



**GOVERNING BOARD AGENDA ITEM
AMPHITHEATER UNIFIED SCHOOL DISTRICT NO. 10**

DATE OF MEETING: **March 12, 2019**

TITLE: **Study of Potential Election for Maintenance and Operations Budget Override
Renewal and K-3 Override**

BACKGROUND:

The purpose of this item is to provide the Governing Board with an opportunity to review District budgetary information pertinent to the existing Maintenance and Operations (“M&O”) budget override to determine if it is in the best interest of the District to present the override for the November 2019 election. As the current override will begin phasing out in the 2019-2020 fiscal year, the November election is the last opportunity to renew the override before the “phase out” begins.

This item also presents the Governing Board an opportunity to consider the possibility of presenting the public with a K-3 override during the November 2019 election. The District has not had a K-3 override previously, and students in the District would benefit immensely from the interventions that it could provide.

Arizona state law permits the District to pursue these override opportunities under three (3) different options during the November 2019 election:

1. A single ballot initiative to renew the current general M&O budget override for ten percent (10%) of the Revenue Control Limit;
2. A single ballot initiative for a K-3 override for five percent (5%) of the Revenue Control Limit; or
3. A ballot initiative that jointly renews and increases the general M&O budget override while adding a K-3 override for a total override of fifteen percent (15%) of the Revenue Control Limit.

While much of the information being presented here is familiar to the Governing Board, a general explanation about budget overrides is included since Amphitheater Unified School District has not sought an override for five (5) years. The last time that Amphitheater presented voters with a request for a general M&O budget override was 2014.

I. General Explanation of a Budget Override

Overrides are an important benefit for school districts in Arizona where educational spending ranks among the lowest in the nation. The local voters of school districts within Arizona are able to authorize their school district to override the strict state budget limits normally imposed on school district services. In this way, local communities can choose whether they wish their school district to have greater resources than those generally provided for all school districts through the Arizona Legislature.

Where overrides are approved by voters, they are funded by local property tax assessments. Because this results in a tax levy increase in most cases, it is important to understand that budget overrides do not provide carte blanche spending authority for the school district. Arizona state law places specific limitations on the amount and length of spending authorized through a budget override.

For example, Arizona state law limits the duration of the budget override. Voters can approve an override to last for one, two or five years. A five-year override actually lasts longer than five years because it includes a

two-year “phase out” period in years 6 and 7. In year 6, the amount reduces to two-thirds of the initial budget increase approved by the voters. In year 7, it reduces to one-third the amount of the initial override.

Budget overrides are also limited in their amount. As identified above, M&O budget overrides can be granted up to fifteen percent (15%) of the Revenue Control Limit. K-3 budget overrides can be granted up to five percent (5%) of the Revenue Control Limit associated with grades Kindergarten through eighth grade. School districts also have the option to seek a combined maintenance and operations budget override with a K-3 override for up to fifteen percent (15%) when the school district uses a budget override fully funded by a tax levy like Amphi does.

II. History of Amphitheater’s Current General M&O Override

Amphitheater Public Schools has relied heavily on its community members to support a budgetary override to support the children of its district. The Governing Board first studied the override election process on April 29, 2001. In the months and years that followed that first study, the Board continued to study relevant issues on several occasions, including legal requirements, procedural issues, and the purposes for overrides. Community members were surveyed and support given in favor of the overrides since they provide such benefit for the greatest focus of our District – our students. The Amphitheater community ultimately approved a general maintenance and operations budget override in 2005, renewed it again in 2009, and most recently renewed the override in 2014 for the 2014-2015 school year.

Amphitheater’s current general M&O override was approved as a five-year override. This means that the override has been in place since 2015 to permit a budget override of 10% above the Revenue Control Limit through 2019. If the current override is not renewed this November 2019, it will begin to phase out during this school year and fully expire in the 2021-2022 school year. Below is what the “phase out” for Amphi’s current general M&O override model will look like unless it is renewed by voters in November 2019:

- * 2015-2020: Full amount of override.
- * 2021: 2/3 of override.
- * 2022: 1/3 of override.
- * 2023: Override is over; no budget increase remains; back to regular state budget

III. Importance Role the Override Plays in District Funding

Arizona school districts generally derive their funding from the school district’s property tax base, state and federal allocations (from various state and federal taxes), grants, gifts and donations.

These various sources of funds allocate to two basic school budgets within each district. The first basic budget is *Maintenance and Operations* aka M&O consisting of finances specifically allocated to school districts under strict state formulas to pay for the day-to-day operations and functions, such as employee payroll, utilities, fuel, supplies, services, and certain equipment. M&O expenses are mainly fixed costs of which employee salaries make up the largest single expense given that its obvious purpose is to educate students using teachers and other school personnel.

The second basic budget is *Capital*, which consists of allocations to school districts (again, under strict and limited state formulas) to be used to fund such things as building construction, durable assets and equipment, textbooks, and vehicles. Funds maintained in a capital account are restricted solely to capital purchases.

Arizona school districts are limited in the amount of funds that can be expended in both M&O and capital. Regardless of how valuable an individual school district’s tax base or its level of need might be, each school district is limited by state formulas to certain amounts which can be spent in each of these basic funds. In general, these limitations are set by some variable of the number of students served.

There are, of course, exceptions to these ordinary spending limits. These exceptions include the funding required to comply with desegregation court orders or U.S. Office of Civil Rights orders. They also include budget overrides approved by the voters who reside in the school district.

Many people do not realize how substantially public school budgets have been cut over recent years. In the Amphitheater District alone, state budgetary cuts since 2008, when the Great Recession began, have exceeded \$107 million dollars.

Fiscal Yr.	State Legislature Cuts to Amphi’s Annual Budget
08-09	\$4,314,921
09-10	\$5,208,175
10-11	\$9,615,957
11-12	\$9,937,165
12-13	\$9,064,482
13-14	\$9,110,687
14-15	\$10,815,181
15-16	\$12,490,348
16-17	\$12,545,091
17-18	\$12,759,774
18-19	\$11,220,561

IV. The Current General 10% M&O Override Provides Significant Benefits for Amphitheater

The current general 10% M&O override has helped Amphitheater significantly as it has dealt with the approximately \$107 million dollar budget cuts since the Great Recession. Through the voter-approved budget override, Amphitheater has been able to benefit District students despite significant budget cuts.

The current override provides the following benefits for students:

- Prior to override, class sizes at the elementary level were routinely at or over 30 students. The current general M&O override permits the District to add additional staff in schools where grade level sizes are larger to add another teacher and reduce the number of students in a class at that grade level. It also permits the District to provide additional specialized teachers in areas that further benefit students, such as physical education, art, and music.
 - In middle school, English and writing classes ranged up to 35 students; averages in Language Arts in 7th grade were 29.3; in Science 32.3; and both math and science classes were as high as 38 students.
 - In high school, English, Math & Science classes ranged up to 35 or 36 students.

- The override provides funds to lower class sizes. Unfortunately, budget cuts made since the Great Recession added to class size, so this particular funding is having less impact than it used to provide.
- Prior to 2005, some elementary grade levels only received as little as 20 minutes a week in Art, Music and Physical Education instruction. That has changed, thanks to the override:
 - This has been enhanced to benefit all students at our elementary schools.
 - Now, at least 50 minutes per week per grade level in Art, Music, and Physical Education is provided in all District Elementary Schools.
- Math and Writing Labs have been added at each middle school, along with Technology, Science and Fine Arts electives, and new courses have been added at the high school level:
 - Middle school enhancements include Marine Biology, MESA (Mathematics, Engineering, and Science Achievement), Drama, and Dance.
 - At the high school level, course additions include the following: Studio Art, Computer Science, Engineering, French III and IV, Music Theory, AP Psychology, AP Environmental Science, Academic Challenges, and Teen Court.
- Tutoring and other intervention programs have been implemented which now serve students throughout the school year, as well as into the summer. Nearly 1600 students, for example, were able to attend the 2008 summer school program and receive valuable instruction to improve their performance in school and on such measures as the AIMS test.

The current general 10% M & O override also provided benefits to District employees:

- **Compensation Enhancement**
 - Several school districts in the Tucson area have long benefitted from overrides, making not just their programs and services more competitive, but so to their staff compensation.
 - Therefore, the override included a specific component to adjust employee compensation – to make the District more competitive in the recruitment and retention of staff.
 - Certificated staff receive between \$1,275 to \$1,841 in their annual salary from the override.
 - Classified staff receive between \$325 and \$1,400 in their annual salary as a direct result of the override.
- **Support Staff**
 - The override made possible the hiring of several new positions in our Facilities and Technology Departments, to better enable the District to maintain facilities and our growing technology demands.
 - Still today, those positions continue to be supported and made possible through the override.

Unfortunately, the current 10% general M&O override expires at the end of the 2019-2020 school year and will thereafter begin phasing out (as described above) unless it is renewed by November 2019. If the current override expires and begins to phase out, the programs and services supported by the override, as well as the employees whose salaries are benefitted by it, will be affected.

V. State Law Permits Voters to Increase the Override and/or Include a K-3 Override

When voters in the Amphitheater District initially approved the override in 2004, Arizona state law limited school districts to an override amount of 10% of the Revenue Control Limit. Arizona later changed the override laws to permit school districts to request an M&O override in amounts up to 15% of the Revenue Control Limit. Although Amphitheater had that option when the current override was renewed in 2014, it did not ask voters to increase the override amount to 15% then because doing so would have increased taxes at a time when everyone was still feeling the effects of the Great Recession.

Since the last renewal in 2014, there have been significant changes in public education. Numerous charter schools have moved into the District. Those charter schools now receive portions of Amphitheater's funding from the state for special education students who live in the District even though the students attend Amphitheater schools and not the charter schools. Additionally, charter schools do not have the same spending restrictions as District schools. Therefore, they have the ability to compete with District schools by offering free kindergarten -- something that the District is currently only able to do in its Title 1 schools given the ability to use Title 1 funds for this purpose.

VI. Benefits that would be Provided by a K-3 Override

Our students and parents would benefit substantially from a K-3 override. Schools that do not qualify for Title 1 offer half-day Kindergarten which requires parents to subsidize the second half of the Kindergarten day. Studies show that students who attend all-day Kindergarten have improved literacy and math skills by third grade, are able to reach appropriate reading levels to be able to move forward to fourth grade, and have better attendance throughout their school careers.

A K-3 override would also provide the District an opportunity to further lower class sizes for students in Kindergarten through Third Grade. Studies have shown that students in early grades benefit substantially from lower class sizes as they learn essential skills necessary to assist them to become life-long learners.

Finally, a K-3 override would also enable the District to provide professional development and teacher mentors to K-3 grade teachers to better assist advancement of the District's youngest students. As the District is developing the Portrait of a Graduate for Amphitheater students, special focus will be on efforts to provide interventions and trainings that develop those "Portrait" skills in the youngest students so that they become inherent in the learning process as students grow up in Amphi schools.

VII. Surrounding School Districts Who Have Approved Overrides

The majority of surrounding school districts operate on a budget override like Amphitheater. Catalina Foothills, Flowing Wells, Marana, Sahuarita, Vail, and Alter Valley all currently have a voter-approved general M&O override in place. Catalina Foothills and Sahuarita also benefit from a voter-approved capital override, and the voters in the Catalina Foothills school district have approved a K-3 override to benefit the district's youngest students.

VIII. Costs of Pursuing the Override

In evaluating the District's needs, with consideration being given to the state-wide recent efforts of teachers and other District personnel to increase state funding to schools, it is apparent that state funding shortfalls will likely not be completely remedied in the foreseeable future. The monies received last year following the statewide teacher walkout were used for much overdue salary increases for teachers and other District staff. Teachers received the benefit of all of the funds provided through the Governor's proposal for teachers. The District used half of money that the Governor provided in District Additional Assistance ("DAA") to restore the lost capital funding to provide salary increases for non-teaching District staff. The remaining 50% of the DAA was used to restore the District's capital account had been so depleted as a result of the substantial state funding cuts that the available funds were insufficient to replace more than a single broken air conditioner at one of the District's schools.

As a result, the Administration recommends studying the possibility of renewing the existing M&O override early and also pursuing a K-3 override this year to enable the District to continue to provide excellent education focused on individual student growth and success. This is the last chance that Amphitheater has to renew the existing M&O override before it begins to phase out. It will enable the District to increase its funding capacity to a maximum level to be able to provide much needed services to its youngest students while also maintaining the standard of care currently provided to all students and staff here in Amphi.

M&O Override: Currently, the M&O override is \$7,677,952. If the override is increased to fifteen (15%), which is the maximum capacity allowed by Arizona state law, the additional capacity to the District would be \$11,516,928.

This would mean a tax rate increase of \$0.25 per \$100 of assessed valuation. In other words, the additional cost to the average homeowner in the District, assuming a value of \$236,370, would be \$57.04 annually

K-3 Override: If the District pursues a separate K-3 override for five percent (5%) to the already existing override of 10%, the additional capacity that would be provided by that override is \$2,352,910. This would mean a tax rate increase of \$0.1479 per \$100 of assessed valuation. In other words, the estimated additional cost to the average homeowner, assuming a value of \$236,370, \$34.96 annually.

All Day Kindergarten Override: If the District were to pursue an override solely to fund all-day Kindergarten, it would provide the additional capacity of \$1,100,000. This would mean a tax rate increase of \$0.0691 per \$100 of assessed valuation. The estimated additional cost to the average homeowner, assuming a value of \$236,370, would be \$16.33 annually.

Conclusion


The current level of programs and services now being provided to our students, and the current level of compensation now being provided to our employees, cannot be maintained unless the voters renew the District's M&O budget override. The M&O override is presently approximately \$7.3 million. It must be renewed no later than November 2019 to avoid expiration. Therefore, the questions before the Governing Board are:

1. Whether it is in the District's best interest to pursue a renewal of the override in the November 2019 election, and
2. If so, what override options should be presented to the voters in that election:
 - a. Renew the current M&O override at ten percent (10%) of the Revenue Control Limit;
 - b. Renew the current M&O override and increase it to fifteen percent (15%) of the Revenue Control Limit;
 - c. Renew the current M&O override at ten percent (10%) of the Revenue Control Limit and add a separate K-3 override in an amount up to five percent (5%).

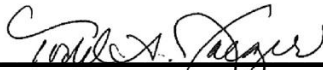
RECOMMENDATION:

This item is present for Board study at this time. Having considered the expenses associated with an override renewal election, as well as the negative impact that would be caused by a failure to renew the override, it is recommended that the District study the possibility of pursuing an override election in November 2019.

INITIATED BY:


Michelle H. Tong, J.D.,
Associate to the Superintendent and General Counsel
and Scott Little, Chief Financial Officer

Date: March 6, 2019


Todd A. Jaeger, J.D., Superintendent