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ARIZONA TAX RESEARCH ASSOCIATION

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# Statewide Community College Enrollments Drop; Funding Set to Increase

At the outset of each legislative session, ATRA provides state policy makers with a list of budget recommendations intended to improve the state's fiscal management. Several of those recommendations are directed at the state financing scheme for Arizona community colleges. The following is a summary of the recommended appropriation for community colleges for FY 2008.

State taxpayers fund three major budget components of community college districts. The first and largest of these components is Operating State Aid, which funds ongoing operating and maintenance expenses. Operating State Aid adjusts upward for increases in student enrollment. The second component, Capital Outlay State Aid, is used for land, building, and equipment needs. Capital Outlay is funded on a per full-time student equivalent (FTSE) basis. The last component, Equalization Aid, is additional state aid given to districts whose total primary assessed value is below a statutorily defined Minimum Assessed Value Requirement (MAVR). Statutory funding formulas specify the amounts the Legislature must appropriate for each of these line items.

**JLBC Budget FY 2008**

In order to fully fund these formulas in FY 2008, the total state aid will be

See **Community College**, page 2

# Total Statewide Debt Reaches $28.9 Billion After a $2.4 Billion Boost in FY 2006

| Jurisdiction | FY 2000-01 | FY 2004-05 | FY 2005-06 | 1-YR CHG | 5-YR CHG |
|---|---|---|---|---|---|
| County | $649,980,321 | $856,599,420 | $820,303,073 | -4.2% | 26.2% |
| Cities/Towns | $6,418,773,766 | $10,171,206,678 | $12,351,627,900 | 21.4% | 92.4% |
| Comm Colleges | $538,800,000 | $622,100,000 | $587,220,000 | -5.6% | 9.0% |
| Schools | $4,279,222,535 | $3,924,446,000 | $3,854,788,208 | -1.8% | -9.9% |
| Special | $849,509,212 | $946,396,277 | $948,651,115 | 0.2% | 11.7% |
| State & Univ. | $2,844,435,361 | $6,941,026,218 | $7,338,710,876 | 5.7% | 158.0% |
| Other | $3,693,612,657 | $3,049,451,526 | $2,993,930,199 | -1.8% | -18.9% |
| **TOTAL** | **$19,274,333,852** | **$26,511,226,119** | **$28,895,231,371** | **9.0%** | **49.9%** |

Source: Arizona Department of Revenue

After accumulating an additional 9% ($2.4 billion) in debt, the total statewide debt reported by Arizona jurisdictions amounted to $28.9 billion at the end of fiscal year (FY) 2006, which is also 50% higher ($9.6 billion) than the $19.3 billion that was reported five years ago in FY 2001.

**Overview**

The Arizona Department of Revenue produces an annual publication reporting on the outstanding debt by Arizona's cities and towns, counties, community colleges, school districts, as well as other jurisdictions throughout the state. The types of bonds reported by these jurisdictions include general obligation bonds (G.O.), revenue bonds, Municipal Property Corporation bonds (MPC's), and Certificates of Participation (COP's), which may or may not require voter approval depending on the type of bond.

The debt report includes principle amounts only and excludes all interest payment obligations. Refunding bonds are not duplicated in the report since they represent the refinancing of existing debt obligations. Also not included in total statewide debt are the 805 political subdivisions that reported $670.9 million in outstanding lease purchase contracts.

See **Statewide Debt**, page 3

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# COMMUNITY COLLEGE, *Continued from page 1*

$163.6 million, with $120 million in Operating State Aid, $20 million in Capital Outlay, and $23 million in Equalization Aid. This represents a small net increase in total state aid to the community colleges. The Operating State Aid appropriation will increase $574,700, Capital Outlay will decrease $241,600, and Equalization Aid will increase $3.48 million. Meanwhile, the audited enrollment levels used in the FY 2008 funding formulas decreased statewide by 1.3%. The districts of Cochise, Coconino, Pinal, and Yuma/La Paz all had increases in enrollment ranging between 0.5% and 1.5%. The largest enrollment increases occurred in Yavapai, with 3.7%, and Gila, which more than doubled its FTSE from 312 to 635. Graham, Maricopa, Mohave, and Pima, on the other hand, all saw decreases ranging from 1.0% to 3.0%. Navajo's enrollment decreased the most with a decline of 11%.

**Five-Year Growth in State Aid per FTSE**

When analyzed over five fiscal years, it is clear that the state funding for community colleges is growing at a faster rate than enrollment. The total cost to the state's general fund to educate one FTSE has increased 15% in the last five years. From FY 2003 to FY 2008, the total state aid increased 39%, while the audited FTSE used in the corresponding funding formulas increased only 21.4%.

This increase in state aid per student is driven primarily by three factors. First, the annual inflation adjustment accounts for approximately 2% of each year's increase. Second, funding for Operating State Aid is adjusted annually for increases in student enrollment, but districts are held harmless against any FTSE declines. This provision prohibits the state from offsetting the costs of educating a greater number of students in a growing district with the savings generated by decreased enrollment in declining districts. The hold harmless provision resulted in the FY 2008 increase of $574,700 in Operating State Aid notwithstanding the overall *decrease* in FTSE levels. Capital Outlay State Aid, for example, is funded on a per FTSE basis with no hold harmless provision; therefore, fluctuations in Capital Outlay have not affected the total state aid per FTSE. This formula resulted in the FY 2008 formulaic decrease of $241,600 in Capital Outlay in response to the declining statewide enrollment. Finally, the state's cost per FTSE is driven up significantly by the Equalization Aid formula which completely ignores student enrollment. From FY 2003 to FY 2008, funding for Equalization Aid grew an astonishing 131.2%. The student enrollment in the four districts receiving Equalization Aid increased only 23.5% during the same five years. While the FY 2008 budget includes only a 0.5% increase in Operating State Aid and a 1.0% decrease in Capital Outlay, Equalization Aid funding will increase by 17.4%.

***ATRA has recommended eliminating the hold harmless formula and simply allowing student-based funding to follow the student***

**Equalization Aid**

Equalization Aid is clearly driving up state aid to community colleges, but this funding increase only benefits four of the ten districts. Equalization Aid is given only to districts whose property tax base is below the average of the eight rural districts (i.e., below the MAVR). The amount of aid given is directly proportional to the amount a district's primary Net Assessed Value (NAV) is below the MAVR. Conceptually, Equalization Aid equalizes tax bases for some community college districts by guaranteeing every district will receive the equivalent of their tax rate, up to $1.37, levied on a tax base equal to the MAVR. Graham currently receives 56.0% ($13.1 million) of the state's Equalization Aid appropriation.

The persisting inequalities in revenues and tax rates indicate that equalizing the tax bases does not fund community college systems fairly. For example, over the last five years Navajo's most recently audited enrollment declined 0.2%. During the same time period, Navajo received a 54.6% increase in total state aid. Meanwhile, Yavapai showed enrollment growth of 14.2% and received only a 7.1% increase in total state aid. Both districts are small districts with respective FTSE counts of 2,408 and 3,352. Navajo's funding increased more than Yavapai's due to Navajo's Equalization Aid appropriation. Theoretically, equalizing property tax bases is intended to ease the presumed over-reliance on property taxes in districts with a smaller tax base. In reality, property owners in Yavapai pay a tax rate that is 13.5% higher than the rate in Navajo. Similarly, Pinal does not receive Equalization Aid, but the property owners in Pinal are taxed at a rate that is greater than all four of the Equalization Aid districts.

Equalization Aid is formulaically flawed. The current formula ignores FTSE counts, revenues, and tax rates in favor of responding to changes in property values. This appropriation may assist districts that legitimately need additional funding, but in order to fairly equalize funding between property rich and property poor districts, FTSE counts and tax rates must be part of the equation. The Equalization Aid formula was designed originally to provide money to Eastern Arizona College when the system was established. For years, ATRA has recommended that the state eliminate the Equalization Aid formula and replace it with a direct appropriation to Eastern.

Note: Throughout this article the county name refers to the county's community college district.

***Justin Olson***



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*Serving Arizona's taxpayers since 1940.*

1814 W. Washington Street
Phoenix, Arizona 85007
(602) 253-9121
FAX (602) 253-6719
www.arizonatax.org
atra@arizonatax.org

# STATEWIDE DEBT, *Continued from page 1*

| Top 10 Outstanding Debt | |
|---|---|
| **City/Town** | **Outstanding Debt** |
| Phoenix | $6,062,983,184 |
| Mesa | $1,030,044,000 |
| Tucson | $978,297,849 |
| Scottsdale | $927,445,441 |
| Glendale | $626,149,181 |
| Tempe | $477,385,000 |
| Gilbert | $323,395,000 |
| Chandler | $291,234,000 |
| Yuma | $154,272,471 |
| Lake Havasu City | $144,029,324 |
| Source: Arizona Department of Revenue | |

## Cities/Towns

Arizona cities and towns are responsible for the majority of growth in the latest debt report. With a 21.4% increase ($2.2 billion) in overall debt, 78 out of Arizona's 90 cities and towns have accumulated approximately $12.4 billion in total debt, which represents 43% of total statewide obligations. Over the last five years, the cities and towns have nearly doubled ($5.9 billion) the amount of debt they carry, up from $6.4 billion in FY 2001.

| Top 10 Per Capita Debt | |
|---|---|
| **City/Town** | **Per Capita Debt** |
| Williams | $7,054 |
| Tolleson | $5,723 |
| Sedona | $5,549 |
| Phoenix | $4,173 |
| Scottsdale | $4,143 |
| Queen Creek | $4,008 |
| Cottonwood | $3,886 |
| Tempe | $2,970 |
| Bullhead City | $2,912 |
| Page | $2,824 |
| Source: Arizona Department of Revenue | |

Not surprisingly, the cities that hold the most debt include some of the largest cities, such as Phoenix, which carries over $6 billion in total obligations after issuing more than $1.4 billion in new debt, $300 million of which were voter-approved G.O. bonds. At the end of FY 2006, the City of Phoenix ranked 4th per capita out of the 78 cities and towns that reported debt. Mesa maintains the second highest level of debt of over $1 billion after obtaining an additional $163.6 million in debt ($36.4 million in voter-approved G.O. bonds) and ranked 16th per capita. Acquiring an additional $75 million in debt, Tucson owes nearly $979 million and ranked 21st per capita. The City of Scottsdale owes more than $927 million after accumulating an additional $280 million. Scottsdale ranked 5th per capita at the end of FY 2006.

Queen Creek experienced the highest percentage growth in debt with an increase of 1,934% ($64 million), followed by Lake Havasu City with 623% ($83 million), a 593% increase for Bisbee ($17 million), and Buckeye with 424% ($18 million).

## State & Universities:

Overall debt reported by the state and universities increased 5.7% in FY 2006 to $7.3 billion. However, the amount of the increase in this category is overstated due to the Arizona Department of Administrations' failure to report approximately $200 million in existing debt in FY 2005. After controlling for this debt in the FY 2005 reported number, the actual increase for FY 2006 is just over $180 million, reflecting a 2.5% increase. This increase is mainly the result of the $162 million acquired by the Health Facilities Authority, which brings the Authority's debt to more than $2 billion, representing 28% of the total debt reported in this category. Five-year growth for this category reflected a 158% increase, $4.5 billion more than in FY 2001, representing the most growth out of all the jurisdictions during that period.

| Community College | Outstanding Debt | Per Student Debt |
|---|---|---|
| Maricopa | $392,680,000 | $4,514 |
| Pima | $63,720,000 | $3,034 |
| Yavapai | $60,360,000 | $17,623 |
| Arizona Western[2] | $24,080,000 | $5,327 |
| Coconino | $20,455,000 | $9,470 |
| Mohave | $11,020,000 | $3,800 |
| Central Arizona[3] | $8,745,000 | $2,095 |
| Northland Pioneer[4] | $5,345,000 | $1,843 |
| Cochise | $815,000 | $134 |
| Eastern Arizona[5] | $0 | $0 |
| Gila | $0 | $0 |

[2]Arizona Western Community College serves Yuma and La Paz Counties.
[3]Central Arizona Community College serves Pinal County.
[4]Northland Pioneer College serves Navajo County.
[5]Eastern Arizona Community College serves Graham County.
*The student population counts used to calculate per student debt are provided by the State Board of Community Colleges for FY 2005-06 for the expenditure limitation calculation.
Source: Arizona Department of Revenue

## Special Districts

Special districts added less than 1% ($2.3 million) in debt over the last fiscal year, bringing the total to $948.7 million at the end of FY 2006. Over the past five years, jurisdictions in this category increased their debt 11.7% ($99 million). While there were some special districts that decreased their debt, that reduction was offset by the increased debt of special districts in Yuma, Pinal, and Pima Counties.

Special districts in Yuma County increased their debt 51.2%, nearly $10 million, up to $29.5 million. The main reason for the increased debt is the result of voter-approved G.O. bonds for the library district. Voters approved a total of $53 million in G.O. bonds to pay for several new libraries throughout the county. In addition, the Yuma County Airport Authority incurred new debt, which totaled $1.9 million at the end of FY 2006.

Following right behind Yuma County were the special districts of Pinal County, with a reported 9.5% ($9 million) bump in debt for FY 2006 to $104.5 million. The majority of the increase was the result of $8.7 million in additional debt for one of the county's electrical districts, along with two new community facilities districts, which accumulated a collective $5 million in new debt.

Total debt for Pima County special districts reportedly increased 7.9% ($15.6 million) by the end of FY 2006, bringing the total debt obligations to $214.6 million. Golder Ranch Fire District established debt in the amount of $8.8 million for the first time in FY 2006 as did the Quail Creek Community Facilities District, in the amount of $12.7 million, both in the form of voter-approved G.O. bonds.

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**Community Colleges**

The community college districts reduced their debt 5.6% ($34.9 million) over the last year. However, the overall debt in this category has increased 9% ($48.4 million) since FY 2001.

All of the community colleges except Arizona Western experienced a reduction in their debt levels. Arizona Western's debt more than tripled, from $7.2 million in FY 2005 to $24.1 million in FY 2006, after voters approved $20 million in G.O. bonds.

| County | Outstanding Debt | Per Capita Debt |
|---|---|---|
| Pima | $495,702,073 | $517 |
| Pinal | $164,700,000 | $669 |
| Maricopa | $77,665,000 | $21 |
| Yuma | $20,206,000 | $100 |
| Mohave | $20,080,000 | $108 |
| Coconino | $18,180,000 | $140 |
| Cochise | $8,165,000 | $57 |
| Navajo | $5,915,000 | $54 |
| Apache | $5,100,000 | $69 |
| Gila | $2,045,000 | $38 |
| La Paz | $1,945,000 | $92 |
| Greenlee | $600,000 | $72 |
| Graham | $0 | $0 |
| Santa Cruz | $0 | $0 |
| Yavapai | $0 | $0 |

Source: Arizona Department of Revenue

**Schools**

Total outstanding debt for schools dropped 1.8% ($69.7 million) and is down nearly 10% since FY 2001.

The reduction in school debt was largely the result of the $198 million drop in Pima County school debt, as well as schools in Coconino County ($13.2 million), and Cochise County ($5 million). These drops in school debt greatly offset the increased debt of other school districts including an additional $93 million in Maricopa County, $38.8 million increase in Yuma County schools, and an additional $15 million for Navajo County schools.

| County Total for School Districts | Outstanding Debt | Per Student Debt* |
|---|---|---|
| Maricopa | $2,979,697,000 | $5,525 |
| Pima | $395,725,000 | $5,339 |
| Pinal | $131,953,000 | $4,182 |
| Yuma | $78,730,208 | $2,343 |
| Mohave | $71,550,000 | $2,467 |
| Yavapai | $55,065,000 | $2,790 |
| Navajo | $54,273,000 | $3,745 |
| Coconino | $31,450,000 | $1,889 |
| Cochise | $22,385,000 | $1,794 |
| Gila | $11,680,000 | $1,903 |
| Graham | $10,925,000 | $744 |
| Santa Cruz | $10,600,000 | $1,153 |
| Greenlee | $5,740,000 | $3,892 |
| La Paz | $4,065,000 | $8,469 |
| Apache | $900,000 | $854 |

*Arizona Department of Education's 100th day average daily membership student count for FY 2005-06.

Source: Arizona Department of Revenue

**Counties**

Total county debt dropped 4.2% ($36.3 million) in FY 2006, from $857 million in FY 2005 to $820 million in FY 2006. However, since FY 2001, the counties have accumulated an additional 26.2% ($170.3 million) in debt.

Although Pima and Maricopa Counties collectively reduced their debt by $79 million, Pinal County offset that drop with a $59 million increase. Pinal County's additional debt is primarily the result of funding for the Ironwood/Gantzel Road project.

***Jennifer Schuldt***