

# ATRA recommends extending the current two-year caps on school district property taxes for deseg/OCR and excess utilities

*General fund costs could increase \$17 million in FY 2005 (JLBC)*

In 2002, the Legislature enacted legislation that froze school district expenditures for desegregation/OCR and excess utilities for two years. These caps have saved property taxpayers and the state general fund tens of millions of dollars over that two-year period. If the state does not act to reestablish those caps, Arizona taxpayers will again be faced with rising costs for two of the most problematic policies in Arizona school finance.

ATRA recommends continuing these caps for another two years until permanent solutions to the deseg/OCR and excess utilities problems are achieved.

## DESEGREGATION/OCR

- ◆ In FY 2002, 19 school districts budgeted \$194 million for Deseg/OCR under §15-910(G). Of that amount, approximately \$30 million is drawn from the state general fund to cover the costs of the homeowner rebate and one-percent constitutional cap on residential property taxes.
- ◆ JLBC estimates that deseg/OCR expenditures could increase by \$18 to \$54 million in FY 2005 and \$36 to \$72 million in FY 2006. The increased cost to the state general fund could range from between \$4 and \$12 million in FY 2005 and \$8 to \$16 million in FY 2006. Only the 19 districts currently using §15-910(G) are included in JLBC's estimates.
- ◆ It is unknown how many districts already have an OCR agreement that qualifies under §15-910(G) but are not currently levying taxes authorized by the statute. No one in state government, nor even the federal government, can tell you how many Arizona school districts currently qualify.
- ◆ School districts have been advocating for a so-called "soft cap" for desegregation budgets. *ATRA opposes this "soft cap" because it is, in reality, no cap at all as districts will continue to have substantial control over growth in their deseg/OCR spending and taxation.*

## EXCESS UTILITIES

- ◆ In November of 2000, voters approved Proposition 301 that increased the state sales tax rate and earmarked increased amounts of the general fund for K-12 public school spending. Prop. 301 also included a handful of accountability and financial reforms. One such reform was the elimination, as of June 30, 2009, of school districts' authority in §15-910(A) to exceed their budget limits and levy property taxes for "excess utilities."
- ◆ Prop. 301 did not cap excess utilities. It did not phase it out. In FY 2001, the year Prop. 301 was approved, school districts statewide budgeted \$60.7 million. Efforts to implement a phase out of excess utilities during the 2001 legislative session were unsuccessful.
- ◆ By FY 2002, the statewide budgeted total for excess utilities had grown to \$67.8 million. Against the backdrop of a sizeable budget deficit and growing exposure to additional state aid costs from school district property tax increases, the Legislature capped excess utilities for two years. Districts have indicated that the total budgeted amount in FY 2005 will likely exceed \$81 million.

- ◆ JLBC estimates that the state general fund costs for excess utilities will increase by \$5 million if the current cap is allowed to expire.



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