ISSUES OUTLINE NO. 1

prepared for the

JOINT SELECT COMMITTEE ON

TAX REFORM AND SCHOOL FINANCE

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September 14, 1978

INTRODUCTION

Issues Outline 1 is an initial attempt to organize the possible goals, policy alternatives and required research program for a Special Session on Tax Reform and School Finance.

The report is divided into two major sections. Section One describes the acquisition of data and background research materials and the preparation of automated simulation models necessary to evaluate proposed changes to the taxation and education finance structures. Section Two of the report lists possible goals and policy alternatives in taxation and education and integrates them with the research items described in Section One. A possible general time framework of research is presented in the Attachment following Section Two.

It should be noted that no attempt has been made to provide an overall time frame for when the Committee will likely consider particular issue areas. However, it is assumed that thorough evaluation of specific policy alternatives cannot occur before all of the data has been assembled and automated in a fashion that would allow accurate and rapid analysis. Given present resources, it appears that data acquisition and automation will require several months, with the major simulation models becoming available for use next May or June.

Although an attempt was made to provide a comprehensive outline of possible goals, issues and research, the lists of goals, issues and research developed in Issues Outline No. 1 are not intended to be exhaustive of all possibilities. Issues Outline No. 1 is intended to serve as an initial focal point in organizing and illustrating the possible issues.

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SECTION ONE

DESCRIPTION OF RESEARCH

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DESCRIPTION OF RESEARCH

OVERVIEW

In order to answer the questions likely to be raised by the Legislature in a Special Session on Tax Reform and School Finance, it will be necessary to undertake a comprehensive research program to develop data banks and analytical tools to aid in evaluating policy options.

In structuring a program of research, four main research areas were identified. These include: I) development of tax simulation models and data abstracts, II) other taxation research, III) development of education finance data bank and IV) other education research. Descriptions of these research areas follow. (A possible research time frame is presented in Attachment.)

I. DEVELOPMENT OF TAX SIMULATION MODELS AND DATA ABSTRACTS

In the taxation area, seven basic models have been identified as necessary to help resolve the majority of taxation issues likely to arise in a Special Session. These models are:

1. Legal Class Property Tax Model
2. Use Code Property Tax Model
3. Class 5 Property Tax Model
4. Individual Income Tax Master File
5. Corporate Income Tax Model
6. Tax Burden Model
7. Sales Tax Model

Although the specific time schedules for constructing and developing these models vary according to the dates at which data become available, all seven models should be operational by June 1979. General work outlines for each of the models are presented in the Attachment.

These schedules assume that a full-time computer programmer will be retained by the Legislature and that at least one staff member will work full-time on developing program specifications and coordinating model development. It also assumes that the Department of Revenue will make available, on a part-time basis, programming technicians in the property tax, income tax and sales tax areas as required to aid in data transfer.

DESCRIPTION OF TAXATION DATA MODELS

1. Legal Class Property Tax Model. The legal class property tax model is a simulation tool designed to analyze changes in the property tax system at the levels of legal class and taxing authority. Some of the alternatives which can be examined within this model include:

   a) A Jarvis-Gann-type proposal imposed on Class 5 properties (in Arizona, similar to the Beaver proposal)

   b) Changes in the assessment ratio of legal classes

   c) Tax rate and tax levy limitations

   Final data will be available by January 1979 and the model should be programmed by February or March. The model would then be tested and debugged during March and April. By May, the model would be ready to analyze legislative alternatives.

2. Use Code Property Tax Model. The use code property tax model increases the flexibility of analysis by allowing examination of impacts down to the use code level. Examples of alternatives which can be examined within the constructs of the use code abstract include:

   a) Changes in the assessment ratio of railroads, or any other industry-defined use code

   b) Aggregation of income-producing properties by industry type into new legal classes

   The time schedule for this model is the same as outlined in 1. above.

3. Class 5 Property Tax Model. This model consists of a property tax data abstract for Class 5 properties. It will be used to analyze such alternatives as a homestead property tax exemption. Development of this model would follow the same time line as outlined in 1. above.

4. Individual Income Tax Master File. The individual income tax master file contains detailed information from individual tax returns. Programs will be run against the file to analyze such alternatives as:

   a) Changes in the individual income tax rate structure

   b) Changes in the levels of deductions and exemptions such as the standard deduction and the federal income tax deduction

   c) Modifications in income tax indexing for inflation such as indexing of income tax brackets

   The basic data file for 1977 is currently available through the Department of Revenue. It will require approximately

two to three months to write program specifications and the programs to evaluate changes. Testing of alternatives would extend over several months.

5. Corporate Income Tax Model. The corporate income tax model is comprised of a data file of corporate income tax returns and will be used to analyze changes in the corporate income tax system. Examples of alternatives which can be analyzed by this model include:

   a) Changes in the corporate income tax rate structure

   b) Changes in the levels of allowable deductions and exemptions

   c) Modifications of tax base to value-added concept

   At the present time, the Department of Revenue is targeting to have the corporate income tax system available in October 1979. However, it is recommended that the Legislature request that a testable data abstract be made available as soon as possible. This action would initiate immediate keypunching of data, thereby providing for a data tape in early 1979 (February or March). By April the corporate income tax model should be ready to analyze alternatives.

6. Tax Burden Model. The tax burden model will be developed from a detailed sample of individual income tax returns. The model will be used to analyze the effect of tax changes as they relate to income and household characteristics. Examples of questions which the tax burden model will help resolve include:

   a) Given a change in the level of federal income tax deduction allowed on an Arizona return, what is the effect of tax burden for particular income and household groups?

   b) If local property taxes are reduced to 1% of full cash value, what happens to the tax burden of particular income and household groups?

   By May or June, the tax burden model should be ready for policy evaluation.

7. Sales Tax Model. The sales tax model is essentially a sales tax data abstract that will enable the testing of changes in tax rates as well as reclassification of taxable industries. Additionally, the model will facilitate testing of alternative distribution formulae.

   The Department of Revenue is currently in the process of developing time and cost estimates for providing a usable data tape. Program development will require two to three months, and it is envisioned that the sales tax model could be ready for policy evaluation by April or May.

II. OTHER TAXATION RESEARCH

In addition to the development and construction of computerized data simulation models, there are several other data research requirements that warrant consideration. These research tasks are listed below. Time estimates for completing the work are also provided and the tasks should be sequenced so that the research will be available at the time needed for consideration by the Legislature.

1. Property Taxation

   a. Legal. When considering alternative property taxation schemes, legal questions are likely to arise. These questions could best be handled on an individual basis at the time they arise.

   b. Data Collection and Analysis. In addition to the computerized data abstracts, other data will be required to analyze particular policy alternatives. These include:

      - A list of outstanding debt by district (two weeks); available immediately and needed at time of consideration of Jarvis-Gann.
      - Analysis of California implementation and impact of Jarvis-Gann; two weeks to prepare report with recommendations for implementation in Arizona. Needed at time of consideration of Jarvis-Gann.
      - Historical profile of tax levies by district 1970-1978 to analyze growth trends; two to three weeks - could be done immediately and should be done prior to January.
      - Compile comprehensive list of property tax relief alternatives in use in other states, analyze and report; two to three weeks; begin investigation now, should be finalized in November or December.
      - Monitor and review DOR Mass Appraisal System process; part-time on on-going basis.
      - Analyze the institution of greenbelt legislation as it relates to property taxation; three to five weeks; should be done in early 1979.

2. Other Taxation

   a. Tax Burden Model. Conduct literature review, develop tax estimating equations, coordinate programming and model construction; three to four months; should begin now.

   b. Collect and Analyze Additional Data:

- Prepare historical profile of state and local revenue sources. (2-3 months) Should begin now, ready in November or December.
- Prepare update of state-by-state tax reliance study. (1-1½ months) Should begin now, ready in October or November.
- Assemble data on casual sales. (1-2½ weeks) At proper time for consideration.
- Assemble data on services. (1-2 weeks) For consideration of sales tax on services.
- Construct data abstract of other state taxes such as use tax, luxury tax, estate tax, etc. (2-3 weeks)
- Survey general tax relief mechanisms currently in use in other states, especially tax circuit breaker. (2-3 weeks)
- Survey corporate income tax structures in other states, especially Michigan's single business tax. (3-4 weeks) Should begin now, analysis finished by January.
- Historical profile of user charges in local districts, analyze and report. (2-4 weeks)
- Assemble and analyze property sales for examination of real estate transfer fee. (4-8 weeks)

III. DEVELOPMENT OF EDUCATION FINANCE DATA BASE

The development of an education finance data base will serve two purposes: the first is to have a comprehensive statistical base available in order to formulate and test various policy alternatives and the second is to have actual district data to use as a comparison base in order to analyze the impacts of various alternatives. The Arizona Department of Education is presently compiling a list of data which it has on file and the form which it is presently in. This task will be completed by the end of October.

Presently, it is envisioned that data will be compiled for both the 1977-78 and 1978-79 school years in order to eliminate any irregularities that may occur by using data for only one year. The 1977-78 data will be used for comparison with the 1978-79 data and the 1978-79 data, possibly adjusted to arrive at a more "accurate" level, will be used in the final analysis. The following is a general time frame of when the various components of the education finance data base will be assembled

1. List of information available and form information is in at the Arizona Department of Education. End of October.

2. Legislative determination of data needs for each school district. (1 month) Ready mid-October.

3. ADOE, based on Legislature's data needs (item 2. above) fills data gaps.

4. Each school district presented with data packages for (a) verification of ADOE information and (b) request for remainder of data. Each county, where applicable, is also presented with same information for unorganized territory within county. (1-2 months)

5. Prepare data in format for analysis. (2-3 months)

   By end of March, data base collected and stored for use in analyzing legislative alternatives.

6. Each school district updates data packages to reflect more actual information for 1978-79. (2-3 months)

7. By end of February, ADOE equalization study completed. Legislature obtains:

   a. Description of types of data collected, form used to gather data, manner in which data collected was manipulated

   b. Description of simulation model

   c. Test results

8. Analyze ADOE equalization study and update data to reflect 1978-79 information. (2-3 months) Available June 1979.

9. Test, simulate and analyze alternatives and impacts.

IV. OTHER EDUCATION RESEARCH

In addition to the statistical data base, the following research items and data will need to be obtained and reviewed. The primary purpose for the research is to provide background for finance alternatives and/or other education goals. Some of these data may specify needs, establish parameters of alternatives or provide a basis of understanding of a peripheral education area which may be impacted by a change in the school finance program and thus need to be modified.

1. a. Review of educational refinance programs of other states. (1-2 months) Completed by mid-October.

   b. Review of evaluations of other states' educational finance programs. If other states are using the same funds and time frame as the ADOE study, results should be available in early 1979. (1-2 months for review and report)

2. Evaluate Arizona equalization system. (2-4 months) Completed early 1979 (February or March).

3. Review Federal P.L. 94-142 (Education of the Handicapped Act) and Section 504 of the Rehabilitation Act of 1973. (2-4 weeks) Completed by March.

4. a. List all Federal special programs including: description, target population, number of students served, funding mechanism and funding provided. (2-4 weeks)

   b. List and evaluate all state special programs. (2-4 weeks)

5. Study and report on teachers' retirement: program and funding. (2-3 weeks) Completed by January.

6. Study and report on teacher tenure laws. (1-3 weeks)

7. a. Review the present testing programs and objectives used in Arizona: third grade reading test, fifth grade math test and CUES (Continuous Uniform Education System).

   b. Review testing programs and objectives in other states and on national level. (3-6 months)

8. Review present budget format and Uniform System of Financial Records (USFR). (2-4 weeks)

9. Review budgetary and valuation process time frames of school districts and all other taxing jurisdictions. (2-4 weeks)

SECTION TWO

POSSIBLE
GOALS IN TAXATION AND EDUCATION FINANCE,
LEGISLATIVE ALTERNATIVES TO ACHIEVE GOALS
AND
RESEARCH TO BE UNDERTAKEN

SECTION TWO

POSSIBLE GOALS IN TAXATION AND EDUCATION FINANCE, LEGISLATIVE ALTERNATIVES TO ACHIEVE GOALS AND RESEARCH TO BE UNDERTAKEN

OVERVIEW

This section outlines possible goals and legislative alternatives to be considered by the Legislature in a Special Session of Taxation and School Finance. In addition, the research elements discussed in Section One are integrated with the policy alternatives that the research is designed to evaluate.

Organizationally, the goals and alternatives are divided into four areas. These areas are: (I) Property Taxation, (II) Other Taxation, (III) Educational Finance and Education Program Structure and (IV) Spending Limitations. Their sequence, moreover, represents one logical order for consideration by the Legislature. Another possible ordering might be: (1) Property Taxation, (2) Education Finance and Education Program Structure, (3) Other Taxation and (4) Spending Limitations. It appears that property taxation will likely receive first consideration since it is the most urgent area in need of reform. Either "Other Taxation" in determining replacement revenues or "Education" could be considered next. Spending Limitations would likely (although it need not) be considered after the revenue and education finance structures are solidified.

I. RESEARCH AREA: PROPERTY TAXATION

A. GOALS IN REFORMING THE PROPERTY TAX SYSTEM

1. Reduce reliance on property taxes at state and local levels and stabilize the problem of rapidly rising property taxes.
2. Reduce the burden of property taxation confronting homeowners.
3. Improve horizontal and vertical equity in property taxation.
4. Improve and simplify the administration of property taxation.
5. Equalize total property tax burdens among districts.
6. Preserve open spaces and other special property types from urban development.
7. For homeowners, make property taxation more income determinative.
8. Reduce and stabilize property valuation increases.

B. LEGISLATIVE ALTERNATIVES TO ACHIEVE GOALS AND RESEARCH TO BE UNDERTAKEN.

GOAL No. 1: Reduce reliance on property taxes at state and local levels and stabilize the problem of rapidly rising property taxes.

ALTERNATIVES	RESEARCH
a. Fix the amount of property taxes that can be raised as a constant proportion of valuation (e.g. Jarvis-Gann).	·Use Legal Class Model to analyze impacts on districts. Model can be used to evaluate different percentage levels. ·Assemble district debt for possible adjustment in valuation growth limits. ·Analysis and review of California experience; effects and implementation. ·Analysis and recommendation for Arizona administration and implementation.
b. Limit the amount of annual increase in property taxes.	·Construct historical profile of tax levies by district 1970-1978 for comparison.

	·Use Legal Class Model to analyze impacts on districts of varying types and magnitudes of percentage limitations. Model can be used to evaluate different levels of levy restrictions.
c. Remove or further reduce the state property tax on all or selected property types.	·Use Legal Class Model and/or use Code Model to evaluate changes in property tax levels.
d. Impose property tax limitations on local governments. (e.g. levy or rate limitations)	·See a. above.
e. Increase state contribution for education.	·See EDUCATION, GOAL No. 1, Alternative b.
f. Increase state shared taxes to counties, cities and towns.	·See OTHER TAXATION, GOAL No. 1, Alternatives.
g. Modify and expand local user charges as source of revenue.	·See OTHER TAXATION, GOAL No. 1, Alternatives
h. Institute strict spending limitations.	·See SPENDING LIMITATIONS, Alternatives

GOAL No. 2: Reduce the burden of property taxation confronting homeowners.

ALTERNATIVES	RESEARCH
	·Compile comprehensive list of property relief alternatives in use in other states. Analyze. Report.
a. Reduce tax assessment ratio on owner-occupied dwellings.	·Use Legal Class Model to evaluate district impacts.
b. Increase the assessment ratio on other classes of property.	·See a. above.
c. Increase and expand property exemptions for homeowners:	·Use Class 5 Model to evaluate district impacts from alternative levels of homestead exemptions.
-homeowners exemption -widows and veterans exemption	·Obtain HEW data tape. Program to project and expand sample for widows, veterans.

d. Increase the current home-owners rebate program or modify.	·Use Class 5 Model to evaluate district impacts and the impacts on different valued homes from changing the existing rebate.
e. Limit the growth in valuation of owner-occupied dwellings.	·Use Legal Class Model to evaluate district impacts from limiting growth in assessed valuation. Also to evaluate impacts on other classes of property. ·Project tax levies by district for purposes of comparison.
f. Limit the amount of taxes on homes to be raised as a fixed proportion of market value.	·Use Legal Class Model to evaluate district impacts.
g. Institution of additional property tax credits on income tax return.	·See OTHER TAXES , GOAL No. 1, Alternatives h and i.
h. Institution of circuit-breaker type credit on income tax return.	·See OTHER TAXES , GOAL No. 1, Alternative i.
i. Institute two-tiered tax rate.	·Use Legal Class Model to evaluate impacts.
j. Equalize centrally-assessed valuations on statewide basis.	

GOAL No. 3: Improve horizontal and vertical equity in property taxation.

ALTERNATIVES	RESEARCH
a. Improve and modify the MLR COST models and other mass appraisal techniques in use; mandate additional appraisal improvements to counties.	·Monitor, review DOR project. ·Undertake or contract additional sales ratio studies.
b. Consideration of legislative recommendations per IAAO and Price-Waterhouse reports.	·Assemble background materials, review and analyze. ·Review appraisal techniques used in other states.
-expand data bases to include style, site and locational characteristics.	
-appraise undeveloped land by cost of development method.	·Analyze the institution of greenbelt legislation.
c. Reduce the number of legal classes of property.	

GOAL No. 4: Improve and simplify the administration of property taxation.

ALTERNATIVES	RESEARCH
a. Improve the efficiency and effectiveness of various aspects of property tax administration including: -state and county reporting -preparation of tax rolls -issuance of tax bills	·Assemble background materials; review and analyze. ·Review and monitor DOR project. ·Review administration operations in other states. ·Consideration of legislative recommendations per IAAO and Price-Waterhouse reports. (See pages 6, 7 and 8 of Price-Waterhouse Report and 91-101 of IAAO Report).

GOAL No. 5: Equalize total property tax burdens among districts.

ALTERNATIVES	RESEARCH
a. Institute ceiling on district tax rates.	·Use Legal Class and Use Code Model to evaluate. ·Investigate implications affecting the issue of state v. local control. ·Investigate needs of state replacement revenues.
b. Institute local spending controls.	·See SPENDING LIMITS, Alternatives
c. Explore alternative property tax rebate mechanisms (e.g. 1978 Senate property tax reduction program).	·Use Legal Class Model and Use Code Model to evaluate. ·Development of alternative rebate proposals.
d. Increase state aid for local government functions.	·Assemble list of functions for possible funding. ·Determine allocation formulae.

GOAL No. 6: Preserve open spaces and other special property types from urban development.

ALTERNATIVES	RESEARCH
a. Consideration of property preservation provisions.	·Review greenbelt legislation of last session and as it exists in other states.

	·Use Use Code Model to analyze different assessment ratios for special property types.

GOAL No. 7: For homeowners, make property taxation more income determinative.

ALTERNATIVES	RESEARCH
a. Consider property tax exemptions and/or credits to make the tax more related to ability to pay (e.g. widows exemption, circuit breaker income tax credit).	·See PROPERTY TAXATION, GOAL No. 2, Alternatives, and ·See OTHER TAXATION, GOAL No. 1, Alternative i.

GOAL No. 8: Reduce and stabilize property valuation increases.

ALTERNATIVES	RESEARCH
a. Develop property valuation indexes.	·Review effects from past Arizona legislation (1.05, 1.10).
b. Establish growth limitations on valuation for taxation.	·Review programs in other states. ·Use use code model to evaluate impacts.

II. RESEARCH AREA: OTHER TAXATION

A. GOALS IN REFORMING THE STATE'S TAXATION STRUCTURE

1. Develop replacement revenues to compensate for the shift away from property taxes. The principles of taxation (listed below) should serve as guidelines.

   a. Taxes should bear relation to ability to pay.

   b. Taxes should bear relation to benefits received.

   c. Tax structure should provide equity and fairness (vertical and horizontal equity).

   d. Maximize total revenue.

   e. Simplify administration.

   f. Encourage economic development.

   g. Provide social equity.

   h. Maximize tax exportation.

2. Improve efficiency and effectiveness of present revenue system.

3. Determine the proper division of funding and administrative control between state and local government.

B. LEGISLATIVE ALTERNATIVES TO ACHIEVE GOALS AND RESEARCH TO BE UNDERTAKEN

GOAL No. 1: Develop replacement revenues to compensate for the shift away from property taxes. The principles of taxation should serve as guidelines.

ALTERNATIVES	RESEARCH
	• Use Tax Burden Model to enable analysis of tax burden as it relates to specific socioeconomic strata. Work elements include literature review, selection of sample size and income tax information array, sort income tax information by income level, household characteristics and geographical location, adjust for nontaxable income and household definition, develop secondary data for use in estimating sales and property taxes by income group, program and debug model, and report. Model ready by May or June 1979.

OTHER TAXATION

	.Prepare historical profile of revenue source for state, counties, cities and towns, school districts 1967, 1970, 1977.
	.Select sample cities and school districts; assemble information from budgets. Where necessary and appropriate, fill in gaps from the earlier Larson Report and Census of Government Finances.
	.Prepare update of state-by-state tax reliance comparison found in tax study.
a. Develop additional revenue from sales taxes. Increase tax rates on taxable activities.	.Use Sales Tax Model to evaluate changes in tax rates.
-tourist-related activities	.Monitor and review DOR procedures for establishing SIC reporting system.
-mining	
-other	
b. Impose additional sales and excise taxes	.Assemble data on casual sales and resale.
-casual sales and resales	.Assemble data on value of services by type of service.
-services	
-real property transfer tax	.Use Sales Tax Model to evaluate impacts.
-other	.Review types of transactions conducted in Arizona for possible taxation.
c. Remove sales tax on food items.	.Assemble information on family budgets.
	.Use Sales Tax Model to evaluate impacts.
d. Return additional shared sales tax revenues to local governments.	.Construct allocation factor data bank for integration with sales tax data abstract. Should include valuation, population, collections, etc. by district.
	.Develop allocation formulae.
	.Evaluate alternative distribution schemes.
e. Develop luxury use taxes and enforcement procedures to capture revenue lost through transport of goods purchased outside the state's taxing jurisdiction for use in the state.	.Construct use tax data abstract and report on existing revenues and historical profile.
	.Assemble information on revenues lost through tax avoidance or evasion.
f. Increase rates and improve collection process of other taxes such as use tax, motor vehicle taxes, gasoline taxes, etc.	.Review previous legislation.
	.Review legal.

g. Modify the individual income tax rate structure to produce more revenue	.Assess DOR income tax data file.
-more progressive -less progressive	.Use Individual Income Tax Model to evaluate changes in tax rates.
h. Modify the individual income tax base. -federal income tax deduction -personal exemptions -standard deduction -continuance of inflation indexing -renters, elderly credits -other	
i. Institution of circuit breaker.	.Review of tax circuit breaker mechanisms in use in other states. .Literature review of methodology for use in testing. .Use Individual Income Tax Model and Tax Burden Model to evaluate impact on state and socioeconomic strata.
j. Modify corporate income tax structure by altering tax rates to raise additional revenue.	.Survey corporate income tax structures in other states, especially Michigan's single business tax concept. Report. .Monitor and review DOR progress in developing corporate income tax data file. Evaluate data system.
k. Modify corporate income tax structure by altering the tax base	·Use Corporate Income Tax Model to evaluate changes in corporate tax rates.
-capital gains -eliminate federal income tax deduction -other -apportionment formula	·Use Corporate Income Tax Model to evaluate changes in corporate tax base.

l. Modify corporate income tax structure by instituting value-added tax.	·Literature review of use in other states, e.g. Michigan. ·Use Corporate Income Tax Model to evaluate changes in tax base.
m. Increase the use of user charges to allow local governments to more accurately reflect marginal costs in such charges.	·Historical profile of local districts' reliance on user charges. Report. ·Review of charges limited by statute. ·Analysis of changes, estimation of impacts.
n. Develop local option sales or income taxes.	·Review local option taxes in use in other states. ·Use Sales Tax Model to evaluate district impacts. ·Use Tax Burden Model to evaluate individual tax burden impacts.

GOAL No. 2: Improve efficiency and effectiveness of present revenue system.

ALTERNATIVES	RESEARCH
a. Provide for stricter enforcement of use tax laws	·Review of current laws and enforcement procedures. Report. ·Prepare recommendations.
b. Modify sales tax reporting system to reflect standard industrial classification.	·Monitor DOR work in this area. ·Prepare recommendations.
d. Replacement of corporate income tax with value-added tax for business.	·Prepare staff report on possible areas for legislative consideration.

GOAL No. 3: Determine the proper division of funding and administrative control between state and local government.

ALTERNATIVES	RESEARCH
	·Evaluate the legal implications. ·Analyze the shift in local revenues from state sources.

III. RESEARCH AREA: EDUCATION FINANCE AND EDUCATION PROGRAM STRUCTURE

A. GOALS IN REFORMING OF EDUCATION FINANCE AND EDUCATION PROGRAM STRUCTURE

1. Reduce reliance on property taxes at the district level.

2. Equalize the burden of property taxes.

3. Equalize expenditures per student among school districts.

4. Develop a school financing system which is flexible enough to address the unique situations of large and small school districts, rural and urban school districts, declining enrollment school districts and fast-growing school districts, suburban school districts and intercity school districts and the special needs of special students.

5. Design a school financing system which meets the federal definition of equalization as set forth in the rules and regulations promulgated to implement P.L. 81-874, Impact Aid. (This will allow the state to consider 874 funds in determining a district's state aid entitlement and thus allow the state to reduce its contribution if it so chooses.)

6. Design a school financing system which can be easily understood by legislators, school district boards and personnel and lay persons.

7. Insure that all property within the state is incorporated into one or more school districts in order that all students will be within a district(s) which provides for full K-12 instruction in order to make districts more uniform in structure and thus simplify the funding mechanism and evaluation of the funding mechanism.

8. Guarantee quality education for all students in the state.

9. Determine appropriate and acceptable mix of state and local control of funding and curriculum.

10. Stabilize educational costs to the homeowner and establish spending and/or taxing limitation on local school districts.

B. LEGISLATIVE ALTERNATIVES TO ACHIEVE GOALS, ISSUES TO BE RESOLVED IN ACHIEVING GOALS AND RESEARCH TO BE UNDERTAKEN.

GOAL No. 1: Reduce reliance on property taxes at the district level.

ALTERNATIVES	RESEARCH
a. See PROPERTY TAXATION GOALS No. 1, 2 and 5 (increase state funding and set district tax limits).	
b. State assume full funding of education with no district power to tax.	
c. Develop "local option" where district could opt for "piggybacking" onto sales tax or income tax system.	·See OTHER TAXATION for research and data needs; use Tax Burden Model and Sales Tax Model; data collection needed on school district basis.

GOAL No. 2: Equalize the burden of property taxes.

ALTERNATIVES	RESEARCH
a. Consolidation of property valuation. -use county valuation for tax base -use state valuation for tax base -use centrally-assessed at the county level and remaining property at district level as tax bases -use centrally-assessed at the state level and remaining property at county level as tax bases -use centrally-assessed at the state level and remaining property at district level as tax bases	·Use Legal Class Property Tax Model to evaluate impact on property classes and individual school districts. ·Legal research on impact and possible consequences of changes, i.e. funding base and district boundaries vs. busing.
b. Inclusion of recapture provision in conjunction with the continuation of the use of a qualifying tax rate: district "shall" levy the qualifying tax rate to receive state aid and when the qualifying rate produces a greater amount	

than the state aid entitlement, the state receives the amount in excess of the entitlement level. (Develop distribution mechanism to allocate recaptured dollars.)

NOTE #1: Unless local districts are given some other source of revenue production, reduced reliance on property taxes (GOAL No. 1) equates to increased state funding. How can the burden of the remaining property taxes be equalized in view of capital construction needs? Funds for capital improvements are more closely tied to school district wealth (assessed valuation) than are funds for operating expenses. The capability of a school district to raise money by bond issues is a function of its total assessed valuation; the tax burden of the bonds vary upon the amount of bond issue, payment schedule and taxable valuation.

ALTERNATIVES	RESEARCH
	·Capital outlay expenditures by district: actual 1974-75 through 1977-78 and budgeted 1978-79.
	·Bond interest and redemption expenditures by district: actual 1974-75 through 1977-78 and budgeted 1978-79, corresponding tax rates and current amount of outstanding bonds and bonds authorized, but not issued.
	·Statewide inventory of physical plant of school districts: age, condition, usable space, etc.
	·Projected needs and expenditures by district.
a. State assume full or partial cost of capital construction. Partial cost determined by: -flat percentage of district costs -apportionment method based on need and local effort	

b. Consolidation of property valuation for bonding purposes.

-See GOAL No. 2, ALTERNATIVE a. for various consolidation alternatives.

c. Guarantee to each district the same yield from an equivalent tax rate: establish a scale which provides that if a district needs a specific levy amount, it must set a specific tax rate (guaranteed yield); any excess levy produced by the rate would go to the state and if the rate produces less than the specific levy, the state would make up the difference.

NOTE #2: How can the burden of property taxes be equalized if individual school districts are allowed to increase the property tax burden of the local district level vis-a-vis an override election?

ALTERNATIVES	RESEARCH
	·Review districts which have had override elections, amount, purpose and resulting tax rate equivalents.

a. Disallow any type of override.

b. Allow overrides, but limit them to:

-flat dollar amount per district (levy limit)

-flat dollar amount per student

-percentage of the district expenditures

-percentage of average state expenditure

-set tax rate limit

c. Allow overrides, but limit rate or amount above which the district receives only a portion of the levy amount.

d. Allow overrides, but limit them to the extent that if a district needs a specific override amount, it must set a

specific tax rate (guaranteed yield); any excess levy produced by the rate would go to the state and if the rate produces less than the specific levy, the state would make up the difference.

GOAL No. 3: Equalize expenditures per student among school districts.

GOAL No. 4: Develop a school financing system which is flexible enough to address the unique situations of large and small school districts, rural and urban school districts, declining enrollment school districts and fast-growing school districts, suburban school districts and intercity school districts, and the special needs of special students.

GOAL No. 5: Design a school financing system which meets the federal definition of equalization as set forth in the rules and regulations promulgated to implement P.L. 81-874, Impact Aid. (This will allow the state to consider 874 funds in determining a district's state aid entitlement and thus allow the state to reduce its contribution if it so chooses.)

GOAL No. 6: Design a school financing system which can be easily understood by legislators, school district boards and personnel and lay persons.

ALTERNATIVES	RESEARCH
	·Formulate methodology to evaluate present equalization aid system. Prepare report.
	·Monitor, review and evaluate Arizona Department of Education equalization study.
	·Review and summarize school finance reforms implemented by 24 other states during the 1970s. Compile evaluations if any exist (other states which are using federal 842 monies to evaluate their systems--similar to ADOE study).
	·Legal research on impact and possible consequences of changes.
	·Assemble for 1977-78 actual district ADM, state aid ADM and enrollment, expenditures by category and revenues by source. Assemble same information as budgeted and estimated for 1978-79. Program to use as base comparison to evaluate alternatives including district valuations, tax rates and valuations of unorganized territory.

	·Obtain latest rules and regulations regarding equalization aid and use of P.L. 81-874 funds. (Impact Aid)
	·Teachers' retirement by district 1974-75 through 1978-79. Review of teachers' retirement system.
	·District's teachers' salary schedules and number of teachers slotted at each point in matrix.
	·Review of teacher tenure laws.
a. Select area(s) of equalization.	
-Basic educational program	·Review of ADOE study and possible modification.
-Special education:	·Cost per handicapped category; enrollment and ADM 1974-75 through 1978-79 in each category.
-Handicapped: continue definitional categorialization or change to system which provides for funding based upon classification of mild, moderate and severe	·Review Federal P.L. 94-142 (Education of the Handicapped Act); Section 504, Rehabilitation Act of 1973.
-Gifted	·Gifted enrollment, ADM and expenditures 1974-75 through 1978-79.
-Special Programs: vocational ed, career ed, bilingual, etc.	·Enrollment, ADM, expenditures for each state-federal program 1974-75 through 1978-79.
	·Federally-funded special programs: enrollment, ADM and expenditures 1974-75 through 1978-79; description of programs and comparison with similar state-funded programs; funding amounts and funding mechanisms.
-Capital Outlay	·See GOAL No. 2, NOTE #1, RESEARCH
-Bond Interest & Redemption	·See GOAL No. 2, NOTE #1, RESEARCH
-Transportation	·Operating and Capital Outlay expenditures 1974-75 through 1978-79; detailed information gathered by ADOE: mileage, bus type, road conditions, etc.
-Other	

b. Select appropriate funding bases and weighting system for funding areas selected in a. above. -ADM -ADA -Classroom (pupil/teacher basis) -High point enrollment -Credit hours of students (fund courses) -District size -Combination of above	·Review ADOE study. Update information gathered from sample districts to reflect budgeted 1978-79 information and actual after end of fiscal year. Information provided by districts, ADOE audit personnel or Auditor General.

NOTE #3: How can expenditures be equalized if individual school districts are allowed to increase expenditures over an established level vis-a-vis an override election?

ALTERNATIVES	RESEARCH
See GOAL No. 2, NOTE #2 ALTERNATIVES AND RESEARCH.	

GOAL No. 7: Insure that all property within the state is incorporated into one or more school districts in order that all students will be within a district(s) which provides for full K-12 instruction in order to make districts more uniform and thus simplify the funding mechanism and evaluation of the funding mechanism.

ALTERNATIVES	RESEARCH
	·Listing of school districts by total ADM and enrollment by grade level. ·Location of unorganized territory and number of students.

NOTE #4: How can property tax burdens and expenditures per student be equalized (GOAL No. 2 and GOAL No. 3) when the state presently has the following types of school districts involved in teaching at different mixtures of grade levels and various funding formulas are used for different types?

K-8 : elementary district

K-9 : elementary district

9-12 : high school
union high school
county union high school
county high school

K-12 : unified school district
elementary teaching high school
elementary district not in a high school district which tuitions its high school students
high school districts which are nonoperating which tuition students

ALTERNATIVES	RESEARCH
a. Reorganize and consolidate school districts so that each parcel of property is within a district(s) which offers or provides for K-12 grade levels.	
b. Incorporate unorganized territory into existing elementary school districts and provide that new high school districts be formed or existing high school districts by expanded to include areas not presently within a high school district.	

GOAL No. 8: Guarantee quality education for all students in the state.

ALTERNATIVES	RESEARCH
a. Establish standards for educational quality in Arizona on various aspects of education.	·Determine area(s) of educational program to be measured for quality, measurement to be used (testing method). -Comparison within Arizona -Comparison with national test scores -Comparison with western states -Integration of testing procedure with other states' testing procedures
b. Establish methods of testing quality.	·Review of other states' testing and curriculum requirements.
c. Establish statewide curriculum by grade level.	·Review of present testing requirements and methodology used in Arizona: 3rd grade reading, 5th grade math, CUES (Continuous Uniform Evaluation System)

NOTE #5: How can "quality" be defined? If testing is to be used, should the tests be used for grade promotion, teacher evaluation, program evaluation, comparison among districts or comparison among other states or the nation?

GOAL No. 9: Determine appropriate and acceptable mix of state and local control of funding and curriculum.

ALTERNATIVES	RESEARCH
a. Establish a statewide curriculum by grade, teacher salary schedule, etc.; local board would determine specific content of curriculum and optional courses.	·Review present curriculum offerings, state-mandated courses.
b. Establish basic courses and their content which must be taught at various grade levels; local board would determine optional courses.	
c. Local district board determines courses to be offered.	
d. Provide state funding based upon specific courses or grade levels with funds to be spent for those courses or in those grade levels.	·Review present budget format and Uniform System of Financial Records (USFR); modify if necessary.
e. Provide state funding based upon specific courses or grade levels, but district expenditures to be made in areas determined by local board.	

GOAL No. 9: Stabilize educational costs to the homeowner and establish spending and/or taxing limitation on local school districts.

ALTERNATIVES	RESEARCH
a. See GOAL No. 2, NOTE #2 and Section IV, RESEARCH AREA: SPENDING LIMITATIONS	
b. More closely integrate the budgetary process with the valuation process.	

-Modify time frame of budgetary process in order that valuations are known prior to final budget adoption.	·Review budgetary process time frame of school districts and all other taxing jurisdictions.
-Modify time frame of valuation process in order that valuations are known prior to final budget adoption.	·Review valuation process time frame and relationship to taxing jurisdictions' budgetary process.

IV. RESEARCH AREA: SPENDING LIMITATIONS

A. GOALS

1. Limit government spending at state and local levels.

B. LEGISLATIVE ALTERNATIVES TO ACHIEVE GOALS AND RESEARCH TO BE UNDERTAKEN

GOAL No. 1: Limit government spending at state and local levels.

ALTERNATIVES	RESEARCH
	·Prepare legal research on existing limits in Arizona. Evaluate effectiveness. Report.
	·Analysis of state and local expenditures by function - historical profile 1967, 1970, 1977.
	·Analysis of government employment levels.
	·Comparison of state and local expenditures among states.
	·Review of existing spending limitations in other states. Report.
	·Analysis of Arizona 7% limitation. Recommendations for administration and implementation should it pass in November election.
a. Impose strict budgeting controls on local governments.	·Legal research, esp. vis-a-vis charter cities.
-imposition of growth limitations by expenditure function	·Historical profile of expenditures of local jurisdictions; analysis of restriction impacts.
-imposition of general budgetary restrictions	
b. Impose limits on district property tax rates.	·Historical profile of total district budgets.
	·Review of legal, esp. vis-a-vis charte cities.
	·District valuations, tax rates and tax levies (could come from legal class abstract).

c. Impose restrictions on local sales tax rates.	·Historical profile of city sales tax collections, rates, base and exemptions. ·Analyze impacts.

ATTACHMENT

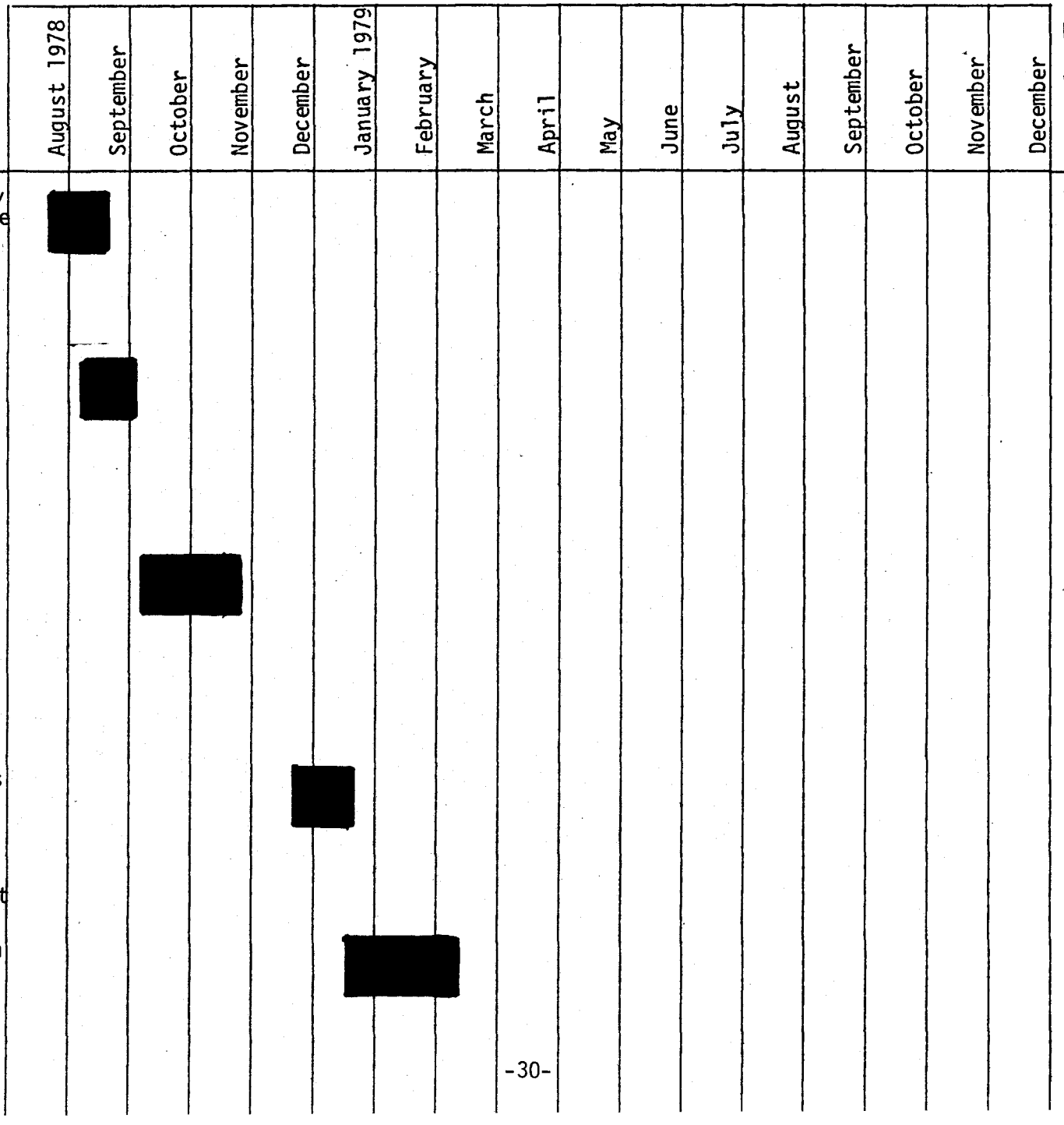
ESTIMATED TIME SCHEDULE

FOR

RESEARCH

The time frames presented in this Attachment provide a general guide to developing major research elements.

I. A. PROPERTY TAX MODELS



PROPERTY TAX MODELS

1. Obtain preliminary abstract data tape
   - Read tapes
   - Draft specs
   - Obtain final tapes
     a. Legal class abstract
     b. Use code abstract
     c. Class 5 abstract
   - Program simulation programs
     a. Read tapes
     b. Program
     c. Test
     d. Modify

NOTES

Property tax simulation models should be ready for simulation in February or March.

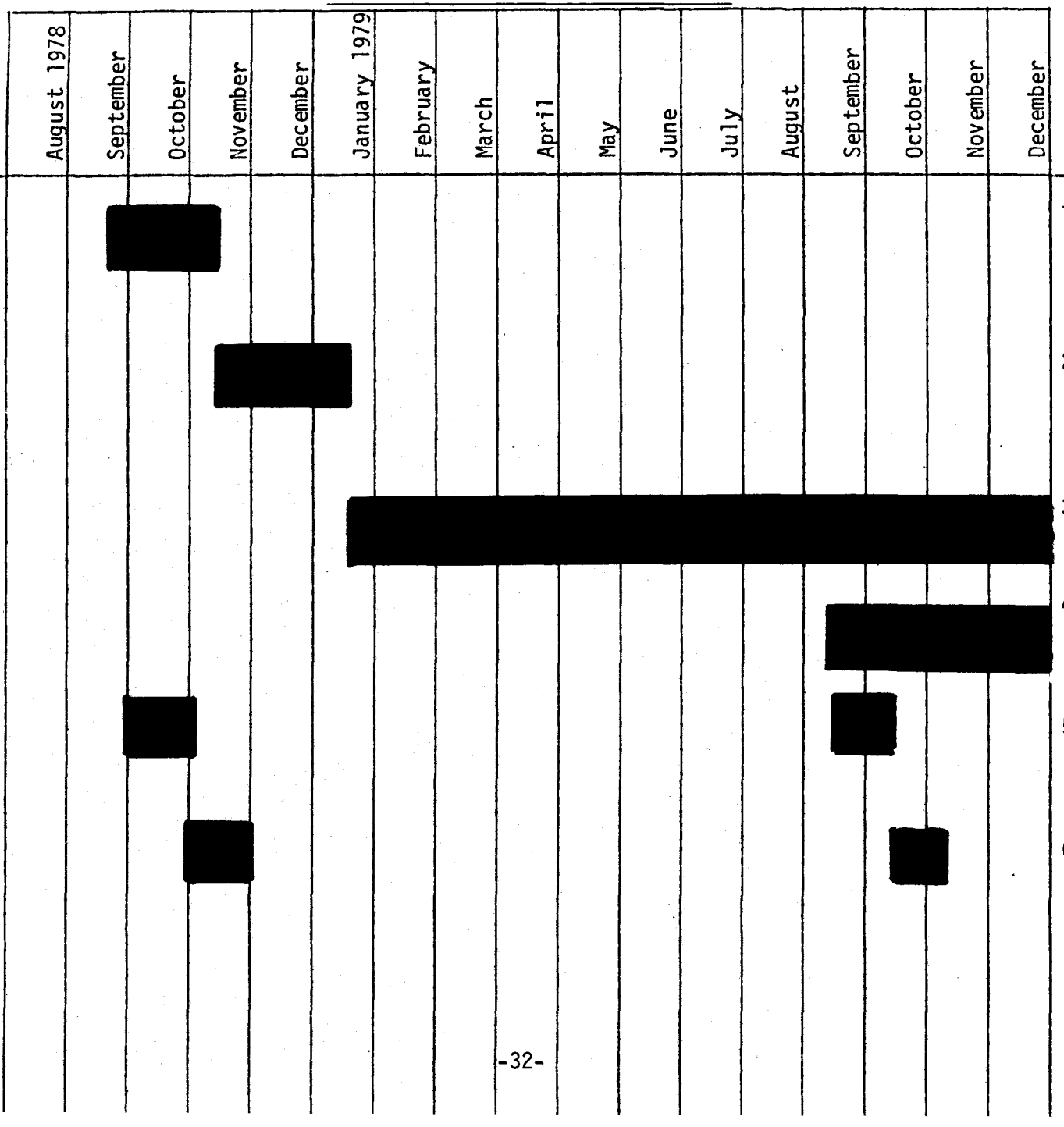
1. By September 1, DOR will supply data tapes of preliminary use code abstract.

- The Legislature will read the preliminary data tape to ensure compatibility. No programming will be done on preliminary tapes.
- An approximate 2-3 week period will be required for staff to draft programming specifications prior to receipt of final tapes.
- In late December or early January, the Legislature will receive final abstract tapes from DOR.
- A 3-5 week period will be required to program the simulation models upon receipt of final data tapes.

I. A. PROPERTY TAX MODELS (Continued)

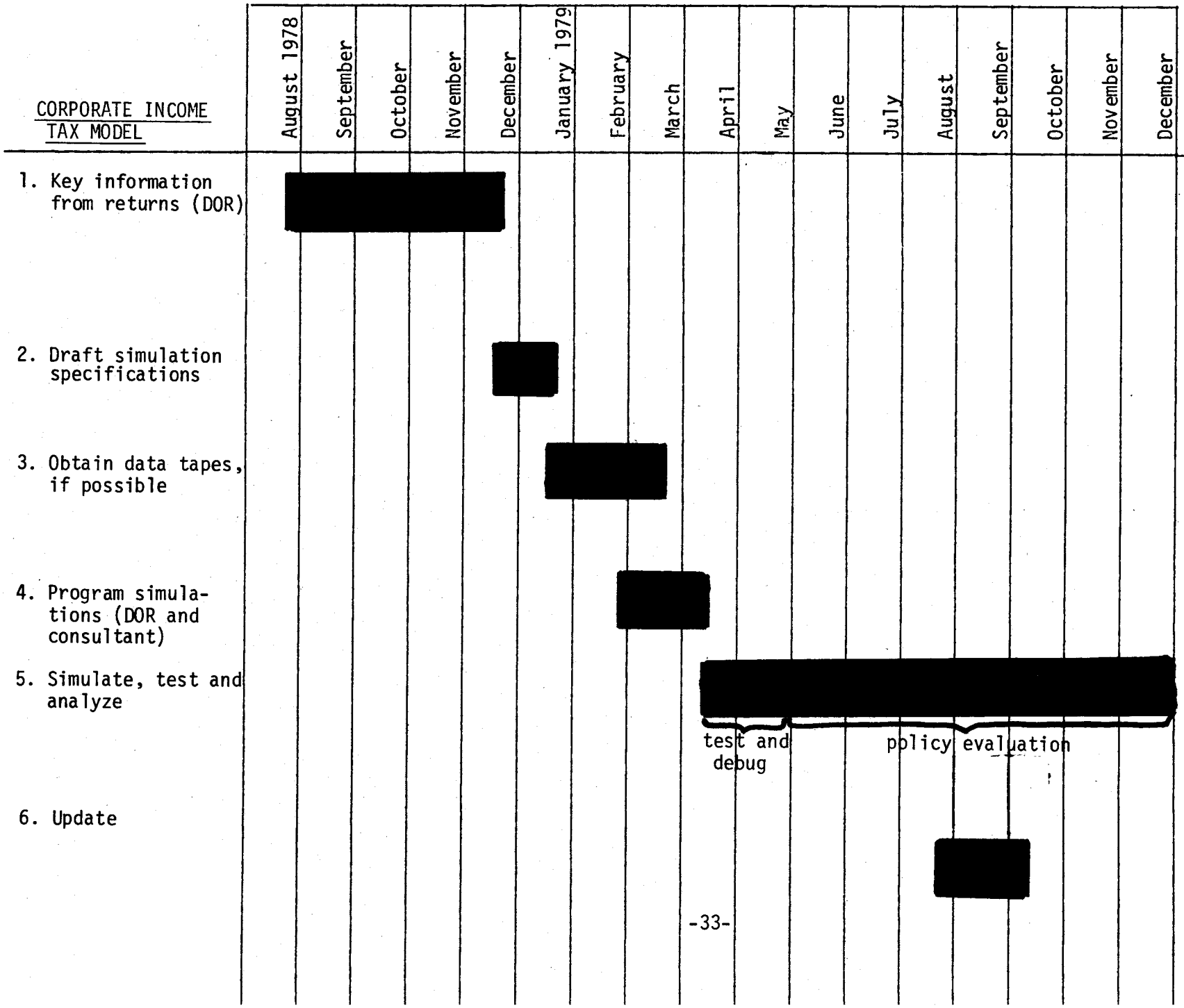
PROPERTY TAX MODELS (continued)	August 1978	September	October	November	December	January 1979	February	March	April	May	June	July	August	September	October	November	December	NOTES
. Simulate and analyze							[redacted]											. By late February or early March, the property tax models should be ready for simulation and testing.
								test & debug					policy evaluation					
. Update														[redacted]			[redacted]	. The models will be updated upon receipt of preliminary and final 1979 tapes.

I. B. INDIVIDUAL INCOME TAX MASTER FILE



INDIVIDUAL INCOME TAX MASTER FILE	NOTES
1. Draft simulation specifications	1. DOR finalizes 1977 Master File and legislative staff writes program specifications.
2. Program simulations (DOR or outside programmer)	2. DOR or programmer retained by Legislature programs policy alternatives.
3. Simulate, test and analyze	3. Alternatives are simulated and analyzed.
4. Update	4. The programs are run against the 1978 Master File and analyzed.
5. Obtain tape of abstract	5. Legislature obtains tapes of 1977 and 1978 income tax abstracts.
6. Program changes with abstract	6. Some policy alternatives can be programmed with the income tax abstract.

I. C. CORPORATE INCOME TAX MODEL

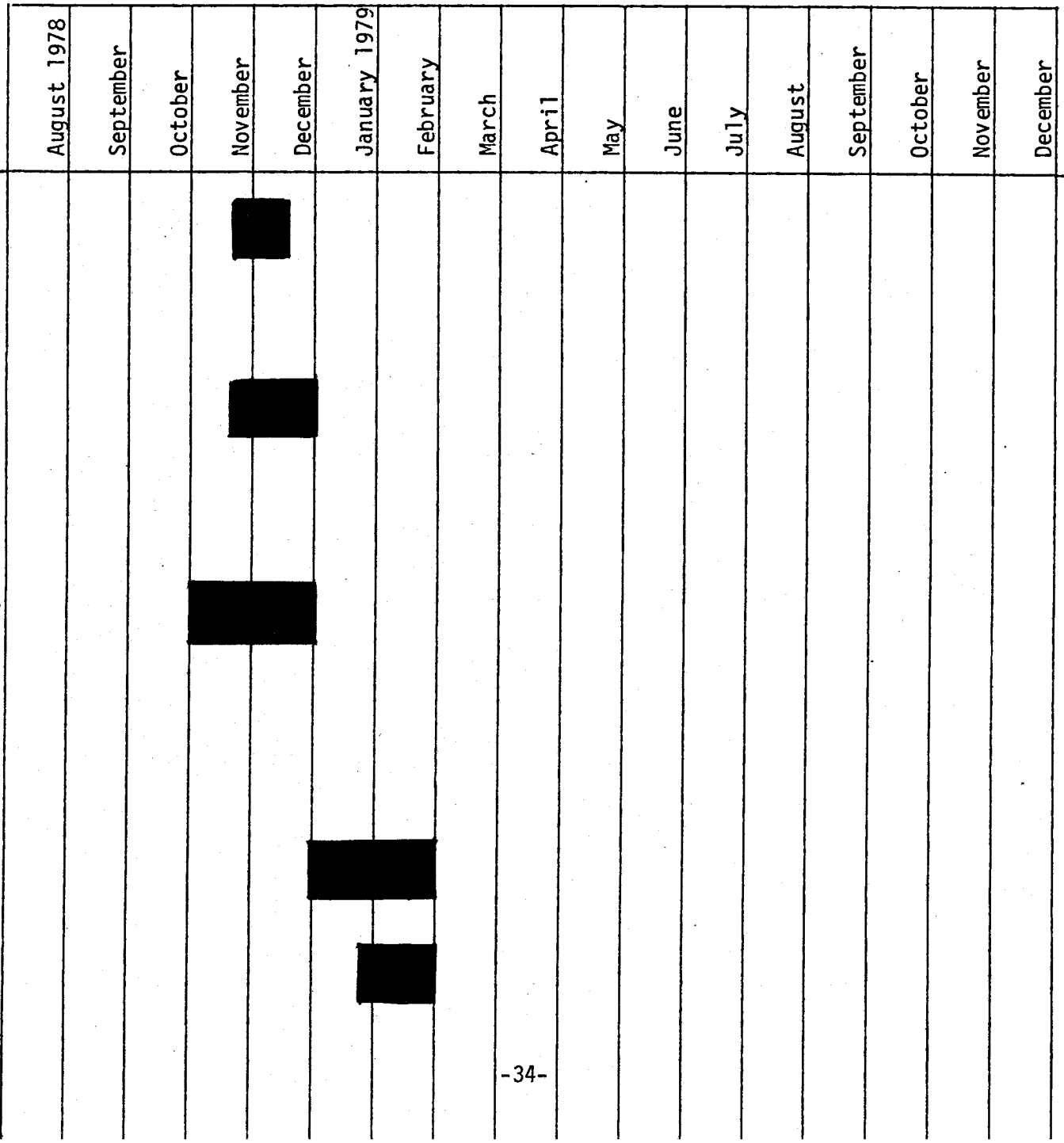


NOTES

Corporate income tax model should be ready for simulation (analyzing alternative) in April or May 1979.

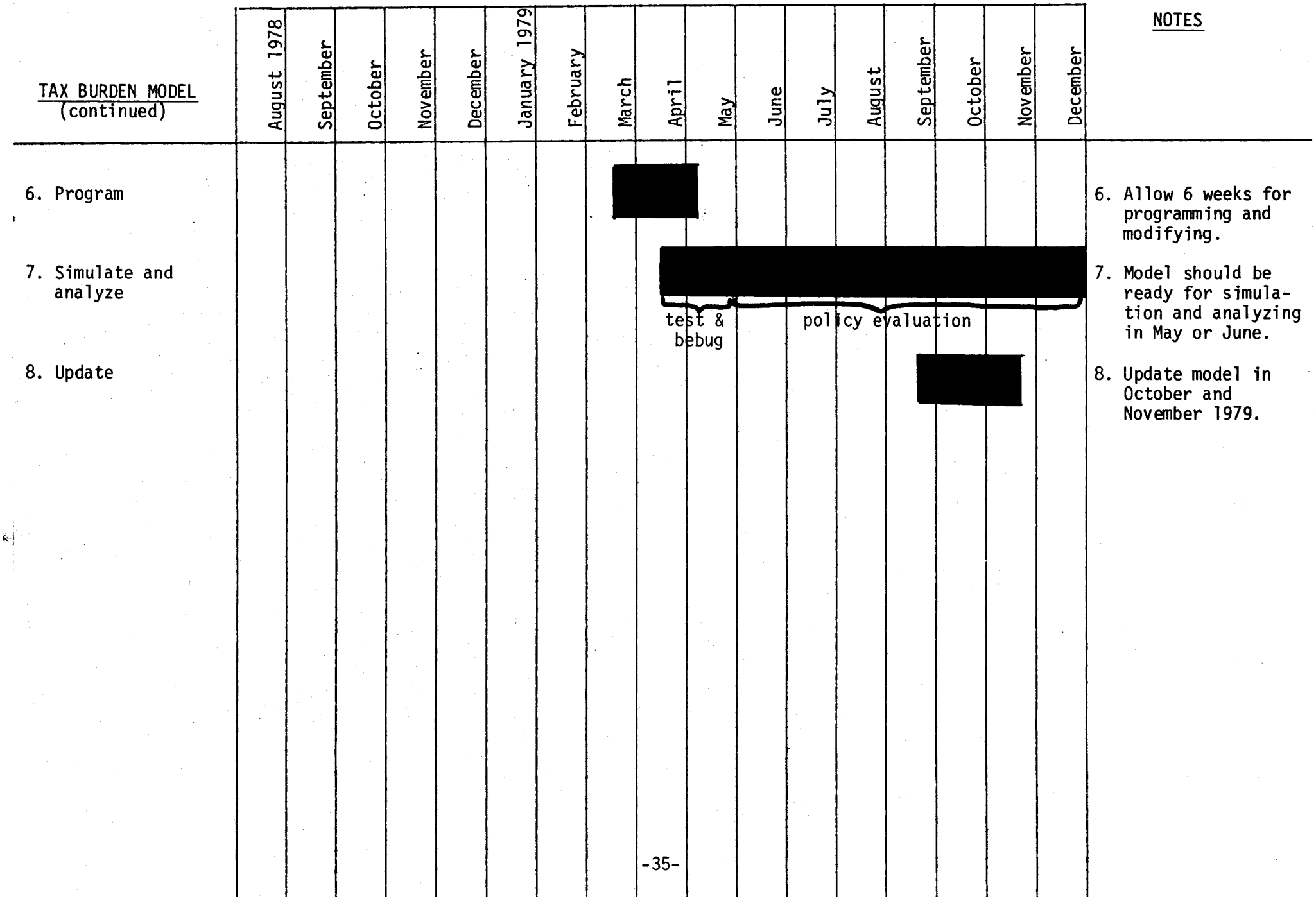
1. At Legislature's request DOR will begin keypunching data. Approximately 2-3 months required for keypunching.
2. Approximately 1-2½ weeks for staff to draft programming specs.
3. DOR processes keyed data and prepares tapes for Legislature. Legislature reads tape.
4. Approximately 3-5 weeks required to program simulations
5. Model ready for testing and simulation in April or May. Policy evaluation begins in May.
6. Model will be updated in September 1979.

I. D. TAX BURDEN MODEL

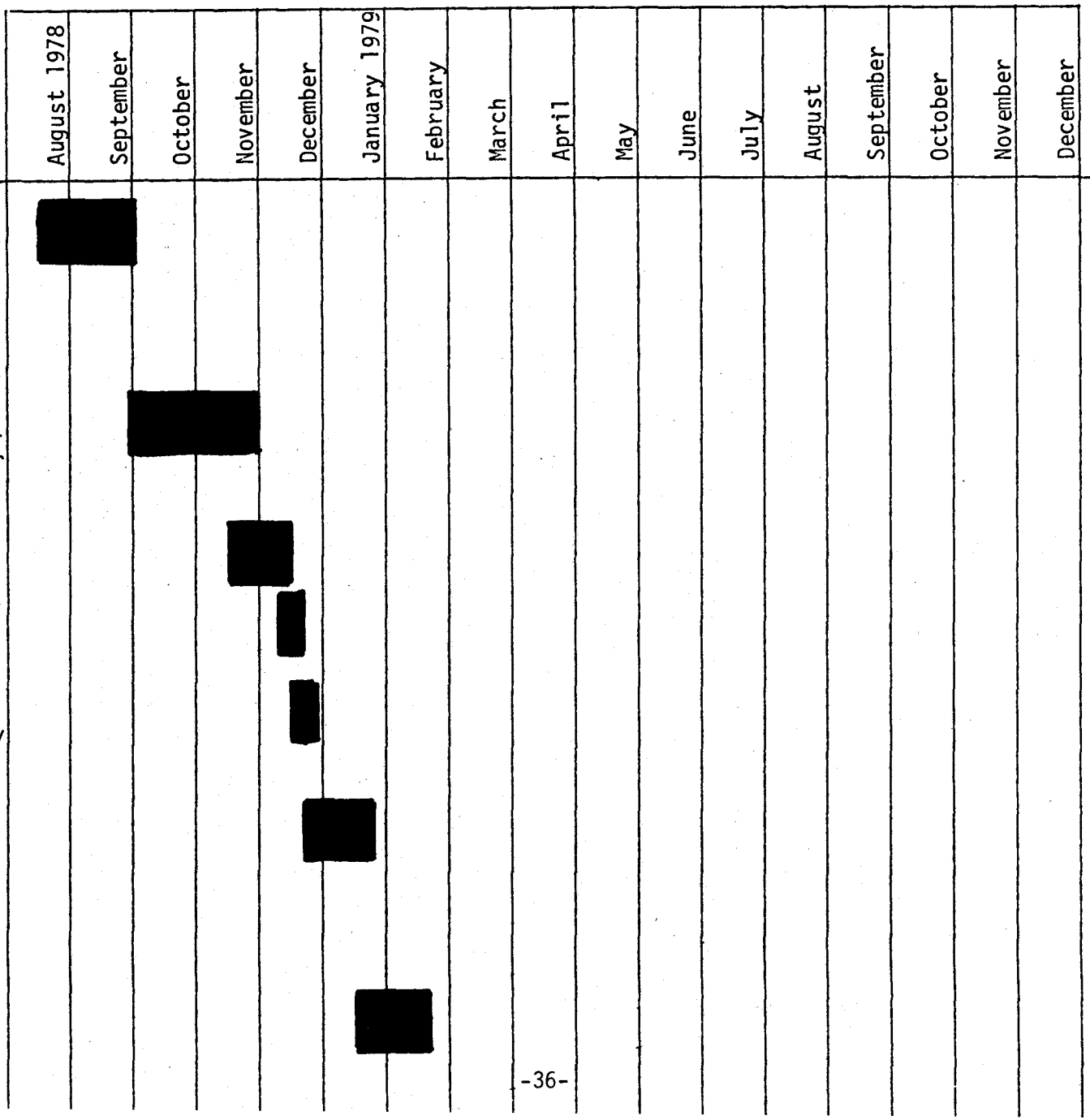


TAX BURDEN MODEL	NOTES
	Tax burden model should be ready to analyze alternatives in May or June 1979.
1. Select sample	1. Selection of sample could begin after initial literature review (est. mid-October). Approximate 2 weeks to design sample.
2. Obtain data tape	2. Sample transferred to data tape by DOR for Legislature. Allow 4 weeks for processing.
3. Collect and assemble secondary data	3. Staff collects and assembles secondary data for use in estimating property and sales taxes. Allow 4 weeks for work. Work could begin following initial literature review.
4. Develop tax equations	4. Allow 4 weeks to estimate tax equations.
5. Draft programming specifications	5. Approximately 3-4 weeks to draft programming specs.

I. D. TAX BURDEN MODEL (Continued)



I. E. SALES TAX ABSTRACT AND SIMULATION MODEL



SALES TAX ABSTRACT & SIMULATION MODEL	NOTES
	Sales tax abstract should be ready for simulation in early 1979 - February or March.
1. Evaluate data availability	1. DOR in process of evaluating Legislature's request for sales tax data tapes. Evaluation should be completed by October 1.
2. Prepare data for data abstract (obtain DOR tapes or keypunch)	2. Pending on evaluation, DOR would
&	& compile tapes in usable format or
3. Transfer data to tape mode and obtain tape	3. Legislature would contract for keypunching.
4. Read tape	4. If DOR provides tape format, approxi-
&	& mately 2-4 weeks required to read
5. Modification to ensure readability	5. and translate into efficient form for simulation.
6. Draft simulation specifications	6. Approximately 2-3 weeks required for legislative staff to organize issues and write program specifications.
7. Program	7. Approximately 2-3 weeks required to program specifications.

I. E. SALES TAX ABSTRACT AND SIMULATION MODEL (Continued)

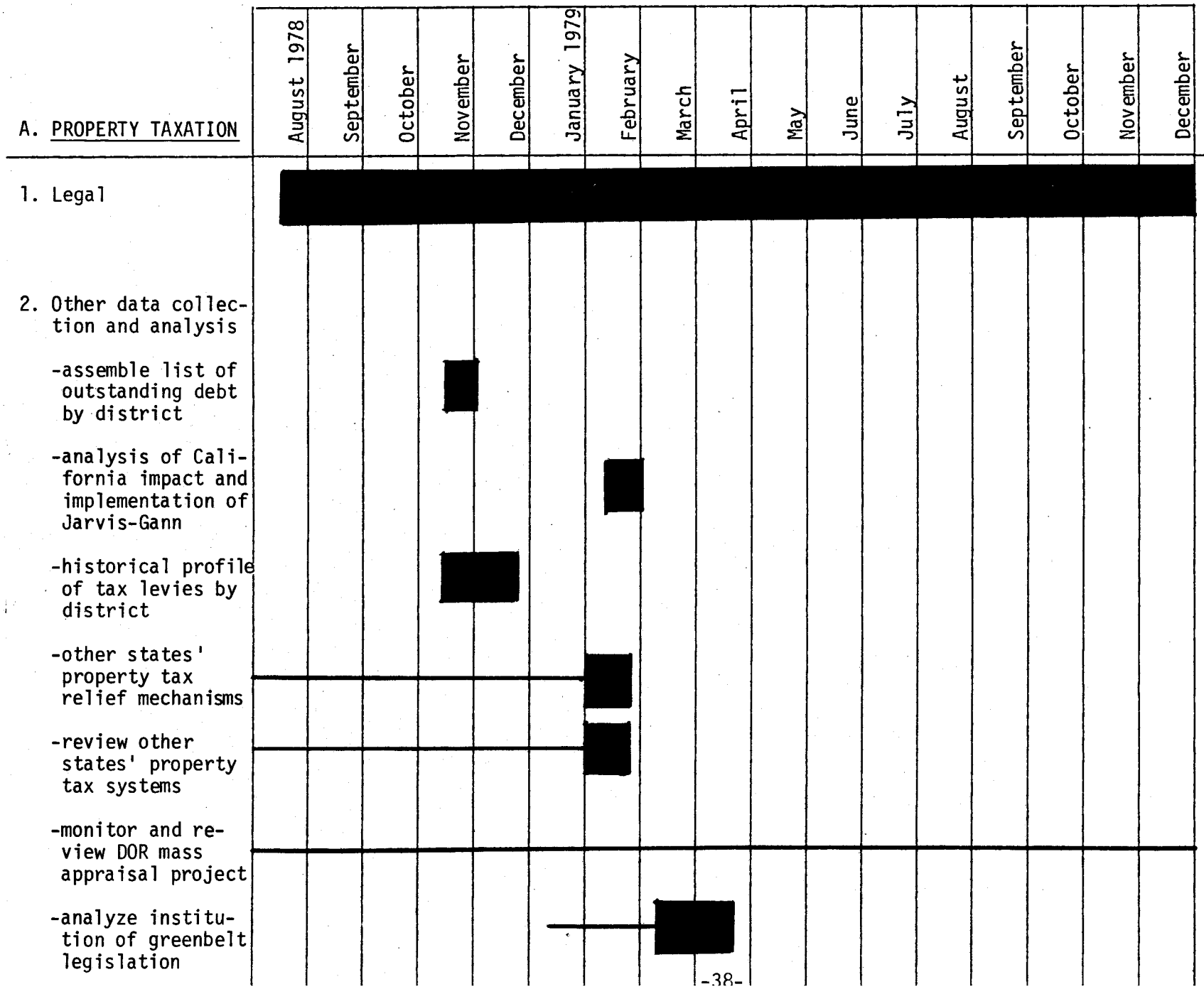
SALES TAX ABSTRACT & SIMULATION MODEL (continued)	August 1978	September	October	November	December	January 1979	February	March	April	May	June	July	August	September	October	November	December
8. Test, simulate, analyze																	
9. Update data																	

NOTES

8. By early 1979 (February or March) the sales tax abstract should be ready for simulation and testing. Policy evaluation begins in April or May.

9. In February and September, it is envisioned that a data update will be undertaken.

II. OTHER TAXATION RESEARCH

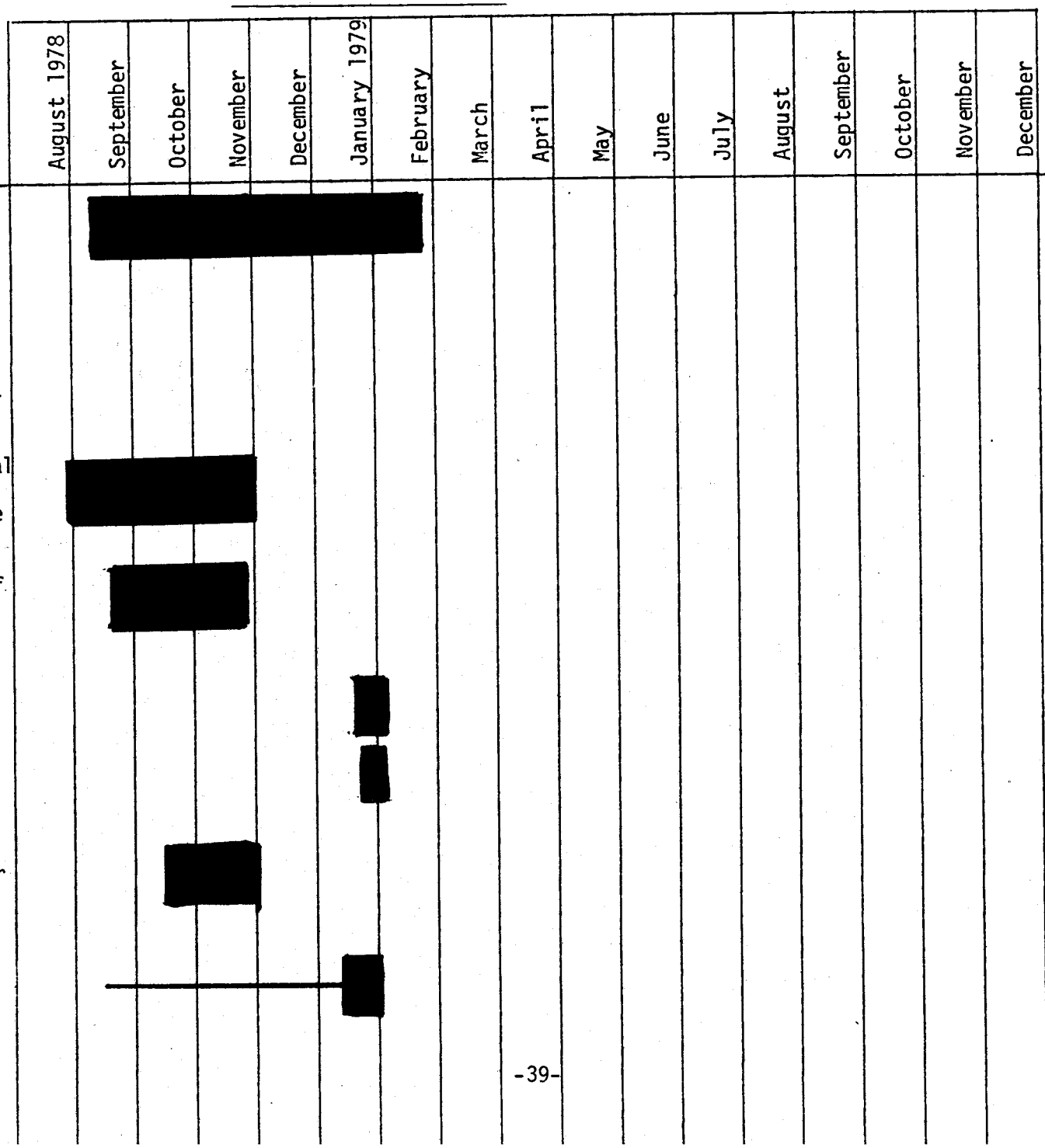


NOTES

1. Research on continuing basis as issues are considered and addressed.

2. In order to fill data gaps and provide background, it will be necessary to collect and analyze additional data.

II. OTHER TAXATION RESEARCH (Continued)



B. OTHER TAXATION

1. Tax burden model
2. Other data collection and analysis
   - -prepare historical profile of state and local revenue sources
   - -prepare update of state-by-state tax reliance comparison
   - -assemble data on casual sales
   - -assemble data on services
   - -construct data abstract of other state taxes
   - -survey general tax relief mechanisms in other states

NOTES

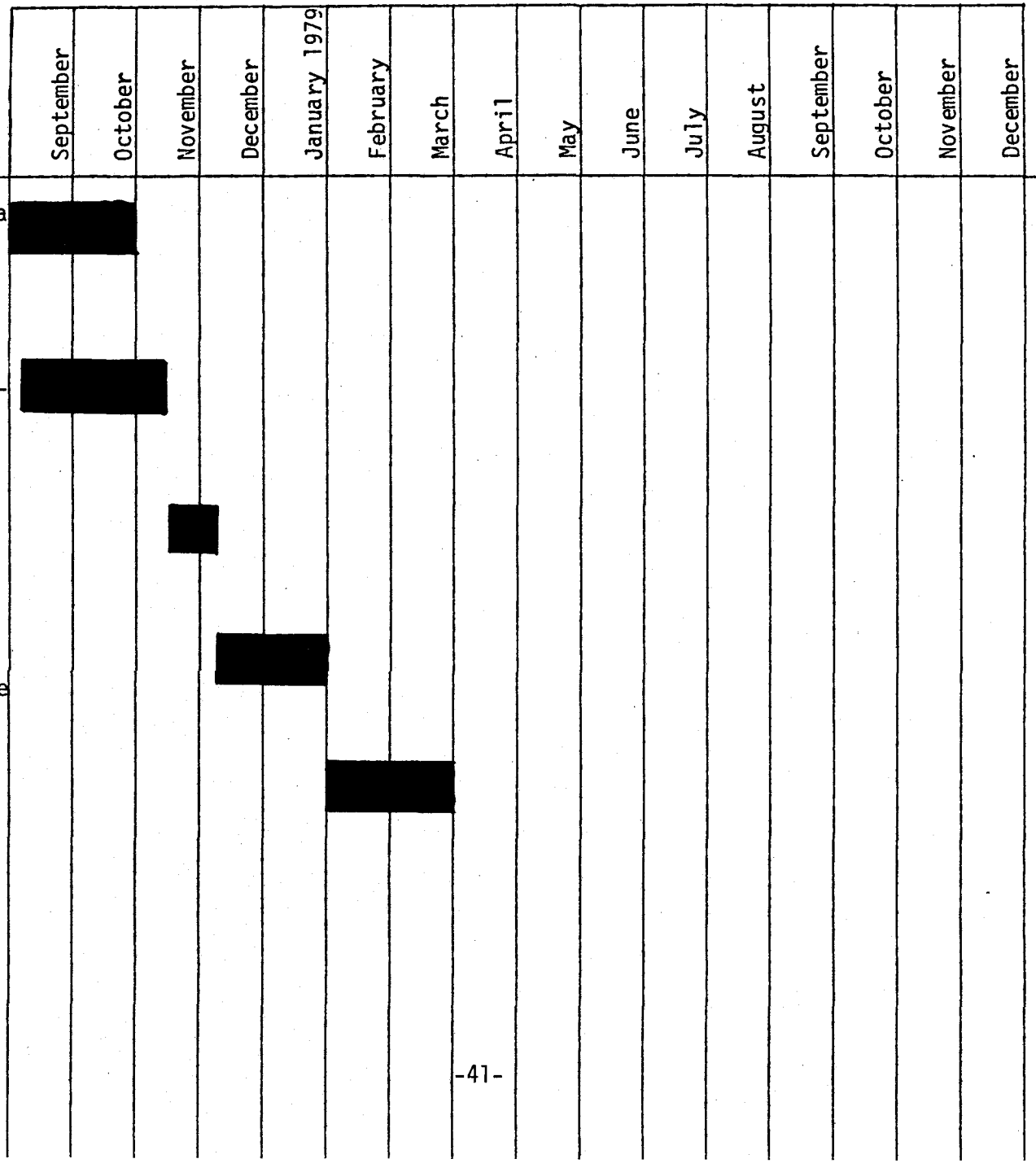
1. Conduct literature review, develop equation, coordinate programming and model development.
2. In order to fill data gaps and provide background, it will be necessary to collect and analyze additional data.

Special attention on tax circuit-breaker concept.

II. OTHER TAXATION RESEARCH (Continued)

OTHER TAXATION (continued)	August 1978	September	October	November	December	January 1979	February	March	April	May	June	July	August	September	October	November	December	NOTES
-survey corporate income tax structures in other states																		Special attention on single business tax.
-historical profile of user charges in local districts; analyze and report																		

III. DEVELOPMENT OF EDUCATION FINANCE DATA BASE



EDUCATION FINANCE DATA BASE

1. Compilation of all data and form data is presently in.
2. Legislative determination of data requirements needed for each district.
3. ADOE fills data needs determined in 2.
4. Data packages sent to each district and returned to Legislature
5. Prepare data in format for analysis

NOTES

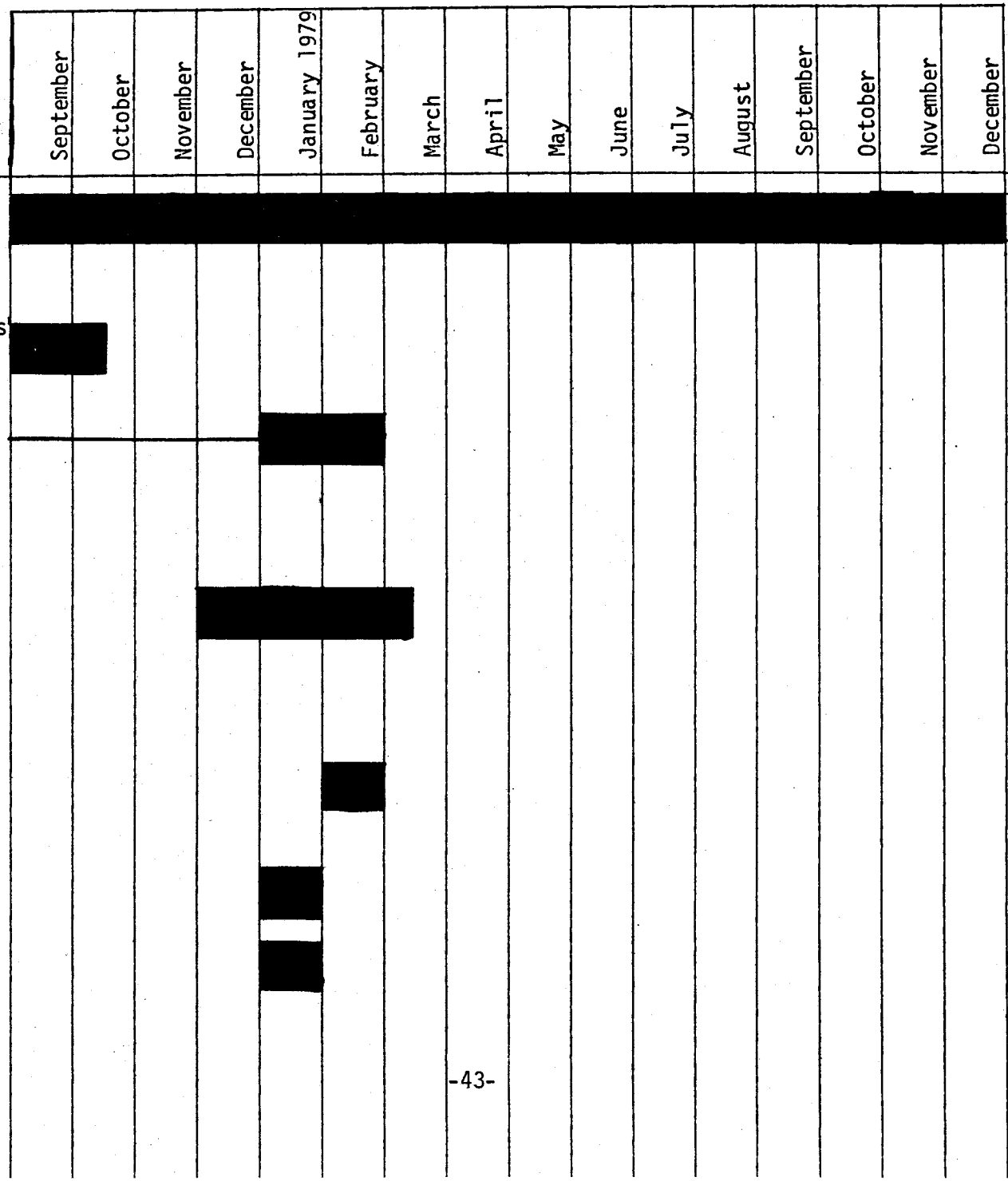
Education Finance data base should be ready for testing by end of June 1979.

1. Listing of data will be made available for further reference possibilities.
2. Data packages will specify actual data for 1977-78 and estimated or budgeted for 1978-79.
4. Each district will verify ADOE data and supply data to fill gaps.
5. Compilation of data and formulation of data base for testing of alternatives and impacts using 1977-78 data

III. DEVELOPMENT OF EDUCATION FINANCE DATA BASE (continued)

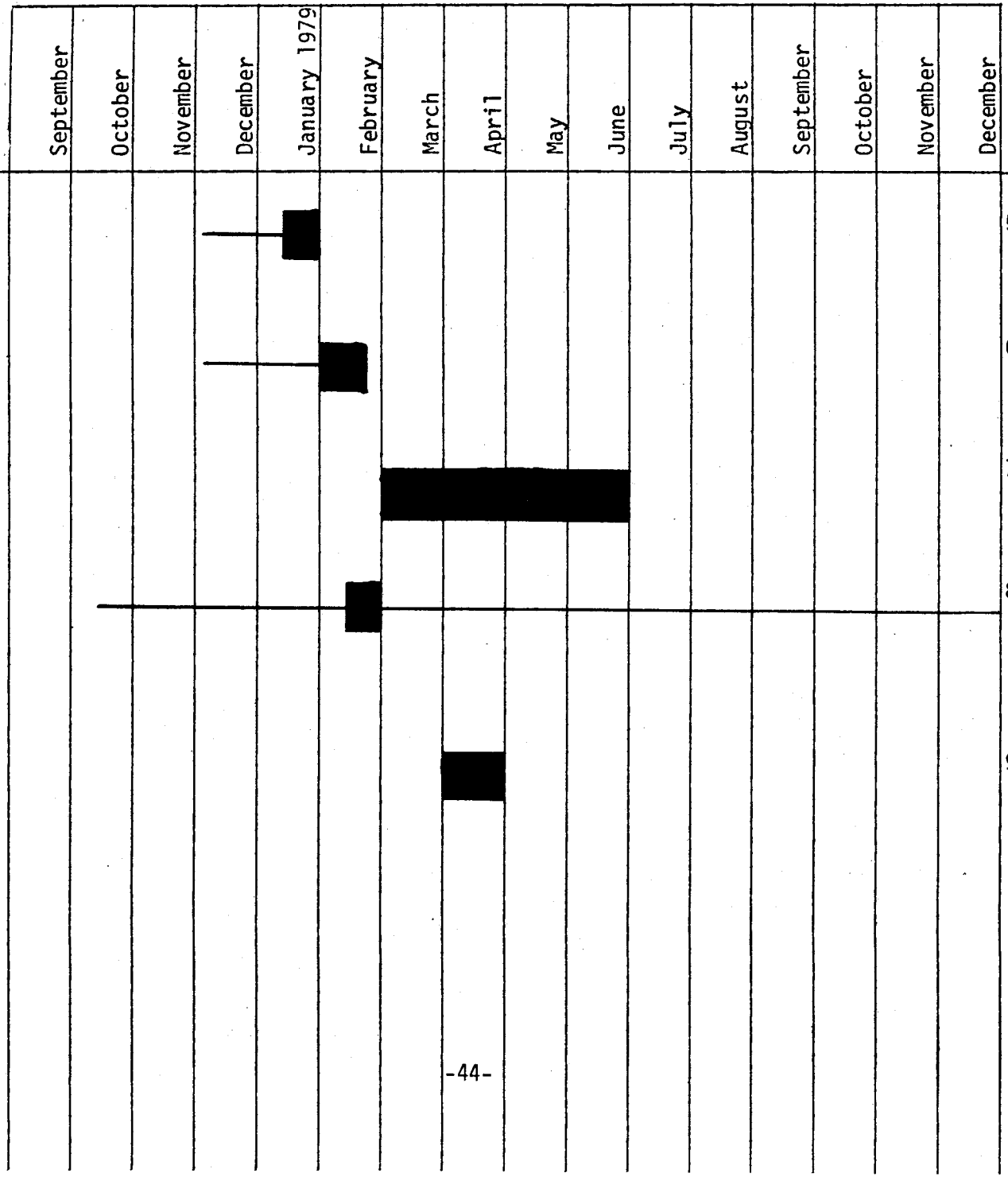
EDUCATION FINANCE DATA BASE (continued)	September	October	November	December	January 1979	February	March	April	May	June	July	August	September	October	November	December	NOTES
6. Data packages updated to reflect closer to actual for FY 1978-79.								■	■	■							6. Information placed in format developed in 5. for testing alternatives and impacts using 1978-79 base; data for both years compared to determine if any large variances appear.
7. ADOE equalization study completed and analysis made by Legislature.	—	—	—	—	—	—	■										7. Study completed by end of February: Legislature obtains description of data collected for sample districts, description of simulation model and test results. Sample districts used 1977-78 data.
8. Update ADOE study to reflect same data for 1978-79								■	■	■							8. If ADOE study provides meaningful alternatives, the data may be updated.
9. Test, simulate, analyze											■	■	■	■	■	■	9. By the end of June data available to test alternatives and data base ready to test alternatives against.

IV. DEVELOPMENT OF OTHER EDUCATION DATA



DEVELOPMENT OF OTHER EDUCATION DATA	NOTES
Legal	Research on continuing basis as issues are considered and addressed.
1a. Review of other states educational finance systems.	
1b. Review of evaluations of other states.	1b. Other states are also using the same federal funding as ADOE to evaluate their systems of finance.
2. Evaluation of Arizona system.	2. Evaluation will be done by legislative staff if ADOE study does not incorporate a study of present system.
3. Review of Federal Special Education Law.	3.
4a. Listing of Federal programs.	4a. Description; target population,
b. Listing of State Special programs.	& b. students served, funding mechanism and funds provided.

IV. DEVELOPMENT OF OTHER EDUCATION DATA (Continued)



DEVELOPMENT OF OTHER EDUCATION DATA (continued)	NOTES
5. Study of teachers' retirement.	5. Program evaluated and funding mechanism evaluated.
6. Study and report on teacher tenure laws.	6.
7. Review of testing program in Arizona and other states.	7.
8. Review present budget format and USFR.	8. Budget formal and Uniform System of Financial Records review and modifications made for final solution.
9. Review budgeting and valuation process.	9. Reviewed for schools and all other taxing authorities.