

ARIZONA STATE SENATE

RESEARCH STAFF



TO: JOINT LEGISLATIVE AUDIT COMMITTEE

DATE: February 5, 2025

SUBJECT: Sunset Review of the Property Tax
Oversight Commission

MOLLY GRAVER

LEGISLATIVE RESEARCH ANALYST

FINANCE COMMITTEE

Telephone: (602) 926 -3171

Attached is the final report of the sunset review of the Property Tax Oversight Commission (PTOC), which was conducted by the Senate Finance Committee of Reference.

This report has been distributed to the following individuals and agencies:

Governor of the State of Arizona

The Honorable Katie Hobbs

President of the Senate

Senator Warren Petersen

Speaker of the House of Representatives

Representative Steve Montenegro

Senate Members

Senator J.D. Mesnard, Chair

Senator Venden "Vince" Leach, Vice Chair

Senator Shawna Bolick

Senator Flavio Bravo

Senator Denise "Mitzi" Epstein

Senator Brian Fernandez

Senator Jake Hoffman

Property Tax Oversight Commission

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Senate Democratic Staff

Senate Research Staff

Office of the Chief Clerk

House Republican Staff

House Democratic Staff

House Research Staff

Senate Finance Committee of Reference
Final Report
Property Tax Oversight Commission

Background

Pursuant to [A.R.S. § 41-2953](#), the Joint Legislative Audit Committee assigned the sunset review of the Property Tax Oversight Commission (PTOC) to the Senate Finance Committee of Reference and the House Ways & Means Committee of Reference.

Established in 1987, the PTOC is responsible for: 1) furthering the public confidence in property tax limitations; 2) providing a uniform methodology for determining such limitations; and 3) providing a continuing review of practices for ensuring a fair and equitable administration of property tax laws. The PTOC monitors the property tax valuations and calculations of all taxing jurisdictions and monitors compliance with the tax levy limits and truth-in-taxation requirements. If the PTOC identifies a violation, the PTOC informs the taxing jurisdiction in writing of the steps to remedy the violation. The taxing jurisdiction may request a hearing to resolve any dispute. The PTOC must meet a least annually and may conduct hearings upon request of a taxing jurisdiction regarding the determination of the jurisdiction's property tax levy limit (A.R.S. §§ [42-17002](#) and [42-17003](#)).

The PTOC is statutorily set to terminate on July 1, 2025, unless legislation is enacted for its continuation ([A.R.S. § 41-3025.08](#)).

Committee of Reference Sunset Review Activity

Pursuant to [A.R.S. § 41-2954](#) the Senate Finance Committee of Reference held a public meeting on Monday, January 27, 2025, to consider the PTOC's responses to the statutorily outlined sunset factors and receive public testimony.

Committee of Reference Recommendations

The Senate Finance Committee of Reference recommended that the PTOC be continued for eight years, until July 1, 2033.

Appendices

1. Meeting Notice
2. Minutes of the Senate Finance Committee of Reference
3. Chairperson's letter requesting the PTOC's response to sunset factors
4. The PTOC's Response to the sunset factors and accompanying materials

ARIZONA STATE SENATE

SENATE FINANCE COMMITTEE OF REFERENCE

Minutes of the Meeting

January 27, 2025

2:05 P.M. or Upon recess of Senate Finance Committee, SHR 1

Members of the public may access a livestream of the meeting here:

<https://www.azleg.gov/videoplayer/?clientID=6361162879&eventID=2025011070>

Members Present:

Senator J.D. Mesnard, Chairman
Senator Venden "Vince" Leach, Vice-Chairman
Senator Shawwna Bolick
Senator Flavio Bravo
Senator Denise "Mitzi" Epstein
Senator Brian Fernandez
Senator Jake Hoffman

Staff:

Molly Graver, Deputy Director of Senate Research, Finance Committee Research Analyst
Kati Pratt, Finance Committee Assistant Research Analyst
Anastasia Lobo, Finance Committee Research Intern

Chairman Mesnard called the meeting to order at 2:12 p.m. and attendance was noted.

SUNSET REVIEW OF THE PROPERTY TAX OVERSIGHT COMMISSION

Presentation by the Property Tax Oversight Commission

Karen Jacobs, Acting Deputy Assistant Director, Arizona Department of Revenue, offered comments related to the sunset review of the Property Tax Oversight Commission.

Public Testimony

No public testimony took place.

Discussion and Recommendation

Senator Leach moved that the Senate Finance Committee of Reference recommend that the Property Tax Oversight Commission be continued for 8 years, until July 1, 2033. The motion CARRIED by voice vote.

SUNSET REVIEW OF THE DEPARTMENT OF INSURANCE AND FINANCIAL INSTITUTIONS

Presentation by the Arizona Office of the Auditor General

Liam VanPelt, Office of the Auditor General, distributed and explained a PowerPoint presentation entitled "Arizona Department of Insurance and Financial Institutions, Performance Audit and Sunset Review" (Attachment A) and answered questions posed by the Committee.

Response by the Department of Insurance and Financial Institutions

Barbara Richardson, Director, Department of Insurance and Financial Institutions (DIFI), distributed and explained a PowerPoint presentation entitled "Arizona Department of Insurance and Financial Institutions (DIFI)" (Attachment B) and answered questions posed by the Committee.

Public Testimony

No public testimony took place.

Discussion and Recommendation

Senator Mesnard offered comments.

Senator Leach moved that the Senate Finance Committee of Reference recommend that the Department of Insurance and Financial Institutions be continued with revisions. The motion CARRIED by voice vote.

Attached is a list noting the individuals who registered their positions on the agenda items (Attachment C).

There being no further business, the meeting was adjourned at 2:49 p.m.

Respectfully submitted,

Jeff Christophersen
Committee Secretary

(Audio recordings and attachments are on file in the Secretary of the Senate's Office/Resource Center, Room 115. Audio archives are available at <http://www.azleg.gov>)

ARIZONA STATE SENATE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

SENATE FINANCE COMMITTEE OF REFERENCE

Date: Monday, January 27, 2025

Time: 2:05 P.M. or Upon Recess of Senate Finance Committee

Place: SHR 1

Members of the public may access a livestream of the meeting here:

<https://www.azleg.gov/videoplayer/?clientID=6361162879&eventID=2025011070>

AGENDA

1. Call to Order
2. Roll Call
3. Sunset Review of the Property Tax Oversight Commission
 - Presentation by the Property Tax Oversight Commission
 - Public Testimony
 - Discussion and Recommendation
4. Sunset Review of the Department of Insurance and Financial Institutions
 - Presentation by the Arizona Office of the Auditor General
 - Response by the Department of Insurance and Financial Institutions
 - Public Testimony
 - Discussion and Recommendation
5. Adjourn

Members:

Senator J.D. Mesnard, Co-Chair
Senator Venden "Vince" Leach, Vice Chair
Senator Shawanna Bolick
Senator Flavio Bravo
Senator Denise "Mitzi" Epstein
Senator Brian Fernandez
Senator Jake Hoffman

01/21/2025
LS

For questions regarding this agenda, please contact Senate Research Department.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Senate Secretary's Office: (602) 926-4231 (voice). Requests should be made as early as possible to allow time to arrange the accommodation.



Arizona State Legislature

1700 West Washington

Phoenix, Arizona 85007

July 22, 2024

Neeraj Deshpande
Property Tax Oversight Commission
1600 W. Monroe Street
Phoenix, AZ 85007

Dear Chairman Deshpande:

The sunset review process prescribed in Title 41, Chapter 27, Arizona Revised Statutes, provides a system for the Legislature to evaluate the need to continue the existence of state agencies. During the sunset review process, an agency is reviewed by legislative committee of reference (COR). On completion of the sunset review, the COR recommends to continue, revise, consolidate or terminate the agency.

The Joint Legislative Audit Committee has assigned the sunset review of the Property Tax Oversight Commission to the COR comprised of members of the Senate Finance and Commerce Committee and the House of Representatives Ways & Means Committee.

Pursuant to A.R.S. § 41-2954, the COR is required to consider certain sunset factors in deciding whether to recommend continuance, modification or termination of an agency. Please provide your agency's response to the factors listed below:

1. The key statutory objectives and purposes in establishing the agency.
2. The agency's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.
3. The extent to which the agency's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.
4. The extent to which rules adopted by the agency are consistent with the legislative mandate.

5. The extent to which the agency has provided appropriate public access to records, meetings and rulemakings, including soliciting public input in making rules and decisions.
6. The extent to which the agency timely investigated and resolved complaints that are within its jurisdiction.
7. The extent to which the level of regulation exercised by the agency is appropriate as compared to other states or best practices, or both.
8. The extent to which the agency has established safeguards against possible conflicts of interest.
9. The extent to which changes are necessary for the agency to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.
10. The extent to which the termination of the agency would significantly affect the public health, safety or welfare.

Additionally, please provide written responses to the following:

1. The extent to which the agency potentially creates unexpected negative consequences that may require additional review by the COR, including increasing the price of goods, affecting the availability of services, limiting the abilities of individuals and businesses to operate efficiently and increasing the cost of government.
2. The extent to which the agency has addressed deficiencies in its enabling statutes.
3. The extent to which the agency has determined whether the Attorney General or any other agency in Arizona has the authority to prosecute or initiate actions.
4. The consequences of eliminating the agency or consolidating it with another agency.

Additionally, statute requires the COR to consider certain factors for each agency that administers an *occupational regulation*, which is defined as: 1) a statute, rule, practice, policy or other state law that allows an individual to use an occupational title or work in a lawful occupation; and 2) a government registration, government certification and occupational or professional license. An *occupational regulation* does not include a business license, facility license, building permit or zoning and land use regulation, except to the extent those state laws regulate an individual's personal qualification to perform a lawful occupation. If your agency falls under this category, please provide written responses to the following:

1. The extent to which the occupational regulation meets the requirements of A.R.S. § 41-3502.
2. The extent to which the failure to regulate a profession or occupation will result in:

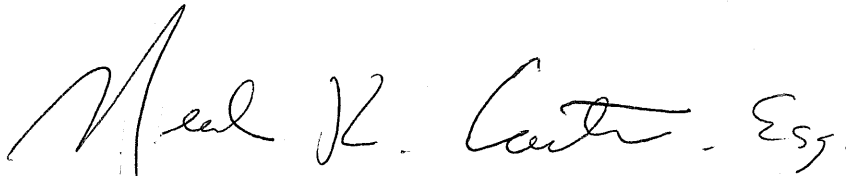
- a. the loss of insurance.
- b. an impact to the ability to practice in other states or as required by federal law.
- c. an impact to the required licensure or registration with the federal government.
- d. the loss of constitutionally afforded practices.

Your response should be received by September 1, so that we may proceed with the sunset review and schedule the required public hearing. Please submit the requested information to:

Vince Perez
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Thank you for your time and cooperation. If you have any questions, please feel free to contact me at 602-926-5761 or Vince Perez, the House Ways & Means Committee Research Analyst, at 602-926-5989.

Sincerely,



Representative Neal Carter

cc: Senator J.D. Mesnard, Senate Finance and Commerce Committee, Chair
Molly Graver, Senate Finance and Commerce Committee, Analyst

WARREN PETERSEN
SENATE PRESIDENT
1700 WEST WASHINGTON, SENATE
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DISTRICT 14



Arizona State Legislature

1700 West Washington
Phoenix, Arizona 85007

BEN TOMA
SPEAKER OF THE HOUSE
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DISTRICT 27

August 1, 2023

Arizona Department of Revenue
1600 West Monroe Street
Phoenix, AZ 85007

Members of the Property Tax Oversight Commission,

In the 2022 legislative session, the Legislature passed and the Governor signed House Bill 2124, a measure to reform the "tuition out" process for high school students in rural Arizona school districts. The measure was supported by rural schools, County School Superintendents, and a broad array of stakeholders in an attempt to simplify and modernize the system of funding for these students. It is our opinion that the changes made to A.R.S §15-992 (F) are unimplementable in its present form.

Historically, high school students residing in an elementary district not within a high school district (Type 03) attended high school in another unified or union high school district via tuition payments. The Type 03 district of residence paid tuition to the district providing education services. This tuition amount was levied as a property tax but the amount was effectively capped when it reached the amount that was produced by the applicable Qualifying Tax Rate (QTR). The remainder was covered by state aid from the general fund. HB 2124 changed this mechanism to a concept where these students simply generate Average Daily Membership (ADM) funding using standard open enrollment procedures.

Clearly, one challenge presented by the reform effort was what to charge property taxpayers in in the Type 03 district of residence going forward. HB 2124 changed A.R.S. § 15-992(F) to require a Type 03 district pay what was described in testimony as a "fair share" levy that mimics the QTR. It requires a district charge a property tax rate based on the number of high schoolers in the Type 03 district multiplied by the average equalization base (school funding) in the county. Not mentioned in the new language is how this new rate comports with the applicable QTR that exists in §15-971 (B). The applicable QTR in FY 2024 for a high school district is \$1.6637.

The Legislature has been made aware that early projections show many Type 03 districts would be forced to levy a rate in §15-992(F) that far exceeds the QTR. Nothing in the legislative record suggests lawmakers or the Governor sought for the law change to create a meaningful property tax increase in rural Arizona or to relieve the State's general fund of its financial burdens. These rates do not comport with the historic equalization formula that is established in §15-971 or §15-992. They also do not comport with the maximum primary school tax rate in §42-17151. Therefore, it is our view that as presently written, §15-992 (F) is not implementable.

It is the intent of legislative leadership to improve and clarify this law during its next regular legislative session so that the new tax rate paid for high schools in Type 03 districts comports with the equalization formula.

Given the present strain between the school district equalization formula and §15-992 (F), we think the only sensible solution for Tax Year 2023/Fiscal Year 2024 is for the Property Tax Oversight Commission (PTOC) is to communicate to County Boards of Supervisors that legislative leadership has declared this provision unimplementable. The PTOC should suggest a method to harmonize state law by assigning proper meaning to the many laws that govern school finance for the adoption of rates for the FY 2024 Type 03 districts. It is our belief that the best option available is for Type 03 districts to levy for grades nine through twelve an amount equal to the lesser of the applicable QTR in §15-971 or the amount calculated in §15-992 (F), depositing the amount as directed in §15-992 (F). We encourage the PTOC to provide guidance to County Supervisors as soon as possible.

Thank you for your time and consideration.

Respectfully,

A handwritten signature in black ink, appearing to read "Ben Toma". The signature is stylized with a large, sweeping "B" and a long horizontal stroke at the end.

Ben Toma
Speaker, Arizona House of Representatives

A handwritten signature in black ink, appearing to read "Warren Petersen". The signature is cursive and flows across the page.

Warren Petersen
President, Arizona Senate

TITLE 15. REVENUE

CHAPTER 12. DEPARTMENT OF REVENUE
PROPERTY TAX OVERSIGHT COMMISSION

(Authority: A.R.S. §§ 42-105 and 42-306)

ARTICLE 1. GENERAL PROVISIONS

Section

- R15-12-101. Definitions
 R15-12-102. Principal Office of the Property Tax Oversight Commission
 R15-12-103. Quorum
 R15-12-104. Hearings
 R15-12-105. Voting
 R15-12-106. Decisions
 R15-12-107. Copying and Recording Costs

ARTICLE 2. PROPERTY TAX LEVY LIMITS

Section

- R15-12-201. Primary Property Tax Calculations
 R15-12-202. Involuntary Tort Judgments
 R15-12-203. Levy Limit Worksheets
 R15-12-204. Political Subdivision Agreement
 R15-12-205. Actual Levies

ARTICLE 3. HEARING AND APPEAL PROCEDURE

Section

- R15-12-301. Notice of Violation
 R15-12-302. Petition
 R15-12-303. Grounds for Petition
 R15-12-304. Manner of Filing
 R15-12-305. Supplementing the Petition
 R15-12-306. Withdrawal of Petition
 R15-12-307. Rescheduling of Hearing
 R15-12-308. Evidence
 R15-12-309. Subpoena
 R15-12-310. Post-Hearing Memoranda
 R15-12-311. Prehearing Issue Resolution
 R15-12-312. Rehearing

ARTICLE 1. GENERAL PROVISIONS

R15-12-101. Definitions

Unless the context requires otherwise, the following definitions shall apply:

1. "Excess collections" means the amount collected during the previous fiscal year in excess of the previous fiscal year's maximum allowable primary property tax levy.
2. "Excess expenditures" means the amount under A.R.S. § 42-17051(C) that is certified by the Auditor General's office.
3. "Quorum" means a majority of the members of the Commission.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).
 Amended by final rulemaking at 6 A.A.R. 4114, effective October 4, 2000 (Supp. 00-4). Amended by final rulemaking at 12 A.A.R. 1096, effective May 13, 2006 (Supp. 06-1).

R15-12-102. Principal Office of the Property Tax Oversight Commission

The principal office of the Property Tax Oversight Commission shall be the Department of Revenue Building, 1600 West Monroe, Phoenix, Arizona 85007. All inquiries, correspondence, and filings shall be delivered to the Property Tax Oversight Commission at this

location. All meetings and hearings shall be held at this location unless designated in writing by the Commission.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

R15-12-103. Quorum

The Commission shall have a quorum for making orders and decisions or transacting other official business, as delineated in A.R.S. § 42-17003.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).
 Amended by final rulemaking at 6 A.A.R. 4114, effective October 4, 2000 (Supp. 00-4).

R15-12-104. Hearings

A quorum of the Commission shall directly conduct all hearings regarding contested cases before the Commission.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3). Section repealed; new Section adopted effective October 10, 1997 (Supp. 97-4).

R15-12-105. Voting

- A. A Commission member may vote on decisions if:
1. The member was present at all hearings during which the matter being voted on was discussed;
 2. The member was not present at all hearings but the member reviewed the evidence submitted at the hearings and attended or listened to tape recordings of all hearings during which the matter being voted on was discussed; or
 3. The parties submitted the matter for a decision based on a joint stipulation of facts.
- B. Any member who dissents may state the reasons for the member's dissent.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3). Section amended effective October 10, 1997 (Supp. 97-4).

R15-12-106. Decisions

- A. A Commission decision is rendered when signed by the Chairman.
- B. Decisions of the Commission shall be sent to the affected political subdivision and the affected County Board of Supervisors.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

R15-12-107. Copying and Recording Costs

- A. The costs of copying shall be paid by the person making the request.
- B. Court reporting arrangements and costs shall be the responsibility of the person employing the court reporter.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

ARTICLE 2. PROPERTY TAX LEVY LIMITS

R15-12-201. Primary Property Tax Calculations

- A. The Commission shall calculate the maximum allowable primary property tax levy limits for political subdivisions as follows:

1. The maximum allowable primary property tax rate shall equal the resulting value of the following rounded to four decimal places:
 - a. 102% of the sum of the previous fiscal year's maximum primary property tax levy divided by;
 - b. the sum of the values provided by the County Assessor's office and the Department for the current year's value of the previous year's centrally assessed, locally assessed real, locally assessed secured personal, and locally assessed unsecured personal property, divided by 100.
 2. The maximum allowable primary property tax levy limit shall equal the sum of the current value of the current year's property as provided by the County Assessor and the Department including centrally assessed, locally real, locally assessed secured personal, and locally assessed unsecured personal property, divided by 100 and multiplied by the maximum allowable primary property tax rate.
 3. Political subdivisions may request that a specific alternative methodology be considered by the Commission. If the Commission determines the alternative methodology will more accurately calculate the levy limit of the political subdivision, such alternative methodology shall be used.
- B.** The Commission shall calculate the allowable primary property tax levy limit by reducing the maximum allowable primary property tax levy limit by the sum of the amount of excess levies, excess collections and excess expenditures.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

R15-12-202. Involuntary Tort Judgments

- A.** A political subdivision that paid an involuntary tort judgment may only use the judgment to:
1. Offset excess collections from the previous fiscal year; or
 2. Justify a primary property tax levy limit being set above the maximum allowable rate in the current fiscal year.
- B.** The Commission shall recognize an involuntary tort judgment if:
1. The judgment is pursuant to a court order or settlement agreement;
 2. The judgment is approved for payment by the political subdivision's governing board;
 3. The Attorney General certifies that the judgment is an involuntary tort judgment; and
 4. The political subdivision submits copies of the court order or settlement agreement and the minutes of the governing board's pay approval to the Commission on or before the 1st Monday of July.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).
Spelling of the word "tort" in subsection (A) corrected (Supp. 94-3). Amended effective October 10, 1997 (Supp. 97-4).

R15-12-203. Levy Limit Worksheets

- A.** The counties shall simultaneously submit copies of the final levy limit worksheets for all political subdivisions in their respective counties to the Commission and the affected political subdivision. The County Assessor shall verify that the copies are true and correct and, if so, certify the copies.
- B.** The counties shall deliver the worksheets to affected political subdivisions and the Commission on or before the 2nd Monday of August.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).
Amended effective October 10, 1997 (Supp. 97-4).

R15-12-204. Political Subdivision Agreement

- A.** If a political subdivision disagrees with the county's final levy limit worksheet calculations, the political subdivision shall, within 10 days of receipt of the county's calculations, file in writing with the Commission a statement of disagreement and the figures it deems appropriate. Failure to act within the 10 days shall be deemed agreement by the political subdivision.
- B.** Upon timely petition of the political subdivision for good cause shown, or on its own motion, the Commission may permit the political subdivision to present objections to specific items at a later date.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).
Amended by final rulemaking at 12 A.A.R. 1096, effective May 13, 2006 (Supp. 06-1).

R15-12-205. Actual Levies

The chief county fiscal officers shall certify and submit to the Commission the amount of the primary property tax levied for each political subdivision within their counties within three days after each levy is determined.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

ARTICLE 3. HEARING AND APPEAL PROCEDURE

R15-12-301. Notice of Violation

The notice of violation shall specify the violations found and the monetary amount in dispute. The notice shall inform the political subdivision of the right to petition on or before October 1 for a hearing on the Commission's finding of violation.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

R15-12-302. Petition

- A.** All objections to the Commission's notice of violation shall be by written petition to the Commission. The petition shall include the following information:
1. Name, title, address, and phone number of the political subdivision's contact person;
 2. A particularized statement of the errors allegedly committed by the Commission in its findings;
 3. A statement of facts upon which the political subdivision relies to support the assignment of errors alleged to have been committed by the Commission;
 4. The relief sought; and
 5. Whether an oral hearing is requested.
- B.** The petition shall be addressed to the Chairman of the Commission.
- C.** The petition shall be in a form that can readily be duplicated on standard office equipment.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

R15-12-303. Grounds for Petition

- A.** Objections to notices of violation shall be limited to disputing the factual findings and conclusions of law of the Commission.
- B.** The Commission shall refuse all petitions not based on a dispute of its factual findings or conclusions of law. Financial impacts on the political subdivision shall not be considered by the Commission in its decision-making.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

R15-12-304. Manner of Filing

- A. An original and six copies of the petition and any supporting memoranda shall be filed with the Chairman.
- B. No fee shall be charged for the filing of any petition or supporting memoranda.
- C. Upon receipt of a petition, the Commission staff shall record the filing of the petition and supporting memoranda.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

R15-12-305. Supplementing the Petition

The Commission may grant a political subdivision's request for an additional period of time, not to exceed 15 days, within which to supplement a timely filed petition. The Commission shall not consider a supplement to the petition that the political subdivision files after the additional period of time granted.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

Amended effective October 10, 1997 (Supp. 97-4).

R15-12-306. Withdrawal of Petition

- A. The petition may be withdrawn at the written request of the political subdivision before a final decision by the Commission is issued.
- B. When the petition is withdrawn, the Commission's finding shall be deemed final and shall not be subject to any further appeal.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

R15-12-307. Rescheduling of Hearing

The Commission may postpone or recess the hearing for good cause shown. The Commission shall specify the date, time, and place for the hearing to continue.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

R15-12-308. Evidence

- A. The political subdivision and the Commission may:
 1. Call and examine witnesses,
 2. Introduce exhibits,
 3. Cross-examine opposing witnesses on any matter relevant to the issues, even though the matter was not covered in the direct examination,
 4. Impeach any witness regardless of which party first called the witness to testify,
 5. Rebut the evidence against it, and
 6. Call and examine as if under cross-examination a party or its employees, agents, or officers.
- B. The Commission shall be liberal in admitting evidence, but the Commission shall consider objections to the admission of and comments on the weakness of evidence in assigning weight to the evidence.
- C. The Commission shall take oral evidence only on oath or affirmation.
- D. Legible copies may be admitted into evidence or substituted in place of the original documents.
- E. The original records and files of the Commission or the Department of Revenue shall not be removed from their offices for use as evidence or for other purposes.
- F. The Commission may take official notice of the records maintained by the Department of Revenue.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

Amended effective October 10, 1997 (Supp. 97-4).

R15-12-309. Subpoena

The Commission may, on request of a party or on its own initiative, issue subpoenas.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

Amended effective October 10, 1997 (Supp. 97-4).

R15-12-310. Post-Hearing Memoranda

If the Commission desires the submission of post-hearing memoranda or information, the Commission shall, at the time of the hearing, direct the parties to submit the post-hearing memoranda or information within a period of time set by the Commission.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

Amended effective October 10, 1997 (Supp. 97-4).

R15-12-311. Prehearing Issue Resolution

If the Commission and a political subdivision agree as to the resolution of some or all of the issues prior to the hearing, the Commission shall stipulate to the agreed issues in the record and shall consider those issues withdrawn. The Commission shall then issue an order of partial resolution that becomes part of the Commission's record. The Commission shall forward copies of the order to the political subdivision, County Assessor and the Department of Revenue.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

Amended effective October 10, 1997 (Supp. 97-4).

R15-12-312. Rehearing

- A. Any party in a contested case before the Commission may file a petition for rehearing or review with the Commission within 30 days after receiving the final decision. The party shall attach a supporting memorandum, specifying the grounds for the petition.
- B. The party who filed the petition for rehearing or review may amend it at any time before the Commission rules. Any other party to the original hearing may file a response within 5 days after the Commission's receipt of the petition for rehearing or review. The party shall support the response with a memorandum discussing the legal and factual issues. Either party or the Commission may request oral argument.
- C. The Commission may grant a rehearing or review of the decision for any of the following causes that materially affect a party's rights:
 1. Irregularity in the administrative proceedings, or any order or abuse of discretion which deprived a party of a fair hearing;
 2. Misconduct of the Commission, its staff, or the prevailing party;
 3. Accident or surprise which could not have been prevented by ordinary prudence;
 4. Newly discovered material evidence which could not with reasonable diligence have been discovered and produced at the original hearing;
 5. Error in the admission or rejection of evidence or other errors of law occurring at the hearing or during the progress of the proceeding; or
 6. The decision is not justified by the evidence or is contrary to law.
- D. The Commission shall not consider the financial impact to the political subdivision as a cause for rehearing.

- E. The Commission may grant a rehearing or review within 15 days after its receipt of the petition for rehearing or review. The Commission may grant a petition for rehearing or review for a reason not stated in the petition. An order modifying a decision or granting a rehearing shall specify the ground or grounds for the order, and any rehearing shall only cover those matters. If the Commission fails to take action on a petition for rehearing or review within 15 days of the Commission's receipt of the petition, the petition shall be deemed denied.
- F. The Commission may on its own initiative order a rehearing or review within 15 days after its decision is rendered for any reason set forth in subsection (C) of this rule. The order shall specify the grounds for rehearing or review.
- G. The petitioner shall include all affidavits with the petition for rehearing or review when the petition for rehearing is based upon affidavits. An opposing party may, within 5 days after the petition for rehearing or review is filed, submit opposing affidavits. The Commission may extend this period for an additional period of time not to exceed 5 days for good cause shown. Reply affidavits may be permitted.

Historical Note

Adopted effective September 14, 1990 (Supp. 90-3).

Amended effective October 10, 1997 (Supp. 97-4).

PROPERTY TAX OVERSIGHT COMMISSION

Arizona Department of Revenue Building



August 30, 2024

Katie Hobbs
Governor

Neeraj Deshpande
Chairman

Representative Neal Carter
Arizona House of Representatives
Committee of Reference Co-Chair
1700 W. Washington
Phoenix, AZ 85007

Jim Brodnax Member	Kevin McCarthy Member
Chris Kelling Member	Vacant Member

Senator J.D. Mesnard
Arizona Senate
Committee of Reference Co-Chair
1700 W. Washington
Phoenix, AZ 85007

RE: Sunset Review of the Property Tax Oversight Commission

The Property Tax Oversight Commission (PTOC) has received your letter dated July 22, 2024 regarding the sunset review process and request for information pursuant to A.R.S. § 41-2954. Responses to the sunset factors outlined in that letter are as follows:

- The key statutory objectives and purposes in establishing the commission.*

As outlined in A.R.S. § 42-17002, the PTOC is established to further the public confidence in property tax limitations, provide a uniform methodology for determining those limitations and provide a continuing review of practices for ensuring a fair and equitable administration of the property tax laws. A governmental body, such as the PTOC, has the statutory authority to identify violations and ensure corrective action has been taken by the political subdivision. For example, tax rates have been reduced to avoid violation penalties or lowered in the following year. Arizona property taxes are complex and the state benefits from the expertise provided by the appointed commission members.
- The commission's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.*

Since January 1, 1988, the effective date of the enabling legislation, the PTOC has effectively carried out the duties prescribed in statute. Property tax levy limits and compliance with truth in taxation hearing requirements have been monitored and reviewed. When errors have been found, political subdivisions were notified of the problem and advised how to correct the error. When fire districts were first subject to levy limits for tax rates adopted in August 2010, staff reached out to districts to provide education and assistance to encourage compliance. Beginning with tax rates adopted in August 2010, PTOC identified from 10 to 25 school districts each year that could not increase their primary tax rate in the following year pursuant to A.R.S. § 42-17151(C). Beginning with tax rates adopted in August 2014, the PTOC was required to review the minimum school tax rates pursuant to A.R.S. § 15-992. Based on this review, the PTOC identified errors and requested corrections in the tax rates that resulted in a savings of \$7.5 million to the state general fund to aid in school finance assistance.
- The extent to which the commission's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.*

There is no other agency or commission that has similar objectives. The PTOC provides an

oversight of the levy limit process. There is no other governmental body that performs such a function. As a result, the continuation of the PTOC does not run the risk of creating government waste by means of duplicative efforts.

4. *The extent to which rules adopted by the commission are consistent with the legislative mandate.*

The PTOC rules, copies attached, are consistent with legislative mandate.

5. *The extent to which the commission has provided appropriate public access to records, meetings and rulemakings, including soliciting public input in making rules and decisions.*
PTOC meeting agendas and minutes are made available on the Arizona Department of Revenue's website. Requests for records can be made to the PTOC staff. The PTOC rules in Title 15, Chapter 12 of the Arizona Administrative Code were initially adopted in 1990. These were reviewed by the Governor's Regulatory Review Council and a hearing was held, as required under Title 41, to allow for public input. Ten rules were amended or newly made in 1997 based on a five-year review report. Additional changes were made in 2000 and 2006 in response to statutory changes and public hearings were held each time. There has been no expected impact on the public.

6. *The extent to which the commission timely investigated and resolved complaints that are within its jurisdiction.*

Political subdivisions that do not agree with the determination of the PTOC have the right to appeal and request a hearing. Procedures for an appeal are set out in the rules. Since the creation of the PTOC, 19 hearings have been held and only three of these cases were appealed to the Superior Court. The most recent hearing, during 2024, involved Coconino Community College's calculation to reset its levy limit per A.R.S. § 42-17056 following voter approval. The College has appealed the Commission's decision to the Superior Court of Arizona.

7. *The extent to which the level of regulation exercised by the commission is appropriate as compared to other states or best practices, or both.*

The level of regulation exercised by the Commission is appropriate. Other states have truth-in-taxation hearing requirements or certified tax rates that are reviewed by a state board of equalization, county assessor's office, department of revenue or similar governmental body. In Arizona, the Commission fulfills this role.

8. *The extent to which the commission has established safeguards against possible conflicts of interest.*

Subject to Arizona's conflict-of-interest provisions under A.R.S. § 38-503, members are required to disclose any potential conflict of interest and to sign conflict-of-interest disclosure forms every year.

9. *The extent to which changes are necessary for the commission to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.*

Much of the PTOC work is embedded into the well-established Property Tax schedule Timelines provided for PTOC staff to gather, review, and seek adjustments to data and provide material for commission review and approval are very tight, considering that this work must be completed within the Property Tax schedule. Currently, A.R.S. 42-17004, in conjunction with A.A.C. R15-12-301 et seq., requires a petitioner to first raise an objection to a notice of violation issued by the PTOC, which is considered by the PTOC, and then—assuming the PTOC affirms

the notice of violation—it requires a petitioner to request a hearing, also before the PTOC, before it can advance its arguments in tax court. The anomaly of having an appeal of the Commission’s action be heard by the Commission itself cannot be overlooked and may be problematic from a due process perspective, under the Arizona Supreme Court’s holding in *Horne v. Polk*, 242 Ariz. 226 (2017).

10. *The extent to which the termination of the commission would significantly affect the public health, safety or welfare.*

Termination of the PTOC would mean that no governmental body is verifying that jurisdictions comply with the Arizona constitutional requirements when they determine their primary property levy amount. Additionally, there would be no verification that jurisdictions publish truth-in-taxation notices when required and hold hearings.

Additional comments requested:

1. *The extent to which the commission potentially creates unexpected negative consequences that may require additional review by the COR, including increasing the price of goods, affecting the availability of services, limiting the abilities of individuals and businesses to operate efficiently and increasing the cost of government.*

The duties of the PTOC include verification that political subdivisions are in compliance with Arizona Constitutional or statutory requirements when adopting property tax levies and rates. Thus, there is no negative consequence resulting from the actions of the PTOC.

2. *The extent to which the commission has addressed deficiencies in its enabling statutes.*

The PTOC dealt with deficiencies in its enabling statutes in 1988 and 1989 through amended legislation to clarify the issues. Legislation in 1988 not only clarified the PTOC’s authority to review 1987 levy limits, but directed the PTOC to hire a consultant to review all levy limits back to 1979. Legislation in 1989 contained many statutory language changes to help the process work more smoothly. In 1999, legislation was successfully sought to eliminate the quarterly meeting requirement.

3. *The extent to which the commission has determined whether the Attorney General or any other agency in Arizona has the authority to prosecute or initiate actions.*

The Attorney General’s Office has assisted the PTOC extensively since its inception. The Attorney General’s Office acted as the PTOC attorney in 17 of the 19 hearings mentioned in paragraph 6 and handled two cases that went on to Superior Court. However, during the Coconino Community College hearing in 2024, the Attorney General’s Office did not provide assistance due to staffing turnover and resource constraints. These realities persist to the present day and raise the question of proper legal representation, especially considering the lack of a budget for the PTOC.

4. *The consequences of eliminating the commission or consolidating it with another agency.*

Eliminating the PTOC could result in the use of inconsistent methods and practices in levying property taxes as well as probable violations of both the truth in taxation hearing requirements and the constitutional levy limits. Consolidating the PTOC with another agency or commission would not simplify the performance of its functions. The PTOC works with the Department of Revenue, which eases the exchange of information such as property values and levy limits. Furthermore, eliminating the PTOC would dispense with a critically important equitable remedy that does not exist elsewhere. Two recent examples illustrate the key role that the PTOC plays in ensuring a workable, fair and just property tax regime in Arizona. One example relates to the treatment of Type 3 school districts. A letter from Legislative leaders dated July

31, 2023, provides an explanation of the issue. A copy of that letter is enclosed for your reference. Had the PTOC not existed, the only viable fix would have been to call a special legislative session, which was not desirable to many impacted stakeholders. As a second example, the lack of enactment of the emergency clause in Laws 2024, Chapter 221 (HB 2909) created a timing quagmire that was swiftly corrected by action of the PTOC. Absent the PTOC's existence and swift action, the result could have been inordinate property tax increases for certain property owners throughout Maricopa County and statewide.

Additional questions regarding occupational regulation do not apply to the PTOC.

If further information is desired, please feel free to contact me at 602-716-6923.

Sincerely,



Karen Jacobs
Registered Lobbyist
Property Tax Oversight Commission

Attachments: Arizona Administrative Code, Title 15, Chapter 12
Legislative Letter dated July 31, 2023

c: Vince Perez, House Ways and Means Committee Research Analyst
Molly Graver, Senate Finance and Commerce Committee, Analyst