

# ATRA OPPOSES HB2604

## *Providing a 5-Year Repayment Period for All Overexpenditures*

### **Background**

A school district's student count determines the level of formula funding the district will receive from state equalization assistance. Therefore, if a school district miscalculates a student count that is inaccurately high, then the district will budget more state aid than is actually due. Upon discovering such a miscalculation, the Arizona Department of Education reduces the district's budget limit to the level that corresponds to the actual student count. The Department then withholds the state aid that would have funded the artificially higher budget limit.

If, however, a district in the situation described above has already received and spent the state aid then the district has exceeded its budget limit and must repay this overexpenditure. A district in these circumstances must reduce the next year's budget by the amount of the overexpenditure. By decreasing the next year's budget, the state aid that the district otherwise would have received is withheld which repays the state for the previous year's overexpenditure.

If repaying an overexpenditure in one fiscal year creates a hardship for a school district, then the Department may authorize the district to repay the state aid over two budget years. In recent years, the Legislature has granted longer repayment periods to school districts on a case-by-case basis.

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

By automatically allowing districts up to five years to repay all overexpenditures, HB2604 would significantly decrease the consequences a school district faces after exceeding their spending authority.

When a school district misreports student counts and, in turn, spends more taxpayer dollars than the district is authorized to spend, this is a serious breach of state law and should carry serious consequences. If a school district can reasonably assume that the Department of Education will allow the district five years to correct an overexpenditure, the district's incentive to properly audit and report their student count is dramatically reduced.

The current system that requires a school district to repay inappropriately-received state aid within one to two years provides a stronger incentive for school districts to accurately report student counts in the first place. While the Legislature, in recent years, has granted extended repayment periods to several districts, the need to come before the Legislature and seek specific legislation similarly encourages districts to ensure accurate reporting to avoid such a situation. The Legislature should continue to play an active role whenever a school district's overexpenditure is so large that the district seeks an extended repayment period.



**ARIZONA TAX RESEARCH ASSOCIATION**

1814 West Washington Street, Phoenix, Arizona 85007

(602) 253-9121

[www.arizonatax.org](http://www.arizonatax.org)

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