ARIZONA’S TRUTH IN TAXATION LAW

As real estate values rise year over year, so does the taxable value of the property. Unless there is a commensurate reduction in the tax rate, the amount of property taxes will also increase. The purpose of truth in taxation (TNT) is to prevent this type of tax increase. TNT also serves to make elected officials aware of such a tax increase and allows the public to be notified of the increase and communicate with their elected leaders.

The initial legislation regarding TNT was enacted in 1996.¹ This first phase of TNT legislation required counties, cities and community college districts to provide public notice in a newspaper of general circulation in the proper jurisdiction and hold a public hearing if they intended to raise primary property taxes in excess of the previous year’s levy, plus an amount attributable to new construction. This original enacting legislation followed the passage of Proposition 13 in California, which limited taxes on all property to one percent of acquisition value.

In 1997, the second phase of TNT legislation was enacted adding school districts to the list of taxing jurisdictions that must comply with TNT hearing and notification requirements. Unlike other political subdivisions, school districts operate under budget limits, where the levies are controlled by a statutorily established qualifying tax rate (QTR). Levying the QTR against a district’s assessed value determines the local share necessary to fund the budget equalized by the state. However, schools can access the local property tax base to fund a number of expenditures outside the budget limits, including desegregation, excess utilities, small schools adjustment, adjacent ways and liabilities in excess of the budget, provided that the TNT guidelines are followed.²

The third phase of TNT was completed when, in 1998, the Legislature agreed to offset the increases to property valuation by compensating downward adjustments in tax rates. Specifically, the Legislature adopted a measure requiring itself to offset the increase in

¹ Laws 1996, 7th S.S., Ch. 3
² Laws 1997, Chapter 274
property valuation with adjustments to the QTR for K-12 school districts and the county education rate. These rate reductions are intended to ensure that the total statewide tax liability for existing properties remains unchanged despite increased valuations.\(^3\)

Following the passage of the third phase of TNT statutes, the TNT requirements for school districts were revamped in 1999. That measure established various expenditures in FY 1998-1999 that comprised the base limit against which future proposed expenditures are juxtaposed. The method of comparing proposed property tax levies with preceding years’ property tax levies was also repealed (Laws 1999, Chapter 108).\(^4\)

Laws 2003, Chapter 240 prohibits cities, towns, counties and community college districts from levying or assessing primary property taxes that are higher than the prior year’s if the governing board fails to comply with TNT notice and hearing requirements. The Property Tax Oversight Commission (Commission) is required to determine any TNT violation by a local governing board.\(^5\)

The Joint Legislative Budget Committee (JLBC) is required by February 15 each year to complete and report TNT rates for equalization assistance for the upcoming fiscal year. The TNT rates consist of the QTR and the state equalization assistance property tax rate, of which both are used in the K-12 funding formula. Laws 2006, Chapter 354, sets the state equalization assistance property tax rate at zero, for fiscal years 2006 through 2008.\(^6\) For each fiscal year thereafter, the rate is calculated based on the truth in taxation adjusted rate from the 2005 fiscal year. For FY 2018, the QTR rates are set at $4.0468 per $100 net assessed valuation (NAV) in unified school districts and $2.0234 per $100 NAV in non-unified school districts. The state equalization rate for FY 2018 for all school districts is $0.4875 per $100 NAV and is adjusted each year to offset statewide appreciation or depreciation of property, thereby keeping the property owner’s tax liability consistent. (Please see the JLBC tax handbook for historic QTR and state equalization rates).

In 2015, House Bill 2538 applied the same TNT notice and hearing requirements for increases in primary property tax rates to special taxing districts that levy secondary property taxes, including: 1) county flood control; 2) county free library; 3) county jail; and 4) public health services districts. Timing and publication requirements were outlined in the legislation, as well as an exception to notice and hearing requirements in the event a property tax increase is attributable to new construction. Laws 2016, Chapter 173 implemented a new requirement on community college district, county or municipal tax levies by requiring a tax increase of 15 percent or more from the previous year to be approved by a unanimous roll call vote of the taxing jurisdiction’s governing body, with exception to increases due to new construction.\(^7\,8\)

Laws 2017, Chapter 198 required the Commission to review secondary property tax levies of the special taxing districts listed above in order to determine if any violations of TNT notice and hearing requirements have occurred. The legislation also allowed for these districts to pursue appeals of violations in the same manner as other special taxing districts. Lastly, the legislation made a change to how a TNT notice must read when explaining the effect that a levy would have on an individual property tax bill.\(^9\)

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3 Laws 1998, Chapter 1  
4 Laws 1999, Chapter 108  
5 Laws 2003, Chapter 240  
6 Laws 2006, Chapter 354  
7 Laws 2015, Chapter 128  
8 Laws 2016, Chapter 173  
9 Laws 2017, Chapter 198
Arizona’s Truth in Taxation Law

ADDITIONAL RESOURCES

• Arizona Tax Research Association
  www.arizonatax.org

• Joint Legislative Budget Committee Tax
  Handbook
  www.azleg.gov/jlbc.htm

• Property Tax Oversight Commission

• Arizona TNT Statutes: A.R.S. §§ 15-905.01,
  15-1461.01, 41-1276, et seq.