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ARIZONA TAX RESEARCH ASSOCIATION

ATRA OPPOSES HB2563/SB1080

The proposed “full penny” TPT (sales) tax increase proposal is poor public policy for three distinct reasons: the tax increase provides no necessary education reforms, it undermines the Classroom Site Fund, and unnecessarily dilutes the K-12 share.

A full penny sales tax could raise a conservative \$1.2 billion ongoing. The following is a breakdown of a before and after using FY2019 JLBC data.

	FY2019	Penny Tax Proposed		
SFB Debt Service	\$ 64,119,600			
Universities	\$ 82,587,800	\$ 222,743,900		
Community Colleges	\$ 24,647,000	\$ 55,585,975		
Tribal Assistance	\$ 796,600	\$ 2,000,000		
Additional School Days	\$ 86,280,500	\$ 86,280,500		
School Safety	\$ 7,800,000			
Character Grants	\$ 200,000			
SAIS	\$ 7,000,000			
Failing Schools Fund	\$ 1,500,000			
Income Tax Credit	\$ 25,000,000			
Classroom Site Fund	\$ 456,419,800	\$ 835,289,625		
			Delta	% increase
K-12 Total	\$ 623,319,900	\$ 921,570,125	\$ 298,250,225	48%
Universities Total	\$ 82,587,800	\$ 222,743,900	\$ 140,156,100	170%
Comm College Total	\$ 25,443,600	\$ 57,585,975	\$ 32,142,375	126%
Source: JLBC; ATRA estimations using JLBC data + new formula				

Penny Tax Proposal Includes No Education Spending Reforms

For decades, education leaders have sought to reform uneven policies such as arcane hold harmless formulas, which allow the same pupil to draw different funding depending on which school they enroll. This is unfair and likely unconstitutional. There is widespread agreement that bringing equity to Arizona’s school system will cost money. **The conclusion of the two-year Classrooms First Council was that while reforms are necessary, they will not be achieved without new funding.** To bypass another opportunity at reform is a critical misstep. Opportunities for tax increases are rare and should include something for everyone, including taxpayers. Taxpayers deserve a system that is fairer and less susceptible to lawsuits. Parents deserve a system where their pupil is worth roughly the same no matter the public school they attend. This proposal simply adds money to an outdated and outmoded finance system.

Proposal Removes Performance Funding

One of the major selling points in Prop 301 was the addition of performance based funding for teachers. Lawmakers proposed and voters approved a portion of Classroom Site Fund dollars be set aside for performance based bonuses. **Removing this feature signals a return to bureaucratic teacher pay**, where teachers are paid only according a traditional pay scale. Teachers should be acknowledged and rewarded for making gains in student achievement, not saddled with a one-size-fits-all pay scale.

New Formula Dilutes the K-12 Share

The new formula adds to K-12 schools just shy of \$300 million more than they would get from the existing formula (this accounts for maturing SFB debt service, which adds to the Classroom Site Fund at the end of 2020). **A sales tax increase which moves Arizona near the top of the nation in total rates should buy more than a 2.9% bump in K-12 noncapital funding** (using JLBCs FY19 \$10.2B estimate). While it's understandable that advocates want to "spread the money" to all public education, it's hard to argue university and community college needs require 170% and 126% increases in their sales tax funding.

With Prop 123, the 20x2020 plan, and District Additional Assistance restoration, **the state has committed \$1.3+ billion to K-12 education in the last several years without any finance reform**. This doesn't account for increases in population and inflation funding, School Facilities Board increases and other new funds. This <\$300M increase to K-12, which amounts to roughly 63% of new available funds, amounts to less than \$265 per pupil statewide and creates little opportunity for reform.

The Juice Isn't Worth the Squeeze

Convincing taxpayers to open their wallet is always a challenge. They should be respected enough to offer reforms which improve Arizona schools, not simply add funds. Among other reforms, Prop 301 phased out expensive and unequal Excess Utilities fund. This one-cent sales tax plan lacks reform, sends the wrong message to teachers and won't solve budgetary challenges for schools.