

Joint Legislative Budget Committee Staff Memorandum

1716 West Adams
Phoenix, Arizona 85007

Telephone: (602) 926-5491
Facsimile: (602) 926-5416

DATE: March 11, 2015

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 2016 TRUTH IN TAXATION RATES FOR EQUALIZATION ASSISTANCE TO SCHOOL DISTRICTS

Pursuant to A.R.S. §41-1276, the JLBC Staff reported the FY 2016 Truth in Taxation (TNT) adjustments to the statutory K-12 property tax rates on February 13, 2015 (*see attached memo*). Those adjustments were based on levy limit worksheets provided by county assessors prior to February 15, 2015.

The JLBC Staff has since received corrected levy limit worksheets from Gila and Yavapai County, which change the TNT calculations for FY 2016 by very small amounts. Under the corrected data, existing property values statewide increased by 0.70% rather than 0.69% and the K-12 Qualifying Tax Rate (QTR) decreases to \$4.1954 rather than \$4.1956 (*see Table 1*). The State Equalization Tax Rate (SETR) does not change.

Table 1	K-12 Education Tax Rates		
	<u>Unified QTR</u>	<u>Non-Unified QTR</u>	<u>SETR</u>
FY 2015 Actual	\$4.2246	\$2.1123	\$0.5089
FY 2016 February TNT Memo	4.1956	2.0978	0.5054
<u>FY 2016 March Revision</u>	<u>4.1954</u>	<u>2.0977</u>	<u>0.5054</u>
February to March Revision	\$(0.0002)	\$(0.0001)	\$0.0000

Under the revised numbers, the net cost for Basic and Additional State Aid increases by an estimated \$78,700 relative to the March Budget Plan (*see Table 2*). This change reduces K-12 funding formula costs by \$(1,423,000) rather than \$(1,501,700) relative to the March Budget Plan.

Table 2	
Changes to the FY 2016 JLBC Baseline	
Lower Net Basic & Additional State Aid Cost (2/13 memo)	<u>FY 2013</u> \$(1,501,700)
Cost Increase Based on Revised County Data	<u>78,700</u>
Net Change – Dept. of Education (3/11 revised)	\$(1,423,000)

RS/SSc/HO:kp

xc: Ryan Sullivan, House
Jennifer Thomsen, House
Travis Swallow, House
Brooke White, House
Eric Figueroa, House

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

Joint Legislative Budget Committee Staff Memorandum

1716 West Adams
Phoenix, Arizona 85007

Telephone: (602) 926-5491
Facsimile: (602) 926-5416

DATE: February 13, 2015

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
Hans Olofsson, Chief Economist

SUBJECT: FY 2016 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 \$(1,806,700) and increase the General Fund cost of the Homeowner's Rebate by \$305,000 for a net decrease of \$(1,501,700) below the FY 2016 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 10th of each current year. The FY 2016 JLBC Baseline assumed 1.9% Net Assessed Value (NAV) growth for existing property based on anecdotal information from the counties, but the reported growth is now only 0.69% 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 (2.9)¢ for unified and (1.4)¢ 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 2016 will be \$0.5054 per \$100 NAV, or (0.35)¢ 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 2016 JLBC Baseline assumed 1.70% growth versus 1.73% under revised data. Under the revised data, we estimate that the formula savings from new construction NAV growth will be \$(1,806,700) more than the amount assumed in the FY 2016 JLBC Baseline.

(Continued)

Revised K-12 Formula Cost

Part of the estimated \$(1,806,700) 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 \$1,806,700 QTR and SETR increase. The estimated Homeowner’s Rebate cost for this issue is \$305,000. This is based on the proportion of homeowner properties in the statewide property tax base (41.7%), the estimated Homeowner’s Rebate percentage for FY 2016 (46%), and the proportion of the \$1,806,700 amount attributable to the QTR (88.0%), 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).

Table 1	
Changes to JLBC Baseline	
	<u>FY 2015</u>
Lower Basic State Aid Cost – new construction	\$(1,806,700)
Additional State Aid (Homeowner’s Rebate) change	<u>305,000</u>
Net BSA & ASA TNT Change	\$(1,501,700)

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 2015, the QTR is \$4.2246 for unified school districts and \$2.1123 for elementary and high school districts. The FY 2015 SETR, which applies to all school districts, is \$0.5089.

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 2016 Baseline estimate was based on a FY 2016 QTR of \$4.1460 for unified school districts and \$2.0730 for elementary and high school districts. For SETR, which applies to all property in the state, the FY 2016 Baseline assumed a rate of \$0.4994. By comparison, under the revised existing property growth rate of 0.69%, the TNT calculation yields a FY 2016 QTR of \$4.1956 for unified school districts and \$2.0978 for non-unified school districts and a FY 2016 SETR of \$0.5054.

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 2015 Actual	\$4.2246	\$2.1123	\$0.5089
FY 2016 Baseline	\$4.1460	\$2.0730	\$0.4994
FY 2016 Revised	\$4.1956	\$2.0978	\$0.5054

Table 2 shows that the JLBC Baseline reduced the QTR rate for unified school districts by approximately (8)¢ from \$4.2246 in FY 2015, to \$4.1460 in FY 2016. The newest data results in the QTR being reduced instead by slightly less than (3)¢ in FY 2016 to \$4.1956. This means that the revised QTR rate is 5¢ higher than under the Baseline.

A.R.S. § 41-1276 requires that if the Legislature proposes a QTR that exceeds the newly calculated FY 2016 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.

RS/SSc/HO:kp

xc: Ryan Sullivan, House
Jennifer Thomsen, House
Travis Swallow, House
Brooke White, House
Eric Figueroa, House

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