

Joint Legislative Budget Committee Staff Fiscal Memorandum

1716 West Adams
Phoenix, Arizona 85007

Telephone: (602) 926-5491
azjlbc.gov

DATE: April 18, 2023

TO: Senator John Kavanagh, Chairman, Senate Appropriations Committee
Representative David Livingston, Chairman, House Appropriations Committee
Senator J.D. Mesnard, Chairman, Senate Finance Committee
Representative Neal Carter, Chairman, House Ways and Means Committee

THRU: Richard Stavneak, Director

FROM: Hans Olofsson, Chief Economist
Patrick Moran, Assistant Director

SUBJECT: SECOND REVISION OF THE FY 2024 TRUTH IN TAXATION RATES FOR EQUALIZATION
ASSISTANCE TO SCHOOL DISTRICTS

Pursuant to A.R.S. § 41-1276, the JLBC Staff reported the FY 2024 Truth in Taxation (TNT) adjustments to the statutory K-12 property tax rates on February 15, 2023 (*see attached 2/15/2023 memo*). Those adjustments were based on levy limit worksheets provided by county assessors on or before February 10, 2023.

On March 7, 2023, we issued revised FY 2024 TNT rates and the related Arizona Department of Education's (ADE) cost estimates based on a corrected levy limit worksheet provided by Maricopa County and approved by the Property Tax Oversight Commission (PTOC) on February 28, 2023 (*see attached 3/7/2023 revised memo*).

In early April, Maricopa County informed our office of an additional correction to the February 28th revised levy limit worksheet, which was subsequently approved by PTOC on April 6, 2023. As a result of this most recent data correction, the TNT rates for the FY 2024 K-12 Qualifying Tax Rate (QTR) change by very small amounts. Under the corrected data provided on April 6, 2023, statewide existing property values increased by 3.529% rather than 3.431% and new construction growth increased by 2.353% rather than 2.348%. As a result of the April data revision, the FY 2024 QTR decreases from \$3.3130 to \$3.3098 (*see Table 1*).

Table 1

	K-12 Education Tax Rates	
	<u>Unified QTR</u>	<u>Non-Unified QTR</u>
FY 2023 Actual	\$3.4266	\$1.7133
FY 2024 - February TNT Memo	\$3.3102	\$1.6551
FY 2024 - March Revision	\$3.3130	\$1.6565
<u>FY 2024 - April Revision</u>	<u>\$3.3098</u>	<u>\$1.6549</u>
March to April Revision	\$(0.0032)	\$(0.0016)

The correction of the property data provided in March had the effect of decreasing the net cost for the Arizona Department of Education's FY 2024 K-12 funding formula by \$(5,414,000) relative to the January Baseline. Under the second data correction provided in April, the ADE net savings would increase to \$(5,452,700) due to a small increase in new construction, which amounts to an additional savings of \$(38,700).



RS/PM/HO:kp

Attachment

xc: Sean McCarthy, House
Nicole Lovato, House
Kelsey Jahntz, House
Brenden Foland, House
Austin Fairbanks, House
Vince Perez, House

Fletcher Montzingo, Senate
Sean Laux, Senate
Liam Maher, Senate
Molly Graver, Senate
Sarah Brown, OSPB

Joint Legislative Budget Committee

Staff Memorandum

1716 West Adams
Phoenix, Arizona 85007

Telephone: (602) 926-5491
azleg.gov

DATE: March 7, 2023

TO: Senator John Kavanaugh, Chairman, Senate Appropriations Committee
Representative David Livingston, Chairman, House Appropriations Committee
Senator J.D. Mesnard, Chairman, Senate Finance Committee
Representative Neal Carter, Chairman, House Ways and Means Committee

THRU: Richard Stavneak, Director

FROM: Hans Olofsson, Chief Economist
Patrick Moran, Assistant Director

SUBJECT: REVISION OF THE FY 2024 TRUTH IN TAXATION RATES FOR EQUALIZATION ASSISTANCE TO SCHOOL DISTRICTS

Pursuant to A.R.S. § 41-1276, the JLBC Staff reported the FY 2024 Truth in Taxation (TNT) adjustments to the statutory K-12 property tax rates on February 15, 2023 (*see attached memo*). Those adjustments were based on levy limit worksheets provided by county assessors on or before February 10, 2023.

The JLBC Staff has since received a corrected levy limit worksheet from Maricopa County, which changes the TNT calculation for the FY 2024 K-12 Qualifying Tax Rate (QTR) by very small amounts. Under the corrected data received on February 27, 2023, statewide existing property values increased by 3.43% rather than 3.51% and new construction growth increased by 2.35% rather than 2.27%. As a result of the data revisions, the FY 2024 QTR increases from \$3.3102 to \$3.3130 (*see Table 1*).

Table 1		
K-12 Education Tax Rates		
	<u>Unified QTR</u>	<u>Non-Unified QTR</u>
FY 2023 Actual	\$3.4266	\$1.7133
FY 2024 - February TNT Memo	\$3.3102	\$1.6551
<u>FY 2024 - March Revision</u>	<u>\$3.3130</u>	<u>\$1.6565</u>
February to March Revision	\$0.0028	\$0.0014

The corrected property data and revised TNT rates have the effect of decreasing the net cost for the Arizona Department of Education's (ADE) FY 2024 K-12 funding formula by \$(1,394,500) relative to the February TNT memo. Relative to our January Baseline, ADE's funding formula cost would decline by \$(5,414,000).

RS/PM/HO:kp
Attachment

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JLBC

Joint Legislative Budget Committee

Staff Memorandum

1716 West Adams
Phoenix, Arizona 85007

Telephone: (602) 926-5491
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DATE: February 15, 2023

TO: Senator John Kavanagh, Chairman, Senate Appropriations Committee
Representative David Livingston, Chairman, House Appropriations Committee
Senator J.D. Mesnard, Chairman, Senate Finance Committee
Representative Neal Carter, Chairman, House Ways and Means Committee

THRU: Richard Stavneak, Director

FROM: Hans Olofsson, Chief Economist
Patrick Moran, Assistant Director

SUBJECT: FY 2024 TRUTH IN TAXATION RATES FOR EQUALIZATION ASSISTANCE TO SCHOOL DISTRICTS

Summary

By February 15 of each year, the JLBC Staff is statutorily required to report the new Truth in Taxation (TNT) adjustments to the statutory K-12 local property tax rate known as the "Qualifying Tax Rate" (QTR) for the upcoming fiscal year. The other statutory K-12 property tax rate known as the State Equalization Assistance Tax Rate (SETR) was repealed by Laws 2022, Chapter 317. This memo describes the fiscal implications of the estimated TNT adjustments and other related technical estimate updates.

The revised property tax estimates are expected to decrease the General Fund cost of Basic State Aid by \$(5,359,400) and increase the General Fund cost of the Homeowner's Rebate by \$1,339,900 for a net decrease of \$(4,019,500) below the FY 2024 JLBC Baseline.

The purpose of TNT is to offset the annual change in the value of existing property statewide, with a proportional change in the statutory K-12 tax rate used to determine state aid to schools. This rate change is intended to ensure that the total statewide property tax for existing properties remains unchanged despite increased or reduced valuations. Increasing property values usually result in the tax rate falling so that there is no net increase of the property tax levy.

Revised February Property Tax Information

Based on anecdotal information from the counties, the FY 2024 JLBC Baseline assumed Net Assessed Value (NAV) growth for existing property of 2.98%. County assessors are subsequently required to report their property values for the upcoming fiscal year by February 10th of each current year. Based on this new information from the counties, existing property is now estimated to grow by 3.51% in FY 2024.

Due to the higher-than-expected increase in values for existing properties, the JLBC Staff now estimates that the TNT decrease of the K-12 Qualifying Tax Rate (QTR) will be \$(0.1164) for unified and \$(0.0582) for non-unified districts for FY 2024 relative to FY 2023.

In summary, these existing property changes will have no overall fiscal impact as the higher increase in NAV will be offset by lower TNT rates.

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JLBC

For new construction (rather than existing property), the FY 2024 JLBC Baseline assumed 2.01% growth. Based on the assessors' latest information, new construction growth was 2.27%, or 0.26% higher than projected. We estimate that the 0.26% adjustment will increase the amount of QTR revenues available to cover K-12 Basic State Aid formula expenses by \$5,359,400 in FY 2024. As a result, the General Fund cost of the formula will decrease by a corresponding \$(5,359,400).

Revised K-12 Formula Cost

Part of the estimated \$(5,359,400) in Basic State Aid savings would be offset by costs in Homeowner's Rebate expenses since homeowners will receive a state subsidy on their portion of the projected QTR increase from new construction. The estimated Homeowner's Rebate cost for this issue is \$1,339,900. This is based on the proportion of new construction assumed to come from new Class 3 properties (homes) in FY 2024 and the Homeowner's Rebate percentage for FY 2024 (50.0%).

In total, these adjustments on new property and the Homeowner's Rebate would decrease the net costs of ADE's FY 2024 Baseline by \$(4,019,500) (see *Table 1* below).

Table 1

Changes to JLBC Baseline

	<u>FY 2024</u>
Lower Basic State Aid Cost – new construction	\$(5,359,400)
Additional State Aid (Homeowner's Rebate) change	<u>1,339,900</u>
Net BSA & ASA TNT Change	\$(4,019,500)

Background

Pursuant to A.R.S. § 41-1276, the JLBC Staff is required by February 15 each year to compute and report TNT rate for equalization assistance for the upcoming fiscal year to you. The TNT rate consists of the Qualifying Tax Rate (QTR) used in the K-12 funding formula. For FY 2023, the QTR is \$3.4266 for unified school districts and \$1.7133 for elementary and high school districts.

The purpose of TNT is to offset the statewide appreciation or depreciation of existing property with a commensurate reduction or increase in the QTR. This rate change is intended to ensure that the total statewide tax liability (associated with Basic State Aid) for existing properties remains unchanged despite increased or reduced valuations.

New TNT Rates

To comply with the TNT law, the QTR must be adjusted in proportion to the statewide rate of appreciation or depreciation of existing property. The FY 2024 Baseline estimate was based on a FY 2024 QTR of \$3.3274 for unified school districts and \$1.6637 for elementary and high school districts. By comparison, under the revised existing property growth rate of 3.51%, the TNT calculation yields a FY 2024 QTR of \$3.3102 for unified school districts and \$1.6551 for non-unified school districts.

The differences between the budgeted, revised TNT rates are summarized in *Table 2* below.

Table 2

K-12 Education Tax Rates

	<u>Unified QTR</u>	<u>Non-Unified QTR</u>
FY 2023 Actual	\$3.4266	\$1.7133
FY 2024 Baseline	\$3.3274	\$1.6637
FY 2024 Revised	\$3.3102	\$1.6551

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Table 2 shows that the JLBC Baseline reduced the QTR rate for unified school districts by (9.92)¢, from \$3.4266 in FY 2023, to \$3.3274 in FY 2024. The newest data results in the QTR being reduced instead by (11.64)¢ in FY 2024 to \$3.3102. This means that the revised QTR rate is (1.72)¢ lower than under the Baseline.

A.R.S. § 41-1276 requires that if the Legislature proposes a QTR that exceeds the newly calculated FY 2024 TNT rate, the House Ways and Means Committee and the Senate Finance Committee must hold a joint hearing on or before February 28 and publish a notice of that hearing prior to that date. In addition to publishing a TNT notice, the 2 committees must also jointly issue a press release containing the notice. The Legislature cannot adopt a state budget with rates that exceed the TNT rates unless they are approved in a concurrent resolution by a roll call vote of two-thirds of the members in each house.

RS/PM/HO:kp

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