

Department of Education
Assistance to Schools

A.R.S. § 15-231

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
OPERATING BUDGET				
Full Time Equivalent Positions	57.8	57.8	72.8 ^{1/}	72.8 ^{1/}
<u>Statutory Formula Programs</u>				
Basic State Aid Entitlement	2,168,411,400	2,246,535,800 ^{2/3/}	2,378,324,900 ^{4/5/6/7/}	2,527,374,900 ^{5/6/7/8/}
Additional State Aid to Schools	189,969,400	206,034,200 ^{9/}	219,581,000	230,103,900
Assistance to School Districts for Children of State Employees	31,900	104,600	35,200	36,900
Certificates of Education Convenience	643,700	675,900 ^{10/}	859,700	895,200
Special Education Fund	16,442,100	17,303,500 ^{11/}	23,966,100 ^{12/}	26,324,000 ^{12/}
<i>Subtotal</i>	2,375,498,500	2,470,654,000	2,622,766,900	2,784,734,900
<u>Non-Formula Programs</u>				
Accountability Measures	5,233,100	5,000,000	0	0
Adult Education Assistance	4,580,800	4,587,900	4,596,200 ^{13/14/}	4,604,400 ^{13/14/}
AIMS Intervention; Dropout Prevention	0	50,000	550,000 ^{15/}	550,000 ^{15/}
Arizona Teacher Evaluation	189,000	202,200	0 ^{16/}	0 ^{16/}
Career Ladder Administration	84,300	130,400	0 ^{16/}	0 ^{16/}
Character Education	0	0	200,000 ^{17/}	200,000 ^{17/}
Chemical Abuse	837,200	862,400	866,800	871,500
Classroom Site Fund	0	0	297,259,500 ^{18/19/}	321,511,000 ^{18/20/}
Extended School Year	500,000	500,000	500,000	500,000
Extraordinary Special Education Needs Fund	0	0	1,000,000 ^{21/}	1,083,800 ^{21/}
Family Literacy	998,400	1,000,000	1,000,900	1,001,800
Failing School Tutoring Fund	0	0	1,500,000 ^{17/}	1,500,000 ^{17/}
Gifted Support	1,284,000	1,296,800	1,298,700	1,301,900
Optional Performance Incentive Programs	399,900	400,000	120,000 ^{22/}	120,000 ^{22/}
Parental Choice for Reading Success	1,000,000	1,000,000	1,000,000	1,000,000
Residential Placement	7,600	100,000	100,000	100,000
School Accountability	0	0	8,366,000 ^{23/24/}	4,638,300 ^{24/}
School Report Cards	436,900	488,900	493,600	497,000
School Safety Program	6,959,800	7,920,000	15,719,000 ^{25/}	15,724,900 ^{25/}
Small Pass-Through Programs	556,400	581,600	581,600 ^{26/}	581,600 ^{26/}
State Block Grant - Early Childhood	19,262,700	19,494,800	19,498,200	19,507,300
State Block Grant - Vocational Education	11,089,000	11,123,600	11,151,600 ^{27/}	11,209,000 ^{27/}
Vocational Education Demonstration Project	0	250,000 ^{28/}	0	0
Vocational Education Extended Year	600,000	600,000	600,000	600,000
Youth Support Research	39,000	39,000	0	0
<i>Subtotal</i>	54,058,100	55,627,600	366,402,100	387,102,500
TOTAL APPROPRIATIONS	2,429,556,600	2,526,281,600	2,989,169,000 ^{29/}	3,171,837,400 ^{29/}
FUND SOURCES				
General Fund	2,367,965,400	2,448,445,500	2,583,856,300	2,729,811,200
General Fund - Dedicated	0	0	328,210,000	361,110,200
<u>Other Appropriated Funds</u>				
Permanent State School Fund	61,591,200	77,836,100	74,898,300	74,898,300
Permanent State School Fund - Dedicated	0	0	2,204,400	6,017,700
<i>Subtotal - Other Appropriated Funds</i>	61,591,200	77,836,100	77,102,700	80,916,000
TOTAL APPROPRIATIONS	2,429,556,600	2,526,281,600	2,989,169,000	3,171,837,400

- 1/ All FTE Positions relate to Special Line Items.
- 2/ Laws 2000, Chapter 48 appropriated \$22,470,000 for Basic State Aid in FY 2001. It also appropriated an additional \$20,000,000 for Basic State Aid in FY 2001 that was "triggered" due to the collection of excess FY 2000 revenues.
- 3/ Includes \$13,032,300 appropriated by Laws 2001, Chapter 232 (the FY 2001 supplemental bill). That total consists of \$6,332,300 from the General Fund and \$6,700,000 from the Permanent State School Fund.
- 4/ Includes \$15,305,900 appropriated for 1 additional school day (resulting in a 176 day school year) by A.R.S. §42-5029, as amended by Proposition 301 from the November 2000 General Election. This amount is funded from revenues generated by the 0.6¢ sales tax rate increase enacted by Proposition 301.
- 5/ The above appropriation provides basic state support to school districts for maintenance and operations funding as provided by A.R.S. § 15-973, and includes an estimated \$74,898,300 per year in expendable income derived from the Permanent State School Fund for FY 2002 and FY 2003. (General Appropriation Act footnote)
- 6/ Receipts derived from the Permanent State School Fund and any other non-state General Fund revenue source that is dedicated to fund Basic State Aid will be expended, whenever possible, before expenditure of state General Fund monies. (General Appropriation Act footnote)
- 7/ All monies received during the fiscal year from national forests, interest collected on deferred payments on the purchase of state lands, the income from the investment of permanent funds as prescribed by the Enabling Act and the Constitution and all monies received by the Superintendent of Public Instruction from whatever source, except monies received pursuant to A.R.S. § 15-237 and 15-531, when paid into the State Treasury are appropriated for apportionment to the various counties in accordance with law. No expenditures may be made except as specifically authorized above. (General Appropriation Act footnote)
- 8/ Includes \$31,530,100 appropriated for 2 additional school days (resulting in a 177 day school year) by A.R.S. §42-5029, as amended by Proposition 301 from the November 2000 General Election. This amount is funded from revenues generated by the 0.6¢ sales tax rate increase enacted by Proposition 301.
- 9/ Includes \$6,811,300 appropriated by Laws 2001, Chapter 232 (the FY 2001 supplemental bill).
- 10/ Includes a reduction of \$(1,472,700) from Laws 2001, Chapter 232.
- 11/ Includes \$597,400 appropriated by Laws 2001, Chapter 232.
- 12/ Includes \$1,165,500 General Fund in FY 2002 and \$1,204,300 General Fund in FY 2003 from Laws 2001, Chapter 364, which amended the General Appropriation Act appropriation for the program for FY 2002 and FY 2003.
- 13/ The appropriated amount is for classes in adult basic education, general education development and citizenship on a statewide basis. (General Appropriation Act footnote)
- 14/ It is the intent of the Legislature that no more than 10% of the appropriation for Adult Education Assistance be used by the Department of Education for operating the Division of Adult Education. It is also the intent of the Legislature that the greatest possible proportion of monies appropriated for adult education programs be devoted to instructional, rather than administrative, aspects of the programs. (General Appropriation Act footnote)
- 15/ This amount does not include a triggered appropriation made by Laws 2001, Chapter 235. Triggered appropriations in FY 2002 and FY 2003 depend on the availability of excess revenues. (*Form more information, refer to the "AIMS Intervention/Dropout Prevention" description in this cost center and the "Summary of Appropriations Triggered by Revenues" table at the front of this report.*)
- 16/ The program is now funded through the State Board of Education cost center.
- 17/ The program is funded with revenues from the 0.6 cent sales tax rate increase enacted by Proposition 301 from the November 2000 General Election. The program's annual allocation from those revenues is prescribed in A.R.S. § 42-5029(E).
- 18/ The program is funded with revenues from the 0.6 cent sales tax rate increase enacted by Proposition 301 from the November 2000 General Election (A.R.S. § 42-5029.E10). It also receives expendable earnings from the Permanent State School Fund that exceed the FY 2001 level of expendable earnings (A.R.S. § 37-521). The amount shown equals the estimated total allocation to the Fund from those 2 sources for the year. Actual funding will depend upon available revenue from those sources.
- 19/ The amount shown includes an estimated \$295,055,100 from the Proposition 301 sales tax increase and an estimated \$2,204,400 in expendable earnings from the Permanent State School Fund. The \$295,055,100 estimate reflects a \$(2,500,000) reduction due to a technical error described in footnote 21 below. That error reduces estimated funding for the Classroom Site Fund by \$(2,500,000) in FY 2002. The \$2,500,000 would be restored if the error is corrected through future legislation, as intended.
- 20/ The amount shown includes an estimated \$315,493,300 from the Proposition 301 sales tax and an estimated \$6,017,700 in expendable earnings from the Permanent State School Fund.
- 21/ The Department of Education shall report annually to the Joint Legislative Budget Committee regarding allocations distributed from the Extraordinary Special Education Fund. (General Appropriation Act footnote)
- 22/ The Optional Performance Incentive Program shall be limited to schools currently performing ranking performance pay. (General Appropriation Act footnote)
- 23/ Includes \$5,867,600 appropriated by the General Appropriation Act and \$2,500,000 appropriated by Section 60 of Laws 2000, Chapter 1, 5th Special Session (the Proposition 301 companion bill). Legislative intent was to provide total funding of \$5,867,600, rather than \$8,367,600, but the higher amount was inadvertently provided because of failure to back out the \$2,500,000 advance appropriation from Chapter 1. The Legislature intends to correct this error in future budget legislation, thereby providing the program with total funding of \$5,867,600 for FY 2002.
- 24/ This program is funded with revenues from the Proposition 301 sales tax increase from the November 2000 General Election. Proposition 301 funding for this program is subject to legislative appropriation (A.R.S. § 42-5029(E7)), unlike funding for all other Proposition 301 programs which is automatically appropriated each year.
- 25/ The approved amount includes \$7,800,000 in Proposition 301 monies that are automatically appropriated pursuant to A.R.S. § 42-5029(E6). Remaining funding is from a regular General Fund appropriation.
- 26/ The appropriated amounts for both FY 2002 and FY 2003 include \$50,000 for the Academic Contest Fund, \$82,400 for Academic Decathlon, \$50,000 for Arizona Geographic Alliance, \$40,000 for Arizona Humanities Council, \$25,200 for Arizona Principals' Academy, \$234,000 for Arizona School Service through Education Technology, \$50,000 for Project Citizen, and \$50,000 for the Economic Academic Council. (General Appropriation Act footnote)
- 27/ The appropriated amount is for block grants to charter schools and school districts that have vocational education programs. It is the intent of the Legislature that monies appropriated in the FY 2002 and FY 2003 General Appropriations Act for the State Block Grant for Vocational Education be used to promote improved student achievement by providing vocational education programs with flexible supplemental funding that is linked both to numbers of students in such programs and to numbers of program completers who enter jobs in fields directly related to the vocational education program that they completed. It is the intent of the Legislature that the amount of the State Block Grant for Vocational Education funding that is used for state level administration of the program be limited to no more than the amount used for such costs during the prior fiscal year plus the applicable amount of any pay raise that may be provided for state employees through legislative appropriation. (General Appropriation Act footnote)
- 28/ This appropriation is contingent on the formation of a new joint technological education district by the qualified electors of that district. It is non-lapsing through FY 2002.
- 29/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items for the Program.

COST CENTER DESCRIPTION — Assistance to Schools consists of programs that provide pass-through funding to school districts and charter schools. The largest of these is Basic State Aid, which provides the state's share of equalization assistance to school districts and charter schools based on a funding formula set in statute.

PERFORMANCE MEASURES	FY 1999	FY 2000	FY 2001	FY 2002-03
	Est./Actual	Est./Actual	Estimate	Estimate
• % of students tested who perform at or above the national norm on the Stanford 9 test	NA/50.9	51.8/52.1	53	54/55
• % of students in the class of 2002 meeting state academic standards in reading, writing and math	NA	NA	NA	96/NA
• Increased percentage of schools with at least 75% of students meeting or exceeding standards in reading, writing and math above the FY 2002 percentage	NA	NA	Baseline*	+1/+2
• Increased percentage of students who enter 9 th grade and graduate within 4 years above the FY 2002 percentage	NA	NA	Baseline*	+1/+2
• % of students in grade 3 meeting or exceeding state academic standards in reading	NA	70	72	74/76
• % of students in grade 3 meeting or exceeding state academic standards in writing	NA	67	69	71/73
• % of students in grade 3 meeting or exceeding state academic standards in math	NA	48	50	52/54
• % of students in grade 5 meeting or exceeding state academic standards in reading	NA	65	66	68/70
• % of students in grade 5 meeting or exceeding state academic standards in writing	NA	46	48	50/52
• % of students in grade 5 meeting or exceeding state academic standards in math	NA	39	41	43/45
• % of students in grade 8 meeting or exceeding state academic standards in reading	NA	52	54	56/58
• % of students in grade 8 meeting or exceeding state academic standards in writing	NA	48	50	52/54
• % of students in grade 8 meeting or exceeding state academic standards in math	NA	16	18	20/25
• % of students tested	NA/88.6	100/92	93	94/95
• % of parents who rate "A+" the public school that their oldest school-age child attends	NA/7	NA/8	8	8

* "Baseline" means that the department will use the performance measure for the first time that year and therefore does not yet have an estimate for it. For years after the "baseline" year, the numbers shown indicate the anticipated increase or decrease for the new measure relative to its "baseline" score.

Statutory Formula Programs

Basic State Aid Entitlement — K-12 Education funding in Arizona is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula "equalizes" maintenance and operation (M&O) funding among school districts—enabling them all to spend approximately the same amount of M&O money per pupil from state and local sources combined. A few districts with very strong local property tax bases are able to generate their entire formula funding entitlement from local property taxes alone. Most school districts, however, require "Basic State Aid" monies in order to receive full formula funding.

The equalization formula for school districts consists of 4 elements: the "Base Support Level" (BSL), Transportation Support Level (TSL), "Capital Outlay Revenue Limit" (CORL), and "Soft Capital" (formerly "Capital Levy Revenue Limit" or "CLRL"). All but the TSL are computed by multiplying a specific dollar amount by a school district's student count (adjusted for various "weights"). The TSL, however, is computed by multiplying a specific dollar amount by a district's pupil transportation route miles. BSL, TSL and CORL funds may be used for M&O or capital expenditures. Soft Capital funds may be used for capital items only. The sum of the 4 formula components equals what is referred to as a school district's "equalization base," which is its total

Table 1: FY 2002 Basic State Aid Summary

Total Equalization Base (school districts including district charters)	\$3,394,407,700
Subtract: Qualifying Levy	<u>(1,266,954,000)</u>
FY 2002 Base Equalization Requirement	\$2,127,453,700
Add:	
Sudden Growth (Current Year Funding, @A.R.S. § 15-948)	76,229,500
State Board Sponsored Charter Schools	243,633,100
Dept. of Corrections and Dept. of Juvenile Corrections Education (A.R.S. § 15-1371 & 15-1372)	4,668,100
Miscellaneous Programs	2,883,400
County Equalization	<u>(164,701,800)</u>
Subtotal - Requirement before Legislative Formula Changes	\$2,290,166,000
Legislative Formula Changes:	
2% deflator	62,756,300
Additional School Day	15,305,900
Special Education Group B Weight Increases	10,096,700
FY 2002 Basic State Aid Appropriation	<u>\$ 2,378,324,900</u>
General Fund	\$2,288,120,700
General Fund - Dedicated (Proposition 301)	15,305,900
Permanent State School Fund	\$ 74,898,300

funding entitlement under the K-12 equalization funding formula.

After a school district's equalization base is determined, the net assessed property value (NAV) of the district is multiplied by the statutory "Qualifying Tax Rate" (QTR) and "County Equalization" tax rate in order to determine the amount of funding that is assumed to come from local sources under the formula. If this combined amount exceeds the district's equalization base, it is not entitled to Basic State Aid. If, however, "local share" funding does not exceed the district's equalization base, the district receives Basic State Aid funding in order to make up the difference.

Of the 228 school districts in Arizona, 3 are not expected to receive any equalization assistance during FY 2002 and FY 2003 because their local share is expected to exceed their "equalization base." Another 11 districts (10 in FY 2003) are expected to receive Basic State Aid for their

elementary pupils only. Their local shares are expected to fully cover high school equalization base costs, but not K-8 equalization base costs, which are computed separately under the formula.

The actual local tax rate for schools may be lower than the QTR, or higher if the district is allowed to budget for items outside of its "Revenue Control Limit" (RCL) under A.R.S. § 15-910. It also may be higher if the district participates in a Career Ladder program pursuant to A.R.S. § 15-918, or in an Optional Performance Incentive Program pursuant to A.R.S. § 15-919.

The equalization funding formula for charter schools is somewhat different than for school districts in that it does not include separate funding for CORL, Soft Capital or Transportation. Instead the charter school funding formula consists only of two components: 1) Base Support Level funding and 2) Additional Assistance. BSL funding for charter schools is determined under the same

Table 2: FY 2003 Basic State Aid Summary

Total Equalization Base (school districts including district charters)	\$3,494,831,300
Subtract: Qualifying Levy	<u>(1,338,959,200)</u>
FY 2003 Base Equalization Requirement	\$2,155,872,100
Add:	
Sudden Growth (Current Year Funding, @A.R.S. § 15-948)	86,653,500
State Board Sponsored Charter Schools	275,629,300
Dept. of Corrections and Dept. of Juvenile Corrections Education (A.R.S. § 15-1371 & 15-1372)	4,699,600
Miscellaneous Programs	2,883,400
County Equalization	<u>(172,851,600)</u>
Subtotal - Requirement before Legislative Formula Changes	\$2,352,886,300
Legislative Formula Changes:	
2% Deflator	132,225,000
Additional School Day	31,530,100
Special Education Group B Weight Increases	10,733,700
FY 2003 Basic State Aid Appropriation	<u>\$ 2,527,374,900</u>
General Fund	\$2,420,946,500
General Fund - Dedicated (Proposition 301)	31,530,100
Permanent State School Fund	\$ 74,898,300

computational formula prescribed for traditional public schools (A.R.S. § 15-943). Additional Assistance funding amounts are established in statute (A.R.S. § 15-185.B4). For elementary school pupils they equal \$1,228.76 per pupil for FY 2002 and \$1,253.34 per pupil for FY 2003. For high school pupils they equal \$1,432.09 per pupil for FY 2002 and \$1,460.73 per pupil for FY 2003. Charter schools receive all of their funding through Basic State Aid, since they do not have authority to generate funding through local property tax levies.

Total funding for Basic State Aid for FY 2002 and FY 2003 is summarized in *Tables 1 and 2*. Major changes in funding for the program are summarized in *Table 3*.

Item	FY 2002	FY 2003
Student Growth	\$121,659,300	\$247,867,600
2% Deflator	62,756,300	132,225,000
Additional School Days	15,305,900	31,530,100
Special Education Group B weights	10,096,700	10,733,700
Net Assessed Valuation (NAV)		
Growth	(100,354,200)	(169,636,000)
Truth in Taxation	38,257,100	41,836,100
Endowment Earnings	3,762,200	3,762,200
Total	\$151,483,300	\$298,318,700

Major Changes to Basic State Aid

Student Growth — The approved amount for FY 2002 includes an increase of \$121,659,300 above FY 2001 from the General Fund for student growth in school districts and charter schools. Of this amount, \$95,166,300 is for school district and district-sponsored charter school Average Daily Membership (ADM) growth, and \$26,493,000 is for State Board-sponsored charter school ADM growth.

For FY 2003, the approved amount includes a General Fund increase of \$247,867,600 above FY 2001 for student growth—\$196,011,400 for school districts and district-sponsored charter schools and \$51,856,200 for State Board-sponsored charter schools.

Under the Basic State Aid formula, the non-charter portion of a school district's formula funding entitlement initially is based on its ADM count from the prior academic year, but later may be increased with "Growth" (formerly "Sudden Growth") funding if that count goes up in the current academic year. Growth funding, however, is not provided for the capital and transportation portions of the Basic State Aid formula, which are paid on a prior year ADM basis only. In contrast, Basic State Aid funding for charter schools (both district-sponsored and State Board-sponsored) is based solely on current year ADM counts.

As shown in *Table 4*, the approved FY 2002 amount assumes a 3.3% increase in the total statewide ADM count for academic year 2000-2001 and an additional 3.3% increase for academic year 2001-2002. (Both will affect the cost of Basic State Aid in FY 2002.) The approved FY 2003 amount assumes the same 3.3% ADM increase for academic year 2001-2002, and an additional 3.4% ADM increase for academic year 2002-2003.

The estimated ADM breakdown shown in *Table 4* for academic year 2000-2001 equals 808,694 district non-charter pupils, 5,143 district charter pupils and 42,385 state board charter pupils—for a total ADM count of 856,222. For academic year 2001-2002 the estimated breakdown shown is 831,303 district non-charter pupils, 5,643 district charter pupils and 47,471 state board charter pupils—for a total ADM count of 884,417. For academic year 2001-2003 the estimated breakdown is 855,928 district non-charter pupils, 6,143 district charter pupils and 52,218 state board charter pupils—for a total ADM count of 914,289. Basic State Aid costs for FY 2002 and FY 2003 will be based on actual ADM counts rather than the estimates shown in *Table 3*.

2% Deflator — The approved amount includes a General Fund increase of \$62,756,300 in FY 2002 above FY 2001 and a General Fund increase of \$132,225,000 in FY 2003 above FY 2001 for a 2% deflator. This includes a 2% increase in the formula funding "base level" amount prescribed by A.R.S. § 15-901(B2), a 2% increase in the charter school "additional assistance" amounts prescribed by A.R.S. § 15-185(B4) and a 2% increase in the transportation funding rates per route mile prescribed by A.R.S. § 15-945(A5).

Table 4: Average Daily Membership (ADM) Students by Academic Year

Academic Year	School Districts	District-Sponsored Charter Schools	State Board-Sponsored Charter Schools	Grand Total	Increase	% Increase
1994	669,742	0	0	669,742	22,944	3.5
1995	695,054	0	0	695,054	25,312	3.8
1996	716,516	524	6,897	723,937	28,883	4.2
1997	737,606	3,301	13,543	754,450	30,513	4.2
1998	751,104	4,687	20,804	776,595	22,145	2.9
1999	769,108	5,753	28,453	803,314	26,719	3.4
2000	785,050	8,921	34,656	828,627	25,313	3.2
2001	808,694	5,143	42,385	856,222	27,595	3.3
2002 est.	831,303	5,643	47,471	884,417	28,195	3.3
2003 est.	855,928	6,143	52,218	914,289	29,872	3.4

These amounts are funded with “regular” General Fund monies. This is because Proposition 301 mandates the 2% deflator but does not provide specific funding for it. Proposition 301 requires the Legislature to increase the base level or other components of the Revenue Control Limit by 2% each year through FY 2006. After FY 2006, it requires the Legislature to increase the base level or other components of the Revenue Control Limit by the lesser of 2% of the change in the Gross Domestic Product (GDP) deflator.

The approved FY 2002 amount of \$62,756,300 above FY 2001 includes \$58,795,900 for an increase in the formula funding base level, \$1,352,100 for an increase in the charter school “additional assistance” funding per pupil and \$2,608,300 for increased funding rates per transportation route mile. The approved FY 2003 amount of \$132,225,000 above FY 2001 includes \$123,795,700 for a base level increase, \$3,179,200 for higher per pupil “additional assistance” for charter schools and \$5,250,100 for higher transportation route mile funding rates.

For the 2% base level increase, the Education Omnibus Reconciliation Bill amends A.R.S. § 15-901(B2) to increase the base level amount from \$2,621.62 in FY 2001 (including “triggered increases from FY 2000 and FY 2001) to \$2,687.32 in FY 2002 (an increase of \$65.70 per unweighted pupil above FY 2001). For FY 2003, it further increases the base level to \$2,753.90 (an additional increase of \$66.58 for a total increase of \$132.28 above FY 2001). These amounts include the base level increases needed in order to fund additional school days under Proposition 301, which also are funded through the base level. (*Funding for additional school days is described separately in the narrative for that policy issue.*) The per pupil base level amount serves as the starting point for computing BSL entitlements for school districts and charter schools.

The 2% increase in charter school Additional Assistance amounts will increase the elementary school amounts to (as noted before) \$1,228.76 per pupil for FY 2002 and

\$1,253.34 per pupil for FY 2003. It will increase the high school pupil amounts to \$1,432.09 per pupil in FY 2002 and \$1,460.73 per pupil in FY 2003.

The 2% increase in transportation route mile funding will result in FY 2002 rates of \$1.62 and \$1.99 per route mile, depending on the category (*see A.R.S. § 15-945.A5*). For FY 2003 they will result in funding rates of \$1.65 and \$2.03 per route mile, depending on the category. (*See the Proposition 301 section in the summary portion of this book for further detail regarding funding for that Proposition.*)

Additional School Days — The approved amount includes a FY 2002 increase of \$15,305,900 above FY 2001 and a FY 2003 increase of \$31,530,100 above FY 2001 for additional school days from dedicated Proposition 301 General Fund monies. This is because Proposition 301 requires that 1 day be added to the school year each year from FY 2002 through FY 2006. This would result in a 180-day school year by FY 2006 from 175 days in FY 2001. Funding for this issue is not included in the General Appropriation Act because it is automatically appropriated by A.R.S. § 42-5029(E5), as enacted into law by Proposition 301. Proposition 301 appropriated \$15,305,900 in FY 2002 for an additional school day (resulting in a 176-day school year in FY 2002) and \$31,530,100 in FY 2003 for a further lengthening of the school day (to 177 days in FY 2003). As noted under the “2% Deflator” discussion above, this funding will be allocated as part of an overall increase in the formula funding “base level” that is prescribed by A.R.S. § 15-901(B2). (*See the “General Provisions of the General Appropriation Act, Other Overall Issues, and General Legislation” section at the beginning of this book for further information regarding Proposition 301.*)

Special Education Group B Weight Increases — The approved amounts for Basic State Aid include a “regular” General Fund (not from Proposition 301) increase of \$10,096,700 in FY 2002 above FY 2001 and a “regular” General Fund increase of \$10,733,700 in FY 2003 above

Table 5: Special Education Group B Weight Summary
(weights that are being reduced are shown in bolded italics)

Funding Category	Weights for FY 2001	Weights for FY 2002 and FY 2003	Cost Study Weights
Hearing Impairment	3.341	4.771	4.805
Multiple Disabilities-Resource	4.235	6.024	6.067
Multiple Disabilities-Self Contained	5.015	5.833	5.875
Multiple Disabilities-Severe Sensory Impairment	6.025	6.531	6.578
Orthopedic Impairment-Resource	3.868	3.158	3.181
Orthopedic Impairment-Self Contained	5.641	5.576	5.616
Preschool Severe Delay	4.979	3.595	3.621
Emotional Disabilities-Separate Facility, Private School	4.127	4.647	4.680
Moderate Mental Retardation	4.244	4.421	4.453
Visual Impairment	4.832	4.806	4.840

FY 2001 for changes in special education "Group B" weights. The new weights are being established by section 4 of the Education ORB (Laws 2001, Chapter 233). They are somewhat lower than ones identified in the December 1999 special education cost study (which is conducted biennially pursuant to A.R.S. §15-236) because the funding difference is being used to establish an Extraordinary Special Education Needs Fund for funding particularly high cost special education pupils in small school districts. (*See the Extraordinary Special Education Needs Fund narrative for more detail.*) Most of the special education Group B weights will be higher in FY 2002 and FY 2003 than they were in FY 2001, but 4 will be lower based on cost study results. The 4 lower weights appear in italics in *Table 4*.

Special education Group B weights are applied to a school district or charter school's unweighted ADM student count prior to its being multiplied by the base level amount discussed above. This has the effect of increasing the equalization funding entitlement of the school district that the special education pupil attends.

Growth in School District Assessed Valuation — Growth in school district NAV increases the amount of formula funding that is generated locally, thereby reducing the need for Basic State Aid. The approved FY 2002 amount includes a "regular" General Fund reduction of \$(100,354,200) below FY 2001 for NAV growth, which assumes 8.3% NAV growth for the year. The approved FY 2003 amount includes a "regular" General Fund reduction of \$(169,636,000) below FY 2001 for NAV growth, which assumes 5% NAV growth for FY 2003 above FY 2002. These estimates do not include the effect of "Truth in Taxation" laws upon "local share" funding for schools, which is discussed separately below.

"Truth in Taxation" — The approved amounts for Basic State Aid include a "regular" General Fund increase of \$38,257,100 in FY 2002 above FY 2001 and a "regular" General Fund increase of \$41,836,100 in FY 2003 above FY 2001 for "Truth in Taxation" (TNT). These amounts relate to Laws 1998, Chapter 153, which requires an annual adjusting of the QTR and County Equalization "local share" tax rates in order to compensate for changes in property values for existing properties. Those adjustments are intended to keep tax levies on existing properties from increasing automatically whenever their assessed value increases. The adjustments require increases in state General Fund monies for Basic State Aid because they reduce the amount of "local share" funding that otherwise would have been available for the formula.

Tax rates higher than those allowed under the TNT formula are permissible, but only if 1) the Joint Legislative Tax Committee (JLTC) holds a hearing on the issue on or before February 28 of the preceding fiscal year, 2) the JLTC provides adequate public notice of the hearing, and 3) the Legislature approves the higher rates with a 2/3rds

roll call vote. No such process and vote occurred during the 2001 Legislative Session.

Because the assessed value of existing properties is expected to grow in both FY 2002 and FY 2003 and because a 2/3rds vote to override TNT in those years did not occur, a lowering of the QTR and County Equalization rates is required for FY 2002, and a further lowering is required for FY 2003. As of March 15, 2001, the JLBC reported that the FY 2002 rates would be as follows: QTR = \$2.0647 or \$4.1294 (depending upon the type of school district) per \$100 of NAV; County Equalization = \$0.4974 per \$100 of NAV. Official TNT rates for FY 2003 will not be determined until March 2002.

Endowment Earnings — The approved amount includes an increase of \$3,762,200 in both FY 2002 and FY 2003 above FY 2001 for growth in "Endowment Earnings" from the Permanent State School Fund. This assumes that \$74,898,300 in Endowment Earnings will be available in both years to help fund Basic State Aid.

Endowment Earnings consist of interest on securities held in the Permanent State Common School Fund and receipts from leases of state lands. They are used solely to help fund the cost of Basic State Aid, and therefore reduce the General Fund cost of Basic State Aid on a dollar for dollar basis.

The estimated Endowment Earnings increase of \$3,762,200 for both FY 2002 and FY 2003 above FY 2001 reflects changes to A.R.S. § 37-521 by Laws 2000, Chapter 1, 5th Special Session (the Proposition 301 companion bill). That bill dedicates any growth in "expendable earnings" from the Permanent State School Fund after FY 2001 to the Classroom Site Fund (A.R.S. § 15-977). The \$3,762,200 increase in Endowment Earnings that is assumed in the Basic State Aid budget for FY 2002 and FY 2003 assumes that Endowment Earnings in FY 2001 will exceed the FY 2000 level of earnings by \$3,762,200. They further assume that any additional growth in Endowment Earnings after FY 2001 will accrue to the Classroom Site Fund.

It should be noted that during the November 2001 General Election voters will be asked to approve on the dedication of all growth in Endowment Earnings after FY 2001 to the Classroom Site Fund. This is required by SCR 1005 from the 2001 Legislative Session. SCR 1005 seeks to have voter approval on this issue in order to render more permanent the dedication of Endowment Earnings growth after FY 2001 to the Classroom Site Fund. This is because current law on this issue (A.R.S. § 37-521) was adopted through legislative action (Laws 2000, Chapter 1, 5th Special Session), rather than through voter approval. It therefore could be more easily changed than if approved by voters because the state Constitution (Article 4, Part 1, Section 1, paragraph 6c) requires a 3/4ths majority vote (rather than simple majority vote) of the Legislature in

order to make changes to voter approved statutory language. (*See the related discussion of SCR 1005 under "Additional Legislation" below.*)

The approved amounts for FY 2002 and FY 2003 assume that Endowment Earnings will *not* be used as a funding source for either Students FIRST revenue bond debt service payments or for the New School Facilities Fund during those years. A.R.S. § 37-521 requires that Endowment Earnings be used first for debt service on Students FIRST revenue bonds for new construction (if any), after which they are subject to appropriation to the New School Facilities Fund, or (if not used by the first 2 options) are appropriated for Basic State Aid (but only up to the amount of expendable earnings in FY 2001, as described above). Since the approved amounts for the School Facilities Board for FY 2002 and FY 2003 do *not* involve revenue bonding for the New School Facilities Fund and do not appropriate any Endowment Earnings monies to the New School Facilities Fund, all Endowment Earnings for those years, up to the FY 2001 level of earnings, are appropriated to help fund Basic State Aid.

Additional State Aid to Schools — This program (which is funded totally from the General Fund) funds the "homeowner's rebate," whereby the state pays 1) 35% [up to \$500] of every homeowner's primary property tax levy for school districts [A.R.S. § 15-972], and 2) that portion of any homeowner's overall primary property tax levy that exceeds 1% of the property's full cash value [Arizona Constitution, Article IX, § 18].

The approved amount includes a FY 2002 General Fund increase of \$13,546,800 above FY 2001 and a FY 2003 General Fund increase of \$24,069,700 above FY 2001 for higher formula costs due to projected increases homeowner tax levies during the biennium. The FY 2001 funding level that is used in these comparisons includes \$6,811,300 in supplemental funding that the program received for FY 2001 from Laws 2001, Chapter 232 (the FY 2001 Supplemental Bill).

The approved FY 2002 amount assumes a cost of \$211,879,000 for the 35% rebate and a cost of \$7,702,000 for the 1% constitutional cap. These estimates are based on a projected increase of 11.7% in class 5 NAV above FY 2001 and a decrease of (4.0)% in the average primary school district tax rate below FY 2001.

For FY 2003, the approved amount assumes a cost of \$221,246,500 for the 35% rebate and a cost of \$8,857,400 for the 1% constitutional cap. These estimates are based on a projected further increase of 5.5% in class 5 NAV above FY 2002, and an additional decrease of (1.0)% in the average primary school district tax rate below FY 2002.

Assistance to School Districts for Children of State Employees — The approved amount includes a FY 2002 decrease of \$(69,400) below FY 2001 and a FY 2003

decrease of \$(67,700) below FY 2001 based on department estimates. The program, which receives General Fund monies only, supplements Basic State Aid funding for school districts that educate pupils whose parents are employed and domiciled at certain state institutions located within the school district's boundaries, pursuant to A.R.S. § 15-976.

Certificates of Educational Convenience (CEC's) — The approved amount (all from the General Fund) includes a decrease of \$(1,288,900) below FY 2001 and a FY 2003 decrease of \$(1,253,400) below FY 2001 based on department estimates. CEC's allow students to attend school in a district other than the one they live in if they are placed there by an authorized state or federal agency. This includes placement into a 1) rehabilitative or corrective institution, 2) foster home or child care agency or institution which is licensed and supervised by the Department of Economic Security (DES) or the Department of Health Services (DHS), or 3) residential facility operated or supported by DES or DHS [A.R.S. § 15-825]. CEC's also provide supplemental special education funding for school districts that provide special education services to out-of-district children.

Special Education Fund — The approved amount (all from the General Fund) includes a FY 2002 increase of \$6,663,900 above FY 2001 and a FY 2003 increase of \$9,021,800 above FY 2001 for special education voucher costs based on our estimates. The approved amount for FY 2002 includes \$61,000 for program administration and \$23,905,100 in pass-through funding for special education vouchers. The approved amount for FY 2003 includes \$62,800 for program administration and \$26,261,200 for special education vouchers.

Laws 2000, Chapter 364 amended General Appropriation Act funding for the program by increasing the original appropriation for FY 2002 by \$1,165,500 and the original appropriation for FY 2003 by \$1,204,300. Those additional amounts are reflected in the funding comparisons above. Those comparisons also include a FY 2001 supplemental of \$597,400 that was appropriated by Laws 2001, Chapter 232 (the FY 2001 supplemental bill).

The approved amounts likewise include an increase of \$370,300 in FY 2002 above FY 2001 and an increase of \$801,200 in FY 2002 above FY 2001 for a 2% increase in the K-12 funding formula "base level" (*see the "2% Deflator" policy issue in the Basic State Aid narrative section for more information*). This is because the funding formula for special education vouchers uses the same "base level" as the Basic State Aid program.

The approved amounts further include an increase of \$3,439,800 in FY 2002 above FY 2001 and an increase of \$3,811,100 in FY 2003 above FY 2001 for changes in special education Group B weights (*see the "Special*

Education Group B Weight Increases” policy issue in the Basic State Aid narrative section for more information).

The program provides funding for special education costs of students from 1) Arizona State Schools for the Deaf and the Blind, 2) Arizona State Hospital (ASH), or 3) developmentally disabled programs operated by DES [A.R.S. § 15-1202]. It also funds costs of residential education for students who require a private residential special education placement, or who are placed in a residential education facility by a state placing agency (Department of Juvenile Corrections, DES, DHS, or the Administrative Office of the Courts) [A.R.S. § 15-1182].

Non-Formula Programs

Accountability Measures — No funding is approved for this program for FY 2002 and FY 2003, which is a General Fund reduction of \$(5,000,000) below FY 2001 each year. The program is eliminated by the Education ORB (Laws 2001, Chapter 233), which deletes A.R.S. §§15-977 and 15-978 (which authorized the program) from statute. The operating budget for the State Board of Education cost center for FY 2002 and FY 2003, however, includes \$100,000 for a parent satisfaction survey that formerly was a part of the Accountability Measures program (*see the “Operating Budget” policy issue in the State Board of Education cost center narrative for details*).

Adult Education Assistance — The approved amount (all from the General Fund) includes 5.8 FTE Positions for both years (no change), a FY 2002 increase of \$7,600 above FY 2001 for standard changes and a FY 2003 increase of \$15,700 above FY 2001 for standard changes. The total FY 2002 appropriation of \$4,596,200 includes \$468,100 for program administration and \$4,128,100 in pass through funding for adult education providers. The total FY 2003 appropriation of \$4,604,400 includes \$476,300 for program administration and \$4,128,100 in pass through funding. The program funds immigrant education and adult basic education programs that receive funding through the department pursuant to A.R.S. § 15-234.

AIMS Intervention/Dropout Prevention — The approved amount (all from the General Fund) includes an increase of \$500,000 in both FY 2002 and FY 2003 above FY 2001 for expansion of the program. This does not include an additional \$500,000 per year that would be “triggered” by Laws 2001, Chapter 235 if state General Fund revenues for FY 2001 exceed a certain threshold. (*See the “Triggered Appropriations” narrative below for more information.*) The program is authorized by A.R.S. § 15-809 and seeks to provide additional academic support for high school pupils who are most likely to drop out of school. It was originally authorized by Laws 2000, Chapter 377.

Arizona Teacher Evaluation — This program is now funded through the State Board of Education cost center.

(*See the “Arizona Teacher Evaluation” policy issue in the State Board of Education cost center narrative.*)

Career Ladder Administration — This program is now funded through the State Board of Education cost center. (*See the “Career Ladder Administration” policy issue in the State Board of Education cost center narrative.*)

Character Education — The approved amount includes an General Fund increase of \$200,000 from the dedicated Proposition 301 General Fund in both FY 2002 and FY 2003 above FY 2001 for this new program. The program is authorized by A.R.S. § 15-154.01, which was established by the Proposition 301 companion bill (Laws 2000, Chapter 1, 5th Special Session). Funding for the program does not appear in the General Appropriation Act because \$200,000 (an unchanging amount every year) is automatically appropriated each year by A.R.S. § 42-5029(E6), as established by Proposition 301 from the November 2000 General Election. (*See Table 6 below for a summary of all funding from Proposition 301. See also the “Overview of Proposition 301” section in the Summary pages for this agency for further information regarding Proposition 301.*)

Chemical Abuse — The approved amount (all from the General Fund) includes 3 FTE Positions for both years (no change), an increase of \$3,400 in FY 2002 above FY 2001 for standard changes and an increase of \$8,000 in FY 2003 above FY 2001 for standard changes. The FY 2002 total of \$866,800 includes \$198,800 for program administration and \$668,000 in pass through funding for schools. The FY 2003 total of \$871,500 includes \$203,500 for program administration and \$668,000 in pass through funding for schools. The program funds chemical abuse prevention programs for students in grades K-12 pursuant to A.R.S. § 15-712.

Classroom Site Fund — The approved amount includes a FY 2002 increase of \$297,240,900 above FY 2001 and a FY 2003 increase of \$321,440,200 above FY 2001 for this new program. The \$297,240,900 total for FY 2002 consists of \$295,036,500 from the new 0.6 cent sales tax rate increase authorized by Proposition 301 (“Education 2000”) and \$2,204,400 from the Permanent State School Fund (*see Table 6*). The sales tax monies are a dedicated portion of the General Fund.

The \$321,440,200 total for FY 2003 consists of \$315,422,500 from the Proposition 301 sales tax increase and \$6,017,700 from the Permanent State School Fund (*see Table 6*). (*See the “Endowment Earnings” policy issue under Basic State Aid for more information regarding Permanent State School Fund funding for the Classroom Site Fund.*)

	<u>FY 2002</u>	<u>FY 2003</u>
Revenues		
Estimated 0.6 cent Sales Tax Revenue	\$ 485,976,500	\$524,698,600
Expenditures		
Students FIRST debt service	70,000,000	70,000,000
Universities	49,917,200	54,563,800
Community Colleges	12,479,300	13,641,000
Tribal Assistance	370,000	383,600
Additional School Days	15,305,900	31,530,100
School Safety	7,800,000	7,800,000
Character Education	200,000	200,000
School Accountability	8,367,600	4,657,600
Failing Schools Tutoring Fund	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000
Available for Site Fund: Sales Tax	295,036,500	315,422,500
Available for Site Fund: Land Trust	2,204,400	6,017,700
Total Available for Site Fund	\$297,240,900	\$321,440,200

The \$297,240,900 total for FY 2002 includes a \$(2,500,000) reduction due to an error in the appropriation for the "Education 2000" School Accountability program, which also appears in *Table 6* (see the "School Accountability" policy issue below for more information on this issue). It is anticipated that this error will be corrected during the next legislative session, which would increase the total estimated FY 2002 Classroom Site Fund allocation to \$299,740,900.

The approved amounts also include a \$(18,600) reduction in FY 2002 and a \$(70,800) reduction in FY 2003 for standard changes in the School Accountability program. Those changes increase the cost of the School Accountability program, which leaves less funding available for the Classroom Site Fund because the latter receives whatever monies remain after all other statutory distributions are made pursuant to A.R.S. § 42-5029(E) (including the School Accountability statutory distribution).

The actual amounts available in the Classroom Site Fund for FY 2002 and FY 2003 will depend upon revenues deposited into the fund during those years, which can not be precisely predicted. In addition, it is unclear as of the time of this writing whether the Classroom Site Fund will receive 11 months or 12 months of 0.6 cent sales tax collections from Proposition 301 during FY 2002 because of collection and processing timing issues (*discussed further below*). The figures shown in *Table 5* assume that 12 months of revenues will be available for FY 2002.

Allocations out of the Classroom Site Fund for FY 2002, however, will be based on the per pupil amount established for the year pursuant to A.R.S. § 15-977(B1), rather than on the available amount assumed in *Table 5*. A.R.S. § 15-977(B1) requires the JLBC Staff to determine a per pupil amount from the fund for each budget year by March 30th of the current year. For FY 2002, the JLBC Staff

determined in March 2001 that this amount would be \$240.56 per "Group A weighted" pupil. This amount was approved by members of the JLBC at their meeting on April 6, 2001. The \$240.56 per pupil amount assumed a relatively conservative sales tax growth rate of 4% for FY 2002 because of difficulties in projecting sales tax growth rates and because there is no statutory provision for modifying the per pupil amount, once established. In addition, the \$240.56 per pupil amount assumed that the Classroom Site Fund would receive only 11 months of 0.6 cent sales tax collections during FY 2002 because of an anticipated time lag in processing and posting the first month of Proposition 301 sales tax collections from June 2000.

On June 11, 2001, the Governor and Superintendent of Public Instruction asked the JLBC to reconsider the \$240.56 per pupil amount and increase it to reflect 12 months of Proposition 301 sales tax collections for FY 2002. As of the time of this writing, the JLBC has not yet responded to the Governor's request, but it may do so at its June 28, 2001 meeting. The Governor's request is based on further input from school districts and affected state agencies and an apparent agreement among them that it will be possible to allocate to school districts and charter schools 12 month of Proposition 301 sales tax collections from the Classroom Site Fund for FY 2002. We currently estimate that this would increase the Classroom Site Fund per pupil allocation for FY 2002 to \$272.45 per "Group A weighted" pupil (an increase of \$31.89 per pupil above the earlier \$240.56 per pupil amount). The \$272.45 per pupil estimate again assumes a 4% sales tax growth rate for FY 2002. If sales tax revenues grow at a higher rate than 4% during FY 2002, any resulting surplus would simply remain in the Classroom Site Fund for allocation during FY 2003.

A.R.S. § 15-977, as established by Education 2000, sets guidelines for the use of Classroom Site Fund monies. It requires schools districts and charter schools to devote 40% of these monies to teacher pay raises based on performance, 20% to teacher salary "base increases," and the remaining 40% to a menu of other possible items. These items include 1) class size reduction, 2) additional teacher compensation increases, 3) AIMS intervention programs, 4) teacher development, 5) dropout prevention and 6) teacher liability insurance.

The approved amounts do not appear in the General Appropriation Act because they are automatically appropriated by A.R.S. § 42-5029(E10), as enacted into law by Proposition 301. The amount appropriated to the Classroom Site Fund each year pursuant to A.R.S. § 42-5029(E10) equals whatever funding remains available from Proposition 301 sales tax collections after all other required allocations are made (*see Table 6*). It also includes (as noted above) any growth in expendable earnings from the Permanent Common School Fund above the FY 2001 level.

(See the “Overview of Proposition 301” section in the Summary pages for this agency for further information regarding Proposition 301.)

Extended School Year — The approved amount for both years (which is entirely from the General Fund) is unchanged from the FY 2001 level. The program helps pay for extended school year programs for handicapped students, as required by A.R.S. § 15-881.

Extraordinary Special Education Needs Fund — The approved amount includes a FY 2002 increase of \$1,000,000 above FY 2001 and a FY 2003 increase of \$1,083,800 above FY 2001 from the General Fund for this new program. The program is authorized by A.R.S. § 15-773, which was established by Section 2 of the Education ORB (Laws 2001, Chapter 233). The purpose of the program is to help small school districts cover the cost of special education services for pupils with particularly expensive special education needs. (See related discussion under the “Special Education Group B Weight Increases” policy issue under Basic State Aid.)

Family Literacy — The approved amount (entirely from the General Fund) includes a FY 2002 increase of \$900 above FY 2001 a FY 2002 increase of \$2,100 above FY 2001 for standard changes. It also includes an increase of 1 FTE Position in both FY 2002 and FY 2003 above FY 2001 to be funded out of existing resources. This provides the program with a total of 1 FTE Position per year for program administration (the program currently does not have any FTE Positions). Pursuant to A.R.S. § 15-191.01, the program seeks to increase the basic academic and literacy skills of undereducated low-income parents and their preschool children.

Failing Schools Tutoring Fund — The approved amount includes an increase of \$1,500,000 in both FY 2002 and FY 2003 above FY 2001 from the dedicated Proposition 301 General Fund for this new program. This funding comes from an automatic transfer of 0.6 cent sales tax monies from Proposition 301 pursuant to A.R.S. § 42-5029(E8) (see Table 6). The purpose of the fund is to reimburse parents of students in “failing” schools for tutoring needed in order to meet state academic standards. For purposes of the fund, “failing” schools means schools designated as “failing” under criteria established in Education 2000 (A.R.S. §15-241).

Since funding for the program is not subject to legislative appropriation, it does not appear in the General Appropriation Act. The Proposition (through A.R.S. § 42-5029(E8)) appropriates an unchanging amount of \$1,500,000 per year for the program. (See Table 6 below for a summary of all funding from Proposition 301. See also the “Overview of Proposition 301” section in the Summary pages for this agency for further information regarding Proposition 301.)

Gifted Support — The approved amount (all from the General Fund) includes 2 FTE Positions for both years (no change), a FY 2002 increase of \$2,000 above FY 2001 for standard changes and a FY 2003 increase of \$5,100 above FY 2001 for standard changes. The FY 2002 total of \$1,298,700 consists of \$106,200 for program administration and \$1,192,500 in pass-through monies for schools. The FY 2003 total of \$1,301,900 consists of \$109,400 for program administration and \$1,192,500 in pass-through monies for schools. This program is authorized by A.R.S. § 15-772, which allows school districts to apply for funding for gifted programs equal to \$55 per pupil for 3% of the district's student count, or \$1,000, whichever is more.

Optional Performance Incentive Programs — The approved amount (which is entirely from the General Fund) includes a decrease of \$(280,000) in both FY 2002 and FY 2003 from FY 2001 due to a reduction in program size. The program, which is authorized under A.R.S. § 15-919.02, serves as an alternative to the Career Ladder program. Optional Performance Incentive Programs utilize measures of quality including parental satisfaction or rating of educational quality, teacher job satisfaction or rating of support, and pupil satisfaction with the quality of education being received.

Parental Choice for Reading Success — The approved amount for both FY 2002 and FY 2003 (which is entirely from the General Fund) maintains funding at the FY 2001 level of \$1,000,000. This funding is for training and continued development of teachers in methods of research based systematic phonics instruction, pursuant to A.R.S. § 15-718.

Residential Placement — The approved amount for both FY 2002 and FY 2003 (which is entirely from the General Fund) maintains funding at the FY 2001 level of \$100,000. The funding is for training school districts to identify students that require residential placement and for providing a “Residential Emergency Fund” for use when DES or DHS lacks funds to place students (Laws 1991, Chapter 173).

School Accountability — The approved amount includes a FY 2002 increase of \$8,366,000 and 14 FTE Positions above FY 2001 and a FY 2003 increase of \$4,638,300 and 14 FTE Positions above FY 2001 from the dedicated Proposition 301 General Fund for this new program. All funding for the program (except funding for standard changes) comes from 0.6 cent sales tax monies from Proposition 301 (see Table 6). Funding for standard changes will come from the “regular” (non-Proposition 301) General Fund and will equal \$17,000 in FY 2002 and \$51,500 in FY 2003).

The purpose of the program is to promote improved student achievement and school accountability pursuant to A.R.S. § 15-241, as enacted into law by Laws 2000,

Chapter 1, 5th Special Session (the Proposition 301 companion bill).

Unlike funding for other “Education 2000” programs, which is automatically appropriated each year, funding for this program is subject to legislative appropriation pursuant to A.R.S. § 42-5029(E7). That statute allows the Legislature to appropriate up to \$7,000,000 per year for the program. The approved amount for the program for FY 2002 exceeds the \$7,000,000 cap due to an oversight in drafting the General Appropriation Act. The error is that \$2,500,000 that was already appropriated for the program for FY 2002 by Laws 2000, Chapter 1, 5th Special Session (the Proposition 301 companion bill) was not backed out of the amount appropriated by the General Appropriation Act. It is anticipated that this error will be corrected during the next legislative session, since it was the intent of the Legislature to fund the program at the \$5,867,600 level for FY 2002. This will restore to the Classroom Site Fund \$2,500,000 in funding that otherwise would be shifted out of that program. (See the narrative for the Classroom Site Fund program for a related discussion.)

Table 7 shows a breakdown of intended funding for the program for FY 2002 (without the additional \$2,500,000) and for FY 2003. It includes \$18,600 in FY 2002 and \$70,800 in FY 2003 for standard changes pertaining to state employee pay raises and Employee Related Expenditures (ERE).

<u>Item</u>	<u>FY 2002</u>	<u>FY 2003</u>
SAIS Compatibility	\$4,500,000	\$ 0
School Profiles (6 FTE Positions per year)	750,000	387,800
Solution Teams		3,600,000
SAIS Maintenance (8 FTE Positions per year)	599,000	599,000
Standard Changes	18,600	70,800
Total	\$5,867,600	\$4,657,600

(See Table 6 for a summary of all funding from Proposition 301. See also the “Overview of Proposition 301” section in the Summary pages for this agency for further information regarding Proposition 301.)

School Report Cards — The approved amount (all from the General Fund) includes 3 FTE Positions in both FY 2002 and FY 2003 (no change), a FY 2002 increase of \$5,100 above FY 2001 for standard changes and a FY 2003 increase of \$12,100 above FY 2001 for standard changes. The school report card program is required by A.R.S. § 15-746. Under it, each school supplies annual information to the department regarding school goals and student achievement, and the department compiles and publishes that information in paper and electronic “school report cards”.

School Safety Program — The approved amount includes an increase of 3 FTE Positions for both FY 2000 and FY 2001, a FY 2002 increase of \$7,997,400 above FY 2001 and a FY 2003 increase of \$7,808,900 above FY 2001. The funding increase for both years includes \$7,800,000 from the new 0.6 cent sales tax from Proposition 301 that is automatically appropriated by A.R.S. § 42-5029(E6). (That law appropriates an unchanging total of \$7,800,000 each year for the program.) The remaining FY 2002 difference of \$3,200 is attributable to standard changes, as is the remaining FY 2003 difference of \$10,000.

Table 8 shows a funding summary for the program for FY 2002 and FY 2003. The total FY 2002 appropriation includes \$7,919,000 from the General Appropriation Act (which consists of General Fund monies only) and \$7,800,000 from Proposition 301. The FY 2003 total includes \$7,915,900 from the General Appropriation Act (which consists of General Fund monies only) and \$7,800,000 from Proposition 301.

<u>Source</u>	<u>FY 2002</u>	<u>FY 2003</u>
General Appropriation Act	\$ 7,919,000	\$ 7,915,900
Education 2000	7,800,000	7,800,000
Total	\$15,719,000	\$15,715,900

The program places peace officers and juvenile probation officers in schools pursuant to A.R.S. § 15-154.

Small Pass-Through Programs — The approved amount (which is entirely from the General Fund) for both FY 2002 and FY 2003 is unchanged from FY 2001. It includes for each year \$50,000 for the Academic Contest Fund, \$82,400 for the Academic Decathlon, \$50,000 for the Arizona Geographic Alliance, \$40,000 for the Arizona Humanities Council, \$25,200 for the Arizona Principals’ Academy, \$234,000 for Arizona School Service Through Education Technology, \$50,000 for Project Citizen and \$50,000 for the Economic Academic Council.

State Block Grant for Early Childhood Education — The approved amount (all from the General Fund) includes 5.7 FTE Positions for both FY 2002 and FY 2003 (no change), a FY 2002 increase of \$5,600 above FY 2001 for standard changes and a FY 2003 increase of \$14,600 above FY 2001 for standard changes. The FY 2002 total of \$19,498,200 includes \$404,700 for program administration and \$19,093,500 in pass-through money for schools. The FY 2003 total of \$19,507,300 includes \$413,800 for program administration and \$19,093,500 in pass-through money for schools. The program provides block grants to school districts and charter schools for efforts aimed at improving the academic achievement of pupils in preschool through Grade 3, pursuant to A.R.S. § 15-1251.

State Block Grant for Vocational Education — The approved amount (all from the General Fund) includes 34.3 FTE Positions for both FY 2002 and FY 2003 (no change), a FY 2002 increase of \$34,600 above FY 2001 for standard changes and a FY 2003 increase of \$91,500 above FY 2001 for standard changes. The FY 2002 total includes \$1,900,300 for program administration and \$9,251,300 in pass-through monies for schools. The FY 2003 total includes \$1,957,700 for program administration and \$9,251,300 in pass-through monies for schools. The program provides block grants to school districts and charter schools that have career and technical education programs.

Vocational Education Demonstration Project — The approved amount includes a decrease of \$250,000 from the General Fund in both FY 2002 and FY 2003 in order to back out one-time funding for the program. The program was authorized and funded by Laws 2000, Chapter 344. Funding from Chapter 344 is non-lapsing through the end of FY 2002.

Vocational Education Extended Year — The approved FY 2002 and FY 2003 amount (entirely funded from the General Fund) maintains funding for this item at its FY 2001 level of \$600,000. This funding is to enable students to attend an extended year or summer school program in a joint technological education district, such as the East Valley Institute of Technology (EVIT), pursuant to A.R.S. § 15-783.02.

Youth Support Research — The approved amount includes a decrease of \$(39,000) from the General Fund in both FY 2002 and FY 2003 due to elimination of the program.

Vetoed Appropriations: Appropriations; TANF; Health Services (S.B. 1390) — This bill would have appropriated \$4,000,000 in Temporary Assistance to Needy Families (TANF) monies to the Department of Education in FY 2002 for providing teenage pregnancy and parenting program services to students who are either pregnant or are the parent of a dependent child. The bill also would have appropriated various amounts to the Arizona Department of Economic Security for miscellaneous programs (*see "Vetoed Appropriations" in the narrative for various cost centers in the Arizona Department of Economic Security agency pages for more information*). The Governor vetoed this bill.

Appropriations; Health Care Labor Pool (H.B. 2618) — This bill would have appropriated \$150,000 per year in FY 2002 and FY 2003 to the Department of Education in order to establish an adult education qualified health care labor pool program. The program would have consisted of a 3-year model training program for health care workers with limited education skills in order to prepare them for

immediate entry into beginning health care positions. The Governor vetoed this bill.

Triggered Appropriations: Conditional Appropriations; Taxation; Revenue Forecasts (Chapter 235) — This act appropriates an additional \$500,000 in FY 2002 and \$500,000 in FY 2003 from the General Fund for the AIMS Intervention/Dropout Prevention program if FY 2001 General Fund revenues exceed the forecast by \$79,708,400. This would increase funding for that program to \$1,050,000 per year. Prior to September 1, 2001, JLBC and OSPB will calculate total FY 2001 revenues and determine if sufficient monies are available to trigger the appropriations.

If FY 2001 revenues do not exceed the forecast by the required amount, but FY 2002 General Fund revenues exceed the forecast by \$73,512,300, the act appropriates \$500,000 in FY 2003 from the General Fund for the AIMS Intervention/Dropout Prevention program. Prior to September 1, 2002, JLBC and OSPB will calculate total FY 2002 revenues and determine if sufficient monies are available to trigger the appropriation. (*See the narrative for the "AIMS Intervention/Dropout Prevention" program for additional information regarding that program.*)

Additional Legislation: Technological Districts; Elections; Appropriations (Chapter 251) — This bill makes statutory changes regarding the formation of new joint technological education districts and the holding of elections for gaining public approval for those new districts. In addition, Chapter 251 seeks to address concerns regarding "dual enrollment" by requiring each joint technological education district to submit a report to the JLBC Staff by September 1, 2001 with information regarding high school pupils who are receiving both high school and community college credit for joint technological education district courses. The bill requires the JLBC Staff to develop the form and instructions for reporting this information.

Homebound; Pregnant Students (Chapter 312) — This bill expands the definition of "homebound or hospitalized" pupils in A.R.S. § 15-901(B12) to include pupils who are unable to attend school because of pregnancy complications or because they have an infant with a severe health problem. This change is expected to increase Basic State Aid costs because it will allow affected students to remain in the statewide ADM count for formula funding purposes instead of dropping out of that count due to their pregnancy complications. A JLBC Staff fiscal note estimated this cost impact at between \$50,400 and \$134,400 per year for both FY 2002 and FY 2003. The bill, however, did not contain an appropriation for this estimated fiscal impact. Any cost increase that may occur because of the bill, though, will automatically be paid under the Basic State Aid funding formula.

State Trust Lands; Education 2000 (SCR 1005) — This resolution seeks voter approval of changes to A.R.S. § 37-521 that were enacted into law by Laws 2000, Chapter 1, 5th Special Session (the Proposition 301 companion bill). Those changes dedicate any growth in expendable earnings from the Permanent State School Fund after FY 2001 to the Classroom Site Fund. The resolution seeks voter approval of these changes in order to make them more permanent, since the State Constitution requires a 3/4th majority vote in the Legislature in order to change voter approved laws. A simple majority vote is required for non-voter approved statutes. The bill also contains some clarifying changes to A.R.S. § 37-521 based on the intent of Proposition 301 on this issue. (*See the “Endowment Earnings” narrative under the Basic State Aid program and narrative for the “Classroom Site Fund” program for additional information related to this topic.*)

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