

Arizona's School Capital Finance Challenge

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The challenge

- Roosevelt v. Bishop
- State now faced with ongoing responsibility for facility construction and maintenance
- Can't put voters between school capital needs and money

Debt financing SFB

- \$400 M in “lease-to-own” debt for FY 03
- \$250 M in “lease-to-own” debt for FY 04
- \$247 M in land trust fund debt for FY 04
- An additional \$250 M per year will result in \$250 M debt payment by FY 2012

School district capital spending

- SFB has spent \$2.7 billion through FY 2003
- Arizona ranks 1st nationally for 1999-00 in per-pupil spending on capital (7th for 1996-97)
- Total outstanding debt in FY 2001-02 remains above \$4 billion, although among fewer districts
- \$777 million in G.O. bonds authorized since Students FIRST (plus \$24 million in overrides)
- Property tax levies for “adjacent ways” now at \$50.7 million in FY 2003

“Biggest property tax cut in Arizona history”??

- Bonds and unlimited capital overrides
- \$2.5 billion in future debt (1998), roughly 2/3 of then existing levels
- Multiple assessment ratios
 - lack of accountability
 - lack of equity between districts
 - high business property taxes

Secondary property taxes

- Since 1998:
 - Average school rate down 12% (31 cents)
 - Values up 43% (\$11 billion)
 - Levies up 21% (\$141 million)
- Taxpayers should have expected rate decreases to keep better pace with value increases
- Any rate decreases create “capacity” for tax increases in other areas (M&O or K-3 overrides, etc.)

Options for resolution

- Option 1: Return to local funding
- Option 2: Live with the court decision and simply finance Students FIRST

Note: If we are keeping the new construction standards and providing an assured revenue stream to fund them (i.e. no votes), we are keeping Students FIRST

Option 1:
Go back to the old days

*Return to local funding and
voter/taxpayer accountability
for expenditure of monies*

Option 1: PROs & CONs

Pros

- Maximizes local control
- A degree of accountability to voters

Cons

- No state oversight
- Strongly opposed by most school districts
- Will result in higher property taxes
- Unconstitutional (unless amended)

Option 2:
Keep & Fund Students FIRST

*Fund the new construction
program at the state level
through a state level agency*

Option 2: PROs

- Increased equity
- State oversight & control
- Possibility of pay-as-you-go financing
- Most state grants would otherwise be local taxes
- Should be one component of effort to address high business property taxes

Option 2: CONs

- How do we finance it?
 - Clearly no room in general fund
- No pricing mechanism:
 - “mud on the wall”
- Local options/property taxes

Option 2

some problems to address

- “Invisible” square footage
- Formulas on auto-pilot
- Geographic excpetions
- Additional 5% for rurals

Important Note

- Maintaining state oversight and control is essential if we keep Students FIRST.
- Districts deciding when they qualify for new construction and levying taxes without a vote would be a regrettable result.

Recommendation:

Keep, Revise, & Fund Students FIRST

- Single assessment ratio for voter-approved bond and overrides
- Revisit funding formulas & qualifications
- Funding source should be one that does least damage to tax structure

End result cannot be to make worse the biggest problem in Arizona's tax system, business property taxes