

# ATRA OPPOSES HB2122

## *Increasing M&O Overrides to 15% of a School District's RCL*

### **Background**

Arizona's equalization formula provides equal funding for each public school student and equal tax rates for every school district property taxpayer. Yet, significant disparities persist in both expenditures and tax rates because the school-finance statutes authorize districts to levy taxes for expenditures in excess of the equalization formula.

Voter-approved overrides are among the expenditures that are exempt from the equalization formula's budget limit (the RCL). Currently, school districts may ask voters to approve a maintenance and operations (M&O) override equivalent to 10% of the district's RCL. The district's voters may also approve a K-3 override that must be used for programs that supplement the education of students in kindergarten through 3<sup>rd</sup> grade. The K-3 overrides cannot exceed 5% of a district's RCL.

While more than 55% of qualifying school districts budget for the M&O override, the K-3 overrides have proven less popular. K-3 overrides have only passed in 27% of qualifying districts.

### **Basis for ATRA's Opposition**

HB2122 will increase the limit on the M&O override from 10% to 15% (and 17% in some temporary cases) resulting in a potential property tax increase of as much as \$193 million. While HB2122 only allows the permanent increase for districts that do not levy the 5% K-3 override, shifting this capacity from the K-3 override to the more popular M&O override will undoubtedly lead to property tax increases.

There are currently 122 school districts where the voters have recently approved a 10% M&O override. Of these 122 districts, 68 have not passed the 5% K-3 override. While these districts do not currently tax for the 5% K-3 override, their voters have shown a willingness to approve the M&O override at the maximum allowable level. Assuming the voters of these districts continue this support, shifting the K-3 override capacity to the M&O override will result in a \$143 million property tax increase among these districts.

In addition to the undesirable effects of increasing property taxes, funding school districts with increased overrides will further undermine the equality that the equalization formula achieves. Districts with lower property wealth will require significantly higher tax rates to generate the same 5% increase. Some districts will pass the overrides while others will not. Those with the overrides will receive 15% to 17% more funding than the students of the districts where revenues include only the equalization base.



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