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ARIZONA TAX RESEARCH ASSOCIATION

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ATRA opposes Maricopa Community College District's \$951 million bond

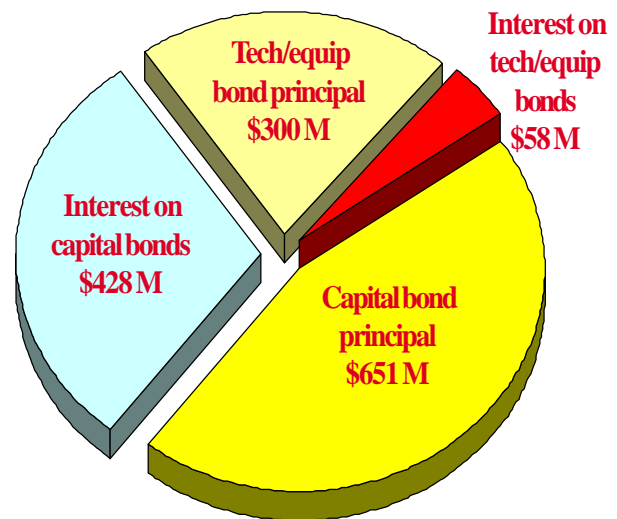
ATRA's Board of Directors voted this month to oppose the Maricopa County Community College District's (MCCCD's) \$951 million bond proposal.

The bond question, which will appear on the November 2 ballot as Proposition 401, would cost Maricopa County taxpayers a total of \$1,436,881,730 in principal and interest if approved.

THE PROPOSAL

MCCCD proposes to issue a total of \$951,359,000 in general obligation (G.O.) bonds in five issuances, each for \$190,270,000. The first would occur on January 1, 2005, and then every two years until the last issuance in 2013. Proceeds from the bond sales are intended to fund \$651.4 million in capital projects. \$300 million is earmarked for technology and equipment (tech/equip) purchases

**Total cost to taxpayers:
\$1,436,881,730**



Commercial Property Valued at \$1 million in 2005

(assuming 4% average annual growth in value)

Tax Year	Rate for 2004 bond	Business FCV	Business NAV	Tax for 2004 bond
2005	0.0655	\$1,000,000	\$250,000	\$163.75
2006	0.1188	\$1,040,000	\$260,000	\$308.88
2007	0.1142	\$1,081,600	\$270,400	\$308.80
2008	0.1620	\$1,124,864	\$281,216	\$455.57
2009	0.1571	\$1,169,859	\$292,465	\$459.46
2010	0.2043	\$1,216,653	\$304,163	\$621.41
2011	0.2009	\$1,265,319	\$316,330	\$635.51
2012	0.2457	\$1,315,932	\$328,983	\$808.31
2013	0.2417	\$1,368,569	\$342,142	\$826.96
2014	0.2377	\$1,423,312	\$355,828	\$845.80
2015	0.2338	\$1,480,244	\$370,061	\$865.20
2016	0.2299	\$1,539,454	\$384,864	\$884.80
2017	0.2261	\$1,601,032	\$400,258	\$904.98
2018	0.2224	\$1,665,074	\$416,268	\$925.78
2019	0.1714	\$1,731,676	\$432,919	\$742.02
2020	0.1686	\$1,800,944	\$450,236	\$759.10
2021	0.1243	\$1,872,981	\$468,245	\$582.03
2022	0.1223	\$1,947,900	\$486,975	\$595.57
2023	0.0802	\$2,025,817	\$506,454	\$406.18
2024	0.0789	\$2,106,849	\$526,712	\$415.58
2025	0.0388	\$2,191,123	\$547,781	\$212.54
2026	0.0381	\$2,278,768	\$569,692	\$217.05
				\$12,945.28

and upgrades (sometimes referred to as soft capital). The work is expected to be completed over a 10-year period. District officials have pointed to approximately \$550 million in bond funds that would be directed toward new space. Of that proposed space, 39% would be designated as "instructional space."

MCCCD's proposal assumes an interest rate on the G.O. bonds of 6.00%. The interest on the capital portion is estimated at \$427,813,830. The estimate on the tech/equip is \$57,708,900. The total cost to taxpayers, principal and interest (P&I), is \$1,436,881,730. The P&I on each bond issuance will be repaid over a 14 to 15 year period for the capital projects, six to seven years for the tech/equip.

Property tax levies to service the debt would begin with tax year 2005 and continue until 2026. MCCCD estimates the secondary tax rate for this proposal to average \$0.1583 per \$100 of assessed value. The 2005 rate is estimated at \$0.0655. The rate peaks in 2012 at \$0.2457. While the debt service declines after 2012, it is reasonable to assume the district will have another bond election by 2014.

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Including tax year 2004, \$291.9 million in debt service obligations stemming from their 1994 G.O. bond authorization remain to be paid. The secondary tax rate to service existing debt is projected to be \$0.1161 in 2004, and should decline annually until the last payment is made in 2014 with an estimated rate of \$0.0275. Combined with the new proposed debt service, the average secondary rate between 2004 and 2014 will be \$0.2448.

Just as the 1994 G.O. bond program had added an additional 1.6 million square feet of new space across the entire district, the 2004 bond program will also provide an additional 1.6 million square feet of new space. MCCCCD estimates that the new square footage will require approximately \$56 million more in operating funds. The district has stated that the 1994 bond resulted in the need for an additional \$30 million in operating funds.

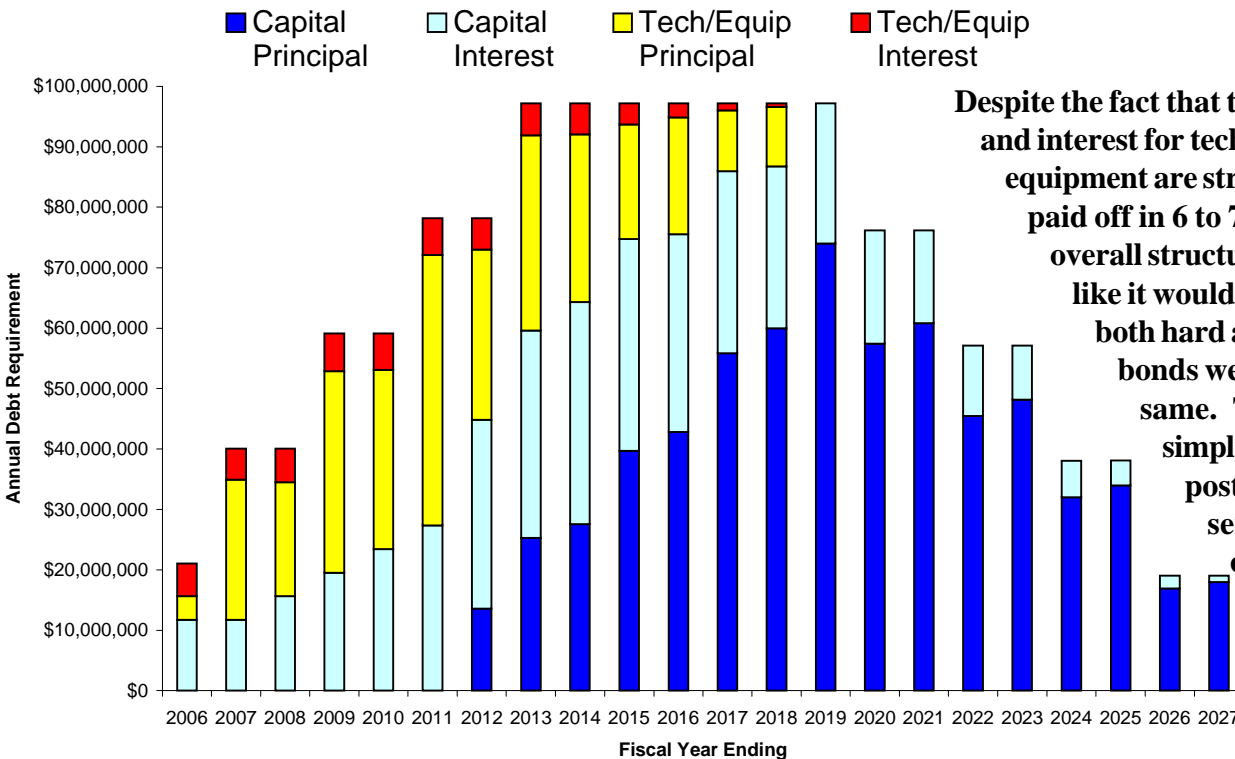
The district estimates the average annual cost to be \$23.02 for a residential property with an average assessed full cash value of \$145,430. The estimate for a commercial property valued at \$1,049,392 would be \$415.30.

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Residential Property Valued at \$150,000 in 2005 (assuming 4% average annual growth in value)

Tax Year	Rate for 2004 bond	Home FCV	Home NAV	Tax for 2004 bond
2005	0.0655	\$150,000	\$15,000	\$9.83
2006	0.1188	\$156,000	\$15,600	\$18.53
2007	0.1142	\$162,240	\$16,224	\$18.53
2008	0.1620	\$168,730	\$16,873	\$27.33
2009	0.1571	\$175,479	\$17,548	\$27.57
2010	0.2043	\$182,498	\$18,250	\$37.28
2011	0.2009	\$189,798	\$18,980	\$38.13
2012	0.2457	\$197,390	\$19,739	\$48.50
2013	0.2417	\$205,285	\$20,529	\$49.62
2014	0.2377	\$213,497	\$21,350	\$50.75
2015	0.2338	\$222,037	\$22,204	\$51.91
2016	0.2299	\$230,918	\$23,092	\$53.09
2017	0.2261	\$240,155	\$24,015	\$54.30
2018	0.2224	\$249,761	\$24,976	\$55.55
2019	0.1714	\$259,751	\$25,975	\$44.52
2020	0.1686	\$270,142	\$27,014	\$45.55
2021	0.1243	\$280,947	\$28,095	\$34.92
2022	0.1223	\$292,185	\$29,219	\$35.73
2023	0.0802	\$303,872	\$30,387	\$24.37
2024	0.0789	\$316,027	\$31,603	\$24.93
2025	0.0388	\$328,668	\$32,867	\$12.75
2026	0.0381	\$341,815	\$34,182	\$13.02
				\$776.72

Bond Debt Service Structure



Despite the fact that the principal and interest for technology and equipment are structured to be paid off in 6 to 7 years, the overall structure looks much like it would if the debt for both hard and soft capital bonds were treated the same. The schedule is simply structured to postpone the debt service on the hard capital bonds.

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The cumulative cost for a hypothetical commercial taxpayer whose property is assessed at \$1 million in 2005 (assuming 4% valuation growth annually) would be \$12,945.28 for the 2004 bond program over the life of the proposed debt service schedule. By means of comparison, a commercial property valued at \$1 million in 1994 (assuming the same 4% growth) will have paid an estimated \$7,153.69 in taxes for the 1994 bond program.

A hypothetical residential property valued at \$150,000 in 2005 (again assuming 4% valuation growth) would pay \$776.72 for the 2004 bond over the life of the proposed debt. The 1994 bond program will have cost a hypothetical taxpayer who started in 1995 with \$150,000 in value an estimated \$429.22.

MCCCD ENROLLMENT GROWTH & THE NEED FOR MORE SQUARE FOOTAGE

Student enrollment projections have been a key feature in MCCCCD's arguments for the proposed bonds. MCCCCD is projecting sizeable enrollment growth over the next decade in both headcounts and full time student equivalents (FTSE). The district has lately referenced enrollment growth as high as 8% and estimates their annual headcount will reach "almost 400,000" by 2010.

To illustrate the need for this bond and the 1.6 million new square footage it will bring the colleges district wide, MCCCCD has made frequent reference to the table of "Current & Projected Square Feet per FTSE" (shown below).

MCCCCD points out that even with the additional square footage that would result from the bonds, the total square feet per FTSE drops from 65 to 62 after the completion of the bond program. MCCCCD has stated: "A national average for a full service campus is in the range of 95-100 square feet per FTSE, so nearly all campuses will remain overcrowded even following a successful capital expansion in the next ten years."

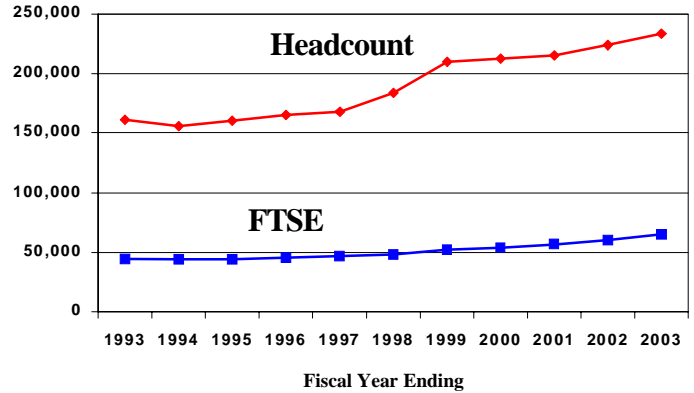
It is worth noting that Rio Salado is included in this table. In the *Community Colleges' Annual Report to the Governor* for Fiscal Year (FY) 2002-2003, Rio Salado stated that the college was founded in 1978 as "a college without a campus" and that the college's philosophy is "Learning any time, any place." The college boasts "more than 24,000 unduplicated distance-learning students, primarily in Maricopa County, resulting in 48,000 duplicated enrollments in 350 different courses offered primarily via the Internet." Other colleges also offer web-based courses.

ATRA has had particular interest in MCCCCD student counts, especially as they relate to formulas for state aid. Considerable growth in student counts has been noted among non-traditional students such as dual enrollment, distance learning, and recreational or "community education" courses. It follows that an analysis of the demands enrollment growth is placing on square footage needs would require a categorization of student enrollment types. In response to an inquiry about such issues, MCCCCD stated:

"Actual growth over the past two decades is difficult to determine due to record keeping changes within our system." The district is, however, able to provide general enrollment histories.

According to student enrollment figures reported in the district's annual adopted budget, headcount enrollment at the colleges grew 34% between FY 1993 and FY 2003. That growth percentage climbs to 45% if the skill centers and Adult Basic Education (ABE), General Education Development (GED), and English as a Second Language (ESL) are included. Similarly, FTSE has grown 43% among the colleges and 46% when ABE, GED, and ESL are

Actual Headcount & FTSE



Current & Projected Square Feet per FTSE

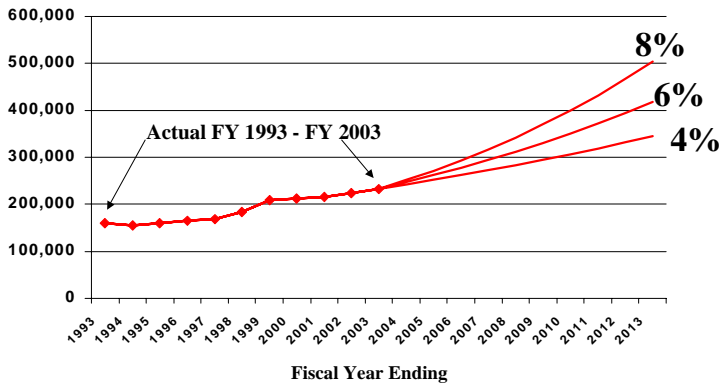
	FY 2002-03			PROJECTED		
	College Area (square feet)	Full-time Equivalent Students (FTSE)	Square Feet per FTSE	Projected Total Square Feet at completion of bond*	FTSE Est. Based on Sq. Footage in Master Plan*	Projected Square Feet per FTSE (based upon actual bond sf)*
Chandler Gilbert	431,800	3,849	112	657,300	12,853	51
Estrella Mountain						
Includes SW Skill Ctr	217,900	2,604	84	343,200	4,630	74
GateWay	299,200	3,441	87	468,800	4,988	94
Glendale	640,700	10,681	60	832,600	12,699	66
Mesa	763,200	14,410	53	984,300	16,470	60
Phoenix	568,600	6,761	84	675,700	7,032	96
Paradise Valley	276,700	3,724	74	441,300	4,886	90
Rio Salado	140,900	8,771	16	267,600	14,910	18
Scottsdale	490,200	6,210	79	596,100	8,103	74
South Mountain	236,600	1,838	129	320,300	2,503	128
Maricopa Skill Center	74,200	971	76	129,550	2,429	53
Total	4,065,800	62,289	65	5,716,750	91,503	62

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Headcount Projections



included. MCCCDC reports total actual headcount enrollment for FY 2003 at 233,337. Audited FTSE for FY 2003 is 64,826.

Between FY 1993 and FY 2003, the annual growth in total headcount enrollment (again, as reported in the district's adopted budget) was 3.88%. The bulk of MCCCDC's reported enrollment at each of the colleges (excluding ABE, GED, ESL and skill center headcount figures) grew during this period by only 2.97%. Starting at 233,337 and assuming an average growth rate of 4%, headcount will be approximately 345,396 in FY 2013. At 6% enrollment will reach 417,871 and at 8%, 503,757. That's a range of over 158,000 students.

The fastest growing student populations are at Estrella Mountain (271%) and Chandler-Gilbert (120%). Rio Salado's headcount has grown by 15,499 students, representing 21% of the overall growth districtwide.

Of the 64,826 audited FTSE for FY 2003, 2,483 (3.8%) were attributable to dual enrollment. According to the ACCA dual enrollment report for FY 2002-2003, headcount for MCCCDC (duplicated) was 24,256. Of that 11,969 (49%) was attributable to Rio Salado. Because these students attend classes on high school campuses, no new construction demands should be associated with these students.

Similar issues can be raised about distance learning course offerings at Rio Salado and other colleges. Furthermore, the space demands of recreational classes that are marketed to the community at large (both credit and noncredit) remain unclear.

Notwithstanding the concerns ATRA continues to raise about community college enrollment counts, it is indisputable that the tremendous population growth in Maricopa and surrounding counties will undoubtedly impact college enrollments. Nevertheless, MCCCDC's case in support of the need for a bond program of this size would be vastly improved if the college were able to identify, with a higher degrees of specificity, the nexus between student growth projections and the demand for new square footage.

A MATTER OF PRIORITIES

One of the most serious concerns ATRA raised about MCCCDC's bond proposals in 1992 and 1994 was that it provided funds for numerous equipment and maintenance projects that are more appropriately and efficiently funded on an ongoing basis with cash. In other words, the purchase and upgrade of computers and the maintenance of the physical plant are expenditures for which room should be made in the district's operating budget (MCCCDC's general fund budget for FY 2005 is \$454.5 million). At a minimum, a cash revenue mechanism such as a levy limit override would be preferable to incurring debt and paying millions of dollars in interest for items with a relatively short shelf life.

By way of illustration, MCCCDC's 2004 bond program includes \$67,359,000 earmarked for "District-wide Maintenance, Security and Special Programs." When asked to describe their use of the word "maintenance," MCCCDC officials responded as follows:

In the Maricopa District's Project Manual for Capital Development, the definition of "maintain or maintenance" is as follows: Any activity, including replacements, adjustments and repairs, intended to restore or retain buildings, building systems and site improvements in a state in which they can perform their required functions or to restore them to serviceability.

In other words, maintenance is intended to fix or repair what is broken, along with doing the necessary work to minimize or to prevent breakage and damage. The scope of "maintenance" also can include periodic maintenance work to lengthen the life of the asset (like District roofing or paving programs).

Some examples of maintenance that will be completed with the 2004 bond funds include maintenance of the following: paving, roofing, central plant equipment, athletic facilities, buildings, and the utilities infrastructure. The following statistics for the District will help to put the magnitude of maintenance into perspective.

There are nearly 250 buildings and about 4.2 million square feet of space at District colleges and education centers, and the age of this space is as follows:

a. 500,000 square feet of this space is between 20 and 30 years old,

b. One million sq ft of space, or about 25% of the total, is more than 30 years old

The following must be maintained every year:

a. Approximately 5 million square feet of roofing,

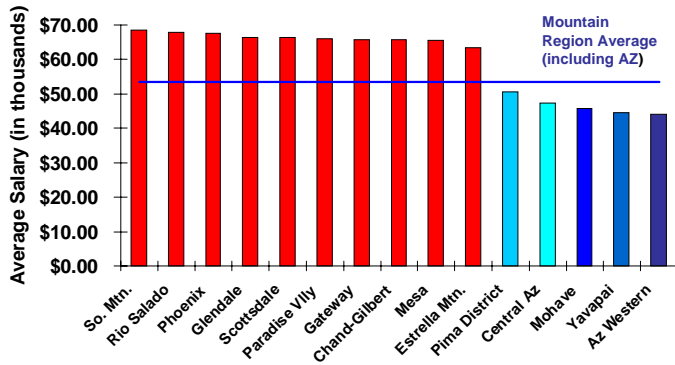
b. 14 acres of asphalt in parking lots and driveways, and

c. 10 chilled water central plants with almost 18,000 tons of cooling capacity

These are the types of items and work that are included under the term "maintenance."

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AAUP Faculty Salary Survey



It is precisely the ongoing —“must be maintained every year” — aspect of this planned use of debt that poses the problem. This bond election provides an opportunity for MCCCDC to articulate how important and how high a priority technology is to the district. However, a review of the district’s operating budget suggests otherwise. The fact that MCCCDC has made maintenance, even preventative maintenance, a part of this enormous debt request is indicative of the precarious financial position MCCCDC puts itself in when the articulation of such priorities is deferred to a bond question once every decade.

Having raised that concern, it is not surprising that this inefficient use of debt has become routine. The growth in student enrollments at MCCCDC has resulted not only in the need for new space but also in the need to hire and maintain faculty. A look at MCCCDC salaries makes clear the district’s budget priorities. According to a survey conducted by the American Association of University Professors, average salaries for Maricopa colleges exceeded those in each regional category of peer, two-year colleges. Average salaries for Maricopa Colleges ranged from 18% to 28% above the regional

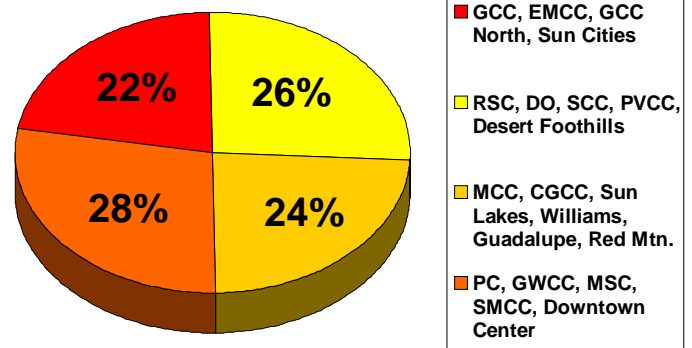
average of \$53,552. Every one of the colleges reported average salaries above the Pacific Region, which has the highest average salary at \$59,895.

The lion’s share of the districts operating revenue comes from property taxes. From and including 1994 to 2004, MCCCDC has levied \$1,968,868,991 in primary property taxes. During those years, primary levies have increased 7.8% on average. It is reasonable that the district should be able to set some of that revenue aside for technology, equipment and maintenance. Until such ongoing expenditures become a bigger priority during the district’s annual allocation of operating revenues, the pressure for the district to resort to such an inappropriate use of debt will likely continue. Short of legislative enactments reforming the use of debt, only voter rejection at the polls would likely result in a change to current practices.

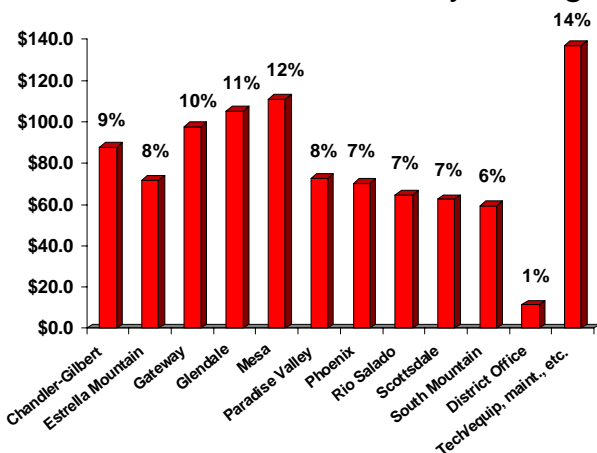
THE PACKAGING OF A BOND PROPOSAL

MCCCDC has stated that the colleges’ actual capital needs are “approximately double what will actually be completed by the 2004 program.” Each of the colleges’ “facilities master plans” would total 3.4 million square feet of new space, rather than the 1.6 million. MCCCDC reported that “an executive subcommittee recommended

Geographic Distribution of Proposed Bond Funds



Distribution of Bond Funds by College



that allocation formulae include the following: current enrollment; projected population growth; the utilization of space; and the age of a college’s facilities.” The district explained that they had “established the target amount in the range of \$900 to \$950 million.”

MCCCDC’s has also taken steps to ensure that the percentage distribution of the funds to each of the colleges is roughly equal and that the geographic distribution is also roughly equitable.

ATRA opposed the MCCCDC bond proposal in 1992 (which failed) as well as the 1994 bond question (which passed). Concerns that ATRA raised about these bond proposals included the use of bonded indebtedness to fund ongoing expenses such as equipment, technology upgrades and building maintenance, and the bundling of numerous and significantly varying projects into one, all-or-

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nothing ballot question. Each of these issues remains a point of concern with the 2004 proposal.

Although MCCCDC's student counts remain somewhat veiled, it is clearly the case that the colleges face enrollment growth and that the argument for some new square footage is legitimate. It may also be the case that certain buildings on older campuses are in need of major renovations or even replacement. However, the guiding principal in determining the distribution of the bond funds seems to be a desire to ensure that each college and region gets their fair share, rather than an effort to have the distribution correspond to square footage demands inspired by growth or building age.

CONCLUSION

As stated earlier, MCCCDC's main argument for the \$951 million bond proposal is the tremendous growth expected in the district's student population and the demands that growth will place on the current square footage of the college. MCCCDC has indicated that approximately \$550 million of the bonds have been earmarked for new space. G.O. bonds are arguably an appropriate funding mechanism to accomplish this objective. G.O. bonded indebtedness, however, is clearly an inefficient mechanism to fund new technology and equipment systems and upgrades (including software) and building maintenance.

Maricopa County taxpayers should demand that MCCCDC reform its budgeting practices to increase the attention given annually to ongoing capital and equipment needs. Further, district officials should be able to describe their enrollment growth in a manner that articulates the varying impacts different types of students have on the need for new capital.

Michael Hunter

Square Feet by College

