1% Constitutional Property Tax Cap: Background Briefing
California & Prop. 13

- Set off by a run up in assessed values
- Limited property taxes to 1% of the assessed value
- Growth in assessed value is capped at 2% annually

Prop. 13 Passed with 62.6% of the vote
Prop. 13 Starts a Wave

In November 1978 a group called “Citizens for Tax Relief” filed notice to circulate initiative petitions to bring a 1980 constitutional amendment to the ballot in Arizona --- referred to as “Arizona’s Proposition 13”
Arizona Reacts

Babbitt asked to appoint panel to work on state tax reform

PHOENIX (AP) — Senate President Ed Sawyer has called on Gov. Bruce Babbitt to name a special commission to look into the two major tax reform measures introduced during the last legislative session.

Sawyer named a special commission to look into the two major tax reform measures introduced during the last legislative session.

Arizona speaker urges overhaul of state property tax system

PHOENIX (AP) — A major tax overhaul with an effort to link school financing away from property taxes has been proposed by House Speaker Frank Kelley, R-Pye Resst." Kelley said he would work with the Legislative Council today to prepare a joint House and Senate plan for the 10th date for the target date for the

Babbitt wants property-tax lid

PHOENIX (AP) — Homeowners should be given a property-tax relief to remove the sales tax from food is another question, Gov. Bruce Bab- bitt told state tax officials.

"We must return to the home-owners’ property taxes would cost the state $175 million in annual revenue, and removing the four- percent sales tax from food would indeed another $120 million to $140 million," Babbitt said.

"There isn’t a limitless pot," the governor said, warning against "digging ourselves into a hole." The State Department of Revenue and Arizona Association of Assessing Officers sponsored the conference, ending today.

• PLAN

Continued from page 1
rums to the contrary, there has no talk of the council voting in maas to spread the political heat for Fashbaugh and Gillis.

Councilman Ken Asplund, Fashbaugh and Gillis all said they have yet to make up their minds on the rezoning issue. However, Gillis said the specter of a recall election has not affected his thinking. "We’re in a no-win situation, but all I can do is vote the way I feel and let the chips fall," he said.

"The sad thing about it is that the people who need the housing will still be without it."

• PV SUIT

Continued from page 1
The problem, he said, is that the road maintenance has already ceased. The case would set tie the town’s hands on doing the work itself and the roads would continue to deteriorate, he said.

If not for that problem, Jensen said he would be glad to pursue the case for the town. "Frankly it could be a real pay day for us," he said.

Councilman Paul Pollard agreed with Jensen’s assessment and made the motion to approve the settlement offer. "There’s been enough hasty-shatting around on this. I’m convinced we’ve got to go about it," he said.

Governor Babbitt called a special session of the 34th Legislature in November 1979

A total of six tax reform measures, a bill calling for a special election, and 10 ballot referenda were passed before the special session adjourned sine die on April 3, 1980.
Constitutional Changes

On June 3, 1980 voters approved 10 constitutional changes:

- Prop. 100, 101, 102, & 103: added and adjusted exemptions for widows, widowers, veterans, and persons with disabilities
- Prop. 104: adjusted the limit on bonded indebtedness for local jurisdictions
- Prop. 105: clarified provisions related to the state expenditure limit
- Prop. 106: placed a 1% cap on residential properties
- Prop. 107: levy limits for local governments
- Prop. 108 & 109: adds expenditures limits for local governments
The amount of primary property tax that may be levied on a Class 03 residential property is limited to 1% of the property value.

**Example**

For the purposes of primary property taxes:

- A home has an assessed value of $100,000
- Class 03 carries a 10% assessment ratio
- The home’s Net Assessed Value (NAV) is $10,000
- The 1% constitutional cap means the home can only pay $1,000 (1% of $100,000) in taxes
- Tax rates are always per $100 NAV
- The maximum “effective” rate a property can pay is $10 per $100 NAV

\[
\left( \frac{10,000 \text{NAV}}{100} \right) \times \$10 = \$1,000 \text{ tax bill}
\]
The “effective” tax rate is the rate paid after any adjustments pursuant to:

- A.R.S. § 15-971, Equalization Assistance
- A.R.S. § 15-972(B), Homeowners’ Rebate

### Example

For the purposes of primary property taxes:

- School District A’s adopted rate is $4.00
- 15-971 reduces the rate to $3.50
- 15-972(B) reduces the rate to $2.70
- The new “effective” school district rate is $2.70

### Jurisdiction

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Adopted Primary</th>
<th>Effective Primary</th>
</tr>
</thead>
<tbody>
<tr>
<td>County</td>
<td>$3.00</td>
<td>$3.00</td>
</tr>
<tr>
<td>City</td>
<td>$3.00</td>
<td>$3.00</td>
</tr>
<tr>
<td>CCD</td>
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<td>$3.00</td>
</tr>
<tr>
<td>State</td>
<td>$0.50</td>
<td>$0.50</td>
</tr>
<tr>
<td>School Dist.</td>
<td>$4.00</td>
<td>$2.70</td>
</tr>
<tr>
<td>Total</td>
<td>$13.50</td>
<td>$12.20</td>
</tr>
</tbody>
</table>

NOTE: All figures are used for the example only and do not reflect actual rates or tax burdens
If the effective tax rate is still greater than $10, the state reduces the school district rate through an additional payment until the total effective rate is $10 pursuant to A.R.S. § 15-972(E)

**Example**

Using the effective rates to the left:
- A home has an assessed value of $100,000
- The rate reduction under the 1% cap is $2.20
- The state will pay an additional $220 to the school district
- The new “effective” school district rate is $0.50

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Adopted Primary</th>
<th>Effective Primary</th>
<th>After 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>County</td>
<td>$3.00</td>
<td>$3.00</td>
<td>$3.00</td>
</tr>
<tr>
<td>City</td>
<td>$3.00</td>
<td>$3.00</td>
<td>$3.00</td>
</tr>
<tr>
<td>CCD</td>
<td>$3.00</td>
<td>$3.00</td>
<td>$3.00</td>
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<tr>
<td>State</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
</tr>
<tr>
<td>School Dist.</td>
<td>$4.00</td>
<td>$2.70</td>
<td>$0.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13.50</strong></td>
<td><strong>$12.20</strong></td>
<td><strong>$10.00</strong></td>
</tr>
</tbody>
</table>

\[
\text{Additional State 1\% payment} = \left( \frac{(100,000 \times 0.10)}{100} \right) \times 2.20 = 220
\]

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1% Cap Overview: Pre-2016 Cont.

Estimated Cost to the State from 1% Backfill

- **FY 2008**: $1.3 million¹
- **FY 2014**: $10.9 million²
- **FY 2015**: $27.6 million²

2,192% Increase

FY 2016 Executive Proposal

• Cap the State’s Liability at $1 million per County
• Shift the remaining liability to the local jurisdictions (county, cities & towns, community college, and school districts)
• The liability would be allocated based on a jurisdiction’s share of the total tax rate

\[
\text{Example}
\]

<table>
<thead>
<tr>
<th>Total 1% Liability: $1,500,000</th>
<th>Primary rate</th>
<th>Liability Above 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>County</td>
<td>$3.00</td>
<td>$125,000 reduction</td>
</tr>
<tr>
<td>City</td>
<td>$3.00</td>
<td>$125,000 reduction</td>
</tr>
<tr>
<td>Comm. College</td>
<td>$1.50</td>
<td>$62,500 reduction</td>
</tr>
<tr>
<td>Elementary SD(^1)</td>
<td>$2.00</td>
<td>$83,333 reduction</td>
</tr>
<tr>
<td>High School SD(^1)</td>
<td>$2.00</td>
<td>$83,333 reduction</td>
</tr>
<tr>
<td>State</td>
<td>$0.50</td>
<td>$1,020,834 payment</td>
</tr>
<tr>
<td>Total Rate</td>
<td>$12.00</td>
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</tr>
</tbody>
</table>

\[
\text{J}_{\text{Jurisdictional Liability}} = \left( \frac{\text{Jurisdiction rate}}{\text{total rate}} \right) \times 1\% \ \text{liability in excess of $1 million}
\]

\[
\text{County Liability} = \left( \frac{3.00}{12.00} \right) \times 500,000 = 125,000
\]

\(^1\)School district rate after making adjustments pursuant to A.R.S. § 15-971 & § 15-972(B)

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FY 2016 Budget: CSA Interpretation

- Laws 2015 Chapter 15 § 7 (SB 1476) added paragraph (K) to A.R.S § 15-972
- Paragraph (K) caps the state’s 1% liability at $1 million per county and shifts any remaining liability to [qualified] local jurisdictions
- The liability is then proportionally allocated to each [qualified] jurisdiction based on that jurisdiction’s rate compared to the sum of all [qualified] jurisdictions rates

<table>
<thead>
<tr>
<th>Total 1% Liability: $1,500,000</th>
<th>Primary rate</th>
<th>Qualified jurisdictions</th>
<th>Liability 1%</th>
<th>Above 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>County avg: $2.00</td>
<td>$3.00</td>
<td>$3.00</td>
<td>$333,333</td>
<td>reduction</td>
</tr>
<tr>
<td>City avg: $3.50</td>
<td>$3.00</td>
<td>$0</td>
<td>No reduction</td>
<td></td>
</tr>
<tr>
<td>Comm. College avg: $1.30</td>
<td>$1.50</td>
<td>$1.50</td>
<td>$166,667</td>
<td>reduction</td>
</tr>
<tr>
<td>Elementary SD(^1) Not included</td>
<td>$2.00</td>
<td>$0</td>
<td>No reduction</td>
<td></td>
</tr>
<tr>
<td>High School SD(^1) Not included</td>
<td>$2.00</td>
<td>$0</td>
<td>No reduction</td>
<td></td>
</tr>
<tr>
<td>State Not included</td>
<td>$0.50</td>
<td>$0</td>
<td>$1,000,000</td>
<td>payment</td>
</tr>
<tr>
<td>Total Rate</td>
<td>$12.00</td>
<td>$4.50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[\text{Jurisdictional Liability} = \left(\frac{\text{qualified jurisdiction tax rate}}{\text{total qualified tax rate}}\right) \times 1\% \text{ liability in excess of } $1 \text{ million}\]

\[\text{County Liability} = \left(\frac{3.00}{4.50}\right) \times 500,000 = 333,333\]

\(^1\)School district rate after making adjustments pursuant to A.R.S. § 15-971 & § 15-972(B)

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