State of Arizona
House of Representatives
Fifty-second Legislature
First Special Session
2015

HOUSE CONCURRENT RESOLUTION 2001

A CONCURRENT RESOLUTION

PROPOSING AN AMENDMENT TO THE CONSTITUTION OF ARIZONA; AMENDING ARTICLE X, SECTION 7, CONSTITUTION OF ARIZONA; AMENDING ARTICLE XI, CONSTITUTION OF ARIZONA, BY ADDING SECTION 11; RELATING TO EDUCATION FINANCE.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it resolved by the House of Representatives of the State of Arizona, the Senate concurring:

1. Article X, section 7, Constitution of Arizona, is proposed to be amended as follows if approved by the voters and on proclamation of the Governor:

7. Establishment of permanent funds; segregation, investment and distribution of monies; exception; resolution of litigation

Section 7. A. A separate permanent fund shall be established for each of the several objects for which the said grants are made and confirmed by the enabling act to the state, and whenever any monies shall be in any manner derived from any of said lands, the same shall be deposited by the state treasurer in the permanent fund corresponding to the grant under which the particular land producing such monies was, by the enabling act, conveyed or confirmed.

B. No monies shall ever be taken from one permanent fund for deposit in any other, or for any object other than that for which the land producing the same was granted or confirmed.

C. All such monies shall be invested in safe interest-bearing securities and prudent equity securities consistent with the requirements of this section.

D. The legislature shall establish a board of investment to serve as trustees of the permanent funds. The board shall provide for the management of the assets of the funds consistent with the following conditions:

1. Not more than sixty percent percent of a fund at cost may be invested in equities at any time.
2. Equities that are eligible for purchase are restricted to stocks listed on any national stock exchange or eligible for trading through the United States national association of securities dealers automated quotation system, or successor institutions, except as may be prohibited by general criteria or by a restriction on investment in a specific security adopted pursuant to this subsection.
3. Not more than five percent percent of all of the funds combined at cost may be invested in equity securities issued by the same institution, agency or corporation, other than securities issued as direct obligations of and fully guaranteed by the United States government.

E. In making investments under this section the state treasurer and trustees shall exercise the judgment and care under the prevailing circumstances that an institutional investor of ordinary prudence, discretion and intelligence exercises in managing large investments entrusted to it, not in regard to speculation, but in regard to the permanent
disposition of monies, considering the probable safety of capital as well as the probable total rate of return over extended periods of time.

F. The earnings, interest, dividends and realized capital gains and losses from investment of a permanent fund, shall be credited to that fund.

G. The board of investment shall determine the amount of the annual distributions required by this section and allocate distributions pursuant to law. Beginning July 1, 2000 and except as otherwise provided in this section, the amount of the annual distribution from a permanent fund established pursuant to this section is the amount determined by multiplying the following factors:

1. The average of the annual total rate of return for the immediately preceding five complete fiscal years less the average of the annual percentage change in the GDP price deflator, or a successor index, for the immediately preceding five complete fiscal years. For the purposes of this paragraph:
   (a) “Annual total rate of return” means the quotient obtained by dividing the amount credited to a fund pursuant to subsection F for a complete fiscal year, plus unrealized capital gains and losses, by the average monthly market value of the fund for that year.
   (b) “GDP price deflator” means the gross domestic price deflator reported by the United States department of commerce, bureau of economic analysis, or its successor agency.

2. The average of the monthly market values of the fund for the immediately preceding five complete fiscal years.

H. Notwithstanding any other provision of this section, the annual distribution from the permanent funds:

1. For fiscal years 2012-2013 through 2020-2021, shall be two and one-half percent of the average monthly market values of the fund for the immediately preceding five calendar years.

2. For fiscal years 2015-2016 through 2024-2025, shall be six and nine-tenths percent of the average monthly market values of the fund for the immediately preceding five calendar years, except that in fiscal year 2015-2016, the distribution made from the permanent state school fund shall be $259,266,200.

3. Beginning with fiscal year 2025-2026, shall be two and one-half percent of the average monthly market values of the fund for the immediately preceding five calendar years.

H. For fiscal years 2015-2016 through 2024-2025, any increase in expendable earnings under section 37-521, subsection B, paragraph 4, Arizona Revised Statutes, that results from a distribution of more than two and one-half percent of the
AVERAGE MONTHLY MARKET VALUES OF THE FUND FOR THE IMMEDIATELY
PRECEding FIVE CALENDAR YEARS PURSUANT TO SUBSECTION G,
PARAGRAPH 2 OF THIS SECTION SHALL BE APPROPRIATED FOR BASIC
STATE AID, INCLUDING INFLATION ADJUSTMENTS REQUIRED BY SECTION
15-901.01, ARIZONA REVISED STATUTES.

1. ON OR BEFORE FEBRUARY 1 OF EACH YEAR, IF THE AVERAGE
MONTHLY MARKET VALUES OF THE FUND FOR THE IMMEDIATELY PRECEDING
FIVE CALENDAR YEARS HAVE DECREASED COMPARED TO THE AVERAGE
MONTHLY MARKET VALUES OF THE FUND FOR THE FIVE-CALENDAR-YEAR
PERIOD THAT IMMEDIATELY PRECEDES THE PRECEDING FIVE CALENDAR
YEARS, THE DIRECTOR OF THE OFFICE OF STRATEGIC PLANNING AND
BUDGETING, OR ITS SUCCESSOR AGENCY, AND THE DIRECTOR OF THE
JOINT LEGISLATIVE BUDGET COMMITTEE, OR ITS SUCCESSOR AGENCY,
SHALL JOINTLY NOTIFY THE GOVERNOR, THE PRESIDENT OF THE SENATE
AND THE SPEAKER OF THE HOUSE OF REPRESENTATIVES THAT A REDUCTION
TO THE DISTRIBUTION PRESCRIBED IN SUBSECTION G, PARAGRAPH 2 OF
THIS SECTION IS NECESSARY TO PRESERVE THE SAFETY OF THE CAPITAL
IN THE FUND. ON RECEIPT OF THAT NOTIFICATION, THE LEGISLATURE
MAY ENACT LEGISLATION, WITH THE APPROVAL OF THE GOVERNOR, THAT
REDUCES THE DISTRIBUTION IN SUBSECTION G, PARAGRAPH 2 OF THIS
SECTION FOR THE NEXT FISCAL YEAR TO AT LEAST TWO AND ONE-HALF
PERCENT BUT LESS THAN SIX AND NINE-TENTHS PERCENT OF THE AVERAGE
MONTHLY MARKET VALUES OF THE FUND FOR THE IMMEDIATELY PRECEDING
FIVE CALENDAR YEARS.

J. ANY AMOUNT REDUCED PURSUANT TO SUBSECTION I OF THIS
SECTION IS NOT REQUIRED TO BE PAID OR DISTRIBUTED:
1. FROM ANY OTHER SOURCE OF PUBLIC MONIES.
2. IN ANY SUBSEQUENT FISCAL YEAR.

K. IF THE LEGISLATURE ENACTS LEGISLATION, WITH THE
APPROVAL OF THE GOVERNOR, THAT REDUCES THE DISTRIBUTION PURSUANT
TO SUBSECTION I OF THIS SECTION:
1. THE LEGISLATURE MAY REDUCE THE BASE LEVEL FOR THE NEXT
FISCAL YEAR BY AN AMOUNT COMMENSURATE WITH THE REDUCTION IN THE
DISTRIBUTION FROM THE PERMANENT STATE SCHOOL FUND FOR THE NEXT
FISCAL YEAR.
2. THE AMOUNTS FROM THE BASE LEVEL REDUCTION ARE NOT
REQUIRED TO BE PAID OR DISTRIBUTED IN ANY SUBSEQUENT FISCAL
YEAR.
3. THE BASE LEVEL REDUCTION IS NOT PART OF THE
CALCULATION OF THE BASE LEVEL FOR SUBSEQUENT FISCAL YEARS.

L. THIS SECTION PRESERVES THE AUTHORITY VESTED IN THE
LEGISLATURE PURSUANT TO THIS CONSTITUTION.

M. THIS SECTION AND ARTICLE XI, SECTION 11 OF THIS
CONSTITUTION AND THE TERMS AND APPROPRIATIONS OF HOUSE BILL
2001, FIFTY SECOND LEGISLATURE, FIRST SPECIAL SESSION, FULLY
Satisfy the requirements of Section 15-901.01, Arizona Revised Statutes.

2. Article XI, Constitution of Arizona, is proposed to be amended by adding section 11 as follows if approved by the voters and on proclamation of the Governor:

11. Schools; inflation adjustments; exceptions; definitions

SECTION 11. A. On or before February 1 of each year, if the state transaction privilege tax growth rate and the total nonfarm employment growth rate are each at least one percent, but less than two percent, the Director of the Office of Strategic Planning and Budgeting, or its successor agency, and the Director of the Joint Legislative Budget Committee, or its successor agency, shall jointly notify the Governor, the President of the Senate and the Speaker of the House of Representatives. On receipt of the notification, the Legislature is not required to make the inflation adjustments required by Section 15-901.01, Arizona Revised Statutes, for the next fiscal year.

B. On or before February 1 of each year, if the state transaction privilege tax growth rate and the total nonfarm employment growth rate are each less than one percent, the Director of the Office of Strategic Planning and Budgeting, or its successor agency, and the Director of the Joint Legislative Budget Committee, or its successor agency, shall jointly notify the Governor, the President of the Senate and the Speaker of the House of Representatives. On receipt of the notification, the Legislature shall not make the inflation adjustments required by Section 15-901.01, Arizona Revised Statutes, for the next fiscal year.

C. Beginning in fiscal year 2024-2025, on or before February 1 of each year, if the total amount of general fund appropriations for the Arizona Department of Education, or its successor agency, is at least forty-nine percent but less than fifty percent of the total general fund appropriation for the current fiscal year, the Director of the Office of Strategic Planning and Budgeting, or its successor agency, and the Director of the Joint Legislative Budget Committee, or its successor agency, shall jointly notify the Governor, the President of the Senate and the Speaker of the House of Representatives. On receipt of the notification, the Legislature:

1. Is not required to make the inflation adjustments required by Section 15-901.01, Arizona Revised Statutes, for the next fiscal year.
2. MAY REDUCE THE BASE LEVEL FOR THE NEXT FISCAL YEAR BY
THE AMOUNT OF THE INFLATION ADJUSTMENTS REQUIRED BY SECTION
15-901.01, ARIZONA REVISED STATUTES, MADE FOR THE CURRENT FISCAL
YEAR.

D. BEGINNING IN FISCAL YEAR 2024-2025, ON OR BEFORE
FEBRUARY 1 OF EACH YEAR, IF THE TOTAL AMOUNT OF GENERAL FUND
APPROPRIATIONS FOR THE ARIZONA DEPARTMENT OF EDUCATION, OR ITS
SUCCESSOR AGENCY, IS AT LEAST FIFTY PERCENT OF THE TOTAL GENERAL
FUND APPROPRIATION FOR THE CURRENT FISCAL YEAR, THE DIRECTOR OF
THE OFFICE OF STRATEGIC PLANNING AND BUDGETING, OR ITS SUCCESSOR
AGENCY, AND THE DIRECTOR OF THE JOINT LEGISLATIVE BUDGET
COMMITTEE, OR ITS SUCCESSOR AGENCY, SHALL JOINTLY NOTIFY THE
HOUSE OF REPRESENTATIVES. ON RECEIPT OF THE NOTIFICATION, THE
LEGISLATURE:

1. IS NOT REQUIRED TO MAKE THE INFLATION ADJUSTMENTS
REQUIRED BY SECTION 15-901.01, ARIZONA REVISED STATUTES, FOR THE
NEXT FISCAL YEAR.

2. MAY REDUCE THE BASE LEVEL FOR THE NEXT FISCAL YEAR BY
TWO TIMES THE AMOUNT OF THE INFLATION ADJUSTMENTS REQUIRED BY
SECTION 15-901.01, ARIZONA REVISED STATUTES, MADE FOR THE
CURRENT FISCAL YEAR.

E. IF THE INFLATION ADJUSTMENTS REQUIRED BY SECTION
15-901.01, ARIZONA REVISED STATUTES, ARE NOT REQUIRED TO BE MADE
OR ARE PROHIBITED FROM BEING MADE PURSUANT TO THIS SECTION FOR A
FISCAL YEAR, THE OMITTED INFLATION ADJUSTMENT AMOUNTS:

1. ARE NOT REQUIRED TO BE PAID OR DISTRIBUTED IN ANY
SUBSEQUENT FISCAL YEAR.

2. BECOME A PART OF THE CALCULATION OF THE BASE LEVEL FOR
SUBSEQUENT FISCAL YEARS.

F. IF BASE LEVEL REDUCTIONS ARE MADE PURSUANT TO
SUBSECTION C OR D OF THIS SECTION FOR A FISCAL YEAR, THE REDUCED
AMOUNTS:

1. ARE NOT REQUIRED TO BE PAID OR DISTRIBUTED IN ANY
SUBSEQUENT FISCAL YEAR.

2. DO NOT BECOME PART OF THE CALCULATION OF THE BASE
LEVEL FOR SUBSEQUENT FISCAL YEARS.

G. THIS SECTION PRESERVES THE AUTHORITY VESTED IN THE
LEGISLATURE PURSUANT TO THIS CONSTITUTION.

H. FOR THE PURPOSES OF THIS SECTION:

1. "TOTAL NONFARM EMPLOYMENT GROWTH RATE" MEANS THE
PERCENTAGE CHANGE IN THE SEASONALLY ADJUSTED TOTAL NONFARM
EMPLOYMENT IN THIS STATE FROM THE FINAL MONTH OF THE MOST RECENT
CALENDAR YEAR TO THE FINAL MONTH OF THE IMMEDIATELY PRECEDING
CALENDAR YEAR, AS REPORTED BY THE ARIZONA DEPARTMENT OF
ADMINISTRATION OR ITS SUCCESSOR AGENCY.
2. "STATE TRANSACTION PRIVILEGE TAX GROWTH RATE" MEANS THE PERCENTAGE CHANGE IN THE REVENUES DERIVED FROM THE STATE TRANSACTION PRIVILEGE TAX THAT ARE DISTRIBUTED TO THE STATE GENERAL FUND FROM THE MOST RECENT CALENDAR YEAR TO THE IMMEDIATELY PRECEDING CALENDAR YEAR, AS REPORTED BY THE ARIZONA DEPARTMENT OF REVENUE OR ITS SUCCESSOR AGENCY.

3. Nonseverability

If any portion of this proposition is finally adjudicated invalid, the entire proposition is void.

4. The Secretary of State shall submit this proposition to the voters at a special election called to be held for that purpose on May 17, 2016 as provided by article XXI, Constitution of Arizona.

PASSED BY THE HOUSE OCTOBER 29, 2015.

PASSED BY THE SENATE OCTOBER 30, 2015.