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ARIZONA TAX RESEARCH ASSOCIATION

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State Slammed with TUSD Deseg Costs

It is no longer Tucson Unified (TUSD) taxpayers alone who pay for their expensive "Desegregation" (Deseg) levy- the entire state now foots a significant part of the bill. Tax rates are so high in TUSD, the constitutional homeowner 1% cap shifts a $20 million liability to the state for this local budget bonus.

TUSD levies an additional $63 million from local taxpayers via primary property taxes in addition to their statutory, formulaic funding which brings their total Maintenance and Operations (M&O) general fund budget to $300 million this year. Deseg adds a tax rate of $2.12 per $100 of taxable value to all property taxpayers in the district. A $200,000 homeowner would owe about an extra $425 this year alone for Deseg- if not for the 1% cap. The "1% cap" is a constitutional protection for homeowners which limits their primary property tax exposure to 1% of the home's total limited property value, or a $10.00 effective tax rate; the state general fund pays the difference. A small business owner with $1 million in taxable value (typical for a restaurant, for example) owes an amazing $4,033 in FY15 for Deseg alone. Businesses are unprotected from high rates and pay full freight; they do not have a 1% cap protection.

Arizona state statute allowed school districts to levy for Deseg if they received a federal court order to

See **TUSD Deseg,** page 2

MIHS Uses Tax Dollars on Electioneering

Phoenix freeway drivers may have noticed two very similar advertisements on billboards during this past election season, often running side by side. One asked for support for MIHS (Maricopa Integrated Health System) and to 'Vote Yes on Prop 480.' The other was an advertisement for MIHS, extolling the virtues of the county hospital system. The first was paid for by the 'Yes on 480' campaign and the latter by you, the taxpayer.

After the Maricopa County Special Health Care District called for the November 2014 bond election in the spring to ask county taxpayers for the authority to sell $935 million in bonds ($1.6 billion with interest), they simultaneously started an "education campaign" to promote MIHS branding and awareness. A media blitz of television, radio and billboard advertisements began in the summer and ran through the election cycle. The total bill: $755,000 according to MIHS records (see page 4). A look at previous MIHS budgets shows no evidence of a routine county-wide advertising campaign.

It is also notable that the consultant for the branding campaign, Integrated Web Strategy, LLC, also appears on campaign expense reports for the 'Yes on 480' campaign.

See **MIHS Electioneering,** page 3

TUSD Deseg, *Continued from Page 1*

desegregate, which applies only to Phoenix Union (PUHSD) and TUSD. However, 16 other school districts were also authorized to levy for Deseg because they received a violation letter from the Office of Civil Rights (OCR). The levy is now commonly referred to as Deseg/OCR.

Both TUSD and PUHSD have been declared "unitary" and no longer have a court order to desegregate. However, their ability to tax for Deseg went unchanged. The amount districts can levy was capped by the Legislature in 2009. In addition, no new districts beyond the existing 18 are allowed to access Deseg funding.

The argument for continuing the levy is to allow districts to continue programs that ameliorated their original segregation or civil rights deficiency. However, state audits and a simple look at the Deseg budget show the money is simply used for additional M&O spending capacity and is not directly linked to desegregating pupils or remediating civil rights violations. Proponents also argue Deseg money is in recognition of historical issues facing a

Desegregation Tax Levies FY 2015

School District	FY 2015 Deseg Totals	Deseg as rate	Deseg levy as % of RCL*	Deseg$ /ADM
Tucson Unified	$63,711,047	$2.1225	26.5%	$1,382
Phoenix Union	$55,800,892	$1.3496	39.5%	$2,062
Tempe Elementary	$14,178,248	$1.1563	27.0%	$1,263
Roosevelt Elementary	$13,570,494	$2.7257	30.7%	$1,421
Phoenix Elementary	$11,151,530	$1.8667	34.3%	$1,654
Mesa Unified	$8,774,057	$0.3497	2.8%	$146
Scottsdale Unified	$7,382,169	$0.1694	6.0%	$317
Washington Elementary	$6,350,000	$0.5886	6.0%	$346
Cartwright Elementary	$4,628,061	$2.3292	5.8%	$261
Glendale Union	$6,131,959	$0.4649	8.1%	$410
Isaac Elementary	$4,951,155	$4.2686	15.9%	$746
Amphitheater Unified	$4,025,000	$0.2924	5.8%	$293
Holbrook Unified	$2,517,481	$5.4503	20.5%	$1,236
Flagstaff Unified	$2,241,322	$0.2171	4.5%	$242
Wilson Elementary	$1,946,054	$2.4673	35.6%	$1,672
Agua Fria Union	$999,000	$0.1079	2.8%	$131
Buckeye Elementary	$1,701,402	$0.2484	8.1%	$362
Maricopa Unified	$1,291,000	$0.5596	4.3%	$474
Totals	**$211,350,871**	**$1.4071**	**14.9%**	**$759**

*RCL, Revenue Control Limit, is the statutory level of funding for a districts general fund budget

district with higher rates of low-income students. However, the levy is not tied to pupils, inflation or rates of poverty. Many districts with high rates of low-income students do not have the luxury to levy for Deseg.

School districts have a significant advantage in levying for Deseg/OCR as it gives them the ability to spend substantially more than neighboring districts without the authority. The $63 million bonus authorizes TUSD to spend an additional $1,360 per student on top of their statutory budget level.

Following an eight-month study, an external efficiency auditing agency reported in May 2014 that TUSD spent

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more than peer districts on its general fund budget but less of that money ended up going to classroom-related activities, on average. The audit reported M&O spending of $8,421 per pupil, compared to their peer districts average of $7,185 and the statewide average amount of $7,496. According to the consultants report, their inefficient operating budget is attributed to excess facilities and excess administrative staff. "Overall, TUSD is a higher cost, lower performing district, which suggests that its resources could be better allocated to meet student needs." (The full report can be found at http://www.tusd1.org/contents/Documents/efficiencyaudit14.pdf).

The ratio of students residing in TUSD to their enrollment has declined from 80% in 2000 to 65% in 2014. As the district declines in size, it's per pupil advantage actually increases because it can levy $63 million for Deseg in perpetuity and without regard to enrollment.

In FY2014, Tucson Unified spent 30% more per-pupil than neighboring district Sunnyside Unified when comparing their general fund budgets

In addition to levying for Deseg, TUSD levied an additional $13.5 million over its statutory amount for "cost stabilization," adding another $0.45 per $100 to the local tax rate. The TUSD primary property tax rate jumped from $6.01 to $6.80 this year. With Pima County government raising its tax rate $0.61 this year, TUSD taxpayers total primary tax rate is up to $13.41, putting them well over the constitutional 1% rate cap for homeowners. This means that in addition to the state aid rebate for education, which pays $1.84 of the school primary tax rate (43% of the $4.22 qualifying tax rate in FY 2015), the state pays another $1.57 of the primary rate for each homeowner because their primary rate remains over the 1% cap, creating a $19.7 million liability for the state budget to absorb.

Statewide, 18 school districts levy $210 million annually across the state for Deseg/OCR. It is one of the largest factors undermining equitable M&O spending in the state. It is also a significant contributor to property tax inequity in a system that envisioned taxpayers paying roughly the same rate for K-12 M&O financing. Left unchanged, the state is highly liable in a lawsuit challenging these obvious inequities. In the mean time, local taxpayers in TUSD and now even the state budget are being squeezed for "desegregation."

-Sean McCarthy

MIHS Electioneering, *Continued from Page 1*

Arizona Revised Statutes (A.R.S.) §16-192(A) clearly states that special taxing districts "shall not spend or use public resources to influence an election." MIHS explicitly denied any connection between their image campaign and the bond election. Their "education campaign" appears to have ended the day after the election (see FOIA request, page 4).

State statute defines "influence an election" for bond elections as:

> "…supporting or opposing a ballot measure, question or proposition, including any bond, budget or override election and supporting or opposing …a petition for a ballot measure, question or proposition in any manner that is not impartial or neutral." [A.R.S. §16-192(G.2)]

Reasonable people can debate whether an advertisement for a governmental jurisdiction amounts to electioneering; however, the legacy of the MIHS campaign sets an extraordinary and dangerous precedent for other jurisdictions. Taxpayers can look forward to governmental jurisdictions like counties, community college districts or school districts expending tax dollars for puff pieces to "soften the beaches" during the campaign season when they are seeking a bond or budget override.

Taxing jurisdictions have a massive advantage in bond and override elections to begin with: they call the election, color the publicity pamphlet with pro statements before the summer deadlines, and get the weight of the district behind the election. The various groups which stand to benefit from the tax increase are well motivated to create an organized campaign. Opposition groups have no such luxury and typically exist as a grassroots effort. Allowing districts to spend taxpayer dollars to influence an election, even in a roundabout fashion, is certainly at odds with the spirit of the law.

The 'Yes on 480' campaign raised and spent approximately $1.3 million for their campaign. Combined with the taxpayer funded "education campaign," they had the benefit of more than $2 million in spending. The bond passed easily on November 4th despite opposition from ATRA and other business and taxpayer groups, who spent roughly $80,000 on the 'No on 480' campaign.

Regardless of whether MIHS' effort to skirt the law was legal or illegal, state lawmakers should act rapidly to make clear that such marketing efforts during a campaign to approve a tax question are prohibited.

-Sean McCarthy

MIHS
MARICOPA INTEGRATED HEALTH SYSTEM
Maricopa County Special Health Care District

November 21, 2014

Sean McCarthy
1814 East Washington
Phoenix, Arizona 85007

Re: Public Records Request to
Maricopa County Special Health Care District

Dear Mr. McCarthy:

On November 18, 2014, you submitted a public records request to the Maricopa County Special Health Care District (the District) requesting the following documents:

1. An updated Integrated Web Strategy Detail Payment Register to include October.

   RESPONSE: The attached detail payment register contains a list of invoices for the media buys for the following month. For example, the invoice dated 6/19/2014 was for services provided in July. Therefore, the invoice dated 9/15/2014 covered payment for the services provided in October and part of November. After mid-November the District has put the education campaign on hold until after the holidays.

Due to the response containing only one page there is no charge for the response to this records request.

Detail Payment Register

Invoice #	Invoice Date	Vendor Name	Amout Due
5586	6/19/2014	Integrated Web Strategy, LLC	$189,755.00
5660	7/16/2014	Integrated Web Strategy, LLC	$194,474.00
5754	8/15/2014	Integrated Web Strategy, LLC	$185,166.00
5839	9/15/2014	Integrated Web Strategy, LLC	$186,495.00