

REFERENCE TITLE: school finance; funding system

State of Arizona  
Senate  
Fifty-first Legislature  
Second Regular Session  
2014

## **SB 1092**

Introduced by  
Senators Crandell, Ward; Representative Barton; Senators Farnsworth D,  
Yarbrough; Representatives Mitchell, Pierce J, Seel, Shope, Thorpe

AN ACT

AMENDING SECTION 15-977, ARIZONA REVISED STATUTES; AMENDING TITLE 15, CHAPTER 9, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 15-977.01; AMENDING SECTIONS 15-991.01 AND 15-992, ARIZONA REVISED STATUTES; RELATING TO SCHOOL FINANCE.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 15-977, Arizona Revised Statutes, is amended to  
3 read:

4 15-977. Classroom site fund; definitions

5 A. The classroom site fund is established consisting of monies  
6 transferred to the fund pursuant to section 37-521, subsection B, ~~and~~ section  
7 42-5029, subsection E, paragraph 10 **AND SECTIONS 15-991.01, 15-992 AND**  
8 **15-994**. The department of education shall administer the fund. School  
9 districts and charter schools may not supplant existing school site funding  
10 with revenues from the fund. All monies distributed from the fund are  
11 intended for use at the school site. **EXCEPT AS PROVIDED IN SUBSECTION O OF**  
12 **THIS SECTION**, each school district or charter school shall allocate forty per  
13 cent of the monies for teacher compensation increases based on performance  
14 and employment related expenses, twenty per cent of the monies for teacher  
15 base salary increases and employment related expenses and forty per cent of  
16 the monies for maintenance and operation purposes as prescribed in subsection  
17 H of this section. Teacher compensation increases based on performance or  
18 teacher base salary increases distributed pursuant to this subsection shall  
19 supplement, and not supplant, teacher compensation monies from any other  
20 sources. The school district or charter school shall notify each school  
21 principal of the amount available to the school by April 15 of each year.  
22 The district or charter school shall request from the school's principal each  
23 school's priority for the allocation of the funds available to the school for  
24 each program listed under subsection H of this section. The amount budgeted  
25 by the school district or charter school pursuant to this section shall not  
26 be included in the allowable budget balance carryforward calculated pursuant  
27 to section 15-943.01.

28 B. A school district governing board must adopt a performance based  
29 compensation system at a public hearing to allocate funding from the  
30 classroom site fund pursuant to subsection A of this section. Beginning in  
31 school year 2014-2015, individual teacher performance as measured by the  
32 teacher's performance classification pursuant to section 15-203, subsection  
33 A, paragraph 38 shall be a component of the school district's portion of the  
34 forty per cent allocation for teacher compensation based on performance and  
35 employment related expenses.

36 C. A school district governing board shall vote on a performance based  
37 compensation system that includes the following elements:

38 1. School district performance and school performance.

39 2. Individual teacher performance as measured by the teacher's  
40 performance classification pursuant to section 15-203, subsection A,  
41 paragraph 38. Beginning in school year 2014-2015, the individual teacher  
42 performance component shall account for thirty-three per cent of the forty  
43 per cent allocation for teacher compensation based on performance and  
44 employment related expenses.

1           3. Measures of academic progress toward the academic standards adopted  
2 by the state board of education.

3           4. Other measures of academic progress.

4           5. Dropout or graduation rates.

5           6. Attendance rates.

6           7. Ratings of school quality by parents.

7           8. Ratings of school quality by students.

8           9. The input of teachers and administrators.

9           10. Approval of the performance based compensation system based on an  
10 affirmative vote of at least seventy per cent of the teachers eligible to  
11 participate in the performance based compensation system.

12           11. An appeals process for teachers who have been denied performance  
13 based compensation.

14           12. Regular evaluation for effectiveness, which shall comply by fiscal  
15 year 2014-2015 with section 15-203, subsection A, paragraph 38.

16           D. A performance based compensation system shall include teacher  
17 professional development programs that are aligned with the elements of the  
18 performance based compensation system.

19           E. A school district governing board may modify the elements contained  
20 in subsection C of this section and consider additional elements when  
21 adopting a performance based compensation system. A school district  
22 governing board shall adopt any modifications or additional elements and  
23 specify the criteria used at a public hearing.

24           F. Until December 31, 2009, each school district shall develop an  
25 assessment plan for its performance based compensation system and submit the  
26 plan to the department of education by December 31 of each year. A copy of  
27 the performance based compensation system and assessment plan adopted by the  
28 school district governing board shall be included in the report submitted to  
29 the department of education.

30           G. Monies in the fund are continuously appropriated, are exempt from  
31 the provisions of section 35-190 relating to lapsing of appropriations and,  
32 **EXCEPT AS PROVIDED IN SUBSECTION O OF THIS SECTION**, shall be distributed as  
33 follows:

34           1. By March 30 of each year, the staff of the joint legislative budget  
35 committee shall determine a per pupil amount from the fund for the budget  
36 year using the estimated statewide weighted count for the current year  
37 pursuant to section 15-943, paragraph 2, subdivision (a) and based on  
38 estimated available resources in the classroom site fund for the budget year  
39 adjusted for any prior year carryforward or shortfall.

40           2. The allocation to each charter school and school district for a  
41 fiscal year shall equal the per pupil amount established in paragraph 1 of  
42 this subsection for the fiscal year multiplied by the weighted student count  
43 for the school district or charter school for the fiscal year pursuant to  
44 section 15-943, paragraph 2, subdivision (a). For the purposes of this  
45 paragraph, the weighted student count for a school district that serves as

1 the district of attendance for nonresident pupils shall be increased to  
2 include nonresident pupils who attend school in the school district.

3 H. EXCEPT AS PROVIDED IN SUBSECTION O OF THIS SECTION, monies  
4 distributed from the classroom site fund shall be spent for the following  
5 maintenance and operation purposes:

- 6 1. Class size reduction.
- 7 2. Teacher compensation increases.
- 8 3. AIMS intervention programs.
- 9 4. Teacher development.
- 10 5. Dropout prevention programs.
- 11 6. Teacher liability insurance premiums.

12 I. The district governing board or charter school shall allocate the  
13 classroom site fund monies to include, wherever possible, the priorities  
14 identified by the principals of the schools while assuring that the funds  
15 maximize classroom opportunities and conform to the authorized expenditures  
16 identified in subsection A of this section.

17 J. School districts and charter schools that receive monies from the  
18 classroom site fund shall submit a report by November 15 of each year to the  
19 superintendent of public instruction that provides an accounting of the  
20 expenditures of monies distributed from the fund during the previous fiscal  
21 year and a summary of the results of district and school programs funded with  
22 monies distributed from the fund. The department of education in conjunction  
23 with the auditor general shall prescribe the format of the report under this  
24 subsection.

25 K. School districts and charter schools that receive monies from the  
26 classroom site fund shall receive these monies monthly in an amount not to  
27 exceed one-twelfth of the monies estimated pursuant to subsection G of this  
28 section, except that if there are insufficient monies in the fund that month  
29 to make payments, the distribution for that month shall be prorated for each  
30 school district or charter school. The department of education may make an  
31 additional payment in the current month for any prior month or months in  
32 which school districts or charter schools received a prorated payment if  
33 there are sufficient monies in the fund that month for the additional  
34 payments. The state is not required to make payments to a school district or  
35 charter school classroom site fund if the state classroom site fund revenue  
36 collections are insufficient to meet the estimated allocations to school  
37 districts and charter schools pursuant to subsection G of this section.

38 L. The state education system for committed youth shall receive monies  
39 from the classroom site fund in the same manner as school districts and  
40 charter schools. The Arizona state schools for the deaf and the blind shall  
41 receive monies from the classroom site fund in an amount that corresponds to  
42 the weighted student count for the current year pursuant to section 15-943,  
43 paragraph 2, subdivision (b) for each pupil enrolled in the Arizona state  
44 schools for the deaf and the blind. Except as otherwise provided in this  
45 subsection, the Arizona state schools for the deaf and the blind and the

1 state education system for committed youth are subject to this section in the  
2 same manner as school districts and charter schools.

3 M. Each school district and charter school, including school districts  
4 that unify pursuant to section 15-448 or consolidate pursuant to section  
5 15-459, shall establish a local level classroom site fund to receive  
6 allocations from the state level classroom site fund. The local level  
7 classroom site fund shall be a budgetary controlled account. Interest  
8 charges for any registered warrants for the local level classroom site fund  
9 shall be a charge against the local level classroom site fund. Interest  
10 earned on monies in the local level classroom site fund shall be added to the  
11 local level classroom site fund as provided in section 15-978. This state  
12 shall not be required to make payments to a school district or charter school  
13 local level classroom site fund that are in addition to monies transferred to  
14 the state level classroom site fund pursuant to section 37-521, subsection B  
15 and section 42-5029, subsection E, paragraph 10.

16 N. Monies distributed from the classroom site fund for class size  
17 reduction, AIMS intervention and dropout prevention programs shall only be  
18 used for instructional purposes in the instruction function as defined in the  
19 uniform system of financial records, except that monies shall not be used for  
20 school sponsored athletics.

21 O. MONIES IN THE CLASSROOM SITE FUND THAT ARE TRANSFERRED TO THE FUND  
22 PURSUANT TO SECTIONS 15-991.01 AND 15-992 MUST BE DISTRIBUTED TO SCHOOL  
23 DISTRICTS ON A PER PUPIL BASIS AND USED FOR EDUCATIONAL ENHANCEMENTS. THESE  
24 MONIES MUST BE HELD IN A SEPARATE TRUST FUND ACCOUNT DESIGNATED AS THE  
25 CLASSROOM SITE FUND TRUST FUND ACCOUNT, AND THE SUPERINTENDENT OF PUBLIC  
26 INSTRUCTION SHALL ADMINISTER THESE MONIES AS TRUSTEE. THE STATE TREASURER  
27 SHALL ACCEPT, SEPARATELY ACCOUNT FOR AND HOLD IN TRUST ANY MONIES DEPOSITED  
28 IN THE STATE TREASURY, WHICH ARE CONSIDERED TO BE TRUST MONIES AS DEFINED IN  
29 SECTION 35-310 AND MAY NOT BE COMMINGLED WITH ANY OTHER MONIES IN THE STATE  
30 TREASURY EXCEPT FOR INVESTMENT PURPOSES. ON NOTICE FROM THE SUPERINTENDENT  
31 OF PUBLIC INSTRUCTION, THE STATE TREASURER SHALL INVEST AND DIVEST ANY TRUST  
32 FUND ACCOUNT MONIES DEPOSITED IN THE STATE TREASURY AS PROVIDED BY SECTIONS  
33 35-313 AND 35-314.03, AND MONIES EARNED FROM INVESTMENT MUST BE CREDITED TO  
34 THE TRUST FUND ACCOUNT. SURPLUS MONIES, INCLUDING ANY UNEXPENDED AND  
35 UNENCUMBERED BALANCE AT THE END OF THE FISCAL YEAR, DO NOT REVERT TO THE  
36 STATE GENERAL FUND. THE SCHOOL DISTRICTS IN THIS STATE ARE THE BENEFICIARY  
37 OF THE TRUST. ALL MONIES IN THE CLASSROOM SITE FUND TRUST FUND ACCOUNT MUST  
38 BE SPENT AS THE SUPERINTENDENT OF PUBLIC INSTRUCTION DIRECTS TO CARRY OUT  
39 THIS SUBSECTION.

40 ~~O.~~ P. For the purposes of this section:

41 1. "AIMS intervention" means summer programs, after school programs,  
42 before school programs or tutoring programs that are specifically designed to  
43 ensure that pupils meet the Arizona academic standards as measured by the  
44 Arizona instrument to measure standards test prescribed by section 15-741.



1           Sec. 4. Section 15-992, Arizona Revised Statutes, is amended to read:  
2           15-992. School district tax levy; additional tax in districts  
3                           ineligible for equalization assistance; definition

4           A. The board of supervisors of each county shall annually LEVY, at the  
5 time of levying other taxes, ~~levy~~ school district taxes on the property in  
6 any school district in which additional amounts are required, which shall be  
7 at rates sufficient to provide the additional amounts. No delinquency factor  
8 for estimated uncollected taxes may be included in the computation of the  
9 primary tax rate for school district taxes. No local property taxes may be  
10 levied for any deficit in the classroom site fund. The taxes shall be added  
11 to and collected in the same manner as other county taxes on the property  
12 within the school district. The amount of the school district taxes levied  
13 ~~upon~~ ON the property in a particular school district shall be paid into the  
14 school fund of ~~such~~ THE school district, AND THE COUNTY TREASURER SHALL  
15 TRANSMIT THE MONIES THAT ARE GENERATED BY THE QUALIFYING TAX RATE DETERMINED  
16 PURSUANT TO SECTION 41-1276 AND THE STATE EQUALIZATION ASSISTANCE PROPERTY  
17 TAX LEVY PURSUANT TO SECTION 15-994 TO THE STATE TREASURER FOR DEPOSIT IN THE  
18 ARIZONA K-12 EDUCATION FUND ESTABLISHED BY SECTION 15-977.01.

19           B. At the same time of levying taxes as provided in subsection A of  
20 this section, the county board of supervisors shall annually levy an  
21 additional tax in each school district that is not eligible for equalization  
22 assistance as provided in section 15-971 in an amount determined as follows:

23           1. Determine the levy that would be produced by ~~fifty per cent of~~ the  
24 applicable qualifying tax rate, prescribed in section 15-971, subsection B,  
25 per one hundred dollars assessed valuation.

26           2. Subtract the amount determined in section 15-971, subsection A from  
27 the levy determined in paragraph 1 of this subsection. This difference is  
28 the additional amount levied or collected as voluntary contributions pursuant  
29 to title 48, chapter 1, article 8, except that if the difference is zero or  
30 is a negative number, there shall be no levy.

31           C. Monies collected pursuant to subsection B of this section shall be  
32 transmitted to the state treasurer for deposit in the ~~state general fund to~~  
33 ~~aid in school financial assistance~~ ARIZONA K-12 EDUCATION FUND ESTABLISHED BY  
34 SECTION 15-977.01, EXCEPT THAT THE STATE TREASURER SHALL ANNUALLY DEPOSIT A  
35 TOTAL OF ONE HUNDRED FIFTY MILLION DOLLARS LEVIED PURSUANT TO THIS SECTION  
36 AND SECTION 15-991.01 IN THE CLASSROOM SITE FUND ESTABLISHED BY SECTION  
37 15-977.

38           D. The additional tax prescribed in subsection B of this section is  
39 considered to be primary property tax for purposes of section 15-972,  
40 subsection B, except that this state is not required to make the payments  
41 prescribed in section 15-972, subsection H for these reductions in taxes.

42           E. For the purposes of this section, "assessed valuation" includes the  
43 values used to determine voluntary contributions collected pursuant to title  
44 9, chapter 4, article 3 and title 48, chapter 1, article 8.

1           Sec. 5. Qualifying tax rate changes: phase in

2           Notwithstanding sections 15-991.01 and 15-992, Arizona Revised  
3 Statutes, as amended by this act, the qualifying tax rates on property that  
4 is not located in a school district and on property in a school district that  
5 is not eligible for equalization assistance are the following amounts in the  
6 following fiscal years:

7           1. In fiscal year 2013-2014, fifty per cent of the applicable  
8 qualifying tax rate prescribed by section 15-971, subsection B, Arizona  
9 Revised Statutes.

10          2. In fiscal year 2014-2015, sixty per cent of the applicable  
11 qualifying tax rate prescribed by section 15-971, subsection B, Arizona  
12 Revised Statutes.

13          3. In fiscal year 2015-2016, seventy per cent of the applicable  
14 qualifying tax rate prescribed by section 15-971, subsection B, Arizona  
15 Revised Statutes.

16          4. In fiscal year 2016-2017, eighty per cent of the applicable  
17 qualifying tax rate prescribed by section 15-971, subsection B, Arizona  
18 Revised Statutes.

19          5. In fiscal year 2017-2018, ninety per cent of the applicable  
20 qualifying tax rate prescribed by section 15-971, subsection B, Arizona  
21 Revised Statutes.

22          6. In fiscal year 2018-2019 and continuing each fiscal year  
23 thereafter, one hundred per cent of the applicable qualifying tax rate  
24 prescribed by section 15-971, subsection B, Arizona Revised Statutes.

25           Sec. 6. Qualifying tax rate monies transmitted to the classroom  
26 site fund: phase in

27           Notwithstanding sections 15-991.01 and 15-992, Arizona Revised  
28 Statutes, as amended by this act, the county treasurers in this state shall  
29 transmit a portion of the monies received from levying the qualifying tax  
30 rate on property to the state treasurer for deposit in the classroom site  
31 fund established by section 15-977, Arizona Revised Statutes, that total the  
32 following amounts in the following fiscal years:

33           1. In fiscal year 2013-2014, zero dollars.

34           2. In fiscal year 2014-2015, thirty million dollars.

35           3. In fiscal year 2015-2016, sixty million dollars.

36           4. In fiscal year 2016-2017, ninety million dollars.

37           5. In fiscal year 2017-2018, one hundred twenty million dollars.

38           6. In fiscal year 2018-2019 and continuing each fiscal year  
39 thereafter, one hundred fifty million dollars.

40           Sec. 7. Intent

41           It is the intent of the legislature to:

42           1. Simplify and improve the current system for funding elementary and  
43 secondary education in this state.

44           2. Reduce restrictions on the use of monies by school districts.

45           3. Eliminate disparities in per pupil funding.

1           4. Increase total funding for pupils who enroll in school districts in  
2 this state.

3           5. Establish a new K-12 education fund for the purpose of providing  
4 transparency in education funding.

5           6. Generate a new qualifying tax rate to eliminate disparities in per  
6 pupil funding between school districts that have adopted budget overrides and  
7 school districts that have not adopted budget overrides.

8           Sec. 8. Requirements for enactment: two-thirds vote

9           Pursuant to article IX, section 22, Constitution of Arizona, this act  
10 is effective only on the affirmative vote of at least two-thirds of the  
11 members of each house of the legislature and is effective immediately on the  
12 signature of the governor or, if the governor vetoes this act, on the  
13 subsequent affirmative vote of at least three-fourths of the members of each  
14 house of the legislature.

15           Sec. 9. Conforming legislation

16           The legislative council staff shall prepare proposed legislation  
17 conforming the Arizona Revised Statutes to the provisions of this act for  
18 consideration in the fifty-second legislature, first regular session.