



PROPOSITION 118



OFFICIAL TITLE

HOUSE CONCURRENT RESOLUTION 2056
A CONCURRENT RESOLUTION

PROPOSING AN AMENDMENT TO THE CONSTITUTION OF ARIZONA; AMENDING ARTICLE X, SECTION 7, CONSTITUTION OF ARIZONA; RELATING TO THE ESTABLISHMENT OF PERMANENT FUNDS.

TEXT OF PROPOSED AMENDMENT

Be it resolved by the House of Representatives of the State of Arizona, the Senate concurring:

1. Article X, section 7, Constitution of Arizona, is proposed to be amended as follows if approved by the voters and on proclamation of the Governor:

7. Establishment of permanent funds; segregation, investment and distribution of monies

Section 7. A. A separate permanent fund shall be established for each of the several objects for which the said grants are made and confirmed by the enabling act to the state, and whenever any monies shall be in any manner derived from any of said lands, the same shall be deposited by the state treasurer in the permanent fund corresponding to the grant under which the particular land producing such monies was, by the enabling act, conveyed or confirmed.

B. No monies shall ever be taken from one permanent fund for deposit in any other, or for any object other than that for which the land producing the same was granted or confirmed.

C. All such monies shall be invested in safe interest-bearing securities and prudent equity securities consistent with the requirements of this section.

D. The legislature shall establish a board of investment to serve as trustees of the permanent funds. The board shall provide for the management of the assets of the funds consistent with the following conditions:

1. Not more than sixty per cent of a fund at cost may be invested in equities at any time.

2. Equities that are eligible for purchase are restricted to stocks listed on any national stock exchange or eligible for trading through the United States national association of securities dealers automated quotation system, or successor institutions, except as may be prohibited by general criteria or by a restriction on investment in a specific security adopted pursuant to this subsection.

3. Not more than five per cent of all of the funds combined at cost may be invested in equity securities issued by the same institution, agency or corporation, other than securities issued as direct obligations of and fully guaranteed by the United States government.

E. In making investments under this section the state treasurer and trustees shall exercise the judgment and care under the prevailing circumstances that an institutional investor of ordinary prudence, discretion and intelligence exercises in managing large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of monies, considering the probable safety of capital as well as the probable total rate of return over extended periods of time.

F. The earnings, interest, dividends and realized capital gains and losses from investment of a permanent fund, shall be credited to that fund.

G. The board of investment shall determine the amount of the annual distributions required by this section and allocate distributions pursuant to law. Beginning July 1, 2000 and except as otherwise provided in this section, the amount of the annual distribution from a permanent fund established pursuant to this section is the amount determined by multiplying the following factors:

1. The average of the annual total rate of return for the immediately preceding five complete fiscal years less the average of the annual percentage change in the GDP price deflator, or a successor index, for the immediately preceding five complete fiscal years. For THE purposes of this paragraph:

(a) "Annual total rate of return" means the quotient obtained by dividing the amount credited to a fund pursuant to subsection F for a complete fiscal year, plus unrealized capital gains and losses, by the average monthly market value of the fund for that year.

(b) "GDP price deflator" means the gross domestic price deflator reported by the United States department of commerce, bureau of economic analysis, or its successor agency.

2. The average of the monthly market values of the fund for the immediately preceding five complete fiscal years.

H. Notwithstanding any other provision of this section, the annual distribution from the permanent funds for fiscal years ~~1999-2000 through 2002-2003~~ 2012-2013 THROUGH 2020-2021 shall be as follows: TWO AND ONE-HALF PER CENT OF THE AVERAGE MONTHLY MARKET VALUES OF THE FUND FOR THE IMMEDIATELY PRECEDING FIVE CALENDAR YEARS.

~~1. For fiscal year 1999-2000, the greater of five per cent of the average of the monthly market values of the funds for fiscal years 1994-1995 through 1998-1999 or the average of actual annual distributions for fiscal years 1994-1995 through 1998-1999.~~

~~2. For fiscal years 2000-2001 through 2002-2003, the greater of the average of the actual annual distributions for the immediately preceding five complete fiscal years or the amount of the distribution required by subsection G.~~

2. The Secretary of State shall submit this proposition to the voters at the next general election as provided by article XXI, Constitution of Arizona.

ANALYSIS BY LEGISLATIVE COUNCIL

In 1910, the United States Congress passed the Arizona-New Mexico Enabling Act, allowing Arizona to become a state and granting Arizona approximately 10.9 million acres of land, referred to as "state trust land". The state land trust produces revenue for various public institutions in this state (schools, colleges, prisons, etc.). Proposition 118 would amend the Arizona Constitution to provide that for fiscal years 2012-2013 through 2020-2021, the annual distribution from the state trust land permanent funds to the various public institutions would be 2.5% of the average market values of the fund for the immediately preceding five calendar years. After fiscal year 2020-2021, the distribution formula would return to the current formula set out in the Arizona Constitution: average total rate of return for the previous five fiscal years, less percentage change in inflation, multiplied by the average market value over the previous five years.

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ARGUMENTS “FOR” PROPOSITION 118

Prop 118 allows us to simplify the formula for education funding, ensuring that money will be distributed to support K-12 education each year from Arizona’s Permanent Land Endowment Trust Fund. Best of all, it accomplishes this with NO new taxes and NO additional general fund spending.

Right now there are about 8.1 million acres in the state’s trust fund for K-12 education. Every time the state sells a piece of state land, those proceeds are deposited into the State Treasurer’s Office to be managed into perpetuity. Today the market value of the Permanent Land Endowment Trust Fund is more than \$3.4 billion. If that were a college endowment, it would be the twenty-first largest endowment in the country.

Upon review of an asset allocation study for the fund, it became clear that the formula used to distribute earnings was critically flawed. Its complications have resulted in uneven and unpredictable outcomes – including a year when ZERO dollars were distributed for K-12 education. If left unchanged, this current formula would likely result in several additional years -- over the next decade -- of zero dollar distributions. This is unacceptable, and must be fixed. An endowment this large should never have years of zero dollars available to benefit Arizona’s children and teachers.

Prop 118 fixes the formula and ensures consistent, reliable distributions that will protect the principal and never result in a zero dollar distribution. Prop 118 achieves this with no new taxes and no additional obligations for new spending.

As members of Arizona’s Board of Investment we support this improved formula and encourage you to vote “YES” on Prop 118.

Doug Ducey, Chairman, Arizona Board of Investment, Arizona State Treasurer, Phoenix	Beth Ford, Member, Arizona Board of Investment, Pima County Treasurer, Tucson	Scott A. Smith, Member, Arizona Board of Investment, Director, Arizona Department of Administration, Phoenix	Lauren W. Kingry, Member, Arizona Board of Investment, Arizona Superintendent of Financial Institutions, Phoenix	Harry A. Papp, Member, Arizona Board of Investment, Managing Partner, L. Roy Papp & Associates, LLP, Phoenix
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Paid for by Yes on 118 Committee

I strongly support Prop 118.

There is a special relationship between Arizona’s education community, the State Treasurer’s Office, and the State Land Department. Public education is by far the largest beneficiary of State Trust Land managed by the State Land Department. Revenues derived from the sale of State Trust Land, as well as the sale of natural products (such as sand, gravel, water and fuel wood), and royalties from mineral materials are deposited in the Permanent Land Endowment Trust Fund managed by the State Treasurer’s Office. Today, the State Land Department manages 8.1 million acres of land on behalf of K-12 education, and the Permanent Land Endowment Trust fund is worth more than \$3.5 billion.

Earning money for Arizona’s public schools is the primary mission of the Trust’s management. In 2010 the State Land Department deposited \$91.7 million in the Endowment. Because of the inadequacy of the current formula used to distribute earnings from the Endowment, K-12 education received no money in 2010. Prop 118 fixes that inadequate formula. Had the new formula been in place in 2010, public education would have received \$48 million from the Permanent Land Endowment Trust Fund.

Vote “Yes” on Prop 118.

Maria Baier, Arizona State Land Commissioner, Phoenix

Prop 118 Provides Reliable Education Funding in Arizona

The Friends of the Arizona School Boards Association urges your support of Prop. 118. It’s a win-win proposal – providing Arizona’s classrooms with more reliable funding and doing so through a formula change that still protects the underlying value of the account which has been derived from state trust land sales – the State Land Trust Permanent Endowment fund.

There are over nine million acres of state trust land, with Arizona’s public schools being the largest beneficiary, holding 87% of these lands. The interest earned off the sale of trust lands is deposited in the State Land Trust Permanent Endowment fund. Arizona’s classrooms are direct recipients of the interest earned from this Endowment fund.

Over a decade ago, an interest distribution formula was put in place to help curb volatility and to protect our public schools asset from inflation. Unfortunately, the formula has not smoothed out distribution volatility, making it difficult for our public schools to budget. Prop. 118 fixes this by establishing a new flat distribution percentage to allow for consistent distributions while still protecting the fund from inflationary effects.

Please vote **YES ON 118** to enhance education funding to Arizona’s public schools.

Dee Navarro, President, Friends of the Arizona School Boards Association, Phoenix	Dr. Tim Ogle, Executive Director, Friends of the Arizona School Boards Association, Phoenix
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Paid for by The Friends of the Arizona School Boards Association, Inc.

Dear Voter,

I encourage your “YES” vote on Proposition 118. This measure is a positive change for the distribution formula of state trust funds for education.

There is currently \$3.2 billion set aside in the Trust Fund to benefit education. In some years, the distribution has been as high as \$80 million, and in other years there has been no funding at all. This type of swing in distribution based on the size of the fund and the current formula makes it more difficult for our schools to plan and spend accordingly. As taxpayers, we demand that schools budget efficiently and use their resources wisely to educate our children. This proposal will make that easier by ensuring that the annual Trust Fund allocation to Arizona schools is smooth, even and predictable.

A “Yes” vote on Proposition 118 is a win for our children and teachers. A “Yes” vote on Proposition 118 is a win for taxpayers and advocates of good government.

Jan Brewer, Governor, Phoenix

Arizona Chamber of Commerce and Industry supports Proposition 118

The Arizona Chamber has a longstanding position of developing a school financing system and educational structure that improves learning outcomes in a financially responsible manner. Proposition 118 is a simple yet important change that will significantly impact K-12 funding in a way that is financially responsible and consistent with the Chamber’s education goals. This measure will result in more reliable and consistent K-12 education funding with **no** new taxes and **no** new spending from the General Fund.

Proposition 118 will restructure the distribution formula for the Permanent Land Endowment Fund, whose largest beneficiary is K-12 education. Because of the complexity of the current funding formula, the distribution of dollars is uneven and unpredictable. In

Spelling, grammar and punctuation were reproduced as submitted in the “for” and “against” arguments.

ARGUMENTS “FOR” PROPOSITION 118

fact, there are some years when there are zero dollars distributed to K-12 from this fund. The Chamber supports Proposition 118 because of its fiscally responsible and stable approach to helping fund K-12 education.

We urge voters to support Proposition 118.

Glenn Hamer, President & CEO, Arizona Chamber of Commerce & Industry, Phoenix

Paid for by Arizona Chamber of Commerce & Industry

Doug Yonko, Chairman, Arizona Chamber of Commerce & Industry, Phoenix

Vote YES on Prop 118 to help support Arizona public education, teachers and children. Prop 118 fixes and improves the Arizona State Endowment distribution formula providing a safer and more reliable source of funding for education and other beneficiaries. Prop 118 protects the principle of the Trust from inflation, stabilizes distributions to beneficiaries including public education. Prop 118 will protect the trust and its beneficiaries from wild market fluctuations and guarantees there will not be another year resulting in zero dollars going to education over the next decade.

The current formula was approved over a decade ago when the Endowment was given the ability to invest in stocks. Although written with the best of intentions the old formula was never tested for the economic volatility of the past several years. Simply stated, the formula did not work properly and education funding suffered.

After the urging of current and former State Treasurers, The Arizona State Board of Investment commissioned an independent Asset Allocation Study (available online at www.aztreasury.gov) to suggest positive change to Arizona's Constitution. The result is Prop 118.

Arizona can be proud that our State Land Endowment has been protected while many other western states have squandered theirs. Prop 118 continues in this tradition by further protecting the Trust and providing needed stability for education funding. The Arizona State Endowment is a permanent endowment and deserves a solution that will provide permanent, long term stability for Arizona's future.

As current and former members of the Arizona Board of Investment, we support Prop 118 and encourage all Arizona citizens to do the same. This change of the formula is good financial management. Vote YES on Prop 118.

Hon. Dean Martin, Former Arizona State Treasurer, Chairman, Arizona Board of Investment, Phoenix

Paid for by Yes on 118 Committee

Hon. Carol Springer, Former Arizona State Treasurer, Chairman, Arizona Board of Investment, Prescott

Hon. Tony West, Former Arizona State Treasurer, Chairman, Arizona Board of Investment, Phoenix

As Arizona's Superintendent of Public Instruction, I support Prop. 118 because it will bring predictability to the distribution of revenue from Arizona's state land trust fund. The land trust fund provides vital revenue for Arizona's public schools, and the current complex formula means that we have no way of predicting how much money will be available in future years. A predictable distribution from the trust fund will enable the state to budget its general fund dollars more responsibly, because it is less likely that we will over- or underestimate the distribution from the trust, and appropriate too many or too few state dollars.

Under the current system, we feast when times are good, and starve when times are bad. The method proposed by Prop. 118 will allow the trust to grow substantially when times are good, leaving plenty of savings to help fund our school system through difficult economic times in the future.

Please join me in voting "yes" for proposition 118, to put state land trust revenues to work for our most valuable resource, Arizona's children.

Sincerely,

John Huppenthal, Superintendent of Public Instruction, Phoenix

Paid for by Yes on 118 Committee

Arizona's education community supports Prop 118. It is a good fix that helps better fund public schools. It is not the silver bullet that will solve all the problems in our state as it relates to education, but more reliable funding from the State Land Trust Fund is a step in the right direction.

In 2000, Arizona voters created the Classroom Site Fund. This fund was established to direct money to teachers' salaries, classroom size reduction and dropout prevention programs. The Classroom Site Fund is supported by the revenue generated from the State Land Trust Fund and the State Land Department. The first \$72.3 million is used in the general funding formula. Any money in excess of \$72.3 million each year is deposited into the Classroom Site Fund. In 2010 and 2011, no money was deposited into the Classroom Site Fund. Had the new distribution formula being proposed in Prop 118 been in place, the fund would have received \$38 million over the course of those two years.

AEA has worked closely with the State Treasurer's Office and the State Land Department to make sure this proposition is in the best interest of Arizona's teachers and students. Prop 118 guarantees money will be available each and every year. If it passes in November, Arizona public schools will receive more than \$62 million. If Prop 118 is defeated and the current distribution formula stays in place, education will receive approximately \$50 million. With the cuts that public education has endured, those additional funds can go a long way.

Arizona schools need this simplified formula. **Vote "YES" on Prop 118.**

Joseph H. Thomas, Vice President, Arizona Education Association, Phoenix

Paid for by AEA Education Improvement Fund

Nidia C. Lias, Treasurer, Arizona Education Association, Phoenix

Dear Arizona Taxpayer,

Prop 118 is a fair and practical way to smooth out earnings distributions from Arizona's \$3.4 billion Land Endowment.

By avoiding the usual boom-and-bust distribution cycle, Prop 118 will help the beneficiaries of the State Land Trust Fund (mainly public education) to achieve a more predictable income stream year after year. At the same time, smoother budgeting over the business cycle will help beneficiaries during boom years to avoid developing unreasonable expectations about future spending growth. This is a common sense solution to a problematic funding formula.

Prop 118 is a rare event in Arizona politics: it's a win-win for all of the stakeholders, whether those stakeholders are government employees providing education services, or taxpayers working hard to support their families and build our economy.

PLEASE VOTE YES ON PROP 118.

For more ideas about state and local tax and budget policy, and to help us enhance freedom and protect free enterprise, contact the Arizona chapter of Americans for Prosperity, at www.aztaxpayers.org, (602) 478-0146, or tjenney@afphq.org.

Tom Jenney, Phoenix

ARGUMENTS “AGAINST” PROPOSITION 118

There were no arguments “against” Proposition 118.

ARGUMENTS “AGAINST” PROPOSITION 118



PROPOSITION 118 ~ BALLOT FORMAT



BALLOT FORMAT FOR PROPOSITION 118

PROPOSITION 118

PROPOSED AMENDMENT TO THE CONSTITUTION BY THE LEGISLATURE RELATING TO THE ESTABLISHMENT OF PERMANENT FUNDS [HCR 2056]

<p><u>PROPOSITION 118</u> PROPOSING AN AMENDMENT TO THE CONSTITUTION OF ARIZONA; AMENDING ARTICLE X, SECTION 7, CONSTITUTION OF ARIZONA; RELATING TO THE ESTABLISHMENT OF PERMANENT FUNDS.</p>
<p><u>DESCRIPTIVE TITLE</u> CHANGES THE DISTRIBUTION FORMULA FOR THE STATE LAND TRUST PERMANENT ENDOWMENT FUND, WHICH FUNDS VARIOUS PUBLIC INSTITUTIONS, INCLUDING SCHOOLS, TO BE 2.5% OF THE AVERAGE MONTHLY MARKET VALUES OF THE FUND FOR THE IMMEDIATELY PRECEDING FIVE CALENDAR YEARS.</p>

<p>A “yes” vote shall have the effect of changing the distribution formula for the State Land Trust Permanent Endowment Fund, which funds various public institutions, including schools, to be 2.5% of the average monthly market values of the Fund for the immediately preceding five calendar years. The change would affect fiscal years 2013 through 2021.</p>	<p>YES <input type="checkbox"/></p>
<p>A “no” vote shall have the effect of keeping current constitutional law related to the distribution formula of the State Land Trust Permanent Endowment Fund.</p>	<p>NO <input type="checkbox"/></p>