



Arizona State Senate Issue Brief

November 15, 2024

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ARIZONA'S SCHOOL FINANCE SYSTEM

CURRENT SCHOOL FINANCE SYSTEM

Prior to 1980, Arizona's school finance system required school districts to rely heavily on local property tax revenues while receiving little monetary support from state funds. This resulted in funding disparities among school districts, whereby school districts with high-property values could raise significant revenue with relatively low tax rates, while school districts with low-property values and higher tax rates could not generate the same amount of revenue. In the late 1970s, as a result of court cases in which similar systems in other states were found unconstitutional, Arizona began reforming its school finance system to address its potential unconstitutionality and reestablish a "general and uniform" public school system.¹

The current K-12 school finance system is based on a statutory formula enacted in 1980² and substantially modified in 1985. The established formula aims to "equalize" per-pupil spending among school districts, taking into account student enrollment and property values. Under the current school finance formula, school districts receive approximately the same amount of funding per pupil. Spending is also capped, preventing high-property value school districts from generating local revenues in excess of the funding formula and creating inequities. Some school districts with a very strong local property tax base are able to generate their entire formula funding entitlement. However, most school districts require revenues in the form of Basic State Aid (BSA) in order to receive full funding under the statutory formula. The school finance formula for school districts is as follows:

$$\text{Equalization Base} - \text{Qualifying Tax Rate} = \text{Basic State Aid}$$

¹ [Article 11, Section 1 of the Arizona Constitution](#) requires the legislature to establish a "general and uniform" public school system.

² Laws 1980, 2nd S.S., Ch. 9

EQUALIZATION BASE FOR SCHOOL DISTRICTS

The equalization base, or a school district's spending limit, is the sum of the following three elements: 1) Base Support Level (BSL); 2) Transportation Support Level (TSL); and 3) District Additional Assistance (DAA).

$$\text{Equalization Base} = \text{BSL} + \text{TSL} + \text{DAA}$$

Base Support Level – The BSL is the product of a school district's total Weighted Student Count (WSC) multiplied by the Base Level Amount (BLA) multiplied by the Teacher Experience Index (TEI).³

A school district's WSC is determined by applying different weights based on student enrollment and characteristics. First, a school district's student count is weighted based on the size and location of the school district. "Group A" weights are applied based on a school district's student count in certain grade levels. Small and isolated school districts receive a larger Group A weight to account for economies of scale. Larger and non-isolated school districts do not receive a larger weight but are not penalized. Second, school districts receive weights that are applied to a school district's student count based on varying factors. "Group B" weights are applied using specific student characteristics and needs such as special education, English language learners, severe developmental disabilities and K-3 reading programs. The WSC is then multiplied by the BLA, which is a statutorily set per pupil amount that has historically been adjusted for inflation.⁴

Finally, the product generated from the previous steps is multiplied by the TEI. The TEI allocates more money to a school district whose combined years of teacher experience exceed the statewide teacher experience calculation. The TEI

increases a school district's BSL by 2.25 percent for each year that the district's average teacher experience exceeds the state average. The intention of including the TEI in the formula was to account for teacher pay scales that increased with years of service.

$$\text{BSL} = \text{WSC} \times \text{BLA} \times \text{TEI}$$

FY 2024-2025 Base Level Amount = \$5,013.33

Transportation Support Level – The main funding component of the TSL is computed for the transportation of students to and from school by multiplying a statutorily set amount, adjusted annually for inflation, by a school district's approved daily route mileage per eligible student plus an amount spent for bus tokens and passes.⁵ There is an additional component of the TSL formula for academic education, career and technical education and athletic trips; however, the amounts generated by this portion of the formula are lower than the formula that generates funds to transport students to and from school.

The TSL differs from the Transportation Revenue Control Limit, a voluntary program, which allows school districts to assess an additional property tax levy to generate additional revenue for transportation costs above the TSL amount.

$$\text{TSL} = \$ \text{Amount} \times \text{Route Miles} + \text{Tokens/Passes}$$

FY 2024-2025 TSL per Route Mile

<i>Approved Daily Route Mileage per Pupil</i>	<i>Dollar Amount</i>
0.5 or less	2.95
Between 0.5-1.0	2.42
More than 1.0	2.95

District Additional Assistance – DAA is calculated by multiplying a statutorily set amount by a school district's unweighted student count for particular grade ranges.⁶ The formula has seven different per pupil amounts based on the number of pupils and grade levels taught. Smaller

³ [A.R.S. § 15-943](#)

⁴ In 2000, Proposition 301 authorized a 6/10th of a percent increase in sales tax to fund education programs. Proposition 301 included an inflation provision in the school finance formula that was challenged in *Cave Creek v. DeWit* and settled with the passage of Proposition 123 (see below) in 2016.

⁵ [A.R.S. § 15-945](#)

⁶ [A.R.S. § 15-961](#)

school districts and grades 9-12 have a heavier weight than large school districts and grades K-8. An additional per pupil amount is applied for school districts with programs for preschool children with disabilities. Although these monies are considered capital in nature, school districts may move funds generated through DAA into their maintenance and operations account. Prior to FY 2022, the DAA formula had not been fully funded since 2010. The FY 2019 budget began to restore both DAA and Charter Additional Assistance by reducing the DAA suspension to \$257,469,900 in FY 2019 and phasing out the remaining suspensions completely by FY 2022.⁷

QUALIFYING TAX RATE

The qualifying tax rate (QTR) is a statutory primary property tax rate used to determine the amount of revenue that will be generated from local taxpayers in support of the BSA formula.⁸ Proposition 301 set the maximum QTR that can be applied at \$2.1265 for elementary and high school districts and \$4.253 for unified school districts. School districts are not obligated to levy the QTR or any other tax rate to receive state aid; however, the QTR is presumed to be the local effort of the school district for the purposes of calculating the amount of state aid that a district will receive.

The QTR is subject to Truth-in-Taxation (TNT) laws. By February 15 of each year, the Joint Legislative Budget Committee is required to report TNT rates, which are then used to adjust the QTR annually. The effect of TNT is to offset the statewide appreciation of existing property with a commensurate reduction in the QTR, ensuring that tax liability for existing properties remain unchanged despite increased property valuation.

The actual overall primary property tax rate for a school district may be lower than the QTR, or higher if the district is allowed to budget for items outside of the school finance formula,

which include: 1) Adjacent Ways;⁹ 2) Small School Adjustment;¹⁰ and 3) Liabilities in Excess.¹¹ For FY 2025, the QTR is \$1.593 for non-unified school districts and \$3.186 for unified school districts.

Prior to FY 2023, a state equalization tax rate (SETR) was assessed on property owners to collect revenues to further offset state costs along with the QTR. In 2022, the Legislature repealed the SETR and state General Fund formula costs increased by an amount equivalent to the revenues that would have been generated statewide by the SETR.¹²

Counties are required to levy a primary property tax rate that is 50 percent of the QTR for property that is located outside school district boundaries. These monies are collected by the counties and deposited into the state General Fund.¹³

Each county is also required to levy an additional primary property tax in school districts that are ineligible for state equalization assistance (“non-state aid districts”). This additional tax rate, sometimes referred to as the minimum qualifying tax rate (MQTR), is determined based on the difference between the levy that would be produced by 50 percent of a non-state aid district’s applicable QTR, its equalization base and an additional tax levied in each common school district not within a high school district (Type 03 district). The Type 03 district additional tax is annually levied at the same time of levying the MQTR, and is levied at a rate equal to the lesser of: 1) the applicable QTR; or 2) the product of the statewide average per-pupil funding for high school pupils and the student count of the resident high school pupils in the Type 03 district during the prior school year. If the levy produced by 50 percent of the district’s applicable QTR is equal to or less than its equalization base, the MQTR will not be levied in the non-state aid

⁹ [A.R.S. § 15-995](#)

¹⁰ [A.R.S. § 15-949](#)

¹¹ [A.R.S. § 15-907](#)

¹² [Laws 2022, Chapter 317, sec. 14](#)

¹³ [A.R.S. § 15-991.01](#)

⁷ [Laws 2020, Chapter 49, sec. 27](#)

⁸ [A.R.S. § 41-1276](#)

district. Otherwise, the MQTR will be levied at a rate such that the additional tax generates an amount equal to 50 percent of the non-state aid district's QTR minus its equalization base and the Type 03 district additional tax, if applicable. The revenue generated from the MQTR is deposited into the state General Fund.¹⁴

BASIC STATE AID

After a school district's equalization base is determined, the net assessed property value of the school district is multiplied by the QTR to determine the portion of its funding that is assumed to come from local QTR tax revenue.¹⁵ If the amount generated by the QTR exceeds the school district's equalization base, the school district is not entitled to equalization assistance and will be completely funded by the revenues generated by the QTR. If, however, the QTR revenues are not sufficient to cover the equalization base, then the school district is eligible for equalization assistance. A school district that is eligible for equalization assistance receives funds in the form of BSA, which is funded through the state General Fund, the education sales tax and Permanent State School Fund distributions.

QTR > Eq. Base = No Eq. Assistance
Eq. Base > QTR = Basic State Aid

AGGREGATE EXPENDITURE LIMIT

In 1980, Arizona voters passed a constitutional amendment to limit how much a school district may spend in a school year. The Arizona Constitution establishes the Aggregate Expenditure Limit (AEL), which limits the expenditure of local revenues for all school districts to the FY 1980 spending level, adjusted for the cost of living and enrollment, plus 10 percent.¹⁶ The Economic Estimates Commission annually determines the AEL for the following

fiscal year. Certain revenues received by school districts are excluded from the calculation of the AEL, including federal funding, prior-year carryforward funding, School Facilities Division funding and bonds and overrides. Charter schools are exempt from the AEL due to being established after the constitutional amendment passed.

If the annual aggregate expenditures of local revenues exceeds the AEL, each school district must reduce local revenue expenditures by the percentage by which the aggregate local revenue expenditures exceed the AEL.

FY 2024-2025 Aggregate Expenditure Limit = \$6,959,222,573

By March 1 of each year, the Legislature may authorize current fiscal year expenditures in excess of the AEL on approval of two-thirds of the members in each chamber of the Legislature.¹⁷ The Legislature authorized school districts to exceed the AEL by an unspecified amount in FY 2025.¹⁸

CHARTER SCHOOLS

State aid is also provided to charter schools, which are public schools that do not have geographic boundaries, operate under terms specified in a "charter" and do not have taxing authority.¹⁹ Formula costs for charter schools are completely funded by state aid from the state General Fund and do not have any other revenue sources from local taxpayers. Because the funding formula for charter schools is completely funded with state aid, there is no equalization that takes place between local property tax contributions and state aid. Instead, the charter school funding formula consists of two components: 1) BSL; and 2) Charter Additional Assistance (CAA). The BSL for charter schools is determined under the same computational formula prescribed for traditional school districts,

¹⁴ [A.R.S. § 15-992](#)

¹⁵ [A.R.S. § 15-971](#)

¹⁶ [Ariz. Const. art. 9, § 21](#)

¹⁷ [A.R.S. § 15-911](#)

¹⁸ [H.C.R. 2065 \(2024\)](#)

¹⁹ [A.R.S. § 15-185](#)

although charter schools are not eligible for TEI increases.

$$\text{Charter School Funding} = \text{BSL} + \text{CAA}$$

CAA funding amounts are established in statute and are roughly comparable to a traditional school district's DAA funding. CAA amounts are larger than DAA amounts, at least in part, due to charter schools being ineligible for the TSL and not having access to other sources of revenue from a taxing jurisdiction (i.e. bonds and overrides).

CAA = unweighted student count x per pupil amount

FY 2025 CAA per Pupil	
Grades K-8	\$2,090.10
Grades 9-12	\$2,435.97

ENDOWMENT EARNINGS

The Permanent State School Fund²⁰ acts as an endowment account for all proceeds from state trust lands whose beneficiaries have been designated as “common schools.” When designated state trust lands are sold, the sale proceeds are deposited into the Permanent State School Fund by the Arizona State Land Department and are invested by the State Treasurer. Monies deposited into the Permanent State School Fund from the sale of state trust lands are not considered expendable.

However, expendable endowment earnings on state trust lands held in benefit of “common schools” are used to offset state General Fund costs of BSA. These earnings include: 1) Permanent State School Fund investment earnings; and 2) proceeds from the lease of state trust lands and interest paid by buyers who purchase state trust land on an installment basis.

Proposition 301 limited the amount of expendable endowment earnings available to the state at the FY 2001 level of \$72.3 million and dedicated any growth above that level to the

Classroom Site Fund (CSF),²¹ established in conjunction with Proposition 301. School districts and charter schools may allocate any percentage of their CSF monies toward specified purposes, including class size reduction, teacher compensation and student services.

PROPOSITION 123

In 2010, several school districts filed a lawsuit alleging the state did not adequately fund for inflation in FY 2010 through FY 2013 as required by Proposition 301.²² In 2014, after several rulings and appeals, the Maricopa County Superior Court found that the state should reset the base level to what it would have been if inflation had been fully funded. The state appealed the decision and the Court of Appeals asked the parties to enter mediation to reach a negotiated settlement. In 2015, the parties agreed on a settlement and legislation was passed in a special session. In May 2016, voters approved Proposition 123.

Proposition 123 increases the distribution from the State Land Trust Permanent Funds from 2.5 percent to 6.9 percent through FY 2025 and allocates the increased revenues to BSA, rather than the CSF. Additionally, Proposition 123 appropriates \$50 million annually in FYs 2016 through 2020 and \$75 million annually in FYs 2021 through 2025 for state aid supplement. Beginning in FY 2026, distributions from the State Land Trust Permanent Funds will revert to 2.5 percent. However, the BLA would not automatically be subject to a corresponding decrease, as Proposition 301 stipulates that the BSL and TSL must be adjusted annually for inflation. As a result, the revenues lost from State Land Trust Permanent Funds distributions will be backfilled by the state General Fund. Any changes to the State Land Trust Permanent Funds distributions or an extension of Proposition 123 would require a voter-approved amendment to the Arizona Constitution.²³

²⁰ [A.R.S. § 37-521](#)

²¹ [A.R.S. § 15-977](#)

²² *Cave Creek Unified School District v. DeWit*, 233 Ariz. 1, (2013).

²³ For more information see “Proposition 123 Background”

In addition to increased state aid, Proposition 123 allows for reductions in state aid under certain economic conditions and K-12 spending levels. These potential reductions are referred to as “triggers.” The economic triggers are currently in effect, but the criteria for suspending inflation adjustments have not been met since Proposition 123 was enacted. The K-12 spending triggers do not take effect until the FY 2026 state budget and are based on FY 2025 state General Fund spending levels. In FY 2025, K-12 spending accounts for approximately 47.5 percent of state General Fund appropriations.²⁴

ADDITIONAL STATE AID

The state provides Additional State Aid to school districts through an automatic homeowner’s rebate.²⁵ The homeowner’s rebate requires the state to pay a portion of each homeowner’s school district primary property taxes, up to a maximum of \$600 per parcel. The homeowner’s rebate percentage can vary from year to year. For FY 2025, it is estimated to be approximately 50 percent.

Article IX, Section 18 of the Arizona Constitution caps primary property tax rates at 1 percent of a home’s full cash value. The “1% cap” applies any time a homeowner’s net combined primary property tax rate for all taxing jurisdictions exceeds \$10 per \$100 of net assessed value, even after the homeowner’s rebate is applied. The Arizona Constitution does not specify a mechanism for enforcing the “1% cap.” Historically, the cap has been implemented by having the state General Fund backfill any primary property tax costs for homeowners that exceed the cap through the Additional State Aid program.

Beginning in FY 2016, Laws 2015, Chapter 15, limited the amount of Additional State Aid provided to school districts in excess of the cap to \$1 million per county. The Property Tax

Oversight Committee (PTOC) is charged with evaluating each county with school districts that require more than the state-funded \$1 million limit to determine the proportion attributable to each taxing jurisdiction located within the affected school district. The PTOC determines the amount that each taxing jurisdiction is required to transfer to compensate the district for the pro rata share of the reduction in Additional State Aid.²⁶

OTHER STATE AID PROGRAMS

Other state aid programs include: 1) Assistance to School Districts for Children of State Employees²⁴ (ASDCSE); 2) Certificates of Educational Convenience²⁵ (CEC); and 3) Special Education Fund.²⁶

The ASDCSE program supplements BSA for school districts that educate pupils whose parents are employed and domiciled at certain state institutions located within the school district’s boundaries, such as correctional facilities. CECs allow students to attend school in a school district other than the one they live in, if they are placed there by an authorized state or federal agency. CECs also apply to students who reside in unorganized areas. Finally, the Special Education Fund provides funding for special education costs of students at: 1) the Arizona State School for the Deaf and the Blind; 2) the Arizona State Hospital; 3) developmentally disabled programs administered by the Department of Economic Security; and 4) private residential facilities when a student is placed there by a state agency.

²⁴ [FY 2025 JLBC Baseline: Arizona Department of Education](#)

²⁵ [A.R.S. § 15-972](#)

²⁶ [Laws 2015, Ch. 16](#)

²⁷ [A.R.S. § 15-976](#)

²⁸ [A.R.S. § 15-825](#)

²⁹ [A.R.S. § 15-1182](#)

ADDITIONAL RESOURCES

- “Proposition 123 Background” Joint Legislative Budget Committee, January 2023
<https://www.azjlbc.gov/units/prop123background.pdf>
- “Estimated Classroom Site Fund Per Pupil Amount for FY 2025,” prepared by the Joint Legislative Budget Committee, March 2024
<https://www.azjlbc.gov/units/csf-fy2025032824.pdf>
- “Fiscal Year 2025 Appropriations Report: Department of Education,” prepared by the Joint Legislative Budget Committee, June 2024
<https://www.azjlbc.gov/25AR/ade.pdf>
- “FY 2025 Baseline: Department of Education,” prepared by the Joint Legislative Budget Committee, January 2024
<https://www.azjlbc.gov/25baseline/ade.pdf>
- “FY 2025 Truth in Taxation Notice,” Joint Legislative Budget Committee
<https://www.azjlbc.gov/units/tntletter031524.pdf>
- Laws 2000, Fifth Special Session, Chapter 1 (Proposition 301)
<https://apps.azleg.gov/BillStatus/GetDocumentPdf/64679>
- “Proposition 301 Publicity Pamphlet for November 7, 2000 General Election,” prepared by the Arizona Secretary of State
<http://apps.azsos.gov/election/2000/Info/pubpamphlet/english/prop301.pdf>
- “2023 Tax Handbook,” prepared by the Joint Legislative Budget Committee, November 2023
<https://www.azjlbc.gov/revenues/23taxbk.pdf>
- “Calculation for Final Aggregate Expenditure Limitation for School Districts” prepared by the Economic Estimates Commission, March 2024
https://azdor.gov/sites/default/files/document/REPORTS_ESTIMATES_2025_SchoolDist-Mar24.pdf