

BUS3.2 - Local Revenue Sources: Indebtedness

B - Business

Special Levies and Debt Management

Special Levies:

The **Governing Board** holds responsibility for decisions related to special taxation necessary for budgetary items exempt from **Legislative-established budget limits** for school districts. These levies are separate from the general school budget and may affect the **Primary Tax Rate** and **Secondary Tax Rate**.

1. Primary Tax Rate Adjustments:

- The **Governing Board** may annually approve budgets for **Adjacent Ways** and **Excess Utilities** that impact the primary tax rate.
- The **Superintendent** is tasked with preparing a **communications plan** for Board approval to ensure that decisions impacting the Primary Tax Rate are sufficiently communicated to the public.

2. Secondary Tax Rate Adjustments:

- Voter-approved initiatives such as **M&O Overrides**, **Desegregation**, **Capital Overrides**, and **School Improvement Bonds** directly influence the Secondary Tax Rate.
- Based on recommendations from the **Superintendent** and **administration**, the Board may decide to call for **override** or **bond elections** following statutory requirements.

3. Public Transparency:

- All **Board decisions** that affect tax rates or district debt will be presented separately for public review and a **Board vote**, either during the adoption of the annual budget or as separate agenda items.

Debt Management:

The **Governing Board** is committed to the responsible management of the District's debt on behalf of taxpayers, ensuring decisions align with fiscal responsibility and legal guidelines.

1. Debt Limit Monitoring:

- The District will not exceed the debt limits specified in **A.R.S. 15-1021** and will continuously assess the financial impact on the District's taxpayers.
- The Superintendent shall recommend debt issuance timing based on **market conditions** and ensure the efficient use of obtained funds.

2. Debt Issuance Considerations:

- Recommendations for issuing debt must explore **alternative financing options**, such as grants or partnerships, before any debt issuance is proposed to the Board.
- With the support of **financial advisors**, debt schedules will be structured to complement the District's existing obligations, and efforts will be made to secure the **best credit rating**.

3. Debt Refinancing:

- When financially advantageous, the Board may consider **refunding** or **restructuring** existing debt to reduce costs.
- **Outside financial advisors** will guide the Board in all debt-related transactions, ensuring transparency and fairness in pricing.

Financing Guidelines:

All proposals involving the sale of securities, loans, or lease agreements must be initially reviewed by the **Director of Business Services** to determine their financial feasibility. Legal counsel will then review all relevant documents before the **Superintendent** forwards recommendations to the Board.

Financial Disclosure:

The **Superintendent** will ensure compliance with all relevant disclosure requirements, including those under **Securities and Exchange Commission Rule 15c2-12** and applicable state and federal laws. Required disclosures will be made available to bondholders, rating agencies, taxpayers, and any other entities entitled to financial transparency.

The **Superintendent** is responsible for implementing regulations to enforce this policy.

Adopted: September 14, 2017

Legal References:

- **A.R.S. 15-481** - M&O Overrides
- **A.R.S. 15-482** - Special budget override elections
- **A.R.S. 15-491** - Bonded indebtedness
- **A.R.S. 15-910** - Adjacent ways
- **A.R.S. 15-947** - Excess utilities
- **A.R.S. 15-962** - Desegregation
- **A.R.S. 15-995** - Primary tax rate adjustments
- **A.R.S. 15-1021** - District debt limits
- **A.R.S. 41-1276** - Arizona Auditor General regulations

Special Levies and Debt Management (Continued)

Policy Number: CD-106

Special Levies in Arizona

Property tax levies are calculated based on **assessed property valuations**. These levies are categorized into **primary** and **secondary**:

- **Primary tax rates** apply to the assessed value for regular operations.
- **Secondary tax rates** apply to **overrides** and **debt service**, calculated on secondary assessed valuations for voter-approved initiatives like **M&O overrides**, **desegregation**, and **school improvement bonds**.

Superintendent Responsibilities

1. Monitoring Tax Levies:

- The **Superintendent** will periodically monitor, analyze, and report to the **Governing Board** the impact of all tax levies on District taxpayers. This analysis will include:
 - **General obligation bond and override levies.**
 - **Primary tax levies.**
 - Tax rates imposed by **overlapping jurisdictions.**
- The **Superintendent** will also compare actual tax levies and assessed valuations with the estimates made during bond or override authorizations, reporting periodically to the Board on the discrepancies.

Adjacent Ways Funding:

- The **Superintendent** will compile a **three-year projection** of qualifying projects eligible for Adjacent Ways funding.

- This projection will be revised annually to account for changes in construction projects and submitted to the **Governing Board** for approval through a separate roll call vote.
- Additionally, the Superintendent will provide the **Governing Board** with periodic budget analyses comparing **proposed** vs. **actual expenditures** for the Adjacent Ways fund.

Desegregation Funding:

- The **Superintendent** will annually evaluate the District's **Desegregation** spending plan and recommend any increase or decrease in Desegregation funding, including proposed levies.
- This recommendation will be presented for review and approval by the **Governing Board** through a roll call vote at least **60 days** before the proposed budget adoption.
- A **communications plan** detailing the impact of any changes in Desegregation funding will be implemented to inform stakeholders no later than **30 days** before the **Truth-In-Taxation** hearing.

Excess Utilities:

- **Periodic energy audits** will be conducted to explore more cost-effective methods of providing utilities to District facilities.

Overrides:

- **Overrides** are authorized for a **five-year** period with reductions occurring in years six and seven.
- The **Superintendent** will provide information to assist the **Governing Board** in deciding whether to call for an override or its reauthorization. This information will also be made available to the public.
- Upon voter approval of an override, the **Superintendent** will establish an **Oversight Committee** to monitor the fiscal and administrative implementation of the override and report periodically to the Governing Board.

School Improvement Bonds:

- The **Superintendent** and **Governing Board** will maintain a **five-year Capital Plan** for the replacement and improvement of District assets, updating it annually.
- **Debt financing costs** (including interest, fees, and issuance costs) will be evaluated against potential cost increases due to delays in repairs or replacements.
- The **Superintendent** will maximize the use of state and local capital funds before recommending increases in bond capacity.

General Guidelines for Special Levy and Debt Management:

The **Director of Business Services** will coordinate all Special Levy and Debt Management activities, including:

1. Preparing an annual budget timeline to allow timely consideration of tax and debt management decisions.
2. Identifying and utilizing **federal, state, and local funding sources**, grants, and partnerships before recommending tax increases.
3. Regularly updating the **Superintendent** and **Governing Board** on assessed valuation and tax rates.
4. Presenting recommendations for additional levies and budget adjustments to the **Superintendent** and **Governing Board** for approval before finalizing the budget.
5. With assistance from financial advisors, making recommendations on **debt issuance**, including timing, sale structure, and associated costs.
6. Reporting on the status of current and future **capital projects**.

Special Situations:

- **Unforeseen circumstances**, such as changes in capital markets or District programs, may require action outside of existing policy guidelines. In such cases, **Governing Board** authorization must be obtained before any administrative action is taken.

Adopted: September 14, 2017

Legal References:

- **A.R.S. 15-481** – M&O Overrides
- **A.R.S. 15-482** – Special budget override elections
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Special Levies and Debt Management

Definitions and Structure of K-12 Education Funding in Arizona

Primary and Secondary Taxes:

- In Arizona, **property tax levies** are calculated based on **primary** and **secondary assessed valuations**, expressed per **\$100 of assessed value**.
- **Primary taxes** support basic operational expenses set by the Arizona Legislature, while **secondary taxes** are associated with voter-approved initiatives like **overrides** and **bonds**.

Primary Taxes

Set by Arizona Statute:

The **Arizona Legislature** sets limits on school district budgets, consisting of three primary components:

1. **Revenue Control Limit (RCL)**: The core operational funding formula for school districts.
2. **Capital Outlay Revenue Limit (CORL)**: Funding dedicated to capital expenditures.
3. **Soft Capital Allocation**: Funds for minor equipment and furniture purchases.

Using an equal tax rate called the **Qualifying Tax Rate (QTR)**, school districts collect a portion of their budgets through **primary property taxes** levied on residential and business property owners. The remainder of the budget is funded through the **State General Fund** as described in **A.R.S. 15-971**.

Board-Authorized Primary Tax Increases

1. **Desegregation Funds (A.R.S. 15-910(G)):**

- The **Governing Board** may budget for expenses related to court-ordered desegregation efforts or agreements with the U.S. Department of Education Office for Civil Rights. These funds are exempt from revenue control limits, providing flexibility in addressing desegregation issues.

2. **Adjacent Ways (A.R.S. 15-995(A)):**

- The **Governing Board** can levy a special assessment to fund improvements to public ways adjacent to school property. This includes sidewalks, sewers, roadways, and utility lines.

3. **Excess Utilities (A.R.S. 15-910(A)):**

- The **Governing Board** may budget for excess utility costs beyond the Revenue Control Limit, covering operational expenses like heating, cooling, and sanitation.

Secondary Taxes

Secondary tax rates apply to voter-approved initiatives that help districts exceed their budget limits to fund

specific programs or projects.

1. **Overrides:**

- **Maintenance and Operation (M&O) Override (A.R.S. 15-481):**
 - Voter-approved increases to the budget by up to **10% of the RCL**. These funds support operational expenses such as teacher salaries and instructional materials.
- **K-3 Override (A.R.S. 15-482):**
 - A special voter-approved initiative that increases the budget by up to **5% of the RCL**, specifically aimed at improving K-3 educational programs.
- **Capital Override (A.R.S. 15-481):**
 - A voter-approved initiative that permits the district to increase its capital budget by up to **5% of the RCL** for purchases of items like furniture, fixtures, and equipment.

Override Funding Period:

Overrides are authorized for **five years**, with phased reductions in years **six** and **seven**. Before the override period ends, the **Superintendent** will provide the Governing Board with information for evaluating reauthorization.

2. **School Improvement Bonds:**

- **School Improvement Bonds (A.R.S. 15-491):**
 - Voter-approved bonds fund capital improvements like purchasing land, constructing or renovating buildings, and acquiring pupil transportation vehicles.

Summary of School District Budget Formulas

The following formulas outline how a district's **Equalization Base** is determined:

- **Revenue Control Limit (RCL):**
 - **Weighted Student Count**
 - multiplied by **Base Support Level**
 - multiplied by **Teacher Experience Index**
 - multiplied by **Career Ladder/Performance Program (if applicable)**
 - plus **Transportation Revenue Control Limit (TRCL)**
- **Capital Outlay Revenue Limit (CORL):**
 - **Weighted Student Count**
 - multiplied by **Legislatively set per-pupil amount**
- **Soft Capital Allocation:**
 - **Un-weighted Student Count**
 - multiplied by **Legislatively set per-pupil amount**

The **Equalization Base** is the sum of the RCL, CORL, and Soft Capital Allocation.

Funding Sources for the Equalization Base

1. **Qualifying Tax Rate (QTR):** Set by the state to fund a portion of the Equalization Base.
2. **County Education Levy:** A state-mandated levy applied to property taxes.
3. **State General Fund:** Fills the gap between the district's tax revenue and its Equalization Base.

Legal References:

- **A.R.S. 15-481** - Maintenance and Operation Overrides
- **A.R.S. 15-482** - K-3 Overrides
- **A.R.S. 15-491** - School Improvement Bonds
- **A.R.S. 15-910** - Excess Utilities, Desegregation
- **A.R.S. 15-947** - Revenue Control Limit
- **A.R.S. 15-995** - Adjacent Ways
- **A.R.S. 41-1276** - Qualifying Tax Rate

