Arizona’s School Capital Finance Challenge

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July 15, 2003
The challenge

- Roosevelt v. Bishop
- State now faced with ongoing responsibility for facility construction and maintenance
- Can’t put voters between school capital needs and money
Debt financing SFB

- $400 M in “lease-to-own” debt for FY 03
- $250 M in “lease-to-own” debt for FY 04
- $247 M in land trust fund debt for FY 04
- An additional $250 M per year will result in $250 M debt payment by FY 2012
School district capital spending

• SFB has spent $2.7 billion through FY 2003
• Arizona ranks 1st nationally for 1999-00 in per-pupil spending on capital (7th for 1996-97)
• Total outstanding debt in FY 2001-02 remains above $4 billion, although among fewer districts
• $777 million in G.O. bonds authorized since Students FIRST (plus $24 million in overrides)
• Property tax levies for “adjacent ways” now at $50.7 million in FY 2003
“Biggest property tax cut in Arizona history”??

- Bonds and unlimited capital overrides
- $2.5 billion in future debt (1998), roughly 2/3 of then existing levels
- Multiple assessment ratios
  - lack of accountability
  - lack of equity between districts
  - high business property taxes
Secondary property taxes

• Since 1998:
  – Average school rate down 12% (31 cents)
  – Values up 43% ($11 billion)
  – Levies up 21% ($141 million)

• Taxpayers should have expected rate decreases to keep better pace with value increases

• Any rate decreases create “capacity” for tax increases in other areas (M&O or K-3 overrides, etc.)
Options for resolution

• Option 1: Return to local funding

• Option 2: Live with the court decision and simply finance Students FIRST

Note: If we are keeping the new construction standards and providing an assured revenue stream to fund them (i.e. no votes), we are keeping Students FIRST
Option 1: Go back to the old days

Return to local funding and voter/taxpayer accountability for expenditure of monies
Option 1: PROs & CONs

Pros

• Maximizes local control
• A degree of accountability to voters

Cons

• No state oversight
• Strongly opposed by most school districts
• Will result in higher property taxes
• Unconstitutional (unless amended)
Option 2: Keep & Fund Students FIRST

Fund the new construction program at the state level through a state level agency
Option 2: PROs

• Increased equity
• State oversight & control
• Possibility of pay-as-you-go financing
• Most state grants would otherwise be local taxes
• Should be one component of effort to address high business property taxes
Option 2: CONs

• How do we finance it?
  – Clearly no room in general fund

• No pricing mechanism:
  – “mud on the wall”

• Local options/property taxes
Option 2

*some problems to address*

- “Invisible” square footage
- Formulas on auto-pilot
- Geographic exceptions
- Additional 5% for rurals
Important Note

• Maintaining state oversight and control is essential if we keep Students FIRST.

• Districts deciding when they qualify for new construction and levying taxes without a vote would be a regrettable result.
Recommendation:
Keep, Revise, & Fund Students FIRST

• Single assessment ratio for voter-approved bond and overrides
• Revisit funding formulas & qualifications
• Funding source should be one that does least damage to tax structure

*End result cannot be to make worse the biggest problem in Arizona’s tax system, business property taxes*