

Return on Education

A Series of Briefs about K-12 Funding Issues

State Land Trust Funds for Schools

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What do the State Land Trust have to do with Arizona schools?

When Arizona became a state in 1912, the federal government gave land to the state, with the intent it be managed for the benefit of certain public institutions. The largest, by far, is K-12 education, which benefits from 8.1 million acres of the total 9.2 million acres of land in the trust.

Trust lands generate two kinds of revenue annually for schools and other beneficiaries:

- **Expendable Revenue** comes from the State Land Department from the lease of state land for purposes like cattle grazing. This money is distributed directly to the beneficiaries each year.
- **Permanent Revenue** comes from earnings on investments managed by the State Treasurer. The state land trust portfolio includes proceeds from the sale of land and natural products on the land. This money is invested by the state treasurer, and the amount of earnings available for distribution to the beneficiaries each year is based on a constitutional formula.

Governor Ducey's plan deals with the Permanent Revenue. He proposes to temporarily change the constitutional formula to boost the amount of earnings that are distributed to schools for ten years.

2

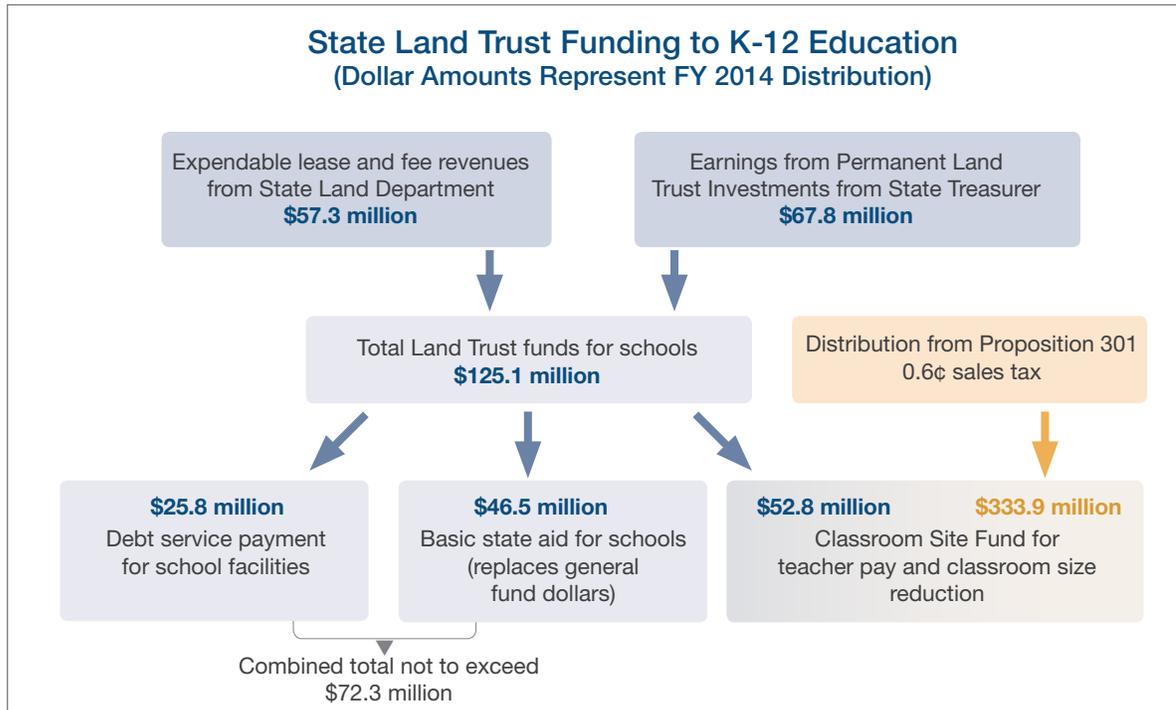
How is the State Land Trust revenue distributed to schools?

The schools' portion of Permanent Land Trust revenue is distributed according to a formula in state law (A.R.S. §37-521). The flow chart on page 2 illustrates the formula and shows the dollar amounts for state fiscal year 2014.

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What is Governor Ducey's plan?

Governor Ducey's plan asks voters to amend the state constitution to temporarily increase the distribution of money from permanent revenue received from state land. Currently, trust beneficiaries receive 2.5% of the average value of the trust over the previous 5 years. The governor's plan would increase this distribution (upon approval of the voters in 2016) from the current 2.5% to 10% for five years, fiscal year 2017 through fiscal year 2021, then reduce it to 5% for an additional five years. After that, distribution would revert to the formula currently described in the Arizona Constitution.



4 How does this bring more money to schools in the short term?

The Governor proposes that the new distribution above the current 2.5% would be distributed to district and charter schools for basic state aid based on their number of students. This would be additional resources in each district and charter school budget for ten years.

5 What is the cost of this proposal?

This plan proposes taking a loan from our future. In exchange for higher distributions for ten years, the value of the land trust fund would be lower in future years, affecting future distributions. The Joint Legislative Budget Committee estimates that under the current 2.5% distribution formula, the value of the state land trust portfolio would be \$9.5 billion in 2026. Under the Governor's plan, the value would be reduced to \$6.3 billion in 2026.

6 Is it a problem to take this loan from our future?

It depends on who you ask.

The Trust is designed to be a permanent asset to benefit schools. It is not designed to resolve budget or political decisions.

Any time you withdraw money early from an endowment or trust or retirement fund, you are diminishing the future value and reducing the amount available in future years.

Annual withdrawals of 10% of the value of the fund are higher than the norm for endowments or trust funds. State Treasurer Jeff DeWit opposes the proposal because it dips into the corpus (principal) of the fund and lowers the distributions available to public school students forever when the temporary plan expires.



Some argue that this trade-off is worth it because the unmet needs in our public schools today are so great. But Governor Ducey has promised he will not support any tax increase to invest in education. And the Governor and legislature have a track record of lowering taxes, so there will be **less** money available for education in the future.

It is hard to conclude that today's education funding needs outweigh the needs we'll have in future years.

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What about the lawsuit over inflation funding for schools?

The State Land Trust proposal does not resolve the inflation lawsuit.

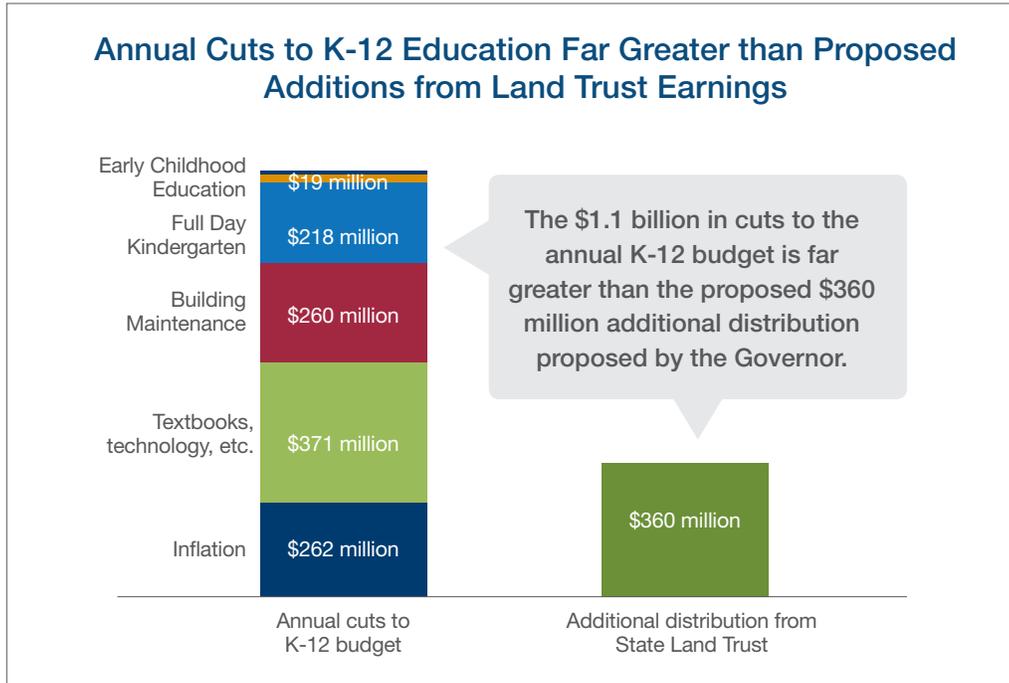
The Arizona Supreme Court has ruled that the state was obligated to pay inflation payments to the schools in the years that it did not—and is obligated to make these payments going forward. Parties to the lawsuit are currently in mediation proceedings to develop a funding agreement that adjusts future payments to schools upward based on inflation.

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What's the bottom line for our public school students?

It is estimated that under the Governor's proposal, schools would receive \$1.8 billion more during the first five years compared to current funding. This equates to approximately \$360 million more per year equal to about \$300 more per year per student. In FY 2015, state revenues per student averaged \$3,529, so this is a 9% increase for five years.

The proposed \$360 million increase for five years pales in comparison to the more than \$1.1 billion annually that has been cut out of education budgets since the Great Recession—for full-day kindergarten, basic classroom funding, preschool and K-3 learning, and school building repair.



9 Are there cliffs ahead?

There are two cliffs built into this proposal. First, after five years, the distributions drop in half from 10% to 5% of the average permanent fund value.

Second, after another five years, the distributions drop again to the previous Constitutional formula based on the actual trust fund earnings over the past five years.

At that time, the value of the fund will be \$3 billion lower than it could have been, and annual distributions will be lower too.

10 What else could go wrong?

Governor Ducey has described a clean proposal with more money per student for public schools—no new requirements or expectations, no budget cuts in other areas. But so far we only have an outline of the plan. The real proposal will go through the legislative process. It could emerge looking very different before it goes to Arizona voters.

11

What money will be left for schools when Governor Ducey is out of office and the State Land Trust proposal expires?

Since the Great Recession, the state legislature and Governors Brewer and Ducey have continued to pass tax cuts that will phase in and grow over time, taking money out of the state's general fund and making less money available for public education. The 0.6 cent sales tax passed by voters in 2001 to increase education revenues expires in 2020.

No matter whether we re-arrange the distributions from the State Land Trust or not, we the voters must demand a real financing plan for public education.

12

Does the State Land Trust proposal meet Arizona's educational goals?

No. Arizona will never achieve our educational goals if we let the shifting funds in the land trust monopolize our work on school funding. In addition to debating this proposal, we must pay attention to:



1. **Adjusting annual school budgets to fully reflect rising costs as voters required.**

This means settling the inflation lawsuit.

2. **Creating a long term plan to match education resources with our expectations for student success.**

This means updating school revenues when the Proposition 301 sales tax expires.

3. **Investing more in schools in the short term.**

As revenues rise above projections and our rainy day fund remains intact, we expect Governor Ducey and the legislature to make better budget decisions to fuel third grade reading success, up-to-date textbooks and technology, safe facilities, and exceptional, experienced teachers.



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