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ARIZONA TAX RESEARCH ASSOCIATION

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ATRA's 2003 LEGISLATIVE PROGRAM

ATRA's Board of Directors announced its legislative program at its January meeting. Undoubtedly, the passage of a balanced state budget for fiscal year (FY) 2004 will dominate the 2003 legislative session. ATRA staff has been actively involved in efforts over the summer and fall to assist the Legislature in its challenge to pass a balanced budget without raising taxes.

ATRA's legislative program, though aggressive, was drafted with the recognition that state budget issues will occupy much of ATRA's time.

See **Legislative program**, page 2

School district capital spending: We're #1

Bonds authorized since Students FIRST

Election Year	Bonds Authorized
1999	\$179,145,000
2000	\$77,900,000
2001	\$167,538,000
2002	\$352,335,000
Total	\$776,918,000

Top 5 States in per-pupil spending on capital

ARIZONA	\$1,879
Nevada	\$1,711
Alaska	\$1,538
Indiana	\$1,463
Texas	\$1,456

Source: NCES

See article on page 3.

Statewide debt exceeds \$20 billion in FY 2002

Total statewide debt reached \$20.7 billion in FY 2001-02, an increase of \$1.2 billion (6.3%) over last year, according to the Department of Revenue's (DOR) latest annual report on state and local indebtedness.

The indebtedness reports also reveal that in the last five years, from FY 1996-97 to FY 2001-02, total statewide debt increased 47.4%, or \$6.65 billion.

The reports are compilations of data provided by the cities and towns, counties, community colleges, school districts, and other political subdivisions throughout Arizona. The debt reported includes principal amounts only, excluding all interest payment obligations.

State agencies and universities had the largest percentage increase overall in total outstanding debt, with an increase of \$450 million (14.9%) over last year. Special districts weren't far behind with a \$122 million (14.3%) increase.

Arizona's counties also experienced a significant increase, with total outstanding debt increasing by 13.1% (\$85.1 million), followed by the cities and towns with a 12.1% (\$779 million) increase. In contrast, community colleges, K-12 schools, and other jurisdictions reduced their total debt by 4.4%, 3.4%, and 1.1%, respectively.

Public jurisdictions use various financial instruments to fund public projects and services, some of which may or may not require voter approval. The following are brief descriptions of each.

VOTER APPROVED DEBT

General obligation bonds

These bonds are secured by the issuer's taxing authority, usually property taxes, and are subject to constitutional debt limits in most cases. General obligation (G.O.) bonds require voter approval.

Revenue bonds

Revenue bonds are debt secured by an identified revenue source, usually other than property taxes, and are not subject to constitutional debt limits. Most require voter approval.

Special assessment or special district bonds

These bonds are used to fund projects that benefit a specific group of property owners within a specified area or "district" and are secured by taxes levied against property located within the district.

See **Debt**, page 4

ATRA Legislative Program

TAXATION

Sales Tax

- **Sales Tax Exemptions**
Oppose efforts to make wholesale changes to the state's sales tax base through the elimination of exemptions or expansion of the sales tax base to include activities not currently subject to tax.
- **Sales Tax Rate Effective Date**
Have legislation introduced that creates transition language that grandfathers contracts entered into prior to the effective date of state tax increases.

Property Tax

- **Single Assessment Ratio**
Have legislation introduced that establishes a 10% assessment ratio for all **future** voter-approved secondary taxes.
- **Truth-in-Taxation Compliance/Reform**
Have legislation introduced that prohibits local governments that fail to comply with the TNT law from levying in excess of the prior year's levy. Responsibility for oversight of TNT compliance given to the Property Tax Oversight Commission (PTOC).
- **Maximum School Tax Rate**
Have legislation introduced that caps any K-12 school district primary tax rate at twice the qualifying tax rate for the district.

- **One-percent cap reform**
Have legislation introduced prohibiting any school district with class 3 taxpayers at the one-percent cap from increasing the primary tax rate.
- **Public vote to exceed TNT**
Support legislation that would require counties, colleges, and municipalities to obtain voter approval before increasing property taxes over the previous year's level, excluding new construction.

Corporate Income Tax

- **Corporate Income Tax Credits**
Oppose the wholesale repeal of state corporate income tax credits.
- **Conformity**
Support conformity of the Arizona corporate income tax code with the Federal code.
- **Sales Factor Allocation**
Continue to support increases in the sales factor allocation provided there is an election for taxpayers to continue to use the current formula.

PUBLIC FINANCE

General

- **Influencing Elections/ Public Funds**
Support legislation that clarifies current law prohibiting use of public funds to influence elections and puts in place sanctions for violating the law.

K-12 School Finance

- **Capital Outlay Overrides**
Have legislation introduced stipulating that school districts cannot request capital overrides for an amount higher than their capital outlay revenue limit.
- **Excess Utilities**
Have legislation introduced that phases out excess utility levies at prescribed annual increments until its elimination after FY 2009 pursuant to Prop. 301.
- **K-12 Transportation Funding**
Have legislation introduced that caps the transportation revenue control limit at current levels.
- **Desegregation Taxes**
Support legislation that reforms the access to property taxes currently enjoyed by school districts with desegregation court orders or agreements with the U.S. Dept. of Education's Office for Civil Rights (OCR).

Community Colleges

- **Dual Enrollment**
Have legislation introduced to eliminate double counting of students for state aid purposes.

Counties

- **County Health Districts**
Have legislation introduced that requires a public vote before a county board of supervisors can levy a new property or sales tax for a county health district.

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School district capital spending: We're #1

In 1998, state leaders described Students FIRST as “the biggest property tax cut in Arizona history.” By 1999, the School Facilities Board (SFB), a creation of Students FIRST, began spending enormous sums of money on school construction, renovations, and equipment.

As of FY 2003, the SFB has spent or encumbered \$2.7 billion: \$1.1 billion in new school construction; \$1.3 billion to correct deficiencies; and another \$380.5 million in building renewal.

In 1998, the prospect of such new spending on school capital was the rationale state leaders had for their claim that the new system would result in meaningful tax cuts.

At the time, ATRA expressed skepticism that it would indeed reduce school district property taxes. The evidence so far has not assuaged that skepticism.

Data from the Department of Revenue shows that in FY 1997-98, 162 school districts statewide were carrying a total of \$4.1 billion in outstanding debt for general obligation (G.O.) bonds. In FY 2001-02, the Commission reported that 150 districts had \$4.1 billion in outstanding G.O. bonds.

Of course, those totals do not include newly authorized G.O. bonds yet to be issued. Since 1999, \$776.9 million of new bonds (called “Class B” bonds to distinguish from the older “Class A” bonds issued prior to Students FIRST) have been approved at the polls. Over \$352 million of those class B bonds were approved by voters just last November in 12 school districts.

Five districts that are impacted by federal land, such as reservations, have been using the new authority to issue “impact aid revenue bonds,” of which \$57.4 million were approved in the last two November elections.

Infrequently used in the years prior to Students FIRST, districts appear to be turning to capital override elections more

often in recent years. Between 1999 and 2002, 14 districts have sought voter approval for \$155.6 million in capital outlay overrides. All but \$24 million, however, have been rejected at the polls. Under current law, these tax levies are unlimited, can exist for up to seven years, and can overlap previous overrides. According to data from the Arizona Department of Education, 17 districts budgeted \$48.8 million statewide for capital overrides.

There are several other funds designated for capital as well. The capital outlay revenue control limit (CORL), the main capital component of K-12 funding formulas, produced approximately \$214 million in FY 2002-03, the vast majority of which is spent for maintenance and operations (M&O).

In FY 1998-99, districts statewide budgeted about \$32 million in property taxes for capital projects under adjacent ways. Adjacent ways budgets for FY 2002-03 totaled \$50.7 million.

Some districts that levy property taxes under state law for desegregation and OCR earmarked nearly \$15.7 million of those revenues for capital projects in FY 2002-03.

Students FIRST also provided additional revenue as part of the soft capital allocation (SCA). Replacing the old capital levy revenue limit (CLRL), which produced about \$134 million in 1998, the SCA was projected to add an additional \$36.5 million by 1999. District budgets for FY 2002-03 showed \$190.3 million was generated by the SCA formula.

Prior to the enactment of Students FIRST, data from the U.S. Department of Education’s National Center for Education Statistics (NCES) ranked Arizona 7th nationally in per-pupil spending for capital (FY 1996-97).

Given the levels of capital spending since that time, it will likely come as no surprise to learn that the most recent NCES data (FY 1999-00) ranks Arizona first in the U.S. in per-pupil expenditures for capital.

Michael Hunter

BOND ELECTIONS

Year	District	Requested	Result
1999	Cave Creek Unified	\$12,715,000	Pass
1999	Cave Creek Unified	\$15,775,000	Fail
1999	Fountain Hills Unified	\$16,000,000	Pass
1999	Paradise Valley Unified	\$106,835,000	Pass
1999	Marana Unified	\$38,825,000	Pass
1999	Ray Unified	\$2,750,000	Pass
1999	Toltec Elementary	\$1,620,000	Pass
1999	Hyder Elementary	\$400,000	Pass
2000	Cave Creek Unified	\$41,600,000	Pass
2000	Riverside Elementary	\$15,000,000	Pass
2000	Tolleson Elementary	\$3,000,000	Pass
2000	Kayenta Unified	\$8,300,000	Pass
2000	Vail Unified	\$10,000,000	Pass
2001	Deer Valley Unified	\$77,500,000	Pass
2001	Ganado Unified	\$5,500,000	Pass
2001	Globe Unified	\$3,600,000	Pass
2001	Pendergast Unified	\$13,938,000	Pass
2001	Scottsdale Unified	\$155,000,000	Fail
2001	Tuba City Unified	\$3,000,000	Pass
2001	Washington Elementary	\$64,000,000	Pass
2002	Agua Fria Union	\$17,845,000	Pass
2002	Agua Fria Union	\$3,620,000	Pass
2002	Buckeye Union	\$37,700,000	Pass
2002	Chandler Unified	\$59,950,000	Pass
2002	Coolidge Unified	\$5,700,000	Pass
2002	Dysart Unified	\$74,040,000	Pass
2002	Peoria Unified	\$93,500,000	Pass
2002	Queen Creek Unified	\$16,800,000	Pass
2002	Saddle Mountain Unified	\$25,000,000	Pass
2002	Somerton Elementary	\$4,200,000	Pass
2002	Wickenburg Unified	\$9,980,000	Pass
2002	Winslow Unified	\$4,000,000	Pass
		Total	\$947,693,000
		Total Passed	\$776,918,000
		Total Failed	\$170,775,000

CAPITAL OUTLAY OVERRIDES

Year	District	Requested	Result
1999	San Carlos Unified	\$5,000,000	Pass
1999	Cave Creek Unified	\$1,640,000	Fail
1999	Fountain Hills Unified	\$750,000	Pass
1999	Paradise Valley Unified	\$8,330,174	Pass
1999	Wilson Elementary	\$975,000	Pass
1999	Kayenta Unified	\$1,000,000	Pass
2000	San Carlos Unified	\$7,000,000	Pass
2000	Cave Creek Unified	\$2,200,000	Fail
2000	Cedar Unified	\$1,000,000	Pass
2001	Deer Valley Unified	\$43,695,750	Fail
2001	Scottsdale Unified	\$70,749,000	Fail
2002	Dysart Unified	\$1,802,000	Fail
2002	Peoria Unified	\$10,000,000	Fail
2002	Saddle Mountain Unified	\$1,500,000	Fail
		Total	\$155,641,924
		Total Passed	\$24,055,174
		Total Failed	\$131,586,750

IMPACT AID REVENUE BONDS

Year	District	Requested	Result
2001	Indian Oasis-Baboquivari Unified	\$16,000,000	Pass
2001	Red Mesa Unified	\$1,640,000	Pass
2001	Tuba City Unified	\$14,500,000	Pass
2002	Dysart Unified	\$3,260,000	Pass
2002	Ganado Unified	\$22,000,000	Pass
		Total	\$57,400,000

Debt

Continued from page 1

NON-VOTER APPROVED DEBT

Municipal property corporation bonds

Debt issued by non-profit corporations set up by and acting on behalf of a political subdivision of the state to build or acquire projects that are leased back to the political subdivision. The lease revenues of the non-profit are used to secure the bonds. Municipal Property Corporation (MPC) debt is not subject to constitutional debt limits because it is viewed as not being the debt of the political subdivision and does not require voter approval.

Certificates of Participation (COPs)

These are proportional shares in annually appropriated long-term leases that are subject to cancellation if the annual payments are not appropriated. COPs are not subject to constitutional debt limits and do not require voter-approval.

Other types of debt instruments that state and local governments enter into are lease purchase and third-party contracts. These are not included in the totals for bonded indebtedness. However, there exist many similarities between lease purchase agreements and COP's; therefore, a brief discussion of such contracts is included at the end of this analysis.

COUNTIES

Total county debt increased from nearly \$650 million in FY 2000-01 to more than \$735.1 million in FY 2001-02, over a 13% increase. County debt accounted for 3.6% of the total statewide debt at the end of FY 2001-02. Over the last five years, county debt increased nearly \$160.5 million (27.9%).

The bulk of county debt is tied up in \$355 million in revenue bonds. However, until most recently, the majority of county debt was in voter-approved G.O. bonds. In fact, the reported data reflects that there is an obvious shift in county debt from voter-approved G.O. bonds to revenue bonds and non-voter approved MPC bonds, which more than doubled at the county level in the past year.

Pima County ranks number one in total debt and debt on a per capita basis, according to DOR's calculations. With Pima's total outstanding debt above \$423 million, the debt per capita is \$486.42. The next highest county is La Paz, with debt per capita at \$260.60, nearly half the amount reported for Pima County.

CITIES & TOWNS

The debt of cities and towns make up the largest share of local government debt at \$7.2 billion, or 34.8%. Over the past year, city debt increased nearly \$779 million (12.1%). From FY 1996-97 to FY 2001-02, the debt of cities and towns grew nearly \$2 billion (38%).

Community College	Outstanding Debt	Per Student Debt*
Coconino	\$23,835,000	\$15,133
Yavapai	\$29,895,000	\$9,536
Pima	\$118,940,000	\$6,131
Maricopa	\$297,110,000	\$5,194
Northland Pioneer	\$11,125,000	\$5,174
Mohave	\$12,130,000	\$4,971
Arizona Western	\$11,920,000	\$3,548
Central Arizona	\$8,225,000	\$2,437
Cochise	\$1,700,000	\$531
Eastern Arizona	\$0	\$0

*The student population counts used to calculate the per student debt are provided by the State Board of Community Colleges for FY 2000-01 for the expenditure limit calculation.

The bulk of debt accumulated by cities and towns is in revenue bonds, which account for \$4.1 billion (57.5%) of the total. G.O. bonds are the second most highly used debt instruments, which make up \$2.3 billion (31.6%) of total city and town debt.

COMMUNITY COLLEGES

Total community college outstanding debt dropped 4.4% over last year, from \$538.8 million in FY 2000-01 to \$514.9 million in FY 2001-02. The \$465.3 million in G.O. debt accounts for over 90% of total community college debt.

Total community college debt has grown \$188.6 million (57.8%) since FY 1996-97. Since that time, community colleges have shifted their reliance from COP's to revenue and G.O. bonding.

The report also shows that Coconino Community College has the highest per student debt (\$15,133) out of the nine community colleges that currently carry a debt balance. Maricopa Community College holds the largest portion of debt, which is currently at \$297.1 million.

SCHOOL DISTRICTS

The total debt for K-12 school districts is 3.4% less in FY 2001-02 than in FY 2000-01, bringing the balance down \$200 million to \$4.1 billion. K-12 school debt accounts for 20% of Arizona's total debt.

According to the report, Pima County school districts ranked 1st in per student debt at \$5,677. Maricopa schools were not far behind at \$5,332 per student debt. Maricopa County's Riverside elementary per student debt amounted to \$27,722, ranking 1st out of the 150 school districts that carry debt. Paradise Valley Union High School District carried the largest amount of outstanding debt at \$330.7 million in FY 2001-02, ranking 18th based on per student debt of \$9,430.

County Total for School Districts	Outstanding Debt	Per Student Debt*
Pima	\$716,555,000	\$5,677
Maricopa	\$2,762,996,264	\$5,332
Pinal	\$105,635,000	\$4,497
Coconino	\$79,690,000	\$4,210
Yavapai	\$73,025,000	\$3,860
Mohave	\$125,440,000	\$3,791
Navajo	\$38,835,000	\$3,667
Greenlee	\$6,465,000	\$3,532
Cochise	\$50,211,867	\$3,088
La Paz	\$7,345,000	\$2,759
Graham	\$11,830,000	\$2,468
Gila	\$15,825,000	\$2,142
Yuma	\$40,456,000	\$1,315
Santa Cruz	\$11,265,000	\$1,269
Apache	\$11,445,000	\$1,040

*Arizona Department of Education's 100th day average daily membership student count for FY 2002.

TOTAL COUNTY OUTSTANDING DEBT

Debt Instrument	FY 2002	FY 2001	Difference	% Difference
COPs	\$98,603,834	\$105,519,971	-\$6,916,137	-6.55%
G.O.	\$228,350,000	\$257,410,000	-\$29,060,000	-11.29%
MPC	\$53,080,000	\$23,920,000	\$29,160,000	121.91%
Revenue	\$355,084,636	\$263,130,350	\$91,954,286	34.95%
Special Assmt	\$0	\$0	\$0	0.00%
Capital Imps	\$0	\$0	\$0	0.00%
TOTALS	\$735,118,470	\$649,980,321	\$85,138,149	13.10%

TOTAL CITY & TOWN OUTSTANDING DEBT

Debt Instrument	FY 2002	FY 2001	Difference	% Difference
COPs	\$126,740,000	\$134,307,344	-\$7,567,344	-5.63%
G.O.	\$2,275,690,174	\$2,196,427,485	\$79,262,689	3.61%
MPC	\$546,167,967	\$548,142,871	-\$1,974,904	-0.36%
Revenue	\$4,136,007,398	\$3,407,797,835	\$728,209,563	21.37%
Special Assmt	\$113,002,820	\$132,098,231	-\$19,095,411	-14.46%
Capital Imps	\$0	\$0	\$0	0.00%
TOTALS	\$7,197,608,359	\$6,418,773,766	\$778,834,593	12.13%

TOTAL COMMUNITY COLLEGE OUTSTANDING DEBT

Debt Instrument	FY 2002	FY 2001	Difference	% Difference
COPs	\$3,080,000	\$7,645,000	-\$4,565,000	-59.71%
G.O.	\$465,295,000	\$480,445,000	-\$15,150,000	-3.15%
MPC	\$0	\$0	\$0	0.00%
Revenue	\$46,505,000	\$50,710,000	-\$4,205,000	-8.29%
Special Assmt	\$0	\$0	\$0	0.00%
Capital Imps	\$0	\$0	\$0	0.00%
TOTALS	\$514,880,000	\$538,800,000	-\$23,920,000	-4.44%

K-12 SCHOOL DISTRICT OUTSTANDING DEBT

Debt Instrument	FY 2002	FY 2001	Difference	% Difference
COPs	\$68,510,000	\$71,250,000	-\$2,740,000	-3.85%
G.O.	\$4,053,356,264	\$4,207,972,535	-\$154,616,271	-3.67%
MPC	\$0	\$0	\$0	0.00%
Revenue	\$13,105,000	\$0	\$13,105,000	0.00%
Special Assmt	\$0	\$0	\$0	0.00%
Capital Imps	\$0	\$0	\$0	0.00%
TOTALS	\$4,134,971,264	\$4,279,222,535	-\$144,251,271	-3.37%

Debt

Continued from page 4

SPECIAL DISTRICTS

Total outstanding debt for special districts increased \$122 million (14.3%), from \$851.4 million in FY 2000-01 to \$973.5 million in FY 2001-02. The outstanding debt reported by 121 special districts account for 4.7% of the state's total debt.

Maricopa County's special districts hold the most debt at \$355.8 million, followed by Coconino with \$196.8 million, and Pima with \$194.7 million. Approximately \$630 million of special districts total debt is in revenue bonds.

STATE AGENCY & UNIVERSITY DEBT

State agency and university debt reflected the largest percentage increase over the last year, with total outstanding debt increasing from \$3 billion in FY 2000-01 to \$3.5 billion in FY 2001-02, a \$450 million (14.9%) increase. Total debt for these agencies accounted for 16.8% of the total statewide debt at the end of FY 2001-02. Over the past five years, debt in this area increased \$870.1 million (33.5%).

OTHER JURISDICTIONS

Other jurisdictions include special districts that cross county lines, such as the Central Arizona Water Conservation District and Salt River Project. The total outstanding debt

for Other Jurisdictions amounted to \$3.7 billion at the end of FY 2001-02 and accounted for 17.7% of total statewide debt.

LEASE PURCHASE/ THIRD PARTY CONTRACTS

Not included in the total debt are the total outstanding lease purchase agreements as reported by 337 political agencies. Total outstanding contracts amounted to \$386.7 million in FY 2001-02 based on a reporting of 1,591 contracts. However, according to DOR, reporting by the political subdivisions and state agencies can be inconsistent from year to year, so it is not realistic to compare the annual changes in total outstanding lease purchase contracts.

Jennifer Schuld

FY 2002

Debt Instrument	County	Cities/Towns	Comm Colleges	Schools	Special	State & Univ.	Other	TOTALS
COPs	\$98,603,834	\$126,740,000	\$3,080,000	\$68,510,000	\$38,430,000	\$522,755,100	\$0	\$858,118,934
G.O.	\$228,350,000	\$2,275,690,174	\$465,295,000	\$4,053,356,264	\$133,512,379	\$20,325,000	\$0	\$7,176,528,817
MPC	\$53,080,000	\$546,167,967	\$0	\$0	\$0	\$0	\$0	\$599,247,967
Revenue	\$355,084,636	\$4,136,007,398	\$46,505,000	\$13,105,000	\$629,866,167	\$2,923,168,000	\$3,654,246,677	\$11,757,982,878
Special Assmt	\$0	\$113,002,820	\$0	\$0	\$171,603,950	\$0	\$0	\$284,606,770
Capital Imps	\$0	\$0	\$0	\$0	\$130,000	\$0	\$0	\$130,000
TOTALS	\$735,118,470	\$7,197,608,359	\$514,880,000	\$4,134,971,264	\$973,542,496	\$3,466,248,100	\$3,654,246,677	\$20,676,615,366

FY 1997

Debt Instrument	County	Cities/Towns	Comm Colleges	Schools	Special	State & Univ.	Other	TOTALS
COPs	\$99,265,264	\$97,116,305	\$24,600,000	\$64,760,000	\$0	\$374,220,000	\$0	\$659,961,569
G.O.	\$328,470,000	\$2,122,975,441	\$274,405,000	\$3,616,790,599	\$134,894,723	\$41,595,000	\$0	\$6,519,130,763
MPC	\$8,612,398	\$442,210,157	\$0	\$0	\$15,920,000	\$0	\$0	\$466,742,555
Revenue	\$138,273,350	\$2,385,813,288	\$27,275,000	\$0	\$687,845,000	\$2,179,688,143	\$425,760,585	\$5,844,655,366
Special Assmt	\$0	\$168,627,849	\$0	\$0	\$365,136,413	\$0	\$0	\$533,764,262
Capital Imps	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTALS	\$574,621,012	\$5,216,743,040	\$326,280,000	\$3,681,550,599	\$1,203,796,136	\$2,595,503,143	\$425,760,585	\$14,024,254,515