

Fiscal Note

BILL # SB 1473

TITLE: K-12; school funding; revisions

SPONSOR: Farnsworth

STATUS: As Amended by Senate FIN

PREPARED BY: Gordon Robertson

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 \$1,600 per pupil. Only districts with no overrides, no bonds, and a support level ratio (an approximate measure of a district's reliance on state aid) greater than 90% would be eligible in FY 2026, 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 2027 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 3 districts that could potentially receive a net financial benefit from opting into the State Student Funding Formula and that currently have a support level ratio greater than 90% and have no current budgeted overrides or debt service for bonds. If all 3 districts opted into the formula, we estimate total General Fund formula costs would increase by \$5.1 million in FY 2026.

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. The bill also lowers the required support level ratio by 10% each fiscal year through FY 2030. We estimate that there are an additional 32 districts that either have overrides or bonds currently in place or that do not currently meet the support level ratio threshold 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 35. In that more long-run scenario, total formula funding increases would rise from \$5.1 million to \$78.4 million from the General Fund.

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

Analysis

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 (\$3.8232) would be 20% higher than the regular QTR rate (\$3.1860) computed by the JLBC Staff as part of Truth in Taxation requirements for FY 2026.



To determine an "upper bound" number of how many districts may opt in, we reviewed adopted school district budgets for FY 2025 to determine how many districts have current property tax levies that exceed the estimated funding gain they would experience from opting into the formula.

After calculating a district's new formula funding allocation under the State Student Funding Formula, the bill requires the state to reduce that amount by any federal funding the district receives for property taxes the district is unable to collect on federal land, a funding program called Impact Aid. We estimate that 3 districts opting into the State Student Funding Formula would experience a formula funding gain of \$5.6 million after recalculating their allocations under the new formula and reducing that amount by any impact aid payments. Of that amount, we estimate approximately \$622,000 would be offset by the higher qualifying tax rate. The higher QTR, however, would also result in higher Homeowner's Rebate expenses of approximately \$156,000, generating a net General Fund impact of \$5.1 million. This impact would not occur until at least FY 2027, as districts would first have the opportunity to hold an election to opt into the formula in November 2025. Approved changes to the formula would only take place in the fiscal year following the election year, which would be FY 2027.

Over time, other districts that are not currently eligible due to their support level ratio being too low or due to an outstanding bond or override may choose to opt in if the formula funding increases they would receive would exceed the total revenues they collect from overrides, bonds, and other tax levies. Based on districts' adopted FY 2025 budgets, we estimate there are an additional 32 currently ineligible districts (excluding CTEDs) that receive less in per pupil funding from their property tax levies than they would from opting into the State Student Funding Formula. If those districts were to eventually opt into the formula, we estimate that the total formula funding would increase by an additional \$110.6 million after recalculating their allocations under the new formula and reducing that amount by any impact aid payments. Of that amount, we estimate approximately \$49.9 million would be offset by the higher QTR rates authorized by the bill. The higher QTR would also generate additional estimated Homeowner's Rebate expenses of \$12.6 million, resulting in a net General Fund impact of \$73.3 million.

Including both currently eligible districts and districts that may become eligible in the future, the potential annual General Fund impact could reach \$78.4 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, the bill would reduce the number of districts eligible to receive funding from the Building Renewal Grant program within SFD. Through a combination of ongoing and one-time funding, the program is typically funded at \$200 million each year. Because this program is not formula-based, we cannot estimate in advance if the prohibition on districts that have opted in to the new funding formula from using Building Renewal Grant monies will generate ongoing savings within the grant program.

Local Government Impact

We estimate that the 35 districts that may receive a financial benefit from opting in are levying property taxes outside the equalization formula equal to \$51.5 million. Those taxes would be replaced by the higher QTR authorized for such districts, which we estimate would generate approximately \$50.5 million. As a result, there would be an estimated net property tax decrease of \$(1.0) million across such districts, if all 35 districts decided to opt in. Any net change in property tax would likely only materialize over several years as districts opt into the formula, and is therefore a highly speculative estimate.

Table 1

State Student Funding Formula District Analysis

District Name	Current Eligibility Status	Bonds	Overrides	Other Levies	Total	Estimated Formula Funding Change ^{1/}
Naco Elementary District	Yes	-	-	70,600	70,600	365,600
Pima Unified District	Yes	-	-	231,900	231,900	1,589,200
Somerton Elementary District	Yes	-	-	893,400	893,400	3,633,600
SUBTOTAL CURRENTLY ELIGIBLE					1,195,900	5,588,400
Tombstone Unified District	No	-	-	31,000	31,000	65,700
St David Unified District	No	-	220,000	81,400	301,400	511,000
Douglas Unified District	No	1,125,900	-	476,800	1,602,700	5,330,200
Safford Unified District	No	568,400	-	77,600	646,000	4,063,300
Thatcher Unified District	No	-	-	88,200	88,200	2,570,700
Morenci Unified District	No	-	-	91,000	91,000	1,830,900
Lake Havasu Unified District	No	5,145,800	-	923,800	6,069,600	7,409,200
Colorado City Unified District	No	500	-	169,900	170,400	802,300
Littlefield Unified District	No	-	-	73,700	73,700	294,400
Bullhead City School District	No	-	-	170,300	170,300	2,105,700
Mohave Valley Elementary District	No	-	-	104,300	104,300	677,400
Snowflake Unified District	No	-	-	308,800	308,800	3,754,500
Show Low Unified District	No	1,000,000	-	721,100	1,721,100	3,290,200
Ajo Unified District	No	-	-	118,100	118,100	564,800
Coolidge Unified District	No	1,200,000	-	1,513,900	2,713,900	2,983,500
Apache Junction Unified District	No	447,400	-	855,700	1,303,100	2,226,300
Red Rock Elementary District	No	-	-	130,700	130,700	511,900
Toltec Elementary District	No	-	-	156,000	156,000	1,603,600
Picacho Elementary District	No	-	-	91,600	91,600	96,400
Nogales Unified District	No	1,729,800	3,150,200	464,500	5,344,500	8,107,100
Santa Cruz Valley Unified District	No	1,416,200	2,328,400	617,600	4,362,200	4,555,900
Prescott Unified District	No	1,300,000	-	592,200	1,892,200	4,843,500
Humboldt Unified District	No	2,778,200	-	1,481,800	4,260,000	6,701,700
Camp Verde Unified District	No	-	-	650,900	650,900	1,929,300
Chino Valley Unified District	No	-	-	1,113,600	1,113,600	2,576,300
Clarkdale-Jerome Elementary District	No	-	357,100	76,300	433,400	470,500
Cottonwood-Oak Creek Elementary District	No	-	1,270,600	291,700	1,562,300	2,042,300
Yuma Elementary District	No	1,500,000	-	1,075,300	2,575,300	9,416,000
Crane Elementary District	No	1,853,900	1,500,000	231,200	3,585,100	7,167,600
Wellton Elementary District	No	-	-	161,000	161,000	185,600
Gadsden Elementary District	No	577,000	-	699,500	1,276,500	6,385,700
Yuma Union High School District	No	5,258,700	-	1,946,900	7,205,600	15,484,900
SUBTOTAL NOT CURRENTLY ELIGIBLE					50,314,500	110,558,400

1/ The total General Fund cost of the bill is less than the sum of the amounts in this column because district QTR levies fund a portion of the cost of this estimated formula funding increase.

2/26/25