

How Can Your School District Have Less Money to Spend When Your School District Property Tax Bill Went Up?

Sometimes an increased school district property tax bill means that the school district has more money to spend, but it doesn't always work that way. It is possible for your school district property taxes to go up and at the same time your school district has less money to spend. In fact, that happened to many taxpayers in the 2011-2012 school year. How can that be?

There are two main features of our system of school taxes that cause this "disconnect" between an individual's tax increase and the amount of money available to the school district. The first is the property tax formula: your property tax bill is determined by the value of your property and the tax rate. In Arizona, your property has two values, a primary (limited) value and a secondary (full cash) value, and for school districts, your taxes are determined by applying the primary tax rate to your primary value to produce money for basic operations, and by applying the secondary tax rate to your secondary valuation to produce money for budget overrides and repayment of bonds. (The property taxes for other jurisdictions such as cities and counties work similarly.) In this example, we are focusing on the primary property taxes because they are usually the largest component of your tax bill, and because not all school districts have secondary tax rates.

The second feature of the Arizona school finance system that affects primary property taxes is called "equalization." School districts are funded by a combination of revenue sources, but the primary sources of funding are local property taxes and state aid. Because property values per student vary widely across the state, Arizona law tries to equalize the amount of money school districts have to spend and also to create a fairly uniform statewide property tax to pay for schools. This is accomplished by formulas that control the amount school districts can spend, and the amount of state aid they are entitled to.

When a large number of properties gain or lose a large percentage of their value in one year, but the change is not consistent across different types of property or across the state or even in all parts of one school district, the property tax formula combines with equalization and interesting things begin to happen.

What happened to school district budget limits in 2011-12?

Because of the state budget crisis, the Legislature reduced school district budget limits for 2011-12 in order to reduce the cost of state aid to school districts. Only school districts that added new students had more money to spend; districts with the same number or fewer students had less money than the prior year.

What happened to school district tax rates in 2011-12?

In order to control the cost of state aid, the Legislature increased the Qualifying Tax Rate (QTR) for 2011-12. The QTR is used to determine the amount of equalization assistance that the State

provides to each school district. The increase in the QTR was caused by a 15% decline in total state primary property values. The decline in primary property values was not uniform across the State – the greatest declines were in Maricopa and Pinal Counties. Other counties had much smaller decreases in value. If the QTR had not been increased, the decrease in property values would have caused the tax formula to produce a smaller property tax amount, and state equalization assistance would have had to increase to offset the decrease in the amount of money raised by the QTR. This increase in the QTR caused the primary tax rates in most school districts to increase. Other factors could also have caused a tax rate increase – for example, if the full tax levy is not collected in one year because some taxpayers do not pay their taxes, then the rate may have to be increased the next year to offset this loss. (When the back taxes are eventually recovered, the rate can be lowered the following year.)

How did the increase in the tax rate affect my tax bill?

The answer to this question depends on what happened to your property value. If you live in certain parts of Maricopa or Pinal County, it is possible that your property value declined a lot. In fact, it might have declined so much that even with the increase in the primary tax rate, your tax bill went down. If your property value went down by about the same percentage as the statewide average, that decrease was offset by the tax rate increase and your tax bill stayed about the same. But if your property value did not decline, or only declined a little, then your tax bill went up because of the increase in the primary tax rate.

If my tax bill went up, where did the money go?

Most school districts have less money to spend in 2011-12 because of the budget cuts. So if your district has less money to spend but your primary property tax bill went up, where did your increased taxes go? They went to your school district to offset the decrease in revenue from other sources. In some cases, your tax increase would have offset tax decreases for property owners whose value dropped a lot. In other cases, they would have offset a decrease in state equalization assistance, or it could have been a combination of the two. If your school district got less state equalization assistance, where did that money go? It went to school districts where the total district property values dropped, causing them to need an increase in equalization assistance.



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