



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

DATE OF MEETING: **May 1, 2018**

TITLE: **Consideration of Possible Election for Possible K-3 Override and/or Early Renewal and Increase of Existing Maintenance and Operations Budget 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 early renewal in the November 2018 election. The current override will begin phasing out in the 2019-2020 fiscal year. The last opportunity to renew the override before the “phase out” begins is the November 2019 election.

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 2018 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 2018 election:

1. A single ballot initiative to renew the current 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 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 four (4) years.

School District Funding

In general, funding for an Arizona school district derives 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*, 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 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. Exceptions also include the ability of school districts, only upon voter approval, to exceed normal budgetary limits through such the means of bonds, capital budget overrides, and maintenance and operations budget overrides.

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 have exceeded \$99 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

Budget Overrides

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 that are provided by the Arizona Legislature.

Where overrides are approved by the voter, they are funded by local property tax assessments. In most cases, this results in a tax levy increase. Budget overrides do not provide carte blanche spending authority to a school district. They are limited by law, for example, in their duration. They can last for one, two or five to seven years at a time. If an override is for five to seven years (like Amphi’s current M&O override), the budget increase for the next to the last year is equal to two-thirds of the initial budget increase approved by the voters. Then, the budget increase for the last year of a five to seven year override is equal to one-third the amount of the initial override.

If an override is for seven years (like Amphi’s), the override “phases out” over the last two years:

- * Years 1 to 5: Full amount of override.
- * Year 6: 2/3 of override.
- * Year 7: 1/3 of override.
- After year 7: Override is over; no budget increase remains; back to regular state budget

The ten percent (10%) Maintenance and Operations Override has been renewed twice since its initial approval in 2005. The current renewal occurred in 2014. It will begin to phase out in 2019-20 (down to 2/3), reduced further in 2020-21 (down to 1/3), and fully expires in 2021-2022.

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.

Development of Interest in Amphitheater’s Existing Maintenance and Operations Budget Override

Amphitheater currently enjoys benefits of a 10% M&O override. The override followed a substantial community input and Governing Board study process. Given that more than four years have passed since the override renewal approval, some review of the process involved there might be helpful.

Overrides are an important benefit for school districts in Arizona where educational spending ranks among the lowest in the nation. 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 maintenance and operations budget override in 2005, renewed it again in 2009, and most recently renewed the override in 2014.

The Blue Ribbon Committee Process and Resulting Election

The Board’s study of general override issues ultimately led to its formation of an advisory committee to review the District’s financial and operational issues. This “Blue Ribbon Budget Analysis Committee” was composed of a broad cross-section of the District’s constituents and began its work in June, 2004. Over several months, the Committee studied a variety of key matters: laws applicable to the Committee and the District, operations and functions of the District, financial conditions and operations of the District and K-12 education in Arizona generally, public feedback regarding satisfaction with District programs and service and support for a possible override, as well as federal and state accountability measures and their effects upon the District and its students.

On December 14, 2005, the Blue Ribbon Committee presented its final report to the Governing Board and unanimously recommended to the Governing Board that the Board call for an election in May 2005 for the purpose of obtaining voter approval of a 10% maintenance and operations override. The Blue Ribbon committee recommended that the override be used for specific purposes:

- Reducing/maintaining core content class sizes (Math, English, Science, Social Studies, etc.).
- Expanding Art, Music and Physical Education programs in elementary schools.
- Expanding courses of middle and high schools.
- Year-round intervention programs for struggling learners

- Increased support of school facilities and equipment
- Staff recruitment and retention support

On February 8, 2005, after nearly four years of study, the Governing Board approved a resolution calling for an election to authorize a 10% maintenance and operations budget override for the same purposes recommended by the Blue Ribbon Committee.

In May 2005, the District's voters soundly approved the District's M&O override request. The original amount was \$8,145,624 that supported 107 increased staff positions, as well as new service initiatives which benefitted students across the District. The Override was renewed in 2009 and 2014. In 2014, the override amount was \$6,863,761. The current override amount is \$7,384,604.

Voter Confidence Put Into Action; What the Current M&O Override is Doing

The Current M & O Override provided many benefits to District students:

- Prior to override, class sizes at the elementary level were routinely at or over 30 students.
 - 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.
 - Now, low class sizes are the rule rather than the exception
- 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 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.

The Current M&O Override Is Expiring

The current M&O Override renewal will expire at the end of the 2019-2020 school year and will thereafter begin phasing out (as described above) unless the override 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.

Capital Budget Needs Lead to Recent Bond Election

In the fall of 2006, the District’s administration advised the Governing Board of certain construction, expansion, renovation and other capital improvements needed to maintain the integrity of district facilities and provide for the health, safety and security of students and staff. The scope of these needs warranted further and detailed study, and the Board appointed another Blue Ribbon Committee to undertake this work and advise the Board.

In January 2007, this representative group of community members began meeting to examine the conditions of district facilities and school buses to determine whether bond or capital override elections were appropriate means of addressing the district’s capital needs.

In April 2007, the Blue Ribbon Committee recommended that the Amphitheater Governing Board call for a bond election. The committee recommended that bond revenues be spent on dozens of specific projects throughout the District which could be categorized as follows:

- Health, Safety and Security Improvements (\$13,879,783)
- Permanent Classrooms to Replace Aging Portables (\$38,571,852)
- Increased Instructional Space, Including:
 - New Elementary School (\$20,740,287)
 - New Middle School (\$46,854,191)
- Modernized Technology Infrastructure (\$6,680,633)
- Pupil Transportation Vehicles (\$15,584,429)
- Instructional Training Facility (\$1,388,426)
- Relocation and Construction of New Facilities Support Center (\$7,211,424)

As to the issue of a capital override, however, the Blue Ribbon Committee recognized that a capital override could not initially be implement at the same time as a bond without requiring an increase in the District’s secondary tax levy. Thus, the Committee recommended that the Board wait on the capital override until such time as it could be pursued without increasing the tax levy of the District.

In November 2007, the specific categories and amounts recommended for the bond program were submitted to the voters, and the district’s voters overwhelmingly approved the bonds totaling \$180 million dollars over 10 years. Since then, all projects have been completed, some of which included:

- New permanent instructional space to replace aging portables at Prince and La Cima
- New security fencing at Mesa Verde and Holaway
- New buses for student travel are on the road

- Planning for many additional projects District wide – restroom renovations, CDO covered walkway replacement, permanent instructional space to replace aging portables, etc.

The 2007 projects all assumed the continued funding from the building renewal formula. However, the Arizona State Legislature eliminated the renewal funding formula in 2013. The District had a mounting list of maintenance and capital project needs. During this time, the Great Recession occurred and the decision was made to only pursue bonds that could be accomplished within the existing tax levy.

Thereafter, on June 21, 2016, the District adopted a Resolution ordering, calling for, and providing notice of a special bond election for the November 8, 2016 general election. The Resolution authorized the Amphitheater Unified School District to issue and sell general obligation bonds in the principal amount of not to exceed \$58,000,000 to provide money for renovating school buildings and purchasing transportation vehicles. The voters authorized the bonds in the November 2016 election.

K-3 Override Benefits

Our students and parents would benefit substantially from a K-3 override. Surrounding school districts and charter schools currently offer free all-day Kindergarten to students living within our District; whereas, Amphitheater Public Schools only offers free all-day Kindergarten to children attending schools that qualify for Title 1 funds given the ability to use Title 1 funds for this purpose. 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 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 Profile of a Graduate for Amphitheater students, special focus will be on efforts to provide interventions and trainings that develop those "Profile" skills in the youngest students so that they become inherent in the learning process as students grow up in Amphi schools.

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. As a result, the District recommends studying the possibility of renewing the M&O override early and 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 the least costly option available for an override election. 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.

Also, with the possibility of two Governing Board positions being included on the ballot for the November 2018 election, the costs of pursuing an M&O override renewal would be substantially lower in November 2018, by nearly sixty percent (60%), than by waiting until November 2019 for renewal consideration. Moreover, by proceeding with an early override renewal, there is less risk that the override would not pass before it expires since the District would always have the opportunity to pursue the override again next year before it expires in 2020.

M&O Override: Currently, the M&O override is \$7,384,604. 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 \$3,692,302.

This would mean a tax rate increase of \$0.26 per \$100 of assessed valuation. In other words, the additional cost to the average homeowner in the District, assuming a value of \$215,000, would be \$56.00 annually

K-3 Override: If the District pursues a K-3 override for an additional five percent (5%), the additional capacity that would be provided by that override is \$2,400,000. This would mean a tax rate increase of \$0.15 per \$100 of assessed valuation. In other words, the estimated additional cost to the average homeowner, assuming a value of \$215,000, \$34.00 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 \$1,000,000. This would mean a tax rate increase of \$0.067 per \$100 of assessed valuation. The estimated additional cost to the average homeowner, assuming a value of \$215,000, would be \$15.00 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. The question then becomes whether it is in the District's best interest to pursue an early renewal of the override and/or to increase the override amount to fifteen percent (15%) and/or add a K-3 override, or to wait until November 2019 to pursue any of the previously listed options. Having considered the expenses associated with an override renewal election, as well as the risk of not being able to renew before the override expires, it is recommended that the District study the possibility of pursuing an override election in November 2018.

RECOMMENDATION:

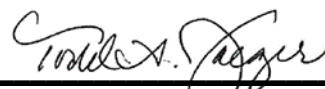
This item is present for Board study at this time. A recommendation will be forthcoming at the time of the Board's next review of these issues.

INITIATED BY:



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

Date: April 27, 2018



Todd A. Jaeger, J.D., Superintendent