



# Arizona State Senate Issue Brief

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## Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Issue Briefs* series is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Nothing in the Brief should be used to draw conclusions on the legality of an issue.

## **ARIZONA'S SPECIAL TAXING DISTRICTS**

### **INTRODUCTION**

Special taxing districts are usually created to fill a need and to enable the provision of services in an area that might otherwise be limited from receiving those services for various reasons, including size, location, financial limitations or unavailability of other government support. The formation of a special taxing district creates a funding stream to pay for the desired or needed services by placing the responsibility on those who benefit from that service.

### **FORMATION**

Title 48 of the *Arizona Revised Statutes* currently allows and outlines the process for the formation of 36 types of special taxing districts including fire districts, irrigation districts, hospital districts, pest abatement districts and power districts. Although the specific process depends on the type of district created, the formation in many cases requires the submission of petitions to the county board of supervisors (county BOS), followed by a public hearing. Sometimes an election may be required to form a district. The procedures for establishing certain types of districts, such as stadium districts, differ greatly. Unless otherwise specified by statute, a county BOS has the absolute authority to deny the formation of a special taxing district in that county if sufficient grounds exist for the denial. However, a denial may be subject to judicial review. Statute also prescribes mechanisms for the dissolution of districts and methods for changing district boundaries.

### **ORGANIZATION**

Special taxing districts such as a county or city improvement district may be organized under a county or municipality while others may be organized directly by citizens acting according to state law, as in the case of electrical and fire districts. Districts may be formed to enhance localized area of control over a particular special public interest issue, such as pest abatement and antinoxious weed districts, or to move particularly expensive projects out from under county or municipal governments and their tax, expenditure and debt limitations, such as special health care districts.

Most special taxing districts, regardless of their purpose, have substantial administrative and fiscal independence from other local governments and are characterized by the following:

- a structural form (generally within or adjacent to a single county);
- an official name;
- a limited purpose (most perform a single function);
- an elected governing body;
- continuous operation subject to a prescribed dissolution process;
- the power to impose and collect taxes;
- the power to incur governmental debt;
- the right to sue and be sued; and
- the ability to make contracts and to obtain and dispose of property.

Special taxing districts may be designated as municipal corporations and as political subdivisions having the same rights, powers and immunities as cities and towns. Districts are governmental entities, exempt from taxation on their governmental activities and property, and function under their own separate identity.

## FUNDING AND TAXATION

Most special taxing districts are funded by ad valorem taxes levied on all real property within the district limits. A special taxing district tax levy is a secondary levy based on the full cash valuation of the property. Statute usually requires these taxes to be assessed at the same time and in the same manner as county taxes. Many districts may also issue bonds to cover district expenses.

Other districts, such as public health services districts, jail districts or theme park districts, are authorized to levy an excise or sales tax.<sup>1</sup>

Special taxing districts sometimes use county services to help carry out activities and responsibilities. When this occurs, a county can require reimbursement for any service provided.<sup>2</sup>

<sup>1</sup> A.R.S. §§ 48-2220 and 48-4022

<sup>2</sup> A.R.S. § 11-251.06

## ACCOUNTABILITY AND OVERSIGHT

Statute outlines reporting requirements for most special taxing districts. Districts that are not specifically exempt are required to submit an annual report, a copy of an audit or financial review and the district budget to the county BOS of the county or counties where the district is located.<sup>3</sup>

The annual report must be submitted within 240 days after the close of the fiscal year. The annual report includes: 1) financial information; 2) descriptions of boundary changes; 3) information on the governing board and district officers; 4) the schedule and location of regular meetings and public notices; 5) the name of the person completing the reporting requirements; and 6) a copy of the financial audit or review, if necessary. By March 31 of each year, each county BOS must report on district reporting compliance to the Governor and the Legislature.

Those districts that must submit annual reports are required to undergo an audit or financial review. The exact method and frequency of the audit or financial review depend on the size of the district's budget. Like the financial reports, audits must be submitted to the county treasurer and the BOS within 240 days of the close of the fiscal year.

Additionally, districts' annual budgets must be submitted to the county BOS and the county treasurer by July 10. Districts that fail to comply with statutory reporting requirements may be subject to a civil penalty.

## ADDITIONAL RESOURCES

- Special Taxing District Statutes: [A.R.S. Title 48](#)
- State Treasurer's Office [www.aztreasury.gov](http://www.aztreasury.gov)
- Arizona Tax Research Association [www.arizonatax.org](http://www.arizonatax.org)
- Arizona Department of Revenue <https://azdor.gov/>

<sup>3</sup> A.R.S. § 48-251 – 48-254