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ARIZONA TAX RESEARCH ASSOCIATION

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College Budgets Flat in FY18

Community college budgets and taxes this year are nearly a duplicate of FY 2017. The same districts who raised taxes last year will raise them again in FY 2018: Cochise, Coconino, Gila Provisional, Mohave, Navajo and Yuma/ La Paz each increased taxes 2% and will levy to their constitutional limit. After a one-year departure from the norm, Pima Community College District (CCD) raised taxes 3% and is back at their constitutional limit. The remaining districts did not elect to raise property taxes.

Budgeted expenditures in the general fund

See COLLEGE BUDGETS, Page 3

Mission Creep in Public Health Services Districts

The Legislature enacted a countywide special taxing district in 2000 to fund public health services. Regrettably, like many other special districts that have been created for specific purposes, the services funded by the Public Health Services District (PHSD) has morphed into something greater than the Legislature intended.

In the late 90's, disagreements between a few counties and cities developed over the financial responsibility of public health services. At the time, five of Arizona's 15 counties were charging municipalities for public health services on a per capita basis. The cities complained that these charges constituted double taxation. The services under dispute included communicable disease control, food and beverage inspections, immunizations, nutrition services, tuberculosis control.

The Legislature's initial response to the dispute was to create a study committee in 1999 under HB2476. The study committee was directed to make recommendations on the "appropriate public entity to deliver local public health services and on how to resolve current funding and health service delivery concerns among counties and incorporated areas within counties." In preparation of the study

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Save the Date!

ATRA Golf Tournament:

Nov 3, 12:00 pm

McCormick Ranch

ATRA Outlook Conference:

Nov 14, 8:00 am

Wigwam Resort

Inside:

PUBLIC HEALTH SERVICES DISTRICTS, *Continued from Page 1*

committee's first meeting, then Representative Susan Gerard wrote a memo to committee members stating the issues that she wanted to have addressed. In her description of the focus of the committee, she specifically stated that "Public health pertains to services, which, through preventative efforts, strive to protect the community at large (e.g., immunizations, vector control, rabies control, tuberculosis). As you know public health **care** (emphasis added) pertains to the delivery of medical services (e.g., AHCCS (sic), ALTCS). The focus of our Study Committee is public health." This memo provided clear guidance to study committee members to deliberately exclude the state-mandated health care costs of the Arizona Health Care Cost Containment System (AHCCCS) and Arizona Long Term Care System (ALTCS) from the discussion of "public health services."

Following the study committee's work in 1999, legislation was proposed under HB 2649 in 2000 to allow counties the authority to create a countywide special taxing district to fund public health services with either a sales or property tax. As lawmakers were debating the legislation, the creation of a PHSD required voter approval. However, prior to its final passage, a floor amendment was adopted without any debate that authorized a district to be created with only a unanimous vote of the board of supervisors. Following enactment of the bill, six counties created a PHSD without voter approval.

Frustrated with the extraordinary authority provided to counties to create a special taxing district without any public input during the district creation process and prior to the implementation of a new tax, ATRA successfully advocated for legislation in 2011 to require voter approval prior to creation of any new PHSDs. As a result, no new districts have been created since that legislation was enacted.

Although the original intent of the PHSD law was to fund the types of services mentioned above, a few counties have expanded the use of district funds to make their AHCCCS payments to the State of Arizona. Three counties- Coconino, Navajo, and Apache, are funding their state-mandated payments for AHCCCS from PHSD district revenues. These three counties levy a property tax to fund their PHSDs and all are at the 25-cent statutory maximum tax rate.

With legislative intent clear in everyone's memory, Navajo created the first PHSD in 2002 and limited the expenditures to the health services envisioned by the 1999 study committee. Coconino County created its PHSD in 2010 and immediately began levying the 25-cent maximum tax rate to fund a variety of its public health services as well as its obligations for AHCCCS. Since 2010, the county has used a net of approximately $7 million of the tax revenues generated by the PHSD to absorb its AHCCCS obligations.

Following Coconino's lead, Navajo began funding a portion of its AHCCCS payments from its PHSD fourteen years after the district was created. Since 2015, the total amount funded by the Navajo PHSD for AHCCCS is $1,260,177.

The choices made by Coconino and Navajo to fund AHCCCS out of PHSD tax revenues paved the way for

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Apache to do the same for the first time this year. This is also the first year the county will levy the maximum 25-cent tax rate, and by doing so, the PHSD levy will increase nearly 30%. Apache County's total AHCCCS requirement this year is approximately $1.1 million, and of that amount, only 40% of the total will be funded by the county general fund.

The three other counties that have created a PHSD but do not fund their AHCCCS payments out of the district revenues include Greenlee, Pinal, and Yuma Counties. Greenlee funds its PHSD with a property tax and both Pinal and Yuma counties levy a sales tax.

The decision by a few counties to fund their AHCCCS obligations from the PHSD not only ignores the legislative history surrounding the legislation, it underscores why the creation of special districts is so unpopular with taxpayers and many policymakers at the capitol. More importantly, the precedent set by these counties could have a profound financial impact on taxpayers in the future considering the $318 million in current county AHCCCS contribution requirements. At the very least, the Legislature should clarify that health care payments related to AHCCCS are not allowable expenditures under the PHSD.

-Jennifer Stielow

COLLEGE BUDGETS, *Continued from Page 1*

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FY 2018 General Fund Expenditures	Budgeted GF Expenditures	% Change
Cochise	$40,669,046	17.2%
Coconino	$19,995,992	4.7%
Gila	$6,079,543	-15.0%
Graham	$40,170,196	-2.1%
Maricopa	$733,181,797	-0.1%
Mohave	$30,505,012	-5.5%
Navajo	$27,296,054	3.1%
Pima	$163,051,000	-1.2%
Pinal	$47,162,000	-3.2%
Santa Cruz	$2,145,912	5.1%
Yavapai	$44,608,000	1.0%
Yuma/La Paz	$45,158,011	4.1%
Total	**$1,200,022,563**	**0.2%**

(GF) remain flat at $1.2 billion with six districts contracting their budgets. After Cochise dropped their GF budget 16% last year, it rebounded 17% for FY 2018. The only other CCDs with significant increases are Yuma/La Paz at 4%, Coconino at 4.7% and Navajo at 3.1%.

It's worth noting that budgeted amounts are just that and a change often reflects a correction from under-spending in the prior year as opposed to a substantial policy change.

Primary property tax rates, which help supply the GF, increased just 0.5% to an average of $1.62 per $100 of assessed value. Taxpayers in several counties will see rate reductions due to value growth such as Maricopa (3.4%), Pinal (2.4%), Yavapai (3.3%), and Coconino (2%). The remaining tax rates are mostly flat.

FY 2018 Tax Rates	Primary	% Change	Secondary	% Change	TOTAL	% over TNT
Cochise	2.3735	3.8%	0.0000	0.0%	2.3735	2.0%
Coconino	0.4816	-1.9%	0.1326	1.6%	0.6142	2.0%
Gila	0.9361	7.2%	0.0000	0.0%	0.9361	2.0%
Graham	3.1383	2.0%	0.0000	0.0%	3.1383	0.0%
Maricopa	1.1956	-3.4%	0.2140	-5.9%	1.4096	0.0%
Mohave	1.3430	1.1%	0.0000	0.0%	1.3430	2.0%
Navajo	1.8067	1.0%	0.0000	0.0%	1.8067	2.0%
Pima	1.3890	1.1%	0.0000	0.0%	1.3890	3.0%
Pinal	2.2330	-2.4%	0.3099	-8.7%	2.5429	0.0%
Santa Cruz	0.4968	0.6%	0.0000	0.0%	0.4968	0.0%
Yavapai	1.7827	-3.3%	0.2001	-5.7%	1.9828	0.0%
Yuma/La Paz	2.2578	0.3%	0.3632	-2.7%	2.6210	2.0%
Average	**1.6195**	**0.5%**	**0.1017**	**-1.8%**	**1.7212**	

The primary property tax levies will bring in $774 million in FY 2018, a 2.8% boost which represents about 65% of GF spending. Including $48 million in state aid, the total taxpayer contribution represents $7,125 per Full Time Student Equivalent (FTSE), a 14% increase from last year. GF expenditures per FTSE are also projected to increase 13.2% this

FY 2018 Primary Property Tax Levies	Primary Levy	% Change	% of Limit Levied	Levy per FTSE	% Change	('18) Levy Last Actual FTSE
Cochise	$21,670,124	4.2%	100.0%	$3,498	0.9%	$3,498
Coconino	$7,939,000	3.0%	100.0%	$3,782	1.4%	$3,956
Gila	$4,511,921	4.1%	100.0%	$6,056	1.3%	$6,764
Graham	$6,043,976	1.7%	96.1%	$1,556	4.1%	$2,048
Maricopa	$457,339,611	2.3%	89.5%	$6,589.05	18.9%	$6,362
Mohave	$23,364,864	3.7%	100.0%	$8,057	-1.7%	$9,955
Navajo	$14,834,954	3.3%	100.0%	$7,447	3.7%	$7,647
Pima	$112,161,162	4.5%	100.0%	$5,653	5.3%	$7,292
Pinal	$49,997,479	3.1%	80.2%	$11,044	13.9%	$12,820
Santa Cruz	$1,582,895	3.5%	31.2%	$4,870	3.5%	$5,123
Yavapai	$43,910,500	1.6%	90.3%	$12,622	12.7%	$12,248
Yuma/La Paz	$30,676,536	3.4%	100.0%	$5,777	7.1%	$5,774
Total/Avg	$774,033,022	2.8%	90.6%	$6,678	7.2%	$6,310

year. These increases are the result of downward enrollment trends, discussed in the ATRA July 2017 newsletter. Primary property tax levies per FTSE similarly grew due primarily to large increases in Maricopa, Pinal and Yavapai, which again is mostly a reflection of reduced FTSE reporting.

For the second year in a row, CCDs project a decrease in budgeted revenue from tuition and fees. Last year the total amount projected for tuition and fee revenue decreased 5% to $345 million and this year the projected decrease is 3% to $335 million. The average resident per-credit rate increased 2.5% to $85. The current trend is most CCDs annually increasing tuition by $2 per credit.

FY 2018 State Aid	Total	% Change
Cochise	$10,786,200	2.2%
Coconino	$2,140,100	-1.6%
Gila	$434,900	-5.0%
Graham	$17,920,498	2.2%
Maricopa	$0	0.0%
Mohave	$2,198,339	-8.3%
Navajo	$8,690,200	8.1%
Pima	$0	0.0%
Pinal	$1,717,800	-5.7%
Santa Cruz	163,700	14.8%
Yavapai	$1,279,100	-18.8%
Yuma/La Pa	$3,462,700	-2.6%
Total	$48,793,537	1.8%

Colleges continue to grow their cash balances, cumulatively hitting $775 million this year. This represents on average 58% of the value of GF budgets, a number deflated by the two provisional districts. The average cash balance relative to GF budgets for the ten traditional CCDs is 65%. District leaders generally describe these funds as a safety net of sorts which affords the college the flexibility to reinvent itself or reformat in the face of future uncertainty.

FY 2018 CCD Tuition and Fees	Budgeted	% Change	Per-Credit Rate Residents	% Change
Cochise	$8,821,380	2.4%	$82	3.8%
Coconino	$7,988,790	-2.2%	$105	3.3%
Graham	$8,249,598	4.5%	$85	6.3%
Maricopa	$216,313,696	-6.0%	$86	0.0%
Mohave	$8,623,578	8.4%	$88	0.0%
Navajo	$4,800,000	2.1%	$75	2.7%
Pima	$48,178,000	2.1%	$88	3.5%
Pinal	$7,120,000	-85.2%	$86	2.4%
Yavapai	$11,605,300	7.2%	$83	5.1%
Yuma/La Paz	$14,062,895	28.2%	$82	2.5%
Total/Average	$335,763,237	-2.8%	$85	2.5%

FY18 Salaries & Benefits	Salaries	benefits	Total	% Change
Cochise	24,652,899	7,592,879	32,245,778	2.9%
Coconino	$11,207,711	$3,507,743	14,715,454	11.3%
Graham	24,625,572	9,072,378	33,697,950	-1.9%
Maricopa	$415,331,458	$125,407,758	$540,739,216	-0.9%
Mohave	$13,644,454	$4,822,752	$18,467,206	-10.43%
Navajo	$14,963,955	$4,661,585	$19,625,540	1.0%
Pima	$97,562,000	$29,740,000	$127,302,000	-5.1%
Pinal	$30,500,000	$11,800,000	$42,300,000	-2.4%
Yavapai	$29,430,000	$9,710,000	$39,140,000	3.0%
Yuma/La Paz	26,759,656	8,358,287	35,117,943	2.9%
Total/Avg	688,959,205	214,758,534	903,717,739	0.3%

Finally, most colleges were able to increase salaries for all employee groups with a few exceptions. Most were able to afford this with budget efficiencies, considering GF spending overall is even. Total dollars budgeted for salaries and benefits is projected to be even with notable increases in Coconino at 11.3% and a decrease in Mohave of 10.4%.

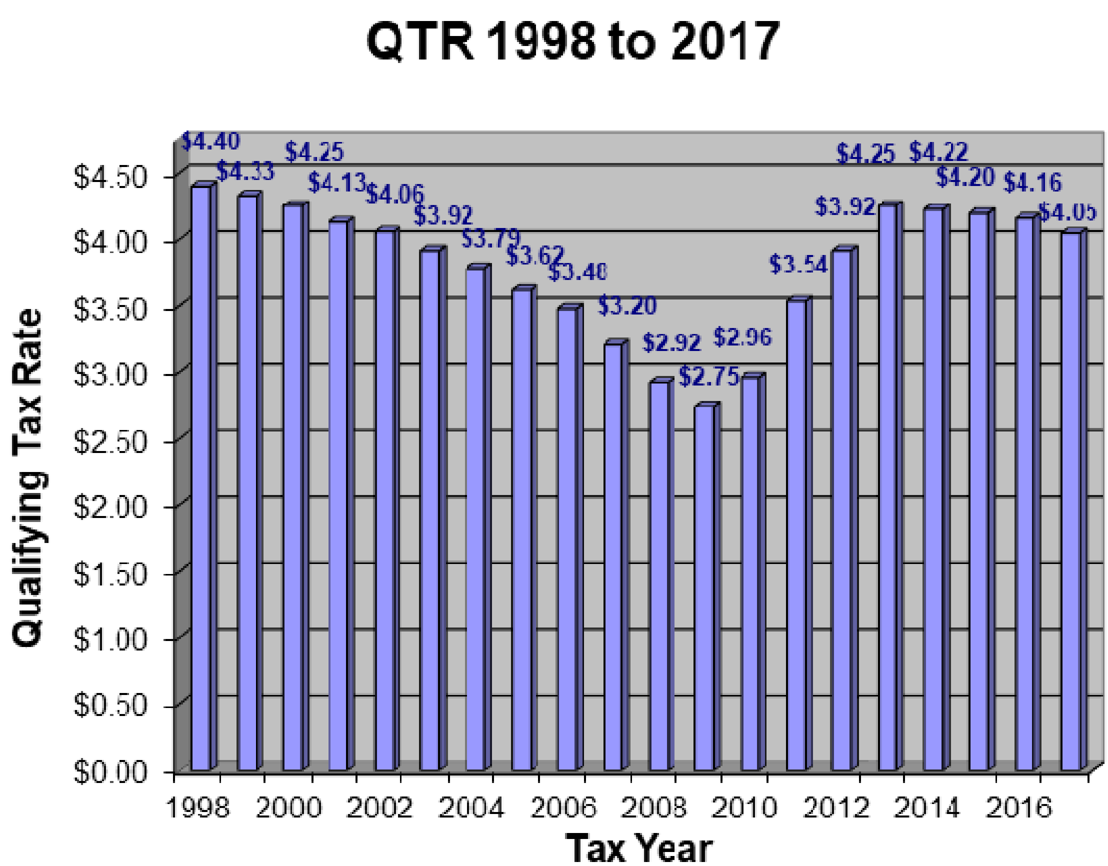
-Sean McCarthy

TNT Laws Continue to Serve Taxpayers Well

One of the most important laws the Legislature passes each year is one almost no one talks about; the adoption of the K-12 Qualifying Tax Rate (QTR). The QTR is the "local contribution rate" of property taxes the Arizona Legislature demands from local taxpayers each year to help fund the K-12 school finance formula. This rate is either the 'full' amount for a unified district or it is 'split' 50/50 between the elementary district and the union high school district. Because the truth-in-taxation (TNT) law was passed several decades ago, the adoption of the rate goes mostly unnoticed at this point, which is a win for taxpayers.

The TNT law demands existing property taxpayers be held harmless in funding the K-12 formula unless the Legislature publicly and transparently decides to raise property taxes. The math is relatively simple. In each year, the change in the total value of "existing property" is calculated and then applied to the new QTR, which counter-adjusts by a like amount. For FY 2018, existing property values increased by 2.76% and therefore the QTR will drop from $4.1586 to $4.0468 per $100 of assessed value. If property values decrease, as they did during the recession, the QTR increases.

Without this law, it would be very convenient for lawmakers to simply leave the QTR at $4.1586 per $100 and offset state general fund obligations. Instead, the law demands that if lawmakers wish to adopt a rate higher than the QTR, they must hold a joint meeting of the House of Representatives Ways and Means committee and the Senate Finance committee after advertising a public notice. Then there must be a two-thirds vote in both



chambers in addition to the Governor's signature in order to transparently raise taxes.

The law cuts both ways: in growth years the rate decreases and in years where values decrease the rate goes up. During the housing boom years of the mid 2000's, the rate plummeted to $2.75 and after the crash it adjusted to a peak of $4.25. Property values are finalized the year before taxes are due which actually cushions the property tax system to economic cycles. For example, while the recession began during FY 2008, the QTR continued to drop in FY 2009 and FY 2010. It did not peak until FY 2015. A rate spike at the bottom of the recession could have been even more devastating to businesses who did not witness a similar reduction in their property values as residential homeowners did.

While the TNT rate holds existing taxpayers harmless, it is net of "new construction," meaning all new property taxpayers are taxed at the new TNT rate. This means new construction dollars become additional revenue to offset the state general fund and help pay for growth in the K-12 formula. For FY 2018, JLBC estimates the state budget will have $58 million of new QTR revenue.

The TNT law is a fair mechanism to protect taxpayers from tax increases associated with valuation increases. It would be far too easy for lawmakers to solve a budget pinch by simply readopting last year's QTR— which happened regularly before the adoption of the TNT process.

Policymakers can and do make arguments for not allowing the QTR to drop below a certain level or retaining last year's rate, thereby using growth in property values to pay for state general fund obligations. It's a debate worth having. TNT ensures that a tax increase is not hidden in a budget bill, but done so publicly and transparently.

-Sean McCarthy