BILL # SCR 1003 **TITLE:** constitutional amendment; prop 13 Arizona

SPONSOR: Harper **STATUS:** As Introduced

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FISCAL ANALYSIS

Description

The Arizona Constitution limits the annual increase in primary property taxes levied by counties, cities, and community college districts to 2% plus tax revenues from new construction. In addition, the Arizona Constitution provides that a homeowner's primary property tax bill never exceeds 1% of the parcel's limited value. If approved by voters in the 2008 general election, this resolution would repeal the aforementioned provisions, provide new property tax caps, and roll back property values to the values set in tax year (TY) 2003.

Under the property tax caps of SCR 1003, the total amount of all taxes levied on residential and other real (primarily commercial) property cannot exceed 0.5% and 1.0%, respectively, of a parcel's value.

Beginning in TY 2009, the resolution establishes a parcel's "baseline full cash value," which is a property's full cash value (FCV) in TY 2003, or if the parcel was added to the tax rolls after TY 2003, the baseline full cash value is the same as the parcel's purchase price.

Beginning in TY 2010, the FCV of a property is not allowed to increase by more than 2% each year.

Estimated Impact

Beginning in FY 2010, the resolution would roll back property values to the 2003 baseline full cash value described above while simultaneously limiting the taxes levied by all jurisdictions in the state to 0.5% of the value of residential property and 1.0% of the value of other real property. A reliable estimate of this measure requires a district-by-district analysis of valuation and tax levy data, which cannot be completed within the normal two-week response time of a fiscal note. However, a preliminary analysis of statewide data provided by the Department of Revenue (DOR) and the Arizona Tax Research Association (ATRA), as explained under the *Analysis* section below, suggests that the state General Fund cost would be in the hundreds of millions.

Analysis

In FY 2008, all taxing jurisdictions will levy primary and secondary property taxes in the amount of $6.3 billion. These levies are based on a total statewide FCV of $621 billion. If the 0.5% and 1.0% property tax caps under SCR 1003 are applied to the same tax base, it is estimated (based on valuation data provided by DOR) that total tax collections would decline by $(2.2) billion, or 35%. Of this amount, $(1.2) billion would be attributable to school district levies. These estimates do not include the impact of rolling back property values to their 2003 levels, so the calculation above underestimates the impact of the SCR.

Of the total statewide school district levy of $3.45 billion in FY 2008, $2.23 billion is for primary taxes and $1.22 billion for secondary taxes. Of the $2.23 billion in primary taxes, an estimated $1.9 billion is for the qualifying levy, which represents the local share of the K-12 funding formula. Under the education formula, any reduction in the local share must be offset by increased Basic State Aid to school districts. Of the $1.22 billion in secondary taxes, an estimated $730 million is for ongoing bond obligations and $490 million for school district property tax overrides.

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As noted above, under the property tax caps in SCR 1003, FY 2008 school district tax levies would have to be reduced by $(1.2) billion, which would reduce total levies from $3.45 billion to $2.25 billion. While the Legislature would be required to establish a system of property taxation consistent with the provisions in SCR 1003, this analysis assumes for the time being that school districts would have to allocate their reduced levies in a manner that would prioritize the payments of principal and interest on ongoing bond obligations. This means that of the $2.25 billion in available tax revenues, $730 million would be used for debt payments while the remaining $1.52 billion would be used for other purposes. Under this assumption, school districts could raise no more than $1.52 billion in local share property taxes. In comparison, $1.9 billion of K-12 education expenses are currently funded by primary property taxes. This means that the property tax caps would potentially reduce the local share of K-12 funding by about $400 million ($1.9 billion minus $1.52 billion). Under this scenario, the state share of education funding would increase by the same amount, or $400 million.

Note that the example above was only included for illustrative purposes. The estimate did not reflect the effect of a valuation rollback, which would further exacerbate the state General Fund impact. Additionally, since both the tax base and tax levies will likely grow between FY 2008 and FY 2010, when SCR 1003 would become effective, the cost estimate above is further understating the true cost of the proposal.

Local Government Impact

This bill would result in property tax losses for local governments.

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