Arizona’s K-12 System of Public Education

Proposition 301: Promises, Progress, and Prospects

The purpose of this brief report is to provide information about a very significant education reform program and tax increase, commonly known as Proposition 301. Coverage includes the history leading up to the ballot measure approved by Arizona voters in November 2000, its status approximately one year after it went into effect, and its prospects over a 20-year life span. In short, this brief is intended to inform readers about the past, present, and future of Proposition 301.*

Four primary questions frame this presentation —

■ What was the genesis of Proposition 301?
■ What did the ballot measure implement?
■ How are Prop. 301 K-12 funds being spent?
■ What does the future hold?

To answer these questions, Morrison Institute researchers interviewed stakeholders from the education, political, and business communities and analyzed numerous data sets and reports.

THE GENESIS OF PROPOSITION 301: CHRONOLOGY, KEY PROVISIONS AND STAKEHOLDERS

Who initiated the Proposition 301 effort?
The creator and primary champion of Prop. 301 was Governor Jane Hull. She had, in fact, wanted to increase K-12 funding for some time prior to this measure.

Late in 1999, the governor’s budget analysts predicted a downturn in the economy that would cause a decline in state revenue, making it difficult for the general fund to provide more money for K-12. So, the governor began to consider other funding sources. There was also talk in political circles at this time about increasing the state sales tax for other purposes, but the governor indicated she would only support a tax increase if it was for public education. Her advisors felt that increasing K-12 funding via a new, voter-approved sales tax was the way to go because it would place such funding outside the legislative appropriation process. By law, such revenue to schools would not become vulnerable each legislative session.

The role of a court mandate
In this same general time frame, the state general fund was beginning to feel a significant financial impact from the new Students FIRST program. Students FIRST was the result of a lawsuit filed by the Arizona Center for Law in the Public Interest alleging that the manner in which Arizona public schools were funded for school construction resulted in huge inequities between the facilities in poor school districts and those in wealthier school districts. The courts ruled in Roosevelt v. Bishop (1994) that secondary property taxes on local school districts’ assessed property values could no longer be the mechanism for funding public school construction.

* Important note: This paper focuses exclusively on the K-12 aspects of Prop. 301 and does not delve into the implications for its other beneficiaries.
The court’s ruling forced the state to equalize its public school facilities and the legislature’s response came in 1998 when it passed the Students FIRST program. Students FIRST moved the financial burden of paying for public school construction and renovations from the local taxpayer to the state, thus committing the state to annual payments of about $250-$300 million for new school facilities and building renewal programs, plus a one-time cost of bringing all Arizona schools up to a newly established standard. However, the state clearly needed a new revenue source to help pay the estimated $1 billion cost of bringing schools up to the standard.

This led Governor Hull and her staff to consider a revenue-bonding plan to pay for the program. Ultimately, this revenue-bonding plan figured into the governor’s thinking about how to increase K-12 education funding.

During the 2000 legislative session, the governor presented a plan to increase K-12 funding to the senate and house education committee chairs, but the regular session ended with no agreement on how to address it. It was not until the governor convened legislators in a special session in June 2000 that her plan took its final shape as Senate Bill 1007, a referendum (Proposition 301) to be put before the voters in November 2000. This proposition would, among other things, create a six-tenths of 1% increase in the state’s sales tax for 20 years earmarked for purposes of public education. The new tax was projected to pump between $450 million and $780 million annually into various aspects of Arizona’s education system. Notably, part of the revenue from the new tax would be used to pay the debt service on revenue bonds used by the Students FIRST program. In fact, debt service on these bonds became the first priority for fund utilization.

Who supported Prop. 301 at the ballot and why?
Proposition 301 was written to garner the support of several stakeholders that each stood to benefit should the ballot initiative pass. For example —

- The education community saw 301 as an opportunity to create a funding stream to increase teachers’ pay and provide other support for the K-12 system. Among other things, Prop. 301 contained an automatic annual adjustment in the state’s base level of education funding.
- Lisa Graham Keegan, Superintendent of Public Instruction at the time, considered 301 a means of improving and funding school accountability efforts. Prop. 301/SB 1007 included the School Accountability Information System (for auditing school districts’ student counts, the key variable for receiving state funding), the Local Education Accountability Program (permits a principal to seek independence from the local school board for his or her school) and teacher-pay-for-performance.
- Legislators would realize a robust funding source for Students FIRST via 301. This was needed to keep pace with the demand for school renovations and construction. Prop. 301 requires the first $70 million in annual revenue collections to pay for debt service on school improvement revenue bonds.
- Business leaders supported Prop. 301 because they believed it would increase teacher pay, tie accountability measures to teacher and school performance, reward better performing teachers, and establish remedies for “failing” schools.
- Parents and the general public would get funding support from 301 for popular ideas such as reducing class size, providing AIMS intervention for failing students, and establishing dropout prevention programs. In addition, SB 1007/Prop. 301 provided certain funds for the state’s universities, community colleges, and Native American tribes.

In short, Prop. 301 was a virtual melting pot of ideals, reforms and goals. It had sufficient benefits for diverse and powerful stakeholder groups to reasonably expect its passage at the polls. And, the proposition was far reaching enough to demonstrate Governor Hull’s long-standing commitment to K-12 education. In November 2000, 53% of Arizona voters approved the ballot initiative although it passed in only three of 15 counties (Maricopa, Pima, and Pinal).

WHAT THE BALLOT INITIATIVE IMPLEMENTED FOR K-12
The most significant feature implemented by the proposition is new funding for K-12 schools, called the “Classroom Site Fund” (an estimated $261 million in FY 2002). School districts have substantial control over how these funds are applied, although they must adhere to the following general guidelines –

1. 20% for increasing teachers’ base pay
2. 40% for performance pay for teachers
3. 40% for school “menu options” (e.g., reduced class sizes; classroom for supplies, materials, computers; AIMS intervention programs; dropout prevention programs; teacher training; teacher liability insurance premiums, additional teacher compensation)
Proposition 301 also established a tutoring fund for “underperforming” and “failing” schools. The Arizona Department of Education (ADE) is required by SB 1007 to use data (AIMS scores, dropout rates and other yearly performance indicators) to identify schools with sub-par performance and to provide students attending such under-performing schools with tutoring programs. Then, if certain indicators do not demonstrate sufficient student progress after one year, a school receives a “failing” designation and is assigned an instructional solutions team by ADE.

The proposition mandates and funds a longer school year (one additional day per year for five years), some school safety programs, a character education program, several school accountability programs and, as mentioned earlier, it provides funds to pay the debt service on revenue bonds used for improving and building school facilities.

Finally, Prop. 301 implemented three important K-12 related provisions not fully paid from revenues generated by the increased sales tax. For the next 20 years, the state’s general fund must pay for —

1. annual increases in base level funding for K-12,
2. a statewide school audit team, and
3. a state income tax credit for low-income households.

Prop. 301 requires the state to increase its base level funding for K-12 by 2% for FY 2001-2002 through FY 2005-2006. In subsequent years, base level funding will be adjusted by 2% or the change in the Gross Domestic Product (GDP) — whichever is less. This mandatory inflation adjustment, as projected by the Joint Legislative Budget Committee (JLBC), is estimated to cost the state’s general fund $67 million in FY 2001, $367 million by FY 2006, and over $1 billion by 2020.*

Prop. 301 also requires the state auditor general to monitor school districts’ budgets via a special audit team and to determine the percentage of funding that is spent in the classroom.

To ensure that low-income individuals and families are not unduly penalized by the additional sales tax, a $25 tax credit per individual (maximum of $100 per family) is permitted. Although $25 million from Prop. 301 revenue is set aside each year for this provision, JLBC estimates it will require an additional $17 million annually from the state’s general fund.

Table 1 provides a snapshot of key K-12 features implemented as a result of the proposition.

**TABLE 1: MAJOR K-12 FEATURES IMPLEMENTED IN FY 2002 VIA PROPOSITION 301**

<table>
<thead>
<tr>
<th>FEATURE</th>
<th>IMPLEMENTATION</th>
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<tbody>
<tr>
<td>School Facilities</td>
<td>Revenue to pay debt service on school improvement revenue bonds</td>
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<tr>
<td>Teacher Pay</td>
<td>Increases in base pay for all teachers and certain other school employees, regardless of individual performance</td>
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<tr>
<td></td>
<td>Increases in pay for most teachers and certain other school employees, based primarily on school wide performance</td>
</tr>
<tr>
<td></td>
<td>Increases in pay for most teachers and certain other school employees, based on a variety of criteria</td>
</tr>
<tr>
<td>School Programs</td>
<td>Some AIMS intervention programs, dropout prevention programs, new hires and teacher development activities</td>
</tr>
<tr>
<td>Base Funding</td>
<td>2% increase in statewide K-12 funding in FY 2001-2002</td>
</tr>
<tr>
<td>School Accountability</td>
<td>ADE develops, refines and implements new accountability programs</td>
</tr>
<tr>
<td>School Year</td>
<td>One day added to the school year in FY 2001-2002</td>
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**HOW ARE PROP. 301 K-12 FUNDS BEING SPENT?**

Statutory aspects of the proposition funded in FY 2002 are shown in Table 2. Of particular relevance are funding applications of the Classroom Site Fund and ADE-led school accountability activities.

**Classroom Site Fund**

The primary purpose of this portion of 301 funding is to increase teachers’ salaries, although 40% may be used for certain other purposes. School districts have substantial discretionary authority regarding the details of how these monies are spent, so long as the funds adhere to the aforementioned 20-40-40 restrictions. It is important...
to note that districts cannot use 301 funds to replace existing funds for teacher compensation. Instead, 301 funds must supplement, not supplant, current funding.

Several organizations have studied the way in which schools are using this new funding stream, including the Arizona School Boards Association, the Arizona Education Association, and the Arizona Auditor General. The Auditor General’s report (March 2002, Division of School Audits) is the most comprehensive data source on this matter.

According to this report (includes self-reports by 211 of Arizona’s 220 school districts that receive 301 funds and examination of documents provided by ADE) –

- 97% of the classroom site fund is used to increase salaries and benefits (current teachers, additional teachers and aides, education specialists, school support staff);
- 3% (of a possible 40%) is used for allowable items such as purchased services, supplies, and teacher development;
- most districts are developing new performance-based pay plans to guide distribution of a part of these funds;
- some districts are using pre-existing pay-for-performance plans;
- most districts include school-wide student achievement as a criterion for performance pay (see Table 3).

### School Accountability

Arizona Superintendent of Public Instruction Jaime Molera proposed a new accountability plan to the State Board of Education in November 2001 called “Arizona LEARNS.” This plan, endorsed by the Arizona Education Association, the recently established Arizona Business-Education Coalition, and other public education-interested organizations, seeks to establish a framework of “purposeful school accountability.” Arizona LEARNS, along with companion legislation, creates a method by which the failing schools provision of Prop. 301 and other accountability requirements of the ballot measure may be funded and implemented. Arizona LEARNS emphasizes student academic growth and school improvement as measured by such things as AIMS test scores, site visits, SAT 9 scores, graduation rates and dropout rates. New ADE accountability programs put a special emphasis on the degree to which K-3 students can read by the end of third grade, 4th through 8th graders are ready for high school, and 9th through 12th grades have progressed toward achieving statewide academic standards.

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*Distribution of 301 tax-derived funds is done on a priority basis due to potential fluctuations in this revenue stream. Debt service on revenue bonds holds the first lien; followed by monies for higher education; followed by ADE programs, additional school days and low income tax credits. The last categorical recipient is K-12 schools via the “classroom site fund.”*
Although it is less than one year from inception, some things can nevertheless be said with certainty about Prop. 301’s impact on Arizona’s K-12 schools –

- Teachers’ salaries have increased.
- Debt service on bonds issued to improve school facilities is being accommodated.
- New school accountability efforts have been energized and funded.
- Education base funding is being raised.
- The length of the school year is increasing.

These are all things that were essentially “promised” to voters when they considered the proposition at the ballot box.

However, some important aspects of 301’s potential impact cannot be addressed at this point. Foremost among these is what effect, if any, Prop. 301 reforms and funding will have on student academic achievement.

In reviewing documents and conducting interviews on the history of 301’s passage, it appears that the proposition was explained to voters primarily as some thing that would increase K-12 teachers’ salaries, reduce K-12 class size and make schools more accountable. However, there is general agreement among interviewees that the messages used to promote the proposition at the ballot box suggested that these things would also lead to improvements in student academic performance. On face value, such an assertion makes sense but the research literature does not support a simple cause-and-effect relationship between these items and student achievement.

There is no explicit provision in 301 or its associated law, SB 1007, which requires the state to provide evidence that 301 funding actually produces “better” students. And, even if the law had such a mandate, it would be a complicated, monumental and expensive evaluation task. Furthermore, although Prop. 301 will generate hundreds of millions of dollars for K-12 education each year, such funding still only represents about 5% of K-12’s annual operating budget in Arizona.

Over its 20-year life, the billions of dollars that flow to Arizona’s schools via the 301 vehicle are sure to have an impact. But what kind of impact and why?

In addition to voicing the question of whether Prop. 301 will affect student academic performance, interviews conducted for this report revealed other concerns or skepticism. These are presented below as questions. (It was beyond the scope of this briefing paper to provide answers).

- To what degree are school performance based pay systems truly rigorous? Are performance criteria too easy to attain, thus assuring that almost all teachers get funding from the 301 performance pay feature?
- Will the Arizona Department of Education get the quality and amount of data it needs from schools on individual student performance to make the purposeful “progress based” assessments that are called for in Arizona LEARNS?
- How reliable will the 301-revenue stream be since it is a function of sales tax receipts?
- Conversely, will 301 annual revenue levels be so high that they routinely cause the state to have to increase its statutory school expenditure limits?
CONCLUSION

It would be unwise to either exuberantly celebrate or decry the impact of Proposition 301 in 2002, barely a year into its life span. Instead, Prop. 301’s impact on Arizona’s K-12 system should be considered over the 20-year haul in concert with other education reforms. Unfortunately, most states, including Arizona, are typically not diligent in analyzing long-term matters. Instead, long-term education reforms and funding streams like 301 usually become part of the complex fabric of public policy while people move onto the latest policy challenge, political crisis or legislative session. That said, if Proposition 301 delivers the programs it promised and also improves student performance, then Arizonans would have good reason to support similar measures in the future. Conversely, if 301 does not deliver, Arizona should be reluctant to back programs of this nature. For now, the investment of taxpayer money in Arizona’s K-12 system via Prop. 301 should be considered bold leadership by Governor Hull and her supporters and a “good faith effort” by Arizona voters who thought the state’s teachers were underpaid, their K-12 schools were under-funded and who genuinely wanted to support public education.

REFERENCES FOR FURTHER INFORMATION


