

**Joint Legislative Budget Committee
Staff Memorandum**

1716 West Adams
Phoenix, Arizona 85007

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DATE: June 29, 2012

TO: Members of Legislative Council

FROM: Richard Stavneak, Director

SUBJECT: FISCAL IMPACT ESTIMATES FOR DIFFERING VERSIONS OF THE
QUALITY EDUCATION AND JOBS ACT INITIATIVE (I-16-2012)

The Secretary of State has requested from our office a comparison of the fiscal impact of the 2 differing versions of the Quality Education and Jobs Act initiative (I-16-2012).

Attached is our response which summarizes the funding distribution of each version of the initiative through FY 2030.

Please let us know if you have any questions.

RS:ac

Attachment

xc: Mike Braun, Director, Legislative Council

JLBC



STATE OF ARIZONA

Joint Legislative Budget Committee

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June 29, 2012

The Honorable Ken Bennett
Secretary of State - Department of State
1700 W Washington Street, 7th Floor
Phoenix, AZ 85007

Dear Secretary Bennett:

As requested, we are providing you a comparison of the fiscal impact of the 2 differing versions of the Quality Education and Jobs Act initiative (I-16-2012).

Based on the JLBC Staff projections, both versions would have the same dollar distributions by category between FY 2014 and FY 2019 and in FY 2030 and beyond. The distributions would vary between FY 2020 and FY 2029 depending on the version of the proposition.

Attached are the following documents which summarize the 2 versions of the initiative:

- Comparison of the Cumulative \$25 Billion in FY 2014 - FY 2030 Distributions by Category
- Narrative Descriptions of the Formulas in the Secretary of State Official Text and Quality Education and Jobs Committee Circulated Versions
- Annual Estimates of the Formula Distributions of the Secretary of State Official Text and Quality Education and Jobs Committee Circulated Versions (2 legal size pages).

Please let us know if you have any questions.

Sincerely,

Richard Stavneak
Director

RS:ac
Attachments

Comparison of Cumulative Distributions FY 2014-2030
Quality Education and Jobs Act
Secretary of State Official Text and Quality Education and Jobs Committee Circulated Versions
\$ in Millions

<u>Distributions by Specific Category</u>	<u>Official Text</u>	<u>Circulated Version</u>	<u>Official - Circulated</u>
1) Quality Education and Performance Fund	\$1,564.3	\$1,564.3	\$0.0
2) Education Learning and Accountability Fund	169.7	169.7	0.0
3) Education Accountability and Improvement Fund	1,739.0	1,679.8	59.3
4) State Infrastructure Fund - Transportation	2,836.2	2,936.6	(100.5)
5) Children's Health Insurance Program Fund	424.3	424.3	0.0
6) Family Stability and Self-Sufficiency Fund	1,697.1	1,697.1	0.0
7) University, Scholarship, Operations and Infrastructure Fund	2,886.1	3,437.6	(551.5)
8) Inflationary Adjustment for K-12 Funding Formula	10,171.3	9,855.2	316.1
9) Payments to Districts/Charters Low-Income Student Counts	2,155.4	1,918.3	237.1
10) Community Colleges - Workforce Development Accounts	939.3	919.6	19.8
11) Joint Technical Education Districts	444.8	425.0	19.8
12) Adult Education Programs	67.7	67.7	0.0
Total Distributions	<u>\$25,095.3</u>	<u>\$25,095.3</u>	<u>\$0.0</u>
		<u>Circulated</u>	<u>Official -</u>
		<u>Version</u>	<u>Circulated</u>
<u>Distributions by Broad Category</u>	<u>Official Text</u>	<u>Circulated Version</u>	<u>Official - Circulated</u>
1) Quality Education and Performance Fund	\$1,564.3	\$1,564.3	\$0.0
2) Education Learning and Accountability Fund	169.7	169.7	0.0
3) Education Accountability and Improvement Fund	1,739.0	1,679.8	59.3
8) Inflationary Adjustment for K-12 Funding Formula	10,171.3	9,855.2	316.1
9) Payments to Districts/Charters Low-Income Student Counts	2,155.4	1,918.3	237.1
11) Joint Technical Education Districts	444.8	425.0	19.8
12) Adult Education Programs	67.7	67.7	0.0
K-12 SUBTOTAL	<u>16,312.3</u>	<u>15,680.1</u>	<u>632.2</u>
4) State Infrastructure Fund - Transportation	2,836.2	2,936.6	(100.5)
5) Children's Health Insurance Program Fund	424.3	424.3	0.0
6) Family Stability and Self-Sufficiency Fund	1,697.1	1,697.1	0.0
Health and Welfare SUBTOTAL	<u>2,121.4</u>	<u>2,121.4</u>	<u>0.0</u>
7) University, Scholarship, Operations and Infrastructure Fund	2,886.1	3,437.6	(551.5)
10) Community Colleges - Workforce Development Accounts	939.3	919.6	19.8
Total Distributions	<u>\$25,095.3</u>	<u>\$25,095.3</u>	<u>\$0.0</u>

**Distribution Formulas of Proposition #I-16-2012 Funding
Quality Education and Jobs Act**

Secretary of State Official Text

	Distribution	Use/Purpose	First \$1 Billion Collected	Second Distribution	Third Distribution
1)	Quality Education and Performance Fund	Payments to local school districts and charter schools based on student count	\$500 million, unless used for inflation costs in #8. Also receives unused inflation funding.	N/A	40%
2)	Education Learning and Accountability Fund	Statewide education data system	\$10 million, unless data system is completed	N/A	N/A
3)	Education Accountability and Improvement Fund	Payments to local school districts and charter schools based on statewide performance measures	\$90 million	N/A	7.5%
4)	State Infrastructure Fund	Transportation Projects	\$100 million	11%, not to exceed \$100 million	10%
5)	Children's Health Insurance Program Fund	Low-Income Children's Health Insurance Programs (KidsCare)	\$25 million, unless lesser amount needed for program	N/A	N/A
6)	Family Stability and Self-Sufficiency Fund	Low-Income Health and Welfare Grants	\$100 million	N/A	N/A
7)	University, Scholarship, Operations and Infrastructure Fund	University Scholarships and Performance Funding	\$50 million	22.5%, not to exceed \$250 million	7.5%
8)	Inflationary Adjustment for K-12 Funding Formula	Inflation adjustments to school funding formula for base support level and transportation support level	As necessary, cumulative costs above \$125 million paid from Quality Education and Performance Fund distribution	N/A	N/A
9)	Payments to Districts/Charters Low-Income Student Counts	Payments to local school districts and charter schools based on low-income student count	N/A	33%, not to exceed \$100 million	30%
10)	Community Colleges - Workforce Development Accounts	Community College workforce development and job training programs	N/A	22.5%, not to exceed \$66 million	2.5%
11)	Joint Technical Education Districts	Payments to local vocational education school districts	N/A	9%, not to exceed \$29 million	2.5%
12)	Adult Education Programs	Adult Education Programs operated by the Arizona Dept. of Education	N/A	2%, not to exceed \$5 million	N/A

Notes:

- 1) Distribution formula based on the Secretary of State Official Text Version posted on the Secretary of State website.
- 2) Second distribution affects allocation of funding above \$1 billion as directed by the ballot proposition. Once second distribution cap is reached for any one category, any excess funds for that category would then be available for the third distribution category. Categories 9-12 are projected to reach their second distribution cap at \$1.3 billion in total sales tax collections, thus their share of monies above that level would be available for the third distribution. Category 4 is projected to reach its second distribution cap at \$1.9 billion in total sales tax collections, while Category 7 would reach its second distribution cap at \$2.1 billion in total sales tax collections.

**Distribution Formulas of Proposition #I-16-2012 Funding
Quality Education and Jobs Act**

Quality Education and Jobs Committee Circulated Version

	Distribution	Use/Purpose	First \$1 Billion Collected	Second Distribution	Third Distribution	Fourth Distribution
1)	Quality Education and Performance Fund	Payments to local school districts and charter schools based on student count	\$500 million, unless used for inflation costs in #8. Also receives unused inflation funding.	N/A	N/A	40%
2)	Education Learning and Accountability Fund	Statewide education data system	\$10 million, unless data system is completed	N/A	N/A	N/A
3)	Education Accountability and Improvement Fund	Payments to local school districts and charter schools based on statewide performance measures	\$90 million	N/A	N/A	7.5%
4)	State Infrastructure Fund	Transportation Projects	\$100 million	11%, not to exceed \$100 million	33.3%, not to exceed \$100 million second distribution cap	10%
5)	Children's Health Insurance Program Fund	Low-Income Children's Health Insurance Programs (KidsCare)	\$25 million, unless lesser amount needed for program	N/A	N/A	N/A
6)	Family Stability and Self-Sufficiency Fund	Low-Income Health and Welfare Grants	\$100 million	N/A	N/A	N/A
7)	University, Scholarship, Operations and Infrastructure Fund	University Scholarships and Performance Funding	\$50 million	22.5%, not to exceed \$250 million	66.7%, not to exceed \$250 million second distribution cap	7.5%
8)	Inflationary Adjustment for K-12 Funding Formula	Inflation adjustments to school funding formula for base support level and transportation support level	As necessary, cumulative costs above \$125 million paid from Quality Education and Performance	N/A	N/A	N/A
9)	Payments to Districts/Charters Low-Income Student Counts	Payments to local school districts and charter schools based on low-income student count	N/A	33%, not to exceed \$100 million	N/A	30%
10)	Community Colleges - Workforce Development. Accounts	Community College workforce development and job training programs	N/A	22.5%, not to exceed \$66 million	N/A	2.5%
11)	Joint Technical Education Districts	Payments to local vocational education school districts	N/A	9%, not to exceed \$29 million	N/A	2.5%
12)	Adult Education Programs	Adult Education Programs operated by the Arizona Dept. of Education	N/A	2%, not to exceed \$5 million	N/A	N/A

Notes:

- 1) Distribution formula based on the Quality Education and Jobs Act Circulated Version posted on the proponents' website. This version includes an additional distribution level (the third distribution) compared to the Secretary of State Official Text Version.
- 2) Second distribution affects allocation of funding above \$1 billion as directed by the ballot proposition. Once second distribution cap is reached for any one category, any excess funds for that category would then be available for the third distribution category. Categories 9-12 are projected to reach their second distribution cap at \$1.3 billion in total sales tax collections, thus their share of monies above that level would be available for the third distribution.
- 3) Once third distribution cap is reached for any of the categories, any excess for that category would then be available for the fourth distribution category. Both third distribution categories are projected to reach their cap at \$1.5 billion to \$1.6 billion in total sales tax collections.

Secretary of State Official Text
Draft Estimate of Long Term Projected Distribution of Proposition #I-16-2012 Funding
Quality Education and Jobs Act^{1/}
\$ in Millions

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Total FY 2014-2030
Revenues																		
Sales Tax Revenues (1.0% Tax)	971.2	1,019.7	1,070.7	1,124.2	1,180.5	1,239.5	1,301.5	1,366.5	1,434.9	1,506.6	1,581.9	1,661.0	1,744.1	1,831.3	1,922.8	2,019.0	2,119.9	25,095.3
Expenditures																		
1) Quality Education and Performance Fund ^{2/}	508.4	425.4	320.9	211.8	97.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,564.3
2) Education Learning and Accountability Fund	9.7	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	169.7
3) Education Accountability and Improvement Fund	87.4	90.0	90.0	90.0	90.0	90.0	90.2	93.3	96.7	100.3	104.0	108.0	112.1	116.5	121.1	126.7	132.7	1,739.0
4) State Infrastructure Fund - Transportation	97.1	102.2	107.8	113.7	119.9	126.3	133.4	144.7	156.8	169.4	182.7	196.7	211.3	226.7	241.5	249.0	257.0	2,836.2
5) Children's Health Insurance Program Fund	24.3	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	424.3
6) Family Stability and Self-Sufficiency Fund	97.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1,697.1
7) University, Scholarship, Operations and Infrastructure Fund	48.6	54.4	65.9	78.0	90.6	103.9	118.0	135.8	154.5	174.3	195.0	216.7	239.5	263.5	288.8	316.0	342.7	2,886.1
8) Inflationary Adjustment for K-12 Funding Formula ^{2/}	98.6	199.6	304.1	413.2	527.3	625.0	626.1	642.5	660.7	679.8	699.8	720.8	742.9	766.1	791.1	820.9	853.0	10,171.3
9) Payments to Districts/Charters Low-Income Student Counts	0.0	6.5	23.3	41.0	59.6	79.0	100.3	113.1	126.8	141.1	156.1	171.9	188.4	205.8	224.6	246.9	271.0	2,155.4
10) Community Colleges - Workforce Development Accounts	0.0	4.4	15.9	28.0	40.6	53.9	66.1	67.1	68.2	69.4	70.7	72.0	73.4	74.8	76.4	78.2	80.2	939.3
11) Joint Technical Education Districts	0.0	1.8	6.4	11.2	16.2	21.6	27.2	30.1	31.2	32.4	33.7	35.0	36.4	37.8	39.4	41.2	43.2	444.8
12) Adult Education Programs	0.0	0.4	1.4	2.5	3.6	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	67.7
Total Distributions	971.2	1,019.7	1,070.7	1,124.2	1,180.5	1,239.5	1,301.5	1,366.5	1,434.9	1,506.6	1,581.9	1,661.0	1,744.1	1,831.3	1,922.8	2,019.0	2,119.9	25,095.3
Inflation Costs Not Funded by Sales Tax^{3/}																		
Marginal Cost of Inflation Adjustment	98.6	101.0	104.5	109.1	114.1	119.4	124.9	130.6	136.6	142.9	149.5	156.3	163.5	171.0	178.9	187.1	195.8	
Total Cost of Inflation Adjustment	98.6	199.6	304.1	413.2	527.3	646.6	771.5	902.1	1,038.7	1,181.6	1,331.0	1,487.4	1,650.9	1,821.9	2,000.9	2,188.0	2,383.8	
<i>Assumed Deflator %</i>	<i>1.60%</i>	<i>1.40%</i>	<i>1.60%</i>	<i>1.70%</i>	<i>1.60%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	<i>1.50%</i>	
Sales Tax Transfer for Inflation Adjustment	98.6	199.6	304.1	413.2	527.3	625.0	626.1	642.5	660.7	679.8	699.8	720.8	742.9	766.1	791.1	820.9	853.0	
Marginal Inflation Adjustment Not Funded by Sales Tax:	0.0	0.0	0.0	0.0	0.0	21.6	123.7	114.2	118.4	123.8	129.4	135.3	141.4	147.9	154.0	157.3	163.7	
Total Inflation Adjustment Not Funded by Sales Tax	0.0	0.0	0.0	0.0	0.0	21.6	145.3	259.6	378.0	501.8	631.2	766.5	908.0	1,055.8	1,209.8	1,367.1	1,530.8	

^{1/} Represents JLBC Staff's current understanding of the distribution of the 1 cent sales tax, based on the Secretary of State Official Text Version posted on the Secretary of State's website. The 2 different versions of the ballot proposition are estimated to affect the funding distributions between FY 2020 and FY 2029.

^{2/} Monies from the Quality Education and Performance Fund (QEPF) are to be transferred to the General Fund for the inflationary adjustment if the amount of the inflationary adjustment is more than \$125 million. Based on Legislative Council analysis, this provision is interpreted as applying to the cumulative inflation adjustment. As a result, the QEPF allocation declines after FY 2014. Conversely, monies to fund the inflationary adjustment are to be transferred to the QEPF if any excess monies are not necessary to fully fund the inflationary adjustment. As a result, the QEPF receives more than \$500 million in FY 2014.

^{3/} The ballot proposition would require an inflation adjustment of the per pupil base level and the transportation support level. The proposition provides 1 cent sales tax monies to fund these adjustments, which is projected to be sufficient through FY 2018.

Quality Education and Jobs Committee Circulated Version
Draft Estimate of Long Term Projected Distribution of Proposition #I-16-2012 Funding
Quality Education and Jobs Act^{1/}
\$ in Millions

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Total FY 2014-2030
Revenues																		
Sales Tax Revenues (1.0% Tax)	971.2	1,019.7	1,070.7	1,124.2	1,180.5	1,239.5	1,301.5	1,366.5	1,434.9	1,506.6	1,581.9	1,661.0	1,744.1	1,831.3	1,922.8	2,019.0	2,119.9	25,095.3
Expenditures																		
1) Quality Education and Performance Fund ^{2/}	508.4	425.4	320.9	211.8	97.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,564.3
2) Education Learning and Accountability Fund	9.7	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	169.7
3) Education Accountability and Improvement Fund	87.4	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.1	92.4	98.3	104.6	111.1	118.0	125.2	132.7	1,679.8
4) State Infrastructure Fund - Transportation	97.1	102.2	107.8	113.7	119.9	126.3	134.1	154.9	177.6	200.1	203.2	211.1	219.4	228.1	237.3	246.9	257.0	2,936.6
5) Children's Health Insurance Program Fund	24.3	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	424.3
6) Family Stability and Self-Sufficiency Fund	97.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1,697.1
7) University, Scholarship, Operations and Infrastructure Fund	48.6	54.4	65.9	78.0	90.6	103.9	119.7	161.6	207.3	255.3	302.4	308.3	314.6	321.1	328.0	335.2	342.7	3,437.6
8) Inflationary Adjustment for K-12 Funding Formula ^{2/}	98.6	199.6	304.1	413.2	527.3	625.0	625.0	625.0	625.0	625.5	637.8	669.4	702.6	737.5	774.1	812.6	853.0	9,855.2
9) Payments to Districts/Charters Low-Income Student Counts	0.0	6.5	23.3	41.0	59.6	79.0	99.5	100.0	100.0	100.4	109.6	133.3	158.2	184.4	211.9	240.7	271.0	1,918.3
10) Community Colleges - Workforce Development Accounts	0.0	4.4	15.9	28.0	40.6	53.9	66.0	66.0	66.0	66.0	66.8	68.8	70.9	73.0	75.3	77.7	80.2	919.6
11) Joint Technical Education Districts	0.0	1.8	6.4	11.2	16.2	21.6	27.1	29.0	29.0	29.0	29.8	31.8	33.9	36.0	38.3	40.7	43.2	425.0
12) Adult Education Programs	0.0	0.4	1.4	2.5	3.6	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	67.7
Total Distributions	971.2	1,019.7	1,070.7	1,124.2	1,180.5	1,239.5	1,301.5	1,366.5	1,434.9	1,506.6	1,581.9	1,661.0	1,744.1	1,831.3	1,922.8	2,019.0	2,119.9	25,095.3
Inflation Costs Not Funded by Sales Tax^{3/}																		
Marginal Cost of Inflation Adjustment	98.6	101.0	104.5	109.1	114.1	119.4	124.9	130.6	136.6	142.9	149.5	156.3	163.5	171.0	178.9	187.1	195.8	
Total Cost of Inflation Adjustment	98.6	199.6	304.1	413.2	527.3	646.6	771.5	902.1	1,038.7	1,181.6	1,331.0	1,487.4	1,650.9	1,821.9	2,000.9	2,188.0	2,383.8	
Assumed Deflator %	1.60%	1.40%	1.60%	1.70%	1.60%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	
Sales Tax Transfer for Inflation Adjustment	98.6	199.6	304.1	413.2	527.3	625.0	625.0	625.0	625.0	625.5	637.8	669.4	702.6	737.5	774.1	812.6	853.0	
Marginal Inflation Adjustment Not Funded by Sales Tax:	0.0	0.0	0.0	0.0	0.0	21.6	124.9	130.6	136.6	142.3	137.2	124.7	130.3	136.2	142.3	148.7	155.4	
Total Inflation Adjustment Not Funded by Sales Tax	0.0	0.0	0.0	0.0	0.0	21.6	146.5	277.1	413.7	556.0	693.3	818.0	948.3	1,084.4	1,226.7	1,375.4	1,530.8	

^{1/} Represents JLBC Staff's current understanding of the distribution of the 1 cent sales tax, based on the Quality Education and Jobs Committee Circulated Version posted on the proponents' website. The 2 different versions of the ballot proposition are estimated to affect the funding distributions between FY 2020 and FY 2029.

^{2/} Monies from the Quality Education and Performance Fund (QEPF) are to be transferred to the General Fund for the inflationary adjustment if the amount of the inflationary adjustment is more than \$125 million. Based on Legislative Council analysis, this provision is interpreted as applying to the cumulative inflation adjustment. As a result, the QEPF allocation declines after FY 2014. Conversely, monies to fund the inflationary adjustment are to be transferred to the QEPF if any excess monies are not necessary to fully fund the inflationary adjustment. As a result, the QEPF receives more than \$500 million in FY 2014.

^{3/} The ballot proposition would require an inflation adjustment of the per pupil base level and the transportation support level. The proposition provides 1 cent sales tax monies to fund these adjustments, which is projected to be sufficient through FY 2018.