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ARIZONA TAX RESEARCH ASSOCIATION

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2014 LEGISLATIVE SESSION A GREAT SUCCESS FOR ATRA

*Most bills on ATRA Agenda Enacted/Zero Bad Bills Survive*

The Second Regular Session of the 51<sup>st</sup> Legislature adjourned after 101 days, and overall, it was another successful year for ATRA. Most of the legislation that ATRA advocated for was enacted into law and all of the bills ATRA opposed failed to make it to the finish line. The following is a brief recap of the legislation in which ATRA played a major role:

**Good Bills**

**HB2389 (TPT; Licensing & Filing Uniformity)** This ATRA-backed bill included substantive changes to Arizona's transaction privilege tax (TPT) system by making the procedures for licensing uniform between the state and cities as recommended by the Governor's Sales Tax Simplification Task Force. All applications for TPT licenses and returns must be filed with the Department of Revenue. Taxpayers doing business in two or more locations or business names must file their returns electronically and those that file on a consolidated basis under one TPT license are only subject to one renewal fee of up to \$50 per jurisdiction, otherwise the taxpayer will be subject to a separate renewal fee for each location. The fee for a state TPT license remains at \$12. *Chapter 263*

**SB1331 (model city tax code; changes)** A recent decision by the Municipal Tax Hearing Office put the validity of the Model City Tax Code (MCTC) into question when it took the position that a change in the tax code does not need to be reflected in the MCTC to be valid as long as the city adopts an ordinance. To reverse the

See *Legislative Recap*, page 2

**SEE INSIDE: COMM COLLEGES  
EXAGGERATE STUDENT COUNTS**

## AZ Educators Pay Highly Competitive

According to fiscal year 2012-2013 data, Arizona ranks very high in public school teacher and professor salary as a percentage of per capita personal income (PCI) or, a state's average salary. Arizona ranks 14<sup>th</sup> for public K-12 educators, 2<sup>nd</sup> in two-year college faculty pay, and is tied for 1<sup>st</sup> in public university faculty.

Arizona's national ranking in average teacher and professor pay, which have historically ranked high, belies the commonly held belief that public education in Arizona is chronically underfunded.

See *Teacher Pay*, page 4

## Lessons From Glendale

Future students of public policy will study the City of Glendale as a model of financial blundering; the municipal equivalent of the dot com company. And if they don't; they should, because other cities with similar grandeur desires are certain to follow their path. ATRA's April newsletter reported on the skyrocketing use of non-voter approved debt in Arizona. The poster child for the fiscal danger associated with this debt is Glendale.

A small city of 230,000 residents, Glendale was a sleepy bedroom suburb with leaders who dreamed of popularity like Tempe or Scottsdale and managed to convince the taxpayers of Maricopa County to underwrite the building of the new Cardinals stadium. Unsatisfied with just one stadium, the city sold \$162 million in Municipal Property Corporation (MPC)

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**LEGISLATIVE RECAP** , *Continued from Page 1*

consequences associated with such a decision, the Legislature passed SB1331 requiring that any changes in the tax code must be reflected in the MCTC in order to be valid. *Chapter 121*

**HB2395 (property tax calculations; school districts)** To assist in ensuring the accuracy of tax rates adopted by school districts, HB2395 requires the county school superintendents to submit the property tax rates and levies adopted by all of the school districts to the Property Tax Oversight Commission (PTOC) for review by July 25<sup>th</sup> of each year, effective beginning this year. *Chapter 209*

**HB2378 (municipal taxes and fees; prohibition)** Prohibits a municipality from assessing a municipal wide parcel tax or fee on property based on size or value for any public service. This legislation is retroactive to December 31, 2013 but included a grandfather clause for the Town of Paradise Valley. *Chapter 169*

**SB1182 (school district overrides; bonds; information)** In its final form, SB1182 requires that the purpose statement included in K-12 override election and all bond election publicity pamphlets reflect only factual information in a neutral manner and any advocacy in support of an election is strictly limited to the pro and con statements in the publicity pamphlets. *Chapter 111*

**Bad Bills**

**SB1412 (accelerated depreciation; class 6 property)** This legislative proposal would have unnecessarily extended the significant benefits of locally assessed accelerated depreciation on personal property that currently only applies to class 1 and class 2 property (19% assessment ratio) to property assessed under class 6 (5% assessment ratio). *Retained in House Committee of the Whole (COW)*

**SB1303 (property valuation; class six)** For years, ATRA has strongly opposed efforts to provide targeted tax breaks through the expansion of class 6 property. SB1303 would have provided a significant reduction in property taxes to a regionally accredited institution of higher education with at least one university campus in this state with more than 2,000 students residing on campus (only Grand Canyon University) by assessing such property under class 6 (5% assessment ratio) rather than class 1 (19% assessment ratio). *Failed House Rules*

*A complete list of bills that ATRA tracked during the 2014 legislative session can be found on the ATRA website at [www.arizonatax.org](http://www.arizonatax.org).*

-Jennifer Stielow

## COLLEGES EXAGGERATE STUDENT COUNTS AGAIN

### *Expenditure Limits Continue To Lack Accountability*

Last year, ATRA reported on the lack of accountability of Arizona's community college district (CCD) constitutional expenditure limits resulting from the absence of regulatory oversight. Not much has changed in one year. All twelve CCDs in FY 2013 overstated their student count, which inflated the expenditure limits by nearly \$155 million. The dramatic difference between reported student count and audited student count is due to the fact that the CCDs, unlike other local jurisdictions, report their own student count estimates to the Economic Estimates Commission (EEC), which is the entity responsible for calculating the expenditure limits for the

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counties, community colleges, and cities. Erring on the high side elevates the spending authority so it's no surprise that the districts continue to exaggerate their student counts.

Over three decades ago, voters approved limits to the amount local governments (counties, community colleges, cities, and schools) could spend for operating purposes in order to protect taxpayers from the dramatic growth in local government budgets. These spending limits are adjusted annually by population and inflation and are applied to the "base" amount expended by each jurisdiction in 1980. The source of the population estimates for the counties and cities are derived from a separate entity, the Arizona Department of Administration, whereas the CCDs provide their own population estimates to the EEC, also known as full-time student equivalents (FTSE).

Prior to 2000, the State Board for Community Colleges (Board) oversaw the operations of the districts. The Board was statutorily required to submit the FTSE estimates for each college to the EEC for computation of the expenditure limits, and as such, provided some oversight to the process. However, since the dissolution of the Board, the data provided by the districts has reflected exaggerated FTSE estimates.

The audited FTSE for FY 2013 shows that the estimates by all twelve CCDs were overblown by 26,174 (19.5%). For FY 2012, ATRA reported that FTSE was overstated by 18,089 (12.8%), so there has been no improvement in the reliability of these numbers. The estimates provided by a few of the districts were grossly exaggerated, with Gila Provisional at 64% over actual, Santa Cruz Provisional at 49% above the actual audited FTSE, followed by Mohave CCD with 45% over actual.

Maricopa CCD, the largest of all the districts, overstated its FTSE by 16%, which allowed the district \$71 million more in its spending capacity than actual. The second largest district, Pima, overshot its FTSE estimates to garner over \$31 million more capacity.

It's not uncommon for the general fund budgets to exceed the expenditure limits since not all expenditures are subject to the limit. Examples of exclusions include tuition and fees, debt service payments, and grants. Based on their most recent audits, five districts, Graham, Maricopa, Pima, Pinal, and Yavapai, are at their expenditure limits. All of the other districts, with the exception of Gila Provisional, are below their expenditure limits. The most recent audited expenditure limit for Gila Provisional was conducted for FY 2008 so it is impossible to know if the district is in violation of exceeding its constitutional limit.

Based on the unaudited expenditure limits over the past two years, student counts have dropped a collective 6.6%, with the most significant reductions occurring in Maricopa, Pinal, and Cochise. The student count in Graham CCD dropped nearly 13% since the district is no longer allowed to double count the Gila Provisional students. However, at the request of Graham, the EEC adjusted the "base" student count downward for the FY 2015 expenditure limit calculation based on a number provided by the district. Allowing Graham to recalculate its base expenditure limit provided nearly \$6.6 million more in expenditure authority for the district or a 26% increase in per FTSE expenditures.

-Jennifer Stielow

CCD	FY 13 CCD Reported FTSE	Audited FY 13 FTSE	FY 13 Expenditure Limit	Recalculated Expenditure Limit	Difference
Cochise	10,000	7,766	\$78,573,112	\$61,018,182	\$17,554,930
Coconino	2,250	2,099	\$15,525,510	\$14,483,337	\$1,042,173
Gila	1,150	703	\$6,945,460	\$4,245,744	\$2,699,716
Graham	3,750	3,107	\$28,318,522	\$23,462,465	\$4,856,057
Maricopa	94,350	81,218	\$512,322,449	\$441,004,104	\$71,318,345
Mohave	4,338	2,987	\$37,273,118	\$25,663,893	\$11,609,225
Navajo	2,400	1,962	\$15,978,265	\$13,062,292	\$2,915,973
Pima	26,000	19,514	\$126,021,541	\$94,582,844	\$31,438,697
Pinal	5,500	4,822	\$47,407,363	\$41,563,533	\$5,843,830
Santa Cruz	325	218	\$1,962,848	\$1,316,475	\$646,373
Yavapai	4,200	3,984	\$43,278,034	\$41,082,064	\$2,195,970
Yuma	5,828	5,537	\$52,056,426	\$49,456,749	\$2,599,677
<b>TOTAL</b>	<b>160,091</b>	<b>133,917</b>	<b>\$965,662,648</b>	<b>\$810,941,684</b>	<b>\$154,720,964</b>

TEACHER PAY , Continued from Page 1

Public K-12 Teacher Salary				Public Universities Full-Time Faculty				2-Year College Full-Time Faculty			
Adjusted Rank		Avg Salary	Unadjusted Rank	Adjusted Rank		Avg Salary	Unadjusted Rank	Adjusted Rank		Avg Salary	Unadjusted Rank
1	Michigan	61,560	11	1	Arizona	83,399	13	1	Michigan	75,938	4
2	California	69,324	5	1	Nevada	87,978	6	2	Arizona	68,210	11
3	Oregon	57,612	14	3	Michigan	85,875	10	3	California	84,743	1
4	Nevada	55,957	18	4	Delaware	98,408	3	4	Wisconsin	76,088	3
5	Idaho	49,734	31	5	Indiana	78,753	19	5	Vermont	74,387	6
6	Ohio	56,307	16	6	North Carolina	77,785	23	6	Nevada	64,722	14
7	Georgia	52,880	22	7	California	94,427	4	7	Oregon	64,664	15
8	Kentucky	50,203	27	8	Alabama	73,069	32	8	Illinois	69,216	10
9	New York	75,279	1	9	South Carolina	70,967	34	9	Ohio	60,227	20
10	Utah	49,393	32	10	Utah	70,213	37	10	Alaska	74,654	5
11	Pennsylvania	62,994	10	11	Ohio	79,309	17	11	Hawaii	66,526	12
12	Rhode Island	63,474	9	12	Iowa	85,500	11	12	Alabama	53,283	31
13	South Carolina	48,375	38	13	New Mexico	68,948	39	13	Mississippi	49,037	36
14	Arizona	49,885	29	14	Florida	78,801	18	14	Delaware	64,295	16
15	Delaware	59,679	12	15	Hawaii	86,113	8	15	Utah	50,433	34
16	Indiana	50,065	28	16	Kentucky	68,162	41	16	Missouri	54,931	26
17	Alabama	47,949	39	17	Georgia	70,680	35	17	Idaho	48,304	38
18	Arkansas	46,631	44	18	Mississippi	61,952	46	18	West Virginia	48,302	39
19	Alaska	65,468	7	19	New Jersey	102,292	1	19	Kentucky	49,028	37
20	West Virginia	45,453	47	20	Pennsylvania	82,752	14	20	Florida	56,473	24
21	Illinois	59,113	13	21	Texas	76,900	25	21	Pennsylvania	61,319	17
22	Massachusetts	72,334	2	22	Oregon	70,507	36	22	New Mexico	48,096	42
23	Montana	48,855	34	23	Maine	71,857	33	23	New Jersey	73,679	7
24	Louisiana	51,381	25	24	Idaho	61,458	47	24	New York	71,696	8
25	Wisconsin	53,797	21	25	Tennessee	67,578	42	25	Maine	53,330	30
26	New Mexico	45,453	48	26	New Hampshire	86,108	9	26	Rhode Island	61,078	18
27	Mississippi	41,814	50	27	Missouri	68,506	40	27	South Carolina	46,371	46
28	New Jersey	68,797	6	28	Arkansas	61,170	50	28	Minnesota	60,414	19
29	Tennessee	47,573	40	29	Illinois	78,204	22	29	North Carolina	47,582	43
30	North Carolina	45,737	46	30	Washington	77,708	24	30	Texas	53,543	29
31	Missouri	47,517	41	31	Kansas	73,118	31	31	Arkansas	44,254	51
32	Minnesota	56,268	17	32	Minnesota	78,419	20	32	Indiana	46,358	47
33	Maine	48,430	37	33	Nebraska	75,491	27	33	Iowa	54,134	27
34	Hawaii	54,300	20	34	Virginia	81,096	15	34	Tennessee	47,106	45
35	Maryland	64,248	8	35	Oklahoma	66,794	44	35	Georgia	46,124	49
36	Vermont	52,526	23	36	Wisconsin	69,799	38	36	Washington	56,336	25
37	Connecticut	69,397	4	37	Vermont	73,622	30	37	Maryland	66,086	13
38	Iowa	50,946	26	38	Rhode Island	76,262	26	38	Louisiana	48,134	41
39	Texas	48,819	35	39	Louisiana	64,976	45	39	Virginia	58,444	23
40	Washington	52,234	24	40	Montana	61,288	49	40	Montana	45,042	50
41	New Hampshire	55,599	19	41	Colorado	73,712	29	41	Oklahoma	47,446	44
42	Florida	46,598	45	42	New York	86,407	7	42	Kansas	51,152	33
43	Wyoming	56,775	15	43	Wyoming	79,618	16	43	Nebraska	52,994	32
44	Oklahoma	44,373	49	44	Connecticut	90,678	5	44	Connecticut	70,106	9
45	Colorado	49,844	30	45	Alaska	74,716	28	45	Wyoming	59,135	22
46	Kansas	47,464	42	46	Massachusetts	83,420	12	46	New Hampshire	53,996	28
47	Nebraska	48,997	33	47	Maryland	78,399	21	47	Dist. of Columbia	83,182	2
48	Virginia	48,670	36	48	West Virginia	48,302	51	48	Massachusetts	60,050	21
49	North Dakota	47,344	43	49	North Dakota	67,404	43	49	Colorado	48,293	40
50	Dist. of Columbia	70,906	3	50	South Dakota	61,450	48	50	North Dakota	50,094	35
51	South Dakota	39,018	51	51	District of Columbia	100,406	2	51	South Dakota	46,198	48
	<b>Average</b>	<b>56,103</b>			<b>Average</b>	<b>78,565</b>			<b>Average</b>	<b>62,269</b>	

Source: National Education Association, Bureau of Economic Analysis

The media refrain on education spending in Arizona exclusively focuses its low K-12 M & O per-pupil expenditures but routinely ignores other important data points.

The National Education Association, (NEA), the largest teacher's union in the nation, ranks Arizona 29th for school year 2012-13 in average salaries for K-12 "public school teachers." However, when controlling for PCI, Arizona's ranking jumps to 14<sup>th</sup> (reference page 4 chart). The most recent data available for state-by-state PCI is from a 2011 federal Bureau of Economic Analysis study.

Calculating these average salaries as a percentage of PCI is a common method that accounts for differences in the underlying wealth between states. This analysis also helps account for the differences in cost of living between states. It certainly would be inappropriate to directly compare a New York teacher's salary against one in Arizona.

Arizona University and Community College faculty are paid particularly well relative to other states, ranking 13<sup>th</sup> and 11<sup>th</sup> in average pay and 1<sup>st</sup> and 2<sup>nd</sup> respectively, when controlling for PCI.

-Sean McCarthy

## **GLENDALE** , *Continued from Page 1*

bonds in 2003 to fund the hockey arena for the Phoenix Coyotes without voter consent and backed by the shaky promise of increased excise taxes. Ten years after the initial bond issue, the city still owed \$140 million due to years of interest-only payments. The taxpayers later were forced to fund a \$15 million per year bonus to keep the team from leaving in 2013; no small amount considering it represents 9% of their FY14 general fund operating budget.

Facing a stagnating economy in 2008 and the likelihood of decreased tax revenues from excise taxes like transaction privilege (sales tax), most cities would avoid risk. Instead, Glendale doubled down and issued over \$200 million in the Public Facilities Corporation (PFC) bonds (classified as MPC in reporting, for simplicity) to build a baseball spring training facility and capital improvements for the Cabelas outdoorsmen sports store among other economic investment schemes. These were sold with variable interest rates from five to seven percent over twenty years, equating to over \$250 million in interest payments over the life of the loans. As is often the case, sales taxes did not explode as projected and the effect on the city's General Fund has been debilitating. General Fund revenues declined 12% in FY09 and 5% in FY10 as a result of the recession. The city was forced to cut services to the taxpayers and freeze salaries for its employees.

The leadership who creates the mess is often not around to clean it up. The new mayor, Jerry Weiers, reports the city has a \$30 million annual deficit projected for at least three years.

Municipalities use debt vehicles like MPCs, Certificates of Participation (COPs) and Lease-Purchase agreements for two reasons. First, there are constitutional limits for G.O. bonds which limit the amount of debt the city can acquire to 6% or 20% (depending on the use of the debt) of the net assessed value of the city's property. The second is to avoid asking the voters to approve the project. The chief problem with many of these debt mechanisms is they are financed via the General Fund, instead of with secondary property tax levies or a dedicated revenue stream like a sales tax increase. If the expected new revenues do not materialize or the city faces a recession, the city must find a way to trim their General Fund budget or raise taxes in order to service the debt.

Lending services took notice of Glendale's behavior. In February 2011, Moody's stated: "Of continued concern, Moody's notes that the amount of debt service supported by the general fund is substantial, reflective of management's decision to highly leverage the city's primary operating resource. Total maximum annual excise tax debt service will represent a substantial 28.6% of fiscal 2010 general fund revenues..."

All the while, Glendale continued to add General Obligation (G.O.) and Revenue bonds to its debt. Between 2001 and 2011, the City’s total debt rose from \$199 million to \$1.12 billion in principal alone, an astounding 463% increase (see table 1). Before FY13 refinancing, the city owed another \$734 million in interest on all its debt.

**Table 1**

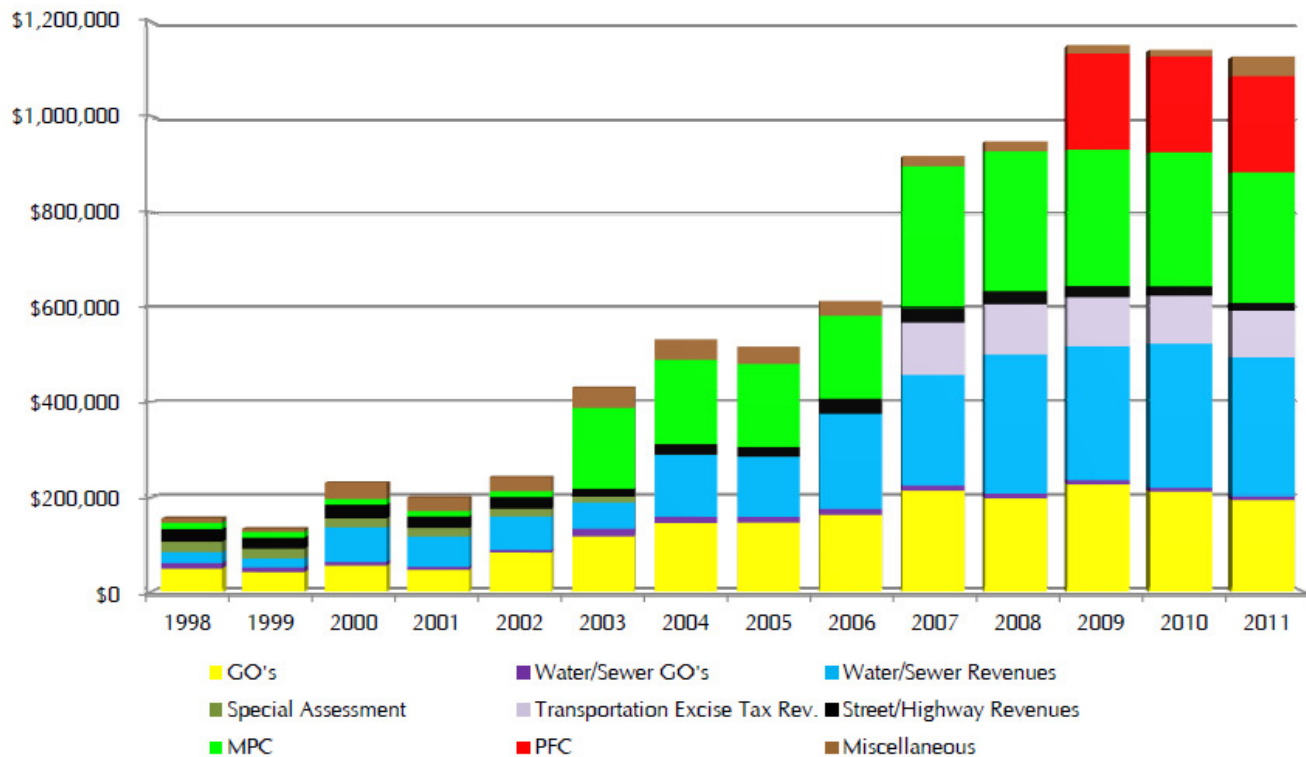
Type of Debt	2001	2011	2013
<b>G.O.</b>	\$48,250,000	\$201,680,000	\$168,645,000
<b>Revenue/other</b>	\$199,382,255	\$402,850,044	\$466,085,000
<b>MPC</b>	\$11,215,000	\$475,120,000	\$362,520,000
<b>TOTAL</b>	<b>\$199,382,255</b>	<b>\$1,079,650,044</b>	<b>\$997,250,000</b>

Moody’s has downgraded the City of Glendale’s credit rating for each type of debt service twice (2011 and 2012). “The current offering significantly increases the amount of the City’s total excise tax debt to approximately \$592.6 million, which is a contributing factor in the rating assignment.”

Glendale’s attempt to debt finance their way into the spotlight is not imitated by many. Besides the City of Phoenix, only the Town of Gilbert has significant MPC debt in Arizona at \$243 million. Glendale has 6.2% of all city debt in Arizona, despite only composing 3.5% of the state’s population.

-Sean McCarthy

**OUTSTANDING DEBT OBLIGATIONS**  
City of Glendale, Arizona  
(000's)



Source: June 2011 City of Glendale Debt Report