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Report: Increasing education funding from state land trust would cost Ariz. \$1B in earnings

PRICE OF DUCEY PLAN

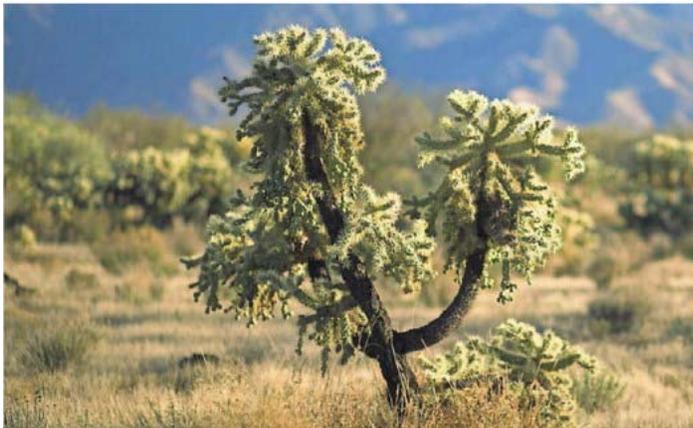
YVONNE WINGETT SANCHEZ AND ALIA BEARD RAU

Gov. Doug Ducey's proposal to add \$2 billion to public education over the next decade through a ballot initiative could cost the state about \$1 billion in lost investment earnings, according to a report released last week.

The Joint Legislative Budget Committee's analysis of Ducey's plan forecasts that the state land trust's valuations under current distribution levels will be \$9.5 billion in 2026, compared with a \$6.3 billion fund balance under Ducey's plan. The lower fund balance under Ducey's plan — after accounting for the \$2 billion in school funding — will yield \$1 billion less in investment returns.

The report largely confirms projections laid out by Ducey and his staffers in their rollout of the plan earlier this month.

Daniel Scarpinato, the governor's spokesman, said the office was pleased by the report, saying it was "pretty much on point" with details outlined by the governor, notably the additional money that would be generated for



Gov. Doug Ducey's spokesman defended the plan's cost, saying, "We would rather use these resources at a time when our schools need them."



schools under the proposal.

For example, during the first five years of the proposal, the budget committee estimates increased funding of \$1.72 billion for K-12 education, compared with Ducey's estimated \$1.79 billion. The committee estimates the plan would generate an increase of \$344 million a year, compared with Ducey's projection of \$357 million.

When asked about the potential loss of \$1 billion in investment earnings, Scarpinato said, "We would rather use these resources at a time when our schools need them on Main Street, Arizona, than on Wall Street. We think the schools need this money — we're hearing it from parents, we're hearing it from teachers. This is a way to get a cash infusion in, and it protects the fund."

Under Ducey's plan, schools would get an extra \$300 per student, per year, to boost per-pupil funding by the state from the current \$3,400, which is the lowest in the nation. Before the plan can go to voters, however, the Legislature needs to pass a resolution to put it on the November 2016 ballot.

Sen. Don Shooter, R-Yuma, chairman of the Senate Appropriations Committee, said even with a possible \$1 billion loss in investment earnings, he supports the proposal.

"Texas has oil and we have land. So why would we sit on assets we could make productive," he said. "I would venture to say that the money we spend on education would improve jobs and the economy more than we would lose over the course of 10 years."

Ducey's proposal requires no tax increase but hinges on public support for increasing funding from the state land trust's permanent fund, from 2.5 percent to 10 percent, each year for the next five years. It would then drop to 5 percent before expiring at the end of 2026.

The plan builds on a previous ballot proposal that Ducey, as state treasurer, successfully promoted in 2012. That plan increased the amount of money coming to schools from the land trust's permanent fund to a steady 2.5 percent a year, which has equaled \$80 million annually.

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At statehood, Arizona was given 9.3 million acres of land to be held in trust, primarily for the benefit of public education. The state invests proceeds from land sales and leases to grow the fund, which currently stands at \$5.1 billion.

Some have questioned whether the plan would erode the state's long-term ability to use the trust to fund public schools, noting that a 10 percent annual withdrawal would reduce the fund's principal.

The JLBC report indicates the principal would grow under Ducey's plan.

JLBC staff studied the governor's proposal as part of a routine analysis. The nonpartisan staff regularly reviews proposals to gauge their impact on the state budget and government.

Republican Rep. Kate Brophy McGee of Phoenix said she is weighing Ducey's proposal in the context of the state's anemic education funding.

"There are a lot of moving parts and this is one piece of it," she said of the governor's plan. "Clearly the land trust was intended to benefit our K-12 system and clearly our K-12 system needs help. That's what this money was intended to do."

Brophy McGee said she wants more information on the potential \$1 billion loss in earnings. "I think what everyone is sensitive to is that resources are finite, including our trust lands — and are we maximizing them to our highest and best use?"

Andrew Morrill, president of the Arizona Education Association, worries the broader debate over education funding is being lost in the analysis of one funding proposal.

First to remember, he said, is that the majority of the money in the land trust already has been earmarked for schools. Ducey's plan just allows schools access to more of their money sooner.

"So we're going to ask voters for permission to spend our own money to make up a debt that the courts have ruled Arizona owes our schools?" he asked. "Why are we now at a point where the only money we're willing to identify is money already owned by the K-12 system?"

Even with that, Morrill said he's willing to look at the proposal. But he said there needs to be additional funding.

"We have a rainy-day fund that was bought and paid for by the students in our K-12 public schools. We have revenue for fiscal 2016 that's higher than projected," he said. "We are \$3,000 below the national average in per-pupil

spending. We've got to see more commitment than this coming from the top elected leader in the state."

