



Arizona State Senate Issue Brief

August 27, 2008

Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

ARIZONA'S STATE AID TO SCHOOLS

CURRENT SCHOOL FINANCE SYSTEM

Prior to 1980, Arizona's school finance system relied heavily on property taxes and received very little support from the state. This resulted in spending disparities among school districts, in which school districts with high property wealth and low tax rates could raise significant revenue, while low property wealth school districts could not. In the late 1970s, as a result of court cases in which similar systems in other states were found unconstitutional, Arizona began a reform movement to address the potential unconstitutionality of its system and re-establish a "general and uniform" public school system.

The current K-12 school finance system is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula aims to "equalize" per-pupil spending among school districts, taking into account student enrollment and property wealth. Under the current school finance formula, school districts receive approximately the same amount of maintenance and operations funding per pupil. Several school districts with very strong local property tax bases are able to generate their entire formula funding entitlement solely from their local property taxes. Most school districts, however, require state aid in order to receive full funding under the formula. The school finance formula is as follows:

<p>School District Spending Limit (Equalization Base) <i>Minus</i> Local Contribution (Qualifying Tax Rate) <i>Equals</i> Basic State Aid (Equalization Assistance)</p>

EQUALIZATION BASE

The equalization base, or the school district's spending limit, is the sum of the following four elements: 1) Base Support Level (BSL); 2) Transportation Support Level (TSL); 3) Capital Outlay Revenue Limit (CORL); and 4) Soft Capital. The sum of the BSL and TSL are generally referred to as the Revenue Control Limit (RCL).

$$\text{Equalization Base} = \text{BSL} + \text{TSL} + \text{CORL} + \text{Soft Capital}$$

BSL – The BSL is the product of the school district's total weighted student enrollment multiplied by the Base Level multiplied by the Teacher Experience Index (TEI). Student enrollment is weighted for size, grade level and general special needs (Group A weights) and individual student characteristics such as special education, English Language Learner and kindergarten (Group B weights). The Base Level, a statutorily set per-pupil amount, is annually adjusted for inflation (pursuant to Proposition 301¹). Finally, the TEI rewards a school district whose combined years of teacher experience exceed the statewide average.

$$\text{BSL} = \text{Weighted Student Count} \times \text{Base Level} \times \text{Teacher Experience Index}$$

FY 2008-2009 Base Level = \$3,291.42

For school districts that elect to participate in the Career Ladder Program and assess an additional property tax levy for that purpose, the state share is added to the BSL.

TSL – The TSL is computed by multiplying a statutorily set amount, adjusted annually for

inflation, by a school district's average daily bus route miles. Other transportation related expenses, such as bus passes or tokens, are added to the total. The TSL differs from the Transportation Revenue Control Limit (TRCL), a voluntary program, which allows school districts to assess an additional property tax levy to generate additional revenue for transportation costs above the TSL amount.

$$\text{TSL} = \text{Transportation Support} \times \text{Average Route Miles} + \text{Bus Tokens and Passes}$$

CORL – The CORL is derived by multiplying a per-pupil amount specified in statute, adjusted for growth, by student enrollment. For high schools, the CORL generates an additional allowance for textbooks. Originally, these monies were intended for capital purposes; however, they can now be used for any purpose.

$$\text{CORL} = \text{Per-Pupil Amount} \times \text{Student Count} + \text{High School Textbooks}$$

\$225.76 K-8 Per-Pupil Amount
\$267.94 9-12 Per-Pupil Amount
\$ 69.68 9-12 Textbooks Per-Pupil Amount

Soft Capital – Soft capital funds are calculated by multiplying \$225 by the school district's student count. These monies can be used for soft capital items with short useful lives, such as computers and lab equipment, furniture and school buses.

$$\text{Soft Capital} = \$225 \text{ Per-Pupil} \times \text{Student Count}$$

¹ Proposition 301, as passed by voters in November 2000, authorized a 6/10th of a percent increase in sales tax to fund education programs. The proposition included a mandate to fund inflation in the school finance formula.

QUALIFYING TAX RATE

The qualifying tax rate (QTR) is a statutory property tax rate used to determine the amount

of state aid distributed to school districts. Proposition 301, as approved by voters in November 2000, set the maximum QTR that can be applied by the state at \$2.1265 for elementary and high school districts and \$4.253 for a unified school district. The school district is not under any obligation to levy the QTR or any other tax rate in order to receive state aid; however, the QTR is presumed to be the local effort of the school district for the purposes of calculating the amount of state aid.

The QTR is subject to Truth in Taxation (TNT) laws. The Joint Legislative Budget Committee is required by February 15 of each year to report TNT rates, which are then used to adjust the QTR annually. The effect of TNT is the offset of the statewide appreciation of existing property with a commensurate reduction in the QTR, ensuring that tax liability for existing properties remains unchanged despite increased property valuation.

The actual local tax rate for schools may be lower than the QTR, or higher if the district is allowed to budget for items outside of the school finance formula, such as: 1) Career Ladder; 2) Desegregation; 3) Excess Utilities; 4) Adjacent Ways; 5) Small School Adjustment; 6) Liabilities in Excess; and 7) Dropout Prevention.

Property that is located outside of school district boundaries is subject to a levy of 50 percent of the QTR. These monies are collected by the state and offset the costs of Basic State Aid.

As of February 15, 2008, the FY 2008-2009 QTR was set at \$1.4622 for high school districts and elementary school districts within a high school district and \$2.9244 for unified districts and elementary school districts not within a high school district.

Prior to FY 2006-2007, in addition to the QTR, a county equalization tax rate was also assessed on property owners to collect revenues to offset the local contribution. However, in 2006, the county education tax rate was suspended for three years and the responsibility of backfilling these dollars was transferred to the state General Fund.

BASIC STATE AID

After a school district’s equalization base is determined, the net assessed property value of the district is multiplied by the QTR in order to determine the amount of funding that is assumed to come from local contribution. If this combined amount exceeds the school district’s equalization base, the school district is not entitled to Basic State Aid. If, however, local contribution does not exceed the school district’s equalization base, the district receives Basic State Aid funding in the amount of the difference.

If:
Equalization Base > QTR = Basic State Aid
Equalization Base < QTR = No Basic State Aid

CHARTER SCHOOLS

State aid is also provided to charter schools, which are schools that do not have geographic boundaries, operate under terms specified in a “charter” and do not have taxing authority. The equalization formula for charter schools is slightly different than the one for school districts in that it does not include separate funding for CORL, Soft Capital or Transportation. Instead, the charter school funding formula consists of only two components: 1) BSL and 2) Additional Assistance.

BSL funding for charter schools is determined under the same computational formula prescribed for traditional public schools (discussed above). Additional Assistance funding amounts are established in statute and are intended to fund capital and transportation.

Charter School Funding = BSL + Additional Assistance
FY 2008-2009 Additional Assistance
\$1,474.16 K-8 Per-Pupil
\$1,718.10 High School Per-Pupil

ENDOWMENT EARNINGS

The Permanent State School Fund acts as an endowment account for all sale proceeds of state trust lands whose beneficiaries have been designated as “common schools.” Once designated state trust lands are sold, the sale proceeds are deposited into the Permanent State School Fund by the State Land Department and are invested by the State Treasurer. The monies deposited into the Permanent State School Fund from the sale of state trust lands are not considered expendable.

However, expendable endowment earnings on state trust lands held in benefit of “common schools” are used to offset the state General Fund costs of Basic State Aid. These earnings include: 1) Permanent State School Fund investment earnings; and 2) Proceeds from the lease of state trust lands and interest paid by buyers who purchase state trust land on an installment basis.

Proposition 301 limits the amount of expendable endowment earnings available to the state at the FY 2000-2001 level of \$72.3 million and dedicates any growth above the \$72.3 million level to the Proposition 301 Classroom Site Fund. In FY 2008-2009, approximately \$45.2 million of the \$72.3 million is estimated to offset state General Fund costs for Basic State Aid, and the remaining amount is set aside for debt service on bonds issued by the School Facilities Board to fund the Deficiencies Correction Program.

ADDITIONAL STATE AID

Additional State Aid requires the state to pay 38 percent of each homeowner’s school district primary property taxes, up to a maximum of \$560 per parcel. The program also pays for the “1 percent cap,” a constitutional provision that limits residential property taxes to 1 percent of a home’s full cash value. These subsidies are subtracted from the property owner’s tax assessment. The state reimburses the school districts for that uncollected revenue.

OTHER FORMULA PROGRAMS

Other entitlement programs include: 1) Assistance to School Districts for Children of State Employees (ASDCSE); 2) Certificates of Educational Convenience (CEC); and 3) Special Education Fund. The ASDCSE program supplements Basic State Aid for school districts that educate pupils whose parents are employed and domiciled at certain state institutions located within the school district’s boundaries, such as correctional facilities. CECs allow students to attend school in a school district other than the one they live in if they are placed there by an authorized state or federal agency. CECs also apply to students who reside in unorganized areas. Finally, the Special Education Fund provides funding for special education costs of students at: 1) the Arizona Schools for the Deaf and the Blind; 2) the Arizona State Hospital; 3) developmentally disabled programs administered by the Department of Economic Security; and 4) private residential facilities when a student is placed there by a state agency.

• **ADDITIONAL RESOURCES** •

- “K-12 Funding Formula Examples and Descriptions,” Joint Legislative Budget Committee, 1993
- FY 2007 Budget Recommendation Book, Individual Agency Detail, Joint Legislative Budget Committee
<http://www.azleg.gov/jlbc/newpage.htm>
- “School Finance Primer,” Hunter, Michael and Gifford, Mary.” February 2000
[www.arizonatax.org/research & publications1.htm](http://www.arizonatax.org/research_&_publications1.htm)
- Proposition 301 Publicity Pamphlet for November 7, 2000 General Election, prepared by the Arizona Secretary of State
<http://www.azsos.gov/election/2000/info/PubPamphlet/english/prop301.htm#pgfId-1>