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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 61 NUMBER 5 JUNE 2001

TUSD budget includes 20% hike in desegregation spending

Tax increase to fall primarily on local commercial property taxpayers, impact to State general fund likely to double

The Tucson Unified School District's (TUSD) proposed budget for fiscal year (FY) 2001-2002 includes a $62.5 million property tax levy for desegregation, up from the $51.9 million budgeted last year. The TUSD governing board preliminarily approved the proposed budget 4 to 1, with board member Rosalie Lopez as the lone and outspoken dissenter.

The $10.6 million levy increase will result in a primary property tax rate 52 cents higher than it would have been without the increase in desegregation spending. TUSD's primary rate is currently set at $7.11 per $100 of assessed value.

Homeowners in the district are already past the constitutional one-percent cap on the primary property tax rate and won't experience an increased burden.

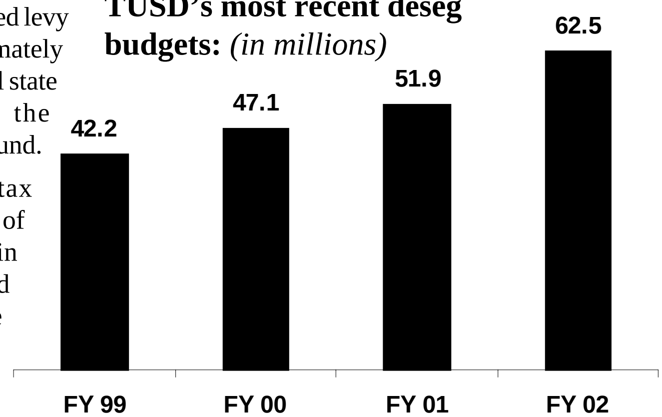
However, commercial property owners within the school district will pay the higher rate and will bear most of the burden for the tax increase. The 52-cent rate hike will add approximately $131 to current tax liabilities for every $100,000 of assessed value.

The rest of the burden will be picked up by sales and income taxpayers across the State. Last year, TUSD received $4,159,327 from the State general fund to make up the difference between the TUSD levy on homeowner property and the one-percent cap. This year's proposed levy increase will result in approximately $4.7 million more in "additional state aid," more than doubling the exposure to the State general fund.

ATRA opposed TUSD's tax increase last year, a rate hike of about 25 cents, and will again oppose the district's proposed tax rate increase this year. The district governing board will meet for a public hearing on the evening of July 10 to adopt the tax increase and the final budget.

Michael Hunter

TUSD's most recent deseg budgets: *(in millions)*



Gila County proposes a 44-cent increase in primary rate

Gila County has proposed a 44-cent increase in their primary tax rate for tax year 2001. With the tentative primary rate increasing from $3.97 to $4.41, the county will bring in an additional $2.1 million in tax revenue for fiscal year 2001-2002.

If the new rate is adopted and the primary rates for all other counties remain constant, Gila County will move up one position to having the 2nd highest primary rate in the state.

According to Gila County officials, the increase in the tax rate is necessary to help fund a 5% salary increase for all county employees in addition to market salary adjustments for all sheriff's employees. The county will also use the additional revenue to pay for the increased cost of medical insurance and long-term care.

The county plans to hold a truth-in-taxation hearing during the final budget adoption on July 31.

Jennifer Schuldt

Inside . . .

Community college general fund spending up 4%

Building projects in some districts wind down, start up in others

Community college districts' adopted budgets for fiscal year (FY) 2001-2002 show a slight decrease in aggregate spending from last year's systemwide levels. The $6.7 million drop in anticipated spending is explained primarily by the 11% drop overall in unexpended plant funds.

A $28.2 million decrease in unexpended plant funds statewide was largely offset by a $21.5 million hike in general fund spending for maintenance and operations (M&O).

CAPITAL SPENDING

Of Arizona's 10 community college districts, five budgeted for decreases in plant fund spending, especially the Maricopa district whose plant fund spending is down $29.8 million. Cochise, Coconino, Mohave, and Pima, as well as Maricopa, have the majority of their current building projects behind them.

The other five districts, however, have set aside increased amounts for capital. Graham, Navajo, Pinal, Yuma/La Paz, and especially Yavapai, all have yet to peak in their capital spending. Yavapai College stands out with a budgeted $27.6 million, the first year's spending for projects funded by the $69.5 million in general obligation (G.O.) bonds approved by the county's voters last November.

GENERAL FUND SPENDING

Meanwhile, general fund spending increased statewide to $593.7 million. Maricopa, whose general fund represents over half of the statewide aggregate, increased by $9.1 million from last year. The largest percentage increase is in the Yavapai district, where general fund spending will climb 10.8% to $26.3 million. Significant general fund budget growth can also be found in Graham (9.3%), Coconino (8.7%), Yuma/La Paz (7.5%), and Navajo (7.2%). Only Cochise plans to spend less this year than last, with a decrease of $1.5 million in their budgeted general fund.

SPECIAL MENTION

Maricopa district has issued the last series ($52 million) of its $385.8 million bond program approved by voters in 1994. But don't breath a sigh of relief just yet. District administrators are already talking about asking voters in 2004 for another $500 to $750 million in G.O. bonds.

Yavapai taxpayers are in for a disappointment if they were expecting, as they should have, a primary rate reduction as a reward for successfully passing $69.5 million in G.O. bonds. The district had been using primary property tax levies to fund (through a thinly veiled misdirect) debt service on revenue bonds.

ATRA had expressed its opposition to this practice in Yavapai (and also Pinal) to the State Board for Community Colleges and explained that the use of property taxes to fund debt service is only legal for voter-approved G.O. debt. Revenue bonded indebtedness is supposed to be for small projects and serviced through user fees.

Approximately five cents of Yavapai's primary rate was earmarked for debt service on revenue bonds. This district promised that if its G.O. bond election were successful they would pay off the old debt with the new. This they did, sure enough, but they did not drop their primary rate by the five cents.

Adding insult to injury, in addition to the almost-a-nickel secondary rate to service the new debt, Yavapai adopted a primary levy that increased the tax rate beyond truth-in-taxation levels for existing taxpayers by, you guessed it, five cents.

Michael Hunter

Community College District General Funds

District	FY 00-01	FY 01-02	Percent Change
Cochise	$23,485,087	$21,992,839	-6.4%
Coconino	9,395,703	10,149,576	8.7%
Graham	18,529,534	20,114,625	9.3%
Maricopa	326,519,243	335,649,197	3.0%
Mohave	15,492,152	15,950,998	3.2%
Navajo	13,761,775	14,772,634	7.2%
Pima	98,580,000	103,460,000	5.5%
Pinal	21,503,000	22,763,000	6.0%
Yavapai	23,846,159	26,270,725	10.8%
Yuma/La Paz	21,151,283	22,626,015	7.5%
Total	**$572,263,936**	**$593,749,609**	**4.0%**

Community College District Unexpended Plant Funds

District	FY 00-01	FY 01-02	Percent Change
Cochise	$2,210,100	$1,056,329	-52.2%
Coconino	21,059,152	6,972,697	-66.9%
Graham	10,200,571	16,135,338	58.2%
Maricopa	145,586,400	115,809,517	-20.5%
Mohave	8,090,929	2,235,325	-72.4%
Navajo	6,019,600	7,270,000	20.8%
Pima	52,505,000	45,260,000	-13.8%
Pinal	2,030,000	2,700,000	33.0%
Yavapai	5,567,660	27,578,384	395.3%
Yuma/La Paz	1,879,655	1,947,540	3.6%
Total	**$255,149,067**	**$226,965,130**	**-11.0%**

Community College District Adopted Budgets*

District	FY 00-01	FY 01-02	Percent Change
Cochise	$25,695,187	$23,049,168	-10.3%
Coconino	30,454,855	17,122,273	-43.8%
Graham	28,730,105	36,249,963	26.2%
Maricopa	472,105,643	451,458,714	-4.4%
Mohave	23,583,081	18,186,323	-22.9%
Navajo	19,781,375	22,042,634	11.4%
Pima	151,085,000	148,720,000	-1.6%
Pinal	23,533,000	25,463,000	8.2%
Yavapai	29,413,819	53,849,109	83.1%
Yuma/La Paz	23,030,938	24,573,555	6.7%
Total	**$827,413,003**	**$820,714,739**	**-0.8%**

*General funds and unexpended plant funds combined. Funds for the retirement of debt are excluded to avoid redundancy.

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Published monthly except July & August by the Arizona Tax Research Association, a nonprofit organization, whose purpose is to promote efficiency and economy in Arizona government and reductions at all levels. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Reseach Association.

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State and local retail sales tax rates by city, July 2001

Cities by County	State	Gen. Fund	Road	Jail	City	2001 Rate	Cities
Apache County							Quee
Eagar	5.60	0.50	-	-	3.00	**9.10**	Scot
St. Johns	5.60	0.50	-	-	2.00	**8.10**	Surp
Springerville	5.60	0.50	-	-	3.00	**9.10**	Tem
Cochise County							Tolle
Benson	5.60	0.50	-	-	2.50	**8.60**	Wick
Bisbee	5.60	0.50	-	-	2.50	**8.60**	Youn
Douglas	5.60	0.50	-	-	2.50	**8.60**	**Moha**
Huachuca City	5.60	0.50	-	-	1.00	**7.10**	Bullh
Sierra Vista	5.60	0.50	-	-	1.50	**7.60**	Colo
Tombstone	5.60	0.50	-	-	2.50	**8.60**	King
Willcox	5.60	0.50	-	-	2.00	**8.10**	Lake
Coconino County							**Navaj**
Flagstaff	5.60	0.50	-	0.30	1.51	**7.91**	Holb
Fredonia	5.60	0.50	-	0.30	2.00	**8.40**	Pine
Page	5.60	0.50	-	0.30	2.00	**8.40**	Show
Sedona	5.60	0.50	-	0.30	3.00	**9.40**	Snow
Williams	5.60	0.50	-	0.30	3.00	**9.40**	Taylo
Gila County							Wins
Globe	5.60	0.50	0.50	-	1.50	**8.10**	**Pima**
Hayden	5.60	0.50	0.50	-	1.00	**7.60**	Mara
Miami	5.60	0.50	0.50	-	1.50	**8.10**	Oro
Payson	5.60	0.50	0.50	-	2.00	**8.60**	Sahu
Winkelman	5.60	0.50	0.50	-	2.50	**9.10**	Sout
Graham County							Tucs
Pima	5.60	0.50	-	-	1.00	**7.10**	**Pinal**
Safford	5.60	0.50	-	-	2.00	**8.10**	Apac
Thatcher	5.60	0.50	-	-	2.00	**8.10**	Casa
Greenlee County							Cool
Clifton	5.60	0.50	-	-	2.00	**8.10**	Eloy
Duncan	5.60	0.50	-	-	2.00	**8.10**	Flore

Taxpayers can expect increases in school district property taxes for deseg, excess utilities, adjacent ways, small school adjustment, etc.

. . . but probably not "liabilities in excess"

Arizona's school districts have until July 15 to adopt their budgets for fiscal year (FY) 2001-2002, and early indications are that expenditures funded solely by property taxes without voter approval will increase again this year. This is despite increases in state funding, including revenue from the education sales tax adopted by voters in November.

School district expenditures outside the budget limit totaled approximately $284 million last year. This includes such categories as desegregation, excess utilities, dropout prevention, small school adjustment, adjacent ways, and liabilities in excess.

For example, the Phoenix Union High School District's (PUHSD) adopted budget for FY 2001-2002 includes $50.7 million in expenditures outside the equalized budget limits. That includes $46.4 million for desegregation, $2.2 million for dropout prevention, $2.0 million for excess utilities, and $100,000 for adjacent ways.

PUHSD's budget this year is somewhat historic in that it was the first budget in at least a decade that did not include a levy for "liabilities in excess." For years, the district had been levying about $12 million annually in the name of "liabilities" to augment their bond-funded renovations. This year, the Maricopa County Board of Supervisors rejected their request (see *ATRA Newsletter* for February 2001).

LIABILITIES IN EXCESS

HB 2037, ATRA's bill reforming the liabilities in excess law (see *ATRA Newsletter* for April/May 2001), does not take effect until August 9 of this year. However, a survey of county school offices turned up no approved expenditures under the "liabilities" law that would be adopted in budgets by July 15.

Levies for liabilities will still be possible in future budgets for excessive and unexpected legal expenses or if the State School Facilities Board (SFB) approves a capital emergency request but cannot fund it.

ADJACENT WAYS LEVIES

Budgeted amounts for adjacent ways levies, typically for capital projects adjacent to school property, totaled $35 million. Many of the same problems associated with the old liabilities in excess authority exist with the adjacent ways law.

SMALL SCHOOL DISTRICT LEVIES

School districts with very small student populations continue to have some of the most burdensome tax rates in the State through the "small school district adjustment." Small school districts in this category are free to spend any amount they feel necessary courtesy of the local property tax. Statewide, districts with the "small school" designation spent $9.7 million during FY 2000-2001.

DROPOUT PREVENTION

Dropout prevention levies fund programs in which certain districts participate and whose effectiveness has come under scrutiny by the Auditor General in past years. In light of new state revenue available for dropout prevention programs, the Legislature should take another look at these unequalized levies as well.

EXCESS UTILITIES

Excess utilities levies are expected to end in 2009 as required by Proposition 301. However, the measure did not cap or phase out districts' access to this revenue. Last year's budgets for this category were over $60.7 million. Do not expect districts to phase this out on their own initiative.

DESEGREGATION LEVIES

Currently, 19 school districts levy for desegregation, with budgets totalling nearly $173 million in FY 2000-2001. Clearly the size of this levy and its uncontrolled growth year after year poses the greatest threat to taxpayer and spending equity.

Michael Hunter