ARIZONA STATE SENATE

Fifty-Sixth Legislature, Second Regular Session

FACT SHEET FOR S.C.R. 1027

state land trust; permanent funds

Purpose

Subject to voter approval, constitutionally continues the Permanent State School Fund's annual distribution rate of 6.9 percent through FY 2035 and reverts all other permanent fund annual distribution rates to 2.5 percent beginning in FY 2026, if voters approve the statutory measure that establishes a statewide program to increase the base salary of all eligible teachers above the FY 2025 base salary.

Background

State Trust Land

Arizona State Trust Land supports Arizona public schools, universities and other agencies by generating revenues via the sale and use of lands and the investment of proceeds associated with acreage granted to the state. Each beneficiary has a separate permanent fund comprised of expendable and permanent monies. Only expendable monies are distributed as outlined to beneficiaries and include investment earnings from the State Treasurer, proceeds from the lease of state trust lands and interest paid by buyers who purchase state trust land on an installment basis. The Permanent State School Fund is established as the permanent fund for Arizona common and high schools (Ariz. Const. art. 10 § 7; Ariz. Const. art. 11 § 8; JLBC).

Proposition 123 Distribution Increase

In 2015, Arizona voters approved Proposition 123 to increase, for FYs 2016 through FY 2025, State Trust Land permanent fund distributions from 2.5 percent to 6.9 percent of the average monthly market valuation of each permanent fund for the previous five calendar years. Proposition 123 requires, for FYs 2016 through FY 2025, Permanent State School Fund expendable earnings that would otherwise go to the Classroom Site Fund to be appropriated to basic state aid, including statutorily required inflation adjustments, if those earnings are a result of an increase to the 2.5 percent permanent fund distribution. Beginning in FY 2026, each permanent fund's annual distribution rate reverts to 2.5 percent.

Proposition 123 Triggers

The Directors of the Office of Strategic Planning and Budgeting (OSPB) and the Joint Legislative Budget Committee (JLBC), by February 1, must jointly notify the Governor, the President of the Senate and the Speaker of the House of Representatives that a permanent fund distribution reduction is necessary to preserve the capital of the permanent fund, if the average monthly market values of the permanent fund for the immediately preceding five years have decreased compared to the average monthly market values of the permanent fund for the five-calendar-year period that immediately precedes the preceding five calendar years. The Legislature may, on receipt of the notification and with the Governor's approval, reduce the permanent fund distribution rate for the next fiscal year to between 2.5 percent and 6.9 percent of the value of the permanent fund.

The Directors of the OSPB and JLBC must provide notification if, by February 1, the transaction privilege tax (TPT) growth rate and the total nonfarm employment growth rate are each: 1) at least one percent but less than two percent; or 2) less than one percent. If the TPT and total nonfarm employment growth rates are between one and two percent, the Legislature may suspend inflation adjustments to the school finance formula. If the TPT and total nonfarm employment growth rates are each less than one percent, the Legislature must suspend inflation adjustments to the school finance formula.

Beginning in FY 2025, the Directors of OSPB and JLBC must provide notification if, by February 1, the total amount of state General Fund (GF) appropriations for the Arizona Department of Education is between 49 and 50 percent of the total state GF appropriation for the current fiscal year, or at least 50 percent of the total state GF appropriation for the current fiscal year. If state GF expenditures are between 49 and 50 percent, the Legislature may suspend inflation adjustments to the school finance formula and reduce the base level amount for the next fiscal year by the amount of inflation adjustments made for the current fiscal year. If state GF expenditures are more than 50 percent, the Legislature may suspend inflation adjustments to the school finance formula and reduce the base level amount for the next fiscal year by two times the amount of the inflation adjustments made for the current fiscal year.

There is no anticipated fiscal impact to the state GF associated with this legislation.

Provisions

Permanent Fund Changes
(Effective only if the voters approve the statutory measure that establishes a statewide program to increase the base salary of all eligible teachers above the base salary in FY 2025)

1. Increases, for FYs 2026 through 2035, the Permanent State School Fund's annual distribution rate, from 2.5 percent to 6.9 percent, of the average monthly market valuation of the Permanent State School Fund for the previous five calendar years.

2. Requires, for FYs 2026 through 2035, any increase in expendable earnings that would otherwise go to the Classroom Site Fund that results from a distribution of more than 2.5 percent of the average monthly market valuation of the Permanent State School Fund for the immediately preceding five calendar years to be appropriated for the statewide program to increase the base salary of all eligible teachers.

3. Reverts, beginning in FY 2036, the Permanent State School Fund's annual distribution to 2.5 percent of the average monthly market valuation of the Permanent State School Fund for the previous five calendar years.

4. Applies, to the Permanent State School Fund's annual distributions in FYs 2026 through 2035:
   a) the requirement for the Directors of the OSPB and JLBC to jointly notify outlined individuals that a reduction to the distribution is necessary to preserve the safety of the capital in the permanent fund if the value of the permanent fund for the immediately preceding five calendar years has decreased compared to the value of the permanent fund for the five-calendar-year period immediately preceding those five years; and
   b) the authorization for the Legislature, with approval of the Governor, to enact legislation that reduces the distribution for the next fiscal year to between 2.5 percent and 6.9 percent of the value of the permanent fund upon receipt of OSPB's and JLBC's notification.

5. Specifies that, beginning in FY 2026, the annual distribution of each permanent fund other than the Permanent State School Fund reverts to 2.5 percent of the average monthly market valuation of the permanent fund.

Miscellaneous

6. Makes technical changes.

7. Requires the Secretary of State to submit the proposition to the voters at the next general election.

8. Becomes effective if approved by the voters and on proclamation of the Governor.

Prepared by Senate Research
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MH/sdr