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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER

VOLUME 65
NUMBER 6

AUGUST 2005

COMM COLLEGE ADOPTED BUDGETS UP 9.7%

Every year, ATRA staff and members meet with representatives of Arizona's community college districts to review budget proposals and discuss major developments and initiatives at the colleges.

Arizona's 10 community college districts adopted budgets this summer totalling nearly \$1.2 billion for fiscal year (FY) 2006, an increase of 9.7% over last year.

Budgeted general fund expenditures total nearly \$819 million, up 8.7% from the previous fiscal year.

Unexpended plant funds increased 12% to \$372 million statewide as several colleges begin to finance major capital projects. Appropriations from the state general fund to the 10 districts totalled \$152 million, a 5.8% increase over last years state aid levels.

The college budgets also included primary property tax levies totalling \$454 million statewide, up \$31 million (7.3%) in the aggregate.

Each of the 10 districts raised concerns about the rising cost of health insurance and

the 1.7% increase in the Arizona State Retirement System (ASRS) contribution rate (from 5.7% to 7.4%). Unlike school districts, colleges did not receive additional appropriations from the legislature to compensate for the ASRS rate increase, which impacts both employee and employer. Nearly all of the districts noted that these costs played a role in the need for revenue increases and salary adjustments.

Cochise College's \$5.9 million increase in their unexpended plant fund represents a transfer from their general fund in order to target cash reserves toward an upcoming capital program. The college is engaged in a master facilities planning process to identify renovation and expansion projects for their physical plant. The cornerstone for funding these projects will be a potential general obligation (G.O.) bond election in November 2006. While the district has not yet determined the amount of the bond authorization they will be requesting, they did suggest that it could be in the neighborhood of between \$50 million and \$90 million.

The district's budget includes salary increases averaging approximately 6.5%. Adjustments of 2.5% went out across the board to offset the increased costs, especially the ASRS contribution rate. Additional targeted adjustments ranged from 2.5% to 5%.

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INTEL ANNOUNCEMENT JUMP STARTS SALES FACTOR CHANGE

Intel Corporation announced its decision in July to invest \$3 billion for an expansion of their operation in Chandler, Arizona. Intel's announcement ensures that recent legislation changing the corporate income tax apportionment formula will become a reality.

House Bill (HB) 2139 provided for an increase in the sales factor to 60% in tax year 2007, which will increase to 70% and 80% in tax years 2008 and 2009, respectively, provided certain criteria is met. In addition, corporations will still have the option of using the current double-weighted sales factor.

June 1, 2005, was the first crucial date in which corporations could begin to publicly announce their intent to invest in capital projects in Arizona. Such announcements must be reported in writing to the Joint Legislation Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB). The law specifically outlines the detail required in the reports, including the description and estimated cost of the project, the number of individuals to be employed during construction, as well as

an estimated number of individuals that will be employed once the project is completed.

The law also specifies that each corporation that makes a capital investment commitment be required to report to various government entities, including JLBC, OSPB, and the Department of Revenue (DOR), as to the progress of the capital investments on December 31, 2005 through 2008. Corporations are required to include in the annual report the projected costs of completion, the amount spent as of the date of the report, and any changes or updates in the project. Again, because of Intel's large investment commitment, no other corporation will be required to participate in order to trigger the change in the corporate income tax formula.

The second and final crucial date for corporations — December 15, 2007 — is the deadline for all participating corporations to collectively exceed the \$1 billion dollar investment threshold. Therefore, if Intel meets their investment commitment by this date, then all multi-state corporations can elect to use the increased sales factor apportionment formula for tax year 2007.

Jennifer Schuldt

MARK YOUR CALENDAR
ATRA Golf Tournament
November 17
Outlook Conference
November 18

COLLEGE BUDGETS

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Coconino Community College (CCC) budgeted for a 10.8% increase in its general fund, amounting to an additional \$1.4 million. The district will levy nearly \$2 million this year to service their G.O. bond debt. CCC is starting its fourth year in their new Lone Tree Campus and will begin remodeling the old main campus building to accommodate a focus on career and technology education.

CCC adjusted salaries 3.7% on average. Teaching faculty salaries went up 3.8% overall, while associate faculty salaries increases were closer to 3.9%. Support personnel salaries were increased 4% and administrators received an increase averaging 3.3%

Graham County's Eastern Arizona College (EAC) appears to have adopted the largest percentage increase at 27%. However, much of the nearly \$5 million increase is driven by the inclusion of \$2.9 million in general fund expenditures for the Gila Provisional College District. Gila County's college services had been provided through a contract with Pima College last year. The Gila Provisional College District governing board decided this year to reestablish its relationship with EAC, through which it had received services prior to its forming a provisional district.

The institutional average for salary increases at EAC was 6.2%. Raises, including salary, step, and cost of living increases were as follows: faculty, 6.2%; administration 6.4%; and support staff, 5.97%.

The **Maricopa Community College District (MCCD)** increased its general fund \$37.3 million (8.2%). The largest college district in Arizona, MCCD represents about 60% of all college general fund expenditures as well as a similar proportion of the state's full time student equivalents (FTSE). The district's unexpended plant fund for FY 2006, as was the case in the FY 2005 budget, includes proceeds from the first issuance of \$190 million from the \$951 million in G.O. bonds approved by voters in November 2004. Given the capital finance activity in the district, it is unlikely a mere coincidence that the district opted to employ a rarely used statutory authority to transfer \$2 million from its state appropriations for capital outlay to its general fund.

MCCD's FY 2006 budget also includes over \$4 million in debt service payments for revenue bonds used to pay for performing arts centers (PACs) at locations across the county. The district plans to issue more revenue bonds in the near future — about \$17.5 million — to build similar facilities in the near future at their Gateway and Estrella campuses. Such use of revenue bonds continues to be controversial because this finance mechanism is intended for revenue producing buildings so that the tuition, fees, or other receipts generated from that facility will be leveraged to pay the debt. However, the revenue generated by these PACs falls far short of the debt service requirement.

Budgeted General Fund Expenditures

District	FY 2005	FY 2006	Change	%
Cochise	\$25,189,297	\$28,889,213	\$3,699,916	14.7%
Coconino	\$12,667,936	\$14,032,187	\$1,364,251	10.8%
Graham	\$18,494,863	\$23,488,424	\$4,993,561	27.0%
Maricopa	\$454,506,818	\$491,789,465	\$37,282,647	8.2%
Mohave	\$19,599,436	\$24,321,041	\$4,721,605	24.1%
Navajo	\$18,579,438	\$20,241,930	\$1,662,492	8.9%
Pima	\$118,753,000	\$125,928,000	\$7,175,000	6.0%
Pinal	\$27,112,000	\$30,629,000	\$3,517,000	13.0%
Yavapai	\$32,303,202	\$31,724,831	(\$578,371)	-1.8%
Yuma/La Paz	\$26,001,536	\$27,815,128	\$1,813,592	7.0%
Total	\$753,207,526	\$818,859,219	\$65,651,693	8.7%

Unexpended Plant Funds

District	FY 2005	FY 2006	Change	%
Cochise	\$1,894,857	\$7,795,600	\$5,900,743	311.4%
Coconino	\$479,050	\$952,684	\$473,634	98.9%
Graham	\$3,364,966	\$3,994,229	\$629,263	18.7%
Maricopa	\$270,029,033	\$286,120,965	\$16,091,932	6.0%
Mohave	\$534,566	\$2,332,556	\$1,797,990	336.3%
Navajo	\$3,946,300	\$4,126,900	\$180,600	4.6%
Pima	\$17,245,000	\$15,418,000	(\$1,827,000)	-10.6%
Pinal	\$8,206,000	\$4,050,000	(\$4,156,000)	-50.6%
Yavapai	\$24,234,085	\$25,956,868	\$1,722,783	7.1%
Yuma/La Paz	\$2,183,540	\$21,270,035	\$19,086,495	874.1%
Total	\$332,117,397	\$372,017,837	\$39,900,440	12.0%

Adopted Budgets*

District	FY 2005	FY 2006	Change	%
Cochise	\$27,084,154	\$36,684,813	\$9,600,659	35.4%
Coconino	\$13,146,986	\$14,984,871	\$1,837,885	14.0%
Graham	\$21,859,829	\$27,482,653	\$5,622,824	25.7%
Maricopa	\$724,535,851	\$777,910,430	\$53,374,579	7.4%
Mohave	\$20,134,002	\$26,653,597	\$6,519,595	32.4%
Navajo	\$22,525,738	\$24,368,830	\$1,843,092	8.2%
Pima	\$135,998,000	\$141,346,000	\$5,348,000	3.9%
Pinal	\$35,318,000	\$34,679,000	(\$639,000)	-1.8%
Yavapai	\$56,537,287	\$57,681,699	\$1,144,412	2.0%
Yuma/La Paz	\$28,185,076	\$49,085,163	\$20,900,087	74.2%
Total	\$1,085,324,923	\$1,190,877,056	\$105,552,133	9.7%

*Adopted budgets include general funds and unexpended plant funds. Debt retirement expenditures are excluded to avoid redundancy.

The district raised non faculty and adjunct faculty salaries 5%, while faculty received a 2.8% increase that included a step on the salary schedule. District officials report that one-half of their faculty are at the top of the salary schedule.

Mohave Community College (MCC) increased its general fund \$4.7 million (24%). The district's plant fund was budgeted at \$2.3

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Published 10 times annually by the Arizona Tax Research Association, a nonprofit organization whose purpose is to promote efficiency and economy in Arizona government and reductions at all levels. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Research Association.

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million, an increase of \$1.7 million (336%) over the FY 2005 budget. This includes a new debt obligation of just over \$1.1 million in certificates of participation (COPs). With this new obligation, the district's debt totals nearly \$19.3 million in principle and interest from revenue bonds and COPs.

District officials noted that MCC had for several years been offering college credit for what they call "personal enrichment" or "leisure studies" courses. However, recognizing that such courses are not offered for credit in other states and have come under some scrutiny in the Legislature in recent years, the district has resolved to discontinue that practice and has transferred recreational dance, gardening, stress management, and similar courses to noncredit status.

MCC's salary adjustments averaged 9.3% overall. District officials said the increases were part of an effort to establish uniformity in the college's salary structure. MCC recreated a salary schedule, using \$435,000 in FY 2005 and \$750,000 in FY 2006 to increase compensation to employees that were underpaid in relation to their peers. Some high salaries were not adjusted. Faculty raises ranged from 6% to 7%. Administrators received a 6% increase. Support staff received an average increase of 14%.

Navajo County's Northland Pioneer College (NPC) increased its general fund about \$1.7 million (8.9%). One of several challenges capturing NPC officials' attention presently is the incompatibility between their distance learning technologies and those employed by Northern Arizona University (NAU) as they attempt to collaborate on baccalaureate level instruction.

NPC's employee raises averaged 4%. Faculty received a 3% adjustment that included cost-of-living and a step.

Pima Community College is second largest among Arizona's college districts. Their \$125 million general fund represents approximately 15% of the statewide total. Pima has launched a program that includes seven "planning initiatives" that will guide the district's policy and service direction in the upcoming years. For example, Pima hopes to "improve transfer and workforce instructional curricula and support programs." Another initiative worth noting is to "establish a developmental education program"

Primary Property Taxes

District	FY 2005 Actual Levy	FY 2006 Budgeted Levy	Budgeted Levy Increase	%
Cochise	\$10,918,770	\$11,877,479	\$958,709	8.78%
Coconino	\$4,772,737	\$5,094,296	\$321,559	6.74%
Gila	\$2,301,393	\$2,437,956	\$136,563	5.93%
Graham	\$2,109,803	\$2,206,095	\$96,292	4.56%
Maricopa	\$258,560,787	\$277,107,904	\$18,547,117	7.17%
Mohave	\$11,872,243	\$12,885,257	\$1,013,014	8.53%
Navajo	\$8,099,984	\$8,700,000	\$600,016	7.41%
Pima	\$60,312,046	\$63,939,292	\$3,627,246	6.01%
Pinal	\$22,814,703	\$25,472,401	\$2,657,698	11.65%
Yavapai	\$26,189,637	\$27,980,856	\$1,791,219	6.84%
Yuma/La Paz	\$14,890,542	\$16,076,459	\$1,185,917	7.96%
Total	\$422,842,645	\$453,777,995	\$30,935,350	7.32%

by which the district intends to "take all the steps needed to prepare our students for college-level courses." This initiative corresponds to a significant concern at this and other colleges that a large number of high school graduates require remedial instruction before they can succeed at the appropriate level. In a similar vein, the district likes to showcase its AZTEC Middle College, which it describes as providing "a unique opportunity for committed students to enter an educational program that facilitates the completion of high school while dually enrolled in a community college." District officials report that 70% of the students in this program had dropped out of high school.

Pima College's budget included employee raises of approximately 4% for faculty, support staff, and administration.

Pinal County's Central Arizona College (CAC) increased its general fund 13% (\$3.5 million). CAC had been hoping to include an increase in their plant fund from the \$435.2 million G.O. bond question they had on the ballot last May. The bond failed to get voter approval, however, with 59% of the voters rejecting the measure. The district is considering options for another bond proposal in the near future.

CAC's salary adjustments were as follows: faculty and administration, 3.9%; classified staff, 7%; middle management, 5.2%.

Yavapai Community College's (YCC's) general fund decreased \$578,271 (1.8%). District officials explain that the FTSE estimates that had been submitted to the Economics Estimates Commission (EEC) had tended to be higher than the actual FTSE. The effect of this practice has been an artificial inflation of the district's expenditure limitation. YCC's board and interim administrative leadership resolved to submit a more reasonable FTSE count to the EEC and to adjust their planned operating expenditures for the year.

YCC employees received a 2.5% cost-of-living increase. No steps were allowed.

Arizona Western College (AWC), covering Yuma and La Paz Counties, adopted an 874% increase in their plant fund (\$21 million) that reflects an issuance from the nearly \$74 million in G.O. bonds voters authorized last November.

AWC's budget included 4% raises across the board. The district uses an "open" salary schedule that provides a minimum and maximum salary.

Michael Hunter

Total State Aid (operating, capital & equalization)

District	FY 2005	FY 2006	Change	%
Cochise	\$10,296,200	\$12,235,900	\$1,939,700	18.8%
Coconino	\$3,380,700	\$3,530,700	\$150,000	4.4%
Graham	\$15,349,900	\$16,323,200	\$973,300	6.3%
Maricopa	\$61,662,700	\$65,841,200	\$4,178,500	6.8%
Mohave	\$4,202,000	\$4,201,000	(\$1,000)	0.0%
Navajo	\$7,133,400	\$7,724,900	\$591,500	8.3%
Pima	\$22,891,300	\$22,861,500	(\$29,800)	-0.1%
Pinal	\$6,370,200	\$6,684,000	\$313,800	4.9%
Yavapai	\$5,408,300	\$5,425,600	\$17,300	0.3%
Yuma/La Paz	\$6,920,300	\$7,162,000	\$241,700	3.5%
Total	\$143,615,000	\$151,990,000	\$8,375,000	5.8%

Yuma County creates public health services district *without* voter approval

The Yuma County Board of Supervisors, through a unanimous vote, formed a Public Health Services District (PHSD) for the 2006 fiscal year (FY). The PHSD is a special taxing district that was created by the Legislature in 2000 and provides a County Board of Supervisors the sole discretion regarding the decision on how the district will be created as well as the taxes that will be levied. State law allows the Board to choose between creating the district through a simple unanimous vote of the board or through an election and majority vote of the people. The board can also choose between a property tax of up to 25 cents per \$100 of assessed value or a sales tax of up to 0.112%.

Not surprisingly, the two counties that have created a PHSD to date have elected to side step the unpleasantness of seeking voter approval on the new taxing district. Prior to Yuma's decision to create a PHSD,

Navajo County created a PHSD by a vote of the Board in FY 2003.

Yuma has opted to levy a sales tax, mostly because county officials believe that taxpayers find a sales tax more acceptable than a property tax even though sales tax rates in Yuma are approaching the 10% mark. However, to the county's credit, the Board has made the decision to reduce the primary property tax rate nearly 9 cents this year, at least in part to recognize the additional sales tax burden on taxpayers. The sales tax rate will be set at 0.1% and will become effective in September, about the same time that the county's ½-cent capital projects sales tax is scheduled to sunset. The county anticipates the PHSD sales tax revenues to reach \$2.3 million annually, which will mainly be used to pay for disease control services.

Yuma followed Navajo County's lead when Navajo established their district through a

vote of the Board in FY 2003. Navajo County, on the other hand, is financing its district with a property tax. The property tax rate is increasing 12 cents in FY 2006, from \$0.0759 to \$0.1963 per \$100 of assessed value.

As a result of Navajo's decision to increase the PHSD property tax rate, levies for the district will increase \$875,356 (174%), from \$503,374 to \$1,378,730, with no relief in the primary property tax rate. The county is expanding the services paid for out of the special district, and although the statute is not clear as to the exact services that can be included under the district, the additional services will range from environmental health costs to detention nursing salaries.

The lack of requirement for a public vote, in addition to the vagueness of the services that can be funded out of the PHSD, has made it easy for county government to shift general fund spending to yet another special district.

Jennifer Schuldt