

NEPC REVIEW: A ROADMAP TO FIX ARIZONA SCHOOL FINANCE: STEERING THE GRAND CANYON STATE TOWARD FAIRNESS AND INNOVATION IN K-12 EDUCATION (REASON FOUNDATION, FEBRUARY 2020)



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April 2020

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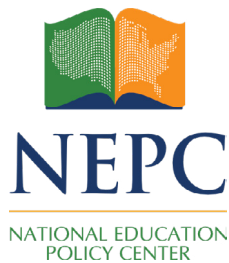
Suggested Citation: Garcia, D.R. (2020). *NEPC Review: “A Roadmap to Fix Arizona School Finance: Steering the Grand Canyon State Toward Fairness and Innovation in K-12 Education.”* Boulder, CO: National Education Policy Center. Retrieved [date] from <http://nepc.colorado.edu/thinktank/az-school-finance>.

Funding: This review was made possible in part by funding from the Great Lakes Center for Educational Research and Practice.



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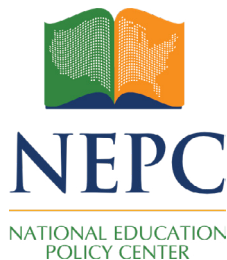
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Executive Summary

A recent report from the Reason Foundation walks the reader through a calculation of Arizona’s complex school finance formula, pointing out a number of funding inequities. In particular, Arizona’s lowest income school districts receive less funding from state and local sources than higher income school districts, and Arizona’s school districts with lower property wealth have higher tax rates and generate less revenue than higher property wealth school districts. The report provides 16 far-ranging policy recommendations that its author argues will improve the “transparency, equity, and effectiveness of Arizona’s school finance system” (p. 19). As a whole, the policy recommendations amount to a fundamental overhaul of Arizona’s school finance system. Yet the report is not a credible policy document because it does not provide any assessment of the impact of any of the recommendations. To illustrate, the reviewer calculates this impact for two of the policy recommendations, demonstrating how the implementation will decrease Arizona’s already meager per-pupil expenditures. The report’s usefulness as a policy document is also undermined by the lack of coordination among the multitude of policy recommendations, which may entice legislators to pick and choose which recommendations to implement and which to ignore, lending itself to the exact type of piecemeal approach that created Arizona’s inequitable school finance formula in the first place.



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I. Introduction

A Roadmap to Fix Arizona School Finance: Steering the Grand Canyon State Toward Fairness and Innovation in K-12 Education, written by Christian Barnard of the Reason Foundation, provides an explanation of Arizona’s school finance formula, an overview of funding allocation patterns, and 16 policy recommendations.

The report opens with a discussion of state-level funding through a step-by-step calculation of Arizona’s school finance formula. For district schools, the school finance formula is described in sufficient detail to serve as a primer for how to calculate school funding. The report covers the calculation of basic state aid, the foundation of school funding in Arizona, and according to the author, is designed to “equalize education funding across districts regardless of variations in property wealth and to direct more dollars to higher-need students” (p. 4). The report also catalogs other statutory funding streams (e.g., results-based funding) and categorical grants (e.g., school safety program) that legislators have added to the school finance formula over time.

The focus then shifts to the allocation of state *and* local funding via the school finance formula for district schools only. State and local funding allocations are compared by student poverty level and local assessed property values (i.e., property wealth) to evaluate the “fairness” of Arizona’s school finance system.

Funding for charter schools is not described in detail. Also, the report includes federal funds selectively, namely to make the argument that charter schools receive less from the major funding sources (state, local, and federal) than district schools.

The bulk of the report is dedicated to 16 sweeping policy recommendations to improve the “transparency, equity, and effectiveness of Arizona’s school finance system” (p. 19). The review will focus on two recommendations:

- centralizing capital funding
- reducing the overreliance on local funds.

As a whole, the 16 policy recommendations amount to a fundamental overhaul of Arizona’s school finance system (see Appendix A for a full list of the policy recommendations).

II. Findings and Conclusions of the Report

The report includes five major findings, focused on FY 2019:

1. Nearly half of the \$11.7 billion that Arizona spent in education came from the state with another 39% from local sources (i.e., local bonds and overrides) and county funds (see Table 1, created by the reviewer based on the citation provided in the report).

Table 1: Total Enrollment, Funding, and Percent of Funding by Source, All Arizona Schools, FY2019

	Average Daily Membership	Total Funds	Federal	State	County	Intermediate	Local
State	1,107,045	\$11,671,589,068	11.97	48.91	2.50	0.01	36.62

Source: Arizona Department of Education, Superintendent’s Annual Report.¹

2. Based on state and local funding only, Arizona’s poorest school districts receive less funding than Arizona’s wealthier school districts. On the fairness of Arizona’s school finance formula, the report concludes, “the fact that the lowest poverty district receives about 12.5% less overall funding illustrates that the formula doesn’t even succeed in equalizing state and local funding across groups of students, regardless of poverty level” (p. 16).
3. School districts with higher property values receive more funding than school districts with lower property values (p. 17).
4. School districts with lower property values have higher tax rates than school districts with higher property values. “Property-poor districts still struggle to reach funding levels equal to those of their property-rich counterparts—even when they exert higher tax effort” (p. 18).
5. Based on total funding (state, local, and federal), charter schools are funded 11% less per pupil on average than district schools (\$8,767 vs. \$9,859 per pupil in FY2018). The report points out some possible reasons for the discrepancy, such as charter schools 1) serve fewer high-need students than district schools, 2) do not receive transportation dollars, and 3) do not have the ability to raise local revenue (p. 13).

III. The Report's Rationale for Its Findings and Conclusions

The rationale for the policy recommendations is vague, stating only that the reforms “would greatly improve the state’s school funding system” (p. 19). Most detrimental to the usefulness of the recommendations to guide policy, the report fails to:

- consider the feasibility of the policy recommendations. Some of the proposed changes would affect voter-approved funding mechanisms and court-ordered settlements, likely resulting in considerable time and effort to accomplish.²
- order or prioritize the 16 policy recommendations.
- conduct any calculations to assess the impact of any of the proposed changes to the school finance formula.

IV. The Report's Use of Research Literature

The report relies heavily on Arizona state budgetary documents from the Arizona Department of Education and the Arizona Joint Legislative Budget Committee, along with reports from state-level policy organizations and articles from local news sources. The documents are publicly available, allowing for the verification of the funding amounts used in the calculations and the findings. In general, the literature used to produce the report is appropriate for its intended purpose.

The report ignores the plethora of findings from the education finance research, which would be a valuable resource to prioritize or streamline the unorganized policy recommendations.

V. Review of the Report's Methods

The primary method is the calculation of district funding per Arizona’s school finance formula. The calculations are carried out and explained accurately. To demonstrate the mechanics of the school finance formula, the report calculates the funding amount for a hypothetical school district, a helpful strategy for the reader to understand how the formula works.³ The disaggregation of funding by poverty level, tax rates, and property values are all appropriate methods to demonstrate the relationship between funding and wealth.

VI. Review of the Validity of the Findings and Conclusions

Each of the findings is discussed in turn, below.

1. Nearly half of the \$11.7 billion that Arizona spent in education came from the state, with another 37% from local sources (i.e., local bonds and overrides). This finding is incom-

plete, however, because districts are much more reliant on local funding through bonds and overrides than charter schools (see Table 2). In FY2019, districts received as much funding from local funds (42%) as they received from the state (42%). Charter schools on the other hand, received most of their funding from the state (84%) and comparatively little from local sources (8.5%).

Therefore, the proposed shifts in revenue from local to state funds would disproportionately impact district schools. District schools have to compensate for considerably more local revenue than charter schools. Also, given that 82% of students attend district schools, the shift from local funds would be a substantial strain on state resources.

Table 2: Total Enrollment, Funding, and Percent of Funding by Source, Arizona District and Charter Schools, FY2019

	Average Daily Membership	Total Funds	Federal	State	County	Intermediate	Local
District	908,008	\$9,799,247,310	12.89	42.15	2.98	0.00	41.99
Charter	199,038	\$1,872,341,758	7.20	84.28	0.00	0.04	8.48
State	1,107,045	\$11,671,589,068	11.97	48.91	2.50	0.01	36.62

Source: Arizona Department of Education.⁴

The second through fourth findings are consistent with an earlier study conducted by the reviewer.⁵

2. Based on state and local funding only, Arizona’s poorest school districts receive less funding than Arizona’s wealthier school districts.
3. School districts with higher property values receive more state and local funding than school districts with lower property values.
4. School districts with lower property values have higher tax rates than school districts with higher property values.
5. Based on all major sources (state, local, and federal), charter schools are funded 11% *less* per pupil on average than district schools. However, according to the document cited in the report to substantiate this finding, based on the state equalization formula only, the primary focus of the report, charter schools receive 24% *more* funding than district schools (\$6,752 v \$5,466 per pupil in FY2018).^{6,7}

Lastly, there is no evidence in the report that enacting the sweeping policy recommendations would result in a fair, equitable, or transparent school finance formula, as the report purports. In fact, absent any calculations of what the school finance formula would yield based on the recommendations, there is no evidence of how the recommendations will impact Arizona schools.

To demonstrate the ramifications of the report, consider the impact of two policy recommendations: centralizing capital funding and reducing the over-reliance on local revenues. Combined, these two expenditures account for the vast majority of the \$4.27 billion in local

funding for FY 2019 (see Table 1). In both instances, the report recommends that the share of state funding be increased substantially to offset losses in local revenue. But this is not a long-term solution for Arizona. Beginning in FY2026, the voter-approved Proposition 123 caps the percentage of state funding to K-12 education at 49%. At that point, the legislature is authorized to enact cost-cutting measures to limit the share of state revenue to K-12 education.⁸ In FY2019, K-12 education funding accounted for approximately 45% of total state funding, leaving approximately \$500 million before reaching the 49% trigger and curtailing the state share of funding.⁹ If these two recommendations were adopted, and constraints were placed on mechanisms to generate local revenue, as the report also suggests, both state and local funding would be reduced, resulting in a significant decrease to Arizona's already meager per-pupil expenditures.¹⁰

VII. Usefulness of the Report for Guidance of Policy and Practice

The Reason Foundation has suggested a hodgepodge set of policy recommendations to fix Arizona's hodgepodged school finance system (see Appendix A for a full list of the policy recommendations). Ironically, the report, which calculates the present school finance formula in detail, lacks a single calculation to assess the impact of the policy recommendations. Lacking impact data and any guidance for legislators, the report is not useful for policy and practice.

On its face, a report that includes 16 individual policy recommendations would appear like a thorough document to guide policy. The report, however, is a "Christmas tree," a term used to describe legislation that is adorned with several uncoordinated provisions. The reader is left with a number of imperative questions. How will the proposed recommendations interact? What is the impact on Arizona schools if only some of the recommendations were adopted?

Similarly, the usefulness of the report is obfuscated by the multitude of policy recommendations with no guidance for policymaking. Must all 16 recommendations be enacted? Should some recommendations be given priority over others? Where is the evidence that, after legislators engage in a fundamental overhaul of Arizona's school finance formula, as the report suggests, the stated improvements will be achieved?

The report entices policymakers with 16 uncoordinated policy recommendations for them to pick and choose which recommendations to implement and which to ignore. Thus, one would expect individual legislators to champion the pet recommendations that accord with their view of school funding, citing the report to support their decisions in every case. But if legislators pick and choose which recommendations to enact, the end result will not be more efficiency and transparency. This piecemeal approach is exactly how Arizona arrived at such an inequitable school finance formula in the first place.

Notes and References

- 1 Arizona Department of Education. (2019). *Superintendent's Annual Report*. Phoenix, AZ: Author. Retrieved March 12, 2020, from <https://www.azed.gov/superintendent/superintendents-annual-report/>
- 2 Arizona State Senate Research Staff. (2018). School desegregation in Arizona. Phoenix, AZ: Author. Retrieved March 20, 2020, from <https://www.azleg.gov/Briefs/Senate/SCHOOL%20DESEGREGATION%20IN%20ARIZONA%202018.pdf>
- 3 Also, the report points out key discrepancies between the formula calculation and the funds allocated by the legislature to fund the formula. For example, the district school finance formula includes District Additional Assistance, funds intended for school districts to use for mainly capital purposes. The report notes that in the years following the 2008 recession, however, the legislature did not provide funds for District Additional Assistance (p. 25).
- 4 Arizona Department of Education. (2019). *Superintendent's annual report*. Phoenix, AZ: Author. Retrieved March 12, 2020, from <https://www.azed.gov/superintendent/superintendents-annual-report/>
- 5 Garcia, D.R., & Aportela, A. (2016). *State of Latino Arizona: Sparking a community conversation about school funding*. Tempe, AZ: Arizona State University, Office of Community Outreach.
- 6 Joint Legislative Budget Committee. (2019). *Overview of K-12 per pupil funding for school districts and charter schools*. Phoenix, AZ: Author. Retrieved March 11, 2020, from <https://www.azleg.gov/jlbc/districtvscharterfunding.pdf>
- 7 Calculations by reviewer.
- 8 Arizona Secretary of State. (2016). What's on my ballot? Phoenix, AZ: Author. Retrieved March 15, 2020, from <https://apps.azsos.gov/election/2016/Special/2016%20AZ%20SOS%20reg%20print.pdf>
- 9 Joint Legislative Budget Committee. (2019). FY 2019 appropriations report. Phoenix, AZ: Author. Retrieved March 15, 2020, from <https://www.azleg.gov/jlbc/19AR/apprpttoc.pdf>
- 10 While Arizona has not reached the 49% trigger since 1983, a significant appropriation of state funding, as the report suggests could be sufficient to reach it. See Wells, D. (2016). *A fiscal analysis of Proposition 123 and Arizona's underinvestment in education: An essential first step for K-12 funding*. Phoenix, AZ: Grand Canyon Institute. Retrieved March 15, 2020, from https://grandcanyoninstitute.org/wp-content/uploads/2016/01/GCI_Policy_Paper_Prop123andK12Underinvestment_Jan-7_2016.pdf

Appendix A

***A Roadmap to Fix Arizona School Finance:
Steering the Grand Canyon State Toward Fairness
and Innovation in K-12 Education***
Policy Recommendations
(p.19-45)

1. Base special education weights on intensity of need, not specific diagnoses
2. Add a poverty weight
3. Centralize capital funding
4. Set a statewide property tax
5. Recapture and redistribute excess property taxes
6. Tighten cap on voter-approved overrides
7. Eliminate results-based funding
8. Eliminate classroom site fund
9. Eliminate instructional improvement funding
10. Eliminate other categorical grants
11. Phase out desegregation funding
12. Limit the Small School Adjustment
13. Phase out “hold harmless” provision in transportation funding
14. Leverage underutilized space
15. Fund charter schools more fairly
16. Eliminate the Teacher Experience Index