

Department of Education
Summary

A.R.S. § 15-201

Superintendent: The Honorable Jaime Molera

JLBC Analyst: Steve Schimpp/Patrick Fearon/Hans Olofsson

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
COST CENTER SUMMARY				
State Board of Education	0	0	2,032,400	2,083,700
General Services Administration	15,495,200	18,366,800	12,871,800	13,571,100
Assistance to Schools	<u>2,429,556,600</u>	<u>2,526,281,600</u>	<u>2,989,169,000</u>	<u>3,171,837,400</u>
TOTAL APPROPRIATIONS	2,445,051,800	2,544,648,400	3,004,073,200	3,187,492,200
OPERATING BUDGET				
Full Time Equivalent Positions	202.7	202.7	225.7 ^{1/}	225.7 ^{1/}
Personal Services	3,582,900	4,408,700	4,617,500	4,844,600
Employee Related Expenditures	741,200	871,600	1,008,800	988,900
Professional and Outside Services	591,500	243,500	205,300	208,500
Travel - In State	52,200	66,600	80,300	80,300
Travel - Out of State	31,300	25,000	25,000	25,000
Other Operating Expenditures	1,173,200	1,170,500	1,257,100	1,275,000
Equipment	<u>129,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Operating Subtotal</i>	6,301,800	6,785,900	7,194,000	7,422,300
Special Line Items	<u>2,438,750,000</u>	<u>2,537,862,500</u>	<u>2,996,879,200</u>	<u>3,180,069,900</u>
TOTAL APPROPRIATIONS	2,445,051,800	2,544,648,400	3,004,073,200 ^{2/3/}	3,187,492,200 ^{2/3/}
FUND SOURCES				
General Fund	2,382,513,100	2,465,830,100	2,597,733,500	2,744,408,500
General Fund-Dedicated	0	0	328,210,000	361,110,200
Other Appropriated Funds				
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
Teacher Certification Fund	<u>947,500</u>	<u>982,200</u>	<u>1,027,000</u>	<u>1,057,500</u>
<i>Subtotal - Other Appropriated Funds</i>	62,538,700	78,818,300	78,129,700	81,973,500
TOTAL APPROPRIATIONS	2,445,051,800	2,544,648,400	3,004,073,200	3,187,492,200

AGENCY DESCRIPTION — *The Department of Education is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2002 and FY 2003 it is anticipated that the department will oversee 228 school districts and at least 400 charter schools in their provision of public education from preschool through grade 12.*

^{1/} Includes 115.3 FTE Positions funded from Special Line Items in FY 2002 and FY 2003.

^{2/} 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. (For more information, refer to the AIMS Intervention/Dropout Prevention description in the Assistance to Schools cost center and the "Summary of Appropriations Triggered by Revenues" table at the front of this report.)

^{3/} General Appropriation Act appropriation format varies by program.

PERFORMANCE MEASURES	FY 1999 Est./Actual	FY 2000 Est./Actual	FY 2001 Estimate	FY 2002-03 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 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
• % of agency staff turnover	NA/29.2	NA/21.6	20	19/18
• Administration as a % of total cost	NA	0.2/NA	0.2	0.2
• Total cost of administration (\$ in millions)	NA	NA	4.3	4.7

FY 2001 Supplementals C *Table 1* below summarizes FY 2001 supplementals for the department. These amounts are all appropriated by Laws 2001, Chapter 232 (the FY 2001 supplemental bill). All of the items shown in *Table 1* are entirely funded with state General Fund monies, except for the Basic State Aid supplemental. The latter consists of \$6,332,300 from the State General Fund and \$6,700,000 from the Permanent State Common School Fund for a total of \$13,032,300.

The K-12 Classroom Site Fund receives all monies that remain from the Proposition 301 sales tax after all other allocations are made. It also receives all growth in expendable earnings from the Permanent State School Fund after FY 2001.

Table 2 shows our original estimate of the revenues and costs of Proposition 301 when it was approved by the Legislature in June 2000. *Table 3* shows our updated (January 2001) estimates that served as the basis for our budget recommendations for Proposition 301 for FY 2002 and FY 2003 in the “State of Arizona Proposed Budget FY 2002 - FY 2003” book (the “JLBC Budget Recommendation book”) for the 2001 Regular Legislative Session.

The first section below briefly discusses each program that will receive Proposition 301 funding during FY 2002 and FY 2003. Those programs are listed in the order of funding priority that was established by Proposition 301 in A.R.S. § 42-5029(E). The second section below describes new state General Fund costs that will be required by Proposition 301, but not paid for by it.

<u>Program</u>	<u>Supplemental Amount</u>
Basic State Aid	\$13,032,300
Additional State Aid	6,811,300
Achievement Testing	2,445,300
Certificates of Educational Convenience	(1,472,700)
Special Education Fund	597,400
LEP Cost Study	<u>150,000</u>
Total	<u>\$21,563,600</u>
Fund Sources:	
State General Fund	\$14,863,600
Permanent State School Fund	\$ 6,700,000

Formula Allocation of Proposition 301 Sales Tax Monies

Standard Changes C The approved amounts include funding for state employee salary adjustments, state employee health insurance adjustments, state-owned space rental adjustments and other miscellaneous items that are funded for state agencies as a whole in Section 109 of the General Appropriation Act (Laws 2001, Chapter 236). Those funding adjustments are referred to as “standard changes” in the following narrative.

School Facilities Revenue Bond Debt Service — Laws 2000, Chapter 1, 5th Special Session (the Proposition 301 companion bill) established A.R.S. § 15-2081, which allows the School Facilities Board (SFB) to issue up to \$800,000,000 in “School Improvement Revenue Bonds” in order to finance deficiencies corrections projects at Arizona school districts. The Proposition also amended A.R.S. § 42-5029 in order to require that if any School Facilities Revenue Bonds are outstanding, revenues from the TPT increase must first be allocated in order to pay debt service on those bonds pursuant to A.R.S. § 15-1648. As shown in *Table 3*, an allocation of \$70,000,000 per year is assumed in the Proposition 301 budget for this issue for both FY 2002 and FY 2003. (For further information, see the discussion regarding “School Improvement Revenue Bonds” in the narrative pages for the School Facilities Board.)

OVERVIEW OF PROPOSITION 301

This section provides an overview of Proposition 301 (“Education 2000”) from the November 2000 General Election. That Proposition amended A.R.S. § 42-5010 in order to raise the state Transaction Privilege Tax (TPT) (“sales tax”) rate on most purchases from 5% to 5.6% C an increase of 0.6 cents for every dollar of purchase. It also amended A.R.S. §42-5029 in order to prescribe how those new revenues would be allocated (see *Tables 2 and 3* below and *Table 5* in the Assistance to Schools cost center narrative.)

University Technology and Research Initiative Fund — After allocations to the School Improvement Revenue Bond debt service fund, 12% of any remaining 0.6 cent sales tax funds are allocated to a new Technology and Research Initiative Fund. That fund is to be apportioned among the state's universities to support technology acquisition and research. As shown in *Table 3*, the Proposition 301 budget for the biennium assumes an allocation of \$49,917,200 for FY 2002 and \$54,563,800 for FY 2003 for this issue. *(For more information, see the discussion regarding the "Technology and Research Initiative Fund" in the narrative pages for the Arizona Board of Regents).*

Community College Workforce Development Accounts — After allocations to the School Improvement Revenue Bond debt service fund, 3% of any remaining 0.6 cent sales tax funds revenues are to be allocated to a Workforce Development Account established at each of the state's community colleges. These funds are to be used to support workforce development programs. As shown in *Table 3*, the Proposition 301 budget for the biennium assumes an allocation of \$12,479,300 for FY 2002 and \$13,641,000 for FY 2003 for this issue. *(For more information, see the discussion regarding "Education 2000 Workforce Development" in the narrative pages for the State Board of Directors for Community Colleges).*

Tribal Assistance — Proposition 301 requires that a portion of 0.6 cent revenues remaining after the allocations for revenue bond debt service, universities, and community colleges be allocated to qualifying Indian community colleges. The amount of their allocation is to be equal to what they would receive for their Workforce Development Account under A.R.S. § 15-1472 if they were state-run community college. As shown in *Table 3*, the Proposition 301 budget for the biennium assumes an allocation of \$370,000 for FY 2002 and \$383,600 for FY 2003 for this issue. *(For more information, see the discussion regarding "Education 2000 Tribal Assistance" in the narrative pages for the State Board of Directors for Community Colleges).*

Additional School Days — After allocations for School Facilities Revenue Bond debt service, universities and community colleges, specific amounts are allocated each year through FY 2005 for additional K-12 school days. This funding is to be used to increase the school year from 175 days currently to 180 days by FY 2005. As shown in *Table 3*, Proposition 301 allocates \$15,305,900 for this item for FY 2002 with that amount growing to \$86,280,500 by FY 2006. *(For more information, see the "Additional School Days" narrative under Basic State Aid in the Assistance to School cost center pages for the Arizona Department of Education.)*

School Safety Program — After allocations for School Facilities Revenue Bond debt service, universities and community colleges, Proposition 301 appropriates \$7,800,000 per year to ADE for additional funding for the School Safety Program authorized by A.R.S. § 15-154.

(For more information, see the "School Safety Program" narrative in the Assistance to School cost center pages for the Arizona Department of Education.)

Character Education — After allocations for School Facilities Revenue Bond debt service, universities and community colleges, Proposition 301 appropriates \$200,000 to ADE each year for the Character Education Matching Grant Program established by A.R.S. § 15-154.01. *(For more information, see the "Character Education" narrative in the Assistance to School cost center pages for the Arizona Department of Education.)*

School Accountability — After allocations for School Facilities Revenue Bond debt service, universities and community colleges, Proposition 301 allows the Legislature to appropriate to ADE up to \$7,000,000 each year for school accountability measures that are required pursuant to A.R.S. § 15-241. *(For more information, see the "School Accountability" narrative in the Assistance to School cost center pages for the Arizona Department of Education.)*

Failing Schools Tutoring Fund — After allocations for School Facilities Revenue Bond debt service, universities and community colleges, Proposition 301 appropriates \$1,500,000 to the Failing Schools Tutoring Fund established by A.R.S. § 15-241. *(For more information, see the "Failing School Tutoring Fund" narrative in the Assistance to School cost center pages for the Arizona Department of Education.)*

Income Tax Credit for Sales Tax Paid — After allocations for School Facilities Revenue Bond debt service, universities and community colleges, Proposition mandates that \$25,000,000 be transferred each year to the General Fund to make up the cost of a new income tax credit established by A.R.S. § 43-1072.01. The purpose of this credit is to ease the impact of the 0.6 cent sales tax increase on lower-income taxpayers.

Classroom Site Fund — After all other allocations described above, Proposition 301 automatically transfers any remaining monies into a new K-12 Classroom Site Fund established by A.R.S. § 15-977. As shown in *Table 3*, the Proposition 301 budget for the biennium assumes an allocation of \$299,759,500 for FY 2002 and \$321,511,000 for FY 2003 for this issue. *(For more information, see the "Classroom Site Fund" narrative in the Assistance to School cost center pages for the Arizona Department of Education.)*

Additional General Fund Costs of Proposition 301

This section describes additional General Fund costs that will be required by Proposition 301, but not funded by it. These additional mandated costs therefore will be borne by the state General Fund, as shown in the "New General Fund Costs Not Funded by Sales Tax" section of *Tables 2 and 3*.

Inflation Adjustment — Proposition 301 requires that the Legislature increase the base level “or other components” of the state’s school funding formula by 2% per year for each year through FY 2006. In FY 2007 and after, the Legislature is required to increase those components by the lesser of 2% or the GDP price deflator (a measure of consumer price inflation) in the second preceding calendar year prior to the budget year. *(For more information, see the “2% deflator” narrative under “Basic State Aid” in the Assistance to School cost center pages for the Arizona Department of Education.)*

Unfunded Cost of Additional School Days — As noted above, Proposition 301 allocates specific amounts in order to fund the cost of additional K-12 school days. Based on our projections for enrollment growth and assuming a 2% increase per year in the K-12 funding formula “base level,” we project that the Proposition 301 0.6 cent sales tax allocation for additional school days will not fully cover the cost of those days after FY 2003. The estimated cost difference appears in the “Unfunded Cost of Additional School Days” line in *Tables 2 and 3*. (The \$537,000 amount shown for FY 2003 in both tables, however, has subsequently been revised to zero because of an error in the original calculation.) *(For more information, see the “Additional School Days” narrative under “Basic State Aid” in the Assistance to School cost center pages for the Arizona Department of Education.)*

Unfunded Cost of Income Tax Credit — As noted above, Proposition 301 allocates \$25,000,000 per year for individual income tax credits aimed at offsetting the impact of the new Education 2000 sales tax on low income filers. Based on estimates provided by the Arizona Department of Revenue, we believe that the actual cost of the credit will be \$41,600,000 per year. Therefore the General Fund would have a net cost of \$16,600,000 per year after adjusting for the \$25,000,000 transfer. This amount appears in the “Unfunded Cost of Income Tax Credit” line in *Tables 2 and 3*.

Expanded School District Audits — The Proposition 301 companion bill (Laws 2000, Chapter 1, 5th Special Session) requires expanded auditing of school districts but provides no additional funds for the Auditor General. The figures for this line item in *Table 2* reflect an early Auditor General estimate of the unfunded cost. The figures in *Table 3* (\$1,773,600 for FY 2002 and \$3,257,400 for FY 2003) represent the amounts actually appropriated for the expanded audits. *(For more information, see the “School District Performance Audits” discussion in the narrative pages for the Legislature - Auditor General.)*

Expanded Tuition/Fee Credits — The Proposition 301 companion bill allows a higher individual income tax credit to be available to Arizona taxpayers for contributions to school tuition organizations and fees paid for extracurricular activities. Since the revenue loss from this higher credit is not covered with 0.6 cent sales tax monies, this item represents a new cost to the General

Fund. *Tables 2 and 3* both show an assumed General Fund cost of \$3,750,000 in FY 2002 and \$3,847,500 in FY 2003 for this item.

Deficiencies Correction Reallocation — Proposition 301 makes it possible for the School Facilities Board to cover most of the cost of school facilities deficiencies correction with non-General Fund (bond) monies. This feature of the Proposition therefore frees up state General Fund monies that otherwise would have to be used for deficiencies correction, as shown in *Tables 2 and 3*. *(For further information, see the discussion regarding “School Improvement Revenue Bonds” in the narrative pages for the School Facilities Board.)*

Summary of Additional General Fund Costs

As shown at the bottom of the “New General Fund Costs Not Funded by the Sales Tax” section in *Table 3*, the various items described above that are not funded by the Proposition 301 sales tax will result in an estimated total additional General Fund cost of \$55,250,200 in FY 2002 and \$7,268,200 in FY 2003. The FY 2003 total, however, has subsequently been revised to \$6,731,200 because of the \$(537,000) correction described above for “Unfunded Cost of Additional School Days.”

Table 1

Proposition 301: Original Projections

June 27, 2000

See Table of Assumptions Below and Notes on Next Page

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
	1	2	3	4	5	6	7	8	9	10
Revenues										
Sales Tax Revenues (Increase of 0.6%) (1)	438,000,000	466,470,000	496,790,550	529,081,936	563,472,262	600,097,959	639,104,326	680,646,107	724,888,104	772,005,831
Expenditures										
Total Debt Service on \$800,000,000 (2)	70,000,000	70,000,000	70,203,597	70,204,382	70,203,840	70,202,135	70,198,495	70,199,505	70,203,277	70,203,610
Universities	44,160,000	47,576,400	51,190,434	55,065,306	59,192,211	63,587,499	68,268,700	73,253,592	78,562,179	84,216,266
Community Colleges	11,040,000	11,894,100	12,797,609	13,766,327	14,798,053	15,896,875	17,067,175	18,313,398	19,640,545	21,054,067
Tribal Assistance	370,000	381,050	392,818	405,351	418,699	432,915	448,054	464,178	481,349	499,637
Additional School Days (3)	15,305,900	31,530,100	48,727,700	66,957,200	86,280,500	86,280,500	86,280,500	86,280,500	86,280,500	86,280,500
School Safety	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000
Character Education Matching Grants	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Accountability Measures / SAIS (4)	2,500,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
Failing Schools Tutoring Fund	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid (5)	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Available for Site Fund: Sales Tax	260,124,100	263,588,350	271,978,392	281,183,369	291,078,959	322,198,035	355,341,402	390,634,934	428,220,254	468,251,751
Available for Site Fund: Land Trust	2,166,156	3,932,937	10,269,958	19,727,374	30,377,212	40,894,971	51,151,805	61,019,723	70,366,064	80,427,733
Total Available for Site Fund	262,290,256	267,521,287	282,248,350	300,910,743	321,456,171	363,093,006	406,493,207	451,654,657	498,586,318	548,679,484

New General Fund Costs Not Funded by Sales Tax

Marginal Cost of Inflation Adjustment (6)	66,800,000	69,975,672	73,302,315	76,787,108	80,437,567	84,261,569	88,267,363	92,463,594	96,859,313	101,464,005
Total Cost of Inflation Adjustment	66,800,000	136,775,672	210,077,987	286,865,095	367,302,662	451,564,230	539,831,594	632,295,188	729,154,501	830,618,506
Assumed Deflator %	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Unfunded Cost of Additional School Days (3)	0	536,985	1,659,631	3,419,793	5,872,895	10,253,867	14,843,111	19,650,527	24,686,488	29,961,859
Unfunded Cost of Income Tax Credit (5)	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000
Expanded School District Audits (7)	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
Cost of Expanded Tuition/Fee Credits	3,750,000	3,847,500	3,947,535	4,050,171	4,155,475	4,263,518	4,374,369	4,488,103	4,604,793	4,724,518
Total New General Fund Costs	94,150,000	164,760,157	239,285,154	317,935,059	400,931,031	489,681,615	582,649,073	680,033,818	782,045,782	888,904,883
Cumulative New General Fund Costs	94,150,000	258,910,157	498,195,311	816,130,370	1,217,061,401	1,706,743,016	2,289,392,090	2,969,425,907	3,751,471,690	4,640,376,572
Possible Deficiency Correction Reallocation (8)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)
Net Cost After DC Reallocation	(55,850,000)	14,760,157	89,285,154	167,935,059	250,931,031	339,681,615	432,649,073	530,033,818	632,045,782	738,904,883

Analysis of Per Pupil Funding

Assumed K-12 Population (Unweighted)	815,976	838,007	860,634	883,871	907,735	932,244	957,415	983,265	1,009,813	1,037,078
K-12 Site Fund Per Pupil Amt (Unweighted)	\$321	\$319	\$328	\$340	\$354	\$389	\$425	\$459	\$494	\$529
Assumed University Population	95,516	97,426	99,375	101,362	103,390	105,457	107,567	109,718	111,912	114,150
University Per Pupil Amount	\$462	\$488	\$515	\$543	\$573	\$603	\$635	\$668	\$702	\$738
Assumed Community College Pop.	95,165	98,020	100,961	103,989	107,109	110,322	113,632	117,041	120,552	124,169
Comm. College Per Pupil Amount	\$116	\$121	\$127	\$132	\$138	\$144	\$150	\$156	\$163	\$170

TABLE OF ASSUMPTIONS

Sales Tax Growth Rate:	6.50%	Growth in Additions to Land Trust:	8.40%	General Inflation Assumption:	2.60%
Bond Interest Rate:	6.00%	Return on Land Trust Invest.:	9.00%	BSL Max. Inflation After FY06:	2.60%
Bond Maturity (Years):	20	Growth in Land Current Earnings:	5.50%	K-12 Population Growth:	2.70%
				University Population Growth:	2.00%
				Community College Pop. Growth:	3.00%

Proposition 301: Original Projections

June 27, 2000

NOTES:

- (1) *Used OSPB sales tax numbers, minus the bed tax, and their long-term growth rate of 6.5%. JLBC Staff agreed with the long-term growth rate, but had a higher starting point.*
- (2) *Debt Service figures as provided by OSPB.*
- (3) *The bill provides a specific allocation of the sales tax to fund the additional school days through FY 2006. Due to inflation and school enrollment growth, however, the original allocations after FY 2003 will not cover the full cost, and the additional amounts over and above the sales tax allocation are included in the New General Fund Costs section. [Note: the amount shown for FY 2003 has subsequently been changed to \$0 due to an error in the original calculation.]*
- (4) *The bill specifically appropriates \$2.5 million for SAIS in FY 2002. The bill, however, provides that up to \$7 million of the sales tax proceeds may be used for this purpose.*
- (5) *The bill provides a specific allocation of \$25 million of the sales tax proceeds to reimburse the General Fund for the low income sales tax credit. We project the provision will cost \$41.6 million. The remaining "unfunded" portion of the tax credit cost (\$16.6 million) is included in the New General Fund Cost section. In terms of how we derived the \$41.6 million estimate, the Department of Revenue has estimated that the revenue loss associated with a reduction in tax liability or a refundable credit for current filers would be \$30.1 million. They have further estimated that an additional 1 million low-income individuals who currently do not file a tax return would be eligible to receive the credit. The bill also has a provision that permits non-filers to certify their eligibility for the credit without filing a tax return. Given this simplified procedure, we have estimated that 50% of the current non-filers would claim the credit. At a cost of \$25 per person, 500,000 non-filers would cost \$12.5 million. Finally, a \$100 per household cap on the credit is estimated to save \$(1) million. Adding the \$30.1 million liability for current filers, the \$12.5 million liability for non-filers, and the \$(1) million \$100 cap savings yields a total cost of \$41.6 million.*
- (6) *Cost of Inflation Adjustment assumes a 2% deflator for all years.*
- (7) *The \$7 million is the Auditor General's original estimate and solely represented a placeholder at this time of this analysis. It was assumed that the figure would be updated for the FY 2002 - FY 2003 biennial budget.*
- (8) *The FY 2001 budget includes a \$150 million cash contribution for deficiencies corrections. If this funding is no longer needed in FY 2002 due to the availability of revenue bonding, these monies could be redirected to defray the new General Fund costs of the bill. The bill, however, does not contain any language redirecting those monies.*

Table 2

Proposition 301: Projections for FY 02 and FY 03 Budget

January 5, 2001

See Table of Assumptions Below and Notes on Next Page

	FY 2002 1	FY 2003 2	FY 2004 3	FY 2005 4	FY 2006 5	FY 2007 6	FY 2008 7	FY 2009 8	FY 2010 9	FY 2011 10
Revenues										
Sales Tax Revenues (Increase of 0.6%) (1)	485,976,549	524,698,628	558,804,039	595,126,301	633,809,511	675,007,129	718,882,592	765,609,961	815,374,608	868,373,958
Expenditures										
Total Debt Service on \$800,000,000 (2)	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000
Universities	49,917,186	54,563,835	58,656,485	63,015,156	67,657,141	72,600,855	77,865,911	83,473,195	89,444,953	95,804,875
Community Colleges	12,479,296	13,640,959	14,664,121	15,753,789	16,914,285	18,150,214	19,466,478	20,868,299	22,361,238	23,951,219
Tribal Assistance	370,000	383,600	392,818	405,351	418,699	432,915	448,054	464,178	481,349	499,637
Additional School Days (3)	15,305,900	31,530,100	48,727,700	66,957,200	86,280,500	86,280,500	86,280,500	86,280,500	86,280,500	86,280,500
School Safety	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000	7,800,000
Character Education Matching Grants	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Accountability Measures / SAIS (4)	5,849,000	4,586,800	4,586,800	4,586,800	4,586,800	4,586,800	4,586,800	4,586,800	4,586,800	4,586,800
Failing Schools Tutoring Fund	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid (5)	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Available for Site Fund: Sales Tax	297,555,167	315,493,334	327,276,115	339,908,005	353,452,085	388,455,845	425,734,849	465,436,989	507,719,768	552,750,927
Available for Site Fund: Land Trust	2,204,362	6,017,702	12,489,563	22,171,610	33,063,777	43,798,693	54,245,785	64,275,968	73,755,949	83,956,433
Total Available for Site Fund	299,759,529	321,511,036	339,765,677	362,079,615	386,515,862	432,254,538	479,980,634	529,712,956	581,475,717	636,707,360

New General Fund Costs Not Funded by Sales Tax

Marginal Cost of Inflation Adjustment (6)	63,126,591	69,899,697	73,304,626	76,875,416	80,620,144	84,547,284	88,665,721	92,984,775	97,514,216	102,264,294
Total Cost of Inflation Adjustment	63,126,591	133,026,288	206,330,914	283,206,330	363,826,474	448,373,757	537,039,478	630,024,253	727,538,469	829,802,763
Assumed Deflator %	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Unfunded Cost of Additional School Days (3)	0	536,985	1,659,631	3,419,793	5,872,895	10,253,867	14,843,111	19,650,527	24,686,488	29,961,859
Unfunded Cost of Income Tax Credit (5)	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000	16,600,000
Expanded School District Audits (7)	1,773,600	3,257,400	3,257,400	3,257,400	3,257,400	3,257,400	3,257,400	3,257,400	3,257,400	3,257,400
Cost of Expanded Tuition/Fee Credits (8)	3,750,000	3,847,500	3,947,535	4,050,171	4,155,475	4,263,518	4,374,369	4,488,103	4,604,793	4,724,518
Total New General Fund Costs	85,250,191	157,268,173	231,795,481	310,533,694	393,712,243	482,748,542	576,114,358	674,020,283	776,687,151	884,346,540
Cumulative New General Fund Costs	85,250,191	242,518,364	474,313,845	784,847,539	1,178,559,782	1,661,308,324	2,237,422,683	2,911,442,966	3,688,130,116	4,572,476,657
Deficiency Correction Reallocation (9)	(30,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)	(150,000,000)
Net Cost After DC Reallocation	55,250,191	7,268,173	81,795,481	160,533,694	243,712,243	332,748,542	426,114,358	524,020,283	626,687,151	734,346,540

Analysis of Per Pupil Funding

Assumed K-12 Population (Unweighted)		914,289	938,975	964,327	990,364	1,017,104	1,044,566	1,072,769	1,101,734	1,131,480
K-12 Site Fund Per Pupil Amt (Unweighted)	\$339	\$352	\$362	\$375	\$390	\$425	\$460	\$494	\$528	\$563
Assumed University Population	92,934	94,368	96,255	98,180	100,144	102,147	104,190	106,274	108,399	110,567
University Per Pupil Amount	\$537	\$578	\$609	\$642	\$676	\$711	\$747	\$785	\$825	\$866
Assumed Community College Pop.	100,844	104,575	107,712	110,944	114,272	117,700	121,231	124,868	128,614	132,472
Comm. College Per Pupil Amount	\$124	\$130	\$136	\$142	\$148	\$154	\$161	\$167	\$174	\$181

TABLE OF ASSUMPTIONS

Sales Tax Growth 02/03:	8.00%	Growth in Additions to Land Trust	8.40%	General Inflation Assumption:	2.60%
Sales Tax Growth after 03:	6.50%	Return on Land Trust Invest.:	9.00%	BSL Max. Inflation After FY06:	2.60%
Bond Interest Rate:	6.04%	Growth in Land Current Earnings:	5.50%	K-12 Population Growth:	2.70%
Bond Maturity (Years):	20			University Population Growth:	2.00%
				Community College Pop. Growth:	3.00%

Proposition 301: Projections for FY 02 and FY 03 Budget

January 5, 2001

NOTES:

- (1) *Uses updated JLBC sales tax projections of 8% in FY 2002 and FY 2003, and a long-term growth rate of 6.5%. [Note: the enacted Legislative budget ultimately included a lower sales tax growth rate, 7.0% in FY 2002 and 7.6% in FY 2003.]*
- (2) *Debt Service figure assumes \$800 million in revenue bonds would be issued at the very start of FY 2002.*
- (3) *The bill provides a specific allocation of the sales tax to fund the additional school days through FY 2006. Due to inflation and school enrollment growth, however, the original allocations after FY 2003 will not cover the full cost, and the additional amounts over and above the sales tax allocation are included in the New General Fund Costs section. [Note: the amount shown for FY 2003 has subsequently been changed to \$0 due to an error in the original calculation.]*
- (4) *The bill specifically appropriates \$2.5 million for SAIS in FY 2002. The bill, however, provides that up to \$7 million of the sales tax proceeds may be used for Accountability Measures.*
- (5) *The bill provides a specific allocation of \$25 million of the sales tax proceeds to reimburse the General Fund for the low income sales tax credit. We project the provision will cost \$41.6 million. The remaining "unfunded" portion of the tax credit cost (\$16.6 million) is included in the New General Fund Cost section. In terms of how we derived the \$41.6 million estimate, the Department of Revenue has estimated that the revenue loss associated with a reduction in tax liability or a refundable credit for current filers would be \$30.1 million. They have further estimated that an additional 1 million low-income individuals who currently do not file a tax return would be eligible to receive the credit. The bill also has a provision that permits non-filers to certify their eligibility for the credit without filing a tax return. Given this simplified procedure, we have estimated that 50% of the current non-filers would claim the credit. At a cost of \$25 per person, 500,000 non-filers would cost \$12.5 million. Finally, a \$100 per household cap on the credit is estimated to save \$(1) million. Adding the \$30.1 million liability for current filers, the \$12.5 million liability for non-filers, and the \$(1) million \$100 cap savings yields a total cost of \$41.6 million.*
- (6) *Cost of Inflation Adjustment assumes a 2% deflator for all years. This increases the state cost by about 2.11% each year because the higher cost raises the number of districts that qualify for state aid.*
- (7) *The amounts shown reflect the JLBC recommendations for this item for FY 2002 and FY 2003, which were ultimately enacted in the budget.*
- (8) *The FY 2002 amount is the estimated cost of increasing the income tax credit available for contributions to school tuition organizations and fees paid for extracurricular activities in that year. This amount is assumed to increase each year by the general inflation rate.*
- (9) *The FY 2001 budget includes a \$150 million cash contribution for deficiencies corrections. Because of the availability of revenue bonding, these monies can be redirected to defray the new General Fund costs of the bill. The original bill, however, does not contain any language redirecting those monies. The January budget recommendation assumed that deficiencies correction would cost the state \$120 million in FY 2002 and \$0 in FY 2003. The enacted budget actually set aside \$0 in FY 2002 and \$12 million in FY 2003.*

[Click here to return to the Table of Contents](#)