HOT TOPICS CAFÉ

PROPOSITION 123

Wednesday, April 13, 2016
3 - 4:30 p.m.
Yavapai College, Sedona Center (OLLI)
Facilitated by Matthew Goodwin, Philosophy Department, NAU
PROGRAM

3 p.m.
Welcome and Introduction
Andrea Houchard, Director, Philosophy in the Public Interest

3:15 p.m.
Community Dialogue
Matthew Goodwin, Philosophy Department, NAU

  Question 1: What is the role of public education in society?
  Question 2: What kind of public authority does Arizona’s constitution guarantee?
  Question 3: What are Arizona ballot initiatives?
  Question 4: What does AZ Prop 123 do? What doesn’t it do?

4:20 p.m.
Closing Questions and Recap of Discussion

This informational handout was researched and written by Matthew Goodwin, Philosophy Department, NAU, designed by Kaitlin Baker, Philosophy in the Public Interest, Visual Communications Major

SPECIAL THANKS TO OUR PARTNERS, SUPPORTERS AND VENUE HOSTS!
Why decide with a ballot measure?

This is a constitutional change to the distribution of State Trust Land revenues and constitutional changes require voter approval. Additionally, the legislative Proposition 123 would change some provisions of Proposition 301.

Arizona voters have the power to make laws.
“Citizens of Arizona may initiate legislation as either a state statute or constitutional amendment. In Arizona, citizens also have the power to repeal legislation via veto referendum. The Arizona State Legislature may place measures on the ballot as legislatively referred constitutional amendments or legislatively referred state statutes. In addition, the Arizona Commission on Salaries for Elective State Officers is one of only a few state committees that have the power to place measures on the ballot.”

Source: https://ballotpedia.org/Laws_governing_the_initiative_process_in_Arizona

“Proposition 105 sought to amend the constitution relating to initiative and referendum. The measure was intended to prevent the legislature or governor from tampering with laws created by the voters through the citizen initiative.”

Source: https://ballotpedia.org/Arizona_Voter_Protection,_Proposition_105_%281998%29

Arizona voters have the power to make laws.
Education leaders say the state ignored Proposition 301, a ballot measure approved by voters in 2000 that required "automatic inflation adjustments in the state aid to education base level or other components of a school district's revenue control limit." The schools allege they were shorted necessary funding required under the measure. Proposition 123 would modify the language related to the annual inflationary funding that is required for K-12 schools. However, there are many other provisions from Proposition 301 which remain unaffected by Proposition 123.
Arizona Education Finance Amendment, Proposition 123 Summary

INTRODUCTION

The Arizona Education Finance Amendment, Proposition 123 is on the May 17, 2016 ballot in Arizona as a legislatively referred constitutional amendment.

The measure would allocate $3.5 billion for education funding. About $1.4 billion would come from general fund money and $2 billion would come from increasing annual distributions of the state trust land permanent funds to education. It would raise the distributions from 2.5 percent of the average value of the funds to 6.9 percent for the next 10 fiscal years.

Source: https://ballotpedia.org/Arizona_Education_Finance_Amendment,_Proposition_123_%282016%29

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
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<tbody>
<tr>
<td>A &quot;yes&quot; vote would devote $3.5 billion of the general fund and state land trust fund toward education.</td>
<td>A &quot;no&quot; vote would keep the current education funding levels from the land trust fund.</td>
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Why the funding increase?

With this amendment, state officials hope to settle a five-year lawsuit over school funding. In 2010, K-12 school districts and charter schools alleged that during the Great Recession in 2007, the state ignored Proposition 301, a ballot measure approved by voters in 2000 that required "automatic inflation adjustments in the state aid to education base level or other components of a school district's revenue control limit." The schools allege they were shorted necessary funding required under the measure.

How much money would districts receive?
The amount each school district and individual school receives depends on the number of students it has.

How would the funds be used?
The amendment does not require schools to use the funding for a specific purpose. It could be used for purposes such as building maintenance, salaries or technology. The Arizona Republic reported that many schools say they would use the money for teacher raises to help fight the statewide teacher-retention crisis.

Text of measure
Arizona House Summary

HOUSE SUMMARY

HCR 2001, upon voter approval, modifies the State Treasurer’s distribution formula of permanent Trust land funds beginning in Fiscal Year (FY) 2016.

Source:

HISTORY

The Arizona State Land Department (ASLD) manages approximately 9.2 million acres of state Trust lands for 13 beneficiaries designated in the Enabling Act. The 13 beneficiaries are: Common Schools (K-12); University Land Code (ASU, NAU and UA); University of Arizona; School of Mines; A&M Colleges; School for the Deaf and Blind; Normal Schools; Military Institutes; State Charitable, Penal and Reformatory; Miners’ Hospital; Penitentiaries; State Hospital; and Legislative, Executive and Judicial Buildings. The Common Schools are the largest beneficiary owning approximately 87% of the land and receiving close to 90% of the revenue.

Trust land revenue is classified as either permanent receipts (one-time) or expendable receipts (recurring). Permanent receipts come from the one-time sale of state Trust lands and assets such as minerals or other natural products. This revenue is deposited into the appropriate beneficiary’s permanent fund, which is administered by the State Treasurer (Treasurer). Expendable receipts come from one-time leases, permits, interest from sales contracts and other revenue from the non-permanent disposition of Trust assets. This revenue, along with the Treasurer’s distribution formula from the permanent funds, is distributed directly to the beneficiaries.

Proposition 118, approved by the voters in 2012, changed the Treasurer’s annual distribution formula of Trust land permanent funds to the average market value of the fund for the immediately preceding five calendar years multiplied by a fixed 2.5%, effective for FYs 2013-2021. After FY 2021, the distribution formula reverts back to the 1998 Proposition 102 formula, which is the average total rate of return for the previous five FYs, less percentage change in inflation, multiplied by the average monthly market value over the previous five years (Arizona Constitution, Article 10, Section 7). The expendable revenues distributed to the beneficiaries in FY 2014 totaled $139,687,587, which includes $73,032,624 from the Treasurer’s distribution formula. The total deposited into the permanent funds was $103,414,872 and the value of the Trust for all beneficiaries in FY 2014 exceeded $4.5 billion (ASLD FY14 Annual Report).

PROVISIONS

1) Increases the annual distribution from the permanent funds in FYs 2016-2025 from 2.5% to 6.9% of the average monthly market values of the permanent funds for the immediately preceding five calendar years.

   a. Requires the distribution amount made from the Permanent State School Fund (Fund) in FY 2016 to be $259 million.

   b. Returns the annual distribution to 2.5% beginning in FY 2026.

2) Appropriates, for FYs 2016-2025, any increase in expendable earnings resulting from a distribution of more than 2.5% for Basic State Aid.

   a. Determines the entire amount distributed to the Fund to be for inflation adjustments as required by statute.

3) Requires the directors of the Joint Legislative Budget Committee (JLBC) and the Office of Strategic Planning and Budgeting (OSPB) to jointly notify the Governor, President of the Senate and Speaker of the House of Representatives annually by February 1 that a reduction to the distribution is necessary to
preserve the safety of the capital in the permanent fund if the average monthly market values for the preceding five years have decreased compared to the average monthly market values for the prior five year period.

a. Allows, on receipt of notification, the Legislature to reduce the distribution for the next FY to at least 2.5% but no more than 6.9%.

i. Allows the Legislature to reduce the per student Base Level for the next FY by an amount commensurate with the reduction in the distribution to the Fund for the next FY.

ii. Specifies that amounts from the Base Level reduction are not required to be paid or distributed in any subsequent FY.

ii. Stipulates that Base Level reduction is not part of the calculation for subsequent FYs.

4) Requires the directors of JLBC and OSPB to jointly notify the Governor, President of the Senate and Speaker of the House of Representatives annually by February 1 if any of the following occur:

a. The state Transaction Privilege Tax (TPT) growth rate and the total nonfarm employment growth rate are each at least 1% but less than 2%.

i. Specifies that the Legislature is not required to make school finance inflation adjustments for the next FY.

b. The state TPT growth rate and the total nonfarm employment growth rate each less than 1%.

i. Prohibits the Legislature from making school finance inflation adjustments for the next FY.

c. The total amount of GF appropriations for the Arizona Department of Education (ADE), beginning in FY 2025, is at least 49% but less than 50% of the total GF appropriation for the FY.

i. Specifies that the Legislature is not required to make school finance inflation adjustments for the next FY.

ii. Allows the Legislature to reduce the Base Level for the next FY by the amount of the required current year inflation adjustments.

5) Stipulates that if inflation adjustments are not required or prohibited, the amounts:

a. are not required to be paid or distributed in any subsequent FY; and

b. become part of the calculation of the Base Level for subsequent FYs.

6) Stipulates that if Base Level reductions are made for a FY, the reduced amounts:

a. are not required to be paid or distributed in any subsequent FY; and

b. do not become a part of the calculation of the Base Level for subsequent FYs.

7) Defines total nonfarm employment growth rate and state transaction privilege tax growth rate.

8) Declares that the authority vested in the Legislature pursuant to the Arizona Constitution is preserved.

9) Contains a clause stating that the amended Constitution and HB 2001 satisfy inflation adjustment requirements.

10) Contains a nonseverability clause.

11) Requires the Secretary of State to submit the proposition to the voters at a special election on May 17, 2016.

12) Makes technical and conforming changes.
PURPOSE

Increases, conditioned on the approval of S.C.R. 1001, K-12 base level funding to $3,600 per pupil in FY 2016 and makes additional annual appropriations to schools through FY 2025.

BACKGROUND

The base level amount is a statutorily set per pupil component of the school funding formula. Statute requires the Legislature to increase the base level or other components of the revenue control limit by 2 percent or by the change in the GDP price deflator, whichever is less (A.R.S. § 15-901.01). Laws 2015, Chapter 15 increased the base level by 1.59 percent by setting the per pupil amount at $3,426.74 for FY 2016.

The base level amount is multiplied by the weighted student count to make up a portion of school districts’ and charter schools’ revenue control limit. Weighted student count is determined by applying different weights based on student enrollment. Group A weights are applied based on the number of students taught in certain grade levels. Group B weights are applied using specific student characteristics and needs (A.R.S. § 15-943).

The bill increases total K-12 spending by an estimated $298,829,400 in FY 2016. Basic state aid is increased by $248,829,400 as a result of an increase in per pupil funding and the bill makes an additional appropriation of $50,000,000. There will be an estimated impact of $52,354,400 in FY 2016 to the state General Fund (GF) as a result of this legislation.

PROVISIONS

1) Increases basic state aid by $248,829,400 in FY 2016 by increasing the base level per pupil amount from $3,426.74 to $3,600 and makes corresponding line item changes to Laws 2015, Chapter 15.

2) Removes the Additional Inflation line item of $74,394,000 in FY 2016 and corresponding session law and includes that amount in the GF appropriation for basic state aid.

3) Increases the Permanent State School Fund distribution line item by $172,081,000.

4) Appropriates the following amounts from the GF to the Superintendent of Public Instruction as Additional Funding for school districts and charter schools:
   a. $50 million annually in FYs 2016 through FY 2020; and
   b. $75 million annually in FYs 2021 through FY 2025.

5) Allows a school district to budget the Additional Funding in either its maintenance and operation fund or its unrestricted capital outlay fund.

6) Directs the Department of Education to:
   a. allocate the Additional Funding on a pro rata basis using the Group A weighted student count; and
   b. to increase budget limits accordingly.

7) Specifies the weighted student count shall be increased to include nonresident pupils for school districts that serve as the district of attendance for nonresident pupils.

8) Allows school districts and any entity that receives any additional funding or budget capacity in FY 2016 as a result of this act to...
carryforward any portion of that funding or budget capacity into FY 2017 and exempts the budgeted carryforward amount from the revenue control limit.

9) Allows school districts and any other entity that receives any additional funding or budget capacity in FY 2016 and FY 2017 as a result of this act to use the additional monies for increased employee compensation in FY 2016 and FY 2017.

10) Extends the May 15 deadline for the adoption or adjustment of school district budgets to June 30 in FY 2016.

11) Contains a legislative findings clause that states the following:

   a. it is in the best interests of the State to finally resolve the litigation in Cave Creek Unified School District, et al. v. Jeff DeWit, et al.;

   b. none of the parties to the litigation have acted in bad faith, nor concede nor admit legal error, wrongdoing or illegal action in connection with the litigation; and

   c. including the final judgment in the litigation, this act and the terms of S.C.R. 1001, Fifty Second Legislature, First Special Session, fully and finally resolve, satisfy and conclude all claims, causes of action, findings, rulings and judgments in the litigation.

12) Makes technical changes and conforming changes.

13) Becomes effective on the general effective date, retroactive to July 1, 2015.


15) Increases basic state aid by $248,829,400 in FY 2016 by increasing the base level per pupil amount from $3,426.74 to $3,600 and makes corresponding line item changes to Laws 2015, Chapter 15.

## Amendments Adopted by Committee of the Whole

1) Extends the deadlines for the adoption or adjustment of school district budgets in FY 2016.

2) Allows schools to carry forward additional FY 2016 budget capacity into FY 2017.

3) Allows additional budget capacity, as well as additional funding, to be used for employee compensation in both FY 2016 and FY 2017.


5) Adds a legislative findings clause.
Vote Yes/Vote No Arguments

VOTE YES PROP 123
(www.yesprop123.com)

Prop 123 is a ballot measure that, if it passes, will settle a years-long lawsuit and put $3.5 billion into Arizona’s K-12 public schools over the next 10 years without raising taxes.

The majority of the $3.5 billion funding comes from Arizona’s state land Trust fund, an invested account that earns income annually and has nearly doubled in value over the past five years.

Voting YES on Prop 123...
- Injects an additional $3.5 billion into public schools over the next 10 years
- Doesn’t raise taxes
- Protects future generations of students
- Keeps quality teachers in Arizona

What are the benefits?
Increases Classroom Spending. $3.5 billion in new money over the next decade will have a real impact on schools. Prop 123 puts more dollars into the classroom, where teachers can make a difference for students.

Keeps Quality Teachers. Teachers are fleeing Arizona because of a lack of financial support for education. This will reverse that trend and help pay our teachers what they deserve.

Takes A Good First Step. Prop 123 is a great first step that brings immediate and sustained funding into the public school system while protecting the trust for future generations of students.

VOTE NO PROP 123
(www.noprop123.com)

1) Prop 123 rewards state lawmakers who violated the state constitution and encourages them to keep doing so.

2) Defeat of Prop 123 would allow our courts to hold our lawmakers accountable and force our lawmakers to fund our schools without any strings attached.

3) Prop 123 only partially restores the base level for our schools, shorting them by at least $1 billion dollars over the next ten years.

4) Prop 123 keeps our schools in financial limbo each year, as hundreds of millions of dollars hang in the balance anytime the economy slows.

5) Prop 123 punishes our schools if we ever move closer to funding our schools like most states in the country do.

How does that work?
The amendment does not require schools to use the funding for a specific purpose. It could be used for purposes such as building maintenance, salaries or technology. The Arizona Republic reported that many schools say they would use the money for teacher raises to help fight the statewide teacher-retention crisis.

What about future generations?
2016: $5 billion, 2025: $6 billion

The nonpartisan Joint Legislative Budget Committee projects that the land trust will grow by more than $1 billion over the next ten years under Prop 123. That means we will maintain the health of the trust to fund future generations of students, the way the trust was intended.

Not only will the land trust continue to grow through the investment of the current funds, it will also grow through the sale of state lands. Right now, Arizona has over 9.2 million acres of unsold trust land worth over $70 billion backing up the current $5 billion trust. As lands are sold over the years, the proceeds will add to the fund, growing the available dollars for education as intended by Arizona’s founders.
Passage of Prop 123 will wrongly convince Arizona voters that our school funding issue has "been taken care of" and lead them to vote against things like school bond overrides and a continuation of sales tax money for our schools.

**Common Arguments for Prop 123**

*But if Prop 123 is defeated the lawsuit goes back to court and schools may not get base levels fully restored.*

**Answer:** Highly unlikely. A Superior Court judge, 3 Court of Appeals judges, and all 5 State Supreme Court Justices ruled our lawmakers need to abide by the constitution and move the base level to what it should be. Four of those same 5 Justices are still on the Court and will uphold Prop 301 and the Voter Protection Act, which requires a full restoration.

*Our schools desperately need this money and there is no other way they can get it.*

**Answer:** There is a way and it funds our schools the right way. Our state currently has over $500 million in unexpected revenue. Also, corporate tax cuts set to go into effect this year can be stopped returning a projected $1 billion to our General Fund. Last, a financially smart change to our state land trust distribution can be sent down to voters that would give an added boost to school funding. The way to fund our schools the right way is possible. We just have to be brave enough to demand it.

*Voting 'yes' sends a strong message of support for education to our legislature.*

**Answer:** We already sent that message. We voted for Proposition 301 and demanded that the legislature prioritize education funding. Today, in 2016 . . . . We have never been able to communicate with our legislators as quickly or as simply. We don't need to vote for a proposition that limits future spending and busts the land trust in order to send a message.
NOTES:

SOURCES

[Links to various sources]

NAU’s Philosophy in the Public Interest is non-partisan and does not endorse any position with respect to the issues we discuss. Philosophy in the Public Interest is a convener for civil discourse.

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