

Arizona Public School Spending, 2016-2018: What Do the Changes Mean for Families and Taxpayers?



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Executive Summary

Four changes to Arizona's K-12 education spending made between 2016 and 2018 will impact taxpayers, families, students, and schools in the coming years. The 2018 school administrator and teacher strikes in Arizona put the state's K-12 spending system in the spotlight, but state lawmakers and voters had already made significant changes to Arizona's education spending patterns in recent years, starting with a ballot initiative that voters passed in 2016. Lawmakers committed to still more increases in 2017 and again with legislation extending Proposition 301 prior to the school closures in April 2018. The spending increases enacted as part of the 2019 budget eventually ended the strike, though administrators and teachers did not elicit anything more than what lawmakers promised before schools were closed.

However, because school district offices still determine school budgets and teacher salaries, there are no guarantees that more state spending will result in increased teacher pay, nor does this additional spending address ongoing wasteful practices among school districts.

Research from Arizona and around the country continues to demonstrate there is no consistent relationship between increases in education spending and student achievement. For example, Arizona student test scores improved during the recent financial downturn when state education spending was decreasing.

These facts do not mean that education spending doesn't matter, but rather that students can be successful even during times of declining resources. Empirical research demonstrates an inconsistent relationship between student success and education spending. Future discussions about Arizona's K-12 spending should include state audits that show districts' wasteful spending

practices even during lean budget years. For example, state officials should enforce new requirements that districts repurpose vacant or underused school buildings instead of holding on to the facilities at taxpayer expense.

Lawmakers should also consider ways to simplify Arizona's spending formula with methods already applied to a small number of students through education savings accounts. This way, taxpayers, families, and teachers can better see how education spending is used and make sure the focus is on students' needs. Finally, state officials should use reports of district waste to hold school districts accountable for poor spending habits before the legislature approves any additional funds.

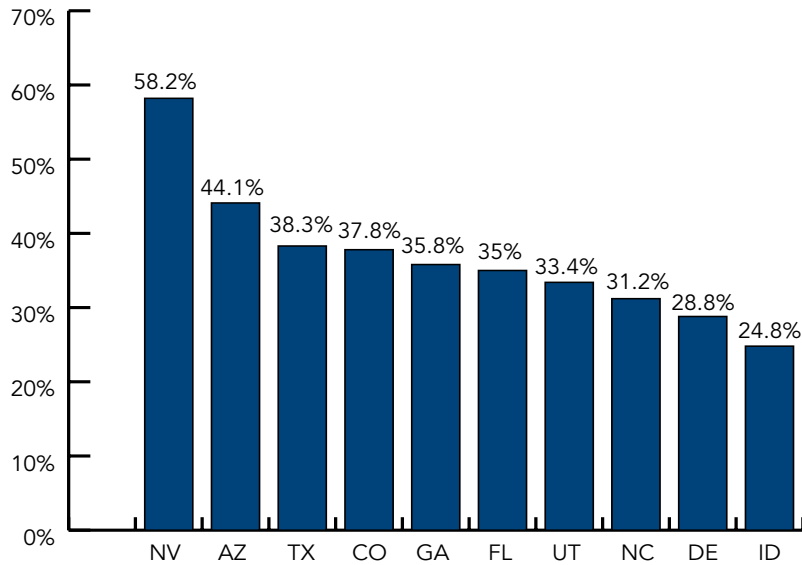
Introduction

For more than a century, Arizona has been one of the nation's top places to live and work. Arizona was the second-fastest growing state in the U.S. from 1900 to 1950 and again from 1950 to 2000, according to the U.S. Census.¹ This trend continued in the 21st century: Between 2000 and 2010, Arizona was the second-fastest growing state in the U.S. and the seventh-fastest between 2010 and 2017.² In 2017, Tempe claimed the top spot on U-Haul's ranking of the fastest-growing U.S. cities.³ For two years in a row, the U.S. Census Bureau has reported that Maricopa County is the nation's fastest-growing county.⁴

Arizona's K-12 enrollment and state budget reflect this population boom. U.S. Department of Education data show that Arizona had the second-fastest growing K-12 population in the country between 1990 and 2018 (Table 1).⁵

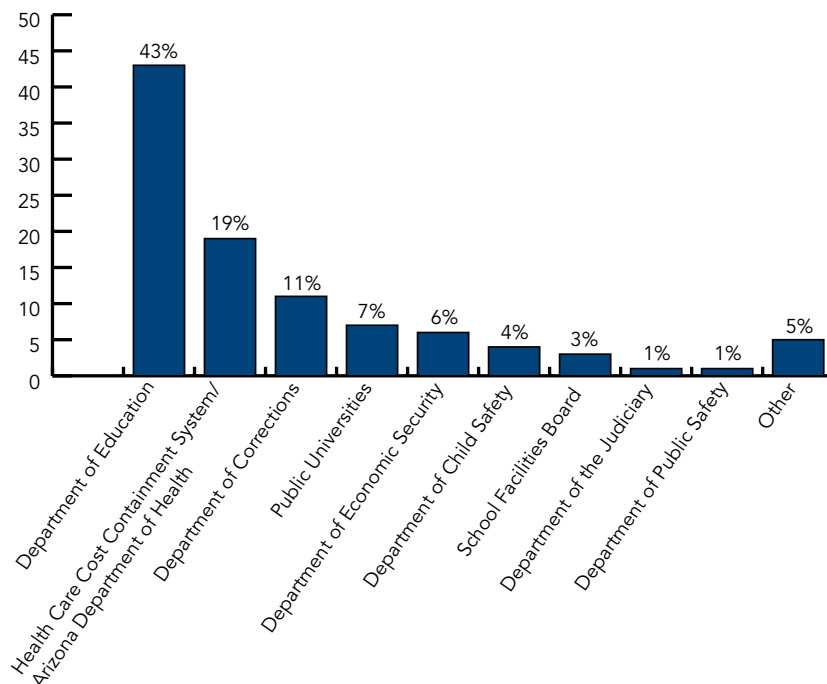


Table 1: Ten States with the Fastest-Growing K-12 Population, 1990-2018



Source: National Center for Education Statistics, 2016 Digest of Education Statistics, Table 203.20, https://nces.ed.gov/programs/digest/d16/tables/dt16_203.20.asp; author calculations. Figures from 2015-2018 are projections.

Table 2: Arizona FY 2018 Appropriations (in millions) as a Percent of the Total



Source: Arizona Joint Legislative Budget Committee, “‘Then and Now’ FY 2008 vs. FY 2018 General Fund Spending,” <https://www.azleg.gov/jlbc/18AR/bh25.pdf>.

K-12 public schools account for the largest share of Arizona’s \$9.9 billion general fund—and no other category of public service comes close. According to legislative analysts, 43 percent of Arizona’s general fund budget is being used for public schools in 2018.⁶

Public healthcare expenses represent the next largest budget category, but these expenses account for only 20 percent of state expenditures, less than half the amount allocated to K-12 schools (Table 2).

Arizona legislative analysts estimate the state general fund, local property taxes, federal sources, and other elements of the K-12 spending formula provided more than \$10.5 billion in district and charter school revenue in FY 2017, an average of \$9,528 per student.⁷

In sum, Arizona continues to be a rapidly growing state that devotes a significant share of state and local tax receipts to K-12 spending.

How much taxpayer spending should be budgeted for K-12 and how to best use the funds are hotly debated topics in statehouses around the country, and Arizona's capitol is no exception. Teacher unions and other special interest groups regularly demand more taxpayer spending on district schools as part of their lobbying campaigns.⁸

Others have also criticized Arizona lawmakers for not spending enough on K-12 schools. *Education Week's* "Quality Counts" report in March 2018 gave Arizona a D- in K-12 spending.⁹ The Morrison Institute at Arizona State University ranks Arizona 49th in teacher salaries.¹⁰ The nation's largest teacher union ranks Arizona teacher salaries 44th.¹¹ Some say Arizona cut overall education spending more than any other state between 2008 and 2015.¹² As this report will demonstrate, though, this criticism ignores poor spending habits by Arizona school districts, which persisted even during years of lean state budgets during the recent financial downturn.

This regular criticism and the state's slow recovery from the financial crisis appeared to shape political activity

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on K-12 spending from 2016 to 2018. School spending made headlines in 2018 in particular because of widespread administrator and teacher strikes calling for higher salaries. In April, Arizona became the fourth state in the U.S. to see administrators and teachers close classrooms, following West Virginia, Kentucky, and Oklahoma.¹³ Colorado and North Carolina would follow. Arizona lawmakers and voters had already set the state on a path of increasing K-12 spending prior to the strike, and lawmakers responded to the strike with more funding increases. But district school interest groups are still calling for additional spending and tax increases.

The new spending as part of the 2019 state budget is one of four significant school spending-related events in Arizona over the past three years:

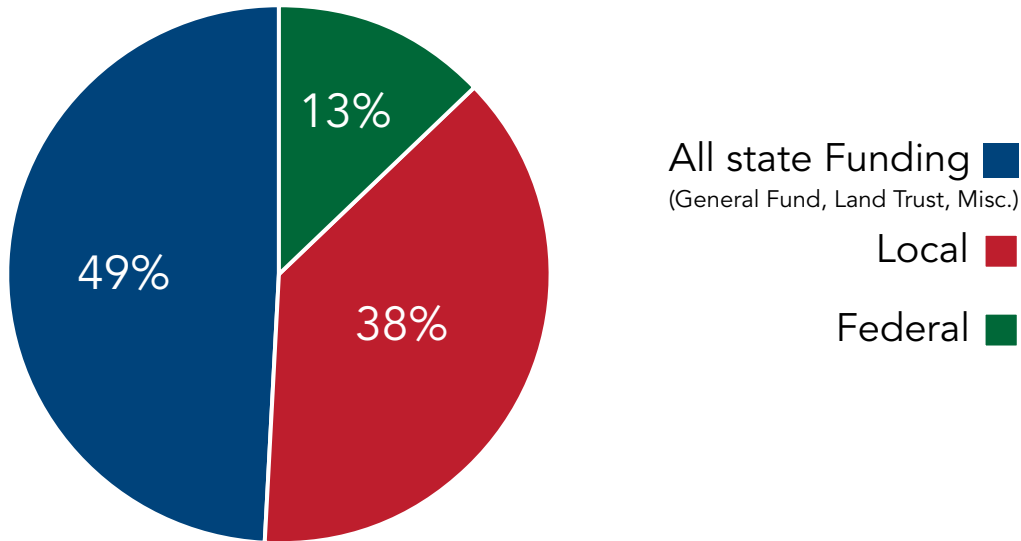
- Proposition 123
- Teacher raises in 2017
- Legislative extension of Proposition 301
- 2019 state budget

This brief will review the legislative and ballot activity and what these changes mean for taxpayers, families, students, and schools in the coming years.

Critically, the recent ballot initiatives and legislative activity are no guarantee that teachers will see improved salaries. School districts traditionally determine school budgets and have the last word on teacher salaries. The ink was barely dry on the 2018 spending increases that ended the administrator and teacher strike before one district said teachers will not see raises as large as lawmakers had promised.¹⁴

Curiously, teacher salaries had gone up in the months prior to the 2018 strike. The state's average teacher salary increased \$2,000 from 2016 to 2017.¹⁵ While administrators and teachers demanded legislators boost state spending, Arizona's general fund—the appropriations for which legislators are responsible—represents less than half the average total education spending on each student. District and charter schools also see revenue from local property tax collections, changes to the tax code via voter ballot initiatives, distributions from the state land trust, and federal taxpayer funds (Table 3).

Table 3: Sources of Average Arizona School Spending Per Student



Source: Arizona Joint Legislative Budget Committee, “K-12 Funding (M&O, Capital, and Other), FY 2009 through FY 2018,” August 30, 2017, <https://www.azleg.gov/jlbc/allfunding.pdf>.

School district offices have significant control over all of this spending via their schools’ budgets, regardless of legislative spending increases. And Arizona district officials have a poor record of committing funding to classroom-related expenses (see “Arizona and classroom spending” below).

These facts do not mean that education spending doesn’t matter but that students can be successful even during times of declining resources. For example, average Arizona student achievement on a national indicator improved faster than any state in the country in recent years when per student spending was decreasing (see “*Will district spending increases result in higher test scores?*” below). Arizona public charter schools, which use \$1,000 less per student than district schools, had higher levels of student achievement between 2009 and 2017 than Arizona district schools or the national average. An enduring principle is that the way school leaders and teachers use resources is more important to student success than how much money is used.

State audits show that districts practiced wasteful spending even during lean budget years. Officials should enforce new requirements that districts expedite the sale or repurposing of vacant or underused school buildings instead of holding on to facilities at taxpayer expense. Lawmakers should consider ways to simplify Arizona’s spending formula, using existing methods

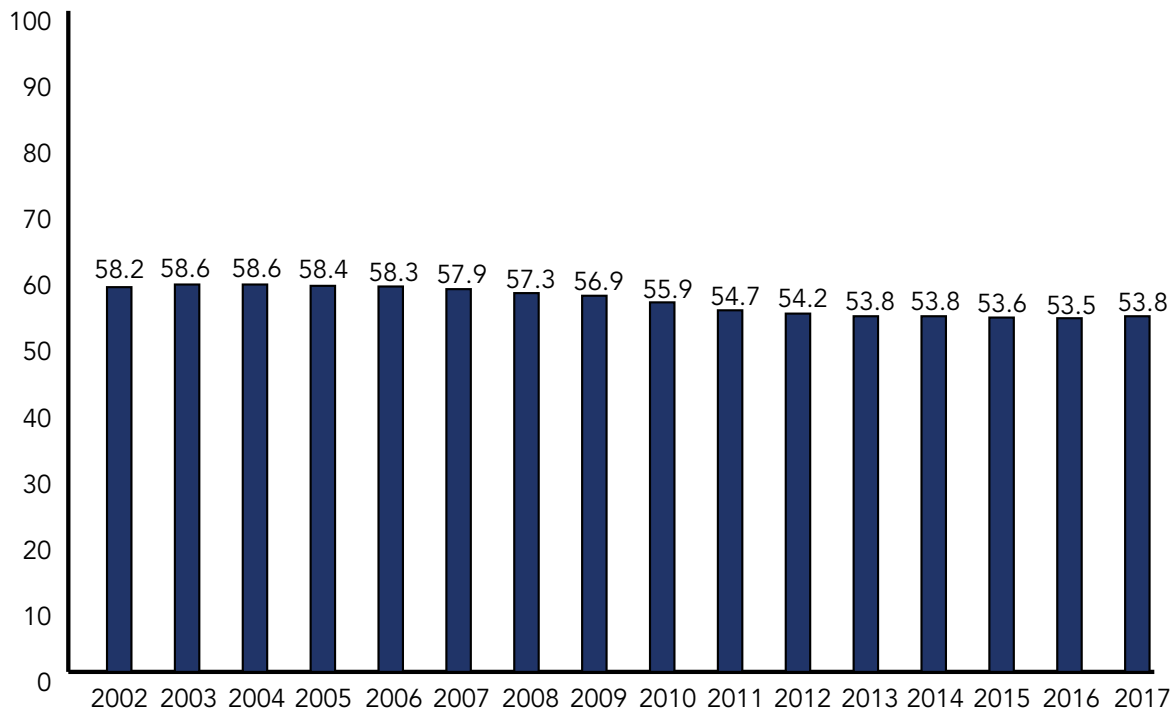
already applied to a small number of Arizona students through education savings accounts, so that taxpayers, families, and teachers can better see how education spending is used and make sure the focus is on student needs. Finally, lawmakers should look to audits and other reports demonstrating poor district spending and hold school districts to account for these habits before looking for new sources of state revenue.

Arizona and classroom spending

The key changes to Arizona education spending in the last three years should be considered in light of school district budgets, which ultimately determine teacher pay and have demonstrated low spending on classroom expenses for more than a decade. The 2018 administrator and teacher demonstrations were aimed at state officials, but Arizona lawmakers do not determine teacher pay. Arizona lawmakers do not even set a statewide minimum, as is the case in West Virginia and other states that saw teacher strikes and walkouts prior to Arizona’s in April 2018.¹⁶

For more than a decade, the Arizona Auditor General has monitored how districts use taxpayer money for education. The auditor reports that districts on average spent 53.8 percent of every dollar of education spending in the classroom in 2017, a year-over-year increase of 0.3 percentage points (Table 4).¹⁷

Table 4: Percent of Classroom Spending Districts Used for Classroom Expenses, 2002-2017



Source: Arizona Auditor General School District Spending reports, 2002-2017, <https://www.azauditor.gov/school-district-performance-audits-special-studies>.

The slight increase in 2016-2017 classroom spending was the first uptick in 13 years. The auditor reports, “Since its peak in fiscal year 2004, the State’s instructional spending percentage has declined 4.8 percentage points, while the percentages spent on all other operational areas have increased.”¹⁸

Some of these “other operational areas” deserve a closer look. School facilities are a prime example. While Arizona has been a rapidly growing state overall, not every locality has seen consistent increases. Tucson Unified School District K-12 enrollment dropped by approximately 14,000 students in 2000-2001 and 2015-2016,

according to data from the U.S. Department of Education.¹⁹ The auditor general found the district continues to use taxpayer money on vacant and underused school buildings:

In fiscal year 2016, Tucson USD’s plant operations cost per pupil was 31 percent higher than the peer districts’ average because it maintained a large amount of excess building space. ... Specifically, the District’s high schools operated at an average of only 52 percent capacity in fiscal year 2016 (Table 5).²⁰

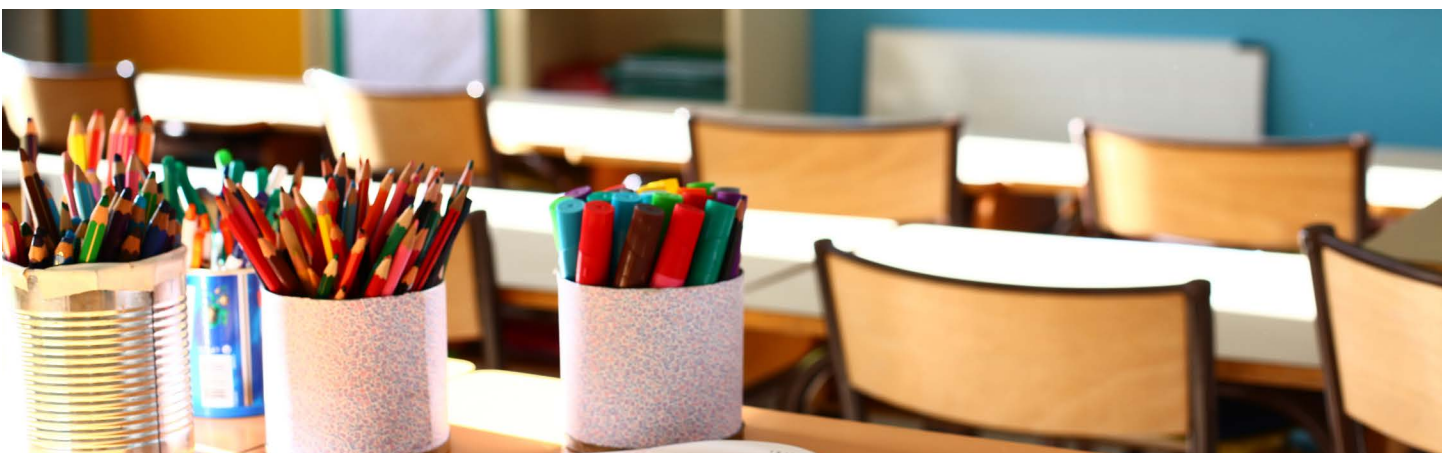
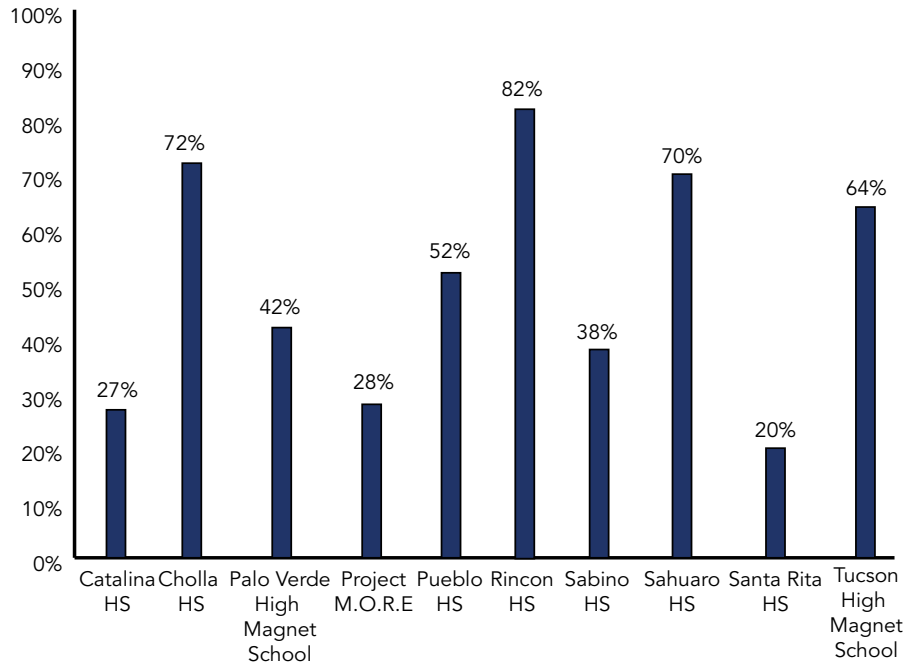


Table 5: Tucson USD High School Facility Usage, FY 2016



Source: Arizona Auditor General, *Performance Audit: Tucson Unified School District*, March 2018, Report No. 18-204, https://www.azauditor.gov/sites/default/files/18-204_Report.pdf. “Auditor General staff analysis of fiscal year 2016 Arizona Department of Education student membership data and fiscal year 2016 building capacity information obtained from the Arizona School Facilities Board.”

The state auditor general reported in May 2015 that Scottsdale Unified School District also spends more than other districts on vacant school buildings. In fiscal year 2012, Scottsdale USD had total school building capacity of about 38,000 students but only had about 25,000 students enrolled, or in other terms, the District was using about 66 percent of its building capacity. Maintaining more building space is costly to the District because the majority of its funding is based on its number of students, not the amount of square footage it maintains. Had Scottsdale USD maintained a similar amount of school building space per student as its peer districts averaged, it could have saved approximately \$3.8 million, monies that the District otherwise potentially could have spent in the classroom.²¹

Administrative expenses are also a source of nonclassroom spending:

- ❑ In Mobile Elementary School District, the auditor found the district spent more than \$17,000 per student in administrative expenses alone—almost six times more than districts similar in size and scope.²² The auditor said the “high costs were also the result of the District employing a full-time superintendent with a

relatively high salary,” noting that the district increased the superintendent’s salary by 24 percent in 2017.²³

- ❑ In Roosevelt Elementary School District, administrative costs were 44 percent higher per student than comparable districts, “primarily because [Roosevelt] had higher administrative staffing.”²⁴ The district also spent \$13.5 million for “desegregation activities,” but the district does not have a desegregation plan, and state auditors could not determine how the expenses dealt with desegregation issues.
- ❑ An audit of Red Mesa Unified School District found vacant facilities and high administrative costs. Red Mesa operated at just 43 percent capacity in 2015 and had plant operational costs 88 percent higher than comparable districts.²⁵ The district’s administrative costs per student were more than twice as high as those of comparable districts.

Even after decreasing state education spending in the wake of the 2007-2009 financial crisis, districts demonstrated these poor spending habits—which are just a few examples of wasteful district spending that

warrant a reconsideration of the critical comments from state and national groups calling for more education spending in Arizona.²⁶ Special interest groups' demands for tax and other revenue increases to pay for K-12 schools in future years should be tempered by evidence of districts' ongoing record of waste and consistently low classroom spending.

What has changed since 2016?

Proposition 123

In 2016, Arizona voters approved Proposition 123, a ballot measure that changes the amount of education spending coming from the State Land Trust and also requires additional spending from the state general fund until 2025.²⁷ Most of the new spending will come from changes to state withdrawals from the land trust.

Approximately 13 percent of the land within Arizona's borders is held in trust, which means the state sells or leases the land for agriculture, cattle grazing, commercial use, and other purposes.²⁸ Lawmakers use the money generated from this trust to help pay for district and public charter schools.

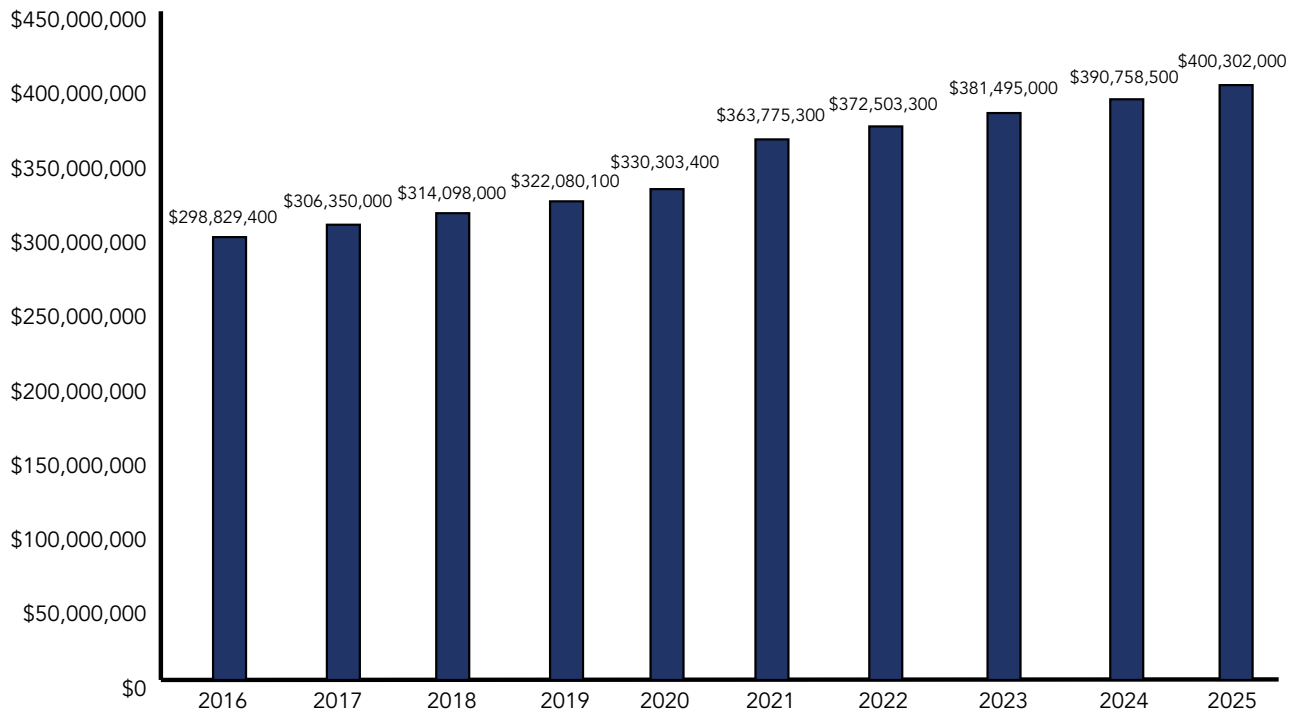
Prop 123 increased the annual land trust distribution used for K-12 public schools from 2.5 percent to 6.9 percent for 10 years.²⁹ After 10 years, the distribution level will return to its position prior to Prop 123.

The ballot measure helped settle a school-funding lawsuit that districts filed in 2010.³⁰ Districts claimed that state lawmakers had not increased education spending to keep pace with inflation, a requirement from another ballot proposition (Proposition 301, which passed in 2000; see "*Proposition 301 extension*" below). An Arizona Senate staff policy brief says that lawmakers and districts agreed on a settlement to the lawsuit in 2015, and the provisions at the center of the settlement became Prop 123.³¹

In dollar figures, the additional revenue from Prop 123 will total \$3.5 billion to Arizona public schools over the next decade, an average of \$350 million per year.³² The additional spending represents 3-4 percent of the total amount spent by Arizona district and charter schools annually (Table 6).³³

While Prop 123 adds revenue to the state formula, the proposition does not require that school districts use

Table 6: Estimated Annual Increases to Arizona K-12 Spending Due to Prop 123



Source: Arizona Joint Legislative Budget Committee, "Prop 123 Funding Projections," December 3, 2015, <https://www.azleg.gov/jlbc/16mayprop123yrlvest.pdf>.

This pay raise was outside the norm and is not how schools are funded in Arizona. It created cumbersome language to ensure that the dollars went to the intended recipient. Not only was this just bad policy because the state doesn't fund teachers (it funds students), but also because it reinforced this idea that state lawmakers dictate what teachers' salaries are.

the spending for any specific purpose—such as teacher salaries. In fact, in explaining the proposition, Gov. Doug Ducey's office's website says, "The plan does not prescribe the funds to be used for a specific purpose."³⁴ A common feature of Arizona's funding formula remains unchanged by this proposition: School districts have the final say on school budgets and teacher salaries.

Thus, this proposition increases the revenue that districts will receive but does not alter the circumstances under which districts spend significant amounts on empty buildings, for example. The potential remains for districts to commit just half of each education-spending dollar to classroom expenses, as they have consistently done.

2017 teacher raises

Last year, Arizona lawmakers enacted S.B. 1522 near the close of the legislative session as part of the budget and appropriations process.³⁵ This general appropriations bill included a plan to increase teacher pay over two years.

The bill required district and charter schools to increase teacher salaries by 1 percent in FY 2018 and another 1 percent by FY 2019.³⁶ While the first part of this pay raise requirement remains in place, the latter requirement was superseded by Gov. Ducey's #20x2020 efforts (see "*2019 budget*" below).

While the pay raise requirement changed teacher salaries, Goldwater Institute analysis explains that more harm than good comes from such legislation: "This pay raise was outside the norm and is not how schools

are funded in Arizona. It created cumbersome language to ensure that the dollars went to the intended recipient. Not only was this just bad policy because the state doesn't fund teachers (it funds students), but also because it reinforced this idea that state lawmakers dictate what teachers' salaries are."³⁷

For example, S.B. 1522 created new state laws mandating that district and charter school board members take a separate vote during board meetings on pay raises instead of allowing local policymakers to determine the best way to execute regular meetings.³⁸ The bill also requires districts use the money to supplement other spending, not replace it, regardless of where school leaders need to use new resources. School districts that do not receive any money from the state general fund will have to use dollars from local tax receipts to cover the salary increases, whereas districts and charter schools in the rest of the state will receive additional monies from the general fund (for more on "non-state aid districts," see "*Proposition 301 extension*" below).

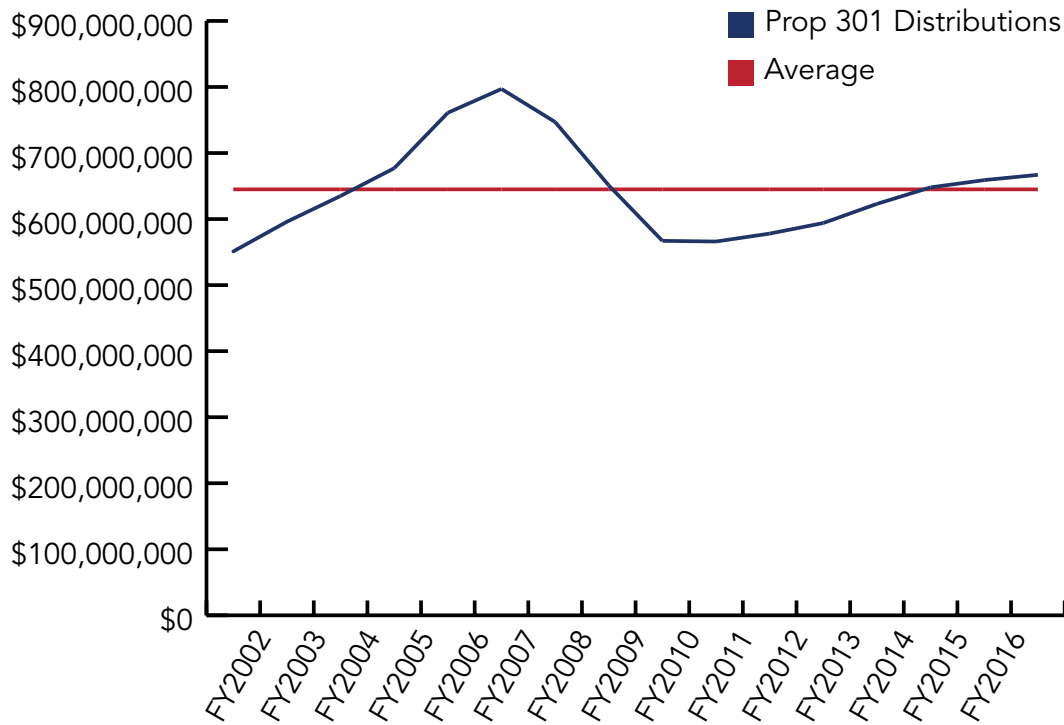
While everyone appreciates a raise, teachers should be rewarded for job performance just like workers in other professions. Teachers should be treated as professionals and see pay increases based on job reviews. Giving every teacher a raise no matter how hard they work devalues their efforts because effective teachers will receive the same benefits as those who are less effective.

Of all the changes to Arizona 2016-2018 school spending, the pay raise in S.B. 1522 is likely the least consequential in terms of financial impact and lasting results because the 2019 budget replaced the second half of the intended raises. However, the bill's provisions should not be replicated; its language is problematic, ultimately restricting how schools use resources to best serve students and inviting future complaints to the legislature for more spending for teacher pay, as evidenced by the 2018 administrator and teacher strikes.

Proposition 301 extension

In 2018, Arizona lawmakers enacted S.B. 1390, extending a sales tax that provides money for public schools.³⁹ Voters created this 0.6 percentage point sales tax increase (raising the sales tax from 5 percent to 5.6 percent) in 2000 through Proposition 301.⁴⁰ This proposition was set to expire in 2021, but S.B. 1390 extends the tax to 2041.⁴¹

Table 7: Prop 301 Distributions, FY 2002 to FY 2017 (adjusted for inflation as of January 2017)



Source: State Treasurer of Arizona, Proposition 301 Distributions, <https://aztreasury.gov/local-govt/revenue-distributions/prop-301/>.

Prop 301’s total disbursements have averaged \$645 million per year since 2002 after adjusting for inflation (Table 7).⁴² In 2017, the K-12 disbursements from Prop 301 accounted for approximately 5 percent of Arizona’s total state, local, and federal K-12 public school spending.

Data from the Arizona Treasurer’s office indicates Prop 301 distributions for K-12 expenditures average approximately \$500 per student.

Prop 301 is different from Prop 123 in that it requires districts and charter schools use the revenues for 11 education-related purposes—in order.⁴³ The state must use Prop 301 monies first for debt service on bonds issued to build district school facilities, then distribute a portion to public universities and community colleges, followed by payments to the Arizona Department of Education, etc.

The last recipient of Prop 301 distributions is called the “classroom site fund,” which accounts for the largest share of this revenue. The proposition requires districts and charter schools to use 40 percent of district allocations from the classroom site fund for

teacher salary increases “based on performance” and 20 percent of the allocations for increases to teacher base salaries.⁴⁴ Schools can use the remaining 40 percent in a variety of ways, including dropout prevention efforts and teacher liability insurance premiums.⁴⁵

The 2018 legislation that extended Prop 301 until 2041 will have the same effect on schools as the original proposition until 2021. That year, the debt service payments on district bonds will be complete, so the funds previously directed to that expense will be sent to the classroom site fund.⁴⁶

S.B. 1390 caused one other important change to Arizona spending: Lawmakers renewed Prop 301’s provisions with legislation instead of voters renewing it at the polls. As a result, Prop 301 is no longer protected by Arizona’s “Voter Protection Act,” which says that when voters pass laws via ballot measures, the governor and legislature cannot change those laws.⁴⁷ Thus legislators can revise the uses of the revenue from S.B. 1390/Prop 301 in the future.

For taxpayers, the sales tax increase created in 2000 is likely to persist for at least another 20 years. And what-

ever voters' intent for school spending in the original proposition can be eclipsed by future legislative activity.

2019 budget

The 2019 Arizona budget is a reflection of Gov. Ducey's plan to increase teacher salaries and the legislative activity surrounding the strikes that closed schools this year.⁴⁸ The provision with the most significant boost to education spending and most relevant to potential teacher salary changes is the increase to the "Base Support Level" (BSL) part of the formula. The legislature sets the BSL each year. The 2019 budget increased the BSL by approximately \$300 per student in FY 2019, from \$3,600 to \$3,900.⁴⁹

This increase, along with expected annual adjustments for inflation to the BSL, result in the potential for teacher increases of up to 20 percent by 2020 (which inspired the title of Gov. Ducey's plan to end the teacher strike, #20x2020).⁵⁰ The governor's office projects state tax revenues will grow by 4.3 percent in 2019, 4.4 percent in 2020, and 4.5 percent in 2021 to help pay for the spending increases.⁵¹

Also, the legislature had previously planned to reduce education spending in 2018, 2019, 2020, 2021, and 2022, but the 2019 budget restored a portion of that spending.⁵² The budget also includes \$86 million for the construction of new schools, a notable inclusion considering the reports provided above demonstrating some districts are underusing existing buildings.⁵³

Of critical importance to taxpayers, families, and teachers is the fact that the budget increases do not require that school districts spend the additional money on teacher salaries. The Arizona School Boards Association reported, "House Bill 2663 [the legislation containing the spending increases] does not define who a teacher is."⁵⁴

On the night legislators passed the budget, lawmakers said teacher raises are still districts' responsibility. "Districts ... would have the final say on how to spend the money. There was no guarantee—nor was it even a mathematical possibility—that every teacher in the state would receive exactly a 20 percent pay raise," said the *Arizona Republic*.⁵⁵

What does this mean for me and my family in the future?

Teacher raises will vary.

Despite the high-profile #RedforEd walkout demanding better teacher pay, some districts said teachers would not see raises on par with lawmakers' promises in the 2018 budget. Gov. Ducey's office emphasized that his #20x2020 plan was meant to give a "20 percent boost in teacher pay over the next three years—including 10 percent in school year 2018."⁵⁶

Yet just one week after Ducey signed the budget, Tucson Unified School District (TUSD) officials said they would not guarantee all the new money would go to teacher raises. The *Arizona Daily Star* reported, "Tucson Unified School District Superintendent Gabriel Trujillo said he expects to spread that money around to all 'educators' who touch the lives of children—even the janitors."⁵⁷ So not all teachers would see raises as large as lawmakers proposed.

Reinforcing this point is the absence in the legislation of any requirement that districts use the new funding for teacher raises. Arizona legislative analysts told lawmakers, "There's no language that says you have to give X percent pay raise."⁵⁸ An *Arizona Republic* report projects that 59 districts would not receive enough new spending to give every teacher a 20 percent raise.⁵⁹

Using data from Arizona public agencies, we can demonstrate how salary increases will vary from district to district and may not always result in raises equal to the 20x2020 projections. In order to provide every teacher with a 20 percent raise by 2020, the governor's office has scheduled increases to teacher pay of 1 percent in 2017 (described above in *2017 "Teacher Raises"*), 9 percent in 2018, 5 percent in 2019, and 5 percent in 2020.⁶⁰ Data are not available for what districts will receive in 2020 yet, but we have estimates for projected funding in 2019 to see whether a district will be on schedule to increase pay by 20 percent by 2020.⁶¹

Some districts will be ahead of schedule in 2019, such as Yuma Elementary School District. There, teachers will see raises equal to almost 17 percent in 2019.⁶² In Chinle Unified, teachers are expected to see a 7 percent increase next year, which means to reach 20 percent by



2020, this district would need to see higher increases in the ensuing years.⁶³

Even before #RedforEd, the average Arizona teacher salary had increased in recent fiscal years. According to the state auditor, the average Arizona teacher salary increased from \$46,384 to \$48,372 between FY 2016 and FY 2017.⁶⁴ The auditor attributed the raise to Prop 123 and said, “Districts’ operational spending increased by \$341 million with \$200 million of the increase spent on instruction.”⁶⁵ So even without the governor’s #20x2020 plan, the average teacher salary saw a raise last year based on revenues from Prop 123.

Again, school districts set their budgets and have the last word on teacher pay. News reports demonstrated this after the passage of Prop 123. The *Arizona Republic* reported in 2016, “Some districts will use most of their money for other purposes, ranging from textbooks to computers to school buses, according to an *Arizona Republic* survey of district spending plans.”⁶⁶

As Goldwater Institute research has demonstrated, districts that are similar in size and location pay teachers differently, regardless of revenues.⁶⁷ For example, Tempe Elementary School District (TESD) and Alhambra Elementary School District have similar student enrollment levels and are located just 20 miles from each other. TESD received 25 percent more revenue per student according to the state auditor but paid its teachers almost \$20,000 less on average. Goldwater research has identified similar situations in districts across Arizona.

Nothing in the Arizona legislature’s 2019 budget requires a school district to change this arrangement. Thus Arizona lawmakers may have directed more

revenue to district and public charter schools, but lawmakers cannot guarantee how schools will use those funds.

Special interest groups still demand more money for district schools.

Demands from district school interest groups for more money did not begin—or end—with the governor’s #20x2020 plan. Teacher unions and other interest groups have called for higher levels of public education spending for decades. For example, in 2012, when Arizona per student spending was nearly \$500 higher than today, the leader of a voter initiative to raise taxes to generate more education spending said, “We have reduced education funding levels to the point where they’re really not sustainable for our students and our teachers.”⁶⁸

Not only did schools remain open in the ensuing years, but interest groups continued their campaign for more spending. In 2017, a group of private business leaders called for a tax increase to spend more on district schools.⁶⁹ The group, which includes the former president of the Arizona State Board of Education, proposed a 1.5 cent sales tax increase be put on the 2020 ballot—a sales tax that, after the 2018 legislative session, would be in addition to the 0.6-percentage point sales tax increase legislators extended through S.B. 1390 (the Prop 301 extension).

Also in 2017, an Arizona teacher union official said, “We have had years of neglect by politicians like Governor Ducey who have created a huge gap in teacher pay.”⁷⁰ At the time, the union was calling for a 20 percent teacher pay raise. Even after Ducey proposed a 20 percent pay raise—exactly what the union was demanding—the union still supported the April walkout.⁷¹

In the midst of the walkout, district school interest groups announced a new initiative to raise taxes on Arizonans that earn more than \$250,000 per year and households with incomes of \$500,000 or more.⁷² Teacher unions said they would “likely support the effort.”⁷³

Before, during, and after the April 2018 walkout, teacher unions and other district school interest groups demanded more education spending. Clearly #Red-

forEd is not the end of special interest groups' demands that taxpayers spend more on district schools.

Will my taxes go up? Maybe.

During the campaign to build support for Prop 123, advocates said the measure would not raise taxes.⁷⁴ As explained above, the state general fund and local property tax receipts (along with federal sources) fund most of Arizona's 200 traditional school districts. However, the Arizona Tax Research Association reports that approximately 39 districts have local tax receipts through what is known as the "Qualifying Tax Rate" (QTR) so that the districts do not generate additional money from the state general fund.⁷⁵

The QTR is part of Arizona's complex school funding formula, and the Arizona Legislature and the Arizona Tax Research Association have comprehensive guides to this formula that are beyond the scope of this paper.⁷⁶ In brief, the QTR is set by statute, and districts generally levy this tax rate each year (though technically, they do not have to).⁷⁷ District and state officials use the revenues from this tax to determine how much money from the state general fund a district will receive. The QTR totals are subtracted from a basket of other state spending sources, and the overall state contribution is assigned based on the difference.

Some districts generate enough local tax revenue so that they do not receive any state spending. Typically, these "non-state aid districts" have higher property values than other districts that receive funding from both state and local sources. As a result, non-state aid districts pay for their schools' operating budgets without money from the state general fund.

But this also means that when the state's BSL increases—that is, when the amount that districts are allowed to budget for each student increases—local taxpayers in non-state aid districts may see their property taxes increase as the base increases.⁷⁸ This is because local taxpayers must cover the increase to the BSL exclusively with local tax revenue.

This may not be the only situation in which your taxes may go up. As explained above, district school interest groups are trying to raise taxes on individuals and families with incomes of \$250,000 and above. Should this proposal succeed on the ballot in the 2018

election, taxes will go up for these individuals, as well. Additionally, taxes may go up for all Arizonans if the aforementioned effort to increase the sales tax by 1.5 cents succeeds.

Will district spending increases result in higher test scores? No guarantee.

Arizona student results on a national indicator have been increasing in recent years, even during the years when per student spending decreased from one year to the next. Between 2009 and 2013, Arizona fourth-grade math scores increased by 10 points, on average—the largest gain for any state in the U.S. during that period.⁷⁹ During these years, per student spending decreased by almost \$2,000 after adjusting for inflation for the current year according to JLBC figures.⁸⁰

Likewise, six of the top 10 public high schools in the U.S. are Arizona charter schools, funded at \$1,000 less per student on average than district schools (one other charter school in Texas made the top 10; around the country, it is common for charter schools to receive less revenue than district schools, as one report found that charter schools in urban areas are funded \$5,721 less per student on average than district schools) (Table 8).⁸¹

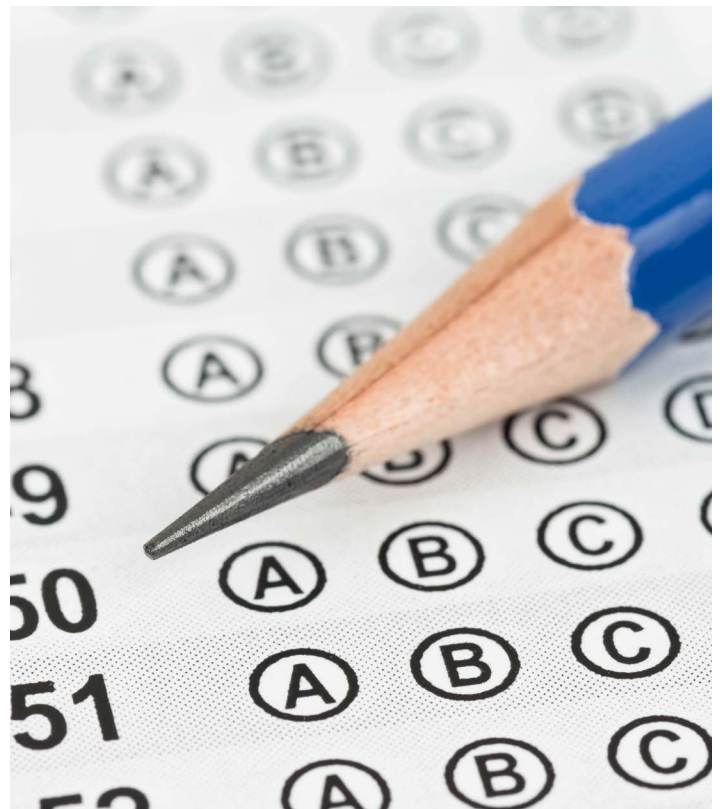
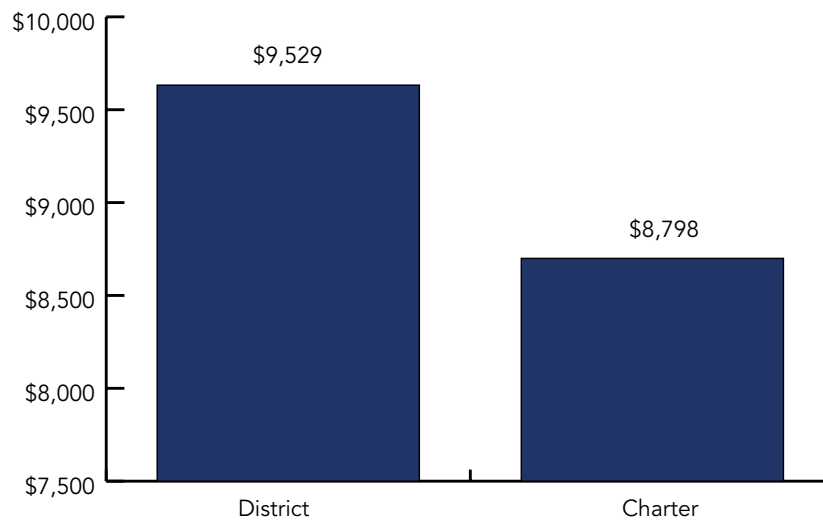


Table 8: Arizona Per Student Funding, District vs. Public Charter Schools



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

In Arizona and around the U.S., results demonstrate an inconsistent relationship between student success and district school spending. Between 2010 and 2015, U.S. high school graduation rates increased by 5 percentage points, while per student spending decreased nationwide during this period by approximately \$800.⁸² Nationwide, average student scores in math increased between 2000 and 2003, despite a recession in 2001.⁸³

As spending in Arizona public schools decreased slightly from 2013 to 2015, scores have been flat on a national indicator.⁸⁴ The lesson from these variations in student test scores and spending changes is that increases (or decreases) do not automatically translate into higher (or lower) student achievement.

Furthermore, existing research does not demonstrate a positive relationship between increases in taxpayer resources for district schools and student performance. The most recent—and headline-grabbing—research on this issue asked whether court-mandated funding increases affected students’ financial standing later in life.⁸⁵ “Boosting Educational Attainment and Adult Earnings,” by C. Kirabo Jackson, et al., reviewed court-ordered spending increases around the U.S. from the 1970s and students’ incomes and poverty status today (if applicable) from the districts involved in the court orders.

While Jackson’s study found a positive relationship between increased spending and better later-life outcomes, social scientists questioned the study’s research technique for not appropriately accounting for the impact of certain variables on the results.⁸⁶ For example, Jay P. Greene, Ph.D., from the University of Arkansas says the study doesn’t appropriately separate the cause and effect of more spending.⁸⁷ The study does not prove, he says, that court-ordered spending increases on schools is significantly different from spending increases ordered by legislatures (and studies of spending increases from legislative activity on student results have not found a consistently positive relationship). Still other researchers said the court cases were decided so far before the outcomes of individual income and poverty statistics that the results are “of limited use for informing policy.”⁸⁸

Thus the large body of evidence demonstrating an inconsistent relationship between student outcomes and education spending is still reliable. “The primary governmental decisions often relate to the resources that are devoted to schooling, but the research indicates little consistent relationship between resources to schools and student achievement,” writes Stanford’s Eric A. Hanushek in the *Handbook of the Economics of Education*.⁸⁹

Furthermore, surveys demonstrate that parents are concerned with more than just test scores when it comes to choosing how and where their child learns. In a 2015 survey of Georgia families using private school scholarships similar to those available through Arizona’s tax credit scholarship law, researchers found that the “top five reasons why parents chose a private school for their children are all related to school climate and classroom management...standardized test scores is one of the least important pieces of information upon which parents base their decision.”⁹⁰ Similar results were found in Indiana.⁹¹

Policy Recommendations

Demanding more education spending is not a sustainable or effective strategy to increase teacher salaries or improve student achievement. Instead, here are three recommendations for improving Arizona’s K-12 education formula:

1. *Make the formula student-centered.*

Arizona was a pioneer in new approaches to K-12 spending with the passage of the nation’s first education savings accounts in 2011. With an account, the state deposits a portion of a child’s funds from the state education formula into a private account that parents use to buy education products and services for their children. Today, some 3,500 children are using an account.⁹³

Instead of a myriad of state, local, and federal formulas sending different streams of taxpayer spending to districts that then determine school budgets and the ensuing spending levels, parents can use their child’s funding from the state component of the formula and customize their child’s education.



Parents can hire a tutor for their child, pay tuition at an online school or private school, save for college, or buy individual public school services such as classes or extracurricular activities.⁹⁴

Because so many learning options are available to Arizona parents and students, this student-centered approach to education spending should be replicated and expanded. For example, one-third of all Arizona public schools are public charter schools— independent public schools of choice.⁹⁵ These schools enroll 17 percent of the public school population. Parents can live in one city and send their child to a charter school located anywhere in the state, subject to space.

Open enrollment is another widely used education option in Arizona. While data are not available to measure the rate of K-12 student transfers statewide, evidence exists in some districts to give a sense of the size of student mobility rates.⁹⁶ For example, in 2014, Scottsdale Unified School District (SUSD) reported the district has a net loss of 5,000 students each year due to open enrollment, charter schools, homeschooling, and private schools.⁹⁷

Spending systems that require taxpayers to pay for schools near their homes—even when their child learns somewhere else—result in lower spending levels for some education options. An example of this is districts that receive a significant number of out-of-district students through open enrollment. Other districts may receive more resources than student enrollment may call for. This does not provide an incentive for districts to make effective use of district budgets.⁹⁸

Arizona lawmakers should simplify the spending formula by giving students the option to use an education savings account as soon as they turn school-age. Families could use the account to pay for full-time attendance at any district, charter, or private school or customize their child’s learning experience with any combination of the existing options in the account law.

Additionally, if a parent chooses a school other than their assigned district school, state officials

should collect that taxpayers' local property assessment and pay the receiving district or charter school. This would help schools in growing districts and reduce the ability of declining districts to have wasteful spending patterns.

2. *Make better use of vacant public school buildings.*

SUSD and TUSD are just two examples of districts that have more district K-12 space than they need. Similar to the Scottsdale report from 2015, the auditor noted the relationship between vacant space in TUSD and the state's funding formula, saying, "Maintaining more building space is costly to [TUSD] because the majority of its funding is based on its number of students, not the amount of square footage it maintains."⁹⁹ Goldwater research from 2013 found that Mesa Unified School District had the equivalent of 22 empty school buildings, while Paradise Valley had the equivalent of 11 empty buildings.¹⁰⁰

Heritage Foundation and Goldwater Institute research has found that districts across the country are slow or noncompliant when it comes to repurposing, selling, or leasing vacant public school buildings.¹⁰¹ In Arizona's most recent legislative session, lawmakers added language to existing law that should further compel districts to sell empty or underused facilities.¹⁰² H.B. 2460 says that districts cannot accept a purchase offer for a district building that is less than an offer made by a public charter or private school. The bill also says that districts cannot pull a vacant facility off the market just because a private school or charter school has made the best offer.

Already, TUSD is trying to sell a school building before H.B. 2460 becomes official in August 2018.¹⁰³ Lawmakers should be sure to enforce this legislation and hold districts accountable for their actions with public facilities.

3. *Withhold spending increases from districts with poor budget track records.*

Arizona lawmakers should withhold new spending from districts with wasteful spending patterns. Lawmakers should not distribute resources from

S.B. 1390/Prop 301 extension, Prop 123, and the 2019 budget increases to the BSL to districts that have underused buildings, unaccounted for spending coded as desegregation efforts, or significantly higher levels of administrative spending compared to similar districts.

Lawmakers should not require districts to spend certain amounts in the classroom or on specific activities, but policymakers can hold districts accountable for poor choices with taxpayer funds. More than a decade ago, legislatures in some 20 states considered what was known as the "65-cent solution," which would require schools and districts to spend 65 cents of every dollar of education spending on classroom expenses.¹⁰⁴ This ill-conceived idea takes decision-making authority away from school leaders and could result in school officials spending money on services they do not need, just to comply with the mandate.

Some schools may need to spend more on food service, transportation, or textbooks than other schools, but school leaders should make these decisions, not legislators or even school district administrators if the administrators are not consulting with school leaders.

Again, schools and districts should be held accountable for how effectively they use taxpayer resources to help students succeed. While some schools may need to spend more on facility upkeep, for example, no district should be paying for significant amounts of empty space. Some schools may need to spend more on school lunches because they have higher enrollment levels than other schools, but no school should be wasting money on extra meals that go uneaten, as the Arizona auditor has discovered is sometimes the case.¹⁰⁵

Conclusion

K-12 school spending has made regular headlines in Arizona since 2016. For some taxpayers and families, higher taxes may be a result. For teachers seeking higher salaries, there is no guarantee they will see the raises lawmakers have tried to issue through legislation, because district offices continue to steer school budgets.

This brief is skeptical of the notion that increasing Arizona teacher pay will quell demands for more spending on K-12 schools for the following reasons:

1. At least one district has already said it plans to provide raises to all employees, reducing the amount that can be used for teachers. Local media reports also indicate the new state spending is not enough to provide every teacher with a 20 percent raise by 2020.
2. School district offices set school budgets, and research demonstrates many districts have wasteful spending patterns. These habits include underusing school facilities or continuing to operate empty buildings, along with significant expenses for administrator salaries.
3. For the 15 years prior to FY 2016-2017, when classroom spending increased slightly, districts had steadily decreased the amount of money spent on classroom expenses, such as teacher salaries.

Taxpayers should also be leery of seemingly temporary increases to education spending. The 0.6 percentage point sales tax increase from 2000 in Proposition 301 was set to expire in 2021, but lawmakers extended it to 2041. Voters approved Proposition 123 three years ago, and the increased distribution from the state land trust is set to expire in 2025, though temporary spending increases passed at the ballot seem anything but temporary. What is more, school district interest groups are working on another tax increase for education spending on the 2018 and 2020 ballots.

Lawmakers should consider ways beyond just spending increases to give every child the chance to succeed in Arizona. Arizona has a varied landscape of learning options, and the state's spending formula should be updated to accommodate parent and student choic-

es. Arizona already has an example of a simpler, student-centered model in education savings accounts. Lawmakers should apply this model more widely while also holding districts accountable for budget decisions.

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