The taxpayer's watchdog for over 75 years

ARIZONA TAX RESEARCH ASSOCIATION

ATRA SUPPORTS SB1174

Make Deseg/OCR Overrides Voter Approved

Background:

As the state continues to discuss K-12 education finance overhauls, it has become clear that the largest sources of inequity may not be phased out until the state can redirect new dollars to ease the financial pain of removing old programs. Nowhere is that issue more clear than with desegregation/Office of Civil Rights (OCR). Despite admissions from all sides that the program is outdated and outmoded, it is unlikely to go away until the state can afford an expensive overhaul.

In the meantime, Deseg/OCR continues to represent a significant problem for taxpayers. The program lacks accountability and transparency; Deseg/OCR rates are buried within primary property tax rates and do not appear on tax bills. Not only are citizens unaware they are paying for them, the Auditor General has found on several occasions the program(s) "has lost its clear link with the District's original desegregation court order and appears mainly to be funding programs that have little or nothing to do with the order."

Furthermore, as a primary property tax levied on top of the qualifying tax rate (QTR), Deseg/OCR is a key contributor to tax rates busting the constitutional limitation on homeowner property taxes, commonly referred to as the "1% Cap." The state General Fund pays for these 1% Cap overages, meaning taxpayers around the state subsidize local Deseg/OCR taxes.

Basis for ATRA's Support:

If Deseg/OCR spending is to continue unabated until a major overhaul is complete, it ought to at least have the benefit of voter approval and not be subsidized by taxpayers outside the district. School district representatives from the remaining districts with Deseg/OCR taxes insist they enjoy widespread community support for these programs. They ought to demonstrate that with an up or down vote.

The Auditor General has revealed that Deseg/OCR spending is highly unrestrictive and is spent on programs most districts have- similar to an M&O override. Arizona public finance traditionally has demanded overrides be voter approved. SB1174 simply asks that these programs be approved by their district voters. By moving the levies to the secondary property tax, it **ultimately saves the State General Fund $15 million annually**.

SB1174 provides a five year phase-out for any amount not approved and contains a unique provision which holds Tucson Unified harmless until the second year following a federal court declaring them unitary. Like an M&O override, the Deseg/OCR override lasts seven years with renewal options.

ATRA ASKS FOR YOUR SUPPORT!

Deseg/OCR funding creates massive inequities for school districts and taxpayers. The average per-pupil increase from this levy is $760 per pupil. This fairness issue is exacerbated in Arizona's competitive environment where students have a variety of public options. These 19 districts can pay their teachers more, have smaller class sizes or offer more services. It would certainly fail the constitutional test of "general and uniform" and leaves the state exposed to litigation.

Over $4 billion coming from local property taxpayers has exclusively benefitted 19 school districts over the last 30 years. The question is: For how much longer will lawmakers keep a program that inequitably drives $211 million per year to a few school districts, 97% of which goes to metro Phoenix and Tucson?

Funding for desegregation and Office of Civil Rights (OCR) agreements began in 1985 as short-term remedies for "alleged or proven racial discrimination." However, these "short-term" remedies have endured for decades and exploded by 2100% over time, supplanting general fund budgets. They are not subject to the scrutiny of voter approval and are not in any way tied to pupils, poverty, or demographics. The few grandfathered school districts continue to benefit from significant spending advantages.

Arizona's school finance formula attempts to reduce the impacts of disparities in property wealth by applying a qualifying tax rate (QTR) so all taxpayers pay roughly the same rate for K-12. Deseg/OCR levies distort that concept heavily because the levy is on top of the formulaic amount and is not equalized by the state. Taxpayers in these districts sometimes pay Deseg/OCR levies at both the elementary level *AND* the high school level, creating some of the highest tax rates and most difficult business climates in the state. Finally, Deseg/OCR is a key contributor to tax rates busting the constitutional limitation on homeowner property taxes, commonly referred to as the "1% Cap."