HOUSE OF REPRESENTATIVES

HCR 2001

education finance; trust land distributions.

Sponsors: Representatives Gowan, Livingston, Montenegro, et al.

DP	Committee on Appropriations
DPA	Caucus and COW
X	As Transmitted to the Secretary of State

OVERVIEW

HCR 2001, upon voter approval, modifies the State Treasurer's distribution formula of permanent Trust land funds beginning in Fiscal Year (FY) 2016.

HISTORY

The Arizona State Land Department (ASLD) manages approximately 9.2 million acres of state Trust lands for 13 beneficiaries designated in the Enabling Act. The 13 beneficiaries are: Common Schools (K-12); University Land Code (ASU, NAU and UA); University of Arizona; School of Mines; A&M Colleges; School for the Deaf and Blind; Normal Schools; Military Institutes; State Charitable, Penal and Reformatory; Miners' Hospital; Penitentiaries; State Hospital; and Legislative, Executive and Judicial Buildings. The Common Schools are the largest beneficiary owning approximately 87% of the land and receiving close to 90% of the revenue.

Trust land revenue is classified as either permanent receipts (one-time) or expendable receipts (recurring). Permanent receipts come from the one-time sale of state Trust lands and assets such as minerals or other natural products. This revenue is deposited into the appropriate beneficiary's permanent fund, which is administered by the State Treasurer (Treasurer). Expendable receipts come from one-time leases, permits, interest from sales contracts and other revenue from the non-permanent disposition of Trust assets. This revenue, along with the Treasurer's distribution formula from the permanent funds, is distributed directly to the beneficiaries.

Proposition 118, approved by the voters in 2012, changed the Treasurer's annual distribution formula of Trust land permanent funds to the average market value of the fund for the immediately preceding five calendar years multiplied by a fixed 2.5%, effective for FYs 2013-2021. After FY 2021, the distribution formula reverts back to the 1998 Proposition 102 formula, which is the average total rate of return for the previous five FYs, less percentage change in inflation, multiplied by the average monthly market value over the previous five years (Arizona Constitution, Article 10, Section 7).

The expendable revenues distributed to the beneficiaries in FY 2014 totaled $139,687,587, which includes $73,032,624 from the Treasurer's distribution formula. The total deposited into the permanent funds was $103,414,872 and the value of the Trust for all beneficiaries in FY 2014 exceeded $4.5 billion (ASLD FY14 Annual Report).

PROVISIONS

1. Increases the annual distribution from the permanent funds in FYs 2016-2025 from 2.5% to 6.9% of the average monthly market values of the permanent funds for the immediately preceding five calendar years.
   a. Requires the distribution amount made from the Permanent State School Fund (Fund) in FY 2016 to be $259 million.
   b. Returns the annual distribution to 2.5% beginning in FY 2026.

2. Appropriates, for FYs 2016-2025, any increase in expendable earnings resulting from a distribution of more than 2.5% for Basic State Aid.
   a. Determines the entire amount distributed to the Fund to be for inflation adjustments as required by statute.

3. Requires the directors of the Joint Legislative Budget Committee (JLBC) and the Office of Strategic Planning and Budgeting (OSPB) to jointly notify the Governor, President of the Senate and Speaker of the House of Representatives annually by February 1 that a reduction to the distribution is necessary to preserve the safety of the capital in the permanent fund if the average monthly market values for the preceding five years have decreased compared to the average monthly market values for the prior five year period.
   a. Allows, on receipt of notification, the Legislature to reduce the distribution for the next FY to at least 2.5% but no more than 6.9%.
      i. Allows the Legislature to reduce the per student Base Level for the next FY by an amount commensurate with the reduction in the distribution to the Fund for the next FY.
      ii. Specifies that amounts from the Base Level reduction are not required to be paid or distributed in any subsequent FY.
      iii. Stipulates that Base Level reduction is not part of the calculation for subsequent FYs.
   b. Stipulates that any amount reduced is not required to be paid or distributed from any other source of public monies in any subsequent FY.

4. Requires the directors of JLBC and OSPB to jointly notify the Governor, President of the Senate and Speaker of the House of Representatives annually by February 1 if any of the following occur:
   a. The state Transaction Privilege Tax (TPT) growth rate and the total nonfarm employment growth rate are each at least 1% but less than 2%.
      i. Specifies that the Legislature is not required to make school finance inflation adjustments for the next FY.
   b. The state TPT growth rate and the total nonfarm employment growth rate each less than 1%.
      i. Prohibits the Legislature from making school finance inflation adjustments for the next FY.
   c. The total amount of GF appropriations for the Arizona Department of Education (ADE), beginning in FY 2025, is at least 49% but less than 50% of the total GF appropriation for the FY.
      i. Specifies that the Legislature is not required to make school finance inflation adjustments for the next FY.
      ii. Allows the Legislature to reduce the Base Level for the next FY by the amount of the required current year inflation adjustments.

   d. The total amount of GF appropriations for ADE, beginning in FY 2025, is at least 50% of the total GF appropriation for the FY.
      i. Specifies that the Legislature is not required to make school finance inflation adjustments for the next FY.
      ii. Allows the Legislature to reduce the Base Level for the next FY by two times the amount of required current year inflation adjustments.

5. Stipulates that if inflation adjustments are not required or prohibited, the amounts:
   a. are not required to be paid or distributed in any subsequent FY; and
   b. become part of the calculation of the Base Level for subsequent FYs.

6. Stipulates that if Base Level reductions are made for a FY, the reduced amounts:
   a. are not required to be paid or distributed in any subsequent FY; and
   b. do not become a part of the calculation of the Base Level for subsequent FYs.

7. Defines *total nonfarm employment growth rate* and *state transaction privilege tax growth rate*.

8. Declares that the authority vested in the Legislature pursuant to the Arizona Constitution is preserved.

9. Contains a clause stating that the amended Constitution and HB 2001 satisfy inflation adjustment requirements.

10. Contains a nonseverability clause.

11. Requires the Secretary of State to submit the proposition to the voters at a special election on May 17, 2016.

12. Makes technical and conforming changes.