

PROPOSITION 123
[HCR 2001 (2015)]

education finance; trust land distributions

ANALYSIS BY LEGISLATIVE COUNCIL

1 Proposition 123 proposes amendments to the Arizona Constitution relating to
2 education finance.

3 Proposition 123 would amend the Arizona Constitution to increase the annual
4 distributions from the state trust land permanent funds to schools, universities and other
5 public institutions from 2.5% of the average market values of the funds to 6.9% for the
6 next ten fiscal years. The increased amount that would be distributed to school districts
7 and charter schools is estimated to be more than two billion dollars over that ten-year
8 period; this amount would be appropriated for basic state aid to schools, including
9 inflation adjustments required by law. If the 6.9% distribution would negatively impact
10 the safety of the assets in a permanent fund, the Legislature could enact legislation, with
11 the Governor's approval, that reduces the distribution down to a minimum of 2.5% for the
12 next fiscal year. Any reduction would be for only one year and would not have to be paid
13 back in future years. The Legislature could reduce the base level funding amount
14 allocated for each kindergarten-through-twelfth grade (K-12) student for the next fiscal
15 year by the amount of the decreased distribution from the K-12 permanent fund. The base
16 level reduction would not have to be paid back in future years or from other sources, but
17 the base level amount would continue to grow as if the reduction did not occur.

18 Proposition 123 would also create procedures for identifying economic
19 circumstances in which the inflation adjustments otherwise required by law could or must
20 be suspended for a particular fiscal year. If the growth in sales tax and employment in
21 this state are each less than 2%, the inflation adjustment may be suspended for the next
22 year; if the growth in sales tax and employment in this state are each less than 1%, the
23 inflation adjustment must be suspended for the next year. Beginning in fiscal year 2024-
24 2025, if the portion of the state budget appropriated for K-12 education is at least 49% of
25 the state general fund, the inflation adjustment may be suspended for the next year, and
26 the base level amount allocated for each K-12 student for the next fiscal year may be
27 reduced by the amount of the inflation adjustment for the current fiscal year; if the
28 portion of the state budget appropriated for K-12 education is at least 50% of the state
29 general fund, the inflation adjustment may be suspended for the next year, and the base
30 level amount allocated for each K-12 student for the next fiscal year may be reduced by
31 two times the amount of the inflation adjustment for the current fiscal year. The
32 suspended inflation adjustments would not have to be paid back in future years, but the
33 base level amount would continue to grow as if the reduction did not occur. Any base
34 level reductions triggered by the portion of the state budget spent on K-12 education
35 would not have to be paid back in future years, but the reduction in the base level amount
36 would not become part of the calculation of the base level in future years.

37 A separate piece of legislation already passed by the Legislature and signed by the
38 Governor in 2015 would increase the base level amount allocated for each K-12 student

1 from \$3,426.74 to \$3,600 for the current year, which would be adjusted for inflation
2 pursuant to law in future years. The separate piece of legislation would also appropriate
3 an additional total of \$625,000,000 over 10 years to school districts and charter schools
4 for maintenance and operation, including increased employee compensation, and capital
5 outlay. This separate piece of legislation will become effective only if Proposition 123 is
6 enacted by the voters at the May 17, 2016 special election.

7 Proposition 123 provides that the constitutional amendments contained in this
8 measure, together with the additional appropriations in the separate piece of legislation,
9 fully satisfy the school inflation funding requirements approved by the voters in 2000 and
10 are intended to resolve the litigation regarding those inflation requirements.

11 If any portion of Proposition 123 is found by a court to be invalid, the entire
12 measure is invalid.