

What Happened to My County Aid?

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July through September of each year are crunch times for Arizona public school districts. Expenditure activity is reviewed in detail to ensure funding sources are being utilized in accordance with laws and regulations and proper fiscal year reporting. Revenue activity is reviewed and compared to external reports to verify it has been recorded to the correct fund, object code, and fiscal year. Preparation for the annual audit is rampant. One change you might notice when comparing fiscal year 2021-22 revenue activity to fiscal year 2022-23 is the near disappearance of the county aid revenue line. Your recorded revenue is correct and balances to state reports; so, what happened?

The Arizona Legislature passed Senate Bill (SB) 1093 during the 2022 legislative session that adjusted the state equalization assistance property tax rate to 0% for tax years 2022 through 2027 (which relates to the operating funding sources for fiscal years 2022-23 through 2027-28). The bill does not eliminate the existence of the tax levy or adjust the overall school funding model established by Arizona Revised Statutes (A.R.S.) §15-971; it simply sets the levy to 0% for the foreseeable future.

Most of the public school maintenance and operations and district additional assistance funding within Arizona comes from what is called equalization assistance for education. It is a complex model with many inputs that seeks to allocate education spending equally throughout the state. We traditionally think of revenue coming before expenditures in a funding model. The equalization model, however, sets the expenditure limits per student first and then backfills revenue with sources specific to each district's economic demographics. Under the model, a student in a rural portion of the state should have the same base amount allocated to them than if they were attending school in a more affluent area of the state.

The equalization model is funded via a mix of local property taxes and State General Fund revenues. The proportion between the two funding sources varies for each district depending on the ability of the local community to support the district's operations. Property taxes within the district's boundaries fund the equalization formula first with State General Fund revenues and county-wide education property taxes balancing the rest of the equation. These county-wide education property taxes are called the state equalization assistance property taxes that were set to 0% during the 2022 legislative session. It should be noted that there will be small amounts of this revenue stream recorded in the coming years due to collections of delinquent property taxes.

As a result of the legislative changes, are school districts being fully funded if this county-wide education property tax is no longer being levied? The answer is yes. A portion of the equalization revenue model has shifted, for the next six years, from being funded by a county's overall property tax base to the State General Fund. Will it become permanent? Only time will tell!

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