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ARIZONA TAX RESEARCH ASSOCIATION

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City of Phoenix Raises Tax Rates 19%

In a 5 to 4 vote, the City of Phoenix accepted staff recommendations to raise both the primary and secondary property taxes for FY2017. The 19% rate increase from the historic combined $1.82 per $100 of assessed value to $2.17 generates an additional $37 million in secondary property taxes. The crux of the debate came down to whether the city needed maintain a sizeable debt-service surplus for purposes of maintaining a strong credit rating. ATRA publicly opposed the tax increase and testified before the Council explaining why the operating budget did not need be cut in order to maintain the existing rate.

For the past 20 years, the City of Phoenix has maintained a combined property tax rate of $1.82 per $100 of assessed value. When property values skyrocketed before the recession, driving down the necessary primary tax rate, the City left the combined rate at $1.82 which provided several years of historically high collections in secondary taxes, adding in excess of $300 million to the debt service fund beyond what was needed to pay the annual debt service. In turn, that fund has been used since the recession devastated home values to supplement the

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Comm College Spending Even

Student Counts Continue Decline

Some corners of Arizona will be granted a reprieve from consistent tax increases from their community college district (CCD) in FY2017 with Graham, Maricopa, Pinal, Santa Cruz Provisional and Yavapai CCDs all electing to set their primary rate at the Truth in Taxation (TNT) rate. This means they will levy same amount as last year net of any changes resulting from new construction. Cochise, Coconino, Gila Provisional, Mohave, Navajo and Yuma/La Paz CCDs reflexively pulled the 2% tax increase trigger to levy the maximum allowed by the Arizona Constitution. Pima CCD raised taxes by 1% which leaves their levy limit at 99% of the constitutional limit.

Community colleges statewide continue to contract in student size, which is largely the result of an improved economy. Students are measured in Full Time Student Equivalents (FTSE) and are estimated by colleges to decrease 3% to 132,900 FTSE, although most schools believe they have plateaued and this lower projection is correcting from prior year overestimations. The most recent audited FTSE counts for FY15 show a 4.2% drop in enrollment. Since the recession-induced enrollment surge- which peaked in 2011, FTSE counts have dropped 15.7%. Other contributing factors for some districts include increased online options and population decreases in some rural areas.

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COMMUNITY COLLEGE BUDGETS, *Continued from Page 1*

Following a multi-year trend, expenditures per last-audited FTSE are up 4.2% to $9,780 which is the result of increased or flat spending against decreasing students. Overall General Fund budgeted expenditures for CCDs statewide are flat this year at $1.2 billion. The rationale provided for increased or flat spending against decreased students includes rising employee healthcare costs, increased costs for providing new or expensive technical training programs, and continued efforts to improve recruiting, retention, and completion through additional student service programs.

Most colleges report difficulty in reducing costs despite significant student losses due to a desire to maintain the scope and scale of current programming. Employee costs (salaries and benefits) overall remain flat at $902 million. Employee costs per FTSE range dramatically from the very efficient Cochise at $4,900 to the very expensive Graham, Navajo and Pinal which are all north of $10,000 per FTSE. The others are closer to the $7,300 average.

FY 2017 CCD	Budgeted GF Expenditures	% Change
Cochise	$34,699,481	-15.8%
Coconino	$19,093,427	3.4%
Gila	$7,152,694	-3.0%
Graham	$41,042,631	-1.0%
Maricopa	$733,655,272	0.4%
Mohave	$34,207,252	6.7%
Navajo	$26,463,019	1.5%
Pima	$165,069,000	-2.5%
Pinal	$48,700,000	1.0%
Santa Cruz	$2,042,716	13.7%
Yavapai	$44,161,000	0.1%
Yuma/La Paz	$43,369,381	1.9%
Total	**$1,199,655,873**	**-0.2%**

Statewide primary property tax levies, which largely support the general fund, are set to rise 2.4% to $753 million. Levies per last-audited FTSE are up 7% to $6,140. In 2008, when FTSE counts were near current levels, the total levies were $4,500 per FTSE. Inclusive of state aid, total taxpayer weight of effort increases 5.3% to $6,253 per FTSE. The seven CCDs raising taxes contribute to an overall 2.2% rise in primary property tax rates to an average of $1.61 per $100 of assessed value. Taxpayers in Maricopa and Yavapai will witness measurable primary tax rate cuts: 2% in Maricopa and 1.5% in Yavapai. The largest rate increases occur in rural Arizona where property values declined such as Graham (6.6% rate increase) and Santa Cruz (5.6% rate increase) and in other counties with decreased valuations and tax levy increases like Cochise (5.1% rate increase) and Yuma/La Paz (4% rate increase).

FY 2017 Full Time Student Equivalents (FTSE) CCD	Estimate	% Change
Cochise	6,000	-4.8%
Coconino	2,065	-1.2%
Gila	725	-19.4%
Graham	3,250	-3.0%
Maricopa	80,678	-0.4%
Mohave	2,750	-12.7%
Navajo	2,000	2.6%
Pima	20,000	-13.0%
Pinal	5,000	-4.8%
Santa Cruz	325	0.0%
Yavapai	3,860	-3.5%
Yuma/La Paz	5,500	-3.5%
Total	**$132,153**	**-3.5%**

Resident tuition rates will increase to an average of $82 per credit hour. Many colleges have rearranged their tuition and fee schedule which complicates comparisons but ATRA's analysis attempts to be inclusive of all mandatory fees for typical classes. Graham CCD elected to switch from a graduated tuition rate to a flat $80 per credit hour resulting in the largest tuition increase. Yavapai CCD had the second largest increase, raising tuition $4 to $79 per credit hour for residents. Pima and Maricopa CCD have announced programs to charge half-tuition for elderly residents. Pima also reduced tuition by 15% for nonresident

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students and by 40% for nonresident online students to stimulate growth in those cohorts.

CCDs budget for capital spending in a separate plant fund and a few have secondary property tax rates which pay debt service on voter-approved capital bond campaigns. Pinal and Yuma/La Paz CCD's bond rates are the most expensive for FY2017 at $.34 and $.37 respectively. One outlier is Yavapai CCD, who annually directs nearly 25% of their primary tax levy into capital spending in addition to their $.21 secondary tax rate for bond defeasance. Their plant fund spending is astonishingly high: $3,000 per FTSE, double that of Maricopa CCD. The district's justification is they plan to annually spend at the level of their projected property depreciation amount to keep facilities in outstanding condition plus new projects.

FY 2017 Tax Rates

CCD	Primary	% Change	Secondary	% Change	TOTAL
Cochise	2.2860	5.1%	0.0000	0.0%	2.2860
Coconino	0.4909	0.9%	0.1305	5.2%	0.6214
Gila	0.8735	2.5%	0.0000	0.0%	0.8735
Graham	3.0768	6.6%	0.0000	0.0%	3.0768
Maricopa	1.2376	-2.0%	0.2275	-1.6%	1.4651
Mohave	1.3288	2.8%	0.0000	0.0%	1.3288
Navajo	1.7884	2.6%	0.0000	0.0%	1.7884
Pima	1.3733	0.3%	0.0000	0.0%	1.3733
Pinal	2.2874	-0.5%	0.3395	-2.9%	2.6269
Santa Cruz	0.4938	5.6%	0.0000	0.0%	0.4938
Yavapai	1.8439	-1.5%	0.2122	9.0%	2.0561
Yuma/La Paz	2.2521	4.0%	0.3734	-4.1%	2.6255
Average	**1.6110**	**2.2%**	**0.1069**	**0.5%**	**1.7180**

Other Notes:

ATRA was able to visit finance staff from Maricopa, Cochise, Pinal and Navajo CCD's this year and had virtual conversations with the rest. Navajo CCD's student count continues to drop as the region's population declines-making an already inefficient operation by comparison worse. The school will continue to be forced to make difficult decisions to right-size their future offerings. Cochise CCD is in the middle of significant capital investment as it retrofits a donated hospital to create a new downtown center in Sierra Vista. Coconino CCD plans to refer to its voter a property tax override this November.

-Sean McCarthy

FY 2017 Primary Property Tax Levies

CCD	Levy Limit	% Change	Primary Levy	% Change	% of Limit Levied	Levy per FTSE	% Change	('17) Levy Last Actual FTSE
Cochise	$20,797,435	3.8%	$20,797,447	3.8%	100.0%	$3,466	9.0%	$3,281
Coconino	$7,706,211	3.1%	$7,706,000	3.0%	100.0%	$3,732	4.3%	$3,730
Gila	$4,335,129	5.4%	$4,335,129	5.4%	100.0%	$5,979	30.9%	$6,175
Graham	$6,060,200	2.9%	$5,941,313	0.9%	98.0%	$1,495	7.9%	$2,051
Maricopa	$489,635,950	4.4%	$447,212,880	2.3%	91.3%	$5,543	2.7%	$5,873
Mohave	$22,539,105	3.4%	$22,539,105	3.4%	100.0%	$8,196	18.5%	$8,825
Navajo	$14,361,969	-1.0%	$14,361,969	-1.0%	100.0%	$7,181	-3.5%	$7,751
Pima	$108,409,809	3.9%	$107,346,737	2.9%	99.0%	$5,367	18.3%	$6,522
Pinal	$59,278,835	4.5%	$48,487,183	2.5%	81.8%	$9,697	7.6%	$11,916
Santa Cruz	$4,801,821	5.2%	$1,529,974	3.1%	31.9%	$4,708	3.1%	$5,222
Yavapai	$46,921,021	3.3%	$43,228,500	1.3%	92.1%	$11,199	5.0%	$11,231
Yuma/La Paz	$29,658,840	3.6%	$29,658,840	3.6%	100.0%	$5,393	7.4%	$5,459
Total/Avg	**$814,506,325**	**4.1%**	**$753,145,077**	**2.4%**	**91.2%**	**$6,226**	**12.1%**	**$6,140**

Save the Date!

ATRA Golf Tournament: Nov 4 McCormick Ranch, 12:00pm

ATRA Outlook Conference: Nov 18 Scottsdale Hilton, 8:00am

Gila Provisional College: Audit Impossible

After falling behind in both financial audits and expenditure limit compliance reports for several years, the Arizona Auditor General's office released four years of reports for Gila Provisional Community College District (CCD) which indicate those audits cannot be completed. Gila Provisional's last audit which met the generally accepted audit standards was in 2007.

This spring, the Arizona Auditor General released reports for fiscal years 2009 through 2012 which all contained identical disclaimers warning the reports were incomplete because auditors "…were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions on the District's governmental activities and general fund financial statements."

Essentially, the district did not have the records sufficient for audit and they simply reported what information they could find. Comingling funds appears to be one of the district's prominent problems. "The financial statements do not include financial data for the District's legally separate component units." Documentation also appeared to be inadequate: "The District's financial statements were not reliable and could not be audited."

While many jurisdictions receive critical analysis of their financial operations, rarely do state audits suggest accounting principles were poor enough to make an audit effectively impossible.

> *"Gila County Provisional Community College District had inadequate internal controls over its accounting system and had incomplete and inadequate accounting records for revenues and expenses. As a result of these matters, we could not rely on the District's accounting system to generate reliable information. Further, the District's records did not permit us to apply examination procedures sufficient to determine whether the expenditures of revenues reported as exclusions and related note disclosures were accurate and complete."*

Audit reports indicated the district was highly vulnerable to fraud and theft due to poor cash management practices, including having the same person prepare bank deposits and authorizing disbursements and withdrawals. "The District's management lacked the finance and accounting expertise to establish effective internal control policies and procedures over cash receipts and disbursement and reconciling its cash and investments." The district responded that as of January 2016 they been developing new policies and procedures.

Another worrisome report is over potential conflicts of interest with the Governing Board. The reports noted: "The District did not have policies and procedures in place to ensure that its governing board members complied with state laws requiring the disclosure of conflicts of interest. In addition, the District's management lacked the finance and accounting expertise necessary for identifying related-party transactions and disclosing them…" The district responded that they addressed this issue in 2012.

For several years, ATRA inquired to Gila Provisional CCD the source of the delay in audit reporting. The district's position was to sharply blame the Arizona Auditor General's office as well as internal staffing turnover. The AG's office has consistently rejected this reasoning. These reports indicate that Gila Provisional's inadequate accounting practices were the primary culprit.

ATRA has stressed the importance of timely audit completion and sought state law changes to reinforce their importance. They are crucial if taxpayers are to fairly interact with government. For example, it is impossible to accurately ascertain next year's revenue estimation or if the property tax levy is fair if the books aren't balanced from the prior year. In each year when its audit was late, Gila Provisional CCD raised property taxes- a tough pill to swallow for taxpayers who have yet to see several years' worth of financial documentation.

For each audit, Gila Provisional provided identical, brief responses to audit findings which indicate the district intends to adopt policies to become compliant in 2016.

-Sean McCarthy

PHOENIX TAX INCREASE, *Continued from Page 1*

debt service payment on voter-approved bonds in order to leave the combined rate at $1.82. Unbelievably, after over levying $300 million between FY08 and FY11, the city characterized the use of the reserve as tax relief.

In 2013, ATRA successfully advanced legislation which limited secondary tax levies for bonds to an amount necessary to fund the debt service payment in the upcoming fiscal year to prevent jurisdictions from stockpiling taxpayer money, among other concerns. This limits the City of Phoenix from doing this in the future and encourages districts to "float the tax rate" which means they charge taxpayers annually what they owe on voter-approved bonds. ATRA agrees with the City of Phoenix policy to "float the rate" for the secondary property tax. Taxpayers certainly must pay the debt service on voter approved bonds.

However, the City of Phoenix plans to retain $90 million of the remaining debt service surplus as an "emergency fund" because they claim it keeps their debt rating high. Official city documents appear to suggest the city plans to never credit the remainder of the over-collected levies to property taxpayers. Debt rating agencies applauded the City's debt fund surplus when the city was committed to a $1.82 hard cap on their combined rates: they would need a surplus because they were limiting their revenue collection with a hard cap when property values decline. Now the city is committing to floating the rate and annually collecting the revenue needed to pay the principal and interest on bond debt service- while still clinging to the surplus. There is no financial recommendation or precedent to suggest the city must maintain six to nine months of debt payment surplus. Most jurisdictions maintain little to no surplus in this fund. For the city to conflate an old recommendation based on a different fact situation with a new era of "floating the tax rate" is a deliberate attempt to obfuscate the property tax situation and establish a much higher rate for FY17.

FINANCIAL INFORMATION

In April of 2005, the Mayor and City Council established a 2006 Citizens' Bond Committee of over 750 citizens, and adopted a schedule for the Committee's work culminating in a March 14, 2006 bond election. The Committee was charged with reviewing $3.2 billion in capital needs and recommending a financially sound bond program that does not increase the combined primary and secondary property tax rate of $1.82 per $100 of assessed valuation, and that meets the highest priorities of the community. After months of review, discussion and public hearings, the Bond Committee recommended an overall bond program of $878.5 million. The 2006 Bond Executive Committee will remain in place to provide ongoing oversight for the implementation of the bond program.

The recommendations of the Bond Committee were reviewed and approved by the City Council on November 1, 2005. The $878.5 million program was sized to allow for maximum primary property taxes to be levied to help restore and protect community services and to provide for the costs necessary to operate the proposed new facilities while maintaining the current combined property tax rate of $1.82 per $100 of assessed valuation. (Under State law, primary property taxes are limited to the payment of operation and maintenance expenses while secondary property taxes are limited to the payment of voter-authorized debt). The City Council's approval that the current combined primary and secondary property tax rate of $1.82 per $100 of assessed valuation not be increased represents the continuation of the City Council policy since 1996. Legally, the combined property tax rate could be increased in the future for a variety of reasons.

From the 2006 City of Phoenix Bond Pamphlet

Jurisdictions should annually charge taxpayers what they owe in debt service as approved by the voters. If taxpayers have overpaid, they should be credited for that in the future; over-collections should benefit the taxpayer, not the governmental entity.

Tell the Truth in Bond Elections

As was outlined in Jennifer Stielow's May 5 *Arizona Republic* Op-Ed "My Turn: The truth about Phoenix's property taxes," City of Phoenix leaders boldly promised the 2006 bond election would not raise taxes if passed. This despite the fact that over the life of the loans, $900 million worth of bonds would require more than $1.5 billion in total payments from secondary property taxes. Assuming the tax base would never contract is fool's gold. Though it makes for a convenient election campaign slogan, declaring that massive bond sales won't increase taxes is disingenuous.

ESTIMATED COST BY PROPERTY CLASS:

Projections prepared by the City and utilized by the Bond Committee in its deliberations show that implementing the $878,500,000 proposed bond program while maintaining a combined property tax rate of $1.82 per $100 of assessed valuation requires an average annual secondary property tax rate increase of $0.29 per $100 of assessed valuation over the life of the bonds, **while the average annual primary property tax rate would decrease by the same amount**. In its projections, the City has assumed a growth rate in secondary assessed valuation of 7.9% for the first five years of the forecast, which is equal to the average annual growth rate for the previous ten years and 1.6% thereafter, which is equal to twenty percent of the annual percentage growth for the previous ten years.

The following tables show the estimated tax impact of the proposed bond program on Owner Occupied Residential Property, Commercial and Industrial Property and Agricultural Property.

From the 2006 City of Phoenix Bond Pamphlet

Prop 117

ATRA discussed in the October 2015 newsletter how in the first year of Prop 117's implementation, Arizona taxpayers were already benefitting from the constitutional changes. Property taxpayers witnessed just a 2.1% overall increase in property taxes despite a 13% statewide increase in net assessed full cash values. The growth in Maricopa County was 17%. In addition to steadying the growth of taxable value for property owners, Prop 117 sought to increase interaction between government and its citizens. Steady growth in valuations necessitates the public debate associated with rate increases if a jurisdiction intends to raise property tax levies. Previously, jurisdictions like the City of Phoenix simply rode massive property valuations to the effect of huge tax increases simply by leaving tax rates constant.

In the past two years, the City of Phoenix's Full Cash Values (FCV) increased by 30%. Instead of exposing taxpayers to this rapid increase, Prop 117 limited their taxable value on both primary and secondary taxes to a 5% annual increase. But for Prop 117, the City may have been able to quietly raise the rate just a few cents and avoid the public debate altogether. Instead there was a packed City Hall the Friday before a summer holiday weekend with an intensive public discussion. In addition to protecting taxpayers from sudden valuation spikes, Prop 117 is encouraging public finance transparency.

-Sean McCarthy

ARGUMENT IN SUPPORT
PROPOSITION NUMBER 1

Mayor Phil Gordon supports citizen recommendations; encourages "YES" vote on all seven ballot propositions

I want to thank the Phoenix residents who are responsible for this series of bond proposals that will help ensure the future of our neighborhoods and our community. More than 700 citizens worked diligently to assess and prioritize our needs. Hundreds more offered their thoughts and guidance. They have all done a remarkable job. They have earned my respect and my support.

And they deserve yours.

This package of community improvements continues a responsible tradition of sound investment in the future of Phoenix, including new fire and police stations; small high schools, higher education, and health science facilities; park, open space and recreational opportunities; new and improved libraries, community services for children, families and seniors; and basic street, storm sewer, and infrastructure improvements.

These projects will generate economic opportunity, jobs, and revenue that can be spent on Phoenix neighborhoods and public safety. They are vital to the future of Phoenix families and children, improving educational opportunity and laying a foundation for continued economic growth.

And these proposals will NOT raise taxes.

Please join me in supporting our citizens and our community by voting YES on Propositions 1, 2, 3, 4, 5, 6 and 7. Thank you.

Submitted By:

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