



ARIZONA HOUSE OF REPRESENTATIVES

HB 2563: education funding: use tax: TPT

PRIME SPONSOR: Representative Udall, LD 25

BILL STATUS: [Caucus & COW](#)

Education: DPA 8-4-1-0

Overview

Clarifies how monies collected from a separate state transaction privilege (TPT) and use tax will be distributed.

History

[Proposition 301](#) (2000) levied a state TPT and use tax of 0.6 percentage points through June 30, 2021. Monies collected through this tax are distributed in the following priorities:

1. Paying the fiscal year's debt service on outstanding state school improvement revenue bonds, not to exceed a principal amount of \$800 million.
2. After the debt service payments:
 - 12% of remaining monies are transferred to the Technology Research and Initiative Fund administered by the Arizona Board of Regents (ABOR).
 - 3% of remaining monies are transferred to workforce development programs in each community college district.
3. After these transfers, the following amounts are distributed:
 - \$200,000 to each community college district that is owned, operated, or chartered by a qualifying Indian tribe on its own reservation for workforce development and job training programs, plus a pro-rated amount based on each district's full-time equivalent student enrollment.
 - \$86.2 million to the Arizona Department of Education (ADE) for the increased cost of Basic State Aid in FY 2006 and each fiscal year thereafter.
 - \$7.8 million to ADE for school safety and \$200,000 to ADE for the Character Education Matching Grant Program.
 - \$7.0 million for the annual achievement profile for each public school and local education agency based on academic and educational performance indicators.
 - \$1.5 million to the Failing Schools Tutoring Fund, which ADE administers and uses fund monies to purchase materials designed to assist students in meeting the State's academic standards and achieving a passing score on assessments adopted by the State Board of Education.
 - \$25 million to the state General Fund for the cost of income tax credits for a federal adjusted gross income that is:
 - \$25,000 or less for a married couple or a single person who is a head of household.
 - \$12,500 or less for a single person or a married person filing separately.
4. Transfers any remaining monies to the Classroom Site Fund (CSF) for teacher compensation based on performance, teacher base compensation and employee related expenses, and maintenance and operation purposes ([A.R.S. § 42-5029\(E\)](#)).

Prop 105 (45 votes) Prop 108 (40 votes) Emergency (40 votes) Fiscal Note

[Laws 2018, Chapter 74, §11](#) extended this tax to June 30, 2041. This tax generated approximately \$709 million which the State Treasurer distributed in fiscal year 2018 ([FY 2018 Proposition 301 revenue distribution report](#)).

The next general election is November 3, 2020.

Provisions

1. Specifies that monies collected from a TPT and use tax will be distributed as follows:
 - a. 70% to the CSF.
 - b. 20% to the following:
 - i. 34% to the Technology and Research Initiative Fund administered by ABOR.
 - ii. 66% to ABOR to be distributed proportionally to each university under its jurisdiction based on the number of students who receive in-state tuition at that university to subsidize resident student tuition costs.
 - c. 5% to be distributed as follows:
 - i. \$48 million to:
 - \$1 million to each community college district for the workforce development programs.
 - \$300,000 to each provisional community college for trade and workforce development programs.
 - The remaining monies shall be distributed pursuant to [A.R.S. § 15-1472\(D\)](#).
 - ii. \$2 million to:
 - \$500,000 to each qualifying Indian tribe that owns, operates, or charters a community college on its Indian reservation for trade and workforce development programs.
 - The remaining monies are divided proportionately to each qualifying Indian tribe that owns, operates, or charters a community college based on full-time equivalent student enrollment.
 - d. 5% to be distributed as follows:
 - i. \$25 million to the state General Fund for the cost of income tax credits allowed pursuant to [A.R.S. § 43-1072.01](#).
 - ii. \$15 million to ADE for the School Safety Program ([A.R.S. § 15-154](#)).
 - iii. \$7 million to ADE for continued maintenance, operation, and evaluation of the educational learning and accountability system ([A.R.S. § 15-249](#)).
 - iv. \$3 million to the Auditor General to report on the use of TPT and use tax monies by school districts, charter schools, community college, districts, and universities.
 - v. The remaining monies shall be distributed to the CSF. (Sec. 15)
2. Reduces proportionately the amount of monies appropriated based on the amount of monies collected if the monies collected are insufficient to appropriate the established dollar amounts. (Sec. 15)
3. Eliminates the expiration date for this tax. (Sec. 16)
4. Repeals requirements that school districts and charter schools allocate certain percentages of CSF monies to teacher compensation increases based on performance, teacher base salary increases, employment related expenses, and maintenance and operation purposes. (Sec. 5)
5. Expands allowable uses of CSF monies to areas such as voluntary full-day kindergarten, educational interventions, tutoring, student support services, and school resource officers. (Sec. 5)
6. Requires ADE to annually use \$86,280 of CSF monies to fund Basic State Aid for schools. (Sec. 5)
7. Clarifies that all monies received to the CSF are appropriated for state aid to schools. (Sec. 4)

8. Eliminates the requirement that a provisional community college district that began operations before January 1, 2015 is not eligible to receive TPT and use tax monies for workforce development programs. (Sec. 6)
9. Clarifies that revenues authorized to community college districts shall be distributed by the State to each community college district and provisional community college district according to each district's full-time equivalent student enrollment percentage of the total statewide audited full-time equivalent student enrollment in the preceding fiscal year. (Sec. 7)
10. Requires Legislative Council staff to prepare proposed legislation conforming Arizona Revised Statutes to the provisions of this act for consideration by the 55th Legislature, 1st regular session. (Sec. 20)
11. States that this act is effective from and after June 30, 2021 only if the Constitution of Arizona is amended by a vote of the people at the next general election by the passage of a house concurrent resolution of the 54th Legislature, 1st regular session. (Sec. 21)
12. Repeals [A.R.S. § 42-5010.01](#) and [A.R.S. § 43-1072.02](#). (Sec. 11 and 19)
13. Makes technical changes. (Sec. 1, 2, 3, 5, 6, 7, 8, 9, 10, 12, 13, 16, 17, and 18)

Amendments

Committee on Education

1. Removes the increased cost of additional school days that were enacted in 2000 and school resource officers from the list of approved uses for monies distributed from the CSF.
2. Adds school safety and accountability purposes to the list of approved uses for monies distributed from the CSF.
3. Eliminates the requirement that ADE annually use \$86,280 of CSF monies to fund Basic State Aid for schools.
4. Defines student support services for the purposes of CSF monies.
5. Clarifies that revenues from the TPT and use tax will be distributed to community college districts, provisional community college districts, and community colleges that are owned, operated, or chartered by qualifying Indian tribes on their own Indian reservations based on these entities' respective full-time equivalent student enrollments.
6. Increases to 75% the amount of monies generated from the TPT and use tax that will be paid in monthly installments to the CSF.
7. Mandates that the following amounts of CSF monies be paid annually in monthly installments:
 - a. \$86 million to ADE to fund Basic State Aid.
 - b. \$1.5 million to the Auditor General to report on the use of appropriated TPT and use tax monies by school districts, charter schools, community college districts, and universities.
8. Clarifies that 20% of the amount of net revenue generated by the TPT and use tax will be appropriated as follows:
 - a. \$78 million to the Technology and Research Initiative Fund administered by ABOR, and specifies that this amount will be increased annually by 2% beginning in FY 2023.
 - b. After this distribution, the remaining monies will be distributed to ABOR to subsidize resident student tuition costs at the universities under its jurisdiction.
9. Revised the distribution for 5% of the amount of net revenue generated by the TPT and use tax so that it is appropriated as follows:

- a. \$1.5 million to the workforce development accounts established in each community college district for investment in workforce development programs.
 - b. Establishes a formula based on full-time equivalent student enrollment to distribute monies to each provisional community college district and each qualifying Indian tribe for each community college that is owned, operated, or chartered on its reservation.
 - c. The remaining monies shall be distributed pursuant to [A.R.S. § 15-1472\(D\)](#).
10. Makes technical and conforming changes.