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College district needs better budget habits

by Michael Hunter
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The Maricopa Community College District is asking voters for $951 million in bonds that would cost property taxpayers $1,436,881,730 in principal and interest. The Arizona Tax Research Association (ATRA) is urging voters to deny this extraordinary request.

Taxpayers concerned about annual increases in their property taxes often focus on property values. However, increased values are not the only reason property taxes climb annually. Taxpayers should also scrutinize the demands local governments make for tax dollars. A $1.4 billion tax question certainly deserves such scrutiny.

If Proposition 401 is approved, a Maricopa County residential taxpayer with property valued at $150,000 in 2005 (assuming 4% annual average valuation growth) will pay $776.72 over the life of the proposed debt. The cumulative cost for a commercial taxpayer whose property is assessed at $1 million in 2005 (again assuming 4% annual average valuation growth) will be $12,945.28. That does not include the taxes on the existing $291 million debt from the district's 1994 bonds, for which taxpayers remain obligated until 2015.

Huge enrollment projections, some exceeding 8%, have been central to the district's case for the bonds. Yet these growth rates simply do not match the average percentage increases historically. Between 1993 and 2003 enrollment grew on average less than 4% annually. The district has not provided much cause for confidence in their student count estimates. Even as late as June 2004, at the end of the 2004 fiscal year, the district's count of full time student equivalents (FTSE) was 2,037 higher than actual. That is more than the FTSE count for the entire South Mountain Community College.

ATRA opposed the district's bond proposals in 1992 and 1994 primarily because of questions about budgeting practices and priorities that create a dependency on debt for ongoing expenditures that are best dealt with in the district's annual budget. Nothing has changed, except for the size of the request. In 1994 the district was requesting about $9,000 in bonds for every FTSE in the district's 10 colleges. The current proposal is asking for $14,000 per FTSE – that's 50% more on a per student basis.

In the current bond proposal, $300 million is earmarked for technology and software upgrades putting, taxpayers on the hook for an additional $58 million in interest on a debt to purchase soft capital items with a very short shelf life. Similarly, other significant portions of the bonds are for building maintenance. Until such ongoing, short-term demands are met with dollars set aside for that purpose in district's annual budget, the pressure to resort to this inappropriate use of debt will continue.

Only voter rejection at the polls has the potential to break the district's habit of asking taxpayers every decade or so to repay a debt, with interest, for software upgrades and preventative maintenance.

This $1.4 billion commitment from property taxpayers provides an opportunity for the electorate to express their level of confidence in the district's management of taxpayer dollars. On these grounds, taxpayers should vote NO on Proposition 401.

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