

BALLOT PROPOSITION #101

Local Government Levy Limits; Rebase

FISCAL ANALYSIS

Description

Proposition 101 would change the base year for the determination of levy limits for cities, towns, counties, and community college districts from 1980 to 2005. The constitutional amendment would become effective beginning in 2007.

Under Article 9, Section 19 of the Arizona Constitution, the primary property tax levy of a city, town, county, or community college district is limited to a 2% increase over the maximum allowable amount in the preceding year, plus any amounts attributable to new construction unless voters elect to exceed the levy limit. This constitutional provision neither applies to school districts nor to secondary property taxes, which are levied to pay for bonded indebtedness and special taxing districts. Since the limit is calculated each year based on the maximum allowable amount from the prior year, jurisdictions do not lose taxing capacity when they levy less than their limit. By resetting the base year to 2005, the proposition would eliminate the unused taxing capacity as of that time.

Estimated Impact

Proposition 101 will have no direct impact on the state General Fund. If, however, the proposal results in lower primary property tax rates for cities, towns, counties, or community college districts than under permanent law, it may indirectly result in foregone state General Fund costs in future years, as discussed below.

While some taxing jurisdictions are levying their maximum allowable amount, most are not. Based on data provided by the Department of Revenue (DOR) and the state's counties, 56 out of 74 taxing jurisdictions levied primary property taxes below their allowable limit in tax year 2005. For such cities, towns, counties, and community college districts, the difference between the maximum allowable and actual levy represents the unused taxing capacity for that tax year.

In tax year 2006 (FY 2007), Laws 2006, Chapter 354, Section 65 eliminates unused taxing capacity by limiting primary property tax increases to the lesser of: (1) a 2% increase over the actual levies for tax year 2005, plus any amounts attributable to new construction or (2) the levy limit, as provided under permanent law. Proposition 101 would make the 2005 rebase of levy limit calculation permanent. Jurisdictions would continue to adjust their maximum allowable limit each year by 2% plus any new construction growth.

Analysis

Since Proposition 101 will neither affect net assessed valuation (NAV) nor the qualifying tax rate (QTR), it will have no impact on the state General Fund. Both NAV and QTR are used to determine Basic State Aid for school districts.

By removing unused taxing capacity, the proposition could have the effect of resulting in lower future primary property tax rates than under permanent law. If so, the state could potentially incur some cost savings for its "1% Cap" program. Under the Arizona Constitution, a homeowner's total primary property tax bill is capped at 1% of the property's limited value. If the tax liability exceeds 1% of the property's value, the state pays the difference in the form of additional state aid to school districts. The state's cost for the "1% Cap" program was estimated to be \$4.2 million in FY 2006. Future cost savings, if any, are unlikely to exceed this amount.

Local Government Impact

Data provided by DOR and the state's counties shows that the total amount of actual tax year 2005 levies was \$1.43 billion for the 74 taxing jurisdictions that are subject to the constitutional levy limit. Using tax year 2006 levy limit worksheets, it is estimated that Laws 2006, Chapter 354 limits the total statewide amount of primary property tax levies to \$1.55 billion in tax year 2006. By comparison, it is estimated that total statewide levy limits under permanent law would have been \$1.74 billion. This means that the session law has the effect of limiting the tax year 2006 maximum allowable levy growth to 8.3%

compared to 21.6% under permanent law. (Note that since the rate calculation under the 2% levy limit provision only applies to existing property, overall levy growth will exceed this percentage once new construction is included.)

As noted earlier, most jurisdictions do not levy at their capacity. As a result, it is unlikely that local jurisdictions would have increased their levies by 21.6% to reach their limit. Individual jurisdictions may be affected differently by the proposition. For example, Laws 2006, Chapter 354 has no impact on the 18 taxing jurisdictions that were at their maximum allowable levy in tax year 2005 and had no excess taxing capacity. For these 18 jurisdictions, the levy limit calculation yields the same maximum allowable levy regardless of whether the base year is 1980 (as under permanent law) or 2005 (as under session law).

The Cochise County Community College District is an example of a jurisdiction that was below its tax year 2005 levy limit. The district's actual tax year 2005 levy was \$11.9 million, which was \$5.0 million below its levy limit of \$16.9 million. Under the 1980 calculation, the district's tax year 2006 maximum limit would have grown by 2% plus new construction above the \$16.9 million tax year 2005 limit. This would have resulted in a new maximum limit of \$18.9 million.

Under the Chapter 354 session law, the actual tax year levy of \$11.9 million is the new starting point for tax year 2006. After adjusting for the 2% and new construction, the tax year 2006 revised limit is \$13.3 million. This revised amount is \$1.4 million, or 11.9%, above the 2005 level. In comparison, the 1980 calculation would have permitted maximum growth of \$7.0 million (to the \$18.9 million level), or 59.2%.

Proposition 101 makes the elimination of the unused capacity permanent. In tax year 2007, therefore, the starting point for the 2% plus new construction calculation would be the \$13.3 million tax year 2006 maximum allowable limit rather than the \$18.9 million under the old formula.

The attached appendix includes a table that shows the estimated impact of basing tax year 2006 levy limit calculations on actual tax year 2005 levies for each of the 74 taxing jurisdictions in the state that is subject to the 2% levy limit provision in the constitution.

As noted above, Proposition 101 would not become effective until tax year 2007. The exact impact of the proposal cannot be determined at this point since 2007 levy limit worksheets will not become available until February 2007.

7/24/06

This estimate was prepared by Hans Olofsson (602-926-5491).

APPENDIX

Impact of Basing TY 2006 Levy Limit Calculation on Ty 2005 Actual Levy

<u>Taxing Jurisdiction</u>	<u>TY 2005</u>		<u>TY 2006</u>			
	<u>Actual Levy</u>	<u>Unused Capacity</u>	<u>Session Law - Allowable Levy</u>	<u>Max. % Chg.</u>	<u>Permanent Law - Allowable Levy</u>	<u>Max. % Chg.</u>
Apache County	\$ 1,410,479	0.0%	\$ 1,485,699	5.3%	\$ 1,485,699	5.3%
Cochise County	19,525,252	31.2%	21,849,493	11.9%	31,742,481	62.6%
Community College	11,877,479	29.7%	13,291,291	11.9%	18,904,443	59.2%
City of Benson	174,377	51.8%	198,212	13.7%	411,601	136.0%
City of Bisbee	636,891	0.0%	707,150	11.0%	707,150	11.0%
City of Douglas	438,774	34.9%	482,311	9.9%	740,434	68.8%
Town of Huachuca City	60,167	45.9%	65,341	8.6%	120,803	100.8%
City of Sierra Vista	297,559	74.5%	333,961	12.2%	1,312,454	341.1%
City of Tombstone	97,412	14.8%	108,622	11.5%	127,526	30.9%
City of Willcox	50,011	81.9%	55,778	11.5%	308,707	517.3%
Cocoonino County	6,006,746	5.6%	6,322,727	5.3%	6,701,653	11.6%
Community College	5,094,296	0.0%	5,362,417	5.3%	5,362,417	5.3%
City of Flagstaff	4,195,461	55.7%	4,392,959	4.7%	9,920,898	136.5%
City of Williams	487,714	8.5%	537,845	10.3%	587,645	20.5%
Gila County	17,098,264	29.4%	17,928,132	4.9%	25,387,057	48.5%
Community College	2,437,956	43.8%	2,556,391	4.9%	4,325,376	77.4%
City of Globe	459,570	29.6%	475,396	3.4%	675,088	46.9%
Town of Hayden	675,806	36.8%	762,091	12.8%	1,206,061	78.5%
Town of Miami	142,368	52.0%	151,380	6.3%	315,497	121.6%
Town of Payson	468,279	27.5%	492,629	5.2%	679,167	45.0%
Town of Winkelman	32,000	16.9%	35,393	10.6%	42,592	33.1%
Graham County	1,909,149	47.8%	2,039,361	6.8%	3,909,326	104.8%
Community College	2,206,095	1.5%	2,356,603	6.8%	2,393,564	8.5%
Town of Pima	8,070	74.9%	8,609	6.7%	34,315	325.2%
City of Safford	165,010	22.8%	172,667	4.6%	223,514	35.5%
Town of Thatcher	1,000	98.6%	1,052	5.2%	76,108	7510.8%
Greenlee County	1,252,020	0.0%	1,261,412	0.8%	1,261,412	0.8%
Town of Duncan	11,000	13.1%	11,351	3.2%	13,066	18.8%
La Paz County	3,211,807	40.5%	3,409,669	6.2%	5,739,023	78.7%
Maricopa County	371,224,118	0.0%	398,725,246	7.4%	398,725,246	7.4%
Community College	277,107,904	0.0%	297,640,925	7.4%	297,640,925	7.4%
City of Avondale	1,342,870	0.0%	1,539,050	14.6%	1,556,127	15.9%
Town of Buckeye	1,308,174	60.7%	1,919,785	46.8%	4,897,202	274.4%
City of Chandler	7,139,672	1.2%	7,745,544	8.5%	7,850,970	10.0%
Town of El Mirage	1,306,184	2.0%	1,402,795	7.4%	1,432,342	9.7%
City of Gila Bend	286,786	68.6%	294,894	2.8%	938,999	227.4%
City of Glendale	3,680,000	60.2%	3,876,441	5.3%	9,690,107	163.3%
City of Goodyear	2,973,532	30.0%	3,542,684	19.1%	5,088,997	71.1%
City of Peoria	2,640,883	22.2%	2,929,777	10.9%	3,763,828	42.5%
City of Phoenix	91,311,105	0.0%	96,622,405	5.8%	96,622,405	5.8%
City of Scottsdale	19,399,009	0.0%	20,069,685	3.5%	20,069,685	3.5%
Town of Surprise	4,063,323	0.0%	5,030,601	23.8%	5,030,601	23.8%
City of Tempe	9,413,934	0.0%	9,794,021	4.0%	9,822,845	4.3%
City of Tolleson	1,349,504	0.0%	1,438,677	6.6%	1,461,101	8.3%
Town of Wickenburg	285,562	53.7%	329,435	15.4%	718,612	151.6%
Mohave County	24,002,974	10.7%	26,916,878	12.1%	30,141,705	25.6%
Community College	12,885,257	0.0%	14,449,151	12.1%	14,449,151	12.1%
Lake Havasu City	3,833,252	11.6%	4,256,363	11.0%	4,817,266	25.7%
Navajo County	4,334,090	0.0%	4,577,298	5.6%	4,577,298	5.6%
Northland Pioneer College	8,793,683	8.8%	9,287,601	5.6%	10,184,102	15.8%
City of Holbrook	51,469	78.1%	52,191	1.4%	238,089	362.6%
City of Winslow	255,873	30.5%	260,886	2.0%	375,449	46.7%

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	<u>Actual Levy</u>	<u>Unused Capacity</u>	<u>Session Law - Allowable Levy</u>	<u>Max. % Chg.</u>	<u>Permanent Law - Allowable Levy</u>	<u>Max. % Chg.</u>
Pima County	238,950,803	13.8%	256,916,184	7.5%	298,009,545	24.7%
Community College	64,138,808	0.0%	68,743,998	7.2%	68,743,998	7.2%
City of South Tucson	42,441	17.3%	44,918	5.8%	54,302	27.9%
City of Tucson	9,174,952	0.0%	9,733,050	6.1%	9,733,050	6.1%
Pinal County	54,016,047	46.0%	63,354,388	17.3%	117,270,762	117.1%
Central Arizona College	25,472,401	40.2%	29,876,007	17.3%	49,966,569	96.2%
City of Casa Grande	1,734,928	39.5%	1,917,297	10.5%	3,170,639	82.8%
City of Coolidge	334,085	34.4%	378,559	13.3%	577,422	72.8%
City of Eloy	438,900	6.8%	458,443	4.5%	491,873	12.1%
Town of Florence	275,669	0.0%	292,549	6.1%	292,549	6.1%
Town of Kearney	129,000	39.9%	124,113	-3.8%	206,512	60.1%
Town of Mammoth	48,301	20.3%	46,898	-2.9%	58,811	21.8%
Town of Superior	454,217	3.9%	419,109	-7.7%	436,151	-4.0%
Santa Cruz County	8,743,144	5.3%	9,259,136	5.9%	9,774,622	11.8%
Yavapai County	31,939,000	16.6%	35,412,206	10.9%	42,473,816	33.0%
Community College	27,980,856	0.7%	31,022,615	10.9%	31,245,814	11.7%
Town of Clarkdale	294,317	0.0%	327,383	11.2%	327,383	11.2%
Town of Jerome	50,000	28.9%	53,077	6.2%	74,635	49.3%
City of Prescott	1,048,406	52.2%	1,151,737	9.9%	2,517,161	140.1%
Yuma County	15,723,585	16.3%	17,439,983	10.9%	20,832,995	32.5%
Arizona Western College	16,015,730	25.0%	17,639,450	10.1%	23,532,994	46.9%
City of Yuma	<u>6,560,211</u>	5.2%	<u>7,320,516</u>	<u>11.6%</u>	<u>7,720,000</u>	<u>17.7%</u>
TOTAL	\$1,432,985,971		\$1,551,489,891	8.3%	\$1,742,319,732	21.6%