

Understanding Proposition 208, the Invest in Education Act

2020 Proposed Constitutional Amendment

Background

The Invest in Education Act (Proposition 208) would generate funds for schools by placing a 3.5% income tax surcharge on taxable individual income that is more than \$250,000 for a single person (or married person filing separately) or \$500,000 for a married couple (or a single person who is a head of household).

This would mean that any income above these thresholds would be taxed at 8%. The portion of income below these thresholds would continue to be taxed at the current rate, which is the top income tax rate in Arizona (4.5%).

In its first full year of implementation, the surcharge is projected by the Joint Legislative Budget Committee to generate \$827 million in revenue. The revenue would be distributed as follows (except where noted, the following bullet points are from the [Arizona Legislative Council analysis](#) of the proposition):

- 50% for grants to school districts, charter schools, the state education system for committed youth and the state schools for the deaf and blind for teacher and classroom support personnel hiring and base salary increases. (Proposition 208 would define "teacher" as any non-administrative personnel who instruct students or support student academic achievement, as determined by the school district or charter school governing body, including instructional coaches and academic interventionists and would define "classroom support personnel" as any non-administrative personnel who provide classroom support and instructional support services, as determined by the school district or charter school governing body, including librarians, nurses, counselors, social workers, speech pathologists, behavioral coaches and psychologists.) [Morrison Institute addition: These funds would be distributed to schools in proportion to the statutory weighted student count formula (A.R.S. § 15-943).]

- 25% for grants to school districts, charter schools, the state education system for committed youth and the state schools for the deaf and blind for student support services personnel hiring and base salary increases. (Proposition 208 would define "student support services personnel" as any classified, non-administrative personnel who provide student support services, as defined by the school district or charter school governing body, including classroom aides, media specialists, health assistants, security personnel, clerical staff, student food service personnel, student transportation personnel and school site plant operators.) [Morrison Institute addition: These funds would be distributed to schools in proportion to the statutory weighted student count formula (A.R.S. § 15-943).]
- 10% for grants to school districts, charter schools, the state education system for committed youth and the state schools for the deaf and blind for mentoring and retaining new classroom teachers in their first, second or third year of teaching. [Morrison Institute addition: These funds would be distributed to schools in proportion to the statutory weighted student count formula (A.R.S. § 15-943).]
- 12% for grants to school districts, charter schools and career technical education districts for a career training and workforce program for students in grades 9-12. The grant monies could be used for a variety of purposes, including developing new or expanded programs tied to medium-to-high wage/high-demand careers, developing new or expanded programs that inspire and prepare students to become classroom teachers, hiring school counselors, expanding college-level educational opportunities (including advanced placement, international baccalaureate and dual credit courses), assisting students completing the ninth grade to be on track for on-time graduation, expanding tutoring, mentoring, counseling and mental health services and funding students in career and technical education programs. [Morrison Institute addition: The Arizona Department of Education would be tasked with developing the procedures and requirements for schools to apply for and receive career training and workforce grants.]
- 3% for the Arizona Teachers Academy, which incentivizes college students to enter the teaching profession and to commit to teach in Arizona. The measure would eliminate the current caps on the scholarship amount that each student enrolled in the academy may receive and allow each enrolled student to receive up to the actual cost of tuition and fees for the student's program of study. Also, the marketing plan for the academy would have a particular emphasis on

ensuring that the academy participants reflect the diversity of the state's student population.

According to [Arizona Legislative Council](#), “The new revenue generated by the income tax surcharge could not replace, reduce or supplant other school district, charter school or career technical education district funding.

“The Arizona Constitution limits the ability of the Legislature to amend an approved initiative measure or to appropriate or divert monies created or allocated by an approved initiative measure. Any future legislative changes to the initiative measure may be made only if they are approved by at least three-fourths of the members of each house of the Legislature and the changes further the purposes of the initiative measure, or if they are approved by the voters through referendum or initiative.”

Although the Joint Legislative Budget Committee projects the tax surcharge to generate \$827 million in revenue in its first full year of implementation, [the JLBC states](#) that “the actual deposit will depend on a variety of factors, including: (1) Whether high-income taxpayers leave or shift income out of the state because of the new tax surcharge. (2) Whether higher tax rates will reduce business investment. Some high-income taxpayers pay individual income taxes on the “pass-through” income from their businesses. Given this uncertainty, the revenue estimate is speculative and subject to change. The proposition may also have other impacts on state tax collections. For example, increasing salaries for school employees may result in higher General Fund income and sales tax collections. Any shift of income outside the state or decline in business investment may also reduce existing tax collections.”

Supporters

Supporters include Stand for Children, the Arizona Education Association, the Arizona Center for Economic Progress, the Arizona Interfaith Network, the Arizona PTA, Children's Action Alliance, the Arizona AFL-CIO, Rep. Ruben Gallego, Arizona House of Representatives Minority Leader Charlene R. Fernandez (D-District 4), and local education associations representing school districts across Arizona.

[Proponents state](#) (as summarized by Morrison Institute staff):

- The revenue generated by Proposition 208 would help restore annual K-12 education funding to pre-Great Recession levels.

- More education funding in Arizona will reduce teacher shortages, improve teacher and education support staff retention, and help ensure more teachers have the proper qualifications.
- The Invest in Education revenue would help shrink class sizes, aid schools in expanding educational opportunities in career and technical education and the arts, and, although revenue from Proposition 208 would be allocated to salaries and staff retention programs, would allow schools to provide improved learning materials.
- Revenue raised through this measure would be a more reliable source for schools, since it will not be subject to annual budget negotiations.
- The proposition will improve the business climate in Arizona by fostering a more skilled workforce. Better schools would also be a draw for businesses thinking of locating in Arizona.
- Raising taxes on individuals in the top tax bracket spares people who are struggling financially from paying more in state taxes.
- The Invest in Education funds will help all schools because they will largely be distributed based on the number of students in a school.

Opponents

Opponents include Gov. Doug Ducey, Commercial Real-Estate Executives for Economic Development, the Arizona Chamber of Commerce and Industry, the Arizona Free Enterprise Club, the Arizona Lodging and Tourism Association, the Arizona Small Business Association, the Goldwater Institute, the Arizona Tax Research Association, the Arizona Chapter of NAIOP: The Commercial Real Estate Development Association, the National Federation of Independent Business, and the Southern Arizona Leadership Council.

[Opponents state](#) (as summarized by Morrison Institute staff):

- A tax increase on wealthy individuals would drive people with capital that could be used to invest in Arizona businesses to states with a lower tax burden.

- The tax surcharge would burden some small business owners whose incomes put them into the top tax bracket, potentially inhibiting small business growth.
- Proposition 208 lacks accountability on how the funds will be spent and does not tie funding to school performance metrics.
- Taxes from wealthy individuals are an unreliable source of income because during recessions their incomes are likely to drop significantly, causing the Invest in Education fund to shrink.
- Education is a benefit to all Arizonans and therefore the tax burden should be shared equally across all taxpayers.
- The negative economic impacts of COVID-19 make this an inopportune time to raise taxes.
- Funds would not be spent only on teachers, but also on support personnel like librarians, nurses, counselors, social workers, speech pathologists, behavioral coaches, psychologists, classroom aides, media specialists, health assistants, security personnel, clerical staff, student food service personnel, student transportation personnel and school site plant operators.
- Proposition 208 does not tax corporations, which would benefit from improved schools because it would help with employee recruitment and retention but may impact some small business owners whose incomes put them in the top tax bracket.
- The set revenue distribution structure, outlined above, prevents local districts from deciding where the funding is most need in their system.
- Proposition 208 does not provide funding for higher education or early childhood education.
- The new tax surcharge could only be modified by approval of three-quarters of each legislative chamber or through a future voter initiative.
- Proposition 208 might make future legislative investment in schools less likely.