

### Proposed Agreement

- Obtain Plaintiffs' full, final, and binding commitment to settlement and release of lawsuit claims.
- Reset Base Level to \$3,600.00 for FY 2016 (i.e. ~ \$249 million for the reset).
- Implement State Land Trust distribution reform to allow 6.9% distribution for 10 years – with all distributions and supplemental appropriations credited as fulfillment towards State funding obligations under A.R.S. § 15-901.01.
- Implement multiple triggers –
  - Base-level inflator trigger – suspends § 15-901.01 base-level inflator
    - Annual Discretionary Trigger – When TPT growth and employment growth measures are below 2% but remain at least 1% or higher (based on 12-month calendar year lookback measured once annually).
    - Annual Mandatory Trigger – When TPT growth and employment growth measures are below 1% (based on a 12-month calendar year lookback measured once annually).
    - No entitlement to back pay, base level returns to same level of funding it would have been if the trigger had not been met.
  - Trust Distribution Trigger –
    - Compares the current 5-year average balance to the prior 5-year average balance (based on a 12-month calendar year lookback measured once annually). If the current balance is lower, the Legislature is permitted to change the Land Trust distribution for the next fiscal year to an amount between 2.5 and 6.9%.
    - Clarifies that the General Fund does not have to make up/supplant trust distribution contributions toward the base level reset cost when a triggering event occurs.
  - Aggregate Trigger – FY 2026 and thereafter.
    - Whenever total General Fund K-12 appropriations equals 49% of total General Fund appropriations, lawmakers may:
      - Suspend A.R.S. § 15-901.01 base-level inflator plus
      - Reduce K-12 funding by equivalent of the prior year's inflationary adjustment.
    - Whenever total General Fund K-12 appropriations equals 50% of total General Fund appropriations, lawmakers may:
      - Suspend A.R.S. § 15-901.01 base-level inflator plus
      - Reduce K-12 funding by equivalent of twice the prior year's inflationary adjustment.
- Implement supplemental (non-base level) General Fund commitment:
  - Appropriating \$50 million for 5 years starting with FY 2016.
  - Appropriating \$75 million for 5 years starting with FY 2021.
- Clarifies that lawmakers' constitutional authority remains intact, and it not limited by any of the constitutional changes (i.e., preserves the status quo).
- Entire package, including appropriations and triggers, will be conditionally enacted upon the voters approving the Constitutional changes, so if the voters do not approve the ballot measures, the entire package isn't enacted.

Proposed Agreement

Proposal				
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Fiscal Year	Base Level Increase <u>1/ 2/</u>	Estimated Cost of Reset <u>3/</u>	Additional Funds	Estimated Total Increase K-12
2016	\$ 173.26	\$ 248,829,400	\$ 50,000,000	\$ 298,829,400
2017	176.03	256,350,000	50,000,000	306,350,000
2018	178.85	264,098,000	50,000,000	314,098,000
2019	181.71	272,080,100	50,000,000	322,080,100
2020	184.62	280,303,400	50,000,000	330,303,400
2021	187.57	288,775,300	75,000,000	363,775,300
2022	190.57	297,503,300	75,000,000	372,503,300
2023	193.62	306,495,000	75,000,000	381,495,000
2024	196.72	315,758,500	75,000,000	390,758,500
2025	199.87	325,302,000	75,000,000	400,302,000
<b>Total</b>		<b>\$ 2,855,495,000</b>	<b>\$ 625,000,000</b>	<b>\$ 3,480,495,000</b>

Funding				
A	B	C	D	E
Fiscal Year	Land Trust Proposal - 6.9% <u>4/</u>	Additional Inflation <u>5/</u>	Additional General Fund <u>6/</u>	Estimated Total Increase K-12
2016	\$ 172,081,000	\$ 74,394,000	\$ 52,354,400	\$ 298,829,400
2017	188,396,000	75,584,300	42,369,700	306,350,000
2018	203,034,000	76,793,600	34,270,400	314,098,000
2019	212,551,000	78,022,300	31,506,800	322,080,100
2020	215,951,000	79,270,700	35,081,700	330,303,400
2021	216,147,000	80,539,000	67,089,300	363,775,300
2022	215,311,000	81,827,600	75,364,700	372,503,300
2023	213,622,000	83,136,800	84,736,200	381,495,000
2024	211,161,000	84,467,000	95,130,500	390,758,500
2025	207,988,000	85,818,500	106,495,500	400,302,000
<b>Total</b>	<b>\$ 2,056,242,000</b>	<b>\$ 799,853,800</b>	<b>\$ 624,399,200</b>	<b>\$ 3,480,495,000</b>

**Assumptions**

- 1/ Reflects estimated Base Level amounts using an assumed 1.6% annual inflation rate, as the proposal would keep existing language in A.R.S. 15-901.01 requiring annual inflation adjustments based on the change in the GDP deflator, not to exceed 2% in any fiscal year.
- 2/ The current base level is \$3,426.74. The proposal would reset the base level to \$3,600.
- 3/ Based on annual enrollment growth of 1.4%.
- 4/ Reflects OSPB estimates of increased land trust distributions.
- 5/ The \$74.4 M "Additional Inflation" amount for FY 16 was included in the enacted budget.
- 6/ This column represents E - B - C

# By '25, K-12 Grows to 46% in Baseline, Declines Slightly in Discretionary Scenario

- Over last decade, K-12 spending was 39% - 43% of General Fund
- Baseline: current statutory requirements, no discretionary adjustments
- Alternative: adds discretionary spending + 10 year average tax cut
- Both scenarios include impact of K-12 proposal

K-12 as % of Spending

