



Arizona State Senate *Issue Brief*

September 26, 2008

Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

ARIZONA'S SPECIAL TAXING DISTRICTS

INTRODUCTION

Special taxing districts, often referred to as special districts, are usually created to fill a need and to enable the provision of services in an area that might otherwise be limited from receiving those services for various reasons, including size, location, financial limitations or unavailability of other government support. The formation of a special taxing district creates a funding stream to pay for the desired or needed services by placing the responsibility on those who benefit from that service.

FORMATION

Arizona statute currently allows and specifies the process for the formation of more than 30 special taxing districts, such as fire districts, irrigation districts, hospital districts, pest abatement districts and power districts. Although the specific process depends on the type of district to be created, in many cases formation requires the submission of petitions to the county board of supervisors, followed by a public hearing. Sometimes, an election may be required for final approval of district formation. The procedures for the establishment of certain types of districts, such as stadium districts, differ greatly. Unless otherwise specified by statute, the county board of supervisors has the absolute authority to deny the formation of a special district in that county if sufficient grounds exist for the denial, but any denial may be subject to judicial review.

Statute also prescribes mechanisms for the dissolution of districts and methods for changing district boundaries.

ORGANIZATION

Special districts may be organized under a county or municipality, such as a county or city improvement district, and also directly by citizens acting pursuant to state law, as in the case of electrical and fire districts. Districts may be formed to allow a more focused or localized area of control over a particular special

public interest issue, such as pest abatement and antioxious weed districts, or to move particularly expensive projects out from under county or municipal governments and their tax, expenditure and debt limitations, such as a special health care district.

Most special taxing districts, regardless of their purpose, have substantial administrative and fiscal independence from other local governments and possess the following:

- A structural form (generally within or adjacent to a single county).
- An official name.
- A limited purpose (most perform a single function).
- An elected governing body.
- Continuous operation subject to a prescribed dissolution process.
- The power to impose and collect taxes.
- The power to incur governmental debt.
- The right to sue and be sued.
- The ability to make contracts and to obtain and dispose of property.

Special districts may be designated as municipal corporations and as political subdivisions having the rights, powers and immunities as cities and towns. They are governmental entities, exempt from taxation on their governmental activities and property, and function under their own separate identity.

FUNDING AND TAXATION

Most special taxing districts are funded by ad valorem taxes levied on all real property within the district limits. A special taxing district levy is a secondary levy and is based on the full cash valuation of the property. Statute usually requires these taxes to be assessed at the same time and in the same manner as county taxes. Many districts can also issue bonds to cover district expenses.

Other districts, such as public health services districts, jail districts or theme park districts, are authorized to levy an excise or sales tax.

Special taxing districts sometimes use county services to help carry out activities and responsibilities. When this occurs, a county can require reimbursement for any service provided.

ACCOUNTABILITY AND OVERSIGHT

Statute specifies reporting requirements for most special taxing districts. Districts that are not specifically exempt are required to submit to the board of supervisors of the county or counties in which the district is located an annual financial report within 180 days after the close of the fiscal year. Failure to do so may result in a civil penalty. By January 31 of each year, the board of supervisors of each county must report on district reporting compliance to the Governor and Legislature.

Each district, unless specifically exempt, must annually submit the most recently adopted annual budget to the county board of supervisors and the county treasurer no later than July 10.

Those districts that must submit annual reports are required to undergo an audit or financial review, the exact method and frequency of which depend on the size of the district's budget. Similar to the financial reports, audits must be submitted to the county treasurer and the county board of supervisors within 180 days of the close of the fiscal year.

ADDITIONAL RESOURCES

- Special Taxing District Statutes: Arizona Revised Statutes, Title 48
- State Treasurer's Office
602-604-7800
www.aztreasury.gov
- Arizona Tax Research Association
602-253-9121
www.arizonatax.org