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ARIZONA TAX RESEARCH ASSOCIATION

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City Budgets Remain Strong With Billions in Reserves

In FY 2024, city general fund (GF) budgets grew 14.4% to \$8.5 billion. Cash reserves propping up city budgets totaled \$3.8 billion or 45% of total GF budgets.

GF Budget Growth

GF budgets fund municipal government operations, including law enforcement and fire protection. Some of the largest percentage increases in city and town budgets this year occurred in Prescott Valley (78.5%), Cave Creek (59.3%), Snowflake (54.5%), and Williams (48.6%). The reasons for the robust growth in budgets are varied and consisted mainly of increased expenditures to pay off unfunded pension liabilities under the Public Safety Personnel Retirement System (PSPRS), personnel compensation, and capital and road projects.

See **City Budgets**, Page 2

\$3.5 Billion in K12 School Bonds on November Ballots

Arizona taxpayers in several school districts will be voting on significant increases in general obligation (G.O.) bond debt this November. According to ATRA records, the \$3.5 billion in bonds is easily the largest statewide K12 bond request in history. The large debt requests also come at a time when many Arizona districts are not growing or are actually losing students. The \$3.5 billion in requests will be used to fund a range of capital projects including new construction, school renovations, transportation, and technology.

Regrettably, in many of the districts the top selling feature to voters is the claim that the bond debt issuance won't raise taxes. Districts rationalize this misleading statement by pointing to a new debt service schedule that plugs into a declining debt

See **School Bonds**, Page 5

ATRA Fall Events!

ATRA Golf Tournament

Friday, Nov 3rd @ 12:15 pm, Stonecreek Golf Club, Phx

ATRA Outlook Conference:

Friday, Nov 17th @ 8:00 am, Scottsdale Hilton

City Budgets, *Continued from page 1***GF Cash Reserves of \$3.8B**

Beginning GF balances increased \$434.3M (13%) to over \$3.8B, representing 45% of total GF budgeted expenditures. The government standard for GF financial reserves is typically around 15% or two months of operating expenditures; however, some cities have reserves well above that standard. Four cities, in particular, have reserves that are more than twice their GF budgeted expenditures and include Dewey-Humboldt (244.7%), Queen Creek (224.9%), Litchfield Park (203.5%), and Paradise Valley (203.4%). The reasons for these large fund balances vary but mainly are designated for future debt repayment, capital projects, or simply just for “financial stability.” For instance, Paradise Valley holds \$68M in GF reserves to its \$33.3M GF budgeted expenditures, of which \$24.9M (or 74% of the Town’s GF budgeted expenditures) is designated for “financial stability.” Of the 78

cities and towns that properly record a beginning fund balance (13 fail to report any fund balance), 66 have fund balances that exceed 30% of their GF budgeted expenditures.

Major Revenue Sources

The major revenue sources that fuel city budgets include municipal ‘TPT’ collections, state shared revenues, and property taxes.

Local TPT (\$5B)

The TPT revenue generated locally by the 91 cities and towns generates over \$5B annually and that source is estimated to remain stable in the next fiscal year. Cities and towns have benefited immensely from the enactment of legislation in 2019 that requires remote sellers and marketplace facilitators to remit TPT for online purchases. Prior

to the legislative authority, only online sellers with a physical presence in this state were required to remit sales taxes. As reported in the *ATRA March/April 2023 Newsletter*, remote sales tax collections are currently tracking at \$1B annually.

State Shared Revenues (\$3.3B)

State shared revenues provide major funding to city budgets and include ‘TPT’ (sales), income, highway user revenue funds (HURF), and vehicle license taxes (VLT). In FY 2024, cities are budgeting to receive approximately \$3.3B from state sources. Of the total, \$1.6B is from the state’s income tax revenue, \$861M from state ‘TPT’

CITY/TOWN	FY 2024		
	GF EXP	GF BALANCE	BAL/EXP
Dewey-Humboldt	\$4,408,927	\$10,790,262	244.7%
Queen Creek	\$51,614,109	\$116,071,334	224.9%
Litchfield Park	\$11,392,364	\$23,180,375	203.5%
Paradise Valley	\$33,330,162	\$67,779,900	203.4%
Gila Bend	\$5,206,924	\$10,000,000	192.1%
Cave Creek	\$17,389,660	\$29,051,596	167.1%
Page	\$19,275,485	\$29,460,500	152.8%
Patagonia	\$1,398,456	\$1,834,562	131.2%
San Luis	\$28,830,494	\$35,808,993	124.2%
Carefree	\$12,763,035	\$15,716,747	123.1%
Marana	\$77,026,555	\$93,588,862	121.5%
Safford	\$15,281,133	\$18,206,228	119.1%
El Mirage	\$40,519,500	\$47,763,000	117.9%
Tolleson	\$53,967,875	\$60,570,250	112.2%
Eloy	\$21,389,610	\$23,251,340	108.7%
Sedona	\$29,280,350	\$29,419,918	100.5%

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collections, \$553M in HURF, and \$330M in VLT.

Property Taxes (\$863M)

Fifty-one cities and towns levy a primary property tax, which will generate an additional 4.4% next year to \$442.6M.

Truth in Taxation (TNT) requires a jurisdiction that proposes to increase primary property taxes to hold a public hearing, publish notice of the tax increase in the newspaper, and include the TNT notice in a press release. The press release must include the name and the dates of the newspaper in which the TNT notice was published and to post the press release to the jurisdiction's official website. Any jurisdiction that proposes an increase of 15% or greater requires a unanimous roll call vote of the governing board.

The increased primary property taxes resulted from 26 cities and towns increasing taxes above TNT, 14 of which levied to their constitutional maximum. Two cities, Scottsdale and Tucson, consistently levy over their constitutional maximum for involuntary torts.

The largest primary property tax increase occurred in Hayden in Gila County. The growth in the mine value drove the jurisdiction's NAV up 267%, from \$3.5M to \$12.8M. To keep taxes level, the Town would have had to adopt the TNT rate of \$3.5930. Instead, the Town left the primary tax rate the same at \$13.00, causing primary property taxes to jump 261.8%, from \$452.5k to \$1.66M. There is no incentive for the Town to reduce the primary tax rate since homeowners are at the 1% constitutional Cap (i.e. effective tax rate in excess of \$10), which

CITY SECONDARY TAXES				
CITY	TY 2022 RATE	TY 2022 LEVY	TY 2023 RATE	TY 2023 LEVY
Avondale	0.9050	\$4,925,173	0.8206	\$4,811,641
Casa Grande	0.3993	\$1,833,767	0.4197	\$2,149,314
Chandler	0.8700	\$32,215,726	0.8700	\$33,930,824
Coolidge	0.3113	\$247,554	0.3262	\$259,431
El Mirage	1.3716	\$2,030,000	1.2124	\$1,930,000
Flagstaff	0.8000	\$8,206,714	0.8000	\$8,633,802
Gilbert	0.9897	\$29,600,000	0.9800	\$31,335,000
Glendale	1.2977	\$21,837,801	1.2142	\$22,837,857
Goodyear	0.7393	\$9,565,400	0.7733	\$11,196,100
Maricopa	0.8399	\$3,098,680	0.7798	\$3,222,325
Mesa	0.9157	\$38,767,410	0.8582	\$38,765,722
Peoria	1.1500	\$21,745,530	1.1500	\$23,165,265
Phoenix	0.8141	\$126,108,420	0.8141	\$132,416,075
Scottsdale	0.4101	\$30,055,758	0.4664	\$35,591,731
Surprise	0.3880	\$5,557,500	0.3880	\$3,026,000
Tempe	1.4997	\$35,773,957	1.5289	\$37,983,522
Tolleson	1.0902	\$3,017,000	1.0917	\$3,219,850
Tombstone	0.7762	\$110,016	0.7183	\$107,514
Tucson	0.9048	\$37,598,880	0.6040	\$26,168,170
SECONDARY TOTALS		\$412,295,286		\$420,750,143

means the excess taxes merely shift to the state general fund. Since the Town's tax increase of 261.8% easily breached the 15% threshold, the Town would have been subject to unanimous approval.

Other cities with significant primary tax increases included Prescott (14.9%) and Coolidge (11.9%), both which levy to their constitutional maximum, and Huachuca (12.8%).

Nineteen cities levy a secondary property tax for the repayment of debt on General Obligation (G.O.) bonds, which will increase 2.1% next year to \$420.8M.

- Jennifer Stielow

City	Tax Year 2022	Tax Year 2023		Exceed TNT?	Max T.R.	TNT Levy	Max Levy	Adopted Levy	\$ over/under TNT	over/under TNT
		TNT Rate	Adopted Rate							
Avondale	0.6458	0.6248	0.6373	YES	0.6373	\$3,663,556	\$3,736,624	\$3,736,624	\$73,068	0.0125
Benson	0.9044	0.8806	0.9161	YES	0.9161	\$370,060	\$384,984	\$384,984	\$14,924	0.0355
Bisbee	3.0613	2.9470	3.0059	YES	3.0059	\$1,266,722	\$1,292,059	\$1,292,059	\$25,337	0.0589
Buckeye	1.7048	1.6189	1.6513	YES	1.6513	\$13,111,449	\$13,373,562	\$13,373,562	\$262,113	0.0324
Casa Grande	0.9643	0.8980	0.9643	YES	1.1274	\$4,599,027	\$5,774,018	\$4,938,900	\$339,873	0.0663
Chandler	0.2326	0.2250	0.2226	NO	0.6085	\$8,774,013	\$23,732,076	\$8,681,611	-\$92,402	-0.0024
Clarkdale	1.4765	1.4161	1.4150	NO	1.5344	\$639,507	\$692,936	\$639,000	-\$507	-0.0011
Clifton	3.9577	3.9805	3.8802	NO	5.3102	\$564,215	\$752,692	\$550,000	-\$14,215	-0.1003
Coolidge	1.5036	1.4943	1.6728	YES	1.6728	\$1,312,648	\$1,469,476	\$1,469,476	\$156,828	0.1785
Douglas	1.1519	1.1147	1.1147	NO	1.5752	\$681,863	\$963,519	\$681,841	-\$22	0.0000
Duncan	0.9127	0.9116	0.9103	NO	1.3567	\$15,022	\$22,356	\$15,000	-\$22	-0.0013
El Mirage	1.8355	1.7383	1.7699	YES	1.7730	\$2,767,247	\$2,822,521	\$2,817,634	\$50,387	0.0316
Eloy	1.0894	1.0439	1.0648	YES	1.0648	\$1,345,768	\$1,372,729	\$1,372,725	\$26,957	0.0209
Flagstaff	0.6954	0.6634	0.6634	NO	0.7180	\$7,159,133	\$7,748,837	\$7,159,580	\$447	0.0000
Florence	1.0743	1.0556	0.9990	NO	1.0902	\$1,465,090	\$1,513,139	\$1,386,500	-\$78,590	-0.0566
Gila Bend	0.6232	1.9157	0.6232	NO	2.9703	\$1,297,910	\$2,012,422	\$422,253	-\$875,657	-1.2925
Glendale	0.3724	0.3484	0.3484	NO	0.4082	\$6,553,765	\$7,677,824	\$6,553,047	-\$718	0.0000
Globe	1.2298	1.2187	1.2255	YES	1.9955	\$535,336	\$876,568	\$534,351	-\$985	0.0068
Goodyear	0.9957	0.9428	0.9617	YES	0.9617	\$13,650,808	\$13,923,866	\$13,923,866	\$273,058	0.0189
Hayden	13.0000	3.5930	13.0000	YES	101.3575	\$458,523	\$12,934,957	\$1,659,020	\$1,200,497	9.4070
Holbrook	0.4854	0.4784	0.4784	NO	0.5178	\$108,067	\$116,956	\$108,057	-\$10	0.0000
Huachuca City	1.3064	1.2833	1.4475	YES	1.6117	\$98,958	\$124,281	\$111,620	\$12,662	0.1642
Jerome	0.6911	0.6670	0.6655	NO	1.3841	\$47,603	\$98,783	\$47,500	-\$103	-0.0015
Kearny	2.3896	2.2313	2.4466	YES	3.3209	\$143,207	\$213,138	\$157,024	\$13,817	0.2153
Lake Havasu City	0.6718	0.6423	0.6718	YES	0.8347	\$6,076,273	\$7,896,009	\$6,355,025	\$278,752	0.0295
Mammoth	2.0251	1.9454	1.9105	NO	3.3997	\$54,337	\$94,957	\$53,362	-\$975	-0.0349
Maricopa	4.1709	3.8788	3.8788	NO	4.4247	\$16,196,584	\$18,475,861	\$16,196,391	-\$193	0.0000
Miami	4.4991	4.4899	4.4991	YES	6.6282	\$197,834	\$292,049	\$198,238	\$404	0.0092
Payson	0.3205	0.3094	0.3094	NO	0.3965	\$713,321	\$914,012	\$713,200	-\$121	0.0000
Peoria	0.2900	0.2771	0.2900	YES	0.3466	\$5,581,679	\$6,981,809	\$5,841,675	\$259,996	0.0129
Phoenix	1.2989	1.2599	1.2851	YES	1.2851	\$204,933,305	\$209,025,792	\$209,025,792	\$4,092,487	0.0252
Pima	0.1206	0.1155	0.1155	NO	0.1905	\$16,220	\$26,745	\$16,251	\$31	0.0000
Prescott	0.2281	0.2194	0.2520	YES	0.2520	\$1,939,277	\$2,227,185	\$2,227,185	\$287,908	0.0326
Queen Creek	1.8257	1.7231	1.7231	NO	2.6523	\$13,285,854	\$20,450,069	\$13,285,644	-\$210	0.0000
Safford	0.5135	0.4897	0.5135	YES	0.6583	\$293,922	\$395,142	\$308,226	\$14,304	0.0238
Scottsdale	0.4970	0.4847	0.5150	YES	0.4872	\$36,988,591	\$37,179,462	\$39,298,406	\$2,309,815	0.0303
Sierra Vista	0.1098	0.1056	0.1056	NO	0.1838	\$382,146	\$665,337	\$382,261	\$115	0.0000
Somerton	1.6062	1.5404	1.6062	YES	1.5713	\$783,634	\$799,328	\$817,082	\$33,448	0.0658
South Tucson	0.2338	0.2232	0.2232	NO	0.3615	\$60,236	\$97,561	\$60,237	\$1	0.0000
Superior	5.6914	5.3407	5.3407	NO	7.7227	\$655,661	\$948,096	\$655,664	\$3	0.0000
Surprise	0.7591	0.7222	0.7591	YES	0.8283	\$11,215,505	\$12,863,596	\$11,788,912	\$573,407	0.0369
Tempe	0.8782	0.8604	0.8776	YES	0.8776	\$21,374,315	\$21,802,798	\$21,802,825	\$428,510	0.0172
Tolleson	1.5894	1.5542	1.5504	NO	1.9057	\$4,583,974	\$5,620,523	\$4,572,690	-\$11,284	-0.0038
Tombstone	0.9265	0.8933	0.8933	NO	1.3032	\$133,704	\$195,061	\$131,323	-\$2,381	0.0000
Tucson	0.5244	0.5085	0.4461	NO	0.4207	\$22,029,485	\$18,226,611	\$19,325,110	-\$2,704,375	-0.0624
Wickenburg	0.5000	0.4767	0.4646	NO	0.6764	\$615,872	\$873,784	\$600,177	-\$15,695	-0.0121
Willcox	0.4093	0.3887	0.3721	NO	0.5327	\$80,466	\$110,283	\$72,016	-\$8,450	-0.0166
Williams	1.0751	1.0251	1.0251	NO	1.4604	\$632,947	\$901,752	\$632,968	\$21	0.0000
Winkelman	5.9400	7.1435	7.1694	YES	9.5674	\$47,526	\$63,652	\$47,465	-\$61	0.0259
Winslow	1.3542	1.2986	1.3245	YES	1.3245	\$439,787	\$448,567	\$448,567	\$8,780	0.0259
Yuma	2.1930	2.0902	2.1321	YES	2.1748	\$15,417,139	\$16,040,777	\$15,725,831	\$308,692	0.0419

School Bonds, *continued from page 1*

service schedule for existing outstanding bonds. In addition, most districts estimate consistent growth in the net assessed value of the district to help keep the tax rate constant as tax levies climb each year.

The largest request statewide is Mesa Unified's \$500 million. With a current enrollment of 57,909, Mesa has lost 11% of its students over the last ten years. Mesa voters approved \$300 million in bonds as recently as 2018. The district is planning major renovations on school and athletic facilities. Mesa clearly plans to market the massive bond as not increasing taxes arguing the new debt service requirements won't increase the existing tax rate. However, even accepting that ruse, most taxpayers will still see steady annual increases in their net assessed values translating into annual increases in their tax bill.

School District Bond Requests					
County	District	FY24 Bond Request	Current Bond Tax Rate	23 Enrollment	Bond Request Per Pupil
Apache	Window Rock USD	\$20,000,000	3.7614	1,710	\$11,695.91
Apache	Round Valley USD	\$15,000,000	0.1994	1,376	\$10,901.16
Cochise	Willcox USD	\$15,000,000	1.1355	1,073	\$13,979.50
Maricopa	Agua Fria Union HSD	\$197,000,000	2.1945	9,631	\$20,454.78
Maricopa	Avondale ESD	\$75,000,000	0.6056	5,889	\$12,735.61
Maricopa	Deer Valley USD	\$325,000,000	1.3443	33,185	\$9,793.58
Maricopa	Fountain Hills USD	\$25,000,000	0.2178	1,189	\$21,026.07
Maricopa	Gilbert USD	\$100,000,000	0.9809	33,210	\$3,011.14
Maricopa	Glendale ESD	\$40,000,000	1.0393	9,239	\$4,329.47
Maricopa	Kyrene ESD	\$161,000,000	0.9408	14,366	\$11,207.02
Maricopa	Liberty ESD	\$97,400,000	1.2219	4,448	\$21,897.48
Maricopa	Litchfield ESD	\$97,400,000	0.6682	10,855	\$8,972.82
Maricopa	Madison ESD	\$105,000,000	1.3610	5,832	\$18,004.12
Maricopa	Mesa USD	\$500,000,000	1.6421	57,909	\$8,634.24
Maricopa	Osborn ESD	\$100,000,000	1.3751	2,520	\$39,682.54
Maricopa	Paradise Valley USD	\$340,000,000	1.4130	27,913	\$12,180.70
Maricopa	Pendergast ESD	\$100,000,000	2.1756	8,245	\$12,128.56
Maricopa	Phoenix Union HSD	\$475,000,000	1.0997	27,898	\$17,026.31
Maricopa	Queen Creek USD	\$98,000,000	1.5474	13,771	\$7,116.40
Maricopa	Tolleson Union HSD	\$125,000,000	2.1945	13,741	\$9,096.86
Navajo	Blue Ridge USD	\$12,000,000	0.6704	1,751	\$6,853.23
Navajo	Snowflake USD	\$18,000,000	0.4951	2,761	\$6,519.38
Pima	Tucson USD	\$480,000,000	0.1522	41,462	\$11,576.87
Pima	Sahuarita USD	\$50,000,000	1.5316	6,484	\$7,711.29
Santa Cruz	Nogales USD	\$26,000,000		5,691	\$4,568.62
Yuma	Crane ESD	\$20,000,000	0.3023	9,092	\$2,199.74
Total		\$3,596,800,000			

Phoenix Union is back before voters again seeking \$475 million in bonds. Unlike Mesa, Phoenix Union has seen a small increase in student count over the last ten years. On the districts' website they suggest the measure will not increase taxes. However, in adhering to a state law requiring the district to estimate the homeowner cost over the life of the bonds they admit the cost for a \$250,000 home will be \$2,203. That is a rather staggering disconnect between the messaging that approval of the bond will not increase taxes.

Easily the largest bond request on a per pupil basis is Osborn Elementary's at \$39,682. With a current enrollment of only 2,520, Osborn is a small and declining district in central Phoenix that is requesting a \$100 million bond. In addition to maintenance, the district plans to build a new performing arts facility. To its credit, Osborn appears to be one of the few that isn't marketing the request as tax free. Liberty Elementary, with 4,448 students, is requesting \$97.4 million at a cost of \$21,900 per student. Liberty is a growing district in west Maricopa County that is planning two new schools.

Collectively, the 26 districts on the ballot with G.O. bonds have seen a 5% drop in students over the last ten years. Of the 14 districts that showed drops in enrollment over that time, 12 have seen double digit reductions. As districts continue to shed students, there is increasing pressure on their operational budgets. G.O. bonds provide an opportunity for those districts to free up funds for salaries and benefits by moving soft capital and maintenance expenditures to the bond accounts.

State law prohibits districts from using public funds to advocate for the passage of a bond. However, the line between advocacy and providing necessary information is the subject of constant disagreement. In an effort to get accurate information to voters, state law requires districts to mail an informational pamphlet to registered voters. Importantly, the pamphlet informs voters about the existing outstanding debt of the districts along with the current debt service schedule. Voters are then able to compare that against the debt service schedule for the proposed bonds. In what has to confuse taxpayers who are being told that the bond will not increase their taxes, the law requires districts to calculate the cost of the bond over the life of the new debt service schedule. In most districts, the cost to taxpayers reaches several thousand dollars.

According to the most recent information reported to the Arizona Debt Oversight Commission, K12 school debt has climbed \$528.5 million over the last five years. K12 debt in FY17 was \$5,248,762,220 compared to \$5,777,811,921 in FY22, a 10.1% increase.

At the time of this publication, the information pamphlets being sent to voters in the 26 districts having bond elections were not available. Next month's newsletter will include a review of those mailings.

- Kevin McCarthy