

# AZ ED 1001

A non-partisan, grassroots effort dedicated to informing citizens about education funding in Arizona

AZ ED 1001

## THE ARIZONA CONSTITUTION ON EDUCATION:

“The legislature shall enact such laws as shall provide for the **establishment and maintenance of a general and uniform public school system**, which system shall include:

1. Kindergarten schools. 2. Common schools. 3. High schools. 4. Normal schools. 5. Industrial schools.
6. Universities, which shall include an agricultural college, a school of mines, and such other technical schools as may be essential, until such time as it may be deemed advisable to establish separate state institutions of such character.”

Article 11, Section 1

“In addition to such income the legislature shall make such appropriations, **to be met by taxation**, as shall insure the proper maintenance of all state educational institutions, and shall make such special appropriations as shall provide for their development and improvement.”

Article 11, Section 10

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## TAXPAYERS & BUSINESS LEADERS WANT TO IMPROVE PUBLIC EDUCATION

- 77% of taxpayers in AZ want to pay more for our public schools (Moore Poll, 2016)
- Arizona’s business leaders said the funding of a quality public education system and availability of a trained workforce are the top two challenges to doing business in Arizona
- Arizona has cut \$4.56 billion in annual funding from public education since 2009
- Issues include a growing teacher shortage crisis, aging school buildings and buses, and under-resourced classrooms

Source: AZ Center for Economic Progress Q&A Arizona’s State Budget & Taxes What Every Arizonan Needs to Know About Growing Our Economy



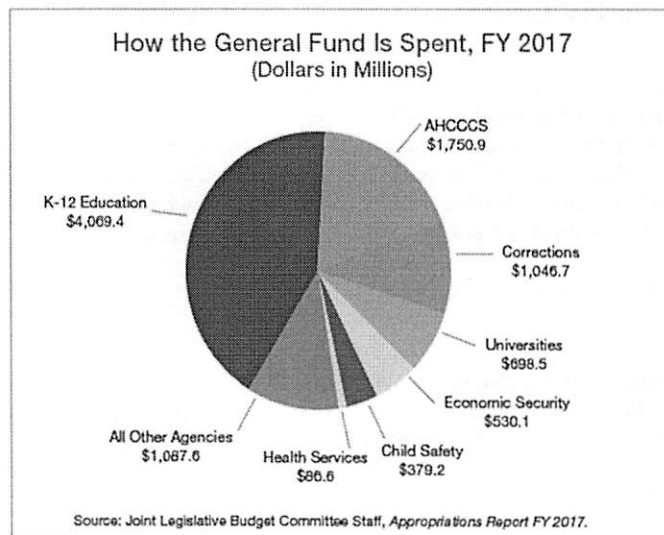
## GENERAL FUND

AZ Population:

6.93 million

Total Budget:

\$9.8 billion



### BUDGET COMPARISONS- STATES WITH SIMILAR BUDGETS

Arizona

Population: 6.93 million  
Budget: 9.6 billion

Wyoming

Population: 585,000  
Budget: 8.8 billion

Maine

Population: 1.33 million  
Budget: 7.6 billion

Alaska

Population: 741,000  
Budget: 13.8 billion

Sources: US Census Bureau & ballotpedia.org



### BUDGET COMPARISONS- STATES WITH SIMILAR POPULATION

Arizona

Population- 6.93 million  
Budget- 9.6 billion

Tennessee

Population- 6.6 million  
Budget- 12.83 billion

Massachusetts

Population- 6.8 million  
Budget- 29.48 billion

Washington

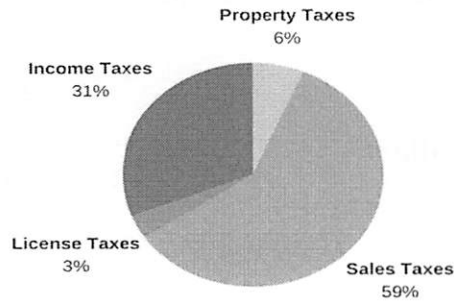
Population- 7.28 million  
Budget- 16.67 billion

Sources: US Census Bureau & ballotpedia.org



## WHERE DOES THE STATE RECEIVE REVENUE FROM?

Fiscal year 2016 total state tax collections by source



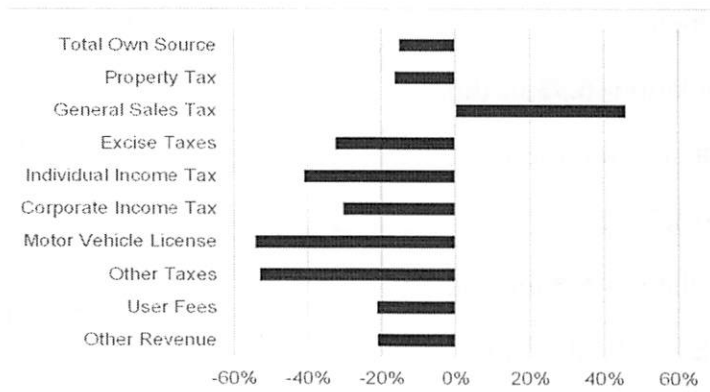
Source: [https://ballotpedia.org/Arizona\\_state\\_budget\\_and\\_finances](https://ballotpedia.org/Arizona_state_budget_and_finances)



## ARIZONA'S RELIANCE ON SALES TAX

Percent Difference From the U.S. Average of all tax collection sources

- Arizona falls well below the national average for all tax collection sources, with the exception of sales tax
- Arizona has the 2<sup>nd</sup> highest sales tax in the nation



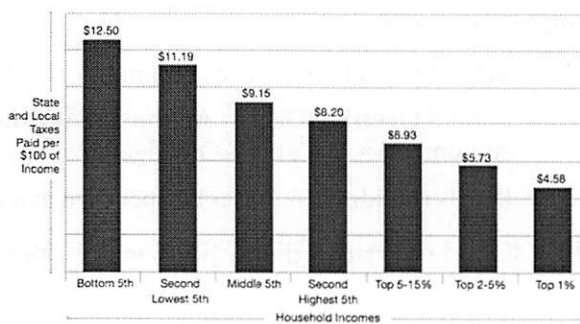
Source: VIP, US Census Bureau



## HOW SALES TAX AFFECTS EACH INCOME BRACKET

- Relying on a regressive tax makes it hard to budget and is not a predictable revenue source. Any changes in the economy affect the amount collected
- Sales tax is highly regressive, which means it takes a higher portion of a low income tax payer's income than a high income tax payer's income

Arizona Families with Lowest Incomes Pay a Higher Portion of Their Income in State and Local Taxes than Taxpayers with Higher Income



Source: Institute on Taxation & Economic Policy, *Who Pays?*, January 2015.

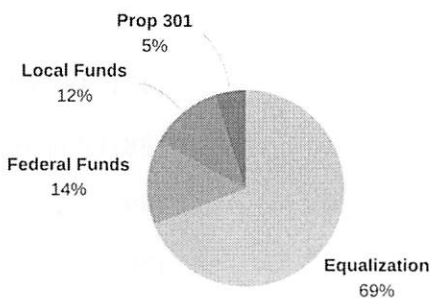
Source: AZ Center for Economic Progress Q&A Arizona's State Budget & Taxes What Every Arizonan Needs to Know About Growing Our Economy



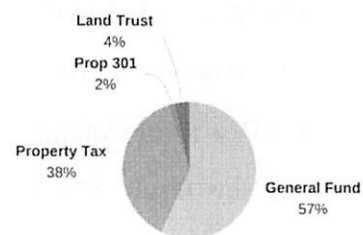
## WHERE EDUCATION FUNDS COME FROM:

- Since 1980, AZ has had equalization formula for public education
- No matter where a child lives in our state, the student receives the exact same amount of base funding as every other child in our state

Education funds by source



Equalization funding breakdown



Source: JLBC, AZLeg gov, Julie Horwin - AEA Retired



## SUPPLEMENTAL REVENUES: BONDS AND OVERRIDES

School districts are allowed to increase their funding through *voter approved overrides and bonds*:

- M&O Override (people & programs) = 15% of Maintenance & Operations budget
- Capital Override/District Additional Assistance Override (books, technology & equipment) = 5% of M&O budget
- Bonds (buildings & buses) = specified amount for specific capital projects only

Bonds and overrides disproportionately benefit wealthier districts.

Source: Valley Interfaith Project



## OVERALL PER PUPIL SPENDING COMPARED TO OTHER STATES (FY2017)

### TOP STATES

- (1) New York: \$22,659
- (2) Alaska: \$21,261
- (3) District of Columbia: \$20,640
- (4) New Jersey: \$20,566
- (5) Connecticut: \$20,861

### BOTTOM STATES

- (47) Mississippi: \$8,361
- (48) Oklahoma: \$8,164
- (49) Arizona: \$7,501**
- (50) Utah: \$6,906
- (51) Idaho: \$6,515

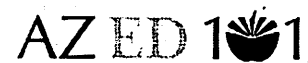
[http://www.nea.org/assets/docs/2017\\_Rankings\\_and\\_Estimates\\_Report-FINAL-SECURED.pdf](http://www.nea.org/assets/docs/2017_Rankings_and_Estimates_Report-FINAL-SECURED.pdf)



## CORPORATE TAX EXEMPTIONS/CREDITS

- A tax exemption is the umbrella term for the programs that divert revenue from the general fund (for example: TPT exemptions, tax credits, tax cuts, tax incentives)
- A tax credit reduces the amount of taxes owed on a dollar-for-dollar basis
- Tax credits are revenues blocked from entering the general fund
- Tax credits lack the basic accountability and control that state spending has
- Tax credits hinder long term economic growth

Source: AZ Center for Economic Progress.



## CORPORATE TAX EXEMPTIONS/CREDITS

- 75% of corporations paid the minimum state tax liability of \$50
- Fewer than 10% of corporations paid \$5,000 or more in state income taxes
- AZ has the 6<sup>th</sup> lowest corporate tax rate in the nation
- Corporations can reduce their income tax bill through the use of tax credits
- In 2014, corporations reduced tax liability by \$133 million through tax credits and carried another \$1 billion over to be used in future years

Source: AZ Center for Economic Progress.



## WHAT ABOUT SMALL BUSINESSES?

- Most small businesses pay more in income taxes than large corporations
- Tax credits and cuts benefit large corporations disproportionately, even when studies show small, local businesses have a greater positive impact on the economy
- Local retailers return an average of 52 percent of their revenue to the local economy, compared with just 14 percent for the chain retailers
- Similarly, the local restaurants re-circulate an average of 79 percent of their revenue locally, compared to 30 percent for the chain eateries

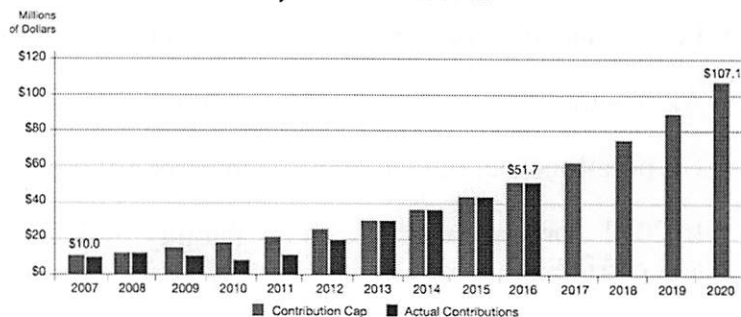
Source: <http://www.localfirstaz.com/news/2012/09/03/new-study-spending-locally-generates-four-times-more-economic-benefit>

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## CORPORATE TAX CREDITS TO PRIVATE SCHOOLS

- This is an example of one tax credit program available to corporations
- The expansion of the private school tuition tax credits, in particular, is having a significant impact on state revenues
- Combined, the amount claimed for private school tax credits has reached \$1 billion over the last decade

Corporate Private School Tuition Tax Credit Grows by 20 Percent Each Year



Source: Arizona Department of Revenue, Arizona Income Tax Credits, August 2016; calculation by Children's Action Alliance.

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## WHERE IS THE MONEY?

In 1980, Arizona had 5 different types of tax exemptions

**Today- the State gives over 331 tax exemptions, giving away more money than we bring in...**

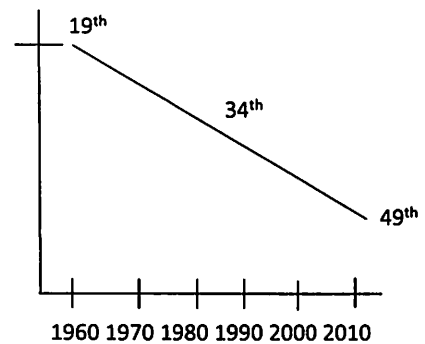
**Arizona gives away approximately \$14 BILLION in tax exemptions and brings in \$9.8 billion to general fund**

Source: <https://repository.asu.edu/attachments/178973/content/Taxes%20FY16.pdf>



## HAS FUNDING ALWAYS BEEN THIS BAD?

- **No!** Public education in Arizona was adequately funded, no matter which party was a leadership majority, until the mid 1990's
- In 1960, we ranked 19<sup>th</sup> in per pupil spending
- There has been a systematic disinvestment in education and an overall revenue decline in Arizona



Source: National Center for Ed Statistics



## HOW DID WE GET HERE?

- 1995: Arizona passes most expansive charter school law in country as well as open enrollment and site-based decision making
- 1997: Private School Tuition Tax Credit (STOs) begins for private schools
- 2000: Prop 301 passes
- 2006: School vouchers (ruled unconstitutional in 2009)
- 2011: Empowerment Scholarship Accounts
- 2016: Prop 123 passes
- 2017: ESA voucher expansion

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## CUTS IN FUNDING:

According to U.S. Census, Arizona cut K-12 education more than any other state in the country – and Arizona was ranked 47<sup>th</sup> in funding BEFORE the Great Recession

**From FY 1993-2016, AZ has lost \$2.3 Billion per year (or \$4.75 Billion/year adjusted for inflation & population) in revenue**

### Largest funding cuts:

- Full day kindergarten (funding eliminated in 2011, a loss of \$1.2 Billion)
- Capital funding (Total cut since 2009, \$2 Billion)
- Building renewal formula- legislature funds only 20% of what law requires for building new schools & major repairs (Total cut, \$256 Million- doesn't account for inflation/growth)

Source: Christopher Thomas & Chuck Essigs [www.azsba.org](http://www.azsba.org), Dennis Hoffman & Tom Rex, ASU Economists

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## HOW DID WE GET HERE: PROP 301

- In 2000, voters approved Prop 301, which demanded that education funding keep pace with inflation
- It increased the sales tax by 0.6%, which changed the state's current rate from 5.0% to 5.6%
- Directed \$800 million of new school improvement revenue bonds to correct existing deficiencies in school buildings
- The additional 0.6% sales tax - goes to teacher's base salary, performance pay, and school "site fund"
- During the great recession, the state stopped paying the funds to education and used the money to cover other expenses
- In 2010, the Arizona Education Association (AEA) and Arizona School Boards Association (ASBA) had to sue the State of AZ to force the Legislature to comply with 301
- The extra 0.6% sales tax was renewed by the 2018 legislature and is now not a voter mandate; the funding is now under legislative control

Source: Christopher Thomas & Chuck Essigs [www.azsba.org](http://www.azsba.org)



## HOW DID WE GET HERE: PROP 123 LAWSUIT SETTLEMENT

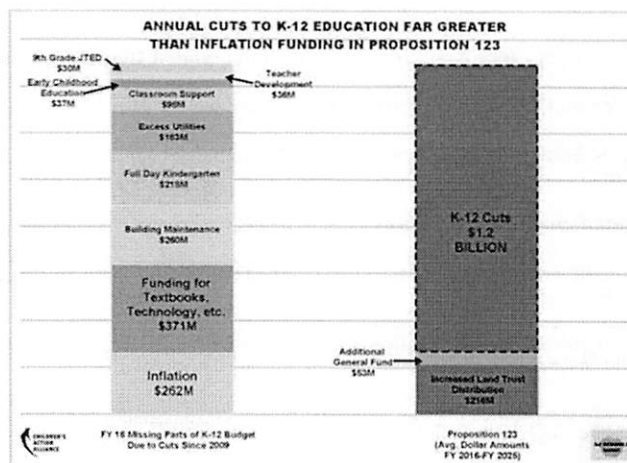
- When the State stopped using Prop 301 money for education, AEA and ASBA filed a lawsuit in 2010
- The courts ruled in favor of the schools, but litigation would have taken several more years, and schools needed funding immediately
- Plaintiffs agreed to settle and came up with Prop 123 as a compromise
- Prop 123 changed the distribution rate from the state land trust, which diverted money from the principal of state land trust (an account belonging to schools) to pay the schools back for money owed.

Source: <http://azsba.org/inflation-lawsuit/>



## PROP 123 WAS NOT ENOUGH

- Schools are **STILL** underfunded by over 1.2 billion dollars per year
- Schools were forced to accept payment from their own account
- By allowing the distribution rate to increase over the next 10 years, the loss in the principal balance of the state land trust will cause a reduction in the future balance (\$8 billion over 40 years)



Source: AZ Schools Now



## 1997-SCHOOL TUITION ORGANIZATION (STO) & 2011-EMPOWERMENT SCHOLARSHIP ACCOUNTS (ESA)

### STO = School Tuition Organizations

- Through STOs, Private/Religious Schools are paid for with citizens' taxes
- Vouchers by another name
- High-income taxpayers are the main beneficiaries of the programs – get donations back as a tax credit and take a federal charitable tax deduction
- Blocks money from entering the general fund
- According to the AZ Dept. of Revenue, about 30% of scholarships are given to families making more than \$80K/year while 40% go to families making less than \$42K

### ESA = Empowerment Scholarship Accounts

- ESAs were originally created in 2011-12, to serve students with special needs. ESAs, also known as “vouchers”, were expanded in 2017 to serve all students
- To receive an ESA, must waive their rights for child to attend a public district or charter school
- An ESA is similar to a checking account, the family receives a debit card to use for educational purposes
- Takes money from the general fund
- Currently, the law is on hold & will be voted on in 2018 (Yes vote will keep expansion, no vote will stop expansion)

Source: <https://www.expectmorearizona.org/blog/2017/02/06/empowerment-scholarship-accounts-esas/>, Arizona Department of Education – Includes FAQs, information about eligibility, and presentations, Arizona Revised Statutes – See Chapter 19, Article 1 at the bottom of the page, Empowerment Scholarship Accounts: Who qualifies, how money is spent (Arizona Education News Service, 2014)



## CURRENT ISSUES DUE TO INADEQUATE FUNDING: LARGE CLASS SIZES

- AZ currently ranks 49th in per pupil funding and has the 2nd highest class sizes in the United States
- AZ currently has the highest counselor to student ratio- 924:1
- Research shows:
  - Smaller class sizes, especially in K-3rd grade, can boost student academic achievement
  - No more than 18 students per teacher in grades K-3 would produce the greatest benefit
  - Minority and low-income students show even greater gains when placed in smaller classes in the primary grades

Source: <http://www.centerforpubliceducation.org/Main-Menu/Organizing-a-school/Class-size-and-student-achievement-At-a-glance/Class-size-and-student-achievement-Research-review.html>



## CURRENT ISSUES DUE TO INADEQUATE FUNDING: LOW TEACHER PAY

- (2018) 49th in the United States in teacher pay rankings
- Strong evidence that highly qualified teachers result in higher student achievement
- Strong evidence that salaries drive availability and quality of personnel



Few things have greater impact on student achievement than a highly effective teacher in every classroom. But Arizona is facing a teacher shortage crisis. Arizona students would benefit from policies and funding that enable schools to attract, support, and retain great teachers.

Source: Bureau of Labor Market in Socioeconomic Indicators, 2017 Bureau of Economic Analysis, Regional Price Parities, 2012 adjusted to 2017. © 2018 by the Governor's Office for Public Policy and Education.

Expect More Arizona

Source: azsba.org and Expect More AZ



## CURRENT ISSUES DUE TO INADEQUATE FUNDING: TEACHER SHORTAGES

- In 2016, 8353 teachers needed for the school year
- 2135 positions remained unfilled by end of school year
- 4386 Arizona positions are filled by long-term subs
- 23% could retire soon – nearly one quarter of Arizona teachers are eligible to retire in the next several years
- 60,000 K-12 teaching positions in AZ, with about 90,000 certified teachers. The problem is not a shortage of certified teachers, but a shortage of teachers willing to do the job under current conditions

Source: AZ Schools Now, AZ Dept. of Ed

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## CURRENT ISSUES: BUILDING, MAINTENANCE AND OPERATIONS ISSUES

- In 2017, the Arizona Center for Law in the Public Interest and attorney Tim Hogan filed a lawsuit on behalf of several school districts alleging the governor and state Legislature have shorted districts hundreds of millions of dollars a year for building-maintenance and soft-capital needs
- In 2009, the Legislature started cutting soft capital and building maintenance, blaming the Great Recession. Cuts continued despite economic recovery
- School districts are left to pass bonds to pay for infrastructure costs. AZ citizens paying for things the state should be paying for, creating a disparity between districts in higher-income areas and those in lower-income areas


Source: <http://www.azcentral.com/story/news/politics/arizona-education/2017/02/28/arizona-lawsuit-education-capital-funding-building-maintenance-technology-school-buses/88328544/>

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## CURRENT ISSUES: BUILDING, MAINTENANCE AND OPERATIONS ISSUES

- Since 2009, ongoing cuts in this area have topped \$2 billion
- For capital expenses, school districts are required to be funded at \$450 per elementary student & \$490 per high school student. (Those required funding amounts have remained unchanged since the 1980's)
- However, schools are currently receiving between \$40-\$80 per student; depending on the district

Source: AZ Schools Now, <http://www.azcentral.com/story/news/politics/arizona-education/2017/02/26/arizona-lawsuit-education-capital-funding-building-maintenance-technology-school-buses/98328544/>

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## THE DIFFERENCE BETWEEN CHARTER & PUBLIC DISTRICT SCHOOLS

- Both are considered public schools
- Charter schools are contractors that receive taxpayer dollars to operate privately controlled schools
- Charter school materials/equipment are usually privately owned and leased to the school at taxpayer expense
- Charter schools have self-appointed boards that are not accountable to the community, whereas district schools have elections for school board members
- District schools have to publicly share information - charters have very narrow requirements for what information they report
- Charter schools do not have to provide transportation or offer a school lunch plan
- Charter schools lack transparency in spending and can profit millions of dollars
- Charter schools statistically serve fewer students with disabilities and fewer ELLs
- New district schools are only built where there is a need to be filled, charter schools can be built anywhere

Source: NPE School Privatization Explained

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## REVENUE FOR PUBLIC AND CHARTER SCHOOLS

### District Schools

- The first funding source for district schools is local property tax collections
- If a school district does not receive enough money from local property taxes to fund its schools, the State's general fund makes up the difference in the funding needed
- Additional revenues may be received through bonds/overrides, desegregation funding, individual tax credits and/or weighted instructional categories
- Can receive up to \$400 from joint return tax credit, but can only use on certain expenses

### Charter Schools

- Because charter schools do not have geographic boundaries and taxing authority, property taxes do not provide any of the funding that goes to charter schools
- Charter schools get the majority of their funding from the State's general fund
- Charter Schools are not-for-profit but charter owners can contract for-profit "charter operators" to run the school
- Charter schools can charge optional fees and can receive up to \$400 from joint return tax credit

Source: American Education Network



## REVENUE FOR PRIVATE SCHOOLS & HOME SCHOOLING

### Private Schools

- Private schools can receive STO and ESA money from the state, but an individual student cannot receive both
- Private schools charge tuition
- Private schools can receive money from corporate tax credits (\$100 million from state budget in 2013)
- There are 4 different private school tax credits available—two for households and two for businesses. (Can receive up to \$2000 per joint filing and that \$ can be used on any expense)
- Cannot direct tax credit to your own child, but can ask friends and family to donate on your behalf

### Home Schooling

- Home schooling is under the jurisdiction of each county
- Home school families can receive ESA money
- ARS 15-802.01 a child who resides within the attendance area of a district school and who is instructed at home shall be allowed to try out for interscholastic activities and participate in elective classes at district schools

<http://mcesa.info/homeschool-faq>, <http://azchildren.org/wp-content/uploads/2016/02/Private-School-Tax-Credit-brief-12-151.pdf>





## PUBLIC SCHOOL GUARANTEES

- Teacher certification
- Fingerprint clearance/background checks (Private schools do not all require)
- Protection under the law
- Follow AZ/Federal Constitutions, laws, regulations
- Serve all students (special ed, gifted, ELL)
- Public schools have to identify/evaluate students with special needs
- Freedom of information
- Reporting outcomes
- Schools in all areas (few private/charter schools in rural areas)

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## WHAT CAN YOU DO? MOST OF ALL, EDUCATE YOUR FELLOW CITIZENS, AND:

- Attend PTO/PTA meetings
- Support your local school
- Attend school board meetings
- Attend Legislative District meetings
- Contact your local senators and representatives and the governor
- Investigate candidates' campaign funding
- Elect officials with clear support for and commitment to funding public education

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## **Arizona:**

50th in teacher pay.

Second-largest median class size.

Near bottom in per-pupil spending.

## **Why?**

It hasn't always been this way.

It doesn't have to stay this way.

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AZED101 is a non-partisan volunteer group of parents committed to improving education funding in Arizona. We realized that to change the status quo, we had to understand the situation. Soon, we had a presentation to share with friends and neighbors who were shocked to find out how our schools are funded. You will be, too.

## **Schedule a Presentation**

azed101now@gmail.com  
facebook.com/azed101



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