



*The taxpayer's watchdog for over 75 years*

# ARIZONA TAX RESEARCH ASSOCIATION

---

## NEWSLETTER VOLUME 79 NUMBER 7 AUGUST 2019

---

### City Budgets Climb to \$5.6 Billion

City general fund (GF) budgets received a 6.7% boost in FY 2020 to \$5.6 Billion. The funding needs of Arizona's 91 cities and towns vary but the one constant pressure placed on local government budgets continues to be the spiraling unfunded pension liability costs associated with the Public Safety Personnel Retirement System (PSPRS).

The major revenue sources funding city government include local transaction privilege taxes (sales), property taxes, and state shared revenues. In FY 2020, the state shared revenues distributed to cities and towns will reach approximately \$2 billion. State shared income taxes, also known as Urban Revenue Sharing (URS), will jump 9.3% this year to \$740 million. The state is anticipated to share another \$590 million in sales tax revenues and nearly \$700 million in HURF and Vehicle License Taxes (VLT) to city and town special revenue funds.

#### GF Budget Growth

The 6.7% increase in budgeted city GF expenditures represents an additional \$354 million in planned spending this year. The most notable increases in GF budgets include Cave Creek 56.3%, Carefree 29.4%, Paradise Valley 44.4%, and Queen Creek 22.7%. This year's 6.7% increase is higher than the 5% average annual increase adopted by cities between FY 2014 and FY 2019.

See CITY BUDGETS, Page 2

### Colleges Big Winners in State Budget

Despite significant increases in state aid, most Arizona community college districts raised taxes for Fiscal Year (FY) 2020. For the first time since the boom budget of FY 07, Arizona community colleges benefitted from a generous 72% appropriation increase in the state budget, a \$33.6 million jump. There were targeted spends of \$5.8M to Maricopa, \$15M to Pima, and \$14.4M to rural schools.

The big winners in the state budget were Cochise, Pima, Graham, and Gila College, who each increased their state aid by roughly 6-8% of their operating budget, though all colleges received higher amounts in total. Despite this, each of these colleges asked their local property taxpayers for a tax increase in FY 20.

See COMM COLLEGES, Page 4

#### Mark Your Calendars!

#### **ATRA Golf Tournament:**

Nov 1, 12:00 pm

Stonecreek GC

#### **ATRA Outlook Conference:**

Nov 14, 8:00 am

Embassy Suites Scottsdale

**CITY BUDGETS**, *Continued from Page 1*

**GF Beginning Fund Balances**

Cities and towns start this fiscal year with \$1.6 billion in beginning fund balances, an increase of \$197 million or 13.7% over last year, which represents 29% of total GF budgets. Five cities—Cave Creek, Queen Creek, Eloy, El Mirage, and Litchfield Park—have fund balances that are more than twice their GF budgeted expenditures. In fact, more than 50 cities have fund balances that exceed 20% of their budgeted expenditures, 20 of which exceed 50%. Approximately twenty cities failed to report a beginning fund balance in FY 2020. Between FY 2014 and FY 2019, city beginning fund balances grew substantially, from \$833 million (20% of GF budgeted expenditures) to over \$1.4 billion (27% of budgeted expenditures).

**Local TPT**

Local TPT revenues are the largest funding source for most city budgets. With a good economy and some raising rates, local TPT revenues have grown nearly 36% to over \$3 billion over the last five years. Cities and towns levy different tax rates for the sixteen TPT classifications, including retail, utilities, prime contracting, restaurants and bar, and lodging. Revenues generated through retail account for over 50% of total TPT revenues. The average sales tax rate levied by cities for retail is 2.7% and the average overall tax rate is approximately 9% after including the state and county tax rates.

**Property Taxes**

*Primary taxes*

Fifty of Arizona’s 91 cities and towns levy a primary property tax to support their GF budgets. Primary property taxes levied by cities and towns this year increased 5.4% to over \$360 million. Nearly half of the cities and towns that levy a primary property tax chose to increase taxes this year, and therefore were required to adhere to the Truth and Taxation (TNT) publication requirements. The Town of Hayden adopted the largest primary property tax increase by imposing a tax rate that was nearly \$3.00 over its TNT rate, representing a 51.3% tax increase. As a result, the Town now levies by far the largest primary tax rate of all the cities at \$8.50 per \$100 of assessed value. Combined rates are already so

City	FY 2019 Primary Rate	FY 2020 Primary Rate	Diff.	TNT Rate	Over TNT	% Increase
Hayden	5.9635	8.5000	2.5365	5.6183	2.8817	51.3%
Casa Grande	0.9905	1.0606	0.0701	0.9225	0.1381	15.0%
Coolidge	1.8759	1.8759	0.0000	1.7454	0.1305	7.5%
Queen Creek	1.9500	1.9500	0.0000	1.8257	0.1243	6.8%
Buckeye	1.8000	1.8000	0.0000	1.6905	0.1095	6.5%
Yuma	2.2747	2.3185	0.0438	2.1847	0.1338	6.1%
Peoria	0.2900	0.2900	0.0000	0.2762	0.0138	5.0%
Lake Havasu	0.6718	0.6718	0.0000	0.6404	0.0314	4.9%
Surprise	0.7591	0.7591	0.0000	0.7252	0.0339	4.7%
Maricopa	4.7845	4.7845	0.0000	4.5808	0.2037	4.4%
Benson	0.8288	0.8704	0.0416	0.8367	0.0337	4.0%
Phoenix	1.3163	1.3055	-0.0108	1.2649	0.0406	3.2%
Avondale	0.7318	0.7003	-0.0315	0.6865	0.0138	2.0%
Goodyear	1.1084	1.0619	-0.0465	1.0410	0.0209	2.0%
Winslow	1.4123	1.3916	-0.0207	1.3643	0.0273	2.0%
Bisbee	2.8261	2.9152	0.0891	2.8581	0.0571	2.0%
Gila Bend	0.5337	0.6850	0.1513	0.6716	0.0134	2.0%
El Mirage	2.0603	1.9835	-0.0768	1.9447	0.0388	2.0%
Florence	1.1060	1.0738	-0.0322	1.0528	0.0210	2.0%
Flagstaff	0.8334	0.7933	-0.0401	0.7778	0.0155	2.0%
Tempe	0.9189	0.9010	-0.0179	0.8834	0.0176	2.0%
Clarkdale	1.6455	1.6150	-0.0305	1.5839	0.0311	2.0%
Safford	0.5135	0.5135	0.0000	0.5042	0.0093	1.8%
Scottsdale	0.5316	0.5198	-0.0118	0.5108	0.0090	1.8%

high in Hayden, the increase on homeowners will be paid entirely by the state General Fund due to the 1% Cap. Other cities and towns with considerable primary tax increases included Casa Grande 15%, Coolidge 7.5%, Queen Creek 6.8%, Buckeye 6.5%, and Yuma 6.1%.

### Secondary taxes

Nineteen cities and towns levy a secondary property tax to repay their General Obligation (G.O.) bond debt. Secondary taxes levied by cities increased 6.6% this year to over \$370 million. The largest tax increases in percentage terms occurred in Mesa (24.8%/ \$8.3 million), Goodyear (20.4%/ \$1 million), and the City of Maricopa (15.8%/ \$465k). On the flip side, Casa Grande's secondary levy was cut in half after dropping its rate more than 32 cents to \$0.2752 and the City of Willcox did not levy a secondary property tax this year.

### State Shared Revenues

State shared revenues that support city and town GF budgets consist of TPT and URS. Between FY 2013 and FY 2018, state shared revenues to the cities grew 31%. State shared TPT increased 29.3% to \$528 million and URS increased 32.6% to \$681 million. URS is slated to jump to nearly \$740 million in FY 2020, and increase another \$50 million to \$792 million in FY 2021, according to the Joint Legislative Budget Committee (JLBC). The dramatic increase in URS in FY 2021 is mainly due to the state conforming to the Tax Cuts and Jobs Act (TCJA) for tax year 2018, which resulted in an estimated \$155 million tax increase. Although the Legislature conformed to the federal tax code in FY 2020, adjustments were made to offset future tax increases by doubling the standard deduction and reducing tax rates (See ATRA's May 2019 Newsletter).

City	FY 2019 Secondary Tax	FY 2020 Secondary Tax	Diff	% Diff	FY 19 RATE	FY 20 RATE	Diff.
Mesa	33,438,521	\$41,740,629	\$8,302,108	24.8%	1.0201	1.1870	0.1669
Goodyear	5,129,038	\$6,175,100	\$1,046,062	20.4%	0.6266	0.6713	0.0447
Maricopa	2,941,887	\$3,406,616	\$464,729	15.8%	1.1220	1.1871	0.0651
Gilbert	22,300,000	\$24,150,000	\$1,850,000	8.3%	0.9884	0.9889	0.0005
Chandler	24,219,329	\$26,197,028	\$1,977,699	8.2%	0.8700	0.8700	0.0000
Peoria	16,557,849	\$17,902,292	\$1,344,443	8.1%	1.1500	1.1500	0.0000
Flagstaff	6,733,265	\$7,268,436	\$535,171	7.9%	0.8366	0.8366	0.0000
Tempe	28,030,238	\$30,177,956	\$2,147,718	7.7%	1.5046	1.5010	-0.0036
Phoenix	102,186,555	\$108,970,886	\$6,784,331	6.6%	0.8241	0.8241	0.0000
Tolleson	4,203,000	\$4,478,000	\$275,000	6.5%	2.0280	1.9888	-0.0392
Tucson	32,462,790	\$33,110,920	\$648,130	2.0%	0.9508	0.9255	-0.0253
Glendale	20,070,771	\$20,408,799	\$338,028	1.7%	1.5357	1.4441	-0.0916
Avondale	4,102,600	\$4,141,443	\$38,843	0.9%	1.0301	0.9540	-0.0761
Surprise	4,359,896	\$4,370,900	\$11,004	0.3%	0.4200	0.3880	-0.0320
El Mirage	2,030,000	\$2,030,000	\$0	0.0%	1.9007	1.7603	-0.1404
Tombstone	120,058	\$117,547	-\$2,511	-2.1%	0.9116	0.8755	-0.0361
Scottsdale	34,212,861	\$32,971,795	-\$1,241,066	-3.6%	0.5705	0.5214	-0.0491
Fountain Hills	1,986,373	\$1,674,485	-\$311,888	-15.7%	0.4257	0.3382	-0.0875
Casa Grande	2,167,966	\$1,074,280	-\$1,093,686	-50.4%	0.6010	0.2752	-0.3258
Willcox	156,648	\$0	-\$156,648	-100.0%	0.8476	0.0000	-0.8476

### PSPRS unfunded liability a major cost driver

PSPRS is in dire straits and has been wreaking havoc on state and local government budgets for several years. With a funded status of only 47%, taxpayers are strapped with paying higher taxes to pay off billions in unfunded liability that has accumulated over the years with no relief in sight. Though many taxing entities have opted to extend their amortization period by ten years, that move simply delayed and ultimately increased the payment of the unfunded liabilities for ten cities. In fact, 31 cities and towns currently have contribution rates that exceed 50%. Some of Arizona's smallest cities have the largest contribution rates, like South Tucson's fire department at 391.5%. This means that if South Tucson wants to hire a firefighter, they will have to pay approximately four

times more than their salary in pension costs for that one firefighter. Other small cities with outrageously high contribution rates include Holbrook police department 156.06%, Miami police department 105.01% and South Tucson police department 104.4%. Phoenix, the largest city in Arizona, is scrambling for ways to pay down its \$4.6 billion in PSPRS unfunded liability. At only 41% funded, the Phoenix city council opted to extend the amortization period to 30 years to provide some short term relief. However, the city's annual required contribution to PSPRS climbed from \$235 million in FY 2019 to \$257 million in FY 2020.

-Jennifer Stielow

## COMM COLLEGES UPDATE, *Continued from Page 1*

### The Automatic Tax Increases

Half of community college districts reflexively increase taxes to the maximum amount each year without much deviation: Cochise, Coconino, Gila, Mohave, and Pima. They remain at their constitutional levy limit, meaning they cannot tax more unless they ask their voters for an override. Some boards describe it as their duty, as though the

<i>FY 2019</i> <i>Primary</i>	Levy Limit	Primary Levy	Change	% of Limit Levied	Primary Rate	Change	Secondary Rate	TNT rate	% over TNT
Cochise	\$23,081,462	\$23,081,462	3.5%	100.0%	2.4516	2.1%	-	2.4035	2.0%
Coconino	\$8,408,362	\$8,408,362	2.7%	100.0%	0.4592	-3.1%	-	0.4502	2.0%
Gila	\$4,979,654	\$4,979,654	5.4%	100.0%	0.9588	0.1%	-	0.9390	2.1%
Graham	\$6,918,211	\$6,486,062	2.7%	93.8%	3.3451	0.5%	-	3.2963	1.5%
Maricopa	\$556,688,479	\$504,380,149	6.6%	90.6%	1.1677	-0.3%	0.1720	1.1236	3.9%
Mohave	\$25,293,210	\$25,293,210	4.1%	100.0%	1.3255	-1.2%	-	1.2996	2.0%
Navajo	\$15,877,014	\$15,487,000	2.9%	97.5%	1.8164	0.0%	-	1.7899	1.5%
Pima	\$120,106,857	\$120,106,857	3.1%	100.0%	1.3758	-1.6%	-	1.3488	2.0%
Pinal	\$68,144,400	\$52,525,244	2.5%	77.1%	2.0833	-4.3%	0.1299	2.0833	0.0%
Santa Cruz	\$5,557,720	\$1,668,747	2.9%	30.0%	0.4847	-1.5%	-	0.4847	0.0%
Yavapai	\$52,730,399	\$46,692,900	2.2%	88.6%	1.6883	-4.0%	0.1525	1.6883	0.0%
Yuma/La Paz	\$33,273,090	\$32,532,954	4.5%	97.8%	2.2318	0.4%	0.3393	2.1939	1.7%
<b>Total/Avg</b>	<b>\$921,058,858</b>	<b>\$841,642,601</b>	<b>5.1%</b>	<b>89.6%</b>	<b>1.6157</b>	<b>-1.1%</b>	<b>0.1984</b>	<b>1.5918</b>	<b>1.6%</b>

maximum levy is an expectation and not a constitutional cap. The 2% annual increase to the levy limit is on top of the levy gain resulting from new construction. In fact, new construction value often grows faster than inflation, as it did this year when new construction growth represented a 2.3% increase statewide.

<i>FY 2020 State</i> <i>Aid</i>	Total	% Change	M&O	Capital/STEM	Equalization	Rural Aid/ Special Approp
Cochise	\$15,149,300	31.3%	\$4,623,500	\$996,200	\$6,389,500	\$3,140,100
Coconino	\$3,105,700	43.4%	\$1,703,400	\$399,200	\$0	\$1,003,100
Gila	\$971,900	106.3%	\$293,700	\$135,000	\$0	\$543,200
Graham	\$21,109,700	12.8%	\$2,389,600	\$645,800	\$16,506,200	\$1,568,100
Maricopa	\$5,800,000	100.0%	\$0	\$0	\$0	\$5,800,000
Mohave	\$3,237,400	51.4%	\$1,630,300	\$455,000	\$0	\$1,152,100
Navajo	\$10,352,900	14.7%	\$1,576,700	\$339,500	\$7,547,500	\$889,200
Pima	\$15,000,000	100.0%	\$0	\$0	\$0	\$15,000,000
Pinal	\$3,343,900	108.4%	\$1,452,000	\$96,500	\$0	\$1,795,400
Santa Cruz	79,200	-45.9%	\$0	15,000	\$0	\$64,200
Yavapai	\$3,065,800	137.9%	\$601,400	\$703,100	\$0	\$1,761,300
Yuma/La Paz	\$5,912,900	71.3%	\$2,399,500	\$1,030,100	\$0	\$2,483,300
<b>Total</b>	<b>\$87,128,700</b>	<b>72.3%</b>	<b>\$16,670,100</b>	<b>\$4,815,400</b>	<b>\$30,443,200</b>	<b>\$35,200,000</b>

**FY 2020 Taxpayer Weight of Effort per FTSE**

	Primary Levy		Taxpayer Contr		FTSE		S&L \$\$/FTSE	"Taxpayer tuition"
	Primary Levy	State Aid	Taxpayer Contr	18 Actual	S&L \$\$/FTSE	"Taxpayer tuition"		
Cochise	\$23,081,462	\$15,149,300	\$38,230,762	6,258	\$6,109	\$204		
Coconino	\$8,408,362	\$3,105,700	\$11,514,062	1,999	\$5,760	\$192		
Gila	\$4,979,654	\$971,900	\$5,951,554	684	\$8,701	\$290		
Graham	\$6,486,062	\$21,109,700	\$27,595,762	3,125	\$8,831	\$294		
Maricopa	\$504,380,149	\$5,800,000	\$510,180,149	70,344	\$7,253	\$242		
Mohave	\$25,293,210	\$3,237,400	\$28,530,610	2,296	\$12,426	\$414		
Navajo	\$15,487,000	\$10,352,900	\$25,839,900	1,772	\$14,582	\$486		
Pima	\$120,106,857	\$15,000,000	\$135,106,857	14,783	\$9,139	\$305		
Pinal	\$52,525,244	\$3,343,900	\$55,869,144	3,578	\$15,615	\$520		
Santa Cruz	\$1,668,747	\$79,200	\$1,747,947	128	\$13,656	\$455		
Yavapai	\$46,692,900	\$3,065,800	\$49,758,700	3,510	\$14,176	\$473		
Yuma/La Paz	\$32,532,954	\$5,912,900	\$38,445,854	4,949	\$7,768	\$259		
<b>Total/AVG</b>	<b>\$841,642,601</b>	<b>\$87,128,700</b>	<b>\$928,771,301</b>	<b>113,426</b>	<b>\$ 8,188</b>	<b>\$273</b>		

The Pima College Board described their recurring tax increases as a technique to maintain the maximum levy without sparking the ire of the taxpayers. At their Truth in Taxation meeting, Board Member Demion Clinco explained to the board that if a full tax increase is not taken each year, then a larger increase *must* be taken in future years which would subject the board to increased public scrutiny. Boil the frog, in essence. Their tax increase passed on a three to two vote.

The other colleges take a nuanced approach to some degree, measuring their financial needs against taxpayer considerations. With significant growth in property value providing rate relief, most college districts raised taxes this year, except Pinal, Yavapai, and Santa Cruz.

**Taxpayer Subsidy Grows**

With ever increasing competition in higher education, particularly from online providers, community colleges have become more sensitive to their tuition rates of late. For years, colleges slowly raised tuition as an annual exercise. However many have chosen to hold the line on tuition in recent years. Maricopa even dropped tuition by \$1 last year to \$85 per credit hour for residents, with the statewide average resting near \$87. Coconino is the only outlier at \$111 per credit hour. With growth in college budgets, this puts additional pressure on local property taxes. Counting state aid, the state and local tax dollars per full time student equivalent (FTSE) is up 11.6% this year to \$8,188.

	FY 2020 General	Budgeted GF Expenditures	% Change
Cochise	\$42,170,985		-2.1%
Coconino	\$20,263,825		1.3%
Gila	\$6,600,993		0.2%
Graham	\$39,769,874		-2.3%
Maricopa	\$749,381,691		2.1%
Mohave	\$29,801,424		1.2%
Navajo	\$28,729,200		2.6%
Pima	\$170,900,000		4.4%
Pinal	\$48,770,000		2.2%
Santa Cruz	\$1,726,874		-15.9%
Yavapai	\$47,927,700		2.2%
Yuma/La Paz	\$48,897,472		7.1%
<b>Total</b>	<b>\$1,234,940,038</b>		<b>2.3%</b>

Average “taxpayer tuition” is up to \$273 per credit hour from \$245 last year. “Taxpayer tuition” is the total state and local tax revenues adjusted by the number of actual credit hours taken. This trend has continued since the recession as tuition dollars become a smaller portion of college revenues. State and Local dollars per FTSE are up 30% since 2015.

**Secondary Taxes Phasing Out**

Just four college districts are paying debt service on bonds now that Coconino College has completed their bond program. Maricopa, Pinal, Yavapai, and Yuma/LaPaz reduced rates for secondary taxes this year as their debt

service obligations begin to wind down. Taxpayers should continue to see rates decline in these jurisdictions. Maricopa and Yavapai have an internally designated portion of their primary rate to pay for capital projects with cash, a trend that taxpayers should monitor as colleges will likely not seek voter approved bonds in the near future.

### Colleges Position for a New Enrollment Normal

In previous eras, community college enrollment tended to grow with Arizona's steady K-12 enrollment growth. As the economy took off in the mid-2000s, college enrollment first declined in FY 06 and FY 07 but immediately surged during the recession until it peaked in FY 12 at 141,400 total statewide FTSE. Since then, it has been an eight year slide to 115,000 FTSE, nearing 2003 levels. K-12 enrollment has not seen significant increases in the last decade and enrollment has declined in many areas. A recession induced birth rate decline created an enrollment bubble currently impacting grades K-5 in Arizona but will eventually hit higher education. State demographers report Arizona birth rates have yet to return to prerecession levels, suggesting the bubble is more permanent.

<b>FY 2020 CCD Cash Balance</b>	<b>Total</b>	<b>As % of GF</b>
Cochise	\$22,053,954	51.2%
Coconino	\$14,527,705	71.7%
Gila	\$1,042,639	15.8%
Graham	\$23,356,052	58.7%
Maricopa	\$419,502,721	56.0%
Mohave	\$19,836,214	66.6%
Navajo	\$65,700,000	228.7%
Pima	\$124,586,000	72.9%
Pinal	\$12,197,950	25.0%
Santa Cruz	\$2,410,376	139.6%
Yavapai	\$18,322,000	39.1%
Yuma/La Paz	\$27,787,503	56.8%
<b>Total</b>	<b>\$751,323,114</b>	<b>73.5%</b>

College leaders acknowledge they are unlikely to witness enrollment growth like past eras and are retooling their schools to meet present challenges. Some rural colleges like Cochise, Graham, Yavapai and Yuma/LaPaz have steady enrollment and are mostly unaffected. A few such as Navajo and Pima face considerable enrollment challenges. This effort to reformat the colleges to provide modern workforce training was the major thrust behind new state aid programs. Taxpayers and business groups should closely monitor these developments to assess the effectiveness and workplace translation of these programs.

### Some Colleges Begin to Use Cash Balances

For years, ATRA has documented the often massive cash balances community college districts have amassed, arguing that tax increases in the face of Scrooge McDuck sized cash accounts were unseemly. On average, colleges have 73% of their general fund budget in unrestricted cash on hand, totaling over \$751 million. For reference, the Government Finance Officers Association typically recommends a 16% cash balance, or two month's revenue. Outside of the provisional schools, only Pinal College has a cash balance within a reasonable standard at 25% of budget. Maricopa Colleges have begun a strategic use of their cash balance primarily to pay for capital and one-time expenses. Other districts report saving cash for future capital expenses in addition to reserve policies.

-Sean McCarthy