

Assessor Paul Petersen Responds to ATRA's Opposition to HB2253

ATRA OPPOSES HB2253

Assessor's Tax Bill Damages and Undermines Transparency in Arizona's Budget and Tax Laws

HB2253 does nothing to damage or undermine transparency in Arizona's budget and tax laws. However, HB2253 does make a complicated system, easier to understand. It does nothing more than change the date of valuation as it relates to when you receive your tax bill. You will receive, starting in 2018, your value in January and receive your tax bill for that value in September of the same year. What could be simpler to understand that? All other budget and tax laws are unaffected by this bill.

In 1994 the Arizona Legislature passed landmark property tax reform legislation (SB1362) that, for the first time, aligned the property valuation calendar with the state and local budgeting calendar. This legislation was necessary because, prior to 1994, the **final equalized value** (net assessed value) of each jurisdiction was not available until early August – over a month into the new fiscal year. (Arizona state and local budgets operate on a **fiscal year** that begins on July 1st.)

In 2012, the citizens of Arizona passed Prop. 117 overwhelmingly. Prop. 117 was the brainchild of ATRA - they funded it, campaigned for it, and were instrumental in getting it passed. Prop. 117 did two things: 1) it created a single value for taxation purposes by shifting all taxes to the Limited Property Value (LPV). 2) it capped the growth of the LPV to a maximum of 5%, except for new construction or changes to property that exceed 10%. Since all taxes are levied against the LPV, appeals of the Full Cash Value (FCV), and any subsequent reductions due to the appeal process, will have no impact on the LPV. As such, when the LPV numbers are reported on Feb. 10th, the taxing jurisdictions will have the value required to compute the levy. These values shall not change for the official calculation of the levy and tax rates without the approval of PTOC.

Subsequent to the passage of SB1362, several important pieces of legislation were passed that changed the timing of the publication and distribution of the constitutional levy limits of local governments as well as instituting Truth-in-Taxation (TNT) laws in 1996 to create transparency in the tax rate setting process for state and local governments. These laws, and the key dates for their publications, were not possible under the single-year calendar process that existed prior to 1994.

I completely disagree with the claims made in the above passage. The Truth in Taxation system is unaffected by HB2253 and all the requirements under that system still apply. As stated above in my earlier response, the value will be issued on Feb. 10th and that number will be used for taxation purposes.

The following is a list of some of the important budget/property tax statutes and formulas that rely on the **final net assessed values** for their calculation:

- ARS 42-17051 Levy Limit on County, Municipal and Community College Primary Levies

This statute provides the implementation for the constitutional levy limits. The methodology and formula for these levy limits is the same that is used for the state TNT statute as well as the TNT laws that apply to counties, cities, and community colleges. Most notable, these values, which are required to be published by February 10th of the current tax year, are required to be calculated using the “**finally equalized values of all property.**”

This argument is a red herring as HB2253 still requires values to be submitted by Feb. 10th and no other changes are made in the bill.

- ARS 41-1276 State Truth-in-Taxation Calculation for Qualifying Tax Rate (QTR) and the State Equalization Assistance Tax Rate

This statute requires on or before **February 15th** of each year, the JLBC to compute and transmit the TNT rates for all K-12 school districts to the Legislature for use in calculating state aid to schools. The law provides for a public hearing and notice in the newspaper if the Legislature decides to levy rates higher than the TNT rates calculated by JLBC. A two-thirds vote is required of the Legislature to adopt rates higher than the TNT rates.

This is another attempt to mislead as to what HB2253 does. HB2253 makes no changes to this statute, or any of the others, and therefore the requirements of this statute still apply.

- ARS 42-17107 County and City or Town Truth-in-Taxation Formula and Procedures

Using the values provided by the county assessor in ARS 42-17051 (the **final equalized values** required to be published on February 10th) each county and city or town is required to calculate its TNT rate for the upcoming fiscal year. If the governing body elects to exceed the TNT rate it must publish a notice in the newspaper and hold a public hearing to vote to exceed the TNT rate. The deadline to adopt the final budget and conduct a TNT hearing is 14 days **before** taxes are levied (third Monday in August). The public notice and public hearing process of this statute requires counties and cities and towns to calculate the **exact** tax rate that they propose to levy. They are also required to calculate the impact of that proposed tax increase on residential property taxpayers.

HB2253 provides that all appeals are to be completed by June 30th by the State Board of Equalization. That provides more than 60 days for the jurisdictions to comply with this statute. However, since the only changes that will be finalized by this time apply only to the FCV, and the value listed under the LPV remains the same, this statute too remains unchanged by the bill. Again, these values shall not change for the official calculation of the levy and tax rates without the approval of PTOC.

- ARS 15-905.01 K-12 School District TNT Procedures

This statute requires each school district that proposes to increase property taxes over its TNT limit to publish the impact of that tax increase in a newspaper of general circulation. The statute specifically

directs the district to calculate the tax rate increase using values provided by the county assessor on February 10th.

HB2253 still requires values to be submitted by Feb. 10th and these values shall not change for the official calculation of the levy and tax rates without the approval of PTOC and no other changes are made in the bill.

- ARS 15-995 K-12 School District Levy for Adjacent Ways

This statute requires a school district levying for a one-time adjacent ways expenditure to comply with the TNT provisions in ARS 15-905. ARS 15-905 requires the use of the February 10th values published by the county assessor.

HB2253 still requires values to be submitted by Feb. 10th and these values shall not change for the official calculation of the levy and tax rates without the approval of PTOC and no other changes are made in the bill.

- ARS 15-1461.01 Community College Truth-in-Taxation Formula and Procedures

Using the values provided by the assessor in ARS 42-17051 (the **final equalized values** required to be published on February 10th), each community college district is required to calculate its TNT rate for the upcoming fiscal year. If the governing body elects to exceed the TNT rate it must publish a notice in the newspaper and hold a public hearing to vote to exceed the TNT rate.

HB2253 still requires values to be submitted by Feb. 10th and these values shall not change for the official calculation of the levy and tax rates without the approval of PTOC and no other changes are made in the bill.

Arizona uses an ad valorem property tax system that allows state and local elected officials to establish property tax rates within a constitutional and statutory framework that has been developed for over thirty years. In most instances, elected officials are allowed some discretion in determining the property tax rate of their jurisdictions. The annual process of establishing the tax burdens that will be imposed on Arizona property taxpayers demands a level of transparency that allows property taxpayers to engage elected officials in those decisions.

Simply put, a transparent budgeting and tax rate setting process requires public information that both elected officials and taxpayers can rely on. **We agree. HB2253 makes no changes to the current budgeting and tax rate setting system. All HB2253 does is say the same year a Notice of Value is issued, the tax bill will be based on that value, in the same year.** Establishing constitutional levy limits and Truth-in-Tax rates on preliminary values that will always change through the administrative appeals process will create chaos in every effected taxing jurisdiction. **This is a gross misstatement of what HB2253 will do, especially in light of Prop. 117, ATRA's signature piece of legislation.** Whatever benefits might be achieved through using a more updated (and usually higher) property valuation are dramatically offset by the damage done to a state and local budgeting process that has been developed and fine-tuned over the last several decades. **Responding to market conditions in a timely manner is not just some minor**

benefit. Currently, when you pay taxes on the Notice of Value you receive, the data used to generate that value is nearly three years old. This three year lag is a huge weakness in the current system when real estate values drop quickly, as we saw in 2008. When these values drop, the public is disadvantaged because values keep rising, even though the present values are much lower.

The current system is 20 plus years old. Think of all that has changed in the last 20 years – email, computers, smartphones, and technology as a whole. Were the values in 2008 higher or lower? Did this “fine-tuned system” work then? Or did it reveal a gaping hole that needs to be addressed? With the addition of Prop. 117, the sky is falling scenarios ATRA is predicting just don’t stand up to the empirical evidence. HB2253 does nothing more than change when a NOV goes out and its relationship to the tax bill created using that value. All of the other requirements under these statutes are unaffected.

In 13 other states, the one year system has been in place and I am happy to report that those jurisdictions function well. HB2253 is a simple measure designed to make a complicated system, easier to understand for the tax payers and property owners, allows for the Assessors’ to respond to market conditions in a much timelier manner, something that would have benefited the citizens of Arizona in 2008, had it been in place then.

My office and the 14 other county assessors have said all along through this process that we are willing to work with those opposed to address their concerns. HB2253 has a delayed effective date of 2018. During that time, if legitimate concerns are raised that can be addressed; there is ample time to work them out. ATRA is well aware of this process as they had to run clean up legislation in 2013 to address some of the effects of Prop. 117. The difference between the Prop. 117 history and HB2253, is that thus far, all the concerns raised about HB2253 have been addressed with solid factual information and not unsubstantiated suppositions.

One Final Note: ATRA continues to focus on the certification of the roll on the third Monday in August as some sort of negative in the bill. ATRA may not be aware, but at some point, the certification of the roll has to be done to transfer “ownership” of the roll to the various Boards of Supervisors. Currently, that is done on Dec. 20th. All this date in August does is create a date specific for the roll to transfer. It is far better to have the roll transfer in August than sooner, because then the Assessors would then have no authority over the roll, including handling appeals of the NOVs. Once the transfer is made, there technically can’t be any changes to the roll. However, even under the current system, changes are made and approved to the roll now, even after this date.

I urge your support of HB2253.