

Return on Education

A Series of Briefs about K-12 Funding Issues

Arizona Schools Count on Proposition 301 Sales Tax

A key source of financial support for schools is scheduled to end in less than six years. This timeline adds to the urgency for adopting long term strategies that boost our education system. Tomorrow's economy depends on effective investments in third grade reading success, up-to-date textbooks and technology, safe facilities, and exceptional, experienced teachers.

Any credible plan for supporting K-12 education in Arizona must take into account the expiration of the Proposition 301 state sales tax increase that was enacted in 2000 to bring needed resources to public schools. It's not too early for elected officials, business and education leaders, and parents and community groups to come together to develop a sustainable business plan for Arizona's education success.

Today's debates over how best to fund education in Arizona come against a backdrop of years of expecting more from students and teachers while at the same time reducing the resources available for education. Failing to renew or replace the sales tax revenue on top of previous budget cuts would plunge Arizona education into a deeper crisis.



Proposition 301: Dedicated Support for Arizona Education

When Arizona voters approved Proposition 301 in November 2000, they raised the state sales tax from 5.0 to 5.6% with the increased revenues dedicated to public education. The new sales tax rate took effect in 2001 and, under the terms of Proposition 301, will expire June 30, 2021. The dedicated sales tax rate could be renewed or updated in one of three ways. Voters could gather signatures to put an initiative on the ballot and pass it by November 2020. The legislature could enact replacement revenues with a two-thirds vote in both houses and the Governor's signature. Or, with a simple majority vote, the legislature could refer a new measure to the voters for approval.

Governor Jane Hull championed Proposition 301 based on years of widespread concern over insufficient funding for Arizona schools. This measure and companion proposals passed by the state legislature have set the foundation for a large portion of state education policy infrastructure and funding. This fiscal year, the dedicated sales tax is expected to bring in more than \$645 million to support public universities, community colleges and local district and charter public schools.

The flow chart below shows how the money from Proposition 301 was allocated in the state fiscal year that ended June 30, 2015. Amounts in the orange circles can vary from year to year because they are based on a percentage of total collections; amounts in green circles remain constant each year from now until 2021. If there is no renewal or replacement, all of these amounts would go to zero when the tax expires in June 2021.



Keeping Up with Inflation – Not as Simple as It Sounds

Proposition 301 requires annual cost of living increases in state support for schools. Under the formula adopted in the ballot measure, funding per student rises yearly by the rate of inflation or 2 two percent, whichever is less. This requirement was designed to make sure the rising costs of expenses such as utilities, supplies, technology, and teacher and staff compensation don't shrink the resources for student education.

Unlike the higher sales tax rate, the mandated inflation increase in Proposition 301 has no expiration date. It is required regardless of what happens to the sales tax.

But interpretation of this provision has generated much debate and legal argument over the years. Based on an ongoing court case, many school districts, parents, and other education stakeholders believe the current funding level still falls \$258 million below the amount required by the Proposition. The state legislative leadership disagrees, and they are continuing to litigate the question in the courts.

The Arguments Over Inflation Funding

Since fiscal year 2011, a majority in the legislature voted to change how inflation is calculated, resulting in increases to only a portion of the formula for funding schools in Arizona. Several school districts and education leadership associations filed a lawsuit against the legislative majority's interpretation of the requirement. The lawsuit, now called *Cave Creek v. DeWit*, maintains that the legislature violated the voter mandate of Proposition 301.

The state Supreme Court ruled in 2013 that the legislature was wrong to increase spending under only a portion of the formula. The Court sent the case back to Superior Court to determine how the decision would be implemented. In August 2014, the Superior Court issued a judgment requiring the legislature to fund the per-student base level at an adjusted amount that would increase state support for schools by \$332 million in the first year. The legislature appealed this judgment, arguing

that the proper calculation would instead be \$74 million in the first year.

Before the appeal went forward, legislative leadership and the plaintiffs entered into months of mediation to see if they could come to agreement on a financial settlement. In late August 2015, the parties announced that they had reached a stalemate. The legislature is now proceeding with its legal appeal and has asked the Court of Appeals to withhold any requirement to pay the schools while the issue is still being adjudicated.

Meanwhile, state funding for the fiscal year that began July 1, 2015 includes spending increases to account for inflation for the current year, plus \$74 million for "additional inflation" to readjust the funding level. This leaves current funding per student \$258 million below what was called for in the Superior Court judgment.

Other Key Features of Proposition 301

To offset the impact of the higher sales tax on Arizonans struggling to make ends meet, Proposition 301 created a refundable income tax credit for married or single heads of households with incomes less than \$25,000 and single-person households with incomes less than \$12,500. The tax credit goes up to a maximum of \$100 per household and will expire when the tax expires.

Proposition 301 also sets an upper limit on two existing taxes for education:

- The “qualifying tax rate” that is used in the calculation of state funding for schools and represents what local school districts are expected to collect in school property taxes.
- The “county equalization assistance for education” tax that is essentially a statewide property tax levied by the counties with revenues dedicated to public schools.

The legislation that accompanied Proposition 301 provides more detail on the dedicated funding as well several fundamental reforms that remain an important part of Arizona’s education landscape. This legislation has no expiration date, though it is always subject to revision by the legislature. Provisions include:

- Requires the state Department of Education to compile an annual achievement profile for each public school and specify certain requirements for underperforming schools. This was the first iteration of rating Arizona schools based on AIMS test scores, yearly progress, and dropout rates.
- Lengthens the school year to 180 days, up from 175.
- Creates the Student Accountability Information System, or SAIS, to enable school districts and charter schools to transmit student information and school finance data electronically to the Arizona Department of Education.
- Requires the state Auditor General to conduct performance audits on school districts and monitor what percentage of school budgets is spent in the classroom.
- Expands the student tuition tax credit for private schools and the tax credit for public school extracurricular activities.
- Details the Classroom Site Fund established in the Proposition and specifies that the maintenance and operations portion of the fund can be spent on:
 - Class-size reduction
 - Teacher compensation increases
 - AIMS intervention
 - Teacher development
 - Dropout prevention
 - Teacher liability insurance premiums

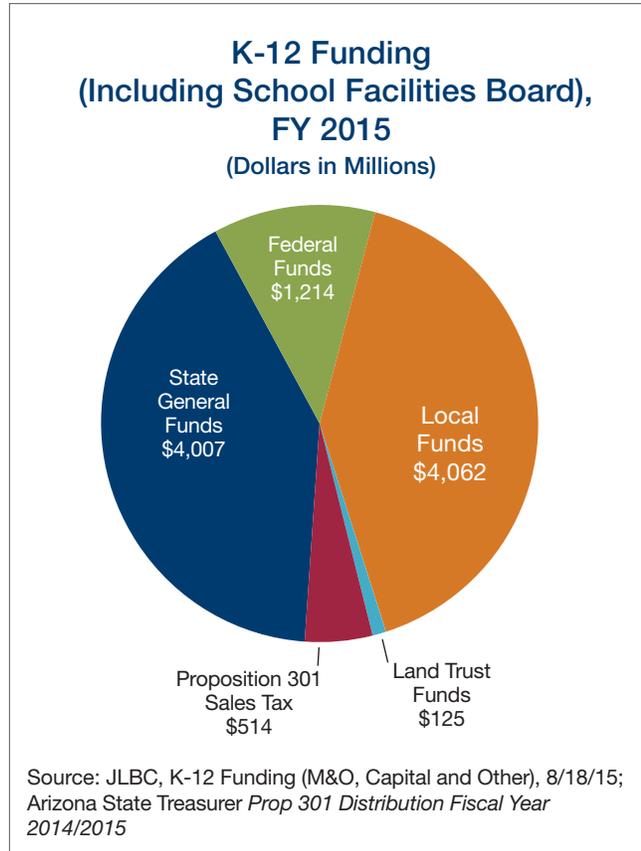
Next Steps Will Shape Arizona's Future

The legal arguments about the inflationary requirement in Proposition 301 are part of a much larger debate about the amount and structure of school funding needed for educational success. The pie chart shows the major sources of funding for Arizona schools. If any of the slices of the pie shrink or disappear with no replacement, the harm to education would be real and long-lasting.

The coming decisions of Arizona leaders and voters will shape the school days of over one million Arizona students. What access will they have to sports, computers, and arts? To school counselors, speech therapists, and nurses? How crowded will their classrooms be? How many classes will be taught by long-term substitutes? The decisions will shape our future economy. How prepared will high school graduates be for college and career? How competitive will our workforce be?

Answering these questions means attention to three key aspects of education funding:

1. Adjusting annual school budgets to fully reflect rising costs as voters required.
2. Creating a long term plan to match education resources with our expectations for student success.
3. Investing available resources in schools today to reverse the erosion of funding since the Great Recession.



To learn more about K-12 funding issues, visit azchildren.org.



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