

BILL # HB 2550

TITLE: school districts; desegregation; report

SPONSOR: Huffman

STATUS: House Engrossed

REQUESTED BY: House

PREPARED BY: Steve Schimpp

FISCAL YEAR

2002

2003

2004

EXPENDITURES

General Fund – ADE (Homeowner’s Rebate)	\$-0-	\$(4,797,400)	\$(10,122,400)
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FISCAL ANALYSIS

Description

The bill would prohibit school districts from budgeting more for desegregation programs in FY 2003 and FY 2004 than they spend on them during FY 2002. It also would expand reporting and oversight requirements for desegregation programs.

Estimated Impact

We estimate that the bill would reduce State General Fund expenditures for the “Homeowner’s Rebate” program by \$(4,797,400) in FY 2003 and \$(10,122,400) in FY 2004 relative to current budget projections for those years.

The Arizona Department of Education does not have a fiscal impact estimate for this bill.

Assumptions

The Additional State Aid (“Homeowner’s Rebate”) program authorized by A.R.S. § 15-972 requires the state to pay 35% of each homeowner’s “primary” property taxes for schools. (Local tax levies are categorized as being either “primary” or “secondary” in nature. The Homeowner’s Rebate program affects only “primary” tax levies.) The Homeowner’s Rebate program also requires the state to pay for any portion of a homeowner’s primary property tax levy for schools plus all other taxing jurisdictions combined that exceed 1% of the full cash value of a home. These requirements shift part of the cost of local desegregation programs to the state, since desegregation programs are funded mostly with primary property tax revenues.

We anticipate that the bill would reduce Homeowner’s Rebate costs for FY 2003 and FY 2004 relative to current law because our current budget projections (which are based on current law) assume that desegregation expenditures will continue to grow by 11% per year (the average annual growth rate observed for FY 2001 and FY 2002). If the bill were to become law, however, we would assume that *no* growth in desegregation expenditures would occur for FY 2003 and FY 2004 and would reduce our Homeowner’s Rebate cost estimates for those years accordingly.

The attached tables show that we estimate that Homeowner’s Rebate costs for desegregation programs would decrease by \$(4,797,400) in FY 2003 and \$(10,122,400) under the bill relative to current law.

Table 1 (attached) shows that total budgeted expenditures for desegregation programs statewide grew by 9.4% in FY 2001 and 12.4% in FY 2002. *Table 2* (attached) therefore assumes that statewide desegregation expenditures in FY 2003 and FY 2004 would grow by 11% per year under current law, which is roughly the 2 year average observed from FY 2001 and FY 2002 in *Table 1* ($(9.4\% + 12.4\%) / 2 = 10.9\%$).

(Continued)

Assumptions (Cont'd)

Table 3 (attached) shows how data from *Tables 1 and 2* and published information on school district property values and tax rates suggest that Homeowner's Rebate costs would increase by \$4,797,400 in FY 2003 and \$10,122,400 in FY 2004 under current law. By prohibiting growth in desegregation expenditures for FY 2003 and FY 2004, those amounts conversely would equal the estimated Homeowner's Rebate savings under the bill.

Table 3 begins by first computing the proportion of the overall tax base for each school district that is attributable to owner-occupied homes ("Class 3 %"), since only "Class 3" properties (owner-occupied homes) qualify for the Homeowner's Rebate. *Table 3* then computes the total primary property tax rate for each school district in the table for FY 2002 after the portion of the tax rate that is paid for by the Homeowner's Rebate is subtracted out. This must be done in order to determine whether the "effective" tax rate exceeds the "1% cap." Any school district with an "effective" primary property tax rate of \$10 or more exceeds the 1% cap and therefore receives Homeowner's Rebate funding on a "dollar for dollar" (rather than 35%) basis for all homeowner primary property taxes above the \$10 per \$100 of NAV threshold.

Table 3 then simply multiplies the figure in the "Estimated Deseg Increase" column for each school district (from *Table 2*) by either 35% (for non-1% cap districts) or 100% (for 1% cap districts) to determine the "state share" of projected cost increases for desegregation programs for the fiscal year. Results for this step appear in the "State Cost of Deseg Increase" columns in *Table 3* and equal \$4,797,400 for FY 2003 and \$10,122,400 for FY 2004.

Local Government Impact

The bill would keep school districts from increasing their desegregation spending, at least until FY 2005. Our estimates from *Table 2* suggest that this would cause spending on desegregation programs to be \$21,3351,900 lower in FY 2003 and \$45,052,500 lower in FY 2004 than it would be under current law. These amounts are larger than the estimated Homeowner's Rebate savings shown in *Table 3* because local funding for desegregation programs comes from all classes of property, whereas the Homeowner's Rebate is only paid for Class 3 property.

By eliminating growth in desegregation spending (at least until FY 2005), some projected growth in local primary property tax levies would be eliminated as well. Based on the estimates in *Table 3*, we estimate that local primary property tax levies would be \$(16,554,500) lower in FY 2003 and \$(34,930,100) lower in FY 2004 than they would be under current law.

The \$(16,554,500) estimated local property tax impact for FY 2003 equals the "Estimated Deseg Increase" figure from *Table 3* (\$21,351,900) minus the \$(4,797,400) portion of that increase that would be paid for by the state.

The \$(34,930,100) estimated local property tax impact for FY 2004 equals the "Estimated Deseg Increase" figure from *Table 3* (\$45,052,500) minus the \$(10,122,400) portion of that increase that would be paid for by the state.

Amendments

The House Education Committee amendment establishes additional oversight mechanisms for desegregation programs, but does not make any changes to the bill that will affect its direct fiscal impact.