

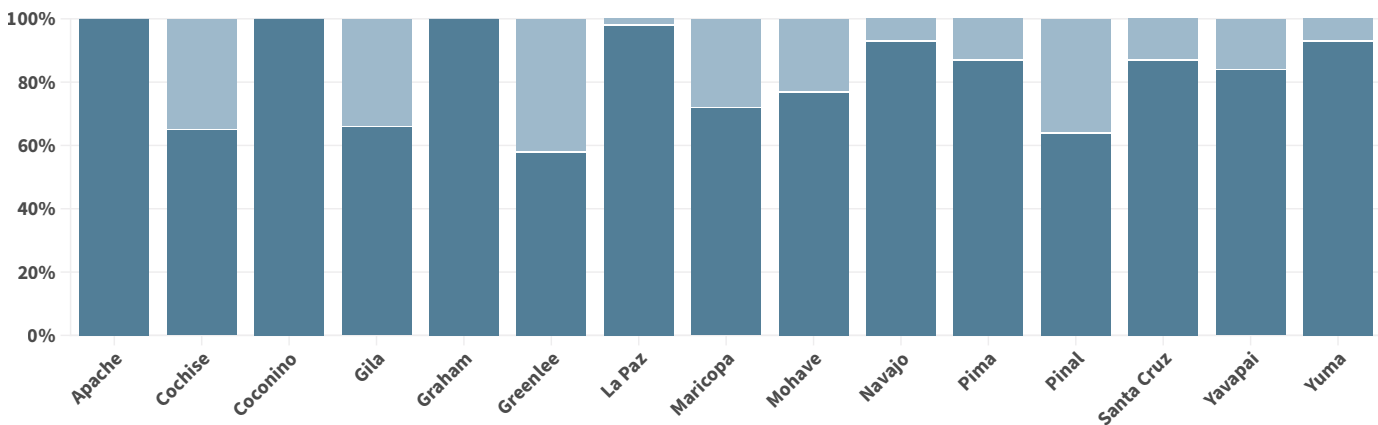
WHAT ARE LEVY LIMITS?

Constitutional levy limits set a cap on how much local governments collect in property taxes. Article 9, Section 19(1) of the Arizona Constitution restricts the annual growth of primary property tax levies by counties, cities, towns, and community college districts to **2% over the prior year's limit, plus additional revenue from taxing new construction**.

Primary property taxes represent a critical component of county funding, comprising an **average of 40% of county general fund revenues in FY 2024¹**. Because levy limits constrict how much property tax revenue can grow by each year, they directly shape counties' ability to fund essential services. **In FY 2025, eight counties utilized more than 85% of their levy limit capacity, leaving limited flexibility to generate additional property tax revenue.¹**

Levy Limit Utilization FY 2025

Levy Limit Utilization Levy Capacity

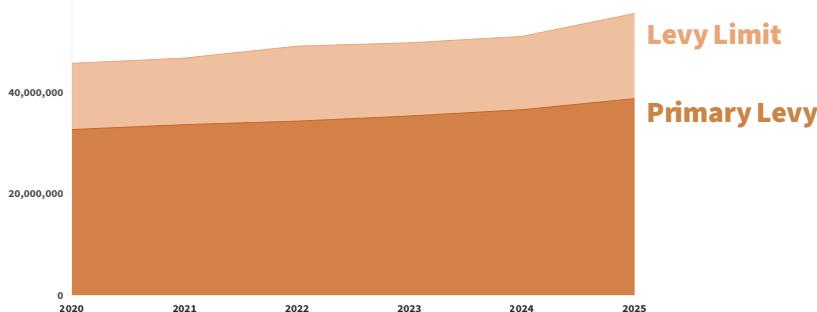


HOW ARE LEVY LIMITS CALCULATED?

A.R.S § 42-17015 (A) outlines how to calculate the maximum allowable primary property tax levy limits for local governments.

$$\text{Levy Limit} = \text{Prior Year Levy Limit} + 2\% + \text{New Construction}$$

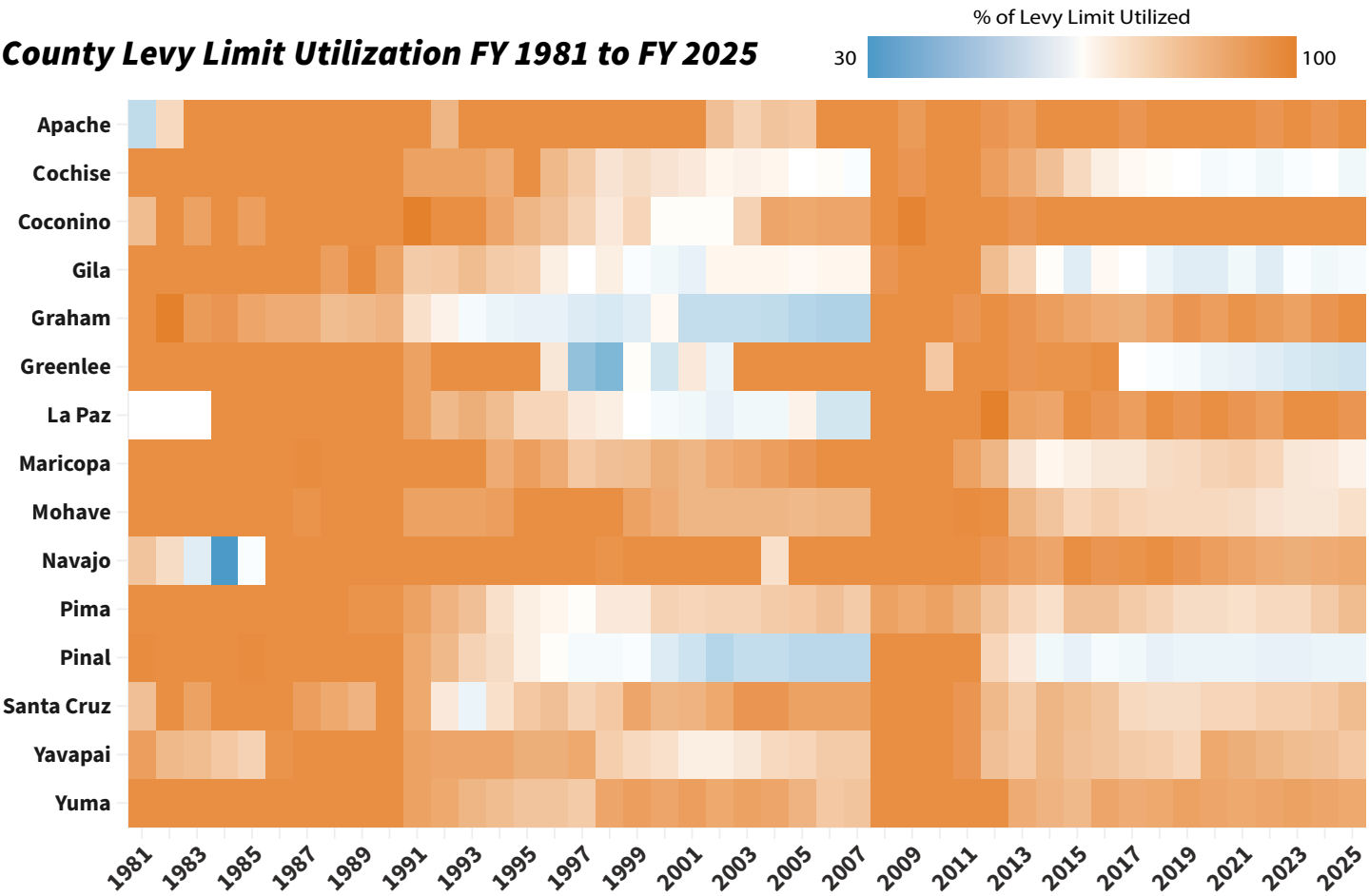
Cochise County Levy Limit Growth FY20 - FY25



Because the limit is calculated each year based on the maximum allowable levy limit from the previous year, **jurisdictions do not lose taxing capacity when they levy less than their limit.**

The maximum allowable primary property tax levy for the current year is calculated by multiplying the prior year's levy limit by a 2% growth factor. This amount is then divided by the net assessed value of property that was subject to taxation in the prior year, expressed per \$100 of assessed valuation, to determine the maximum allowable tax rate, rounded to four decimal places. That rate is applied to the current year's net assessed value, including new construction, to determine the current year's maximum allowable levy. The final levy may be reduced if the county exceeded its allowable levy limit in the previous year.²

County Levy Limit Utilization FY 1981 to FY 2025



WHAT ARE THE PENALTIES FOR EXCEEDING THE LEVY LIMIT?

A.R.S. § 42-17003 through 42-17005 outline the process and penalties counties face when exceeding their maximum allowable levy limit. The Property Tax Oversight Commission (PTOC) is charged with determining whether or not a county has exceeded their allowable limit. If a county is determined to have violated their limit, the PTOC must notify the county in writing.

The county may dispute the violation and request a hearing before the PTOC to resolve the dispute. If the dispute is resolved at the hearing, the PTOC must immediately notify the Board of Supervisors of the proper levy and rate. If the county continues to dispute the findings, they may appeal the matter to a tax court within 30 days after the PTOC renders their decision.

If it is determined that a county exceeded its levy limit, it must **adjust its levy and tax rate to reflect the allowable amount for the current year**. If the notice is received after it is too late to correct the levy in the current year, **the excess amount levied must be placed in a separate fund to reduce the county’s levy in the following year**.

IMPACT OF EXCEEDING THE EXPENDITURE LIMIT ON THE LEVY LIMIT

If a county exceeds its constitutional expenditure limitation without authorization, the county’s **levy limit must be reduced by the amount of the excess expenditures**.³ This reduction is imposed following a hearing conducted by the Auditor General to determine whether a violation occurred. The reduced levy is then used as the basis for calculating the allowable levy in future years. For more information on county expenditure limits, click [here](#).

HOW CAN LEVY LIMITS BE LEGALLY MODIFIED?

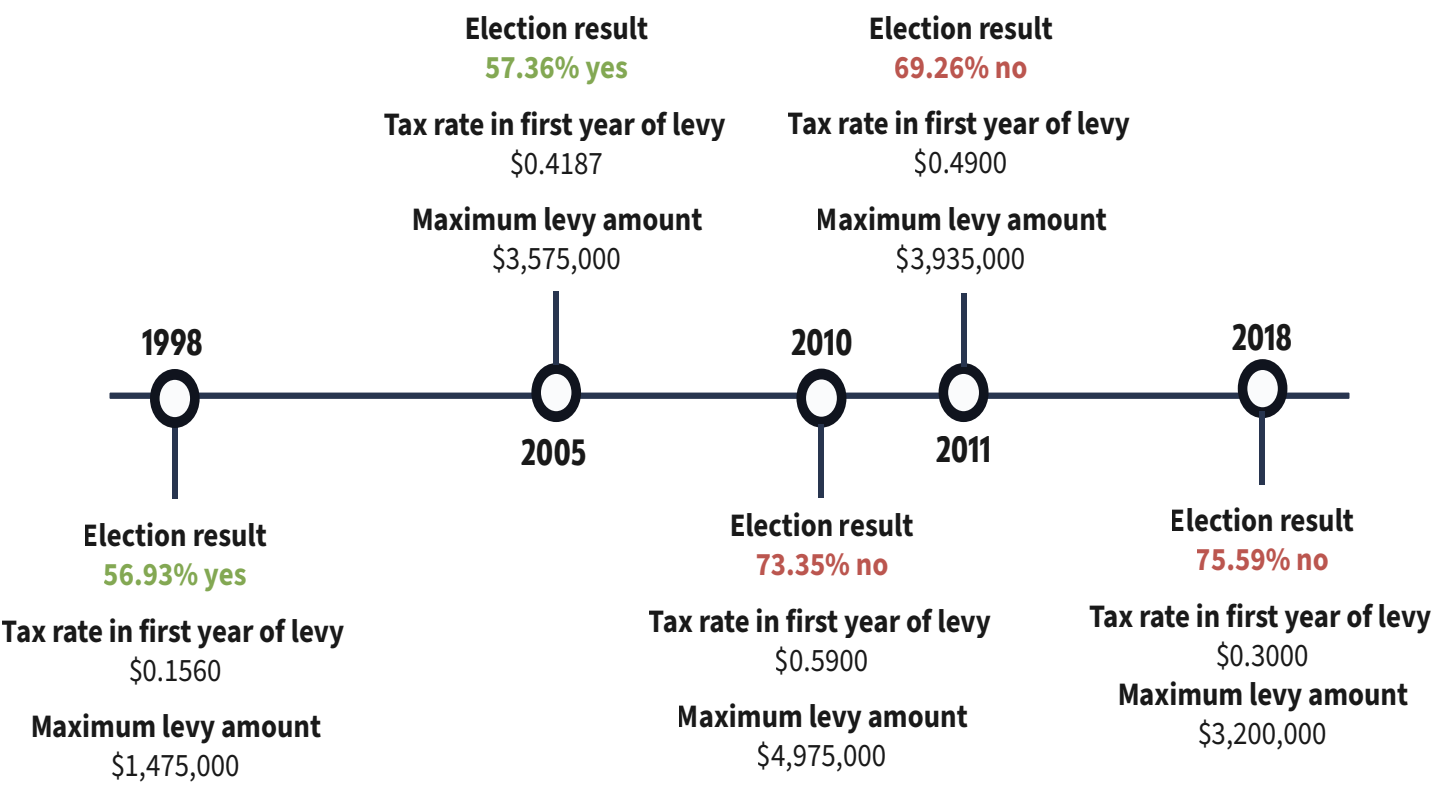
The Board of Supervisors may conduct general or special election in November to authorize a temporary **secondary property tax levy** in excess of the levy limit upon adoption of a resolution by at least two thirds of the Board. The resolution must include:

- The number of years in which the excess levy will be in effect (minimum 2 years, not to exceed 7 years)
- The purpose for providing the revenue to the county
- The maximum amount of secondary property taxes that may be collected in each year if the voters approve the override
- The estimated secondary property tax that will be levied in the first year if the voters approve the override

Monies collected under this authority must be levied as a secondary property tax and are not included in the county’s primary levy limit. Funds may only be used for the specific purposes outlined in the resolution Any unexpended balance must be used to reduce the levy in the following year, and if the authority expires or the balance exceeds future needs, the excess must be applied to reduce the county’s primary property tax levy.⁴

COUNTY LEVY LIMIT OVERRIDE IN PRACTICE

In 1998, Apache County voters approved a levy limit override through a special election, authorizing a secondary property tax beginning in FY 1999 to offset declining General Fund revenues from state-shared sales taxes, county sales taxes, and other sources. In 2005, voters approved an extension of the override until FY 2012. Voters ultimately rejected further extensions of the county’s proposed levy limit override in three separate special elections in 2010, 2011, and 2018.⁵



WHY WERE LEVY LIMITS INITIALLY ESTABLISHED?

Levy limits were first added to the Arizona Constitution in 1980 through Proposition 107, part of a broader tax reform effort in response to California's Proposition 13, which was aimed at controlling state and local government spending.

Arguments For

Intended to reduce property tax burden on homeowners amid rising property values and taxes

Rein in what proponents saw as unchecked government growth⁶

Arguments Against

Established a "base year" for calculating future levy limits, assuming the selected year was representative of typical revenues and expenditures

Ignored economic variability and future growth

Restrictions were inherently inflexible⁷

Result

Measure passed with 83% voting yes

PROPOSITION 107

PROPOSITION 107

TEXT OF PROPOSED AMENDMENT

Be it resolved by the Senate of the State of Arizona, the House of Representatives concurring:

8 The following amendment of article IX, Constitution of Arizona, by adding section 19, is proposed as one ballot proposition to become valid when approved by a majority of the qualified electors voting thereon and upon proclamation by the governor.

19. Limitation on ad valorem tax levied; exceptions

SECTION 19 (1) THE MAXIMUM AMOUNT OF AD VALOREM TAXES LEVIED BY ANY COUNTY, CITY, TOWN OR COMMUNITY COLLEGE DISTRICT SHALL NOT EXCEED AN AMOUNT TWO PER CENT GREATER THAN THE AMOUNT LEVIED IN THE PRECEDING YEAR.

(2) THE LIMITATION PRESCRIBED BY SUBSECTION (1) DOES NOT APPLY TO:

(a) AD VALOREM TAXES OR SPECIAL ASSESSMENTS LEVIED TO PAY THE PRINCIPAL OF AND THE INTEREST AND REDEMPTION CHARGES ON BONDED INDEBTEDNESS OR OTHER LAWFUL LONG-TERM OBLIGATIONS ISSUED OR INCURRED FOR A SPECIFIC PURPOSE.

(b) AD VALOREM TAXES OR ASSESSMENTS LEVIED BY OR FOR PROPERTY IMPROVEMENT ASSESSMENT DISTRICTS, IMPROVEMENT DISTRICTS AND OTHER SPECIAL PURPOSE DISTRICTS OTHER THAN COUNTIES, CITIES, TOWNS AND COMMUNITY COLLEGE DISTRICTS.

(c) AD VALOREM TAXES LEVIED BY COUNTIES FOR SUPPORT OF COMMON, HIGH AND UNIFIED SCHOOL DISTRICTS.

(3) THIS SECTION APPLIES TO ALL TAX YEARS BEGINNING AFTER DECEMBER 31, 1981.

(4) THE LIMITATION PRESCRIBED BY SUBSECTION (1) SHALL BE INCREASED EACH YEAR TO THE MAXIMUM PERMISSIBLE LIMIT, WHETHER OR NOT THE POLITICAL SUBDIVISION ACTUALLY LEVIES AD VALOREM TAXES TO SUCH AMOUNTS.

(5) THE VOTERS, IN THE MANNER PRESCRIBED BY LAW, MAY ELECT TO ALLOW AD VALOREM TAXATION IN EXCESS OF THE LIMITATION PRESCRIBED BY THIS SECTION.

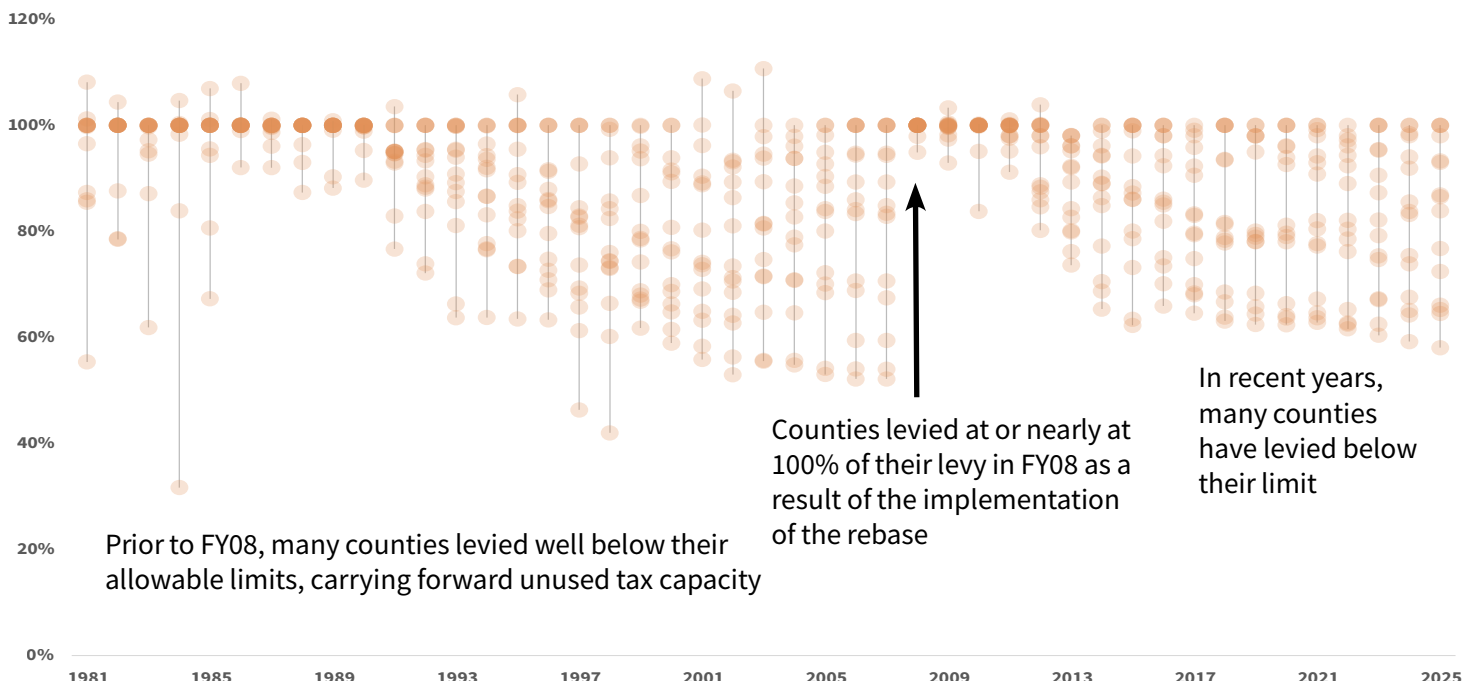
(6) THE LIMITATION PRESCRIBED BY SUBSECTION (1) OF THIS SECTION SHALL BE INCREASED BY THE AMOUNT OF AD VALOREM TAXES LEVIED AGAINST PROPERTY NOT SUBJECT TO TAXATION IN THE PRIOR YEAR AND SHALL BE DECREASED BY THE AMOUNT OF AD VALOREM TAXES LEVIED AGAINST PROPERTY SUBJECT TO TAXATION IN THE PRIOR YEAR AND NOT SUBJECT TO TAXATION IN THE CURRENT YEAR. SUCH AMOUNTS OF AD VALOREM TAXES SHALL BE COMPUTED USING THE RATE APPLIED TO PROPERTY NOT SUBJECT TO THIS SUBSECTION.

(7) THE LEGISLATURE SHALL PROVIDE BY LAW FOR THE IMPLEMENTATION OF THIS SECTION.

HOW HAVE LEGISLATIVE POLICY CHANGES AFFECTED COUNTY LEVY LIMITS?

Since 1980, several changes to state law and the Arizona Constitution have clarified or modified how levy limits are calculated. The most significant change occurred in 2006, when voters approved a rebase of county levy limits, shifting the base year from 1980 to 2005, effective in FY 2008.⁸ **Beginning that year, counties were limited to their 2005 levy amount, plus the standard 2% annual increase and any new construction.** Proponents supported the change due to concerns about rising home values and the potential for sudden increases in property taxes. While counties already taxing near their maximum limit were largely unaffected, those levying below their limit lost their unused tax capacity. **In total, the rebase eliminated over \$131 Million in potential taxing authority for Arizona counties.**⁹

County Levy Limit Utilization FY 1981 to FY 2025



Endnotes



1. According to County FY 2025 Final Adopted Budget Forms
2. A.R.S. § 42-17015 (A)
3. A.R.S. § 41-1279.07 (I)
4. A.R.S. § 42-17201
5. County historic election results retrieved from <https://www.apachecountyaz.gov/Historical-Elections-Results>
6. Retrieved from Arizona Secretary of State June 3, 1980 Voter Publicity Pamphlet & Arizona Secretary of State 1980 Official Canvass
7. “*Analysis of County Government Finances in Arizona*”, The Maguire Company
8. November 2006 Ballot Proposition #101
9. According to JLBC Fiscal Analysis for Ballot Proposition 101