grassroots property tax activists combine forces and support a single initiative. It will be difficult enough for activists to collect enough signatures to get a single initiative onto the 2008 ballot, and it will be difficult enough for activists to promote a single reform in the face of pro-spending propaganda, without also engaging in side arguments about why one grassroots initiative is supposedly better than another.

AFT-AFP's preference among the three initiatives currently filed is ATR's levy rollback and limitation initiative. Given the structure of the Arizona property tax system, a levy limitation initiative is the "golden bullet" for property tax reform. Although taxpayers have naturally fixated on the huge growth in their assessed values, the determining factor in the Arizona property tax equation is the amount of money levied by local taxing districts. In Arizona, limits on assessed valuation are of secondary importance to the objective of reducing overall tax burdens on home and business property owners. (The 0.5 and one-percent caps in the Prop 13 Arizona initiative would indeed achieve a form of levy limitation. But the initial reductions in revenue are likely to be so large, and go into effect so rapidly, as to pose difficult transition problems for some local districts. The spending interests will likely oppose any reform—even a weak referendum—but the heavier the revenue cut, the more realistic will be their claims of hardship.)

Ideally, AFT-AFP would like to see a vigorous public debate in 2008 that is focused on the differences between a strong levy rollback and limitation initiative (such as the one from ATR) and a referendum from the Legislature (which is likely to be weaker, and which would probably not include a rollback).