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ARIZONA TAX RESEARCH ASSOCIATION

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Counties Increase Taxes, Blame State Cost Shifts

CORRECTION & REVISION

An error was made in reporting the General Fund cash balances for Apache, Greenlee, and Maricopa Counties and corrections have been made to this article that was initially published on August 21st, 2015. In addition, the article has been revised to broaden the discussion on the cash position of the counties by including the total cash balances reported. Understanding that counties have the authority to transfer general fund dollars to other funds such as capital projects and other special revenue funds, it is important to include all of the cash reported by the counties regardless of how it is designated in their respective budgets in order to get a true perspective of a county's cash position.

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Comm College Budgets, Students Down Most Raise Property Taxes and Tuition

For the first time in at least the last 15 years, Arizona community college districts witnessed a net decrease to their General Fund (GF) budgets, contracting 2.3% to \$1.2 billion for FY 2016. This is mostly the result of a contraction in cash spending from Maricopa Community College District (CCD) whose GF budget reduced from \$774 million to \$731 million. Arizona CCDs have witnessed significant reductions in enrollment, which follows nationwide post-recession trends. The most recent audited enrollment data from FY 2014 shows full time student equivalents (FTSE) at 128,085, down 13% from the 2011 peak of 145,470. As designed, decreased enrollment estimates have led to a 4.8% decline in constitutional expenditure limits this year. However, as has been the historical trend, property tax levies continued their ascent despite the reduction. Total primary property tax levies increased 5.1% in FY 2016 totaling \$745 million statewide with most CCDs adopting a levy accessing the maximum tax rate. College enrollments are roughly back to pre-recession levels but their primary levies are 30% higher and their GF budgets are 20% higher than FY 2009.

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SAVE THE DATE!

ATRA Golf Tournament: Nov 6 McCormick Ranch, 12:00pm
ATRA Outlook Conference: Nov 20 Scottsdale Hilton, 8:00am

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Budget gimmicks used during the Great Recession that ATRA believed to be temporary are becoming permanent fixtures at the state level. Efforts to close the deficit included spending cuts, a temporary sales tax, rollover payments, and shifting costs to local governments. As a concession, the Legislature provided counties the “flexibility” to backfill those cost shifts with revenues from their special taxing districts. This flexibility language that was originally a temporary provision in the state budget became permanent in the FY 2016 state budget. In adopting their FY 2016 budgets, counties that increased property taxes placed most, if not all, of the blame on the state cost shifts. One thing is for certain: regardless of who’s to blame, it is ultimately the taxpayers who always lose this budget game.

As administrative arms of the state, the close financial relationship between the state and county government is expected to be ever changing. Over the past few years, counties have been required to absorb additional costs, such as costs associated with the treatment of sexually violent persons, restoration to competency, Justice of the Peace salaries, as well as the temporary reduction of various funding sources, like highway user revenues (HURF) and Lottery revenues. New cost shifts in FY 2016 permanently require local jurisdictions to participate in the funding of administrative costs at the Department of Revenue, costs associated with housing juveniles at state corrections facilities, and the sharing of costs associated with the 1% constitutional cap (see ATRA May 2015 newsletter).

Policymakers provided temporary relief to counties by allowing them to siphon revenues from their special taxing districts to their general funds to offset cost shifts. Despite questions about its legality, ATRA viewed this as a temporary measure to create a bridge out of the Great Recession. However, this temporary provision has been made permanent for the first time in FY 2016, at least for the new cost shifts as stated above.

One would presume the amount transferred from the special taxing districts would equate to the amount of state cost shifts, but unfortunately, that is not a requirement of the provision. In fact, there are some counties using the “flexibility” provision to backfill county obligations not at all related to the state cost shifts.

County	FY 2016 GF CASH	FY 16 GF budget	% of GF Budget
Apache	\$5,000,000	\$19,054,415	26.2%
Cochise	\$29,105,987	\$81,060,228	35.9%
Coconino	\$25,279,245	\$73,629,911	34.3%
Gila	\$16,708,877	\$49,545,792	33.7%
Graham	\$1,527,239	\$17,582,984	8.7%
Greenlee	\$6,797,709	\$12,427,243	54.7%
La Paz	\$0	\$17,876,725	0.0%
Maricopa	\$82,902,015	\$1,033,655,889	8.0%
Mohave	\$12,325,115	\$94,472,991	13.0%
Navajo	\$4,500,000	\$45,197,807	10.0%
Pima	\$31,847,551	\$549,889,508	5.8%
Pinal	\$22,227,657	\$172,528,066	12.9%
Santa Cruz	\$10,416,151	\$29,249,776	35.6%
Yavapai	\$9,367,953	\$95,545,575	9.8%
Yuma	\$11,774,639	\$78,913,045	14.9%
TOTALS	\$269,780,138	\$2,370,629,955	11.4%

In the FY 2016 state budget, total ongoing cost shifts to the counties amounted to just over \$30 million. All but four counties increased their primary property taxes this year and many of them, if not all, blamed it on the state cost shifts. Some counties utilized the flexibility language to transfer revenues from their special taxing districts to the general fund, and in doing so, subsequently increased taxes to those special districts to replenish their reserves. A few tapped sources that didn't directly impact property taxes. Maricopa County leveraged the Elderly Assistance Fund (EAF), which is funded by the interest associated with delinquent property taxes, to the tune of \$7.1 million. All told, for operational levies under County government control including special districts, taxes were raised \$48 million above the truth-in-taxation level statewide in FY 2016, which predominantly came from increases in Maricopa, Pima, and Pinal County.

Property taxpayers became the ultimate victims of the cost shifts despite ample cash reserves available in most counties. During the boom years before the recession, county general fund cash reserves swelled to double-digit levels. Most counties were clearly able to weather the bad times as a result of that cash. Counties began the fiscal 2016 budget year with total estimated cash of nearly \$270 million in their general funds. On average, counties hold cash reserves that equal 11.4% of their general fund budgets. Of the 15 counties, Greenlee County holds the highest in percentage terms at 55% of its general fund budget. Five other counties hold more than 26% in reserves and only a handful have estimated cash reserves that are less than 10% of their general fund budgets.

Total cash reported by all 15 counties in FY 2016 amounts to approximately \$2.3 billion. The majority of cash other than general fund dollars held by the counties is for capital projects at nearly \$1.2 billion. Revenues for capital project funds include revenues generated from special assessments, intergovernmental revenues, and revenues from private contributions restricted for capital acquisitions. Counties also hold \$569 million in Special Revenues funds, which include revenue from various document recording fees, special taxing district revenues, HURF dollars and the like. Revenues in Debt Service Funds amount to \$57.8 million and include revenues generated from property taxes, special assessments, and proceeds from refunding bonds. Revenues reported for

County	Cash						Total cash	Total budget	% of Total Budget
	GF	Special Revenue (SRF)	Debt Svc.	Cap. Projects	Enterprise	Internal Svc.			
Apache	\$5,000,000	\$3,430,191	\$2,000,000	\$0	\$0	\$0	\$10,430,191	\$51,762,560	20.15%
Cochise	\$29,105,987	\$15,792,582	\$0	\$13,757,818	-\$311,073	\$0	\$58,345,314	\$162,288,172	35.95%
Coconino	\$25,279,245	\$39,762,004	\$247,529	\$21,770,015	\$0	\$0	\$87,058,793	\$213,035,762	40.87%
Gila	\$16,708,877	\$13,925,542	\$0	\$1,836,988	\$3,680,247	\$0	\$36,151,654	\$91,985,237	39.30%
Graham	\$1,527,239	\$4,312,511	\$0	\$0	\$0	\$0	\$5,839,750	\$34,664,885	16.85%
Greenlee	\$6,797,709	\$1,963,000	\$0	\$3,150,000	\$0	\$0	\$11,910,709	\$27,046,844	44.04%
La Paz	\$0	\$1,651,610	\$105,140	\$0	\$44,371	\$0	\$1,801,121	\$36,681,894	4.91%
Maricopa	\$82,902,015	\$187,135,405	\$14,275,716	\$975,622,871	\$0	\$35,327,600	\$1,295,263,607	\$3,277,694,258	39.52%
Mohave	\$12,325,115	\$36,952,341	\$19,768,207	\$3,534,873	\$24,174,542	\$19,525,418	\$116,280,496	\$289,210,025	40.21%
Navajo	\$4,500,000	\$23,168,963	\$1,469,435	\$147,346	\$0	\$0	\$29,285,744	\$120,863,901	24.23%
Pima	\$31,847,551	\$40,919,599	\$15,115,609	\$91,255,768	\$130,397,966	\$0	\$309,536,493	\$1,452,435,014	21.31%
Pinal	\$22,227,657	\$85,523,446	\$0	\$65,386,871	\$138,420	\$0	\$173,276,394	\$421,507,779	41.11%
Santa Cruz	\$10,416,151	\$10,630,545	\$103,207	\$323,029	\$1,497,625	\$0	\$22,970,557	\$76,145,313	30.17%
Yavapai	\$9,367,953	\$54,735,407	\$0	\$0	\$0	\$0	\$64,103,360	\$235,390,904	27.23%
Yuma	\$11,774,639	\$48,826,847	\$4,687,953	\$4,709,532	\$0	\$6,977,971	\$76,976,942	\$243,367,114	31.63%
TOTALS	\$269,780,138	\$568,729,993	\$57,772,796	\$1,181,495,111	\$159,622,098	\$61,830,989	\$2,299,231,125	\$6,734,079,662	34.14%

*Total budget amounts reflect total financial resources for comparison purposes. The amounts reported for Yuma County are based on the tentative adopted budget and excludes improvement district funds. The amount reported under the SRF for La Paz County includes the Jail District.

county Enterprise Funds amounted to nearly \$160 million and examples include revenues for AHCCCS, ALTCS, landfills, wastewater management, and golf courses. Lastly, Internal Service funds, which total approximately \$62 million, are used to provide goods or services to other county funds or departments or to other governments, on a cost reimbursement basis.

This article is intended to provide a glimpse into the budgets adopted by Arizona's counties in FY 2016. A detailed report on county budgets will be published in October of this year.

-Jennifer Stielow

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GF expenditures per FTSE are up 8% in FY 2016 to \$9,109. The FTSE number used in the ratio is taken from official college FY 2016 estimates except for Pima CCD, where ATRA used an updated and more accurate FTSE based on district data. District spending per student varies substantially in Arizona. Of the traditional districts, Cochise CCD spends the least per student at \$6,391 and Navajo CCD spends the most at \$13,373. Taxpayer effort, measured by combining state aid with local property taxes, also shows a wide range. The taxpayer effort per FTSE grew by 12.5% for FY 2016 (though much of that growth has to do with correcting FTSE estimates in FY 2016 which were high in FY 2015). On average, the taxpayer effort per FTSE is just under \$6,000. The highest is Navajo CCD at \$11,421 with Yavapai close behind at \$11,091. Pinal CCD surpassed the \$9,000 per FTSE mark this year with their large tax increase. Most district's taxpayer effort is in the range of \$4,500 to \$6,000 per FTSE. Statewide taxpayer contributions represent 65% of all GF expenditures (does not include Federal revenue spending such as Pell grants).

FY 2016 General Fund Expenditures			Budgeted GF	
CCD	Expenditure Limit	% Change	Expenditures	% Change
Cochise	\$50,816,985	-18.7%	\$40,266,315	-0.6%
Coconino	\$14,811,935	-0.5%	\$18,460,827	3.4%
Gila	\$5,580,076	-3.4%	\$7,115,533	11.3%
Graham	\$32,725,875	1.9%	\$41,455,336	2.6%
Maricopa	\$451,524,053	-6.7%	\$731,059,890	-5.6%
Mohave	\$27,785,046	-1.5%	\$32,065,033	0.1%
Navajo	\$13,327,460	-0.6%	\$26,077,253	1.0%
Pima	\$114,444,168	1.9%	\$169,378,000	-0.5%
Pinal	\$46,455,464	-2.7%	\$48,200,000	2.6%
Santa Cruz	\$2,015,027	1.9%	\$1,797,239	18.3%
Yavapai	\$42,312,883	-0.5%	\$44,110,000	4.9%
Yuma/La Paz	\$52,266,576	0.7%	\$42,562,579	4.6%
Total	\$854,065,548	-4.8%	\$1,202,548,005	-3.0%

FY 2016 Primary Property Tax Levies					% of Limit	Levy per	
CCD	Levy Limit	% Change	Primary Levy	% Change	Levied	FTSE	% Change
Cochise	\$20,028,212	3.1%	\$20,028,212	3.1%	100.0%	\$2,460	18.8%
Coconino	\$7,478,002	3.2%	\$7,478,002	3.2%	100.0%	\$3,382	0.8%
Gila	\$4,111,994	3.0%	\$4,111,994	3.0%	100.0%	\$4,569	8.7%
Graham	\$5,887,078	4.2%	\$5,887,078	4.2%	100.0%	\$1,757	5.4%
Maricopa	\$469,150,732	3.8%	\$437,227,709	1.7%	93.2%	\$5,398	11.1%
Mohave	\$21,792,188	3.3%	\$21,792,188	3.3%	100.0%	\$6,918	4.9%
Navajo	\$14,509,355	3.4%	\$14,509,355	3.4%	100.0%	\$7,441	6.0%
Pima	\$104,315,120	4.0%	\$104,315,120	4.0%	100.0%	\$4,535	4.0%
Pinal	\$56,722,470	3.9%	\$47,323,593	23.5%	83.4%	\$9,014	29.4%
Santa Cruz	\$4,565,380	5.3%	\$1,483,708	3.2%	32.5%	\$5,495	3.2%
Yavapai	\$45,403,613	3.4%	\$42,667,700	3.4%	94.0%	\$10,667	6.0%
Yuma/La Paz	\$28,623,364	5.1%	\$28,623,364	8.5%	100.0%	\$5,022	9.8%
Total	\$782,587,508	3.8%	\$735,448,023	3.7%	91.9%	\$5,555	9.1%

All CCDs except Maricopa and Santa Cruz Provisional have approved tax increases for FY 2016. Of those, all but Pinal and Yuma/La Paz CCD took a 2% increase plus revenue from new construction. Pinal CCD initially voted to adopt their maximum tax levy, a 48% total increase to their levy but after significant local backlash, reduced the levy increase to 23.5%. Yuma/La Paz CCD joined the eight CCDs who levy to their maximum tax rate with a 5.1% levy increase this year, leaving only four jurisdictions who do not levy the maximum: Maricopa, Pinal, Yavapai, and Santa Cruz Provisional. Primary property tax rates increased 3.4% statewide. There was strong assessed value growth in Maricopa and Gila counties which induced rate reductions. The rest of the state saw low or negative assessed value growth for FY 2016.

FY 2016 Taxpayer Weight of Effort per FTSE						
	Primary Levy	State Aid	Taxpayer Contr	FTSE	\$/FTSE	Change
Cochise	\$20,028,212	\$10,688,800	\$30,717,012	6,300	\$4,876	28.9%
Coconino	\$7,478,002	\$2,194,400	\$9,672,402	2,091	\$4,626	4.9%
Gila	\$4,111,994	\$529,000	\$4,640,994	900	\$5,157	9.3%
Graham	\$5,887,078	\$17,283,900	\$23,170,978	3,350	\$6,917	-1.7%
Maricopa	\$437,227,709	\$0	\$437,227,709	81,000	\$5,398	8.8%
Mohave	\$21,792,188	\$2,101,700	\$23,893,888	3,150	\$7,585	4.4%
Navajo	\$14,509,355	\$7,762,000	\$22,271,355	1,950	\$11,421	7.2%
Pima	\$104,315,120	\$0	\$104,315,120	18,000	\$5,795	24.1%
Pinal	\$47,323,593	\$2,000,000	\$49,323,593	5,250	\$9,395	25.0%
Santa Cruz	\$1,483,708	110,400	\$1,594,108	270	\$5,904	25.4%
Yavapai	\$42,667,700	\$1,696,000	\$44,363,700	4,000	\$11,091	5.9%
Yuma/La Paz	\$28,623,364	\$3,569,800	\$32,193,164	5,700	\$5,648	8.6%
Total	\$735,448,023	\$47,936,000	\$783,384,023	131,961	\$ 5,936	12.5%

State aid to CCDs decreased by 27.5% this year, representing an increasingly smaller portion of CCD budgets except for the three CCDs who receive equalization aid. Cochise, Graham, and Navajo CCDs continue to receive significant state equalization aid which is designed to offset their inferior assessed property value relative to other counties. The biggest decreases in state aid were to Maricopa and Pima whose state aid was statutorily eliminated. Most CCDs either had no change or a formulaic cut due to enrollment decreases. Pinal took a 34% cut (\$1 million) mostly in a reduction to their STEM/Capital aid.

Revenue derived from tuition and fees is projected to decrease 2.8% which is the result of CCD's adjusting their expected enrollment downward. All CCDs increased tuition for FY 2016 except Maricopa. Tuition and fees are slated to generate \$363 million, which equates to 30% of GF spending. Tuition averages \$79 per credit hour for Arizona residents and \$316 for nonresidents.

FY 2016 CCD Tuition and Fees			Per-Credit Rate	
CCD	Budgeted	% Change	Residents	% Change
Cochise	\$7,204,877	-14.3%	\$77	2.7%
Coconino	\$7,693,190	4.1%	\$92	3.4%
Gila	\$1,400,000	0.0%	\$69	3.0%
Graham	\$7,179,499	4.5%	\$69	3.0%
Maricopa	\$241,136,556	-2.1%	\$84	0.0%
Mohave	\$8,071,224	-3.5%	\$88	1.1%
Navajo	\$4,600,000	2.2%	\$71	7.6%
Pima	\$54,923,000	1.6%	\$82	7.9%
Pinal	\$7,100,000	0.0%	\$82	2.5%
Santa Cruz	reported in Cochise*		\$77	2.7%
Yavapai	\$12,273,000	2.3%	\$75	4.2%
Yuma/La Paz	\$10,970,000	3.9%	\$78	2.6%
Total/Average	\$362,551,346	-2.8%	\$79	3.3%

CCDs continue to maintain extraordinary cash balances, averaging 66% of their budgeted GF (excluding the Provisional colleges). In total, CCDs have \$713 million of unrestricted cash in the bank. Maricopa has over half the total with \$447 million. Navajo has the greatest percentage of their budget at 173%. Some are storing funds for capital purchases to avoid debt financing projects. Equalization aid districts remain concerned the state could remove funding. Some point to a lack of ability to expend the funds for M&O due to expenditure limit capacity, which causes CCDs to stockpile cash. ATRA will continue to encourage districts to resist the desire to increase taxes in the face of significant cash surpluses.

-Sean McCarthy

FY 2016 CCD Cash Balance		
CCD	Total	As % of GF
Cochise	\$20,524,965	51.0%
Coconino	\$14,777,816	80.0%
Gila	\$1,025,000	14.4%
Graham	\$34,104,792	82.3%
Maricopa	\$447,093,000	61.2%
Mohave	\$13,225,789	41.2%
Navajo	\$45,100,000	172.9%
Pima	\$81,996,000	48.4%
Pinal	\$15,250,000	31.0%
Santa Cruz	\$245,031	13.6%
Yavapai	\$16,579,000	39.4%
Yuma/La Paz	\$23,699,737	55.7%
Total	\$713,621,130	57.6%