

Proposition 123: What's it About?

If passed, the measure would provide \$300 million annually over the next 10 years to support the Arizona's K-12 education system.

Although the basic concept of more money for education is simple, the issues surrounding the proposition can be complex and are often misunderstood.

This guide won't tell you how to vote, but it may help you make a more informed decision.

Why Now?

It's well known that Arizona's education spending ranks near the bottom of all 50 states. There have been growing calls to increase funding for education.

Additionally, the state is facing a lawsuit over past funding decisions. In 2010, the legislature reduced the voter-mandated inflation adjustment for K-12 funding, which prompted the suit.

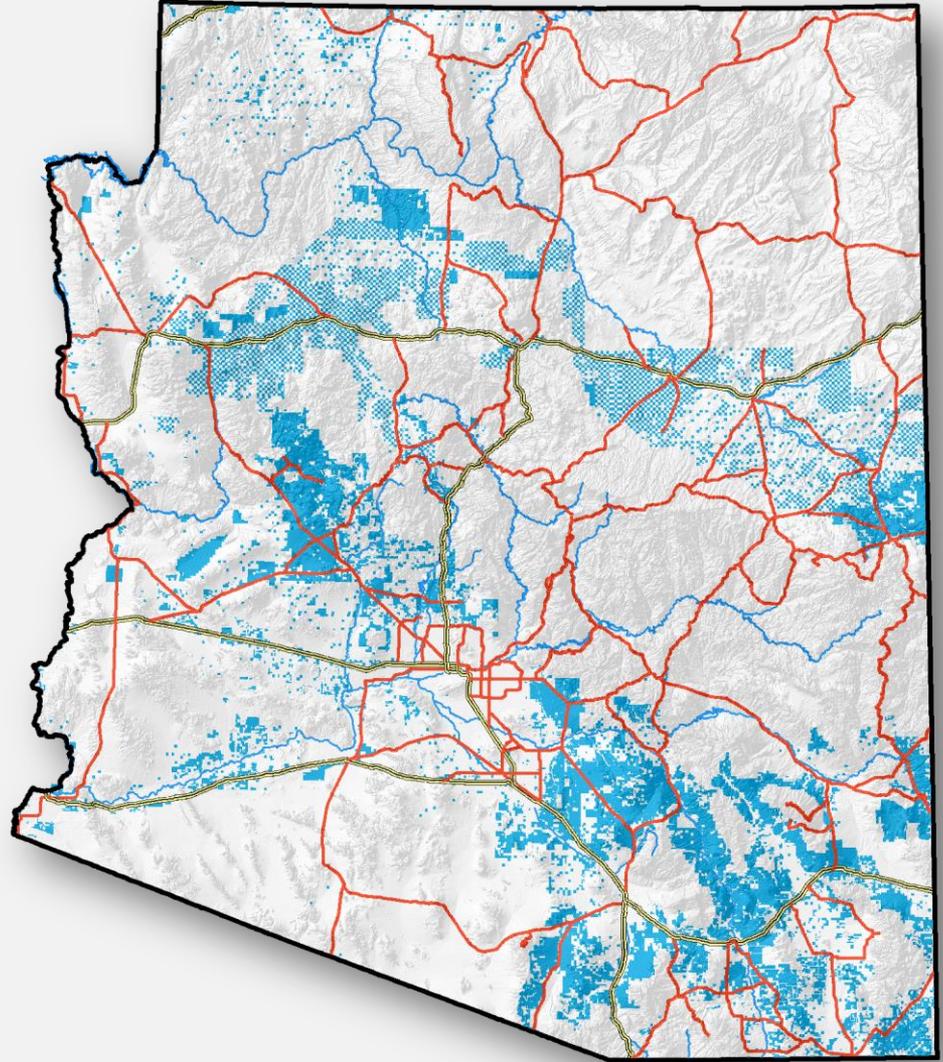
The funding provided by Prop 123 would settle this lawsuit, restoring 75 percent of the funding cut by the legislature. The source of these funds are revenues from *State Trust Lands*.

Arizona's Trust Lands

Arizona has 9.3 million acres of State Trust Lands.

Proceeds from the sale and lease of these lands fund a variety of beneficiaries, with K-12 education getting 90 percent of the revenue.

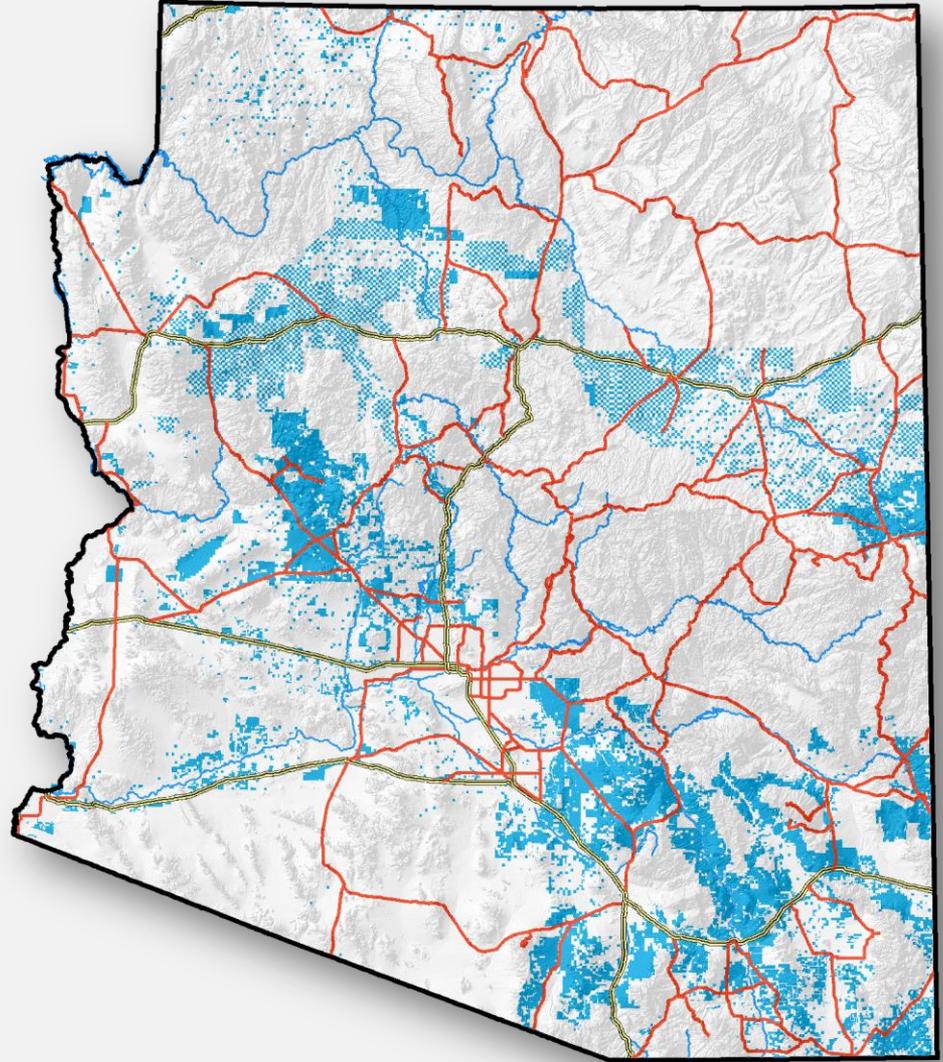
These proceeds can only go to the beneficiaries, e.g. the schools. The state can't use this money for any other purpose.



Arizona's Trust Lands

Lease revenue goes directly to the schools, but when Trust Land is sold, the proceeds go into the *Permanent Fund*. These proceeds must remain in the fund in perpetuity, which is why it's called the permanent fund.

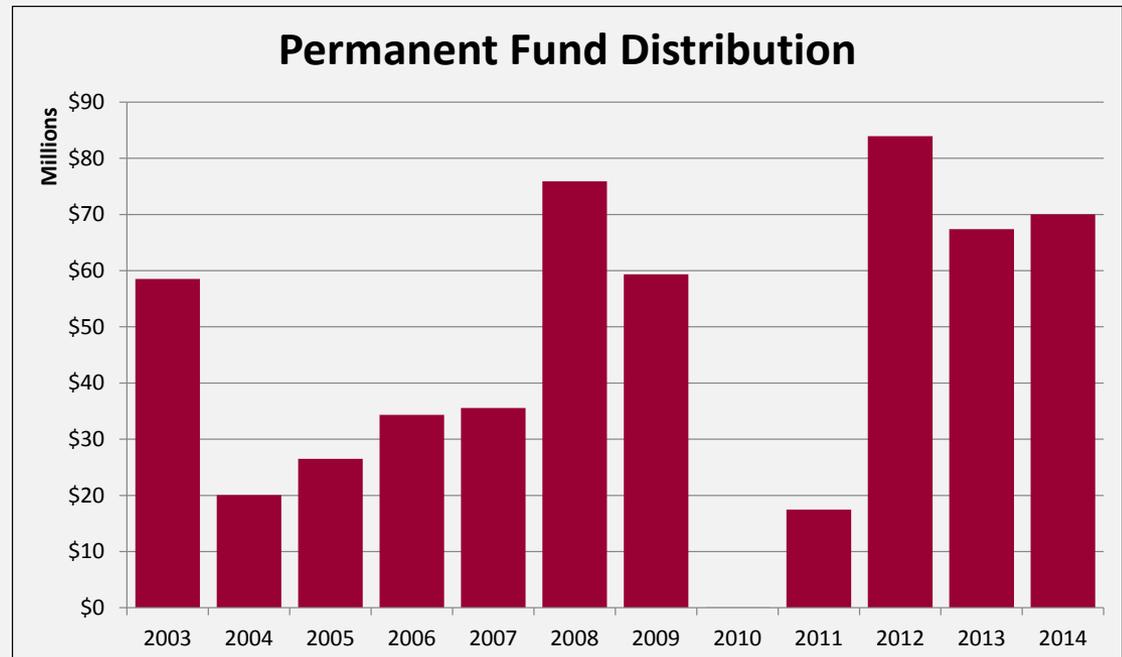
The fund is invested, and the revenue from those investments is paid out to the schools.



Arizona's Trust Lands

Prior to 2012, the Treasurer distributed revenue from the Fund based on a complex formula. The crash of the real estate market in 2008 resulted in no distribution to the schools or other beneficiaries in 2010.

The law was then changed to mandate a steady 2.5% distribution from the fund every year. However, the fund earns somewhat more than 2.5% annually, so a surplus has accumulated.



What Prop 123 Does:

Prop 123 would raise the distribution from the Permanent fund from 2.5% annually to 6.9% for a period of ten years. At that point, the distribution would revert to the original, pre-2012 formula. This would have the effect of distributing the accumulated surplus to the schools.

Opponents of the measure say that this level of distribution is too high and that it will eat into the principal of the fund. To alter the conditions of the trust in this way would require a change to federal law.

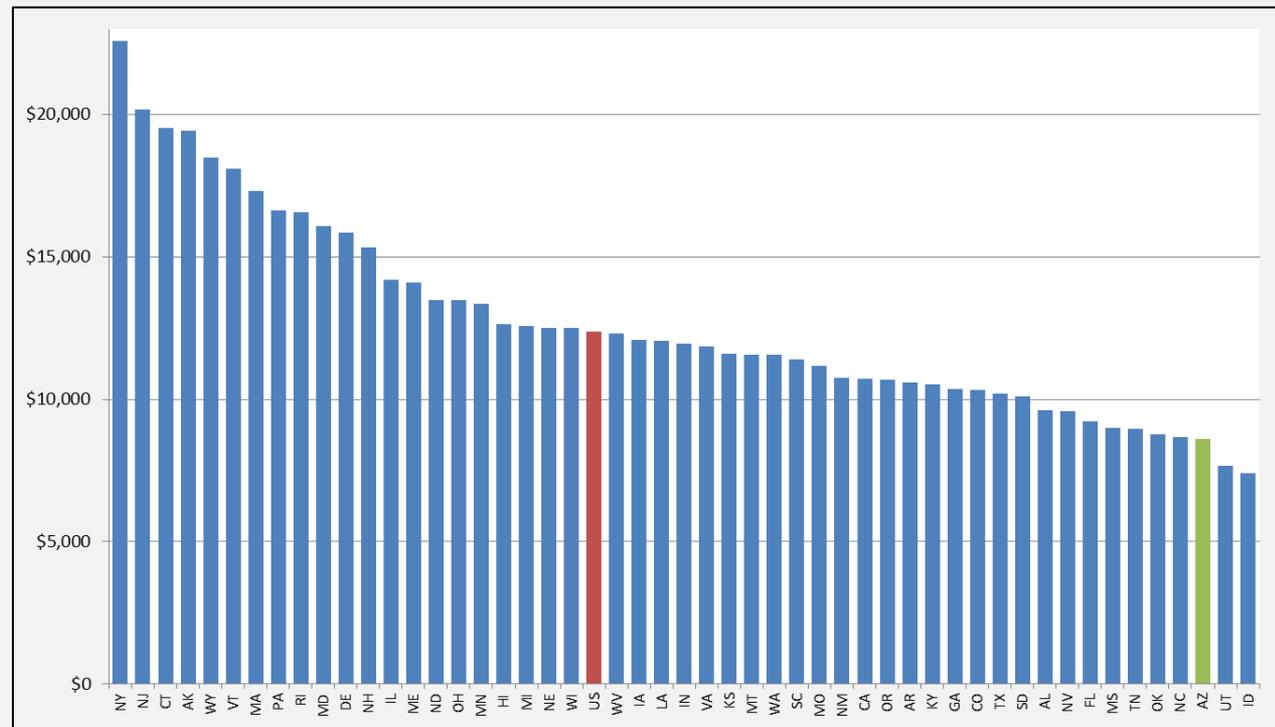
Supporters of Prop 123 say that the trust will not be violated, and even if it were, the state is entitled to make these changes.

Education Spending in Context

To understand the impact of Prop 123, Arizona's education funding needs to be considered both over time and relative to other states. There are many ways to measure Arizona's education expenditure, and all of them place the state near the bottom of the rankings.

The state is 48th in per-pupil expenditures on K-12 education.

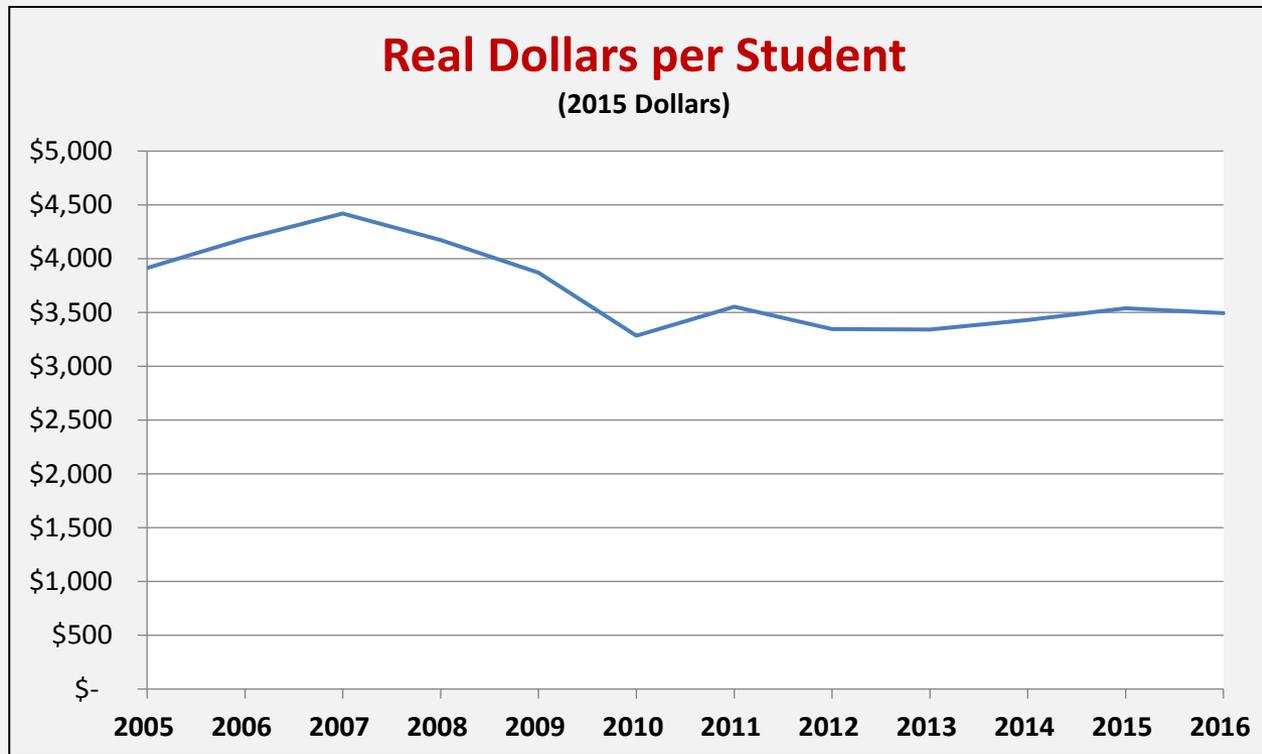
State spending is 31 percent below the national average.



Education Spending in Context

Arizona was ranked 35th in the nation for per-pupil expenditures in 1992.

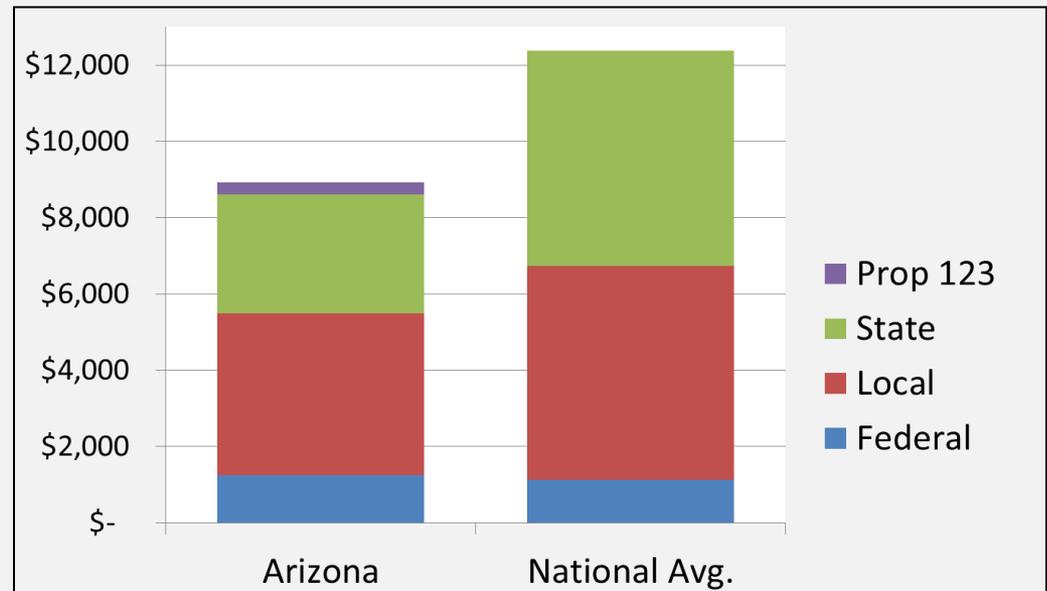
Per-pupil expenditures on education were cut during the great recession and have remained essentially flat since then.



Education Spending in Context

Schools receive money from state, local, and federal sources. Funding from the state makes up about a third of the total. With about 1 million students in the system, the \$300 million provided by Prop 123 would be about \$300 per pupil.

Arizona's per-pupil funding rank would rise from 48th to 46th, provided that other states did not alter their funding.



Questions and Answers

Will Prop 123 result in more Trust Land being sold for development?

No. Land sales and management practices are not affected. Prop 123 concerns how the proceeds in the Permanent Fund are managed.

Will the additional funding go to the classroom?

Probably, but not necessarily. Prop 123 does not direct funding to a specific purpose. Districts can use the money just like the rest of their state appropriation.

Questions and Answers

What happens to the lawsuit if Prop 123 fails?

If the measure fails, the settlement falls through and the suit goes back to trial. It may take 2-3 years to work through the court. If the state loses, the legislature will have to pay the schools either by cutting other state programs or through tax revenue.

What happens to the money in the Permanent fund if Prop 123 fails?

The \$3 billion that Prop 123 would distribute stays in the fund if the measure fails. The funds cannot be diverted to other purposes and would eventually be used for education.

Factors to Consider

As you contemplate your vote on Proposition 123, here are some things you may wish to consider:

Is it better to use the money in the Permanent Fund now, for today's students, or should it be saved for future generations?

Will increasing the payout from the fund create either financial or legal problems in the future?

Election day for Prop 123 is May 17, 2016.
Early voting begins April 20