Arizona Property Valuation and Taxation System

Maricopa County Assessor’s Office
Historical View

• Property tax has been around since at least 586 BC.
• In Arizona, property tax began in the Territorial Days - 1871.
  • Sheriff acted as Assessor and Treasurer (most Counties).
  • Self Reporting Valuation System – Property owner filled out an Affidavit of Value for taxable property.
  • Penalty for understatement – Assessment could increase to five times normal.
  • Bounty Hunters – If your neighbor turned you in for underassessment the government would pay a bounty up to 50% of increase.
• Neglected or refused to pay taxes on time – Sheriff could confiscate property and sell in 3 days.
Ad Valorem System

- Ad valorem taxing system with modifications.
  - Value weighted by classification
  - Statutory values (agriculture, golf courses, etc.)
  - Limited Property Value (LPV)
Valuation System

- Mass appraisal is the systematic appraisal of groups of properties as of a given date using standardized procedures and statistical testing.

- In contrast, single property appraisal or fee appraisal is the valuation of a particular property as of a given date.

- The valuation steps in both approaches are similar.

- Typical cost of single family residential home appraisal one for lending purposes may range from $350 to $450. Budgets allocated to County Assessor’s range between $12.00 and $16.00 per parcel.
Valuation Appraisal Techniques

- Standard appraisal methods and techniques are employed for the valuation of all real property not subject to valuation by statutory prescription.
- Constraints on traditional valuation methods include a requirement that current use of the property, rather than the appraisal industry's usual standard of "highest and best use" must be included in determining the Full Cash Value of real property.
- The standard appraisal methods and techniques employed in the Arizona property tax assessment system include the Cost, Sales Comparison, and Income Approach to value.
Valuation Components

• Uniformed valuation of all taxable properties
  • Real and Business Personal Property
• Exempt properties
  • All property not exempted by law is subject to taxation. Exemptions include government, educational, charitable and religious organizations if not used or held for profit.
• Property is divided into Centrally and Locally Assessed
  • Centrally Assessed by Arizona Department of Revenue
  • Locally Assessed by each County Assessor
• Robust appeal process (valuation and classification)
  • Administrative
  • Court (Tax, Superior and Small Claims)
Valuation Components - continued

• Tax reduction programs available for ...
  • Lower income seniors
  • Widows and widowers and permanently disabled
• Primary characteristics of current system include two assessed values...
  • Full Cash Value (FCV) - Reflects market conditions.
  • Limited Property Value (LPV) - Is estimated via a statutory formula.
• The calendar was modified in the mid 1990’s for real property to extend beyond the current year.
• Property is classified according to its usage.
Market Value

• In general, the value standard in Arizona is Full Cash Value (FCV), which is synonymous with market value.

• The definition of Full Cash Value can be found in A.R.S. §42-11001(5) which states in part, that Full Cash Value...

  “...for property tax purpose means the value determined as prescribed by statute. If no statutory method is prescribed, full cash value is synonymous with market value which means the estimate of value that is derived annually by using standard appraisal methods and techniques.” (emphasis added).
Full Cash Value (FCV)

- Full Cash Value may be equal to, or less than the actual market value. The lower values are the result of adjusting for mass appraisal error, creative financing, personal property, and time on the market (1993 DOR Ratio Standards Addendum).

- Full Cash Value (AKA Secondary Valuation) is used to calculate the tax for bonds, budget overrides, and special districts.

- Full Cash Values are unlimited in potential changes. Full Cash Value is the assessment that gets appealed.
Limited Property Value (LPV)

• The Limited Property Value may increase in one of two ways:

  Up to 10% of the previous year’s value; or 25% of the difference between the current year’s Full Cash Value and previous year’s Limited Property Value, whichever is greater. Limited Property Value can never exceed Full Cash Value.

• Limited Property Value (AKA Primary Valuation) is used to calculate the maintenance and operation budget for Counties, Cities, Community Colleges and School Districts.
Purpose of Assessment

• Purpose of the assessed value is not to determine how much tax will be collected but how to divide responsibility toward what is to be collected among all of the properties in the jurisdiction.
Legal Class Codes

• The Legal Class is used to classify property based on use.

• The three most used Legal Classes are:
  1. Commercial – 19.0 % (2014 roll, Class 1)
  2. Land - 16 % (Class 2)
  3. Residential - 10 % (Class 3 and 4)

• Class (1) One – Commercial, Industrial, Utilities, Mines
• Class (2) Two – Agricultural, Vacant Land
• Class (3) Three – Residential Primary Residence
• Class (4) Four – Residential Non-Primary Residence, Rental, etc.
• Class (5) Five – Railroad, Private Car, Airline Flight
• Class (6) Six – Resident Historic/Enterprise & Foreign Trade Zone
• Class (7) Seven – Commercial Historical
• Class (8) Eight – Residential/Commercial Historic
• Class (9) Nine – Private improvements on public land
Appeal Process

• Notice of Value mailed before March 1\textsuperscript{st}

• Administrative Appeal filed with Assessor within 60 days of mailing or directly to court before December 15\textsuperscript{th}

• Two levels of Administrative Appeal

1. First informal meeting with the Assessor
   • Must be completed by August 15\textsuperscript{th}

2. Second County or State Board of Equalization
   • Must be completed by October 15\textsuperscript{th}
Property Tax Bill Calendar

• Property values are established as of January 1st. The tax rates are set on the third Monday in August of the following year.

• Jurisdictions set budgets in the tax year and cannot be higher than maximum established levy (A.R.S. § 42-17051)

• The first installment on the tax bill is due on October 1st and is considered delinquent after November 1st. (Taxpayers who miss the November 1st payment can pay the entire year’s taxes without penalty or interest if paid by December 31st).

• The second installment is due March 1st and is delinquent after May 1st.
## Property Tax Statistics 2012

<table>
<thead>
<tr>
<th></th>
<th>Arizona</th>
<th>Maricopa County</th>
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</thead>
<tbody>
<tr>
<td><strong>Total Levy:</strong></td>
<td>$6,579,486,038</td>
<td>$4,019,661,674</td>
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<tr>
<td><strong>Total Parcels:</strong></td>
<td>3,202,205</td>
<td>1,547,207</td>
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<tr>
<td><strong>Total Full Cash Value:</strong></td>
<td>$518,109,307,694</td>
<td>$321,960,273,828</td>
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<tr>
<td><strong>Average Tax Bill:</strong></td>
<td>$2,100</td>
<td>$2,600</td>
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Property Tax Statistics 2012

- Taxing Jurisdiction Expenditures...

- Schools (K-12) = 52%
- County = 23%
- Community College = 11%
- Cities/Towns = 8%
- Special Taxing = 6%
Proposition 117

- Changes rate of increase on Limited Property Value (LPV)
  - Maximum 5% annually
- Changes to calculation of Tax Bill
  - All calculations on LPV
- Beginning 2015 roll
Assessor’s Obligation

• Obligation to the public is to be both fair and equitable

• Two publics to consider:
  • Individual property owner
  • Collective group of property owners

• Obligation to individual owner is to make sure value is not too high.

• Obligation to collective group of property owners is to make sure value is not too low.
Final Thought
That's all Folks!