



ARIZONA STATE SENATE

Fiftieth Legislature, Second Regular Session

FACT SHEET FOR S.C.R. 1025

property tax assessed valuation; limitation

Purpose

Subject to voter approval, constitutionally limits the annual growth of the limited property value.

Background

Article 9, Section 18 of the Arizona Constitution provides for the limitation of increases in property values from year to year. To implement the constitutional provision, the Legislature also adopted a set of statutes under which 2 separate tax bases are used to determine property taxes: full cash value (FCV) for secondary property tax purposes, and limited property value (LPV) for primary property tax purposes.

Full Cash Value. A property's full cash value is the value determined as prescribed by statute. If no statutory method is prescribed, full cash value is synonymous with market value, as determined by standard appraisal methods. There are no restrictions or limitations on full cash value growth. For this reason, full cash value is also referred to as unlimited value [A.R.S. § 42-11001]. Although property values in Arizona are based on market value as represented by sales price, Arizona statutes set sales ratio standards at 81% of nominal sales price for commercial and industrial properties, and 82% for residential and other properties. These standards allow for the exclusion of personal property items included in sales, financing incentives, time on the market, and reasonable mass appraisal errors [A.R.S. § 42-11054(C)]. The Legislature has also mandated that specific types of property be appraised on a basis other than market value. These property types are agricultural, shopping centers, certain golf courses, and most centrally valued properties, such as electric and gas utilities [A.R.S. §§ 42-13101 through 42-13206].

Limited Property Value. A parcel's limited property value is the value determined as provided by the Arizona Constitution [Article 9, Section 18]. Arizona Revised Statutes further define the constitutional provision by providing 2 specific methods by which a parcel's limited property value can be increased from year to year [A.R.S. § 42-13302]. These methods are commonly referred to as "Rule A" and "Rule B."

- *Rule A* - For an existing property that has not been physically modified since the previous year's tax roll, the limited property value is the greater of (1) the previous year's limited property value increased by 10%, or (2) 25% of the difference between the current year's full cash value and the previous year's limited property value. The limited property value cannot exceed the full cash value [A.R.S. § 42-13301].

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- *Rule B* - For a new property added to the current year's tax roll or for an existing property that has been physically modified, split, subdivided, consolidated, or erroneously omitted since the previous year's tax roll, the limited property value is established at a level or percentage that is commensurate to the relationship of LPV to FCV of other properties of the same or similar use or classification [A.R.S. § 42-13302]. The limit on increases in property values applies to real property and improvements. Properties exempted from the valuation limitation are: (1) personal property other than permanently affixed mobile homes and (2) most centrally valued property, such as electric and gas utilities [A.R.S. § 42-13304].

A fiscal note has been requested for this legislation.

Provisions

1. Limits the annual growth of the limited property value (LPV), to the lesser of the full cash value or an amount five percent greater than the value of property determined for the prior year, beginning in TY 2014.
2. Retains the current calculation through TY 2013.
3. Provides technical corrections.
4. Requires the Secretary of State to submit the proposition to the voters at the next general election.
5. Becomes effective if approved by the voters and on proclamation of the Governor.

Prepared by Senate Research

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CS/Iy