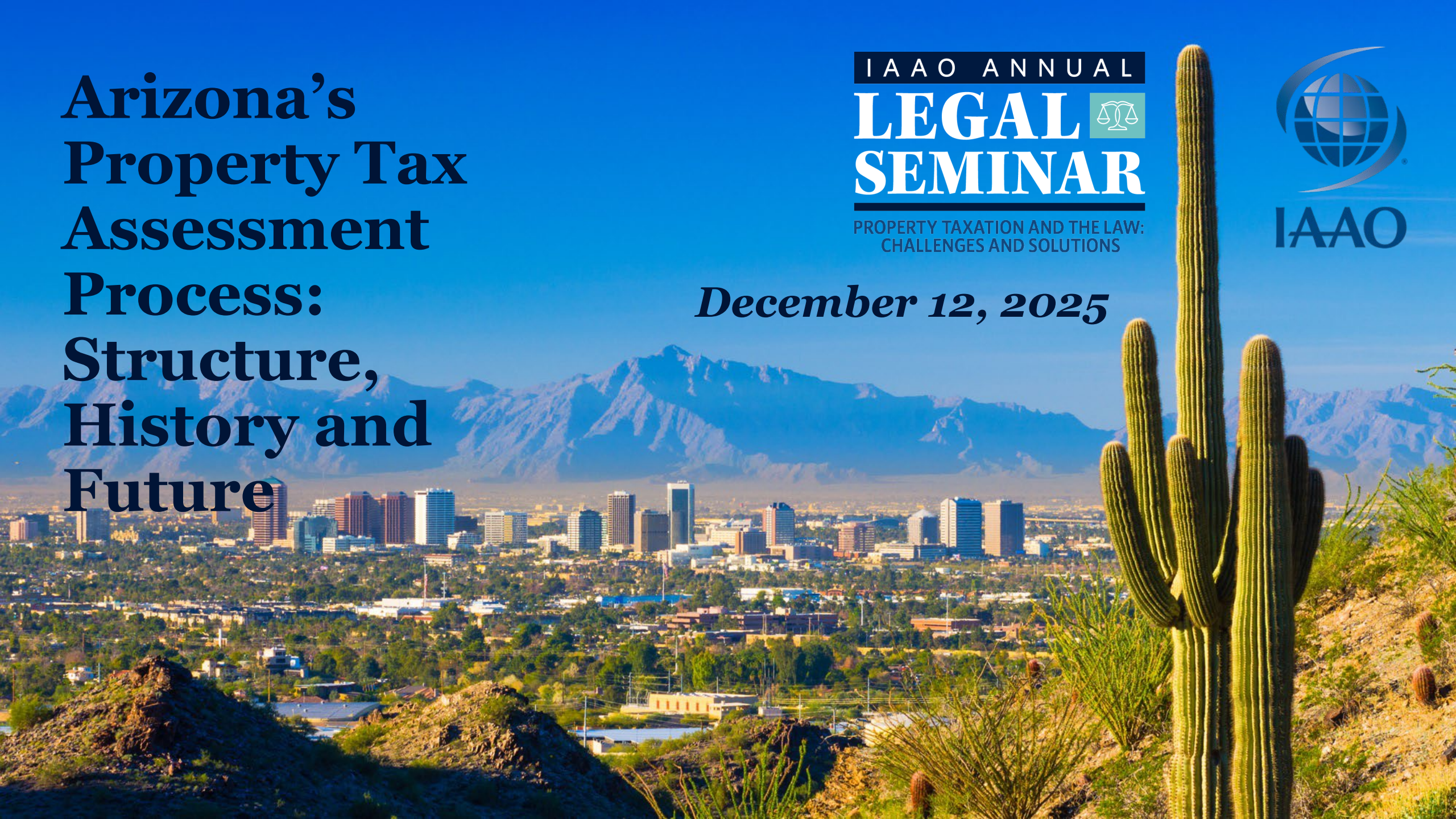


Arizona's Property Tax Assessment Process: Structure, History and Future

IAAO ANNUAL
LEGAL SEMINAR
PROPERTY TAXATION AND THE LAW:
CHALLENGES AND SOLUTIONS

December 12, 2025



Introduction



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- Nuts and bolts of Arizona property assessment law.
- How did we get here?
- Look at the other states' systems.
- What are the issues we are seeing in Arizona.

A.R.S. 42-13301 Limitation on Valuation Increases

- “The **limited property value** [“LPV”] of property for property taxation purposes is the limited property value of the property in the preceding valuation year plus **five per cent** of that value.”
- “The current limited property value of a parcel of property shall not exceed its current **full cash value** [“FCV”].”



LPV Calculation Method: *Rule A*

- Applies to
 - Properties in which there had been no physical change or improvements.
 - Properties for which there has been no change in use.
 - Properties which were not totally omitted from the tax roll in the preceding valuation year.
- Since 2015,
 - Current year LPV is determined by a single calculation of the preceding valuation year plus five percent of that value but cannot exceed the FCV.

LPV Calculation Method: Rule A

Example 2015 Rule A – New LPV Equal to or Less than FCV

Current Valuation Year FCV	\$100,000
Prior Valuation Year LPV	\$95,000
Five Percent of Prior Year LPV	\$4,750
Current Valuation Year LPV	\$99,750

Example 2015 Rule A – New LPV Restricted by FCV

Current Valuation Year FCV	\$98,000
Prior Valuation Year LPV	\$95,000
Five Percent of Prior Year LPV	\$4,750
Current Valuation Year LPV Calculation	\$99,750
Current Valuation Year LPV Statutory Maximum	\$98,000

LPV Calculation Method: *Rule B*

- Applies to
 - Properties for which land or **improvements were erroneously omitted** from the property tax roll for the preceding tax year.
 - Properties that have had a **change in use** since the preceding tax year.
 - Properties that were **modified by new construction or** were subject to the **destruction or demolition** of existing improvement since the preceding valuation year.
 - Properties that have been **split or consolidated** (excluding those initiated by a government entity).

LPV Calculation Method: Rule B

- When Rule B applies, the LPV is not established based on the previous LPV plus 5%.
- Rather, the LPV is established by the relationship (percentage) of FCV to LPV of other properties within the same legal classification within a specified area.



LPV Calculation: Rule B Ratios

- Arizona classifies property according to its usage.
- Each class of property is given an assessment ratio.
- These ratios are then applied to both the FCV and LPV to determine the property's net assessed value ("NAV").

LPV Calculation: Rule B Ratios

- As an example,
 - Imagine that a parcel of land had a new construction apartment built on this year.
 - Here in Maricopa County, the Rule B ratio for rental residential property was 51%.
 - Thus, if the FCV for this property was \$1,000,000, then the LCV would be \$510,000.
 - The property tax liability would therefore be calculated solely on the LPV of \$510,000.

How Did We Get Here? *Prop. 117*

- “PROPOSING AN AMENDMENT TO THE CONSTITUTION OF ARIZONA; AMENDING ARTICLE IX, SECTION 18, CONSTITUTION OF ARIZONA; RELATING TO PROPERTY TAX ASSESSED VALUATION.”



How Did We Get Here? Prop. 117

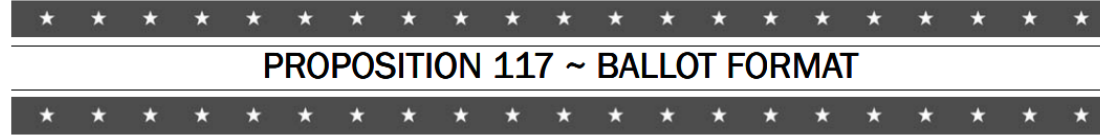
- Referred to Arizona voters by the State Legislature.
- Arizona voters approved the amendment on November 6, 2012.
- Was to go in effect beginning with the 2015 tax year.



How Did We Get Here? *Prop. 117*

- 1,132,766 (57%) voted in favor.

- 866,249 (43%) voted against.



PROPOSITION 117

PROPOSED AMENDMENT TO THE CONSTITUTION BY THE
LEGISLATURE RELATING TO PROPERTY TAX ASSESSED
VALUATION
[SCR 1025]

<p>PROPOSITION 117 PROPOSING AN AMENDMENT TO THE CONSTITUTION OF ARIZONA; AMENDING ARTICLE IX, SECTION 18, CONSTITUTION OF ARIZONA; RELATING TO PROPERTY TAX ASSESSED VALUATION.</p>
<p>DESCRIPTIVE TITLE BEGINNING IN 2014, SETS A LIMIT ON THE ANNUAL PERCENTAGE INCREASE IN PROPERTY VALUES USED TO DETERMINE PROPERTY TAXES TO NO MORE THAN 5% ABOVE THE PREVIOUS YEAR, AND ESTABLISHES A SINGLE LIMITED PROPERTY VALUE AS THE BASIS FOR DETERMINING ALL PROPERTY TAXES ON REAL PROPERTY.</p>

A "yes" vote shall have the effect of setting a limit on the annual percentage increase in property values used to determine property taxes to no more than 5% above the previous year, and establishes a single limited property value as the basis for determining all property taxes on real property, beginning in 2014.	YES <input type="checkbox"/>
A "no" vote shall have the effect of keeping current constitutional law related to calculating property values and taxes.	NO <input type="checkbox"/>

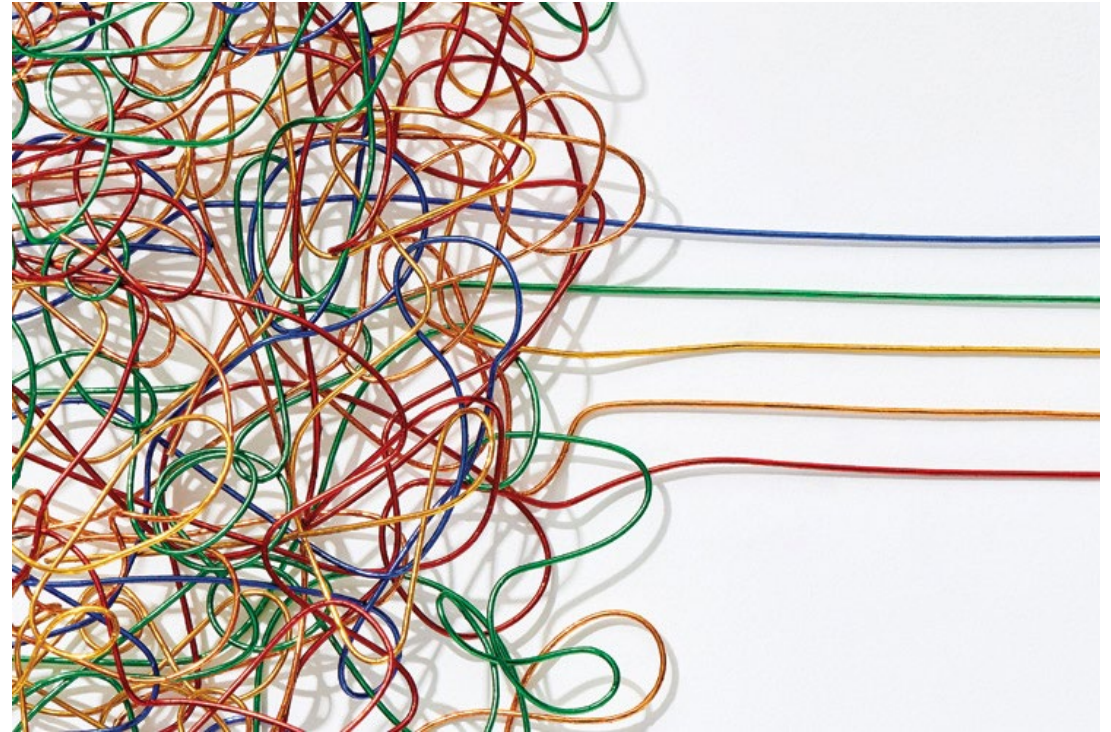
How Did We Get Here? Prop. 117

- Primarily supported by Arizona Tax Research Association.
- Basis of Support:
 - Simplicity
 - Stability
 - Taxpayer Protections



How Did We Get Here? Prop. 117

- Simplicity
 - Supporters claimed that the previous assessment scheme was one of the most complicated in the nation.
 - Prop. 117 was deemed to be a step towards simplicity.



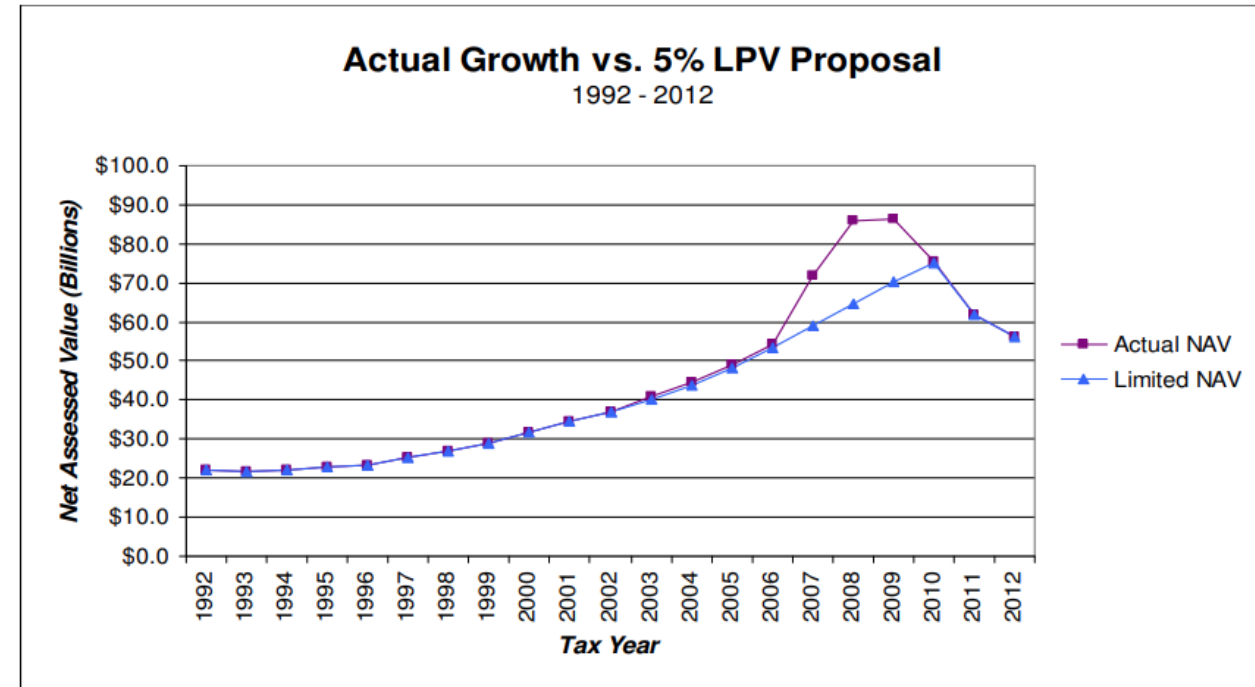
How Did We Get Here? *Prop. 117*

- Stability
 - Supporters argued that applying a limit on the annual growth of property values will stabilize the tax system.
 - Not only would this benefit homeowners but will also give greater predictability for the government.



How Did We Get Here? Prop. 117

- Taxpayer Protection
 - Argued that Prop. 117 would insulate taxpayers from dramatic increases in their tax bill that could occur during highly volatile markets.
 - To demonstrate this, ATRA made this graph, showing actual values over a 20 year period versus what the limited value would have been had Prop. 117 been in place.
 - \$33 billion would not have been added to the tax rolls that was later removed during the housing market collapse.



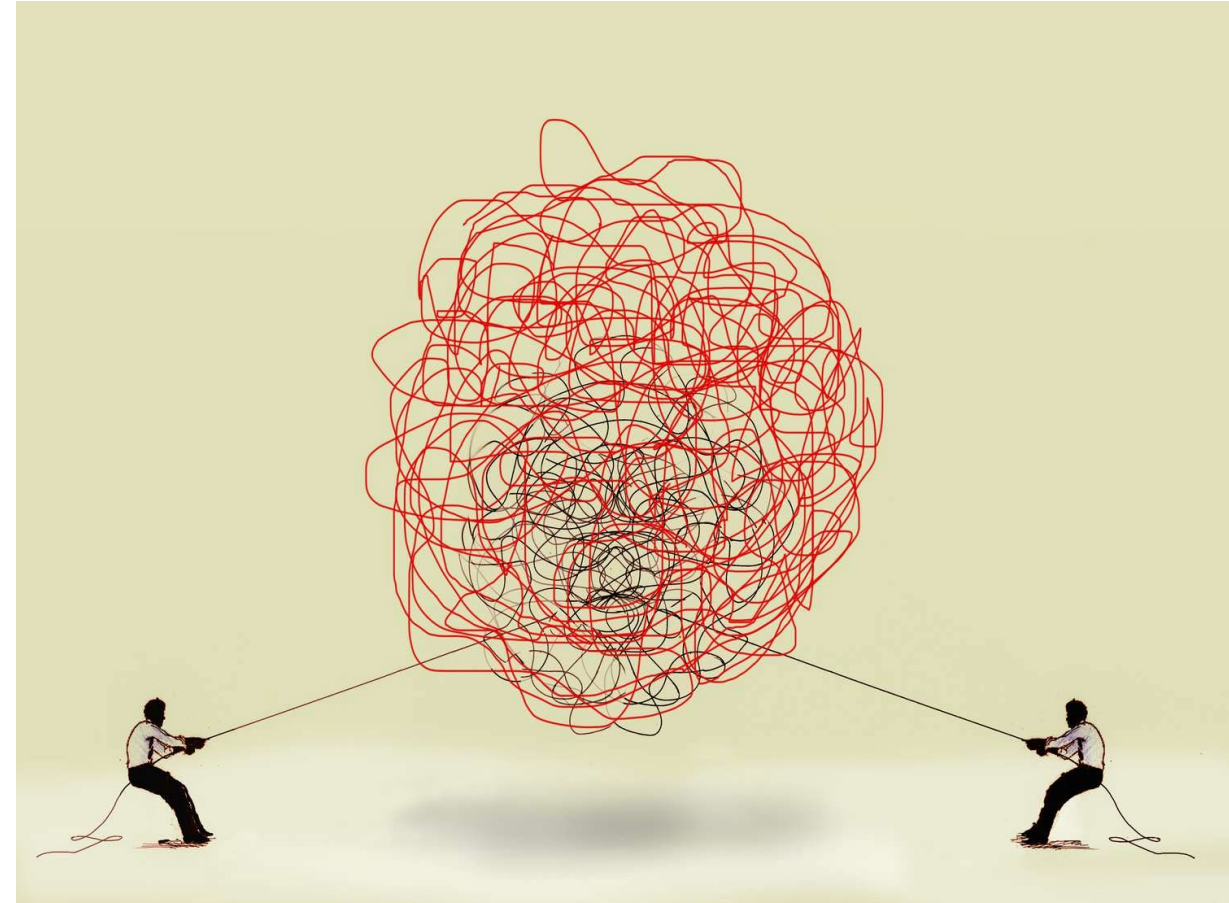
Who Funded Prop. 117? *Yes on 117*

- Yes on 117 was a group that registered with the Secretary of State to support the passage of this ballot measure.
- Raised **\$143,000** during the 2012 cycle.
 - \$75,000 ATRA
 - \$27,000 NAIOP Arizona Chapter
 - \$21,000 United Dairymen of Arizona
 - \$10,000 John F. Long Properties
 - \$5,000 Arizona Cattlemen's Association
 - \$5,000 Greater Phoenix Chamber of Commerce



Who Opposed Prop. 117? Truth & Concerns on Prop 117

- Truth & Concerns on Prop 117 was a group that registered with the Secretary of State to oppose the passage of this ballot measure.
- Raised **\$72,500** during the 2012 cycle.
 - \$40,000 Arizona Association of Property Tax Analysts
 - \$32,500 Sage Tax Group



Who Opposed Prop. 117? Truth & Concerns on Prop 117

- Taxpayers will not be protected.
 - Prop. 117 does nothing to prevent local governments from raising the tax rates, allowing taxes to continue to increase.
- Burden will shift.
 - Because of the differences in how residential and commercial property has been assessed, this limitation will primarily shift the tax burden to residential properties.



Ten Years Later: Who Was Right?



Prop 117: Major Results

- Divorce market conditions from taxable value
- Reduce frequency of appeals
- Impact to Rule B: Qasimyar



Market Value vs. Taxable Value

Valuation Year	2026	2025	2024	2023
Full Cash Value	\$253,083	\$243,586	\$247,822	\$198,617
Land FCV	\$502	\$502	\$502	\$502
Improvement FCV	\$252,581	\$243,084	\$247,320	\$198,115
Limited Value	\$165,969	\$158,066	\$150,539	\$143,370
Limited Assessed	\$16,597	\$15,807	\$15,054	\$14,337
Assessment Ratio	10%	10%	10%	10%
Property Class	PRIM RESIDENCE (3)	PRIM RESIDENCE (3)	PRIM RESIDENCE (3)	PRIM RESIDENCE (3)
Parcel Use	0131	0131	0131	0131

Zestimate® history [Table view](#)

+141% in last 10 years

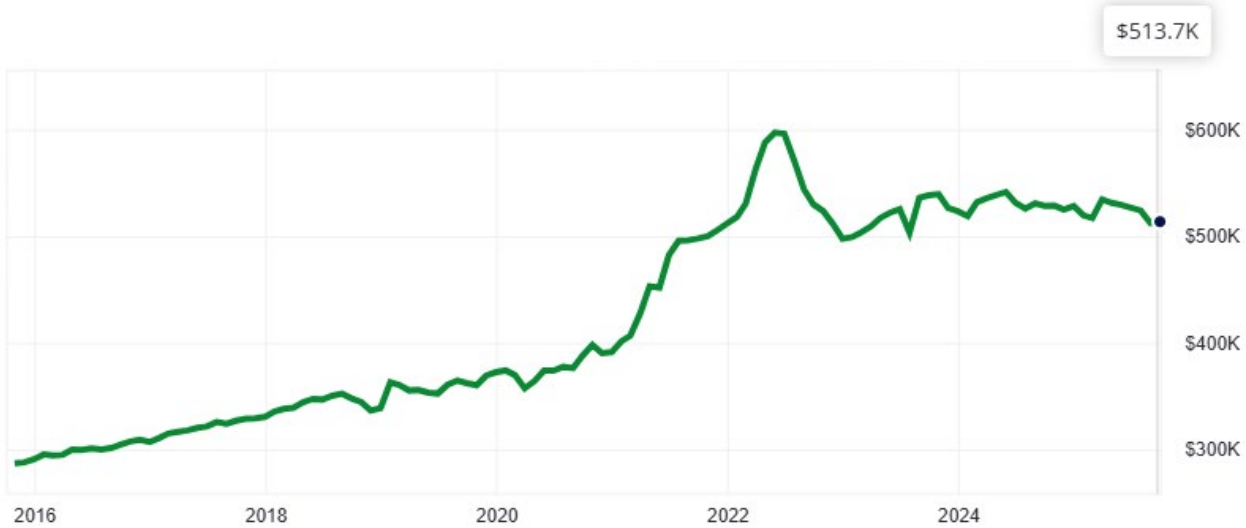
Home values

Rent Zestimate

Tax paid



Market Value vs. Taxable Value



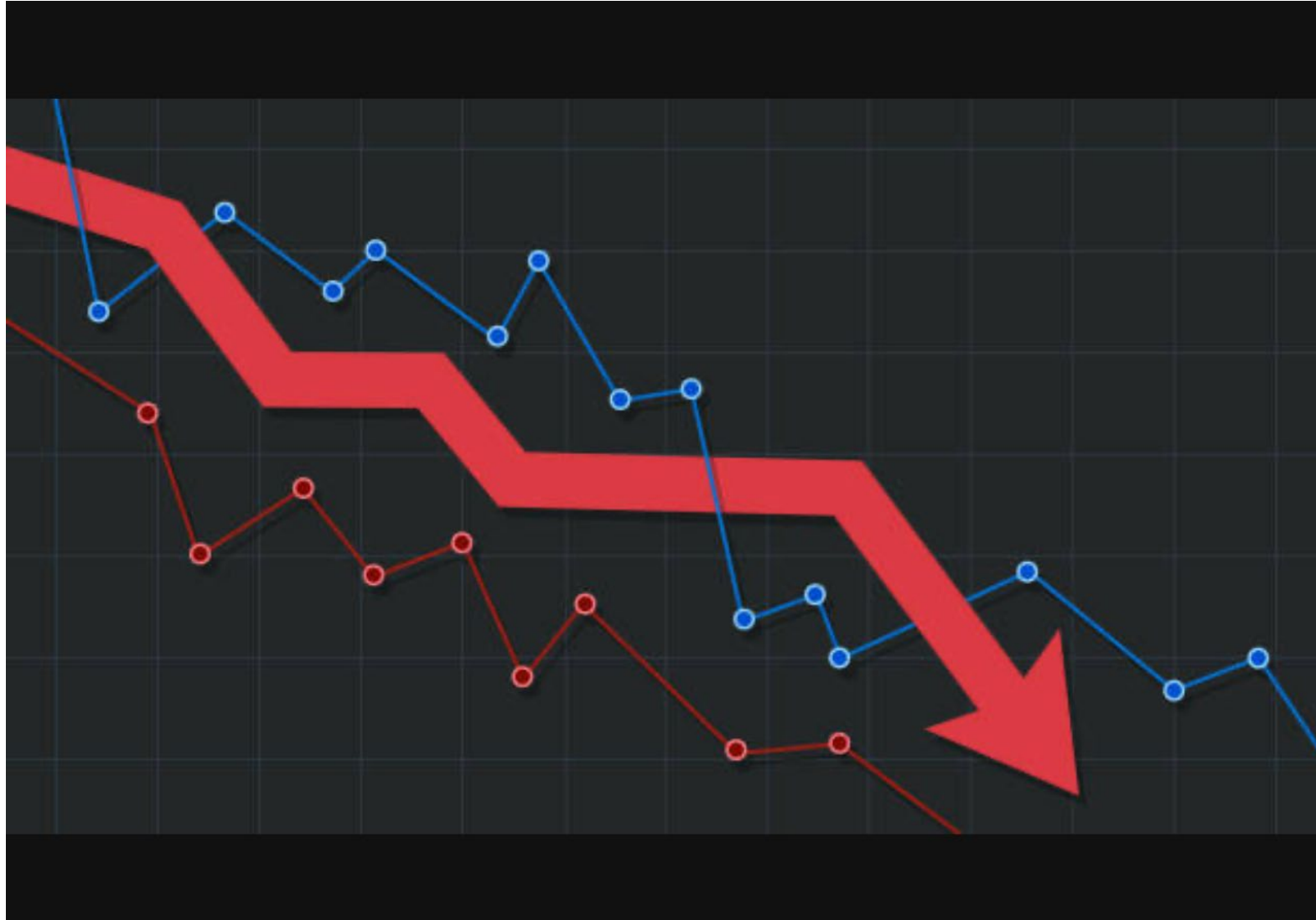
Tax Year	2026	2025	2024	2023
Full Cash Value ⓘ	\$417,800	\$381,200	\$418,500	\$353,200
Limited Value ⓘ	\$140,651	\$133,954	\$127,575	\$121,500
Legal Class	3.1	3.1	3.1	3.1
Description	PRIMARY RESIDENCE	PRIMARY RESIDENCE	PRIMARY RESIDENCE	PRIMARY RESIDENCE
Assessment Ratio	10%	10%	10%	10%
Assessed LPV	\$14,065	\$13,395	\$12,758	\$12,150
Property Use Code	0131	0131	0131	0131
PU Description	Single Family Residence	Single Family Residence	Single Family Residence	Single Family Residence
Tax Area Code	081308	081308	081308	081308
Valuation Source	Notice	Notice	Notice	Notice

Market Conditions: *Divorced*

- Tiny Sample Size
- Select a random parcel
- Look at Rule B ratios
- Indicative of results across the state

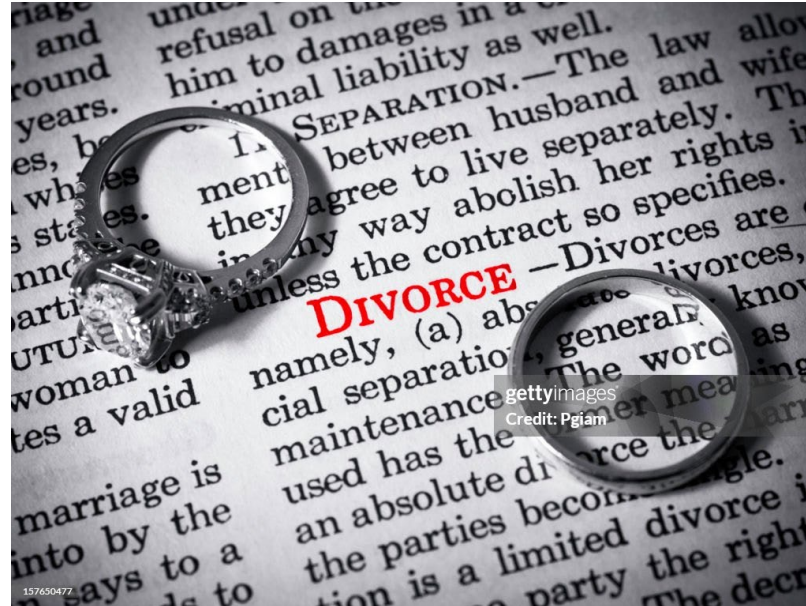


Proposition 117: Appeals have dropped dramatically



Appeals Dropping: Why?

- Market is disconnected from taxable value.
 - Appeals needs to reduce the FCV so much as to actually require a reduction in LPV.
 - Michael's House: \$87,115 reduction to change LPV by \$1.00
 - Ed's House: \$277,149



- Taxpayers often be frustrated by appeals.
- Unless drastic mistakes, omissions, or new additions, appeals will often not make enough of a change to change the LPV.
- Impact to transparency & stability –
 - Unless...

- RULE B!
- Allows specific targeting of Rule B to reduce LPV
- “Once-in-a-lifetime opportunity.”
- Rule B allowed for lot splits, which can be strategically triggered.
 - = parking lots

A once-in-a-lifetime opportunity to reduce property taxes in Arizona

SEPTEMBER 8, 2023 | NEWS

A successful property tax appeal of new construction can reduce a property's tax liability over the property's life due to Arizona's “Rule B” ratio.

Rule B Ratios: Very Appealing

county, by class of property, and by tax year. For example, the Rule B ratios in Maricopa County for the 2024 tax year are:

- ▶ 43% for vacant land;
- ▶ 55% for commercial property; and
- ▶ 51% for rental residential property.

- *Qasimyar v. Maricopa Cnty.*, 250 Ariz. 580, 483 P.3d 202 (App. 2021), as amended (Aug. 12, 2021).



Qasimyar: *What is a Change in Use?*

- Taxpayers: Rule B

Taxpayers argue that because the legislature created the subsections quoted above that distinguish between class three properties and class four properties based on mutually exclusive “uses,” changing between those classes necessarily constitutes a “change in use” that requires Rule B's application *Qasimyar*, 250 Ariz. at 586, ¶ 16.

Maricopa County: Rule A

The County argues “a change in use” means “a change in the use determined by the Assessor for valuation of the property,” and that “use” refers to a change in “objectively verifiable, physical use of the property.” Thus, according to the County, a mere change between class four and class three based on who is occupying the property, with no change in how the property is physically, objectively being used, does not constitute a “change in use” sufficient to trigger Rule B. *Id.* at 586, ¶ 16.

- “[c]urrent usage” is defined as “the use to which property is put at the time of valuation by the assessor or the department,” § 42-11001(4), “use” itself is not statutorily defined. *Qasimyar*, 250 Ariz. at 584, ¶ 8.
- Rule B exacerbates the divorce of market conditions and taxable values, and allows for strategic manipulation by sophisticated parties: “[i]n a rapidly appreciating real estate market, it is to the taxpayer's advantage to have a Rule B valuation applied as early as possible,” and “[i]n a declining market, delayed application of Rule B benefits the taxpayer, as the valuation then reflects more of the decrease in surrounding property values.” *Id.* at 585, ¶ 11.

Property Classifications: *Use*

- Property classifications are generally based on (1) a property's use or (2) its qualifying status. See *Scottsdale Princess P'ship v. Maricopa County*, 185 Ariz. 368, 378, 916 P.2d 1084, 1094 (App. 1995) (properties classified “according to specific character and use”); *Krausz ex rel. KGC Tr. I v. Maricopa County*, 200 Ariz. 479, 483, ¶ 17, 28 P.3d 335, 339 (App. 2001) (taxpayers’ “use” of property controls classification); see also *Assessment Procedures Manual*, pt. 3, ch. 1, at 2 (“Current use or qualifying status is the basis for differentiating the main categories of real and personal property between the nine property classes.” *Id.* at ¶ 13).

A Change In Use is: *Unambiguous*

- When a class three residential property “used as the owner's primary residence,” § 42-12003(A)(1), becomes “used” for other “residential purposes” or “solely as leased or rented property for residential purposes,” § 42-12004(A)(1), (2), or vice versa, that property's reclassification between classes three and four is a “change in use” that triggers Rule B, § 42-13302(A)(2). *Id.* at 587, ¶ 20.
- In short, a property owner's decision to occupy a property as his or her primary residence, rather than occupying it only as a second home or leasing it to tenants, establishes the “use” of that property within the meaning of the classification statutes. *Id.* at 589, ¶ 31.

Qasimyar Fallout: \$150,000,000 Refund

This court appeal means higher tax bills for some in Arizona, refunds for others. What to know



Sasha Hupka
Arizona Republic

Updated April 10, 2024, 8:37 a.m. MT



Maricopa County College District files lawsuit against county, treasurer over tax dispute

MCCCD is trying to resolve a \$45 million tax bill it now owes, with interest, stemming from a 2016 lawsuit and property tax error it didn't cause

Maricopa County school districts to owe nearly \$150 million after county taxing error lawsuit

The amount that districts owe depends on the city and home-assessed values

Mesa tax districts on hook for over \$15M in refunds

Tom Scanlon and Scott Shumakers, East Valley Tribune
(Mesa, Ariz.)

Sun, June 23, 2024 at 8:59 PM MST

7 min read

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Board of Supervisors approves funding for fire districts after property tax issue

Districts on the hook for millions of dollars after court ruling

Arizona budget ensures schools get funds after \$200M shortfall

Marissa Orr Jun 30, 2025 Updated Jun 30, 2025 0

Scottsdale schools approve plan to help pay for \$23M in refunds after tax ruling



Madeleine Parrish
Arizona Republic

Updated Aug. 9, 2024, 9:35 a.m. MT



The court judgment now requires the Maricopa County Treasurer to refund those homeowners by collecting funds back from all taxing entities in Maricopa (Cities, School Districts, Community Colleges, Fire Agencies). The entire judgement is \$329 million. SUSD's portion is estimated at \$27,598,581.

Qasimyar: *Legislative Changes 9/24/2022*

- A.R.S. § 42-13302. Determining limited value in cases of modifications, omissions and changes
 - A. In the following circumstances the limited property value shall be established at a level or percentage of full case value that is comparable to that of other properties of the same or a similar use or classification:
 1. Property that was erroneously totally or partially omitted from the property tax rolls in the preceding tax year, except as a result of this section.
 2. Property for which a change in physical, objectively verifiable use has occurred on the property since the preceding tax year. For the purposes of this paragraph and section 42-16002:
 - (a) A change in the occupant or classification of a single-family residence is not a change in use, in and of itself.
 - (b) A change in the classification of a guest ranch as defined in section 42-1551 is not a change in use, in and of itself.

Budget Shortfalls: *Districts Without Alternatives*



Gov. Katie Hobbs looks out of a helicopter window during her aerial tour of wildfire damage along the Grand Canyon's North Rim on July 19, 2025. (Joe Rondono / The Arizona Republic via AP Pool)

Fire districts face funding crisis, lawmakers seek solutions

Voters passed Proposition 117 in 2012, which sets a cap on annual property tax increases to 5%. Frieberg said that since that change fire districts have not been able to keep up with inflation, and are about 10 years behind in funding.

The current price of a modern fire engine now exceeds \$1 million.

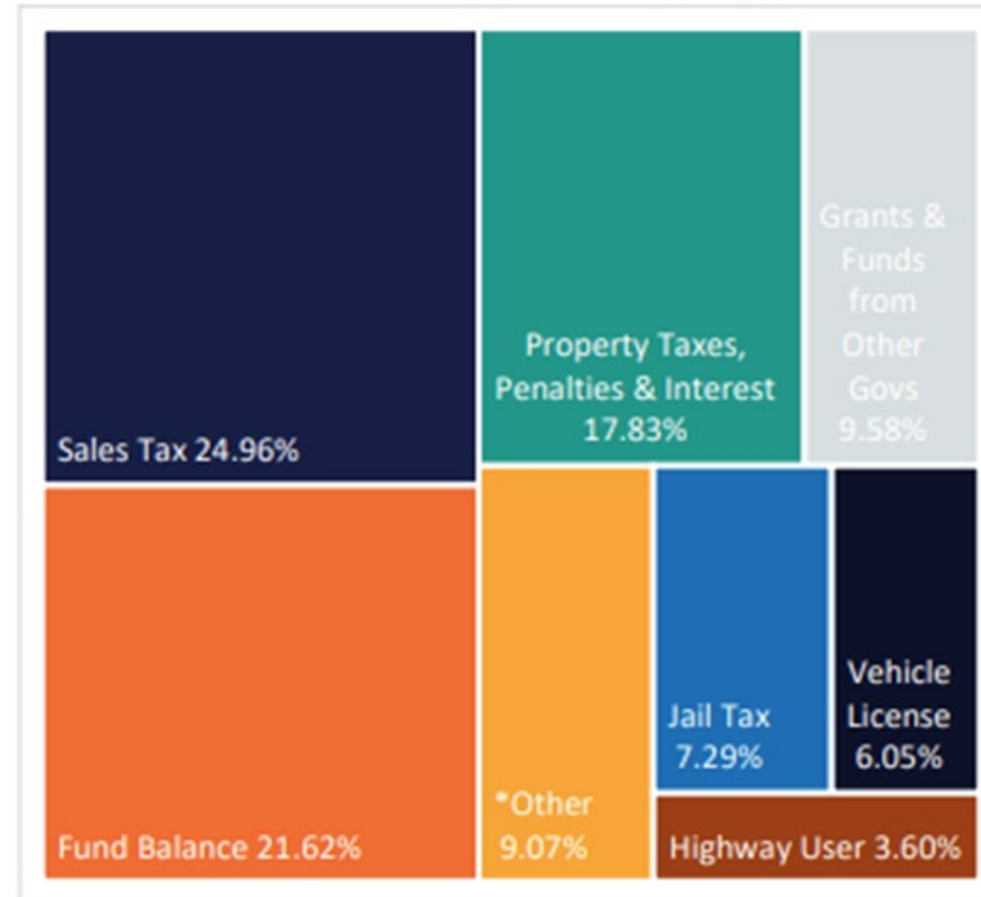
The Legislature attempted to address the issue with Proposition 310 in 2022, which narrowly failed after 51% of voters opposed the measure. Prop. 310 would have created a tenth of a cent state sales tax for fire districts, allowing people in urban areas that have city fire services to subsidize fire districts.

Jurisdictions: *Alternatives (Pima County)*

Source Category	Percentage of Funds
Miscellaneous <ul style="list-style-type: none">• Licenses• Fines	4%
Transfers-In	15%
Intergovernmental <ul style="list-style-type: none">• State Shared Sales Tax• Vehicle License Tax• Highway User Revenue Fund Grants	31%
Local Property Tax	35%
Charges for Services <ul style="list-style-type: none">• Wastewater Management• Health Plan Fees• Court Fees• Correctional Housing Fees	15%

Jurisdictions: Alternatives (Maricopa County)

Total Revenue by Category



**Other revenues include interest earned, fines, permits, intergovernmental payments, and program fees.*

PROP 117

Proposition 117 (2012) limits Fire District revenue from property taxes:

- Fire Districts were moved from the Full Cash Value of a property to the Limited Property Value.
- The Limited Property Value is limited to a 5% increase per year.
- The 2023 Net Assessed Value remains below the Net Assessed Value of 2008.

ONE SOURCE OF FUNDING

Property taxes are the single primary source of funding for Fire Districts in the State of Arizona, which presents its own set of challenges:

- Fire Districts across Arizona continue to see an increase in call volume. Between 2016 and 2021 CAFMA saw an increase in calls without a corresponding increase in resources. We are still attempting to catch up in 2023.
- Fire Districts are responsible for increased coverage as soon as a shovel touches the ground in construction, but Districts typically don't see revenue until two years after project completion.
- State regulations prevent Fire Districts from receiving impact fees.
- Development doesn't pay for development.
- Prop 117 (2012) limited revenue that Fire Districts can receive from property taxes. [Learn more about Prop 117.](#)

Ten Years Later: Who Was Right?



Stability: Yes & No

- Average taxpayer – limited to 5% LPV gain per year.
- Average taxing jurisdiction: limited to 5% LPV gain per year.
- Rule B: open taxpayer/tax collector up to wide swings in increases/decreases in LPV.
- Unpredictable and based on Rule B ratios which change each year.
- Qasimyar = big headaches for taxing jurisdictions.
 - Shortfalls made up through other tax revenue.

Taxpayer Protection: Yes, *But*

- Average taxpayer protected with Proposition 117.
- No changes, no Rule B.
- Rule B can though!
- Changes unlock LPV

Phoenix Housing Market Overview

📈 -- 1-year Market Forecast

5,283 For sale inventory (October 31, 2025)

1,412 New listings (October 31, 2025) ↓

0.986 Median sale to list ratio (September 30, 2025)

\$414,333 Median sale price (September 30, 2025)

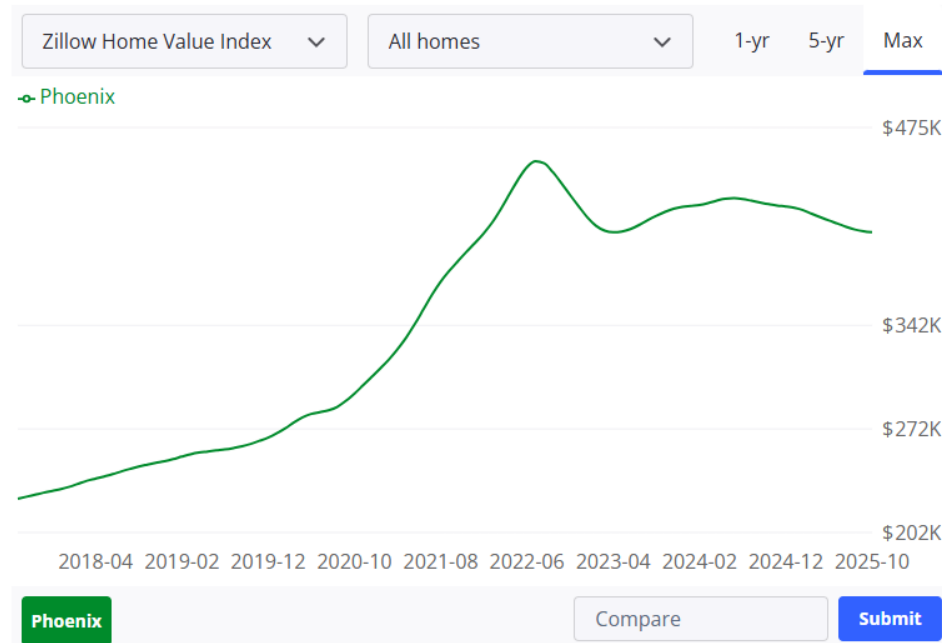
\$450,000 Median list price (October 31, 2025)

15.7% Percent of sales over list price (September 30, 2025)

62.7% Percent of sales under list price (September 30, 2025)

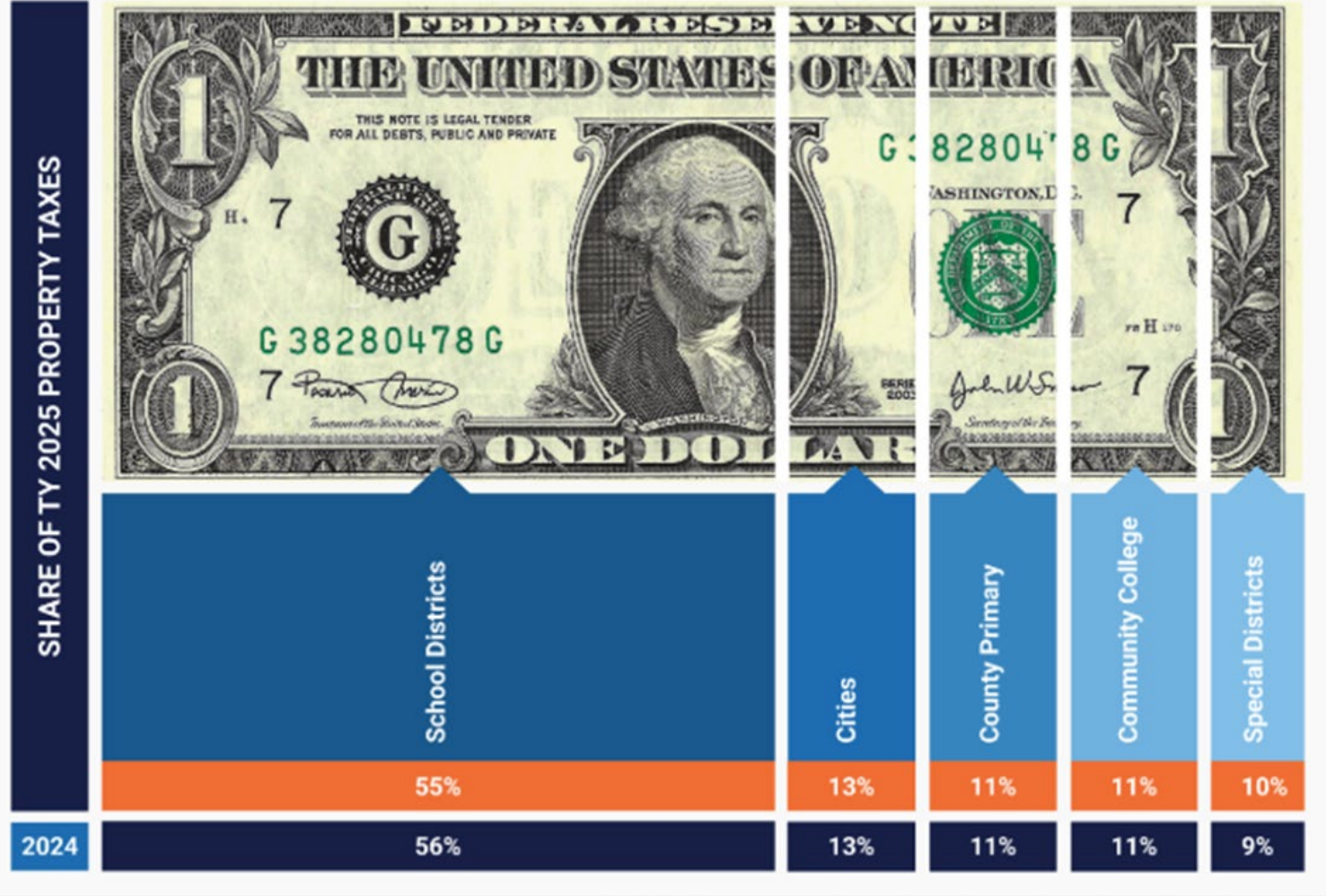
34 Median days to pending (October 31, 2025)

(Metric availability is based on market coverage and data)



Taxpayer Protection: Yes, *But*

- Property tax is unlike other taxes.
- Property Tax: Burden Shifts
- Reductions in property tax collections made up by alternatives, *if available.*
- Fire Districts



Overview of Maricopa County Budget and Property Taxes

Prop 117: What do you think?



Proposition 13: The Original

- Passed as a Constitutional Amendment in 1978
- Article XIII (Tax Limitation)
- Passed by the voters with 64.79% of the vote.



Proposition 13: The Original



- 1% Ad Valorem Property Tax Cap
- 1% of property's FCV
- Doesn't apply to voter approved indebtedness (bonds, specials assessments, etc.)
- Sale/Transfer resets "base year value" = HUGE INCREASES *sometimes.

California: *Proposition 13*

- Russel B. Long, U.S. Senator - Louisiana, 1948-1987:
- “Tax reform means, Don’t tax you, don’t tax me. Tax that fellow behind the tree.”



- California Now:
- Don’t tax you, don’t tax me. Tax the new neighbor down the street.

Proposition 13: Proposition 19 (2020)

- Prop 19 limits Prop 13's parent-child and grandparent-grandchild reassessment exclusions to inherited primary residences, with a \$1M cap on value transfer and a one-year occupancy requirement.
- Eligible homeowners (55+, disabled, disaster victims) can now transfer their Prop 13 tax base statewide up to three times, enhancing portability.
- Inherited non-primary properties (e.g., rentals, second homes) are now reassessed at market value, ending Prop 13's generational sheltering for investment assets.



Other States: *Illinois Property Tax Overview*

- **Appraisal Process**
 - **Uses mass appraisal** to determine property fair market value based on property's characteristics, and patterns on how those characteristics affected other home's value.
- Reassessment
 - In Cook County, every **three years**.
 - In all other counties, every **four years**.
- In Cook County
 - Residential property is assessed at **10% of fair market value**.
 - Commercial/Industrial property is assessed at **25% of fair market value**.
- In all Other Illinois Counties
 - Nonfarm property is assessed at **33.3% of fair market value**.



- PTELL (Property Tax Extension Limitation Law)
 - Unlike Arizona, Illinois places a cap on the growth of property tax extensions each year (A.K.A. a “tax cap”).
 - Increases in property tax extensions are limited to the lesser of 5% or the increase in the national Consumer Price Index for the preceding year.



Other States: Colorado

- Assessment
 - Fair market value is assessed every other year, based on a market approach.
 - The state examines comparable sales from the previous year to determine the fair market value of residential property.
- Assessment Rates
 - Beginning in 2025, residential property has two assessment rates.
 - One used to calculate local government assessed values.
 - One used to calculate school district assessed values.
 - Multiplying the fair market value by the assessed rate for each use, gets the “assessed value.”



• Projected Rates:

Classification	Rate
Residential - Local Government	6.25%
Residential - Schools	7.05%
Vacant Land	27%
Commercial	27%
Commercial Lodging	27%
Industrial	27%
Agricultural	27%
State Assessed Renewable Energy	27%

- Tax Revenue Limitations
 - 5.5% Limitation on property tax revenue increases.
 - This is not a limit on the amount that an individual's property taxes may increase.
 - This restricts the amount of total property tax revenue that a local government may collect each year to the previous year's total property tax revenue plus 5.5%.



Questions? Concerns?



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