



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

DATE OF MEETING: May 7, 2024

TITLE: Study of Potential Bond and Override Election in November 2024

BACKGROUND:

After decades of state budgets that not only failed to keep pace with inflation but, much worse, imposed steep and drastic state budget *cuts*, Arizona’s education funding continues to hover at or very near the absolute bottom of the nation. Indeed, the 2023 edition of the “Making the Grade” report issued by the Education Law Center annually placed Arizona at 50th out of 51 states and the District of Columbia for education funding – an appalling statement. And, Arizona’s education funding grade, not surprisingly, was an “F”.

Apart from the national embarrassment which this funding status represents, we are now decades past a moment when our state’s supreme court ruled our education funding system to be inadequate and unconstitutional, school funding in Arizona shows no signs of reversing this history any time soon. As a consequence, many – if not most – school districts in the state have turned to their local constituents to partially right these wrongs through bonds and budget overrides.

Bonds and overrides are the only mechanisms by which local communities can ensure better funding for their students and their schools, and the Amphitheater community has consistently done so on a recurring basis for decades. This item is presented to permit the Board to study and discuss the consideration of both a bond election and an override renewal election to be held this coming November which would provide the local community with the ability to continue filling the funding gaps which our District faces.

ARIZONA SCHOOL DISTRICT FUNDING BACKGROUND

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 fall into two basic school budget “categories” 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 largely fixed costs, with employee pay and benefits comprising the largest single expense.

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 local bonds and budget overrides approved by the voters who reside in the school district.

REVIEW OF SCHOOL DISTRICT CAPITAL FUNDING AND BONDS

Arizona: A Legally Proven History of Inequitable School Facilities

The construction of new school facilities or the improvement of school facilities in Arizona school districts, as in many states throughout the country, was originally entirely funded through the localized funding source of bonds approved by local voters. That long-utilized funding system was then challenged by litigation in the 1990's, in Roosevelt Elementary School District v. the State of Arizona, a case in which the Amphitheater School District was a co-plaintiff.

The basic premise of the plaintiffs' case was that school districts lacking sufficient assessed property valuation within their jurisdiction (upon which bonding capacity is based) were disadvantaged in meeting their needs for school facilities. The plaintiffs, represented by the Arizona Center for Law in the Public Interest, argued that the school finance system relating to facilities and capital projects financing was unconstitutional in nature.

The essence of the constitutional claim in Roosevelt was that, in general, residents of districts with much higher valuations enjoyed much better school facilities than their counterparts in districts with lower valuations, violating the clause of the Arizona Constitution requiring a "general and uniform" system of public schools throughout the state. The result, the plaintiffs argued, was that the quality and quantity of facilities within school districts could vary wildly depending upon their local communities' resources.

The veracity of the allegations of disparity between districts could not be disputed. The evidence in the case established that assessed property values varied from about \$5.8 million per-pupil in the Ruth Fisher Elementary School District, where the Palo Verde nuclear power plant is located, to \$749 per-pupil in the San Carlos Unified District in Gila County, where there was almost no commercial property and 96% of the land in that county was federal, state, or tribal land – none of which are subject to property tax.¹

The Roosevelt plaintiffs prevailed, and the courts found the former school capital finance system to be unconstitutional. The State of Arizona was consequently ordered by the court to establish a different, equitable way of financing school construction.

Students FIRST

In 1998, the approved Students FIRST legislation established a centralized school capital finance system by placing primary responsibility for school capital funding with the State. This legislation created the School Facilities Board (SFB), and the SFB was given the responsibility to:

- Develop guidelines and standards for building adequacy
- Conduct a statewide assessment of all then existing school buildings
- Coordinate the correction of identified school deficiencies (after comparing assessment data with adequacy standards) using correction funding
- Administer a building renewal fund and preventative maintenance program to maintain a level of building adequacy over time
- Approve and coordinate new school construction statewide

¹ Roosevelt Elementary Sch. Dist. No. 66, et al. v. Bishop, et al., 877 P.2d 806, at 810 (Ariz.1994).

Significantly, this corrective legislation also eliminated the ability of school districts to seek Class A bonds, the traditional means of school construction and refurbishment, foreclosing that practice from that time forward, and a more limited system for “Class B” bonds was established. (More info on Class B bonding is provided below).

SFB Deficiency Corrections

According to the State of Arizona, the statewide assessment of all school facilities was completed in May of 2001, creating a list of deficiencies to be corrected. Thereafter, the SFB coordinated the correction funding and efforts with individual districts throughout the state. The law creating the SFB mandated completion of the correction phase of its activities by June 30, 2004.

Notably, the deficiencies corrected through the SFB process were identified and determined by the SFB, using its adequacy standards. District facilities were compared to these *minimum* standards to establish the equitability of facilities to those of a standardized formula.

Deficiency correction, contrary to common perception however, did not bring all schools statewide to a level of *equality*. Even after Students FIRST, school districts could and do have differing quantities of, and quality in, their school facilities. The Students FIRST system was merely designed to ensure that every district met a minimum standards deemed acceptable by the SFB adequacy guidelines – this arguably representing *equitability*, which is all that is actually required by the Roosevelt decision.

Building Renewal

The Students FIRST legislation also established the Building Renewal Fund for the purpose of maintaining the continuing adequacy (and equitability) of existing school facilities. Monies from this fund, allocated directly to schools, can be used for renovations and repairs of a building, upgrades to building systems (heating, cooling, plumbing, etc.) that will extend the useful life of a building, and for infrastructure costs. Monies from this fund may not, however, be used for new construction, remodeling interior space for aesthetic purposes, exterior beautification, demolition, soft capital items or routine maintenance.

Under the building renewal program, the SFB was supposed to allocate funds to schools based upon the square footage, age, and student capacity of each building within a district, using a common statewide formula. The legislature’s funding of the SFB building renewal formula was therefore, by definition, intended to ensure schools *continue* to meet adequacy standards on an equitable, statewide basis. The legislature’s funding of the system, however, was inconsistent for many years of its existence.

In fiscal year 2001-2002, for example, the Amphitheater School District only received approximately 51% of the building renewal allocation it should have received. Since that same fiscal year, the District never received complete funding of the building renewal formula (nor has any other Arizona district). Indeed and rather remarkably, after all that Roosevelt established, school districts received absolutely no building renewal funding many years, beginning in 2008, because the Arizona Legislature simply cut the funding for the system altogether. The following table demonstrates these and other cuts over more than a decade.

Fiscal Year	Budget Cut to Amphitheater
2009	\$ 4,314,921.00
2010	\$ 5,208,175.00
2011	\$ 9,956,373.00
2012	\$ 10,602,989.00
2013	\$ 10,050,306.00
2014	\$ 10,362,983.00
2015	\$ 10,815,181.00
2016	\$ 12,490,348.00
2017	\$ 12,545,091.00
2018	\$ 12,759,774.00
2019	\$ 11,220,561.00
2020	\$ 9,099,062.11

In 2016, just as one example, state funding for the capital needs of the District was just over \$800,000 – down from \$7,753,870 in Fiscal Year 2005, after millions of dollars in state cuts. And, even today, state building renewal funds remain wholly inadequate, with approximately \$200 million in total funding for the entire state. With about 228 school districts in our state, that’s less than \$1 million per district to address all of their building renewal needs – for new roofs, air conditioning equipment, fire alarms, etc.

To put that in perspective, the re-roofing of just one of our schools recently cost nearly \$5 million; the cooling system replacement for *just one building* at one of our high schools recently cost more than \$600,000; and a new fire alarm system for one elementary school in our district cost more than \$500,000.

The disparity between the capital needs of the District and state funding is not solely attributable to budget cuts over many years. School district funding received from the State of Arizona has long been eclipsed by actual needs, often leaving districts dependent upon their bonding capacity to provide adequate facilities for their students. Again, just by way of one example, the one-year disparity in 2015 between the true needs of the District for replacements of life-cycle expired building systems and capital repairs and renovations, and the actual capital funding received by the District was \$17,001,188.

Meeting Local Needs After Students FIRST

While the majority of school capital funding should come from the state system, undeniable reality is that the system which is *supposed* to ensure that schools meet building adequacy standards does not do so. Moreover, even if statewide adequacy standards were to have been supported since Students FIRST came to be, these *minimal* standards often fail to truly meet district and community needs.

The Students FIRST law, while eliminating the former Class A bond system, does provide districts with some limited ability to augment the state’s capital funding that is provided (or is supposed to be provided, more accurately) by the state legislature.

First, the law does provide for limited bonds referred to as “Class B” Bonds. Under the Students FIRST legislation, Class B Bonds were limited to 5% of a district’s net assessed value. Students FIRST also continues to allow districts to obtain voter approval for Capital Overrides, which is voter authorization to exceed the normal state limits on capital budgets. The maximum life of a capital override is 7 years, and they provide for specific amounts of funding within given fiscal years.

The intent of both mechanisms (Class B bonds and Capital Overrides) is to allow some local control of decisions to exceed the state’s minimum standards.

Bond Elections – In General

Arizona school district finance laws and budget restrictions do not permit school districts to “save up” or accumulate a large amount of cash to complete major capital improvement programs within their District on a cash or “pay as you go” basis. Instead, after careful and deliberate consideration by their governing boards, administrations and community members, Districts can request their local voters’ approval to issue Class B general obligation bonds (“G.O. Bonds”) which operate to finance locally approved school improvements or construction over time.

Bonds represent a promissory note between the school district and the investors who purchase them. The interest received by investors is exempt from state and federal taxation, enabling the districts to pay lower interest rates than other borrowers.

Principal and interest on the bonds are repaid from a secondary property tax levied on the taxable property within the District. This tie to assessed valuation leads to their status as the safest form of bonds next to U.S. Treasury Bonds resulting in very attractive tax-exempt interest rates.

School districts can only hold bond elections in November of each year, and governing boards authorizing such elections are required to formally call for the November election by the preceding June. Naturally, the District electorate must approve a bond question by a majority.

If approved, bond funds must be spent on the specific projects outlined in the Voter Information Pamphlet which is mailed to all registered voters.

Previously, bonds could not be spent on capital items such as computer equipment or pupil transportation vehicles (school buses). Apparently recognizing their failures to fund capital over the years, however, the Arizona Legislature did amend law (A.R.S. §15-491) to expressly permit the use of short term school bonds to purchase furniture, fixtures and equipment, including technology.

Current Bonding in Amphitheater

In 2017, District voters approved the sale of Class B bonds for building renewal and other programs in our District. That bonding authority has now expired. Continuation of the facility and other improvements, renovations and maintenance which those bonds made possible is dependent upon new bonding authority.

REVIEW OF SCHOOL DISTRICT BUDGET OVERRIDES

General Explanation of a Budget Override

Overrides are an important option 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 local tax levy.

History of Amphitheater’s Current M&O Overrides

Amphitheater Public Schools currently relies on community support of a budgetary override to support the children of the district. In April 2001, the Governing Board studied the override election process after more than 20 years of having no override in place. In the months and years that followed that study, the Board continued to review relevant issues on several occasions, including legal requirements, procedural issues, and the purposes for overrides. Community members were surveyed, showing favor of an override to provide benefit for students. The Amphitheater community ultimately approved a general maintenance and operations budget override in May of 2005, and then renewing it in 2009, 2014, and 2019 – with the addition of a special override for K-3 programs in 2019.

Amphitheater’s current general M&O override of 10% has been in place since 2019 and will begin to expire after next fiscal year. If the current override is not renewed this November, it will begin to phase out.

Similarly, Amphitheater’s current K-3 “special program” override of 3.5% has been in place since 2019 and will begin to expire after next fiscal year. If the current override is not renewed this November, it will begin to phase out.

The Current General 10% M&O Override and its Significant Benefits for Amphitheater

The current general 10% M&O override has helped Amphitheater significantly as it dealt with the approximately \$107 million dollar budget cuts since the Great Recession. The current override provides the following benefits for students:

- Prior to the 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.

The override provides funds to lower class sizes by permitting the District to add additional staff in schools where grade level sizes are larger and reduce the number of students in a class at that grade level or in a particular content area. It also permits the District to provide additional specialized teachers in areas that further benefit students, such as physical education, art, and music.

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. 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.

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

- Compensation Enhancements -- Several school districts in the Tucson area have long benefitted from overrides, making not just their programs and services more competitive, but so too 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. Approximately 3% of staff compensation currently comes from the existing 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 next school year and will thereafter begin phasing out (as described above) unless it is renewed by November 2024. 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.

The Current K-3 M&O Override

At the time of the last renewal of the general override in 2019, the District also sought voter approval to override state funding shortfalls through a 3.5% K-3 M&O budget override. At that time, district schools that did not qualify for Title I federal funds were unable to provide full-day Kindergarten. Thus, parents at those schools were required to pay tuition for the second half of the Kindergarten day if they wanted full day K.

The current K-3 override now provides funding that allows all Kindergarten students at all district schools to attend the full school days without payment of tuition – free all-day K, which the state used to provide funding for but also has cut from the state budget.

The current K-3 override also provides the District with funds to specifically and further lower class sizes for students in Kindergarten through Third Grade – from 5 to 8 students per class. 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.

Surrounding School Districts Who Have Approved Overrides

The majority of surrounding school districts operate with budget overrides. Catalina Foothills, Flowing Wells, Marana, Sahuarita, Vail, and Altar Valley all currently have overrides in place. Competition for staff, students and programs with that context is therefore very much dependent upon the ability of the Amphitheater District to maintain the existing overrides.

Moving Forward: Collapsing Two Overrides into One

Because both existing overrides are being renewed at the same time, and given changes in state law over time, it is appropriate to combine both overrides into one – while still maintaining the original district and therefore voter-approved intentions of each override’s functions. Further study and consideration of these two existing overrides will therefore be consolidated.

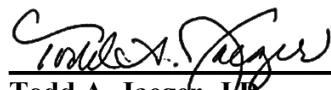
Presentation

As additional background information to facilitate Governing Board discussion and consideration, staff will make a presentation to the Board at the May 7, 2024 meeting regarding both a potential bond and override election.

RECOMMENDATION:

This is presented for the Board’s information, study and discussion. No action is required at this time.

INITIATED BY:



Todd A. Jaeger, J.D.
Superintendent

Date: May 6, 2024