
K-12 Aggregate Expenditure Limit

**House Appropriations Subcommittee on Budgetary
Funding Formulas**

January 26, 2023



AZ Constitution Establishes School District Expenditure Limit

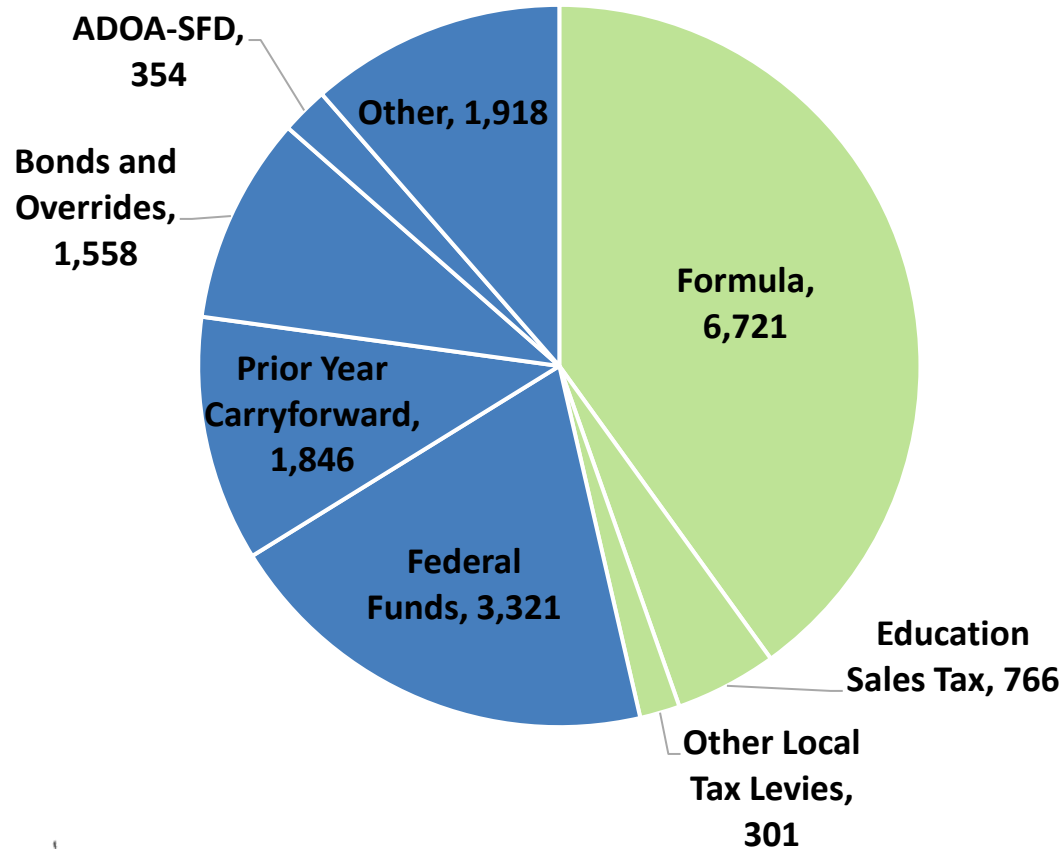
- Calculated Annually by Economic Estimates Commission

- How is the limit calculated?
 - Starting point: FY 1980 School District Expenditures: \$985 M
 - Adjusted for change in unweighted Average Daily Membership (ADM) in the prior year (e.g. FY 2022 counts for FY 2023 limit)
 - Adjusted for change in the GDP price deflator from 2 calendar years prior (e.g. CY 2021 inflation for FY 2023 limit)
 - Multiplied by 10% voter-approved increase factor
- Final FY 2023 limit: \$6.402 B

Districts Budgeted an estimated \$16.8 Billion in FY 2023

- \$7.8 B Was Counted Toward the AEL

District Revenues (\$ in M)



- What's Included?
 - Formula Funding (\$6.72 B)
 - Education Sales Tax (\$766 M)
 - Other Local Tax Levies (\$301 M)
- What's Excluded?
 - Federal Funds (\$3.32 B)
 - Prior Year-Carryforward (\$1.85 B)
 - Bonds/Overrides (\$1.56 B)
 - School Facilities Division (\$355 M)
 - Other (\$1.92 B)

AEL History

- 1980: AEL established
- 1988: Voter-approved amendment increases AEL by 10%
- 2002: Voter-approved amendment excludes Proposition 301 monies from AEL
- 2007/2008: Districts exceeded AEL by \$8 M in FY 2007 and \$147 M in FY 2008; Legislature authorized overrides in both years.
- 2009: Districts initially exceeded AEL by \$98 M, but mid-year reductions during Great Recession brought districts under the limit.
- 2021: Districts initially exceeded AEL by \$139 M, but mid-year revisions brought districts \$(283) M below the AEL.
- 2022: Districts exceed AEL by \$1.15 B; due to expiration of Prop 301, exceedance included \$796 M of Education Sales tax monies; Legislature authorized override.

Legislative Options to Address AEL Exceedance

- Override the limit by March 1, 2023
 - Requires 2/3 vote in each Chamber
 - Override only applies to FY 2023
- Revise formulas for calculating AEL
 - Requires voter-approval via ballot measure
 - Would become effective no earlier than FY 2024
 - Potential changes include:
 - Rebasing AEL expenditures from FY 1980 to FY 2023 (or another year)
 - Adjusting the 10% Factor
 - Excluding select district revenues from the AEL (e.g. education sales tax)
- Require districts to reduce budgets to stay within the limit
 - Would require (17.5)% reduction in district budgets; does not generate state savings
 - To avoid future exceedances, Legislature would need to identify ongoing district funding reductions