

School district budgets reveal deseg taxation has reached new heights

Property taxpayers and state general fund take hits

ATRA has been telling Arizona's policy makers for years that school district property taxes levied under the flag of desegregation are out of control. But no speech, newspaper column, or graph could make the point as poignantly as several districts have done this summer with the adoption of their budgets and property tax levies.

Under A.R.S. §15-910 (G-J), school districts may levy unlimited property taxes in excess of the state's limits without voter approval if the district has either a court order of desegregation or an administrative agreement with the U.S. Department of Education's Office for Civil Rights (OCR).

This exemption from the limits may continue even after the court order is lifted or the OCR agreement expires. In addition, districts may also have multiple and overlapping agreements.

Nineteen school districts levy outside their budget limits for deseg. Two school districts are under court order to desegregate: Tucson Unified School District (TUSD); and Phoenix Union High School District (PUHSD).

The remaining districts have either current or expired OCR agreements allowing the unlimited access to the property tax.

There are currently 16 school districts being monitored by OCR. Of those, only nine are among those districts that levy for deseg. Within the last five years, 54 monitoring agreements have been closed by OCR, "with no further action."

Meanwhile, 10 school districts currently levying for deseg are not listed on the OCR's current list. Numerous districts over the years have had OCR agreements and have *not* levied for deseg.

Neither the courts nor OCR provide any specificity on funding sources for achieving compliance. In fact, in many states deseg spending is funded in large measure by the state itself rather than the local property taxpayers. Those states, not

surprisingly, tend to play a significant oversight role in districts' deseg programs.

While courts have been lifting deseg orders across the country in places like Denver, Austin, Cleveland, San Francisco, Savannah, and Hillsborough (to name a few), Arizona appears to be going in the opposite direction, with no end in sight to the steady growth in deseg spending and taxation.

Arizona's 19 "deseg districts" budgeted \$173 million for deseg in FY 2000-2001, nearly all of which came from primary property tax levies. Although budgets for FY 2001-2002 are not yet available from the Arizona Department of Education (ADE), this year's tax rate changes indicate substantial increases. A preliminary analysis of Maricopa County school districts indicate that the statewide total this year is likely to exceed \$193 million.

Although ADE has not yet made the data available, the budget data obtained from the Maricopa County School Office show some sizable deseg increases. To name a few: Scottsdale Unified, 51%; Roosevelt Elementary, 20%; and Mesa Unified, 11%.

Such spending has a direct impact on taxpayers. As the Legislature has adjusted the qualifying tax rate (QTR) to reflect growth in the current values of existing property, some school districts have been taking advantage of the rate reductions to increase spending on deseg and other items beyond the spending limits.

Illustration #1: TUSD, where deseg levy increases have become an art form

TUSD drew a lot of attention to itself this year when it increased its deseg property taxes 20% to \$62.5 million. This amounts to an override, without voter approval, that is between two to three times more than the 10% override available with voter approval.

In addition to the deseg taxes, levies for excess utilities, dropout prevention, adjacent ways, and liabilities in excess



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(see article on page 2) all contributed to a 98-cent hike in the primary rate, now at \$8.0889 per \$100 of assessed valuation.

That rate hike will not affect owner-occupied residential taxpayers (Class 3) because the state constitution caps their primary taxes at one percent of assessed value. In other words, the rate on Class 3 taxpayers cannot exceed \$10.00 per \$100 of assessed value. The amount that would have been levied had the cap not been in place goes to the school district in the form of additional state aid.

Last year, TUSD received approximately \$4.2 million in additional state aid. This year TUSD's additional state aid resulting from the one-percent cap will be approximately \$10.2 million. (This is apart from this year's estimated \$26 million in additional state aid to TUSD resulting from the 35% homeowner rebate.)

Other taxpayers will be burdened with the higher rate. Commercial property taxpayers will take a considerable hit this year. Without the 35% rebate, or the one-percent cap, and with a taxable value calculated to be two-and-a-half that of an equally-valued home, commercial taxpayers will pay \$3,486 in total primary property taxes for every \$100,000 of assessed value. Meanwhile, as indicated above, the residential taxpayer will pay \$1,000 for every \$100,000 of assessed value.

TUSD's tax rate is nearly double the QTR, the equalized rate used to calculate state assistance.

Illustration #2: Washington Elementary, learning the ropes

The Washington Elementary School District (WESD) has also been running into a bit of a controversy over the last few years because of its deseg tax increases.

WESD began levying for deseg five years ago. By FY 1998-99, the district was levying \$1.8 million under §15-910 (G-J). The following year they almost doubled the deseg levy to \$3.2 million.

Then, in the November election of 1999, voters rejected (60% to 40%) a continuation of WESD's 10% budget override. Alarmed by the loss in revenue from the override, the district gave a \$1.9 million boost to WESD's deseg levy, totalling almost \$5.2 million for FY 2000-01. In essence, WESD told its voters: *You don't get to say NO.*

By FY 2001-02, despite having regained voter approval for their 10% override in 2000, WESD was clearly hooked on the non-voter-approved deseg override, using the pending implementation of Proposition 203 as the excuse for another hike in deseg levies, now at \$6.6 million.

WESD's primary tax rate is now a full 99 cents higher than the QTR to fund deseg and other categories outside the budget limits (*i.e.* excess utilities).

In addition to the 10% voter-approved override, WESD has another 8% in spending capacity that many other districts

(that, incidentally, also have to implement Prop. 203) do not have.

Illustration #3: Buckeye Elementary, the upstart

Last year, Buckeye Elementary became the 19th school district to join the ranks of the "deseg districts" by levying \$290,272 under §15-910 (G-J). This year, the district increased the levy 72% to \$500,000.

To accomplish the spending hike (including also excess utilities and a sizable adjacent ways levy), Buckeye Elementary more than doubled its primary tax rate. Now at \$4.8806 per \$100 of assessed value, Buckeye Elementary's rate is more than 236% of the QTR.

The 1990 State Auditor General Report on Desegregation

In 1990, the Auditor General reported that "Ten districts used this provision to budget \$47.3 million for desegregation in fiscal year 1990-91." The report further documented that "Expenditures more than doubled between fiscal years 1987-88 and 1989-90, increasing from \$15.9 million to \$33.8 million."

The study, which was limited to only five of the 10 districts then levying for desegregation, also revealed that "some costs charged as desegregation were not related to their orders and agreements" and that all districts appeared to have expended funds under the desegregation law that had previously been funded from State or other local funds.

The Auditor General's report concluded that "some commonly accepted aspects of accountability appear to be lacking in Arizona's desegregation finance process." The report recommended that the Legislature take steps toward strengthening accountability and increasing the State's role in formulating desegregation plans."

The continued growth in these expenditures demonstrate that the Auditor General's recommendations from nearly a decade ago still have merit.

In an era when courts are lifting desegregation orders for most urban school districts across the country, taxpayers in Arizona should bring into question what districts have been doing — what the Legislature has allowed — in the name of desegregation.

In the past, the Legislature has sidestepped the issue of deseg spending. As a result, we now have 19 school districts whose tax rates and spending levels undermine the equity that is the foundation of our school finance system.

The time for audits has passed. It is time for the Legislature to stop the bleeding. Deseg spending should be capped and a plan put in place to return these districts and their taxpayers to an equitable position with other districts.

Michael Hunter

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