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TAXATION SEMINAR NO. 2

TAX IMPACTS

presented to the Arizona Legislature

July 30, 1979

PREFACE

This report is designed to present information and analysis of the following subjects:

1. Impacts and issues of a Proposition 13 type measure in Arizona,

2. Alternative property tax relief mechanisms,

3. Options for relieving the sales tax on food purchases,

4. Alternative revenue sources.

It should be stressed that the estimates of revenue impacts presented in this report are preliminary and therefore subject to further refinement.

I. OVERVIEW OF REVENUE RELIANCE*

Figure 1 displays the distribution of revenue sources for all state and local governments in 1977. It shows that property taxes comprise the largest source of revenues for state and local governments, accounting for 31% of total revenue.

FIGURE 1

1977 Combined State and Local Government Revenue

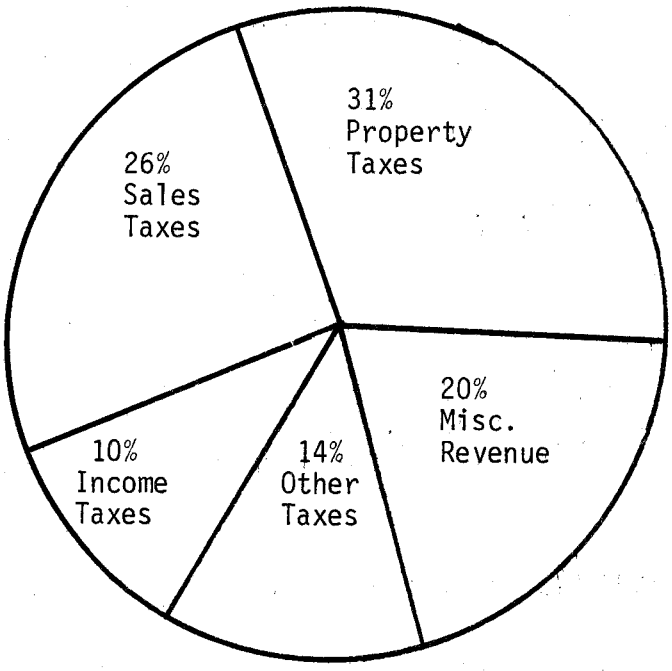


Figure 2 shows local governments' dependence on revenue sources. For all local governments in Arizona, the property tax accounts for 59%.

*The discussion presented here is taken from Chapter III of Taxation in Arizona: An Overview

FIGURE 2

1977 Local Government Revenue

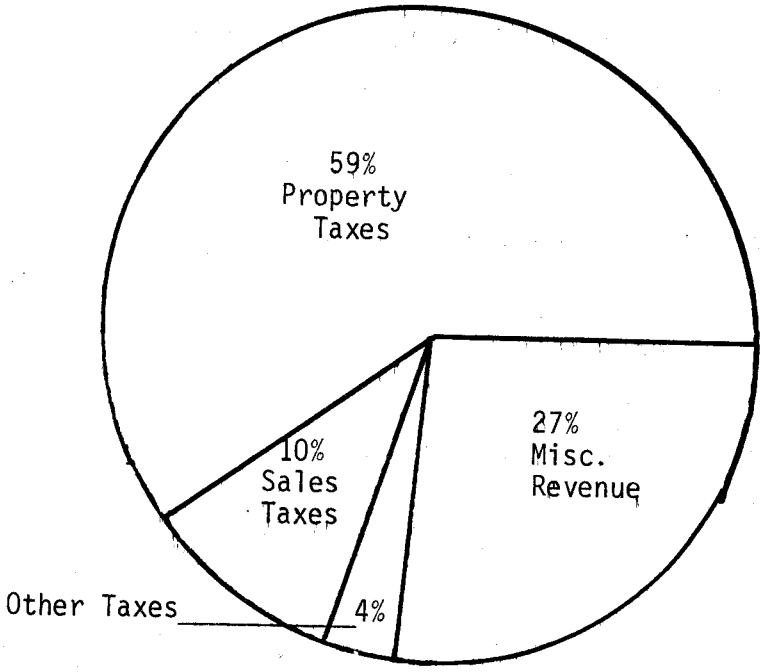
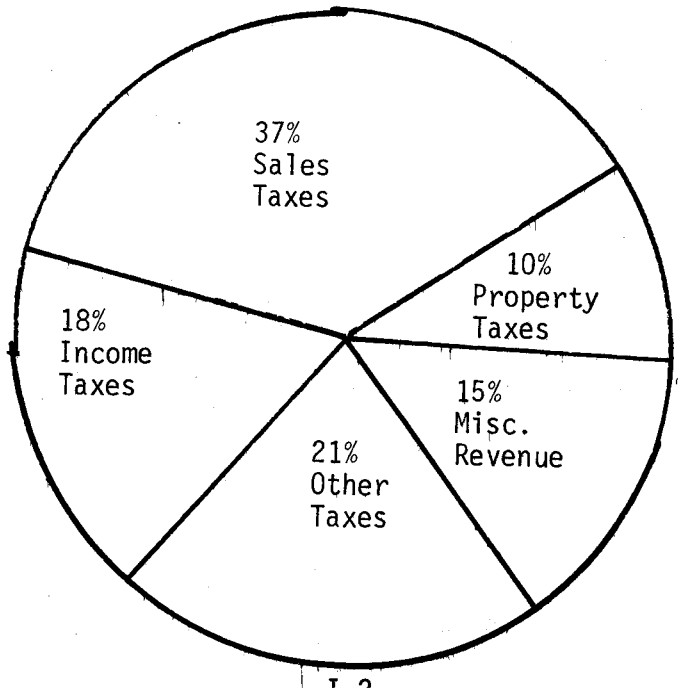


Figure 3 shows the distribution of the state's revenue. The state relies on the property tax for only 10% of its total revenue.

FIGURE 3

1977 State Government Revenue



Arizona counties, in aggregate, are dependent upon the property tax for almost 47% of total revenue (including federal transfers).

School districts in Arizona are dependent upon the property tax for about 45% of total revenue. State aid for schools accounts for another 45%, while the federal government makes up about 10% of school revenues.

Arizona cities rely on the property tax for about 11% of total revenue (including federal transfers).

II. ANALYSIS OF A PROPOSITION 13 LIMITATION IN ARIZONA

A. INTRODUCTION

Proposition 13, which added Article XIII(A) to the California Constitution was passed by California citizens in June 1978, and became effective the following July 1. Proposition 13 was designed to reduce the current burden of property taxes in California as well as to limit their future growth. More specifically, Proposition 13 provided for the following:

--limit on total property tax collections of 1% of full cash value, plus an additional amount for retirement of previously approved debt,

--assessments frozen at 1975 levels plus maximum 2% annual increase to be exceeded only by a change in ownership or new construction,

--greater requirements for legislative or voter approval of future tax increases (i.e. state taxes can only be increased by 2/3 vote of each house of the legislature and local taxes can only be increased with approval of 2/3 of the voters of each governing district).

Proposition 13 was one of several tax and expenditure limitation proposals to gain public support in recent years. Its decisive approval in California, however, combined with its ease of understanding and severity of approach has led to its increasing popularity among taxpayers in other states.

In Arizona, two initiative petitions similar to Proposition 13 have been filed with the Secretary of State and are currently being circulated for signature. In order to be placed on the November 1980 ballot, the petitions would require 80,783 valid signatures by July 1, 1980. The two Arizona initiatives are compared with Proposition 13 in Appendix A.

The purpose of this report is to illustrate the types and magnitudes of impacts that would result in Arizona with the passage of a Proposition 13 type limitation. The report will also explore several of the issues that the legislature would have to resolve before a Proposition 13 amendment could be

implemented.

The report, it should be noted, is not intended as an analysis of either of the two initiatives presently being circulated in Arizona, but rather as an examination of the general type of fiscal limitation that California's Proposition 13 represents.

B. REVENUE IMPACTS

In this section, an analysis is made of the potential revenue impacts that could result in Arizona with the passage of a Proposition 13 type property tax system. Before examining the specific revenue changes, however, it is useful to understand the methodology used in their calculation as well as the qualifications and limitations of the data.

1. Methodology and Data. Implementation of Proposition 13 requires that property values be "rolled back" to 1975 levels. From the 1975 base, valuations may be increased a maximum of 2% per year unless newly constructed, or a change in ownership has occurred.

In order to simplify the Arizona analysis, several modifications were made to the methods actually employed by California in implementing Proposition 13. These modifications involve both the definition of the property base and the process for distributing the 1% collections. Although the differences between the manners of treatment result in slightly different fiscal impacts, it is felt that the modificiations do not seriously affect the major conclusions of the analysis. A comparison of the procedures used in this analysis with those used in implementing California's Proposition 13 is presented below:

	Arizona Analysis	California Proposition 13
Valuation Base	1978 net full cash value; includes personal property as well as real property. Present exemptions are allowed. Tax rate set at 1% of net full cash value plus additional rate to cover outstanding debt.	1975 full cash value to be brought up to 1975 value if underassessed; plus 2% increase per year. If change in ownership, then 1975 base no longer applies. Tax rate set at $4 per $100 of assessed value (25% assessment ratio) plus additional rate to cover outstanding debt.

	Arizona Analysis	California Proposition 13
Distributions of 1% collections	Distribution of countywide collections to districts based on the percentage that each district's 1978 property tax collections, less debt levy, bears to total countywide 1978 property tax collections less total countywide debt levies.	Based on three-year average of property tax collections for cities, counties and special districts. For schools, based on percentage of 1977-78 collections.

Valuation Base. The California Proposition 13 stipulates that the property tax base for taxation shall be the 1975 full cash value, unless a change in ownership has occurred or the property has been constructed since 1975. In addition, provision is made to increase property values up to their actual 1975 full cash value if they had been underassessed in 1975. No explicit provision was made in Proposition 13 for properties declining in value or those destroyed since 1975. In order to remedy this oversight, another Constitutional amendment, Proposition 8, was approved by the California electorate in November 1978. Proposition 8 provided for constitutional treatment of declining and destroyed properties.

In generating the Arizona estimates of revenue impact, a 1978 full cash value base, net of current exemptions was utilized. As a result, the total amount of property tax collections allowed under the 1% limitation may be slightly greater than would be allowed under a strict interpretation of Proposition 13. Alternatively stated, the estimates of district revenue loss may be understated due to the methods employed in the analysis. It is important, however, to bear in mind that the degree of variation will differ, among both particular taxing jurisdictions and particular property types. Jurisdictions experiencing substantial new construction and with high property turnover ratios will more closely reflect the 1978 full cash value base than will jurisdictions that are more stable. The same reasoning applies to types of property.

All revenue impact estimates show the potential impact that would have resulted in 1978 had the measure been in effect.

Distribution of the 1% Collections. Proposition 13 is essentially a limit on the amount of taxes that can be imposed on a particular parcel of property. It would be extremely difficult for several taxing authorities to independently levy taxes on a parcel of property and still remain within the 1% limitation. In California, following Proposition 13, tax assessment was centralized at the county level. An allocation scheme was devised to distribute the countywide collections among eligible jurisdictions. The tax collections were distributed to each local district on a pro rata basis. The basis for the pro rata distribution for cities, counties and special districts was the average percentage of all property tax revenue collected (exclusive of taxes levied for debt retirement) within the county which each such city, county or district collected over the prior three years. The pro rata distribution for schools was based only on the 1977-78 property tax revenue.

In the Arizona analysis, it was assumed that the 1% property tax collections would be centralized at the county level as was the case in California. In allocating the 1% collections, however, only one distribution is made. Each district is allocated a share of the countywide 1% collections based upon its estimated 1978-79 property tax collections under the existing property tax system. To be sure, this is not the only allocation scheme possible. If a Proposition 13 were enacted in Arizona, it would be left up to the Legislature to develop an appropriate allocation mechanism.

The property valuation data used in the analysis for all counties except Maricopa County were taken from the 1978 State and County Abstract of the Assessment Roll, published by the Arizona Department of Revenue. Data for Maricopa County were supplied by the Maricopa County Assessor's Office.

Estimated 1978 tax collections were calculated based upon each district's reported adjusted assessed valuation. As a result, the property tax revenue estimates presented in this report represent tax yield and may differ slightly from the 1978-79 levy requirements reported by each district.

2. Aggregate Revenue Impacts. During the 1978 tax year, taxing authorities

in Arizona collected an estimated $779 million in property taxes.* Under a Proposition 13 system, based on 1978 full cash values, total statewide collections would be limited to about $424 million. Of the $424 million in property tax collections, $307 million is attributed to the 1% tax rate levied on full cash value, while the remaining $117 million is levied for payment of outstanding debt service charges.** The reduction from $779 million to $424 million represents a statewide loss of property tax revenues of $355 million, or a reduction of 45.52%. Besides lowering the aggregate amount of property taxes collected, the Proposition 13 measure also results in the redistribution of property tax burdens among the present classes of property.

The statewide changes in tax burden among property classes are illustrated in Table 1 on page II-7.

The present distribution of tax collections by property class is shown in column 3 of the table. Implementation of the Proposition 13 amendment results in the distribution shown in column 5 of the table. Comparing columns 3 and 5, the Proposition 13 measure would shift a greater percentage burden of tax payments, albeit lower absolute tax amounts, onto classes 4 and 5; while lowering the percentage burden of classes 1, 2, 3 and 6. Alternatively stated, classes 4 and 5 would pay a larger percentage of a smaller tax pie, while classes 1, 2, 3 and 6 would pay a smaller percentage of the smaller "pie." This is graphically illustrated in Figure 1 on page II-8.

From Figure 1 and Table 1, homes paid $218 million (net of the homeowners' rebate) in property taxes, or about 28% of total property tax collections in 1978. Under Proposition 13, total collections from homes decline by less than one percent to $217 million, but the tax burden of homes increases from 28% of the total to 51%. Mines and railroads would realize a 72% decrease in tax liability, going from $52.8 million to $15.0 million. Utilities realize a tax savings of about 71%. Utilities drop from paying slightly over 21% of total property taxes collected under the present system to about 11% of total collections under

*Source: Estimates prepared by the staff of the Joint Select Committee on Tax Reform and School Finance.

**Debt service levies were taken from reports of the County Boards of Supervisors, and surveys prepared by the League of Arizona Cities and Towns and the Arizona Association of Counties.

TABLE 1

STATE SUMMARY:

PROPERTY TAX COLLECTIONS

(1) Property Class	(2) Est. 1978 Property Taxes (millions)[a]	(3) % Distribution of 1978 Tax Collections	(4) Prop. 13 Tax Collections (millions)[b]	(5) % Distribution of Prop. 13 Tax Collections	(6) Tax Savings Due to Prop. 13 (millions)	(7) Per Cent Difference
1	$ 52.8	6.78%	$ 15.0	3.53	$ 37.8	- 71.59%
2	164.8	21.15	47.2	11.12	117.6	- 71.35
3	170.1	21.83	75.2	17.72	94.9	- 55.79
4	64.8	8.32	44.1	10.39	20.7	- 31.94
5[c]	218.1	27.99	217.2	51.18	0.9	- 0.41
R[d]	57.5	7.38	0	0	57.5	-100.0
6	50.8	6.52	25.7	6.06	25.1	- 49.41
7[e]	0.2	0.03	.03	negligible	0.17	- 85.0
TOTAL	779.1	100.0	424.43	100.0	354.67	- 45.52

[a] All taxing jurisdictions

[b] Includes taxes to pay outstanding bonded debt

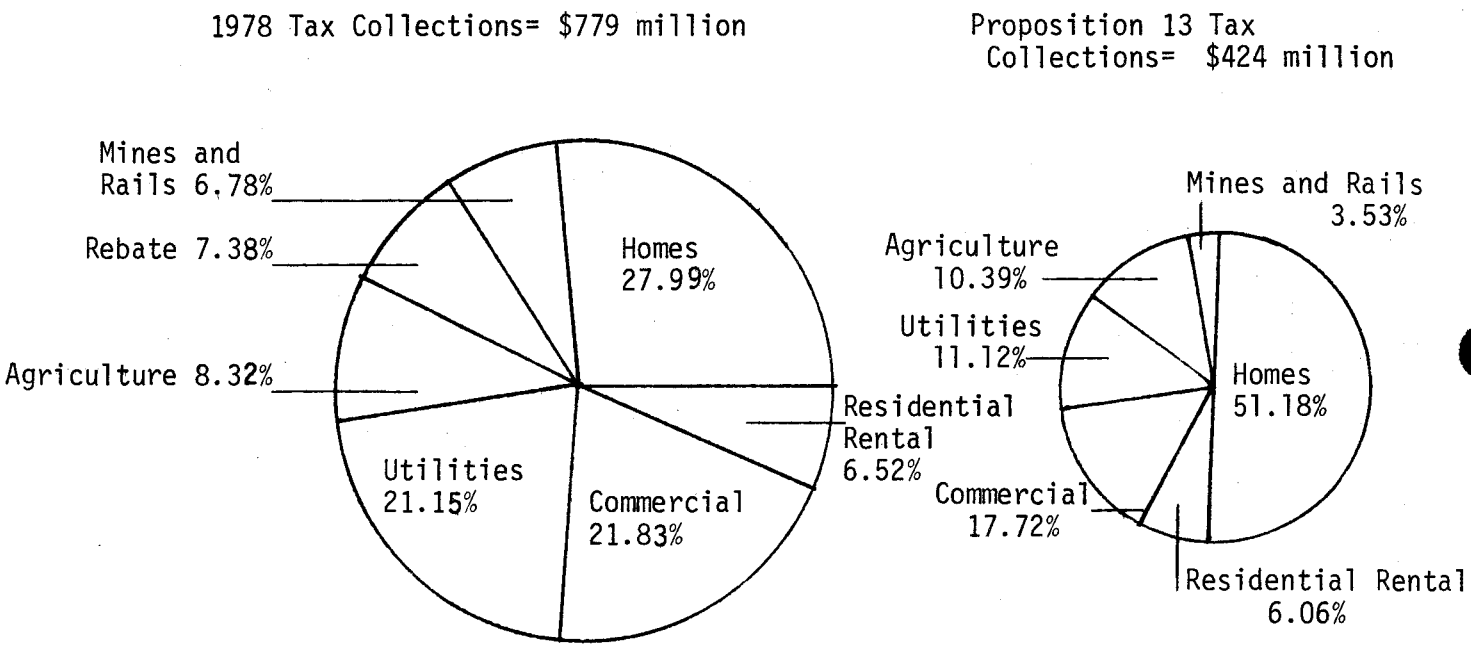
[c] Net of homeowner rebate

[d] Rebate paid by state to relieve Class 5, owner-occupied residential property taxes

[e] Producing oil and gas properties

FIGURE 1

Distribution of Property Tax Collections



Proposition 13. Commercial properties pay 55.79% fewer taxes under the Proposition 13 amendment and their share of taxes drops from 21.8% to 17.7%. Agricultural properties pay about 32% fewer taxes under the Proposition 13 amendment, but the relative share of agricultural properties increases from about 8% to over 10%.

3. District Revenue Impacts. Proposition 13 limits property taxes to 1% of the full cash value of each parcel of property, plus an amount sufficient to pay bonded debt approved prior to passage of the amendment. In Arizona, a Proposition 13 type measure would cut aggregate property taxes by about 45.6% Each taxing jurisdiction would suffer losses in property tax revenue--the amount of each district's loss would be dependent upon the current level of property tax reliance of each district, the amount of outstanding general obligation debt relative to each district's total property tax collections, and the nature of the allocation mechanism used to distribute the 1% collections.

The following is a summary of property tax loss by jurisdiction type:

Jurisdiction Type	Property Tax Loss (Millions)	Percent Loss
State	$ 40.1	-52.8%
Counties	86.9	-48.9
Cities	13.5	-25.8
Schools[a]	176.0	-44.5
Community Colleges	28.0	-49.5
Other Districts	10.1	-47.7
Total	354.6	-45.5%

Tables 2 through 4 present estimates of property tax revenue loss for selected jurisdictions.

Table 2 shows the property tax loss of each of the fourteen counties. The reader should keep in mind that the estimates of 1978 collections are based upon the valuations reported by the Department of Revenue for all counties except Maricopa County. As a result, the figures reported in Table 2 may

[a]Includes lieu tax.

TABLE 2

PROPOSITION 13 REVENUE IMPACTS

COUNTIES

County	Est. 1978 Property Taxes[a]	Prop. 13 Property Taxes[b]	Difference	Percent Difference
Apache	$ 1,137,360	$ 530,685	$- 606,675	-53.34%
Cochise	7,063,210	2,727,032	- 4,336,178	-61.39
Coconino	3,918,029	2,027,509	- 1,890,520	-48.25
Gila	4,573,639	1,722,438	- 2,851,201	-62.34
Graham	1,599,435	856,190	- 743,245	-49.47
Greenlee	Did not levy tax.			
Maricopa[c]	76,402,006	44,319,664	-32,082,342	-41.99
Mohave	4,399,873	2,029,593	- 2,370,280	-53.87
Navajo	3,389,671	1,848,981	- 1,540,691	-45.45
Pima	54,082,175	27,048,108	-27,034,067	-49.99
Pinal	10,772,455	3,063,014	- 7,709,441	-71.57
Santa Cruz	2,142,618	1,009,906	- 1,132,712	-52.87
Yavapai	4,495,296	1,989,345	- 2,505,951	-55.75
Yuma	3,716,378	1,563,480	- 2,152,899	-57.93

[a]Estimates of yield based on DOR abstract valuations.
[b]Includes taxes for bonded debt.
[c]Valuations supplied by Maricopa County Assessor's Office.

differ slightly from the levy requirements reported by the county supervisors. From the table, county revenue losses vary from 45.45% in Navajo County to almost 72% in Pinal County. Maricopa County would lose almost 42% of its property tax revenues.

Table 3 shows the property tax loss in nineteen selected cities. The losses vary from only 2.14 % in Kingman to 63.41 % in Coolidge. Cities losing relatively fewer revenues are generally those with the greatest outstanding general obligation debt, which may be levied in addition to whatever may be allocated to each district. It was assumed that all general obligation debt would be financed through an additional property tax levy.

Table 4 presents property tax loss for selected school districts. Again, the losses vary among individual districts, depending primarily upon the level of outstanding bonded indebtedness.

Table 5 shows revenue loss of the community colleges.

4. A Note on Bonded Debt. Proposition 13 provides that property taxes for payment of principal and interest on bonds approved by the voters prior to enactment of Proposition 13, may be levied in addition to the 1% tax rate. In Arizona, it is not immediately clear to which property valuation base (i.e. adjusted assessed value or full cash value) the debt levy would apply. This is because the bonds were approved and issued based upon the taxpayers' willingness to accept a certain tax liability (given the property classification system) to pay for the bonds. Under Proposition 13, the valuation base would be altered dramatically and, hence, the basis on which the bonds were originally issued would seem no longer valid. The "covenant" of their passage would be broken.

At the time of issuance of the bonds, Arizona's classified property tax system gave preferential treatement to certain types of properties over others. With the passage of a Proposition 13 measure, each dollar of property full cash value, for all properties, would be treated equally for taxation. If the debt levy is

TABLE 3

PROPOSITION 13 REVENUE IMPACTS

SELECTED CITIES

City	Est. 1978 Property Taxes[a]	Prop. 13 Property Taxes[b]	Difference	Percent Difference
Bisbee	$ 210,448	$ 81,252	$- 129,196	-61.39%
Casa Grande	406,781	176,555	- 230,226	-56.60
Coolidge	133,064	48,686	- 84,378	-63.41
Douglas	204,764	110,283	- 94,481	-46.14
Flagstaff	1,463,252	923,562	- 539,690	-36.88
Glendale	1,518,292	886,910	- 631,382	-41.59
Globe	203,410	75,203	- 128,207	-63.03
Holbrook	134,094	72,751	- 61,343	-45.75
Kingman	199,385	195,123	- 4,262	- 2.14
Miami	102,959	38,065	- 64,894	-63.03
Phoenix	30,501,314	23,808,550	-6,692,765	-21.94
Prescott	267,297	150,009	- 117,288	-43.88
Safford	52,585	28,149	- 24,436	-46.47
Scottsdale	3,118,964	2,280,257	- 838,708	-26.89
Sierra Vista	145,356	65,537	- 79,820	-54.91
Tucson	7,186,674	4,730,268	-2,456,406	-34.18
Williams	155,606	129,899	- 25,707	-16.52
Winslow	166,027	122,305	- 43,722	-26.33
Yuma	1,442,565	685,274	- 757,291	-52.50

[a]Estimates of yield.

[b]Includes taxes for outstanding bonded debt.

TABLE 4

PROPOSITION 13 REVENUE IMPACTS

SELECTED SCHOOL DISTRICTS

District	Est. 1978 Property Taxes[a]	Prop. 13 Property Taxes[b]	Difference	Percent Difference
St. Johns El.	$ 663,659	$ 423,809	$- 239,850	-36.14%
Window Rock El/HS	672,949	366,268	- 306,681	-45.57
Apache Co. HS	1,493,570	724,097	- 769,473	-51.52
St. David Unif.	228,129	88,078	- 140,051	-61.39
Sierra Vista El. (Buena)	1,219,609	818,352	- 401,256	-32.90
Sierra Vista HS (Buena)	911,383	420,339	- 491,044	-53.88
Flagstaff Unif.	6,925,891	4,044,832	- 2,881,059	-41.60
Page Unif.	4,740,403	2,995,932	- 1,744,472	-36.80
Tuba City Unif.	1,669,804	1,071,206	- 597,878	-35.82
Globe Unif.	1,003,541	443,094	- 560,448	-55.85
Miami Unif.	3,195,309	1,181,340	- 2,013,969	-63.03
Safford Unif.	840,243	551,660	- 288,583	-34.35
Thatcher Unif.	279,774	221,388	- 58,386	-20.87
Duncan Unif.	796,343	477,619	- 318,724	-40.02
Morenci Unif.	2,307,010	1,395,673	- 911,337	-39.50
Mesa Unif.	21,080,701	13,648,020	- 7,432,681	-35.26
Scottsdale Unif.	22,305,645	12,539,137	- 9,766,508	-43.78
Paradise Vly. Unif.	11,399,299	7,394,866	- 4,004,433	-35.13
Phoenix El.	9,984,864	5,179,056	- 4,805,808	-48.13
Washington El.	13,625,568	8,203,135	- 5,422,433	-39.80
Osborn El.	4,161,414	2,158,487	- 2,002,927	-48.13
Balsz El.	2,460,805	1,323,865	- 1,136,940	-46.20
Glendale El.	4,122,646	2,506,861	- 1,615,785	-39.19
Roosevelt El.	3,162,305	1,916,947	- 1,245,357	-39.38
Alhambra El.	4,587,063	2,379,267	- 2,207,796	-48.13
Glendale UHS	11,539,656	7,672,333	- 3,867,323	-33.51
Phoenix UHS	31,058,623	18,161,158	-12,897,465	-41.53
Kingman El.	1,730,934	898,824	- 832,110	-48.07
Mohave UHS	4,802,692	2,613,726	- 2,188,966	-45.58
Winslow Unif.	788,208	533,603	- 254,606	-32.30
Joseph City Unif.	2,072,999	1,418,355	- 654,644	-31.58
Whiteriver Unif.	73,972	37,500	- 36,472	-49.30
Tucson Unif.	46,648,250	22,763,426	-23,884,824	-51.20
Amphitheater Unif.	9,106,713	5,013,144	- 4,093,569	-44.95
Indian Oasis El/HS	216,934	91,351	- 125,583	-57.89

District	Est. 1978 Property Taxes[a]	Prop 13 Property Taxes[b]	Difference	Percent Difference
Catalina Foothills El.	$ 1,723,537	$ 911,912	$- 811,626	-47.09
Marana HS	2,437,824	1,255,986	- 1,181,838	-48.48
Florence Unif.	750,929	343,410	- 407,519	-54.27
Oracle El.	506,760	202,417	- 304,343	-60.06
Eloy El.	521,104	224,030	- 297,074	-57.01
Casa Grande UHS	2,296,694	891,352	- 1,405,342	-61.19
Nogales Unif.	1,761,433	1,060,154	- 701,279	-39.81
Santa Cruz Vly. Unif.	556,774	293,885	- 262,889	-47.22
Patagonia UHS	292,074	177,834	- 114,241	-39.11
Prescott Unif.	3,600,790	1,996,835	- 1,603,956	-44.54
Camp Verde Unif.	431,589	223,887	- 207,702	-48.12
Chino Valley El.	418,580	212,554	- 206,026	-49.22
Yuma El.	3,814,321	1,816,129	- 1,998,192	-52.39
Salome El.	47,219	19,865	- 27,354	-57.93
Yuma UHS	3,971,728	1,670,905	- 2,300,823	-57.93

[a] Estimates of yield

[b] Includes taxes for bonded debt

TABLE 5

PROPOSITION 13 REVENUE IMPACTS

COMMUNITY COLLEGES

Community College	Est. 1978 Property Taxes[a]	Prop. 13 Property Taxes[b]	Difference	Percent Difference
Cochise County Jr. College	$ 2,838,695	$ 1,231,665	$- 1,607,030	-56.61 %
Maricopa County Jr. College	27,903,341	15,278,578	-12,624,763	-45.24
Mohave Community College	1,665,323	736,523	- 928,800	-55.77
Northland Jr. College	2,034,707	1,031,500	- 1,003,207	-49.30
Pima County Jr. College	10,828,603	4,787,129	- 6,041,474	-55.79
Pinal County Jr. College	3,933,743	1,841,930	- 2,091,813	-53.18
Yavapai County Jr. College	3,410,210	1,669,472	- 1,740,738	-51.04
Yuma County Jr. College	3,399,167	1,598,773	- 1,800,394	-52.97

[a]Estimates of production
[b]Includes taxes for bonded debt

applied equally to all classes of property, there will be a shift in the tax liability for payment of debt. The shift would be to place a heavier debt burden on the low assessment ratio properties. This is more fully described in section D.2. of this chapter.

Clearly, Proposition 13 was not originally drafted with the classified property tax system in mind. Nevertheless, its intent would seem to shift all taxes to a full cash value basis, including debt. Therefore, the analysis presented in this report uses the full cash value base with respect to taxes for payment of outstanding debt.

C. OTHER IMPACTS

Besides forcing the reduction in revenues that was detailed in the preceding section, the implications of Proposition 13 will extend to other areas. This section will explore some of the impacts that can be categorized as economic impacts, and the following section will outline necessary legislative responses to Proposition 13.

The economic, or more properly, the socio-economic impacts of the limitation are both major and minor, measurable and immeasurable. This section will outline those impacts which will likely occur under the limitations.

1. Impacts on Private Investment. One of the primary effects of Proposition 13 is the reduction of the property tax burdens of businesses and homeowners. Although the property tax cuts would diminish public sector revenues, it could also result in increased business investment and private sector employment. Proposition 13 could, therefore, spur economic growth. The business property tax cuts effectuated by Proposition 13 could be passed along to consumers in the form of lower prices. The existence of tax savings pass-throughs would be dependent upon the degree of market competition in each industry.

Rents could be reduced if the property tax savings of landlords were passed through to renters.

2. Changes in Tax Burden. Proposition 13 would dramatically alter the property tax burden in Arizona. The alteration would be both immediate, at the effective date of the limitation, and continuous, for as long as the limitation was in effect.

The immediate change in tax burden was discussed at some length in the preceding section. The elimination of the preferential (or discriminatory) tax classification system and the movement to a system where all properties are taxed on an equal basis will cause the first or immediate change in burdens. Although taxes may be decreased for all (or most) classes of property, the percentage of the remaining property taxes paid by the various classes of property will be changed.

The continuing changes in tax burdens are caused by the assessing provisions contained in the limitation. Since, for all practical purposes, the valuation of a class of property can only be increased due to ownership changes or new construction, those classes experiencing these phenomena to the greatest extent will be the classes that experience the greatest growth in tax burden.

This is not to say however, that new construction would not alter the property tax burden under the existing system, for surely it would. The construction of the Palo Verde Nuclear Facility is definitely altering the tax burden of Class 2 properties presently.

But under the Proposition 13 approach to assessing, the valuation of Palo Verde will remain constant so long as ownership does not change. The ownership of public utilities does not change very often.

Homes, on the other hand, change ownership quite frequently. This frequent ownership change will cause frequent assessment changes, and, therefore, the valuation of homes will grow faster than the valuation of other properties. The result of this will be that a greater share of the property taxes collected in Arizona will come from homes.

3. New Revenues. Proposition 13 will considerably constrain jurisdictions in their ability to obtain additional revenues from new taxes or from changes in rates or bases of existing taxes. The constraint is contained in the requirement of two-thirds vote in each House of the Legislature for changes at the state level, and two-thirds vote of voters for changes at the local level.

The constraint has impacts that those who object to the growth in taxation consider laudatory; a restriction on the growth in taxes.

However, it should be pointed out that this restriction could severely curtail government's ability to meet the demands of the majority by giving the power to defeat or delay those demands to the minority.

4. Construction and Development. The patterns of construction and development in the state may be altered by local jurisdictions responding to the effects of the implementation of Proposition 13. The responses of jurisdictions could take several forms, two of which are discussed below:

a. Fiscal Zoning. In order to maximize the amount of revenues accruing to them, jurisdictions may engage in fiscal zoning. Fiscal zoning means the use of powers of zoning to only allow development of high value improvements with low service demands. For example, by only permitting the construction of luxury retirement communities whose municipal service demands (water, sewer, streetlights, etc.) would not be that much greater than modest tract homes, but whose taxable value would be far greater, the municipality would have maximized revenues and decreased costs. Additionally, having retirement communities would minimize strains on the local education systems.

Jurisdictions may also attempt to attract residential development as opposed to commercial development. Realizing that residences change ownership - and therefore are reappraised - more often than commercial properties, commercial developments may have a more difficult time locating.

b. Establishment of Development Fees. By realizing that new development increases demands on a jurisdiction to strengthen its service delivery infrastructure, those jurisdictions may establish development fees to finance those demands. Increased building permits, water, and sewer fees, fees for zoning variances, building inspections, subdivision approval, and assessments for school construction, fire protection and other services may be levied on all construction activity. The result of this would, of course, be an increase in the price of all construction which presumably would impact demand.

5. Intrastate Mobility. Proposition 13 requires that valuations increase no more than 2 percent annually, unless newly constructed or a change in ownership has occurred. Because a home newly purchased will bear a higher tax burden than a home that has not sold, Proposition 13 may discourage intrastate mobility. A family, for example, would pay fewer taxes by remaining in its present residence than if it moved to an identical residence. This provision would create a hardship on individuals and families transferred to other locations in the state. The provision would, however, promote greater local stability.

6. Ownership Avoidance. In order to avoid an increase in tax liability due to a change in ownership, there may be attempts to circumvent the system. The owner of record may keep the property in his name and make other contractual arrangements with the new purchaser. One method being used in California is for a property owner to incorporate and transfer title of the property to the corporation in exchange for stock.

7. Impacts of Federal Funds under Proposition 13. If a Proposition 13 type limitation were to pass in Arizona, it can be assumed that the patterns of federal tax collections from the state, as well as federal funding of certain programs would be altered.

Federal tax collections would be altered through the reduction in the property tax deductions on the federal income tax form. The extent of the increase in individual tax collections will depend on several variables: 1) the extent the deduction is used by Arizona residents (versus the use of the standard deduction); 2) the extent that state income taxes are increased through a similar reduction in deductions (because state income taxes are deductible on federal returns; 3) the marginal federal tax rates of the residents who experience property tax reductions; and finally, 4) the amount property taxes are reduced under the limitation.

The increase in corporate federal tax payments will, to a large measure, depend on the same variables that determine the increase in individual liability. However, the market effects in reducing the tax savings will also play an important role, that is, to the extent that competing businesses reduce prices because of reduced costs (property taxes), and income is therefore reduced, federal income tax liability may not increase.

In the area of federal assistance payments, a Proposition 13 impact is determined by the decisions made by numerous independent actors responding to individual pressures. The impact, if felt, will fall into three broad categories of federal assistance:

a. Federal assistance programs requiring matching funds or a maintenance of effort by the local jurisdictions,

b. Federal compensation programs which reimburse the state and local governments because federal landholdings are exempt from state and local taxation, and

c. Federal formula grant programs that use greater expenditures on taxing effort as factors in allocating funds.

How local governments decide to allocate available revenues, how and if the state can render financial assistance to local governments, and whether federal agencies will issue waivers of program requirements, will all interact to determine the extent of the reduction of federal funding in Arizona should a Proposition 13 type measure be enacted.

D. LEGISLATIVE ISSUES

In this section, an examination is made of the necessary legislative responses to the adoption of a Proposition 13 counterpart in Arizona. The analysis does have, however, a more general application. It provides an agenda to the Legislature for issues that are inherent in the adoption or consideration of a property tax cutting or limiting measure that is similar to Proposition 13.

Although an attempt has been made to make this a comprehensive analysis, the following is not intended as an exhaustive discussion of the necessary legislative responses to the adoption of such a measure. Though much can be learned from the California experience with Proposition 13, Arizona is a different state with a different public finance system.

The analysis will consider three broad areas to which the Legislature will have to respond. Those areas are:

1. The rollback to 1975 values; or more generally assessing property under Proposition 13.
2. The apportionment of the 1% levy.
3. The effective date of the limitations.

1. <u>The 1975 Rollback or Assessing Property Under Proposition 13</u>. Proposition 13 and its Arizona counterpart, the Heuisler initiative, call for the rollback of full cash value of all property in the state to the 1975 full cash value level. For property improved or constructed since 1975, and for property that has changed

ownership since that time, the measures call for the appraisal of such property and the entering of that appraised value as the full cash value level on the tax rolls. Property full cash value levels may be increased by 2% per year to reflect the rate of inflation.

This section of the analysis will examine this provision and the issues involved in: determining the 1975 assessment levels; providing for declines in value; assessing properties that are not entitled to the 1975 valuations; the treatment of exemptions; and will finally conclude with a summary.

a. Determining the 1975 Values.

The 1975 assessment

The most obvious question raised by the initiative in terms of implementation is, "Does the 1975 assessment roll exist?" Preliminary research has led the staff of the JSC to conclude that it would be extremely difficult to roll all values back to the 1975 level.

This conclusion is based on the responses received to a letter sent by the Co-Chairmen of the JSC to the Director of the Department of Revenue requesting research data to test the impacts of the initiatives.

Some samples of the responses:

·Director, Arizona Department of Revenue

There are no computer tapes for 1973 and 1975. All data would have to be entered into computer files from paper copy to the extent records exist at all.

·Chief Deputy, Maricopa County Assessor's Office

...it would probably be prohibitively expensive, if not virtually impossible, to provide a proper and equitable valuation roll as of 1973, 1975 or 1977 without several years of hand calculation, property canvass of the entire county and computer massage of the rolls.

·County Assessor, Pima County

(on meeting the rollback provisions of the Heuisler Amendment) "a nightmare"

At some point in time, the Legislature should satisfy itself as to whether the 1975 roll can or cannot be reproduced. If it cannot, some alternative method will have to be devised that would meet the proposed constitutional provision that values be rolled back to the 1975 assessment roll, and that alternative method would more than likely have to withstand a court challenge.

Revaluation to reflect 1975 assessments

More potential court challenges could stem from the Legislature's interpretation of another clause in Section 2 of the amendments. That clause, which reads, "All taxable property not already valued to the 1975 tax levels may be revalued to reflect that valuation." adds confusion to the clause which was discussed above (i.e. full cash value means the value on the 1975 rolls).

It seems that the Legislature could direct the county assessors down one of two roads with regard to this provision: 1) ignore it or 2) attempt to achieve it. Although both paths have their advantages and

disadvantages, the Legislature must adopt either one or the other to assure consistency throughout the state.

The case for ignoring the phrase begins with its permissive structure ("may"), has roots in the California experience, and is supported by the lack of data.

California, prior to 1978, allowed assessors to revalue on a cyclical basis, e.g. a third of the property could be revalued every year. Therefore, the subject phrase was needed so that all properties would be on the 1975 basis and not spread over several years. Since this cyclical valuation is not permitted in Arizona, the subject phrase could possibly be ignored.

The lack of sufficient data to make adjustments might also make a case for ignoring the phrase. It can easily be assumed that this provision would allow county assessors to raise the valuations on property that was underassessed in 1975. However, there may be such a lack of sales data that this clause would be impossible to execute equitably.

Executing the provisions

The case for attempting to execute the provision is based on two points: The first being that if properties are assessed at their full 1975 value, the amount of full cash value subject to the 1% would be maximized

and therefore the revenue shortfall would be minimized. The second argument in favor of executing the provisions of the phrase, would be that if all properties are at their full 1975 value, at least the 1975 assessment would be equitable and fair for all taxpayers.

Regardless of the resolution, the Legislature should instruct the county assessors one way or the other to assure assessment uniformity.

b. Declines in value

Neither of the initiatives allows for properties to decline in value. This fact was quickly realized in California and a constitutional amendment was referred to the voters by the Legislature immediately after Proposition 13's passage. Presumably this would also have to be done in Arizona if such a limitation passed.

c. Change in ownership

The initiatives require a reappraisal for all parcels when they change ownership. Presumably this provision is retrospective to 1975 as well as prospective from the date of passage. The most obvious difficulty associated with the provision is the definition of change in ownership, something that is left to the Legislature.

Some of the transfers that will have to be defined in regard to causing new assessments include: creation and dissolution of long-term leases; revocation of joint tenancy deeds; creation or termination

of tenancies in common; life estates; revocable and irrevocable trusts; partnerships dissolving or incorporating; corporate mergers; interspousal transfers due to death, divorce, dissolution and presumably several other possibilities.

Once these definitions are determined, the process will have to begin to research records so that reappraisals can be made.

For future change in ownerships, the assessors will have to be given the power and tools necessary to follow up on property transfers, since presumably not all types of transfers are recorded in the county recorder's office.

d. Newly constructed

New construction will also cause a reappraisal under the initiatives. In the simplest form of new construction, a new subdevelopment, this will pose no great problem.

But, guidelines will have to be developed for the not-so-simple situations. How will the construction of a home by the owner of the land be handled? Will land be held constant and the improvement be added, or will the whole parcel be revalued? How will adding a porch, a swimming pool, a room, or a new wing to a building be treated? How will the rebuilding of a building that has been destroyed be treated? Will a large parcel that has been subdivided be considered

new construction?

These questions and many more will have to be resolved in order to assess property under Proposition 13.

e. Centrally assessed properties

Centrally assessed properties will pose additional definitional problems. Will the price of copper at all affect the valuation of a mine? Will rate increases affect the value of a utility? Since utilities are valued on the basis of the "unit rule", i.e. the value of the whole system is determined and then apportioned, how will new construction be valued?

f. Exemptions

If the initiatives were passed in Arizona, the implementing legislation would have to take into account current widows' and veterans' exemptions.

The constitutional provisions relating to the exemptions are worded such that the exemption shall not exceed two thousand dollars "where the total assessment of such person does not exceed five thousand dollars." If the Legislature adopted full cash value as the basis for assessing (and did not maintain some form of assessment ratio system) all widows' and veterans' exemptions would likely be cancelled.

Summary. In summary, if Proposition 13 were to pass in Arizona, the Legislature would have to react to the following items with respect to assessing:

A. The 1975 assessment level

1. Define what is to be used for the 1975 assessment

2. Determine whether, and by what method, parcels are to be revalued to 1975 levels

B. Provide for declines in value

C. Define changes in ownership

1. Provide tools for assessors to act retroactively

2. Provide tools for assessors to act in the future

D. Define "newly constructed"

Issue guidelines for local and centrally assessed properties

E. Design an assessment system that does not revoke all widows' and veterans' exemptions

2. The Apportionment of the 1% Levy. The Proposition 13 measures provide that the maximum property tax on any parcel shall not exceed 1% of its full cash value. The 1% is to be collected by the counties and distributed according to law. The 1% limitation, however, does not apply to taxes levied

for the retirement of debt previously approved by the voters.

This portion of the analysis will examine the initiatives in terms of necessary legislative actions to levy and collect property taxes.

a. Collection mechanism

The first thing the Legislature must do if the initiatives are passed, is establish the mechanism for collection of taxes.

Apparently, property can be taxed in any number of ways (for example: 1% of full cash value or a 25% assessment ratio with a $4.00 tax rate or the current classified system with classified rates). As was mentioned above, however, the method selected may have a very large impact on widows' and veterans' exemptions.

Additionally, the Legislature will have to provide for payments to counties of the property taxes now paid directly to the state, e.g. aircraft companies and private car companies.

b. Level of taxation

The initiatives provide that the maximum rate of taxation is to be 1% of full cash value. This does not mean that all properties necessarily have to be at the 1% level.

The Legislature may find (and probably will) that some properties in the

state are being taxed at a level substantially below 1%. Are they to be raised or continued to be taxed at a lower rate? This question will have to be resolved.

c. Apportionment

Thirdly, of the revenues that are collected, a formula will have to be adopted to spread the available levies.

Several options exist with regard to distribution formulas. For example, it could be decided that all jurisdictions will suffer an equal percentage loss in property tax revenues, or it could be decided that some jurisdictions, like the state and cities, would no longer receive general property taxes and the levies are to be distributed among the remaining jurisdictions.

The formula decided upon could greatly impact state aid for education. For example, it might be decided to remove local property taxes for schools entirely, and move to full state funding.

The apportionment question is probably the single most difficult question that would face the Legislature.

d. New parcels

The question arises as to how new parcels are to be treated in the apportionment formulas. Are their levies to be added to the "pot"

collected by the counties and apportioned to all districts, or are the jurisdictions that provide services to be the only jurisdictions receiving benefits? This question is still being debated in California, as is the apportionment formula question. The debate is largely focused on how the apportionment formulas are to take into account population increases, increases in mandated services and changing socio-economic conditions as indicators of jurisdictional need for revenues.

e. Revenue losses

The questions of revenue losses will also have to be addressed. The first question to be raised is, "Are the losses to be made up?" If yes, by whom, the state or the local jurisdictions? If the state makes up the losses, how is it to be done, the income tax, the sales tax or some other mechanisms.

The Legislature will not only have to address these problems, but will also have to address the question of state control of local jurisdictions.

f. Redemption of previously approved bonds

The issue that will have the greatest impact on property taxpayers will be the resolution of the mechanism used to redeem bonds. As outlined above, the limitation allows for taxes to be levied in excess of the 1% limitation to retire previously approved bonds. There are

several options open to the Legislature in designing such a property tax mechanism.

All of the options outlined below stem from the fact that Arizona has a property tax classification system. Just as the Legislature will have to consider the widows' and veterans' exemption in designing the mechanism to collect the tax, so too will it have to consider the bond situation.

For illustration purposes Table 1 below is helpful.

Assume:
1. 1978 Bond Levy Requirement = $1,000
2. Two Classes of Property
   A. Class 2, assessment ratio 50%
   B. Class 5, assessment ratio 15%

			A		B	C	
	1978 Full Cash Value	1978 Assessed Value	1978 Tax Rate	1978 Bond Levy	1978 Effective Rate on FCV	Possible Tax Rate on FCV	Possible Bond Levy
Class 2	100,000	50,000	1.54	770	.77	.50	500
Class 3	100,000	15,000	1.54	230	.23	.50	500
TOTAL	200,000	65,800		1,000			1,000

This table assumes two classes of property in a jurisdiction that requires $1,000 to be levied to pay back bonds. Under the current system (A) both classes pay the same rate per $100 of assessed valuation ($1.54). Because the assessed valuations are computed differently, however, the effective tax rates per $100 of full cash value are different (B, .77 vs. .23).

If the Legislature collapses all property into a single class for the purpose of levying bonds, the taxes could shift rather dramatically (c). This fact could force the Legislature to maintain the present classification system for the levying of bond payments. The initiatives do not prohibit this just as they do not prohibit the continuation of the current valuation system (annual reappraisal) for bonds.

A case can be made that this latter point (continuation of the present system) should be mandated. Assume there are two homes, valued equally at $50,000. One was purchased by the current owner in 1974, one was purchased by the current owner in 1979. Suppose both voted for a bond proposal that would increase taxes by $1.00 per hundred of assessed valuation. Suppose the initiative passes and homeowner A (purchased in 1974) has his value rolled back to the 1975 level; homeowner B is still at $50,000. Presumably homeowner A could end up paying substantially less in bond reduction taxes than homeowner B.

g. Pass backs

After witnessing the demands in California for rent control, the Legislature may wish to consider legislation to effect pass throughs of tax savings from landlords and public utilities.

h. School financing

Depending on what is adopted during the upcoming special session and depending upon the apportionment formula adopted if the initiatives are passed the Legislature may find it necessary to once again revamp the school finance formula in the state.

i. Future bonds

Proposition 13 poses an interesting series of choices in relation to the future of general obligation bonds in Arizona. The first choice will be whether or not general obligation bonds are to continue to serve as a mechanism to finance capital outlay expenditures of local jurisdictions. If they are not, then an alternative must be found.

If bonds are to continue to exist and be used by jurisdictions, then they will exist at the expense of the property tax being used to finance operating budgets. The reason for this either/or case is the provisions of Proposition 13 which specify that the 1% taxing limit is absolute except for previously approved bonds. Future bonds would have to be financed from the 1% levy, displacing revenues that would otherwise be used for operations. If operating revenues are displaced,

then the tremendous revenue shortfall experienced by the 1% limitation would be further aggravated.

From the present frame of reference, the amount of bonding capacity available to a jurisdiction would also be restrained. Ten percent (twenty in some instances) of rolled back assessed valuation would indeed be constraining; but the Constitution places the limit on "taxable value" which, as was pointed out earlier, could be whatever the Legislature decided to choose: full cash value, 50% of full cash or whatever. Some of the options available to the Legislature could increase bonding capacity.

Summary. In summary, if the initiatives were passed, the Legislature would probably have to respond in the following areas to deal with the levy limit:

A. Establish a collection mechanism
   1. Assessed value versus full cash value
   2. One rate versus many rates

B. Determine level of taxation (everybody at 1% or some at less than 1%)

C. Apportion the levies that are received

D. Determine how to treat the revenues from new parcels

E. Determine whether or not revenues are to be made up and if so how

F. Adopt a method to collect taxes to retire bonds

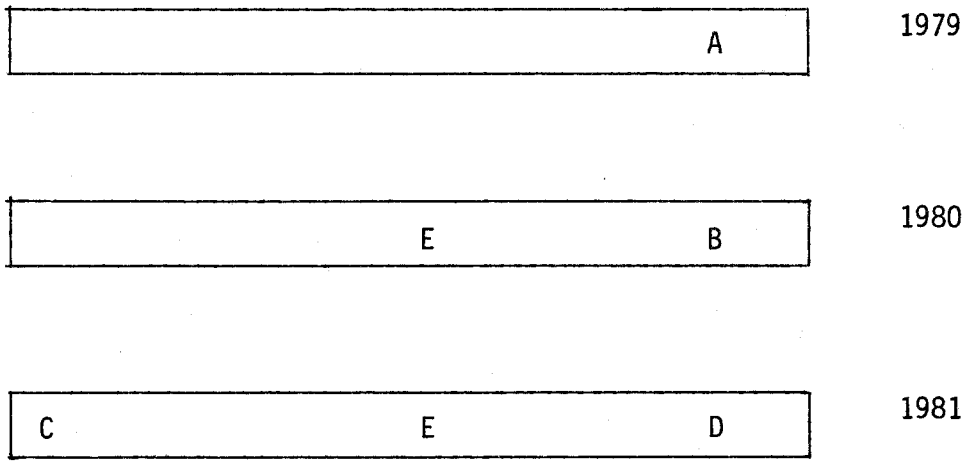
G. Consider the issue of mandating pass backs from landlords and utilities

H. Assess impacts on the school finance formula

I. Determine the future of general obligation bonding or develop alternatives

3. Effective Dates of the Initiatives. This final section of the analysis will attempt to put into perspective the elements that relate to the effective dates of the initiatives.

Presented below is a crude diagram that offers a perspective to the situation.



Point A on the diagram is roughly the date selected for the special session. Point B is roughly the date at which the Heuisler amendment would be on the ballot. Point C is the prescribed effective date for the Heuisler amendment, if passed, and point D is the first tax collections (for secured property) that would be affected by the limitation. Presumably point C would also represent the time frame when the personal property tax roll would be affected by the initiative. Point E represented the beginning of the fiscal years.

The Legislature (actually two Legislatures; the 34th and the 35th) would have approximately seven and a half months to consider and effectuate all of the issues previously raised. Some of the issues would have to be resolved immediately (assessing questions) so that enough lead time can be given for implementation. Other issues could take longer, but for preparation of 1981-82 budgets, lead time will also be necessary.

In short, there is not an abundance of time in which the Legislature can act.

Conclusion. As the fountainhead of all public finance policy in Arizona, the Legislature will have a great many issues to resolve should a measure such as Proposition 13 pass in Arizona. The initiative shakes the system that has been built over the last hundred years to its very foundation. There will be several hard choices to be made, and there will not be easy answers in all cases.

APPENDIX A

SHAW INITIATIVE

Proposes to amend by initiative Article IX of the Arizona Constitution by adding Article IX A.

INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO THE ELECTORS

THE AMENDMENT

THAT ARTICLE IX A IS ADDED TO THE CONSTITUTION OF THE STATE OF ARIZONA:

Section 1.

(a) The maximum of tax on property, land, and improvements shall not exceed (1%) one percent of the full cash value of such property, land and improvements. The (1%) one percent tax to be collected by the counties and apportioned according to law.

COMMENT

Limits property taxes on all property of any nature, whether real or personal, to a maximum of (1%) one percent of full cash value. It is assumed that the taxes referred

HEUISLER INITIATIVE

Proposes to amend by initiative Article IX of the Arizona Constitution by adding Section 18.

INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO THE ELECTORS

SECTION 18. LIMITATION ON TAXATION; VALUATIONS OF PROPERTY; ENACTMENT OF STATE AND LOCAL TAXES.

(1) The maximum aggregate amount of all State and local ad valorem taxes on all taxable property, or payments in lieu of taxes, shall not exceed one percent (1%) of the full cash value of any such property. The one percent (1%) tax to be collected by the Counties and apportioned according to law to the jurisdictions within the Counties. The limitation provided for in this subsection shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

COMMENT

Limits ad valorem taxes on all property of any nature, whether real or personal, to a maximum of one percent (1%) of full cash value. Also applies to payments in lieu of taxes

CALIFORNIA PROPOSITION 13

Initiative measure adding Article XIII A to the California Constitution.

THE AMENDMENT.

That Article XIII A is added to the Constitution to read:

Section 1.

(a) The maximum amount of any ad valorem tax on real property shall not exceed One percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

COMMENT

Limited to real property. Property taxes collected by counties are distributed to each local agency on a prorata basis. The basis for the prorata distribution for cities, counties and

to are ad valorem. The counties would collect and apportion the (1%) one percent tax. It is unclear how the revenue collected would be apportioned. There is no law directing apportionment. No provision is made for taxes to pay interest and redemption charges on voter-approved indebtedness prior to the effective date of the Act. Question arises as to the possible abrogation of prior indebtedness. A question also arises as to the application of this amendment regarding taxes such as those imposed for motor vehicle licenses which are ad valorem taxes.

Section 2.

(a) The full cash value means the county assessor's valuation of property, land, and improvements as shown in the 1973 tax under full cash value, after 1973 based on ($15.00) dollars per square foot, on new improvements, 1973 assessment, all property, land, and improvements not already assessed up to the 1973 tax levels may be reassessed to reflect that valuation.

COMMENT

Freezes "full cash value" at 1973 county assessor's valuation. Assumes that all property, real or personal, can be assessed as of

made on property which is not otherwise subject to taxation. Provides for payment of pre-existing indebtedness. Counties collect and apportion taxes according to law to the jurisdictions within their boundaries. It is unclear as to what entities comprise the term "jurisdiction" or how the apportionment will be made. Question arises as to the application of this amendment regarding taxes such as those imposed upon motor vehicles.

(2) As used in this Section, the "full cash value" means the full cash value of all taxable property determined for the 1975 assessment roll; or thereafter, the appraised value of all taxable property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All taxable property not already valued to the 1975 tax levels may be revalued to reflect that valuation. The full cash value base may reflect, from year to year, the inflationary rate, not to exceed two percent (2%) for any given year, or a reduction, as shown in the Consumer Price Index or comparable data for the area under taxing jurisdiction.

COMMENT

Freezes "full cash value" at 1975 county assessor's valuation. Also applies to assessment of real and personal property. After 1975,

special districts is the average percentage of all property tax revenue collected (exclusive of taxes levied for debt retirement) within the county which each such city, county or special district has collected over the past three fiscal years. However, prorata distribution for school districts is based only on the preceeding year property tax revenues. Each county must levy the entire tax rate permitted.

Section 2.

(a) The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

COMMENT

Subsequent to the passage of this amendment, this section has been implemented by re-defining assessments. This section has been implemented to

that period. A question arises as to the method of dealing with personal property acquired after 1973 or which did not come into existence until after 1973. All property not already assessed up to the 1973 tax level may be re-assessed to reflect that valuation. A question arises as to whether this requires re-assessment of property carried on the 1973 assessment roll but actually assessed prior to that time. New improvements, presumably to real property created after 1973, are to be assessed at $15.00 per square foot irrespective of full cash value. It is unclear how the words "1973 assessment" apply to new improvements. Also, a question arises as to whether "new improvements" apply to an addition to an existing structure, requires re-appraisal of the entire property or whether the $15.00 per square foot limitation applies only to the part added. No provision is made for new improvements required to replace property reconstructed after a disaster, where the property re-constructed is comparable in value to the pre-existing improvement. Although the section apparently includes personal property, no provision is made to include personal property acquired to replace personal property lost by reason of disaster. No provision is made for re-assessment upon purchase, change in ownership or change in use.

property is appraised when newly constructed or change in owhership. It is unclear whether newly constructed applies to a minor addition to an existing structure requiring re-appraisement of the whole. Change of ownership is not defined or limited. A question arises as to whether or not it is intended to apply to inter-spousal transactions for the purpose of creating joint tenancy or in trust transactions. The full cash value basis is limited by a two percent (2%) increase in the Consumer Price Index or comparable data or a reduction without limitation. No provision is made to provide for construction to replace property lost by reason of disaster. No provision is made to reflect a change in value for circumstances reflecting damage, destruction or other factors causing a decline in value.

define the terms "purchased, newly constructed or change of ownership". Certain changes in ownership are exempted from re-assessment, such as those creating a security interest, a inter-spousal transfer, substitution of a trustee, or a transfer perfecting title. Certain construction which is required to replace a loss caused by disaster comparable to the fair market value to the property replaced is also exempt. The term "newly constructed" in California has been interpreted to cover additions and renovations to real property as well as newly built structures.

(b) The full cash value base may reflect from year to year the inflationary rate not to exceed (2%) two percent for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

COMMENT

The full cash value base may be increased only by a change in the consumer price index or comparable data within the area comprising the comparable jurisdiction but apparently may be decreased by any reduction in the CPI without limit. No provision is made for circumstances reflecting damage, destruction or other factors causing a decline in value.

Section 3.

From and after the effective date of this article, any changes in state, county or cities for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than (2/3) two thirds of all members elected to each of the two houses of the legislature by their recorded vote except that new property, land improvements or privilege transaction taxes (i.e. sales taxes), property transaction taxes on property, land and improvements or real property, income taxes or other types of taxes for the recovery of revenue may not be imposed.

New Taxes

(3) From and after the effective date of this Amendment, any changes in State taxation enacted for the purpose of increasing revenues collected pursuant thereto, whether by increased rates or changes in methods of computation, must be imposed by an act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on taxable property, or sales or transaction taxes on the sales of taxable property, may be imposed.

(b) The Fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

COMMENT

This section has been implemented to allow the assessor to reduce the assessed value of property which declines in value while it is still owned by the same tax payer. Reductions may be made when property has been substantially damaged or its value has been reduced by other factors, such as economic conditions.

Section 3.

From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

COMMENT

Any change for the purposes of increasing revenues by increased rates or changes in methods of computation, whether state or local, must be passed by 2/3 of the elected members of each house of the legislature. Other new taxes may not be imposed. Question arises as to rights of charter cities governing their financial affairs with respect to the requirement of legislative approval in this section. It is also unclear to what extent the State may modify existing tax provisions, such as in the area of depreciation.

COMMENT

Any increase in state taxes must be approved by a two-thirds (2/3) vote of all elected members of each house of the Legislature. No new ad valorem taxes on any type of taxable property, whether real or personal, or taxes involving sales or transaction taxes may be imposed. It is unclear whether or not other types of taxes are prohibited. It is also unclear as to what extent the State may modify existing tax provisions.

Section 4.

Cities, counties and special districts, by a (2/3) two thirds vote of the qualified electors of such district voting may impose special taxes on such district, except property, land, and improvements taxes, or sales taxes, on the sale of property, land and improvements within such city, county or special district.

(4) Cities, Counties and Special Districts may, by a two-thirds vote of the registered voting electors of such jurisdiction, impose special taxes within such jurisdiction, except new ad valorem taxes on taxable property, transaction taxes, or sales taxes on sale of taxable property within such City, County, or Special District.

Section 4.

Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

COMMENT

Provides that cities, counties and special districts require a 2/3 vote of qualified electors and not merely 2/3 of those voting in an election for that purpose to impose special taxation (other than ad valorem taxes). This

COMMENT

"Special taxes" other than ad valorem property taxes or sales or transaction taxes, may be levied by counties or special districts upon approval of two-thirds (2/3) of the registered voting electors. This provision does not indicate the nature

provision does not indicate the nature of such special taxes. New taxes may not be imposed upon property (apparently of any kind), land improvements, sales (apparently of any kind), or on the sale of property, land or improvements.

of such special taxes. Question also arises as to whether or not this provision expands the authority of these entitles with respect to taxing power not presently authorized by law with respect to "special taxes".

Section 5.

Property, land, and improvements shall not be held for public or private sale to satisfy any type of tax liability filed by any state, city, county or special district or any other public entities for the recovery of tax or bond tax lien or other revenues.

COMMENT

Prohibits the enforcement of the payment of taxes by execution on any type of property. The prohibition apparently applies even to private or non-public agreement where one party may have defaulted with respect to an obligation to pay taxes. Recovery of taxes would be limited to a personal judgment obtained against the tax debtor. A question arises as to whether any judgment for taxes could be enforced since all property is exempted from execution for sale.

Section 6.

This article shall take effect for the tax year beginning on January 1, following the passage of this Amendment, except Section 3

(5) This Section shall take effect for the tax year beginning on January 1 following the passage of this Amendment, and each year thereafter, except subsection (3) which shall become effective upon the passage of this Amendment.

Section 5.

This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall

which shall become effective upon passage of this article.

COMMENT

The effective date of these initiative measures are the same. Time within which an amendment is to take effect may result in differing interpretations by the various counties.

Section 7.

This article includes all commercial, industrial and private lands and improvements.

COMMENT

This provision is apparently intended to apply to all types of property ownership in the non-public sector.

Section 8.

If any section, part, clause or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

COMMENT

This provision attempts to protect the amendment in the event that any provisions are found to be unconstitutional.

(6) If any Subsection, part, clause, or phrase hereof is, for any reason, held to be invalid or unconstitutional, the remaining components shall not be affected, but will remain in full force and effect.

become effective upon the passage of this article.

COMMENT

Time for compliance by counties has been delayed by the following functions: Preparation of the assessment roll; reassessment or assessment of property which escaped taxation or which was under-assessed for the 1975-76 fiscal year; assessment roll corrections and appeal provisions.

Section 6.

If any section, part, clause or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

III. ALTERNATIVES FOR PROPERTY TAX RELIEF

A. Limiting Property Tax Collections to a Percentage of the Full Cash Value of Properties

One method of limiting the amount of property tax collections is the imposition of a limitation based upon a fixed percentage of a property's full cash value. This is essentially the approach used in California's Proposition 13. In that particular proposition, property taxes were limited to a maximum of 1% of a property's full cash value. Thus, if a property were worth $100,000, the maximum amount of property tax that could be collected from that property in each year, would be $1,000. The preceding chapter in this report outlines the impact that this type of limitation would have in Arizona. The property classification system in Arizona, when combined with a limitation of this sort, would result in certain classes of property getting a greater percentage reduction in their property tax liability than other classes of property. The essential reason for this disparity in percentage of reduction is due to the imposition of an equal limitation upon all classes of property.

An alteration in the percentage limitation could substantially reduce the disparity in the percentage reduction provided by this type of limitation. In other words, if different percentages were used to limit the tax collections on different classes of property, the percentage reduction could be equalized. In fact, by applying a specific percentage to each separate class of property, the amount of property tax relief could be totally regulated.

For example, if it was determined that all classes of property should receive a 30% reduction in their property tax liabilities, it would be possible to establish a fixed percentage limitation for each class of property that would result in a 30% reduction in the property tax liabilities of that class of property. Further, if it was decided that all classes of property should be maintained at their current liability but a limitation should be imposed to prevent their property tax liability from increasing, a fixed percentage limitation could be established for each class of property to prevent any

future increases in the property tax liability of that class, as a percent of that class' full cash value.

Based upon 1978 property tax data, if a limitation were imposed on property tax collections based on a percentage of full cash value, such that: property tax collections on Class 1 properties (mines and railroads) were limited to 4.45% of full cash value; property tax collections on Class 2 properties (utilities) were limited to 4.40% of full cash value; property tax collections on Class 3 property (general commercial property) were limited to 2.70% of full cash value; property tax collection on Class 4 property (agriculture) were limited to 1.65% of full cash value; property tax collections on Class 5 property (owner-occupied homes) were limited to 1.00% of full cash value; and property tax collections on Class 6 property (rental residential properties) were limited to 2.30% of full cash value; the property tax liabilities of each of the classes of property would remain almost exactly what they were in 1978.

Thus, while the imposition of a single percentage limitation upon all the classes of property will ultimately result in differing percentage reductions to different classes of property, this does not eliminate the concept of a limitation on property tax collections based on a percentage of full cash value. Rather, such a limitation imposed separately on each class of property, may be used to carefully control the amount of property tax reduction that is received by each class of property. California's Proposition 13 did not contain multiple percentage limitations because California does not assess different classes of property at different levels. An Arizona version of Proposition 13 could contain different percentage limitations for each class of property in order to preserve the property classification system as it exists in Arizona. Finally, the percentage limitation could be used to modify the Arizona property classification system by combining two or more classes into a single class for the imposition of a percentage limitation on property class collections from those classes.

The second part, and possibly the most important part, of any percentage limitation on property tax collections is the limitation on the growth in full cash value. As discussed in the preceding chapter, California's Proposition 13 contained a second, crucial provision that limited the rate of increase of a property's full cash value to 2% per year. This provision worked in combination with the percentage limitation on property tax collections to completely limit the level of property tax liability. First, the percentage of full cash value that could be collected through property tax was limited and then secondly,

the rate at which full cash value (and therefore property tax liabilities) could increase was limited. It is this second provision of Proposition 13 that insures that increases in taxpayer's property tax bills will not be more than 2% per year, under normal circumstances. It is this limitation, caused by the second provision of California's Proposition 13, that makes the concept of Proposition 13 so attractive to taxpayers. The concept of a predictable and limited increase in property tax liabilities is a very desirable result of any property tax relief alternative.

At the same time, that the second provision of California's Proposition 13 insures a limitation on the rate that property tax bills would increase, it creates substantial problems regarding the "fairness" or "equity" of the resulting property tax system. The fixed percentage limitation on increases in all property's full cash value results in different effective property tax reductions to different properties. For example, if under normal circumstances one property would increase by 1% per year while another property would increase by 5% per year, the imposition of the 2% limitation on the increase in full cash values would result in no reduction for the first property and a 3% reduction for the second property. Thus, the property with the greater increase in value will receive a greater percentage relief than the more stable property.

In summary, while an Arizonan Proposition 13 would result in greater property tax reductions for some classes of property vis a vis other classes of property, the fundamental principal of limiting property tax collections to a percentage of full cash value, can be modified to meet the conditions of the Arizona property classification system. The imposition of different percentage limitations on different classes of property would result in the same type of limitation as Proposition 13 created in California, without the destruction of the Arizona Property Classification System. However, the second provision of California's Proposition 13, which limits the annual increases in full cash value and limits the annual increases in taxpayers' property tax liability, has created substantial questions as to the "fairness" and "equity" of the California property tax system. The imposition of a limitation on the growth of full cash values in Arizona, would create similar questions about the "fairness" of the resulting property tax system in Arizona.

B. Limiting Property Tax Collections Through a Collections Limit.

An alternative method for accomplishing primary goals of the limitation discussed above, is the imposition of a fixed dollar limit on the amount of property taxes that may be collected by any taxing authority. Essentially, the limitation on property tax collections as a percentage of full cash value when combined with the limitation on the rate at which full cash values may grow, produces a limitation on the amount of property taxes that any taxing authority may collect. The result of that limitation is a stabilization of individual taxpayer's property tax bills. The direct imposition of a limitation on the amount of revenues that a taxing authority may collect through the property tax will have this same basic effect.

Such a limitation would require that a taxing authority could collect no more through property taxes than the amount it collected during the preceding year. Thus, because the total amount collected by the authority would be limited, the liability of each individual taxpayer would be similarly limited. However, because the total amount that can be collected through the property tax is limited, there is no need to limit the rate at which full cash values may increase. Because full cash values would be allowed to increase freely while property tax collections were limited, the property tax rate would be forced to decrease each year. Thus, property tax collections would be limited just as in Proposition 13, except the "fairness" or "equity" of the property tax system would be maintained because of the lack of restrictions on full cash value.

The following chart illustrates the impact of a Proposition 13 type percentage limitation and the impact of a collections limitation over three years on a sample $50,000 home. It is assumed that the full cash value of the home would increase by 10% per year in the absence of the Proposition 13 type limitation on increases in full cash value. It is also assumed that total property tax collection would be allowed to increase by 2% per year, similar to the 2% increase allowed for Proposition 13.

	PERCENTAGE LIMITATION		COLLECTIONS LIMITATION	
YEAR 1	$50,000	Full Cash Value	$50,000	Full Cash Value
	7,500	Assessed Value	7,500	Assessed Value
	X 6.67	Tax Rate	X 6.67	Tax Rate
	$ 500	Tax Bill (1% of F.C.V.)	$ 500	Tax Bill (1% of F.C.V.)
YEAR 2	$51,000	Full Cash Value (50,000 + 2%)	$55,000	Full Cash Value (50,000 + 10%)
	7,650	Assessed Value	8,250	Assessed Value
	X 6.67	Tax Rate	X 6.18	Tax Rate
	$ 510	Tax Bill (1% of F.C.V.)	$ 510	Tax Bill (500 + 2%)
YEAR 3	$52,020	Full Cash Value (51,000 + 2%)	$60,500	Full Cash Value (55,000 + 10%)
	7,803	Assessed Value	9,075	Assessed Value
	X 6.67	Tax Rate	X 5.73	Tax Rate
	$520.20	Tax Bill (1% of F.C.V.)	$520.20	Tax Bill (510 + 2%)

In the first year depicted above in both instances, the full cash value of the home is $50,000 and the assessed value of the home is $7,500. The tax rate applied against the assessed valuation is $6.67 per $100 of assessed valuation and the resulting tax bill is $500 (or 1% of the homes full cash value).

In the second year depicted above, under the percentage limitation, the full cash value of the home is allowed to increase by 2% to $51,000 and the home's assessed valuation increases to $7,650. Once again, the tax rate of $6.67 is applied against the assessed valuation and the resulting tax bill is $510 (1% of the property's full cash value). During the same year, under the collections limitation, the full cash value of the home is assumed to increase by the average rate of increase within the taxing district of 10% and, therefore, the home's full cash value increases from $50,000 to $55,000 and the property's assessed valuation increases from $7,500 to $8,250. Because of the increase in the full cash values of the properties, the tax rate is forced down from $6.67 to approximately $6.18. When the tax rate of $6.18 per $100 of assessed valuation is levied against the assessed valuation of the home, the resulting tax bill is $510, exactly equal to the bill under the percentage limitation. However, the bill is no longer 1% of the full cash value of the home, but rather is now less than 1%.

In the third year, under the percentage limitation the full cash value of the property is once again allowed to increase by 2% to $52,020 and the assessed valuation increases to $7,803. The tax rate of $6.67 is then applied to the assessed valuation of the home and the tax bill is equal to $520.20 (1% of

the full cash value). Under the collections limitation, the full cash value of the home is once again assumed to increase by 10% to $60,500 and the assessed valuation increases to $9,075. Again, because of the increases in the full cash value, the property tax rate is forced down from $6.18 to approximately $5.73. Applying the tax rate $5.73 to the home's assessed valuation results in a property tax bill of $520.20. Exactly the same as the property tax bill under the percentage limitation.

Thus, a collections limitation can be seen to result in a limitation on increases in property tax bills similar to the limitation that results from a Proposition 13 type limitation. The major advantage of a collections limitation over a percentage limitation on property tax collections is the preservation of the full cash value basis for determining property tax liabilities. The full cash value basis for determining property tax liability insures the continuation of the "equity" of the property tax system. The use of full cash value as the basis for determining property tax liability insures that the owners of high value properties pay more property taxes than the owners of low value properties.

Because the collections limitation applies to the total amount collected by the taxing authority, some differences in the annual percentage increase in property tax bills may occur between specific parcels. Essentially, the collections limitation limits individual property tax bills by forcing down the taxing authority property tax rate. However, the same rate is applied to all properties within the jurisdiction and therefore properties that have increased at a rate greater than the average rate of increase will receive more than a 2% increase in their property tax bill, while properties that have increased at a rate less than the average rate of increase will receive less than a 2% increase in their property tax bill.

C. Limiting Property Tax Collections from Specific Groups of Taxpayers

The two alternative methods of limiting property taxes discussed above, are designed to provide property tax relief to all taxpayers in a similar manner. In addition to general taxpayer relief, there may be a desire to grant additional relief to certain categories of taxpayers. The relief granted to certain categories of taxpayers may be in addition to the general property tax relief discussed in the preceding sections.

There are two primary mechanisms available for granting relief to specific groups of taxpayers. These two methods are exemptions and credits.

Currently, the State of Arizona provides exemptions from property taxes, on a limited basis, to widows and certain veterans. These exemptions are established in the Constitution and exempt a fixed dollar amount of the value of the taxpayers' property from property taxes.

Another type of exemption, which is used in several states, is a residence exemption, commonly referred to as a homestead exemption. Typically, a residence exemption protects a certain portion of the taxable value of a taxpayers' principle place of residence from property taxation. The amount of value exempted by the residence exemption can be determined using either a percentage of the total value of the property or by a fixed dollar amount.

If the exemption is established as a fixed dollar amount, it will result in relatively more relief being granted to lower valued properties. For example, if a $2,000 assessed valuation residence exemption were enacted, a $15,000 full cash value house would receive a 13.3% exemption whereas, a $50,000 full cash value house would receive a 4% exemption. Thus, assuming an equal tax rate for both properties, the property with the lower value will receive a greater percentage reduction.

On the other hand, if the exemption is granted based upon a specified percentage of the property's total value, the exemption will result in an equal percentage relief being granted to all property owners. For example, if a residence exemption were enacted such that 15% of a primary residence would be exempt from property taxes, the impact on all residences would be approximately equal.

All exemptions generally result in a tax shift, rather than an actual tax reduction. This is because, typically, the loss in value within the jursidiction due to the exemption, results in a higher tax rate being levied on all properties and therefore all non-exempt properties are taxed more than they would have been in the absence of the exemption. This is particularly important for districts that are primarily composed of residential property. The more residential property there is in a given district, the less impact any type of residence exemption will have. At the extreme, if a district were composed of 100% residential property, the imposition of a 90% residence exemption would have no impact on the property tax liability of the residents of the district. This is because the exemption would merely force the tax rate up to fully compensate for the decrease in taxable property.

One of the significant problems with exemptions that are based on a fixed dollar amount is inflation. If the amount exempted is a fixed amount, as the value of properties continue to increase over time, the relative worth of the exemption will diminish. In other words, the $2,000 assessed valuation exemption for widows represented substantial relief in 1960 when the average value of a home was $15,000, but that same $2,000 exemption provides very little relief in 1979 when the average value of a home has risen to almost $50,000.

In order to prevent increasing home values from eliminating the impact of a fixed amount residence exemption, it is necessary to "index" the exemption in some way so that it will keep pace with rising property values.

A second way of granting specific relief to certain groups of taxpayers is a credit of one type or another. Credits for property taxes paid are the most specific of all types of property tax relief. This is because very specific qualifications can be developed to limit the applicability of the credit to very specific roots. The State of Arizona currently grants an elderly tax credit on the income tax to partially offset property tax payments by certain elderly residents. However, the credit is not available to all elderly residents because in order to qualify, certain income criteria must be met. Thus, credits can be employed to insure that only those individuals who are paying

a disproportionate part of their income in property taxes receive relief.

This type of a credit is commonly referred to as a "circuit-breaker". Typically, circuit-breakers provide that if property taxes exceed a certain predetermined percentage of a household's income, the excess burden is relieved.

Generally, circuit-breakers are administered through the income tax process and the applying individual receives a credit against their income tax liability or a refund in those instances where the credit exceeds their income tax liability.

Because "circuit-breakers" provide property tax relief only to those individuals who meet the income or other qualifications, relief can be provided at relatively lower costs than through other more general relief mechanisms. Further, circuit-breakers can be used to provide property tax relief to renters as well as homeowners. Because circuit-breakers are typically administered through the income tax, renters are guaranteed the relief provided through a circuit-breaker whereas they might not benefit from property tax reductions given to landlords.

In summary, in addition to the general property tax relief mechanisms that were described in the first two sections of this chapter, several specific relief mechanisms exist that can be implemented in lieu of or in conjunction with the more general mechanisms. These specific relief mechanisms include the residence exemption which is designed to provide relief only to homeowners based either on a fixed dollar amount of property value (which must be indexed to prevent its erosion due to increased home values) or based upon a fixed percentage of the property's total value. In addition to the residence exemptions, credits for property taxes paid may be provided to reduce the burden of property taxes in those cases where it becomes excessive.

IV

EXECUTIVE SUMMARY OF:

THE SALES TAX ON FOOD

OPTIONS FOR REDUCING THE TAX BURDEN*

INTRODUCTION

Many states have attempted to reduce the burden of the sales tax on individuals by eliminating the sales tax on food or providing an income tax credit for sales taxes paid. Of forty-six states which levy a general sales tax, twenty-three states exempt sales of food from the tax. The District of Columbia also exempts food from its general sales tax. In addition, four states provide an income tax credit for sales taxes paid on food items and three states provide an income tax credit for sales taxes paid in general.[1] (See Exhibit 1)

This report will describe the potential impacts if similar provisions were implemented in the State of Arizona. The executive summary will be limited to a discussion of the three most common options. The report is divided into the following sections:

1. a description of the current food sales tax
2. a description and analysis of the three options
3. a comparison of food sales tax exemptions and income tax credits for sales taxes paid

THE CURRENT FOOD SALES TAX

Under current Arizona law, sales of food and food products are taxable as follows:

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[1]Sources: Significant Features of Fiscal Federalism, 1976-77 Edition, Vol. II and Commerce Clearing House State Tax Reporters

*a full report on the food sales tax will be forthcoming in the near future.

EXHIBIT 1

FOOD TAX POLICIES IN OTHER STATES

State	Food Exempt	Income Tax Credit
Alabama		
Alaska		
Arizona		
Arkansas		
California	x	
Colorado		x
Connecticut	x	
Delaware		
Florida	x	
Georgia		
Hawaii		x
Idaho		x
Illinois		
Indiana	x	
Iowa	x	
Kansas		
Kentucky	x	
Louisiana	x	
Maine	x	
Maryland	x	
Massachusetts	x	x
Michigan	x	
Minnesota	x	
Mississippi		
Missouri		
Nebraska		x
Nevada		
New Jersey	x	
New Mexico		x
New York	x	
North Carolina		
North Dakota	x	
Ohio	x	
Oklahoma		
Oregon		
Pennsylvania	x	
Rhode Island	x	
South Carolina		
South Dakota		
Tennessee		
Texas	x	
Utah		
Vermont	x	x
Virginia		
Washington	x	
West Virginia	x	
Wisconsin	x	
Wyoming		
District of Columbia	x	

1. Sales of food and drink by restaurants and similar establishments for consumption on the premises are subject to the sales tax on restaurants and bars.

2. All other food products sold to consumers are taxable under the state's retail sales tax.

Sales in both categories are taxed by the state at a cumulative rate of 4%. This includes a 2% transaction privilege tax and a 2% education excise tax. In addition, local sales taxes are often imposed on the sale of food and food products. Local sales taxes are usually levied at a rate of 1-2% where applicable.

OPTIONS FOR REDUCING THE SALES TAX BURDEN: DESCRIPTION AND ANALYSIS

As mentioned before, there are two generally accepted approaches for reducing the tax burden associated with the sales tax on food. The first approach is to eliminate the sales tax on food and prohibit the levy of new sales taxes on such products. The second approach is to return all or a portion of the receipts collected from sales taxes on food to taxpayers in the form of an income tax credit. Several options are available for reducing the tax burden under each of these approaches. Three of the most common options are analyzed below.

OPTION 1: ELIMINATING THE STATE SALES TAX ON FOOD

A. Description

Under this option, the 4% state tax on sales of retail food items would be removed. It is assumed that food products sold in restaurants and similar establishments would remain taxable whether prepared for on-premise consumption or for off-premise consumption.

B. Revenue Impacts

It has been estimated that 26-30% of Arizona's retail sales tax collections are derived from the sales tax on food. During 1978, 26-30% of state retail sales tax collections represented $89,532,216 to $103,306,403. This is the potential revenue loss which would have resulted if the state sales tax on food had been removed beginning in 1978.

Collections from the state's retail sales tax are distributed as follows:

State	Cities	Counties
70.7%	12.5%	16.8%

Therefore, a revenue loss of $89,532,216 to $103,306,403 would be borne by each type of jurisdiction as shown below:

	Loss to State	Loss to[2] Cities	Loss to[3] Counties
low	$63,299,277-	$11,191,527-	$15,041,412-
high	73,037,627	12,913,300	17,355,476

C. Equity Impacts

The graphs in exhibit 2 illustrate the change in the sales tax burden which would result from removing the state sales tax on food. The top graph shows the change in the sales tax burden borne by families of one (a single individual) and the bottom graph shows the change in the sales tax burden borne by families of four. The sales tax burden is defined as the percent of income used by each family to pay sales taxes.

The long-dashed line (top) in each of the graphs shows the percent of income currently used by familes at different income levels to pay state and local

[2]For a breakdown of the estimated loss to each city, see Table 1.
[3]For a breakdown of the estimated loss to each county, see Table 2.

TABLE 1

BREAKDOWN OF CITY REVENUE
LOSS UNDER OPTION 1

County	City	Low Estimate	High Estimate
Apache	Eager	$ 13,206	$ 15,238
	Springerville	7,745	8,936
	St. Johns	12,367	14,269
Cochise	Benson	22,965	26,498
	Bisbee	56,036	64,657
	Douglas	83,847	96,746
	Huachuca City	11,371	13,120
	Sierra Vista	135,373	156,199
	Tombstone	8,349	9,633
	Willcox	18,197	20,997
Coconino	Flagstaff	211,061	243,532
	Fredonia	5,372	6,198
	Page	39,640	45,739
	Willaims	16,049	18,518
Gila	Globe	49,343	56,935
	Hayden	8,629	9,956
	Miami	22,842	26,356
	Payson	19,440	22,430
	Winkleman	6,547	7,554
Graham	Pima	9,703	11,196
	Safford	40,010	46,165
	Thatcher	19,283	22,249
Greenlee	Clifton	34,224	39,489
	Duncan	5,204	6,005
Maricopa	Avondale	44,587	51,446
	Buckeye	17,492	20,183
	Chandler	134,791	155,528
	El Mirage	26,300	30,346
	Gila Bend	12,076	13,933
	Gilbert	24,241	27,970
	Glendale	452,787	522,446
	Goodyear	15,758	18,182
	Guadalupe	28,829	33,265

TABLE 1 (cont'd)

County	City	Low Estimate	High Estimate
Maricopa	Mesa	$ 677,949	$ 782,249
	Paradise Valley	61,374	70,817
	Peoria	52,197	60,228
	Phoenix	4,501,154	5,193,639
	Scottsdale	525,230	606,034
	Surprise	22,349	25,788
	Tempe	631,650	728,827
	Tolleson	26,110	30,127
	Wickenburg	19,574	22,585
	Youngtown	12,680	14,631
Mohave	Kingman	53,988	62,294
Navajo	Holbrook	34,268	39,541
	Show Low	22,730	26,227
	Snowflake	17,313	19,977
	Taylor	10,095	11,648
	Winslow	54,268	62,617
Pima	Marana	9,882	11,402
	Oro Valley	7,924	9,143
	South Tucson	41,856	48,296
	Tucson	2,057,987	2,374,601
Pinal	Casa Grande	91,491	105,566
	Coolidge	45,158	52,105
	Eloy	43,681	50,401
	Florence	19,686	22,714
	Kearny	19,048	21,978
	Mammoth	13,732	15,845
	Superior	33,821	39,024
Santa Cruz	Nogales	63,109	72,818
	Patagonia	4,241	4,894
Yavapai	Chino Valley	13,586	15,677
	Clarkdale	7,174	8,277
	Cottonwood	24,151	27,867
	Jerome	1,947	2,247
	Prescott	113,627	131,109
Yuma	Parker	13,105	15,121
	Somerton	20,827	24,032

TABLE 1 (cont'd)

County	City	Low Estimate	High Estimate
Yuma	Wellton	$ 6,502	$ 7,503
	Yuma	202,399	233,537
Total		$11,191,527	$12,913,300

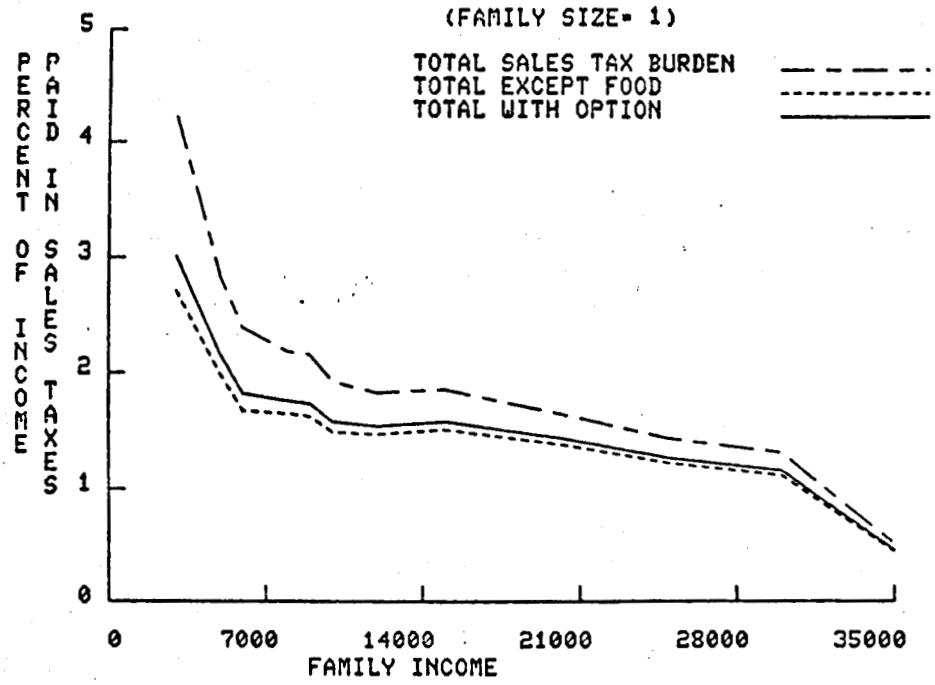
TABLE 2

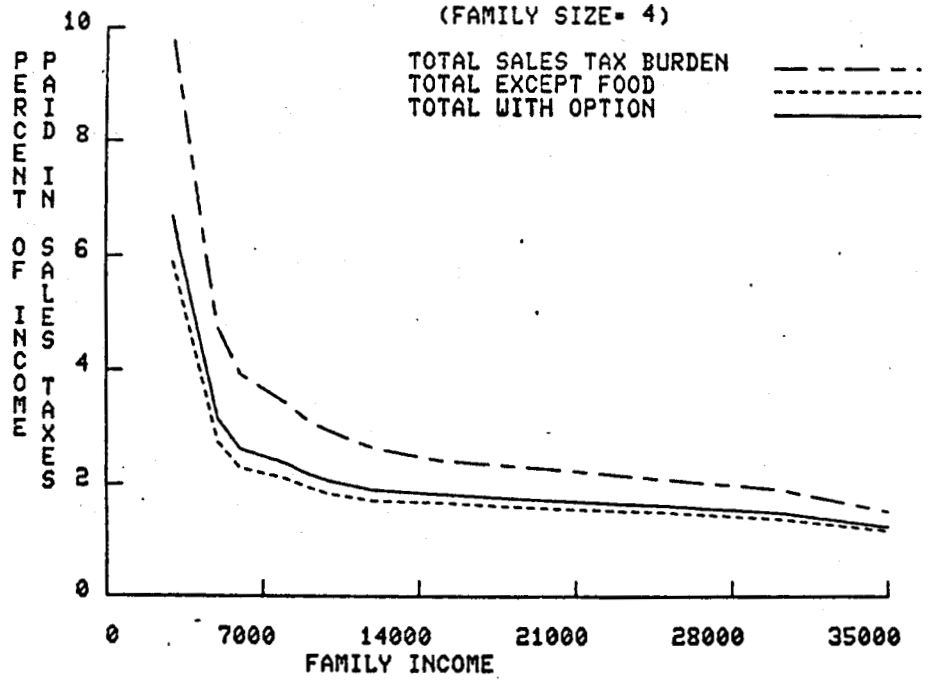
BREAKDOWN OF REVENUE LOSS
TO COUNTIES UNDER OPTION 1

County	Low Estimate	High Estimate
Apache	$ 114,813	$ 132,476
Cochise	392,328	452,686
Coconino	594,722	686,218
Gila	305,657	352,681
Graham	94,543	109,096
Greenlee	278,893	321,800
Maricopa	8,070,629	9,312,264
Mohave	369,088	425,870
Navajo	427,997	493,843
Pima	2,815,045	3,248,138
Pinal	622,399	718,145
Santa Cruz	102,041	117,731
Yavapai	398,838	460,198
Yuma	454,419	524,330
	$15,041,412	$17,355,476

EXHIBIT 2

COMPARISON OF SALES TAX BURDEN UNDER CURRENT LAW AND UNDER OPTION 1





sales taxes on all items (food and non-food). As shown in the graphs, low income families devote a larger portion of their total incomes to sales taxes than families of the same size with higher levels of income.

The short-dashed line in each of the graphs is included to show which portion of the sales tax burden results from the tax on food items and which portion of the sales tax burden results from the tax on non-food items. The distance below this line represents the percent of income used to pay sales taxes on non-food purchases. The distance between this line and the long-dashed line represents the percent of income used for food sales taxes (the food sales tax burden).

The solid line in each of the graphs shows the percent of income which would be used to pay all sales taxes after removing the state sales tax on food. The distance between the long-dashed line and the solid line is the amount of tax relief which would be received by individuals at each income level if the state sales tax on food were removed.

It is obvious from the graphs that individuals at all levels of income will receive a significant reduction in sales tax liability if the state tax on food sales is removed. By prohibiting collection of the tax, this option assures that all individuals receive tax relief which is exactly equal to their original state food sales tax liability (approximately 4/5 of the total food sales tax burden). Because the food sales tax burden is greater at low levels of income, low income familes will benefit most if the tax is removed.

OPTION 2: ELIMINATING STATE AND LOCAL SALES TAXES ON FOOD

A. Description

Under this option, state <u>and</u> local taxes on the sale of retail food items would be removed. Again, it is assumed that food products sold in restaurants

and similar establishments would remain taxable whether prepared for on-premise consumption on for off-premise consumption.

B. Revenue Impacts

Estimated collections from the local sales tax on food were $15,089,533 to $17,311,232 during 1978. This is the estimated revenue loss which would have occurred if local sales taxes on food had been removed during that period. When added to the revenue loss from a state food sales tax exemption, the total loss would range from $104,621,749 to $120,617,635.

The total loss to each type of jurisdiction is shown below.

	Loss to State	Loss to Cities[4]	Loss to Counties
State Tax	$63,299,277- 73,037,627	$11,191,527- 12,913,300	$15,041,412- 17,355,476
Local Tax	-0-	$15,089,533- 17,311,232	-0-
Total	$63,299,277- 73,037,627	$26,281,060- 30,224,532	$15,041,412- 17,355,476

C. Equity Impacts

The graphs in exhibit 3 illustrate the change in the sales tax burden which would result if state and local sales taxes on food were eliminated. Under this option, also, the sales tax burden will be reduced for individuals at all levels of income. The amount of tax relief received by each family will be exactly equal to its original food sales tax liability (state and local). The relief received by each family is represented in the graphs by the distance between the long-dashed line and the solid line. The remaining sales tax

[4]Table 3 shows the estimated loss to selected cities under option 2.

TABLE 3

BREAKDOWN OF REVENUE LOSS TO CITIES UNDER OPTION 2

County	Cities	Low Estimate	High Estimate
APACHE	Eager Springerville St. Johns	$ 77,973	$ 89,968
COCHISE	Benson Bisbee Douglas Hauchuca City Sierra Vista Tombstone Willcox	632,418	729,712
COCONINO	Flagstaff	673,081	776,632
	Fredonia Page Williams	166,734	192,386
GILA	Globe Hayden Miami Payson Winkleman	200,581	231,439
GRAHAM	Pima Safford Thatcher	143,217	165,249
GREENLEE	Clifton Duncan	53,331	61,536

TABLE 3 (cont'd)

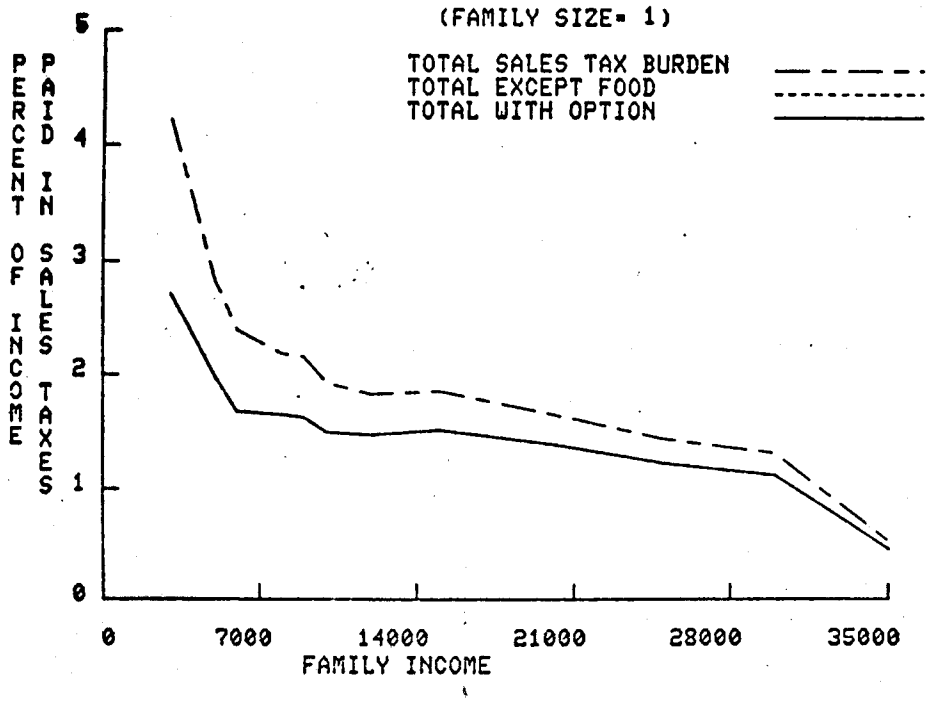
County	Cities	Low Estimate	High Estimate
MARICOPA	Phoenix	$ 12,236,961	$ 14,119,570
	Mesa	2,159,949	2,492,249
	Tempe	1,526,660	1,761,531
	Scottsdale	1,173,723	1,254,527
	Avondale, Buckeye, Chandler, El Mirage, Gila Bend, Gilbert, Glendale, Good Year, Guadalupe, Paradise Valley, Peoria, Surprise, Tolleson, Wickenburg, Youngtown	3,140,789	3,623,988
MOHAVE	Kingman	115,955	133,795
NAVAJO	Holbrook, Show Low, Snowflake, Taylor, Winslow	273,317	315,367
PIMA	Tucson	2,057,987	2,374,601
	Marana, Oro Valley, South Tucson	196,815	227,095
PINAL	Casa Grande, Coolidge, Eloy, Florence, Kearney, Mammoth, Superior	404,721	466,983
SANTA CRUZ	Nogales, Patagonia	199,960	230,723

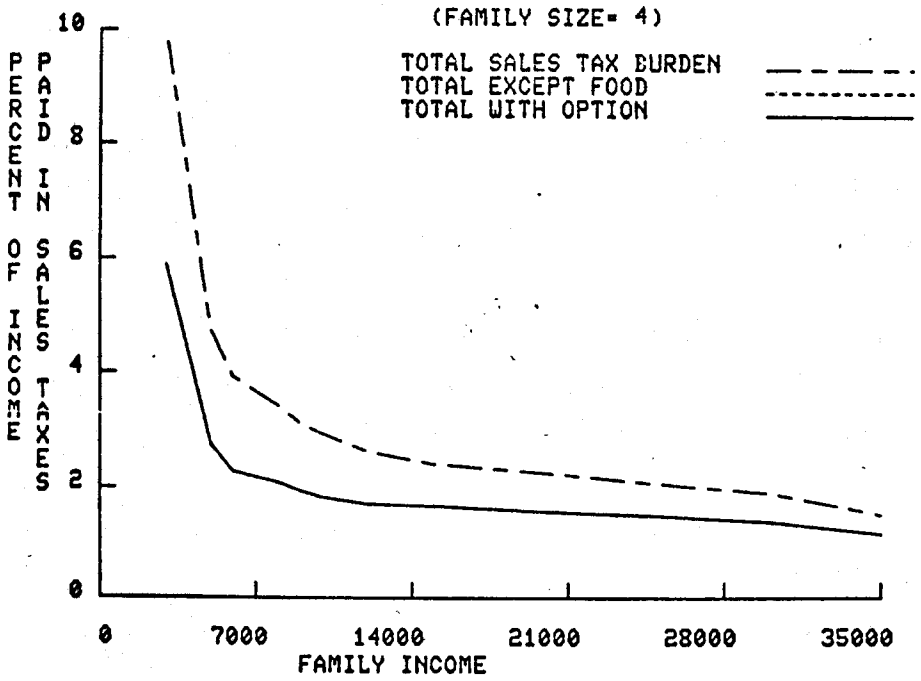
TABLE 3 (cont'd)

County	Cities	Low Estimate	High Estimate
YAVAPAI	Chino Valley Clarkdale Cottonwood Jerome Prescott	$ 261,821	$ 302,103
YUMA	Parker Somerton Wellton Yuma	585,067	675,078
TOTAL		$ 26,281,060	$ 30,224,532

EXHIBIT 3

COMPARISON OF SALES TAX BURDEN UNDER CURRENT LAW AND UNDER OPTION 2





burden will equal the percent of income used to pay sales taxes for non-food purchases (represented by the solid and short-dashed lines).

OPTION 3: FIXED PER CAPITA TAX CREDITS

A. Description

Under this option, each individual in the state would be eligible to receive an income tax credit as compensation for sales taxes paid. The amount of the credit would be the same for each individual in the state.

B. Revenue Impacts

The revenue loss from a flat rate per capita tax credit depends on the size of the credit which is granted. The estimated revenue loss which would result from several different levels of credit is shown below for 1978:

Per Capita Tax Credit	Estimated Revenue Loss
$45/person	$108,202,005-$114,624,000
$35/person	$ 84,157,115-$ 89,152,000
$30/person	$ 72,134,670-$ 76,416,000

The high estimate is the revenue loss which would have resulted if all individuals eligible for the credit in 1978 had actually received it. The low estimate is the revenue loss which would have resulted if the credit had been granted only to individuals claimed as exemptions on 1978 tax returns.

Net collections from the state income tax are divided between the state and the cities. The cities' share is equal to 15% of the net proceeds collected from the income tax two years prior to the current fiscal year.

Thus, the cities would not receive a reduction in their share of income tax collections until two years after the income tax credit was first granted

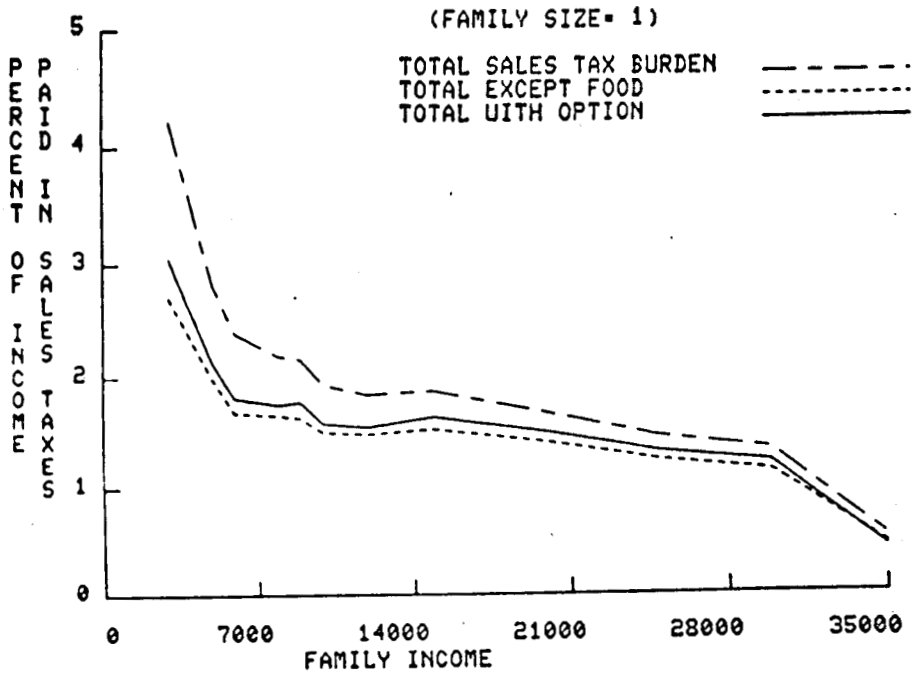
and the revenue loss associated with the tax credit would be borne entirely by the state for the first two years that the credit was in effect.

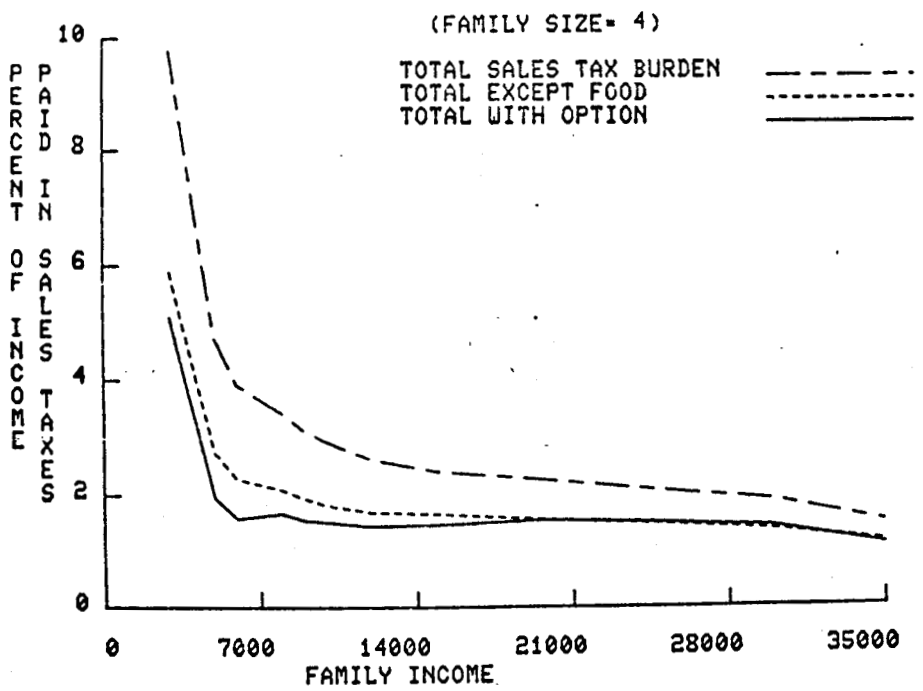
C. Equity Impacts

The graphs in exhibit 4 illustrate the change in the sales tax burden which would result if taxpayers received a $35 per capita income tax credit for sales taxes paid. Under this option, as well, the sales tax burden will be reduced for individuals at all levels of income. Individuals at lower levels of income will generally receive tax relief which is somewhat greater than their original state food sales tax burden, and in the case of larger families, will receive tax relief which exceeds their combined state and local food sales tax liability. Individuals at higher income levels will, in most cases, receive tax relief which is equal to or slightly less than their original food sales tax liability. In each of the graphs, the amount of tax relief received by individuals at each income level is represented by the distance between the long-dashed line and the solid line.

EXHIBIT 4

COMPARISON OF SALES TAX BURDEN UNDER CURRENT LAW AND UNDER OPTION 3





COMPARISON OF REVENUE AND EQUITY IMPACTS: EXEMPTIONS vs. CREDITS

I. SUMMARY AND COMPARISON OF REVENUE IMPACTS

When comparing the revenue impacts of the three options for reducing the sales tax burden, the following questions should be considered.

1) How much revenue is to be returned to the taxpayers?
2) Which jurisdictions will bear the revenue loss?

In considering each of these questions, it is helpful to look separately at food sales tax exemptions and income tax credits for sales taxes paid. The distinct characteristics of each approach are considered below.

A. TOTAL REVENUES RETURNED TO TAXPAYERS

1. Food Sales Tax Exemptions

With a food sales tax exemption, the total amount of revenue which is returned to the taxpayers will be determined by the amount of revenues which would be collected by each jurisdiction if the exemption were not in effect. Option 1, for example, involves removing the state tax on food. Therefore, the total amount of revenue retained by the taxpayers under this option would equal the total amount collected by the state from the sales tax on food (estimated at $89,532,216-$103,306,403). Similarly, Option 2 provides for a food sales tax exemption at the state and local level. Thus, the total tax loss under this option would equal the amount of taxes collected by state <u>and</u> local jurisdictions. ($89,532,216-$103,306,403 collected by the state plus $15,089,533-$17,311,232 collected by the cities.)

Because no tax revenues will be collected on food sales if an exemption is in effect, the ability of the legislature to control the total amount of the revenue loss will be somewhat limited under this approach. However, it would

be possible to exercise more control over the total revenue loss from this type of alternative by reducing the tax rate on food sales instead of eliminating the tax altogether.

2. Income Tax Credits for Sales Taxes Paid

Income tax credits offer considerable flexibility in determining the amount of revenue to be returned to the taxpayers. With an income tax credit, the total amount returned will depend on the amount of the credit granted to each individual or household. An income tax credit may be designed to return all of the revenues collected from the food sales tax or only a portion of these revenues. For example, the amount of revenue returned to taxpayers with a $30 per capita tax credit is considerably smaller than the amount returned with a $45 per capita credit.

B. DISTRIBUTION OF REVENUE LOSS AMONG JURISDICTIONS

1. Food Sales Tax Exemptions

Exempting food from the sales tax would result in a reduction in total sales tax collections. Under current law, state sales tax collections are divided between the state, the cities and the counties. City sales tax collections are retained by the cities which levy a tax. Thus, the revenue loss from a state food sales tax exemption would be shared by the state, cities, and counties, while the revenue loss from a local food sales tax exemption would be borne entirely by the cities.

2. Income Tax Credits for Sales Taxes Paid

Providing an income tax credit for sales taxes paid would result in a reduction in state income tax collections. Net collections from the state income tax are divided between the state and cities. The cities' share is equal to 15% of the net proceeds collected from the income tax two years prior to the current fiscal year. Thus, the revenue loss resulting from an income tax credit would

be borne entirely by the state during the first two years the credit is in effect, and the cities would not experience a reduction in their share of tax collections until the third year

II. SUMMARY AND COMPARISON OF EQUITY IMPACTS

Two questions must also be addressed when comparing the equity impacts of the three options for reducing the sales tax burden. These questions are:

1) Will families at all levels of income receive a reduction in sales tax liability? (What is the scope of the tax relief?)

2) How does the amount of reduction in taxes compare with the amount of taxes paid at each level of income? (What is the degree of tax relief?)

Again, it is helpful to look separately at food sales tax exemptions and income tax credits for sales taxes paid in considering each of these questions.

A. THE SCOPE OF TAX RELIEF

1. Food Sales Tax Exemptions

Food sales tax exemptions are intended to provide tax relief to all individuals affected by the food sales tax. Because the food tax is eliminated on all retail food items, any individual purchasing food at retail will benefit regardless of income level.

2. Income Tax Credits for Sales Taxes Paid

Income tax credits for sales taxes paid may be granted to all individuals regardless of income or may be granted only to individuals at specified income levels. The flat rate per capita tax credit examined in this report will reduce the tax burden of individuals at all levels of income.

B. THE DEGREE OF TAX RELIEF

1. Food Sales Tax Exemptions

By prohibiting collection of the tax, food sales tax exemptions assure that all individuals receive tax relief which is exactly equal to their original food sales tax liability. Because no tax is collected on food items when an exemption is in effect, the food sales tax burden of individuals at all levels of income is reduced to zero for each jurisdiction exempting food.

2. Income Tax Credits for Sales Taxes Paid

With an income tax credit, the degree of tax relief available to individuals at each level of income will depend on the type of tax credit used. With a $35 per capita tax credit, individuals in larger families and individuals with lower levels of income may receive tax relief which exceeds their food sales tax liability while individuals at higher income levels and from smaller family sizes will receive tax relief which, in most cases, is equal to or slightly less than their food sales tax liability.

Tax credits may also be designed which concentrate tax relief at low income levels and provide no relief to families at high income levels or which duplicate the effects of an exemption by providing tax relief to each household which is approximately equal to its food sales tax liability.

V. POTENTIAL SOURCES OF REPLACEMENT REVENUES

A. INTRODUCTION

In this section, a description of several alternative revenue sources is presented. It should be noted that the revenue estimates presented for each of the alternatives are preliminary and are subject to refinement. The list of alternatives is not intended to be exhaustive of all possibilities, but rather to identify several of the major revenue alternatives.

B. SALES TAX SOURCES

1. Sales Tax Rate Increase

The following table shows a breakdown by taxable activity of the expected increase in revenues if the sales tax rate was increased by 1%.

Taxable Activity	Current Tax Rate	New Tax Rate	Increase in Collections
Transportation	4	5	$ 48,393
Mining	2½	3½	14,141,132
Timbering	1½	2½	838,892
Utilities	4	5	12,189,260
Communication	4	5	2,114,611
RR and Aircraft	4	5	255,060
Priv. Cars-Pipelines	4	5	19,965
Publishing	4	5	1,387,367
Job Printing-Advert.	4	5	1,518,215
Restaurants-Bars	4	5	9,959,992
Amusements	4	5	1,086,442
Rentals-Real Prop.	3	4	7,575,244
Rentals-Pers. Prop.	4	5	3,064,423
Contracting	4	5	20,871,732
Feed-Wholesale	3/8	1 3/8	1,693,576
Retail	4	5	86,088,669
Total			$162,852,973

These figures are calculated based on 1978 calendar year collections.

2. New Sales Tax on Services

Gross receipts from sales of services are not taxable under current Arizona law. Collections from a 4% tax rate levied on the gross receipts of service industries are estimated at $89,528,888. This estimate is based on the gross sales of service industries during calendar year 1978 and does not include collections from health services, banking and credit services or real estate title services and brokerage fees.

3. New Tax on Casual Sales of Vehicles

Casual sales are sales by individuals who are not regularly engaged in the business of selling property. If a tax were levied on casual sales of vehicles, individuals would be required to pay this tax on the sale price of privately purchased vehicles before the vehicle could be registered. Estimated revenue collections from a 4% tax on casual sales of vehicles are $8,502,783 for calendar year 1978.

C. INCOME TAX SOURCES

1. Individual Income Tax: Addition of a 9% and 10% Bracket to the Current Rate Structure

The following tables show the current individual income tax rate structure and a proposed rate structure after adding a 9% and 10% income tax bracket.

Current Rate Structure			Proposed Rate Structure		
Rate	Taxable Income		Rate	Taxable Income	
	Single	Married		Single	Married
2%	$ 0-$1,000	$ 0-$ 2,000	2%	$ 0-$1,000	$ 0-$ 2,000
3%	1,001- 2,000	2,001- 4,000	3%	1,001- 2,000	2,001- 4,000
4%	2,001- 3,000	4,001- 6,000	4%	2,001- 3,000	4,001- 6,000
5%	3,001- 4,000	6,001- 8,000	5%	3,001- 4,000	6,001- 8,000
6%	4,001- 5,000	8,001- 10,000	6%	4,001- 5,000	8,001- 10,000
7%	5,001- 6,000	10,001- 12,000	7%	5,001- 6,000	10,001- 12,000
8%	over $6,000	over $12,000	8%	6,001- 7,000	12,001- 14,000
			9%	7,001- 8,000	14,001- 16,000
			10%	over $8,000	over $16,000

The increase in revenues if the proposed rate structure had been in effect during the 1977 income tax year is estimated at $14,400,000.

2. Individual Income Tax: Addition of Brackets with Rates up to 31%

The following tables show the current individual income tax rate structure and a proposed rate structure after adding new income tax brackets with rates up to 31%.

Current Rate Structure

Rate	Taxable Income	
	Single	Married
2%	$ 0-$1,000	$ 0-$ 2,000
3%	1,001- 2,000	2,001- 4,000
4%	2,001- 3,000	4,001- 6,000
5%	3,001- 4,000	6,001- 8,000
6%	4,001- 5,000	8,001- 10,000
7%	5,001- 6,000	10,001- 12,000
8%	over $6,000	over $12,000

Proposed Rate Structure

Rate	Taxable Income		Rate	Taxable Income	
	Single	Married		Single	Married
2%	$ 0-$ 1,000	$ 0-$ 2,000	17%	$15,001-$16,000	$30,001-$32,000
3%	1,001- 2,000	2,001- 4,000	18%	16,001- 17,000	32,001- 34,000
4%	2,001- 3,000	4,001- 6,000	19%	17,001- 18,000	34,001- 36,000
5%	3,001- 4,000	6,001- 8,000	20%	18,001- 19,000	36,001- 38,000
6%	4,001- 5,000	8,001- 10,000	21%	19,001- 20,000	38,001- 40,000
7%	5,001- 6,000	10,001- 12,000	22%	20,001- 21,000	40,001- 42,000
8%	6,001- 7,000	12,001- 14,000	23%	21,001- 22,000	42,001- 44,000
9%	7,001- 8,000	14,001- 16,000	24%	22,001- 23,000	44,001- 46,000
10%	8,001- 9,000	16,001- 18,000	25%	23,001- 24,000	46,001- 48,000
11%	9,001- 10,000	18,001- 20,000	26%	24,001- 25,000	48,001- 50,000
12%	10,001- 11,000	20,001- 22,000	27%	25,001- 26,000	50,001- 52,000
13%	11,001- 12,000	22,001- 24,000	28%	26,001- 27,000	52,001- 54,000
14%	12,001- 13,000	24,001- 26,000	29%	27,001- 28,000	54,001- 56,000
15%	13,001- 14,000	26,001- 28,000	30%	28,001- 29,000	56,001- 58,000
16%	14,001- 15,000	28,001- 30,000	31%	over $29,000	over $58,000

If the proposed rate structure had been in effect during the 1977 income tax year, the increase in income tax collections is estimated at $42,800,000.

D. OTHER TAX SOURCES

1. Property Transfer Taxes

A property transfer tax is a tax levied on the sale value of real estate at the time of sale or transfer. Total collections from a 1% property transfer tax imposed during the 1977-78 fiscal year are estimated at $19,214,000. It is assumed that all property sales would be subject to the 1% tax.

2. Luxury Taxes - Rate Increase

The following table shows the estimated increase in collections which would result from an increase in existing luxury tax rates. The estimates are based on 1978 collections.

Luxury Item	Current Rate	Proposed Rate Increase	Increase of Collections
Cigarettes	13¢ on each 20 cigarettes or fractional part thereof.	1¢ per 20 cigarettes	$2,841,946
Spiritous Liquor	$2.50 per gallon with a proportionate rate for greater or lesser quantities.	$.50 per gallon	$2,432,496
Vinuous Liquor (alcohol content less than 24%)	42¢ per gallon with a proportionate rate for greater or lesser quantities.	1¢ per gallon	$ 604,359
Malt Liquor	8¢ per gallon	1¢ per gallon	$ 715,351
TOTAL			$6,594,152

3. Vehicle Fuel Taxes - Rate Increase

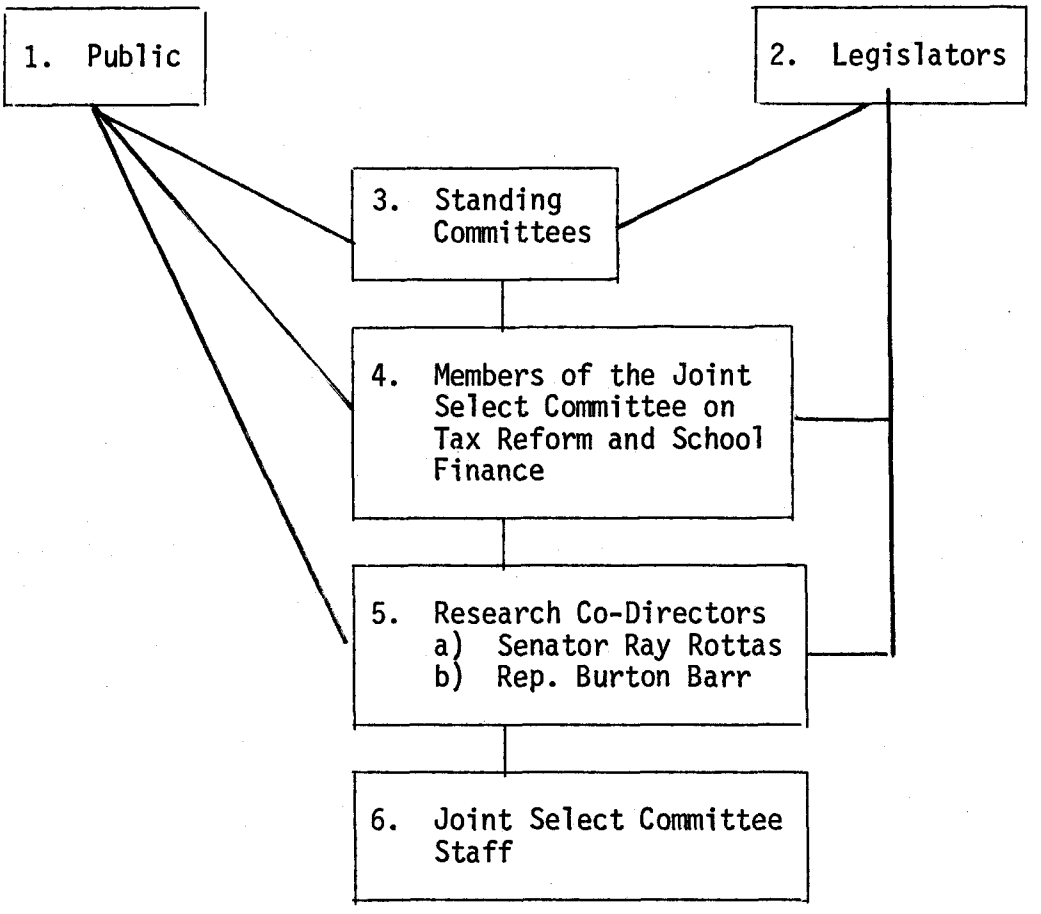
Under current law, gasoline and use fuel taxes are levied at a rate of 8¢ per gallon. The increase in collections which would result from a 1¢ increase in the tax rate is estimated at $15,703,825. This estimate is based on fuel tax collections during calendar year 1978.

4. Vehicle License Taxes - Rate Increase

Vehicle license taxes are currently levied at a rate of 4% of the assessed valuation of the vehicle. A 1% increase in this rate would produce an estimated $14,248,284 in additional revenues. This estimate is based on vehicle license tax collections during calendar year 1978.

SUBMISSION OF EDUCATION AND TAX PLAN ALTERNATIVES

Each of you are encouraged to submit any viable alternative plan in the areas of taxation or school finance which you believe should be considered during the forthcoming special session of the Legislature. In order to insure that each proposal is properly researched and investigated in the most expeditious manner, the following procedure has been established.



The PUBLIC (1) prepares alternative education and tax plans, <u>in writing,</u> and submits these to either a member of the Joint Select Committee on Taxation and School Finance or the Research Co-Directors.

LEGISLATORS (2) who are not members of the Joint Select Committee on Taxation and School Finance may submit their research requests and alternative

taxation and school finance plans through a (3) STANDING COMMITTEE or to a member of the Joint Select Committee or the Research Co-Directors. STANDING COMMITTEES (3) should submit plans to the Joint Select Committee. All requests submitted must be in writing.

MEMBERS (4) of the Joint Select Committee will submit their research requests and alternative taxation and school finance plans in writing along with requests received from the public or other legislators to the Co-Directors.

The RESEARCH CO-DIRECTORS (5) will compile all requests, determine the amount of time necessary for research and investigation and assign these to the staff, in priority order. Priorities will be established based upon the order in which requests are received, the amount of work estimated to research and investigate the request and the availability of staff time.

At the time the Research Co-Directors assign the request to the staff they will notify the person making the request as to when it can reasonably be expected that the work will be completed. The Research Co-Directors will monitor the progress of the request to insure that it is returned to the originator as rapidly as possible.

The STAFF (6) of the Joint Select Committee will perform the research tasks as assigned by the Research Co-Directors.

Procedures for Handling Requests

A. Legislators

Legislators have been requested to submit research requests in writing to the Co-Directors as soon as possible. Procedures for submitting requests have been distributed at meetings of the Joint Select Committee and at the taxation seminar.

To date, there have been fewer than six requests submitted to the Co-Directors.

The following procedure is suggested in handling all legislative requests.

1. Submission of request in writing to Co-Directors.

2. Transfer of request from the Co-Directors to Co-staff Coordinators.

3. Assessment of priorities and assignment of work to staff members by staff coordinators.

4. At the time assignments are made, the staff coordinators will inform the legislator making the request about the action being taken and the estimated timeframe for completion. If further explanation of the request or sections of the request is necessary, it will be noted in the memo to the legislator.

5. If the request requires excessive staff time for completion, or is in need of exceptional action by the Co-Directors, the staff coordinators will submit the request, together with a recommendation for action to the Co-Directors.

6. The staff coordinators will assemble the analyses and distribute to legislators upon completion of the research.

B. Public Interest Groups

Same procedures as indicated above.