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ARIZONA TAX RESEARCH ASSOCIATION

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Mesa Reignites Private Prison Debate

The City of Mesa finalized an agreement in May to jail its misdemeanor offenders in a private facility in Florence. Mesa projects to save about $2 million per year under the contract rather than use the Fourth Avenue jail run by Maricopa County, which has steadily increased its rates and fees over time. Other cities facing heavy budget pressures from exploding public safety pension costs may look to do the same. Ironically, one of the key reasons private prisons are cheaper than public prisons is they—like virtually all private business, do not offer costly defined benefit pensions.

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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

Mohave Leads Counties in Property Tax Hikes

Arizona's counties are in the midst of adopting their budgets for FY 2018 and most are recommending an increase in property taxes. Eleven counties will need to comply with truth-in-taxation (TNT) requirements as a result of the anticipated tax increases. If these proposals become reality, the statewide net impact will be nearly $57 million. Of the fifteen counties, Mohave County leads the way with their proposal to raise taxes by $11 million (25%).

TNT laws require that when counties, community colleges, cities and towns propose to raise taxes over the previous year, excluding new construction, they are required to notify taxpayers by publishing a notice and holding a public hearing. Additionally, since FY 2017, counties proposing to increase secondary taxes for their special taxing districts that support library, flood control, public health services, and jails are also required to adhere to the same TNT requirements.

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PRIVATE PRISONS, *Continued from Page 1*

The move caused the usual political tizzy over private prisons. Some opposing private jails and prisons argue their record of quality and security are unduly poor, willfully ignoring that some of the more recent tragedies such as the two-week Buckeye hostage crisis occurred in state run facilities. Lawsuits against Maricopa County for abuses at their jail alone have cost taxpayers more than $30 million since 1993. Which isn't to say policymakers should ignore problems at private facilities— they should be viewed as breaches of contract and handled accordingly.

Public vs Private Prison Costs

Per state law, the Arizona Department of Corrections (ADC) may not accept a private contract "unless the proposal offers cost savings to this state." Opponents would have long ago sued if this wasn't enforced. They have not and it's because private prisons are cheaper. The literature demonstrating this fact at the state and Federal level comes from disinterested and nonpartisan sources. Governments at all levels would not have leveraged them if there weren't cost savings.

Still, the debate over which option is cheaper continues. ADC previously used a peculiar capital depreciation schedule to compare costs, which according to JLBC skewed their capital costs downward and provided an inaccurate comparison. After accounting for pension liability and capital construction costs, the per capita minimum security beds costs in 2012 were determined to be $12 higher for the state and $7 higher for medium security. In FY 2013 this saved Arizona an estimated $16 million and $11.3 million, respectively.

It may become increasingly difficult to compare costs if the state continues to leverage private prisons for minimum and medium security beds while costs rise at the state due to decreased economies of scale, demographically more expensive inmates, and aging facilities. Private contracts must be closely monitored to ensure taxpayers are getting a good deal.

Why All the Consternation?

Private prison opponents make philosophical arguments against the notion that a private entity would profit off incarceration. They understand private prisons have nothing to do with sentencing and maintain a healthy distance from sentencing reform debates— they simply argue the private sector shouldn't be involved in this public function. The subtle implication is that incarceration is so insidious the private sector ought not to be involved; as though this shameful institution is a burden only government should bear.

Other opponents cloud the debate by inferring that privatizing the service necessarily undermines justice and ultimately encourages longer sentences. However, the state is not outsourcing the legal process; the prison is simply the modality by which to enforce a sentence. Private prison corporations could try to influence sentencing reform efforts— at great risk to their public image and ability to secure future contracts. Public corrections officers unions feel no such pressure, having publicly opposed and spent considerable money defeating sentencing reform

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efforts in states across America. In one case, the California Correctional Peace Officers Association spent over $1 million successfully opposing voter initiative Prop 5 in 2008, which would have reduced prison sentences for drug and nonviolent offenders, among other reforms.

Taxpayers should also support sentencing reform efforts which can serve the interests of justice, reduced recidivism, and lower public costs. The state would be better suited to manage a declining inmate population if they get out of the business of owning prison assets and operating them with state employees.

Public vs Private Service Providers

Those opposing private prisons don't seem to mind that Arizona has outsourced the delivery of most of its public health services. A child in Arizona's developmentally disabled program is serviced by a private provider at a capitation rate determined by the state. Sound familiar? The delivery of public services by a *public* provider is an old concept that continues to phase out, such as public hospitals, because private providers often provide a better service at a more efficient cost. The notion that private providers are only cheaper because they cut corners is a red herring argument which— thankfully, is usually ignored.

Undermining the opposition to private prisons is their collective silence when local governments build public facilities under the umbrella of economic development. Counties across Arizona have built and expanded jails and prisons in an effort to house federal detainees such as ICE, BIA, and the U.S. Marshal's among others because those prisoners bring per diem revenue to the county.

There is a public cost to detain the incarcerated and taxpayers ought to use the most efficient delivery mechanism. Private providers are cheaper, they pay taxes in rural Arizona, and they relieve the state of managing capital assets and unfunded pension liability.

In response to Mesa's decision, the Maricopa County Sheriff's Office insisted their jail's mission "is to reduce crime and reduce recidivism…" and "A for-profit provider has a vested interest in keeping as many people incarcerated for as long as possible." Interestingly, there isn't evidence to back up either statement.

Policymakers ought to relieve themselves of the burden of carrying water for a fringe philosophy which frames the entire criminal justice system as corrupt. The arguments against private prisons are either non-unique, unsubstantiated, or simple scare tactics. There is no boogeyman here, just a government contract to provide services. Private prisons should continue to be explored as viable options in the future. Simultaneously, taxpayers should also support sentencing reform efforts which can serve the interests of justice, reduced recidivism, and lower public costs. The state would be better suited to manage a declining inmate population if they get out of the business of owning prison assets and operating them with state employees. In order to have that clear-eyed discussion, policymakers must dispense with the theatrics and focus on improving the delivery of government services.

-Sean McCarthy

COUNTY BUDGETS, *Continued from Page 1*

Mohave County is contemplating a 54-cent increase in its primary tax rate. Doing so would increase the county's primary rate to $2.4896 and generate an additional $9.4 million, which is 27.6% over the TNT limit. However, according to legislation that passed in 2016 under SB1523, the county would need a unanimous vote of the board since the primary tax increase exceeds 15% of the TNT limit. According to county officials, if the Board decides to increase property taxes, it would likely fall below the 15% threshold. Additionally, the county is considering a 10-cent tax rate increase to support its library district, which will push the tax rate to $0.3236 and allow the county to extract an additional $1.8 million (46.1%) in taxes.

Pima County is increasing its primary tax rate nearly 25 cents to $4.4596, which will allow the county to maintain its unenviable position of levying the highest primary tax rate of all the counties. The levies to fund the county's flood and library districts will drop slightly, and as a result, the net tax increase in Pima will be approximately $19 million.

Other significant tax rate increases are occurring in Graham and La Paz Counties. The $0.1351 proposed increase to Graham County's primary rate will push the rate up to $2.6439. La Paz is planning to increase its primary rate $0.1514 to its constitutional maximum of $2.4900. Three other counties are also planning to levy to their maximum – Apache, Coconino, and Navajo.

In addition to levying to its constitutional limit, Apache County plans to increase the secondary tax rate for its public health services district to the statutory rate cap of $0.2500, which is $0.0543 (27.8%) over TNT. Yavapai is increasing its tax rate for flood control $0.0432 to $0.2346. The rate increase will generate an additional $937,242 (22.6%) for the district.

All counties except Cochise, Gila, Greenlee, and Santa Cruz will be subject to TNT for the FY 2018 budget year. By maintaining the same primary and secondary tax rates from last year, Cochise and Gila are actually reducing taxes $171,319 and $1,082,746, respectively, due to the loss in value on property that was assessed last year. Greenlee County is planning to levy its TNT rate for primary taxes but below TNT for its secondary rates for flood control and public health services, which will result in a net reduction of $401,203. Santa Cruz is adopting its TNT rates for both its primary and secondary taxes.

In contrast, five counties, including Mohave, have recommended tax increases for every property tax they levy. The aggregate tax increase in Maricopa County is anticipated to be $21.8 million, $2.2 million in Pinal, $1.4 million in Yuma, and Coconino will net $553,464.

Counties have until the first Monday in August to adopt their final budgets and may hold their TNT hearings for public comment at the same time if they intend to implement their plans. The statutory deadline to adopt tax rates and levies is on or before the third Monday in August.

-Jennifer Stielow

		TY 2017							
COUNTY	TY 2016 TAX RATE	TNT RATE	PROPOSED RATE	RATE OVER TNT	TNT LEVY	PROPOSED LEVY[1]	$ OVER/ UNDER TNT	% OVER/ UNDER TNT	TNT REQ?
Apache									
Primary	0.5642	0.5630	0.5857	0.0227	$2,599,940	$2,704,928	$104,988	4.0%	YES
FCD[2]	0.0845	0.0852	0.0845	-0.0007	$158,978	$157,744	-$1,234	-0.8%	NO
Juvenile Jail	0.0899	0.0897	0.0897	0.0000	$414,361	$414,361	$0	0.0%	NO
Jail	0.2000	0.1996	0.1996	0.0000	$921,637	$921,637	$0	0.0%	NO
Library	0.3101	0.3094	0.3094	0.0000	$1,429,020	$1,429,020	$0	0.0%	NO
PHSD[3]	0.1961	0.1957	0.2500	0.0543	$903,666	$1,154,570	$250,904	27.8%	YES
Cochise									
Primary	2.6276	2.6747	2.6747	0.0000	$24,420,426	$24,384,980	-$35,446	-0.1%	NO
FCD[2]	0.2597	0.2633	0.2597	-0.0036	$2,046,089	$1,962,472	-$83,617	-4.1%	NO
Library	0.1451	0.1477	0.1451	-0.0026	$1,345,532	$1,293,276	-$52,256	-3.9%	NO
Coconino									
Primary	0.5788	0.5567	0.5678	0.0111	$9,177,321	$9,360,359	$183,038	2.0%	YES
FCD[2]	0.4000	0.3822	0.4000	0.0178	$2,554,477	$2,606,609	$52,132	2.0%	YES
Library	0.2556	0.2458	0.2556	0.0098	$4,052,736	$4,213,645	$160,909	4.0%	YES
PHSD[3]	0.2500	0.2405	0.2500	0.0095	$3,963,943	$4,121,328	$157,385	4.0%	YES
Gila									
Primary	4.1900	4.4024	4.1900	-0.2124	$21,218,947	$20,195,437	-$1,023,510	-4.8%	NO
Library	0.2425	0.2548	0.2425	-0.0123	$1,228,065	$1,168,829	-$59,236	-4.8%	NO
Graham									
Primary	2.4597	2.5088	2.6439	0.1351	$4,831,762	$5,091,878	$260,116	5.4%	YES
FCD[2]	0.1017	0.1399	0.1399	0.0000	$192,465	$192,480	$15	0.0%	NO
Greenlee									
Primary	0.6171	0.6941	0.6941	0.0000	$3,061,889	$3,061,861	-$28	0.0%	NO
FCD[2]	0.1092	0.3327	0.2500	-0.0827	$175,106	$131,586	-$43,520	-24.9%	NO
PHSD[3]	0.2499	0.2500	0.2000	-0.0500	$1,239,909	$882,254	-$357,655	-28.8%	NO
La Paz									
Primary	2.3580	2.3386	2.4900	0.1514	$4,784,301	$5,094,018	$309,717	6.5%	YES
Maricopa									
Primary	1.4009	1.3533	1.4009	0.0476	$517,678,676	$535,870,745	$18,192,069	3.5%	YES
FCD[2]	0.1792	0.1708	0.1792	0.0084	$59,296,514	$62,198,813	$2,902,299	4.9%	YES
Library	0.0556	0.0537	0.0556	0.0019	$20,546,031	$21,268,052	$722,021	3.5%	YES
Mohave									
Primary	1.9696	1.9516	2.4896	0.5380	$33,953,802	$43,312,856	$9,359,054	27.6%	YES
FCD[2]	0.5000	0.4870	0.5000	0.0130	$7,458,757	$7,658,034	$199,277	2.7%	YES
Library	0.2236	0.2216	0.3236	0.1020	$3,854,625	$5,629,836	$1,775,211	46.1%	YES
T.V.	0.0200	-	0.0200	-	-	$347,950	$0	-	N/A
Navajo									
Primary	0.8471	0.8390	0.8903	0.0513	$6,889,152	$7,310,322	$421,170	6.1%	YES
FCD[2]	0.2878	0.2834	0.2834	0.0000	$1,735,579	$1,735,352	-$227	0.0%	NO
Library	0.1000	0.0990	0.0990	0.0000	$813,263	$812,897	-$366	0.0%	NO
PHSD[3]	0.2500	0.2476	0.2476	0.0000	$2,033,158	$2,033,063	-$95	0.0%	NO
Pima									
Primary	4.2896	4.2119	4.4596	0.2477	$340,107,434	$360,110,814	$20,003,380	5.9%	YES
FCD	0.3335	0.3235	0.3135	-0.0100	$23,852,746	$23,115,524	-$737,222	-3.1%	NO
Library	0.5153	0.5060	0.5053	-0.0007	$40,856,341	$40,802,761	-$53,580	-0.1%	NO
Pinal									
Primary	3.8699	3.7779	3.8699	0.0920	$84,587,803	$86,648,116	$2,060,313	2.4%	YES
FCD[2]	0.1693	0.1645	0.1693	0.0048	$3,157,531	$3,250,150	$92,619	2.9%	YES
Library	0.0965	0.0942	0.0965	0.0023	$2,109,286	$2,160,661	$51,375	2.4%	YES
Santa Cruz									
Primary	3.8086	3.8315	3.8315	0.0000	$12,208,536	$12,208,536	$0	0.0%	NO
FCD[2]	0.7617	0.7669	0.7663	-0.0006	$2,196,497	$2,196,497	$0	0.0%	NO
Yavapai									
Primary	1.9027	1.8395	1.8395	0.0000	$45,310,065	$45,309,644	-$421	0.0%	NO
FCD[2]	0.1976	0.1914	0.2346	0.0432	$4,154,758	$5,092,000	$937,242	22.6%	YES
Library	0.1907	0.1843	0.1815	-0.0028	$4,540,538	$4,470,000	-$70,538	-1.6%	NO
Yuma									
Primary	2.4684	2.4222	2.5016	0.0794	$27,955,153	$28,871,277	$916,124	3.3%	YES
FCD[2]	0.2794	0.2737	0.2794	0.0057	$2,568,645	$2,634,048	$65,403	2.5%	YES
Library	0.6202	0.6085	0.6452	0.0367	$7,023,302	$7,446,333	$423,031	6.0%	YES

[1] Secondary levies reported for special taxing districts exclude taxes levied for G.O. bonds.
[2] Flood Control District.
[3] Public Health Services District.

Community Colleges Pivot Amidst Enrollment Declines

The community college system has long represented a value proposition to students: an affordable education providing a pathway to a four-year degree or a valuable skill to enter the workforce. As soaring university costs saddle students with higher debt loads, national discussions around college matriculation have become far more utilitarian. According to the National Center for Education Statistics (NCES) two or four year college going rates are essentially flat for immediate high school completers over the last decade. College debt has surpassed $1.5 trillion, nearly double that of national credit card debt and the total college debt in 2010 ($833 billion), amounting to roughly $34,000 per debt holder.

The debt burden on recent college graduates has become a focal point for students and parents. Carla Hickman, managing director at Education Advisory Board (EAB) reports "…prospective students and families are arguably more focused than ever on career readiness, and community colleges have a unique story to tell about how they provide practical, career-relevant education and training." Given the present landscape, it seems illogical that community college enrollment would decline nationwide.

The Great Recession surged enrollment at community colleges across the nation. At its 2011 peak, Arizona community college enrollment had jumped 23% in three years. In each year since enrollment has trended back to prerecession levels and last year dropped to roughly 2004 attendance levels. Colleges mostly report continued declines this year and some say the trend will continue. College leaders now acknowledge the enrollment declines are more than market corrections. Frankly, the post-recession recovery has never been as strong as Arizona's historical economic growth. Something else is afoot.

Anthony Carnevale, the director of Georgetown University's Center on Education and the Workforce, argues the connection between community college and the resulting career or college pathway is uncertain and viewed as too costly in time and money relative to their present work. "Nobody can see clearly how to use the postsecondary system to get a job. It's confusing, cumbersome, and it's expensive."

Arizona community colleges are working to fix this. Nearly every school has a renewed emphasis on student success. This involves ensuring students have established outcomes as their goal from the outset and the location and schedule of classes is fashioned appropriately. This first required schools to shed old norms of being "all things to all people at any time," where classes and schedules were often designed based on faculty interest and students selected courses with little personal guidance. Program offerings are now viewed from the lens of the outcome and students are provided a narrow focus from counselors. Simplifying and streamlining enrollment, consolidating student resources into single locations and other reorganization efforts intend to help students navigate.

The ability to transfer to a four-year program does not appear to be the problem. Arizona universities have a strong record of course acceptance and coordination with local colleges. Nearly all colleges have several four-year degree options on campus where students can begin the program with the college and seamlessly transition to a partnering university without leaving the area. Neither is a lack of interest in workforce development, where most colleges have invested heavily in modern career and technical training offerings. The opportunity to learn valuable skills at affordable prices are found all across the state. Some of these courses are full but not many.

Enrollment declines have forced schools to adopt changes faster but the resulting tuition and state aid losses (formulaic, based on enrollment) undermine investment strategies. Nearly every school will reduce general fund spending and staff this year. Pima College, whose dramatic student decline has enrollment pegged at 1990's levels, has adopted a 'spend money to make money' approach and will take on debt by selling revenue bonds this year to consolidate programs and like-services to reduce duplication and program inefficiency. Northland Pioneer (Navajo County) did not grow much during the recession and has witnessed a steadier enrollment decline over time which is causing sharp budgetary issues. They will rely on cash reserves to reformulate program offerings.

> The positive news for taxpayers is Arizona's community colleges are having frank discussions about reformatting their institutions to foster improved outcomes for students.

While Northland Pioneer and Pima face serious challenges, not all schools are in crisis mode. Arizona Western (Yuma/La Paz) and Yavapai College did not see drastic student declines and are in good shape financially. Coconino College also has a relatively stable student population but is considerably smaller and has less budget flexibility.

Maricopa, Mohave, Central (Pinal) and Cochise all witnessed sharp upticks during the recession and now have dropped to roughly pre-boom levels. Eastern (Graham) did not whipsaw its enrollment and continues to grow although its budget stability is less certain. Like Northland Pioneer, Cochise College is struggling with enrollment due to local population changes but has relied on cash to reinvest in its programs to find its footing.

Taking out the boom-bust cycle by comparing 2016 to 2004 shows total enrollment growth at Arizona community colleges at just 0.5%. The competition for students has made brand awareness more critical. Whereas a community college may have been an obvious choice for students in the past, they now have far more options. College leaders point to a rise in online opportunities, which has spread students to a variety of providers both public and private. However, enrollment at Maricopa's online provider powerhouse Rio Salado total has similarly declined.

Full Time Student Equivalents (FTSE)

CCD	15Actual	16Actual	%chg from15
Cochise	6,338	6,195	-2.3%
Coconino	2,066	2,007	-2.9%
Gila	702	667	-5.0%
Graham	2,897	2,951	1.9%
Maricopa	76,150	71,888	-5.6%
Mohave	2,554	2,347	-8.1%
Navajo	1,853	1,940	4.7%
Pima	16,458	15,382	-6.5%
Pinal	4,069	3,900	-4.2%
Santa Cruz	293	309	5.5%
Yavapai	3,849	3,585	-6.9%
Yuma/La Paz	5,433	5,313	-2.2%
Total	**122,662**	**116,484**	**-5.0%**

Despite rising tuition costs at universities, the wage gap and employability for the college educated remains wide enough for the college going to accept debt. Malcom Harris astutely observed in *The Awl* that students used to go to college to achieve wealth, now they go to avoid poverty as wages for those with no college degree have fallen significantly over the last three decades. The proverbial student loan bubble does not appear to exist, particularly because the government does not allow debtors to default through bankruptcy and may collect much in the way they do taxes.

Still, as students come to make more utilitarian secondary education choices where cost is a primary concern, community colleges should thrive.

The positive news for taxpayers is Arizona's community colleges are having frank discussions about reformatting their institutions to foster improved outcomes for students. The messaging is encouraging. Hopefully the results begin to speak for themselves.

-Sean McCarthy