

**Joint Legislative Budget Committee  
Staff Memorandum**

1716 West Adams  
Phoenix, Arizona 85007

Telephone: (602) 926-5491  
azleg.gov

DATE: March 15, 2016

TO: Senator Don Shooter, Chairman, Senate Appropriations Committee  
Representative Justin Olson, Chairman, House Appropriations Committee  
Senator Debbie Lesko, Chairman, Senate Finance Committee  
Representative Darin Mitchell, Chairman, House Ways and Means Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Deputy Director *SS*  
Hans Olofsson, Chief Economist *HO*

SUBJECT: REVISION OF THE FY 2017 TRUTH IN TAXATION RATES FOR EQUALIZATION ASSISTANCE TO SCHOOL DISTRICTS

Pursuant to A.R.S. §41-1276, the JLBC Staff reported the FY 2017 Truth in Taxation (TNT) adjustments to the statutory K-12 property tax rates on February 16, 2016 (*see attached memo*). Those adjustments were based on levy limit worksheets provided by county assessors on or before February 10, 2016.

The JLBC Staff has since received corrected levy limit worksheets from Greenlee, Maricopa and Pinal County, which change the TNT calculations for FY 2017 by very small amounts. Under the corrected data, statewide existing property values increased by 0.88% rather than 0.91%, whereas new construction growth remained unchanged at 2.29%. As a result of the data revisions, the FY 2017 K-12 Qualifying Tax Rate (QTR) increases from \$4.1576 to \$4.1586 (*see Table 1*). The FY 2017 State Equalization Tax Rate (SETR) increases from \$0.5008 to \$0.5010.

Table 1	K-12 Education Tax Rates		
	<u>Unified QTR</u>	<u>Non-Unified QTR</u>	<u>SETR</u>
FY 2016 Actual	\$4.1954	\$2.0977	\$0.5054
FY 2017 February TNT Memo	4.1576	2.0788	0.5008
FY 2017 March Revision	<u>4.1586</u>	<u>2.0793</u>	<u>0.5010</u>
February to March Revision	<b>\$0.0010</b>	<b>\$0.0005</b>	<b>\$0.0002</b>

The revised TNT rates will have a negligible impact on the FY 2017 K-12 funding formula costs for the Arizona Department of Education.

RS/SSc/HO:kp

xc: Jennifer Thomsen, House  
Michael Madden, House  
Travis Swallow, House  
Eric Figueroa, House

Carolyn Speroni, Senate  
Reed Spangler, Senate  
Jeff Winkler, Senate  
Bill Ritz, Senate

**JLBC**

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FROM: Steve Schimpp, Deputy Director *SS*  
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SUBJECT: FY 2017 TRUTH IN TAXATION RATES FOR EQUALIZATION ASSISTANCE TO SCHOOL DISTRICTS

**Summary**

By February 15 of each year, the JLBC Staff is statutorily required to report the new Truth in Taxation (TNT) adjustments to K-12 local property tax rates for the upcoming fiscal year. This memo describes the fiscal implications of the estimated TNT adjustments and other related technical estimate updates.

The revised property tax estimates are expected to reduce the General Fund cost of Basic State Aid by \$(6,956,500) and increase the General Fund cost of the Homeowner's Rebate by \$1,164,100 for a net decrease of \$(5,792,400) below the FY 2017 JLBC Baseline.

The purpose of TNT is to offset the annual change in the value of existing property statewide, with a proportional change in the statutory K-12 tax rates used to determine state aid to schools. These rate changes are intended to ensure that the total statewide property tax for existing properties remains unchanged despite increased or reduced valuations. Increasing property values usually result in rates falling so that there is no net increase of the property tax.

**Revised February Property Tax Information**

County assessors are required to report their property value estimates for the upcoming fiscal year by February 10<sup>th</sup> of each current year. The FY 2017 JLBC Baseline assumed 1.7% Net Assessed Value (NAV) growth for existing property based on anecdotal information from the counties, but the reported growth is now only 0.91% under revised data. Due to the lower than expected increase in values for existing properties, the JLBC Staff now estimates that the TNT decrease of the K-12 Qualifying Tax Rate (QTR) will be (3.78)¢ for unified and (1.89)¢ for non-unified districts.

TNT also affects the State Equalization Assistance Property Tax Rate (SETR) established in A.R.S. § 15-994. Based on new data from the counties, the SETR in FY 2017 will be \$0.5008 per \$100 NAV, or (0.46)¢ lower than the current rate.

In summary, these existing property changes will have no overall fiscal impact as the lower increase in NAV will be offset by higher TNT rates.

For new construction (rather than existing property), the FY 2017 JLBC Baseline assumed 1.8% growth versus

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2.29% under revised data. Under the revised data, we estimate that the formula savings from new construction NAV growth will be \$(6,956,500) more than the amount assumed in the FY 2017 JLBC Baseline.

**Revised K-12 Formula Cost**

Part of the estimated \$(6,956,500) decrease in Basic State Aid costs would be offset by a reduction in Homeowner’s Rebate expenses, since homeowners would receive a state subsidy on their portion of the estimated \$6,956,500 QTR and SETR increase. The estimated Homeowner’s Rebate cost for this issue is \$1,164,100. This is based on the proportion of homeowner properties in the statewide property tax base (41.3%), the estimated Homeowner’s Rebate percentage for FY 2017 (47.5%), and the proportion of the \$6,956,500 amount attributable to the QTR (85.3%), since the Homeowner’s Rebate does not subsidize SETR taxes.

In total, these adjustments on new property and the Homeowner’s Rebate would decrease the net costs of ADE’s FY 2016 Baseline by \$(1,501,700) (see Table 1 below).

<b>Table 1</b>	
<b>Changes to JLBC Baseline</b>	
	<b>FY 2017</b>
Lower Basic State Aid Cost – new construction	\$(6,956,500)
Additional State Aid (Homeowner’s Rebate) change	<u>1,164,100</u>
<b>Net BSA &amp; ASA TNT Change</b>	<b>\$(5,792,400)</b>

**Background**

Pursuant to A.R.S. § 41-1276, the JLBC Staff is required by February 15 each year to compute and report TNT rates for equalization assistance for the upcoming fiscal year. The TNT rates consist of the QTR and the SETR, both of which are used in the K-12 funding formula.

For FY 2016, the QTR is \$4.1954 for unified school districts and \$2.0977 for elementary and high school districts. The FY 2016 SETR, which applies to all school districts, is \$0.5054.

The purpose of TNT is to offset the statewide appreciation or depreciation of existing property with a commensurate reduction or increase in the QTR and SETR. These rate changes are intended to ensure that the total statewide tax liability (associated with Basic State Aid) for existing properties remains unchanged despite increased or reduced valuations.

**New TNT Rates**

To comply with the TNT law, the QTR has to be adjusted in proportion to the statewide rate of appreciation or depreciation of existing property. The FY 2017 Baseline estimate was based on a FY 2017 QTR of \$4.1234 for unified school districts and \$2.0617 for elementary and high school districts. For SETR, which applies to all property in the state, the FY 2017 Baseline assumed a rate of \$0.4967. By comparison, under the revised existing property growth rate of 0.91%, the TNT calculation yields a FY 2017 QTR of \$4.1576 for unified school districts and \$2.0788 for non-unified school districts and a FY 2017 SETR of \$0.5008.

The differences between the budgeted, revised TNT rates are summarized in Table 2 below.

	K-12 Education Tax Rates		
	<u>Unified QTR</u>	<u>Non-Unified QTR</u>	<u>State Equalization</u>
FY 2016 Actual	\$4.1954	\$2.0977	\$0.5054
FY 2017 Baseline	\$4.1234	\$2.0617	\$0.4967
<b>FY 2017 Revised</b>	<b>\$4.1576</b>	<b>\$2.0788</b>	<b>\$0.5008</b>

Table 2 shows that the JLBC Baseline reduced the QTR rate for unified school districts by approximately (7)¢ from \$4.1954 in FY 2016, to \$4.1234 in FY 2017. The newest data results in the QTR being reduced instead by slightly less than (4)¢ in FY 2017 to \$4.1576. This means that the revised QTR rate is 3¢ higher than under the Baseline.

A.R.S. § 41-1276 requires that if the Legislature proposes a QTR that exceeds the newly calculated FY 2017 TNT rate, the House Ways and Means Committee and the Senate Finance Committee must hold a joint hearing on or before February 28, and publish a notice of that hearing prior to that date. In addition to publishing a TNT notice, the 2 committees must also jointly issue a press release containing the notice. The Legislature cannot adopt a state budget with rates that exceed the TNT rates unless they are approved in a concurrent resolution by a roll call vote of two-thirds of the members in each house.

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