

BOARD OF SUPERVISORS
GILA COUNTY, ARIZONA

Date: May 15, 2006

JOSÉ M. SANCHEZ
Chairman

TOMMIE C. MARTIN
Vice-Chairman

SHIRLEY L. DAWSON
Member

STEVEN L. BESICH
Clerk of the Board

By: Marilyn Brewer
Deputy Clerk

Gila County Courthouse
Globe, Arizona

PRESENT: Jose M. Sanchez, Chairman; Tommie C. Martin, Vice-Chairman, (participated via telephone conference call); Shirley L. Dawson, Member; and, Steven L. Besich, County Manager/Clerk.

The Gila County Board of Supervisors met in an Emergency Work Session at 10:00 a.m. this date. Steve Besich, County Manager/Clerk, led the Pledge of Allegiance.

Chairman Sanchez noted that Vice-Chairman Martin would be participating in the meeting via a telephone conference call.

Chairman Sanchez then called on Mr. Besich to lead the discussion regarding pending legislative issues. Mr. Besich thanked everyone, particularly the elected officials and their deputies, for attending the meeting on such short notice. He passed out a packet of information, which contained the following pages: Gila County Property Tax Levies for Tax Year 2005; Gila County Property Tax Levy for FY 2005-2006; County Concerns with Proposed Mandated Truth in Taxation Levy, as prepared by the County Supervisors Association; Gila County FY 2006 Property Tax; and, a brief summary of Primary Properties Taxes, Secondary Property Taxes and Proposed Solutions to the Property Tax Problem. **(A copy of the information presented is permanently on file in the Board of Supervisors' Office.)**

He stated that a couple of issues being discussed at State legislative meetings will affect many counties and each county to a different degree in the very near future. One of the issues pertains to levy limits, which will affect Gila County's expenditures and the way the County would have to deal with catastrophic drought or fires. He stated that it was decided, as a result of the County Supervisors Association Legislative Policy Committee Meeting, that Gila County should try to get its elected officials together to contact State legislators. Mr. Besich stated that the County could increase the levy limit, which could add \$7 million more a year in property taxes and still meet the constitutional mandates; however, the Board has not wished to pursue that option. He stated that the State Legislature is now threatening to take all counties, whether the County is under its levy limit or not, and freeze that limit this year. Mr. Besich called on John Nelson, Deputy County Manager, to speak about what occurred in 1980 and how primary property taxes are controlled, and to explain in his words, "why this is an attempt to make certain people look good and it doesn't have an affect on what the problem is because they are not addressing the problem." Mr. Nelson stated that each year for the past 15 years, the Legislature has run numerous property tax limitation bills. He believes that this year some of the bills appear to be "gaining a lot of steam" and will be aimed at primary property taxes. He explained that there are two distinct segments to property taxes; primary taxes and secondary taxes. Primary property taxes are used for general government services for cities, towns, counties and community colleges. Mr. Nelson explained that in 1980 the voters approved a constitutional amendment that limited primary property taxes to an increase of 2 percent per year on existing properties, plus the value of new construction coming in. This means that since 1980, at 2 percent compounded annually, the most property tax could have increased in the last 26 years since voter approved limitations is 68.7 percent. Over the same period of time inflation or the consumer price index increased 222 percent, which is 3.2 times more than the maximum allowable primary property tax.

Only 4 counties have increased their primary taxes the 68.7 percent over the past 26-year period to the maximum levy—Maricopa, Greenlee, Navajo and Apache. All other counties have had less than a 68 percent increase even though inflation was up 222 percent. He stated that several proposals have been presented to the Legislature, one of which calls for no levy increase ever in property taxes unless approved by a vote of the people, which isn't receiving much support. Another proposal is to go back to the 1980 philosophy of capping property taxes, thus capping each county at the current tax levy regardless of the fact that many counties have spent wisely and not increased the tax levy to the maximum. He stated that the problem for Gila County is that there are a lot of other issues pending, particularly Gila County's costs for the Arizona Long Term Care System (ALTCS). Mr. Nelson stated that a significant amount of Gila County's tax dollars go to ALTCS and that increase for this year is up 17 percent. If Gila County is limited to a 2 percent growth increase, the 17 percent ALTCS increase is going to strip away other County services. He stated that one of the reasons for support of this proposal is that the State legislators have been pressured by major property taxpayers in the State, like Pinnacle West and others. These large corporations are looking for one half of the \$1.4 billion State surplus to be used for a reduction in property taxes. He stated that what the State legislators are looking at is taking the County Education Equalization rate, which is currently 43 cents and raises approximately \$200 million per year, and eliminating that tax rate and making up that difference with State shared revenues such as sales tax, corporation income tax and individual tax. The legislators' concern is if the tax rate of 43 cents is eliminated, the counties in the past that have not increased their property taxes to the maximum will now increase their tax levy to make up for the 43 cent decrease; hence, the 2% cap. Mr. Besich explained that this proposal is being driven by Maricopa County, which is already at the maximum levy limit, so it will not affect Maricopa County's taxpayers or 80% of the taxpayers in Arizona. Mr. Nelson also explained that the other component to

property taxes is the secondary property taxes, which are for those items that are optional government-type services from special districts such as flood control, libraries, fire, water improvement, and sanitary, as well as debt service for government facilities and school overrides. There are two distinct problems with secondary property taxes, as follows: 1) The number of secondary taxes continue to proliferate, from the creation of special districts, debt servicing and overrides; and, 2) secondary property taxes have little or no controls in place as to increases in tax levies. In order to form a special district, which creates the secondary taxation, 51% of the homeowners in the proposed special district must approve the formation of said special district. However, if large taxpayers choose not to join that special district, the district boundaries are drawn to eliminate those large taxpayers; hence, the large taxpayers are not concerned about secondary taxes. As the two taxing components are compared, the assessed valuation for the homeowner, on which the primary tax is based, is limited by law to a 10 percent increase; however, the secondary taxes have no limitations or controls, but are instead based on the special districts formed by the approval of the homeowners in those districts. Mr. Nelson gave the example of what happened on the taxes in the community of Pine-Strawberry. Last year the County tax rate (primary rate) was \$4.41 per \$100 of assessed valuation, and it was \$4.41 again for this year. However, the water improvement special district tax rate (secondary rate) was \$.24 per \$100 of assessed value last year and \$.52 this year. When homeowners called inquiring about the large increase in their taxes, the secondary tax rate increase traced back to an increase in the budget approved by the Pine-Strawberry Water Improvement District Board and had nothing to do with the County primary tax rate which had not increased. Mr. Nelson explained that there is very little disclosure on what happens to secondary property taxes that come from the creation of these optional, voter-approved special taxing districts. Mr. Nelson concluded by stating that his recommendation to the County Supervisors Association (CSA), which is working on legislative issues,

would be that the State should not artificially control property taxes, but instead continue the 1980 voter mandates for primary tax rates. He stated, “Artificial controls have never worked whether it’s been on the assessed valuation or the weight side.” He stated that State statutes should be strengthened concerning public notification of the true tax effect of the creation of special districts, debt service plans and overrides. Mr. Nelson further recommended that taxpayers need to be informed as to the name of the entities that impose these secondary taxes, the amount of the taxes for each special district, and how much their taxes increase each year for each special district. He stated that this would involve requiring all taxing entities to comply with Truth-In-Taxation published notification requirements for all tax levies, including all primary taxes for the county, schools, community colleges, cities and towns as well as the secondary taxes for each special district. Mr. Nelson’s recommendation included a requirement that the County Board of Supervisors publish, prior to October 1st of each year, the results of Truth-in-Taxation Notice for all taxing levies within each county. The information would include the primary tax listings for Gila County, the community college, all cities, towns, and the secondary tax listings for special water improvement districts, lighting districts, fire districts, and all other special districts. He stated that this would let the taxpayer know where their property taxes are originating, how much they increase each year, and who is receiving those tax funds to allow the taxpayer to make an informed decision, instead of the Legislature sitting down in Phoenix looking at local control and putting on arbitrary limitations. Chairman Sanchez inquired if Gila County has attempted to provide this notification in past years. Mr. Nelson replied, “We have attempted that in the past and we have been successful in not letting further artificial controls on primary taxes get ‘legs’ in the Legislature, but I’m not sure that is going to be the same this year...Property taxes are out of control and County property taxes are out of control...The legislators, primarily from Maricopa County, although it won’t affect Maricopa County, nor 80% of the taxpayers in

Arizona, are saying we will do something about property taxes, so that's their proposal which will be devastating to rural Arizona." Discussion ensued between the Board and County Administration. Mr. Besich then stated that it is very important that the elected officials from Gila County contact the legislators because they are elected and their constituents are also the constituents of the legislators. He presented two recommendations, particularly to the Board and the elected officials. Mr. Besich stated that he would like to put together a sheet of bullet points and e-mail them out to each elected official and the Board so everyone would have the information at hand. He stated there needs to be a two-pronged approach. First is the need for everyone to contact the Gila County's State representatives and encourage them to continue their efforts to fight against this 2% cap; and, second is the need for everyone to make telephone calls and send e-mails to both the House and Senate leadership and the Majority and Minority leadership, so they know that the elected officials are not happy with the way the legislators are approaching this tax issue. He emphasized that these contacts need to be made immediately. Mr. Besich stated, "I think part of the theme we come up with will revolve around telling the leadership that we support full disclosure on any type of property taxation or any type of sales taxation, but primary levies are not the problem because they are already constitutionally controlled. The system is working and they [the legislators] are messing around with something and they really don't understand the impact." He also asked the elected officials to contact their affiliate associations for assistance and to get involved, whether it's the County Assessors' Association, Recorders, Constables, Sheriffs, etc. Mr. Besich then explained many of the needs this County is currently facing and stated that Gila County has been fortunate during the last couple of years to be able to absorb County employee health care cost increases. Discussion was also held on how the counties, particularly Gila County, could be impacted by the Federal government's handling of the illegal immigration problems. Many of the elected officials

present also spoke on their concerns, future needs, and possible problems that would impact their departments. Supervisor Dawson also noted that of all the counties in Arizona, Gila County has the lowest percentage [3.7%] of privately held land and for taxation purposes this does have a serious affect on the County. Mr. Nelson reiterated that the other major impact on the County's budget that comes out of the General Fund will be the Arizona Health Care Cost Containment System/Arizona Long Term Care System (AHCCCS/ALTCS) payments made to the State which have increased 17 percent this year. He stated that Gila County's cost for AHCCCS/ALTCS is the absolute highest in the State. Seventy-two cents of every dollar of property tax collected in Gila County goes to fund law enforcement, the courts and AHCCCS/ALTCS. Mr. Besich again encouraged everyone present to contact their legislative representatives as soon as possible.

There being no further business to come before the Board, Chairman Sanchez adjourned the meeting at 11:05 a.m.

Jose M. Sanchez, Chairman

ATTEST:

Steven L. Besich, County Manager/Clerk