

# Arizona School Finance

## *The Cliff's Notes Version*

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# SCHOOL FUNDING HISTORY & CONCEPTS



# HISTORY

- Background –
  - “The Legislature shall provide for the establishment and maintenance of a **general and uniform** public school system” Arizona Constitution, Article 11 – Section 1
    - What this *actually* means?
    - What this *does not* mean?
  - Equalization Assistance – To provide “equal access” to dollar per student through a combination of local property taxes and State Aid.
    - Equal effort to raise money regardless of a district’s property valuation
    - Excludes property taxes for charter schools
  - 1980 – Formula established to “equalize” per pupil spending
    - Districts receive approximately equal amounts per student
    - Spending is capped by formula
    - Prevented high value school districts from generating excess revenue

# HISTORY

- Case Law –
  - *Roosevelt ESD v. Bishop* (1994): Struck down school capital funding formulas that violated “general & uniform” clause of State Constitution.
  - *HB 2002 – Schools Improvement Act* (1994): Arizona becomes 10<sup>th</sup> state to enact a charter school law.
  - *Hull v. Albrecht I & II* (1997): Created Students FIRST capital funding by establishing Emergencies Deficiencies Correction; Building Renewal; New School Construction & the AZ School Facilities Board. Settled the *Roosevelt v. Bishop* case. Did not include charter schools.

# HISTORY

- Case Law –
  - *Cave Creek USD v. Ducey* (2013): Upheld inflation funding defined in Proposition 301 from 2000; settled through Prop 123.
  - *Craven v. Huppenthal* (2014): Charter school families sue State claiming disparity in funding between charters and school districts. AZ Appeals Court denies claim.
  - *Glendale ESD v. State* (2017): For violations of *Roosevelt* and *Hull* case by eliminating capital funds under these 2 cases.

# REVENUES & FUNDS



# Sources of Education Revenues

## School Districts (FY2017)

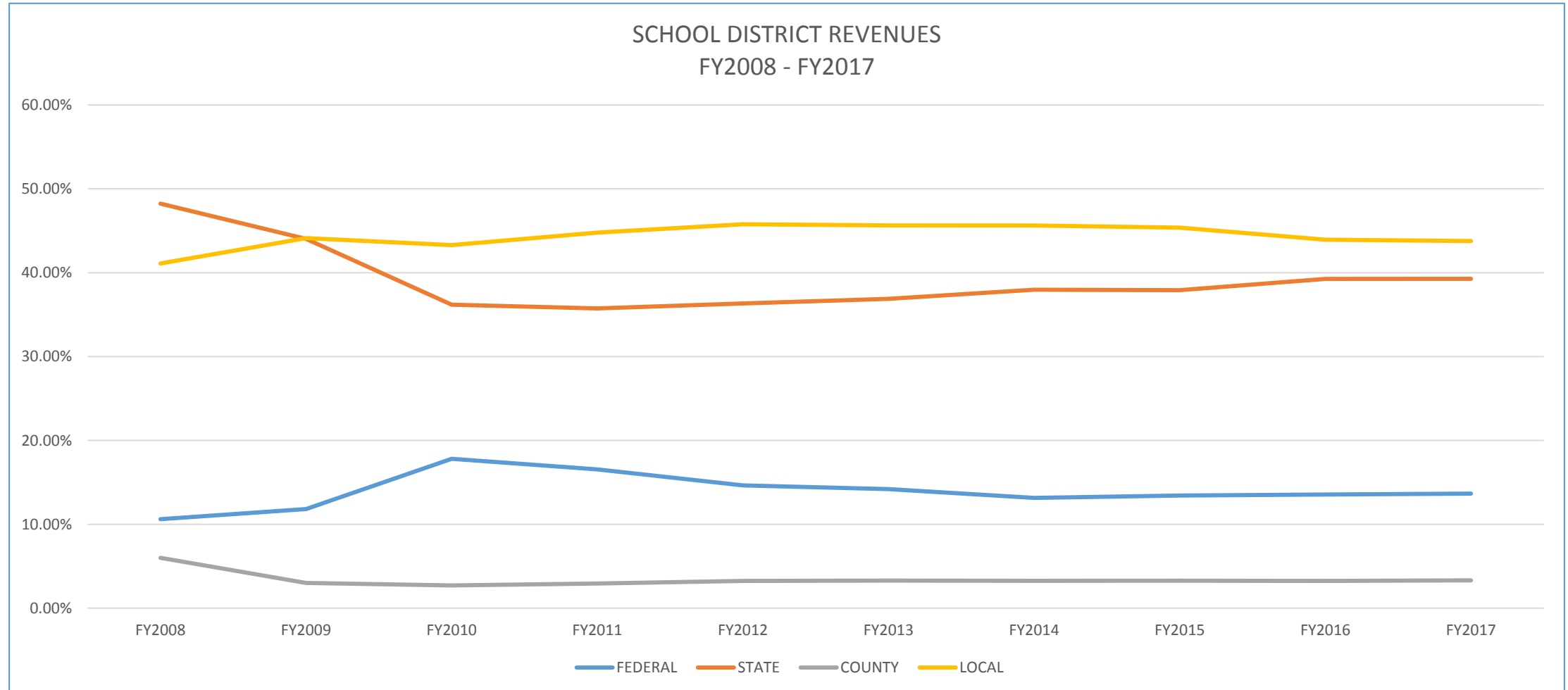
Local Funds	County Funds	State Funds	Federal Funds	Total
43.75%	3.31%	39.28%	13.66%	100%
\$3.83B	\$291M	\$3.45B	\$120M	\$8.8B

## Charter Schools (FY2017)

Local Funds	Intermediate Funds	State Funds	Federal Funds	Total
0.15%	8.08%	84.66%	7.12%	100%
\$2.3M	\$124M	\$1.3B	\$109M	\$1.5B

Source: Arizona Department of Education, School Finance. (2018, January). *Annual Report of the Arizona Superintendent of Public Instruction, Volume 1, Fiscal Year 2016-17*. Retrieved from <http://www.azed.gov/finance/files/2018/01/2017SAFR.zip>.

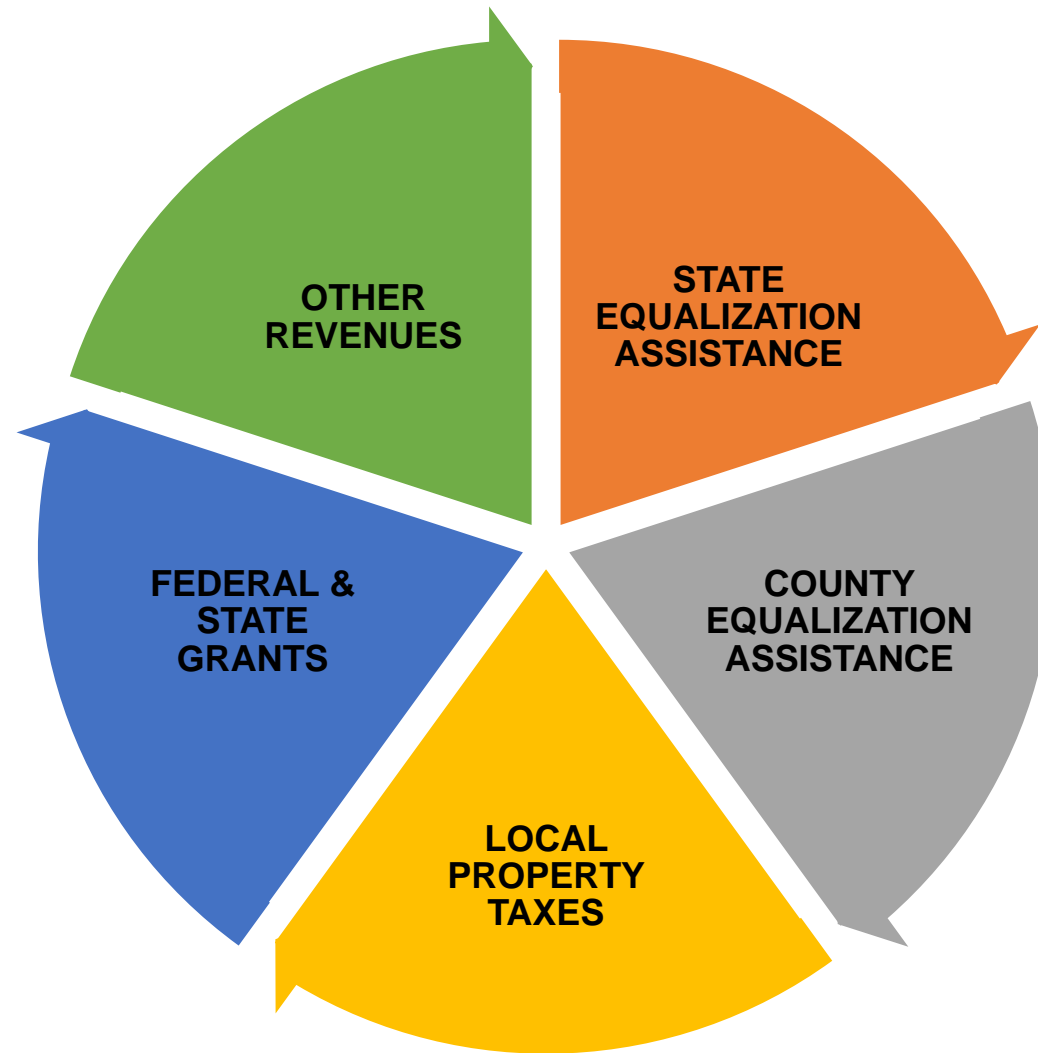
# Changes In Education Revenues



Source: Arizona Department of Education, School Finance. (2018, January). *Annual Report of the Arizona Superintendent of Public Instruction, Volume 1, Fiscal Year 2016-17*. Retrieved from <http://www.azed.gov/finance/files/2018/01/2017SAFR.zip>.



# DISTRICT REVENUE SOURCES



# CONCEPT OF EQUALIZATION

## **Public education paid by State & Local contributions:**

Spend Limit (BSL with Weights & Capital)

*minus*

Local Contribution (Qualifying Tax Rate)

*equals*

State Aid (Equalization Assistance)

# CONCEPT OF EQUALIZATION

- Arizona Legislature sets the Qualifying Tax Rate (QTR)
  - Based on the growth or decline of the statewide property values
  - Determines amount of State Aid, statewide, for school districts

**Qualifying Tax Rate (QTR)**

*multiplied by*

**Net Assessed Values (NAV) / 100**

*equals*

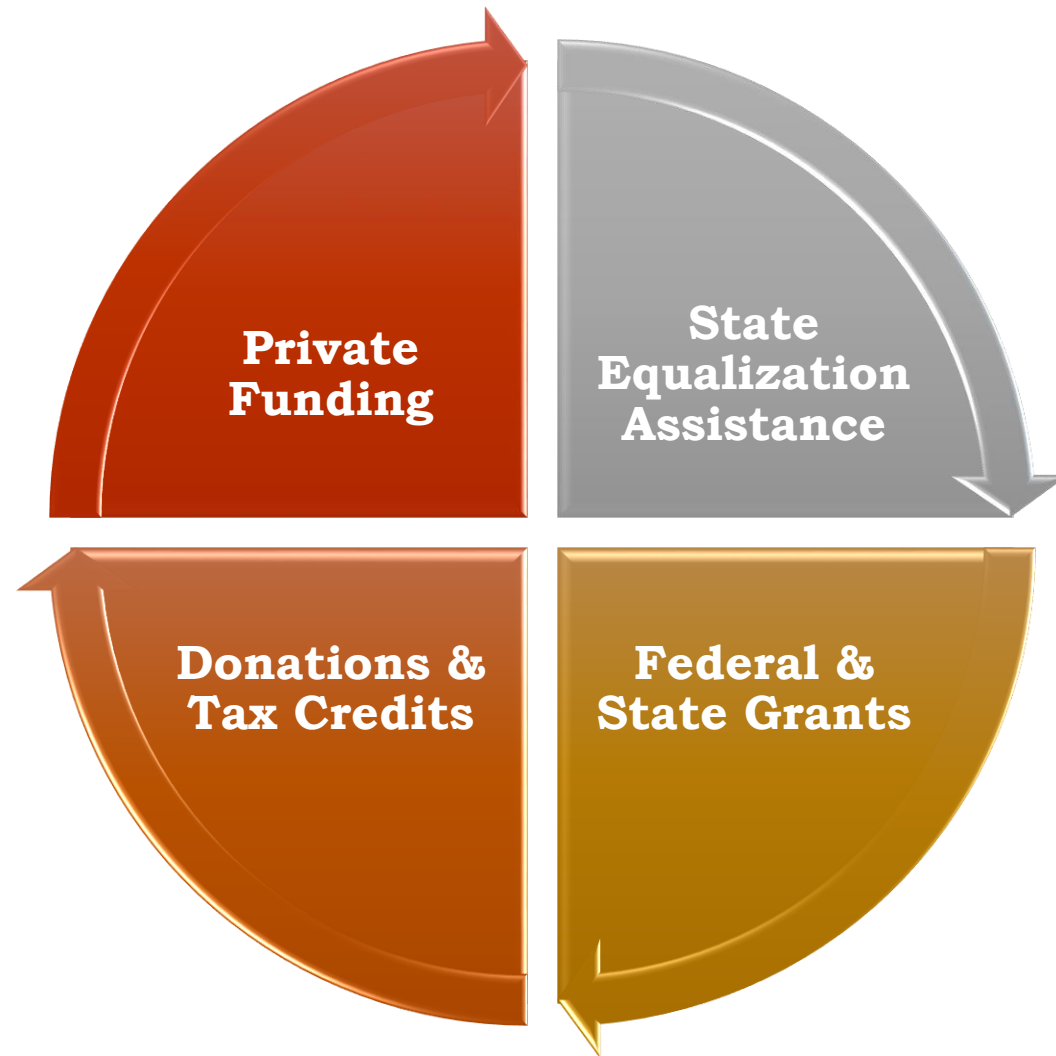
**STATE AID**

# SCHOOL DISTRICT EQUALIZATION ASSISTANCE FORMULA

<b>MARANA UNIFIED SCHOOL DISTRICT NO. 6</b>	
District Support Level	\$65,792,722
District Additional Assistance	693,424
<b>Equalization Base Total</b>	<b>\$66,486,146</b>
2017 Primary Assessed Value (÷ 100)	8,022,966
Qualifying Tax Rate	2.0234
Qualifying Levy x 2	32,467,340
<b>FY18 Equalization Assistance</b>	<b>\$34,018,806</b>

<b>CONTINENTAL ELEMENTARY DISTRICT NO. 39</b>	
District Support Level	\$4,906,958
District Additional Assistance	229,178
<b>Equalization Base Total</b>	<b>\$5,136,135</b>
2017 Primary Assessed Value (÷ 100)	3,290,300
Qualifying Tax Rate	2.0234
Qualifying Levy x 2	\$13,315,188
<b>FY18 Equalization Assistance</b>	<b>\$0</b>

# CHARTER REVENUE SOURCES

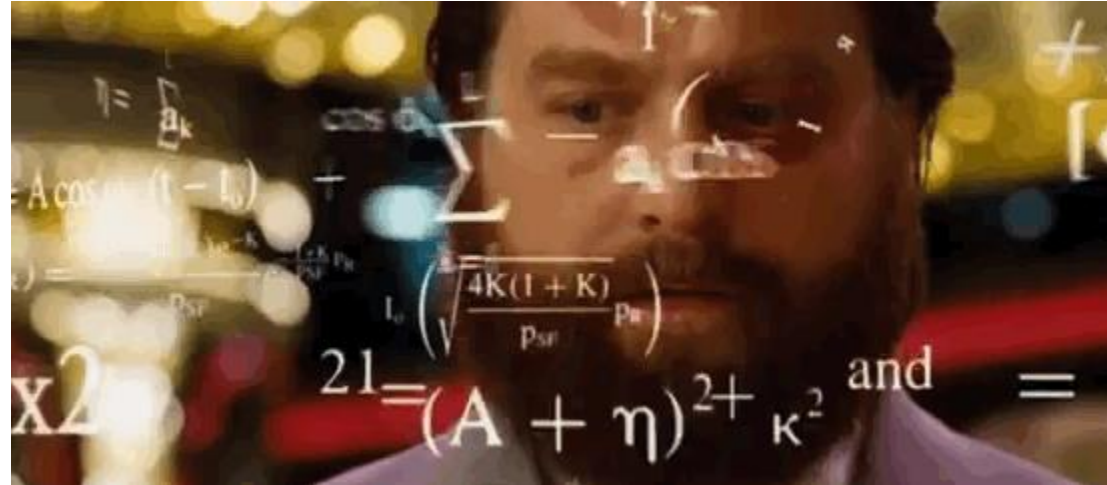


# CHARTER SCHOOL EQUALIZATION ASSISTANCE FORMULA

ACADEMY DEL SOL BASE SUPPORT LEVEL	
Base Level Amount	\$3,683.27
Total Weighted Student Count	760.540
<b>Base Support Level</b>	<b>\$2,801,274</b>
FY16 Non-Federal Audit Services	8,500
Net Base Support Level	2,809,774

ACADEMY DEL SOL CHARTER ADDITIONAL ASSISTANCE	
CAA Per Student Count	\$1,775.05
Total CAA	1,118,282
Adjustment to CAA	52,559
<b>Total CAA</b>	<b>\$1,065,723</b>

# BUDGETING PROCESS



# Maintenance & Operations

- Average Daily Membership (ADM)
  - Average number of students enrolled during the first 100 days of school for the current year
- Base Support Level
  - Minimum amount of funding per weighted student ADM
  - For FY2018 → \$3,683.27 or \$3,729.31, if approved by SBE.
- Teacher Experience Index (TEI)
  - Additional “bump” if District TEI greater than State average



# Maintenance & Operations – Weights

- Additional “weights” are provided to educate most costly instructional programs:
  - High school students
  - English Language Learners
  - Special Education students
  - K-3 Students
- Special education weights are multiplied by the BSL to determine the additional amount of funding for specific disabilities:
  - Visually Impaired = 4.806 or \$17,923
  - Multiple Disabilities/Severe Impairment = 7.947 or \$29,637
  - Speech & Language Impairment = 0.003 or \$11.19

# District Additional Assistance

- District Additional Assistance
  - Main source of funding for capital and repair expenditures
  - Formula-based assistance on a per pupil allocation
  - Funding may be used to budget for Maintenance & Operations OR for Unrestricted Capital Outlay.

	Student Type	Less than 100 Students	100-499 Students	500-599 Students	More than 600 Students & JTEDs
Per Pupil Allocation →	PSD	544.58	389.25	389.25	450.76
	K-8	544.58	389.25	389.25	450.76
	9-12	601.24	405.59	405.59	492.94
	9-12 Textbooks	\$69.68 PER 9-12 ADM ONLY			

# District Additional Assistance

- Interesting Tidbits --

1. Funds can be “shifted” between Operations & Capital
  - Creates difficulty to move back to Capital if moved to Operations
2. Funds cannot be used for Capital purposes if moved to operations – restricted to Capital Fund only.
3. Majority of school districts shift between both funds
4. From FY2008-2018, the 9 largest school districts in Pima County have lost \$332.5 million in Capital Outlay funding; an average of \$3.5 million per year.
  - Since 2009, ALL ARIZONA school districts have been reduced nearly \$2 billion
5. Charter reduction in FY18 = \$18.7M (2% of General Fund); District reduction in FY18 = \$381.7M (6% of M&O/UCO)

# AREAS OF CONCERN



# OVERRIDES & BONDS

- Override & Bond Elections
  - Historically used as “supplemental” sources of budget capacity
  - Predominantly to fill State gaps in funding
- Types of Overrides
  - Maintenance & Operations
  - Special Services
  - District Additional Assistance (i.e. Capital Outlay)
- Types of Bonds
  - Class B

# DISTRICT VS CHARTER EQUALIZATION FUNDING (FY2016)

School Districts (926,774 ADM)

Item	Total	Per Pupil
Base Support Level	\$4,655,434,382	\$5,023
Transportation Support Level	\$241,001,730	\$260
District Additional Assistance	\$72,708,411	\$78
Charter Additional Assistance	\$4,210,043	\$5
<b>TOTAL</b>	<b>\$4,973,354,567</b>	<b>\$5,366</b>

Charter Schools (164,351 ADM)

Item	Total	Per Pupil
Base Support Level	\$815,686,959	\$4,963
Transportation Support Level	0	0
District Additional Assistance	0	0
Charter Additional Assistance	\$280,367,729	\$1,706
<b>TOTAL</b>	<b>\$1,096,054,688</b>	<b>\$6,669</b>

Source: Arizona Legislature, Joint Legislative Budget Committee. (2017, June 26). *Overview of K-12 Per Pupil Funding for School Districts and Charter Schools*. Retrieved from <https://www.azleg.gov/jlbc/districtvscharterfunding.pdf>.

# DISTRICT ADDT'L ASSISTANCE REDUCTIONS

SCHOOL DISTRICT	YTD REDUCTION (2009-18)	FY2018 BUDGET <u>WITHOUT</u> REDUCTION	FY2018 BUDGET <u>WITH</u> REDUCTION	FY2018 REDUCTION	FY2018 % LOSS
Amphitheater	\$35,849,561	\$11,252,354	\$5,554,193	\$5,698,161	51%
Marana	\$34,268,899	\$6,549,118	\$1,613,319	\$4,935,799	75%
Sahuarita <sup>1</sup>	\$15,075,600	\$4,265,414	\$1,768,459	\$2,496,955	59%
Sunnyside	\$46,257,629	\$8,107,901	\$1,564,013	\$6,543,888	81%
TUSD <sup>2</sup>	\$137,198,663	\$29,903,422	\$10,770,086	\$19,133,336	64%

Source: Arizona Department of Education, School Finance Unit

1. Does not include \$1 million in voter-approved Capital Outlay override
2. Does not include \$3.1 million in Desegregation Capital budget

# OTHER AREAS OF CONCERNS

- Major areas of need for public schools:
  - Capital/deferred improvements → \$1.3 billion
  - Increasing teacher pay to national median → \$900 million
  - Restoration of capital formula → \$380 million (annual)
  - Updating/fully funding building renewal → \$250 million
  - New school construction → \$343 million
  - Implementing Full Day Kindergarten → \$240 million (annual)



# ACCOUNTABILITY



Dave Coverly

"MISS WILCOX, SEND IN SOMEONE TO BLAME."

# District Financial Oversight

- Annual Financial Report
- Audits
- County school superintendents and local school boards provide oversight/review of the financial activity on the local/transactional level:
  - <http://transparency.schools.pima.gov>

# Charter School Oversight

- Annual Financial Report
- Audits
- County school superintendents provide no oversight
  - Financial data is entirely contained with the charter holder
- General oversight provided by the AZ State Board for Charter Schools

# FY2019 Governor's K-12 Proposal



GOVERNOR'S OFFICE OF  
EDUCATION

# Governor's Proposal – What It Means?

- Restore District Additional Assistance
  - \$371 Million Over 5 Years (\$353M for School Districts)
    - \$100M in FY2019
    - \$168M in FY2020
    - \$236M in FY2021
    - \$303M in FY2022
    - \$371M in FY2023
- Fund large JTED's at 100% vs 95.5% = \$2M
  - Affects Pima JTED and EVIT in Maricopa County
- Building Renewal Grant Increases = \$35M (\$52M total)

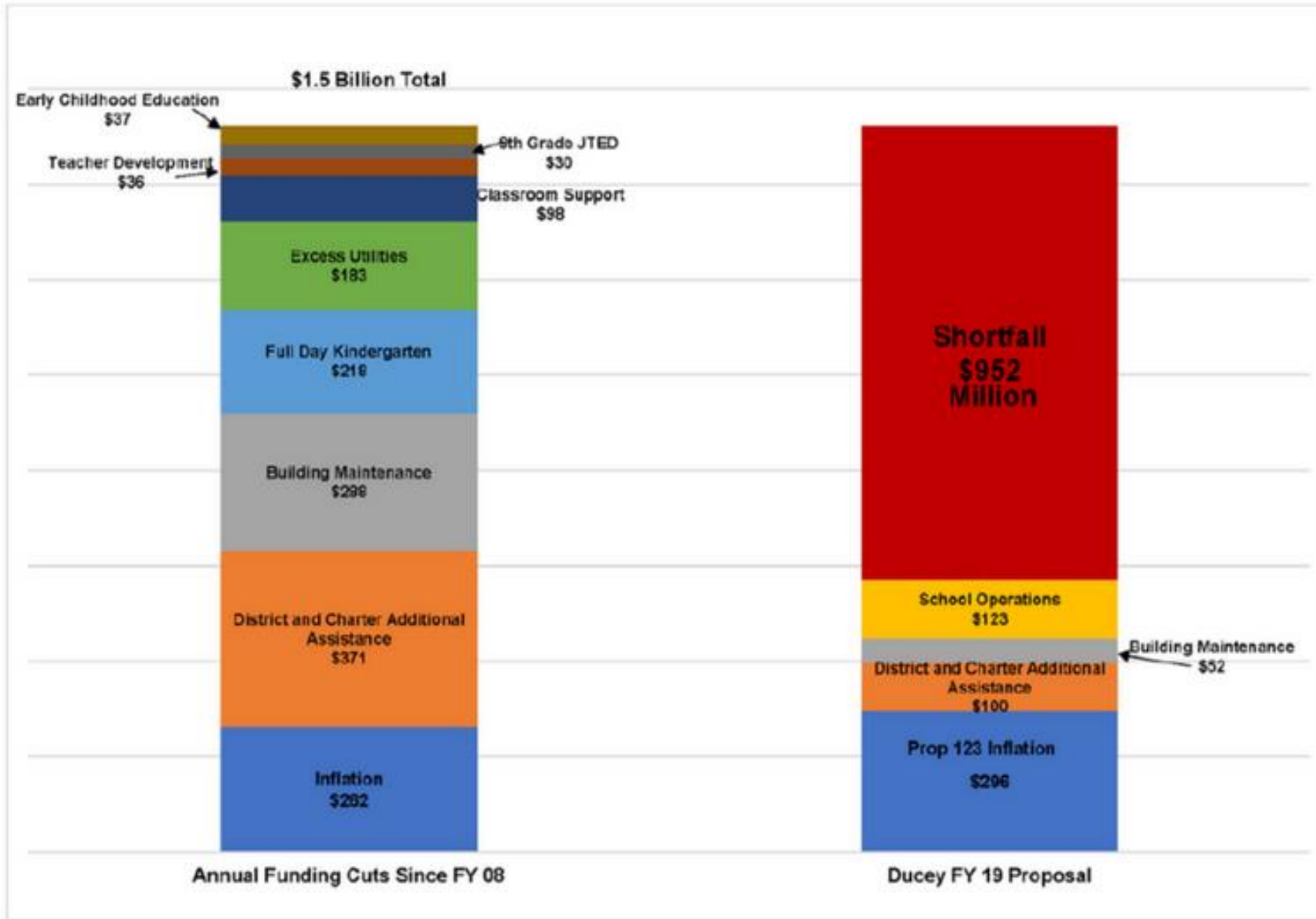
# Governor's Proposal – What It Means?

- Additional 1.06% to 2.12% for Teacher Pay = \$34M
  - Increase to \$3,792.69 from \$3,683.27 (\$109.42 OR 4%)
- Increase Early Literacy for 90% F/R Schools = \$4M
- Inflation Funding at 1.7% = \$113M
  - 2% for next 2 years
- Reductions in 3 Main Areas = \$3M
  - Geographic Literacy
  - Rural Assistance
  - Teacher PD Pilot Program

# Why Is It So Difficult?



Source: Children's Action Alliance. Retrieved from: <https://t.co/b7r111c8IDJ>





- Tax Cuts vs Tax Collection
  - \$126 **billion** in tax expenditures (i.e., tax cuts) since June 30, 2008; equals approximately 15 years of State budgets
  - \$12.3 **billion** in sales tax exemptions since June 30, 2016; \$110 **billion** since June 30, 2007.
  - Tax cuts require a *simple* majority in the Legislature
  - Elimination of tax cuts are considered tax increases, which requires a 2/3 majority to enact

Spending By Area	Arizona Average	National Average	Difference
Instruction	\$4,145 (53.5%)	\$6,726 (60.8%)	-\$2,581
Administration	806 (10.4)	1,211 (10.9)	-405
Plant Operations	939 (12.1)	1,060 (9.6)	-121
Food Service	415 (5.4)	447 (4)	-32
Transportation	364 (4.7)	477 (4.3)	-113
Student Support	633 (8.2)	615 (5.6)	18
Instructional Support	444 (5.7)	530 (4.8)	-86
Operational	\$7,746	\$11,066	-\$3,320
Land/Building	621	740	-119
Equipment	400	188	212
Interest	216	343	-127
Other	153	159	-6
Non-Operational	\$1,390	\$1,430	-40
<b>TOTAL PER PUPIL</b>	<b>\$9,136</b>	<b>\$12,496</b>	<b>-\$3,360</b>

## Comparison of Per Pupil Spending in Arizona (2016) and the U.S. (2014)

Source: Arizona Auditor General's Office. "Arizona School District Spending Report, FY2016." Retrieved from:

[https://www.azauditor.gov/sites/default/files/17-204\\_Highlights\\_0.pdf](https://www.azauditor.gov/sites/default/files/17-204_Highlights_0.pdf)



## QUESTIONS?

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