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# ARIZONA TAX RESEARCH ASSOCIATION

## **ATRA SUPPORTS HB2481 *K-12 Primary Tax Rate Stabilization***

### **Background:**

One long standing frustration for Arizona taxpayers is the inability to predict primary property tax rates for K-12 education. For a system designed to have taxpayers pay roughly the Qualifying Tax Rate (QTR), rates often whiplash taxpayers with a “see-saw” effect year over year. The primary reason for this is school district cash balances reduce their primary tax rate, meaning that each year a district’s “cash on hand” will fluctuate their tax rate.

School districts have long asked for more cash management tools and an increase to their budget carryforward capacity. Because school districts have a large influence on their primary tax rate, lawmakers have been reluctant to agree to such provisions. Furthermore, school districts and county school superintendents acknowledge the administrative burden in determining precise cash positions including encumbrances, rollovers and debt notes. Historically, this process has been rife with errors, creating significant tax rate swings.

### **Basis for ATRA’s Support:**

HB2481 is a landmark change for the manner in which school district tax rates are set, bringing stability to taxpayers and new cash management tools for school districts. The bill proposes to annually set the primary tax rate at the QTR plus any legal non-formula amounts. For districts who do not qualify for state aid, they would levy the amounts necessary to fund their budget. No longer would districts adjust their tax rate to offset for cash balances. Stored cash balances would not create additional budget expenditure *capacity*, which is still determined by the school finance formula, but would create liquidity for the purposes of cash management.

In addition, this bill removes the current 4% budget carryforward limitation. With the understanding that districts will tax a statutory rate, a 4% budget carryforward limitation isn’t needed, meaning schools can expend their legal capacity in the year they choose. This new flexibility allows long-range planning for school districts, a provision only currently enjoyed by charter schools. This will also reduce the incentive to expend remaining budget capacity (use or lose) at the end of the fiscal year.

For taxpayers, the ability to predict their tax burden is a critical budgeting tool. Stabilized tax rates for the largest component of all property taxes will improve Arizona’s business climate. New cash management tools will reduce the need for school districts to use expensive debt instruments. In an era of rapid school choice and budgets based on current-year funding, it is important that all public schools share similar financial treatment. Importantly, the bill does not raise taxes or impact state coffers.

***ATRA ASKS FOR YOUR SUPPORT!***