PROPOSITION 204

ANALYSIS BY LEGISLATIVE COUNCIL
[adopted August 23, 2012]

The temporary state sales tax rate of 6.6 percent enacted on May 28, 2010 expires on May 31, 2013, resulting in a decrease of the sales tax rate to 5.6 percent. Proposition 204 would permanently increase the state sales tax rate by one cent per dollar beginning June 1, 2013, to a rate of 6.6 percent. The proposition anticipates the tax increase to generate at least one billion dollars. The monies collected from the tax increase would be used for educational programs, public transportation infrastructure projects and human services programs as summarized below. Proposition 204 also would require the Legislature to annually increase specific components of the school finance formula. In addition, Proposition 204 would provide that the specified funding levels for the state's kindergarten-through-twelfth-grade and state university systems cannot be reduced below the levels for fiscal year 2011-2012 or 2012-2013, whichever is greater, that limits on school district bonds and overrides cannot be below those in effect for 2012, that vehicle license tax and related highway user revenues cannot be diverted for any other purpose and that the sales tax base applicable to the proposed one cent sales tax increase cannot be adjusted in a way that causes the amount of sales tax collected to be less than the amount collected in the prior year, plus six per cent, unless there is a corresponding change in the tax base that results in no reduction in the amount of sales tax collected. The Legislature would not have the ability to adjust the new tax increase disbursements under any circumstances.

Proposition 204 would annually distribute the first one billion dollars of additional sales tax as follows, or, if one billion dollars is not collected, the money would be proportionally distributed as follows:

1. Five hundred million dollars into the "quality education and performance fund", to be used to assist school districts and charter schools to comply with assessment and accountability requirements, including improvement plans for failing schools, to provide teacher and principal evaluation systems based in part on student achievement, to improve pupil reading proficiency by the end of third grade and to implement a system of testing and awarding Grand Canyon diplomas to high school students who demonstrate readiness for college level math and English.

2. Ten million dollars into the "education learning and accountability fund", to be used by the state Department of Education to maintain a system for compiling longitudinal student level data and school finance data to meet state and federal reporting requirements.

3. Ninety million dollars into the "education accountability and improvement fund" to provide performance funding to school districts and charter schools based on performance measures to be adopted by the State Board of Education relating to academic progress, parental satisfaction and student engagement, to provide teacher training and for technology necessary to implement statewide academic standards and assessments. Monies in this fund that remain unspent for three consecutive years would be transferred to the School Facilities Board, first to pay down existing school construction debt and then to fund construction or repair of school buildings.

4. One hundred million dollars into the "state infrastructure fund", to be used by the state Department of Transportation for costs associated with a variety of transportation infrastructure projects, the acceleration of highway improvement projects, for public-private partnerships relating to transportation projects, to fund environmentally sensitive designs and to fund transportation-related wildlife improvement projects and pay for bonding and other finance costs related to transportation projects.

5. Twenty-five million dollars into the "children's health insurance program fund", to be used for costs associated with the current publicly funded health care program for children under nineteen years of age whose household income is at or below two hundred per cent of the federal poverty level.

6. One hundred million dollars into the "family stability and self-sufficiency fund", to be distributed by the Governor's office to state agencies and private nonprofit entities as a match for federal funds for programs that provide for the basic needs of children, families and vulnerable adults whose household income is below two hundred per cent of the federal poverty level.

7. Fifty million dollars into the "university scholarship, operations and infrastructure fund", to be distributed according to rules adopted by the Board of Regents. Between fifty and sixty per cent of the fund monies must be used to provide university scholarships to resident students based on financial need or academic achievement, and the remaining fund monies would be allocated to the three state universities for operating and infrastructure expenses based on performance in meeting goals set by the Board of Regents.

8. Up to one hundred twenty-five million dollars to the state general fund to fund the required inflationary adjustment for the kindergarten-through-twelfth-grade school system.

Proposition 204 would annually distribute the amount of additional sales tax over one billion dollars as follows:

1. Thirty-three per cent to school districts and charter schools, based on the proportion of students participating in the federal free or reduced lunch program, to improve student achievement for those participating students and to provide voluntary preschool programs.

2. Twenty-two and one-half per cent to community college districts, provisional community college districts and Indian tribal postsecondary institutions to support scholarship and career and technical training programs.

3. Nine per cent to joint technical education districts to support career and vocational training.

4. Two per cent to the state Department of Education to fund adult education programs.

5. Twenty-two and one-half per cent to the "university scholarship, operations and infrastructure fund".

6. Eleven per cent to the "state infrastructure fund".

Proposition 204 would also require that an independent third-party audit of fund distributions be conducted every five years for all distributions, except there is no state audit required for the children's health insurance program fund, the family stability and self-sufficiency fund, the state general fund and to Indian tribal postsecondary educational institutions.