

**Joint Legislative Budget Committee
Staff Memorandum**

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DATE: February 15, 2021

TO: Senator David Gowan, Chairman, Senate Appropriations Committee
Representative Regina Cobb, Chairman, House Appropriations Committee
Senator David Livingston, Chairman, Senate Finance Committee
Representative Shawna Bolick, Chairman, House Ways and Means Committee

THRU: Richard Stavneak, Director

FROM: Hans Olofsson, Chief Economist
Patrick Moran, Principal Fiscal Analyst

SUBJECT: FY 2022 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 increase the General Fund cost of Basic State Aid by \$265,100 and reduce the General Fund cost of the Homeowner's Rebate by \$(44,900) for a net increase of \$220,200 above the FY 2022 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

Based on anecdotal information from the counties, the FY 2022 JLBC Baseline assumed Net Assessed Value (NAV) growth for existing property of 2.99%. County assessors are subsequently required to report their property values for the upcoming fiscal year by February 10th of each current year. Based on this new information from the counties, existing property is now estimated to grow by 3.83% in FY 2022.

Due to the higher 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 \$(0.1354) for unified and \$(0.0677) for non-unified districts for FY 2022 relative to FY 2021.

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 2022 will be \$0.4263 per \$100 NAV, or \$(0.0163) 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.

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For new construction (rather than existing property), the FY 2022 JLBC Baseline assumed 2.30% growth. Based on the assessors' latest information, new construction growth was 2.30%, or exactly as projected. Because the QTR and SETR rates are lower for FY 2022 than projected under the Baseline while new construction growth is the same as we projected, property taxes from new construction will generate less revenue than was assumed in the Baseline, thereby increasing the General Fund cost of the K-12 Basic State Aid formula. Under the revised data, we estimate that the General Fund cost of the Basic State Aid formula for FY 2022 will be \$265,100 more than the amount assumed in the FY 2022 JLBC Baseline.

Revised K-12 Formula Cost

Part of the estimated \$265,100 increase in Basic State Aid costs would be offset by savings in Homeowner’s Rebate expenses, since homeowners will receive a state subsidy on their portion of the projected \$(265,100) QTR and SETR decrease. The estimated Homeowner’s Rebate savings for this issue is \$(44,900). This is based on the proportion of new construction assumed to come from new Class 3 properties (homes) in FY 2022, the Homeowner’s Rebate percentage for FY 2022 (47.19%), and the proportion of the \$265,100 amount attributable to the QTR, since the Homeowner’s Rebate does not subsidize SETR taxes.

In total, these adjustments on new property and the Homeowner’s Rebate would increase the net costs of ADE’s FY 2022 Baseline by \$220,200 (see *Table 1* below).

Table 1	
Changes to JLBC Baseline	
	<u>FY 2022</u>
Higher Basic State Aid Cost – new construction	\$265,100
Additional State Aid (Homeowner’s Rebate) change	<u>(44,900)</u>
Net BSA & ASA TNT Change	\$220,200

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 2021, the QTR is \$3.6742 for unified school districts and \$1.8371 for elementary and high school districts. The FY 2021 SETR, which applies to all school districts, is \$0.4426.

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 2022 Baseline estimate was based on a FY 2022 QTR of \$3.5676 for unified school districts and \$1.7838 for elementary and high school districts. For SETR, which applies to all property in the state, the FY 2022 Baseline assumed a rate of \$0.4298. By comparison, under the revised existing property growth rate of 3.83%, the TNT calculation yields a FY 2022 QTR of \$3.5388 for unified school districts and \$1.7694 for non-unified school districts and a FY 2022 SETR of \$0.4263.

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

Table 2	K-12 Education Tax Rates		
	<u>Unified QTR</u>	<u>Non-Unified QTR</u>	<u>State Equalization</u>
FY 2021 Actual	\$3.6742	\$1.8371	\$0.4426
FY 2022 Baseline	\$3.5676	\$1.7838	\$0.4298
FY 2022 Revised	\$3.5388	\$1.7694	\$0.4263

Table 2 shows that the JLBC Baseline reduced the QTR rate for unified school districts by (10.66)¢, from \$3.6742 in FY 2021, to \$3.5676 in FY 2022. The newest data results in the QTR being reduced instead by (13.54)¢ in FY 2022 to \$3.5388. This means that the revised QTR rate is (2.88)¢ lower than under the Baseline.

A.R.S. § 41-1276 requires that if the Legislature proposes a QTR that exceeds the newly calculated FY 2022 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/PM/HO:kp

- xc: Ryan Sullivan, House
- Paulino Valerio, House
- Timothy Grubbs, House
- Vince Perez, House
- Matt Gress, OSPB
- Fletcher Montzingo, Senate
- Sean Laux, Senate
- Liam Maher, Senate
- Molly Graver, Senate