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ARIZONA TAX RESEARCH ASSOCIATION

NEWSLETTER VOLUME 81 NUMBER 4 JUNE 2021

Eastern College Maxes Out Its Tax Levy

For the second year in a row, Eastern Arizona College (EAC) in Graham County has levied a significant tax hike on its property taxpayers, setting their rate at their constitutional levy limitation. Just weeks after securing a long-fought victory to offer four-year undergraduate programming, EAC confirmed the fears of some that this new legislation would be used as justification for tax hikes.

The frustrating part of the tax increase is just how unnecessary it is. The 4.7% tax hike is a meaningful amount of money to its local taxpayers but the $330k increase is peanuts in their $40.5m general fund (GF) budget. State aid alone is up $2.6m for a total of $23m this year with increases in equalization and rural college

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Struggling Tucson Unified is Bloated & Inefficient

For more than 25 years, Tucson Unified School District (TUSD) has levied more than a billion dollars from its property taxpayers in the name of fixing a district accused of racial and ethnic discrimination—"Desegregation" for short. The truth is the vast majority of those Deseg dollars have been spent on things schools spend money on. Despite the additional $64 million per year TUSD has to spend, equating to $1,114 per pupil, there isn't much of value the district has to show for it.

By any objective measure, TUSD is an underperforming district. It is inefficiently operated, has a bloated non-instructional staff, underpays its teachers, and produces dismal academic results. Taxpayers and their communities have the reasonable

See Struggling TUSD on Page 4

Community Colleges Position for the Future

For FY22, most college districts are planning relatively stable budgets with few changes while they focus on recovering from the pandemic and spending significant federal COVID monies. Federal pandemic assistance monies are used primarily for direct assistance to students with financial needs and covering for pandemic related budget holes in the districts.

Five districts are planning to raise property taxes this year: Cochise, Coconino, Graham, Maricopa, and Gila Provisional. Yuma/La Paz has a small increase to cover a tax litigation settlement. One significant improvement is more colleges are approaching their property tax with the intent to balance the needs of the district with their taxpayers and fewer are reflexively increasing as an annual exercise. Just Coconino, Graham, and Gila Provisional levy to the constitutional maximum. ATRA continues to encourage districts to have a robust internal and external dialogue over the merits and need for a tax increase each year as opposed to "baking it in" to their annual budget.

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Community college districts witnessed significant enrollment declines during FY21, roughly (10+%) reportedly, as part of a nationwide trend. This was far more dramatic than the routine (1-2%) average statewide decline. There are likely a number of reasons for the decline, from the lack of in-person classes, childcare needs given that K-12 schools were mostly virtual, and other pandemic related pressures. The big question is how schools will rebound given the long trend of declining enrollment.

FY 2022 Tax Rates	Primary	% Change	TNT rate	% over TNT
Cochise	2.4442	1.8%	2.3963	2.0%
Coconino	0.4394	-2.1%	0.4308	2.0%
Gila	0.9565	-0.2%	0.9378	2.0%
Graham	3.0954	-0.9%	2.9566	4.7%
Maricopa	1.1112	-1.2%	1.0812	2.8%
Mohave	1.2368	-4.0%	1.2368	0.0%
Navajo	1.7505	-1.8%	1.7505	0.0%
Pima	1.2733	-4.7%	1.2733	0.0%
Pinal	1.9792	-2.0%	1.9792	0.0%
Santa Cruz	0.4600	-2.2%	0.4600	0.0%
Yavapai	1.5557	-3.6%	1.5557	0.0%
Yuma/La Paz	2.1312	-2.9%	2.1179	0.6%
Average	**1.5361**	**-2.0%**		

Colleges continue to place increasing emphasis on workforce development and career and technical education. While these programs are not new, colleges are spending more energy finding workforce needs in their communities where they can serve as the training hub. These can be difficult as training standards and equipment can change, employers show varying levels of interest in participating, and translation rates between the training program and students taking a job in that field can be fickle. Finding interested students is another real challenge particularly in some construction and manufacturing fields. However the need for skilled labor is undeniable and the community colleges have a natural role in plugging these gaps.

Compared to a decade ago, the finance landscape has changed considerably. The increasing focus on workforce development means a larger percentage of part-time and single class students, reducing cost efficiencies and the ratio of total students to FTSE. Schools in 2012 witnessed peak enrollment levels and districts had a fairly even balance of revenue sources between property taxes, state aid, and tuition. Colleges routinely increased tuition. Today college districts are wary of increasing tuition and while state aid has recovered for most schools, it has not for Maricopa and Pima. FTSE has declined from 141,474 to 108,172 over that period. That combined with increased reliance on the property tax has driven total state and local taxpayer contributions per FTSE for community colleges up 206% from $4,450 to $9,158 since 2012. The average per-credit tuition for residents is up 22% to $90 over that period and just 5% in the last 5 years.

FY 2022 District	Budgeted GF Expenditures	Change	General Fund Cash Balance	% of GF
Cochise	$44,214,796	1.4%	$35,494,861	80.3%
Coconino	$22,876,419	9.4%	$16,996,090	74.3%
Gila	$6,470,066	-6.5%	$5,548,885	85.8%
Graham	$40,567,389	0.4%	$32,863,000	81.0%
Maricopa	$752,254,576	0.4%	$435,462,437	57.9%
Mohave	$31,197,029	0.6%	$42,925,810	137.6%
Navajo	$33,417,324	13.2%	$82,500,000	246.9%
Pima	$187,965,000	7.0%	$144,831,000	77.1%
Pinal	$45,105,050	-2.2%	$118,513,800	262.8%
Santa Cruz	$1,727,085	9.5%	$3,050,000	176.6%
Yavapai	$52,034,800	5.7%	$23,472,500	47.7%
Yuma/La Paz	$56,387,901	2.7%	$30,175,937	53.5%
Total/AVG	**$1,274,217,435**	**2.0%**	**$971,834,320**	**115.1%**

Ever increasing reliance on property taxes (and for a few, state aid) means increased difficulty managing their

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FY 2022 Taxpayer Weight of Effort per FTSE	Primary Levy	State Aid	Taxpayer Contr	FTSE 20Actual	S&L $/FTSE	3 yr Chg
Cochise	$24,315,179	$19,478,200	$43,793,379	5,829	$7,513	41.1%
Coconino	$8,715,587	$3,905,500	$12,621,087	1,877	$6,724	33.0%
Gila	$5,374,274	$1,251,000	$6,625,274	655	$10,115	43.1%
Graham	$7,424,740	$23,097,200	$30,521,940	2,348	$12,999	59.7%
Maricopa	$541,422,496	$10,400,000	$551,822,496	67,472	$8,179	24.6%
Mohave	$26,510,143	$4,060,100	$30,570,243	2,370	$12,899	10.8%
Navajo	$15,955,424	$12,643,200	$28,598,624	1,648	$17,354	31.7%
Pima	$123,461,082	$2,600,000	$126,061,082	13,874	$9,086	15.2%
Pinal	$56,561,479	$5,119,000	$61,680,479	3,432	$17,972	25.4%
Santa Cruz	$1,727,085	$182,800	$1,909,885	142	$13,450	124.5%
Yavapai	$48,899,100	$4,876,600	$53,775,700	3,520	$15,277	13.7%
Yuma/La Paz	$34,020,313	$8,690,000	$42,710,313	5,005	$8,534	30.9%
Total	**$894,386,902**	**$96,303,600**	**$990,690,502**	**108,172**	**$9,158**	**24.8%**

constitutional expenditure limit (EL), since those dollars must be spent below the EL threshold which only increases for enrollment and inflation. Ten years ago, state aid and primary property taxes represented just 63% of total budgeted GF expenditures. Today that figure is 78% (again, not including Prop 301 or Prop 207 funds) As mentioned in the January ATRA Newsletter, Pima College solved their EL problem by making their case to the voters that their operation is simply more expensive than in the past and they need additional authority. Other colleges ultimately may have to do the same if they want to continue on their current financial path.

Debt Several colleges are in the final years of their general obligation (GO) bond programs. There are significant reductions in bond rates for secondary property taxes in Maricopa, Pinal, and Yavapai colleges. Only Yuma/LaPaz has a bond program with several years left. So while dependence on the primary tax continues to grow, total tax rates for community colleges have mostly been in decline the last several years. Several systems are leveraging revenue bonds for debt, which tend to be much smaller and targeted than GO bonds. While there is some concern over leveraging the operating fund for debt, the benefit is smaller debt packages which are subject to increased board scrutiny and prioritized for highest needs.

FY 2022 CCD Tuition and Fees	Budgeted	Change	Per-Credit Rate Residents
Cochise	$9,177,634	-7.4%	$91
Coconino	$7,508,482	4.6%	$113
Graham	$7,494,000	-0.9%	$90
Maricopa	$201,749,664	-10.5%	$85
Mohave	$8,505,991	-5.6%	$88
Navajo	$4,400,000	69.2%	$68
Pima	$44,708,000	-7.5%	$94
Pinal	$5,110,000	-19.6%	$86
Yavapai	$10,574,000	-15.6%	$95
Yuma/La Paz	$12,407,519	-11.4%	$90
Total/Average	**$311,635,290**	**-0.6%**	**$90**

State Budget for Colleges The state budget includes an additional "rural aid" appropriation of $28 million to all districts save Maricopa and Pima, divided proportionally by FTSE. There is $4.5 million for STEM and workforce programs also for those same districts. Maricopa and Pima receive smaller "urban aid" amounts of $10.4 million and $2.6 million, respectively. Finally, Gila Provisional receives an additional line item of $200,000 for workforce development. Operating state aid, which is formulaic based on audited student counts for all but Maricopa and Pima, who receive zero, is $15.3 million this year. Equalization aid for Graham, Navajo, and Cochise continues to increase, $35.9 million this year and now includes a small amount for fourth district in Yuma/La Paz.

-Sean McCarthy

EASTERN COLLEGE TAX HIKE, *Continued from Page 1*

aid. They have massive cash reserves at $32.8m, which represents 81% of their GF. The tax increase wasn't needed; it was adopted simply because they could.

It is odd that a college supported almost entirely by the state would so unnecessarily punish its local taxpayers. The state now invests nearly $10,000 per full time student equivalent (FTSE) in EAC, not counting Prop 301 funds. By contrast, Maricopa and Pima colleges receive less than $200 per FTSE in state aid. For what reason would EAC seek to maintain its state leading property tax rate at $3.10, far above the average?

After several years of signaling an interest in only increasing taxes when necessary, EAC has significantly walked backed its stewardship of taxpayers in the last two years, taking its tax levy from 94% of the constitutional limit all the way to 100% with this budget.

Those concerned about economic development in rural Arizona should pay increasing attention to the decisions of their locally elected boards. Tax increases which keep rates high discourage growth. When a college has $98 million in total resources (cash carryforward plus budgeted revenues) combined with declining student counts, a tax increase which leaves their rates uncompetitive is simply unjustified.

ATRA publicly opposed EACs large tax increase. ATRA asked for a truth in taxation (TNT) rate, which would bring the college's primary rate below $3.00 per hundred for the first time since FY 2016. Historically, their rate was around $2.00 per hundred. Instead of adopting the TNT rate of $2.96 (which holds taxpayers harmless from a tax increase), they adopted a rate of $3.10 per hundred.

-Sean McCarthy

STRUGGLING TUSD, *Continued from Page 1*

expectation that their public institutions deliver a bill of goods they are promised. TUSD is losing the public trust and their massive decline in enrollment is proof.

TUSDs percentage of students passing the 2019 AZMerit for math and English Language Arts (ELA) was a woeful 30% and 32% respectively. The state average was 42% for each. A comparable district in Mesa Unified, had 41% and 43% passing.

In every single subgroup of student, such as ethnicity or English Learner status, TUSD underperformed the statewide average, sometimes by wide margins. Their scores are not only far below the Pima countywide average, but also below Yuma, Santa Cruz, and Cochise counties.

TUSD graduates struggle in college. Outside of Sabino High, the percentage of graduates who earn a four-year degree within six years of graduation is shameful. For the most recently available cohorts (class of 2012 & 2013) as compiled by the Arizona Board of Regents, the average completion rates were as follows: Catalina 12.7%, Cholla 10.2%, Palo Verde 9.9%, Pueblo 9.2%, Rincon 15.6%, Sabino 43%, Sahuaro 22.2%, Santa Rita 9.5%, Tucson High 22.8%, and University High 23.3%. Certainly not all students need a four-year degree, however these rates are far below what students, parents, and taxpayers would expect.

The $64 million question is what does TUSD do with its extra $1,114 per student each year? Budget documents show it is spent on a few unique items: lawyers and consultants for the case, but otherwise is spent on fairly routine expenses for a large district: magnet programming, accelerated and gifted programs, English learners and dual language programs, transportation, and academic interventionists. Most of the Deseg money is for programs that similar districts spend with normal budget dollars.

Despite that these dollars are used for typical expenses, the monies frustratingly are not moving the needle on teacher pay. TUSD teachers reportedly only make $47,136 which is far below the state average of roughly $57,000 for FY21. TUSD isn't directing all its 20x2020 dollars to teachers, admitting it gave just a 3% raise last year when the state funded a 5% raise. If the teachers got their state funded raise plus the inflationary increase, teachers should have received a 6% increase this year. 20x2020 amounts should have been more than enough to cover the actual amounts needed to raise teacher pay per the legislative intent, considering the district also got inflationary increases and more Additional Assistance dollars.

Operational measures relative to peer averages

Operational area	Measure	District	Peer average	State average
Administration	Cost per pupil	$893	$773	$936
	Students per administrative position	47	77	65
Plant operations	Cost per square foot	$6.32	$6.40	$6.55
	Square footage per student	194	152	160
Food service	Cost per meal	$3.74	$3.50	$3.46
Transportation	Cost per mile	$4.59	$3.77	$4.28
	Cost per rider	$1,346	$1,776	$1,370

Very low | Low | Comparable | High | Very high

FY2020 Auditor General District Spending Report

Per the Auditor General, teacher pay has somehow decreased since 2017, going from $50.2k to $48.4k [district provided data differs slightly from OAG reports]. While turnover and the hiring of younger teachers could explain this change, their teacher experience level over that period has been mostly flat. Instead, the true cause appears to be the district refusing to right-size their staff to the size of their district. Administrative positions have not materially changed in the last several years despite the student exodus and total reported teachers has actually increased 7% since 2017. It's impossible to maintain competitive salaries when staffing is not managed to reflect enrollment changes.

A quick glance at the administration reflects one material problem at TUSD: it maintains a massive staff. TUSD reports 12 Assistant Superintendents/C suite staff, 55 full time employees (FTE) in Budget and Finance, 11 in Media Relations and Communications, and 16 in Family Resource Centers to name a few. A district the size of TUSD certainly needs a large staff to operate but nearly every department looks curiously larger than peers. It shows in the data too—the OAG reports in 2020 TUSD spent $893 per pupil on administration, 16% above peers. Worse, its students per admin position leads all peer districts at 47 and 39% higher than peers.

However TUSDs most obvious area of inefficient spending is the space it maintains. TUSD simply has too many school sites. At 85 schools in 2020, they have double the number of schools as Chandler Unified, who has a slightly larger enrollment. TUSD even has more schools than the state's largest district, Mesa Unified, who has just 74 schools but 17,000 more students in 2020.

Per the 2018 OAG performance audit: "Tucson USD's $6.27 plant operations cost per square foot was 7 percent higher than the peer districts' $5.86 average, and its cost per pupil was 31 percent higher than the peer districts' average." These figures have almost certainly gotten worse since 2018 since spending there is up and students are down.

A few schools like Santa Rita High are becoming ghost towns. With space for 2,070 students, it had around 900 in FY 2013 and has steadily declined to just 345 this year. It has lost 71% of its students since 2010. Overall, TUSD has lost 20% of its high school enrollment since 2010 and only University High has grown. Since 2010, both Palo Verde and Catalina High have dropped more than 50% of their students.

Per pupil spending by area

Area	District 2019	District 2020	Peer average 2020	State average 2020
Classroom spending				
Instruction	$ 5,180	$ 5,337	$ 5,072	$ 5,016
Student support	962	985	831	796
Instruction support	741	702	447	513
Nonclassroom spending				
Administration	895	893	773	936
Plant operations	1,172	1,225	964	1,048
Food service	435	409	332	432
Transportation	549	475	362	395
Total operational	**9,934**	**10,026**	**8,781**	**9,136**
Land and buildings	251	192	764	1,053
Equipment	318	312	401	533
Interest	221	234	289	273
Other	160	133	221	175
Total nonoperational	**950**	**871**	**1,675**	**2,034**
Total per pupil spending	**$ 10,884**	**$ 10,897**	**$10,456**	**$11,170**

FY2020 Auditor General District Spending Report

While TUSD should consolidate at least two high schools, the real problem is the number of elementary schools. K-8 enrollment has contracted 29% since 2010 and 40% since 2000. As mentioned in the ATRA April Newsletter, these contractions in elementary enrollment will sharpen declines in TUSD high schools in the coming years.

Instead of closing schools, TUSD reopened the shuttered Wakefield middle school this year in an area that purportedly had overcrowded middle schools. While it may be true that a new middle school was needed in one area, it's unfortunate that the district refuses to make difficult closure decisions, ultimately at the expense of important spending such as teacher pay.

TUSD forms perhaps the best case for school choice in Arizona. Imagine the plight of Tucson parents if they could not opt out of a district which has largely underperformed for decades. Taxpayers should continue to take the view that school choice encourages the efficient use of public monies because dollars from Tucson students are migrating to schools which are more satisfactory to parents and students.

It is also a reminder that unaccountable pots of money derived from the local tax base, such as Deseg, are not guaranteed to produce results. The State has capped these amounts at their 2008 peak so TUSD may not levy more than $64 million, but this amount is in no way related to student count and certainly is unrelated to the product. Instead, the district most incorrectly tells its residents on its website the Deseg levy is "frozen" by state law, leading people to believe it cannot change. TUSD ought to levy only what it is required to continue to escape its litigation without further punishment of its taxpayers. Now that the Deseg litigation is all but over, local residents ought to demand its district begin to right-size itself, shed administrative staff and unused space, and prioritize its teachers and student achievement.

-Sean McCarthy