

OVERVIEW OF ARIZONA STATE PROPERTY TAX SYSTEM IN MARICOPA COUNTY

The following Overview of the Arizona State Property Tax System was prepared by Maricopa County Department of Finance and every effort was made to make sure the information presented was accurate and complete. However, due to the complexity of the subject matter, numerous Arizona Revised Statutes, and authorization per the Arizona Constitution, not all information and resources have been included in the document. As such, interested parties should seek legal or tax advice, as needed.

The State of Arizona utilizes a property tax system which is authorized by the State Constitution, Article 9 (approved by the voters) and the Arizona Revised Statutes (A.R.S.) (approved by the Legislature), A.R.S. 42 (Taxation), Chapters 11-19 (Property Tax). Additional Arizona Constitution information is located at <http://www.azleg.gov/Constitution.asp?Article=9>. The overseeing agency is the Arizona Department of Revenue (AZDOR) which is monitored by the Property Tax Oversight Commission (PTOC), but the implementation is coordinated and performed primarily by county governments.

Arizona has a property tax system with two distinct property values, primary (limited) values and secondary (full cash) values; therefore two separate property taxes, primary and secondary, respectively. Property is assigned to specific classifications for taxation purposes (i.e. agriculture/land, business, commercial, residential, etc.).

Property valuation – The duties of valuing property for tax purposes in Arizona are divided between the AZDOR and the fifteen county assessor's offices. The AZDOR values utilities, airlines, railroads, mines and other geographically dispersed properties often located in more than one county. These properties are typically valued at full cash value for both primary and secondary purposes and are referred to as centrally valued properties (CVP). The values are determined for the entire system and apportioned to the appropriate taxing jurisdictions. The remaining properties, referred to as locally assessed properties and business personal property, are valued in each county by the assessor. In performing this function, the assessors utilize standards and manuals established by the AZDOR as well as Arizona Revised Statutes.

Primary, or limited, values are used for primary property taxes and cannot exceed the full cash value. The limited property value may not increase by more than 10%, or 25% of the difference between the past year's primary value and the new secondary value, whichever is greater (A.R.S. 42-13301). Primary property taxes are used to compute the operation and maintenance of school districts, community college districts and the county. The Arizona Property Tax Assessed Valuation Amendment, also known as Proposition 117, was on the November 6, 2012 general election ballot in the State of Arizona as a legislatively-referred constitutional amendment, where it was approved. As a result, beginning in tax year 2015, the calculation of the Limited Property Value (LPV) will change and there will be a single valuation used for taxation purposes which will be the LPV. The measure limited the annual growth in the limited property value of locally assessed properties, excluding properties which have significant changes from the previous year such as new construction or parcel splits. The formal title of the measure was Senate Concurrent Resolution 1025.

Secondary values are synonymous with the full cash value, or market value, of the property. There is no limit on the amount of growth, since it is based on the current market value. This value is used for secondary property taxes. Secondary taxes are used to compute the obligation of voter approved bonds, budget overrides and special taxing districts such as fire, flood control and other limited purpose districts. The Arizona Property Tax Assessed Valuation Amendment, also known as Proposition 117, was on the November 6, 2012 general election ballot in the State of Arizona as a legislatively-referred constitutional amendment, where it was approved. As a result, beginning in tax year 2015, the calculation of the Limited Property Value (LPV) will change and there will be a single valuation used for taxation purposes which will be the LPV. The measure limited the annual growth in the limited property value of locally assessed

properties, excluding properties which have significant changes from the previous year such as new construction or parcel splits. The formal title of the measure was Senate Concurrent Resolution 1025.

Notice of valuation and appeals - Each property owner receives a "Notice of Value" postcard from the County Assessor prior to March 1st each year (A.R.S. 42-15101). This postcard contains the amount of the full cash value, limited property value and property classification. If taxpayers choose to appeal either the full cash value or classification of a property, they may do so by filing an administrative appeal with the County Assessor or they can appeal directly to the Courts. Details on the appeals process including deadline dates may be found at the County Assessor's web site located at: <http://mcassessor.maricopa.gov/property/appeals/>.

Exemptions – All properties are considered to be taxable unless identified in the Arizona Constitution or A.R.S. as being exempt from taxation, not valuation. The exemptions may be full or partial and are authorized through Article 9, Section 2 of the Arizona Constitution. The qualifications are further detailed in A.R.S. 42-11002, 42-11101-11130, 42-11154-11155, 42-17301. Some examples of exemptions are: property of governmental, educational, charitable, religious and not-for-profit institutions; noncommercial household goods; retailer or wholesaler inventory; and property of widows (partial exemptions). A.R.S. 42-11127 refers to an exemption for commercial personal property up to an amount determined annually by the Arizona Department of Revenue per taxpayer, per location, with an annual increase as indicated by the Gross Domestic Product (GDP) Price Deflator index. Details on the exemption and appeals process, including deadline dates may be found at the County Assessor's web site, <http://mcassessor.maricopa.gov/category/frequently-asked-questions/property-exemptions/>.

Abatements, resolutions and tax judgments – There are two ways of amending the levy: abatement and resolution (A.R.S. 42-18353). Abatements are generally used for small amounts due from previous years with no impact on future taxes. Resolutions are prepared by the County Assessor or County Treasurer Office's when abatements are not appropriate and are approved by the County Assessor, County Treasurer, and the County Board of Supervisors (BOS) and added to the BOS formal meeting agenda as a consent agenda item. When abatements or resolutions are prepared, the levy and tax collections of the appropriate tax years are revised to reflect the changes.

Base for taxation – There are different bases upon which to levy the rates. Each tax base and the type of district that uses it are listed below.

- The assessed value base uses the valuation determined according to A.R.S. and AZDOR guidelines to calculate the tax rate, known as ad valorem (AV). Districts that use the AV base are: County Flood Control, County Library, County Street Light Improvement, electrical, fire, hospital, multi-county water conservation, municipal improvement, municipal street light improvement, power, and sanitary districts.
- The direct to parcel base uses charges determined for the specific parcel with formulas set according to the type of district. Districts that use this base are County Improvement and municipal improvement.
- The acreage base uses the number of acres in a district to determine the tax rate. Irrigation and water conservation and irrigation and water delivery districts use the acreage base.
- The square footage base uses the square footage of the district to determine the tax rate. Some County Street Light Improvement districts use square footage.

Property types – Property is divided into different categories for valuation purposes. Real property is land. Improvements are buildings and other improvements to the land. Personal property includes property of every kind, both tangible and intangible, not included in the term real estate. Personal property taxes are only assessed on commercial personal property in Arizona, with the exception of mobile homes and property with improvements on Government Land.

Property classification – The classification of property for tax purposes establishes different effective assessment rates for distinct types or uses (classes) of property. Classification enables governments to collect separate tax amounts from different types of property. A.R.S. 42-12001-12011, 42-12051 establishes the classifications according to usage and A.R.S. 42-15001-15012 details the assessment ratios for the distinct classes. The assessment ratios, ranging from 1% to 19%, are applied to both the primary and secondary values of a property. All classifications use the same tax rates (with exception of the class 3 reduction rates or “homeowner’s rebate”).

New construction – Property that changes due to new construction, additions or deletions, or changes in use that occur after January 1st of the valuation year may be added to the tax roll through September 30th of the valuation year (A.R.S. 42-15105 and 42-16205).

Property taxes – Property taxes are levied on a calendar year, although Arizona governments budget on a fiscal year. Property values are established by the County Assessor’s Office as of January 1st of the previous year, and the tax rates on those values are set on the third Monday in August of the next year. The total tax rate assessed against a parcel of property is the combination of the primary and secondary tax rates levied by all jurisdictions. Counties, community college districts, cities, local school districts, and special districts have the authority to levy property taxes.

Secondary property taxes are levied to pay for special district levies and voter-approved items, such as bonded indebtedness and school budget overrides.

Primary property taxes fund the maintenance and operation budget of state and local governments. The amount of primary property tax levied by a county, municipality, or community college is limited by statute, referred to as the “levy limit”. A two per cent increase is allowed on the amount that was levied in the preceding year, plus a levy amount for the value of new construction (A.R.S. 42-17051 and HB2876).

Truth in Taxation requires the governing body to publish a notice and hold hearings to alert the public of any increase in their levy from the prior year, excluding the portion attributable to new construction (A.R.S. 42-17107). The property tax rates levied by the local school districts are constrained by statutory school funding formulas. Primary property taxes for primary residence residential property are limited by the Arizona Constitution, Article 9, Section 18 to one per cent of the primary value.

Determining tax rates –

The Basic Formula:	Tax Levy	/	per \$100 of Assessed Valuation	=	Tax Rate
	<i>A</i>	/	<i>B</i>	=	<i>C</i>

A – Tax levies are the budgets, or the revenue required from a property tax. The budgets are developed and approved by each jurisdiction and a copy is sent to the BOS with a copy provided to the Maricopa County Department of Finance (DOF).

B – Assessed valuations are provided on February 10th by the County Assessor’s Office (locally & personal property assessed) and the AZDOR (centrally assessed). In August, the County Assessor’s Office provides the assessment and tax roll (A.R.S. 42-18003) that will be used to produce the County Treasurer’s Tax Billing.

C – Tax rates are determined using the assessed valuations and the required tax levy. However, there are a few instances where the tax rate is fixed and the resulting levy is determined. The assessed value divided by 100 times the tax rate determines the property taxes billed in September.

The total tax rate is a combination of individual district rates. All parcels in Maricopa County have historically had a rate for County (primary and/or secondary), State education equalization, Community College District, County Flood Control District, County Library District, Central Arizona Water Conservation District, Fire District Assistance Tax and the Special Health Care District. Residents of

school districts may have a primary and/or secondary rate for their districts. Residents of a city or town may have a primary and/or secondary rate (not all municipalities levy a property tax). Special district tax rates apply only to property in the specific district.

Tax collection and apportionment of property taxes is the responsibility of the County Treasurer. The County Treasurer bills, collects, and distributes the property taxes to the taxing jurisdictions (County, Cities and Towns, Fire Districts, School Districts, Street Light, Special Districts, etc.).

Qualifying tax rate (QTR) – The qualifying tax rate is a statutory property tax rate used in the school finance formula to determine the mix of equalization assistance and local monies used to fund school districts. The amount of state revenue calculated under this formula is referred to as basic state aid. The purpose is to offset property wealth and cost differences so that each district can finance a target level of spending, thus providing more equalized access to education for all students.

School districts are responsible for adopting an expenditure budget within the guidelines specified by statute. The state school finance formula is then used to provide the revenue necessary to fund this budget. The QTR is determined by statutory formula every year, the full rate for a unified district and half that for elementary or high school districts. The revenue comes from the state and local school district property taxes.

The State Equalization rate is determined by the State and a letter is sent from the Joint Legislative Budget Committee every year (A.R.S. 41-1276).

The class 3 reduction rates or “Homeowners Rebate” provides additional state aid for residential primary school taxes. The State pays 40% of the primary tax rate (not to exceed the QTR), beginning from and after December 31, 2012 as provided by law (A.R.S. 15-972). The total primary property tax rate on residential property (primary residence) cannot exceed 1% (AZ Constitution, Article 9, Section 18) or a \$10 tax rate. If the total primary tax rate exceeds \$10, the school taxes are reduced to derive a \$10 rate and the difference is paid through additional state aid. Property located outside organized school districts is also subject to a property tax of 50% of the QTR for educational purposes (A.R.S. 15-991.01).

COUNTY CONTROLLED BUDGETS AND LEVIES

As required by A.R.S. 42-17052, the February 10th primary and secondary NAV is used for the County, municipalities, community college, school districts, and a few special school districts to calculate the primary levy and tax rates. A.R.S. 42-17101 requires a tentative budget to be set on or before the third Monday in July. The final budget is to be set at least 14 days before the third Monday in August of each year (A.R.S. 42-17104). Listed below are details for five County controlled property tax levies.

County Operating – The County operating levy provides funding for General Fund expenditures. The County primary property tax levy may not exceed the lesser of 1.02% of the prior year’s tax levy or the County levy limit (A.R.S. 42-17051 and HB2876), using primary (limited) property values. The County operating levy is also subject to “truth in taxation” laws (A.R.S. 42-17107).

County Debt Service – Using secondary property values, the County debt service levy provides funding for County bonds. The debt service funding requirements are determined using the debt service schedule, projected year end cash balance for the debt fund, delinquency rates and interest earnings estimates. The voter-approved general obligation bonds were fully repaid in FY 2003-04.

County Flood Control District – The County Flood Control District levy is established during the budgeting process using secondary property values excluding personal property as provided in A.R.S. 48-3620.

County Library District - The County Library District levy is determined during the budgeting process using secondary property values as provided in A.R.S. 48-3903.

County Improvement Districts – County improvement districts are managed by the Office of the Superintendent of Streets (OSoS) via designated personal and resources provided by the Maricopa County Department of Transportation. Their budgets are submitted by District’s Board of Directors’ to the Board of Supervisors for approval and the levy can be direct assessment per parcel, acreage rate bases, parcel frontage, or assessed value. A.R.S. provisions allow specific sets of rules for several different types of special taxing districts under A.R.S. Title 48, Chapter 6. Some of the current county improvement districts (County Board of Supervisors can be deemed the Board of Directors) include: Water Improvement, Sanitary, Community Park Maintenance, Paving, and Street Light Districts. Depending on statutory provisions, a special district assessment may be collected as a secondary tax identified as a special district detail on the tax roll or billed and collected by OSoS twice a year, in May and November.

The Maricopa County OSoS was created to assist the residents by facilitating and administrating consistence establishment of County Improvement Districts under this statute. The districts have different restrictions on how the funds may be used (operations, maintenance, purchase energy or debt service), and the budget filing deadlines vary. The County levies a tax for the district’s budgeted revenue and the County Treasurer collects and distributes the tax funds. Taxes are classified as either specific or ad valorem. Specific taxes are a fixed amount based on a number, or standard measurement (i.e. acreage, dollar amount). Additional information may be found at <http://www.mcdot.maricopa.gov/mcid/index.htm>.

CITIES, SCHOOLS AND OTHER SPECIAL TAXING DISTRICTS (non-county controlled)

Cities and towns have the option of levying property taxes on both primary and secondary valuations. Primary property taxes, subject to levy limit restrictions, are used for operating expenditures and secondary property taxes fund voter approved bonded indebtedness. The primary property tax levy may not exceed the lesser of 1.02% of the prior year’s tax levy or the levy limit (A.R.S. 42-17051 and HB2876).

Municipalities that choose to levy property taxes adopt resolutions or ordinances that are forwarded to the Maricopa County Board of Supervisors (A.R.S. 42-17253). Using the February 10th net assessed values from the County Assessor, the municipality may request a specific tax rate or a specific dollar amount and the appropriate tax rate is calculated. The municipalities determine if they will be subject to Truth in Taxation (A.R.S. 42-17107) and hold hearings accordingly.

After the resolutions or ordinances are received from the municipalities and the calculations are complete, the levy, rate, and net assessed values for both primary and secondary are transmitted to the cities for their review approximately 14 days prior to the third Monday in August.

SCHOOL DISTRICT PRIMARY AND SECONDARY LEVIES

The County’s public school districts, two joint technological education districts (East Valley Institute of Technology (EVIT) and Western Maricopa Education Center (West-MEC)), and the Maricopa County Community College District (MCCCD) rely on property tax as a source of funding. The calculation of property tax levies and tax rates for school districts is the responsibility of the school districts in conjunction with the Maricopa County Education Service Agency (MCESA).

County school districts submit budget requirements to the MCESA. The MCESA calculates tax levies using the budget data from the schools and the bonded indebtedness data maintained by MCESA. Primary tax levies provide funds for maintenance and operation, capital outlay and special improvements. Secondary tax levies provide funds for voter-approved overrides and bonds. Other MCESA calculations which are part of the tax process are equalization assistance for education, additional equalization assistance, and additional state aid for education (class 3 reduction rates or “homeowners rebates”). School budgets are regulated in detail by the A.R.S. under Title 15.

Both EVIT and West-MEC are special taxing districts which use the secondary property value to calculate the rate for both maintenance and operations (M&O) and bond expenditures (A.R.S. 15-393).

MCCCD provides the requirements for both the primary and secondary levies. The MCCCD primary levy is subject to the levy limit provisions in A.R.S. 42-17051.

The State Equalization rate is determined by the State and a letter is sent from the Joint Legislative Budget Committee every year (A.R.S. 41-1276).

SPECIAL DISTRICT LEVIES

Arizona Revised Statutes provides a unique set of rules for several different types of special districts under A.R.S. Title 48. Some of the currently active districts include: fire, irrigation and water delivery, community facilities, municipal street lighting, municipal improvement, electrical, irrigation and water conservation, and sanitary districts. Depending on statutory provision, a special district may use secondary assessed values, acreage or square footage, or a direct assessment as the basis for taxation.

Special districts submit a copy of their budget (as approved by the district board) to the County Clerk of the Board (COB). The County Assessor's Office provides the abstract list of active districts for each tax year. The districts have different restrictions on how the funds may be used (operations and maintenance or debt service), and the budget filing deadlines vary. The County levies a tax for the district's budgeted revenue and the County Treasurer collects and distributes the tax funds. The Special District Summary worksheet includes a summary of the attributes for the special districts with some detail notes regarding specific statutory requirements.

Taxes are classified as either specific or ad valorem. Specific taxes are a fixed amount based on a number, or standard measurement. Ad valorem taxes are based on the value of the property. They require an appraisal of the taxable property. The majority of property taxes are ad valorem using net assessed value.

Citizens, municipalities, the State and the County may create special districts. The process includes submitting petitions, voter approval, selection of officers, approval by the County, and notification to the State. A district may levy a tax only after notifying the County Assessor and the State Department of Revenue of its boundaries by November 1st of the prior year. The AZDOR may grant an extension for filing to February 15 if the district applies for an extension before December 31 (A.R.S. 42-17257).

COUNTY ROLE IN THE PROPERTY TAX CYCLE

The levy, rate, and net assessed value data for all jurisdictions is compiled into the Tax Levy Packet and sent to the Clerk of the Board Office the week prior to the third Monday in August. Based on the amount of taxes to be raised by property taxation determined by each jurisdiction, the Tax Levy Packet calculates the numerical tax rates necessary to raise the requested revenues, and pursuant to the direction of each jurisdiction and as required by statute, the Maricopa County Board of Supervisors levies the amounts of taxes and sets the resulting tax rates for specific statutory purposes. Per statutory requirement, notification of the amount of the primary property tax levied is sent to the Property Tax Oversight Commission (PTOC) and the State Treasurer.

USEFUL WEB SITES

Arizona Constitution

<http://www.azleg.gov/Constitution.asp?Article=9>

Arizona Revised Statutes

<http://www.azleg.state.az.us/ArizonaRevisedStatutes.asp>

Arizona Tax Research Association (ATRA)

<http://www.arizonatax.org/publications/books>

League of Arizona Cities and Towns
<http://www.azleague.org/index.aspx?NID=114>

Maricopa County Assessor
<http://mcassessor.maricopa.gov/category/frequently-asked-questions/property-tax/>

Maricopa County Education Service Company
<http://education.maricopa.gov/site/default.aspx?PageID=196>

Maricopa County Office of the Superintendent of Streets
<http://www.mcdot.maricopa.gov/mcid/index.htm>

Maricopa County Open Books
<http://www.maricopa.gov/openbooks/taxbill.aspx>

Maricopa County Treasurer
<http://treasurer.maricopa.gov/Resources/TaxBill.aspx>
<http://treasurer.maricopa.gov/FAQ/FAQGeneral.aspx>