



Arizona State Senate *Issue Brief*

November 7, 2006

Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

ARIZONA'S TRUTH IN TAXATION

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. It 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. 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 passed 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.

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 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 in spite of increased valuations.

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).

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

The Joint Legislative Budget Committee 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 tax years 2006 through 2008. For each tax year thereafter, the rate is calculated based on the truth in taxation adjusted rate from the 2005 tax year. Homeowners will see a reduction in their property tax bills of an estimated \$43 for a home valued at \$100,000.

ADDITIONAL RESOURCES

- Arizona Tax Research Association
www.arizonatax.org
- Joint Legislative Budget Committee Tax Handbook
www.azleg.gov/jlbc.htm