

Fiscal Note

BILL # SB 1495

TITLE: K-12; school funding; revisions

SPONSOR: Bennett

STATUS: As Introduced

PREPARED BY: Patrick Moran

Description

The bill would establish a "State Student Funding Formula" that would allow school districts to opt into the charter formula. The State Student Funding formula would be higher than the regular district formula due to Charter Additional Assistance, which exceeds District Additional Assistance by approximately \$1,500 per pupil. Only districts with no overrides or bonds would be eligible, and districts opting into the formula would be prohibited from levying other K-12 property tax levies, such as adjacent ways or the small school adjustment, and would not be eligible to receive Building Renewal Grant Fund monies from the School Facilities Division (SFD) of the Arizona Department of Administration (ADOA).

Estimated Impact

The impact of the bill would depend on how many districts decide to adopt the State Student Funding formula. Any impacts would occur no earlier than FY 2025 due to the requirement to hold an election within the district to opt in.

The costs of districts opting into the State Student Funding Formula are highly uncertain. We cannot predict the outcome of such elections in advance. District financial conditions may also change over time, so the number of districts that would potentially benefit from the formula may be higher or lower over time.

We estimate that there are currently 25 districts with no current budgeted overrides or debt service for bonds that could potentially receive a net financial benefit from opting into the State Student Funding Formula. If all 25 districts opted into the formula, we estimate total formula General Fund formula costs would increase by \$26.2 million in FY 2025.

Over time, districts that currently have overrides or bonds in place may allow their overrides and bonds to expire to allow them to opt into the State Student Funding Formula due to a net financial gain. We estimate that there are an additional 24 districts with overrides or bonds currently in place that may experience a net financial benefit if they became eligible to opt into the formula based on their current property tax levies, raising the total number of participating districts to 49. In that more long-run scenario, total formula funding increases would rise from \$26.2 million to \$118.5 million General Fund.

Our analysis of districts that could potentially opt into the formula as outlined above can be found in *Table 1*.

Analysis

The bill would establish a process for school districts to opt into the "State Student Funding Formula," which would be the same as the funding formula for charter schools. Only districts with no budget overrides and with no more than 4 years of remaining debt service payments on voter-approved bonds would be eligible to opt in. Districts would only be permitted to adopt the formula after a ballot measure is approved by a majority of its voters. After opting into the formula, districts would be prohibited from adopting certain tax levies that are outside the equalization formula to fund schools, including

(Continued)



overrides, bonds, desegregation levies, the excess debt service portion of tuition, interest for tax anticipation notes or registered warrants, transportation revenue control limit levies, the small school adjustment, tuition loss, or adjacent ways. Districts would also be prohibited from receiving funding from the School Facilities Division of the Arizona Department of Administration for building renewal (new school construction formula funding would still be allowed).

Districts that opt into the formula would be permitted to levy a higher Qualifying Tax Rate (QTR) for the purposes of Basic State Aid formula calculations than other districts. The rates in the bill for unified districts (\$4.1119) would be about 24% higher than the regular QTR rate for unified districts (\$3.3102) computed by the JLBC Staff as part of Truth in Taxation requirements for FY 2024.

As noted above, the number of districts opting into the formula would depend on a number of factors, including whether the proposal receives voter approval, the district's financial condition, and foregone SFD building renewal grants. To determine an "upper bound" number of how many districts may opt in, we reviewed adopted school district budgets for FY 2023 to determine how many districts have current property tax levies that exceed the estimated funding gain they would experience from opting into the formula.

We estimate the 25 districts opting in would experience a formula funding gain of \$31.6 million. Of that amount, we estimate \$7.2 million would be offset by the higher qualifying tax rate. The higher QTR, however, would also result in higher Homeowner's Rebate expenses of approximately \$1.8 million, generating a net General Fund impact of \$26.2 million. This impact would not occur until at least FY 2025, as districts would first have the opportunity to hold an election to opt into the formula in November 2023. Approved changes to the formula would only take place in the fiscal year following the election year, which would be FY 2025.

Over time, other districts that are not currently eligible due to an outstanding bond or override may choose to opt in if the formula funding increase they would receive would exceed the total revenues they collect from other overrides, bonds, and other tax levies. Based on districts' adopted FY 2023 budgets, we estimate that there are an additional 24 districts (excluding CTEDS) with active bonds or overrides that receive less in per pupil funding from their property tax levies than they would from opting into the State Funding Formula. If those districts were to eventually opt into the formula, we estimate that total formula funding would increase by an additional \$128.7 million, of which \$48.5 million would be covered by the higher QTR rates authorized by the bill. The higher QTR would generate an additional estimated Homeowners Rebate obligation of \$12.1 million, resulting in a net General Fund impact of \$92.3 million.

Including both currently eligible districts and districts that may become eligible in the future, the potential annual General Fund impact could reach \$118.5 million. This impact is highly uncertain and may not occur for several years, as districts that are currently ineligible would have to at least wait until their overrides or bonds are closer to expiration to opt into the formula. In addition, there may be some offsetting savings in the Building Renewal Grant program within the School Facilities Division.

While the Baseline only includes \$16.7 million for ongoing Building Renewal funding in FY 2024, the Legislature has consistently provided one-time funding at much higher levels. For example, the final building renewal funding level for FY 2023 is \$200.0 million. Given that the 49 districts that would opt into the State Student Funding Formula represent about 14.2% of the statewide district student population, there could be a corresponding (14.2%) reduction in building renewal requests of approximately \$(28.5) million based on the FY 2023 funding level. Since the higher building renewal funding level is not included in the Baseline, however, the \$(28.5) million does not represent a savings relative to the Baseline.

Local Government Impact

We estimate that the 49 districts that may receive a financial benefit from opting in are levying property taxes outside the equalization formula equal to \$77.7 million. Those taxes would be replaced by the higher QTR authorized for such districts, which we estimate would generate approximately \$55.7 million. As a result, there would be an estimated net property tax decrease across such districts of approximately \$(20.0) million if all 49 districts decided to opt in. The property tax decrease would likely only materialize over several years as districts opt into the formula and is highly speculative.

Table 1

State Student Funding Formula District Analysis

| District Name | Current Eligibility Status | Bonds | Overrides | Other Levies | Total | Estimated Formula Funding Change | Net Funding Change |
|--|----------------------------|-----------|-----------|--------------|-----------|----------------------------------|--------------------|
| Thatcher Unified District | Yes | 0 | 0 | 83,400 | 83,400 | 2,580,200 | 2,496,800 |
| Whiteriver Unified District | Yes | 0 | 0 | 197,300 | 197,300 | 2,459,500 | 2,262,300 |
| Bullhead City School District | Yes | 0 | 0 | 165,200 | 165,200 | 2,297,200 | 2,132,100 |
| Somerton Elementary District | Yes | 0 | 0 | 1,491,500 | 1,491,500 | 3,412,500 | 1,920,900 |
| Chino Valley Unified District | Yes | 0 | 0 | 1,104,400 | 1,104,400 | 2,840,900 | 1,736,600 |
| Page Unified District | Yes | 0 | 0 | 385,500 | 385,500 | 2,066,900 | 1,681,400 |
| Pima Unified District | Yes | 0 | 0 | 181,700 | 181,700 | 1,564,200 | 1,382,600 |
| Camp Verde Unified District | Yes | 0 | 0 | 376,800 | 376,800 | 1,687,700 | 1,311,000 |
| Globe Unified District | Yes | 0 | 0 | 443,200 | 443,200 | 1,729,900 | 1,286,800 |
| Pima Accommodation District | Yes | 0 | 0 | 17,000 | 17,000 | 1,182,100 | 1,165,100 |
| Chinle Unified District | Yes | 0 | 0 | 1,559,100 | 1,559,100 | 2,502,100 | 943,000 |
| Fort Huachuca Accommodation District | Yes | 0 | 0 | 169,000 | 169,000 | 1,015,900 | 846,900 |
| San Carlos Unified District | Yes | 0 | 0 | 849,500 | 849,500 | 1,694,500 | 845,000 |
| Cochise County Accommodation School District | Yes | 0 | 0 | 0 | 0 | 560,300 | 560,300 |
| Ajo Unified District | Yes | 0 | 0 | 118,100 | 118,100 | 550,200 | 432,100 |
| Red Rock Elementary District | Yes | 0 | 0 | 156,400 | 156,400 | 545,900 | 389,600 |
| St David Unified District | Yes | 0 | 0 | 93,800 | 93,800 | 463,700 | 369,900 |
| Ft Thomas Unified District | Yes | 0 | 0 | 74,100 | 74,100 | 429,700 | 355,600 |
| Naco Elementary District | Yes | 0 | 0 | 49,700 | 49,700 | 342,500 | 292,800 |
| Kayenta Unified District | Yes | 0 | 0 | 698,500 | 698,500 | 841,700 | 143,200 |
| Pinon Unified District | Yes | 0 | 0 | 296,500 | 296,500 | 393,400 | 96,900 |
| Mcnary Elementary District | Yes | 0 | 0 | 123,600 | 123,600 | 164,900 | 41,200 |
| Valentine Elementary District | Yes | 0 | 0 | 22,900 | 22,900 | 44,400 | 21,500 |
| Aguila Elementary District | Yes | 0 | 0 | 137,100 | 137,100 | 152,100 | 15,000 |
| Picacho Elementary District | Yes | 0 | 0 | 99,100 | 99,100 | 112,000 | 12,900 |
| SUBTOTAL CURRENTLY ELIGIBLE | | | | | | 31,634,400 | 22,741,500 |
| Sunnyside Unified District | No | 8,600,000 | 0 | 867,200 | 9,467,200 | 19,115,600 | 9,648,400 |
| Yuma Union High School District | No | 4,070,000 | 0 | 4,792,300 | 8,862,300 | 15,768,300 | 6,906,000 |
| Yuma Elementary District | No | 1,051,600 | 0 | 1,593,800 | 2,645,400 | 9,484,100 | 6,838,700 |
| Crane Elementary District | No | 864,300 | 1,500,000 | 227,200 | 2,591,500 | 7,400,000 | 4,808,500 |
| Nogales Unified District | No | 0 | 2,776,500 | 503,400 | 3,279,900 | 7,806,800 | 4,526,900 |
| Gadsden Elementary District | No | 590,700 | 0 | 1,047,800 | 1,638,500 | 6,153,300 | 4,514,800 |
| Douglas Unified District | No | 1,107,200 | 0 | 525,600 | 1,632,800 | 5,476,500 | 3,843,700 |
| Snowflake Unified District | No | 536,100 | 0 | 428,400 | 964,500 | 3,636,900 | 2,672,400 |
| Safford Unified District | No | 675,300 | 0 | 1,013,300 | 1,688,600 | 4,217,700 | 2,529,000 |
| Prescott Unified District | No | 1,300,000 | 387,200 | 567,300 | 2,254,500 | 4,711,600 | 2,457,100 |
| Santa Cruz Valley Unified District | No | 0 | 2,077,100 | 304,400 | 2,381,500 | 4,132,900 | 1,751,300 |
| Show Low Unified District | No | 800,000 | 0 | 785,200 | 1,585,200 | 3,322,900 | 1,737,700 |
| Humboldt Unified District | No | 3,897,500 | 0 | 1,749,000 | 5,646,500 | 7,183,000 | 1,536,400 |
| Lake Havasu Unified District | No | 1,817,000 | 3,407,300 | 919,800 | 6,144,100 | 7,393,500 | 1,249,500 |
| Morenci Unified District | No | 365,100 | 0 | 108,400 | 473,500 | 1,696,600 | 1,223,100 |
| Cave Creek Unified District | No | 3,598,200 | 0 | 367,200 | 3,965,400 | 4,840,500 | 875,200 |
| Winslow Unified District | No | 0 | 1,300,000 | 491,000 | 1,791,000 | 2,417,000 | 626,100 |
| Toltec Elementary District | No | 500,000 | 0 | 147,200 | 647,200 | 1,268,100 | 620,900 |
| Colorado City Unified District | No | 100 | 0 | 165,200 | 165,300 | 732,500 | 567,300 |
| Flowing Wells Unified District | No | 3,000,000 | 3,417,300 | 101,800 | 6,519,100 | 7,021,800 | 502,600 |
| Parker Unified School District | No | 0 | 1,154,800 | 391,800 | 1,546,600 | 1,776,700 | 230,100 |
| Clarkdale-Jerome Elementary District | No | 0 | 312,900 | 102,200 | 415,100 | 570,200 | 155,100 |
| Union Elementary District | No | 1,000,000 | 1,048,400 | 190,300 | 2,238,700 | 2,261,100 | 22,400 |
| Littlefield Unified District | No | 204,800 | 0 | 74,400 | 279,200 | 293,200 | 14,000 |
| SUBTOTAL NOT CURRENTLY ELIGIBLE | | | | | | 128,680,800 | 59,857,200 |