Arizona School Finance

by Justin Olson

ARIZONA TAX RESEARCH ASSOCIATION

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The Arizona Tax Research Association (ATRA) is the only statewide taxpayer organization representing a cross section of Arizona individuals and businesses. Organized in 1940, ATRA is the largest and most respected independent and accurate source of public finance and tax policy information. ATRA represents taxpayers before policy makers at the state and local level. ATRA's fundamental belief is that every governmental expenditure is directly related to a tax. ATRA's goal is efficient statewide government and the effective use of tax dollars through sound fiscal policies.

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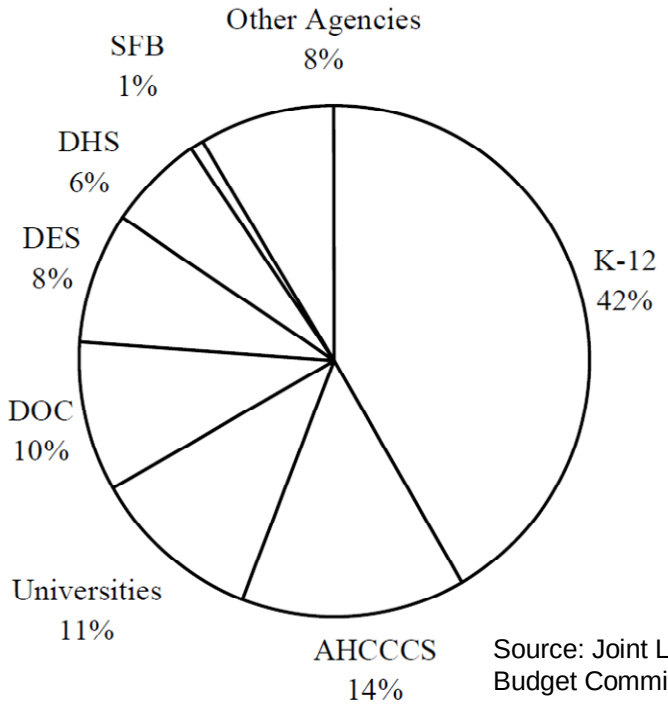
Table of Contents

Background and Introduction

As a statewide taxpayer organization representing a cross section of Arizona individuals and businesses, the Arizona Tax Research Association (ATRA) examines all state and local governmental activities that relate to taxation policy and procedure. As K-12 education expenditures absorb the single largest portion of state taxpayer dollars (figure 1) and as school district property taxes generally account for the majority of a property taxpayer's bill, ATRA closely monitors the policies surrounding the financing of Arizona's public school system.

Figure 1: FY 2009 General Fund Expenditures



Source: Joint Legislative Budget Committee

In an effort to provide taxpayers, voters, policy makers, and any other interested parties a resource that might increase understanding of Arizona's complex school finance system, this primer attempts to describe Arizona's school finance system in a clear and straightforward manner. In addition to serving as a primer course for those that might be new students of Arizona's school finance system, ATRA hopes this work might also serve as a valuable reference for those who regularly debate the various virtues and short comings of K-12 finance in Arizona.

State government today plays a very large role in both funding and regulating Arizona's school districts. Historically, this was not always the case. Prior to 1980, when education finance in Arizona underwent major reforms that established much of the system Arizona's school districts operate under today, state government's involvement in school districts' efforts was much more limited. After the reforms of 1980, public

finance has seen some major changes and additions—such as the passage of Students FIRST in 1998 (see Chapter 2) and Prop 301 in 2000 (see Chapter 3)—but the reforms of 1980 still make up the foundation of Arizona's school finance system.

A primary objective of the 1980 reforms was to equalize tax rates and per-pupil spending.[1] These reforms sought to decrease reliance on property taxes because a system heavily reliant on property taxes in many cases leads to inequitable per-pupil expenditures due to differences in districts' relative property wealth. This effort to equalize education finance was driven by the requirement in the Arizona Constitution that the Legislature "…enact such laws as shall provide for the establishment and maintenance of a general and uniform public school system…".[2] Courts have since ruled on several occasions that financing systems that lack meaningful equalization do not qualify as general and uniform.[3]

As equity was a primary reason for implementing the system under which Arizona now operates, this study describes where the system accomplishes this desired equity and where the system falls short.

This description of equalities and inequalities takes place within the broader description of a school district's budget. Beginning with the foundation system, this primer builds a school district budget from the ground up attempting to describe every major expenditure authority available to school districts. The diagram on the opposing page summarizes this expenditure capacity (figure 2). The items listed within the light blue box on the left side of the diagram make up a district's general budget that the district spends on maintenance and operations (M&O). The items on the right side of the diagram, within the light green box, make up a district's expenditure capacity designated for capital purchases. Lastly, the items listed in the teal colored box at the top represent expenditure capacity that does not stem from a district's M&O or capital funds but, instead, from several smaller funds each designated for specific purposes.

Each item included in this diagram is described in detail throughout the chapters of this book. Chapter 1 describes the equalization base as well as the property-tax funded budget increases. The second chapter describes the capital funding received through the school facilities board. Chapter 3 completes the description of the diagram's components with an explanation of the various other funds from which school districts can budget expenditures. The fourth chapter describes a charter school's budget as summarized in the diagram on page *vi* (figure 3).

While this description and analysis of school districts' budgets includes many references to property tax rates, this study does not encumber the school finance discussion with a detailed description of Arizona's property tax system. For questions regarding property taxes see *An Explanation of Arizona Property Taxes* published by ATRA in conjunction with the Arizona Capitol Times (a digital copy can be downloaded from ATRA's website at www.arizonatax.org).

For the purposes of understanding the significance of the tax rates referenced throughout this school finance primer, it is sufficient to know the following: 1) the rates sited are levied for every $100 of assessed value; 2) a property's primary and secondary assessed values are determined by applying an assessment ratio that varies depending on the use of the property (for 2009 most properties were classified under either the 10%

1. Laws 1980, Ch. 9
2. Ariz. Const. Art. XI, § 1(A)
3. *Roosevelt v Bishop* 179 Ariz. 233, 877 P.2d 806 (1994), *Symington v. Albrecht* No. CV-96-0614-SA (Ariz. Jan. 15, 1997), *Hull v Albrecht* 190 Ariz. 520, 950 P.2d 1141 (1997)

Figure 2: A School District Budget

Funding Source

Additional Budget Capacity

1. Classroom Site Fund (Prop 301)..... Sales Tax (0.6%)
2. State Projects/Grants.....General Fund
3. Federal Projects/Grants.....Federal Funds
4. Other Funds..... Various Sources

General Budget Limit (GBL)

Capital Funds

School Facilities Board ..... General Fund
1. New School Facilities
2. Building Renewal
3. Emergency Deficiencies Correction

Other Revenue ..... Federal Funds
1. Impact Aid
2. Nonresident Tuition & Cert. of Conv. ..... District of Residence

Budget Increases (voter approved): ..... Property Taxes Voter Approved

1. M&O Overrides	1. Capital Outlay Overrides
2. K-3 Overrides	2. Bonds/Debt Service

Budget Increases (no voter approval): ..... Property Taxes No Voter Approval

1. Desegregation/OCR	1. Desegregation/OCR
2. Excess Utilities	2. Adjacent Ways
3. Carry Forward	3. Small School Adjustment
4. Sm Sch Adjustment	4. Registered Warrants
6. Drop Out Prevention	
7. Debt Service	
8. Registered Warrants	
9. TRCL minus TSL	

Equalization Base ..... QTR & State Aid Equalized funding

RCL or DSL

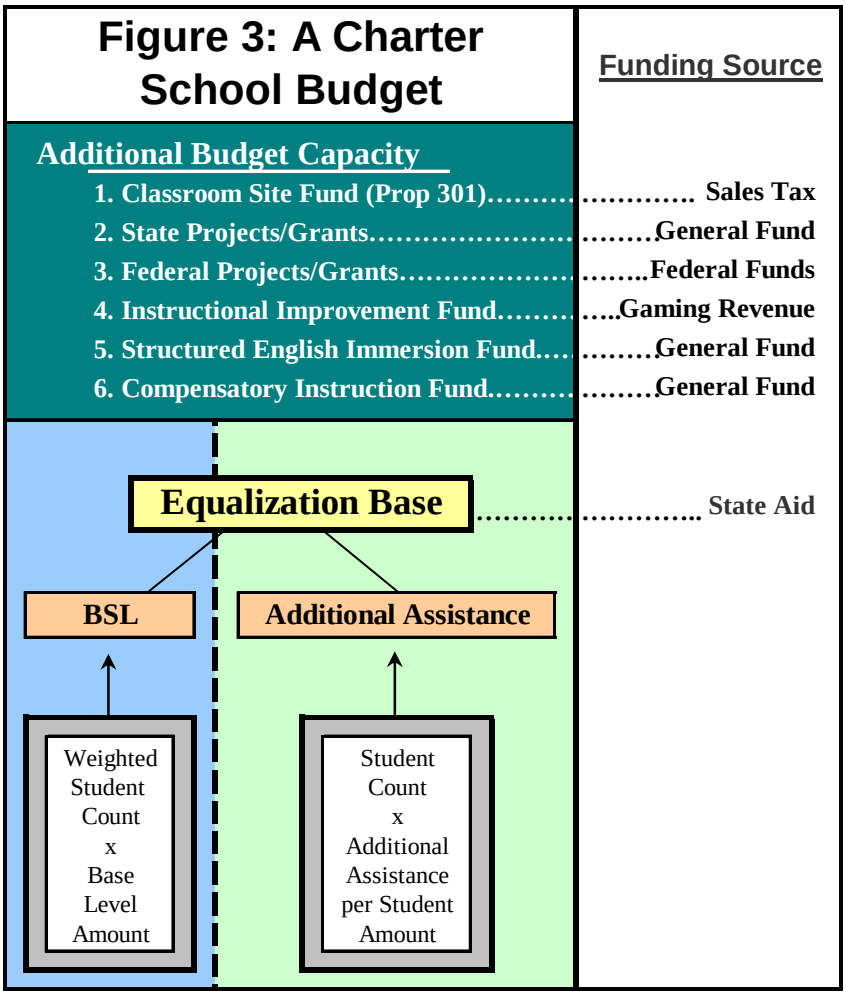
Weighted Student Count x Base Level Amount x Career Ladder or Performance Incentive Program x Teacher Experience Index (TEI) + TRCL or TSL

CORL

Actual Student Count x CORL per Student Amount + High School Text Book Allowance

Soft Capital

Actual Student Count x Soft Capital per Student Amount



residential assessment ratio or the 22% assessment ratio for business properties); 3) each property has a primary value that is limited in the amount it can grow each year and a secondary value that represents the full cash value of the property; 4) voter approved property taxes are levied against the secondary (full cash) value while non-voter-approved taxes are levied against the primary (limited) value; and 5) school districts whose territory includes Indian reservation land or U.S. military bases receive federal impact aid revenue to replace the property taxes the district would receive if these lands were privately owned.

A sample calculation of a homeowner's property tax bill illustrates how property tax rates are applied. A property with a full cash market value of $250,000 might have a primary (limited) value of $200,000. If the property happened to be an owner-occupied residential property located in the Mesa Unified School District in tax year 2008, the property owner would calculate his school district tax bill as follows. The Mesa Unified primary tax rate of $3.60 would apply to every $100 of primary assessed value. Applying the 10% assessment ratio to the $200,000 primary value results in a $20,000 primary net assessed value. Dividing this assessed value by 100 and multiplying by the $3.60 tax rate results in a primary tax bill of $720. Applying the same assessment ratio to the $250,000 secondary value results in a $25,000 secondary net assessed value. For the

district's $1.50 voter-approved secondary tax rate, the owner would have paid an additional $375 for a total school district tax bill of $1,095.

In addition to this cursory understanding of Arizona's property tax system, a general understanding of the different types of Arizona school districts will also serve a reader well throughout this text.

There are several different types of school districts in Arizona. An elementary district (also referred to as a common school district) provides instruction to students in kindergarten and grades 1 through 8. An elementary district might share its territory with a union high school district that educates students in grades 9 through 12. An elementary district may also operate in an area where no union high school district exists. In such cases the elementary district often transports the high school students that reside within its territory to a nearby unified or union district and contracts with the neighboring district to provide services for the high school students. A unified district enrolls both elementary and high school students. As unified districts serve public school students of all ages, unified districts do not share territory with other elementary or union districts.

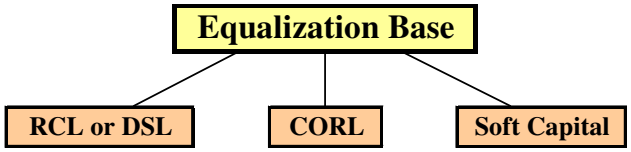
Arizona has 106 elementary districts, 15 union high school districts, and 97 unified districts.[1] These 218 districts make up all of the districts generally referred to as school districts throughout this report. In addition to these 218 districts the state has 9 accommodation school districts and 11 joint technical education school districts (JTEDs).[1] The provisions described throughout this report apply universally to the 218 elementary, union, and unified school districts unless otherwise noted. Some of the provisions also apply to the accommodation districts and JTEDs, but many of the provisions do not (for example, accommodation districts have no authority to levy property taxes and JTEDs can levy no more than a $0.05 tax rate). As the purpose of this report is to describe and analyze the finance system for Arizona's general education system, this primer does not include a description of how each aspect of the school finance system applies to these specialized districts.

1. ADE FY 2008 *Annual Report of the Superintendent of Public Instruction*

Chapter 1: The Foundation System

Application of the Arizona Constitution's "general and uniform" clause has required the Legislature to equalize funding for public schools in Arizona. An equalization formula makes up the foundation of the Arizona school finance system. This equalization formula, also referred to as the foundation system, consists of school district budget limits and a budgetary property tax called the qualifying tax rate. This chapter describes the several components of the foundation system; it demonstrates how school district budget limits, tax rates, and equalization assistance are calculated; and, lastly, analyzes districts' ability to levy taxes for expenditures in excess of the equalization formula.

Section I: The Equalization Base[1]



The equalization base represents the sum of the funding guaranteed to a school district based on the number of students attending the district's schools. The equalization base consists of three components: the lesser of the revenue control limit (RCL) or the district support level (DSL), the capital outlay revenue limit (CORL), and the soft capital allocation (eq. 1). As each of these components is student-driven, all of the funding guaranteed by the equalization base follows a student to whichever school district the student attends. If districts spend no more than the amount allowed under these budget limits then all districts will spend about the same amount per student.

Eq. 1: Equalization Base = (Lesser of the RCL or DSL) + CORL + Soft Capital Allocation

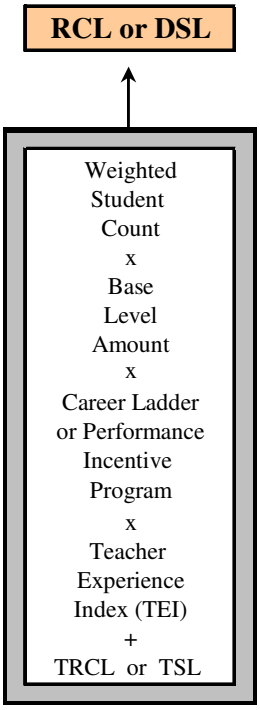
Eq. 2: Equalization Base – QTR Levy = State Aid

In addition to equalizing expenditures on a per student basis, the equalization formula also equalizes tax rates. The equalization formula guarantees that local property taxpayers will pay no more than the annually established qualifying tax rate (QTR) in support of the equalization base. If a school district does not raise enough revenue with its QTR levy to fully fund its equalization base then state taxpayers pay the difference in state equalization assistance, which is also referred to as state aid to schools (eq. 2).

Part A: The Revenue Control Limit (RCL)[2]

The largest of the three components of the equalization base is the RCL. The RCL primarily limits the amount a school district may budget for maintenance and operations (M&O). A district's M&O budget funds ongoing, non-capital expenses, such as employee salaries and benefits (human resources generally account for 85% to 90% of a district's operating costs).

1. A.R.S. § 15-971
2. A.R.S. § 15-947(A)



Average Daily Membership (ADM)[1]

The process for determining a school district's RCL for an upcoming school year's budget begins with the current school year's first day of instruction. After recording daily the total number of students in attendance throughout the district, a school district averages the totals of the first 100 days of the school year to obtain the average daily attendance (ADA). For each of these days, the district also averages the total number of students enrolled for classes—whether present for the day or not. This figure becomes the average daily membership (ADM). In most cases the current year's ADM becomes the student count used to build the upcoming year's budget. But if the ADM exceeds the ADA by more than 6% (8.5% for union high school districts) then the ADM is adjusted to equal no more than 6% (or 8.5% for union districts) of the daily attendance (eq. 3 applies to common or unified districts; eq. 4 applies to union high school districts).

Eq. 3: Lesser of ADM or (1.06 x ADA) = Student Count

Eq. 4: Lesser of ADM or (1.085 x ADA) = Student Count

Through this method of counting students, each fiscal year's funds are based on the previous year's enrollment. But this method only applies to districts that are not growing. If the ADM of any fiscal year is greater than the student count used to build the budget then a district may revise its budget to reflect the increased student count.[2] If, on the other hand, a district experiences a decrease in enrollment below the count used to build the budget then no change is required (although, as described above, the following year's budget will reflect the reduction). By funding current-year enrollment increases, while holding districts harmless against current-year decreases, this system double counts students that move from a declining district to one that is growing.

Weighted Student Count[3]

Upon determining the student count, a district has identified the key variable in the school finance funding formulas. To calculate the RCL, the district must next apply appropriate weights to the student count. The foundation system assumes that providing an equivalent educational opportunity to all students will be more expensive in some situations and less expensive in others. To account for these differences, a relative weight applies to each student. Each weight reflects the presumed relative cost of educating that student. For example, the formula assumes that educating high school students costs more than elementary students. The weight applied to all high school students is 1.268, which is slightly greater than the 1.158 factor applied to students in kindergarten through eighth grade.

Group A Weights[4]

Each student qualifies for one group A weight. As mentioned above, these weights vary between high school and elementary students. The group A weights also depend on a district's size. Weights are higher for small districts (less than 600 students)

1. A.R.S. §§ 15-901(A)(1)-(A)(2), 15-902
2. A.R.S. § 15-948
3. A.R.S. §§ 15-943(1)-(2)
4. A.R.S. §§ 15-943(1)-(2)(a)

and higher still for small districts that are also isolated; i.e., districts with at least 30 miles between their school and the nearest school of a neighboring district. Group A weights range from 1.158 to 1.669 (table 1). To avoid excessive classification and labeling of students, the group A weights are census based. That is, these weights are designed to account for many of the differences among students that likely occur with similar frequency throughout general student populations. For this reason, even the lowest group A weight is greater than 1.000 in recognition that some students in every class will require more than the baseline level of the district's per-student resources. For example, most districts provide a few students in each class with either remedial or gifted education services. While not every student participates in these programs, the additional weight allocated for each student accounts for the districts' need to provide such programs.

Table 1: Group A Weights

District Size (in Students)	Grade Levels	Weight per Student	Corresponding BSL Funding (FY 2010)
All Districts	Pre-K for Disabled	1.450	$4,738
600 or more	K-8	1.158	$3,784
600 or more	9-12	1.268	$4,143
Small School Districts:			
1-99	K-8	1.399	$4,572
100-499	K-8	1.398 to 1.278	$4,568 to $4,176
500-599	K-8	1.278 to 1.159	$4,176 to $3,787
1-99	9-12	1.559	$5,094
100-499	9-12	1.558 to 1.398	$5,091 to $4,568
500-599	9-12	1.398 to 1.269	$4,568 to $4,147
Small and Isolated School Districts:			
1-99	K-8	1.559	$5,094
100-499	K-8	1.558 to 1.359	$5,091 to $4,441
500-599	K-8	1.358 to 1.160	$4,438 to $3,791
1-99	9-12	1.669	$5,454
100-499	9-12	1.668 to 1.469	$5,451 to $4,800
500-599	9-12	1.468 to 1.270	$4,797 to $4,150

Group B Weights[1]

In addition to the group A weight, some students also qualify for additional funding through group B weights. The Legislature has identified several conditions for which individual students receive additional weights. Group B weights are assigned for many specific disabilities; such as autism, severe mental retardation, hearing or visual impairment, and so on. Also, each English language learner qualifies for a group B weight as do all students in kindergarten through third grade. Group B weights range from 0.003 to 7.947 (table 2).

Eq. 5: Weighted Student Count = Student Count x Group A Weights + Qualifing Students x Group B Weights

After identifying all weights that apply to each of a given district's students, the district obtains the weighted student count by simply multiplying each segment of the student body by the applicable group A weight and then adding the group B weights for each qualifying student[2] (eq. 5). For FY 2009, the statewide student count of 946,609 increased by 190,426 students due to group A weights.[3] The addition of 161,577 students for group B weights brought the total weighted student count to 1,298,613 students.[2]

1. A.R.S. § 15-943(2)(b)
2. A.R.S. §§ 15-943(1)-(2)
3. ADE reports APOR55-1, 15 July 2008

Table 2: Group B Weights

Category Qualifications	Additional Weight	Corresponding BSL Funding (FY 2010)
Multiple Disabilities w/ Severe Sensory Impairment	7.947	$25,969
Orthopedic Impairments (Self Contained Programs)	6.773	$22,132
Multiple Disabilities (Resource Programs)	6.024	$19,685
Autism (Resource Programs)	6.024	$19,685
Severe Mental Retardation (Resource Programs)	6.024	$19,685
Multiple Disabilities (Self Contained Programs)	5.833	$19,061
Autism (Self Contained Programs)	5.833	$19,061
Severe Mental Retardation (Self Contained Programs)	5.833	$19,061
Emotional Disabilities (Private Programs)	4.822	$15,757
Visual Impairment	4.806	$15,705
Hearing Impairment	4.771	$15,590
Moderate Mental Retardation	4.421	$14,447
Preschool Severe Delay	3.595	$11,747
Orthopedic Impairments (Resource Programs)	3.158	$10,319
Kindergarten	1.352	$4,418
English Language Learner	0.115	$376
Kindergarten through Third Grade	0.060	$196
Emotional Disabilities	0.003	$10
Mild Mental Retardation	0.003	$10
Specific Learning Disability	0.003	$10
Speech/Language Impairment	0.003	$10
Developmental Delay	0.003	$10
Other Health Impairments	0.003	$10

Base Support Level (BSL)[1]

With the weighted student count established, districts can determine their base support level. As seen in equation 6, the base support level describes a district's RCL prior to adding the transportation component. A district determines the upcoming year's base support level by multiplying the current year's weighted student count by the base level amount and then applying adjustments when applicable for performance pay programs or for the teacher experience index (eq. 6).

Eq. 6: Base Support Level = Weighted Student Count x Base Level Amount x Adjustment for Performance Pay Programs x Adjustment for Teacher Experience

Base Level Amount[2]

Each year, the Legislature determines the increase (or decrease) that each school district will receive in funding for its equalization base. As changes to the base level amount have proportionally the same effect on the funding level that follows every student, the Legislature primarily affects school district funding levels by annually adjusting this one key variable.

1. A.R.S. § 15-943
2. A.R.S. § 15-901(B)(2)

For fiscal year (FY) 2010, the Legislature set the base level amount at $3,267.72. At this level, the statewide funding for the base support level of all school districts was 2.1% greater than the previous year's final funding level (table 3).

From FY 1990 to FY 2010 the base level amount has increased by 43.3%, or nearly $1,000 per weighted student (table 3). It is important to recognize that the base level amount does not represent a per-pupil distribution. The base support level that follows any two students may vary significantly; but, in every case, it will be greater than the base level amount.

For example, in an elementary district where the students qualify for the lowest group A weight and the base support level is not adjusted for performance pay programs or for teacher experience as described below, the district would receive $3,784.02 in its base support level for each student that does not qualify for group B weights (a high school district would receive $4,143.47). But in the same district, a student classified with emotional disabilities would qualify for $15,756.95 in additional group B funding, for a total of $19,540.97. Such a district would receive $29,752.59 for any student that qualifies for the highest group B weight.

Table 3: Base Level Amounts

FY	Base Level Amount	Percent Change
1990	$2,281.00	3.4%
1991	$2,374.52	4.1%
1992	$2,398.27	1.0%
1993	$2,410.26	0.5%
1994	$2,410.26	0.0%
1995	$2,458.47	2.0%
1996	$2,462.94	0.2%
1997*	$2,459.64	-0.1%
1998	$2,499.53	1.6%
1999	$2,532.60	1.3%
2000	$2,578.41	1.8%
2001	$2,621.62	1.7%
2002	$2,687.32	2.5%
2003	$2,753.90	2.5%
2004	$2,822.74	2.5%
2005	$2,893.18	2.5%
2006	$3,001.00	3.7%
2007	$3,133.53	4.4%
2008	$3,226.88	3.0%
2009	$3,291.42	2.0%
2009(Revised)**	$3,201.89	-2.7%
2010	$3,267.72	2.1%

*The decrease for FY 1997 was due to the recalculation of the employee retirement recapture contribution.

**The revised FY 2009 amount represents the base level amount if the cuts that passed as session law in January 2009 were applied to the base level amount.

Sources: JLBC *Appropriations Report* , A.R.S. § 15-901

Adjustments to the Base Support Level

For many districts the base support level includes only the product of the weighted student count and the base level amount, but other districts qualify for additional increases to the base support level due to various performance pay programs or to the teacher experience index.

Career Ladder[1]

Districts may qualify to increase their base support level through three different performance pay programs. The first, career ladder, began as a pilot program available to only 14 districts. In 1992, the Legislature authorized an expansion of the program allowing 28 of Arizona's 218 school districts to participate. Participating districts increase their base support level 5.5% after implementing a state-approved, performance-based compensation system. As questions surfaced regarding the effectiveness of the implemented career ladder programs, the Legislature has not allowed the expansion of the program beyond the 28 participating districts. For FY 2009, career ladder provided these 28 districts $82.5 million in additional budget capacity.[2]

1. A.R.S. §§ 15-918 to 15-918.05
2. ADE FY 2009 Career Ladder Calculations

Optional Performance Incentive Programs[1]

In 1996, as an alternative to career ladder, the Legislature provided the first $100,000 appropriation for optional performance incentive programs.[2] Similar to career ladder, districts with approved optional performance incentive programs also increase their base support level by 5.5%. But in an effort to address some of the concerns regarding the effectiveness of the career ladder programs, the Legislature made changes to the required components of the compensation programs districts would need to implement before qualifying for this budget increase. The appropriation for these optional performance incentive programs increased to $400,000 by FY 2001.[2] But since then participation has decreased. Since FY 2005, the Legislature has annually approved $120,000 for the program, but none of the authorization was actually spent.[2] Only two districts currently participate in the program—Joseph City Unified and Sedona-Oak Creek Unified.[3] But in both districts the QTR is sufficient to fund the equalization base including the performance pay increase.[3] Therefore, these increases do not utilize any portion of the appropriation. For FY 2009, the 5.5% budget increase for both of these districts totaled $479,584.[3]

Teacher Compensation[4]

The last of the performance pay adjustments to the base support level is an increase for teacher compensation. All districts can apply to the state board of education for approval to increase their base support level by 1.25% for teacher compensation. To qualify for this increase a district must show that its teacher performance evaluation system meets certain standards and that the district will use the increased funding for teacher salaries. In FY 2009, there were 209 school districts that increased their budgets for teacher compensation.[5] These increases resulted in $53.2 million of additional spending authority for these districts.[5]

Teacher Experience Index[6]

In addition to the increases for performance pay, some districts also qualify for base support level increases as a result of a higher-than-average experience level of the district's teachers. Each year, every school district averages the number of full-time-equivalent years of experience of all the district's teachers. This number is then compared to the statewide average. For each year of experience by which the district's average exceeds the statewide average, the district increases its base support level by 2.25% (eq 7).

$$\textbf{Eq. 7:}\quad \begin{matrix}\text{Teacher}\\ \text{Experience}\\ \text{Index}\end{matrix} = \left[\begin{matrix}\text{Districtwide Avg.}\\ \text{Years of Teaching}\\ \text{Experience}\end{matrix} - \begin{matrix}\text{Statewide Avg.}\\ \text{Years of Teaching}\\ \text{Experience}\end{matrix}\right] \times 0.0225 + 1$$

According to the teacher experience index amounts reported by the Department of Education, in FY 2009 there were 126 districts that qualified for the teacher experience index. Together these districts increased their budgets by $60.1 million. The largest percentage increases went to Blue Elementary, Double Adobe Elementary, Skull Valley Elementary, and the Santa Cruz County Regional School District. Each of these districts increased their base support level by 15.6%. With an increase of $16.4 million, Mesa Unified received the largest dollar increase for this index. Mesa's increase significantly

1. A.R.S. §§ 15-919 to 15-919.06
2. JLBC *Appropriations Report*
3. ADE FY 2009 OPIP Calculations
4. A.R.S. § 15-952
5. Arizona Department of Education
6. A.R.S. § 15-941

surpassed the $4.5 million budgeted by Tucson Unified which had the next largest increase.

TRCL/TSL and RCL/DSL[1]

As mentioned previously, adding an allotment for transportation expenses to the base support level completes the calculation of a district's RCL. The budget allotment a district receives for transportation depends on the number of approved daily route miles the district drives and the annually established per-mile support level. This transportation formula that would otherwise be very straightforward is complicated by a design to hold districts harmless against any decreases in the miles driven while simultaneously holding the state liable for only the actual route miles. To accomplish this, two separate transportation formulas are individually added to the base support level. The first of these formulas, the transportation support level (TSL) represents the actual route miles (eq. 8). The second formula, the transportation revenue control limit (TRCL), adjusts upwards for every increase in the TSL (eq. 9). If a district's TSL fluctuates over several years the ratcheting characteristic of the TRCL formula can cause the TRCL to significantly exceed the TSL. Legislation implemented in 2006, curbed this ratcheting effect by prohibiting any increase in the TRCL if the TRCL is greater than 120% of the TSL. If this limit on TRCL growth causes the TSL to exceed the TRCL in any given year, then the TRCL for that school district is permanently adjusted to be the same value as the TSL.

Eq. 8:

TSL	=	Approved Annual Daily Route Miles	x	State Support Level Per Route Mile	+	Bus Tokens and Passes	+	Field Trip Support Level	+	Extended Year Support Level

Eq. 9: $TRCL_{Budget\ Year} = (TSL_{Budget\ Year} - TSL_{Current\ Year})^{*} + TRCL_{Current\ Year}$

*If less than zero, use zero.

After calculating both transportation figures, each is individually added to the base support level.[2] The addition of the TRCL (the "hold harmless" formula) results in the school district's RCL (eq. 10). The addition of the TSL (the formula based on route miles) determines the district support level or DSL (eq. 11).

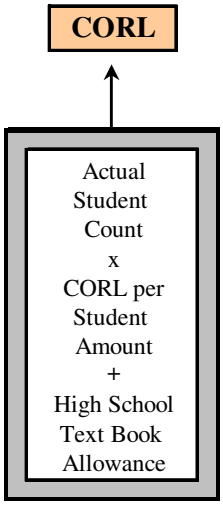
Eq. 10: Base Support Level + TRCL = RCL

Eq. 11: Base Support Level + TSL = DSL

As seen previously (eq. 1), the equalization base includes the lesser of the RCL or the DSL. This means the equalization base effectively includes only the DSL as the DSL will always be less than or equal to the RCL. Therefore, only the actual route miles are equalized. But, while the equalization base funds only the actual route miles of the DSL, a district's general budget limit includes the RCL along with any hold harmless amounts resulting from the TRCL formula. Any amount included in a district's budget that is not part of the equalization base increases a district's primary tax rate above the QTR. Local property taxpayers, therefore, fund the hold harmless provision of the transportation formula as described on page 24.

1. A.R.S. §§ 15-945, 15-946
2. A.R.S. §§ 15-947(A)-(B)

Part B: Capital Outlay Revenue Limit (CORL)[1]



After the RCL, the capital outlay revenue limit (CORL) is the next component of the equalization base. Each district's CORL establishes an annual amount of equalized funding that the district receives for capital expenses. As part of the equalization base, CORL represents the second, per-student funding formula financed by local property taxpayers through the QTR and by state taxpayers through equalization assistance (equations 1 and 2). While the equalization base includes CORL in recognition of school districts' capital needs, current statutes allow districts to transfer any portion of their CORL to the district's M&O fund.[2] Consequently, more than half (63.3% in FY 2009) of districts' CORL expenditure capacity statewide is not spent on capital expenses but, rather, transferred to the M&O fund to pay salaries and benefits.[3]

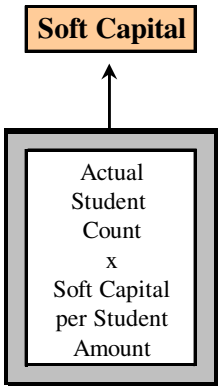
Eq. 12: $\text{CORL} = \text{Student Count} \times \text{CORL per Student} \times \text{Growth Factor (if applicable)} + \text{Textbook Allowance}$

A district calculates the next year's CORL by multiplying the current year's ADM by a per-student amount set by the Legislature (eq. 12). For FY 2010, the Legislature set the per-student CORL amount at $225.76 for students in preschool through eighth grade and $267.94 for high school students.[4] Districts with less than 600 students use amounts that vary depending on the size of the district. These amounts range from just over the standard amounts if the district has 599 students to as high as $272.75 for elementary students and $329.41 for high school students if the district has fewer than 100 students.[4]

The CORL is adjusted for a growth factor if a district's student count is greater than 5% above the previous year. In such cases the growth factor increases the CORL by the same percentages as the increase in the student count.

Lastly, CORL includes a textbook allowance for each high school student. For FY 2010, the Legislature set the textbook allowance at $69.68 per high school student.[4]

Part C: Soft Capital Allocation[5]



The soft capital allocation is the final component of the equalization base. Like CORL, the amount a district receives for soft capital is the product of the district's ADM and a dollar figure established by the Legislature. But, unlike CORL, the soft capital allocation cannot be transferred to the M&O fund. A district can spend its soft capital allocation only on short-term capital items, such as computers, software, library resources, furniture, lab equipment, etc.

For FY 2010, the Legislature appropriated $225.00 per student for the soft capital allocation for districts of 600 or more students.[4] For smaller districts the amount ranges from just over $225 to as high as $271.83 per student.

1. A.R.S. § 15-961
2. A.R.S. § 15-947(C)(3)
3. Derived from districts' adopted budgets
4. Arizona Department of Education budget worksheets
5. A.R.S. § 15-962

Part D: QTR[1] & State Aid[2]—Funding for the Equalization Base

As stated previously, the equalization base is funded through a combination of property taxes (the QTR levy) and state aid (eq. 2). In some districts the QTR will generate a large portion of the revenue required to fund the equalization base; the same tax rate in other districts may generate very little due to the district's relatively lower net assessed value (NAV). In a few districts the equalization base is fully funded by a tax rate that is less than or equal to the QTR. Such districts receive no state equalization assistance. These districts are rare exceptions where the value of the district's taxable property significantly outpaces the number of students served by the district. In FY 2009, there were 17 non-state-aid districts—9 of which enrolled fewer than 50 students.[3]

The simplified example in table 4 (simplified because the budget limit includes only the base support level) demonstrates how the QTR and state aid would fund the equalization bases of two hypothetical school districts. In the example, the weighted student counts in both unified school districts are identical: 1,000 students. The only difference between the two districts is the value of the taxable property within each district. The property rich district in this example has three times the value of the property poor district.

Notice that the portion of the equalization base covered by the QTR levy is three times greater in the property rich district. Both districts receive complete funding of the equalization base, but the property poor district relies more heavily on state aid.

Table 4: Sample State Aid Calculations (FY 2010)

"Property Rich"	**"Property Poor"**
$3,267.72 x 1,000 students (weighted ADM) $3,267,720 guaranteed	$3,267.72 x 1,000 students (weighted ADM) $3,267,720 guaranteed
How much will come from local property taxes? $75,000,000/$100 (district's taxable value) x $2.7452 QTR (QTR for unified districts in FY 2010) **= $2,058,900** **(63% of guaranteed amount)**	*How much will come from local property taxes?* $25,000,000/$100 (district's taxable value) x $2.7452 QTR (QTR for unified districts in FY 2010) **= $686,300** **(21% of guaranteed amount)**
How much will come from the state general fund? $3,267,720 minus $2,058,900 **= $1,208,820** **(37% of guaranteed amount)**	*How much will come from the state general fund?* $3,267,720 minus $686,300 **= $2,581,420** **(79% of guaranteed amount)**

1. A.R.S. §§ 15-971(B), 41-1276(I)
2. A.R.S. § 15-971
3. ADE reports APOR55-1, 15 July 2008

A real world comparison of two typical school districts also demonstrates the equalizing effect of state aid and the QTR. The elementary school districts in Tempe and Glendale were selected for the following comparison due to the relatively similar number of enrolled students and the significant disparity in the value of taxable property located in each district.

In the following example (table 5), notice that the student count and resulting equalization base is very similar in each district; but, the value of the taxable property in Glendale Elementary is only 25.2% of the NAV in Tempe Elementary. The equalization formula guarantees each district a little over $60 million in its equalization base. The QTR in this example is one half of the unified QTR used in the previous example because each of these elementary districts overlaps a union high school district. When two school districts overlap each levies one half of the QTR[1] so that the combined QTR equals the rate levied by a unified district. In Glendale the QTR only generates 11.3% of the equalization base; in Tempe the QTR generates 45.6%. The Glendale district, in turn, received 66.2% more state aid than the Tempe district received.

Table 5: State Aid Comparison (FY 2010)

	Tempe Elementary	Glendale Elementary	Glendale as a % of Tempe value
ADM	11,961	12,579	105.2%
Equalization Base	$60,877,903	$62,020,825	101.9%
Value of Taxable Property	$2,022,739,299	$509,849,236	25.2%
Elementary QTR	$1.3726	$1.3726	100.0%
QTR Levy	$27,764,120	$6,998,191	25.2%
Equalization Assistance	$33,113,784	$55,022,634	166.2%
District's Primary Tax Rate	$2.1407	$1.5392	71.9%

Source: districts' adopted FY 2010 expenditure budgets and worksheets

One might also note that the actual tax rates are not equal, and they are greater than the QTR. In reality, the QTR is a statutory rate used only in determining how much the state will contribute to each district in equalization assistance as seen in table 4. This state aid, along with all other district revenues (including cash balances, override levies, tuition revenues, federal grants, and so on), then offsets the district's total budgeted expenditures. The difference between the budgeted expenditures and the anticipated revenues becomes the district's primary property tax levy for the year[2] (eq. 13). The district then sets the tax rate at the level necessary to produce the needed levy (eq. 14).

Eq. 13: Total Budgeted Expenditures – Total Budgeted Revenues = Property Tax Levy

Eq. 14: (Property Tax Levy x 100) / NAV = Tax Rate

So while the QTR does not appear on a taxpayer's bill, it has a direct influence on the amount of state aid received by each district. State aid then influences the tax rate by offsetting the entire equalization base except for the portion to be covered by the QTR levy. If districts' cash balances were equal from year to year and each district budgeted

1. A.R.S. § 41-1276(I)
2. A.R.S. §§ 15-991, 15-992(A), 42-17151

for no expenditures other than the equalization base, then state aid would lead to an actual tax rate that would be less than or equal to the QTR in every case. These conditions, however, rarely exist which results in primary tax rates that, in most districts, substantially exceed the QTR. In FY 2009, for example, there were 200 school districts that levied property taxes[1] (some districts receive enough funding from federal impact aid revenues that they do not levy any tax rate). The tax rates of 82% of these 200 districts exceeded the QTR.[1] Of the 36 districts with tax rates less than the QTR, 13 are non-state-aid districts[2] where the QTR, if levied, would have produced more than the equalization base. This means only 23 districts have tax rates less than the QTR as a result of equalization assistance. Section II of this chapter describes why inequities persist in school district tax rates notwithstanding the equalizing nature of state aid and the QTR.

Minimum QTR[3]

For non-state-aid districts—districts where the value of the taxable property is unusually high relative to the number of students enrolled at the district—the full QTR, if levied, would generate more revenue than needed to completely fund the equalization base. Such districts, therefore, receive no equalization assistance, and the portion of the districts' tax rate that funds the equalization base drops below the QTR to the level necessary to generate only the revenue needed for the equalization base.

In addition to the tax rate necessary to fund the budgets of each of these districts, the state requires some of the non-state-aid districts to levy an additional tax rate referred to as the minimum QTR. A minimum QTR levy applies when the portion of a district's tax rate that funds the equalization base falls below 50% of the QTR. If the rate would otherwise fall below this minimum, then the state requires the district to maintain the rate at 50% of the QTR and send the resulting surplus revenue to the state (eq. 15).

Eq. 15: $$\text{Minimum QTR Levy} = \text{50\% of QTR Levy} - \text{Equalization Base}$$

In FY 2009, seven districts levied the minimum QTR resulting in $10.6 million in payments to the state general fund—$6.2 million resulted from Saddle Mountain Unified and $2.1 million from Cave Creek Unified.[1] The remaining amount was levied by Sedona-Oak Creek Unified, Chevelon Butte Unified, Arlington Elementary, Cochise Elementary, and Crown King Elementary.[1] The state uses this revenue to fund a portion of its payments of state aid to other districts.

Additional State Aid[4]

In addition to the equalization assistance just described, the state also contributes to education through additional state aid. Through a homeowner's rebate, additional state aid pays school district property taxes that would otherwise be charged to homeowners.

For each owner-occupied residential property, the state pays a percentage of the primary property tax charged to the homeowner by school districts. For tax year 2009, the homeowners' rebate is 39% of each school district's primary property tax rate. For tax year 2010 and each year thereafter, the rebate is 40%. There are two limits to the rebate. First, the portion of the tax rate that the state will rebate cannot exceed the QTR. And, second, the rebate that any homeowner receives cannot exceed $580 in 2009 or $600 in any year thereafter.

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1. ATRA 2008 *Property Tax Rates and Assessed Values*
2. ADE reports APOR55-1, 15 July 2008
3. A.R.S. §§ 15-992(B)-(G)
4. A.R.S. § 15-972

The homeowner's rebate essentially makes the state a school district property taxpayer—meaning the state is liable when school districts increase property taxes using the provisions described in section II of this chapter. For FY 2008, the homeowner's rebate cost the state $357.1 million in additional state aid.[1]

In addition to the homeowner rebate, the state also uses the additional state aid appropriation to comply with the constitutional 1% cap on homeowner primary property taxes. The Arizona Constitution limits the amount of property taxes that may be collected from each owner-occupied, residential property to 1% of the property's full-cash value. If the sum of the primary levies on an owner-occupied property exceeds an effective tax rate of $10.00, the taxes owed will exceed this constitutional cap. Whenever an owner-occupied property is subject to an aggregate rate above this limit, the state pays an additional portion of the owner's school district taxes in order to keep the total tax bill under the 1% cap.

In FY 2008, there were 16 school districts in which the sum of the primary property taxes levied on residential owners required additional state aid payments to keep the property taxes within the 1% cap.[2] These state aid payments for the 1% cap cost the state $1.3 million.[2]

In FY 2009, the 1% cap and the homeowners rebate cost the state $404.9 million.[1]

Section II: Budgeting Beyond the Equalization Base

As described in section I of this chapter, all school district funding provided through the equalization formula is designed to equalize tax rates and equalize per student expenditures. Notwithstanding these clear advantages of funding expenses through the equalization formula, the state allows school districts in certain circumstances to exceed the budget limits of the equalization base. As state aid only offsets the equalization base, all budgeted expenditures that exceed these budget limits (unless offset by another revenue source such as impact aid, tuition, grants, etc.) result in property tax increases to fund the additional expenditures (eq. 13). As expenditures budgeted in excess of the equalization base are neither student-driven nor state-aid-equalized, these budget-limit exemptions lead to inequalities in per-student funding and property tax burdens. Parts A and B of this section describe each of the budget-limit exemptions that are funded by local property taxpayers.

Part A: Taxpayer Funded Budget-Limit Exemptions that Require No Voter Approval

The "budget increases" section of the diagram on page *v* (figure 2) lists the types of expenditures that are exempt from the budget limits of the equalization base. M&O expenditures can qualify under the nine categories listed on the left side of the diagram while only the four categories listed on

Budget Increases (no voter approval):	
1. Desegregation/OCR	1. Desegregation/OCR
2. Excess Utilities	2. Adjacent Ways
3. Carry Forward	3. Small School Adjustment
4. Sm Sch Adjustment	4. Registered Warrants
6. Drop Out Prevention	
7. Debt Service	
8. Registered Warrants	
9. TRCL minus TSL	

1. JLBC *Appropriations Report*
2. ATRA *Tax Year 2007 Property Tax Model*

the right side are available for capital expenditures. School districts can increase their budgets beyond the amounts allowed for the equalization base if the district qualifies for any of these budget-limit exemptions.

Table 6 describes the total expenditures school districts included in their FY 2009 budgets under the authority provided by each of the budget-limit exemptions that require no voter approval. For comparison, the table also includes the amounts budgeted in FY 1999 for the same budget-limit exemptions as well as the three additional budget-limit exemptions that have since been eliminated.

Table 6: RCL Exempt Expenditures

Expenditure Category	FY 1998-99	FY 2008-09	10-Year Increase
Desegregation/OCR	$141,335,633	$211,896,785	49.9%
Adjacent Ways	$29,542,497	$132,424,912	348.3%
Excess Utilities	$55,924,815	$115,139,067	105.9%
General Budget Balance Carry Forward	$39,265,634	$90,026,363	129.3%
Small School Adjustment	$9,644,661	$24,633,162	155.4%
Career Ladders Budget Balance Carry Forward	$0	$9,923,816	-
Dropout Prevention	$5,279,631	$5,834,540	10.5%
Debt Service	$0	$1,429,470	-
Registered Warrants	$80,412	$587,158	630.2%
OPIP Budget Balance Carry Forward	$0	$115,752	-
Performance Pay Budget Balance Carry Forward	$0	$9,900	0.0%
Joint Career and Technical Center	$0	$0	0.0%
Liabilities in Excess	$8,503,226	$0	-100.0%
Energy Saving Devices	$4,419,868	$0	-100.0%
Excess Insurance	$2,011,497	$0	-100.0%
Total	**$296,007,874**	**$592,020,925**	**100.0%**

Source: school districts' adopted budgets as compiled by the Arizona Department of Education

As seen in table 6, the amounts budgeted under each budget-limit exemption vary significantly. Similarly, the degree of inequity created by these several exemptions differs according to the unique limitations that apply to each expenditure category.

The following few pages provide a brief description of each of these budget-limit exemptions including the limitations that apply in each case. Along with many of the descriptions, a table includes examples of some of the districts that made expenditures in FY 2009 under the authority of the applicable budget-limit exemption.

For each district listed, the tables compare the total amounts budgeted under the exemption. These amounts are compared to each district's RCL to describe the relative size of the budget increase resulting from the exemption.

The tables also describe the property tax consequences associated with each budget-limit exemption by listing the tax rate that corresponds to the exempt expenditures. The effect of this increase in the school district's tax rate is seen by comparing each district's total primary rate—including the portion necessary to fund the budget-limit exemption—to the district's QTR which would be the rate levied if the district budgeted for no exempt expenditures.

Table 7: FY 2009 Deseg/OCR Levies & Tax Rates

District	Deseg/OCR Levy	% RCL	Deseg/OCR Tax Rate	Total Primary Tax Rate	District's QTR	Amount Primary Rate Exceeds QTR
Phoenix Union	$55,800,892	43.4%	$0.88	$2.46	$1.46	$1.00
Wilson Elementary	$1,946,054	33.1%	$1.36	$3.11	$1.46	$1.65
Phoenix Elementary	$11,151,530	31.4%	$1.36	$3.92	$1.46	$2.45
Tempe Elementary	$14,178,248	24.2%	$0.80	$2.43	$1.46	$0.97
Roosevelt Elementary	$13,570,494	23.4%	$1.64	$2.91	$1.46	$1.45
Tucson Unified	$63,711,047	23.1%	$1.91	$5.36	$2.92	$2.43
Holbrook Unified	$2,518,482	23.0%	$2.92	$2.92	$2.92	-$0.01
Isaac Elementary	$4,951,155	14.1%	$2.27	$5.00	$1.46	$3.54
Glendale Union	$6,131,959	8.4%	$0.28	$2.02	$1.46	$0.56
Buckeye Elementary	$1,608,921	8.3%	$0.62	$4.36	$1.46	$2.90
Washington Elementary	$6,350,000	5.8%	$0.36	$2.14	$1.46	$0.68
Scottsdale Unified	$7,382,169	5.7%	$0.14	$2.82	$3.14	-$0.33
Cartwright Elementary	$4,628,061	5.3%	$1.07	$2.59	$1.46	$1.13
Maricopa Unified	$1,296,305	5.2%	$0.45	$4.93	$2.92	$2.01
Amphitheater Unified	$4,025,000	4.9%	$0.27	$3.36	$3.14	$0.21
Window Rock Unified	$632,088	4.2%	$0.00	$0.00	$3.14	-$3.14
Flagstaff Unified	$2,241,322	3.9%	$0.20	$3.61	$3.14	$0.47
Agua Fria Union	$999,000	3.4%	$0.08	$1.88	$1.57	$0.31
Mesa Unified	$8,774,057	2.5%	$0.24	$3.60	$3.14	$0.46
Total (19 districts)	**$211,896,784**	**13.3%**				

Sources: deseg/OCR levies, RCL, and QTR from school districts' adopted expenditure budgets and worksheets; total tax rates from ATRA's *2008 Property Tax Rates and Assessed Values*; deseg/OCR tax rates calculated from the levy amounts shown and the districts' assessed values as reported in ATRA's *2008 Property Tax Rates and Assessed Values*

Desegregation/OCR[1]

In 1983, the Legislature authorized districts to increase their budgets beyond the districts' RCL for expenditures that were required in order to comply with a court order to desegregate.[2] Only two Arizona school districts (Tucson Unified and Phoenix Union) have received court orders to desegregate. But shortly after creating this budget-limit exemption, the Legislature expanded the exemption to include districts that operate under an administrative agreement with the U.S. Department of Education's Office for Civil Rights (OCR).[3] To qualify for this exemption, these agreements may be directed toward remediating not only proven racial discrimination but also discrimination that is only alleged. In addition, further legislative changes allowed districts to exclude expenditures that were not required but were merely permitted under the deseg/OCR agreements. The state also extended the deseg/OCR budget-limit exemption to capital expenditures.

The number of districts that budget for deseg/OCR expenditures grew from one district in FY 1984 to 19 districts in FY 2002.[4] During this period, deseg/OCR expenditures grew rapidly as there were no limits on the amounts a qualifying district could budget for these expenditures. In 2002, the Legislature implemented a two-year

1. A.R.S. 15-910(G)
2. Laws 1983, Ch. 267, § 5
3. Laws 1985, Ch. 166, § 15
4. Districts' adopted budgets

freeze on growth in the amounts budgeted for deseg/OCR expenditures.[1] After the expiration of the freeze, the Legislature annually implemented a "soft cap" allowing districts to increase their deseg/OCR budgets by 2% annually plus a percentage increase for the district's growth in student enrollment.[2] The "soft cap" was implemented each year until the 2009 legislative session when the Legislature put a "hard cap" into statute that permanently limits deseg/OCR levies to the amounts budgeted in FY 2009.[3]

In table 7, the column labeled "% RCL" compares each district's deseg/OCR expenditures to the district's M&O budget limit. As the RCL represents the equalized spending level, this column describes the relative increase each of these districts receive in per-student spending authority. While Tucson Unified spends the highest dollar amount under its desegregation budget-limit exemption ($63.7 million in FY 2009), Phoenix Union receives the largest increase per student. The amount levied by Phoenix Union equates to a non-voter-approved budget override that in FY 2009 was equivalent to 43.4% of the district's RCL—more than four times larger than the 10% increase allowed for voter-approved M&O overrides. The relative increase budgeted by each of the remaining 19 districts varies from 2.5% to 33.1%. While there are inequalities even among the 19 districts that qualify for this exemption, the 199 remaining school districts qualify for no budget increase under the deseg/OCR budget-limit exemption—notwithstanding the fact that these other districts must also ensure that discrimination does not occur in their districts.

In addition to deseg/OCR levy amounts, table 7 lists the amount of each district's primary property tax rate that results from the deseg/OCR expenditures. Other than the combined $3.5 million budgeted by Window Rock Unified and Holbrook Unified, the remaining $208.3 million budgeted for deseg/OCR expenditures was entirely funded by each school district's property taxpayers. Window Rock Unified has no primary property tax since its federal impact aid revenue funds its budget.[4] Holbrook Unified also receives substantial amounts of impact aid revenues,[4] but the district levies a primary property tax as well. Holbrook's primary levy[5] produces less than the amount budgeted for OCR expenditures meaning the primary levy would be completely eliminated if the district did not budget for these exempt expenditures. After Holbrook, where the entire primary tax rate can be attributed to the deseg/OCR expenditures, the highest FY 2009 deseg/OCR tax rate was levied by Isaac Elementary ($2.27). Mostly driven by this increase for the OCR levy, Isaac Elementary's total primary tax rate exceeded the QTR by $3.54, or 242.1%.

Adjacent Ways[6]

Expenditures that maintain or improve a public way that is adjacent to land owned or leased by a school district qualify for the adjacent ways budget-limit exemption. These expenses may include intersection traffic signals, sidewalks, sewers, utility lines, roads, and so on. Any school district with a need to make such improvements may levy a property tax for adjacent ways. There is no limit to the amount a school district may spend on these expenditures.

While any district may tap additional property tax revenues to cover adjacent ways expenses, the degree to which districts use this exemption varies. Adjacent ways expenditures are generally higher among expanding districts as construction of new buildings leads to a need for adjacent ways improvements. But, as the tax rate is not equalized, a similar tax rate in different districts produces decidedly different levies.

1. Laws 2002, Ch. 68, § 3
2. Laws 2004, Ch. 278, § 16; Laws 2005, Ch. 329, § 12; Laws 2006, Ch. 353, § 18; Laws 2007, Ch. 264, § 15; Laws 2008, Ch. 287, § 51
3. Laws 2009, 3rd S.S., Ch. 12, § 29
4. District's adopted budget
5. ATRA *2008 Property Tax Rates and Assessed Values*
6. A.R.S. § 15-995

Table 8 lists the 10 districts with the highest adjacent ways levies as well as the 10 districts with the highest adjacent ways tax rates. Like the deseg/OCR chart, table 8 compares the adjacent ways levies for each of these districts to the RCL and compares the school districts' tax rates to the QTR.

In FY 2009, 96 districts levied property taxes to fund $132.4 million of adjacent ways projects. Dysart Unified budgeted the highest amount for adjacent ways ($12 million). Buckeye Elementary levied the highest adjacent ways tax rate ($3.58) which also led to the largest budget increase relative to the district's RCL (47.9%). Due to the adjacent ways levy, Buckeye's tax rate is nearly three times the elementary QTR. As Buckeye's $9.2 million budget for adjacent ways was offset by a $6.5 million adjacent ways cash balance remaining from the previous year's levy, the district's total tax rate would have dropped below the QTR had the district not budgeted for adjacent ways.

Table 8: FY 2009 Adjacent Ways Levies & Tax Rates

	Adjacent Ways Levy	% RCL	Adjacent Ways Tax Rate	Total Primary Tax Rate	District's QTR	Amount Primary Rate Exceeds QTR
10 Districts w/ Highest Adjacent Ways Levies:						
Dysart Unified	$12,000,000	10.8%	$0.87	$4.05	$3.14	$0.91
Buckeye Elementary	$9,246,000	47.9%	$3.58	$4.36	$1.46	$2.90
Gilbert Unified	$6,035,000	3.5%	$0.30	$3.29	$2.92	$0.37
Scottsdale Unified	$6,000,000	4.6%	$0.11	$2.82	$3.14	-$0.33
Fowler Elementary	$5,000,000	25.4%	$1.15	$1.15	$1.46	-$0.31
Phoenix Union	$4,704,880	3.7%	$0.07	$2.46	$1.46	$1.00
Maricopa Unified	$4,200,000	16.7%	$1.45	$4.93	$2.92	$2.01
Tolleson Union	$4,000,000	9.9%	$0.32	$1.60	$1.46	$0.14
Peoria Unified	$3,850,000	2.1%	$0.13	$3.33	$3.14	$0.18
Yuma Union	$3,800,000	7.4%	$0.37	$1.92	$1.46	$0.46
10 Districts w/ Highest Adjacent Ways Tax Rates:						
Buckeye Elementary	$9,246,000	47.9%	$3.58	$4.36	$1.46	$2.90
Union Elementary	$1,524,300	19.2%	$1.96	$2.70	$1.46	$1.24
Fowler Elementary	$5,000,000	25.4%	$1.15	$1.15	$1.46	-$0.31
Benson Unified	$1,083,000	20.7%	$1.54	$4.00	$2.92	$1.08
Maricopa Unified	$4,200,000	16.7%	$1.45	$4.93	$2.92	$2.01
J O Combs Unified	$1,750,000	9.6%	$1.32	$5.49	$2.92	$2.57
Littleton Elementary	$2,800,000	12.6%	$0.90	$2.38	$1.46	$0.92
Dysart Unified	$12,000,000	10.8%	$0.87	$4.05	$3.14	$0.91
Somerton Elementary	$400,000	3.2%	$0.79	$4.43	$1.46	$2.97
Palo Verde Elementary	$240,000	10.1%	$0.70	$1.80	$1.46	$0.34
Statewide Total (96 districts)	**$132,424,912**	**3.2%**				

Sources: adjacent ways levies, RCL, and QTR from school districts' adopted expenditure budgets and worksheets; total tax rates from ATRA's *2008 Property Tax Rates and Assessed Values* ; adjacent ways tax rates calculated from the levy amounts shown and the districts' assessed values as reported in ATRA's *2008 Property Tax Rates and Assessed Values*

Excess Utilities[1]

The ability to budget for excess utilities expired with the end of the 2008-2009 budget year. This budget-limit exemption, however, remains relevant because the districts that received large budget increases for excess utilities convinced the Legislature to pass a replacement formula with the intent of incorporating the bulk of the excess utilities budget capacity into each school district's RCL beginning with the 2010 fiscal year. As this transition would require state aid to finance this budget capacity that was previously financed with local property tax dollars, the fate of the replacement formula is currently uncertain. In fact, the FY 2010 budget temporarily suspended the replacement formula in order to avoid providing the first year of the formula's funding.[2]

As the unfunded replacement formula for excess utilities remains in statute, this section briefly describes the expired budget-limit exemption to provide the historical context behind the current formula.

The excess utilities budget-limit exemption allowed districts to levy property taxes to fund a certain portion of their utility expenditures. If a school district's utility expenditures increased from their 1985 level by a greater amount than the district's equalization base, then the district could levy a property tax to pay for this excess growth in utilities (eq. 16). Expenditures classified under utilities can include dollars spent on electricity, water, heating, cooling, telecommunications, and sanitation fees.

Eq. 16:
$$\text{Excess Utilities} = \text{Budget Year Utility Expenditures} - \left[\text{FY 1985 Utility Expenditures} \times \frac{\text{Budget Year RCL and CORL}}{\text{FY 1985 RCL and CORL}}\right]$$

In FY 2009, there were 139 districts that benefited from the excess utilities budget-limit exemption (table 9). Together these districts budgeted $115.1 million in excess utilities. As seen in table 9, Tucson Unified budgeted the largest amount for excess utilities ($11.4 million), while Gadsden Elementary levied the highest tax rate in support of these expenditures ($1.96). The total primary tax rate for the Gadsden School District exceeded the QTR by $2.85 largely driven by its excess utilities levy. The largest relative budget increases resulting from excess utilities occurred in districts where the budget was not supported by property taxes but, instead, by federal impact aid revenue. Tuba City Unified and Ganado Unified each increased its general budget limit by a little more than 11.5% of the district's RCL. The next largest increase relative to the district's RCL occurred at Round Valley Unified (10.2%) and was financed by the school district's property taxpayers.

Excess Utilities Replacement[3]

Critics of the excess utilities formula argued that holding districts' operating budgets harmless from any increases in utility expenses led to even greater increases in these expenditures as districts had no incentive to keep costs down. Also, as seen in the examples included in table 9, the additional budget capacity was equalized on neither a spending-per-student basis nor a cost-per-taxpayer basis. Likely due to these criticisms, the Legislature included the elimination of this budget-limit exemption in the referral of Proposition (Prop.) 301 to the November 2000 general election ballot.[4]

1. A.R.S. §§ 15-910(A)-(F)
2. Laws 2009, 3rd S.S., Ch. 12, § 69
3. A.R.S. § 15-910.04
4. Laws 2000, 5th S.S., Ch. 1, § 13

Table 9: FY 2009 Excess Utilities Levies & Tax Rates

	Excess Utilities Levy	% RCL	Excess Utilities Tax Rate	Total Primary Tax Rate	District's QTR	Amount Primary Rate Exceeds QTR
10 Districts w/ Highest Excess Utilities Levies:						
Tucson Unified	$11,386,362	4.1%	$0.34	$5.36	$2.92	$2.43
Mesa Unified	$6,485,014	1.8%	$0.18	$3.60	$3.14	$0.46
Paradise Valley Unified	$5,930,872	3.7%	$0.16	$2.98	$2.92	$0.06
Scottsdale Unified	$5,375,458	4.2%	$0.10	$2.82	$3.14	-$0.33
Deer Valley Unified	$5,107,468	3.1%	$0.18	$3.33	$2.92	$0.40
Glendale Union	$3,931,512	5.4%	$0.18	$2.02	$1.46	$0.56
Chandler Unified	$3,600,000	2.1%	$0.15	$3.26	$3.14	$0.12
Gilbert Unified	$3,271,791	1.9%	$0.16	$3.29	$2.92	$0.37
Phoenix Union	$2,427,665	1.9%	$0.04	$2.46	$1.46	$1.00
Tolleson Union	$2,123,588	5.3%	$0.17	$1.60	$1.46	$0.14
10 Districts w/ Highest Excess Utilities Tax Rates:						
Gadsden Elementary	$1,137,161	5.2%	$1.96	$4.31	$1.46	$2.85
Douglas Unified	$1,036,887	5.4%	$1.49	$3.51	$2.92	$0.58
Naco Elementary	$45,686	2.0%	$1.16	$5.05	$2.92	$2.12
Mammoth-San Manuel Unified	$193,373	3.1%	$1.06	$5.77	$2.92	$2.85
Double Adobe Elementary	$26,735	6.2%	$0.96	$6.46	$2.92	$3.54
Superior Unified School	$126,973	4.5%	$0.81	$4.69	$2.92	$1.77
Altar Valley Elementary	$259,240	4.0%	$0.78	$5.25	$2.92	$2.32
Eloy Elementary	$218,268	4.0%	$0.76	$4.11	$1.46	$2.65
Isaac Elementary	$1,350,106	3.8%	$0.62	$5.00	$1.46	$3.54
Somerton Elementary	$299,106	2.4%	$0.59	$4.43	$1.46	$2.97
Statewide Total (139 districts)	**$115,139,067**	**2.6%**				

Sources: excess utilities levies, RCL, and QTR from school districts' adopted expenditure budgets and worksheets; total tax rates from ATRA's *2008 Property Tax Rates and Assessed Values* ; adjacent ways tax rates calculated from the levy amounts shown and the districts' assessed values as reported in ATRA's *2008 Property Tax Rates and Assessed Values*

With the passage of Prop. 301, voters approved a new sales tax, substantial increases in education funding, and the elimination of excess utilities after the 2008-2009 budget year. This provided school districts nearly nine years to prepare for the expiration. But since the passage of Prop. 301, the majority of the excess utilities districts increased these levies substantially. When voters approved Prop. 301, school districts budgeted $60.7 million for excess utilities.[1] By the time districts adopted their FY 2009 budgets, excess utilities had increased 89.6% to $115.1 million.[1]

With the districts increased utilization of the excess utilities budget exemption, as well as the exemption's looming expiration, the Legislature passed a replacement formula during the 2008 legislative session.[2] The new formula, currently in statute,[3] allows districts to increase their FY 2010 RCL (and DSL) if the average of the district's actual FY 2007 and FY 2008 utility expenditures was greater than the amount budgeted for utilities in the FY 2008 budget. If the actual expenditures were greater, then the RCL for

1. Districts' adopted budgets
2. Laws 2008, Ch. 287, § 10
3. A.R.S. § 15-910.04

FY 2010 increases by 90% of the difference. The legislation provides the same adjustment for FY 2011 but advances by one year each of the years described in the formula. For each year after FY 2011, the formula provides an increase in the RCL equal to 90% of the difference between the average of the previous two years' actual utility expenditures and an adjusted FY 2009 utility amount. A district determines the adjusted FY 2009 amount by increasing the amount budgeted for all utilities in FY 2009 by the same percentage that the district's RCL increased (eq. 17).

Eq. 17:

$$\begin{matrix}\text{RCL}\\ \text{Increase}\\ \text{for Utilities}\end{matrix} = \left[\begin{matrix}\text{Average of Previous}\\ \text{2 Year's Actual}\\ \text{Utility Expenditures}\end{matrix} - \begin{matrix}\text{FY 2009}\\ \text{Budeted Utility}\\ \text{Expenditures}\end{matrix} \times \frac{\text{Budget Year RCL}}{\text{FY 2009 RCL}}\right] \times 90\%$$

Unlike excess utilities, the replacement formula does not exempt these expenditures from a district's RCL; instead, the formula increases the RCL of each district that qualifies for the additional budget capacity. By increasing the RCL (and DSL) and in turn the equalization base, state aid will finance nearly all of the budget increases resulting from the new formula. This means the new formula will eliminate the inequitable property tax burdens resulting from excess utilities; but, it will maintain the inequitable per-student distribution of the budget increases provided. The new formula will also continue to hold district's operating budgets harmless from 90% of the increase in utility expenses once a district's utility expenses surpass the adjusted baseline year.

Even if the state ultimately provides funding for this replacement formula, it will likely result in very little additional budget capacity over the first several years. Had the new formula subtracted only the non-excess-utilities portion of a district's FY 2009 utility expenditures then the replacement funding would have been approximately 90% of the amount districts levied for the expired budget-limit exemption. As written, however, the replacement formula subtracts the entire amount of FY 2009 utility expenditures including those funded with excess utilities. The new formula, therefore, essentially re-creates excess utilities while resetting the baseline year from FY 1986 to FY 2009. With the current formula, districts will receive additional budget capacity only if their utility expenditures grow at a faster rate than their RCL relative to the new baseline year.

Small School Adjustment[1]

The state provides another budget-limit exemption to all small school districts. Elementary school districts qualify for the small school adjustment if the district's student count is 125 students or less. For union high school districts, the student count cannot exceed 100 students. Unified districts qualify if either the elementary portion or the high school portion of their student body is less than the respective limit.

While the total amount budgeted each year for the small school adjustment is much less than the amounts budgeted for each of the budget-limit exemptions described to this point, the small school adjustment leads to some of the highest tax rates and the largest relative budget increases because there is no limit to the amount a qualifying district can levy for this budget-limit exemption. There is also no limit to the type of expenditures a district can make with the revenues of the small school adjustment. Districts use the small school adjustment for both M&O and capital expenses.

1. A.R.S. § 15-949

The small school adjustment is based on the assumption that, due to economies of scale, large districts achieve savings that are not available to these small districts. But instead of developing an adjustment to the budget limits that would account for any additional needs while still requiring these districts to function within a limit, the small school adjustment allows these districts to tax and spend any amount that the districts desire.

In FY 2009, there were 49 districts that qualified for this adjustment. This means the entire foundation system—designed to equalize per student spending and tax rates—has nearly no influence on almost one quarter of Arizona's 218 school districts. With no budget limit, these districts maintain inefficiencies resulting in extraordinary expenditure rates per student. And while the foundation system provides these districts state aid, its equalizing effect on tax rates is overwhelmed by the high rates levied for the adjustment.

Table 10: FY 2009 Small School Adjustment Levies & Tax Rates

	Sm Sch Adj Levies	% RCL	Sm Sch Adj Tax Rate	Total Primary Tax Rate	District's QTR	Amount Primary Rate Exceeds QTR
10 Districts w/ Largest Budget Increases for Sm Sch Adj:						
Empire Elementary	$290,957	339%	$4.79	$4.90	$2.92	$1.98
Crown King Elementary	$71,705	235%	$1.46	$2.01	$2.92	-$0.91
Red Rock Elementary	$1,805,771	206%	$4.50	$7.42	$1.46	$5.96
Sentinel Elementary	$809,835	171%	$10.15	$10.26	$2.92	$7.34
Mobile Elementary	$446,004	145%	$5.37	$8.40	$2.92	$5.47
Young Elementary	$754,338	143%	$4.45	$7.24	$2.92	$4.32
San Fernando Elementary	$185,000	138%	$3.79	$3.79	$2.92	$0.87
Wenden Elementary	$833,874	137%	$4.92	$5.93	$1.46	$4.46
Bouse Elementary	$435,164	130%	$4.41	$4.94	$1.46	$3.48
Ash Creek Elementary	$409,692	129%	$1.14	$7.50	$1.46	$6.03
10 Districts w/ Highest Sm Sch Adj Tax Rates:						
Sentinel Elementary	$809,835	171%	$10.15	$10.26	$2.92	$7.34
Bowie Unified	$832,347	109%	$9.31	$12.16	$2.92	$9.24
San Simon Unified	$996,984	122%	$7.08	$9.27	$2.92	$6.35
Grand Canyon Unified	$1,130,724	62%	$6.82	$6.82	$2.92	$3.90
Paloma Elementary	$325,000	59%	$6.77	$12.72	$2.92	$9.80
Mobile Elementary	$446,004	145%	$5.37	$8.40	$2.92	$5.47
Redington Elementary	$75,000	52%	$5.25	$7.47	$2.92	$4.55
Wenden Elementary	$833,874	137%	$4.92	$5.93	$1.46	$4.46
Empire Elementary	$290,957	339%	$4.79	$4.90	$2.92	$1.98
Red Rock Elementary	$1,805,771	206%	$4.50	$7.42	$1.46	$5.96
Statewide Total (49 districts)	**$24,633,162**	**66.3%**				

Sources: small school adjustment levies, RCL, and QTR from school districts' adopted expenditure budgets and worksheets; total tax rates from ATRA's *2008 Property Tax Rates and Assessed Values*; small school adjustment tax rates calculated from the levy amounts shown and the districts' assessed values as reported in ATRA's *2008 Property Tax Rates and Assessed Values*

As seen in table 10, these 49 small districts levied $24.6 million for the small school adjustment in FY 2009. The average budget increase resulting from the adjustment was equivalent to 66.3% of each district's RCL. The adjustment was greater than 100% of the district's RCL for each of the 15 districts that had the largest percentage increase. With a small school adjustment equivalent to 339% of the district's RCL, the relative budget increase was greatest for Empire Elementary. As a result of this adjustment, together with the district's equalization base, Empire receives more than four times the per-student funding provided to districts that qualify for no budget-limit exemptions.

The largest levy for the small school adjustment, $1.8 million, was levied by Red Rock Elementary. Of the district's $7.42 primary tax rate, $4.50 is attributable to the district's small school adjustment. Ash Fork Joint Unified levied $1.4 million, the second largest amount for this exemption. A $4.24 tax rate was necessary to produce Ash Fork's levy for the small school adjustment.

The $10.15 tax rate necessary to produce the small school adjustment levy for Sentinel Elementary was the highest small school adjustment tax rate. Sentinel's small school adjustment accounted for nearly the entire primary tax rate and led the district to exceed its QTR by $7.34.

Budget Balance Carry Forward[1]

While the four budget-limit exemptions just described lead to substantial spending and taxing inequities, the remaining budget-limit exemptions listed in table 6 do not undermine the equalizing efforts of the foundation system in the same degree. Four of these exemptions merely allow districts to carry forward unused budget capacity and do not cause any inequities. These budget increases simply allow districts to move equalized expenditures from one budget year to the next.

If a district's actual expenditures in any year are less than the authorized amount budgeted, the district may increase the next year's budget to include the unused expenditure capacity. The amount of unused general budget capacity a district can carry forward to a new budget year is limited to 4% of the district's current year RCL. The budget exemptions for a carry forward of unused expenditure capacity in career ladder programs,[2] optional performance incentive programs,[3] and performance pay programs[4] only apply to the districts that participate in these programs.

While the exemption for a budget balance carry forward does not change the overall spending per student, it also has essentially no effect on school district tax rates. A district's total revenues for any fiscal year should approximately equal the budgeted expenditures because of the formula described in equation 13. Therefore, a district that has unused expenditure capacity should also have a cash balance that corresponds to the unmade expenditures. The increase in the approaching year's budget due to the carry forward, then, is offset by an equivalent increase in the district's cash balance. The carry-forward exemptions, therefore, are not funded by new property taxes but rather by the cash balance resulting from the previous year's unspent revenues. If districts were not permitted to carry forward unused budget balances, any cash balance resulting from unspent expenditure capacity would decrease the next year's property tax levy below the amount that would otherwise be needed to fund the district's expenditures. But, if the carry forward were not permitted, districts would most likely ensure that all the

1. A.R.S. § 15-943.01
2. A.R.S. § 15-918.04(C)
3. A.R.S. § 15-919.04(D)
4. A.R.S. § 15-920

expenditure capacity was used in the appropriate budget year, and this lowering of the tax rate would not occur.

A total of 184 districts carried forward a portion of each district's FY 2008 general budget capacity to its FY 2009 budget.[1] The average amount carried forward by these districts was 2.2%[1] of the FY 2008 RCL for a total FY 2009 budget increase of $90 million.[1] Of these districts, 55 carried forward the maximum 4%.[1] From the budgets of the performance pay programs including career ladder and the optional performance incentive programs, 26 districts carried forward a total of $10 million to the FY 2009 budgets.[1] Each carry forward for these programs was equivalent to 0.1% to 3.4% of the district's FY 2008 RCL.[1] The average carry forward equaled 0.7%.[1]

Dropout Prevention[2]

In 1987, the state created a three-year program to provide districts that had high dropout rates a budget-limit exemption to fund dropout prevention plans.[3] When the program expired, the Legislature authorized the districts that were participating at that time to continue their programs at the same level budgeted in FY 1991. In FY 2009, the 19 participating districts spent $5.8 million on these programs.[1] The relative budget increases resulting from this exemption ranged from 0.1% to 1.7% of each district's RCL with an average of 0.4%.[1] Phoenix Union budgeted the largest dollar amount ($2.2 million[1]) and the largest relative increase (1.7%). The largest dropout prevention tax rate ($0.10) was levied by Miami Unified.[1]

Debt Service[4]

Current statutes also exempt from the RCL the debt service portions of any tuition payments a district pays to another district. If a district sends any of its enrolled students to the schools of a different district, the district where the student resides pays tuition to the district that provides the educational services.[5] In such cases only the district of residence includes the student in its ADM.[5] (Tuition payments do not occur when a student enrolls in a neighboring district through open enrollment. Open enrollment students are included in the ADM of the district attended, and the district where the student resides does not count the student.)

As the debt service payments on voter-approved bonds are exempt from the budget limits of the district of attendance (see part B of this section), the state also exempts any portion of the tuition payments just described that is attributable to debt service payments. While the exemption of the debt service payments in the district of attendance is due to voter approval of the bond, the district of residence does not need voter approval before levying a tax to pay the debt service portion of these tuition payments.

For FY 2009, 18 districts budgeted a total of $1.2 million for the exempt debt service portions of tuition payments.[1] The average exemption was equivalent to 1.9% of the district's RCL.[1] For all but two of the districts these expenditures were equivalent to about 1% to 2% of the district's RCL.[1] Tonto Basin Elementary had the largest relative increase with debt service tuition payments equivalent to 3.7% of its RCL.

As an elementary district with no overlapping union high school district, Tonto Basin contracts with the Payson Unified School District to educate the Tonto Basin high school students.[6] Tonto Basin's FY 2009 budget included funding for the 36.9 high school students that it sent to Payson as well as the 61.4 elementary students that

1. Derived from districts' adopted budgets
2. Laws 1992, Ch. 305, § 32; Laws 2000, Ch. 398, § 2
3. Laws 1987, Ch. 333
4. A.R.S. § 15-910(L)
5. A.R.S. § 15-824
6. ADE report ADMS540-1

remained at the district.[1] Tonto Basin then paid tuition to Payson to educate the high school students. According to Tonto Basin, $750 of each student's tuition payment corresponded to the debt service payments on Payson's bonded indebtedness. Tonto Basin levied a non-voter-approved property tax rate of $0.22 to fund the $27,675 debt service portion of its students' tuition payments.[2] The property taxpayers of the Payson district, where the voters approved the bonds, paid a tax rate of $0.64 for the district's debt service payments.[3]

The highest amount budgeted for this debt service budget-limit exemption was $371,510 levied by J. O. Combs Unified.[4] The highest tax rate was $1.52 levied by Naco Elementary.[2]

Registered Warrants[5]

If a district lacks sufficient revenue to fund its authorized expenditures—a circumstance that may arise from a variety of rare situations including miscalculations of the district's property tax rate—the district may register warrants drawn against a fund of the school district. In practice registering warrants means a district draws funds from on open line of credit that the district has established with a bank. Districts may budget an exemption to the RCL for the interest charges that result from using these lines of credit.

In FY 2009, eight districts budgeted a total of $587,158 for interest paid on registered warrants.[2] These budget-limit exemptions, on average, were equivalent to 0.1% of each district's RCL.[2] The largest amount, $208,254, was budgeted by Queen Creek Unified[4] where mismanagement led the district to over-expend its budget limit each year from FY 2003 to FY 2006.[6] When the over-expenditures were discovered, the district was required to reduce subsequent years' budgets to repay these over-expenditures.[6] While the over-expenditures will eventually all be repaid, they have resulted in significant cash flow problems for the district. The district ended FY 2006 with a negative $4.8 million cash balance in its M&O fund.[7] The fund had a negative $1.5 million balance as of FY 2008.[7] These cash flow problems resulted in the need to register warrants and then budget a property tax increase to pay the interest. Queen Creek's FY 2009 budget increase for interest payments on registered warrants was equivalent to 1.0% of the district's RCL.[2] This was the largest relative budget increase received for registered warrants and also resulted in the largest property tax rate, $0.07, in support of this exemption.[2] The next largest tax rate, $0.06, was budgeted for the warrants issued by Union Elementary.[2]

Joint Career and Technical Center[8]

If a school district enters into an intergovernmental agreement to establish a jointly owned career and technical education and vocational education center, the district can qualify for a budget-limit exemption for the first three years of the center's operation. The district may budget approximately a 14.2% increase in the portion of the district's base support level that results from each of the students enrolled at the center (eq. 18).

Eq. 18: Budget increase for a Joint Career, Technical, and Vocational Education Center = Center's ADM x Base Level x 14.2%

1. ADE report ADMS540-1
2. Derived from districts' adopted budgets
3. Gila County tax rate and levy sheets
4. District's adopted budget
5. A.R.S. § 15-910(M)
6. Krikorian "Official sees QC district deficit easing" *East Valley Tribune* 03 July 2007
7. Maricopa County School Superintendent tax rate calculations
8. A.R.S. § 15-910.01

As these expenditures are not subject to the RCL, districts levy property taxes to fund any such budget increases. To qualify for this exemption a district must notify the state board of education to demonstrate that the center is ready to begin operations. Currently, no districts have received authorization from the state board of education to budget for this exemption.[1]

TRCL minus TSL

Career ladder, the optional performance incentive program, and the hold harmless portion of the transportation formula (each described in section I of this chapter) are not budget-limit exemptions; but, like the budget-limit exemptions just described, these non-voter-approved programs also result in per-student spending inequities as well as unequal property tax rates.

Table 11: FY 2009 TRCL - TSL Levies & Tax Rates

	TRCL - TSL Levy	% RCL	TRCL - TSL Tax Rate	Total Primary Tax Rate	District's QTR	Amount Primary Rate Exceeds QTR
10 Districts w/ Highest TRCL - TSL Levies:						
Phoenix Union	$5,452,757	4.2%	$0.09	$2.46	$1.46	$1.00
Window Rock Unified	$2,237,295	15.0%	$0.00	$0.00	$2.92	-$2.92
Deer Valley Unified	$1,971,598	1.2%	$0.07	$3.33	$2.92	$0.40
Ganado Unified School	$1,966,235	16.5%	$0.00	$0.00	$3.14	-$3.14
Tucson Unified	$1,933,390	0.7%	$0.06	$5.36	$2.92	$2.43
Tuba City Unified	$1,384,197	11.3%	$0.00	$0.00	$2.92	-$2.92
Maricopa County Regional	$1,154,740	20.0%	$0.00	$0.00	$0.00	$0.00
Scottsdale Unified	$1,092,758	0.8%	$0.02	$2.82	$3.14	-$0.33
Yuma Union	$1,067,482	2.1%	$0.10	$1.92	$1.46	$0.46
Sierra Vista Unified	$1,025,238	3.3%	$0.27	$2.01	$2.92	-$0.91
10 Districts w/ Highest TRCL - TSL Tax Rates:						
Redington Elementary	$62,997	44.1%	$4.41	$7.47	$2.92	$4.55
San Fernando Elementary	$215,507	160.6%	$3.79	$3.79	$2.92	$0.87
Blue Elementary	$73,572	57.6%	$3.00	$3.00	$2.92	$0.08
Forrest Elementary	$83,475	74.6%	$2.96	$2.96	$2.92	$0.03
Apache Elementary	$41,741	30.4%	$2.05	$5.87	$2.92	$2.94
Santa Cruz Valley Unified	$231,835	1.3%	$2.01	$7.11	$2.92	$4.18
McNeal Elementary	$74,722	10.5%	$1.95	$9.16	$2.92	$6.24
Sentinel Elementary	$150,405	31.7%	$1.89	$10.26	$2.92	$7.34
Peach Springs Unified	$241,014	19.2%	$1.83	$5.75	$2.92	$2.82
Mammoth-San Manuel Unified	$311,777	5.1%	$1.71	$5.77	$2.92	$2.85
Statewide Total (216 districts)	**$59,869,795**	**1.3%**				

Sources: TRCL minus TSL levies, RCL, and QTR from school districts' adopted expenditure budgets and worksheets; total tax rates from ATRA's *2008 Property Tax Rates and Assessed Values* ; TRCL minus TSL tax rates calculated from the levy amounts shown and the districts' assessed values as reported in ATRA's *2008 Property Tax Rates and Assessed Values*

1. Arizona Department of Education

As described previously, state aid only equalizes a district's TSL which represents the actual route miles driven by the district. Yet a district's RCL includes the TRCL which never declines and could be much larger than the TSL (see equations 8 to 11). Therefore, if the TRCL exceeds the TSL by any amount then the district levies a property tax to fund the difference.

For FY 2009, table 11 lists the 10 districts where the difference between the TRCL and TSL led to the largest budget increase as well as the 10 districts where it led to the largest tax rate increase. The hold harmless transportation formula led to the largest levy, $5.5 million, in the Phoenix Union High School District. Redington Elementary had the highest tax rate corresponding to this levy. The $4.41 transportation tax rate for Redington led to a total primary tax rate equal to 255% of the district's QTR. With a budget increase equivalent to 160.6% of the district's RCL, San Fernando Elementary received the largest relative budget increase from this formula. While 216 districts budgeted a TRCL greater than the district's TSL, the increases varied from less than 1% of the district's RCL for 47 districts to more than 35% for each of the 10 districts with the largest relative increases. Statewide, districts levied $59.9 million for the hold harmless transportation formula, which, on average, was equivalent to 1.3% of each district's RCL.

Career Ladder[1] and Optional Performance Incentive Programs[2]

Similar to the budget capacity resulting from the difference between a district's TRCL and TSL, career ladder and optional performance incentive programs also result in additional budget capacity that is included as part of a district's RCL. As described in the previous section of this chapter, the districts that participate in these programs increase their budget limits by 5.5%. Some of the funding for these increases comes from local property taxpayers and the rest comes from state aid as seen in tables 12 and 13. All unified districts that receive the 5.5% budget increase also must levy a QTR that is $0.22 greater than the standard unified QTR. Elementary and union high school districts must increase their QTR by $0.11. The portion of the 5.5% budget increase that is not funded with the QTR is funded through state equalization assistance. With this structure, these programs create no inequities among the participating districts. Each district receives the same spending increase per student and every taxpayer pays the same tax rate in support of the program. The inequity results from the limited number of districts allowed to participate in the programs. Twenty-eight districts are allowed to participate in career ladder and only two districts have approved optional performance incentive programs. The remaining 188 districts receive no additional spending or taxing authority from these performance pay programs.

In FY 2009, the 28 career ladder districts increased their budgets by $82.5 million (table 12). Property taxes (or federal impact aid in the case of Ganado Unified and Window Rock Unified) funded $33.9 million of the budget increases. State equalization assistance funded the remaining $48.6 million. The two districts with approved optional performance incentive programs increased their budgets by a combined $479,585 in FY 2009 (table 13). As the $0.22 increase in the QTR would have produced more than the amount needed for these programs, the actual tax rate increases were only $0.11 and $0.06. These tax rates funded $425,183 of the budget increases and additional state paid the remaining $54,401 through the homeowner's rebate.

1. A.R.S. §§ 15-918 to 15-918.05
2. A.R.S. §§ 15-919 to 15-919.06

Table 12: FY 2009 Career Ladder Levies & Tax Rates

	Career Ladder Budget Increase	% RCL	QTR Increase	Career Lader Local Funding	State Aid for Career Ladder
Agua Fria Union	$1,441,759	5.5%	$0.11	$1,052,899	$388,860
Amphitheater Unified	$3,995,081	5.5%	$0.22	$2,556,258	$1,438,823
Apache Junction Unified	$1,401,882	5.5%	$0.22	$797,353	$604,529
Catalina Foothills Unified	$1,118,222	5.5%	$0.22	$723,962	$394,260
Cave Creek Unified	$1,387,977	5.5%	$0.22	$152,010	$1,235,967
Chandler Unified	$8,505,599	5.5%	$0.22	$4,029,278	$4,476,321
Crane Elementary	$1,460,575	5.5%	$0.11	$169,415	$1,291,160
Creighton Elementary	$1,867,118	5.5%	$0.11	$455,134	$1,411,984
Dysart Unified	$5,472,238	5.5%	$0.22	$2,246,641	$3,225,597
EVIT	$1,056,566	3.2%	$0.00	$0	$1,056,566
Flagstaff Unified	$2,728,580	5.5%	$0.22	$2,041,004	$687,576
Flowing Wells Unified	$1,333,599	5.5%	$0.22	$396,380	$937,219
Ganado Unified	$437,086	5.5%	$0.22	$49,286	$387,800
Kyrene Elementary	$4,256,082	5.5%	$0.11	$2,105,624	$2,150,458
Litchfield Elementary	$2,210,851	5.5%	$0.11	$674,485	$1,536,366
Mesa Unified	$17,788,434	5.5%	$0.22	$6,616,949	$11,171,485
Patagonia Union	$28,134	5.5%	$0.11	$18,002	$10,132
Payson Unified	$640,083	5.5%	$0.22	$381,438	$258,645
Pendergast Elementary	$2,573,608	5.5%	$0.11	$343,379	$2,230,229
Peoria Unified	$9,084,305	5.5%	$0.22	$3,301,490	$5,782,815
Safford Unified	$724,700	5.5%	$0.22	$154,720	$569,980
Santa Cruz Valley Union	$144,056	5.5%	$0.11	$100,024	$44,032
Scottsdale Unified	$6,320,966	5.5%	$0.22	$3,540,225	$2,780,741
Show Low Unified	$613,046	5.5%	$0.22	$354,676	$258,370
Sunnyside Unified	$4,278,954	5.5%	$0.22	$814,378	$3,464,576
Tanque Verde Unified	$332,676	5.5%	$0.22	$302,491	$30,185
Tolleson Elementary	$711,180	5.5%	$0.11	$193,781	$517,399
Window Rock Unified	$626,022	5.5%	$0.22	$26,178	$599,844
Statewide Total (28 districts)	**$82,539,379**	**5.4%**		**$33,597,460**	**$48,941,919**

Sources: career ladder budget increase amounts, percentage of RCL, and career ladder tax rates from the Arizona Department of Education's FY 2009 Career Ladder Calculations; local funding and state aid funding calculated from the amounts reported in ADE's Career Ladder Calculation adjusted to include the effect of the homeowners' rebate.

Table 13: FY 2009 Optional Performance Incentive Programs (OPIP) Levies & Tax Rates

	OPIP Budget Increase	% RCL	QTR Increase	OPIP Tax Rate	OPIP Local Funding	State Aid for OPIP
Joseph City Unified	$137,406	5.5%	$0.22	$0.11	$136,449	$956
Sedona-Oak Creek Unified	$342,179	5.5%	$0.22	$0.06	$288,734	$53,445
Statewide Total (2 districts)	**$479,585**	**5.5%**			**$425,183**	**$54,401**

Sources: OPIP budget increase amounts, percentage of RCL, and career ladder tax rates from the Arizona Department of Education's FY 2009 OPIP Calculations; local funding and state aid funding calculated from the amounts reported in ADE's OPIP Calculation adjusted to include the effect of the homeowners' rebate.

Career Ladder Replacement[1]

As one of the 190 districts not permitted to participate in career ladder, Gilbert Unified filed a lawsuit[2] against the State of Arizona in October of 2007. The lawsuit argued that their district is at a disadvantage in hiring and retaining qualified teachers due to the career ladder program available to neighboring districts. The suit, which went on to claim that this inequity violates the "general and uniform" clause of the Arizona Constitution, is currently being litigated before the superior court.

With the Gilbert lawsuit pending, the Legislature passed a career ladder replacement plan in 2008. The legislation included language describing the Legislature's intent to increase funding for teacher performance pay programs that are currently funded through the classroom site fund (see page 49). Under this plan a career ladder district that chooses to accept any of these future increases in funding for teacher performance pay will be required to decrease its career ladder budget by a corresponding amount.[3]

While the FY 2009 state budget included no funding for this replacement plan, it placed into statute a description of six different funding stages along with an implication that the sixth funding stage would be appropriated by FY 2019.[3] At the sixth stage, all districts will receive the 5.5% budget increase that is currently available to only the 19 career ladder districts.[3] Funding teacher performance pay at the sixth stage would have cost the state $233.7 million in FY 2009.[4]

Part B: Taxpayer Funded Budget Increases That Require Voter Approval

Budget Increases (voter approved):	
1. M&O Overrides	1. Capital Outlay Overrides
2. K-3 Overrides	2. Bonds/Debt Service

In addition to the budget-limit exemptions that require no voter approval, voter-approved exemptions also undermine the equity created by the equalization system. Secondary property taxes fund voter-approved bonds and overrides. As bonds and overrides are not equalized by state aid, the same secondary tax rate in different districts supports considerably different debt service and override payments. Likely influenced in part by this difference in the taxpayers' cost, some districts pass

1. A.R.S. § 15-977
2. Arizona Superior Court Case # CV2007-017981
3. Laws 2008, Ch. 287, §§ 16, 55
4. Derived from districts' budgets and ADE Career Ladder Calculations

several overrides and large bonds while other districts have no voter-approved overrides and much smaller bond projects. These differences result in funding inequities.

Due to the voter-approval requirement of bonds and overrides, the property taxpayers of owner-occupied properties located within a school district have a voice in determining whether to tax themselves to pay for these proposals. But when voters approve these measures they not only approve a tax on themselves but also on non-voting property taxpayers such as the owners of businesses, second homes, and rental properties. In many instances the majority of the funding for bonds and overrides results from such taxpayers that have no vote in the election.[1]

Overrides: Maintenance and Operations[2]

Voters can authorize their school district to increase its budget by 10% of the district's RCL for an M&O override. After the elections of November 2009, this 10% limit will increase to 15%.[3] Districts use these overrides for operating expenditures including salaries and benefits. M&O overrides are approved for up to seven years at a time. If districts win voter approval for an override that will exist for more than four years then the amount of the override must decline by one-third in each of the last two years prior to the override's expiration. Most often districts return to the ballot in the fifth year of a seven year override and ask voters to approve a new M&O override. If passed, the new override replaces the existing override that would otherwise begin to phase out in the following year.

As M&O overrides authorize districts to increase their budgets by a percentage of the RCL, the annual taxpayer cost for these overrides can grow substantially during the life of the override. As districts' budgets grow, due to formula growth for student count and inflation or due to additional appropriations provided by the Legislature, the taxpayer cost of the districts' M&O overrides grow by the same proportion. Overrides in place from FY 2002 to FY 2007 grew by an average of 78%.[4]

In FY 2009, the budgets of 122 of Arizona's 218 school districts included M&O overrides for a total budget increase of $374.6 million.[5] Of these 122 districts, 99 budgeted increases equivalent to 10% of the district's RCL.[5] The remaining 23 districts budgeted increases that ranged from 3% to 9%.[5] Of the 99 districts with the full 10% override, the secondary tax rates funding these overrides varied from $0.03 to as much as $6.13 with a median rate of $0.52.[5] The M&O override tax rate exceeded $1.00 in 18 of these districts.[5] Of the 106 districts that have no M&O override, a similar range of tax rates would be necessary to produce a 10% override.[5] For these districts the necessary tax rates range from $0.01 to $8.31 with a median rate of $0.46.[5] The necessary tax rate would exceed $1.00 in 26 of these districts.[5]

Overrides: K-3 Special Programs[6]

A second override available to school districts—the K-3 special program override—allows additional budget increases of up to 5% of a district's RCL. K-3 overrides passed before November 24, 2009 must fund a special program designed to improve the academic achievement of low achieving pupils in kindergarten through third grade and may only include a 5% increase in the elementary (K-8) portion of a district's RCL.[3] After the elections of November 2009, the special program override may fund programs for students of any grade and may be based on a districts elementary and high

1. ADR *2009 State and County Abstract of the Assessment Roll*
2. A.R.S. § 15-481
3. Laws 2009, 3rd S.S., Ch. 12, §§ 11-12
4. ATRA *Newsletter* March 2007
5. Derived from school districts' adopted budgets
6. A.R.S. §§ 15-481, 15-482

school RCL.[1] Notwithstanding the expansions, the total increase a district budgets for both the M&O and special program overrides cannot exceed 15% of the district's RCL.[1]

In FY 2009, 56 school districts budgeted a total of $58.7 million for K-3 overrides.[2] Districts used $655,300 of this revenue to increase their unrestricted capital outlay budget limit.[2] The remaining $58 million was spent on M&O expenditures.[2] The property tax rates supporting these overrides range from $0.01 to $3.69 with a median rate of $0.20.[2]

Overrides: Capital Outlay[3]

The final override option allows school districts to exceed the capital outlay revenue limit. These overrides may last for up to seven years. After passing a multi-year capital outlay override, a district may return to the ballot and ask voters to approve additional capital outlay overrides that overlap the first. Historically there was no limit to

Table 14: FY 2009 Override Levies & Tax Rates

	Total of all Override Levies	% RCL	Override Tax Rate	Total Secondary Tax Rate
10 Districts w/ Highest Override Tax Rates:				
Kayenta Unified	$3,011,873	25.5%	$7.78	$7.78
Tuba City Unified	$1,559,658	12.7%	$4.63	$4.63
Window Rock Unified	$1,994,179	13.4%	$3.69	$3.69
Holbrook Unified	$1,143,232	10.5%	$2.47	$3.04
Duncan Unified	$295,336	10.0%	$2.38	$4.90
Cartwright Elementary	$13,114,673	15.0%	$2.26	$2.26
Winslow Unified	$1,065,829	9.8%	$2.04	$2.95
Sunnyside Unified	$8,418,555	10.0%	$1.72	$3.20
Hyder Elementary	$167,345	15.0%	$1.70	$1.71
Alhambra Elementary	$10,057,059	15.0%	$1.66	$2.55
10 Districts w/ Lowest Override Tax Rates:				
Morenci Unified	$737,575	13.4%	$0.18	$0.26
Buckeye Union	$1,606,578	10.0%	$0.14	$1.01
Cave Creek Unified	$3,848,444	13.4%	$0.14	$0.21
Mingus Union High School	$568,376	10.0%	$0.12	$0.27
Sedona-Oak Creek	$940,922	13.2%	$0.12	$0.47
Morristown Elementary	$65,330	5.2%	$0.12	$0.12
Bagdad Unified	$210,604	9.7%	$0.11	$0.11
Tempe Union	$4,122,109	6.6%	$0.08	$0.52
Arlington Elementary	$242,047	15.0%	$0.08	$0.16
Continental Elementary	$257,903	7.2%	$0.07	$0.23
Statewide Total (124 districts)	**$521,342,487**	**13.5%**		

Sources: override levies and RCL from school districts' adopted expenditure budgets and worksheets; total secondary tax rates from ATRA's *2008 Property Tax Rates and Assessed Values*; override tax rate calculated from the levy amounts shown and the districts' assessed values as reported in ATRA's *2008 Property Tax Rates and Assessed Values*

1. Laws 2009, 3rd S.S., Ch. 12, §§ 11-12
2. Derived from school districts' adopted budgets
3. A.R.S. § 15-481

the amount a district could ask voters to approve for this capital outlay override but after the elections of November 2009 capital outlay overrides will be limited to 10% of a district's RCL.[1]

In FY 2009, 26 districts had voter approval to budget for a capital outlay override.[2] These overrides accounted for $88.1 million of additional capital expenditures for these 26 districts.[3] The relative size of these budget increases ranged from 1.6% of the district's RCL to as much as 27.2% of the RCL.[3] The average increase was equivalent to 6.3% of the district's RCL.[3] The tax rates necessary to support the capital outlay overrides ranged from $0.04 to $0.39 with one outlaying rate of $7.78.[3] The entire $7.78 secondary rate levied by Kayenta would be eliminated if the district did not levy its $1.5 million capital outlay override.[3] In addition to this tax rate the district used federal impact aid dollars to support its voter-approved overrides.[3]

Overrides: Summary

Comparing each district's use of all the overrides demonstrates the degree to which voter-approved overrides lead to disparities in per-pupil expenditures and tax rates (table 14). While the FY 2009 budgets of 94 districts included no additional expenditures for voter-approved overrides,[2] 124 districts increased their budgets by amounts varying from 3.2% to 42.2% of the district's RCL. In total, the districts that obtained voter approval levied $521.3 million in overrides. The secondary rates that funded these overrides ranged from $0.07 to $7.78. Each of the top seven override tax rates exceeded $2.00, and the top 26 exceeded $1.00. The 13 districts with the lowest combined total override tax rates each had rates lower than $0.20. The median total override tax rate was $0.56.

General Obligation Bonds[4]

Like overrides, voter-approved bonds also increase school district tax rates as well as per-pupil spending. Current statutes allow districts to sell voter-approved bonds to increase capital expenditures beyond a district's CORL. Districts with outstanding voter-approved debt levy a secondary property tax to pay the principal and interest requirements of the general obligation bonds. These debt service payments are exempt from the budget limits. In FY 2009, school districts' budgets included $791.7 million for debt service payments on general obligation bonds.[5] Districts spent $689.8 million on debt service in FY 2008.[6] For more information on the uses and limitations of debt financing projects through voter-approved bonds see section II of the following chapter on school district's capital finance (page 44).

Section III: Net Effect of the Equalization Base and Budget-limit exemptions

To this point, this work has described every ability a school district has to tax property in support of a district's budget. The foundation system provides equalized spending and equalized tax rates through the state-subsidized equalization base, while property taxes levied outside of its budget limits result in disparate spending and taxes. By comparing the aggregate per-student expenditures and the primary tax rates of each district, this section describes the net effect that the equalization base and the budget-limit exemptions have on the taxing and spending of school districts throughout the state.

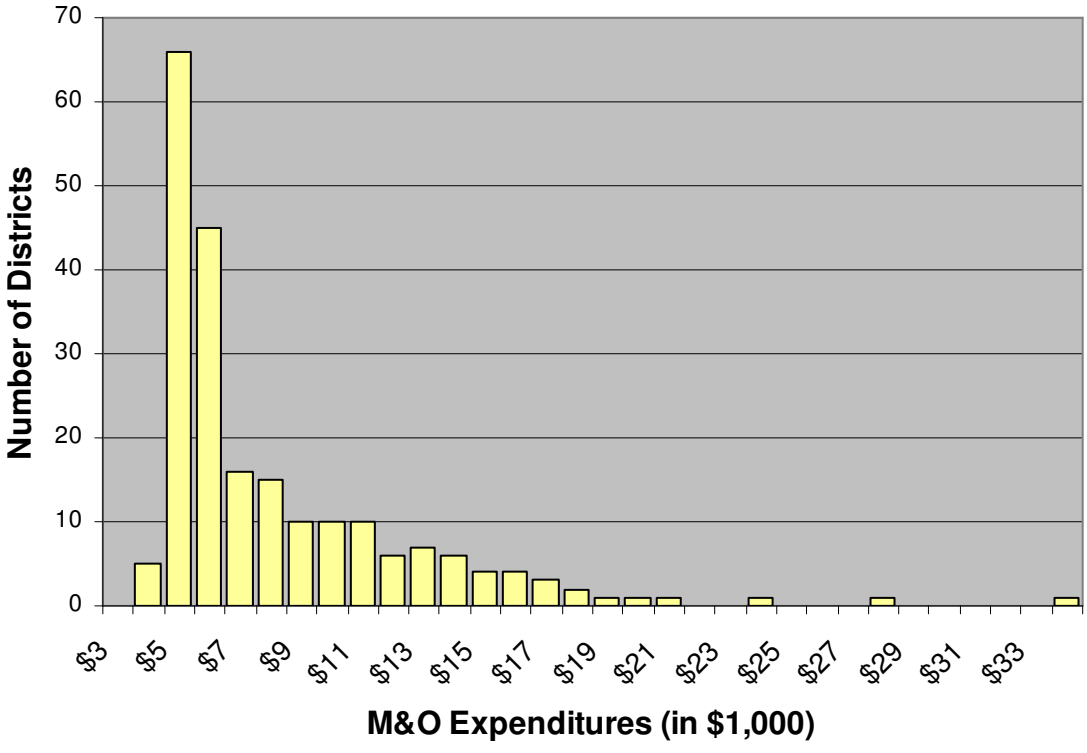
1. Laws 2009, 3rd S.S., Ch. 12, § 11
2. Districts' adopted budgets
3. Derived from districts' adopted budgets
4. A.R.S. §§ 15-491, 15-1021 to 15-1033
5. Districts' revised budgets as of 08 Aug 2009
6. ADE *Annual Report of the Superintendent of Public Instruction*

Part A: Effect on Expenditures

As seen in figure 4, the equalization base has effectively equalized spending in approximately half of Arizona's school districts. For 116 school districts, the bulk of the M&O expenditures in FY 2007 resulted from the equalization base. These districts spent approximately $5,000 to $7,000 per student. But nearly as many districts spent significantly greater amounts. In FY 2007, 99 districts spent more than $7,000 per student with some districts spending three and four times this amount. The right-skew in this distribution curve depicted in figure 4 results primarily from the expenditures made outside the budget limits of the equalization base.

Table 15 lists the 20 school districts with the highest and lowest M&O expenditures per student. In FY 2007, nine school districts spent more than $20,000 per student. The Rainbow Accommodation District spent the most per student ($34,781) because the district only serves disabled students that qualify for significant group B weights.[1] Mobile Elementary spent the next largest amount ($28,656) due to the expenditures made with the district's small school adjustment.[1] Similarly, 14 of the top 20 are small districts. At the other end of the spectrum, the effect of the equalization base is much more apparent. All of the 20 districts with the lowest per-student expenditures spent within $1,000 of the same amount per student. Spending in these 20 districts ranged from $4,369 at Laveen Elementary to $5,287 at Santa Cruz Valley Unified.

Figure 4: FY 2007 Per-Student Expenditures



Source: ADE FY 2007 *Annual Report of the Superintendent of Public Instruction*

1. District's adopted budget

Table 15: FY 2007 M&O Expenditures Per Student

Districts w/ Highest Expenditures Per Student		Districts w/ Lowest Expenditures Per Student	
Rainbow Accommodation	$34,781	Laveen Elementary	$4,369
Mobile Elementary	$28,656	Maricopa Unified	$4,531
Blue Elementary	$24,700	Bullhead City Elementary	$4,669
Ash Creek Elementary	$21,483	Florence Unified	$4,731
Sentinel Elementary	$20,937	Mohave Valley Elementary	$4,902
Apache Elementary	$19,670	Kingman Unified	$5,027
Cochise Elementary	$18,790	Colorado River Union	$5,028
Peach Springs Unified	$18,184	Somerton Elementary	$5,048
Young Elementary	$17,800	Thatcher Unified	$5,136
Crown King Elementary	$17,794	Nogales Unified	$5,144
Whiteriver Unified	$17,560	Littleton Elementary	$5,177
Pine Strawberry Elementary	$16,787	Gadsden Elementary	$5,215
Owens-Whitney Elementary	$16,483	Crane Elementary	$5,216
Skull Valley Elementary	$16,476	Yuma Elementary	$5,245
Maine Consolidated	$16,148	Douglas Unified	$5,268
Vernon Elementary	$15,716	Toltec Elementary	$5,268
Sonoita Elementary	$15,633	Snowflake Unified	$5,269
Yarnell Elementary	$15,465	Safford Unified	$5,274
Bowie Unified	$15,290	Prescott Unified	$5,287
McNeal Elementary	$14,753	Santa Cruz Valley Unified	$5,287
Average of Top 20 Districts	**$19,155**	**Average of Bottom 20 Districts**	**$5,055**

Source: ADE FY 2007 *Annual Report of the Superintendant of Public Instruction*

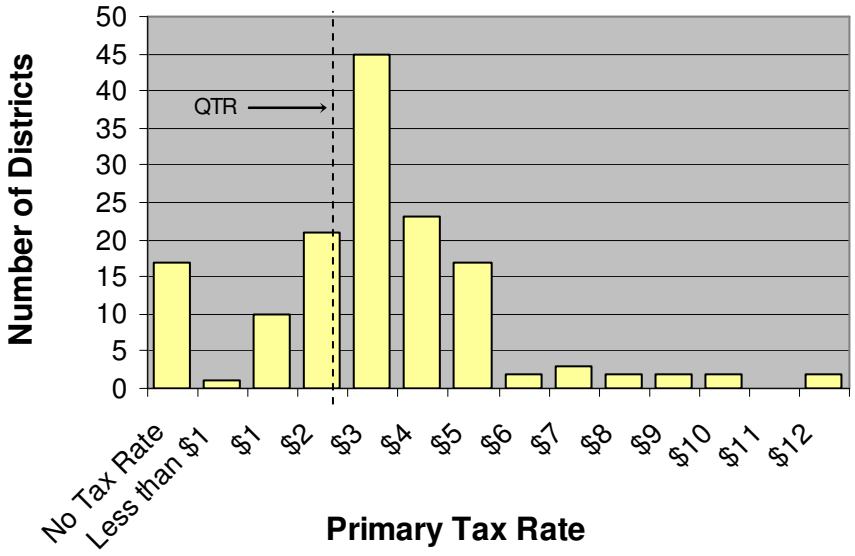
Part B: Effect on Tax Rates

Similar to figure 4, the effect of both the equalization system and its exceptions are noticeable in figures 5 and 6. Figure 5 shows the frequency with which tax rates of each dollar range are levied by districts that are subject to the full QTR. The full QTR applies to all unified districts as well as any elementary district that does not share its territory with a union high school district.[1] These stand-alone elementary districts levy the full unified QTR and usually provide high school educational services by contracting with a neighboring school district.[2] As seen in figure 5, the tax rates of these 147 unified and elementary districts were not equal. Nor were these rates limited to the districts' QTR. Due to the budget-limit exemptions, in most cases, the tax rates of 101 of these districts exceeded the $2.92 unified QTR. Of the remaining districts, only 29 levied a property tax rate less than the QTR and 17 did not levy a property tax due to the districts' federal impact aid revenue.

Figure 6 shows the tax rate distributions of all districts where only one-half of the full QTR applies. If an elementary district shares its territory with a union high school district then each district levies only one-half of the QTR.[1] By halving the rate that must be applied before state aid will subsidize the equalization bases of these districts, the taxpayers that are located within two school districts are subject to the same QTR as properties located within just one unified or elementary school district.

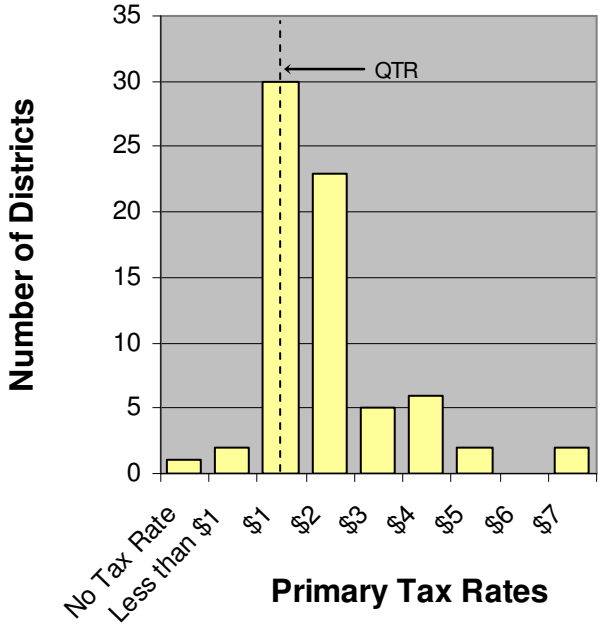
1. A.R.S. § 41-1276(I)
2. A.R.S. § 15-824

Figure 5: FY 2009 Primary Tax Rates of all Districts Subject to the $2.92 QTR



Source: ATRA's *2008 Property Tax Rates and Assessed Values*

Figure 6: FY 2009 Primary Tax Rates of all Districts Subject to the $1.46 QTR



Source: ATRA's *2008 Property Tax Rates and Assessed Values*

As the equalization base requires a lower tax rate from these overlapping districts, it follows that the total primary tax rates levied by each of these was generally lower than the rates levied by the stand alone unified and elementary districts. While generally lower, the tax rates of these 71 elementary and union districts followed a similar distribution curve around their respective QTR. The tax rates of 63 of these districts exceeded the QTR. Of the remaining districts, only seven levied less than the QTR and one did not levy a tax rate. While the tax rates of the districts included in figure 6 are lower than the rates depicted in figure 5, the rates in figure 6 represent only one of the two school district tax rates charged to each of the districts' property taxpayers.

For each of the two groups of districts included in figures 5 and 6, table 16 lists the 10 districts with the highest and lowest tax rates. For FY 2009, Paloma Elementary levied the highest tax rate—$12.72 or 435% of the QTR. Of the districts where the property taxpayers are subject to two school district tax rates, Ash Creek Elementary levied the highest rate—$7.50 or 513% of the district's QTR.

The lowest tax rates were levied in districts where the full QTR would have produced more than the district's equalization base; and, therefore, these districts levied less than the applicable QTR. Eagle Elementary levied the lowest rate—$0.55 or 18% of its QTR. Among the districts where only one-half of the QTR applied, Arlington Elementary levied the lowest rate—$0.64 or 44% of the QTR.

Table 16: FY 2009 Highest and Lowest Tax Rates

Districts that levy 1/2 the QTR (QTR = $1.46)		Districts that levy the full QTR (QTR = $2.92)	
Highest		**Highest**	
Ash Creek Elementary	$7.50	Paloma Elementary	$12.72
Red Rock Elementary	$7.42	Bowie Unified	$12.16
Wenden Elementary	$5.93	Sentinel Elementary	$10.26
Bouse Elementary	$4.94	Colorado City Unified	$10.04
Somerton Elementary	$4.43	San Simon Unified	$9.27
Buckeye Elementary	$4.36	McNeal Elementary	$9.16
Gadsden Elementary	$4.31	Ash Fork Joint Unified	$8.45
Pearce Elementary	$4.31	Mobile Elementary	$8.40
Eloy Elementary	$4.11	Redington Elementary	$7.47
Phoenix Elementary	$3.92	Young Elementary	$7.24
Lowest		**Lowest**	
Topock Elementary	$1.60	Chevelon Butte Unified	$1.70
Casa Grande Elem.	$1.59	Cave Creek Unified	$1.69
Kyrene Elementary	$1.52	Sedona-Oak Creek Unified	$1.64
Mingus Union	$1.44	Morenci Unified	$1.56
Clarkdale-Jerome Elem.	$1.40	Rucker Elementary	$1.55
Bicentennial Union	$1.16	Continental Elementary	$1.51
Fowler Elementary	$1.15	Yucca Elementary	$1.44
Riverside Elementary	$1.14	Bagdad Unified	$1.34
Alhambra Elementary	$0.96	Williamson Valley Elem.	$1.23
Arlington Elementary	$0.64	Eagle Elementary	$0.55

Source: ATRA's *2008 Property Tax Rates and Assessed Values*

Section IV: Truth-in-Taxation (TNT)

As school districts maintain a significant ability to tap property taxes beyond the equalized QTR as demonstrated in the previous section of this chapter, truth-in-taxation (TNT) laws apply whenever a district chooses to increase any of the levies under its control.

In response to Arizona's somewhat complex property tax system, various TNT laws require taxing jurisdictions to notify the public before taking actions that will lead to property tax increases. The amount of property taxes that any owner pays to a given taxing jurisdiction is a function of two changing variables: the jurisdiction's tax rate and the assessed value of the owner's property. When property values rise, a taxpayer's bill will also climb unless each taxing jurisdiction lowers its rate sufficiently to completely offset the increase in assessed value. As property values during typical market conditions may climb steadily for many years at a time, TNT laws help voters identify which decision makers are responsible if these valuation increases lead to continually increasing property taxes. Without the TNT notification requirements, taxing jurisdictions could point to a stable or slightly lower tax rate and claim that the district was not among the jurisdictions responsible for a given increase.

Part A: TNT Requirements for School Districts[1]

For school districts, the TNT requirements apply only to the portion of the districts' levies that are under the districts' control. While the state establishes the QTR and the voters authorize debt service and override levies, the school board alone determines whether to levy a property tax to fund budget-limit exempt expenditures. Therefore, if a district decides to levy a property tax for any new adjacent-ways project or decides to increase the annual levies of any of the other budget-limit exemptions, then the district must notify the public of these tax increases (eq. 19). After publishing a notice of the district's intention to raise taxes, the district must hold a public hearing to describe the property tax increase and its affect on typical properties.

Eq. 19: $$\text{TNT Tax Increase} = \text{Total Amount Budgeted for Budget-Limit Exemptions Except Adjacent Ways} - \text{Highest Amount Levied for the Exemptions in Any Year Since FY 1999} + \text{Budget for Adjacent Ways}$$

The school district calculation of a TNT increase treats adjacent ways levies differently than the levies for all other budget-limit exemptions because adjacent ways levies are spent on one-time capital projects. The TNT formula recognizes that property tax increases for the other budget-limit exemptions represent permanent property tax increases corresponding to a permanent increase in annual operating expenditures. Therefore, the formula does not require districts to hold a new hearing each year to continue spending at the previously authorized level. A levy for adjacent ways, on the other hand, does not fund ongoing spending but, rather, funds a new one-time capital project. For this reason, every time a district holds a TNT hearing and passes a tax increase for adjacent ways the hearing only satisfies the TNT requirement for that year's

1. A.R.S. § 15-905.01

levy. If the district wants to levy for adjacent ways again the next year—even if the amount is less than the previous year—the district still must hold another public hearing to describe to the public that this action of the board will increase the current year's property taxes above the amount that would be levied if the board only levied the property taxes previously authorized in TNT hearings.

Part B: TNT Requirements for the State[1]

TNT laws do not only apply to school districts and other local governments; the state also imposes TNT requirements on itself. These self-imposed TNT requirements closely resemble the requirements imposed on local governments. To comply with the TNT requirements, the state must annually decrease the QTR sufficiently to fully offset the statewide increase in assessed values excluding increases that result from new construction (eq. 20). If the Legislature implements no specific QTR into statute for any given year, then the TNT statutes stipulate that the QTR is the TNT rate. To implement a QTR that is greater than the TNT rate, the TNT statutes require the Legislature to notify the public of the tax increase, hold a TNT hearing, and pass the tax increase with a two-thirds majority of both houses of the Legislature.

Eq. 20:
$$\text{TNT Rate} = \left[\begin{array}{c}\text{Statewide Assesed}\\ \text{Value of Preceding}\\ \text{Tax Year}\end{array}\right] \div \left[\begin{array}{c}\text{Statewide Assesed}\\ \text{Value for the Current}\\ \text{Tax Year}\end{array} - \begin{array}{c}\text{Current Value}\\ \text{Resulting from New}\\ \text{Construction}\end{array}\right] \times \begin{array}{c}\text{QTR of}\\ \text{Preceding}\\ \text{Tax Year}\end{array}$$

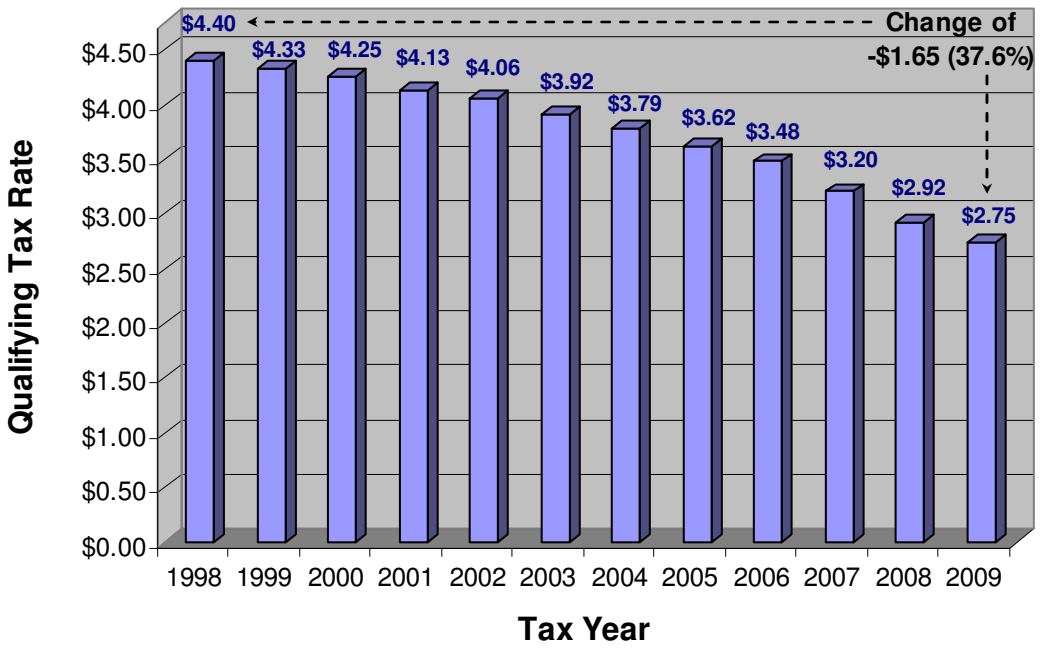
In addition to the QTR, equation 20 also applies to the state equalization rate. The state rate is a state imposed property tax rate that the state uses to cover a portion of the equalization assistance owed to school districts. The rate was repealed for tax years 2006, 2007 and 2008. The state rate returned on the third Monday of August 2009 when property tax rates for the year were formally adopted by Arizona's 15 counties.[2] The TNT rate for the return of this property tax was determined by annually adjusting the 2005 state equalization rate for the growth in assessed values each year since the rate was repealed. The year prior to its repeal, the state levied a rate of slightly less than $0.44. TNT requirements reduced the rate to just over $0.33 by the time it returned in 2009.

Part C: TNT Effect on the QTR

Prior to the state TNT requirements, the QTR and the state equalization rate were statutory rates that rarely changed. These static rates led to tax increases with each increase in assessed values. In contrast, since the state TNT requirements took effect on January 1, 1999,[3] the QTR has dropped 37.6% from $4.40 in 1998 to $2.75 for 2009 (figure 7). Similarly, the state equalization rate dropped by the same percentage from $0.53 in 1998 to the $0.33 rate for 2009. Had the Legislature not adopted the state TNT requirements back in 1998, property owners within school districts would likely pay an additional $1.65 for every $100 in their 2009 assessed value.

1. A.R.S. § 41-1276
2. A.R.S. § 42-17151
3. Laws 1998, Ch. 153, §§ 4-5

Figure 7: QTR Values 1998 to 2009



Source: JLBC *Appropriations Reports*

Chapter 2: School Capital Finance

Throughout the 1980's and early 1990's, the capital financing of Arizona schools relied primarily on voter-approved bonds.[1] If a school district needed new buildings at that time, the district would make the case to its voters and, if there was sufficient support for the projects, would obtain authorization to sell bonds to fund the construction. Secondary property taxes would then fund the debt service on these bonds.

As this system relied heavily on voter-approved property taxes, the differences in assessed values led to inequities in per-pupil capital funding. The Center for Law in the Public Interest, a public interest law firm, challenged the constitutionality of this system arguing that extensive bond projects passed more easily in property-rich districts and were defeated more often in districts with less property wealth.

In the 1994 ruling *Roosevelt v. Bishop*,[2] the Arizona Supreme Court held that the existing school financing system did not comply with the Constitution's "general and uniform" requirement. This landmark decision set off a series of legislative reforms attempting to address the court's concern. Each attempt was ruled unconstitutional[3] until legislation in 1998—referred to as Students FIRST—satisfied the court's application of the "general and uniform" clause.

Section I: Students FIRST—Creation of the SFB

School Facilities Board
1. New School Facilities
2. Building Renewal
3. Emergency Deficiencies Correction

To satisfy the court, Students FIRST completely restructured Arizona's system for financing school construction. The legislation established minimum standards for school facilities and set up three new funds to provide districts the money to meet these standards. These new funds included the new school facilities fund, the building renewal fund, and the emergency deficiency correction fund. While the unconstitutional system funded school construction with local property taxes, these new funds consist of revenues raised at the state level and distributed based on the capital needs resulting from student counts. To oversee these new funds, the legislation established the school facilities board or SFB.

School Facilities Board[4]

The SFB consists of nine voting board members each appointed by the governor for four-year terms. The superintendant of public instruction also serves as a nonvoting member of the board.

The SFB is charged with assessing the condition of school facilities and approving grants as appropriate. The board maintains a database that includes the characteristics of all school facilities across the state. Districts must submit their plans for routine preventative maintenance and for capital improvements to the board for its approval. The board also inspects school buildings at least once every five years, reviews and approves student population projections, certifies whether plans for new facilities meet building adequacy requirements, and provides annual reports to both the executive and legislative branches of government. These reports include the

1. See figure 9 on page 46
2. 179 Ariz. 233, 877 P.2d 806 (1994)
3. *Symington v. Albrecht* No. CV-96-0614-SA (Ariz. Jan. 15, 1997), *Hull v Albrecht* 190 Ariz. 520, 950 P.2d 1141 (1997), *Hull v Albrecht* No. CV-98-0238-SA (Ariz, Jun. 16, 1998)
4. A.R.S. §§ 15-2011, 15-2002

appropriation levels necessary to fund new school facilities, building renewal, and emergency deficiency corrections in order to comply with the minimum standards.

In addition to the nine-member board, the governor also appoints an executive director of the SFB who, in turn, hires the necessary SFB staff. The executive director serves at the pleasure of the governor and is charged with analyzing applications submitted to the board, conducting research and providing reports to the board, auditing school district expenditures that were funded through the SFB, and assisting the board with other responsibilities as directed.

Minimum Adequacy[1]

The Students FIRST legislation of 1998 established a minimum square footage requirement per pupil. As table 17 demonstrates, the per-pupil requirements are greater for high school students and for students in smaller districts.

Table 17: Minimum Adequacy

Student Count in the Specified Grade Level	Grades	Minimum Square Feet Per Student	Total Not Less Than
Any Size	Pre-K, K, 1-6	80	-
Less than 800	7-8	84	-
More than 800	7-8	80	67,200
Less than 400	9-12	125	-
Between 400 and 1,000	9-12	120	50,000
Between 1,000 and 1,800	9-12	112	120,000
More than 1,800	9-12	94	201,600

In addition to the per-student square footage requirements, the 1998 reforms require the SFB to establish minimum school facility adequacy guidelines for the quality as well as the quantity of school buildings. The guidelines must address at least school sites; classrooms; libraries and media centers; cafeterias; auditoriums, multipurpose rooms, or other multiuse space; technology; transportation; and facilities for science, arts and physical education.

The SFB may modify the minimum square footage requirements due to extraordinary circumstances in either the number of students served by the district, the specific geographic factors of the district, or the grade configurations the district serves.

When determining a district's total square footage, the school facilities board may exclude the square footage of certain schools and the corresponding student count if a district demonstrates that using the school's additional capacity would require unusual or excessive busing or attendance boundary changes. The SFB must also exclude all square footage used for administration and other nonacademic purposes as well as any portion of new construction not funded by the SFB. If, however, the non-SFB-funded portions of new facilities were constructed with funds approved after June 30, 2002 then the SFB can only exclude up to 25% of the minimum requirements.

New School Facilities: Disbursements[2]

When a school district's projected enrollment indicates that the district will fall below the minimum square footage requirements, the SFB is required to provide the school district funding for new construction. The SFB allocates the needed construction funding from the monies the Legislature appropriates to the new school facilities fund.

Each year, school districts must update a capital plan for their district. The capital plan includes five- to eight-year enrollment projections and a description of needed capital improvements necessary to comply with the minimum adequacy requirements. If

1. A.R.S. § 15-2011
2. A.R.S. §§ 15-2041(A)-(D)

the capital plan indicates the district will need new facilities within four years or new land within 10 years, the district must submit the plan to the SFB along with a request for funding.

Table 18: Design Allocations

Student Count in the Specified Grade Level	Grades	Per-student Sq-Ft Allocation	FY 2009 Funding Per Sq Ft
Any Size	Pre-K, K, 1-6	90	$136.66
Any Size	7-8	100	$144.27
Less than 1,800	9-12	134	$167.05
1,800 or more	9-12	125	$167.05

Upon receiving such requests, the SFB can either revise or approve the enrollment projections. If the approved projections indicate the need for additional space at an elementary school within two years or at a high school within three years then the SFB must provide the district with monies from the new school facilities fund. The amount of the distribution is determined by allocating a per-student square-footage amount, shown in table 18, for each student that is projected to exceed the district's existing capacity. This per-student allocation is slightly greater than the minimum standard per-student described in table 17. The districts then receive funding (eq 21) to construct the allocated new square footage based on the statutorily determined price per square foot (table 18). This price per square foot is annually adjusted by the Joint Legislative Budget Committee (JLBC) to account for price changes in the construction market (table 19).

Eq. 21: New School Facilities Disbursment = Number of Students Projected to Exceed Existing Capacity x Applicable Sq. Ft. Allocation (Table 18) x Applicable Price Per Sq. Ft. (Table 18)

Table 19: Inflation Adjustments

Fiscal Year	Increase
2000	3.1%
2001	5.0%
2002	0.6%
2003	0.0%
2004	4.2%
2005	1.4%
2006	12.85%
2007	12.2%
2008	2.2%
2009	1.98%

The SFB has the same latitude to modify the per-student, square-footage allocations for funding disbursements as it has for modifying the minimum adequacy requirements. Specifically, the SFB may change the allocations due to the number of students served by the district, the specific geographic factors of the district, or the grade configurations the district serves.

In addition to modifying the square footage requirements, the SFB also has the ability to adjust the dollar amount it will allocate for each square foot. These adjustments may be based on either geographic conditions or site conditions. In FY 2007, the SFB funded 86% of its projects above the formula amount resulting in an average increase of $1.4 million per project.[1]

The Students FIRST statutes also provide automatic adjustments to the amount allocated per square foot if a district is located in a rural area. The law defines rural areas as an area 35 miles away from a city or town of 50,000 or more residents. Any district that fits this description qualifies for an automatic 5% increase in its distribution from the new school facilities fund.

1. JLBC *FY 2009 Baseline Book*

New School Facilities: Design and Construction[1]

The SFB's role in new construction does not end with the approval of a capital plan and determination of the distribution amount. Instead, the board, after completing the analysis of a school district's request, distributes only the funds to cover preconstruction expenses. With this funding the district designs the project and must submit the development plan to the SFB for approval before construction funds are distributed. The board reviews the plan and distributes the remainder of the funds only if the plan meets the SFB's building adequacy standards. At this point the SFB may also decline to fund the project if the square footage is no longer required due to revised enrollment projections.

After the SFB distributes the construction funds, the district creates a district-level new school facilities fund and may only use the revenue for the new facilities. The district must annually report to the SFB each project completed and provide an accounting of the monies remaining in the district's new school facilities fund. When the district has completed all the projects of the approved development plan, the district has one year to spend any remaining new school facilities funds but only on capital purposes for the project. If any money remains after one year, the funds revert back to the SFB's new school facilities fund.

Building Renewal[2]

The second fund administered by the SFB is the building renewal fund. Building renewal monies are distributed according to the age of each school district's buildings and the cost to the new school facilities fund that would be required to replace a facilities square footage (equations 22 and 23).

Eq. 22: $$\text{Building Renewal} = \text{Building Age} \div 1{,}275 \times 0.67 \times \text{Building Capacity Value}$$

Eq. 23: $$\text{Building Capacity Value} = \text{Building's Student Capacity} \times \text{Sq. Ft. per Student (Table 18)} \times \text{Cost Per Sq. Ft. (Table 18)}$$

Districts are required to use the building renewal funds to maintain the adequacy of existing school facilities. Building renewal funds may be used for major renovations and repairs of buildings, for upgrading systems and areas that will maintain or extend the useful life of a building, for infrastructure costs, and for relocation and placement of portable and modular buildings. Conversely, these funds may not be used for new construction, for remodeling interior space for aesthetic or preferential reasons, for exterior beautification, for demolition, or for the purchase of soft capital items. Districts may only use up to 8% of its building renewal funds for routine preventative maintenance. Any building renewal funds spent on preventative maintenance must supplement and not supplant a district's existing level of routine preventative maintenance funding.

In addition to the formula-based building renewal fund, the FY 2009 budget created the grant-based building renewal fund as a separate fund from which the SFB may disperse building-renewal dollars based on grant requests prioritized by the SFB.[3] The SFB must provide priority to districts that have provided routine preventative maintenance and will match the grant monies with district funds.

1. A.R.S. § 15-2041(E)
2. A.R.S. § 15-2031
3. Laws 2008, Ch. 287, § 27; A.R.S. § 15-2032

Emergency Deficiencies Correction[1]

As passed in 1998, the Students FIRST legislation included a temporary fund designed to bring all existing facilities to the minimum adequacy standards.[2] The legislation included a scheduled repeal of this fund[3] in recognition that correcting these deficiencies was a one-time expenditure. In 2001, two years prior to the scheduled repeal of this deficiencies correction fund, the Legislature created the permanent emergency deficiencies correction fund.[4] This fund consists of monies transferred from the expiring deficiencies correction fund and from the new school facilities fund. Unlike the repealed fund designed to address deficiencies that existed prior to 1998, the monies of the currently existing fund are available for new deficiencies that result from emergencies.

If a school district has an emergency—i.e., a serious need for materials, services, construction, or expenses in excess of a district's adopted budget—the district may apply to the SFB for monies from the emergency deficiencies correction fund. The emergency deficiency must threaten either school district property, the functioning of a school district, or the public's health, welfare, or safety.

SFB Appropriations & Debt Financing

Excluding years in which the Legislature provided SFB the authorization to debt finance its projects, annual SFB appropriations have ranged from $310 million to $513 million with an average appropriation of $394 million (table 20).

When school construction was primarily locally funded, these projects were nearly always debt financed.[5] For districts, these projects represented large, occasionally-occurring expenditures. Thus, it made more sense for districts to spread these costs among the years in which construction expenditures were not expected.

The state appropriations to the SFB, in contrast, are annually-occurring expenditures that are small relative to the state's budget—approximately 3.5% of total expenditures. As debt financing this appropriation pushes these costs into years that have similar SFB expenditure needs, sustained debt financing would shortly result in a yearly debt-service payment greater than the amount of the annual expenditure financed.

Nevertheless, to increase revenues available for other expenditures, the state budget decision makers have opted several times to debt finance SFB projects (table 20).

Table 20: SFB Appropriations (Millions)

Fiscal Year	New School Facilities	Building Renewal	Deficencies Correction	Building Renewal Grant	Subtotal	Debt Authorization	Sum of Debt Authorization and Appropriations	Debt Service
1999	$200	$75	$35	-	**$310**	-	**$310**	-
2000	$381	$83	$50	-	**$513**	-	**$513**	-
2001	$200	$123	$150	-	**$473**	-	**$473**	-
2002	$250	$132	-	-	**$382**	-	**$382**	-
2003	-	$38	-	-	**$38**	$400	**$438**	-
2004	-	-	-	-	**-**	$250	**$250**	**$20**
2005	$4	$70	$100	-	**$174**	$253	**$427**	**$43**
2006	$250	$70	$20	-	**$340**	-	**$340**	**$51**
2007	$250	$86	-	-	**$336**	-	**$336**	**$76**
2008	$362	$41	-	-	**$403**	-	**$403**	**$72**
2009	-	-	-	$20	**$20**	$237	**$257**	**$79**
Average	$237	$80	$71	$20	**$299**	$285	**$375**	**$57**

Source: JLBC *Appropriations Report*

1. A.R.S. § 15-2022
2. Laws 1998, 5th S.S., Ch. 1, § 39
3. Laws 1998, 5th S.S., Ch. 1, § 61
4. Laws 2001, Ch. 297, § 3
5. See figure 9 on page 46

Section II: Other Capital Financing

While the funds administered by the SFB make up a significant source of capital funding for growing school districts, Students FIRST did not eliminate school districts' ability to raise capital funds through other means as well. In addition to the capital funds from the SFB, districts can fund projects with the capital funds of the equalization base as well as voter-approved bonds and overrides.

Capital Funding of the Equalization Base[1]

As described in chapter 1, the equalization formula provides student-driven, budget capacity for capital expenditures through CORL and the soft capital allocation (see page 8). The QTR and equalization aid fund both of these student-driven, budget formulas. So each district receives the same amount per student and all taxpayers pay the same tax rate to provide these capital amounts.

While CORL provides districts annual capital expenditure capacity in recognition that all districts will have some regularly occurring capital needs, districts are not required to include all or any of their CORL revenues in their capital outlay budgets. Districts may use CORL for capital expenditures, or they may transfer any amount of these revenues to their operating budget.[2] In the last five budget years, districts collectively transferred a low of 63.3% and high of 68.2% of CORL revenues to M&O.[3]

Unlike CORL, the soft capital allocation may not be used for operating expenses. These funds may only be used for short-term capital items such as technology, textbooks, library resources, instructional aids, vehicles, furniture, and equipment. Students FIRST established the soft capital allocation as an additional, student-driven, funding formula in order to equalize the funding of such items.

Class B Bonds[4]

While the Students FIRST legislation did not eliminate a district's ability to bond for capital projects, the legislation did limit this authority.[5] As the new limitations apply only to the bonds that voters approved after December 31, 1998, the Legislature classified these as class B bonds to distinguish them from the class A bonds that were approved prior to this date and are not subject to the new limitations.

Students FIRST applied primarily three new limitations to class B bonds. These limitations included a decrease in the debt limit, a prohibition of bonding for soft capital, and a requirement that the election to approve the bonds be held during a November general election.[5]

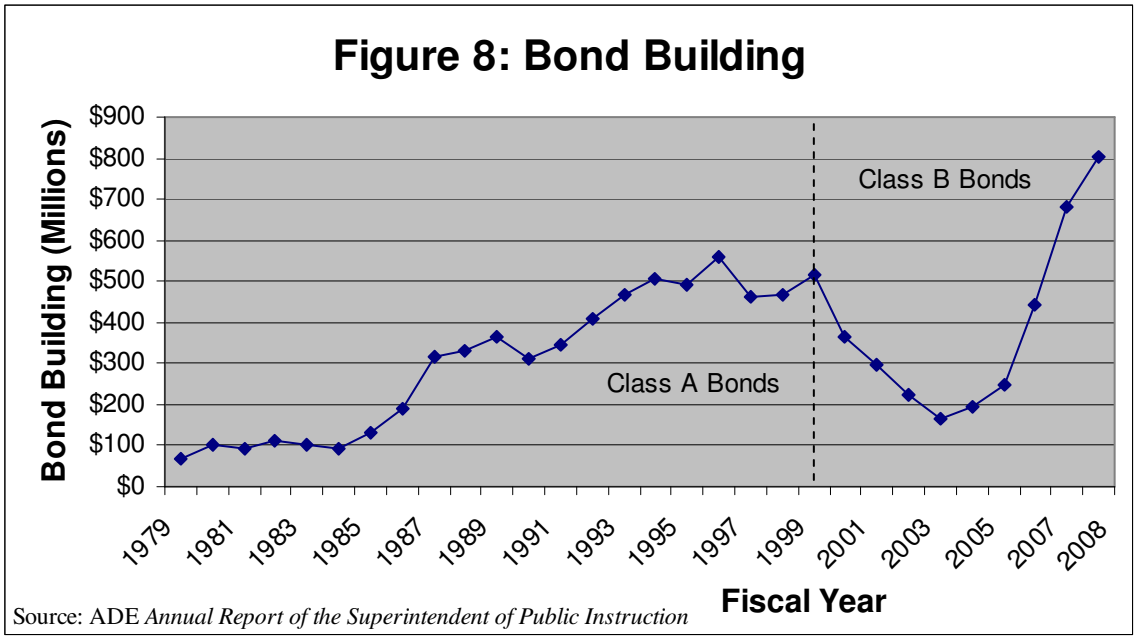
Likely the most significant of these new limitations was the decrease in the debt limit. The Arizona Constitution limits the total amount of debt a unified school district may accrue to an amount not exceeding 30% of the district's secondary assessed value.[6] The limit for elementary districts and union high districts is 15% of each district's secondary value.[7] Class A bonds are only subject to these 30% and 15% constitutional limits.

Class B bonds, in contrast, are further limited to 10% of the secondary assessed value for unified districts and 5% for elementary and union districts. The new legislation also established a minimum debt limit of $1,500 per student count if this minimum happened to exceed the 10% or 5% debt limit. The Students FIRST legislation allows new class B bonds up to these limits for all districts regardless of the amount of existing

1. A.R.S. §§ 15-961, 15-962
2. A.R.S. § 15-947(C)(3)
3. Derived from districts' adopted budgets
4. A.R.S. §§ 15-491, 15-1021 to 15-1033
5. Laws 1998, 5th S.S., Ch. 1, §§ 13, 34
6. Ariz. Const. Art. IX, § 8
7. Ariz. Const. Art. IX, § 8.1

class A debt a district has already accrued, except that a district's total class A and class B debt cannot exceed the constitutional limit.

Students FIRST prospectively reduced school districts' debt limits to one-third of their previous value in recognition that districts would now receive capital funding for the minimum adequacy standards through the SFB. This remaining ability for school districts to seek bonding authorization would provide funding for districts to exceed these minimum standards.



Source: ADE *Annual Report of the Superintendent of Public Instruction*

Revenue generated with class B bonds may finance the same projects and purchases as class A bonds except that originally these revenues could not be used to purchase soft capital items.[1] The Students FIRST reforms prohibited bonding for soft capital, such as furniture, text books, or computers, as these are items of a relatively short useful life that will likely need replacing well before the debt of a bond authorization is retired. Students FIRST, therefore, replaced this long-term financing mechanism with the soft capital allocation. Unlike bonds, the soft capital allocation, as just described, annually provides equalized soft capital funding in recognition that all districts will have similar soft capital needs per student on a regular basis.

While districts historically could not use class B bonds for soft capital, the state removed this restriction during the 2009 legislative session.[2]

In addition to soft capital, districts may use bond revenues to purchase land, to construct or renovate school buildings, to improve school grounds, to purchase pupil transportation vehicles, and to pay off other bonds issued for these purposes.

In the first four years in which districts funded projects using class B bonds, the amount of bond building decreased each year as seen in figure 8. But 2004 reversed that trend, and bond building has rapidly increased each year since. By 2007, the amount of annual bond building post-Students FIRST exceeded the highest levels spent prior to these reforms. FY 2008 brought an increase of more than $100 million in bond building for a record total of $802.9 million.

1. Laws 1998, 5th S.S., Ch. 1, § 13
2. Laws 2009, 5th S.S., Ch. 12, §§ 13, 38

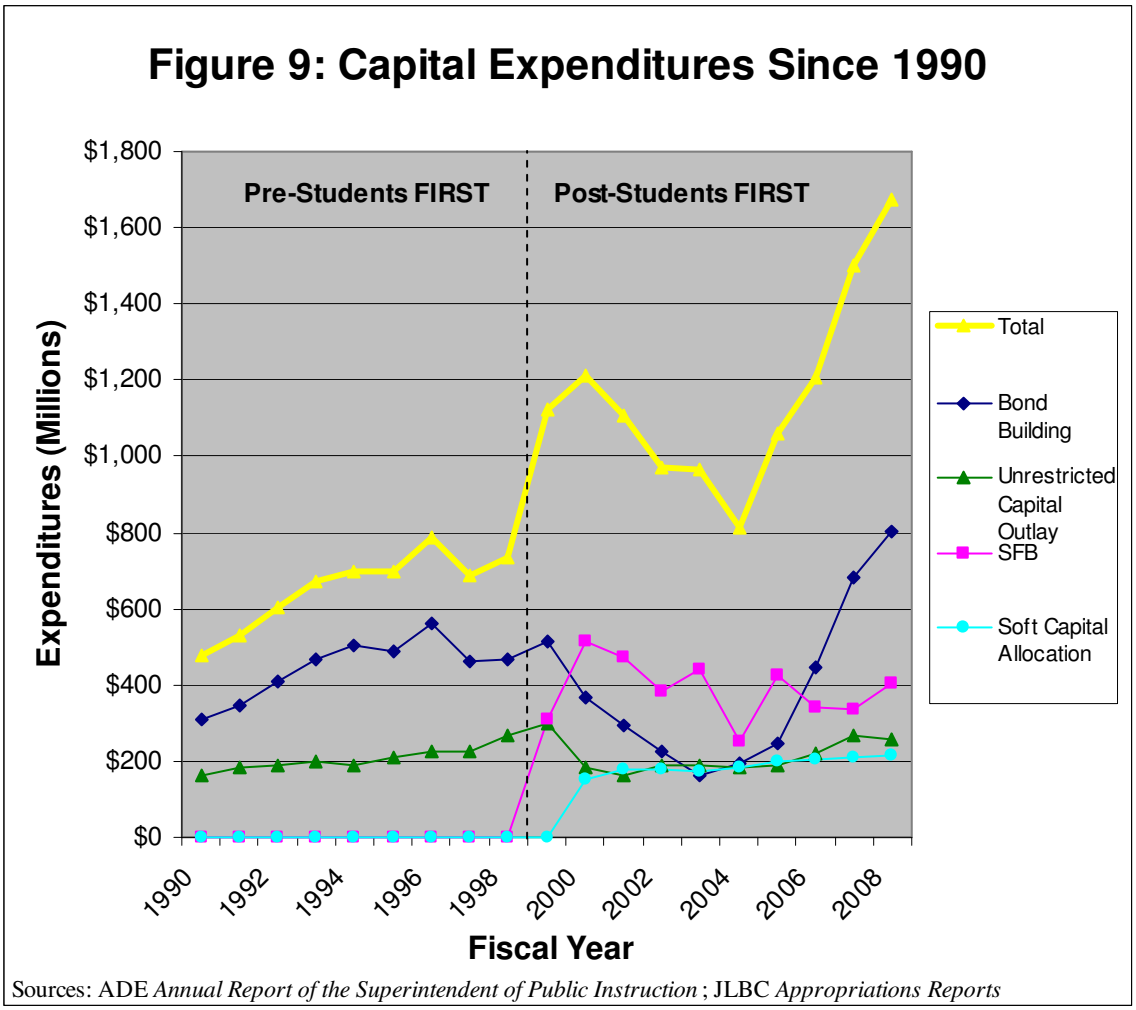
Capital Outlay Overrides[1]

The final option available to school districts to fund capital projects is the capital outlay override (see pages 29-30). Similar to bonds, capital outlay overrides require voter-approval and are entirely funded by local property taxes. Capital overrides may be spent on any capital projects and may last for one to seven years. Historically there was no limit to the amount voters could authorize in capital outlay overrides, but after the elections of November 2009 these authorizations can no longer exceed 10% of a district's RCL.[2]

Section III: History of Capital Expenditures

To summarize the current capital-finance system of Arizona schools, figure 9 compares the expenditures made since 1990 out of each of the funds available for school district capital projects.

Figure 9 demonstrates that prior to Students FIRST approximately two-thirds of capital expenditures were financed with school district bonds. The other third was purchased with monies from the unrestricted capital outlay fund, which includes CORL and any capital outlay overrides.



Sources: ADE *Annual Report of the Superintendent of Public Instruction* ; JLBC *Appropriations Reports*

1. A.R.S. §15-481
2. Laws 2009, 3rd S.S., Ch. 12, § 11

After Students FIRST, expenditures from the new SFB funds decreased districts' reliance on voter-approved bonds and led to a decline in bond building. The amount of expenditures funded from the unrestricted capital outlay fund also decreased as Students FIRST gave districts the authority to transfer their CORL to the operating budget.[1] Despite the decreases in expenditures of these two funds, total capital expenditures nearly doubled from FY 1997 to FY 2001 due to the new expenditures from the SFB and soft capital funds.

While the combined expenditures from the SFB, soft capital, and unrestricted funds each have remained relatively level from FY 1999 to FY 2008, bond building has followed the U-shaped pattern described in the previous section. Notwithstanding four years of declines in bond building, the total capital expenditures each year after implementation of Students FIRST has remained well above the peak spending level of the years prior to these reforms. And in the past five years, the increases in bond building led the total capital expenditures to soar to more than double the pre-Students-FIRST level.

1. Laws 1998, 5th S.S., Ch. 1, § 21

Chapter 3: Other Funds

Additional Budget Capacity
1. Classroom Site Fund (Prop 301)
2. State Projects/Grants
3. Federal Projects/Grants
4. Other Funds

In addition to the budget capacity available to districts through the foundation system and through the state's system for capital finance, school districts may budget for expenditures stemming from a host of other funds each established for a unique purpose. Some of these funds represent significant portions of a school district's budget. The following provides a brief description of some of the most significant of these additional funds as well as a list of all of the remaining funds available for school expenditures.

Section I: Federally Supported Funds

Federal Projects Fund

The federal government directly funds various projects at the school district level. The majority of these projects were established under the Elementary and Secondary Education Act (ESEA) originally passed in 1965.[1] Title I of the ESEA provides financial assistance to schools with high percentages of poor children.[2] In some districts, Title I grants account for more than 50% of the district's federal grants.[3]

In addition to Title I grants, Titles II through VII and Title X also provide grants to the state and to school districts[2]—but the size of these grants are much smaller than those created by Title I.[3] Grants awarded under these other titles fund projects for professional development and technology, for limited English and immigrant students, for the Safe and Drug-Free Schools and Communities Act, for promoting informed parent choice, for assessment and accountability, for increasing flexibility for state and local education agencies to determine how to improve achievement, for the education of American Indians and Alaska Native students, and for the education of the homeless.[2]

Aside from the ESEA Title I grants, the next largest amount of funding received for federal projects, in typical districts, was established through Part B of the Individuals with Disabilities Education Act[4] (IDEA). IDEA Part B governs how public schools provide special education services to students with disabilities.[4] IDEA Part B, in some districts, funds about 20% of the district's federal projects.[3]

In FY 2008, public schools spent a total of $619.5 million[5] on all federally funded projects.

Section II: State Supported Funds

Classroom Site Fund[6]

In November of 2000, the voters approved Prop. 301 that created a new 0.6% sales tax[7] and established the classroom site fund. Of the 11 different recipients of the new sales tax, the classroom site fund receives the largest portion.

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1. PL 89-10
2. PL 107-110
3. Districts' adopted budgets
4. PL 108-446
5. ADE *Annual Report of the Superintendent of Public Instruction*
6. A.R.S. §§ 15-977, 42-5029(E)
7. A.R.S. §§ 42-5010(G), 42-5155(D)

Table 21: Prop 301 Disbursements

Revenues	FY 2006	FY 2007	FY 2008	FY 2009
Sales Tax Collections	$621,779,800	$664,850,905	$649,663,604	$566,829,366
Disbursements				
Students FIRST Debt Service	$65,804,955	$65,794,530	$65,814,695	$65,811,210
Universitites	$66,716,978	$71,886,765	$70,053,185	$60,122,179
Community Colleges	$16,679,244	$17,971,691	$17,585,660	$15,030,545
Tribal Assistance	$543,976	$548,874	$542,148	$510,261
Additional School Days	$86,280,500	$86,280,500	$86,280,500	$86,280,500
School Safety	$7,800,000	$7,800,000	$7,800,000	$7,800,000
Character Education	$200,000	$200,000	$200,000	$200,000
School Accountability	$7,000,000	$7,000,000	$7,000,000	$7,000,000
Failing Schools Tutoring Fund	$1,500,000	$1,500,000	$1,500,000	$1,500,000
Income Tax Credit	$25,000,000	$25,000,000	$25,000,000	$25,000,000
Classroom Site Fund	$344,254,118	$380,868,545	$367,887,416	$297,574,671

Source: Office of the Arizona State Treasurer

Prop 301 requires the state treasurer to distribute the revenues received from this sales tax according to a specific protocol. First, the treasurer must make the debt service payments on the $800 million of SFB bonds approved by Prop. 301.

From the remaining revenue the treasurer distributes 12% to the state's universities, 3% to the community colleges and a similar per-student amount to a qualifying Indian tribe for support of their community college.

Next the treasurer makes five disbursements of fixed amounts to the Department of Education. These disbursements include $86.3 million to fund five additional school days, $7.8 million for school safety, $200,000 to fund character education matching grants, $7.0 million (subject to legislative appropriation) for the state's school accountability program including the AZ Learns achievement profiles, and $1.5 million for the failing schools tutoring fund.

The treasurer makes a final fixed-amount disbursement of $25 million to the state's general fund to reimburse the loss of income tax collections that result from an income tax credit[1] created by Prop. 301. To mitigate the increase in the sales tax rate for all families that earn less than $25,000 in adjusted gross income and for all individuals that earn less than $12,500, the Prop. 301 income tax credit refunds $25 per person in the filer's household up to a maximum of $100.[1] The $25 million disbursement from the Prop. 301 revenues is intended to reimburse the state's cost of providing this tax credit, but the total cost of the credit has exceeded this $25 million disbursement in every tax year except 2001.[2] In tax year 2007, there were 579,464 claims for this tax credit. These claims cost the state $30.4 million.[2]

After the treasurer makes all 10 of the Prop. 301 disbursements just described, the remaining revenue is transferred to the classroom site fund (table 21).

In addition to the sales tax revenue, the classroom site fund also receives revenues from the permanent state school fund.[3] The permanent state school fund, often referred to as the K-12 endowment, consists of proceeds from the state trust land granted to Arizona by the United States for the support of common schools.[3] These endowment funds may be used to pay debt service requirements on outstanding SFB revenue bonds, may be

1. A.R.S. § 42-1072.01
2. ADR *Arizona Income Tax Credits* Nov 2008
3. A.R.S. § 37-521

appropriated for the new school facilities fund, or may be included as part of the state's appropriation of equalization aid to schools.[1] Prop. 301, however, requires that any expendable earnings from the endowment that exceed the earnings of FY 2001 must be deposited in the classroom site fund.[1] For FY 2008, the K-12 endowment's expendable earnings totaled $179.8 million.[2] As this exceeded the FY 2001 earnings of $72.3 million, the classroom site fund received $107.5 million from the endowment in FY 2008.[2]

The endowment funds, together with the sales tax revenue and a $39.98 million prior year carry forward, resulted in a total of $515.4 million in classroom site fund revenues for FY 2008.[2] Prop. 301 requires these funds to be distributed to schools based on each school's weighted student count (group A weights only). In FY 2008, each school received $397.52 per weighted student from the classroom site fund.[2] JLBC estimates that the total collections in FY 2009 have decreased significantly resulting in an estimated per-student funding amount of $328 for FY 2009 and $244 in FY 2010.[2]

Prop 301 specifies how school districts and charter schools may spend revenues received from the classroom site fund. Forty percent of the classroom site fund revenues must be allocated for increases in teacher salaries based on performance. Twenty percent must be used for increases in teachers' base salaries. The remaining 40% must be used for any of the following maintenance and operation expenses: class-size reductions, increases in teacher salaries, AIMS intervention programs, teacher development, dropout prevention, or teacher liability insurance premiums.

Instructional Improvement Fund[3]

In 2002, voters passed Prop. 202 that created the instructional improvement fund. This fund receives a portion of the tribal gaming contributions that tribes make to the state. According to tribal-state gaming contracts, tribes contribute a percentage of their casinos' net wins to the state. The percentage of the win that must be contributed increases from 1% to 8% as a tribal organization's net wins increase. The 8% rate applies to all net wins in excess of $100 million.

The instructional improvement fund is not the only beneficiary of the tribal gaming contributions. Prop. 202 established a formula for these contributions to be distributed between several recipients. Of the total contributions, 12% goes to local governments and the remaining 88% of the contributions go to the Arizona benefits fund to be distributed as follows: 9% (but not less than $8 million) to the Department of Gaming for administration and regulatory expenses and 2% to the Department of Gaming for programs for the prevention and treatment of problem gaming. The contributions that remain in the Arizona benefits fund after the disbursement to the Department of Gaming are divided among the four following funds: 56% goes to the instructional improvement fund, 28% to the trauma and emergency services fund administered by the Arizona health care cost containment system, 8% to the Arizona wildlife conservation fund, and 8% to the tourism fund.

The Department of Education distributes the revenues of the instructional improvement funds according to the weighted student count, including group A and B weights, of each public school. Districts and charter schools may spend up to 50% of their instructional improvement fund revenues to increase teacher compensation or reduce class sizes. The remaining instructional improvement fund revenues must be used either for dropout prevention programs or for instructional improvement programs

1. A.R.S. § 37-521
2. JLBC memo *Estimated CSF per Pupil FY 2010* (31 March 2009)
3. A.R.S. §§ 15-979, 5-601.02

including programs to develop minimum reading skills for students by the end of third grade.

In FY 2008, the tribal gaming contributions totaled $111.2 million.[1] Of this revenue the instructional improvement fund received $47.8 million[1] or approximately $45.81 per public school student.[2] Like the classroom site fund, JLBC estimates gaming revenues have also declined. JLBC estimates $45.7 million were available for the instructional improvement fund for FY 2009.[1] According to the Department of Education the FY 2009 distribution from the instructional improvement fund was approximately $41.11 per student.

Structured English Immersion Fund[3]

The structured English immersion fund was established by the Legislature in 2006.[4] The fund receives revenues from the state general fund through a special line item appropriated by the Legislature based on a request made by the superintendent of public instruction. In FY 2009, the Legislature appropriated $40.7 million[5] to this fund. The Department of Education distributes the revenues of this fund to all public schools according to the individual schools' requests. The individual schools can only spend their structured English immersion fund revenues to provide instruction to English language learners.

Compensatory Instruction Fund[6]

The compensatory instruction fund was also established by the Legislature in 2006[4] and is funded by a special legislative appropriation.[5] The Department of Education distributes the funds to all public schools that demonstrate they have established a satisfactory compensatory instruction program. Compensatory instruction programs must be programs in addition to normal classroom instruction dedicated to improving the English proficiency of English language learners. The programs may include individual or small group instruction, extended day classes, summer school, or intercession school. In FY 2008 and FY 2009, the Legislature appropriated $10 million for the compensatory instruction fund.[5]

State Projects Fund

Like federal grants, the state also funds special projects in addition to the formula based funding of the foundation system. The state projects, however, are significantly less expensive than the ESEA Title I and IDEA Part B grants. Public schools spent $57.4 million[7] on state funded projects in FY 2008. These projects included $19.4 million in block grants for early childhood education, $11.4 million in block grants for vocational education, $5.6 million for dropout prevention and AIMS intervention, $4.5 million for adult education, $3.4 million for gifted support, $1.0 million for family literacy, and similar projects of lesser cost.[5]

Section III: Locally Supported Funds

Extracurricular Activities Fees Tax Credit Fund[8]

Public schools are allowed to collect contributions to support the school's extracurricular activities or character education programs. While these contributions are

1. JLBC *FY 2010 Baseline Book*
2. Derived using the FY 2008 student count reported by ADE
3. A.R.S. §§ 15-756.03, 15-756.04
4. Laws 2006, Ch. 4, § 4
5. JLBC *Appropriations Report*
6. A.R.S. § 15-756.11
7. ADE *Annual Report of the Superintendent of Public Instruction*
8. A.R.S. § 43-1089.01

raised and spent locally, the state actually absorbs the cost of these contributions. Individuals that contribute to a school's extracurricular activities receive an income tax credit that reimburses the contribution. An individual may be reimbursed for a contribution of up to $200, and a married couple filing jointly may receive up to $400. Schools may use these contributions for any school sponsored activities that require students to pay a fee to participate. While the extracurricular activities funded with these contributions can include travel, events that are considered recreational, amusement, or tourist activities do not qualify. In tax year 2008, public schools received $45.1 million in contributions for extracurricular activities and character development (table 22). Table 23 lists districts that received the greatest amount of extracurricular tax credit contributions. Mesa Unified received the most contributions with $5.4 million (1.5% of the district's RCL). With extracurricular

Table 22: Extracurricular Tax Credit

Year	Number of Donors	Average Contribution	Dollars Received
2003	201,407	$138	$27,753,764
2004	213,987	$145	$30,958,872
2005	215,369	$164	$35,416,279
2006	218,664	$198	$43,230,433
2007	214,356	$206	$44,069,896
2008	233,517	$193	$45,143,078

Source: Arizona Department of Revenue

Table 23: Extracurricular Tax Credit Contributions in 2008

	ETC Contributions	% RCL or BSL	Number of Donors
5 Districts w/ Highest ETC Contributions:			
Mesa Unified	$5,441,533	1.5%	18,762
Tucson Unified	$2,982,312	1.1%	17,398
Scottsdale Unified	$2,307,010	1.9%	11,897
Gilbert Unified	$2,157,395	1.3%	11,411
Paradise Valley Unified	$2,039,498	1.3%	13,053
5 Districts w/ Highest ETC Contributions Relative to the RCL:			
Prescott Unified	$1,650,863	6.7%	9,250
Catalina Foothills Unified	$1,265,529	5.5%	4,336
Nadaburg Unified	$261,498	4.8%	1,497
Pine Strawberry Elementary	$50,165	4.2%	187
Continental Elementary	$101,285	3.8%	374
5 Charters w/ Highest ETC Contributions:			
Horizon Community Learning Center	$366,704	6.1%	976
Veritas Preparatory Academy	$181,816	11.6%	289
Paragon Management	$123,296	2.3%	724
Arizona School For The Arts	$126,400	7.4%	316
Noah Webster Basic School	$118,198	2.4%	544
Statewide Total (201 districts, 190 charters)	**$45,143,078**		**233,517**

Sources: RCL and BSL from adopted expenditure budgets of districts (RCL) and charters (BSL); extracurricular tax credit contributions and number of donors from Arizona Department of Revenue

donations equivalent to 6.7% of the districts RCL, Prescott Unified had the largest relative budget increase. With $366,704 in contributions, the Horizon Community Learning Center received the highest amount of contributions given to charter schools. As charters do not compute an RCL, table 23 compares the charter school contributions to each charter's base support level (BSL). Expressing the contributions in terms of the BSL allows comparisons of the relative increase among different charters. But these relative increases should not be compared with those expressed in terms of the RCL because the BSL does not include all the components of the RCL.

School Plant Fund[1]

The school plant fund actually consists of three individual funds. These funds receive revenues resulting from the sale or lease of school property. The first fund is for the revenues of long-term leases (more than one year) or from sales prior to 1998; the second fund is for short-term leases (less than one year); and the third is for revenues from sales of school property after 1998.

Revenue from all three funds may be spent to retire bonds or to reduce school district taxes without any restrictions. Revenues resulting from long-term leases and from all sales may be spent on capital outlay subject to the restrictions described below. But only revenues from long-term leases and sales prior to 1998 may be spent on M&O, also subject to the restrictions described below.

School districts may spend the proceeds from sales or long-term leases on capital outlay provided the district does not ask voters to approve a capital outlay override during a fiscal year in which these expenditures are made. The district is allowed, however, to seek an override if it is in the last fiscal year that the district will spend school plant funds on capital outlay.

Districts can also spend the revenue from long-term leases or sales prior to 1998 on M&O but only up to 10% of the district's RCL. If the district receives voter approval then it can spend an additional amount of up to 5% of the district's RCL on M&O. If the district budgets for a voter-approved M&O or K-3 override, the sum of the increased M&O expenditures resulting from either of these overrides and from the school plant fund cannot exceed 15%. This means the school plant fund cannot increase M&O budget capacity beyond the amount allowed by both voter-approved M&O overrides; but it provides a funding source other than property taxes for the budget increase and does not require voter approval for the first two-thirds of the increase.

A school district that has outstanding bonded indebtedness that exceeds 7% of the assessed value of all taxable property located in the district (14% for unified districts) is subject to additional restrictions on the amount of school plant funds the district can spend on capital outlay and M&O. Districts with this level of indebtedness cannot spend more than 25% of the proceeds from leases on M&O and not more than 62% of the sale of school property on capital outlay.

If school districts receive voter approval to sell school property and use the proceeds to pay for school sites, for construction, for improvements, or for school furnishings, such expenditures are not subject to any of the restrictions described above. Instead these revenues are placed into a separate fund to be used as approved by the voters.

1. A.R.S. § 15-1102
2. A.R.S. §§ 15-1125, 15-1126

Auxiliary Operations Fund[2]

The auxiliary operations fund consists of all revenues raised through a school bookstore or through athletic activities. Disbursements from the auxiliary fund are subject only to the authorization of the district's governing board.

Similar to the auxiliary operations fund, school districts must also establish a student activities fund to receive all revenues raised by students' efforts in connection with student organizations, clubs, school plays or student entertainment other than athletic events. Each district must appoint a treasurer for the student activities fund. The treasurer reports the balances due to each student organization. Disbursements from the student activities fund are authorized by the members of each student organization according to the revenues raised by that particular group.

Food Services Fund[1]

School districts are permitted to operate school meal programs on a nonprofit basis to children in attendance at the school. All revenues collected in the operation of a school district's school meal program must be deposited in the district's school meal program fund. Districts can make expenditures from this fund but only for operations of the meal program.

Other Funds

In addition to all the funds already described, districts may also budget for expenditures made from each of the following funds. Many of these funds result from revenues raised locally for districts to spend on a specific purpose. The expenditures from many of these funds are not very large, but combined these 27 funds can account for a significant portion of a district's budget. The adopted FY 2009 budget of the state's largest school district included $61.9 million of expenditures from the following funds.[2] This was equivalent to 14.3% of the district's budgeted M&O expenditures.[3] For this large district, expenditures from its self-insurance fund made up nearly 70% of its expenditures from these various funds[3]:

Capital Equity
Career & Tech. Ed. & Voc. Ed. Projects
Civic Center
Community School
Condemnation
County, City, and Town Grants
District Services
Fingerprint
Gifts and Donations
Grants and Gifts to Teachers
Impact Aid Revenue Bond Building
Impact Aid Revenue Bond Debt Service
Indirect Costs
Insurance Proceeds
Insurance Refund
Intergovernmental Agreements
Joint Technological Education
Litigation Recovery
Permanent
School Bus Advertisement
School Opening
Self-Insurance
Teacherage
Textbook
Unemployment Insurance
Other (specified by the district)

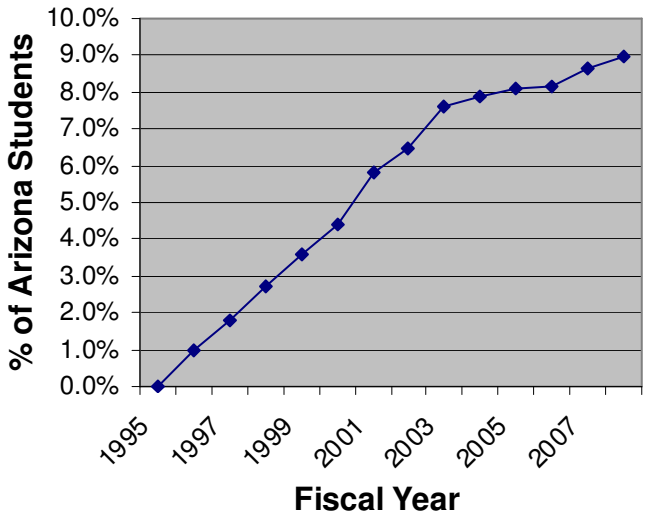
1. A.R.S. §§ 15-1151, 15-1154
2. Mesa Unified adopted FY 2009 budget
3. Derived from the district's adopted budget

Chapter 4: Charter School Finance[1]

In 1994, in an effort to create more options for public education students, the Legislature passed landmark school choice legislation.[2] The school choice bill signed by the governor established a policy of open enrollment for nearly every public school and authorized the creation of charter schools.[2] The charter school legislation allows any individual or entity to apply for a charter to operate a public school.[2] The independent operation of hundreds of charter schools in Arizona[3] has provided a variety of new options for parents seeking the best fit for their child's educational needs. As charter school funding is based solely on the number of students that attend the school, charters are provided significant flexibility[4] to experiment with different approaches to public education provided the school teaches the standards established by the state. If a charter school successfully provides educational services in a sought after manner then the school attracts students and receives state funding. If the school does not satisfy students and parents, then the enrollees leave and their state funding follows them.

Since FY 1996, when the first Arizona charter schools opened their doors, the portion of public school students choosing to enroll in charter schools has steadily increased. By FY 2008, nearly one out of every 10 public school students in Arizona was educated at a charter school (figure 10). As charter schools make up an increasingly significant portion of Arizona's education system, this section describes how the state's funding formulas apply to these schools.

Figure 10: Charter School Enrollment



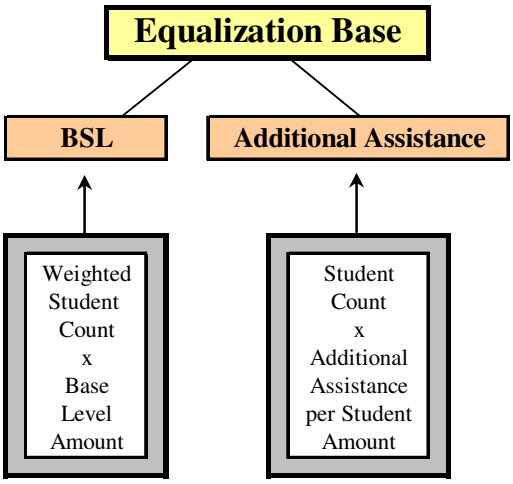
Source: ADE *Annual Report of the Superintendent of Public Instruction*

Section I: A Charter School's Equalization Base[1]

Compared to the multiple components of the district finance formulas, charter school finance is very simple and straightforward. Charter schools have no taxing authority so nearly all of a charter's funding comes from state equalization aid. As charters have no property tax, they cannot pass voter-approved bonds and overrides, nor can they tax property owners for expenditures budgeted outside the equalization base. In fact, a charter school budget consists almost exclusively of the student driven equalization base. A charter school's budget is even further simplified through modifications to the formulas used to determine its equalization base.

1. A.R.S. § 15-185
2. Laws 1994, 9th S.S., Ch. 2, § 2
3. ADE *Annual Report of the Superintendent of Public Instruction*
4. A.R.S. § 15-183(E)(5)

Average Daily Membership (ADM)[1]



Like district schools, a charter school's budget begins with the school's student count. But unlike districts where the student count is based on the higher of the current year or the previous year, charter student counts are based solely on the current year. As a charter school builds a budget for an approaching fiscal year, the budget includes a student count equal to the total number of students registered to begin classes in the fall. The state aid that the charter receives for the first months of the fiscal year is based on this preliminary estimate. The charter then updates its ADM throughout the year until the actual student count is finalized on the 100th day of school according to equations 3 and 4 in chapter 1 (see page 2). The state aid payments are adjusted throughout the year so that the actual payments received correspond to the actual 100th day student count.

Weighted Student Count[2]

Upon establishing the charter's student count, the school applies the applicable group A and group B weights in nearly the same manner as a district school (see page 3). Charter schools, however, do not qualify as isolated schools when assigning their students the appropriate group A weights, and charters cannot assign any weights, group A or B, for preschool students (districts can count preschool students if the student has certain disabilities).

Base Support Level (BSL)[2]

Like district schools, the weighted student count of a charter determines the charter's base support level (see page 4). But, unlike districts, the formula for a charter school's base support level includes no increase for the teacher experience index or for performance pay programs such as the career ladder program, the optional performance incentive programs, and the teacher compensation performance evaluation incentive. Therefore, the charter school formula for the base support level is simply the weighted student count multiplied by the same base level amount that applies to school districts (eq. 24).

Eq. 24: Base Support Level (BSL) = Weighted Student Count x Base Level Amount

Additional Assistance[3]

The final difference between a charter school's equalization base and the equalization base of a school district is the lump sum budget increase called additional assistance. While a school district's equalization base includes the transportation support level, the capital outlay revenue limit, and the soft capital allocation (see pages 7-8), the equalization base of a charter school replaces all of these components with additional assistance. While additional assistance replaces only the formulaic capital funding received by districts, this assistance to charter schools must satisfy the entire cost of a

1. A.R.S. § 15-185(B)(2)
2. A.R.S. §§ 15-185(B)(1), 15-943
3. A.R.S. § 15-185(B)(4)

charter school's capital needs given that charters receive no capital funding from bonds, overrides, or the school facilities board. By providing a per-student funding stream, additional assistance allows a charter to lease buildings or to borrow against the revenue stream to build new facilities. A charter school may spend any amount of its additional assistance on M&O, capital, soft capital, or transportation.[1]

Eq. 25: Additional Assistance = Student Count x Additional Assistance per Student Amount

A charter school determines the amount of additional assistance by multiplying its unweighted student count by the per-student additional assistance amount established each year by the Legislature (eq. 25). Table 24 shows the historic per-student funding levels for additional assistance. Budgets for FY 2000 were the first to include additional assistance.[2] Prior to FY 2000 the several components of additional assistance were identified separately.[2]

Table 24: Additional Assistance

FY	K-8 Additional Assistance	% Change	9-12 Additional Assistance	% Change
2000	$1,204.67	-	$1,404.01	-
2001	$1,204.67	0.0%	$1,404.01	0.0%
2002	$1,228.76	2.0%	$1,432.09	2.0%
2003	$1,253.34	2.0%	$1,460.73	2.0%
2004	$1,278.40	2.0%	$1,489.95	2.0%
2005	$1,303.97	2.0%	$1,519.75	2.0%
2006	$1,330.05	2.0%	$1,550.14	2.0%
2007	$1,387.25	4.3%	$1,616.81	4.3%
2008	$1,445.25	4.2%	$1,684.41	4.2%
2009	$1,474.16	2.0%	$1,718.10	2.0%
2010	$1,588.40	7.7%	$1,851.30	7.8%

Source: JLBC *Appropriations Report*

Funding Per Student[3]

Due to the different weights applicable to students of different grade levels and students with special needs, the formulas of the equalization base cannot be fully reduced to a single per-student funding level. But table 25 shows the total equalization base funding that results from applying the appropriate student weights to a single student at each of the respective grade levels. The amounts listed for small charters apply if the school enrolls fewer than 100 students, and the amounts listed for large charters apply if the charter's student count exceeds 599. If the student count is between 99 and 600

Table 25: Equalization Base Funding per Student (FY 2009)

Grade Level	Small Charters	Large Charters
Kindergarten	$6,100.25	$5,703.63
1st to 3rd	$6,276.34	$5,483.11
4th to 8th	$6,078.86	$5,285.62
9th to 12th	$6,849.42	$5,891.62
Average	**$6,363.17**	**$5,549.81**

Note: does not include group B funding for special needs

1. A.R.S. § 15-185(F)
2. JLBC *Appropriations Report*
3. A.R.S. §§ 15-901(B)(2), 15-943

students then the per-student funding level falls somewhere between these maximum and minimum levels.

If a student qualifies for additional group B weights for special needs (including the weight provided for English language learners and those provided for physical, mental, or emotional disabilities) then a charter school receives funding in addition to the amounts shown in table 25. For FY 2009, the group B funding for ELL added an additional $378 per student. Disability weights provided additional funding ranging from $10,000 to $26,000 depending on the disability.

Because the bulk of a charter school's funding results from the student-driven formulas of the equalization base, table 25 provides a close approximation of the total revenues a charter school can anticipate receiving per student.

Section II: All Additional Budget Capacity Available to Charters

Additional Budget Capacity

1. Classroom Site Fund (Prop 301)
2. State Projects/Grants
3. Federal Projects/Grants
4. Instructional Improvement Fund
5. Structured English Immersion Fund
6. Compensatory Instruction Fund

While a charter school budget consist primarily of the equalization base, charters also have a limited ability to budget for expenditures made from a few additional funds. Like school districts, charter schools receive the per-student disbursements from the classroom site fund[1] and the instructional improvement fund[2] (see pages 49-52). For FY 2008 these amounted to an additional $397.52 per weighted student[3] and approximately $45.81 per student,[4] respectively. If applicable, a charter school also qualifies to make a request to the Department of Education to receive a portion of the special appropriations for the structured English immersion fund[5] and the compensatory instruction fund[6] (see page 52). State and federal grants and projects make up the final source of additional revenue from which a charter may budget expenditures, although, a charter school must reduce its base support level by the amount of any federal or state grant that is intended to fund the basic maintenance and operation of the school.[7]

Table 26: Total Formula Funding Per Charter School Student

Grade Level	Small Charters	Large Charters
Kindergarten	$6,370.80	$5,934.66
1st to 3rd	$6,776.32	$5,904.04
4th to 8th	$6,578.84	$5,706.56
9th to 12th	$7,401.89	$6,348.63
Average	**$6,861.65**	**$5,967.24**

Note: does not include group B funding for special needs

By adding the estimated FY 2009 per-student disbursements from the classroom site fund and the instructional improvement fund to the figures described in table 25, table 26 shows the total dollar figure that followed each charter school student during FY 2009.

1. A.R.S. § 15-977
2. A.R.S. § 15-979
3. JLBC memo *Estimated CSF per Pupil FY 2010* (31 March 2009)
4. Total spending from JLBC *FY 2010 Baseline Book*; student count from ADE *Annual Report of the Superintendent of Public Instruction*
5. A.R.S. §§ 15-756.03, 15-756.04
6. A.R.S. § 15-756.11
7. A.R.S. § 15-185(D)

Charter and District Funding Comparison

As charter school funding differs slightly from school district funding, many naturally want to compare the net result of these differences. Table 27 shows the total expenditures made from each school district fund and charter school fund. The table also shows these expenditures divided by the total number of district school and charter school students, respectively, to arrive at the amount spent per student. In FY 2008, districts spent a total of $9,695 per district school student. Charter schools spent a total of $7,602 per student.

Table 27: FY 2008 Expenditures Per Student

	Districts		Charters	
	Expenditures	**Per Student**	**Expenditures**	**Per Student**
Primarily Formula-Driven, Per-Pupil Spending:				
M&O (includes capital for charters)	$5,619,778,397	$5,913	$618,758,541	$6,606
CSF and IIF	$463,628,684	$488	$48,929,085	$522
Unrestricted Capital Outlay	$256,458,628	$270	-	-
Soft Capital Allocation	$213,321,634	$224	-	-
Building Renewal	$73,732,772	$78	-	-
Subtotal	**$6,626,920,115**	**$6,973**	**$667,687,626**	**$7,128**
Spending Resulting from SFB, Need-Based Awards:				
New School Facilities	$365,550,793	$385	-	-
Deficiencies Correction	$789,835	$1	-	-
Subtotal	**$366,340,628**	**$385**	**$0**	**$0**
Non-Formulaic, Property Tax Spending:				
Adjacent Ways	$72,246,859	$76	-	-
Debt Service	$689,880,419	$726	-	-
Subtotal	**$762,127,278**	**$802**	**$0**	**$0**
Grant Based Spending:				
Federal Projects	$619,451,242	$652	$40,073,102	$428
State Projects	$57,433,979	$60	$4,273,723	$46
Subtotal	**$676,885,221**	**$712**	**$44,346,825**	**$473**
Spending of Primarily Local Revenues Raised for a Specific Purpose:				
Food Services	$337,522,331	$355	-	-
School Plant	$9,130,648	$10	-	-
Other	$434,630,247	$457	-	-
Subtotal	**$781,283,226**	**$822**	**$0**	**$0**
Grand Total	**$9,213,556,468**	**$9,695**	**$712,034,451**	**$7,602**

Source: ADE *Annual Report of the Superintendent of Public Instruction*

Appendix A: School Funding Levels

This report has sought to describe the multiple aspects of Arizona's school finance system and to document the effect of the system's various features. To describe the equalities and inequalities that result from the different school finance policies, this study has compared the taxing and spending levels of school districts within Arizona. While these comparisons highlight the inequalities in the system, they do not argue that any particular taxing and spending level is more appropriate than another. These comparisons simply explain whether Arizona's school finance system has accomplished the equity that was anticipated when the system was established.

While this study has not advocated a particular taxing and spending level over another, the discussions about equity raised throughout this work often lead to debates surrounding the adequacy of Arizona's school funding levels. In anticipation that readers of this report might have questions regarding adequacy, the following provides a brief look at the nationwide spending comparisons that tend to dominate the discussion of the funding level for Arizona schools.

National Statistics

Likely the most well known statistic regarding school finance in this state is the fact that Arizona ranks low in the amount of money spent per student.[1] This statistic is often sited to argue that Arizona underfunds its school system. But a more thorough evaluation of nationwide statistics indicates that the low ranking for expenditures per student is merely the result of Arizona's full classrooms.[2]

In FY 2008, Arizona's average teacher salary ranked 25th in the nation[2]—one state above the median (these rankings include Washington D.C. for a total of 51 rankings). When each state's average teacher salary was compared to the state's per capita income to describe the salaries relative to the state's underlying wealth, the teacher salaries in Arizona ranked 8th highest.[2] In FY 1981, Arizona spent $5,955 per student (adjusted for inflation to the value of the dollar in 2007) and ranked 6th in the nation in this measurement.[3] In real terms, the state actually spent more in FY 2007—$6,248 per student.[3] Notwithstanding this increase above the amount the state spent when it ranked near the top of the per-student spending comparison, in FY 2007 the state's ranking fell to 50 with only Utah spending less per student.[3] The state's drop in this ranking resulted as the other states increased the amount spent per student by an even greater amount in order to fund class size reductions.[2,3]

From FY 1987 to FY 2007, Arizona increased its total education expenditures by slightly more than 113%.[3] This was the 3rd highest percentage increase in education expenditures.[3] As Arizona experienced explosive population growth over this same time period, these increases in education expenditures maintained class sizes in Arizona within manageable levels while the smaller percentage increases of most other states funded class size reductions and resulted in greater increases in expenditures per student.

To evaluate each state's funding level independent of the costs associated with each state's average policy on class sizes, ATRA compared the average M&O funding each state provides for a class that is the size of the state's student-to-teacher ratio.[2] For a class of 24.2 students in FY 2007, Arizona's $151,202 of system-wide M&O funding ranked Arizona 16th highest in M&O funding for the state's average class.[2]

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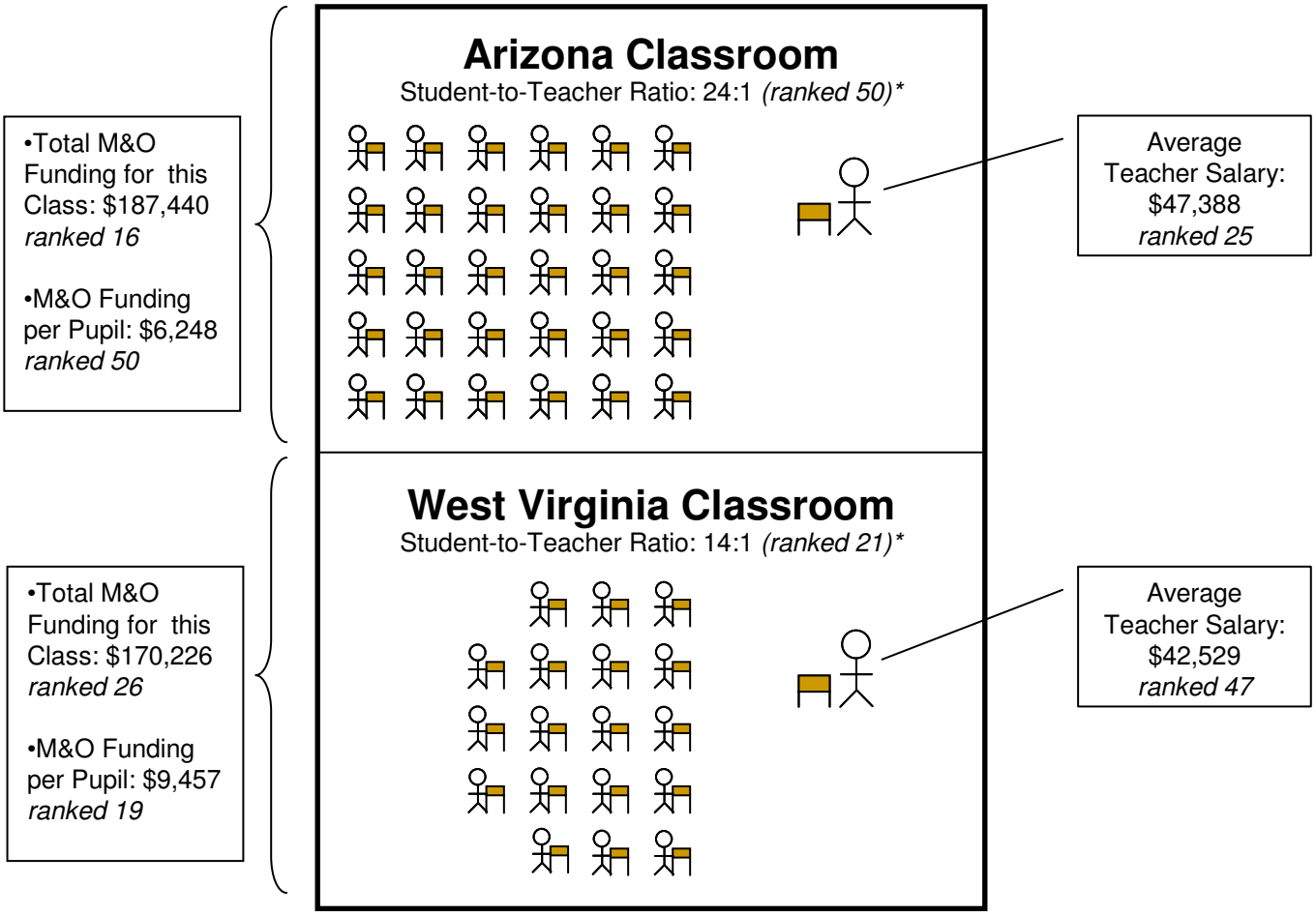
1. National Education Association *Rankings & Estimates* December 2008
2. ATRA *Special Report* "K-12 Education Funding" April 2009
3. American Legislative Exchange Council *Report Card on American Education 15th Edition* 2008

As the state's low ranking in per-student expenditures is often sited in isolation, many naturally assume that Arizona's school district employees are the lowest paid teachers and staff in the nation. Some even draw the conclusion that this ranking means Arizona has the lowest quality schools in the country. A comparison of Arizona's school funding statistics to those of West Virginia demonstrates the inaccuracy of such assumptions.

Figure 11 depicts the typical Arizona and West Virginia classrooms. In Arizona there are 24 students for every teacher; in West Virginia the ratio is 14 to 1.[2] The diagram shows classes that have 25% more students than the states' student-to-teacher ratios to adjust for the music, art, and P.E. teachers that cause the ratios to be slightly lower than

Figure 11: Funding Statistics



*Depicted class sizes are 25% greater than each state's student-to-teacher ratio to account for specialized classes (e.g. music, art, P.E.) that cause each state's student-to-teacher ratio to be proportionally lower than the average class size.

Sources: American Legislative Exchange Council, National Education Association, Arizona Auditor General, and ATRA; see ATRA's *Special Report* on education funding (April 2009) for more details on these statistics.

1. American Legislative Exchange Council *Report Card on American Education 15th Edition* 2008

actual class sizes. As seen in the diagram, West Virginia spends $9,457 in M&O expenditures per student.[2] The state ranks 19th in this measure of school funding.[2] If the common assumptions just described regarding this ranking were accurate, one would expect the West Virginia teacher to earn substantially more than the Arizona teacher and the West Virginia students to significantly outperform those in Arizona. But, in reality, the average teacher in West Virginia earns nearly $5,000 less than Arizona teachers[1] and the 8th grade students that took the National Assessment of Education Progress (NAEP) in Arizona outperformed the West Virginia students in both reading and math.[3]

While the tendency is strong to assume that Arizona's low ranking in per-pupil expenditures sufficiently describes the state of education funding in Arizona, a thorough evaluation of the many different funding statistics provides the context necessary to avoid commonly held misconceptions and to accurately compare Arizona's education funding level.

1. ATRA *Special Report* "K-12 Education Funding" April 2009
2. American Legislative Exchange Council *Report Card on American Education 15th Edition* 2008
3. Education Week *QUALITY COUNTS 2009*

Appendix B: Equations

Eq. 1: Equalization Base = (Lesser of the RCL or DSL) + CORL + Soft Capital Allocation

Eq. 2: Equalization Base – QTR Levy = State Aid

Eq. 3: Lesser of ADM or (1.06 x ADA) = Student Count

Eq. 4: Lesser of ADM or (1.085 x ADA) = Student Count

Eq. 5: $$\text{Weighted Student Count} = \text{Student Count} \times \text{Group A Weights} + \text{Qualifing Students} \times \text{Group B Weights}$$

Eq. 6: $$\text{Base Support Level} = \text{Weighted Student Count} \times \text{Base Level Amount} \times \text{Adjustment for Performance Pay Programs} \times \text{Adjustment for Teacher Experience}$$

Eq. 7: $$\text{Teacher Experience Index} = \left[\text{Districtwide Avg. Years of Teaching Experience} - \text{Statewide Avg. Years of Teaching Experience}\right] \times 0.0225 + 1$$

Eq. 8: $$\text{TSL} = \text{Approved Annual Daily Route Miles} \times \text{State Support Level Per Route Mile} + \text{Bus Tokens and Passes} + \text{Field Trip Support Level} + \text{Extended Year Support Level}$$

Eq. 9: $$TRCL_{\text{Budget Year}} = (TSL_{\text{Budget Year}} - TSL_{\text{Current Year}})^{*} + TRCL_{\text{Current Year}}$$

* If less than zero, use zero.

Eq. 10: Base Support Level + TRCL = RCL

Eq. 11: Base Support Level + TSL = DSL

Eq. 12: $$\text{CORL} = \text{Student Count} \times \text{CORL per Student} \times \text{Growth Factor (if applicable)} + \text{Textbook Allowance}$$

Eq. 13: Total Budgeted Expenditures – Total Budgeted Revenues = Property Tax Levy

Eq. 14: (Property Tax Levy x 100) / NAV = Tax Rate

Eq. 15: $$\text{Minimum QTR Levy} = \text{50\% of QTR Levy} - \text{Equalization Base}$$

Eq. 16: $$\text{Excess Utilities} = \text{Budget Year Utility Expenditures} - \left[\text{FY 1985 Utility Expenditures} \times \frac{\text{Budget Year RCL and CORL}}{\text{FY 1985 RCL and CORL}} \right]$$

Eq. 17: $$\text{RCL Increase for Utilities} = \left[\text{Average of Previous 2 Year's Actual Utility Expenditures} - \text{FY 2009 Budeted Utility Expenditures} \times \frac{\text{Budget Year RCL}}{\text{FY 2009 RCL}} \right] \times 90\%$$

Eq. 18: $$\text{Budget increase for a Joint Career, Technical, and Vocational Education Center} = \text{Center's ADM} \times \text{Base Level} \times 14.2\%$$

Eq. 19: $$\text{TNT Tax Increase} = \text{Total Amount Budgeted for Budget-Limit Exemptions Except Adjacent Ways} - \text{Highest Amount Levied for the Exemptions in Any Year Since FY 1999} + \text{Budget for Adjacent Ways}$$

Eq. 20: $$\text{TNT Rate} = \left[\text{Statewide Assesed Value of Preceding Tax Year}\right] \div \left[\text{Statewide Assesed Value for the Current Tax Year} - \text{Current Value Resulting from New Construction}\right] \times \text{QTR of Preceding Tax Year}$$

Eq. 21: $$\text{New School Facilities Disbursment} = \text{Number of Students Projected to Exceed Existing Capacity} \times \text{Applicable Sq. Ft. Allocation (Table 18)} \times \text{Applicable Price Per Sq. Ft. (Table 18)}$$

Eq. 22: $$\text{Building Renewal} = \text{Building Age} \div 1{,}275 \times 0.67 \times \text{Building Capacity Value}$$

Eq. 23: $$\text{Building Capacity Value} = \text{Building's Student Capacity} \times \text{Sq. Ft. per Student (Table 18)} \times \text{Cost Per Sq. Ft. (Table 18)}$$

Eq. 24: $$\text{Base Support Level (BSL)} = \text{Weighted Student Count} \times \text{Base Level Amount}$$

Eq. 25: $$\text{Additional Assistance} = \text{Student Count} \times \text{Additional Assistance per Student Amount}$$

Appendix C: Abbreviations & Acronyms

§	section
§§	sections
A.R.S.	Arizona Revised Statutes
ADA	average daily attendance
ADE	Arizona Department of Education
ADM	average daily membership
ADMS540-1	ADMS Report 540-1: Resident ADM and ADA
ADR	Arizona Department of Revenue
APOR55-1	Apportionment Report 55-1: Basic Calculations for Equalization Assistance
Ariz. Const.	Arizona Constitution
Art.	article (of the Constitution)
ATRA	Arizona Tax Research Association
BBCF	budget balance carry forward
BSL	base support level
Ch.	chapter (of session law)
cont.	continued
CORL	capital outlay revenue limit
CSF	classroom site fund
Deseg/OCR	desegregation/U.S. Department of Education's Office for Civil Rights
DSL	district support level
ELL	English language learner
eq.	equation
ESEA	Elementary and Secondary Education Act
ETC	extracurricular tax credit
EVIT	East Valley Institute of Technology
FY	fiscal year
IDEA part B	Part B of the Individuals with Disabilities Education Act
IIF	instructional improvement fund
JLBC	Joint Legislative Budget Committee
JTED	joint technical education district
K-3	grades kindergarten through 3rd grade
K-8	grades kindergarten through 8th grade
K-12	grades kindergarten through 12th grade
M&O	maintenance and operations
NAEP	National Assessment of Education Progress
NAV	net assessed value
OCR	U.S. Department of Education's Office for Civil Rights
OPIP	optional performance incentive programs
PL	public law (federal code)

Prop.	proposition
QTR	qualifying tax rate
RCL	revenue control limit
S.S.	special session
SCA	soft capital allocation
SFB	school facilities board
Sm Sch Adj	small school adjustment
Sq. Ft.	square feet
TEI	teacher experience index
TNT	truth-in-taxation
TRCL	transportation revenue control limit
TSL	transportation support level

Index