

ARIZONA TAX RESEARCH ASSOCIATION



Arizona School Finance Discussion

Education Sub-Appropriations Committee

Jan 2018

The taxpayer's watchdog for over 75 years



Agenda

- Impacts of Inflation Adjustments
- Population Growth
- Revenue growth vs student growth
- Impact of Open Enrollment



Where's that \$1 billion?

- Arizona lost ~40% of State GF from 08-10
- Each area of government took a haircut, most never recovered
 - K-12 took cuts to capital money= district additional assistance, building \$
- For both All Sources of \$ and State and Local only
 - Up 5% in funding per student, down ~7% inflation adjusted

FY 2009

FY 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
State & Local Only <u>4</u>/ (equalization + non-formula, SFB, and misc)	8,576,430,500	8,016,125,900	8,132,845,600	7,895,860,800	8,109,640,500	8,430,688,700	8,628,028,400	8,975,568,600	9,174,744,778	9,594,870,500
Funding per Student	8,197	7,636	7,761	7,505	7,643	7,861	7,951	8,226	8,305	8,567
Inflation Adjusted Funding per Student	8,197	7,489	7,555	7,217	7,201	7,273	7,238	7,357	7,349	7,483
State, Local and Federal <u>5</u>/ (equalization + non-formula, SFB, and misc)	9,691,607,100	9,803,450,200	9,689,254,900	9,180,176,900	9,384,923,500	9,627,815,600	9,897,557,500	10,277,520,400	10,526,333,078	10,946,458,800
Funding per Student	9,263	9,339	9,247	8,726	8,845	8,977	9,120	9,419	9,528	9,774
Inflation Adjusted Funding per Student	9,263	9,159	9,000	8,391	8,333	8,305	8,304	8,425	8,432	8,537

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Inflation adjusted formulas

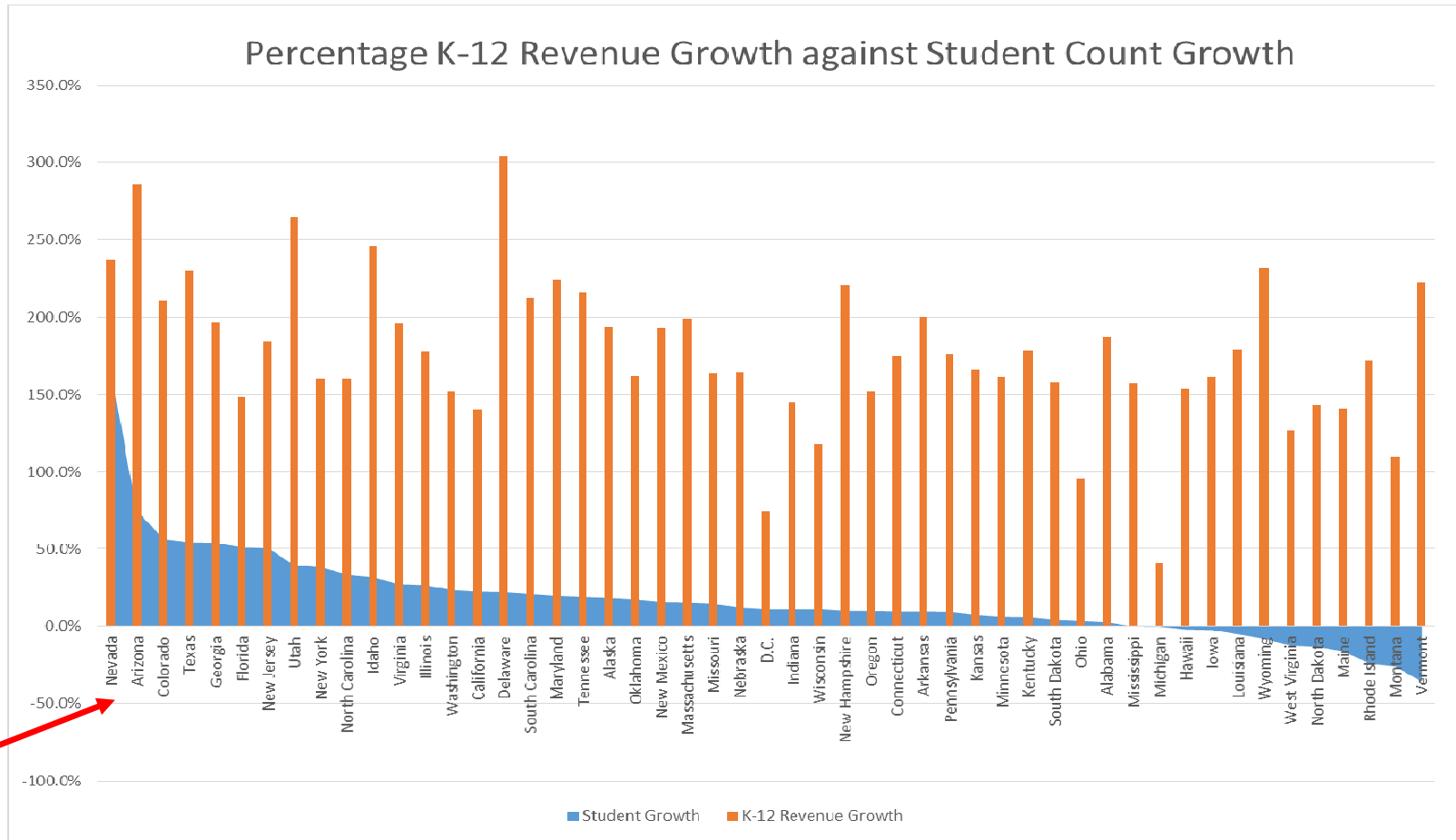
- Base Support Level & Transportation formulas are adjusted
 - Courts have ruled both will be adjusted annually
 - Many other line items fund K-12; not adjusted for inflation
 - Capital: DAA, Bonding, SFB
 - M&O: Federal dollars, nonformula programs, teacher pay stipend, etc.
- Inflation adjusted, how much are we down?
 - State only: \$302M
 - Equalization Formula only: \$559M
 - State & Local Only: \$799M
 - State, Local & Federal: \$812M

If lawmakers don't add new \$ into K-12 on top of population and inflation the budget will be described as a cut

over 75 years



K-12 Revenue Growth over Student Growth



Source: CB

er 75 years



PPCS vs Student Growth

Student Growth

Student Growth '92-'14		
1	Nevada.....	104.93%
2	Arizona.....	63.04%
3	Colorado.....	45.51%
4	Georgia.....	44.09%
5	Texas.....	41.85%
6	Florida.....	35.10%
7	North Carolina..	30.64%
8	Utah.....	24.79%
9	Idaho.....	24.20%
10	Virginia.....	23.09%
11	Washington.....	21.21%
12	California.....	19.20%
13	Tennessee.....	18.20%

Per Pupil Spending

34	Arkansas.....	9,616
35	California.....	9,595
36	Indiana.....	9,548
37	Kentucky.....	9,312
38	Georgia.....	9,202
39	Alabama.....	9,028
40	Colorado.....	8,985
41	South Dakota.....	8,881
42	Florida.....	8,755
43	Tennessee.....	8,630
44	Texas.....	8,593
45	North Carolina.....	8,512
46	Nevada.....	8,414
47	Mississippi.....	8,263
48	Oklahoma.....	7,829
49	Arizona.....	7,528
50	Idaho.....	6,621
51	Utah.....	6,500

*Census Bureau Data 2014

All but 2 of the fastest growing states (>18%) in K-12 appear in the bottom third of per-pupil expenditures

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Demographic Challenges (2013 BEA data)

% Under 18

1 Utah	30.9
2 Texas	26.6
3 Idaho	26.5
4 Alaska	25.6
5 Kansas	25
6 Georgia	24.9
Nebraska	24.9
8 Mississippi	24.7
9 Oklahoma	24.6
South Dakota	24.6
11 Arizona	24.4
12 New Mexico	24.3
13 Indiana	24.1
Louisiana	24.1
15 Arkansas	24
16 California	23.9
17 Nevada	23.7
18 Minnesota	23.6
Wyoming	23.6
20 Illinois	23.5
Colorado	23.5
22 Iowa	23.4
U.S.	23.3
23 North Carolina	23.2
24 Missouri	23.1
Kentucky	23.1
26 Alabama	23
Tennessee	23
28 Ohio	22.9
Washington	22.9
30 Wisconsin	22.8
31 Michigan	22.7
New Jersey	22.7
Maryland	22.7
34 South Carolina	22.6
Virginia	22.6
36 Virginia	22.6
37 North Dakota	22.5
38 Montana	22.1
39 Delaware	22
40 Hawaii	21.9
Connecticut	21.8
42 Oregon	21.8
43 New York	21.6
44 Pennsylvania	21.3
45 Massachusetts	20.8
Florida	20.6
47 New Hampshire	20.5
48 Rhode Island	20.4
49 Maine	19.7
50 Vermont	19.6
51 D.C.	17.2

AZ #11
Utah #1
Idaho #3

% 18-64

1 D.C.	71.4
2 Alaska	65.4
3 Massachusetts	64.4
4 Colorado	64.2
New Hampshire	64.2
Rhode Island	64.2
7 Vermont	64.1
8 Virginia	64
New York	64
10 Maryland	63.9
11 California	63.6
12 Washington	63.5
13 North Dakota	63.3
14 Georgia	63.1
15 Connecticut	63
Illinois	63
17 Wyoming	62.9
New Jersey	62.9
19 Oregon	62.7
Louisiana	62.7
21 Maine	62.6
U.S.	62.6
Nevada	62.6
23 Hawaii	62.5
Kentucky	62.5
Minnesota	62.5
North Carolina	62.5
27 Tennessee	62.4
Wisconsin	62.4
Pennsylvania	62.4
29 Michigan	62.3
31 West Virginia	62.2
Texas	62.2
33 South Carolina	62.1
Delaware	62.1
Alabama	62.1
36 Ohio	62
37 Indiana	61.9
Missouri	61.9
39 Montana	61.7
40 Mississippi	61.4
41 Oklahoma	61.1
42 Iowa	61
Kansas	61
Nebraska	61
New Mexico	61
46 Florida	60.8
47 Arkansas	60.7
48 South Dakota	60.5
49 Arizona	60.2
50 Idaho	59.6
51 Utah	59.3

AZ #49
Idaho #50
Utah #51

% 65+

1 Florida	18.7
2 Maine	17.7
3 West Virginia	17.3
4 Pennsylvania	16.4
Vermont	16.4
6 Montana	16.2
7 Delaware	15.9
8 Iowa	15.6
Hawaii	15.6
10 Rhode Island	15.5
Oregon	15.5
12 Arizona	15.4
Arkansas	15.4
New Hampshire	15.4
15 Connecticut	15.2
South Carolina	15.2
17 Ohio	15.1
18 Missouri	15
Michigan	15
20 South Dakota	14.9
Alabama	14.9
22 Massachusetts	14.8
Wisconsin	14.8
24 New Mexico	14.7
Tennessee	14.7
26 New Jersey	14.4
New York	14.4
Kentucky	14.4
29 Oklahoma	14.3
North Carolina	14.3
31 North Dakota	14.2
32 Nebraska	14.1
U.S.	14.1
33 Kansas	14
34 Indiana	13.9
Minnesota	13.9
Mississippi	13.9
37 Idaho	13.8
38 Nevada	13.7
39 Washington	13.6
40 Illinois	13.5
Wyoming	13.5
42 Maryland	13.4
Virginia	13.4
44 Louisiana	13.3
45 California	12.5
46 Colorado	12.3
47 Georgia	12
48 D.C.	11.4
49 Texas	11.2
50 Utah	9.8
51 Alaska	9

AZ #12

Idaho #37
Utah #50

for over 75 years



State Wealth Comparisons

Per Capita Income, 2013 (BEA)

Arizona's wealth per-capita has historically been low and lagged as population growth outpaced other states.

37.	NEVADA	39,235
38.	MICHIGAN	39,055
39.	NORTH CAROLINA	38,683
40.	INDIANA	38,622
41.	GEORGIA	37,845
42.	ARIZONA	36,983
43.	ARKANSAS	36,698
44.	UTAH	36,640
45.	ALABAMA	36,481
46.	KENTUCKY	36,214
47.	IDAHO	36,146
48.	NEW MEXICO	35,965

Income per student, 2013 (NEA, BEA)

Wealth per-student strongly correlates to per-pupil spending.

38.	ALABAMA	239,722
39.	OKLAHOMA	239,439
40.	KENTUCKY	235,186
41.	WEST VIRGINIA	233,393
42.	SOUTH CAROLINA	232,015
43.	ARKANSAS	230,320
44.	TEXAS	229,313
45.	ARIZONA	229,080
46.	NEVADA	229,076
47.	NEW MEXICO	224,447
48.	GEORGIA	222,085
49.	MISSISSIPPI	205,828
50.	IDAHO	198,153
51.	UTAH	176,972
	MEDIAN	284,646

Tax dollars are taken from economy: wealth per student matters for over 75 years



Total Revenues to K-12

Total K-12 Revenue
(FY15) per pupil (ADA)

AZ: #38



What it means?

AZ is below average in per-pupil revenues directed towards K-12 but certainly is not last

Total K-12 Revenue FY15
per \$1000 of personal
income in 2013 \$

AZ: #19



What it means?

Counting all sources, public school revenues are above average relative to Arizona's wealth

*Statistics from *2016 NEA Rankings & Estimates* which uses state data with CB and BEA data

Growth states like AZ direct increased dollars to capital spending which compete with general fund spending

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What's Up With Teacher Pay?

- AZ historically had competitive teacher pay
 - During Prop 301: AZ #34 for teacher pay
 - Adjust for per capita income (PCI), #24
- Prop 301 added ~\$500M, 60% earmarked for teachers only
- Avg teacher pay stagnant last 5 years: today ~\$47K (OAG)
- Today: teacher pay ranks #43; adjusted by PCI #28
- Why are some saying we're last?
 - Morrison Institute uses BLS data, adjusts for regional price parities (RPP)
 - Starting pay is less competitive than average pay

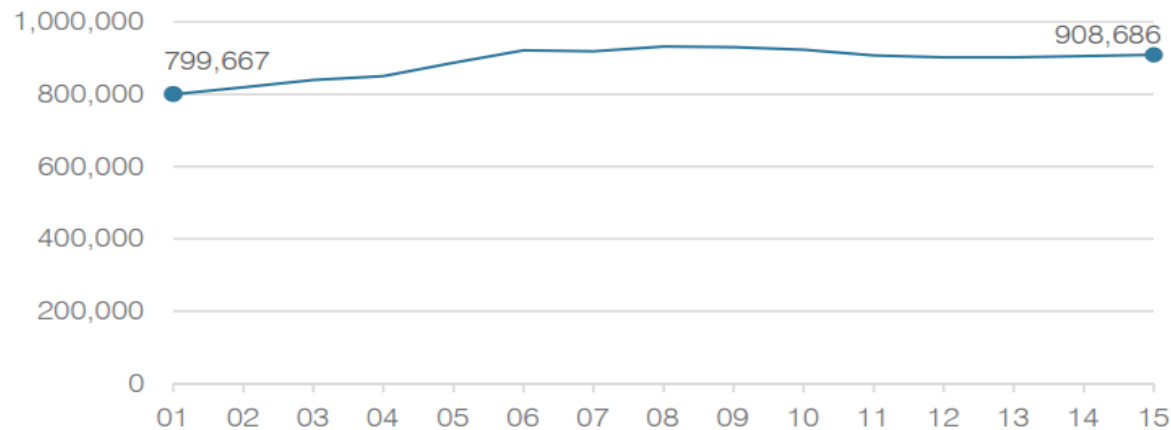
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What Changed?

- PPCS ranking has not changed
 - Continue to rank #48 or #49 (including D.C.)
 - 2006: AZ per pupil spending is 70.8% of national average// 2014: 71%
- District school enrollment stopped growing in 2006

Students attending



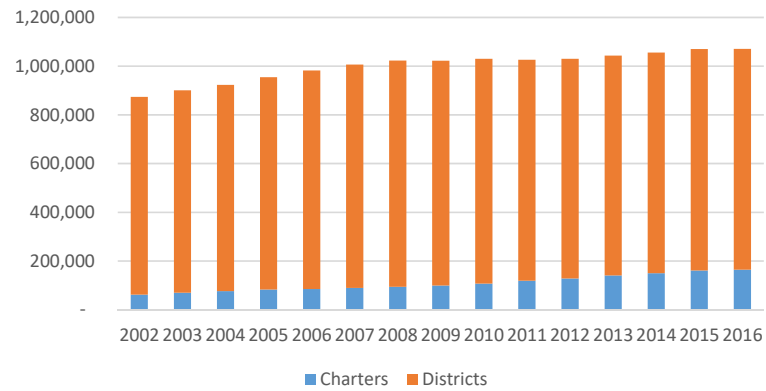
Source: OAG

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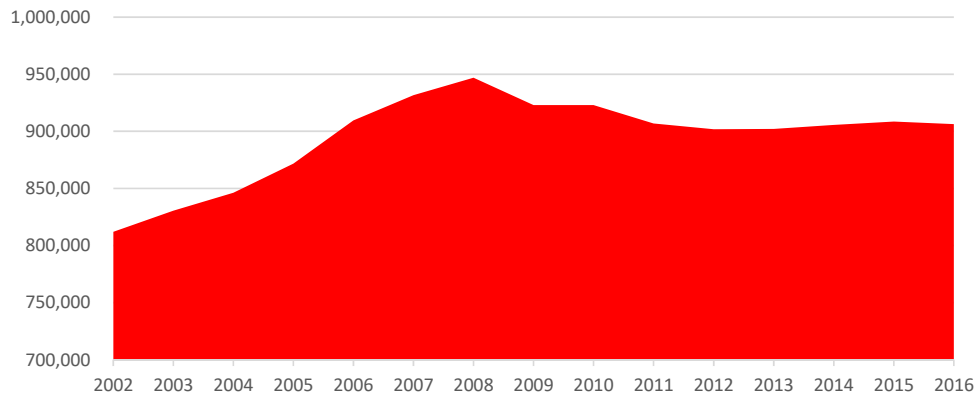


Student Demographic Trends

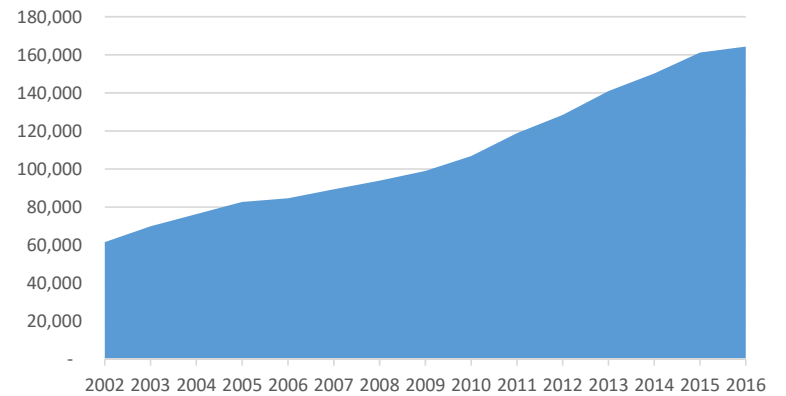
AZ K-12 ADM Count



District Growth



Charter Growth



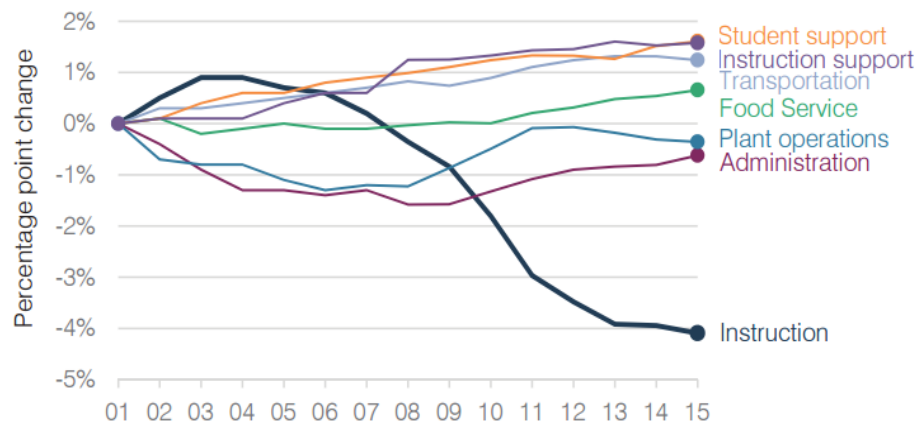
Source: OAG, ADE *The taxpayer's watchdog for over 75 years*



Recession + Student Diaspora

- Charter enrollment 2006: 8.5% of total, now ~16%
- Online enrollment tripled 15K to 50K
- Staff and school sites have outpaced ADM growth
- Yale study found 47% of Maricopa Co. K-8 using open enrollment

Changes in operational spending percentages



Source: NEA, OAG

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Capital Space and Staff

- Despite negative district growth since '07
 - Roughly 20 net new school sites
 - Built about 11 million sqft (143M total)
- 90 more charter elementary sites since '07
- Some districts have high levels of underutilized space
 - Closing schools is an incredibly difficult choice
 - Reducing staff during a decline is also difficult



Managing a Declining Budget

- For the first time in decades, most districts are flat or declining
- What if you lose 1 kid per classroom in every school?
- Costs don't materially change
- Mesa Unified has 70 schools, budget hit = ~\$5 million

- Making it worse...
 - Capital resources dependent on local bonding
 - ASRS, healthcare costs, Special Education costs

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Teacher Pay efficiency

		ADM (Student Count)				FY 2016 AVG teach salary	Total Operational per pupil \$	Avg Salary/ per pupil \$
		2017	2000	Change	% Chg			
1	Higley Uni	11,660	295	11,365	3852.5%	43,789	5,542	7.90
2	Litchfield Elem	10,788	3,041	7,747	254.8%	48,784	6,300	7.74
3	Chandler Unified	43,306	19,363	23,943	123.7%	52,001	7,158	7.26
4	Tolleson Union HS	11,275	4,167	7,108	170.6%	43,696	6,030	7.25
5	Dysart Unified	23,857	4,670	19,187	410.9%	46,738	6,498	7.19
6	Tempe Union HS	13,561	12,536	1,025	8.2%	54,019	7,553	7.15
7	Alhambra Elem	12,468	12,463	5	0.0%	56,829	7,956	7.14
8	Cartwright Elem	16,765	17,329	-564	-3.3%	51,060	7,220	7.07
9	Kyrene Elem	16,198	18,610	-2,412	-13.0%	48,334	6,860	7.05
10	Mesa Unified	60,618	67,623	-7,005	-10.4%	55,413	7,897	7.02
11	Pendergast Elem	9,590	7,139	2,451	34.3%	47,382	6,756	7.01
12	Gilbert Unified	33,764	25,793	7,971	30.9%	47,692	6,811	7.00
13	Agua Fria Uni	7,703	2,158	5,545	257.0%	48,330	6,981	6.92
14	Laveen Elem	6,278				45,253	6,564	6.89
15	Glendale Union	15,509	13,046	2,463	18.9%	55,002	8,061	6.82
16	Crane Elem	6,031				43,824	6,479	6.76
17	Paradise Valley	30,665	33,263	-2,598	-7.8%	49,389	7,472	6.61
18	Deer Valley Uni	32,657	24,753	7,904	31.9%	44,712	6,880	6.50
19	Yuma Union HS	10,959	7,831	3,128	39.9%	43,318	6,818	6.35
20	Glendale Elem	12,504	11,004	1,500	13.6%	44,873	7,155	6.27

- Studied largest 40 districts in AZ using OAG data
- Sorted by Average Salary/Per pupil \$
- Answers the question: using their available \$, who has best teacher pay
- Strongly correlated to recent growth

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Young Teachers

- Growth states have young teachers, depresses averages
- AZ leads nation for % of teacher <3 years' experience*
- #2 for % of teachers with 0 to 9 years' experience*
- Starting pay is roughly \$34,000
 - Business managers say it's not competitive
 - "Slow grind" up the pay scale frustrates young teachers
 - Average graduate has \$30,000 in debt
 - Take home pay after taxes, ASRS & loan debt is ~\$1,975 per month
- Difficult to compress salary schedule

* National Center Education Statistics

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Good News/Bad News

- **G:** Adjusted for PCI, avg salary competitive regionally
 - **B:** Narrative is AZ teacher pay is 'last' or 'very low'
 - **B:** Regional starting pay hurts AZ competitiveness
- **G:** Teacher shortage is not unique to AZ
 - **B:** AZ appears to have above average attrition, turnover
- **G:** Teachers not reportedly leaving for pay (per Morrison study)
 - **B:** Reportedly less teachers returning after life events
- **B:** Data problems
 - CB & NCES don't count charter data at all; BLS data doesn't correlate with other sources
 - Discrepancies between CB, Auditor General, NEA, etc

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Questions?

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