

# ATRA Supports HB 2498

## DESEG/OCR REFORM

One of the most significant drivers of property tax growth, especially in Maricopa and Pima counties, has been levies by school districts that have run afoul of federal civil rights laws (or at least been accused of so doing).

State law allows school districts to levy unlimited property taxes in excess of their budget limits, for an unlimited amount of time and without voter approval, if the district has either a court order to desegregate or an agreement with the U.S. Department of Education's Office for Civil Rights (OCR). This exemption from budget and property tax limits may continue long after the court order has been lifted or the OCR agreement is no longer monitored.

Currently, 19 school districts utilize the state desegregation (deseg)/OCR law to levy taxes over their budget limit. Specifically, only two districts are under court orders to desegregate: Tucson Unified and Phoenix Union. The remaining 17 districts are currently, or at least were at some point, under scrutiny by the OCR to remediate some claimed violation of civil rights. In other words, if a school district is accused of violating some student's civil rights, they are rewarded with unlimited access to property taxes in perpetuity.

Deseg/OCR levies are unlimited budget overrides requiring no voter approval. For decades, these levies have driven a wedge into school district and taxpayer equity, widening the gap every year in a public school system that is required by the Arizona Constitution to be "general and uniform." Disparities in tax burdens resulting from these desegregation levies can be severe, with some property owners paying tremendously higher tax rates than similarly valued property in an adjacent district. Some districts have used this taxation authority to compensate for the loss of revenue when overrides are rejected by voters, essentially saying to taxpayers, *You don't get to say no.*

A 1990 special study by the Auditor General found that "expenditures budgeted outside of the revenue control limits for desegregation programs are growing" and that "some costs categorized as desegregation expenditures do not appear to be related to desegregation orders and agreements." During FY 1991, the year in which the auditor general's report was released, 10 districts budgeted \$47.3 million under this provision. For FY 2005, 19 districts budgeted \$193.5 million, a 309 percent climb.

Despite the Auditor General's recommendations that the Legislature take a more active role in strengthening accountability for desegregation programs, lawmakers had accomplished very little until 2002, when the Legislature capped deseg/OCR levies for a two-year period. For FY 2005, the Legislature adopted a so-called "soft cap" that allows districts to increase their deseg/OCR budgets by 2% plus district enrollment growth.

According to JLBC, the deseg/OCR property taxes would increase by an estimated \$5.2 million in FY 2006 if the current "soft cap" is continued. Approximately \$1 million of that would come from the state general fund to cover homeowner rebate costs. On the other hand, if a "hard cap" is put in place, property taxpayers and the state will not face an increase beyond their current exposure. If the Legislature does nothing, the deseg/OCR levies will increase by unknown amounts and the number of participating districts will grow.

HB 2498 puts into place reasonable reforms to deal with the authority these school districts have to levy unlimited property taxes. The bill will cap deseg/OCR property tax levies at their current level. Any justifiable increases for new or existing deseg/OCR expenditures will be subject to state appropriation, as is the case with most other special categories of K-12 funding.



***Please vote YES on HB 2498***

**ARIZONA TAX RESEARCH ASSOCIATION**

1814 West Washington Street, Phoenix, Arizona 85007

(602) 253-9121

[www.arizonatax.org](http://www.arizonatax.org)

Serving Arizona's Taxpayers Since 1940

# Budgeted Desegregation Expenditures, FY 2005

District	FY 2005 Deseg Total	Deseg as % of RCL	TY 2004 Primary Rate	% of QTR	Estimated state cost thru 35% rebate
Tucson Unified*	\$62,461,811	26.1%	6.8278	180.3%	\$10,698,962
Phoenix Union	\$46,808,290	46.1%	3.0675	162.0%	\$3,975,170
Tempe Elementary	\$14,209,692	28.5%	2.8957	153.0%	\$1,042,660
Roosevelt Elementary	\$11,726,400	26.9%	6.1337	324.0%	\$1,211,413
Phoenix Elementary	\$9,818,256	31.3%	4.1879	221.2%	\$275,590
Mesa Unified	\$8,171,391	2.7%	4.4696	118.0%	\$1,502,809
Scottsdale Unified	\$6,752,458	6.3%	3.7696	99.6%	\$1,375,981
Washington Elementary	\$6,606,735	7.1%	2.7398	144.7%	\$997,511
Glendale Union	\$5,653,637	9.3%	2.3186	122.5%	\$890,534
Isaac Elementary	\$4,758,896	15.5%	5.2579	277.7%	\$371,840
Cartwright Elementary	\$4,140,780	5.8%	3.4152	180.4%	\$693,723
Amphitheater Unified	\$4,025,000	5.9%	4.5111	119.1%	\$731,794
Holbrook Unified	\$2,325,120	25.9%	3.8579	101.9%	\$142,866
Flagstaff Unified	\$2,086,634	4.2%	3.9883	105.3%	\$327,976
Wilson Elementary	\$1,792,823	34.9%	3.5351	93.4%	\$7,052
Window Rock Unified**	\$662,194	4.6%	0.0000	0.0%	n/a
Agua Fria Union	\$660,000	4.1%	3.3758	178.3%	\$127,556
Buckeye Elementary	\$510,000	9.4%	3.9725	209.8%	\$11,014
Maricopa Unified*	\$371,622	6.3%	6.1056	161.3%	\$62,833
<b>Totals</b>	<b>\$193,541,739</b>				<b>\$24,447,282</b>

\* The total primary rate on TUSD taxpayers exceeds the constitutional one percent cap (by 43 cents within the city of Tucson). This results in an estimated additional \$5 million cost to the state general fund. Maricopa Unified receives \$212,127 from the state because it is \$1.17 over the cap.

\*\* Window Rock does not have a property tax. The district's deseg spending is funded through federal (P.L. 874) dollars.