

REFERENCE TITLE: income tax; additional rate; education

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

HB 4095

Introduced by
Representatives Aguilar: Abeytia, Austin, Blattman, Cavero, Connolly,
Contreras P, Crews, De Los Santos, Garcia, Gutierrez, Liguori, Márquez,
Sandoval, Simacek, Stahl Hamilton, Travers, Villegas

AN ACT

AMENDING SECTIONS 15-977 AND 41-5721, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1011, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 411, SECTION 4; AMENDING TITLE 43, CHAPTER 10, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1015; RELATING TO INDIVIDUAL INCOME TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 15-977, Arizona Revised Statutes, is amended to
3 read:

4 15-977. Classroom site fund; local level funds; definitions

5 A. The classroom site fund is established consisting of monies
6 transferred to the fund pursuant to section 37-521, subsection B, section
7 42-5029, subsection E, paragraph 10 and section 42-5029.02, subsection A
8 AND DEPOSITED PURSUANT TO SECTION 43-1015. The department of education
9 shall administer the fund. School districts and charter schools may not
10 supplant existing school site funding with revenues from the fund. All
11 monies distributed from the fund are intended for use at the school
12 site. Teacher compensation distributed pursuant to this section shall
13 supplement, and not supplant, teacher compensation monies from any other
14 sources. The school district or charter school shall notify each school
15 principal of the amount available to the school by April 15 of each year.
16 The SCHOOL district or charter school shall request from the school's
17 principal each school's priority for the allocation of the funds available
18 to the school for each program listed under subsection H of this
19 section. The amount budgeted by the school district or charter school
20 pursuant to this section shall not be included in the allowable budget
21 balance carryforward calculated pursuant to section 15-943.01.

22 B. A school district governing board must adopt a performance based
23 compensation system at a public hearing to allocate funding from the
24 classroom site fund pursuant to subsection A of this section. Individual
25 teacher performance shall be a component of allocation for teacher
26 compensation.

27 C. A school district governing board shall vote on a performance
28 based compensation system that includes the following elements:

- 29 1. School district performance and school performance.
- 30 2. Individual teacher performance.
- 31 3. Measures of academic progress toward the academic standards
32 adopted by the state board of education.
- 33 4. Other measures of academic progress.
- 34 5. Dropout or graduation rates.
- 35 6. Attendance rates.
- 36 7. Ratings of school quality by parents.
- 37 8. Ratings of school quality by students.
- 38 9. The input of teachers and administrators.
- 39 10. Approval of the performance based compensation system based on
40 an affirmative vote of at least seventy percent of the teachers WHO ARE
41 eligible to participate in the performance based compensation system.
- 42 11. An appeals process for teachers who have been denied
43 performance based compensation.
- 44 12. Regular evaluation for effectiveness.

1 D. ~~★~~ THE performance based compensation system shall include
2 teacher professional development programs that are aligned with the
3 elements of the performance based compensation system.

4 E. A school district governing board may modify the elements
5 contained in subsection C of this section and consider additional elements
6 when adopting a performance based compensation system. A school district
7 governing board shall adopt any modifications or additional elements and
8 specify the criteria used at a public hearing.

9 F. Until December 31, 2009, each school district shall develop an
10 assessment plan for its performance based compensation system and submit
11 the plan to the department of education by December 31 of each year. A
12 copy of the performance based compensation system and assessment plan
13 adopted by the school district governing board shall be included in the
14 report submitted to the department of education.

15 G. Monies in the CLASSROOM SITE fund are continuously appropriated,
16 are exempt from the provisions of section 35-190 relating to lapsing of
17 appropriations and shall be distributed as follows:

18 1. By March 30 of each year, the staff of the joint legislative
19 budget committee shall determine a per pupil amount from the fund for the
20 budget year using the estimated statewide weighted count for the current
21 year pursuant to section 15-943, paragraph 2, subdivision (a) and based on
22 estimated available resources in the classroom site fund for the budget
23 year adjusted for any prior year carryforward or shortfall.

24 2. The allocation to each charter school and school district for a
25 fiscal year shall equal the per pupil amount established in paragraph 1 of
26 this subsection for the fiscal year multiplied by the weighted student
27 count for the school district or charter school for the fiscal year
28 pursuant to section 15-943, paragraph 2, subdivision (a). For the
29 purposes of this paragraph, the weighted student count for a school
30 district that serves as the district of attendance for nonresident pupils
31 shall be increased to include nonresident pupils who attend school in the
32 school district.

33 H. Monies distributed from the classroom site fund shall be spent
34 for the following purposes:

- 35 1. Class size reduction.
- 36 2. Teacher compensation, including a base pay and performance pay
37 component.
- 38 3. Assessment intervention programs.
- 39 4. Teacher development.
- 40 5. Dropout prevention programs.
- 41 6. Teacher liability insurance premiums.
- 42 7. Student support services.

43 I. The SCHOOL district governing board or charter school shall
44 allocate the classroom site fund monies to include, if possible, the
45 priorities identified by the principals of the schools while ensuring that

1 the monies maximize classroom opportunities and conform to the authorized
2 expenditures identified in subsection A of this section.

3 J. School districts and charter schools that receive monies from
4 the classroom site fund shall submit a report by November 15 of each year
5 to the superintendent of public instruction that provides an accounting of
6 the expenditures of monies distributed from the fund during the previous
7 fiscal year and a summary of the results of district and school programs
8 funded with monies distributed from the fund. The department of education
9 in conjunction with the auditor general shall prescribe the format of the
10 report under this subsection.

11 K. School districts and charter schools that receive monies from
12 the classroom site fund shall receive these monies monthly in an amount
13 not to exceed one-twelfth of the monies estimated pursuant to subsection G
14 of this section, except that if there are insufficient monies in the fund
15 that month to make payments, the distribution for that month shall be
16 prorated for each school district or charter school. The department of
17 education may make an additional payment in the current month for any
18 prior month or months in which school districts or charter schools
19 received a prorated payment if there are sufficient monies in the fund
20 that month for the additional payments. The state is not required to make
21 payments to a school district or charter school classroom site fund if the
22 state classroom site fund revenue collections are insufficient to meet the
23 estimated allocations to school districts and charter schools pursuant to
24 subsection G of this section.

25 L. The state education system for committed youth shall receive
26 monies from the classroom site fund in the same manner as school districts
27 and charter schools. The Arizona state schools for the deaf and the blind
28 shall receive monies from the classroom site fund in an amount that
29 corresponds to the weighted student count for the current year pursuant to
30 section 15-943, paragraph 2, subdivision (b) for each pupil enrolled in
31 the Arizona state schools for the deaf and the blind. Except as otherwise
32 provided in this subsection, the Arizona state schools for the deaf and
33 the blind and the state education system for committed youth are subject
34 to this section in the same manner as school districts and charter
35 schools.

36 M. Each school district and charter school, including school
37 districts that unify pursuant to section 15-448 or consolidate pursuant to
38 section 15-459, shall establish a local level classroom site fund to
39 receive allocations from the state level classroom site fund. ~~The~~ EACH
40 local level classroom site fund shall be a budgetary controlled account.
41 Interest charges for any registered warrants for the local level classroom
42 site fund shall be a charge against the local level classroom site fund.
43 Interest earned on monies in the local level classroom site fund shall be
44 added to the local level classroom site fund as provided in section
45 15-978. This state ~~shall~~ IS not ~~be~~ required to make payments to a school

1 district or charter school local level classroom site fund that are in
2 addition to monies transferred to the state level classroom site fund
3 pursuant to section 37-521, subsection B, section 42-5029, subsection E,
4 paragraph 10 and section 42-5029.02, subsection A.

5 N. Monies distributed from the classroom site fund for class size
6 reduction, assessment intervention and dropout prevention programs shall
7 ~~only~~ be used **ONLY** for instructional purposes in the instruction function
8 as defined in the uniform system of financial records, except that monies
9 shall not be used for school-sponsored athletics.

10 O. For the purposes of this section:

11 1. "Assessment intervention" means summer programs, ~~after-school~~
12 **AFTER-SCHOOL** programs, ~~before-school~~ **BEFORE-SCHOOL** programs or tutoring
13 programs that are specifically designed to ensure that pupils meet the
14 Arizona academic standards as measured by the statewide assessment
15 prescribed by section 15-741.

16 2. "Class size reduction" means any maintenance and operations
17 expenditure that is designed to reduce the ratio of pupils to classroom
18 teachers, including the use of persons who serve as aides to classroom
19 teachers.

20 3. "Student support services" means any expenditure in the student
21 support services function as defined in the uniform system of financial
22 records.

23 Sec. 2. Section 41-5721, Arizona Revised Statutes, is amended to
24 read:

25 **41-5721. Emergency deficiencies correction fund; definition**

26 A. The emergency deficiencies correction fund is established
27 consisting of monies transferred from the new school facilities fund
28 established by section 41-5741 **AND DEPOSITED PURSUANT TO SECTION 43-1015**.
29 The division shall administer the emergency deficiencies correction fund
30 and distribute monies in accordance with the rules of the division to
31 school districts for emergency purposes. The division shall not transfer
32 monies from the new school facilities fund if the division, in conjunction
33 with the school facilities oversight board, determines that the transfer
34 will affect, interfere with, disrupt or reduce any capital projects that
35 the board has approved pursuant to section 41-5741. The division shall
36 transfer to the emergency deficiencies correction fund the amount
37 necessary each fiscal year to fulfill the requirements of this section.
38 Within thirty days after transferring monies to the emergency deficiencies
39 correction fund, the division shall report to the director of the joint
40 legislative budget committee and the director of the governor's office of
41 strategic planning and budgeting the amount and source of the transfer.
42 Monies in the emergency deficiencies correction fund are continuously
43 appropriated and are exempt from the provisions of section 35-190 relating
44 to lapsing of appropriations.

1 B. If the division determines that there are insufficient monies in
2 the emergency deficiencies correction fund to correct an emergency, the
3 school district may correct the emergency pursuant to section 15-907.

4 C. If a school district has an emergency, the school district shall
5 apply to the division for funding for the emergency. The school
6 district's application shall disclose any insurance or building renewal
7 monies available to the school district to pay for the emergency. Before
8 applying to the division for funding for the emergency, the school
9 district governing board shall issue an emergency declaration or
10 resolution to be eligible for monies from the emergency deficiencies
11 correction fund.

12 D. The division staff shall acknowledge receipt of the school
13 district's application for emergency deficiencies funding in writing
14 within five business days after receiving the application. The division
15 staff shall include in the written acknowledgement of receipt to the
16 school district any investigative, study or informational requirements
17 from the school district, along with an estimated timeline to complete the
18 requirements, necessary for the division staff to make a decision
19 regarding funding.

20 E. The board shall review all policies and procedures that the
21 division develops to administer this section.

22 F. MONIES DEPOSITED IN THE FUND PURSUANT TO SECTION 43-1015 SHALL
23 SUPPLEMENT, NOT SUPPLANT, ANY EXISTING MONIES FROM ANY OTHER SOURCE.

24 ~~F.~~ G. For the purposes of this section, "emergency":

25 1. Means a serious need for materials, services or construction or
26 expenses that exceeds the school district's adopted budget for the current
27 fiscal year and that seriously threatens the functioning of the school
28 district, the preservation or protection of property or public health,
29 welfare or safety.

30 2. Includes all of the following:

31 (a) A situation that threatens life services such as adequate water
32 supply, energy and wastewater.

33 (b) A situation in which a school district is under orders from an
34 authority having jurisdiction for an unsafe environment such as the
35 department of environmental quality, the occupational safety and health
36 administration or the state fire marshal.

37 (c) The school district receives a professional and certified
38 assessment showing that one or more facilities or systems are structurally
39 unsafe and directly impact the functions of the school district with no
40 alternative option available.

41 Sec. 3. Repeal

42 Section 43-1011, Arizona Revised Statutes, as amended by Laws 2021,
43 chapter 411, section 4, is repealed.

1 Sec. 4. Title 43, chapter 10, article 2, Arizona Revised Statutes,
2 is amended by adding section 43-1015, to read:

3 ~~43-1015.~~ Income tax; additional tax rate increment; education

4 A. SUBJECT TO SUBSECTION B OF THIS SECTION, FOR TAXABLE YEARS
5 BEGINNING FROM AND AFTER DECEMBER 31, 2026, IN ADDITION TO THE TAX RATE
6 PRESCRIBED BY SECTION 43-1011, AN ADDITIONAL TAX RATE INCREMENT IS IMPOSED
7 AND SHALL BE COLLECTED. THE ADDITIONAL TAX RATE INCREMENT IS LEVIED AT A
8 RATE OF THREE AND ONE-HALF PERCENT OF THE TAXPAYER'S FEDERAL ADJUSTED
9 GROSS INCOME THAT EXCEEDS:

10 1. \$250,000 FOR A SINGLE PERSON OR A MARRIED PERSON FILING
11 SEPARATELY.

12 2. \$500,000 FOR A MARRIED COUPLE FILING A JOINT RETURN OR A SINGLE
13 PERSON WHO IS A HEAD OF HOUSEHOLD.

14 B. NOTWITHSTANDING SECTIONS 42-1116 AND 43-206, THE DEPARTMENT
15 SHALL SEPARATELY ACCOUNT FOR THE REVENUES COLLECTED PURSUANT TO THIS
16 SECTION AND DEPOSIT THOSE REVENUES AS FOLLOWS:

17 1. FIFTY PERCENT IN THE CLASSROOM SITE FUND ESTABLISHED BY SECTION
18 15-977.

19 2. FIFTY PERCENT IN THE EMERGENCY DEFICIENCIES CORRECTION FUND
20 ESTABLISHED BY SECTION 41-5721.

21 Sec. 5. Requirements for enactment; two-thirds vote

22 Pursuant to article IX, section 22, Constitution of Arizona, this
23 act is effective only on the affirmative vote of at least two-thirds of
24 the members of each house of the legislature and is effective immediately
25 on the signature of the governor or, if the governor vetoes this act, on
26 the subsequent affirmative vote of at least three-fourths of the members
27 of each house of the legislature.