

Joint Legislative Budget Committee Staff Fiscal Memorandum

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DATE: February 15, 2024

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

THRU: Richard Stavneak, Director

FROM: Patrick Moran, Deputy Director
Benjamin Newcomb, Senior Economist

SUBJECT: FY 2025 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. 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 \$(11,146,200) and increase the General Fund cost of the Homeowner's Rebate by \$2,786,500 for a net decrease of \$(8,359,700) below the FY 2025 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 2025 JLBC Baseline assumed Net Assessed Value (NAV) growth for existing property of 2.94%. 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 3.89% in FY 2025.

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 \$(0.1238) for unified and \$(0.0619) for non-unified districts for FY 2025 relative to FY 2024.

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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For new construction (rather than existing property), the FY 2025 JLBC Baseline assumed 2.10% growth. Based on the assessors' latest information, new construction growth was 2.61%, or 0.51% higher than projected. We estimate that the 0.51% adjustment will increase the amount of QTR revenues available to cover K-12 Basic State Aid formula expenses by \$11,146,200 in FY 2025. As a result, the General Fund cost of the formula will decrease by a corresponding \$(11,146,200).

Revised K-12 Formula Cost

Part of the estimated \$(11,146,200) 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 \$2,786,500. This is based on the proportion of new construction assumed to come from new Class 3 properties (homes) in FY 2025 and the Homeowner’s Rebate percentage for FY 2025 (50.0%).

In total, these adjustments on new property and the Homeowner’s Rebate would decrease the net costs of ADE’s FY 2025 Baseline by \$(8,359,700) (see *Table 1* below).

Table 1	
Changes to JLBC Baseline	
	<u>FY 2025</u>
Lower Basic State Aid Cost – new construction	\$(11,146,200)
Additional State Aid (Homeowner’s Rebate) change	<u>2,786,500</u>
Net BSA & ASA TNT Change	<u>\$(8,359,700)</u>

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 2024, the QTR is \$3.3098 for unified school districts and \$1.6549 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 2025 Baseline estimate was based on a FY 2025 QTR of \$3.2152 for unified school districts and \$1.6076 for elementary and high school districts. By comparison, under the revised existing property growth rate of 3.89%, the TNT calculation yields a FY 2025 QTR of \$3.1860 for unified school districts and \$1.5930 for non-unified school districts.

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

	K-12 Education Tax Rates	
	<u>Unified QTR</u>	<u>Non-Unified QTR</u>
FY 2024 Actual	\$3.3098	\$1.6549
FY 2025 Baseline	\$3.2152	\$1.6076
FY 2025 Revised	<u>\$3.1860</u>	<u>\$1.5930</u>

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Table 2 shows that the JLBC Baseline reduced the QTR rate for unified school districts by (9.46)¢, from \$3.3098 in FY 2024, to \$3.2152 in FY 2025. The newest data results in the QTR being reduced instead by (12.38)¢ in FY 2025 to \$3.1860. This means that the revised QTR rate is (2.92)¢ lower than under the Baseline.

A.R.S. § 41-1276 requires that if the Legislature proposes a QTR that exceeds the newly calculated FY 2025 TNT rate, the House Ways and Means Committee and the Senate Finance and Commerce 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

xc:	Sean McCarthy, House	Duncan Spilsbury, Senate
	Nicole Lovato, House	Sean Laux, Senate
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